Accelerating transformation

Annual Report 2017

Cautionary note with regard to "forward-looking statements"

Some statements in this Annual Report are "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are beyond PostNL's control and impossible to predict and may cause actual results to differ materially from any future results expressed or implied. These forward-looking statements are based on current expectations, estimates, forecasts, analyses and projections about the industries in which PostNL operates and PostNL management's beliefs and assumptions about future events.

You are cautioned not to put undue reliance on these forward-looking statements, which only speak as of the date of this Annual Report and are neither predictions nor guarantees of future events or circumstances. PostNL does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Table of Contents

24 hours in PostNL

Business Report

Governance

Performance Statements

Appendices

How to read this report

Business Report
This section provides an overview of the internal and external factors that are shaping our business, the actions we implemented in 2017, and how we plan to continue realising long-term value for our stakeholders and the business going forward.

Governance
This section provides an overview of the governance framework we had in place in 2017, an outline of the key topics the Board of Management and the Supervisory Board dealt with during the year, and related information.

Performance Statements
This section includes the Financial Statements and Corporate Responsibility (CR) Performance Statements.

Together, the We are PostNL, Message from Herna Verhagen, Business Report and Governance sections make up the Report of the Management Board.

1 We are PostNL

We are...

the postal and logistic solutions provider

For over 200 years we have been providing society and our customers with accessible and reliable services. With our loyal workforce of over 44,000 people, we are one of the largest employers in the Netherlands. Our people are proud to deliver around 675,000 parcels and eight million letters a day throughout the Netherlands, from same-day parcel deliveries to wedding invitations. This is how we keep mail accessible and reliable across the country.

For our customers, this means we are the essential link between the physical and the online world, facilitating communications between people and companies. As one of the leading mail and parcels companies in Europe, we continue to grow our service offerings through a combination of smart networks, digital applications, and the right communication channels. In doing so, we aim to make the lives of our customers easier.

We operate the largest and most modern mail, parcels, and e-commerce network in the Benelux, globally through our Spring sales force, and continue to grow in Italy and Germany. With our loyal workforce, our extensive networks, and our innovative drive, we are ideally placed to realise our ambition of being *the* postal and logistic solutions provider in our chosen markets.

The essential link for our customers

Our customers are vital to everything we do, whether we are introducing innovative services, building a new digital platform, or creating one customer experience across the company.

We believe in keeping mail accessible and reliable for our customers, across urban and rural areas. We want to continue to offer our specialised services, such as medical post and mourning cards, to everyone in the Netherlands who needs them. All while maintaining the high-quality standards our customers are used to, and with care for our people and for society.

We remove barriers from ordering online, helping e-tailers of every size achieve online success. We provide both business customers and consumers with a reliable, trustworthy service and control over their deliveries, facilitating e-commerce and making their lives easier, no matter who they are. And we are always close by: our deliverers reach every address, through rain, hail, sleet and snow.

A people company that cares for everyone

If it were not for our people, there would be no PostNL. Our people make the difference, from the mail and parcel deliverers in the early morning to the truck drivers late at night; from the call-center employees to our web designers. By focusing on engaged people, a diverse and inclusive workforce, and sustainable employability, we are able to provide our people with a work environment in which they feel at home.

Yet our responsibilities go beyond our own workforce. We also think about the communities in which we operate, which is why we continuously look for opportunities to reduce our environmental impact, such as by introducing cleaner vehicles and more efficient processes. We used sustainable materials, solar panels, and heat recovery systems when constructing our latest parcel processing and distribution centre in the Netherlands, which is why the building was one of only twenty at the time to be awarded a BREEAM Excellent certificate. That is how we invest in a sustainable future, both for our company, for society, and for the people who work for and with us.

The number-one network connecting the world

Our state-of-the-art networks have always kept pace with the changing needs of our customers, enabling us to find the most efficient route for every letter or parcel. Our extensive network of sorting and distribution centres, parcel points, and post boxes, supported by our delivery solutions, enable us to deliver wherever, whenever, and however the customer wants.

And as well as delivering mail and parcels to businesses and consumers, we also offer a broad array of services to make life easier for our customers, such as direct marketing, logistics and installation services, and fulfilment services.

Through our international sales network Spring, we connect local businesses around the world to consumers globally. And whenever feasible and advantageous, we use our Dutch-based sorting locations as a gateway to Europe and the rest of the world.

We continue to invest in our networks, nationally and internationally, offering innovative solutions that make our customers' lives easier.

We are...

living our core values

At PostNL, our culture is built upon three core values: Connected, Passionate, and Inventive. Together, these values guide us in how we engage with our customers, how we conduct our business, and how we behave towards one another. The following examples illustrate how we live these values each and every day, helping us realise our ambition to be *the* postal and logistic solutions provider in our chosen markets.

Connected every day

Our ambition to be *the* postal and logistic solutions provider in our chosen markets drives the quality of our services, the sustainability of our operations, and our connection with society.

Logistic solutions that minimise environmental impact allow us to construct a better, and healthier, tomorrow. Across the Netherlands around 40% of our own delivery vehicles now run on biogas, and we have placed solar panels on the roofs of our parcels' sorting facilities. Our goal is to have 22,000 solar panels in place during 2018, which will produce 40 percent of the centres' electricity needs.

One example of how our services and solutions make society more liveable is our Christmas card initiative, which we established with the National Elderly Fund in the Netherlands. In 2017 we delivered around 225,000 Christmas cards, written by school children, to lonely, elderly people in care institutions across the country. These are just some of the ways in which we try to build a better future.

More information on our sustainable delivery process can be found on our website.

More on postnl.nl/CR

Passionate every day

We work hard to create an atmosphere where people are passionate and proud to work for PostNL. We believe that our people should enjoy working for us and feel connected to our achievements, helping contribute to our success while making us stronger and more future-proof.

Ton Vlavianos is one example of someone who is passionate about working at PostNL. As a 35-year veteran of the company, Ton is proud of his role driving mail across the country. "What makes my job great is the freedom I have and all the people I meet," he says.

Bouke de Loos, who works at our Parcels business in Hoofddorp, is also passionate about his position: "The great thing about working in a large company such as PostNL is that it creates a lot of opportunities to gain experience at different segments and job positions. There is a very dynamic atmosphere at my department."

These are just two examples of our passionate people. You can read more about how our employees are passionate about delivering high-quality services to our customers 24 hours a day throughout the Business Report.

Read more about our passionate people on our website.

More on postnl.nl/24hours

Inventive every day

In 2012 we delivered 120 million parcels, delivering on weekdays one day after the order was placed online. Five years later and we deliver over 200 million parcels annually, every day of the week, offering evening, same-day, before 10 AM and before noon delivery options. We even have days where we deliver over one million parcels. Our passion is to deliver what our customers need, wherever and whenever they need it.

In 2017 we introduced a service that enables consumers to change the delivery time and location of their parcel before the first delivery attempt. This new service improves the consumer experience by facilitating real-time process intervention. Services like these challenge us to continually improve our IT infrastructure. By building innovative systems and solutions, we have succeeded in offering consumers and customers what they expect from a leading service provider in the e-commerce market. We believe this will enable us to achieve our ambition to be *the* postal and logistic solutions provider in our chosen markets.

Find out more about how we stay inventive on our website.

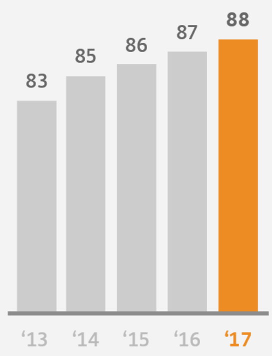
More on postnl.nl/parcels-innovation

We are...

accelerating our transformation

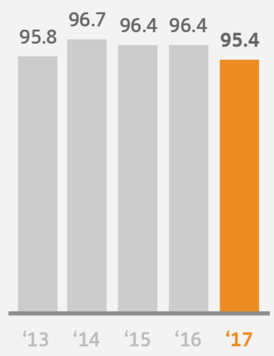
In 2017 we continued to accelerate our transformation into a strong, flexible, customer-oriented, and financially healthy company. We are adapting our organisation to ongoing volume growth in the national and international parcels markets and volume decline in postal markets. Additionally, we continued to invest in our three growth domains: convenient shopping, network logistics, and connected community. In combination with our financially healthy position this gives us confidence that we are well prepared to realise our ambition and create long-term value for all our stakeholders.

PostNL
Customer satisfaction
(% of satisfied customers)
2013 - 2017



target 2017: above 87

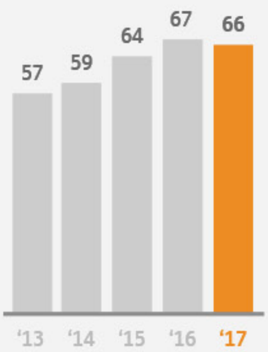
Mail in the Netherlands
Delivery quality
(in %)
2013 - 2017



target 2017: above 95

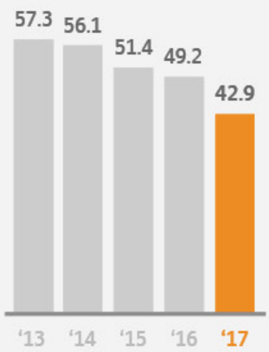
	Ambitions	Main brands	Products, services, and main customers
Mail in the Netherlands	Deliver sustainable cash flow	postnl, spotta, Cendris, adeptiv	We deliver mail to and for businesses and consumers. We offer mail tracking, printing, and moving services for our customers and consumers. We offer on- and offline marketing solutions for e-tailers, retailers, and public organisations.
Parcels	Create further profitable growth	postnl, mikropakket Advanced Logistic Services, JP Haarlem Delivery	We deliver parcels, goods, and food to and for businesses and consumers, even on the same day. We offer delivery of high value goods, XL goods, and installation services to small-, medium-, and large e-tailers. We provide fulfilment solutions to small- and medium-sized e-tailers.
International	Enhance cash profitability	Spring, nexive, postcon	We facilitate cross-border mail and parcel deliveries for small-, medium-, and large e-tailers. We deliver parcels for businesses and consumers in Italy, and mail for businesses and consumers in Germany and Italy.

PostNL
Employee engagement
(% of engaged employees)
2013 - 2017



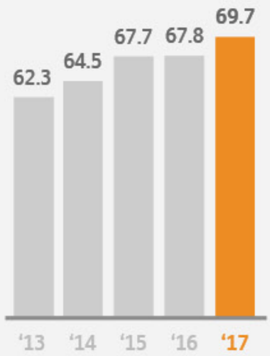
target 2017: above 67

PostNL
CO_2 efficiency index
(in points, 2007 = 100)
2013 - 2017



target 2017: below 49.5

PostNL
Reputation score
(in points)
2013 - 2017



	Year	Revenue (in € millions) 2016-2017	Underlying cash operating income (in € millions) 2016-2017	Headcount 2016-2017
	2016	1,877	160	36,411
	2017	1,783	125	33,305
	2016	967	106	3,588
	2017	1,110	120	4,136
	2016	1,017	14	5,467
	2017	1,051	6	5,782
PostNL Other	2016	-448	-35	990
	2017	-449	-26	1,040
PostNL	2016	3,413	245	46,456
	2017	3,495	225	44,263

We are...

being recognised for our progress

We focus on being an innovative, diverse, sustainable, and forward-thinking company. In 2017 we were recognised by a number of external bodies for progress we have made on these and other topics. We have highlighted a few of those that have made us especially proud.

Proud to be award winners

Award for Fastest Reputation Improvement Over Five Years

Over the last five years our reputation score has increased by almost 12 percent. We were recognised by the independent Reputation Institute as the company with the greatest increase in reputation in the Netherlands.

SAN Accent Award

We were awarded a prize for our brand campaign by the Dutch Foundation of Advertisers (Stichting Adverteerders Nederland). The jury especially recognised our campaign for its connection between our brand and our strategy.

2017 Postal and Parcel Technology Awards

We were recognised for increasing the operational efficiency of our sorting process, by installing a bar code reader and laser projector on three conveyor belts. This helps speed up the parcel sorting process.

EcoVadis Gold

In 2017 we were given a 'Gold' rating by EcoVadis, which is a trusted partner for procurement teams within more than 180 leading multinationals, helping them to reduce risk and drive innovation in their supply chains.

Mail preparation centre, Amsterdam

05.48

Ton Vlavianos
Truck driver

“In my 35 years working here, a lot has changed at PostNL. Not just across the company, of course, but also for me personally. I used to work night shifts, but now I get up early to drive mail around the country, helping to make sure it’s delivered the same day. For me, this job means freedom, not just because I cross the country in my truck, but also because I meet a lot of people. And that’s what really hasn’t changed: I still love my job.”

2 Message from Herna Verhagen

Accelerating transformation

Looking back

In 2017, we continued to make considerable progress transforming PostNL into a logistics e-commerce company, helping us realise our ambition to be the postal and logistic solutions provider in our chosen markets. And with 38% of the revenue we generated in 2017 related to e-commerce, we are well on track to reach our target of bringing this to at least 50% by 2020. We also further improved our financial position: our consolidated equity is positive, we refinanced our debt against attractive conditions, and we reinstated our dividend payment.

These are achievements that we are rightly proud of. But we also need to acknowledge that not everything developed as we had hoped. For example, mail volume decline was higher than we projected, which was due to substitution and regulation that supports competition. Additionally, our International business did not perform as expected. This resulted in an underlying cash operating income of €225 million in 2017. While some of these issues were mainly the result of external factors, it is vital that we continue to look critically at ourselves and do everything in our power to improve where necessary.

Yet what has not changed is how vital our people are to the success of our great company, and how much we value them. Our diverse, dedicated and innovative people make this company successful. Because of the trust I have in them, I am confident that we will be able to continue our accelerated transformation and take the necessary steps to make improvements.

2017 per segment

In **Mail in the Netherlands**, our focus remains on delivering a sustainable cash flow in a shrinking market, while dealing with strong competition and regulation that does not reflect the reality of continuously declining mail volumes. We continued our policy to mitigate the impact of volume decline through cost savings and price increases. For example, by working closely with municipalities and local communities, we removed or transferred post boxes that were infrequently used, and we further automated our sorting process. In line with customer demand, we began simplifying our product portfolio, which will improve our operational efficiency and quality and further increase customer satisfaction, and began the redesign of our commercial department. Overall, we realised cost savings of €56 million, unfortunately at the lower end of our guided bandwidth. We also increased our prices in a balanced manner, ensuring that we do not materially impact volumes.

Regulation continued to require significant management attention, and impacted us operationally and financially faster than anticipated. The decision by the Authority for Consumers and Markets (ACM) that PostNL has significant market power in the 24-hour bulk mail segment, and must grant network access to postal operators in this segment, further stimulated competition. We believe this will ultimately harm the sustainability of the Dutch postal network. Given the fundamental changes in the postal market, and the expected further decline in volumes, we believe regulation must be amended to reflect this reality and to facilitate an orderly and rational adjustment of the Dutch postal market. To safeguard the reliability and accessibility of the postal service, and to preserve decent labour conditions in this shrinking market, we believe that in the long run the consolidation of postal networks in the Netherlands is inevitable. We look forward to the outcome of the postal dialogue which the Secretary of State initiated under the supervision of Ms Oudeman.

As our position as a leading logistics e-commerce company in the Benelux continues to strengthen, we strive to create further profitable growth through our **Parcels** segment. Increasing e-commerce growth, combined with investments in our best-in-class infrastructure and our ongoing introduction of innovative services and solutions, resulted in record-breaking volume growth in 2017, both in the Netherlands and Belgium. We introduced a range of innovative solutions, such as the option for customers to reroute their parcel before the first delivery attempt. Additionally, we expanded our network, including through a number of acquisitions, the opening of a sorting centre at one of the bol.com facilities, and the opening of our nineteenth parcels processing and distribution centre with cargo hub and temperature-controlled facilities.

At our **International** segment, we continued to focus on enhanced cash profitability. Although we did not make as much progress as hoped, we continue to concentrate on capturing opportunities created by accelerating global e-commerce growth, using our cross-border operations, and on further building Nexive's and Postcon's position. Our policy of strict compliance with international dangerous goods regulation resulted in the loss of some of our customers at our cross-border parcel business, affecting our revenue. We also faced another year of tough market conditions in both Germany and Italy. Fortunately, we also benefitted from international e-commerce growth, and continued to launch new services and solutions to support our position as a strong player in the international e-commerce market.

In July, we introduced changes to our **organisational structure** and the composition of our Executive Committee. These changes will help us accelerate our transformation and ensure that our organisation is more closely aligned with our changing profile. This included the formation of an overall customer excellence team, which made substantial progress improving customer interaction and the creation of one customer experience across PostNL, resulting in further increased customer satisfaction rates.

We made significant additional progress in the digitalisation of our company and becoming more customer focused. We improved our online customer experience, internally migrated many systems to one IT environment, and we introduced a single HR system to manage the recruiting, hiring and continued education of employees up to management level. We also further reduced the **environmental footprint** of our operations. For example, we began installing solar panels across all our parcels' processing and distribution centres, and replacing part of our fleet with vehicles that run on biogas.

The human factor

Our people play a vital role in our accelerated transformation. We need their support to make the transformation successful and deliver the service quality that customers and consumers are entitled to. This requires our people to be innovative and resilient, to invest in learning new personal and professional skills and to make our customers happy through everything they do, and challenges some of them to switch career paths. Our people will only be willing to do so if they believe in our transformation. It also requires a diverse workforce—people with different skills, competences, backgrounds, experience, and mindsets.

It is our obligation to create a work environment where people are respected and enjoy a culture that promotes innovation, diverse teams, and working together across business segments. We work hard to create such an atmosphere, where people are passionate and proud to work for PostNL. We want to be an employer that respects its people and provides decent working conditions. For example, by offering our mail deliverers contracts that offer additional hours, while continuing to have constructive discussions with our outsourcing providers to ensure we safeguard sustainable working solutions for the people we contract. Every day, I see examples of the effort our people put in, and the ideas and solutions they come up with to make this great company more successful. This allows us to realise our strategy and ambitions, enabling us to safeguard a healthy and sustainable future for PostNL.

Looking forward

In 2017, I announced the acceleration of PostNL's transformation into a logistics e-commerce company, to realise our ambition to be *the* postal and logistic solutions provider in our chosen markets and to further improve our value proposition. The developments over 2017 show that the challenges and opportunities we face are both accelerating our transformation at a faster pace, while having a greater impact earlier than expected.

Ongoing volume decline, which is not slowing, and increasing competition supported by regulation are progressively impacting the financial health of the postal market. This will require fundamental changes in the way the Dutch postal market is currently regulated.

At the same time, we are witnessing and capturing many of the opportunities that come from the fast-growing e-commerce business in the Benelux and internationally, and from technological developments, which are supporting our performance ambitions as we move towards 2020.

I am confident that we will continue to find a good balance between adjusting our mail operations in the challenging Dutch postal market and expanding our footprint as an e-commerce solutions provider, while creating long-term value for all our stakeholders. We are also making promising progress in our search for new profit pools by testing how we can leverage our core competences through emerging technologies.

Closing remark

I would like to thank all our people for their individual and joint contribution and hard work in 2017. I would also like to thank our customers for their continuing trust, and for working with us to improve, innovate and expand our services and solutions, helping them strengthen their position and stay relevant in the increasing e-commerce market. Finally, with our commitment to progressive dividend and realising positive consolidated equity, we confirm our commitment to prioritising and creating long-term shareholder value.

Kind regards,
Herna Verhagen, CEO

PostNL Head Office, The Hague

09.12

Ellis Delahay
IT Business Consultant

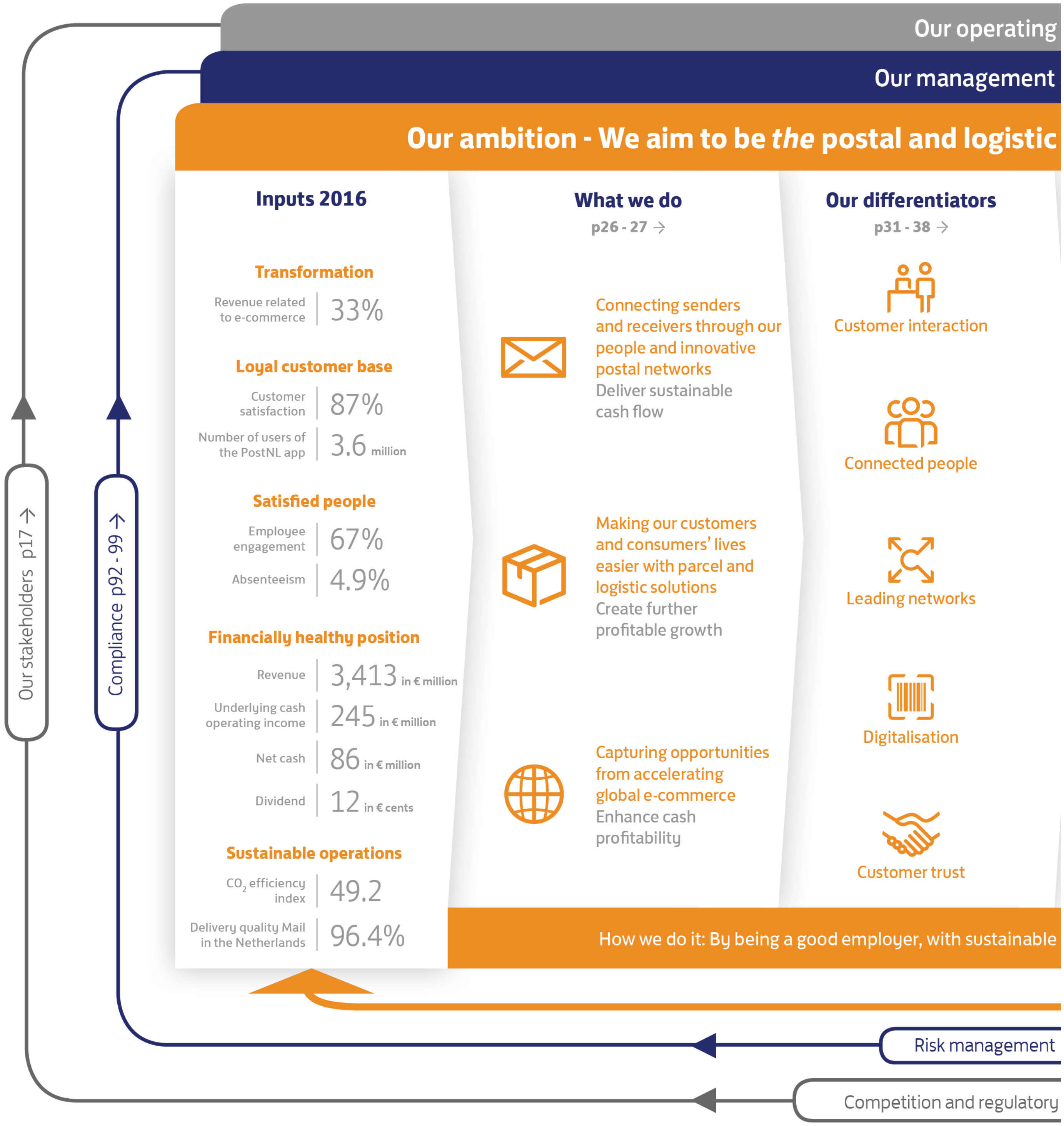
"PostNL continuously embraces new ways of cooperating, with projects and scrum teams. Right now, my team and I are contributing to the company's transformation to an agile organisation, which is even more in touch with the customers' needs and wishes. This will enable us to speed up the time to market of change initiatives. This is our weekly stand-up, where we monitor our progress by breaking our goals up into little steps. And our work is really paying off!"

Business Report

3 How we create long-term value

Our aim is to create long-term value for all our stakeholders. Our prominent role in society, and our presence at millions of doors every day, means we are uniquely positioned to provide a broad range of services and solutions to our customers.

Below we summarise our value creation process, explaining how our inputs are transformed within our businesses into outputs and outcomes that benefit the company and our stakeholders. In this chapter we describe our stakeholder engagement process, and the most material topics resulting from this process. Additionally, we describe how we contribute to the Sustainable Development Goals (SDGs) most relevant for us. We close the chapter with a few examples that highlight how our sustainable delivery process responds to our stakeholders' needs and contribute to the SDGs.



Each of the elements of our value creation process is explained in greater detail in the remainder of the Business Report. You can read more about **What we do** in chapter four, Our strategy. The development of **Our differentiators** is outlined in chapter five, What sets us apart. What we have achieved across the business in 2017, **Our outputs**, are explained in detail in chapter six, Mail in the Netherlands, chapter seven, Parcels, and chapter eight, International. **Our outcomes** are contained in chapter nine, Performance 2017 and outlook 2018, where we describe the company's key financial and corporate responsibility performance over the year, and conclude with the 2018 outlook.

context

approach

solutions provider in our chosen markets

Outputs

p42 - 57 →

Profitable postal and logistic solutions
Fulfilling our customers' needs with high quality services at competitive prices, creating value for our shareholders

Enhancing business through innovation
Developing our core activities and creating innovative solutions, resulting in long-term shareholder value

Sustainable employability
Working towards an inclusive and safe workforce, helping to improve our company's performance

Social responsibility
Matching business opportunities and our operations with our responsibility to take care of the environment and society

Highlighted outcomes 2017

p42 - 72 →

Transformation

Revenue related to e-commerce	38%

Loyal customer base

Customer satisfaction	88%
Number of users of the PostNL app	4.4 million

Satisfied people

Employee engagement	66%
Absenteeism	5.3%

Financially healthy position

Revenue	3,495 in € million
Underlying cash operating income	225 in € million
Net cash	27 in € million
Dividend	23 in € cents

Sustainable operations

CO_2 efficiency index	42.9
Delivery quality Mail in the Netherlands	95.4%

operations while contributing to a liveable society

Governance p81 - 91 →

Key market trends p23 - 24 →

p92 - 99 →

developments p24 - 25 →

Our stakeholder engagement process

Our stakeholders

Our stakeholders are primarily part of the external environment, and they have a significant impact on what we do and how we develop as a company. The needs and interests of each of our stakeholders are different, and we engage with them on different levels and in different ways. Fully understanding the specific issues that affect our stakeholders helps us shape our ambition and strategy, ultimately enabling us to create long-term value.

Customers: customers demand a reliable business partner, who understand their needs and offers seamless, high-quality, and sustainable services. Consumers expect accessible and reliable services. We engage with them through close daily contact, twice-yearly customer satisfaction assessments, customer events and knowledge sessions, as well as regular dialogue sessions.

Investors: investors want a financially sound and reliable company, with a clear investment proposition, and solid long-term results. We engage with them in a number of ways, including through meetings and conference calls with analysts and (potential) investors, as well as through our quarterly results and presentations.

People: our people expect a safe and secure working environment, which supplies them with real job satisfaction and development opportunities. To understand their needs, we undertake an annual employee engagement survey, and interact closely with the people who work with or for us on a daily basis. We also maintain good relationships with trade unions and works councils.

Society: society wants a company that provides accessible and reliable delivery services, which takes care of society at large. We maintain close contact with a variety of bodies and organisations across society, for example by sending out a quarterly reputation survey, holding supplier evaluations, and maintaining contact with regulatory authorities and the Dutch ministry of Economic Affairs. We also ensure we have a proactive relationship with the media.

Our most material topics

By engaging with our stakeholders, we are able to understand the social, business, and environmental topics that are important to them. From this we formulate the material topics that connect us. Understanding these material topics means we can more effectively and efficiently allocate our resources. Below we highlight our main material topics. You can read more about our materiality analysis, as well as a complete overview of all material topics, in chapter eighteen, the CR Performance Statements.

Connected society
- Keep mail reliable and accessible across the Netherlands
- Respond to the changing needs of communities, towns and city centres
- Cooperate along the broader supply chain

Customer loyalty
- Customer satisfaction
- High-quality services and solutions
- Wide range of delivery options
- Help customers grow their business

Economic value
- Financially healthy company
- Progressive dividend
- Employment opportunities
- Focus on long-term value creation

Empowered people
- Culture and engagement
- Employability and income certainty
- Safe and healthy working environment

Innovation and growth
- Capture opportunities from digitalisation and technological developments
- Invest in innovative solutions
- Create opportunities within e-commerce markets

Sustainable operations
- Adapt network capabilities
- High-quality services and solutions
- Low-emission delivery and energy-efficient networks
- Minimise traffic accidents and incidents

Trusted company
- Company-wide compliance with laws and regulations and adherence to high ethical standards
- Safeguarding of customer and consumer privacy
- Strong cyber and IT security
- Strong company reputation

Our Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations. The SDGs were established with the aim of ending poverty, protecting the planet, and ensuring prosperity for all. As part of our materiality analysis, we carried out desk research on the external environment, including on the SDGs. We have identified two SDGs that are most relevant for us.

As a company that employs over 44,000 people and cares about their future employment, the SDG Decent work and economic growth is pertinent to us. We believe sustainable employability is about ensuring our people are skilled, healthy and motivated to work inside or outside the company, today and in the future. Additionally, our networks and innovative solutions enable us to create opportunities not only for ourselves within the e-commerce market, but also for our customers by helping them grow their business.

SDG	Explanation	Relevance for PostNL	How PostNL contributes
8 DECENT WORK AND ECONOMIC GROWTH	Promote inclusive and sustainable economic growth, employment and decent work for all	As a leading employer in the Netherlands, we want to ensure employees remain employable, today and in the future	We offer employees fair and competitive working conditions. For example, all mail deliverers fall under the collective labour agreement, and we are moving towards offering our mail deliverers contracts that contain additional hours. This accommodates the wishes of many of our deliverers, helps retain knowledge within the company, and improves efficiency. With our innovative services and solutions, we aim to accelerate e-commerce growth, helping e-tailers grow their business.

The SDG Climate action is significant to us as the volume of parcels we deliver continues to grow sharply. Unchecked, this could lead to a steep increase in carbon emissions. We believe sustainable delivery, including sustainable operations, is vital to help safeguard the planet, protecting our interests and those of our stakeholders. In the table below we explain how we contribute to the targets set for each goal.

SDG	Explanation	Relevance for PostNL	How PostNL contributes
13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts	As a logistics e-commerce company, we aim to provide low emission delivery and energy efficient networks	We are taking action across our business segments to minimise our environmental impact by moving towards a more sustainable delivery process. We used a range of sustainable materials, solar panels, and heat recovery systems when constructing our latest parcel processing and distribution centre.

On the next two pages, we explain how we are taking into account the needs of our stakeholders and how our sustainable delivery process contributes to the most material SDGs. For each of the steps within this process we highlight a number of outcomes and impacts from our value creation process, and show how these are connected to our most material topics and SDGs.

Our sustainable delivery process

Below we explain how we are taking into account the needs of our stakeholders and how our sustainable delivery process contributes to the SDGs. For each of the steps within this process we highlight a number of outcomes and impacts from our value creation process, and show how these are connected to our most material topics and the SDGs. This is vital if we are to realise our ambition of being *the* logistic solutions provider in our chosen markets. One example of realising this ambition is a partnership we entered into with two clean fuels companies, where we created an infrastructure of biogas filling stations located an acceptable distance from our sorting and distribution centres.

Mail deliverers within the Netherlands

100%

The collective labour agreement applies to all our mail deliverers in the Netherlands

Percentage of female/male employees

47% women

53% men

Sustainable electricity

40%

Our aim is to have 40% of our parcel processing and distribution centres' electricity needs delivered from solar panels

Online study options

>35,000

We promote sustainable employability for all our employees

Women in senior management positions

28%

Senior management positions filled by women

CO_2 efficiency index

42.9

Over 57 percent reduction in CO_2 realised in 2007-2017.

Relevant material topics and SDGs

8 DECENT WORK AND ECONOMIC GROWTH

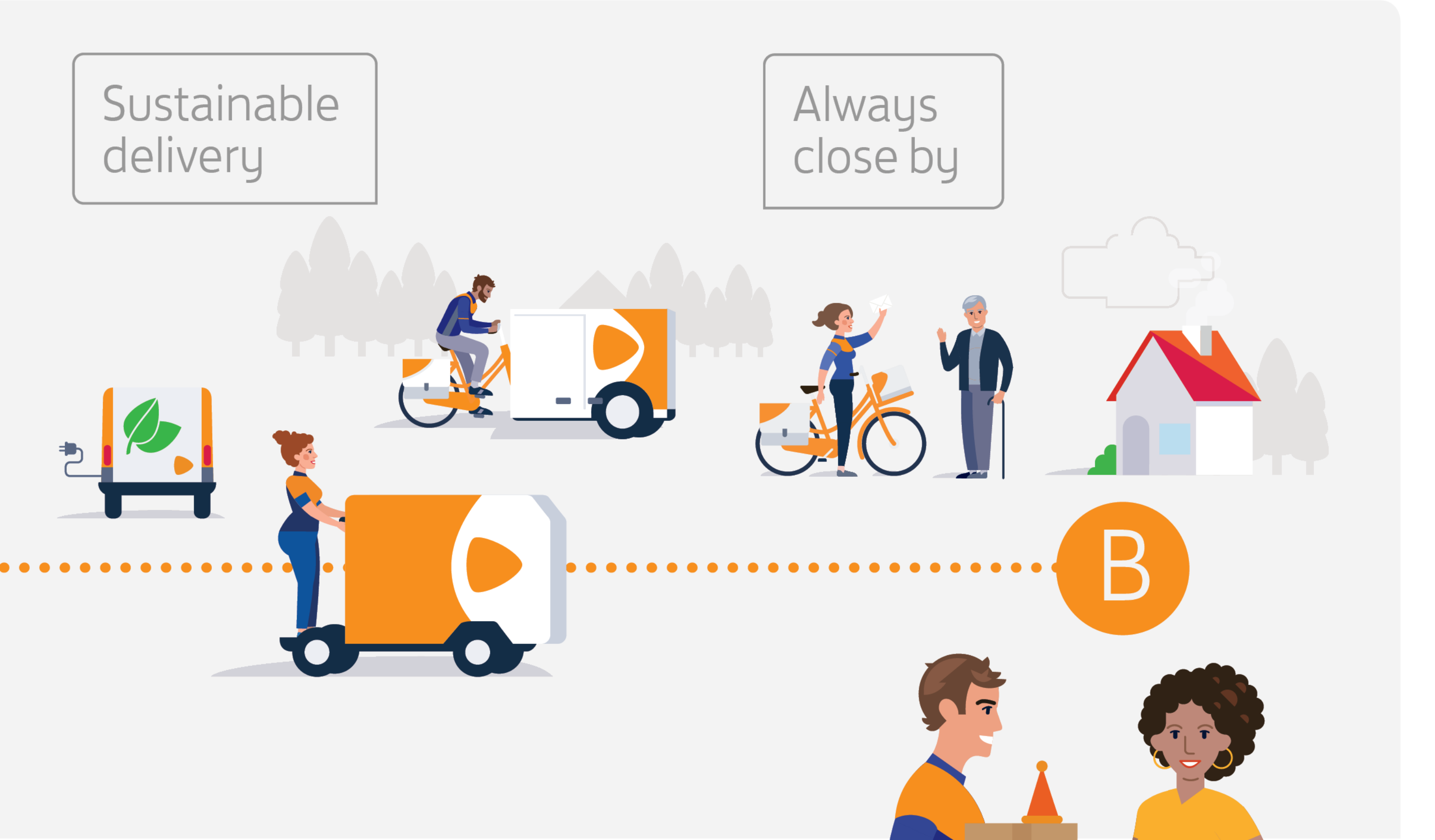
Relevant material topics and SDGs

8 DECENT WORK AND ECONOMIC GROWTH

Relevant material topics and SDGs

13 CLIMATE ACTION

These stations are open to the public, and can be used by everyone. This is how we realise our ambitions, while contributing to the SDG on climate action. By taking our social responsibility seriously, and supporting people with a distance to the labour market by working with them at our Parcels' sorting and distribution centres, we respond to both our material topic empowered people and the SDG on decent work and economic growth. Below you can find a few examples of how we responded to our stakeholders' needs, and how we contribute to the SDGs. You can find numerous other examples throughout the rest of this Annual Report.



Number of biogas vehicles

730

We increased the number of biogas vehicles by around 250% in 2017

Number of e-cargo bikes

65

Our aim is to further increase the number of e-cargo bikes in 2018

Relevant material topics and SDGs

13 CLIMATE ACTION

Percentage of satisfied customers

88%

In 2017 88% of our customers were satisfied, and 41% said they were highly satisfied

Parcel volume growth 2017

17.2%

With our innovative services and solutions, we help create opportunities within the e-commerce market

Relevant material topics and SDGs

8 DECENT WORK AND ECONOMIC GROWTH

Cendris customer contact centre, Leeuwarden

10.27

Summer Vera
Webcare agent

"I like helping people. As a webcare agent, my challenge is to make digital communication on social media as personal as possible. Empathy is important: I try to put myself in my customer' shoes. At PostNL Webcare, we're known for being fast and to the point, as well as for our humour – if appropriate, of course."

4 Our strategy

Our strategy is to be *the* postal and logistic solutions provider in our chosen markets. This strategy is influenced by the world around us and how it is changing and impacting our business. Driven by technological developments, each year consumers are making more purchases online. Not only are they making more purchases within their own country, they are also increasingly making online purchases from abroad. What began as the sale of books and electronics online has expanded into food, fashion, white goods and pharmaceuticals, resulting in an exponential growth in parcel volumes. At the same time, ongoing digitisation leads to further substitution in the postal market, causing a significant decrease in mail volumes.

Introduction

Over the last few years we have begun transforming into a logistics e-commerce company, driven by technology and our place in society. While this transformation is a direct response to trends in the market, the transformation began to accelerate in 2017. This has resulted in a shift in focus across all business segments.

Our focus has always been on building a solid foundation by being both adaptive and innovative. This has enabled us to transform into an efficient, flexible, customer-oriented, and financially healthy company that creates long-term value for all our stakeholders. Our healthy financial position gives us the ability to further invest in the future of the business.

Across **Mail in the Netherlands**, we have increased operational efficiency by centralising depots and introducing state-of-the-art sorting and coding machinery. These changes, which are partially driven by ongoing volume decline, help us realise significant cost savings. Ongoing investments in our IT and digital capabilities act as a foundation for our accelerated transformation, enabling us to increase efficiency, streamline our processes, while offering new services and solutions. This improves our online customer interaction, contributing to an increase in customer satisfaction.

At our **Parcels** business segment, we have invested heavily in our best-in-class infrastructure to take full advantage of the opportunities available within e-commerce. We are also developing and introducing innovative services and solutions to make the lives of our customers easier, enabling us to continue to strengthen our position as the leading logistics e-commerce company in the Benelux.

At **International** we have strengthened our position as a strong cross-border player, by transforming our Spring business from a cross-border mail company into a cross-border e-commerce service partner. At Nexive, our focus is on strengthening our parcel network, while improving customer interaction. Within Postcon, our focus is on maintaining our number two position within the postal market, by concentrating on volume growth, while maintaining solid quality levels.

Over the 2013-2016 period, our transformation led to a number of benefits for all our stakeholders. Supported by our increased focus on data and digitalisation, we began providing customers with a range of new services and solutions. These include new parcel delivery options, the PostNL app, and a greater focus on online customer care. At the same time, we reinstated dividends for our shareholders, increased employee engagement, and reduced carbon emissions that ultimately benefit society.

Our view of the market

We have identified three key market trends that are shaping the lives of our customers and are impacting our strategy. These are: accelerating e-commerce, technological developments, and sustainable society. Looking ahead, we have also identified three growth domains related to these trends. Given our unique skills and capabilities, we believe these growth domains offer the greatest potential for PostNL. The three market trends are outlined in more detail below. We close with an overview of the main competition and regulatory developments. Our business segment chapters contain an overview of specific competition and regulatory developments.

Key market trends

Accelerating e-commerce

Technological developments

Sustainable society

Growth domains

Convenient shopping

Network logistics

Connected community

Accelerating e-commerce

The move from offline to online is leading to the rapid growth in e-commerce, with people increasingly purchasing goods cross-border. This is leading to the globalisation of e-commerce players. For example, the Chinese e-tailer Alibaba is currently one of the most popular websites in the Netherlands. Yet, the acceleration in e-commerce not only impacts parcel volumes, it also leads consumers to seek out more value-added services. One example is our Track & Trace offering, which in 2017 was used 242 million times. That is an astonishing 460 times per minute.

Technological developments

Technology has become pervasive across society. Current and future trends that will affect our sector include digitalisation, robotisation, artificial intelligence (AI), and transforming data into knowledge. Online platforms are creating significant changes to business models, with new entrants such as Uber and Airbnb disrupting traditional markets. This is having an impact on the way we run our business, such as by using technological innovations and data insights to create new delivery options for customers and consumers.

Sustainable society

Today's societies are impacted by a number of trends, including urbanisation, an ageing population, the collaborative economy, and sustainability. This impacts not only the way goods and services are delivered, but also the expectations society has towards companies. Within the Netherlands, there is an increasing focus on offering sustainable labour conditions, with the participation of an ageing population. At the same time, consumers demand sustainable delivery options and a reduction in traffic congestion. And as the population ages, the accessibility of basic services and the need for increasing cure and care becomes ever-more important. One of our focus areas is to contribute to a liveable society by keeping mail accessible and reliable across the Netherlands, while taking care of the environment.

To maintain a sustainable business model and further strengthen our results, we identified three substantial growth domains: convenient shopping, network logistics, and connected community. These growth domains are outlined in more detail below.

Convenient shopping

The entire world is becoming a store front. The internet means we are shopping across borders, 24/7. And enjoying the convenience of having our goods delivered anytime, anywhere. Our strength in offering last-mile delivery services means we can act as a strategic partner to e-tailers, opening up new markets and creating new opportunities for PostNL.

Network logistics

There has been a sharp rise in the number of goods bought and sold around the world. Ensuring these goods are delivered at the right time, to the right place, requires a large, reliable, innovative network. Consumers have increasingly high expectations about the way goods are delivered, demanding greater control over deliver time and location. Using our country-wide distribution network, we are able to offer food-delivery solutions within the 2C and 2B markets, and expect to develop our food delivery options going forward.

Connected community

Our society is changing. Increasing numbers of people are moving to cities. And while they are getting older, they still want to live independently. Access is getting more important than ownership. This is having an impact on the care market, for example, with the delivery of medicine, medical devices, consumables and other related products and services at home increasing in importance. The combination of our unique mix of networks and our trusted brand in the Netherlands positions us perfectly to provide a variety of services in this area.

Below we describe how the key market trends and the growth domains we have identified are connected, and how they impact the way we do business today and will shape the way we do business in the future.

Connecting key market trends with growth domains

Accelerating e-commerce requires a convenient shopping experience: The growth in e-commerce is impacting all our business segments. And its potential is huge. We expect that at least 50% of our Group revenue will be related to e-commerce in 2020. Customers are increasingly ordering goods online, in greater variety, both in their home markets and from abroad. They are demanding greater control over when and where their goods are delivered. Same day, evening, Sunday delivery, and return options are now services that many customers demand and expect.

When buying online, consumers increasingly expect to obtain relevant offerings based on their personal preferences. Expectations are no longer only set by direct competition, but also by technological frontrunners and new companies entering the market. Providing such a convenient shopping experience requires in-depth digital capabilities, customer knowledge, innovative delivery solutions, and the high quality networks that we can provide. Examples of how we are already accelerating e-commerce can be found throughout the remainder of this business report.

The effect technology is having on our business and our network logistics: Technology is impacting the way businesses operate. Omnichannel e-commerce is growing fast, and customers expect total flexibility in terms of when, where, and how they order and receive their goods. One of the consequences of these developments is shifting supply chains, which are becoming much more complex. Producers are not just delivering to wholesalers and retailers, but also directly to the end consumer. Whether consumers receive parcels or small packages, they have ever-greater expectations.

Wholesalers and retailers are optimising their sales channels, meaning they need state-of-the-art warehousing and spot-on fulfilment, leading to greater complexity within the supply chain. Using our comprehensive network across the Benelux, which includes the introduction of robotisation, technological innovations at our sorting and delivery centres, as well as the use of data, we are able to supply these customers with a future-proof supply chain. Examples of how we are already delivering services and solutions within the domains can be found throughout the remainder of this business report.

The effect of sustainable society on our business and realising a connected community: More people are settling in urban areas, increasing the strain on the world's road and transport infrastructure, and life expectancy is also increasing. By 2030, for example, the Dutch government estimates that the number of elderly people in the Netherlands will have increased from 2.9 million in 2014 to over 4 million.

Both trends create opportunities. Cities are creating environmental zones, resulting in the demand for more sustainable delivery solutions. At the same time, an ageing population will require a range of different services and solutions, including the delivery of home care, medication, and warm meals. We are ideally positioned to provide such solutions in these areas, given our presence in the Benelux at more than ten million front doors. By responding to the trends and developments in the growth domains, we are always close by. More information on how we are contributing to society can be found throughout the remainder of this business report.

Main competition and regulatory developments

We provide postal and logistic services in chosen markets. Within the Benelux we are the leading mail and parcels company, and in Italy and Germany we hold the number-two position in the postal market through our Nexive and Postcon businesses. Spring Global Delivery Solutions (Spring) provides our customers with cross-border mail, parcels and packets solutions. When developing and implementing our strategy, we look at the unique impact competition and the regulatory landscape have on each of these businesses. We discuss these developments and how they affect our business segments below.

Competition

At Mail in the Netherlands, our volumes are impacted by digitisation, competition and regulatory developments. Digitisation leads to declining market volumes because of a range of digital alternatives for mail, such as social media, electronic invoicing or other digital marketing services. The shrinking postal market leads to intensified competition between postal operators. At the same time, the regulatory developments further support competition.

As the parcel and e-commerce markets grow, we are witnessing greater competition in both the Benelux region and cross-border from existing players and new entrants. At the same time, large (inter)national e-tailers are beginning to fulfil part of the delivery process themselves.

While in recent years competition in Italy was predominantly on pricing and market share, in 2017 we saw a shift towards competition on quality and service levels. In contrast to other countries, postal volumes in Germany have grown over the last few years. We saw competition increasing at our Postcon Consolidation business, primarily on pricing, as the local incumbent began offering additional rebates.

More information on the development of competition in our markets can be found in chapter six, Mail in the Netherlands, chapter seven, Parcels, and chapter eight, International.

Regulatory developments

The **Dutch postal market** in general: Ongoing digitisation continues to support substitution, resulting in a significant decrease in mail volumes in the Dutch postal market. In July 2017, the Ministry of Economic Affairs published its analysis of the future of the Dutch postal market, including the evaluation of the USO. The analysis demonstrates that the Dutch postal market has changed fundamentally over the past few years and that choices about the future must be made soon. Dutch mail volumes have almost halved since 2005 and the decline will continue. The postal market is labour intensive, and the steady volume decline has far-reaching consequences for employment opportunities at PostNL and the Dutch postal market as a whole. The continuous decline of the Dutch postal market means that clear decisions are required to keep it sustainable.

The 24-hour bulk mail segment: In July 2017, the ACM concluded that PostNL has significant market power (SMP) in the 24-hour bulk mail segment. As a result, we are obliged to grant (regional) postal operators network access in this segment at prices and under conditions specified by the ACM. These conditions and prices specified by the ACM have a significant impact on our Mail in the Netherlands business, both operationally and financially. We expect the financial impact of the ACM's measures to be between €50 million and €70 million annualised, with the full effect visible in FY 2020. PostNL is challenging the relevant elements of the SMP decision through due legal process, such as the conclusion that PostNL has SMP and that the proposed requirements are disproportionate. Furthermore, PostNL is of the view that the SMP decision is based on legislation which is not aligned with the realities of today's declining postal market and will ultimately harm the quality of postal delivery and service in the Netherlands and the reliability and accessibility of the Dutch postal network.

Postal dialogue: In November 2017, Parliament organised a roundtable with key stakeholders from the Dutch postal and parcel markets to share their views on the future of the Dutch postal market. PostNL shared its views as expressed above. Shortly after this roundtable, the State Secretary announced the launch of a postal dialogue: a stakeholder process that will be designed to develop a shared view on the future of the Dutch postal market, and appointed Ms Oudeman to chair this dialogue. Ms Oudeman has been requested to present her conclusions and proposals before the summer of 2018. This will enable the Ministry of Economic Affairs to present a new legislative and regulatory package for the postal market in the second quarter of 2018. PostNL welcomes this dialogue and is actively participating in it.

Our view on the future of the Dutch postal market: The report of the Minister referred to above rightly points out that more network competition does not create additional value. PostNL has underlined regularly that regulation should not artificially support competition: regulation should reflect the reality of the shrinking mail market. Regulation supporting competition results in competition at the expense of labour conditions. One must focus on the reliability and accessibility of the postal service and on decent labour conditions. We thus share the new government's ambition to keep the USO at the current quality level in both urban and rural areas of the Netherlands. This requires a revision of the regulation of the postal market in the short term. It is very important to implement regulation that facilitates an orderly and rational adjustment of the postal market structure, reflecting the reality of ongoing mail volume decline. At the same time, to safeguard the reliability and accessibility of the postal service, and to preserve decent labour conditions in such a shrinking market,

we believe that in the long run the consolidation of postal networks in the Netherlands is inevitable.

As one of the largest employers in the Netherlands, we strive for decent employment conditions: our mail deliverers are employed by PostNL and fall under the collective labour agreement for mail deliverers. The responsibilities of companies operating in the Dutch postal market regarding their employees must not be overlooked. We welcome the level playing field in the Dutch postal market which the Secretary of State recently enforced in this respect.

International: During the year we introduced a zero-tolerance policy towards transporting dangerous goods by air from the point of entry into our network. The consequence of this is that we no longer do business with some customers in Asia. Although this impacted our revenue and results, we are now working with customers with whom we believe we can forge a successful long-term and sustainable business relationship.

In 2017 the Italian government amended the country's competition law, removing the monopoly on delivering judicial correspondence and fines from Poste Italiane. This is a relatively large market in Italy, with around 190 million items sent annually. At the beginning of 2018, Italy's competition authority (AGCM) upheld a complaint by Nexive that Poste Italiane was abusing its market power within the large business customers' market sector. This led to Poste Italiane being fined €23 million.

In 2017, the German regulator ruled that Deutsche Post misused its dominant market position when issuing logistic rebates on its access tariffs, which will help create a more level playing field in the German postal market.

More information on regulatory developments can be found in chapters six, Mail in the Netherlands, chapter seven, Parcels, and chapter eight, International.

Our strategy

Our strategy
OnePostNL unlock value through accelerating transformation

2020

	What we do p42-57→	Our ambitons
Mail in the Netherlands	Connect senders and receivers through our people and innovative postal networks	Deliver sustainable cash flow
Parcels	Be *the* logistic solutions provider that makes our customers' lives easier	Create further profitable growth
International	Capture opportunities from accelerating global e-commerce	Enhance cash profitability

What sets us apart
p31-40→

Our differentiators

Our commitment to our stakeholders

Our approach to achieve growth

How we do it
p42-57→

By being a good employer

With sustainable operations

While contributing to a liveable society

We aim to be *the* postal and logistic solutions provider in our chosen markets

What we do

Driven by the key market trends, we are accelerating the process of transforming into a logistics e-commerce company. This transformation will enable us to grow and achieve our ambitions. To realise these ambitions, each of our business segments has specific goals and strategic aims.

At **Mail in the Netherlands** our goal is to deliver sustainable cash flow. To help accomplish this, our strategy is to continue to connect senders and receivers through our people and innovative postal networks, in what is a competitive and regulated market. This requires us to find the delicate balance between mitigating continuous volume decline with cost savings and price increases; facing fierce competition, which is being supported by regulation; meeting customers' expectations; keeping mail relevant and attractive for customers; striving for decent employment conditions; and meeting our responsibility to safeguard the reliability and accessibility of the postal service.

To keep mail accessible and reliable for everyone across the Netherlands, we believe consolidation within the Dutch postal market is inevitable. Going forward, we will continue our transformation by realising greater cost savings and investing in the technology and infrastructure required to support the growing e-commerce market. Cost savings at Mail in the Netherlands will enable us to effectively manage declining mail volumes, while maintaining our high-quality mail delivery and customer service standards. Additionally, we will continue to assert that regulation must be amended to reflect the fundamental changes in the Dutch postal market, in order to facilitate an orderly and rational adjustment of the postal market structure. We believe this will enable us to continue to provide decent working conditions, including offering our mail delivers contracts that provide additional hours within the framework of the collective labour agreement. This is vital, as our people are key to the successful transformation of the company and our ability to deliver the service quality demanded by customers and consumers.

At **Parcels** our goal is to create further profitable growth by accelerating our investments in parcel processing and distribution centres in the Benelux, enabling us to expand the range and efficiency of the services we provide. We will also grow and optimise the number of parcel pick up points we operate. Our aim is to realise strong improvements in the infrastructure in Belgium, enabling us to create one service level across the Benelux. This requires an adaptable and innovative workforce, which is why we are focusing on culture, diversity and inclusion, and long-term employment opportunities. Together, these steps will benefit our customers, the company, and our people.

At **International** our goal is to enhance cash profitability. Our strategy of further capturing opportunities from accelerating global e-commerce will help us make this happen. We aim to realise this by expanding our position as a strong player in the international e-commerce market and by utilising our position as the smart challenger in Italy and Germany.

Across the company, we will develop IT and data solutions to accelerate efficiency. Additionally, we will continue to focus on employee engagement and developing the right culture. We believe having the right culture and behaviours is critical for a successful transformation. Through good cooperation with our works councils, we manage the impact of the restructuring programmes, and whenever possible will transfer employees internally. At the same time, we are looking critically at those assets that do not fit within the transformation process.

As part of our growth strategy we are focusing on diversifying our portfolio. This includes exploring acquisition opportunities that we believe would strengthen our business going forward. This will help us to achieve our goal of becoming the postal and logistic solutions provider in our chosen markets.

You can read more about the business segment strategies and the progress we made in 2017 in chapter six, Mail in the Netherlands, chapter seven, Parcels, and chapter eight, International.

What sets us apart

Our differentiators

We believe a number of differentiators set us apart in the market. These differentiators, which are customer interaction, connected people, leading networks, digitalisation, and customer trust, will enable us to achieve our ambition. These differentiators support the way we operate as a company, creating a strong framework and providing us with the elements that make us a unique company. And we continue to focus on developing our differentiators, from improving our digital capabilities to sharpening our customer insights; and from growing our reputation and the trust of our customers to extending our leading networks.

Our commitment to our stakeholders

We are committed to our stakeholders, and focus on the interests of our customers, our people, our investors, and society. From providing our customers with innovative parcel services and solutions; keeping mail accessible and reliable across the country; creating a secure working environment; and solid cash management that enable us to create value and aim to provide our shareholders with progressive dividends.

Our approach to achieving growth

Delivering growth is a vital part of our strategy, which we will realise through our core business and our three growth domains. We have developed a multi-track approach to achieve growth, based on four key areas: enhancing growth in our core activities; finding new profit pools through diversification; mergers and acquisitions (M&A); and co-investments.

The result: A financially healthy position

By focusing on our differentiators, being committed to our stakeholders, and delivering growth through our core business and our three growth domains, we are able to achieve a healthy financial position. This will enable us to invest in the future of the business, explore further acquisitions, and aim for a progressive dividend, creating long-term shareholder value.

You can read more about the development of these topics in chapter 5, What sets us apart.

How we do it

Our people make the difference, whether they work for us or with us, or whether they work in the Netherlands or abroad. This is why we believe being **a good employer** is critical to the successful transformation of the company. This is why we are targeting sustainable employability, and creating a work environment where people feel engaged and are passionate and proud to work for PostNL.

As a logistics provider that operates a large fleet of vehicles and operating sites, we know we have an impact on the environment. But we also know we can limit this impact. Which is why we focus on introducing state-of-the-art solutions to make our **operations more sustainable**. As part of our Fleet Programme, each year we roll out more energy-efficient transportation methods. Within our Buildings Programme, we are replacing our sorting machines with new, more energy-efficient versions and installing LED lighting at our production sites and solar panels at our parcel processing and distribution centres.

One of our core aims is to ensure we contribute to a **liveable society**. We have provided a mail service in the Netherlands for over 200 years, and with pride and dedication we are the universal service provider. Over 44,000 people work to ensure that mail and parcels are delivered in every street, every day. From registered mail to birthday cards, from vaccinations to mourning post.

You can read more about these topics throughout the Business Report.

Strengths, Weaknesses, Opportunities, and Threats

Our SWOT analysis provides us with clear markers that could impact or influence our ability to realise our strategy. We actively address each element to evaluate which steps we need to take to reduce threats, bolster weaknesses, and maintain strengths, while exploiting opportunities. The threats are derived from the major risks further explained in chapter thirteen, Risk management, in the Governance section of this report. The most important takeaways from our SWOT analysis are:

Strengths

- Customer focus and ability to realise innovative services and solutions
- Ability to exceed customer expectations through efficient and cost-effective networks
- Strong history of executing large cost saving programmes
- Strong player in the international e-commerce market through our cross-border business
- Strong digitalisation and data capabilities, supporting our logistic processes and the development of innovative services
- Financially healthy, given our net cash position and following our transition towards positive consolidated equity
- Strong market position, reputation, and a trusted brand in the Netherlands.

Weaknesses

- Substantial share of revenue comes from traditional, declining postal market
- Limited influence on the creation of a level playing field in the (international) regulatory environment
- Increased competition due to regulatory changes.

Opportunities

- Ability to create operational efficiencies and develop new services and solutions for customers and consumers using data and knowledge management
- Continued strong growth of domestic and global e-commerce markets
- Taking advantage of opportunities presented by customers' needs for services along the value chain
- Capturing opportunities presented by the growth domains, which have the potential to strengthen the sustainability of our business going forward.

Threats

- Exposure to sector-specific and other legal or regulatory changes
- Strong competition in the mail and parcels market
- Tight labour market, which makes it challenging to fill vacancies
- Ongoing switch of mail senders to digital communication.

How we will use our strengths to balance our weaknesses and counteract threats

Our strong market position as a postal and logistic solutions provider, together with our key differentiator customer interaction, enables us to balance our exposure to the declining postal market, the regulatory environment, and increased competition in the mail and parcels markets. In doing so, we are able to focus on long-term value creation for all our stakeholders. This is supported by our reputation and well-known and highly respected brand, which is an invaluable asset when communicating with our customers and attracting personnel from the tight labour market.

We provide high-quality services to our customers through our skilled and motivated people and our best-in-class networks. We invest in developing the capabilities of our people, our online presence and information systems to optimise our networks.

Our solid financial position enables us to accelerate our transformation from being predominantly a postal company to increasingly being a parcel and logistic solutions provider. With mail volumes continuing to decline, cost savings in Mail in the Netherlands are necessary to secure profitability within the business segment. This allows us to make investments to accelerate the growth of our Benelux and international parcel volumes. For example, by expanding our parcel processing and distribution centres in the Benelux and strengthening our digitalisation capabilities. This, combined with our initiatives in identified growth areas, enables us to counter the continuing decline of the mail business.

We focus on having good working relationships with regulatory and supervisory authorities, and have built up extensive knowledge and experience of the postal and parcels environment over the course of many years. This helps us when preparing for new developments within the legal and regulatory environment.

How we take advantage of opportunities

Global acceleration of e-commerce and technological developments are changing the world and impacting our customers' day-to-day lives. As a central player in the digital and physical mail and parcel world, we are becoming increasingly aware of our customers' preferences and behaviour. This provides us with the unique opportunity to develop new services and solutions to satisfy their changing needs.

Our differentiators are essential in managing opportunities. For example, over the last few years our strong data and logistic capabilities have enabled us to develop a range of new market-leading solutions. In 2012, we delivered only on weekdays, and one day after the order was placed online. Now we deliver every day of the week, offering evening, same-day, before 10 AM and before noon delivery options. And we not only deliver in the Netherlands, but also in Belgium, and are working towards one service level across the Benelux. Our data and digitalisation capabilities also provide us with opportunities to improve our online services. Using artificial intelligence, we have been able to generate a new algorithm to better predict parcel delivery times, increasing customer satisfaction. We also use data to strengthen our customer interaction. Customers increasingly expect a more personalised and consistent experience during their customer journey, no matter how, where, or when they interact with us.

Providing e-tailers with services along the entire value chain is growing in importance, from selling online, to fulfilment, distribution, and extended delivery services, such as installation and pick up and return services. With our focus on extending the range and quality of specialised logistic solutions, we are taking advantage of these opportunities.

We also continue to pro-actively adapt our infrastructure and delivery procedures to drive e-commerce growth, strengthening our competitive position and improving our customer interaction. We are implementing our full-cloud strategy, which focuses on moving our back-office IT systems to market-leading, standardised IT systems, helping us save costs and simplify our processes.

Our approach to achieving growth will help us to further diversify our portfolio going forward. Our multi-track approach enables us to capture opportunities both close to our core mail and parcels businesses, and our growth domains. Additionally, we are diversifying through acquisitions and co-investments.

Flower auction, Aalsmeer

12.57

Carmen van Bebberen-Troost

Logistics supervisor Flora@home

"During my years working in a flower shop, I never could have imagined that one day I would be able to send flowers – in a vase! – in a box that PostNL developed and have it delivered as a parcel, without damaging the flowers or spilling a drop of water. How cool is that? I love flowers, and now I get to combine working with them with cool logistics solutions. I mean, you can even hold the parcel upside down!"

5 What sets us apart

A number of differentiators set us apart in the market, supporting the way we operate and providing us with the elements that make us a unique company. We believe that these differentiators, combined with our commitment to our stakeholders and our focus on delivering growth, will enable us to achieve our ambition.

We have identified five differentiators that distinguish us in the markets in which we operate: customer interaction, connected people, leading networks, digitalisation, and customer trust. In this chapter we explain how our differentiators make us the company we are today and will help us become *the* postal and logistic solutions provider in our chosen markets. We then outline our commitment to our stakeholders and our approach to achieving growth. We end by explaining how these elements have helped us achieve a healthy financial position.

Our differentiators

We believe a number of differentiators set us apart in the market, which will enable us to achieve our strategy.

Customer interaction	Connected people	Leading networks	Digitalisation	Customer trust

Customer interaction

We offer society a broad range of services, from simple over-the-counter products to custom-made solutions. We do this for both customers and consumers. Our customers range from e-tailers sending parcels to businesses sending mail, while consumers include senders and receivers of mail and parcels. For all of them, our goal extends beyond providing a first-class service; we want to truly think from their perspective and surpass their expectations. This is increasingly important, as consumers make no distinction between the service of the e-tailer and the deliverer.

Customer contact has taught us that there are three key elements that determine customer satisfaction. First, for our customers it is vital that we offer a service that fulfils a number of basic quality levels. For example, that mail and parcels are delivered on time and undamaged. Providing this standard service level prevents customer dissatisfaction.

Second, to improve customer loyalty you need to focus on more than simply quality levels. Today's customer also demands accurate, reliable, fast and, ideally, pro-active information about deliveries and services. Meeting these expectations enables us to create a decent level of customer loyalty and satisfaction.

Third, to increase customer loyalty and have highly satisfied customers, you also need to provide them with a relevant, personalised and unique experience. Below we explain why providing such an experience is becoming increasingly important, and how our customer interaction strategy is focused on creating such an experience.

Where traditionally customers would only use mail or parcel services, the rise of omnichannel means that today's customers use a range of products and services across the entire company. During their customer journey, customers interact with us through multiple channels and often switch between channels. For example, when receiving a parcel it is not uncommon for customers to use a combination of our website, the PostNL app and our retail locations. This means that creating a unique and personalised customer experience now also requires us to provide them with a uniform and consistent experience, no matter how, where, or when they interact with us.

Our initiatives to further improve customer interaction are data driven and based on customer feedback. We conduct customer satisfaction surveys twice per year, which involves sending out surveys to over 10,000 customers across the Netherlands and Belgium. We also ask customers for immediate feedback when they have had contact with us. This provides us with daily data that act as an invaluable tool to track how well we are performing. Our account managers are in constant contact with our customers, ensuring that we are able to understand their needs, helping us tailor-make solutions to their individual needs. We hold frequent knowledge-sharing days for our customers, covering a variety of topics relevant to them and us. Finally, we measure the customer experience at an event level. For example, following a customer complaint we ask for feedback on how well we dealt with the issue and how we can improve.

We have already started creating this consistent experience by introducing a standard, company-wide approach on how we want to interact with our customers. Based on this approach, we are able to optimise each of our customer journeys and ensure that each customer interaction results in the same experience. Whether a customer interacts with us online, through the app or at a retail store, they always receive the same information and pricing. More information on how we improved customer interaction can be found in the individual business segment chapters.

This approach has enabled us to increase customer satisfaction; the number of highly satisfied customers increased to 41% in 2017 (2016: 37%), while overall customer satisfaction increased to 88% (2016: 87%).

Connected people

Given the rapid social and technological developments, we continuously develop our different business models. We recognise that the changes witnessed in our sector and across society require our organisation to be resilient. That only works if we have the right people with the right skills and behaviours in place. They are crucial in achieving our ambition to be *the* postal and logistic solutions provider in our chosen markets. As a company active in a customer focused, dynamic, regulated and competitive environment, we demand a lot from our people. As a result, we need to ensure that they remain adaptable and innovative. This is what enables us to create real value for our customers. To help achieve this, we give our people the freedom and room to work independently, using strong leadership to inspire, guide, train and develop them at all levels of the company.

Our actions are data driven and provide a clear contribution to the results of PostNL. For example, when a vacancy becomes available, we can predict the number of applications required to fill the opening. When we reach this number, the vacancy is automatically removed from the website. If the job remains unfilled, the vacancy automatically opens up again. This process prevents us from receiving too many applications for certain positions.

We use a variety of online recruitment campaigns on platforms such as Google, Facebook, and Indeed to reach the right job applicants. We adjust these campaigns to make them as efficient as possible, based on effectivity and cost.
We also analyse the success of previous campaigns, such as on which delivered the best candidates and new hires, to optimise future campaigns.

Culture and engagement

At PostNL, caring for everyone who works for and with us is the foundation of good employment. Creating an atmosphere where people are passionate and proud to work for PostNL makes our company stronger and more future-proof. This is why we believe having the right culture and behaviours is critical for the successful transformation of our company. In 2017 we sharpened our cultural values. These are: being customer focused, being results driven, working together, and innovating and improving. These values helped shape the environment in which we support one another, where we give responsibility and guidance, share feedback and best practices, and learn. We know where our strengths lie and where we need to collaborate. Working closely with our suppliers, customers, and knowledge partners helps us remain flexible and innovative. This enables us to develop the products and services that really make the lives of our customers easier, providing us with a competitive advantage.

Another area we are focusing on is providing our people with more autonomy. In 2017 we introduced My HR, an online personalised environment that offers employees a wide range of self-service options. Our people can now not only choose what, when and how they learn online, they can change contractual hours and make online holiday requests. This gives them more autonomy and greater responsibility for their development within the company.

We constantly look for ways to increase employee autonomy and improve engagement. However, ongoing challenges in both the domestic and international postal markets mean we have to make changes and adaptations to our business, including introducing new technologies and restructuring. These changes impacted employee engagement in 2017, which was 66% (2016: 67%). This small decline was mainly driven by the reduced engagement of our operational staff, not fully understanding the necessity of all operational changes. Our goal in 2018 is to continue to stay connected to our people and learn in advance about their thoughts and needs. We also made an in-depth analysis of the 2017 results, resulting in improvement plans that are being implemented at the individual management-team level. Taken together, we believe this will help us increase our employee engagement score in 2018.

Diversity and inclusion

At PostNL diversity is not about getting the numbers right. We intrinsically believe diversity and inclusion enables us to adapt more quickly and effectively, which is vital to achieving the transformation of our company. Diversity makes us stronger, more innovative and more appealing. We are taking full advantage of this by creating balanced teams that make us more competitive. To create a diverse and inclusive workforce, we focus on six key areas: a balanced age structure; a balanced male/female ratio; recruiting, hiring and promoting multi-cultural talent; full acceptance of the LGBT (lesbian, gay, bisexual, and transgender) group; improving opportunities for people with a distance from the labour market; and a mixture of skill sets within teams. Diversity and inclusion is an ongoing process, and our work is never done. However, in 2017 we made some specific improvements which are explained in more detail below.

We offer employees above the age of 60 the opportunity to work 60 percent of the time, while retaining 80 percent of their salary and pension contributions. This not only helps them remain healthy and employed, it means they can use their valuable experience productively, and creates a more balanced age structure within the company.

In 2017 we also further increased the number of women in senior management positions to 28 percent (2016: 25%), while women make up around 46 percent of the company. To help create a more balanced male/female ratio within the company, in 2017 we continued running our successful Women Inclusion Network initiative and mentoring programmes. During the course of the year we grew the number of participants in our mentoring programme by 18 percent.

Additionally, our aim is to hire and retain more multicultural talent. We continue to focus on diversity programmes that target those who are underrepresented within the company. One example is the new Young Executive Programme, 45 percent of whom are female, while 15 percent come from a multicultural background. Additionally, we rolled out a number of diversity-awareness programmes across the company, focusing on the acceptance of the LGBT group.

In 2017 we continued to create work experience opportunities for people with limited access to the labour market. Through our partnership with social employment and network organisations we target people with a labour impairment, and give them the required work experience, either as a deliverer or at one of our 19 parcels processing and distribution centres. Over the course of the year around 650 people participated in these programmes, helping to sort approximately 85 percent of our parcels in the Netherlands.

To stimulate diversity within our teams, we use a methodology that provides employees with greater insights into the behaviour and communication styles of people in their teams from different backgrounds and cultures.

Employees complete an online questionnaire, which is translated into a profile that helps them understand how to effectively communicate with others. To date we have processed over 5,700 profiles from people all over our company and we intend to further grow that number. These profiles are also used when hiring new talent and creating new teams within the company.

Sustainable employability

At PostNL, employability is about helping employees at all phases of their career to be productive, skilled and well-trained, highly motivated and healthy enough to work inside or outside the company, today and in the future. The successful transformation of the company requires the right talent at every level of the organisation. To help achieve this, we are focusing on ensuring our employees remain employable and stay fit and healthy.

In 2017 we continued to develop our high-potential training programmes, in order to further align them with our talent needs and future capabilities. Our senior talent programme is aimed at developing a range of skills, such as long-term strategising, effective and interpersonal leadership, and harnessing the growing digitalisation in business. Our middle-management focused talent programme concentrates on personal development and taking ownership of your own goals. This way of learning is aimed at increasing ownership and learning agility, elements that are increasingly important when nurturing high performance within a fast-changing business environment.

Human rights

Our impact on society is clear. From our daily presence at millions of front doors, through to our wide-range of services and solutions that positively impact the lives of our customers, the communities we serve, and the people who work for and with us. At the heart of this is our respect for Human Rights. We believe that being a responsible business partner and a good employer, ensuring fair compensation, labour rights, diversity and inclusion, non-discrimination and privacy, help make us the company we are today.

We describe the policies and how we manage these topics in chapter five, What sets us apart under the section Connected People. Specific topics related to one of our businesses are included in the business segment chapters. Additionally, we disclose our policies on postnl.nl.

We monitor our performance related to these aspects in a number of ways. Annually, we measure employee engagement, which in 2017 was 66% (target 2017: above 67%). Other aspects, including diversity and inclusion, health and safety, and labour rights have no specific targets, we measure annual progress compared to previous years. The main indicators we use to measure progress on these topics include the percentage of females in management, lost-time accidents, and the percentage of full-time equivalents that work in OHSAS 18001-certified sites.

More information on these topics, and the progress we made in 2017, is disclosed in the CR Performance Statements and the GRI G4 index. The main risks we have identified related to Human Rights are information technology, the development of labour-related legislation, misconduct, and collective labour agreements. These risks, and risk mitigation, are described in chapter thirteen, Risk management.

To help secure people's employability, over the last few years we have created a learning environment that stimulates curiosity. We now offer our people diverse online development opportunities, which are designed in such a way that employees are able to utilise them anytime, anyplace. This fits with the broader change across society where people increasingly use online platforms and apps that give them greater control of their lives. This dedicated online environment, located within My HR, uses content from third-party knowledge providers, which has enabled us to dramatically increase the number of available training courses and users, while lowering costs. From 2015 to 2017 we increased the number of learning items from 300 to over 35,000; the number of online trainings completed from 38,000 to 81,000; and the number of unique participants from 6,000 to 15,000. Some of the most popular e-learning courses were office modules and soft-skills training.

We also focus on creating a safe working environment by operating accident prevention and safety programmes for our drivers. These programmes are focused on reducing accidents and driving more safely. One way to help us achieve this is to be OHSAS 18001 certified. OHSAS 18001 is a standard for occupational health and safety management systems. In 2017 100 percent of our employees worked at an OHSAS 18001 certified site.

Since the introduction of e-bikes and scooters for mail deliverers we have seen an increase in accidents. While we cannot prevent all accidents, our policy is to reduce traffic risks as much as possible. In 2017 this involved creating greater awareness among mail delivers of the risks they face, providing them with insights and advice on how to stay safe on the road.

At the same time, we are running a vitality programme, which includes a number of initiatives focused on the reduction of absenteeism; improving health while working night shifts; and training people in heavy manual labour processes. The loading and unloading of empty roll containers is physically demanding. In order to reduce the physical burden on transport drivers and loaders and unloaders, we have developed and tested roll container elevators, which are capable of moving up to 15 empty roll containers at once. This is an example of a process innovation that has further improved working conditions for our people.

Another topic impacting vitality is night shift work. We are therefore working with a third-party to develop workshops focusing on how to maintain good health while working night shifts. Due to the nature of our business, many tasks across the company involve heavy manual labour. To keep our employees healthy, we are focusing on minimising this type of work. When that is not possible, we are creating awareness amongst managers and employees about the risks and training them how to lift and work in a healthy fashion.

We are trying to redesign our core processes to tackle some of these issues. At Mail in the Netherlands we are introducing more and more e-bikes, reducing the physical impact on mail deliverers. And within Parcels we redesigned the transport container to make it more ergonomic.

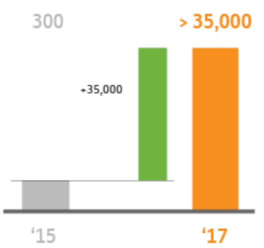
The approach described above highlights how our Corporate Responsibility strategy is an integral part of our business. The strategic Corporate Responsibility focus areas *Being a good employer* and *Liveable society* are supported by the initiatives within HR, such as culture, diversity and inclusion, sustainable employability, and vitality programmes. More information about the results of these programmes can be found in the individual business segment chapters and the CR Performance Statements.

Leading networks

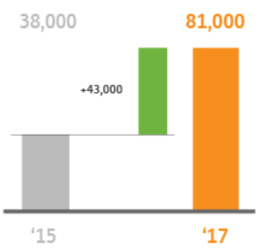
Providing customers with services along the entire value chain is increasingly important as e-tailers look for ways to diversify and broaden their online offerings.

Meanwhile, consumers are more focused on having access to the most convenient delivery options, with shorter delivery times and greater delivery flexibility. We take pride in meeting these demands, and we achieve this by using all the capabilities of our network.

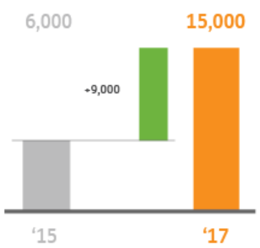
PostNL
Number of online study options available
2015 - 2017



PostNL
Number of trainings completed
2015 - 2017



PostNL
Number of unique participants
2015 - 2017



Parcels processing and distribution centre, Den Hoorn

14.03

Peter Jansen
Logistics developer

“Fast and flawless sorting processes are really important, given the speed at which parcel volumes are growing. Right now, we are developing a system where numbers are laser projected on parcels, so we know immediately in which container the parcel has to go. Finding ways to help people work more efficiently, more comfortably, and with higher quality, gives me a lot of satisfaction. Especially when all the effort, calculations, and teamwork that went into finding a solution works out the way we hoped.”

The largest, most modern, and densest network in the Benelux. As the e-commerce market continues to grow strongly, we are expanding our networks and capabilities, either through acquisitions or internal developments.

At our Parcels business our focus is on introducing innovative solutions, which help bring new markets online. For example, in 2017 we rolled out a service that enables consumers to change the delivery time of their parcel before the first delivery attempt. We know that changing the delivery time and location is one of consumers' greatest needs. Recipients want to be able to determine the day, time, and location that their parcel is delivered to even before the first moment of delivery.

To make such services possible we need flexible networks that fully utilise data and state-of-the-art technologies. In tandem, we are extending our network by opening additional parcel processing and distribution centres across across the Benelux, enabling us to keep pace with the rapid growth in e-commerce deliveries. During the year we also introduced a robotised warehouse at our fulfilment centre in Houten.

In 2017 we made a number of acquisitions to strengthen our networks, meaning we can provide our customers with more specialised services. One example is JP Haarlem Delivery, a specialist in furniture delivery and assembly, which we acquired to strengthen our position in the @Home market. This helps us realise our ambition to be the leading logistics company that delivers and installs XL appliances.

At Nexive in Italy, we continue to invest in our Parcels network, which we launched in 2015. We are extending our network with retail points, and our aim is to increase our current network of around 1,500 retail points to 2,000 by 2018. Additionally, we will start piloting robotised sorting in our parcels processing and distribution centres.

At our Mail business, where volumes continue to decline, we are investing in our networks to keep mail in the Netherlands accessible and reliable for everyone. Over the last few years we have rolled out the sorting machine extra (SMX) and the sorting machine coding (SMC). These machines enable us to increase the percentage of automatic sorting, and introduces more flexibility when realising delivery route optimisation. Going forward, we will continue to introduce further efficiencies across our networks and operations to realise cost savings and strengthen our services. More information on how we are further strengthening the leading network in the Benelux can be found in the individual business segment chapters.

Digitalisation

While our mail and parcel deliverers remain the most important part of the personalised customer experience, technology is playing an ever-greater role in everything we do. It impacts how we interact with our customers, and how they communicate with us. For our mail deliverers, the smartphone and My Work app are now essential tools. Understanding consumer behaviour is increasingly data driven, while technology is helping us take advantage of opportunities created from ongoing digitalisation and the development of e-commerce.

Our digital strategy is focused on providing best-in-class technology at an acceptable cost level. To make this happen we focus on three key areas which have unique requirements: customer focus, logistics, and business support. We are concentrating on delivering best-in-class solutions for customer focus and our logistic operations, which will help us to differentiate ourselves in the market.

For business support services we are switching to cloud-based, standardised solutions that help save costs. We outline our strategy for each of these key areas below.

Customer focus

Our ambition is to provide our customers and consumers with relevant, personalised, and unique content. Because of the growing number of visits to our website, the PostNL app, and contacts through social media, our online services will play an increasingly important role in making this possible. For example, in 2017 the number of customer visits to the PostNL app grew to 64 million (2016: 34 million), while our website received over 290 million visitors (2016: 224 million).

And during the year we introduced the first algorithms into our website, which can predict the information visitors want, enabling us to provide 75 percent of site visitors with personalised content.

In 2017 we also added a service to the PostNL app called MyMail, which provides users with a notification and digital preview of the mail that will be delivered to them that day. Of the four million users of the app, currently over 215,000 have activated the MyMail functionality. We also extended the number of services and solutions that can be bought through the app, such as sending a package. Revenues from in-app purchases increased by around 35 percent, compared to 2016.

Increasingly, customer interaction and customer care take place through social media, which is often faster and more convenient for the customer. We now receive approximately 17,000 messages a week on social media, and in 2017 introduced a 24/7 web care solution. At the same time, we need to deal with online challenges. Examples include the increasing number of phishing e-mails sent to consumers and cyber risks. We are also investing heavily in awareness and ethical hacking programs. Nevertheless, we cannot avoid phishing e-mails being sent by malicious third parties, and the resulting consequences. More information on cyber risk and our mitigating actions can be found in chapter thirteen, Risk management.

Effective customer focus also requires us to be faster and more adaptive. One way to help us achieve this is to work towards a more agile way of working. This produces a number of advantages, including better alignment between the business and IT, shorter time to market, and greater employee happiness. We aim to further increase the number of agile teams in 2018.

Our focus on customers helped increase the satisfaction rate of visitors to our online environments. We grew the percentage of highly satisfied visitors to postnl.nl to 30% in 2017 (2016: 27%), while the percentage of visitors who said they were satisfied with our online services increased to 83% (2016: 81%). This underlines the positive impact of the changes we made to our website. More information on how digitalisation is improving our customer interaction and satisfaction can be found throughout the business segment chapters.

We aim to implement a number of measures in 2018 to further improve our customer focus. These include:
- Rolling out self-service facilities at retail points, enabling customers to scan the parcel code they have generated on their app, print the label, and drop off the parcel
- Further increase the percentage of visitors of our website that will receive personalised content.

Logistics

Everything we deliver in the physical world, whether it is a letter or a parcel, starts in the digital world. This is why digitalisation and data play such key roles in enhancing our best-in-class networks. Data analyses, supported by our Digital Insights team at our analytics centre of excellence, are used to improve our networks. For example, using artificial intelligence we have been able to generate a new algorithm to better predict parcel delivery times, improving accuracy by five percent, helping us provide better information to customers and consumers.

In 2017 we also began using data analytics to create a real-time overview of the location of parcels in our network. Not only has this enabled us to identify parcel points that are receiving too many parcels to process, we have been able to use this information to predict bottlenecks up to a month in advance. This means we can red-flag any problems before they happen, and provide parcel point retailers with a solution. For example, by redirecting parcel deliveries to a quieter parcel point in the same area, or adding a new retail store that can be used as a parcel point. Preventing parcel points from being overloaded not only benefits the retailer, it ensures consumers' parcels are delivered to the location they choose.

Another example of how data analytics is helping our business is through the improvement of the invoicing process within our mail operations. Invoicing is based on registered events within the sorting process, and our data showed that in some cases invoicing was either not done, or incorrect tariffs were used. The changes we implemented led to additional revenues of around €1 million in 2017, and we expect this to increase in 2018. We also began using data analytics to see where we can improve the delivery process at Mail in the Netherlands, resulting in a number of actionable insights, which we will implement in 2018. These include monitoring the successful completion of e-learnings by mail deliverers, which we have learned improves the quality of the service we can offer.

In 2018 we also aim to further explore smart logistics, where we can predict the likelihood of a receiver not being at home for the second parcel delivery attempt. Having begun using data analytics and predictive analytics, our goal is also to use prescriptive analytics. This will enable us to not only anticipate what will happen and when it will happen, but also what the required action is.

To enable our customers to have a better link with PostNL, we provide them with a number of data solutions based on our operational data. These data solutions help our customers to optimise their customer journeys or improve their operational process. The three data solution categories we offer are: client acceptance, 360-degree customer view, and support of their logistics processes. For example, in our 360-degree customer view we provide customers with real-time information on company and household addresses. This leads to easier integration of data, and reduces the need for manual checks. To help customers with their logistics processes, we provide real-time checking of national and international addresses, leading to an improved conversion rate and a reduction in returns.

Each of these data solutions are built upon an API platform, which provides customers with a set of standardised application programming interfaces (API). Customers can embed an application in their website, and tap into some of our rich data sources. One of the benefits of the API platform is that it is scalable, which allows us to easily add new data solutions for our customers. For example, in 2018 we plan to add services on this platform, such as being able to check the size of the letterbox. This will help the e-tailer to offer the solution that fits to the size of the letterbox and prevents consumers from receiving parcels that do not fit, which will increase the speed of delivery for the consumer.

In 2017 we expanded a project at one of our Parcels' processing and distribution centres, which aims to increase the operational efficiency of our sorting processes. We installed a barcode reader and laser projector on three conveyor belts, which project a container number onto a parcel, saving the parcel deliverer from having to manually identify where a parcel should be placed. This saves time and means parcel deliverers can now also collect multiple parcels at once. We are currently measuring the efficiency of the technology, and after analysing the live data we will decide in 2018 whether to roll it out further.

We also began preparing to live-test two robotic automation projects in 2018. The first project uses a robotic arm to move parcels from roll containers onto the sorting machine. This will increase efficiency, and reduce the physical impact on workers who currently move the parcels manually. The second project will test an automatic guided vehicle (AGV), a self-driving robot that can navigate autonomously to move roll containers around the sorting centre.

To realise our ambitions within the area of logistics, we aim to implement a number of improvements in 2018. These include:
- Further improve our logistic operations using data and predictive analytics
- Development of additional API's allowing us to broaden our services.

Business support

To support our business, we have switched to an all-cloud strategy and expect to finalise the implementation fully in 2018. We are one of the first major companies in Europe to use cloud-only IT, and expect the market to follow this strategy in the coming years. As part of the strategy we evaluated our back-office processes, which led us to switch some to standardised, best-of-practice examples from the market. This has enabled us to redesign our accounting and HR processes to be more efficient and flexible, strengthening our business.

In 2017 we began migrating all order-to-invoice systems within our mail and parcel operations in the Netherlands into one new system. This benefits customers in a number of ways. One example is they can review their orders and invoices directly in their MyPostNL environment. For us, the system increases our flexibility, while also increasing customer satisfaction. For example, price adjustments can be made quicker and easier, meaning we can better respond to market developments. In 2017 we migrated 70 percent of our customers in the Netherlands to the new system, and we will transfer the remainder in 2018.

We finalised the migration of the main part of our HR systems within the Netherlands to one IT environment, and in 2017 migrated 15 systems to one central system. We also introduced a single system to manage a range of HR topics, from recruiting and hiring, through to employee management. This helps us increase efficiency and realise cost savings. For example, given the seasonal nature of many of our sorting and delivery roles, we have a relatively high turnover of personnel. Digitising this process cuts costs and simplifies processes. We have also been able to use digitalisation to streamline our payroll process, which is now done five days faster. We also introduced a virtual assistant for our HR support desk. This chat bot, which can carry out the main Q&A functions, is a learning algorithm that improves the more interactions it has with employees, saving front office time.

To further support our business, we aim to implement a number of improvements in 2018. These include:
- The migration to one HR platform means we can make better use of HR analytics, improving our recruitment process
- We will trial the robotisation of a number of financial processes, which will further increase the efficiency of our financial shared service centre.

Customer trust

Our customers and society trust us because they know we deliver on our promises, which is one of the reasons why our reputation in the Netherlands scores well against our peer group. Society values our services, solutions, and sustainability performance. We also know that customer trust is closely connected to customer satisfaction. Over the last five years our reputation score has increased significantly, from 62.3 to 69.7, and we have been recognised by the independent Reputation Institute as the company with the greatest increase in reputation in the Netherlands. Our strategy is to continue to increase this trust and reputation. To achieve this, we will continue to provide high-quality services and solutions that satisfy our customers. At the same time, we are focusing on developing employee engagement, as we know that engaged employees lead to more satisfied customers. This is the foundation upon which we build a good reputation, and is vital to create transparent and trusting relationships. We will continue to focus on these elements to increase our reputation score going forward.

Our customer contact has taught us that there are a number of key elements that determine customer satisfaction levels. These include providing customers with accurate, fast, and pro-active information about deliveries. One way we achieve this is through the PostNL app, which provides customers with information on where their parcel is. The PostNL app is a powerful tool when creating customer loyalty and satisfaction, and is used by more than four million people.

The MyMail service we introduced to the PostNL app in 2017 provides users with a more personal service. Going forward, our aim is to add additional features to the app which heighten users' personal experience. These types of services require customer trust, which is why we focus on transparency and ensuring that we follow our privacy policy strictly. To be part of the brands 'People cannot live without', we need to stay relevant for our customers. This is where our customer interaction strategy is focused on delivering consistent experience across the organisation, increasing customer satisfaction and customer trust.

Our commitment to our stakeholders

We are committed to our stakeholders, and focus on the interests of our customers, our people, our investors, and society. From providing our customers with innovative services and solutions, to creating a safe and secure working environment and solid cash management that enables us to create value and restore dividend for our shareholders.

For example, we continuously review how we can improve our delivery methods. In 2017, we began delivering by e-cargo bikes in Amsterdam and Utrecht city centres, which helps us further optimise the collection and distribution of mail and the delivery of parcels. Not only does this improve our own efficiency, it helps us contribute to a more liveable society, while minimising our environmental impact. During the year we also started using e-cargo bikes to deliver business mail from a bike parking facility in Utrecht. We began piloting a parcel pick-up point at the same location, which will help to optimise the use of space in the inner city.

Our ambition going forward is to use e-cargo bikes for deliveries within the largest city centres in the Netherlands. This will help us contribute to the Netherlands Green Deal goal, an agreement between the Dutch government and a number of participating companies and organisations. The aim is to lower carbon emissions significantly in the city centres of the country's 25 largest cities.

One of the challenges our customers face is efficient packaging. Too often small goods are shipped in large boxes, meaning we transport a lot of air, making the overall process inefficient and unsustainable (an example of how we worked to solve this issue in 2017 can be found in chapter seven, Parcels). Efficient packaging was also this year's topic at the Kids Council, which is an initiative of the Missing Chapter Foundation and Unicef Nederland. During the year children aged between 10 and 12 visited PostNL and we asked them: 'How can we make packaging more efficient?'. As we believe cooperation along the broader value chain is needed to optimse packaging, the Kids Council presented their results not only to PostNL, but also to a number of our partners. For example, online retailers Coolblue and Futurumshop, the Dutch Package Centre (Nederlandse Verpakkings Centrum), and Bunzl, a supplier of packaging material.

Our commitment to our stakeholders, together with our ambition to be *the* postal and logistic solutions provider in our chosen markets, also drives additional cooperation along the broader supply chain. One example is the Dutch Wadden Sea Islands' ambition to be fully water and energy-sufficient by 2020. Our emission-free delivery methods on the Islands helps contribute to this ambition.

As the provider of the Dutch Universal Service Obligation, it is our responsibility to provide society with accessible and reliable mail services. As such, we continued to be in close contact with the Dutch Authority for Consumers and Markets and the Ministry of Economic Affairs throughout 2017. We focus on maintaining long-term relationships with trades unions, based on mutual respect and recognition of our shared interests, and are in close contact with a broad range of stakeholders, including regular contact with our investors and daily contact with clients.

We believe that carefully balancing the needs of our stakeholders is the way to create long-term value. More information on our main stakeholders and their needs, and how we engage with each of them, can be found in chapter three, How we create long-term value, and the CR Performance Statements.

Our approach to achieve growth

Delivering growth is a key aspect of our strategy, which we will realise by introducing new services and solutions, diversifying our core activities, supported by mergers and acquisitions (M&A) opportunities that enhance these activities. We also support our growth by identifying and exploiting new profit pools, helping us create new service offerings in new markets.

Growing our core activities

In 2017, we saw strong growth within our Parcels business, where volumes grew by 17.2 percent compared to 2016. This was supported by extremely high volumes during the Sinterklaas and Christmas periods, when we delivered 32.9 million parcels (2016: 23.8 million) in the Netherlands and Belgium. In Belgium, we continued to expand our service levels, helping us grow volumes by around 36 percent compared to 2016, strengthening our position as the logistic solutions provider in the Benelux. At our International business segment, we continued to see growth from global e-commerce clients, and grew the parcels business of Nexive in Italy. This strong growth across our e-commerce domain was supported by the improvement of our customer interaction, increase in service levels, and expansion of our parcel points. More information on these improvements can be found in chapter seven, Parcels, and chapter eight, International.

To enhance the diversification of our networks within logistic solutions, we made a number of acquisitions in 2017. These included JP Haarlem and PS Nachtdistributie, helping us broaden our network capabilities along the value chain. This will enable us to provide extended delivery options, such as installation, assembly services, and night delivery services. We continue to look for acquisition opportunities within our strategic growth platforms by exploring market segments for suitable candidates. The aim is to support the diversification of our portfolio and contribute to the creation of shareholder value. More information on how these acquisitions are already contributing to the diversification of our portfolio and growth of the business can be found in chapter seven, Parcels.

To further strengthen our e-commerce offerings, in 2017 we consolidated our direct mail and digital marketing businesses with Yourzine and Searchresult, which we acquired in 2016. The new company, called Adeptiv, enables us to provide our customers with a more connected solution, helping them to develop new campaigns to expand their customer base.

Identifying and exploiting new profit pools

In addition to new services and solutions that we develop within our core business, we stimulate and enhance growth initiatives that focus on related propositions, supported by the PostNL Innovation Studio. One of the programme's success stories in the convenient shopping growth domain is Stockon. This started out as a pilot and, during 2018, will become a stand-alone company. Stockon is an automatic replenishment service for dry goods. Typically, a large percentage of consumers' weekly purchases are the same, from pasta to cleaning products. As an online platform that provides automated weekly or monthly deliveries, Stockon removes the need for consumers to have to think about purchasing dry goods during their regular shopping.

In 2017 we also began offering 2B food fulfilment for a large food producer, where we deliver wholesale orders directly to restaurants. While we are already providing food-delivery solutions within the 2C market, this is our first foray into the 2B food market. Our ambition is to further grow our 2B offerings, for example towards bakeries.

During the year we took the decision to discontinue the Flown pilot, a platform that offered consumers a subscription to use household appliances, without having to buy them. Both the pilot and consumer feedback were positive, and we believe the underlying concept will resurface in the future. However, we were unable to find the right financial partners to scale the service to a sufficient level that we were confident it would be a successful addition to our portfolio.

Finally, to help support our aim of developing a future-proof business portfolio, in 2016 we invested in an equity fund, Endeit, with a maximum commitment of €6 million. At year-end 2017 we had around one-third of our commitment invested in the fund. The investment means we are better able to access and cooperate with companies connected to our growth domains. This enables us to jointly roll out pilots of new services and solutions.

The result: A financially healthy position

In 2017, our shareholders approved the resumption of dividend payments for 2016. We believe this clearly underpins our financially healthy position, based upon the solidity of our financial performance and cash flow-generating capabilities. This, together with the trust we have in our future business and results, reinforces our confidence in being able to continue to realise our financial ambitions, thereby creating long-term shareholder value with the aim of paying a progressive dividend.

In line with our financial strategy, and following the resumption of dividend payments, we have been able to allocate capital towards our priority to invest in growth. In 2017, we made four acquisitions that further diversify our portfolio, and strengthen our parcels and logistic solutions businesses. Capturing opportunities from accelerating e-commerce growth will help us achieve our aim to be *the* postal and logistics solutions provider in our chosen markets.

In 2017, we further strengthened our financial position. Fueled by profitable growth at Parcels and further cost savings and price increases within Mail in the Netherlands, our consolidated equity improved by €113 million to a positive €34 million. We also successfully refinanced our capital structure through the offering of €400 million 1.0% fixed rate notes, due 2024. The proceeds will be used for general corporate purposes, including the redemption of our outstanding eurobonds in November 2017 and August 2018.

In 2017, the pension fund's month-end coverage ratio increased to 115.8% (2016: 108.3%). The 12-month average coverage increased to 113.4% (2016: 103.6%). With three consecutive quarters in which the coverage ratio was above the minimum required level, this improvement triggered the quick ending of the 5-year recovery period that started in the third-quarter of 2016. Based on our projections, we do not anticipate any top-up payments.

The leverage ratio of adjusted Net debt/EBITDA not exceeding 2.0 is comfortably met. S&P's and Moody's ratings remained unchanged at BBB+ and Baa2 respectively, with stable outlook.

Dividend proposal 2017

The interim dividend for 2017 was set at €0.06 per ordinary share. Our proposed full-year dividend for 2017 is set at €0.23 per ordinary share, subject to approval by our shareholders. The final dividend of €0.17 will be paid, at shareholder's election, either in ordinary PostNL shares or in cash.

Parcels Head Office, Hoofddorp

15.00

Bouke de Loos
Manager Special Logistics Design

“The great thing about working at a large business like PostNL is being able to work at different divisions and jobs throughout the company. That’s how you learn and discover what drives you and suits you as a professional. I switched from Mail to Parcels, where I now contribute to the logistics possibilities of our network for food, evening, Sunday and same-day delivery. I really like it here. There’s a lot of energy and enthusiasm to innovate, with people trying out new ideas to make our networks more efficient and our customers even happier.”

6 Mail in the Netherlands

Mail in the Netherlands
Revenue
(in € millions)

1,783

Mail in the Netherlands
Volume development
(in %, in millions of items)

-9.9%

Mail in the Netherlands
Underlying cash operating income
(in € millions)

125
(margin: 7.0%)

Our operating context

We operate a high quality, national postal service in the Netherlands, and we are the country's Universal Service Provider. The market in which we operate is dynamic and is being impacted by a number of trends.

Ongoing digitisation continues to result in greater substitution, leading to a significant decrease in mail volumes. Over the last ten years we have seen an accumulated decline in mail volumes of around 55 percent, mainly due to digitisation. In international mail we see the same trends as in domestic mail. Export volumes continue to be digitised, leading to volume decline. In 2017 this was partially offset by growth in import volumes, primarily from China. Although we expect the decline to continue, we believe that there will always be a need for mail in society.

The Dutch postal market is highly competitive and regulated compared to other European countries. We see competition intensifying, as other postal operators extend their network and services, supported by regulatory developments.

The ACM's July 2017 decision on significant market power (SMP), as described in Chapter four, Our strategy, had a direct impact on PostNL. Operationally, we had to prepare the organisation to comply with the new wholesale obligations outlined in the ACM's decision, and implement the new wholesale products the ACM proposes. This involved developing new products, procedures and processes at all levels, from our IT systems to contracts and operations. This complex task, and the interpretation of the obligations in detail, could not be implemented within the three months that the ACM originally envisaged. Together with the ACM and (regional) postal operators, we decided upon a test period, which is still running. This involves PostNL and (regional) postal operators testing and making stepwise adjustments to the way of working of both PostNL and those parties requesting access to our network, based on the SMP obligations.

We are already facing the impact of the SMP decision. The new access regulation enables (regional) postal operators to make use of our network at regulated tariffs and conditions that are not available to our customers. This development means regulation helps regional postal operators extend their activities without having to accept the normal business risks involved, as our network is a regulated fall back for them – at low cost. This artificially stimulates the development of new competition models. For example, we won almost no tenders in the 24-hour mail segment in 2016 and 2017, while part of the volume from these tenders is still being processed by us against lower prices.

The reality of the shrinking mail market requires different regulatory instruments than the current SMP obligation, which is based on the postal act from 2009. Regulation leads to lower volumes in our network and incurs higher costs, while we are doing our utmost to save costs and stimulate volume to assure the continuity of reliable postal services in the Netherlands, at an accessible, affordable level. Regulation directly jeopardises the continuity of postal services in the Netherlands.

The effect of this is significant. On the one hand, we see competition growing – our volumes are declining ahead of the market average. At the same time, we see complexity in our organisation increasing as a consequence of regulatory measures. This is the opposite of a desirable direction in a declining market, where volume consolidation, combined with the simplification of processes, would be the best way forward. The communicated range of €50 million to €70 million of the SMP decision is materialising.

We will outline this position during the ongoing Postal Dialogue, which was initiated by the Ministry of Economic Affairs. More information on our position in this process can be found in chapter four, Our strategy.

Our ambition and strategy

Our ambition is to keep mail in the Netherlands accessible and reliable for everyone, both in rural and urban areas, being present in every street every day, while caring for our people and society. We have served society for over 200 years, and aim to continue to do so by offering added-value services such as Track & Trace on voting cards; by delivering mourning cards and medical post six days a week; and by working closely with municipalities and local community organisations to ensure the best possible location of post boxes when adapting our network. We want to ensure that everyone in the Netherlands can send and receive mail in urban and rural areas conveniently and affordably.

Our strategy to achieve our ambition is to connect senders and receivers through our people and our innovative networks. Given the ongoing volume decline, we need to accelerate and further intensify cost savings within our processes and across the organisation going forward. This is why in 2017 we decided to bring greater focus to our strategic areas and projects. We are now concentrating on specific goals within the areas of customer interaction and satisfaction; our product and service portfolio; adjusting our network; and implementing cost saving initiatives. For example, in the years to come, our focus will be on simplifying our product portfolio by redefining the price structure and reducing the number of weight categories. To further reduce our costs, we will continue to look for ways to cut overheads and streamline staff functions. We will also continue to further optimise our operations, by continuing to centralise our preparation activities and further roll out our advanced sorting machines. Realising these strategic focus areas will enable us to deliver a sustainable cash flow going forward. Below we describe how we began implementing this strategy in 2017.

Developments 2017 and outlook 2018

Despite regulatory changes impacting the efficiency of our operating model, and having a direct impact on our financial performance, in 2017 we made good progress across all of our specific focus areas. This enabled us to increase customer satisfaction, simplify our product portfolio, introduce efficiencies across our networks and operations, and realise cost savings.

Customer interaction and satisfaction

We are focused on increasing our quality levels and customer satisfaction rates, as these are essential in realising our ambitions. To further increase our customer satisfaction rate, we are concentrating on the customer experience across the company. In 2017 we introduced a number of initiatives to help achieve this. One example is the introduction of branch teams at our Business Customer Service centre, composed of business segment specialists. Smaller business customers contacting our Business Customer Service centres are now automatically connected to branch teams, and can receive advice tailored to their own needs. This is a cost-effective solution that meets our customers' needs.

We are also improving customer interaction by working on the end-to-end customer journey. One example is our response to collecting unpaid postal charges. When a sender fails to put enough postage on a mail item, we attach a Fee to Pay card when it is delivered. In 2017 we optimised the Fee to Pay card, testing multiple variants on customers, and redesigning the card based on their feedback. Additionally, using the same customer feedback loop we adjusted the information available online. This has resulted in a significant decrease in calls to our customer care centres on this topic, with a corresponding increase in customers finding information on our website. During 2017, customer satisfaction rates increased when dealing with this issue. Moving customer interaction from offline channels online not only provides customers with a better service, it also contributes to our cost-saving programmes. Currently around 10% of customer interaction is online (2016: <10%). Our goal is to increase this to between 25% and 50% by 2020.

Furthermore, we improved our operational performance by monitoring the complaints that we get and taking direct action to learn from them. We continued to carry out one-on-one visits to customers who have complaints, a strategy customers have welcomed as they recognise we take any issues that affect them seriously. We also used data analytics to identify where we may have delays in our processes.

Another area that our customer satisfaction survey focusses on is the delivery quality of mail. In 2017, the on-time delivery quality of mail unfortunately decreased by one percentage point, from 96.4% to 95.4%. However, it remained above the required level of 95%. The drop was due to a number of factors, one of which was a tighter labour market in specific regions, due to the strong economic recovery in the Netherlands. This led to pressure on our overnight delivery quality. Additionally, we introduced a number of successful operational changes at the beginning of 2017, which led to greater sorting efficiency. However, some of these operational changes made it more challenging when processing the high volume of handwritten Christmas cards. We have already taken measures to stablise our operations, which will help us improve our quality levels going forward.

Overall at Mail in the Netherlands, the number of highly satisfied customers grew to 37% in 2017 (2016: 33%). Customers who said they were satisfied with our service increased to 89% (2016: 87%).

Emmen

15.43

Sjaak Keim
Mail deliverer

“I may be one of the oldest mail deliverer at PostNL, but I still enjoy going out five days a week to do my rounds. It keeps me healthy. At 76, I still don’t need help getting up from my chair. Sometimes my manager calls me to see if I’m up for filling in for a colleague who called in sick. Quite a compliment, right? I’ve been doing this job for a long time, and now I’m passing on my knowledge to the next generation. Because no matter how digital our communication becomes, I think we’ll be delivering letters for quite some time to come.”

In 2018 we aim to implement several improvements to realise our ambition 2020. These include:

- Further improve customer interaction and satisfaction by optimising the commercial organisation, and realising cost savings by adjusting the operational organisation to volume decline
- Concentrate on producing excellent delivery quality, based on the analysis of our 2017 results.

Portfolio of services and solutions

We also look at customer satisfaction when evaluating our portfolio, helping us streamline our product offering in line with market developments and customer demands. To further improve our operational efficiency, in 2017 we began simplifying our product portfolio. This resulted in discontinuing a number of products and services that were rarely used. For example, by reducing the number of letter weight categories.

In 2017 we reinforced the cooperation between our commercial and production units, which enables us to better tailor our service offerings to specific customer needs, while realising cost savings. Generating more data as we process and distribute mail enables us to provide customers with additional insights. Examples include Track & Trace on letterbox packages, and providing users of the PostNL app with notifications of mail that is on the way.

In 2017 we looked critically at those assets that do not fit within the company's development, as well as for opportunities to diversify. We sold our stake in Dutch stationer Bruna, which we believe can better adapt to the changing retail landscape under another owner. However, we will continue our post and parcel points at Bruna locations. We also divested Print Management, our print services business, as this no longer fits within our ambition to be *the* provider of postal and logistic solutions. We retained a small part of the business, which combines print with delivery.

Ongoing digitisation also opens up opportunities for us and our customers, enabling us to add customer value by offering distinctive services and solutions. The sharp growth in e-commerce means e-tailers need a range of marketing services, such as direct mail and online marketing, to connect with their customers. In 2017, we brought our range of advanced marketing solutions together under one brand name, Adeptiv. This will help us become a strong player in the data-driven digital marketing space.

Driven by the growth in e-commerce, we have targeted attracting greater volume in international letterbox packages. In 2017 we successfully grew the number of outbound letterbox packages we shipped cross-border, and the number of packages we handled coming from China. Our goal for 2018 is to continue to develop this successful approach.

In 2018 we aim to implement a number of improvements to realise our ambition 2020. These include:

- Further simplifying our product portfolio
- Working with our customers to develop additional products that fit through the letterbox.

Adjusting our network

We are adjusting our network to deal with the shifting market dynamics in mail in the Netherlands, and to achieve our goal of delivering a sustainable cash flow, in a number of ways. First, we are centralising our preparation centres with the aim of having 20 centres by 2020. Between 2013-2016 we reduced our preparation centers from 260 to 54, and by the end of 2017 we had reduced the number of centres further to 43.

Second, we are increasing the percentage of automatic sequence sorting. Over the last few years we have rolled out the sorting machine extra (SMX) and the sorting machine coding (SMC). These machines enable us to increase the percentage of automatic sorting, and introduces more flexibility when realising delivery route optimisation. For example, the SMC adds codes to envelopes, which helps us simplify our preparation process and enables us to further reduce the number of preparation centres we operate. While we had already completed the roll out of the SMX, in 2017 we finalised the roll out of the SMC across our preparation centres. The completion of the roll out of the SMC has not yet lead to an increase in the percentage of mail volume being sequence sorted automatically, which is currently 65%. Going forward, however, it will enable us to achieve our goal of increasing this percentage to 85% by 2020.

Finally, we not only look at our own processes in our goal to increase the percentage of volumes sequence sorted automatically, we also look for efficiencies along the entire value chain. One example is a large e-tailer that is now adding a unique number to the address label themselves, saving us time and machine capacity, while increasing our automatic sorting percentage.

Each year we evaluate the best way to deliver, whether it is on foot, by (e)-bike, by scooter or by car. This helps ensure that we continually work towards delivering in the most efficient and sustainable way. In 2017 we expanded the number of e-cargo bikes used in city-centre deliveries, which enables deliverers to transport more, faster. Not only is this helping us reduce car deliveries, we can extend deliverers' routes and increase efficiency. For mail delivery in rural areas, we continued to increase the use of e-bikes, making the delivery process faster and more cost effective. We are also increasing the number of biogas vehicles we run, with over 430 in operation at year-end, an increase of over 200 percent compared to the end of 2016. These initiatives also help reduce our carbon footprint and contribute to our goal of delivering the most sustainable postal and parcels solutions.

In 2018 we aim to make a number of adjustments and improvements to our network to realise our ambition 2020. These include:

- Continuing to centralise our preparation centres
- Increasing the efficiency of the sorting process
- Introducing greater efficiency when planning routes.

Cost savings

In addition to centralising our network and finalising the roll out of the SMC, we also realised cost savings in a number of other ways. One example is the redesign of our commercial department. This involved looking at the relationship we have with our business customers, and reappraising how we can best serve them based on their current needs. This will not only provide our business customers with services more in line with their requirements, it has enabled us to begin restructuring the commercial department. When the restructuring is finalised, it will fully contribute to our cost savings. Additionally, we restructured operational management and better aligned it with the way our business operates. Fewer locations and fewer people enabled us to streamline our operational management.

During the year we also began preparing for the consolidation of the sorting of international mail and international parcels in The Hague. This consolidation is driven by the ongoing growth in international parcel deliveries, and will enable us to improve quality levels, introduce better internal cooperation, and grow our services.

The adaption of our network of post offices and post boxes is in line with regulatory requirements, postal volume developments, and customer needs. We reduced the number of post offices from approximately 1,800 to 1,670 and the number of post boxes across the country from around 17,000 to 15,000. In 2017 we continued to remove or transfer post boxes that were infrequently used. Those we transferred, were relocated to more regularly visited and busy locations. For example, close to supermarkets, train and bus stations, and the entrance to residential areas. Being aware of our social responsibility when determining the best possible locations for post boxes, we work closely with municipalities and local community organisations.

In 2018 we expect to further reduce the number of post offices and post boxes.

In 2017 we helped 250 employees impacted by restructuring find a new position within the company through the newly-established 'Take your chance' programme. At the same time, 550 employees took advantage of the Mobility programme, which helps employees prepare for early retirement or a job outside PostNL.

Our ambition of being a good employer is also reflected in our move towards offering our mail deliverers contracts which contain more hours. This accommodates the wishes of many of our deliverers, and helps retain knowledge within the company and improve efficiency. This also helps us become a more attractive employer, enabling us to attract talent in areas where it has been challenging to fill vacancies. In 2017, 2,500 mail deliverers chose to increase the number of hours they are contracted to work.

In 2017, we continued our constructive discussions with our works councils and the trade unions. During the year we agreed on a new PostNL collective labour agreement (CLA) and the Saturday deliverer CLA with all trade unions. The CLA for PostNL applies to almost all of employees in Parcels, Mail in the Netherlands, and Head Office, and both CLAs will apply from 1 April 2017 up to and including 31 December 2018. Given the current developments in the postal market, wide support of the CLAs is of the utmost importance to us, and we are very satisfied that we came to an agreement with such wide support.

We have a long history of developing and implementing cost savings plans to ensure we adapt the organisation to the ongoing decline in mail volumes. Our cost savings plans include a number of initiatives, such as adjusting our sorting and delivery processes, the optimisation of our retail process, and the streamlining of staff. In 2017 we achieved cost savings of €56 million, at the lower end of our target of €55 million to €75 million. This was due to a number of factors, including implementation issues with the sorting machine coding (SMC), related restructuring issues in our sorting facilities, and a tighter labour market in specific regions, which led to lower operational efficiency. We have already taken measures to stablise our operations and restore our quality and efficiency, although this will lead to some delay in our cost savings for 2018.

In 2018 we aim to implement several cost saving measures and improvements to realise our ambition 2020. These include:

- Increase cost savings through overhead reductions, through further integration of support staff and services at our headquarters
- Increase operational efficiency and reduce operational staff to offset ongoing volume decline
- Further decreasing the number of post offices and post boxes.

Leiden

16.11

Raymond Kops

Parcel deliverer

“Working at an office is not for me. I've always worked outside, whether there's sun or rain. Most people are happy to see me when I arrive with their parcel. Usually it's something they ordered online and were looking forward to. I started out with just a small number of parcels, until I finished my training and could start delivering with a fully loaded van. It's amazing to see how rapidly the volume of parcels has grown, and to be a part of that.”

7 Parcels

Parcels
Revenue
(in € millions)

1,110

Parcels
Volume development
(in %, in millions of items)

+17.2%

Parcels
Underlying cash operating income
(in € millions)

120
(margin: 10.8%)

Our operating context

We are the leading logistics e-commerce company in the Benelux, operating the region's densest parcel network. We make sending and receiving easy for everyone, whether it is to businesses or to consumers. With our innovative and market-driven solutions, providing a broad array of solutions for businesses and consumers, we are setting the standard within the market.

The parcels market is growing rapidly, driven by the growth in e-commerce. In 2017, the percentage of people in the Netherlands making online purchases grew to 80%, from 78% in 2016. Additionally, we saw an increase in the number of consumers purchasing from e-tailers outside the Netherlands. We saw similar growth in Belgium, with 75% of the population making online purchases (2016: 73%). And in Belgium, a higher percentage of those buying online made purchases from outside the country, which is partly due to the maturity of the e-commerce market in neighbouring countries, including the Netherlands.

As people buy more online, their sophistication using online services and solutions increases, leading to greater expectations. Consumers are increasingly focused on getting the best price; having access to the most convenient delivery options; delivery times that become ever shorter; and goods that are delivered in the most environmentally-friendly way. These expectations directly impact the way businesses need to develop their online strategy. Established e-tailers and new entrants to the e-commerce market require partners who can provide services along the entire value chain, from selling online, to fulfilment, distribution, and extended delivery services, such as installation and pick-up and return services. Established e-tailers, in particular, are looking for ways to diversify and broaden their online offerings.

In this growing market we face competition not only from traditional logistics players but also from niche players, who deliver within specific segments or geographical areas. We also see the rise of technology-driven platforms, which offer consumers access to local networks. At the same time, large (inter)national e-tailers are beginning to fulfil part of the delivery process themselves.

During the year we continued with our sustainable delivery model, which helps develop a sustainable parcels market with fair and competitive working conditions and increases the commitment of our people. This model involves hiring parcel deliverers on an internal contract, or contract through third-party delivery companies whenever we need to expand our delivery force. This fits with our aim of reducing the number of self-employed delivery partners we work with, which in 2017 dropped sharply. In Belgium, we made our external delivery partners aware that we expect them to have an EU transport licence (Eurovergunning). This licence allows them to professionalise their organisation, become more efficient in their routing, and to develop growth possibilities for themselves and for us.

Our ambition and strategy

Our ambition is to remain the leading logistics e-commerce company in the Benelux, making the lives of our customers and of consumers easier with our parcel and logistics solutions. To achieve this, we operate an integrated parcel and logistics strategy, which focuses on developing our capabilities along the value chain of all of our customers, from senders to receivers.

We aim to accelerate e-commerce growth by extending our parcel delivery options. This will provide convenience for consumers, while helping e-tailers grow their business. At the same time, we are focusing on extending the range and quality of specialised logistics solutions. From fulfilment solutions,

@Home services, time-definite delivery, to tailored networks, which will enable us to provide our customers with a broad-range of seamless services along the entire value chain, translating into greater online success.

To achieve these ambitions and goals we are focusing on developing and diversifying our services and products, our networks, improving customer interaction and satisfaction, optimising the number and location of parcel points, and extending our logistics solutions.

In 2017, for example, we made a number of acquisitions, all of which help us diversify our business portfolio. One was CheapCargo, a platform used for sending and transporting packages. We also acquired Shops United, a platform that organises parcel deliveries for thousands of e-tailers in the Benelux, JP Haarlem Delivery, a furniture-delivery specialist, and PS Nachtdistributie, an overnight deliverer.

Realising our ambition means we need to balance the needs of all our stakeholders. Recognising our social responsibility as a leading logistics e-commerce company, we are developing a sustainable parcel market that provides fair and competitive working conditions, while increasing the commitment of our people by promoting cultural diversity and stimulating innovation and entrepreneurship.

We want to ensure we minimise the impact we have on the environment, from reducing emissions to contributing to a safe and secure living environment. In 2017 we increased the number of biogas vehicles we operate from around 115 at the end of 2016, to around 300 at the end of 2017. Together, all of these initiatives will help us create future profitable growth.

Developments 2017 and outlook 2018

In 2017 we made good progress across all of our specific focus areas. This enabled us to increase customer satisfaction, improve our products and services, strengthen our networks and increase our logistics capabilities along the value chain. We explain the main developments in each of these areas below.

Customer interaction and satisfaction

Our goal is to create one customer experience across the company, with the aim of increasing the number of satisfied and highly satisfied customers. Parcels faces a number of unique challenges in this area. The business is not only about delivering parcels, providing the right information at the right time is also of increasing importance. In 2017, for example, our Track & Trace service was used on over 242 million occasions, through both the PostNL app and our website, highlighting the value consumers place in being able to follow their deliveries at all times.

Delivering upon our customers' expectations not only increases customer satisfaction rates, it also makes our operations more efficient by lowering the number of interactions customers have with our customer care team. Additionally, providing consumers with the right information at the right time also leads to higher first-time delivery rates. For example, we send customers emails and notifications through the PostNL app, informing them when we aim to deliver their parcel. This improves customer satisfaction and is more sustainable, as we require fewer delivery attempts. This is why we continue to develop products and services that enable us to deliver customers' parcels where and when they want them, and with the right information.

During the year we organised a number of events for our customers that focused on knowledge-sharing across the various markets in which we operate, including on food, flora, pharma, and @Home services. We also organised the Art of Robotising event for 2B customers. As the thought leader in this area, we can help customers gain valuable insights into these market segments, helping them improve their businesses.

One future challenge within the area of customer interaction and satisfaction is gaining customer feedback from our parcel pick up points, such as those located at supermarkets or stationers. Given our goal of improving end-to-end customer interaction, we are also looking for ways to obtain customer feedback from those contact moments.

The progress we made developing our products and services, as well as the improvements we made to our networks, has contributed to Parcels maintaining the level satisfied customers at 87% (2016: 87%), and an increase of highly satisfied customers to 45% (2016: 42%).

In 2018 we aim to implement several improvements to realise our ambition 2020. These include:

- Increasing the number of locations a delivery can be sent to
- Adding new functionality to the PostNL app.

Products and services

From our interaction with consumers, we have learned that one of their main wishes is to be able to make changes to the delivery time and location of their parcel before the first delivery attempt, and make changes if the first option is not convenient. Working together with our customers, we developed a service that makes this possible. Called Change Delivery, the new service improves the consumer experience by facilitating real-time process intervention enabling us to personalise our service to the needs of consumers. Since introducing the Change Delivery option in July 2017, it has been used over 700,000 times, with almost 20 percent of active PostNL account holders making use of the service. As well as benefitting consumers, the new service also contributes to our sustainability goals. The service has a 10 percent higher first-time delivery success rate compared to those not using the service. Another example of how we are working towards delivering parcels when customers want them is delivering on appointment. This service means we can deliver to consumers within a two-hour window. In 2017 we introduced this service for De Bijenkorf, a large e-tailer in the Netherlands, and expect to roll out this service further in 2018.

With the e-commerce market in Belgium growing rapidly and gaining on the Dutch market, we are working hard to create one service level across the Benelux. In 2017 we introduced a range of services and solutions to work towards this. For example, we now deliver parcels six days a week in Belgium, and offer evening delivery. Consumers can also now change the delivery option after the first attempt, and pick up their parcels at parcel points.

One of the challenges our customers face is efficient packaging. Too often small goods are shipped in large boxes, meaning we transport a lot of air, making the overall process inefficient and unsustainable. To optimise the loading levels, we already offer customers different-sized boxes in lower quantities, enabling them to mix and match at no extra cost. In 2017 we introduced a specialised packaging solution tailor-made for the fashion sector. Called the FashionPack, this solution enables customers to send clothing in a package that fits through the letterbox, and which can be re-used by the consumer if they choose to return the product.

During 2017 we worked with a number of partners to develop an online tool that lets consumers calculate the carbon emissions of their deliveries at different times. While e-tailers tend to focus on the speed of delivery, consumers often do not need their goods to be delivered the next day. Waiting a day can cut carbon emissions by making the delivery process more efficient. The web-based tool was launched at the beginning of 2018.

In 2017 we also processed a significant of volume of parcel exports from the Netherlands to China. Parcel exports grew following the launch of a number of new solutions into China, and improvements in services to European destinations. One of these was DeliverDutch, a platform we developed that enables consumers in the Netherlands to send packages directly to family and friends in China. Growth of international parcel imports was well above the market, due to successful cooperation with Spring. This helped us attract additional parcel volumes into our Benelux network from large European e-tailers.

We also continued to focus on developing our food delivery solutions in 2017. We expanded the customer base of our meal food box, which we introduced in 2015. We are now delivering for the vast majority of meal delivery service providers in the Netherlands. We grew the customer base of our food box, and in 2017 began delivering for a number of supermarket chains across the country. We are also targeting specialised food e-tailers, such as meat and cheese outlets. In the Netherlands, we now offer food deliveries seven days a week.

In Belgium, we began food deliveries for a supermarket chain with over 750 outlets across the country. Because of the way we pack and cool the food, the supermarket can now deliver in a more sustainable way, and to a larger area. We provide customers with food deliveries five days a week in Belgium.

Looking ahead, we aim to implement a number of new products and services in 2018. These include:

- Extending the point up to which the delivery time and location can be changed
- Development of an extremely easy-to-use return service, which includes an online interface, tracking, no need for extra labels, with handover to delivery men or pickup service
- For food deliveries, real-time feature that displays package location on a map.

Networks and parcel points

Given the sharp rise in parcel volume growth, in 2017 we opened our nineteenth parcel processing and distribution centre in Nieuwegein, the Netherlands, and will open additional facilities in the future. To keep pace with the parcel-volume increase, the centre in Nieuwegein has 50 percent more floor space than the average processing and distribution centre. This centrally-located facility will help us provide the national coverage required to guarantee deliveries throughout the country, seven days a week. It contains additional facilities to process temperature-controlled goods and large parcels, a key feature as consumers increasingly order large goods online, such as garden furniture and white goods. Given our goal of operating sustainably, we used a range of sustainable materials, solar panels, and heat recovery systems when constructing the centre, which is why the building will be awarded a BREEAM Excellent certificate. At the time of opening, there were only around twenty buildings in the Netherlands that had been awarded a BREEAM Excellent certificate.

We now have solar panels on seventeen of our processing and distribution centres, and are planning to place them on the remaining two centres in the future. Our goal is to have 22,000 solar panels in place during 2018, which will produce 40 percent of the centres' electricity needs. This is equal to 4.8 million kilowatt hours, the equivalent of the average annual electricity usage of 1,600 households.

In 2017, bol.com, one of the country's leading e-tailers, opened its own fulfilment centre, with PostNL providing the sorting and delivery from within the location. This is a unique situation, providing benefits for both our customer and us. With far fewer transport movements, the customer is able to process their parcels more efficiently and sustainably. And because we can organise fulfilment and sorting in one location, we can process orders faster and deliver to the consumer sooner.

International Mail Unit, Amsterdam Sloterdijk

16.58

Mohammed Bchiri

Sorting employee

"At the International Mail Unit, we make sure our customers – senders and receivers – know where their parcel or letter is by using Track & Trace information. I'm proud of working at an internationally known company such as PostNL, with renowned clients. But the most important thing to me is doing a job I like. We have a team of motivated people, and we help each other when it is needed. That's why this job fits me so well."

In 2017, we saw stronger-than-expected volume growth in the number of parcels we delivered. While we were able to maintain the high quality of our delivery standards, and successfully deliver high volumes during peak periods, we realised that we need to increase the speed at which we invest in our infrastructure. This is vital if we are to continue to keep pace with the growth in parcels' volume going forward. During the course of 2018 we intend to open three new processing and delivery centres in the Netherlands, and expect them to be operational in time for the peak Sinterklaas and Christmas delivery season. Additionally, we plan to open two sorting centres in Belgium in the next one or two years, which will help us support our goal of providing the same delivery options in Belgium as those offered in the Netherlands.

The continuous growth in e-commerce will also impact the human resource needs of our operations in a number of ways. While we need to find the right personnel for our parcel sorting and distribution operations, this is becoming increasingly difficult in the current labour (logistics) market. This means we will need to further intensify our efforts to attract and retain our workforce and partners.

Our goal is to have a balanced number of post offices and parcel points across the Benelux, which reflects the development of parcel volumes and enables us to serve the click & collect needs of customers in the region. In 2017, we grew the number of parcel points in the Benelux to around 4,000.

In 2018 we aim to implement a number of improvements in our networks to realise our 2020 ambition. These are:
- Expanding our parcel network with several new depots in the Netherlands and Belgium
- Reducing sorting peaks by encouraging e-tailers to deliver packages to us earlier.

Logistic solutions

Providing customers with services along the entire value chain is increasingly important, from selling online, to fulfilment, distribution, and extended delivery services, such as installation and pick up and return services. Today, many e-tailers are looking for ways to diversify and broaden their online offerings, while expecting a variety of delivery options. Given our ambition to be *the* leading e-commerce provider in our chosen markets, we have created a variety of specialised networks. These networks complement our main parcel network, providing our customers with the best and most flexible delivery options, based on their needs. For example, we have developed special packaging so that e-tailers can send fragile goods through our general parcel network, providing cost savings for the e-tailer while offering their customers more delivery options. For e-tailers sending high-value or XL goods, we offer specialised solutions through our @Home, fulfilment, time-definite and tailored networks.

@Home

For @Home, our ambition is to be *the* leading logistics company that delivers XL goods and installs a range of products at home. From white goods to electronics and furniture, we are developing a broad array of delivery capabilities, ensuring that we are able to offer customers across all of our focus areas the right solution. This is why, in 2017, we acquired JP Haarlem Delivery, a specialist in furniture delivery and assembly.

Within the home & garden segment we continued to focus on offering installation services for consumer electronic e-tailers and outlets throughout 2017. We also began offering large furniture outlets and e-tailers a delivery and installation service, enabling them to expand the service options available to their customers. Additionally, we are piloting extra services for smart home devices. It is our aim to lower barriers for consumers to buy these smart devices online. As PostNL we can offer our clients the opportunity to add installation services to the check-out of the respective e-tailer. This improves the customer journey, resulting in a better receiving experience, which positively impacts our clients and helps them grow. Additionally, we are strongly committed to improving customer satisfaction, which will help us leverage our competitive advantage.

Fulfilment

Fulfilment is an important part of the rapidly-growing e-commerce market, and e-tailers are increasingly looking for the specialist fulfilment services that we provide. Our focus is on offering a range of services that make sending and receiving easy for everyone, while helping to open up developing markets such as flowers and food.

As consumers' purchasing patterns change, we see an increase in order peaks. For example, the increase in popularity of Black Friday and Blue Monday amongst consumers in the Netherlands. Additionally, customers are increasingly focused on the quality and speed of delivery. To help our customers better deal with these changing market conditions, in 2017 we introduced a robotised warehouse fulfilment service at our fulfilment centre in Houten. This scalable system enables us to store and access our customers' products more accurately and ten-times faster than when done by hand, and gives us greater control over deliveries to the customer and consumer. Fulfilling the orders of a number of e-tailers and platforms using the new system frees up staff who can now dedicate more time to quality control.

The Netherlands is the world's largest flower producer. In 2016 we developed a packaging solution that enables the online sale of flowers and plants, helping open up an underdeveloped market. We further expanded the services we offer customers in 2017, introducing an API that enables e-tailers and platforms to sell flowers and plants directly to businesses and consumers, which we package and ship from the flower auction in Aalsmeer.

Time definite

Through our time-definite network, we provide customers with a choice of time-critical delivery solutions, depending on their individual needs. The car unit of Mail in the Netherlands is increasingly acting as a vital service company for our retail points, collecting (first-mile) and delivering (last-mile) for both mail and parcels. We expect its role serving retail and pick-up points to continue to grow, driven by the growth in parcel deliveries. As a result, at the beginning of 2018 we transferred the car unit to Parcels, further strengthening our time-definite network and helping us create even better customer services.

Through our Local Express network, we are able to provide a range of specialist services, such as Return on Demand and Delivery on Appointment. In 2017 we broadened our service offering, introducing a pilot project offering an on-demand laundry and dry cleaning service in Amsterdam, in partnership with a leading dry cleaner's.

Customers can request that we pick up and deliver their order within a two-hour time slot, to either their home or office. In Rotterdam and Amsterdam, we began a pilot project with a leading cosmetics retailer where we deliver orders directly from their shops. This benefits both the retailer and the consumer, as it opens up the shops' inventory and offers the consumer greater choice.

Tailored networks

In addition to our other specialised networks, we operate a range of unique networks for customers that require highly-specialised delivery options, from transporting perishable or fragile goods, to early morning or late night deliveries. These tailored networks include Pharma & Care, Cargo, overnight distribution, and Mikropakket, a network focused on delivering high-value goods.

At Pharma & Care, which distributes temperature-controlled goods to pharmacies, health centres and hospitals, we adapted our delivery fleet in Belgium. All our vehicles can now transport medicines at both 2-8 Celsius and 15-25 Celsius, the two temperature ranges temperature-sensitive medicines are transported at.

Our latest parcel processing and distribution centre in Nieuwegein includes a cargo hub and a temperature-controlled area. The cargo hub will allow us to transport bulk materials, pallets and roller containers, while the temperature-controlled area meets the Good Distribution Practices (GDP) certification for pharmaceutical industries. This enables our Pharma & Care business to expand its reach across the Netherlands, and further integrate our 2B and 2C networks. For example, wholesalers selling to hospitals and pharmacies deliver pallets to us, which we then split. The smaller parcels for pharmacies are delivered through our 2B parcel network, while the pallets are delivered to hospitals through our cargo network. This new centre also enables us to serve hospitals in the Netherlands, providing a consolidation service we already offer in Belgium. Consolidating numerous pallet and parcel deliveries into one provides hospitals with a faster, more efficient service.

In 2017 we acquired PS Nachtdistributie, a leading player in overnight distribution in the Benelux region. The acquisition will allow us to further expand our existing networks and, in doing so, provides customers with more flexible delivery options. It will also give us the opportunity to bring online those markets which start very early and need early-morning deliveries.

In 2018 we aim to implement several improvements in our logistic solutions to realise our 2020 ambition. These are:

- Further developing the infrastructure of a number of our logistics networks to handle growing volumes
- By further developing our propositions in the areas of Flora and Health
- Further expanding services to existing and new customers using our acquired capabilities.

Via Fratelli Bonnet, Rome

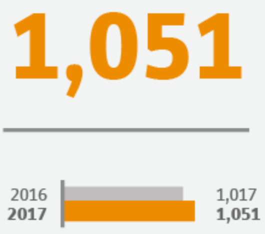
17.15

Valerio Minichetti
Parcel deliverer

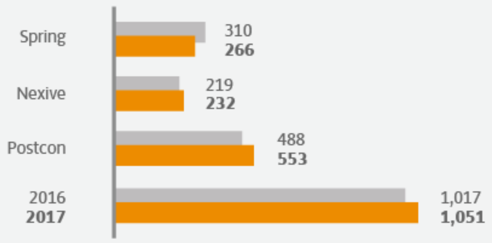
“What I like most about my job is the opportunity to have contact with people, to hear their stories, and to play a small part in their daily lives. Like when this photo was taken: I was delivering a new princess costume to a little girl and she was so excited that she didn’t even give me the time to ring the bell, she just rushed out the door to receive her parcel. Is there anything better than making a kid happy with your work?”

8 International

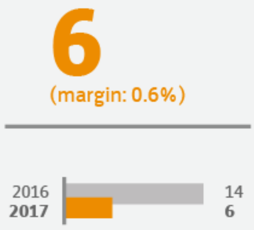
International
Revenue
(in € millions)



International
Revenue breakdown
(in € millions)



International
Underlying cash operating income
(in € millions)



Spring

Our operating context

Spring is an international provider of mail, parcel and return solutions to businesses worldwide. As an autonomous broker, we handle international deliveries across the most reliable networks. Given the ongoing strong growth within the cross-border e-commerce market, in recent years we started to transform our business into a strong international e-commerce player. Our focus on having a local presence, providing a reliable, flexible, and innovative service has helped us secure a solid presence in Asia, across Europe and the Americas.

Currently, large sales platforms in China are increasingly focusing on the customer experience, with the aim of encouraging consumers to make repeat purchases. This is why there is a move from competing on price-only to competing on service levels. This has resulted in the platforms working to optimise the end-to-end customer journey. To make this a success, these platforms are focusing on greater control throughout the supply chain, and offering the best delivery options in the home market of the consumer. This impacts the competitive landscape in the Chinese market, as these platforms move towards a preferred supplier.

Competition in Asia increased on two fronts during the year. We saw well-known mail and parcel deliverers trying to move into the market, while offering higher-price/quality ratio delivery solutions. Additionally, low-cost deliverers, mainly regional postal operators, also aggressively try to take a share of this market.

Europe is a diverse market. Local consumer demand and the maturity of the e-commerce market requires e-tailers to offer services and solutions tailored to each country. Increasingly, medium-sized e-tailers are looking for country-specific delivery options to satisfy consumer demand. According to the Global E-commerce Association, in 2017 e-commerce across Europe grew by around 20 percent, and is expected to grow steadily across all regions in the coming years.

Our ambition

Our ambition is to be a full-service e-commerce delivery partner and broker, which is able to easily adapt to changing demands while offering all the benefits of the stability provided by PostNL. With 13 offices around the globe, we connect three continents and cover 190 countries. We want to maintain and strengthen this position by offering attractive solutions for e-commerce players in these markets, which means introducing additional products and services tailored to specific customer needs. Additionally, we are investing in (IT) integration capabilities centred around our customers' needs. We work intimately with our customers, employing local and highly motivated staff.

Developments in 2017 and outlook 2018

Over the last few years we have focused on our Gateway to Europe solutions for e-tailers in China. This has led to strong growth of our Spring business in the region, and we are currently an important player in China's e-commerce market. Our e-commerce business model involves acting as a broker, with local presence.

Our main clients in the Asian market are predominantly e-commerce platforms and consolidators, who combine the large volumes generated by local sales platforms. In 2017 we saw many of these platforms moving from Asian consolidators to using the market leaders in postal or parcel deliveries within consumers' home markets. To secure our market share, we therefore began offering these Asian sales platforms with a broader range of services and solutions along the supply chain.

Additionally, we are extending our commercial offering in the market with new products within our parcel solutions. We are also strengthening the quality and transparency of our supply chain in order to remain a quality brand in the market and distinguish ourselves from the competition. Finally, we are expanding our geographical reach in Asia, benefiting from the foundation and experience we have developed in the Chinese market, as well as our physical presence in Hong Kong and Singapore. In 2017 we won AliExpress as a customer in the Netherlands, based on the strong cooperation in place between the Spring, Mail in the Netherlands and Parcels operations.

One of the consequences of the rise of international e-commerce is an increase in the number of dangerous goods being shipped around the world (such as lithium batteries, power banks, perfumes, and so on). Shipments from Asia, for example, regularly contain goods that contravene International Air Transport Association (IATA) regulations. As a responsible business partner, we believe that safety is of the utmost importance. This is why in 2017 we introduced a zero-tolerance policy towards transporting dangerous goods by air from the point of entry into our network. The consequence of this is that we no longer do business with some customers in Asia. This impacted our revenue and results, which were behind expectations. However, we are now working with those customers with whom we believe we can forge a successful long-term and sustainable business relationship.

In Europe, a large part of our customer base is e-tailers servicing multiple countries. These e-tailers are looking for local market knowledge to understand local consumer demands, which vary country-by-country. In 2017 we successfully used our local-hero strategy in the Netherlands to engage international e-tailers, who are attracted by our distinctive service and solutions offering. For 2017, or focus was on extending this strategy across Europe, making use of the local knowledge we have across the continent. While we successfully attracted volumes into the Netherlands, we are behind schedule in rolling out the proposition across Europe. However, by utilising the improvements made in 2017 to our products and services, we believe we can successfully implement this strategy fully in 2018. During the year we also began working to help e-tailers break into the Asian market. By using our logistics skills, we can help companies establish a foothold, helping them unlock new markets.

Additionally, at the end of the year we implemented the MySpring portal, providing customers with a single portal for all their Spring-related services and solutions. MySpring provides the smaller-sized e-tailer with easy online access to our full range of services and solutions. For medium- and large-sized e-tailers we set up a standardised application programming interface (API), which enables them to have a better link with our services and solutions. For example, they can directly print address labels from within their warehouses, based on the data contained in our system. We will continue in 2018 and beyond to expand our customer integration options to satisfy the market's needs.

Going forward, we believe that our success in Europe will be driven by being adaptable to future trends. Our key asset is our people. Their passion and entrepreneurial spirit, as well as their local knowledge, set us apart from our peers. This is why we will continue to focus on maintaining the high employee engagement and low turnover we currently enjoy.

Another key success factor is our sustainable operations, where we are moving transport across Europe from air freight to road haulage as much as we can. This has the dual benefit of lowering our carbon emissions while cutting costs for our customers. We will also continue to invest in improving access to the best and most suitable logistical networks, thereby providing our customers with multiple options.

Nexive

Our operating context

Driven by an increase in e-commerce, we expect the parcels market in Italy to increase by over 30 percent by 2020, when over 240 million parcels will be sent annually. The market is relatively fragmented, composed of a number of large and small players, although none is dominant. As a result, in recent years competition was predominantly on pricing and market share. In 2017 we saw a change, with stabilisation of pricing and a move towards competition on quality and service levels.

The Italian postal market is expected to decline by around six to eight percent per year. In 2017, our market share was estimated to be 14 percent. Like many other postal markets, the Italian market is impacted by national and international regulations. The main regulatory developments were:

- In 2017 the Italian government amended the country's competition law, removing the monopoly on delivering judicial correspondence and fines from Poste Italiane
- At the beginning of 2018, the Italian Competition Authority (AGCM) upheld Nexive's complaint that Poste Italiane was abusing its market power within the large business customers' market sector. The AGCM judged that Poste Italiane operated a discriminatory pricing regime in the market, which lead to a margin squeeze for competitors, including Nexive. In addition to the requirement to stop the discriminatory pricing regime, Poste Italiane was fined €23 million
- AGCOM issued the final resolution on Poste Italiane's net cost calculation for 2013 and 2014, and approved compensation of €393 million for 2013 and €409 million for 2014. The compensation 2013 and 2014 cannot be recovered from Nexive.

Our ambition

Our ambition is to be the smart challenger, offering our customers the best balance between service quality and price. We will achieve this ambition by focusing on customer interaction and strengthening our networks.

Developments in 2017 and outlook 2018

Since launching our parcels network in Italy in 2015, we have worked hard to ensure that we are flexible and adaptable. We currently provide parcel services to all Italian households. By utilising our network and Sistema product range, which offers a variety of pricing and service levels, we are able to readily adapt to the changing demands of customers. To further increase service levels for our customers and consumers, we have invested in developing our web portal, focusing on customer usability and fine-tuning and improving services, such as Track & Trace. The web portal was developed in close collaboration with PostNL Online. Using our experience of the local market, while tapping into best practices available at our operations in the Netherlands, has enabled us to produce a leading, customer-focused web portal.

Through our Nexive business we provide mail services to 80 percent of Italian households. In addition to ongoing volume decline, in 2017 our mail business was further impacted by increased competition from the local incumbent Poste Italiane. In 2017 we focused on developing our retail strategy to help us better compete against those market players with retail operations. We are aiming to increase our current network of around 1,675 retail points to 2,000 by 2018. At the same time, we will start using these outlets as parcel drop-off and pick-up points. Currently, these points are used for sending and receiving registered mail. This strategy not only helps us reach par with our competitors, it increases service levels. For example, we will be able to introduce additional returns solutions. With competition increasingly focused on service levels, we expect this strategy will help us grow market share and take full advantage of the ongoing growth in the Italian e-commerce market.

We expect to have more clarity by the end of March on the liberalisation of the postal market, whereby local authorities and municipalities no longer have to send their mail via Poste Italiane under the USO. This is a relatively large market in Italy, with around 190 million items sent annually. We expect to be able to grow our market share in this area in 2018.

Within our parcels operations we will concentrate on increasing automation across our processing and distribution centres to help us grow our scalable business model. Another focus area is continuing to improve the quality of our services. We will also begin implementing tools that enable us to further improve the quality of our operations, while selecting and working with partners that share our ambition to deliver excellent customer quality.

Postcon

Our operating context

In contrast to the volume decline trend seen across Europe, the postal market in Germany has shown stable to positive developments over the last two years. Although Deutsche Post remains the dominant player in the market, the competing postal operators are gaining market share and hold an estimated 16.5% of the mail market (2016: 15.7%).

In 2017, the German federal network agency continued to rule in favour of fair and non-discriminatory market conditions. In one case in particular, the regulator instructed Deutsche Post to pay out rebates that were initially withheld.

Our ambition

Through our operator Postcon, we are the main challenger in the German postal market. Our strategy is focused on maintaining our number two position by concentrating on volume growth through a price-leader strategy, while maintaining solid quality levels and low cost levels.

We operate three distinct businesses across Germany. Our Postcon Consolidation business provides bulk-mail services, while Postcon National provides a broad range of services to national key accounts. Regionally, we offer last-mile services in the Rhein-Ruhr and Berlin areas.

Developments in 2017 and outlook 2018

At our Postcon Consolidation business, price competition intensified significantly in 2017. This resulted in high volume decline during the year, seriously impacting our revenue and financial performance. The measures that we took in 2017 to offset part of these consequences and strengthen our financial performance are expected to have their full impact in 2018. Our strategy is to retain as much of the postal volume as possible, and to have that distributed through our own, and alternative postal market distribution partners, last-mile delivery.

In 2017, our Postcon National business focused successfully on retaining and winning new business from large national customers, helping us grow our market share, revenue and financial performance in this part of the business. The quality of our services, combined with our competitive prices, remain the key reasons that we continue to win tenders. This resulted in us winning new volumes at the beginning of 2018, and we will continue to deploy this approach throughout the rest of the year.

In 2016, we acquired our last-mile operator, Pin Mail AG, which in 2017 fully delivered on expectations and we now operate successful last-mile services in the Berlin area. In 2018, we will utilise the best practices from our Pin Mail Berlin operations within specific cities in the Rhein-Ruhr area to increase last-mile volume, and the corresponding margin improvement.

Driven by the goal of becoming the price leader in the German mail market, after centralising and re-structuring the business in 2015 and 2016, Postcon continued to tighten the organisation. We paid a great deal of attention to the last mile, in order to become more efficient and to respond to customer needs.

Mail sorting centre, Rotterdam

20.45

Bianca Bronstring

Team leader SMC (Sorting machine Coding)

“I love technology. When I still worked at the SMX (sorting machine extra), I watched the technical operators closely when they were working on the machine. Dealing with technology obviously plays a big part in managing the SMC as well, though now that I‘m a team leader, I‘m also managing people and making sure the whole process runs smoothly. It‘s a whole new challenge for me. When I started as a mail deliverer in 1998, I could never have imagined my career would take such exciting turns.”

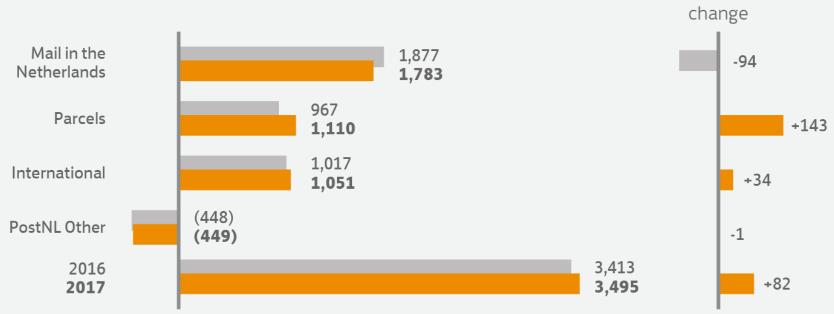
9 Performance 2017 and outlook 2018

Integrated Performance Dashboard

Financial performance

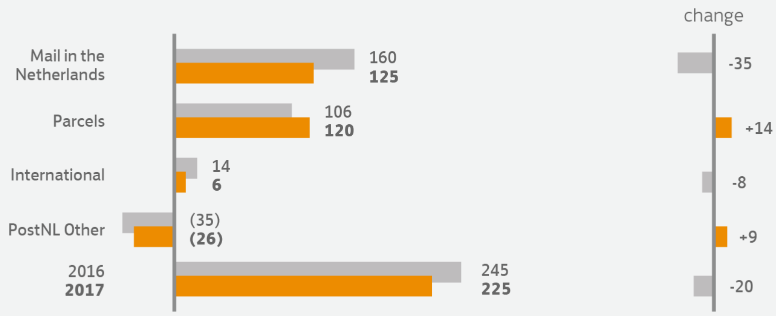
PostNL
Revenue
(in € millions)

3,495



PostNL
Underlying cash operating income
(in € millions)

225
(margin: 6.4%)



PostNL
Revenue related to e-commerce
(in %)

38%

PostNL
Cost savings
(in € millions)

56

PostNL
Profit for the year
Excluding TNT Express
(in € millions)

148

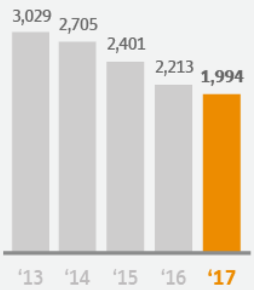
PostNL
Net cash from operating and investing activities
Excluding TNT Express
(in € millions)

-22

Operational and corporate responsibility performance

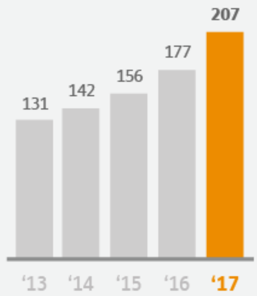
Mail in the Netherlands
Volume development
(in %, in millions of items)

-9.9%



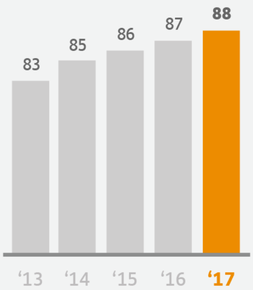
Parcels
Volume development
(in %, in millions of items)

+17.2%



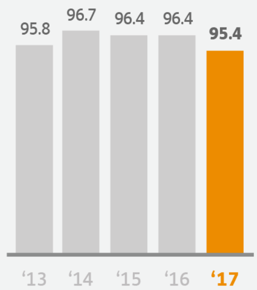
PostNL
Customer satisfaction
(% of satisfied customers)

88%



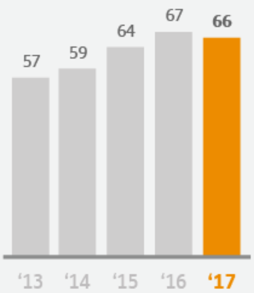
Mail in the Netherlands
Delivery quality
(in %)

95.4%



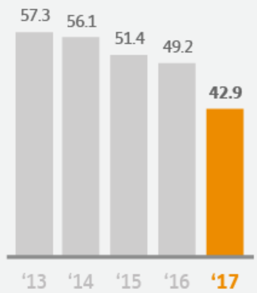
PostNL
Employee engagement
(% of engaged employees)

66%



PostNL
CO_2 efficiency index
(in points, 2007=100)

42.9



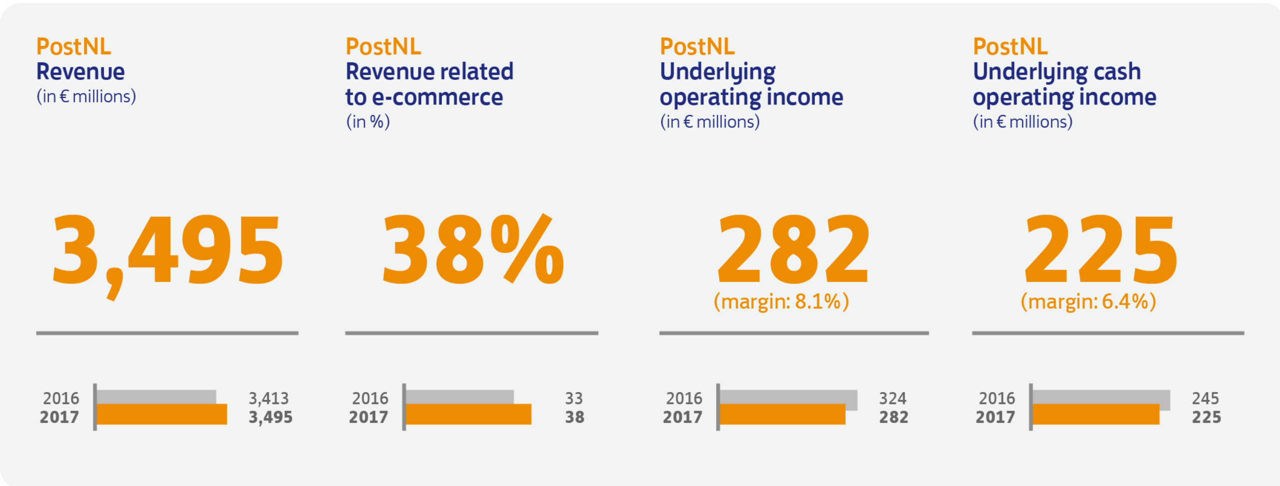
This chapter outlines the key financial and corporate responsibility performance of PostNL and the performance of our business segments. Thereafter, we explain the development of the other financial indicators. We conclude with the outlook for 2018.

Management monitors the financial performance of the Group and the business segments via various key metrics. One of these is the earnings measure 'underlying cash operating income' as this focuses on the underlying cash performance, which is also the basis for the determination of dividend.

In the analysis of the underlying cash operating performance, adjustments are made for exceptional items, as well as adjustments for non-cash costs for pensions (defined benefit plans) and provisions. For pensions, the IFRS-based defined benefit plan pension expenses are replaced by the non-IFRS measure of the actual cash contributions for such plans. For the other provisions, the IFRS-based net charges are replaced by the related cash outflows.

Management monitors the corporate responsibility performance of the Group via various measures related to our customers, our people and the environment. We aim for continuous improvements on quality, for example by improving our services, quickly and effectively solving complaints, and providing excellent customer contact. Our people are key to these improvements.

PostNL's financial results 2017



In 2017, revenue increased by €82 million to €3,495 million (2016: 3,413), fuelled by last year's acquisition of Pin Mail Berlin and Mail Alliance within Germany. Revenue increases at Parcels and International were offset by a decrease in revenue in Mail in the Netherlands. Adjusted for foreign exchange rate changes, underlying revenue increased by €88 million to €3,501 million. Revenue contribution from e-commerce related activities increased to 38% (2016: 33%), which exemplifies that the challenges and opportunities we face are accelerating our transformation at a fast pace.

Last year's acquisition of Pin Mail Berlin and Mail Alliance accounted for €90 million of revenue growth and contributed immediately to the result. Adjusted for the revenue increase of €90 million, revenue was €8 million lower or adjusted for foreign exchange rate changes €2 million lower, when compared to 2016.

Underlying operating income decreased by 13.0% to €282 million (2016: 324). The decrease of €42 million is mainly explained by a negative volume/price/mix effect in addressed mail (-€69 million) including the impact of regulation within Mail in the Netherlands, autonomous cost increases (-€24 million), lower results within International (-€8 million) and increased underlying pension expenses (-€9 million), partly offset by cost savings of €56 million, higher results within Parcels (€10 million) and other (€2 million).

Underlying cash operating income amounted to €225 million (2016: 245). The decrease of €20 million is mainly explained by the decrease in underlying operating income of €42 million, corrected for the €9 million higher underlying pension expenses and further helped by €9 million lower underlying pension cash contributions.

Underlying (cash) operating income development

In the tables below, the business segments of PostNL are presented as Mail in the Netherlands, Parcels and International. PostNL Other represents head office entities, including the difference between the recorded IFRS pension expense for the defined benefit pension plans and the actual cash contributions.

PostNL

From reported to underlying (cash) operating income

2017, in € millions

Year ended at 31 December	Reported operating income	Project costs	Tax related risk	Restructuring related charges	Payment unconditional funding obligation pensions	Past service pension costs/ settlements	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Mail in NL	145			17	27	(12)	177	(34)	(18)	125
Parcels	118			2	2		122	0	(2)	120
International	(4)	5	5	1			7	(1)	0	6
PostNL Other	(6)	4		6	(29)	1	(24)	(9)	7	(26)
Total 2017	**253**	9	5	26	0	(11)	**282**	(44)	(13)	**225**

PostNL

From reported to underlying (cash) operating income

2016, in € millions

Year ended at 31 December	Reported operating income	Project costs	Book loss from disposal	Restructuring related charges	Payment unconditional funding obligation pensions	Past service pension costs/ settlements	Underlying operating income	Changes in provisions	Changes in pension liabilities	Underlying cash operating income
Mail in NL	181			18	27	(9)	217	(38)	(19)	160
Parcels	110				2		112	(2)	(4)	106
International	2	6	4	3			15	(1)	0	14
PostNL Other	(2)	6		7	(29)	(2)	(20)	(7)	(8)	(35)
Total 2016	**291**	12	4	28	0	(11)	**324**	(48)	(31)	**245**

From reported to underlying operating income

In 2017, underlying operating income totalled €282 million (2016: 324). Underlying operating income excludes exceptional items, which amounted to €29 million in 2017 (2016: 33). Underlying operating income margin was 8.1% in 2017 (2016: 9.5%).

In 2017, project costs of €9 million mainly relate to regulatory-related advisory costs within PostNL Other and post-acquisition integration and legal costs within International. Also within International, a tax related risk led to a provision of €5 million. The past service pension costs mainly relate to the impact of restructurings within Mail in the Netherlands.

In 2017, the third instalment of the unconditional funding obligation to the pension fund of €32 million was paid. The segments Mail in the Netherlands, Parcels and PostNL Other record the unconditional funding obligation paid as expenses. As these payments do not represent IFRS-based pension expenses, PostNL Other records the reverse effect.

From underlying operating income to underlying cash operating income

In 2017, underlying cash operating income totalled €225 million (2016: 245). Underlying cash operating income margin was 6.4% in 2017 (2016: 7.2%).

The changes in provisions of -€44 million in 2017 (2016: -48) represent the difference between the underlying net addition for restructuring and other provisions of -€6 million (2016: 1) and the underlying cash payments of €38 million (2016: 49).

The changes in pension liabilities of -€13 million in 2017 (2016: -31) represent the difference between the recorded underlying pension expenses of €110 million (2016: 101), which excludes the positive effect of past service pension costs of €11 million (2016: 11), and the underlying cash payments of €123 million (2016: 132), which excludes the third instalment of the unconditional funding obligation of €32 million (2016: 32).

The decrease of €20 million in underlying cash operating income comprised lower results at Mail in the Netherlands (-€35 million) and International (-€8 million), partly offset by a higher result within Parcels (€14 million) and PostNL Other (€9 million).

PostNL's corporate responsibility results

PostNL Customer satisfaction (% of satisfied customers)	Mail in the Netherlands Delivery quality (in %)	PostNL Employee engagement (% of engaged employees)	PostNL CO_2 efficiency index (in points, 2007=100)
88%	**95.4%**	**66%**	**42.9**
2016: 87	2016: 96.4	2016: 67	2016: 49.2
2017: 88	2017: 95.4	2017: 66	2017: 42.9

Customer satisfaction

We offer society a broad range of services, from simple over-the-counter products to custom-made solutions. We do this for both customers and consumers. Our customers range from e-tailers sending parcels to businesses sending mail, while consumers include senders and receivers of mail and parcels. For all of them, our goal extends beyond providing a first-class service; we want to truly think from their perspective and surpass their expectations. This is increasingly important, as consumers make no distinction between the service of the e-tailer and the deliverer. This approach has enabled us to increase customer satisfaction; the number of highly satisfied customers increased to 41% in 2017 (2016: 38%), while overall customer satisfaction increased to 88% (2016: 87%; target 2017 above 87%). From 2018 onwards, we will use the percentage of highly satisfied customers as our main performance indicator for measuring customer satisfaction.

Delivery quality of Mail in the Netherlands

In 2017, the on-time delivery quality of mail unfortunately decreased by 1%, from 96.4% in 2016 to 95.4% in 2017 (target 2017 above 95%). The drop was due to a number of incidents, including dealing with a shortage of personnel in a limited number of areas in the second half of the year and under-skilled staff due to restructurings. Additionally, we introduced a number of successful operational changes at the beginning of 2017, which led to greater sorting efficiency. However, some of these operational changes made it more challenging when processing the high volume of handwritten Christmas cards. The necessary adjustments will be made to the process in 2018. The overall quality of mail delivery in 2017 was above the required level of 95%.

Employee engagement

At PostNL, caring for everyone who works for and with us is the foundation of good employment. The key performance indicators we use to measure our social- and employee-related performance are the employee engagement score and the culture index.

Ongoing challenges in the postal markets mean we must make changes and have to occasionally restructure our business. We are aware that such changes may negatively impact employee engagement, especially within those areas directly affected. Overall, however, our people indicate they are satisfied with the atmosphere in the workplace. Our employee engagement slightly decreased to 66% (2016: 67%; target 2017 above 67%). This small decline was mainly driven by the reduced engagement of our operational staff.

We also encourage all our businesses to obtain the ISO 18001 certification, which is a standard for occupational health and safety management and helps to control risks in this area. Progress on other indicators related to good employment can be found in Section 3: People indicators of the CR Performance Statements.

The main risks we have identified related to social- and employee-related performance are the execution of cost saving initiatives, implementation of strategic change projects, development of labour-related legislation, and the collective labour agreements. These risks, and the mitigation of them, are described in our Risk Management chapter.

CO_2 efficiency index

At PostNL, we are aware that companies that operate in the logistics sector negatively impact the environment. Greater awareness for the environment and the consequences of pollution increasingly impacts our business and activities. For example, municipalities are looking at measures to decrease pollution and congestion in city centres. In view of the density of the population in the Netherlands, we have the advantage that we deliver a significant part of our mail volumes by foot or bike. That said, helping prevent (further) climate change will continuously require us to adjust our operations and logistics further.

At PostNL, our primary focus has been on making our buildings and small trucks more sustainable, areas where we have the most influence on our impact. The main indicator to monitor our environmental performance is our CO_2 efficiency index, which relates the gas, electricity and fuel usage of our own buildings, small trucks and large trucks to the base year 2007.

In 2017 our CO_2 efficiency index improved to 42.9 (2016: 49.2, base year 2007: 100), mainly resulting from the improved CO_2 efficiency of our small trucks and vans. At the end of 2017, we operated 730 (2016: 295) biogas vehicles which had minimal environmental emissions. With this result, we have achieved our ambition for 2020 to improve our CO_2 efficiency index to below 45. In the course of 2018 we will communicate our ambitions to further reduce our (long-term) impact.

We also adopted the international standard ISO 14001, which helps us control environmental issues, minimise harmful effects on the environment, and helps improve our ongoing environmental performance. Progress on other indicators related to the environment is disclosed in Section 4: Environmental indicators of the CR Performance Statements.

More in-depth information on all these topics can be found in the chapter eighteen, CR Performance Statements.

Results Mail in the Netherlands

Mail in the Netherlands
Revenue
(in € millions)

1,783

2016 1,877
2017 1,783

Mail in the Netherlands
Volume development
(in %, in millions of items)

-9.9%

2016 2,213
2017 1,994

Mail in the Netherlands
Underlying cash operating income
(in € millions)

125
(margin: 7.0%)

2016 160
2017 125

In 2017, the loss of volumes was 9.9% (2016: 7.9% decline). The main driver for the decline is ongoing high substitution. Supported by regulation, we see postal operators collecting more mail items. Part of these volumes return to PostNL via regulated network access, resulting in pressure on our average prices. At the same time, consolidators deliver more mail through their own networks, impacting our bulk mail volumes.

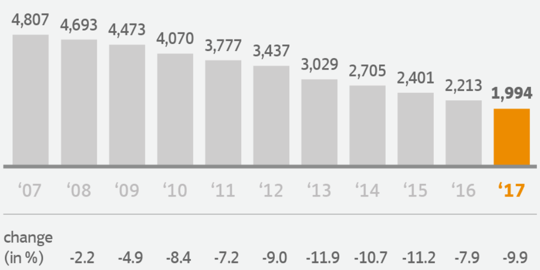
The following table shows the addressed postal items delivered.

Mail in the Netherlands
Operating statistics
2016-2017, in millions of items

Year ended at 31 December	2016	2017
Single items	495	417
Bulk mail	1,718	1,577
Addressed postal items delivered	2,213	**1,994**

The following chart shows the development of mail volumes since 2007.

Mail in the Netherlands
Volume development
(in millions of items)



In 2017, revenue in Mail in the Netherlands was €1,783 million (2016: 1,877). The decrease by 5.0% was driven by the volume decline of 9.9% and a negative price/mix effect, but supported by higher internal revenue. The negative price/mix effect is mainly explained by stamp price increases and price increases on bulk mail, more than offset by the impact of regulation and mix effects.

In 2017, total cost savings of €56 million were realised by the implementation of our restructuring plans within operations, marketing and sales and head office departments.

Mail in the Netherlands
Operating expenses
2016-2017, in € millions

Year ended at 31 December	2016	2017
Cost of materials	29	29
Work contracted out and other external expenses	778	736
Salaries, pensions and social security contributions	709	689
Depreciation, amortisation and impairments	42	35
Other operating expenses	151	169
Total operating expenses	1,709	**1,658**

In 2017, total operating expenses decreased by €51 million compared to 2016. Main contributor to this decline were lower salaries, pensions and social security contributions (€20 million), mainly due to cost savings as a result of a smaller employee base (€22 million) and a positive effect from higher past service pension costs (€3 million), partly offset by higher underlying pension expenses (€4 million). Work contracted out decreased by €42 million. Lower depreciation costs mainly resulted from the extended amortisation period of self-produced software.

Underlying cash operating income decreased by €35 million to €125 million in 2017 (2016: 160). The negative volume/price/mix effect (-€69 million) including the impact of regulation, autonomous cost increases (-€20 million) and other effects (-€18 million, amongst others lower results from cross-border) were only partly compensated by strong cost savings (€45 million), a higher result on the sale of building (€7 million), lower depreciation costs (€7 million) and a lower pension and provision cash out (€13 million).

Results Parcels

Parcels
Revenue
(in € millions)

1,110

Parcels
Volume development
(in %, in millions of items)

+17.2%

Parcels
Underlying cash operating income
(in € millions)

120
(margin: 10.8%)

In 2017, volumes in Parcels increased strongly by 17.2% (2016: 13.3%). The main driver for the volume growth was the strong growth in domestic parcels, fuelled by continued growth in e-commerce. This growth resulted in an increase in revenue of €143 million or 14.8% compared to 2016. Total revenue of 2017 amounted to €1,110 million (2016: 967).

The following table shows the number of parcels handled, split between domestic and international.

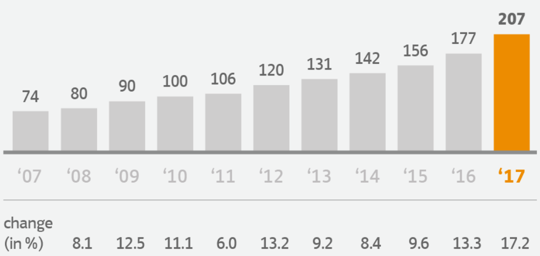
Parcels
Operating statistics
2016-2017, in millions of items

Year ended at 31 December	2016	2017
Domestic parcel volume	153	183
International parcel volume	24	24
Total	177	**207**

Underlying, international volumes increased by around 27% as, starting 2017, a part of our international volumes are handled by our other networks.

The following chart shows the development of parcel volumes since 2007.

Parcels
Volume development
(in millions of items)



Parcels
Operating expenses
2016-2017, in € millions

Year ended at 31 December	2016	2017
Cost of materials	16	20
Work contracted out and other external expenses	593	695
Salaries, pensions and social security contributions	174	197
Depreciation, amortisation and impairments	23	22
Other operating expenses	51	58
Total operating expenses	857	**992**

In 2017, total operating expenses increased by €135 million compared to 2016. Salaries, pensions and social security contributions increased by €25 million. Work contracted out increased by €102 million and was largely related to increased volumes and service expansion. Lower depreciation costs mainly resulted from the extended amortisation period of self-produced software. Other operating expenses were higher, following the growth in volumes and revenue within the segment.

Underlying cash operating income increased by €14 million to €120 million in 2017 (2016: 106). The increase is mainly explained by improved business performance of parcels, both domestic as in Belgium, and logistic solutions, due to volume growth and efficiency improvements, helped by positive incidentals.

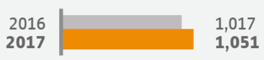
Acquisitions

During 2017, Parcels acquired the following 4 companies: PS Nachtdistributie, a leading player in overnight distribution in the Benelux region, JP Haarlem Delivery, a full service supplier in the business of furniture delivery and assembly, Shops United, an online platform where webshops can send their packages through multiple carriers, and Cheap Cargo, an online supplier and reseller of transport services and transport related services. All acquisitions fit within the strategy to enhance and expand PostNL's networks. For further financial details, see note 5.3 to the consolidated financial statements.

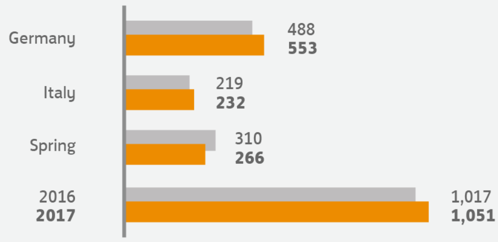
Results International

International
Revenue
(in € millions)

1,051



International
Revenue breakdown
(in € millions)



International
Underlying cash operating income
(in € millions)

6

(margin: 0.6%)

In 2017, volumes and revenue of International further increased, fuelled by last year's acquisition of Pin Mail Berlin and Mail Alliance within Germany. Revenue in 2017 increased by €34 million or 3.3% to €1,051 million (2016: 1,017). Adjusted for foreign exchange rate changes, revenue increased by €40 million or 3.9% to €1,057 million. Excluding the increase in revenue related to last year's acquisition of €90 million, revenue of International decreased by €56 million (-5.5%) or adjusted for foreign exchange rate changes by €50 million (-4.9%).

International

Operating revenue by country

2016-2017, in € millions

Year ended at 31 December	2016	2017
Germany	488	553
Italy	219	232
Spring and other (including eliminations)	310	272
Operating revenue	1,017	**1,057**
Foreign exchange rate changes		(6)
Total operating revenue		**1,051**

The increase of €34 million mainly resulted from revenue growth in Germany (€65 million) and Italy (€13 million), offset by decreased revenue within Spring and other (-€38 million) of which -€26 million related to an adjustment in the presentation of intercompany charges from revenue to expenses.

Germany
In Germany, excluding revenue from last year's acquisition, revenue decreased by €25 million following volume loss and price pressure due to competition, negatively impacting the financial performance.

Italy
In Italy, revenue increased by €13 million, partly explained by strong growth from parcels. In mail, we expanded our customer portfolio and benefited from uptrading from existing customers. Price competition was however fierce. Overal, the financial performance slightly improved.

Spring
In 2017, excluding the impact of the adjusted presentation of intercompany charges, revenue of Spring and other decreased by €12 million. Growth from global e-commerce clients was more than offset by fierce competition, the stricter rules for dangerous goods and downtrading of traditional mail clients. This negatively impacted the financial performance.

International

Operating expenses

2016-2017, in € millions

Year ended at 31 December	2016	2017
Cost of materials	11	11
Work contracted out and other external expenses	781	782
Salaries, pensions and social security contributions	164	195
Depreciation, amortisation and impairments	9	10
Other operating expenses	47	65
Operating expenses	1,012	**1,063**
Foreign exchange rate changes		(6)
Total operating expenses		**1,057**

Total operating expenses of International amounted to €1,057 million in 2017 (2016: 1,012). Adjusted for foreign exchange rate changes, total operating expenses increased by €51 million. Operating expenses were impacted by exceptional costs of €11 million (2016: 13) related to project costs, a tax related risk and restructuring charges. The increase in salaries, pensions and social contributions (€31 million) and other operating expenses (€18 million) were mainly the result of last year's acquisition of Pin Mail Berlin and Mail Alliance. Work contracted out and other external expenses was impacted by higher costs due to the acquisition, offset by lower costs following the decline in volume and the adjusted presentation of intercompany charges.

International ended 2017 with an underlying cash operating income of €6 million (2016: 14). Lower contributions from Germany and Spring were only partly offset by an improved performance in Italy.

Results PostNL Other

PostNL Other included head office costs, such as costs of shared services, staff departments and the Board of Management. Except for shareholder costs, all costs are charged to the other business segments.

PostNL Other

Results

2016-2017, in € millions

Year ended at 31 December	2016	2017
Total operating revenue	178	76
Total operating expenses	(180)	(85)
Underlying cash operating income	(35)	**(26)**

Operating revenue of €76 million in 2017 (2016: 178) related to shared service activities that were charged to the business segments. The decline in revenue of €102 million is mainly due to an adjustment in the presentation of intercompany charges. from revenue to expenses, accompanied by lower costs from the shared service activities. In 2017, all staff departments and services continued the realisation of the overhead cost saving programme.

PostNL Other's underlying cash operating income of 2017 increased to -€26 million (2016: -35), mainly due to costs savings and lower cash from pensions and provisions.

Other financial indicators

PostNL
Profit for the year
Excluding TNT Express
(in € millions)

148

PostNL
Net cash from operating and investing activities
Excluding TNT Express
(in € millions)

-22

PostNL
Net cash
(in € millions)

27

In 2017, profit for the year increased to €148 million (2016: 135, excluding the profit of the sale of the stake in TNT Express of €145 million). Lower operating income (-€38 million) was more than offset by lower net financial expenses of €58 million. The reduction in net financial expenses is explained by the cost impact of the bond buy-back transaction of €38 million in 2016 and the resulting lower interest expenses in 2017. The related earnings per share amounted to 33.0 eurocents (2016: 30.5).

Net cash from operating and investing activities was -€22 million (2016: 10, excluding the proceeds of the sale of the stake in TNT Express of €643 million). The decrease of €32 million is mainly explained by a lower profit before income tax adjusted for non-cash items of €65 million and a change in working capital of -€48 million, only partly offset by lower interest paid of €53 million (mainly as a result of the bond buy-back transaction in 2016) and lower income taxes paid of €24 million.

At the end of 2017, net cash amounted to €27 million (2016: net cash of 86). The decrease of €59 million mainly resulted from the net cash from operating and investing activities of -€22 million and (interim) dividend payments of €40 million.

PostNL

Summary consolidated income statement

2016-2017, in € millions

Year ended at 31 December	2016	2017
Total operating revenue	3,413	3,495
Other income	10	25
Total operating expenses	(3,132)	(3,267)
Operating income	291	253
Net financial income/(expense)	45	(42)
Results from investments in jv's/associates	(1)	(10)
Income taxes	(55)	(53)
Profit for the year	280	148
Profit for the year (excluding TNT Express)	135	148
Attributable to:		
Non-controlling interests	1	0
Equity holders of the parent	279	148
Earnings per ordinary share (in € cents) [1]	63.1	33.0
Earnings per ordinary share (excluding TNT Express; in € cents) [1]	30.5	33.0

1. Earnings per ordinary share are in 2017 based on an average of 448,645,255 outstanding ordinary shares (2016: 442,366,626).

PostNL's profit for the year decreased from €280 million in 2016 to €148 million in 2017. The decrease of €132 million was largely influenced by the sale of the stake in TNT Express in 2016, which resulted in a profit of €145 million.

PostNL

Net financial expense

2016-2017, in € millions

Year ended at 31 December	2016	2017
Interest and similar income	4	4
Income from sale of stake in TNT Express	145	
Interest and similar expenses	(66)	(46)
Expense from bond buy-back transaction	(38)	
Net financial expense	45	(42)

Regular interest and similar income of €4 million in 2017 (2016: 4) mainly related to interest on banks, loans and deposits and interest on taxes.

Regular interest and similar expenses of €46 million in 2017 (2016: 66) mainly related to interest on long-term borrowings of €32 million (2016: 48) and interest expenses on pensions of €8 million (2016: 11).

PostNL

Income taxes

2016-2017, in € millions

Year ended at 31 December	2016	2017
Current tax expense	54	44
Changes in deferred taxes	1	9
Income taxes	55	53

Income taxes amounted to €53 million in 2017 (2016: 55). The effective tax rate was 26.4% in 2017 (2016: 28.9%, before the impact of the stake in TNT Express), which is higher than the statutory income tax rate of 25% in the Netherlands, influenced by non deductible costs, exempt income, irrecoverable tax losses and updated tax positions. For further details, see notes 2.2 and 3.7 to the consolidated financial statements.

PostNL

Underlying net cash income

2016-2017, in € millions

Year ended at 31 December	2016	2017
Underlying cash operating income	245	225
Net financial expense (adjusted) [1]	(89)	(34)
Tax expenses	(55)	(53)
Underlying net cash income	101	138

1. Excluding the profit on the sale of the stake in TNT Express of €145 million in 2016 and interest on pensions of €8 million (2016: 11).

PostNL's underlying net cash income amounted to €138 million in 2017 (2016: 101). The increase of €37 million is explained by a lower underlying cash operating income of -€20 million, more than offset by lower net financial expenses of €55 million (mainly as a result of the bond buy-back transaction in 2016) and lower tax expenses of €2 million.

Pensions

In 2017 the 5-year recovery period that started in Q3 2016 ended after three consecutive quarters in which the coverage ratio was above the minimum required level. The start of a 5-year recovery period, in which top-up payments might have applied, was triggered in 2016. Based on our projections we do not anticipate any top-up payments.

In 2017 the third instalment of the unconditional funding obligation to the pension fund was paid (€32 million). At 31 December 2017, the outstanding funding obligation amounted to €65 million, which will be paid by two equal instalments during the years 2018 - 2019.

At the end of 2017, the main pension fund had a month-end coverage ratio of 115.8% (2016: 108.3%). The increased coverage ratio is mainly explained by higher pension plan assets due to the fund's investment return of 5.5%. The 12-months average coverage ratio amounted 113.4% per 31 December 2017 (2016: 103.6%).

For accounting purposes, we saw an increase in the IAS 19 discount rate and expected rate of benefit increases from 1.8% and 1.1% at 31 December 2016 to 2.0% and 1.5% at 31 December 2017. The resulting increase in pension obligations was more than offset by a higher than assumed return on plan assets. Together with the impact of the minimum funding requirement the net impact on equity resulting from pensions was limited €3 million.

For further details, see note 3.4 to the consolidated financial statements.

Financial position

PostNL

Summary consolidated statement of financial position

2016-2017, in € millions

At 31 December	2016 restated	2017
Non-current assets	767	817
Current assets	1,170	1,253
Assets classified as held for sale	4	10
Total assets	1,941	2,080
Equity	(79)	34
Non-controlling interests	3	3
Non-current liabilities	716	827
Current liabilities	1,301	1,216
Total equity and liabilities	1,941	2,080

The non-current assets of €817 million at 31 December 2017 (2016: 767) consisted of property, plant and equipment of €510 million for land, depots and sorting machinery (2016: 505), goodwill of €141 million (2016: 123), other intangibles of €116 million mainly related to IT software (2016: 82) and financial fixed assets of €50 million (2016: 57).

In 2017, the acquisitions of PS Nachtdistributie, JP Haarlem, Shops United and Cheap Cargo resulted in the increase in goodwill of €20 million and other intangibles of €16 million. For further details on the acquisitions, see note 5.3 to the consolidated financial statements.

The current assets of €1,253 million at 31 December 2017 (2016: 1,170) mainly consisted of trade accounts receivable of €386 million (2016: 358), prepayments and accrued income of €157 million (2016: 134) and cash and cash equivalents of €645 million (2016: 640).

The assets held for sale amounted to €10 million at 31 December 2017 (2016: 4). The assets held for sale fully relate to buildings and equipment in the Netherlands.

Non-current liabilities of €827 million (2016: 716) mainly consisted of provisions for pension liabilities of €359 million (2016: 410) and long-term debt of €400 million (2016: 227).

In 2017, PostNL issued a €400 million eurobond with an annual coupon of 1.0% due in 2024. The proceeds will be used for general corporate purposes, including the redemption of our outstanding eurobonds in November 2017 and August 2018.

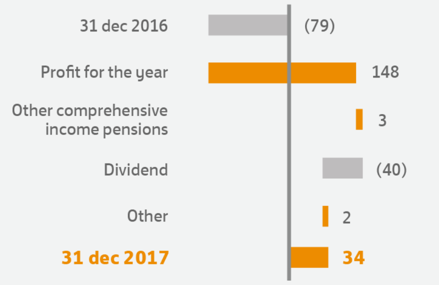
Current liabilities of €1,216 million (2016: 1,301) mainly consisted of accrued liabilities of €577 million related to deposits and terminal dues (2016: 592), short-term debt of €225 million (2016: 328) and other current liabilities of €414 million (2016: 381).

Equity position

Consolidated equity

Consolidated equity attributable to equity holders amounted to €34 million at 31 December 2017 (2016: -79). The increase of €113 million during 2017 is mainly explained by the profit for the year of €148 million, partly offset by (interim) dividend payments of €40 million.

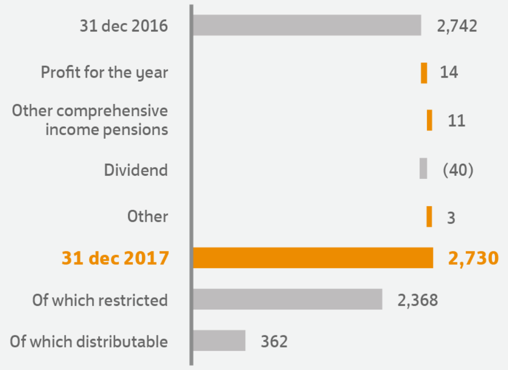
PostNL
Development of consolidated equity
(in € millions)



Corporate equity

Corporate equity amounted to €2,730 million at 31 December 2017 (2016: 2,742). The decrease of €12 million during 2017 is mainly explained by the profit for the year of €14 million offset by (interim) dividend payments of €40 million. The profit for the year of €14 million mainly included dividend income of €104 million, a (non-distributable) impairment of Mail investments of -€79 million and net financial expenses of -€34 million. For further details, see section 6 of the financial statements.

PostNL
Development of corporate equity
(in € millions)



Funding position

At 31 December 2017, net cash amounted to €27 million (2016: 86). The decrease of €59 million mainly resulted from the net cash from operating and investing activities of -€22 million and (interim) dividend payments of €40 million.

The carrying value of the short- and long-term debt (excluding interest) on 31 December 2017 amounted to €625 million (2016: 555). Including interest, the total debt cash outflow amount to €669 million. For further details, see note 4.1 and 4.3 to the consolidated financial statements.

PostNL

Debt cash outflows (including interest)

2017, in € millions

	< 1 yr	1 - 3 yr	> 5 yr
Eurobonds	243	8	416
Financial leases		2	
Total	243	10	416

PostNL has a €400 million committed revolving credit facility, which was fully undrawn at the end of 2017. PostNL has no material credit facilities or other debt refinancing in the short term. There are no financial covenants.

Our actions to strengthen our equity and funding position, like structural improvement of our performance, strict control on capital expenditures, limited acquisitions and tight working capital management, contributed to preserve our S&P credit rating at BBB+ with stable outlook and Moody's credit rating at Baa2 with stable outlook.

Cash flow data

PostNL

Summary consolidated statement of cash flows

2016-2017, in € millions

Year ended at 31 December	2016	2017
Cash generated from operations	282	194
Interest paid	(92)	(39)
Income taxes paid	(80)	(56)
Net cash (used in)/from operating activities	110	**99**
Net cash used for capital investments and disposals	(68)	(80)
Net cash used for acquisitions and disposals	(30)	(32)
Proceeds from sale of stake in TNT Express	643	
Net cash from other investing activities	(2)	(9)
Net cash (used in)/from investing activities	543	**(121)**
Net cash from debt financing activities	(358)	67
Net cash for dividend and other equity changes	(10)	(40)
Net cash (used in)/from financing activities	(368)	**27**
Changes in cash and cash equivalents	285	5

Net cash from operating activities

Net cash from operating activities decreased by €11 million to €99 million in 2017. The decrease was due to lower cash generated from operations of €88 million, almost fully offset by lower interest paid (-€53 million) and lower income tax paid (-€24 million).

The decrease in cash generated from operations of €88 million is mainly explained by the decrease in underlying cash operating income (-€20 million) and a lower contribution from working capital (-€48 million). Interest paid was €39 million in 2017. The decrease of €53 million compared to 2016 mainly resulted from the bond buy-back transaction in 2016.

In 2017, income taxes paid were €56 million, compared to €80 million in 2016. The income taxes paid mainly related to income taxes paid in the Netherlands and include payments related to prior years.

Net cash used in investing activities

In 2017, net cash used in investing activities amounted to €121 million (2016: 100, excluding the proceeds from the sale of the stake in TNT Express). The increase of €21 million compared to 2016 mainly resulted from higher capital expenditure on property, plant and equipment and other intangible assets of €17 million.

PostNL

Capital expenditures /proceeds

2016-2017, in € millions

Year ended at 31 December	2016	2017
Expenditure on property, plant and equipment	(64)	(74)
Expenditure on other intangible assets	(31)	(38)
Proceeds from sale of property, plant and equipment	27	32
Net cash used for capital investments and disposals	(68)	**(80)**

The increase in capital expenditure mainly related to investments made in the new processing and distribution centres within Parcels, equipment in Mail in the Netherlands (mainly related to new sorting machines) and software licenses and costs of internally-generated software for various IT projects.

Net cash used for acquisitions and disposals of €32 million mainly relate to the acquisition of PS Nachtdistributie, JP Haarlem, Shops United and Cheap Cargo (€33 million in total). For further details on the acquisitions, see note 5.3 to the consolidated financial statements.

Net cash from in financing activities

In 2017, net cash from financing activities of €27 million (2016: -368) mainly related to the proceeds of €398 million following the issuance of an eurobond, offset by the repayment of an eurobond of €328 million and the (interim) dividend payments of €40 million. In 2016 the main driver was the bond buy-back transaction of €357 million.

Dividend

Dividend proposal 2017

At 31 December 2017, the consolidated equity position amounted to €34 million. In August 2017 an interim dividend of €0.06 per ordinary share was paid. The Board of Management, with the approval of the Supervisory Board, will recommend PostNL shareholders to approve the full-year 2017 dividend at the 2018 Annual General Meeting of Shareholders based on the results of 2017 of €0.23 per ordinary share. This represents a pay out ratio of 75% of the underlying net cash income, which amounted to €138 million in 2017. The proposed 2017 final dividend of €0.17 per ordinary share will be paid, at shareholder's election, either in ordinary PostNL shares or in cash.

We refer to the chapter 16, PostNL on the capital markets, for a description of our dividend policy.

Dividend paid in 2017

PostNL declared a 2016 final dividend of €0.12 per ordinary share which amounted to a cash dividend payment of €25 million and an 2017 interim dividend of €0.06 per ordinary share which resulted in a cash dividend payment of €15 million.

Extract from the articles of association on appropriation of profit

Under PostNL's articles of association, the dividend specified in article 31, paragraph 1 will first be paid on the preference shares B if outstanding. Subject to the approval of PostNL's Supervisory Board, the Board of Management will determine thereafter which part of the profit remaining after payment of dividend on any preference shares B will be appropriated to the reserves (articles 31, paragraph 2). The remaining profit after the appropriation to reserves shall be at the disposal of the General Meeting of Shareholders (article 31, paragraph 3). No dividend shall be paid on shares held by PostNL in its own capital (article 31, paragraph 6). Preference shares B were not issued in 2017.

Appropriation of profit

The Board of Management, with the approval of the Supervisory Board, shall make the corporate profit of €14 million available at the disposal of the General Meeting of Shareholders and as such shall appropriate no profit to the reserves. For detailed information on PostNL's corporate performance, and the resulting profit, refer to section 6 of the financial statements. Furthermore, the Board of Management, with the approval of the Supervisory Board, proposes to make an amount of €78 million out of the distributable part of the shareholders' equity available for distribution of the proposed dividend.

Following this appropriation and proposal, a total amount of €92 million remains at the disposal of the General Meeting of Shareholders. Subject to the adoption of PostNL's financial statements by the General Meeting of Shareholders, and given an 2017 interim dividend of €0.06 per ordinary share has been paid, the proposed 2017 final dividend has been set at €0.17 per ordinary share of €0.08 nominal value, based on the outstanding number of 453,530,195 ordinary shares as per 31 December 2017. The dividend of €0.17 per ordinary share will be paid, at shareholder's election, either in ordinary PostNL shares or in cash. The dividend in shares will be paid out of additional paid in capital as part of the distributable reserves, free of withholding tax in the Netherlands.

The ex-dividend date will be 19 April 2018, the record date is 20 April 2018 and the election period will start on 23 April 2018 and will end on 7 May 2018 at 3PM CET. The conversion ratio will be based on the volume-weighted average share price for all PostNL shares traded on Euronext Amsterdam over the three trading day period from 3 May 2018 up to and including 7 May 2018. The value of the stock dividend, based on this VWAP, will, subject to rounding, be targeted at but not be lower than the cash dividend. There will be no trading in stock dividend rights. The dividend will be payable as of 9 May 2018.

Upon approval of this proposal, corporate profit will be appropriated as follows, whereby the final dividend represents a cash dividend under the assumption of 100% cash election.

PostNL
Appropriation of corporate profit
2017, in € millions

	2017
Profit attributable to the shareholders	14
Appropriation in accordance with the articles of association:	
Reserves withdrawn by the Board of Management and approved by the Supervisory Board (article 31, paragraph 2)	78
Dividend on ordinary shares	**92**
(Interim) dividend paid in cash	(15)
Final dividend	**77**

Group companies of PostNL N.V.

The list containing the information referred to in article 379 and article 414 of book 2 of the Dutch Civil Code is filed at the office of the Chamber of Commerce in The Hague.

Subsequent events

There were no subsequent events to report.

Outlook 2018

The continuously fast-growing e-commerce market requires us to accelerate and increase our investments in the capacity of our Parcels' infrastructure, both in the Netherlands and in Belgium. To solidify our position as the leading e-commerce logistics company in the Benelux, we will also further develop our service propositions, for example in growth markets like food and health. These additional investments will flatten our short term results, but are expected to contribute to creating further profitable growth thereafter.

The regulatory developments are increasingly impacting Mail in the Netherlands both operationally and financially. Upon experiencing the first months of the SMP decision in practice, we concluded that the expected impact is even higher than originally estimated: between €50 million and €70 million on an annualised basis, fully visible in 2020. This is particularly caused by a larger than expected volume loss to other postal operators. Consequently, we expect our addressed mail volumes to decline by 10% to 12% in 2018. Our original cost savings plans and targeted price increases will not be sufficient to absorb the impact from volume decline in the short term.

At International, our focus is on improvement of our cash profitability and end the delay in recovery.

For 2018, the UCOI outlook is between €160 million and €200 million. Our aim to pay progressive dividend remains unchanged.

The above expectations are subject to the final implementation of the SMP decision.

The table below shows our outlook for 2018 on revenue and underlying cash operating income (margin).

PostNL
Outlook
2017-2018, in € millions

	Operating revenue		Underlying cash operating income (margin)		
	2017	outlook 2018	2017		outlook 2018
Mail in NL	1,783	- mid single digit	125	*(7.0%)*	3% to 5%
Parcels	1,110	+ mid teens	120	*(10.8%)*	9% to 11%
International	1,051	+ high single digit	6	*(0.6%)*	0% to 2%
PostNL Other / eliminations	(449)		(26)		
Total	3,495	**+ mid single digit**	225		**160 to 200**

Other financial indicators for 2018:

- Cost savings of between €50 million and €70 million (2017: 56)
- Implementation costs of between €20 million and €30 million (2017: 24)
- Regular employer pension expenses of around €140 million of which around €130 million in operating expenses and around €10 million in financial expenses (2017: 118 of which 110 in operating expenses and 8 in financial expenses)
- Regular employer pension contributions of around €120 million (2017: 123)
- Net financial expenses of around €30 million (2017: 42)
- Cash outflow from provisions of between €50 million and €60 million (2017: 38)
- Cash capital expenditures of at most €120 million (2017: 112)

Other non-financial targets for 2018:

- Highly satisfied customers above the level of 2017 (2017: 41%)
- Delivery quality above minimum required level of 95% (2017: preliminary 95.4%)
- Employee engagement above the level of 2017 (2017: 66%)
- CO_2 efficiency index below the level of 2017 (2017: 42.9)

Governance

10 Statement of the Board of Management

Dutch Corporate Governance Code

PostNL applies the principles and best practices of the Dutch Corporate Governance Code (the Code), as referred to in article 391, paragraph 5, book 2 of the Dutch Civil Code (DCC), except for the best practice provisions below. Below we explain why we do not comply with these best practice provisions.
Future developments might justify further deviations from the Code at the moment of occurrence. Each substantial change in the corporate governance structure of the company and in the compliance of the company with the Code shall be discussed with the General Meeting of Shareholders. The full text of the Code can be found on www.postnl.nl.

Provision 3.2.3 of the Code states that remuneration in the event of dismissal of members of the Board of Management may not exceed one year's salary (the fixed remuneration component), and that severance payments will not be awarded if the agreement is terminated early at the initiative of a member of the Board of Management. Severance payments of the current members of the Board of Management in case of a change of control equal the sum of the last annual base salary and pension contribution plus the average variable remuneration received over the last three years, multiplied by two. Furthermore, in case of a change of control, a member of the Board of Management may, under certain circumstances, receive a severance payment if the agreement is terminated at the initiative of such member of the Board of Management.

Ms Verhagen and Mr Bos were employed by PostNL before the Code became first effective. PostNL is of the opinion that the agreed severance payment in case of a change of control is proportionate, considering the special position of members of the Board of Management in a change of control situation. Also, the Supervisory Board may decide that the performance shares vest in whole or in part.

Responsibility statement under the Code

The Code requires the Board of Management to provide a description of PostNL's main risks in relation to its risk appetite. Such risks may include strategic, operational, compliance and financial reporting risks. These risks and the relation to PostNL's risk appetite are included in chapter 13, Risk management.

The Board of Management confirms that it is responsible for PostNL's risk management, internal control, integrity and compliance systems and has reviewed the design and the operational effectiveness of these systems for the year ended 31 December 2017. The outcome of these reviews and analysis has been shared with the Audit Committee and the Supervisory Board and has been discussed with PostNL's external auditor. The same would apply in respect of material failings in PostNL's risk management, internal control, integrity and compliance systems and of material changes or improvement implemented in such systems, each if applicable. In 2017, no material failings in PostNL's risk management, internal control, integrity and compliance systems were reported and no material changes or improvements were implemented. Other than those described in chapter thirteen Risk management, and provided for external conditions that can reasonably be expected to have an impact on a company's results, the results of PostNL are generally not sensitive for material changes in external conditions.

Based on the outcome of the PostNL-specific approach to risk management, internal control, integrity and compliance as outlined above, the Board of Management believes, to the best of its knowledge, that PostNL's internal control over financial reporting worked effectively over the year ended 31 December 2017, and provides reasonable assurance that the financial reporting is free from material inaccuracies or misstatements. Additionally, the Board of Management is of the view that considering the annually updated strategic plan and forecasts, in the current situation, it is justified that PostNL's financial reporting has been prepared on a going concern basis and that it states those material risks and uncertainties that are relevant for the expectation of PostNL's continuity for the period of twelve months after the preparation of the report. The above, however, does not imply that PostNL can provide certainty as to the realisation of strategic business and financial objectives. Nor can PostNL's approach to internal control over financial reporting be expected to prevent or detect all misstatements, errors, fraud or violation of laws or regulations.

In view of the above and based on the outline of the main risks and risk responses described in chapter thirteen, Risk management, the Board of Management believes it complies with provisions 1.4.2 and 1.4.3 of the Code.

Responsibility statement under the Dutch Financial Markets Supervision Act

With reference to section 5.25c paragraph 2 under c of the Dutch Financial Markets Supervision Act, the Board of Management confirms to the best of its knowledge that:

- The annual financial statements for the year ended 31 December 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of PostNL and its consolidated companies
- The additional management information disclosed in the Annual Report gives a true and fair view of PostNL and its consolidated companies as at 31 December 2017, the state of affairs during the financial year to which the report relates, together with a description of the main risks facing PostNL.

The members of the Supervisory Board and the Board of Management have signed the financial statements pursuant to their statutory obligation under article 2:101(2) of the DCC.

The Hague, 26 February 2018
The Board of Management

11 Report of the Supervisory Board

Interview with Jacques Wallage, chairman of the Supervisory Board of PostNL N.V.

Mr Wallage, how do you look back on 2017?
2017 was a year in which the importance of our transformation strategy, PostNL 2020, became even more evident. On the one hand, our Mail in the Netherlands business segment saw mail volumes continue to decline, its competitors become more vocal, and regulatory pressure and uncertainty continue, putting increasing pressure on its performance. On the other hand, volumes continued to break records in our Parcels business, supporting revenue growth and results, and leading us to expand our network.

As the Supervisory Board, we are monitoring the successful implementation of PostNL's strategy closely and with great interest. In 2017, PostNL took many steps in realising its ambition to be *the* postal and logistic solutions provider in our chosen markets.

Notwithstanding the challenging environment in the postal market, PostNL strives to safeguard the reliability and accessibility of the Dutch postal service and wishes to protect decent labour conditions. The importance of this, combined with the continued pressure on volumes due to substitution and increasing competition supported by regulation, led us to become more vocal in expressing our concern about the gap between market developments on the one hand, and the effects of regulation on the other. At the same time, our people continued to put in significant efforts behind the scenes to mitigate the significant impact of regulation and volume decline, both financially and operationally. Going forward, the continued focus on customer satisfaction and quality, as well as our ongoing strategy of offsetting volume decline with balanced pricing and cost savings, remain vital for the Mail in the Netherlands business segment.

For our Parcels business segment, 2017 was a year that saw accelerating volume growth. This, combined with the strong results and increasing trust our many customers place in PostNL and its people, once again underscore our strengthening position as the leading e-commerce logistic solutions provider in the Benelux. Our Parcels business segment aims to further accelerate e-commerce growth by developing and diversifying our service and product proposition and networks, both for parcels solutions and specialised logistic solutions, increasing customer satisfaction and quality. Realising these ambitions also comes with responsibilities towards the many other stakeholders in the parcels market, including our people, the environment and society, which we take very seriously.

Our International business segment also faced a range of challenges and opportunities as we follow our transformation process. On the one hand, increasing competition and declining mail volumes remain a challenge. On the other, growing e-commerce creates growth opportunities.

In Italy, Nexive continued to transform its mail business and invest in its parcel network, by increasing its customer base and improving and expanding its service offering.

In Germany, Postcon continued to implement its restructuring programme and we saw satisfactory results from our 2016 acquisition of Pin Mail Berlin and Mail Alliance. Our final mile activities improved, but this development was more than offset by the results from our consolidation activities, driven by volume decline and price pressure.

Our cross-border parcel business benefitted from growth in international e-commerce growth, but we also saw that our policy of strict compliance with international dangerous goods regulation resulted in the loss of some of our customers, affecting our revenue. We continued to launch innovative services and solutions to enforce our position as a strong player in the international e-commerce market.

Furthermore, we made progress with our program to find new profit pools through diversification in the growth domains we identified in 2015. For example with Stockon (automatic replenishment service for dry goods) and with a pilot in the home care market.

In 2017 we reached an important milestone by reinstating dividend payment, allowing our shareholders to benefit from our further strengthened financial position. At year end, PostNL finally returned to positive consolidated equity. Furthermore, we refinanced part of our debt by redeeming the remainder of our 2017 Eurobond and issuing a new 7-year Eurobond at a very attractive interest rate.

Management and the labour unions agreed on new collective labour agreements for PostNL and Saturday deliverers, which are good for both our employees and the company. In view of the challenges our company is facing, we very much appreciate the wide support from and good relationships with the unions and employee representative bodies.

In 2017, the revised Dutch Corporate Governance Code came into effect. What does this mean for PostNL and its governance?
The most significant changes to the Code regard the focus on long-term value creation and the introduction of culture as part of a company's good corporate governance. For PostNL, these changes did not have a material impact, as long-term value creation has been an integral part of our strategy, ambition and

processes for a while. In my view, the revised Code is more a formalisation of standard practices than anything else: to safeguard the continuity and sustainability of a company, one must look after long-term value creation and consider and balance the interests of all its stakeholders. The same goes for culture: creating a culture where people are passionate and proud to work for PostNL makes our company stronger and futureproof. We want our people to enjoy working for us and feel collectively responsible for our results, as this contributes to long-term value creation and thus the success of PostNL. Culture has already been an important part of PostNL's governance for a long time. Consequently, it has been on the management's agenda – and thus on the agenda of the Supervisory Board – for quite some time.

Furthermore, the Code has been actualised on specific topics. To the extent necessary, this has been reflected in our updated processes and regulations. In most instances, this meant nothing more than the formalisation of already-implemented practices. To give two examples: our Executive Committee and our diversity policy.

PostNL introduced the Executive Committee as part of its governance in the second half of 2012. The role, duty and composition of the Executive Committee were later formalised in by-laws for the Executive Committee, which can now also be found on our website. Members of the Executive Committee update the Supervisory Board on their specific responsibilities when required, and present their business segments' strategic plans at least annually.

When it comes to diversity, we believe that this enables PostNL to adapt more quickly and effectively to the continuously changing markets in which we operate. Diversity makes a company stronger and more innovative and creates a culture where people feel accepted and safe. Striving for diversity is not new for PostNL, it is part of our cultural values, but we have recently captured it in our diversity policy, which can be found on our website. Striving for diversity goes further than a balanced male/female ratio, a balanced age structure or recruiting and promoting multicultural talent within all levels of management. It also relates to fostering identity acceptance (LGBT), creating opportunities for people with a distance to the labour market, or creating teams with diverse mind-sets. Of the latter I can say that our Supervisory Board can be considered a good example. Our Supervisory Board may not (yet) be very diverse when it comes to multicultural background, but the individual members' mind-sets are. This is also reflected in the way we conduct our discussions, which ensures open communication, allowing for civil disagreement and critical thinking.

With our intention to nominate Jan Nooitgedagt as member of the Supervisory Board for approval by PostNL's shareholders at the annual general meeting of shareholders to be held in April 2018, this will be further enforced.

You just mentioned the continuously changing markets: technology is changing continuously and at an increasing speed. How does this impact PostNL?

Digitalisation and the increasing growth in e-commerce, which are driving the transformation of our company, can be considered consequences of changing technology. As you can read in chapter four, Our strategy, we identified technological development as one of the three key market trends that are shaping the lives of our customers and are impacting our strategy. When reading through this Annual Report or browsing on PostNL's website, you will read about and experience many of the things PostNL is doing to adjust to or stay ahead of technological changes. Perhaps the best way to answer the question is to invite you to read through our Annual Report, browse PostNL's website, or make use of the many features the PostNL app offers.

There is increasing attention for non-financial indicators, such as the Sustainable Development Goals (SDGs), which one sees translated into regulation and questions from investors and focus groups. What is your view on this?

As I said earlier, when creating long-term value, we must balance the interests of all of the company's stakeholders. These interests differ per stakeholder and go much further than financial indicators only. As a result, I do not believe we can stress the importance of non-financial indicators too much. We have identified two of these SDGs which we consider most relevant for PostNL: Decent work and economic growth, and Climate action. You can read more about our ambitions with respect to these two SDGs, and what we have done so far to contribute to these goals, elsewhere in this Annual Report.

What would you like PostNL to achieve in 2018?

I am afraid I am going to repeat part of the answer Mr Boersma gave when he was asked this same question last year.

Our stakeholders have contributed significantly to the success of PostNL over the last few years, and we realise that we have asked a great deal of commitment, trust, and patience from them. However, PostNL has been able to deliver on its promises and we strive to continue to do so.

Having said that, we also realise that PostNL continues to face important challenges. On the same day we publish this Annual Report and full-year results, we will update the market on our expectations for 2018 and on how we are executing our accelerated transformation. In 2017, it became clear that the year's developments mean that the challenges and opportunities the company faces are causing its transformation to accelerate at a faster pace, while having a greater impact earlier than expected. PostNL does not see volume decline slowing and combined with greater competition, supported by regulation, this is impacting the financial health of the postal market. To address this, changes need to be made to the way the Dutch postal market is regulated.

Yet the company is taking advantage of, and benefitting from, those opportunities available in the fast-growing e-commerce business in the Benelux and internationally, as well as from technological developments. While together these support PostNL's performance ambitions as it moves toward 2020, the company will need to increase its infrastructure investments to maintain its strong position in the parcel market.

We strongly believe that PostNL will continue to find a good balance between adjusting the mail operations in the challenging Dutch postal market, while expanding its footprint as an e-commerce solutions provider and creating long-term value for the company's stakeholders. Additionally, we are happy with the progress the company is making in its search for new profit pools by testing how it can leverage core competences through emerging technologies.

Is there anything you would like to discuss that we did not ask?

Unfortunately, early in 2017 Michiel Boersma became unable to perform his duties for PostNL, and in May chose to step down as chairman and member of the Supervisory Board for personal reasons. This was much earlier than we all expected. On behalf of the Supervisory Board and the Board of Management, I would like to express our gratitude and appreciation for everything he has done for our company.

In November, after almost 25 years at PostNL, Jan Bos indicated that he will step down as CFO of PostNL. The Supervisory Board has initiated the search for a new CFO and strives to announce such successor ultimately when convening the 2018 Annual General Meeting of Shareholders. Jan will stay until at least after the 2018 AGM to facilitate a smooth transition to the new CFO.

As the Supervisory Board, while we regret we also respect Jan's decision to step down. Jan has contributed significantly to the development of PostNL and we owe him enormous gratitude for his efforts, commitment and loyalty. I think I speak on behalf of everyone within PostNL when I say that we will miss him. We wish him all the best with the next step in his career.

Meetings of the Supervisory Board

Number of meetings and attendance rate

The Supervisory Board met nine times and had two meetings by telephone in 2017. All meetings were also attended by the full Board of Management. Seven meetings were held at PostNL's head office in The Hague, one meeting was held at PostNL's fulfilment centre in Houten, and one at the location of the 2017 AGM in The Hague. Additionally, the Supervisory Board organised two informal dinners which both took place at locations not related to PostNL.

Almost all meetings were attended by all Supervisory Board members. The attendance percentages can be found in the table below.

PostNL
Attendance
2017, in %

	Attendance percentage
Supervisory Board (meetings only) [1]	86%
Supervisory Board (incl. conference calls) [1]	82%
Audit Committee	88%
Remuneration Committee [1]	70%
Nomination Committee [1]	90%

1. Attendance rate impacted by absence of Mr Boersma until May 2017

Topics discussed

At every meeting, the Supervisory Board discussed business, financial, market, and regulatory developments in PostNL's business segments. In 2017, mail volume decline, the execution of the restructuring plans, regulation, including the ACM decision on significant market power (SMP) and the impact thereof, growing parcel volumes, the developments of the different divisions within our International business segments, and the progress of our accelerating transformation were recurring topics. We also discussed PostNL's financial position, IT developments, PostNL's IT strategy and related topics, such as cyber security, online strategy, privacy, digital transformation and business continuity, (interim) dividend and PostNL's dividend policy, growth, our culture and investor feedback after management roadshows. Furthermore, the Supervisory Board discussed the preparation of our capital markets day in February 2017, the investments in our infrastructure and acquisitions, the adjustment of the organisational structure of PostNL, including the changes in the composition of the Executive Committee, the refinancing of our debt, the preparation of the AGM and the (consequences of the) new Code, including the adjustments of the various internal by-laws and regulations and the approval of PostNL's diversity policy.

The adjustment of PostNL's organisation and networks to the declining mail volumes and increasing parcel volumes was, and remains, an important topic in strategic discussions. This also applies to the impact of regulatory developments on our organisation and performance, as well as competition in each of our business segments, Mail in the Netherlands, Parcels and International. The Supervisory Board also discussed new products and services, innovation and potential areas for growth in the Netherlands and in the other countries where PostNL operates.

The Supervisory Board performs an oversight role with respect to corporate responsibility (CR) issues, supported by PostNL's internal audit department, which monitors the CR governance structure and reporting. Further to this responsibility, the Supervisory Board discussed various corporate responsibility-related issues, including labour conditions and the collective labour agreement negotiations, pensions, career and management development, the reputation of PostNL, customer satisfaction, employee engagement, PostNL's culture, diversity and inclusion, PostNL's CO_2 efficiency index, including measures to improve this index, the rating of PostNL in the Dow Jones Sustainability Index, and the relations between the Supervisory Board and the Board of Management with the works councils and trade unions.

The Supervisory Board discussed the 2016 annual results, the 2017 quarterly and half-yearly results and the 2018 budget. Additionally, the 2016 auditor's report by PostNL's external auditor EY and the 2016 Annual Report (including Financial Statements and Corporate Responsibility Performance Statements) were discussed. EY reported that during the year PostNL took various measures in mitigating (previously) identified control deficiencies. EY noted that PostNL has made progress with implementing these measures, but especially the control environment around contract management and at Postcon should be strengthened. Having said that, together with the compensating procedures performed and the outcome thereof, EY is comfortable that PostNL is addressing the risks.

Each business segment presented its strategic plan and the Board of Management presented the strategic plan for PostNL as a whole, including financial objectives, outlook and the main risks for PostNL. The outcome of the risk management process, the main risks identified, and the mitigation plans in place to manage these risks were shared with the Audit Committee and with the Supervisory Board. A description of PostNL's major risks and its risk management can be found in chapter thirteen, Risk management.

Twice a year, the Supervisory Board discusses a litigation overview, describing claims (including tax) against PostNL and litigation concerning PostNL (with a threshold of €250,000). The Supervisory Board also receives an update on integrity (including the fraud & whistle-blower report) twice a year.

Following its assessment (discussed below in Evaluation of the Supervisory Board), the Supervisory Board discussed its composition and that of its committees and the profile of the Supervisory Board. The Supervisory Board also discussed the succession of Mr Boersma, including the selection of a new Supervisory Board member and the succession of the CFO position.

More details about the Supervisory Board can be found in chapter twelve, Corporate Governance and is, as such, part of this Report of the Supervisory Board.

Meetings of the committees of the Supervisory Board

Audit Committee

The Audit Committee met five times in 2017. In general, all meetings are attended by the CFO, director audit & security, director finance, and the external auditor, EY. The CEO attends the Audit Committee meetings when the half-year and full-year results are being discussed. The chairman of the Audit Committee meets the external auditor without management regularly. Additionally, the director Audit & Security regularly meets the chairman of the audit committee without management, and meets the chairman of the Supervisory Board at least once a year.

At each meeting, the Audit Committee discusses the results of and developments in PostNL's business segments. In 2017, the Audit Committee discussed PostNL's full-year 2016 results, the outlook for 2017, the 2017 first quarter, half-year and third quarter results and the related press releases. The 2018 budget was discussed in the Supervisory Board and this year not also in the Audit Committee. Furthermore, the Audit Committee discussed the Eumedion, VEB and VBDO focus letters, the risk paragraph and the quantity and quality of the explanatory notes in the financial reports of the 2017 Annual Report and the preparation of PostNL's 2017 Annual Report.

The main financial factors influencing the strategic plan and PostNL's financial performance, including volume developments, pricing, cost savings, competition, regulatory developments, economic developments, pensions, and employee conditions were discussed. The Audit Committee also discussed (interim) dividend and dividend policy, PostNL's pension obligations, the refinancing of PostNL's debt, and the relevant 2017 tax matters, including matters such as transparency, tax planning, and tax risk management.

The Audit Committee discussed reports on internal control and risk management (reports which are, if necessary, also discussed in the Supervisory Board). Reports from the internal audit function and the external auditor, including the internal audit and EY's audit plan, EY's board reports, were discussed regularly. The Audit Committee receives and discusses half-yearly updates on integrity issues (including the fraud & whistle-blower report), claims and litigation, compliance and any actions taken by management, if applicable. The external audit fees were discussed and approved. Contemplated changes in the laws and regulations governing financial reporting, the quality assessment and performance of PostNL's internal audit function and the development of the actions to mitigate the deficiencies reported by the external and internal audit functions over 2016 were discussed. Fortunately, no material fraud related incidents were reported in 2017.

Nomination Committee

The Nomination Committee met six times in 2017, of which one time by phone. Supervisory Board reappointments were discussed, as were the composition of the Supervisory Board and its committees. The Nomination Committee discussed the selection of the candidate for the vacancy in the Supervisory Board. The Nomination Committee also discussed succession planning and talent management in respect of the Supervisory Board, the Board of Management and senior management and the changes in PostNL's organisational structure which were implemented in 2017, including the changes in the composition of the Executive Committee. Furthermore, it discussed the selection (process) for the CFO position.

Remuneration Committee

In 2017, the Remuneration Committee held three meetings. It discussed the remuneration of the members of the Board of Management and the Executive Committee and of senior management, PostNL's remuneration policy and the preparation of the discussion of the remuneration policy at the 2017 AGM. Further details on remuneration for the Board of Management and the Supervisory Board can be found in chapter fourteen, Remuneration report, which includes a further explanation of the remuneration policy and the actual remuneration and relationship between remuneration and performance of members of the Board of Management for 2017.

Evaluation of the Supervisory Board

The Supervisory Board is responsible for the quality of its own performance. As such, the Supervisory Board discusses its functioning and that of its committees and members annually. The regular evaluation process consists of interviews by the chairman of all Supervisory Board members, the members of the Board of Management and the corporate secretary on the basis of a questionnaire (profile, rotation plan, dynamics, accountability, effectiveness of the Supervisory Board as a whole and of its committees) combined with a plenary discussion in the December meeting of the Supervisory Board. The same applies to the functioning of the Board of Management and its individual members.

Overall, the Supervisory Board is satisfied with its functioning and that of its committees. It is positive about the professionalism and quality of the management reports and the information provided by the Board of Management. Discussions are conducted in a way that ensures open communication, meaningful participation allowing for civil disagreement and critical thinking. There is also room for improvement, for example to take more time for reflection on business developments and strategy (rather than discussing only the contents of the meeting documents). It also decided to bring down the number of members of the Audit Committee. All members of the Supervisory Board have demonstrated that they have enough time to fulfil their duties as members of the Supervisory Board in an adequate manner.

12 Corporate governance

PostNL N.V. is a limited liability company listed on Euronext Amsterdam and governed by Dutch corporate law. PostNL has a two-tier governance structure with a Board of Management entrusted with executive management under the supervision of an independent Supervisory Board. Each Board is accountable to the general meeting of shareholders for the performance of its duties. PostNL is a so-called large company (structuurvennootschap). The large company regime provides for a legal framework, which determines the corporate management structure as well as the powers and duties of the Boards.

Board of Management

The Board of Management and its duties

The Board of Management manages PostNL. It is collectively responsible for setting and implementing our mission, vision, strategy, objectives and culture, the risk profile laid down in our strategy, the company's financing, the corporate responsibility (CR) policy, external communication and compliance with all relevant legislation. It is also responsible for the continuity and management of the company as a whole and for all decisions taken in this respect.

The Board of Management acts in accordance with the interests of the company and looks after long-term value creation of the company as a whole. To that end, it considers all relevant interests associated with the company and is committed to managing the company transparently.

The Board of Management performs its activities under the supervision of the Supervisory Board. It informs the Supervisory Board of significant developments and discusses inter alia the risk management, internal control, integrity and compliance systems with the Supervisory Board and its Audit Committee.

PostNL's Supervisory Board evaluates the functioning of the Board of Management and that of its individual members annually. It discusses the conclusions following such evaluation, also in light of the succession of the members of the Board of Management. Furthermore, the Board of Management itself evaluates its own functioning and that of its individual members.

Specific staff departments – internal audit, legal, tax, procurement & services, human resources, investor relations & treasury, public affairs, communication, finance – support the Board of Management and the business segments in the performance of their duties and ensure compliance with applicable laws and regulations.

The Board of Management incorporated the following bodies to ensure compliance with applicable corporate governance requirements: A Disclosure Committee, an Integrity Committee and a Corporate Responsibility Council (CR Council). More information on CR can be found in the CR Performance Statements.

The Disclosure Committee advises and assists the Board of Management in ensuring compliance with regulations relating to the publication of price-sensitive information. The Disclosure Committee is composed of the CFO, legal director, investor relations & treasury director, communications director, and the corporate secretary. The Disclosure Committee reports directly to the Board of Management. The terms of reference of the Disclosure Committee can be found on our website.

The Integrity Committee advises and assists the Board of Management in developing, implementing and monitoring Group policies aimed at enhancing integrity and ethical behaviour and at preventing irregularities, misconduct and fraud. The Integrity Committee oversees investigations based on reports of possible breaches under our Business Principles and related policies. More information on integrity and the Integrity Committee can be found in chapter thirteen, Risk Management.

The CR Council advises and assists the Board of Management in developing and deploying the CR strategy and integrating it into daily operations and it provides guidance on CR issues, risks and opportunities. Additionally, the CR Council advises the Board of Management on the company's CR targets and oversees the implementation and execution thereof in the daily operations. The CR Council meets regularly and reports directly to the Board of Management and the Executive Committee. Both business and staff are represented in the CR Council. The CR Council is chaired by Mr A.G. Rodenboog, a former Executive Committee member, and current advisor to the Board of Management.

Members of the Board of Management are appointed and can be suspended or dismissed by the Supervisory Board. A decision by the Supervisory Board to dismiss a member of the Board of Management can only be taken after the General Meeting of Shareholders has been consulted on the intended dismissal.

Further details on the appointment and dismissal of members of the Board of Management can be found in our articles of association, which are available on our website.

The by-laws of the Board of Management can be found on our website.

The Executive Committee and its duties

PostNL has an Executive Committee, which has been installed to advise and support the Board of Management in its duties and responsibilities. The Executive Committee assists the Board of Management in achieving the Company's business objectives and implementing the strategic goals, and provides support and expertise in pursuit of the Company's strategic goals. The Executive Committee is also responsible for managing PostNL's senior leadership talent and to manage talent consistently at all business segments of PostNL.

In the performance of its responsibilities, the Executive Committee shall act in accordance with the interests of PostNL and the business connected with it, taking into consideration the interests of PostNL's stakeholders. The members of the Executive Committee have regular contact with the Supervisory Board, both formally (in meetings of the Supervisory Board) and informally (at the initiative of a member of the Executive Committee or of a member of the Supervisory Board). The CEO acts as the first contact between the Executive Committee and the Supervisory Board and its Chairman.

The Executive Committee consists of the members of the Board of Management and the directors of the PostNL businesses (Mail in the Netherlands, Parcels and Logistic solutions, International and Growth), Customer Excellence, HR and IT.

The responsibility for day-to-day management of the PostNL business segments is decentralised within established standards, processes, requirements and guidelines. Each Executive Committee member bears responsibility for the operations and management in his or her business segment or staff function, in line with PostNL's policies, values and principles and compliance standards.

The Board of Management reviews and assesses the performance of the Executive Committee, as well as the effectiveness of the governance structure of the Executive Committee, at least once a year. In doing so, the Board of Management shall take account of the checks and balances that are part of PostNL's two-tier system, such as whether the Supervisory Board is informed adequately.

With the exception of the members of the Board of Management, Executive Committee members are appointed, suspended and dismissed by the Board of Management.

The by-laws of the Executive Committee can be found on our website.

Composition Board of Management and Executive Committee

At year-end 2017, the Board of Management consisted of two members: the chairman and chief executive officer (CEO) Ms H.W.P.M.A. Verhagen and the chief financial officer (CFO) Mr J.P.P. Bos. On 29 November 2017, it was announced that Mr Bos will step down as CFO of PostNL sometime after the 2018 Annual General Meeting of Shareholders. The exact date will depend on the appointment date of the new CFO to facilitate a smooth transition. Mr Bos will remain available for PostNL until at least that time.

To facilitate the acceleration of its transformation and to ensure that the composition of the Executive Committee is more closely aligned with PostNL's changing profile towards that of a logistics e-commerce company, PostNL changed the composition of its Executive Committee effective 1 July 2017. Both members of the Board of Management remained members of the Executive Committee, as did the directors of HR, IT, International and Growth, and Parcels and Logistic solutions. New was the introduction of one director who is responsible for Mail in the Netherlands (previously a shared position) and a director for the newly created division Customer Excellence. Furthermore, Ms Kaashoek, Ms Becker and Mr Van Ierland were appointed as EC-members for Parcels and Logistic solutions, Mail in the Netherlands and HR, respectively.

At year-end 2017, the Executive Committee consisted of eight members:

- Herna Verhagen (CEO and chairman)
- Jan Bos (CFO)
- Resi Becker, responsible for Mail in the Netherlands
- Pim Berendsen, responsible for International, Growth and M&A
- Arno van Bijnen, responsible for Customer Excellence
- Bob van Ierland, responsible for HR
- Liesbeth Kaashoek, responsible for Parcels and Logistic solutions
- Marcel Krom, responsible for IT.

Biographies Board of Management

H.W.P.M.A. (Herna) Verhagen (1966, Dutch, female) – Chief Executive Officer

Ms Verhagen became chief executive officer on 24 April 2012. She was appointed member of the Board of Management per 31 May 2011 and reappointed per 14 April 2015 for a period of four years. Ms Verhagen started working for one of the legal predecessors of PostNL in 1991 as sales manager. Subsequent roles included marketing & sales director, coordinating managing director Mail NL in the Mail division and managing director Group HR of TNT.

Ms Verhagen is responsible for Mail in the Netherlands, Parcels and Logistic solutions, International and Growth and Customer Excellence. Furthermore, her portfolio includes corporate strategy, public affairs, communication, corporate responsibility, human resources, IT and internal audit.

Ms Verhagen is a member of the Supervisory Boards of Rexel S.A. (France), Idorsia Ltd. (Switzerland) and the Concertgebouw (Amsterdam concert hall). She is a member of the Executive Committee of the Confederation of Netherlands Industry and Employers (VNO-NCW).

Ms Verhagen holds no position in a Supervisory Board of a legal entity as referred to in article 2:132a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

J.P.P. (Jan) Bos (1965, Dutch, male) – Chief Financial Officer

Mr Bos was appointed chief financial officer and member of the Board of Management per 31 May 2011 and reappointed per 14 April 2015 for a period of four years. Mr Bos joined the Mail division of one of the legal predecessors of PostNL as controller of its international segment in 1993. He became director finance & control of the Mail division in 2007. Mr Bos is responsible for finance, legal, procurement & services, investor relations & treasury, and tax.

Mr Bos is a member of the supervisory authority of the University Medical Centre Groningen.

Mr Bos holds no positions as referred to in article 2:132a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

Supervisory Board

The Supervisory Board and its duties

The Supervisory Board is charged with supervising the Board of Management and the general course of affairs of PostNL, as well as assisting the Board of Management with advice. The Supervisory Board evaluates the main organisational structure and the risk management, internal control, integrity and compliance systems established by the Board of Management, as well as the general and financial risks.

In performing its duties, the Supervisory Board acts in accordance with the interests of PostNL and considers the relevant interests of the company's stakeholders. The responsibility for proper performance of its duties is vested in the Supervisory Board as a whole. Members of the Supervisory Board perform their duties without mandate and independent of any particular interest in the company's business. Members of the Supervisory Board may take views that differ from those of the Board of Management. PostNL's Supervisory Board is responsible for the quality of its own performance, which is reviewed annually.

The Supervisory Board performs an oversight role with respect to corporate responsibility issues supported by PostNL's internal audit function and the company's external auditors who monitor the CR governance structure and reporting.

The Board of Management provides the Supervisory Board with the information necessary for the proper performance of its duties in a timely manner. In addition, the Board of Management is required to provide the means to allow the Supervisory Board and its individual members to obtain all information necessary to be able to function as the supervisory body of PostNL. The Board of Management seeks full transparency in its communication with the Supervisory Board.

The by-laws of the Supervisory Board can be found on our website.

Composition of the Supervisory Board

At the Annual General Meeting of Shareholders held on 18 April 2017, the shareholders appointed Mr Blok as member of the Supervisory Board for a period of four years. Also, Ms Jongerius and Mr Engel were reappointed for a period of four years. In May 2017, Mr Boersma stepped down as chairman and member of the Supervisory Board for personal reasons. Mr Wallage took over his position as chairman and Mr Blok was appointed vice chairman.

At year-end 2017, the Supervisory Board consisted of six members: the chairman of the Supervisory Board Mr J. Wallage (also chairman of the Nomination Committee); Mr Blok (vice chairman of the Supervisory Board); Ms Menssen (chairman of the Audit Committee); Ms Jongerius; Mr Engel (chairman of the Remuneration Committee); and Mr Rövekamp.

On 8 December 2017, PostNL announced that the Supervisory Board intends nominating Mr Nooitgedagt as member of the Supervisory Board for a period of four years. His nomination will be scheduled for approval by the shareholders of PostNL at the Annual General Meeting of Shareholders to be held in April 2018. Until that time, Mr Nooitgedagt will attend the meetings of the Supervisory Board as an observer.

At the Annual General Meeting of Shareholders in April 2018, Mr Wallage will be available for reappointment for a period of two years as member of the Supervisory Board.

The following table provides an overview of the composition of the Supervisory Board committees per year-end 2017.

PostNL
Composition of Supervisory Board committees
2017

Committee	Audit	Remuneration	Nomination
Chair	Thessa Menssen	Marc Engel	Jacques Wallage
Member	Eelco Blok	Eelco Blok	Agnes Jongerius
Member	Marc Engel	Jacques Wallage	Thessa Menssen
Member	Agnes Jongerius		Frank Rövekamp
Member	Frank Rövekamp		

Members of the Supervisory Board are appointed by the General Meeting of Shareholders following nomination by the

Supervisory Board. The General Meeting of Shareholders can dismiss the Supervisory Board in its entirety by an absolute majority of the votes cast representing at least one-third of the issued share capital. According to the by-laws and the profile of the Supervisory Board, a person may be appointed to the Supervisory Board for a maximum period of four years and may then be reappointed once for another four-year period. The Supervisory Board member may subsequently be reappointed again for a period of two years, and this appointment may be extended by at most two years. PostNL's articles of association provide that members of the Supervisory Board shall resign periodically in accordance with a rotation plan drawn up by the Supervisory Board in order to limit the number of simultaneous appointments or reappointments. The rotation plan is available on our website. Further details on the appointment and dismissal of members of the Supervisory Board can be found in our articles of association.

Pursuant to our articles of association, the Supervisory Board has at least three members. Taking this requirement into account, the Supervisory Board decides on the number of its members. At the date of this report, the Supervisory Board consists of six members. The Supervisory Board prepared a profile of its size and composition, taking into account the nature of PostNL's business and activities and the desired expertise, competences, diversity and background of the members of the Supervisory Board. The Supervisory Board also adopted a diversity policy for PostNL addressing the composition of the Supervisory Board, Board of Management and Executive Committee. This policy can be found on our website. The Supervisory Board ensures that its composition meets the required profile and is as independent and diverse as possible, assuring sufficient knowledge of mail and communication, logistics, corporate responsibility, management, public affairs, IT, finance, corporate governance and the capital markets. A Supervisory Board member must be capable of assessing the broad outline of the company's overall policy and should have the specific expertise required to fulfil the duties assigned to his or her designated role within the framework of the profile. Each member should have sufficient time available for the proper performance of his or her duties.

The Supervisory Board evaluates its profile regularly and discusses the profile at the Annual General Meeting of Shareholders and with PostNL's central works council when it amends the profile. The profile of the Supervisory Board is available on our website.

Chairman

The chairman of the Supervisory Board determines the agenda and presides over meetings of the Supervisory Board. The chairman is responsible for the proper functioning of the Supervisory Board and its committees. In addition, the chairman arranges an introduction and training programme for new members of the Supervisory Board and initiates the evaluation of the performance of the members of the Supervisory Board and the Board of Management. The chairman of the Supervisory Board may not be a former member of PostNL's Board of Management.

Committees of the Supervisory Board

PostNL's Supervisory Board has an Audit Committee, Nomination Committee and Remuneration Committee. The committees have an advisory role based on a mandate from the Supervisory Board. Only the Supervisory Board has decision-making power. Each committee reports its deliberations, findings and recommendations after each meeting to the full Supervisory Board. The committees operate pursuant to terms of reference set by the Supervisory Board in accordance with the law and the Code. The terms of reference are available on our website.

Audit Committee

The Audit Committee assists and advises the Supervisory Board and prepares the decision-making of the Supervisory Board on the monitoring of the integrity and quality of the financial reporting by the Company and on the effectiveness of the internal risk management and control systems of the Company. The Audit Committee focuses inter alia on the supervision of the Board of Management concerning (i) the integrity of the company's financial and corporate responsibility reporting (including but not limited to the choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the financial statements and forecasts), (ii) the external auditor's qualifications and independence, remuneration and non-audit services for the company, (iii) the relationship with the external auditor and the compliance by PostNL with the recommendations from the external auditor and the internal audit function, (iv) the company's financing, (v) the company's tax policy, (vi) the application of information and communication technology by the company, including the risks related to cyber security, and (vii) compliance with relevant legislation and codes of conduct.

The Audit Committee consists of at least three members. All members of the Audit Committee are members of the Supervisory Board who are independent within the meaning of the by-laws of the Supervisory Board and the applicable corporate governance rules. A member of the Audit Committee shall not simultaneously serve on the Audit Committee of more than two other companies unless the Supervisory Board determines that this simultaneous service would not impair the ability of such a member to serve effectively on the Audit Committee.

Each member of the Audit Committee must be financially literate and at least one member of the Audit Committee shall be a financial expert, with relevant knowledge and expertise of financial administration and accounting for listed companies or other large companies.

Nomination Committee

The Nomination Committee assists the Supervisory Board on matters relating to the appointment procedures for members of the Supervisory Board and the Board of Management and procedures to secure adequate succession of members of the Board of Management and the assessment of such candidates, and with assessing the size and composition of the Supervisory Board and the Board of Management. The Nomination Committee prepares proposals for nominations, appointments and reappointments. At least once a year, the size and composition of the Supervisory Board and the Board of Management and the functioning of the individual members are assessed by the Nomination Committee and discussed by the Supervisory Board.

The Nomination Committee consists of at least three members, including the chairman (or vice chairman) of the Supervisory Board. All members of the Nomination Committee are members of the Supervisory Board and are independent within the meaning of the by-laws of the Supervisory Board and the applicable corporate governance rules.

Remuneration Committee

The Remuneration Committee proposes a clear and understandable remuneration policy to be pursued and the remuneration of the individual members of the Board of Management, which proposal shall be prepared in accordance with the remuneration policy, proposes common targets for members of the Board of Management for the three coming years, prepares the remuneration report, reviews the granting of company shares or options for company shares to other senior management of the company pursuant to its share plans, and prepares a clear and understandable proposal for the remuneration of Supervisory Board members for submission to the General Meeting of Shareholders.

The Remuneration Committee consists of at least three members. The chairman of the Remuneration Committee shall not simultaneously be the chairman of the Supervisory Board. All members of the Remuneration Committee are members of the Supervisory Board and are independent within the meaning of the by-laws of the Supervisory Board and the applicable corporate governance rules.

Information by external parties

The Supervisory Board and its committees may hire independent advisors as it deems appropriate. There is an agreed procedure for members of the Supervisory Board to obtain independent professional advice paid for by the company, if so required.

Biographies Supervisory Board

All members of the Supervisory Board are Dutch and independent within the meaning of provision 2.1.7 of the Code. Their ages range from 50 to 71. The majority of the members possess a university or equivalent degree. Fields of expertise and experience range from administration/public administration and general management to experience in labour issues or a commercial background.

J. (Jacques) Wallage (1946, Dutch, male) – Chairman Supervisory Board

Mr Wallage was appointed member of the Supervisory Board on 8 April 2010 and chairman of the Supervisory Board in 2017. His current term expires in 2018. Mr Wallage is co-chairman of the Consultative Body Infrastructure and Environment. He is an honorary professor at the University of Groningen, the Netherlands (transition in public administration).

He was a member of the Dutch Second Chamber of Parliament and served as a state secretary for Education and Sciences and as a state secretary for Social Affairs and Employment. He was mayor of the city of Groningen from 1998 until 2009.

Mr Wallage holds two positions as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

E. (Eelco) Blok (1957, Dutch, male) – Vice chairman Supervisory Board

Mr Blok was appointed member of the Supervisory Board on 18 April 2017. His current term expires in 2021.

Mr Blok is CEO and chairman of the management board of KPN. Before joining KPN’s management board, Mr. Blok held various positions within KPN (and its legal predecessors).

Mr Blok holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

J.W.M. (Marc) Engel (1966, Dutch, male)

Mr Engel was appointed member of the Supervisory Board on 16 April 2013. His current term expires in 2021. He is Chief Supply Chain Officer and member of Unilever Leadership Executive, London.

Since 1995, he has held several positions within the Unilever group. Before that, he worked at Shell International.

Mr Engel holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

A.M. (Agnes) Jongerius (1960, Dutch, female)

Ms Jongerius was appointed member of the Supervisory Board on 16 April 2013. Her current term expires in 2021. She is a member of the European Parliament.

She was president of the Dutch Trade Union Confederation (FNV), a member of the Social and Economic Council (SER) and workers' chair of the Labour Foundation.

Ms Jongerius holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

T. (Thessa) Menssen (1967, Dutch, female)
Ms Menssen was appointed member of the Supervisory Board on 25 May 2011. Her current term expires in 2019. She is chief financial officer and member of the Executive Board of Royal BAM Group. She is a member of the Supervisory Board of the Dutch Development Bank (FMO) and the Rotterdam Philharmonic Orchestra.

Ms Menssen was chief operating officer of the Port Authority of Rotterdam.

Ms Menssen holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

F.H. (Frank) Rövekamp (1955, Dutch, male)
Mr Rövekamp was appointed member of the Supervisory Board on 24 April 2012. His current term expires in 2020. He is chairman of the Supervisory Boards of Vodafone Germany GmbH and Vereniging Vluchtelingenwerk Nederland, non-executive member of the Board of UNIT4, and a member of the Boards of Royal Theatre Carré and Kasteel de Haar.

He was a member of the Executive Committee and group Chief Commercial Officer of Vodafone Group, president and CEO of Beyoo and senior vice president (marketing and revenue management) of KLM Royal Dutch Airlines.

Mr Rövekamp holds one position as referred to in article 2:142a of the Dutch Civil Code. This article is described as "number of supervisory positions" in Appendix 3: Glossary and definitions.

Conflict of interest

Each member of the Board of Management and the Supervisory Board must immediately report and provide all relevant information to the chairman of the Supervisory Board about any conflict of interest or potential conflict of interest, material or not to the company and/or to the relevant member. A member of the Board of Management also informs the other members of the Board of Management (as applicable).

If the chairman of the Supervisory Board has a conflict of interest or potential conflict of interest that is material to the company and/or to him, he is required to report this immediately to the vice chairman of the Supervisory Board and to provide all relevant information. In all situations, this includes information concerning a spouse, registered partner or other life companion, (foster) child or other relatives by blood or marriage up to the second degree.

The Supervisory Board is responsible for deciding how to resolve a conflict of interest between members of the Board of Management, members of the Supervisory Board and/or the external auditor on the one hand and the company on the other.

In the event of a conflict of interest between PostNL and a member of the Board of Management, the company will be represented by another member of the Board of Management or a member of the Supervisory Board appointed by the Supervisory Board for this purpose.

A decision to enter into a transaction involving a conflict of interest with a member of the Board of Management or the Supervisory Board, material or not, to the company or to the relevant member requires the approval of the Supervisory Board. No such transactions were entered into in 2017, so best practice provisions 2.7.3 and 2.7.4 of the Code did not apply.

The by-laws of the Board of Management and the Supervisory Board also include a provision that a member of the Board of Management or the Supervisory Board does not participate in any discussion or decision-making that involves a subject or transaction in relation to which the member has a conflict of interest with the company. In 2017, there were no cases whereby conflict of interest occurred.

Insider trading – share ownership

Members of the Supervisory Board, the Board of Management and PostNL's senior management are subject to the PostNL Group Policy on Prevention of Insider Trading, which sets rules to prevent insider trading in our financial instruments and in securities other than PostNL's financial instruments.

Share ownership is not mandatory for members of the Board of Management and Supervisory Board.

The table below lists the total number of PostNL shares held by each member of the Board of Management, including shares vested under PostNL's performance share plan and variable remuneration. The table does not state the unvested shares which have been allocated to such members under PostNL's performance share plan. None of the Supervisory Board members holds any PostNL shares at the date of this annual report.

PostNL
Shares held by Board of Management/Supervisory Board
2016-2017, number of shares

	31 Dec 2016	31 Dec 2017
Board of Management		
Herna Verhagen	190,217	220,417
Jan Bos	151,085	174,036

This table does not include any granted rights on shares allocated to the members of the Board of Management under PostNL's participation in the variable compensation scheme. See note 5.1 to the consolidated financial statements and the chapter Remuneration report under actual remuneration in 2017. The information in this table is publicly available at www.afm.nl.

Diversity

As described elsewhere in this Annual Report, PostNL believes in the strength of diversity and inclusion. We respect and value differences between people, as they make our organisation stronger, more innovative and more appealing. This also translates into our aim for diversity in the composition of the Executive Committee, Board of Management and Supervisory Board. The Supervisory Board seeks to promote diversity among the members of the Executive Committee, Board of Management and Supervisory Board with regard to age, sex, level of expertise and experience, and nationality. We aim to create a balance, to the extent possible, in which the diversity referred to above is expressed and where the objective is to comply, at the very least, with the statutory requirements.

Pursuant to the Dutch Civil Code, at least 30% of the seats on PostNL's Board of Management and Supervisory Board should be filled by men and at least 30% by women, in order to qualify as balanced. PostNL's Executive Committee has eight members, of which three are female, i.e. 37.5% of the seats filled by women. The Board of Management has one female and one male member, i.e. 50% of the seats filled by women. The Supervisory Board has six members, of which two are women, i.e. 33% of the seats filled by women. Consequently, the Supervisory Board, the Board of Management and the Executive Committee have a balanced representation of men and women. Additionally, the composition of the Supervisory Board, the Board of Management and the Executive Committee is in line with PostNL's diversity policy.

As follows from PostNL's diversity policy and the profile of the Supervisory Board, (gender) diversity is taken into account when selecting candidates in case of a vacancy in the Executive Committee, Board of Management and Supervisory Board. Ultimately, the capacities of the selected candidates are assessed irrespective of the candidate's gender and the most qualified candidates will be nominated for appointment. In accordance with this process, the Supervisory Board intends nominating Mr Nooitgedagt as member of the Supervisory Board. His nomination will be scheduled for approval by the shareholders of PostNL at the Annual General Meeting of Shareholders to be held in April 2018.

In 2017, Ms Jongerius and Mr Engel were up for reappointment as member of the Supervisory Board and Mr Blok was nominated for appointment as member of the Supervisory Board. Ms Becker, Ms Kaashoek and Mr Van Ierland were appointed to the Executive Committee. The Board of Management remained unchanged in 2017.

Corporate secretary

The Executive Committee, Board of Management and Supervisory Board are assisted by PostNL's corporate secretary. All members of the Executive Committee, Board of Management and Supervisory Board have access to the advice and services of the corporate secretary, who is responsible for ensuring that the Executive Committee, Board of Management and Supervisory Board procedures are followed and that each of these bodies acts in accordance with the law, the articles of association and the relevant by-laws.

Shareholders and their rights

General meeting of shareholders

PostNL is required to hold an Annual General Meeting of Shareholders within six months of the end of the financial year. The agenda for this meeting includes the adoption of the financial statements, a proposal on dividend and the release from liability of the members of the Board of Management and the Supervisory Board for the performance of their respective duties during the financial year. This release only covers liability for matters reflected in the relevant financial statements or otherwise disclosed to the General Meeting of Shareholders prior to the adoption of the relevant financial statements.

General Meetings of Shareholders are held as often as the Board of Management or the Supervisory Board deem necessary, and shall be convened in case of a decision entailing a significant change in the identity or character of PostNL or its business.

Furthermore, the Supervisory Board and the Board of Management are in principle required to convene a shareholders meeting in case one or more shareholders representing at least 10% of PostNL's issued share capital so request in writing, stating the proposed agenda in detail.

General Meetings of Shareholders may be held in Amsterdam, The Hague, Hoofddorp or in the municipality of Haarlemmermeer (Schiphol).

One or more shareholders representing at least 1% of PostNL's issued share capital are entitled to request that the Board of Management or the Supervisory Board place items on the agenda of a General Meeting of Shareholders. Such a request must be honoured by the Board of Management or the Supervisory Board, provided that the request is received in writing at least 60 days before the date of such a meeting. In the event a request is made by one or more shareholders to either convene a meeting or to place an item on the agenda of a General Meeting of Shareholders that may result in a change of the company's strategy, the Board of Management is entitled to a reasonable period in which to respond, which shall not exceed 180 days.

The Central Works Council of PostNL has the right to form an opinion on proposals to determine or modify the policy on the remuneration of the Board of Management, proposals that entail a significant change in the identity or character of the company or its business and proposals to appoint a member of the Supervisory Board. The Central Works Council has the right to explain its position during the General Meeting of Shareholders.

General Meetings of Shareholders are convened at least 42 days in advance by a notice published on the company's website.

Each shareholder is entitled to attend a General Meeting of Shareholders, either in person or by written or electronic proxy, to address the meeting and to exercise voting rights, subject to the provisions of PostNL's articles of association. An eligible shareholder has the aforementioned rights if registered as a shareholder on the applicable record date to the extent described by Dutch law.

Each PostNL share carries the right to cast one vote. Unless Dutch law or PostNL's articles of association stipulate otherwise, resolutions are passed by a simple majority of votes cast by the shareholders present or represented at the meeting. Pursuant to PostNL's articles of association, there are no limitations to the rights of Dutch, non-resident or foreign shareholders to hold or exercise voting rights in respect of PostNL's securities.

General meeting of shareholders 2017

On 18 April 2017, PostNL held its Annual General Meeting of Shareholders in The Hague, the Netherlands. The attendance rate was 51.11% of the total outstanding share capital.

At the Annual General Meeting of Shareholders, the following resolutions were adopted:

- The adoption of the 2016 financial statements,
- The appropriation of profit over the financial year 2016,
- The release of the Board of Management and Supervisory Board from liability for the performance of their respective duties during the financial year 2016,
- The appointment of Mr Blok and the reappointment of Ms Jongerius and Mr Engel as members of the Supervisory Board,
- Extension of the mandate granted to the Board of Management to issue ordinary shares until 18 October 2018 (limited to 10% of the issued capital at the time of issue and an additional 10% of the issued capital at the time of issue in case of a merger or an acquisition), and
- Extension of the mandate granted to the Board of Management to limit or exclude pre-emptive rights to issue ordinary shares until 18 October 2018 (limited to 10% of the issued capital at the time of issue and an additional 10% of the issued capital at the time of issue in case of a merger or an acquisition).

With respect to the last two bullets, see also the section Articles of association, share acquisition, reduction and increase of issued share capital below.

The agenda, resolutions and voting results for each resolution, the presentations given during the meeting and a webcast of the meeting are available on our website in Dutch and English. Minutes of the meeting are only available in Dutch.

Liquidation rights

In the event of PostNL's dissolution and liquidation, the assets remaining after payment of all debts and liquidation expenses are to be distributed in the following order of preference: firstly, to the holders of all outstanding preference shares B (if any), the nominal amount paid up on these shares plus accumulated dividends for preceding years that have not yet been paid; and secondly, to holders of ordinary shares in proportion to their shareholdings.

Changes to the rights of shareholders

Rights of shareholders may change by way of an amendment to the articles of association, a statutory merger or demerger within the meaning of book 2 of the Dutch Civil Code, or dissolution of the company. A resolution of the General Meeting of Shareholders is required to effect these changes. Under PostNL's articles of association, such a resolution may only be adopted upon a proposal by the Board of Management that has been approved by the Supervisory Board.

Major shareholders

To PostNL's knowledge, it is not directly or indirectly owned or controlled by another company or by any government. PostNL does not know of any arrangements of which the operation might, at a subsequent date, result in a change of control, except as described under 'Foundation Continuity PostNL and preference shares B' below.

The Financial Markets Supervision Act (Wet op het financieel toezicht) imposes a duty to disclose percentage holdings in the capital and/or underlying financial instruments and/or voting rights in the company when such holding reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Such a disclosure must be made to the Dutch Financial Markets Authority (AFM) without delay. The AFM then notifies the company.

Articles of association, share acquisition, reduction and increase of issued share capital

Amendment of the articles of association

The company's articles of association can be amended upon a proposal by the Board of Management, approved by the Supervisory Board and adopted by the General Meeting of Shareholders. A proposal to amend the articles of association must be stated in a notice convening a General Meeting of Shareholders and announced in such a manner as permitted by law at the time. The proposal shall be passed upon an absolute majority of the votes cast in the General Meeting of Shareholders. PostNL's articles of association are available on our website.

Ability of the company to acquire its own shares

Under its articles of association, PostNL may acquire its own shares, provided that they are fully paid up. If such shares are acquired for consideration, the following conditions apply:

- PostNL's shareholders' equity less the purchase price may not fall below the sum of the paid-up capital and any reserves required to be maintained by Dutch law or pursuant to the articles of association;
- Following the share acquisition, PostNL may not hold shares with an aggregate nominal value exceeding half of its issued share capital.

The Board of Management is authorised to decide to acquire PostNL shares. Such a resolution requires the approval of the Supervisory Board. In addition, the Board of Management requires prior authorisation by the General Meeting of Shareholders. This authorisation may be valid for a period not exceeding 18 months and must specify:

- The number of shares that may be acquired;
- The manner in which shares may be acquired; and
- The price limits within which shares may be acquired.

Authorisation by the General Meeting of Shareholders is not required if the PostNL shares are acquired for the purpose of transferring those shares to PostNL employees pursuant to any arrangements applicable to such employees.

Reduction of issued share capital in general

The issued share capital may be reduced by the cancellation of shares following a repurchase. PostNL's issued share capital may also be reduced if the nominal value of its shares is reduced by amendment of PostNL's articles of association. The resolution to reduce PostNL's issued share capital requires the approval of the General Meeting of Shareholders. Pursuant to PostNL's articles of association, such a resolution may be adopted pursuant to a proposal of the Board of Management that has been approved by the Supervisory Board. The latter requirement is more stringent than Dutch law.

Increase of issued share capital by issuance of shares/pre-emptive rights

PostNL's Board of Management has been designated as the body authorised to resolve on the issuance of shares and to grant rights to subscribe for shares, including options and warrants. Such a resolution is subject to the approval of the Supervisory Board. The scope and duration of this authority of the Board of Management are determined by the General Meeting of Shareholders. The Board of Management cannot be authorised to issue more shares than the number of authorised shares that have not been issued (i.e. the number of authorised shares minus the number of issued shares). The authority may not be granted for a period longer than five years.

The term of designation of the Board of Management as the body authorised to resolve on the issuance of shares may also be extended by amendment of PostNL's articles of association. If no extension is given, the issue of shares or granting of rights to subscribe for shares requires a resolution of the General Meeting of Shareholders. Such a resolution may only be adopted pursuant to a proposal by the Board of Management that has been approved by the Supervisory Board.

In principle, each holder of ordinary shares has a pre-emptive right in case of any issue of ordinary shares or the granting of rights to subscribe for these shares. Registered holders of American Depositary Shares (ADS) and holders holding their ADS through a broker or a nominee evidenced by American Depositary Receipts do not qualify as holders of ordinary shares in this respect.

Pursuant to PostNL's articles of association, shareholders' pre-emptive rights may be restricted or excluded by a resolution of the Board of Management, provided and as long as the Board of Management has been designated as the body authorised to resolve on the issuance of shares. Such a resolution is subject to the approval of the Supervisory Board. Pursuant to PostNL's articles of association, the provisions relating to the scope and duration of the authority to issue shares and grant rights to subscribe for ordinary shares are also applicable to the scope and duration of the authority to exclude or restrict pre-emptive rights.

Dividend

The Board of Management may determine, subject to approval by the Supervisory Board, that any dividend on ordinary shares will be paid wholly or partly in PostNL ordinary shares instead of cash, or that any dividend will be paid by giving shareholders the option to choose between PostNL ordinary shares or cash (optional dividends).

If and when dividends are declared, PostNL pays dividends out of its profits, or by exception out of the distributable part of its shareholders' equity as shown in PostNL's financial statements. PostNL is not allowed to pay dividends if the payment would reduce shareholders' equity below the sum of the paid-up capital and any reserves required by Dutch law or the company's articles of association.

The Board of Management may, subject to approval by the Supervisory Board and to provisions of Dutch law, distribute interim dividend.

No dividend shall be paid on shares held by PostNL. Such shares shall not be included for the calculation of the profit distribution, unless the Board of Management resolves otherwise. Such a resolution is subject to the approval of the Supervisory Board.

Under PostNL's articles of association, if preference shares B have been issued, PostNL must pay dividends on the paid-up portion of the nominal value of the preference shares B. Payment is made at a rate of the average 12-month EURIBOR (Euro Interbank Offered Rate), weighted to reflect the number of days for which the payment is made, plus a premium to be determined by the Board of Management, subject to approval by the Supervisory Board, of at least one percentage point and at most three percentage points.

The Board of Management then determines, subject to the approval of the Supervisory Board, the part of the remaining profits to be appropriated to reserves. The profit that remains after appropriation is at the disposal of the General Meeting of Shareholders.

More information about PostNL's dividend policy can be found in chapter sixteen, PostNL on the capital markets and on our website. Any changes to these guidelines shall be explained in a separate agenda item at the Annual General Meeting of Shareholders.

Foundation Continuity PostNL and preference shares B

Stichting Continuïteit PostNL (Foundation Continuity PostNL) was formed to safeguard PostNL's interests and those of its Group companies and all interested parties. It does this by, among other things, preventing any influences that could threaten PostNL's continuity, independence and identity, as far as possible. Foundation Continuity PostNL is an independent legal entity and is not owned or controlled by PostNL or any other legal person.

PostNL's articles of association provide for protective preference shares B that can be issued to Foundation Continuity PostNL. The preference shares B have a nominal value of €0.08 and have the same voting rights as PostNL's ordinary shares.

PostNL and Foundation Continuity PostNL have entered into a call option agreement, which enables Foundation Continuity PostNL to acquire a number of preference shares B not exceeding the total issued number of shares minus one and minus any shares already issued to Foundation Continuity PostNL. The call option agreement is meant as a preventive measure against influences that might threaten the continuity, independence and identity of the company. Preference shares B will be outstanding no longer than strictly necessary. At date of publication of this Annual Report, there were no preference shares B issued. The exercise price with respect to the call option is the nominal value of €0.08 per preference share B, although upon exercise only €0.02 per preference share B is required to be paid. The additional €0.06 is due when the Board of Management, subject to the approval of the Supervisory Board, requests payment. Foundation Continuity PostNL has credit facilities in place to enable it to pay the exercise price.

Six months after the issuance of preference shares B, Foundation Continuity PostNL may require PostNL to convene a General Meeting of Shareholders to discuss cancellation of these shares. However, if within these six months Foundation Continuity PostNL should receive a demand for repayment under the credit facilities referred to above, it may also require PostNL to convene a General Meeting of Shareholders. In accordance with PostNL's articles of association, a General Meeting of Shareholders must be convened no later than 12 months after the first date of issuance of any preference shares B to Foundation Continuity PostNL. The agenda for that meeting shall include a resolution regarding the repurchase and/or cancellation of the preference shares B.

PostNL has granted Foundation Continuity PostNL the right to file an application for an inquiry into the policy and conduct of PostNL's business with the Enterprise Chamber of the Amsterdam Court of Appeal (Ondernemingskamer). Should such an inquiry be granted, the Enterprise Chamber may impose immediate provisions.

As per 31 December 2017, the members of the Board of Foundation Continuity PostNL were Mr J.H.M. Lindenbergh (chairman), Mr W. van Vonno, and Mr M.P. Nieuwe Weme. All members of the Board of Foundation Continuity PostNL are independent from PostNL. This means that Foundation Continuity PostNL is an independent legal entity as referred to in section 5:71 paragraph 1 sub c of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Shareholder dialogue

PostNL endeavours to stay in regular contact with its shareholders. The CEO, CFO and the investor relations team of PostNL meet with shareholders during roadshows and conduct individual meetings and calls during the year.

Communication takes place with governance institutions representing shareholder groups before the Annual General Meeting of Shareholders and also during the year. PostNL does not have a specific policy to introduce members of the Supervisory Board to PostNL shareholders. The company has a policy on bilateral contacts with the shareholders which is included in the investor relations policy and published on PostNL's website. More information about PostNL's investor relations can be found in chapter sixteen, PostNL on the capital markets.

Furthermore, PostNL organises an annual dialogue with its stakeholders, in addition to the daily, ongoing contacts with customers, regulators, interest groups, et cetera. More information about PostNL's stakeholder dialogue can be found in chapter three, How we create long-term value and the CR Performance Statements.

External auditor

PostNL's external auditor, Ernst & Young Accountants LLP, is appointed by the General Meeting of Shareholders. The lead partner rotates after a maximum period of five years and the key audit partners rotate after a maximum period of seven years. Ms S.D.J. Overbeek - Goeseije has been the lead audit partner since 2017.

The Supervisory Board recommends to the General Meeting of Shareholders the appointment or replacement of the external auditor. In doing so, it considers the Audit Committee's advice regarding the external auditor's nomination for appointment/reappointment or dismissal. The Audit Committee prepares the selection of the external auditor. The Audit Committee reports annually to the Supervisory Board on the functioning of, and relevant developments in the relationship with the external auditor. The Audit Committee gives due consideration to the Board of Management's observations in this respect.

The Audit Committee, supported by the Internal Audit director, is required to pre-approve all services the external auditor provides to ensure these do not impair the auditor's independence from PostNL. The Audit Committee grants a general pre-approval for certain routine services every year. By Dutch law, the external auditor is in principle prohibited to render non-audit services.

Conflicts and potential conflicts of interest between the external auditor and PostNL are settled in accordance with the terms of reference of the Audit Committee and Dutch law. See note 2.1.5 to the consolidated financial statements of PostNL N.V. for the fees paid to Ernst & Young Accountants LLP and the distribution of fees between audit and audit-related services.

The Audit Committee requires a formal written statement from the external auditor confirming its independence.

Internal audit

PostNL's internal audit function provides independent and objective assurance to the Board of Management and the Supervisory Board on the effectiveness of the internal control framework, and performs financial, IT, management systems and operational audits for the various units within the PostNL Group. Audits are scheduled in close cooperation with the business concerned and organised in such a way that the external auditor can use the internal audit activities optimally. Each audit is followed by a formal audit report to the management responsible. Adequate follow-up on audit findings is assured. A summary report of audit-related topics (findings, follow-up, and so on) is issued every quarter to the Board of Management and the Audit Committee. Audit planning, the quality and professionalism of the audit team and the effectiveness and efficiency of the execution of the audits are supervised by the Board of Management and approved by the Audit Committee. The internal audit function reports to the CEO, with open communication to the CFO and the Audit Committee.

13 Risk management

In this chapter we look at how we manage our risks. Additionally, we provide an overview of the main risks to the strategic objectives and how we mitigate each of those risks.

Risk management approach

This section provides an overview of our approach to risk management, internal control, integrity and compliance. It includes the disclosures required by the Code and chapter 5.1a of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Our risk management framework has been designed to identify and prioritise our main risks and develop appropriate responses. This framework is in line with the Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission and the Code.

We have built a comprehensive portfolio of Group policies and controls, ensuring discipline in our business processes. These support the Board of Management in its statutory and fiduciary obligations to stakeholders in developing and achieving its strategic, operational and financial objectives.

The head office functions are responsible for ensuring that the legal and regulatory compliance objectives are achieved and that decision-making is facilitated and supported by transparent, accurate and relevant information. The Board of Management and the Supervisory Board monitor the effectiveness and efficiency of the risk management, internal control, integrity and compliance framework. They are supported by the Internal Audit department.

Understanding strategic, operational, legal & regulatory, and financial risks, including risks relating to corporate responsibility, is a vital element of our management decision-making process. Management reviewed the risk profile regularly throughout 2017 and will continue to do so during 2018. Risks are identified by means of both a bottom-up (line management) and top-down (Board of Management and business segment management) approach, covering the entire business. For those risks deemed material, (the Board of) Management develops and reviews comprehensive risk response plans.

Risk appetite

Risk appetite is the level of residual risk we deem acceptable to achieve our objectives. The risk appetite is set by the Board of Management in close cooperation with the Executive Committee, based upon our strategic goals, our business principles, our policies and procedures, and taking into consideration the highly-regulated markets we operate in. The risk appetite is discussed with the Audit Committee. Overall, PostNL's risk appetite in 2017 did not materially change compared to 2016. Our risk appetite differs per risk type:

Risk appetite	
Strategic risks	We aim to deliver on our strategic ambitions and priorities, and are willing to accept reasonable risks to achieve this.
Operational risks	We face operational challenges which require an appropriate level of management attention. The overall objective is to avoid risks that could negatively impact our aim to achieve operational effectiveness and efficiency, while ensuring our quality standards are unaffected.
Legal and regulatory risks	We strive to be fully compliant with our code of conduct and national and international laws and regulations of the markets in which we operate and do not accept deviations.
Financial risks	Our financial strategy is focused on a strong financial position and creating long-term value for our shareholders. Our aim is to have financial ratios at a level of BBB+ / Baa1 and only accept risks that do not threaten this.

The risks described in this chapter cover the main risks to our strategic objectives as described in the Our strategy chapter. Risk management and internal control is considered a line responsibility. All business segments and head office departments are engaged in this comprehensive risk identification process, which includes:

- Mandatory participation in risk management workshops by relevant management team members
- Assessing risks on the criteria impact, the likelihood of occurrence and the effectiveness of internal controls.

Our risk management and control systems are designed to reduce the likelihood of errors, incorrect decisions and unforeseen circumstances as much as possible. It provides reasonable but not absolute assurance against material misstatement or loss.

However, no risk management or internal control system can provide an absolute safeguard against failure to achieve corporate objectives, fraud or breach of rules and regulations.

Risk mitigation as described below is meant to provide a high-level overview of potential and initiated action items in response to the risks identified, and is not to be interpreted as a comprehensive list of risk responses within PostNL. The risks related to unforeseeable events are very difficult to quantify, and while we organise comprehensive risk mitigation techniques, we are not always able to anticipate the consequences these types of events may have, if any, on our financial performance and position.

Internal control over financial and CR reporting

In 2017, we continued to invest the resources required to document and evaluate the design of internal controls over financial and CR reporting, and continued to test the operational effectiveness of these internal controls. The effectiveness of internal controls is tested by management. Management is required to follow up on risks deemed to be inadequately mitigated by internal controls, which might result from, for example, a major organisational or IT change. This requires additional actions, including performing and evaluating compensating controls and activities, to reduce the risks of a misstatement in the financial and CR reporting.

Ways to further strengthen our control framework are discussed in the Internal Control Committee (ICC). The ICC is composed of the CFO, the director audit & security, the director group finance, and representatives of the risk management & internal control department. The external auditor also attends the ICC meetings. The ICC met five times in 2017.

Risk management and internal control reports are also discussed with the Board of Management and the Audit Committee of the Supervisory Board.

Integrity

We are committed to sound business conduct. We therefore manage our business according to applicable laws and regulations and according to the PostNL Business Principles, which provide guidance on interaction with colleagues, customers, business partners and society in general. A company-wide integrity programme ensures that the Business Principles, which are published on our website, are applied consistently throughout the organisation.

The Integrity Committee advises and assists the Board of Management in developing, implementing and monitoring Group policies and procedures aimed at enhancing integrity and ethical behaviour and preventing fraud, corruption and bribery. The Integrity Committee is composed of the director audit & security, the integrity officer, the corporate security officer, the director legal, the people development manager, the director operations of Parcels and the director staff operations for Mail in the Netherlands.

The Integrity Committee oversees and coordinates investigations based on reports of possible breaches filed under the PostNL Business Principles, the PostNL Group procedure on Whistleblowing and the PostNL Group procedure on Fraud Prevention, Anti-Bribery and Anti-Corruption.

PostNL recognises the need to have detailed fraud prevention and anti-bribery and anti-corruption policies, procedures and reporting mechanisms in place to protect our business integrity and to comply with all applicable laws and regulations. Anti-bribery and anti-corruption legislation, both in our home countries and in the countries we operate in, is very important for PostNL to conduct its business globally. All reported incidents of actual or suspected corruption or bribery will be promptly and thoroughly investigated and dealt with appropriately.

The Integrity Committee advises on the guidelines for disciplinary actions. It also advises the Board of Management and line management on the mitigation of fraud risks and on ethical, anti-bribery and anti-corruption matters. The Integrity Committee reports regularly to the Board of Management and every six months to the Supervisory Board. More information can be found on our website.

The main focus of our integrity approach is to regularly ensure our employees are familiar with the PostNL Business Principles. In 2017 we introduced a new version of the booklet 'Our ways of working', aimed at employees. Additionally, we launched a company-wide e-learning module on integrity, aimed at educating management and employees about our Business Principles, and the desired behaviour based on these principles. The e-learning on integrity is mandatory for management and for office workers, and voluntary for production staff. During 2017, we started with the roll-out in the Netherlands and our aim is to complete the company-wide e-learning in 2018. By the end of the year, 95 percent of management and 63 percent of office workers at PostNL in the Netherlands had completed the e-learning. Additionally, 19 percent of production staff in the Netherlands had completed the e-learning on a voluntary basis. In 2018, we will continue to roll-out the e-learning module on integrity in the Netherlands, with the focus on enhancing the completion rate. In addition, we will start to roll-out the module at non-Dutch Group companies.

In line with the Code, we also performed a baseline assessment connected to the organisational awareness with our Business Principles. The 'employee engagement monitor 2017' addressed employees' familiarity with the PostNL Business Principles, and their perception of how closely we work according to the PostNL Business Principles. We use the outcome of the monitor as input for our integrity approach and activities.

Compliance

PostNL's Group policies and procedures reflect and define the view of the Board of Management and the manner in which we conduct our business.

Performance and compliance are monitored regularly in discussions between the appropriate line management and the Board of Management via compliance reviews, internal audits, through the monitoring duties of PostNL committees and through the internal letter of representation. For the purposes of issuing the letter of representation, all managing directors and finance directors of PostNL's Group entities and company-level management reporting directly to the Board of Management perform a self-assessment of their responsibilities in the risk assessment process, effectiveness of internal controls procedures and financial and CR reporting process. The signed internal letters of representation are the basis for the letter of representation that the Board of Management signs off as part of the audit by the external auditor.

Main risk related events that occurred in 2017

Some of the risks described in our 2016 Annual Report occurred in 2017. We were mainly impacted by ongoing and intensifying substitution and competition and by regulatory measures from the Netherlands Authority for Consumers and Markets (ACM). No unforeseen significant events, which were not included in our risk profile 2016, occurred in 2017.

Ongoing digitisation continues to result in greater substitution, resulting in a significant decrease in mail volumes. The accelerating trend amongst customers and consumers moving to digital alternatives has led to a higher than expected decline in physical addressed mail in 2017.

The Dutch postal market is highly competitive compared to other European countries. We see competition intensifying, not only as a result of substitution but also from other postal operators who are extending their network and services. Recent ACM measures are increasing this competitiveness. Supported by these ACM measures, we see postal operators collecting more mail items. Part of these volumes return to PostNL via regulated network access, resulting in pressure on our average price. At the same time, other postal operators deliver more mail through their own networks, impacting our bulk mail volumes. In addition, in 2017 two postal operators announced that they would merge, which was approved by the ACM.

Within Parcels in the Benelux region, where competition is already strong, we see competition intensifying from both established logistics players and new (last mile) entrants, attracted by growth in the e-commerce market. Performance in our International business segment did not show the expected improvement in 2017, which was due to fierce price competition, declining mail volume in Italy and for Spring, and the implementation of stricter rules on the transportation of dangerous goods.

An overview of the most important legal and regulatory developments in 2017 can be found in the individual business segment chapters. The main risks in relation to legal and regulatory developments in 2017 were:

- In July 2017, the Authority for Consumers & Markets (ACM) published its final market analysis decision, concluding that PostNL is a postal operator with significant market power in the 24-hour bulk mail segment. As a result, we are obliged to grant (regional) postal operators network access in this segment at prices specified by the ACM. PostNL is appealing against the final market analysis decision of the ACM.
- In July 2017, the Dutch Ministry of Economic Affairs published a report concluding that maintaining an affordable, accessible and qualitatively good universal service will become challenging due to the ongoing mail volume decline. The report introduces a few possible options, such as tendering (parts of) the USO or consolidating the last-mile via delivery hubs. It concludes that from 2025 onwards, the postal market will merge into a general delivery market. The new government is following the recommendation of the Ministry of Economic Affairs to look into the possibilities as to whether the USO can be (partially) tendered, and whether this could have some advantages over the current USO model.

On 11 December 2017, we reached final agreements regarding the PostNL CLA and the Saturday mail deliverer CLA. Both apply to the period from 1 April 2017 to 31 December 2018, and include agreements on salary increases.

For our pensions, the 5-year recovery period that started in the third-quarter of 2016 ended in 2017, following three consecutive quarters in which the coverage ratio was above the minimum required level. Based on our projections, we do not anticipate any top-up payments. However, our pensions still retain an element of vulnerability. A materially bad economic climate, combined with lower interest rates, declining pension fund assets and material increases in life expectancy, could still impact cash and equity.

In November 2017, PostNL successfully offered €400 million fixed rate notes, due in 2024, with a fixed interest rate of 1.0 percent. The net proceeds of the offering are being used for general corporate purposes, including redemption of existing debt. As a consequence, this lowers our interest expenses and improves our ratios.

The key risks we face in executing our strategy and business processes are described in the following tables. For each risk, we determine the risk level based on impact and likelihood of occurrence, using a three-point system classifying risks as major, moderate or low. Additionally, for each risk we indicated whether the risk trend is decreasing, increasing or remained stable compared to 2016.

Strategic risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
●●●	**Competition** Competition may put pressure on our market share, volumes and prices, which could have an adverse effect on revenues, cash flow and financial position. We are faced with increased competition across both our mail and parcel businesses. In the mail business, which can generally be characterised as a business with mostly national and regional players, competition is increasing because of the decreasing use of letter mail. In the Netherlands, competition is also increasing because of further regulation supporting competition. In the parcel business, markets are expanding on the back of e-commerce growth, becoming more competitive (internationally, nationally and regionally), and more globalised. In addition to the traditional market players, there are new entrants to the market, including platforms and e-tailers. We may have to lower our prices in specific segments to protect our volume, or may decide to exit certain businesses or markets in the future, which could result in additional costs related to the discontinuation of operations.	↑	Commercial initiatives are in place, such as differentiating service levels, (new) products and adequate pricing, as well as improving our customer satisfaction and quality, based on our comprehensive network coverage, and operational excellence.	
●●●	**Substitution** The ongoing trend amongst consumers moving to digital alternatives is leading to a decline in physical mail. As a result, the volume of mail is decreasing. This decrease in volume requires us to adapt our infrastructure and delivery processes. Substitution or alternatives to our delivery services may reduce revenues, cash flow and financial position. A decline in the addressed mail volume mix of one percent results, on average, in a decrease of approximately €8 million in underlying cash operating income.	↑	We continuously and consistently take commercial initiatives to slow down or adapt to substitution, leading to both the introduction of a range of new services and solutions and the abolishment of existing services and solutions. Furthermore, we develop operational processes to adapt more flexibly to future volume declines. With our focus on overhead cost savings, we aim to reduce the overhead expenses in line with volume decline. More information can be found in the What sets us apart and Mail in the Netherlands business segment chapters.	

Operational risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
●●○	**Information Technology** Information Technology (IT) is vitally important to our business, and we are increasingly dependent on it. Threats to the availability, confidentiality or integrity of our IT networks, systems or (customer) data caused by IT disturbances, cyberattacks or lack of appropriate security and infrastructure measures may damage our ability to provide timely delivery, or result in loss/theft of customer data, higher costs, penalties and damage to our reputation.	↑	We continuously enhance our technical capacity to keep pace with evolving threats to avoid process disturbances, financial damage, negative publicity, and loss of customers' trust. We have a 'cloud only' strategy and raise awareness among personnel about the importance of security and privacy on an ongoing basis. As of 2017, PostNL has expanded its insurance to cover cybersecurity risks.	
●●○	**Execution of cost saving initiatives** Cost saving initiatives, including streamlining our workforce, introducing increased efficiencies across our infrastructure, and reducing costs at our head office may be delayed or not achieve the results intended. Additionally, they could cause labour unrest. This could result in the deterioration of our employee engagement. Furthermore, this could have an adverse impact on the quality of services we provide. For example, it could lead to a drop in the delivery quality of Mail in the Netherlands. Other adverse results could be an impact on our reputation, financial performance and the risk that internal controls are ineffective for a short period.	↑	Cost savings projects are executed via enhanced programmes and are monitored continuously by a programme office. Mechanisms to adjust to changing circumstances have been implemented and are reviewed periodically. Execution via pilots enables smooth implementation on a larger scale. We mitigate the increased risk that internal controls are ineffective for a short period by performing compensating controls and activities.	

Operational risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
● ● ○	**Implementation of strategic change projects** Implementation of the business strategy is supported by a change programme. We are implementing an increased number of growth initiatives, restructuring and IT projects, as well as undertaking acquisitions. These all require significant change and stakeholder management, as well as project management expertise. (More information on these developments can be found in the individual business segment chapters.) Coherence between the broad range of projects and operational activities may cause delays in successfully implementing all projects to initiate growth and to realise cost savings, and therefore may have an adverse material effect on our mid- and long-term targets. PostNL may lack resources in terms of quantity and quality to execute these projects. The strategic change projects inherently increase the risk that internal controls are ineffective for a short period.	=	All critical projects have been prioritised by the Executive Committee as part of the portfolio management process and are supervised by the Board of Management to ensure an aligned and integrated vision, and commitment of senior management to the change agenda. The agenda is monitored by adequate programme management. We also employ and develop in-house expertise, including talent management. We mitigate the increased risk that internal controls are ineffective for a short period by performing compensating controls and activities.	
● ○ ○	**Business continuity** We could be materially affected if a significant accident or adverse event occurred within the company. For example, events such as fire or flooding at one of our major hubs, extreme weather, or industrial action that could affect critical IT systems, key accounts, or key staff. Severe disruption and reputational damage to the business may result in untimely delivery of services and could impact our financial performance.	=	At a strategic and tactical level, we continually assess whether we have enough operational capabilities and resources available, and constantly improve our logistical infrastructure. We also continuously update and test our business continuity management processes to ensure that we are well prepared for potential adverse risk events. We have comprehensive insurance coverage and continuously develop our relationships with external parties, such as business partners.	

Legal and regulatory risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
● ● ●	**Legal and regulatory requirements** We are confronted with complex legal and regulatory requirements in the countries in which we operate. These include, but are not limited to, tariff regulation, competition regulation (including developments with respect to significant market power, leading to measures by the Netherlands Authority for Consumers and Markets (ACM)), regulation with respect to dangerous and prohibited goods, data protection, privacy requirements and environmental regulation. Changes in legal and regulatory requirements had, and may continue to have, an adverse material impact on our business operations, our reputation, and on our financial performance.	↑	We implement appropriate policies, processes and internal control procedures, which limit exposure to complex legal and regulatory requirements, such as competition law and anti-bribery acts, and operate a robust integrity programme that includes business principles. We have continual dialogue with governmental and non-governmental stakeholders about complying with regulation. We are constantly adapting our operations to changes in the legal and regulatory requirements.	
● ● ●	**USO regulation** In the Netherlands we provide the Universal Service Obligation (USO), the basic postal service that ensures postage remains accessible and reliable for all. Possible changes in the USO regulation, or adverse decisions of the Ministry of Economic Affairs or the ACM in relation to the USO, could have an adverse impact on our ability to adapt to market and regulatory developments and changes in customer demand in a timely and effective way.	↑	We have continual dialogue with governmental and non-governmental stakeholders about USO regulations at both EU and national levels.	
● ● ○	**Development of labour-related legislation** Dutch regulation governing labour and contracting relationships covers the contractual relationship with independent and employed work force. Changes to the regulation could have a financial impact.	=	We continually monitor external developments regarding the Dutch debate about labour, tax and contracting regulations covering employment. We comply with all regulations and adapt our operations when necessary.	

Legal and regulatory risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	Misconduct At PostNL, we want to be known not just for the quality of our products and services, but also for the way we do business. That means doing business in a fair and transparent manner, and in accordance with relevant behavioural and ethical standards, respecting human rights. This applies to our workforce as well as to our suppliers. Employee, contractor and business partner, or supplier misconduct, including fraud, corruption and bribery, could negatively impact financial performance, leading to the loss of customers, the imposition of monetary penalties or other sanctions imposed by national and local governments (and other regulators) of the countries in which we operate.	=	We have a robust internal control framework and operate an integrity programme that includes business principles, a whistleblowing procedure and a pre-employment screening policy, intended to ensure people act in accordance with the company's preferred way of operating. Additionally, we have an integrity committee. We promote integrity in many ways, including providing selected employees with additional mandatory training on specific relevant subjects and in the way of communicating (tone at the top).	

Financial risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
	Collective labour agreements Being a good employer is vitally important to us. We focus on employee engagement, culture and diversity, and sustainable employment. In 2017, due to ongoing challenges in both the domestic and international postal markets, we had to make changes and adaptations to our business, including restructuring, that impacted our employee engagement. However, overall, our people indicated that they are satisfied with the atmosphere in the workplace. This enabled us to maintain employee engagement of 66 percent across the company during the year (2016: 67 percent). While all members of the International Post Corporation (IPC) face similar challenges, our employee engagement levels remain above the average of IPC members. While we saw an improvement in our customer focus in 2017, our culture index score declined slightly to 57 (2016: 58). We further strengthened and increased the diversity of our workforce (more information can be found in the individual business segment chapters). The booming economy may affect the job market, due to the possible unavailability of qualified employees. CLAs are agreed between the company and the trade unions. If in the future no agreements could be reached with the Dutch trade unions, our financial performance could be affected by higher labour costs.	↓	Employee engagement, culture and diversity, as well as sustainable employment, have a prominent place within PostNL. For example, every two years our diversity policy is independently assessed and benchmarked on a variety of aspects. And we believe our renewed focus on cultural values in 2017 will translate into an improved employee engagement score and culture index score by 2018. To secure people's employability, over the last few years we have created a learning environment that stimulates curiosity. We offer our people diverse online development opportunities, which are designed in such a way that employees are able to utilise them anytime, anyplace. This fits with the broader change across society where people increasingly use online platforms and apps that give them greater control of their lives. We also maintain good relations with the trade unions and social partners based on mutual recognition of shared interests. We agreed to a new Social Plan in 2015, which took effect on 1 January 2016, and remains in place until 31 December 2020. On 11 December 2017 we reached final agreement regarding the PostNL CLA and the Saturday mail deliverer CLA. Both apply to the period 1 April 2017 to 31 December 2018, and include agreements on salary increases. More information on these topics can be found in the What sets us apart chapter.	

Financial risks

Risk level	Risk description	Trend	Risk mitigation	Segment impacted
High	**Volatility of pension provision** Actuarial assumptions, such as discount rates and demographic variables, have an impact on the valuation of employee benefit plans. A decrease in equity returns or interest rates may negatively affect the funding ratios of our pension fund, which may lead to an increase in the pension provision, or in multi-year additional funding by us.	↓	We hold open and regular discussions with the pension fund trustee board, which is independent of PostNL. We have reduced the volatility risk of pensions in recent years by revising our finance agreement with the pension fund. Furthermore, the pension fund completed its short-term recovery plan in 2017. Analysis shows comfortable headroom for further interest rate declines before our financial position is materially impacted by pensions, substantiating the significance of our de-risking steps. However, our pensions still retain an element of vulnerability. A materially bad economic climate, combining lower interest rates, declining pension fund assets and material increases in life expectancy, could still impact cash and equity.	Mail, Parcels
High	**Financial risk management** We are exposed to a variety of financial risks, such as currency risk, interest rate fluctuations, credit risk, liquidity risk, price risk and cash flow risk. These risks can have an adverse effect on our financial position and results. This also relates to the impact of fluctuation on the valuation of the pension provision.	↓	Such risks arise in the normal course of business and we use various techniques and financial derivatives to mitigate them. For example, we hedge both currency and interest rate risks in accordance with the relevant Group policies. In November 2017, PostNL refinanced its debt by issuing a new bond loan amounting to €400 million, with a fixed interest rate of 1.0% and an expiration in 2024. This lowered our interest expenses and improved our ratios. For more information, see note 4.3 to the consolidated financial statements.	Mail, Parcels, International
High	**Liability of loss or damage** We are exposed to claims for loss or damage. Some of these exposures are covered under conventions such as the United Postal Union, the Warsaw Convention or the Convention on the Contract for the international Carriage of Goods by Road, as well as PostNL's general terms and conditions. Claims for loss or damage not covered under these conventions or PostNL's general terms and conditions may negatively affect our financial performance.	=	We maintain insurance policies in relation to our business and assets with reputable underwriters and/or insurance companies against claims for loss or damage to the extent not covered by conventions, and to the extent that is usual for companies like ours.	Mail, Parcels, International

14 Remuneration report

The Remuneration Committee of the Supervisory Board is responsible for assessing and preparing the remuneration policy for the members of the Board of Management. The Supervisory Board assesses the proposals and submits, in the event of policy changes, the proposed remuneration policy to the Annual General Meeting of Shareholders for adoption.

Remuneration policy 2017

The remuneration policy is based on the remuneration policy as adopted by the Annual General Meeting of Shareholders of PostNL on 16 April 2013. The objective of the remuneration policy is to retain, motivate and attract qualified members of the Board of Management of the highest caliber essential for the successful leadership and effective management of a large company. The main principles of PostNL's remuneration policy are:

- sobriety
- a base salary based on median market levels
- moderate variable remuneration with focus on both short-term and long-term objectives
- long-term compensation supportive to the attainment of PostNL's strategy
- transparency
- alignment with multi-stakeholder interests
- responsible and risk-controlling
- performance-related for reasonable variable remuneration with payout in cash and in shares.

Review against peer group

To provide a consistent review of the level and structure of the total remuneration, which is aligned with best market practice, all remuneration components for the members of the Board of Management are reviewed and benchmarked at least every three years against a Dutch peer group. The Supervisory Board regularly reviews the peer group to ensure a balanced representation of the relevant labour market. In 2015, the Supervisory Board established a new peer group in consultation with and after discussion in the Remuneration Committee. The peer group consists of a mix of both AEX- and AMX-listed companies. The peer group has not been altered since 2015.

PostNL
Dutch peer group
2017

Aalberts Industries (AEX)	KPN (AEX)
Arcadis (AMX)	Randstad (AEX)
BAM Group (AMX)	Royal Boskalis Westminster (AEX)
DSM (AEX)	Sligro (AMX)
Fugro (AMX)	TKH Group (AMX)
Grandvision (AMX)	TNT Express [1]
IMCD (AMX)	USG Group [1]

1. TNT Express and USG Group were delisted

Market assessments in 2015 and 2016 showed that the total direct compensation for both members of the Board of Management is positioned below the 25th percentile of the peer group and that the remuneration gap has increased over the years compared to the market. In accordance with previous years, the Remuneration Committee and Supervisory Board - taking note of individual Board of Management members' views with regard to the amount and structure of their own remuneration - agreed to leave the Board of Management's remuneration as is. All comparisons are made on a euro basis. The remuneration policy of the Board of Management is in conformity with principle 3.1.2 of the Code.

Variable remuneration

The variable remuneration has the following characteristics:

- the total variable remuneration potential is capped at 75% of the annual base salary
- a short-term incentive (STI) and long-term incentive (LTI) plan, where the members of the Board of Management have the opportunity to earn an incentive based on annual targets (STI) and three-year targets (LTI). Both STI and LTI are capped at 37.5% of the annual base salary.

Short-term incentive

The STI represents a potential reward of 37.5% of the annual base salary, which is based on annual targets. Individual targets can only contribute to the STI payout if they are fully met, which means there is no stretch and no threshold on the annual targets. The STI plan provides a cash payment reflecting the realised achievement of targets. The focus areas for the STI are in line with the current remuneration policy and represent a multi-stakeholder approach as shown in the following table.

PostNL
Short-term incentive targets
2017, in %

	2017
Underlying cash operating income	30%
Adjusted net cash flow from operating and investing activities	30%
Total financial targets	**60%**
Employees	
Employee engagement	10%
Customers	
Customer satisfaction	10%
Quality score	10%
Environment	
CO_2 reduction	10%
Total non-financial targets	**40%**

Long-term incentive
The LTI represents a potential reward of 37.5% of the annual base salary. The LTI plan contains the following characteristics:
- it is a conditional share plan based on three-year internal targets
- shares are conditionally allocated to the members of the Board of Management. A conditional dividend equivalent is added to the conditional shares equal to the dividend rights of ordinary shares, if applicable
- the conditional shares and their conditional dividend equivalents will vest after a performance period of three years
- vesting is subject to the achievement of long-term targets supportive to the attainment of PostNL's strategy
- the vested shares will remain restricted for a period of two years following the three-year performance period, which is in accordance with the Code
- if a member of the Board of Management leaves the company due to circumstances involving fraud or gross misbehaviour, any accrued rights on the long-term incentive plan will become void
- if a member of the Board of Management leaves the company due to other reasons, a pro rata performance and time-based vesting applies, unless decided otherwise by the Supervisory Board.

PostNL
Long-term incentive targets
2015-2017, in %

Underlying net cash income	33.3%
Cost savings	33.3%
New growth initiatives	33.3%
Total long-term targets	**100.0%**

PostNL discloses target ranges in general terms. The vesting schemes and actual target outcomes are specific and thus contain competition-sensitive information. These are therefore not disclosed.

Pensions
The main features of the applicable career average pension scheme are:
- retirement age of 67 years
- pensionable income capped at statutory maximum salary (2017: €103,317) offset for state pension (2017: €14,061)
- annual accrual rate for the old age pension of 1.43%
- benefits conditionally indexed during accrual
- employee contribution of 6%
- structural annual allowance of 19% of the gross base salary above the statutory maximum and a temporary allowance of 3% of the gross base salary above the statutory maximum (decreasing by 1% per year over five years as from 2015) to enable the Board of Management to arrange their own pension provision for that part of the salary exceeding €103,317.

Other
Besides the elements of the remuneration package as described above, the remuneration policy contains the following (contractual) arrangements and provisions.

Severance payments
The contractual severance payments for the current members of the Board of Management are summarised as follows:
- as a policy, severance payments, other than those related to a change of control, are one-year of base salary
- severance payments in the event of a change of control are equal to the sum of the last annual base salary and pension contribution plus the average variable remuneration received over the last three years, multiplied by two
- severance payments will not be awarded if the agreement is terminated early at the initiative of the Board of Management member (except in the event of a change of control), or in the event of seriously culpable or negligent behaviour on the part of the Board of Management member.

The company does not grant loans, including mortgage loans, or advance payments. Nor have guarantees been provided to the members of the Board of Management.

Claw-back
The Supervisory Board has the power to partially or in whole claim back the variable remuneration from a Board of Management member if it is granted on the basis of incorrect information on achieving the targets relating to the variable remuneration component or on the circumstances the variable remuneration component depended on.

The claw-back legislation imposes a duty upon PostNL to claw back in the event of a change of control if that causes an increase in the value of PostNL shares held by the Board of Management, which have previously been awarded as remuneration. In the event of a change of control, the proceeds of any share grant would be capped. This legislation lapsed on 1 July 2017. Possible new legislation is awaited.

Discretionary authority

In general, the Supervisory Board has the authority to adjust the variable pay components of members of the Board of Management upwards or downwards. Furthermore, the Supervisory Board has the discretionary authority to decide on one-off payments to members of the Board of Management in special circumstances. If and when such a discretionary adjustment is made, a transparent substantiation will be provided to the shareholders, explaining the Supervisory Board's motivation for making use of this discretionary authority.

The Supervisory Board has the discretionary authority to adjust the value of variable pay components originally awarded if the outcome proves to be unfair as a result of exceptional circumstances during the performance period.

Contractual arrangements

Members of the Board of Management have entered into employment contracts for an indefinite period of time. The employment contract ends either on the date of retirement or by notice of either party. Termination of the contractual arrangements of the Board of Management requires a written notice period of six months.

Members of the Board of Management are appointed for a period of four years. On expiry of the four-year term, a member of the Board of Management may be reappointed for a successive term of four years. Details of each member's appointment are set out below.

On 1 January 2013, the Dutch Management and Supervision (Public and Private Companies) Act (Wet Bestuur en Toezicht) came into force. With the introduction of this legislation, the relationship between directors and listed public companies is no longer governed by employment law. This legislation will be applicable for any future members of the Board of Management.

PostNL
Appointment details
2017

	Herna Verhagen	Jan Bos
Employed since	June 1991	June 1993
Term of employment	Indefinite	Indefinite
Board member since	2011	2011
Year of (re)appointment	2015	2015
Term of appointment	Four years	Four years

Jan Bos will step down as CFO of PostNL in the course of the second quarter of 2018.

CFO Jan Bos to leave PostNL

Jan Bos will leave PostNL in the course of the second quarter of 2018. There is no notice period and severance payment applicable. Mr. Bos has a good leaver status, whereby vesting of the LTI plans 2016-2018 and 2017-2019 will be pro rata regarding time and performance. For his period of service in 2018 all regular remuneration elements apply pro rata. Also the STI 2018 will be paid pro rata, based on actual performance over 2018, and will be payable in 2019 upon adoption of the 2018 annual accounts by the general meeting of shareholders.

Actual remuneration in 2017

The table below summarises the 2017 remuneration elements of the members of the Board of Management calculated in accordance with IFRS and the remuneration policy for 2017. In accordance with the Code, the individual Board of Management members' views with regard to the amount and structure of their own remuneration have been taken into account by the Remuneration Committee when drafting the proposal. Note that IFRS amounts expensed for the period do not necessarily represent the actual compensation payout. For detailed disclosure on the remuneration of the members of the Board of Management, see note 5.1 to the consolidated financial statements.

PostNL
Remuneration Board of Management
2016-2017, in €

	Herna Verhagen	Jan Bos
Fixed remuneration		
Base salary	625,000	475,000
Variable remuneration		
Accrued for short-term incentive	70,313	53,438
Accrued for long-term incentive	212,688	125,564
Other periodic compensation [1]	199,123	146,914
Pension costs [2]	20,485	21,739
Total 2017	**1,127,609**	**822,655**
Total 2016	1,406,648	1,020,880

1. Other periodic compensation include company costs related to tax and social security, pension allowances, company car and other compensation. In 2016, part of the performance shares 2013 have been sold to cover the wage tax liability (sell-to-cover transaction). As the proceeds of the relevant sell-to-cover transaction were insufficient to completely fulfil the tax liability, a compensation award was made to cover the remaining tax liability. Also in 2016, Herna Verhagen received a jubilee payment (25 years in service) of one month's gross salary.
2. Pension costs represent the service costs of the defined benefit scheme.

The following scorecard contains a summary of achievements of the 2017 STI targets.

PostNL

Scorecard against target

2017

	2017
Financial targets	
Underlying cash operating income	x
Adjusted net cash flow from operating/investing activities	x
Non-financial targets	
Employees	
Employee engagement	x
Customers	
Customer satisfaction	√
Quality score	√
Environment	
CO_2 reduction	√

The Remuneration Committee assessed the achievements of the members of the Board of Management over the three-year LTI period 2015-2017 on the basis of the following targets: underlying net cash income, cost savings and new growth initiatives. Overall, an average score of 98% was achieved. The applicable number of performance shares from 2015 will vest in 2018.

PostNL discloses targets in general terms. The vesting schemes and actual target outcomes are specific and thus contain competition-sensitive information. These are therefore not disclosed.

Internal pay ratios

The ratio between the annual total remuneration for the CEO (1) and the average annual total remuneration for an employee (2) was 24.5 : 1 for 2017. The table below shows the ratio development over the last 5 years.

PostNL

Internal pay ratios

2013 - 2017

	2013	2014	2015	2016	2017
Internal pay ratio	34.4	32.1	32.5	30.4	24.5

1) Based on total remuneration costs of the CEO (€1,127,609) as reported in this chapter.

2) Based on total salaries, pensions and social security contributions, excluding the CEO (€ 1,162 million) divided by the average number of FTEs minus one (25,278) as reported in chapter 17 Financial Statements, section 2.1.3.

Remuneration policy 2018

In 2018, the following adjustments will apply for the career average pension scheme:

- pensionable income capped at increased statutory maximum salary of €105,075
- in line with tax legislation, the retirement age for old age pension has increased from 67 to 68
- annual accrual rate for old age pension adjusted from 1.43% at retirement age 67 to 1.615% at retirement age 68
- temporary allowance of the gross base salary exceeding the statutory maximum salary decreased to 2%.

In line with the remuneration policy, all remuneration components for the Board of Management will be reviewed and benchmarked against a reassessed Dutch peer group in 2018. No further changes in the remuneration policy are expected for 2018.

Remuneration of members of the Supervisory Board

The remuneration of the members of the Supervisory Board reflects the time spent and the responsibilities of their role. The remuneration of the members of the Supervisory Board comprises base pay and a meeting fee linked to attendance of the meetings of the committees of the Supervisory Board. The members of the Supervisory Board receive no compensation related to performance and/or equity and accrue no pension rights with the company. The members of the Supervisory Board receive no severance payments in the event of termination. PostNL does not grant loans, including mortgage loans, advance payments, guarantees and options or shares to any member of the Supervisory Board.

PostNL

Remuneration of Supervisory Board

2017, in €

		Annual base fee
Chairman		55,000
Member		40,000
Committees		**Meeting fee**
Audit and remuneration	Chairman	2,500
	Member	1,500
Nomination	Chairman	1,500
	Member	1,000

For disclosure on the remuneration of individual members of the Supervisory Board, see note 5.1 to the consolidated financial statements.

15 Our tax policy and principles

In this chapter we provide an overview of our tax policy, its underlying principles, and its application.

General

The Board of Management views tax (meaning all taxes that we face in our businesses) as an important matter for PostNL and its stakeholders. As such, a coherent, responsible and compliant approach towards tax is considered an integral part of doing business. The head-office department Group Tax is mandated to oversee this approach towards tax. In that role, Group Tax, inter alia, defines the tax strategy and related policies for the PostNL Group, advises and supports the Board of Management on tax, and acts as the central business partner on tax towards all stakeholders whilst maintaining the following principles and ensuring that they are adhered to.

Compliance

We strive to be compliant with the relevant tax laws and regulations in countries where we conduct our business and are guided by the relevant international standards (such as OECD guidelines). We aim to comply with the letter as well as the spirit of the laws mentioned. At the same time, we endeavor to be compliant with the (tax) accounting laws and regulations in countries where we do business.

Transparency

We view transparency as an integral part of sound tax governance, and consider this as key in our approach towards tax authorities. As to other stakeholders, we make our disclosures in accordance with relevant reporting requirements and standards (such as IFRS). In addition, we assess at least annually our position on tax disclosures with respect to transparency.

Relationship with tax authorities

We have built our relationship with the Dutch tax authorities on the basis of horizontal monitoring. This means that this relationship is based on mutual trust, understanding and transparency. In such a relationship we pro-actively disclose issues and the Dutch tax authorities deal with such issues in an efficient and constructive way. We strive to build relationships with tax authorities in other countries in a similar fashion, where and when applicable and feasible.

A multi-disciplinary approach towards corporate and business projects and tax matters

We take a multi-disciplinary stance when working on corporate and business projects, tax planning and transfer pricing, involving relevant representatives of the businesses as well as representatives of our tax, treasury, legal and finance departments. Oversight is carried out by the CFO.

Guiding principles on tax planning

Our tax planning requires opportunities in this area to have a substantial level of robustness taking into account the principle of business rationale. This means that aside from factors such as financial impact, complexity and reputation, solid business and/or commercial reasons have to exist. In addition, this means that we do not use (i) contrived or abnormal structures or (ii) secrecy jurisdictions or so-called tax havens for tax avoidance. Considering these principles, we view our tax risk appetite as moderate.

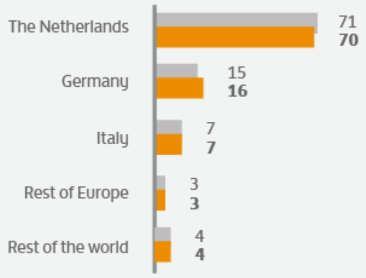
Governance and accountability

We have mechanisms in place to be able to adhere to these tax principles. We acknowledge that a robust governance framework is required to maintain control over tax matters and related risks. Our tax control framework has been built and developed accordingly. In this respect, a set of key controls on tax matters have been defined, controlling certain inherent risks, which periodically have been executed and whereby oversight is kept and specific review procedures performed by the Internal Audit department. We operate a Group Tax department to ensure that tax matters are dealt with according to the mandate given to it by the Board of Management. Part of the mandate is a roles and responsibilities matrix on the basis of which it is clear how these roles and responsibilities are allocated over the different areas within the PostNL Group. We report quarterly to the Board of Management on adherence to the tax policy and underlying tax principles.

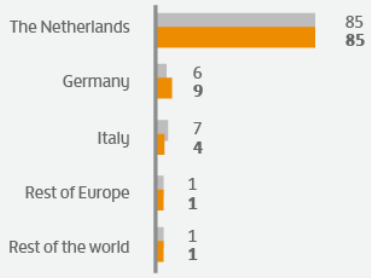
Tax payments in more detail

Given the different activities we operate across our business segments, we pay a number of different types of tax. In addition to corporate income tax, VAT & sales tax (borne and collected) and wage tax & social security contributions (borne and collected) are the most material ones. In 2017, we paid €653 million (2016: €686 million) in tax. A breakdown of these by type and region is shown in the charts below. Our revenue breakdown is included for comparison.

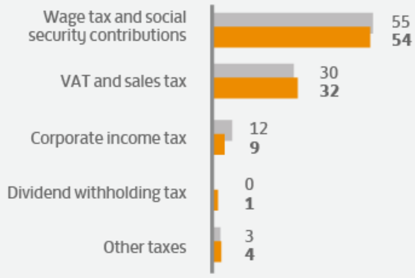
PostNL
Revenue by region
2016-2017 (in %)



PostNL
Total taxes by region
2016-2017 (in %)



PostNL
Total taxes by type
2016-2017 (in %)



We monitor (inter)national developments (including the OECD project on base erosion and profit shifting and country-by-country reporting) to improve tax transparency. Complying with the legislation in the countries in which we operate our activities, we have filed a country-by-country report in the Netherlands and our notifications in (most) of the other countries. During 2017, these (inter)national developments were discussed on several occasions to assess whether our stance towards these developments (country-by-country reporting in particular) should be adjusted. In terms of the outcome of these discussions, we continue to strive for optimal tax transparency, which includes taking the aforementioned developments, as well as competition considerations, into account.

16 PostNL on the capital markets

In this chapter we provide information about our capital structure, the role of investor relations, and dividend as well as our financial calendar for the year ahead and contact details.

Shares and share ownership

Ordinary shares in PostNL N.V. (ticker: PNL, ISIN code 0009739416) are listed on Euronext Amsterdam and included in the AMX index. Options on PostNL shares are traded on Euronext Derivatives Amsterdam and on the European Options Exchange in Amsterdam. In the US, a sponsored unlisted American Depositary Receipts (ADR) programme was offered by J.P. Morgan Chase Bank, N.A. PostNL terminated this programme effective 22 December 2017.

In 2017, 923 million PostNL shares were traded on Euronext Amsterdam (2016: 826 million shares). The average daily number of shares traded was 3.6 million (2016: 3.2 million). The market capitalisation of PostNL was €1,849 million at the end of 2017 (2016: €1,813 million).

Relative performance PostNL compared to AMX-index, 2017

PostNL's authorised share capital is divided into 1,500,000,000 shares of €0.08 each and consists of 750,000,000 ordinary shares and 750,000,000 preference shares B. The number of issued and outstanding ordinary shares was 453,530,195 on 31 December 2017 (2016: 442,805,079 shares). All shares in issue are fully paid. In 2017, 9,920,567 shares were issued as stock dividend (2016: 0) and 804,549 for the share plan for employees (2016: 1,234,415). No preference shares B were issued and outstanding. For more information on PostNL's equity, see note 4.5 to the consolidated financial statements.

Major shareholders

Pursuant to the Financial Markets Supervision Act (Wet op het financieel toezicht), shareholders must disclose percentage holdings in the capital and/or voting rights in the company when such holding reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Such disclosure must be made to the Dutch Financial Markets Authority (AFM) without delay. Our substantial shareholders are listed in the table below.

Since November 2012, investors also have to disclose short positions in the company that equal or exceed 0.5% of outstanding shares. At the end of 2017, investors have filed an accumulated net short position of 0.5% in PostNL.

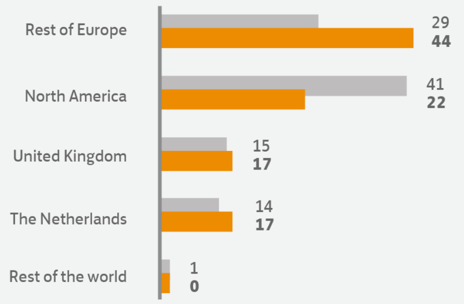
PostNL
Overview of substantial shareholders (>3%)
31 December 2017, in %

Date of notification	Company	(Indirect) Holding	Holding of (indirect) voting rights)
29 December 2017	Norges Bank	3.16%	3.16%
27 October 2017	Allianz Global Investors GmbH	3.09%	3.09%
1 February 2017	Capfi Delen Asset Management	5.07%	5.07%
23 January 2017	HSBC Holdings PLC	3.04%	2.23%
27 June 2016	Wellington Group LLP	3.03%	3.03%
12 November 2015	J.H.H. de Mol	5.04%	5.04%
20 July 2015	Edinburgh Partners	6.82%	5.00%

Shareholder base

The distribution of our shares between retail (9%) and institutional shareholders (91%) did not materially change compared to 2016. PostNL has a broad base of international shareholders.

PostNL
Institutional shareholders by region
2016-2017 (in %)



Bonds and credit rating

In November 2017, PostNL redeemed its bond with an outstanding amount of €328 million and a coupon of 5.375% at maturity and issued a €400 million bond with a coupon of 1.0% due in 2024.

Consequently, PostNL has currently two Eurobonds outstanding, both listed on Euronext Amsterdam:
- PNL 7.5% 2018 (ISIN NL10006380537), nominal value outstanding £177 million
- PNL 1.0% 2024 (ISIN XS1709433509), nominal value outstanding €400 million

We are committed to a leverage ratio (adjusted net debt/EBITDA) not exceeding 2.0. Currently, PostNL is rated by both Moody's and S&P. The most recent credit ratings are as follows:

PostNL
Credit ratings
2017

	Long-term rating	Outlook
Moody's	Baa2	Stable
S&P	BBB*	Stable

Investor relations

The main goal of our investor relations' activities is to build our financial brand. To achieve that, we strive to inform the financial community about relevant developments in our company in a transparent and timely way. We maintain an active dialogue with the financial community, and we comply with applicable laws and rules and regulations of Euronext Amsterdam and the AFM.

Our investor relations' programme consists of meetings with analysts and investors, conference calls, roadshows, investor conferences and workshops. In addition, PostNL communicates with the financial community through press releases, the publication of the Annual Report, General Meetings of Shareholders and the company's website. In 2017, PostNL visited investors in major financial cities in Europe and North America. Meetings with investors are scheduled regularly to ensure the investment community receives a balanced and complete view of the company's strategy, performance and the issues faced by the business, while always observing applicable rules concerning selective disclosure, equal treatment of (potential) shareholders and insider trading. In the period preceding the publication of quarterly results, PostNL will be in a 'closed period'.

Explanation by the Board of Management of quarterly results is given either at group meetings and/or conference calls which are accessible by phone and via the website (audiocast). Also General Meetings of Shareholders are broadcast via audiocast. Our website provides all relevant information with regard to publication dates and procedures to attend or listen in to presentations.

Contact between the Board of Management, the financial community and the press is carefully handled and structured. The company will not compromise the independence of analysts in relation to the company and vice versa. Analysts' reports and valuations are not assessed, commented upon or corrected, other than factually, by the company. PostNL does not pay any fees to parties for carrying out research for analysts' reports or for the production or publication of analysts' reports, with the exception of credit rating agencies. Contact with our financial stakeholders is taken care of by the members of the Board of Management and PostNL's investor relations' professionals.

The Board of Management has adopted investor relations and media guidelines that PostNL employees abide by.

For the latest and archived press releases, presentations, share price information and other company information, such as our online Annual Review 2017 and interim reports, please visit PostNL's website.

Dividend

In accordance with our dividend policy, we aim to pay a progressive dividend which develops substantially in line with the development of our operational performance. The condition for paying out dividend is a leverage ratio (adjusted net debt/EBITDA) not exceeding ~2. We target a dividend pay-out ratio of around 75% the underlying net cash income. This pay-out ratio reflects a healthy balance of dividing the free cashflow between investing in growth and allowing our shareholders to benefit from our business performance. Shareholders are offered the choice to opt for cash or for shares.

We propose to increase the dividend to €0.23 per ordinary share for 2017 (2016: €0.12). This will be proposed to the Annual General Meeting of Shareholders to be held on 17 April 2018. The final dividend would then amount to €0.17 per ordinary share, taking into account an interim dividend of €0.06 per ordinary share that was paid in August 2017. The dividend will be paid, at the shareholder's election, either in ordinary PostNL shares or in cash, which remains the default option. The dividend in shares will be paid out of additional paid in capital as part of the distributable reserves, free of withholding tax in the Netherlands. If the dividend proposal is adopted, the ex-dividend date is 19 April 2018.

Financial calendar 2018

PostNL
Financial calendar
2018

26 February	Results fourth quarter and full year 2017
17 April	Annual General Meeting of Shareholders
19 April	Ex-dividend date
23 April - 7 May (3.00 PM CET)	Election period final dividend 2017
8 May	Results first quarter 2018
9 May	Payment final dividend 2017
6 August	Results second quarter and half year 2018
8 August	Ex-dividend date
10 - 23 August (3.00 PM CET)	Election period interim dividend 2018
27 August	Payment interim dividend 2018
5 November	Results third quarter 2018

Contact details

Visiting address:
Prinses Beatrixlaan 23
2595 AK The Hague
The Netherlands

Mailing address:
PostNL Investor Relations
PO 30250
2500 GG The Hague
The Netherlands

Telephone: +31 88 868 61 61
E-mail: ir@postnl.nl
Website: postnl.nl/en

Performance Statements

Financial Statements

17 Financial Statements

Consolidated primary statements

PostNL

Consolidated income statement

2016-2017, in € millions

Year ended at 31 December	Notes	2016	2017
Net sales		3,403	3,479
Other operating revenue		10	16
Total operating revenue	2.1.1	3,413	**3,495**
Other income		10	25
Cost of materials		(67)	(67)
Work contracted out and other external expenses	2.1.2	(1,701)	(1,802)
Salaries, pensions and social security contributions	2.1.3	(1,110)	(1,163)
Depreciation, amortisation and impairments	2.1.4	(92)	(79)
Other operating expenses	2.1.5	(162)	(156)
Total operating expenses		(3,132)	**(3,267)**
Operating income		291	**253**
Interest and similar income		149	4
Interest and similar expenses		(104)	(46)
Net financial income/(expense)	2.2	45	**(42)**
Results from investments in jv's/associates	3.6	(1)	(10)
Profit/(loss) before income taxes		335	**201**
Income taxes	2.2	(55)	(53)
Profit for the year		280	**148**
Attributable to:			
Non-controlling interests		1	0
Equity holders of the parent		279	148
Earnings per ordinary share (in € cents) [1]	2.2	63.1	33.0
Earnings per diluted ordinary share (in € cents) [2]	2.2	62.9	33.0

1. Earnings per ordinary share are in 2017 based on an average of 448,645,255 outstanding ordinary shares (2016: 442,366,626).
2. Earnings per diluted ordinary share are in 2017 based on an average of 449,124,010 ordinary shares on a fully diluted basis in the year (2016: 443,301,377).

The accompanying notes form an integral part of the financial statements.

PostNL

Consolidated statement of comprehensive income

2016-2017, in € millions

Year ended at 31 December	Notes	2016	2017
Profit for the year		280	**148**
Actuarial gains/(losses) pensions, net of tax	3.4	(202)	13
Pension asset ceiling/minimum funding requirement, net of tax	3.4	184	(10)
Share other comprehensive income jv's/associates			
Other comprehensive income that will not be reclassified to the income statement		(18)	**3**
Currency translation adjustment, net of tax		(1)	(3)
Gains/(losses) on cashflow hedges, net of tax		3	3
Change in value of available-for-sale financial assets		8	
Recycling of change in value of available-for-sale financial assets		(136)	
Other comprehensive income that may be reclassified to the income statement		(126)	**0**
Total other comprehensive income for the year		(144)	**3**
Total comprehensive income for the year		136	**151**
Attributable to:			
Non-controlling interests		1	0
Equity holders of the parent		135	151

The accompanying notes form an integral part of the financial statements.

PostNL

Consolidated statement of cash flows

2016-2017, in € millions

Year ended at 31 December	Notes	2016	2017
Profit/(loss) before income taxes		335	**201**
Adjustments for:			
Depreciation, amortisation and impairments		92	**79**
Share-based payments		4	**2**
(Profit)/loss on disposal of assets		(10)	**(22)**
Interest and similar income		(149)	**(4)**
Interest and similar expenses		104	**46**
Results from investments in jv's/associates		1	**10**
Investment income		(54)	**30**
Pension liabilities		(74)	**(56)**
Other provisions		(28)	**(21)**
Changes in provisions		(102)	**(77)**
Inventory		0	**(1)**
Trade accounts receivable		(4)	**(31)**
Other accounts receivable		3	**(13)**
Other current assets		(6)	**(24)**
Trade accounts payable		19	**32**
Other current liabilities excluding short-term financing and taxes		(5)	**(4)**
Changes in working capital		7	**(41)**
Cash generated from operations		282	**194**
Interest paid		(92)	**(39)**
Income taxes paid		(80)	**(56)**
Net cash (used in)/from operating activities	*2.3.1*	110	**99**
Interest received		5	**4**
Dividend received		1	**1**
Acquisition of subsidiaries (net of cash)		(30)	**(33)**
Disposal of subsidiaries		(4)	**1**
Capital expenditure on intangible assets		(31)	**(38)**
Capital expenditure on property, plant and equipment		(64)	**(74)**
Proceeds from sale of property, plant and equipment		27	**32**
Proceeds from sale of available-for-sale financial assets		643	
Changes in other loans receivable			**(6)**
Other changes in (financial) fixed assets		(4)	**(8)**
Net cash (used in)/from investing activities	*2.3.2*	543	**(121)**
Dividends paid		0	**(40)**
Changes related to non-controlling interests		(10)	**0**
Proceeds from long-term borrowings		0	**398**
Repayments of long-term borrowings		(357)	**(2)**
Repayments of short-term borrowings		0	**(328)**
Repayments of finance leases		(1)	**(1)**
Net cash (used in)/from financing activities	*2.3.3*	(368)	**27**
Total change in cash and cash equivalents		285	**5**
Cash and cash equivalents at the beginning of the year		355	**640**
Total change in cash and cash equivalents		285	**5**
Cash and cash equivalents at the end of the year		640	**645**

The accompanying notes form an integral part of the financial statements.

PostNL
Consolidated statement of financial position

2016-2017, in € millions

	Notes	At 31 December 2016 restated	At 31 December 2017
Assets			
Goodwill		123	141
Other intangibles		82	116
Intangible fixed assets	*3.3*	205	257
Land and buildings		321	318
Plant and equipment		142	154
Other		19	21
Construction in progress		23	17
Property, plant and equipment	*3.2*	505	510
Investments in joint ventures/associates	*3.6*	17	9
Other loans receivable	*4.1*	1	7
Deferred tax assets	*3.7*	38	29
Available-for-sale financial assets		1	5
Financial fixed assets		57	50
Total non-current assets		767	817
Inventory		5	6
Trade accounts receivable	*3.1.1*	358	386
Accounts receivable	*3.1.1*	31	50
Income tax receivable		2	9
Prepayments and accrued income		134	157
Cash and cash equivalents	*4.1*	640	645
Total current assets		1,170	1,253
Assets classified as held for sale	*3.8*	4	10
Total assets		1,941	2,080
Equity and liabilities			
Equity attributable to the equity holders of the parent		(79)	34
Non-controlling interests		3	3
Total equity	*2.4*	(76)	37
Deferred tax liabilities	*3.7*	40	43
Provisions for pension liabilities	*3.4*	410	359
Other provisions	*3.5*	39	23
Long-term debt	*4.1*	227	400
Accrued liabilities			2
Total non-current liabilities		716	827
Trade accounts payable		188	220
Other provisions	*3.5*	44	40
Short-term debt	*4.1*	328	225
Other current liabilities	*3.1.2*	141	150
Income tax payable		8	4
Accrued current liabilities	*3.1.3*	592	577
Total current liabilities		1,301	1,216
Total equity and liabilities		1,941	2,080

The accompanying notes form an integral part of the financial statements.

PostNL

Consolidated statement of changes in equity

2016-2017, in € millions

	Issued share capital	Additional paid-in capital	Currency translation reserve	Hedge reserve	Available-for-sale financial assets	Other reserves	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at 31 Dec 2015	35	153	4	(7)	128	(544)	18	**(213)**	7	**(206)**
Total comprehensive income			(1)	3	(128)	(18)	279	135	1	136
Appropriation of net income						7	(7)	0		0
Share-based compensation	1	4				(1)		4		4
Minority buy-out and other						(5)		(5)	(5)	(10)
Balance at 31 Dec 2016	36	157	3	(4)	0	(561)	290	**(79)**	3	**(76)**
Total comprehensive income			(3)	3		3	148	151	0	151
Appropriation of net income						633	(633)	0		0
Final dividend previous year							(25)	(25)		(25)
Interim dividend current year							(15)	(15)		(15)
Share-based compensation		3				(1)		2		2
Balance at 31 Dec 2017	36	160	0	(1)	0	74	(235)	**34**	3	**37**

Section 1: Basis of preparation

This section sets out the Group's accounting principles that relate to the consolidated financial statements as a whole. At the beginning of each section, we give an overview of the items explained in that section. Where an accounting policy is specific to one note, the policy is described in the section's note to which it relates.

This section further describes the critical accounting estimates and judgements, or areas where assumptions and estimates are significant to the consolidated financial statements, such as post-employment benefits and restructuring.

This section also explains the changes in accounting policies and disclosures, resulting from new and amended accounting standards and interpretations, whether they are effective in 2017 or later years, and their impact.

1.1 General information

PostNL N.V. is a public limited liability company with its registered seat and head office in The Hague, the Netherlands. PostNL provides businesses and consumers in the Benelux, Germany and Italy with an extensive range of services for their mail and parcels needs. Through our international sales network Spring, we connect local businesses around the world to consumers globally. PostNL's services involve collecting, sorting, transporting and delivering letters and parcels for the company's customers within specific timeframes. The company also provides services in the area of data and document management, direct marketing and fulfilment.

The consolidated financial statements include the financial statements of PostNL N.V. and its consolidated subsidiaries (hereafter referred to as 'PostNL', 'Group' or 'the company').

The consolidated financial statements were authorised for issue by PostNL's Board of Management and Supervisory Board on 26 February 2018 and are subject to adoption at the Annual General Meeting of Shareholders on 17 April 2018.

1.2 Accounting principles applied

The consolidated financial statements of PostNL:

- have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including International Accounting Standards (IAS) and related interpretations of the IFRS Interpretations Committee (IFRICs), and Dutch law,
- have been prepared under the historical cost convention, except for financial instruments, and
- have been prepared assuming a going concern.

The significant accounting policies applied in the preparation of these consolidated financial statements are included at the relevant notes to the consolidated financial statements or, in case of more general policies, in note 5.4 to the consolidated financial statements. These policies have been consistently applied to all the years presented, unless stated otherwise. All amounts included in the consolidated financial statements are presented in euros, unless stated otherwise.

Going concern

Based on the cash flow-generating capability of the company, the current finance structure and the company's ability to realise its assets and discharge its liabilities in the normal course of business, PostNL's financial statements have been prepared assuming a going concern.

During 2017, consolidated equity attributable to the equityholders of the parent improved by €113 million to €34 million. Corporate equity decreased by €12 million to €2,730 million. As at 31 December 2017, the balance of cash and cash equivalents amounted to €645 million and the company has an undrawn multi-currency revolving credit facility of €400 million. Its financing arrangements do not include financial covenants. A bond repayment of €225 million is due in 2018. Further bond repayments are not due until 2024. Although the company remains vulnerable to interest rate changes in relation to its pension obligations, it can also benefit from an environment of increasing interest rates.

The company aims to continue to improve its liquidity and solvency.

1.3 Critical accounting estimates and judgements

The preparation of PostNL's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. It also requires management to exercise its judgement in the process of applying PostNL's accounting policies.

Estimates, assumptions and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting positions will, by definition, seldom equal the related actual results. On a continuous basis, we evaluate our expectations with the actual results, and include the learnings going forward.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below.

Post-employment benefits

Post-employment benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made. The accounting requires the company to make assumptions regarding variables such as the discount rate, the rate of benefit increases and future mortality rates. Changes in these key assumptions can have a significant impact on the defined benefit obligations, funding requirements and pension cost incurred. For details of the current funded status and a sensitivity analysis with respect to defined benefit plan assumptions, see note 3.4 to the consolidated financial statements.

Restructuring

Restructuring charges mainly result from restructuring of our operations and overhead as a response to declining volumes in Mail in the Netherlands. The scope and measurement of PostNL's related restructuring provision depends highly on the projected cash outflows over the future years, which are mainly driven by the estimated number of staff that will either be made redundant or apply for a mobility arrangement. For details on the current restructuring provision, see note 3.5 to the consolidated financial statements.

Impairment of assets

In determining impairments of intangible assets including goodwill, tangible fixed assets and financial fixed assets, management must make significant judgements and estimates to determine whether the recoverable amount is less than the carrying value. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset-specific risks. Determining cash flows requires the use of judgements and estimates that have been included in PostNL's strategic plans and long-term forecasts. The data necessary for the execution of the impairment tests are based on management estimates of future cash flows, which make it necessary to estimate revenue growth rates and profit margins. For details on the impairment test of goodwill, see note 3.3 to the consolidated financial statements.

Deferred revenue and revenue related accruals

PostNL has to estimate the deferred revenues from stamps sold but not yet used by its customers. The company uses a seasonal model based on historical figures in order to account for the seasonal effects on sales from stamps (for example, stamp sales for Christmas greetings in November and December). Additionally, the company handles large quantities of international mail and parcel volumes to and from foreign postal operators. Although the net outstanding accrual positions reflect our best estimate, given the assumptions involved, final settlements might deviate from the outstanding positions. For details on the current positions, see note 3.1 to the consolidated financial statements.

Income taxes and deferred tax assets

The company is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision and liability for income taxes. PostNL recognises liabilities for potential tax issues based on estimates of whether additional taxes will be due, based on its best interpretation of the relevant tax laws and rules. PostNL recognises deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. This is based on estimates of taxable income by jurisdiction in which the company operates and the period over which deferred tax assets are recoverable. For details on income taxes and deferred tax assets, see notes 2.2 and 3.7 to the consolidated financial statements.

Contingent liabilities

Legal proceedings covering a range of matters are pending against the company in various jurisdictions. The cases and claims often raise difficult and complex factual and legal issues that are subject to many uncertainties and complexities, including but not limited to the facts and circumstances of each particular case and claim, the jurisdiction and the differences in applicable law. PostNL consults with legal counsel and certain other experts on matters related to litigation. PostNL recognises a liability when it is determined that an adverse outcome is probable and the amount of the loss can be reasonably estimated. For details on commitments and contingencies, see note 3.9 to the consolidated financial statements.

1.4 Restatement

On 30 December 2016, PostNL acquired the remaining 50% of the shares of HIM Holtzbrinck 25 GmbH resulting in 100% ownership of the shares of the company. As disclosed per FY 2016 only a provisional purchase price allocation was performed which resulted in intangible assets of nil and goodwill of €21 million. In Q3 2017, management finalised the purchase price allocation, resulting in intangible assets of €15 million, a relating deferred tax liability of €5 million and goodwill of €10 million. The finalisation of the net assets of HIM Holtzbrinck 25 GmbH per 31 December 2016 resulted in an increase of trade accounts receivable of €1 million and a corresponding decrease in goodwill. The statement of financial position of 31 December 2016 has been restated reflecting a reduction in goodwill of €11 million, an increase in other intangible assets of €15 million, an increase in trade accounts receivable of €1 million and an increase in deferred tax liabilities of €5 million.

1.5 Changes in accounting policies and disclosures

The following table provides a brief description of recent issued International Financial Reporting Standards, amendments and/or interpretations, that could have a material impact on our financial statements.

Changes in accounting policies

	Description	Date of adoption	Effect on the financial statements
Standards that are adopted			
Amendments to IAS 7 'Statement of Cash Flows'	The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	The Group has provided the information for the current year, see note 4.1 to the consolidated statements.
Standards that are not yet adopted			
IFRS 9 'Financial instruments'	IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities.	1 January 2018	The Group has assessed there will not be a material impact from the adoption of this standard.
IFRS 15 'Revenue from contracts with customers'	IFRS 15 specifies how and when revenue should be recognised and requires to provide users of financial statements with more informative disclosures.	1 January 2018	The Group has assessed there will not be a material impact from the adoption of this standard.
IFRS 16 'Leases'	IFRS 16 establishes the principles that entities would apply to report useful information to investors and analysts about the amount, timing and uncertainty of cash flows arising from a lease. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.	1 January 2019	The standard will mainly effect the accounting of the Group's operating leases. At year-end 2017, the Group has non-cancellable operating lease commitments of €153 million (refer to note 3.9). The Group plans to adopt this standard using the modified retrospective method, with the lease assets set equal to the lease liabilities.

IFRS 9 'Financial instruments'

During 2017, PostNL performed a detailed assessment of the impact of IFRS 9.

- On hedge accounting, the company determined that all existing hedge relationships currently designated as effective hedge relationships will continue to qualify for hedge accounting under IFRS 9.
- On impairment, IFRS 9 requires the company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The company will apply the simplified approach and record lifetime expected losses on all trade receivables. The impact has been assessed as non-material.
- On classification, the equity shares in non-listed companies that are currently held as available-for-sale with gains and losses recorded in other comprehensive income (OCI) will under IFRS 9 be classified as financial assets at fair value through OCI.

The company will align its polices to reflect the changes resulting from IFRS 9. The company will not restate comparative information.

IFRS 15 'Revenue from contracts with customers'

During 2016 and 2017, PostNL performed a detailed assessment of the impact of IFRS 15.

The company's business involves the logistical service of delivering mail, parcels and other consignments. The assessment concludes that nearly all of the company's revenues are represented by a single performance obligation being 'logistic services'. Adoption of IFRS 15 is not expected to impact the company's revenue and profit or loss resulting from these services. Revenue will remain being recognised at a point in time when control is transferred to the customer, generally on delivery of the mail, parcels or other consignments.

The other performance obligations resulting from the assessment comprise the rental of post-boxes (revenue recognition over time), print services (revenue recognition at a point in time) and stamp collection services (revenue recognition at a point in time). Adoption of IFRS 15 is also not expected to impact the company's revenue and profit or loss resulting from these services.

Where contracts entitle customers to a volume discount, the Group recognises revenue measured at the fair value of the consideration received or receivable, net of volume rebates.

The company plans to adopt the new standard using the modified retrospective method.

Section 2: Result for the year

This section sets out the Group's results and performance over 2017, from a profit, cash flow and equity perspective. It concludes with the performance of our reportable segments.

We analyse the Group's profit for the year in two separate steps. First we focus on our operating income by reference to the activities performed by the Group and an analysis of our key operating costs. Thereafter we focus on the net profit and earnings per share by exploring the financial results –which mainly consists of interest expenses– and the income tax charge.

Next, we analyse this year's cash flow performance of the Group. The cash flow-generating capability of the Group is essential for the continuity of our company. We explain the difference in accounting for income and expenses from actual cash in and cash out flows. In our analysis, we separate the cash flow performance of our operating, investing and financing activities.

Thirdly, we disclose the material developments underlying the equity performance of the year. Together with the net profit for the year, equity is mainly impacted by developments in our pension liabilities.

This section concludes with segmental information of our performance. We disclose the contribution of our reportable segments to total operating revenue and operating income. Furthermore, we report on our non-recurring and exceptional items during the year.

2.1 Operating income

2.1.1 Total operating revenue: €3,495 million (2016: 3,413)

Accounting policies

Revenue recognition

PostNL's normal business operations consist of the provision of postal and logistics services. Revenue is recognised when services are rendered, goods are delivered or work is completed. Revenue is the gross inflow of economic benefits during the current year that arise from ordinary activities and result in an increase in equity, other than increases relating to contributions from equity participants. Revenue is measured at the fair value of the consideration of received amounts or receivable amounts.

Contracted services that have not yet been rendered by PostNL on the balance sheet date, as well as outstanding customer repayments for stamps and frankings, are designated as deferred income. Amounts received in advance are recorded as accrued liabilities until services are rendered to customers or goods are delivered.

Net sales

Net sales represent revenue from the delivery of goods and services to third parties less discounts, credit notes and taxes levied on sales. Accumulated experience is used to estimate and provide for the discounts and return shipments.

Other operating revenue

Other operating revenue relates to the sale of goods and rendering of services not related to PostNL's ordinary postal and logistics services and mainly include rental income of temporarily leased-out property and custom clearance income.

The following table presents PostNL's total operating revenue, being the sum of the revenue of the reported operating segments adjusted for intercompany transactions.

PostNL

Operating revenue

2016-2017, in € millions

Year ended at 31 December	2016	2017
Mail in the Netherlands	1,877	1,783
Parcels	967	1,110
International	1,017	1,051
PostNL Other	178	76
Eliminations	(626)	(525)
Total	3,413	3,495

Volume and revenue growth within Parcels and International was partly offset by decreased revenue within Mail in the Netherlands, mainly resulting from the continued volume decline in addressed and unaddressed mail. Lower revenue in PostNL Other and lower eliminations are due to an adjustment in the presentation of intercompany charges from revenue to expenses.

The following table presents the geographical segmentation of total operating revenue. The basis of allocation of operating revenue by geographical area is the country or region in which the entity recording the sales is located.

PostNL

Geographical segmentation

2016-2017, in € millions

Year ended at 31 December	2016	2017
The Netherlands	2,436	2,447
Germany	504	566
Italy	225	238
Rest of Europe	102	107
Europe	3,267	3,358
Rest of the World	146	137
Total	3,413	3,495

Revenue growth in Germany mainly related to the acquisition of Pin Mail Berlin and Mail Alliance in December 2016.

2.1.2 Work contracted out and other external expenses: €1,802 million (2016: 1,701)

Accounting policies

Operating expenses related to ordinary activities are recognised on an accrual basis. In case it is not possible to directly relate the operating expenses to a particular income earned or expected future income, these expenses are recognised in the period incurred.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement as incurred during the period of the lease.

PostNL

Work contracted out and other external expenses

2016-2017, in € millions

Year ended at 31 December	2016	2017
Work contracted out	1,451	1,569
Rent & lease expenses	84	81
External temporary staff	166	152
Total	1,701	1,802

Costs of work contracted out and other external expenses increased by €101 million in 2017 mainly due to increased volumes and service expansion within Parcels.

2.1.3 Salaries, pensions and social security contributions: €1,163 million (2016: 1,110)

PostNL

Salaries, pensions and social security contributions

2016-2017, in € millions

Year ended at 31 December	2016	2017
Salaries	852	889
Social security charges	136	147
Salaries and social security charges	988	1,036
Defined benefit plans	90	96
Past service costs/settlements	(11)	(11)
Defined contribution plans	11	14
Pension charges	90	99
Net addition to restructuring provisions	28	26
Share-based payments	4	2
Total	1,110	1,163

In 2017, costs of salaries and social security charges increased by €48 million to €1,036 million, mainly due to an increase of the workforce within Parcels and the employees from PIN Mail Berlin related to the acquisition of HIM Holtzbrinck 25 GmbH in December 2016, partly offset by a reduction of the workforce following the restructuring programmes in the Netherlands. Pension charges increased by €9 million in 2017, resulting from higher regular defined benefit charges. More detailed information on pensions is included in note 3.4. For the net additions to restructuring provisions reference is made to note 3.5 Other provisions.

PostNL

Labour force

2016-2017, as indicated

	2016	2017
Headcount		
Mail in the Netherlands	36,411	33,305
Parcels	3,588	4,136
International	5,467	5,782
PostNL Other	990	1,040
Total at year end	46,456	44,263
External agency staff at year end	6,289	7,477
Full-time equivalents (FTEs)		
Mail in the Netherlands	16,218	15,809
Parcels	3,038	3,492
International	3,734	4,951
PostNL Other	943	1,027
Total year average	23,933	25,279

Including temporary personnel on our payroll; the external agency staff are additonal.

The total headcount of PostNL decreased by 2,193 employees, which mainly relates to the reduction within Mail in the Netherlands due to the impact of volume decline and cost savings initiatives, partly offset by an increase within Parcels due to growth in parcel volumes. The labour force is also measured in FTEs based on the hours worked divided by the local standard. In 2017, the average number of FTEs increased by 1,346 FTEs compared to 2016 mainly due to employees from PIN Mail Berlin related to the acquisition of HIM Holtzbrinck 25 GmbH in December 2016. The average number of employees working in the Netherlands was 20,220 FTEs (2016: 20,197) and outside the Netherlands was 5,059 FTEs (2016: 3,736).

2.1.4 Depreciation, amortisation and impairments: €79 million (2016: 92)

PostNL

Depreciation, amortisation and impairments

2016-2017, in € millions

Year ended at 31 December	2016	2017
Amortisation of intangible assets	27	20
Depreciation property, plant and equipment	62	59
Impairment of property, plant and equipment	3	0
Total	92	79

In 2017, amortisation of intangible assets related to software for €17 million (2016: 25) and other intangibles for €3 million (2016: 2). The decrease in amortisation of software relate to a change in accounting estimate. Effectively 1 January 2017, management extended the amortisation period of self-produced software from 3 to 5 years, following a review of the historical actual useful live in combination with an assessment of the expected future useful live. The positive effect on the amortisation in 2017 amounted to €11 million.

2.1.5 Other operating expenses: €156 million (2016: 162)

The other operating expenses consist of IT, communication, office, travel, consulting and training expenses and other shared services costs.

In 2017, total incurred EY audit fees amounted to €2.5 million (2016: 2.0, of which €1.7 million from EY and €0.3 million from our predecessor auditor PwC).

PostNL

Audit fees

2016-2017, in € millions

Year ended at 31 December	2016	2017
Audit fees	1.5	1.5
Audit-related fees	0.5	0.6
Tax advisory fees	0.0	0.0
Other non-audit services	0.0	0.4
Total	2.0	2.5

Audit fees include fees from the audit of the financial statements. Audit-related services include fees from assurance engagements related to the corporate responsibility information, regulatory reporting obligations, employee benefit plan data and other assurance engagements for the benefit of third parties. Other non-audit services include fees from, amongst others, agreed upon procedures.

In accordance with Dutch legislation, article 2:382a of the Dutch Civil Code, the total audit and audit-related fees charged by the auditor EY based in the Netherlands amounted to €1.9 million (2016: 1.8, of which €1.5 million from EY and €0.3 million from our predecessor auditor PwC).

2.2 Net profit and earnings per share

Net financial expense/(income): €42 million (2016: 45 income)

Accounting policies

Interest income and expense are recognised on a time-proportionate basis using the effective interest method. All borrowing costs are recognised in profit or loss using the effective interest method, except to the extent that they can be capitalised as cost of a qualifying asset.

PostNL

Net financial expense/(income)

2016-2017, in € millions

Year ended at 31 December	2016	2017
Interest expenses on long-term borrowings	48	32
Premium paid on bond buy-back	33	
Interest on net defined benefit pension liabilities	11	8
Interest on taxes	1	1
Hedge reserve recycled to profit and loss	4	
Net foreign exchange gains/(losses) and other	7	5
Interest and similar expense	104	46
Interest income	(4)	(4)
Profit on sale of stake TNT Express	(145)	
Interest and similar income	(149)	(4)
Net financial expense/(income)	(45)	42

In 2017, interest expenses on long-term borrowings decreased mainly as a result of the bond buy-back transaction in 2016.

In 2016, the profit on the sale of TNT Express shares of €145 million included the positive effect of €136 million from the recycling through the income statement of the fair value adjustments previously recognised in other comprehensive income.

Income taxes: €53 million (2016: 55)

Accounting policies
The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. The amount of income tax included in the income statement is determined in accordance with the rules established by the taxation authorities, based on which income taxes are payable or recoverable.

PostNL
Income taxes
2016-2017, in € millions

Year ended at 31 December	2016	2017
Current tax expense	54	44
Changes in deferred taxes	1	9
Total income taxes	55	**53**
Income taxes paid	80	**56**

The difference between the total income taxes in the income statement and the current tax expense is due to temporary differences. These differences are recognised as deferred tax assets or deferred tax liabilities, see note 3.7 to the consolidated financial statements.

In 2017, the income taxes paid relate almost completely to income taxes paid in the Netherlands and include payments related to prior years. The 2017 difference between the total income taxes (€53 million) and the income taxes paid (€56 million) can be explained by the changes in deferred taxes (-€9 million) and the 2017 movements of the net income tax payable position (€12 million).

PostNL
Effective income tax rate
2016-2017, in %

Year ended at 31 December	2016	2017
Dutch statutory income tax rate	25.0	25.0
Adjustment regarding statutory income tax rates other countries	(0.7)	(0.1)
Weighted average statutory tax rate	24.3	**24.9**
Tax effects of:		
Non and partly deductible costs	1.3	1.4
Exempt income	0.1	1.5
Other	3.2	(1.4)
Effective income tax rate - before impact of stake TNT Express	28.9	**26.4**
Impact of stake TNT Express	(12.5)	
Effective income tax rate	16.4	**26.4**

The line 'Non and partly deductible costs' mainly relates to the non deductible treatment of our share based payments, non deductible costs relating to subsidiaries and of the so-called mixed expenses (e.g., meals, entertainment). The line 'Exempt income' relates to the non taxable treatment of our results from joint ventures and associates (mainly Postkantoren/Bruna, associate Whistl in the UK and our German joint ventures and associates). The line 'Other' consists mainly of the combined impact of irrecoverable tax losses for which no deferred tax assets could be recognised (3.2%), the recognition of deferred tax assets in relation to tax losses (to be) recognised in the Netherlands (-3.3%) and several smaller effects (-1.3%).

In 2016, the impact of the stake in TNT Express related to the gain from the sale of the stake in TNT Express of €145 million.

Earnings per ordinary share: 33.0 eurocents (2016: 63.1)

Accounting policies
PostNL presents (diluted) earnings per share (EPS) for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding, including the effects for dilution of ordinary shares following the obligations to employees under existing share plans.

The following table summarises the outstanding shares for PostNL's calculation related to earnings per share.

PostNL
(Average) number of outstanding ordinary shares
2016-2017, in shares

Year averages and numbers at 31 December	2016	2017
Number of issued and outstanding ordinary shares	442,805,079	453,530,195
Shares held by the company to cover share plans	0	0
Average number of ordinary shares per year	442,366,626	448,645,255
Diluted number of ordinary shares per year	934,751	478,755
Average number of ordinary shares per year on a fully diluted basis	443,301,377	449,124,010

At 31 December 2017, PostNL had potential obligations under share plans to deliver 478,755 shares (2016: 934,751), calculated based on the share price of €4.076 as at 31 December 2017 (31 December 2016: €4.092).

2.3 Cash flow performance

Accounting policies
The consolidated statement of cash flows is prepared in accordance with IAS 7 using the indirect method. Cash flows in foreign currencies are translated at average exchange rates. Receipts and payments with respect to taxation on profits and interest payments are included in the cash flow from operating activities. Interest receipts and the cost of acquisition of subsidiaries, associates and investments, insofar as it was paid for in cash, are included in cash flows from investing activities. Acquisitions of subsidiaries are presented net of cash balances acquired. Cash flows from derivatives are recognised in the statement of cash flows in the same category as those of the hedged item.

2.3.1 Net cash (used in)/from operating activities: €99 million (2016: 110)

In 2017, net cash from operating activities of €99 million (2016: 110) resulted from €194 million of cash generated from operations (2016: 282) reduced by €39 million interest paid (2016: 92) and €56 million income tax paid (2016: 80).

Cash generated from operations
The decrease in cash generated from operations of €88 million is mainly explained by €65 million lower profit before income tax adjusted for non-cash items and investment income and a change in working capital of -€48 million partly offset by a lower change in pension liabilities of €18 million a lower change in other provisions of €7 million.

PostNL
Cash generated from operations
2016-2017, in € millions

Year ended at 31 December	2016	2017
Total profit before tax adjusted for non cash items and investment income	377	**312**
Pension expense defined benefit plans	90	96
Past service pension cost/settlements	(11)	(11)
Cash contributions defined benefit plans	(121)	(109)
Payment unconditional funding obligation	(32)	(32)
Change in pension liabilities	(74)	**(56)**
Additions to/releases from provisions	28	25
Withdrawals	(56)	(46)
Change in other provisions	(28)	**(21)**
Changes in working capital	7	**(41)**
Total cash generated from operations	282	**194**

For the changes in provisions, reference is made to note 3.4 Provisions for pension liabilities and to note 3.5 Other provisions. The higher investments in working capital mainly related to higher trade and other accounts receivable within Parcels and International.

Interest paid

The interest paid is explained as follows:

PostNL
Interest paid
2016-2017, in € millions

Year ended at 31 December	2016	2017
Interest on long-term borrowings	54	34
Premium paid on bond buy-back	33	
Bank charges and other	5	5
Total	92	**39**

The interest paid on long-term borrowings decreased mainly as a result of the bond buy-back transaction in 2016.

Income taxes received/(paid)

The income taxes paid of €56 million (2016: 80) mainly related to income taxes paid in the Netherlands and include payments related to prior years.

2.3.2 Net cash (used in)/from investing activities: -€121 million (2016: 543)

PostNL
Net cash investing activities
2016-2017, in € millions

Year ended at 31 December	2016	2017
Acquisition of subsidiaries (net of cash)	(30)	(33)
Capital expenditure on intangible assets and property, plant and equipment	(95)	(112)
Proceeds from sale of property, plant and equipment	27	32
Proceeds from sale of available-for-sale financial assets	643	
Changes in other loans receivable		(6)
Other	(2)	(2)
Net cash (used in)/from investing activities	543	**(121)**

Acquisitions

In 2017, cash outflow net of cash for acquisitions related to the acquisition of PS Nachtdistributie (€22 million), the acquisition of JP Haarlem (€2 million), the acquisition of Shops United (€6 million) and the acquisition of Cheap Cargo (€3 million). In 2016, cash outflow net of cash for acquisitions related to the acquisition of Yourzine and Searchresult (€21 million) and the acquisition of 50% of the shares of HIM Holtzbrinck 25 GmbH (€8 million). Reference is made to note 5.3 Business combinations.

Capital expenditure on intangible assets and property, plant and equipment
In 2017, capital expenditures on intangible assets of €38 million (2016: 31) mostly related to software including prepayments for software. The capital expenditures on property, plant and equipment amounting to €74 million (2016: 64) mainly related to the new processing and distribution centres within Parcels and equipment in Mail in the Netherlands (mainly related to new sorting machines). Capital expenditures are funded primarily by cash generated from operations and are part of strict cash control and review.

Proceeds from sale of property, plant and equipment
In 2017, proceeds from the sale of property, plant and equipment amounted to €32 million (2016: 27) and mainly related to the sale of several buildings.

Proceeds from sale of available-for-sale financial assets
In 2016, the proceeds from sale of available-for-sale financial assets related to the sale of the 14.6% stake in TNT Express.

Changes in other loans receivable
In 2017, changes in other loans receivable included a lessor loan of €6 million relating to the finance lease of a sorting machine by Bol.com.

2.3.3 Net cash (used in)/from financing activities: €27 million (2016: -368)

In 2017, the net cash used in financing activities mainly related to the final 2016 cash dividend paid of €25 million, interim 2017 cash dividend paid of €15 million, the proceeds of a new eurobond of €398 million and the repayment of a eurobond of €328 million. In 2016, the net cash used in financing activities mainly related to the bond buy-back transaction with a nominal value of €341 million and the partial settlement of the related cross-currency swap of €16 million. Reference is made to note 4.1 Net debt and note 4.4 Financial instruments. In 2016, changes related to non-controlling interests included the buy-out of the minority shareholder of Postcon National of -€11 million.

2.4 Other comprehensive income and equity development

Total equity: €37 million (2016: -76) and Other comprehensive income: €3 million (2016: -144)
The increase of total equity €113 million is mainly explained by net profit for the year of €148 million and other comprehensive income of €3 million, partly offset by the payment of cash dividends of €40 million in total. Other comprehensive income mainly consisted of a positive impact from pensions of €3 million.

Equity attributable to the equity holders of PostNL consisted of the following items:

Issued share capital and Additional paid-in-capital
As at 31 December 2017, issued share capital amounted to €36 million (2016: 36) and additional paid-in-capital amounted to €160 million (2016: 157). For details on Issued share capital and Additional paid-in capital, reference is made to note 4.5.

Currency translation reserve
As at 31 December 2017, the translation reserve amounted to €0 million (2016: 3), mainly reflecting the movement in exchange rate differences on converting subsidiaries within the International segment into euros.

Hedge reserve
As at 31 December 2017, the hedge reserve amounted to -€1 million (2016: -4) and mainly related to the fair value timing difference on the £177/€223 million cross-currency swap. The £177/€223 million cross-currency swap has been entered into to hedge foreign currency exposure on the £177 million eurobonds. The tax impact on the cash flow hedges included in the hedge reserve as at 31 December 2017 is €1 million (2016: 1). For more information on the cross-currency swaps, see note 4.4 to the consolidated financial statements.

Other reserves
As at 31 December 2017, the other reserves amounted to €74 million (2016: -561). In 2017, the other reserves increased by €635 million mainly resulting from the appropriation of net income from 2016 of €633 million and a positive pension effect within other comprehensive income (net of tax) of €3 million. For details on pensions, reference is made to note 3.4.

Retained earnings

As at 31 December 2017, retained earnings amounted to -€235 million (2016: 290). In 2017, retained earnings declined by €525 million due to the appropriation of net income from 2016 of €633 million and the payment of cash dividends of €40 million in total, partly offset by total profit for the year of €148 million in 2017.

The Board of Management has proposed to make the corporate profit for the year 2017 of €14 million and an amount of €78 million out of the distributable part of the shareholders' equity available for distribution of dividend. Refer to note 6.5 for more details of this proposal.

2.5 Segment information

Accounting policies

PostNL reports three operating segments: Mail in the Netherlands, Parcels and International and one other segment: PostNL Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. These chief operating decision-makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified as the Board of Management of PostNL that makes strategic decisions. Transfer prices between operating segments are on an arm's length basis.

The following table presents the reconciliation of the 2017 segment information relating to the income statement of the reportable segments. Segment information relating to the balance sheet is reported in note 3.10.

PostNL

Segmentation

2017, in € millions

Year ended at 31 December 2017	Mail in NL	Parcels	International	PostNL Other	Eliminations	Total
Net sales	1,505	933	1,041	0		3,479
Intercompany sales	270	169	10	76	(525)	
Other operating revenue	8	8	0			16
Total operating revenue	1,783	1,110	1,051	76	(525)	3,495
Other income	20	0	2	3		25
Depreciation/impairment property, plant and equipment	(28)	(18)	(6)	(7)		(59)
Amortisation/impairment intangibles	(7)	(4)	(4)	(5)		(20)
Total operating income	145	118	(4)	(6)		253
Net financial income/(expense)						(42)
Results from investments in jv's/associates						(10)
Income taxes						(53)
Profit for the year						148
Underlying cash operating income	125	120	6	(26)		225

The key financial performance indicator for management of the reportable segments is underlying cash operating income. The underlying cash operating performance focuses on the underlying cash earnings performance, which is the basis for the dividend policy. In the analysis of the underlying cash operating performance, adjustments are made for exceptional items as well as adjustments for non-cash costs for pensions and provisions. For pensions, the IFRS-based defined benefit plan pension expenses are replaced by the non-IFRS measure of the actual cash contributions for such plans. For the other provisions, the IFRS-based net charges are replaced by the related cash outflows. Underlying cash operating income is reported on a monthly basis to the chief operating decision-makers.

The following table presents the reconciliation of the 2016 segment information relating to the income statement of the reportable segments. Segment information relating to the balance sheet is reported in note 3.10.

PostNL

Segmentation 2016

2016, in € millions

Year ended at 31 December 2016	Mail in NL	Parcels	International	PostNL Other	Eliminations	Total
Net sales	1,616	803	984	0		3,403
Intercompany sales	258	158	33	177	(626)	
Other operating revenue	3	6	0	1		10
Total operating revenue	1,877	967	1,017	178	(626)	3,413
Other income	13	0	(3)	0		10
Depreciation/impairment property, plant and equipment	(30)	(15)	(6)	(14)		(65)
Amortisation/impairment intangibles	(12)	(8)	(3)	(4)		(27)
Total operating income	181	110	2	(2)		291
Net financial income/(expense)						45
Results from investments in jv's/associates						(1)
Income taxes						(55)
Profit for the year						280
Underlying cash operating income	160	106	14	(35)		245

Section 3: Operating assets and liabilities

This section sets out the Group's assets used to generate trading performance and the liabilities incurred as a result. Liabilities related to the Group's financing activities are addressed in section 4.

The **main operating assets** included in this section are: working capital, property, plant and equipment and intangible fixed assets. The **main operating liabilities** included in this section are: provision for pension liabilities and other provisions.

The other disclosures included in this section are: investments in joint ventures and associates, deferred income tax assets and liabilities and commitments and contingencies.

This section concludes with segmental information, where we split the relevant total operating assets and liabilities according to our reportable segments and according to a geographical segmentation.

3.1 Working capital

3.1.1 Accounts receivable: €436 million (2016: 389)

Accounting policies
Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of accounts receivable is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the loss is recognised in the income statement. Any reversal of the loss is included in the income statement on the same line as where the original expense was recorded.

The risk of uncollectability of accounts receivable is primarily estimated based on prior experience with, and the past due status of, doubtful debtors. Large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. In addition, debtors in certain countries are subject to a higher collectability risk, which is taken into account when assessing the overall risk of uncollectability.

PostNL
Accounts receivable
2016-2017, in € millions

At 31 December	2016	2017
Trade accounts receivable - total	373	401
Allowance for doubtful debt	(15)	(15)
Trade accounts receivable	358	**386**
VAT receivable	22	26
Accounts receivable from associates and joint ventures	1	0
Other accounts receivable	8	24
Accounts receivable	31	**50**
Total accounts receivable	389	**436**

The main part of the allowance for doubtful debt related to a collective loss component established for groups of similar trade accounts receivable balances. This collective loss component is largely based on the ageing of the trade accounts receivable and is reviewed periodically. For the non-trade accounts receivable, no allowance for doubtful debt was required. At 31 December 2017, the accounts receivable position of €50 million includes an amount of €13 million (2016: 1) related to terminal dues and an amount of €11 million related to Deutsche Post AG. Although payment is behind schedule, management expects the receivable to be fully recoverable. The fair value of the total (trade) accounts receivable approximated its carrying value.

The concentration of the trade accounts receivable per customer is limited. The top 10 trade accounts receivable accounted for 10% of the outstanding balance as at 31 December 2017 (2016: 12%). The concentration of the trade accounts receivable portfolio over the different regions can be summarised as follows:

- Netherlands €238 million (2016: 212),
- Germany and Italy €118 million (2016: 112), and
- the rest of the world €30 million (2016: 34).

The ageing analysis of the trade accounts receivable past due but not individually impaired is presented below.

PostNL

Ageing trade accounts receivable past due, not impaired

2016-2017, in € millions

At 31 December	2016	2017
Up to 1 month	60	60
2-3 months	29	38
3-6 months	13	18
6-12 months	10	15
Over 12 months	18	23
Total	130	154

The movements in the allowance for doubtful debt of trade accounts receivable were as follows:

PostNL

Statement of changes in the allowance for doubtful debt of trade accounts receivable

2016-2017, in € millions

	2016	2017
Balance at 1 January	19	15
Provided for during financial year	2	4
Releases		(2)
Receivables written off during year as uncollectable	(6)	(2)
Balance at 31 December	15	15

3.1.2 Other current liabilities: €150 million (2016: 141)

PostNL

Other current liabilities

2016-2017, in € millions

At 31 December	2016	2017
VAT payable	45	57
Social security contributions payable	28	27
Payments from customers received in advance	42	44
Other	26	22
Total	141	150

3.1.3 Accrued current liabilities: €577 million (2016: 592)

PostNL

Accrued current liabilities

2016-2017, in € millions

At 31 December	2016	2017
Amounts received in advance	105	93
To be paid to third parties	163	177
To be paid to personnel	47	47
Vacation days/vacation payments	80	81
Terminal dues	184	170
Interest payable	10	7
Other accrued current liabilities	3	2
Total	592	577

As at 31 December 2017, amounts received in advance mainly included €59 million (2016: 63) for deferred revenue for stamps that were sold but not yet used, deferred revenues from franking machines of €10 million (2016: 12) and rental of mailboxes of €12 million (2016: 12).

Main items within the expenses to be paid to third parties included payables to business partners of €37 million (2016: 33), claims of €5 million (2016: 5), discounts to be paid of €3 million (2016: 3) and various other expenses to be paid.

Expenses to be paid to personnel included accrued wages and salaries of €17 million (2016: 18), the accrual for voluntary termination agreements of €13 million (2016: 10) and accruals for employee profit-sharing over 2017.

The accrual for terminal dues relates to payables to foreign postal operators relating to the years 2017 and before. The change reflects both the regular course of business as well as settlements of outstanding positions.

3.2 Property, plant and equipment

Property, plant and equipment: €510 million (2016: 505)

Accounting policies
Property, plant and equipment is valued at historical cost, less depreciation and impairment losses. The initial costs of an assets comprises its purchase price, costs of bringing the asset into working condition, handling and installation costs and non-refundable purchase taxes.

Land is not depreciated. System software is capitalised and amortised as a part of the tangible fixed asset for which it was acquired to operate.

Finance leases are capitalised 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 debt. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Other property, plant and equipment is depreciated on a straight-line basis over its expected useful life, taking into account any residual value. The asset's residual value and useful life is reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

For the accounting policy concerning impairments, reference is made to note 5.4.

PostNL

Property, plant and equipment

2016-2017, in € millions

	Land and buildings	Plant and equipment	Other	Construction in progress	Total
Depreciation percentage	0%-10%	10%-33%	10%-33%	0%	
Historical cost	817	479	95	8	1,399
Accumulated depreciation and impairments	(474)	(345)	(72)		(891)
Balance at 31 Dec 2015	343	134	23	8	**508**
Capital expenditure in cash	7	32	5	20	64
Acquisition of subsidiaries		1	1		2
Disposals	(7)				(7)
Internal transfers and reclassifications	2	3		(5)	
Depreciation	(26)	(27)	(9)		(62)
Impairments	(1)	(1)	(1)		(3)
Transfers from assets held for sale	3				3
Total changes	(22)	8	(4)	15	**(3)**
Historical cost	838	477	82	23	1,420
Accumulated depreciation and impairments	(517)	(335)	(63)		(915)
Balance at 31 Dec 2016	321	142	19	23	**505**
Capital expenditure in cash	20	35	8	11	74
Capital expenditure in financial leases		1			1
Acquisition of subsidiaries	3	2	1		6
Disposals	(3)				(3)
Internal transfers and reclassifications	12	3	2	(17)	
Depreciation	(21)	(29)	(9)		(59)
Transfers to assets held for sale	(14)				(14)
Total changes	(3)	12	2	(6)	**5**
Historical cost	815	505	89	17	1,426
Accumulated depreciation and impairments	(497)	(351)	(68)		(916)
Balance at 31 Dec 2017	318	154	21	17	**510**

Capital expenditures in 2017 are above the level of 2016. Investments were made in the new processing and distribution centres within Parcels and in equipment in Mail in the Netherlands (mainly related to new sorting machines). Both developments also impacted the internal transfers and reclassifications from construction in progress to land and buildings, plant and equipment and other.

The disposals mainly related to the sale of real estate in the Netherlands. The book profit from the sale of real estate is included in other income in the consolidated income statement.

PostNL

Finance leases

2016-2017, in € millions

Year ended at 31 December	2016	2017
Land and buildings - leasehold rights and ground rents		
Historical cost	22	22
Accumulated depreciation	(9)	(9)
Bookvalue	13	**13**
Other equipment	2	1
Total bookvalue finance leases	15	**14**

The minimum lease payments to be paid under these contracts represent the discounted value.

The leasehold rights and ground rent contracts related to land and buildings in the Netherlands. Those expiring:

- between 1 and 5 years amount to €0 million (2016: 0),
- between 5 and 20 years amount to €0 million (2016: 0),
- between 20 and 40 years amount to €7 million (2016: 7),
- thereafter amount to €6 million (2016: 6), and
- with indefinite terms amount to €0 million (2016: 0).

3.3 Intangible fixed assets

Intangible fixed assets: €257 million (2016: 205)

Accounting policies

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of PostNL's share of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of joint ventures and associates is included in investments in joint ventures/associates and is not separately recognised or tested for impairment. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately-recognised goodwill arising on acquisitions is capitalised and subject to an annual impairment review. Goodwill is carried at cost less accumulated impairment losses.

Other intangible fixed assets

Costs related to the development and installation of software for internal use are capitalised at historical cost and amortised over the estimated useful life. Other intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

An asset under construction is transferred to its respective intangible asset category at the moment it is ready for use and is amortised using the straight-line method over its estimated useful life. Other intangible assets are valued at the lower of historical cost less amortisation and impairment. The asset's residual value and useful life is reviewed on an annual basis and, if necessary, changes are accounted for prospectively.

For the accounting policy concerning impairments of goodwill and other intangible fixed assets, reference is made to note 5.4.

PostNL

Intangible fixed assets

2016-2017, in € millions

	Goodwill	Software	Other	Total
Amortisation percentage		10%- 35%	0%- 35%	
Historical cost	267	211	49	527
Accumulated amortisation and impairments	(177)	(175)	(29)	(381)
Balance at 31 Dec 2015	90	36	20	146
Additions	25	16	15	56
Acquisition of subsidiaries	8	1	21	30
Internal transfers/reclassifications		16	(16)	
Amortisation		(25)	(2)	(27)
Total changes	33	8	18	59
Historical cost	300	238	45	583
Accumulated amortisation and impairments	(177)	(194)	(7)	(378)
Balance at 31 Dec 2016	123	44	38	205
Additions	20	26	12	58
Acquisition of subsidiaries		1	15	16
Disposals	(2)			(2)
Internal transfers/reclassifications		18	(18)	
Amortisation		(17)	(3)	(20)
Total changes	18	28	6	52
Historical cost	318	265	68	651
Accumulated amortisation and impairments	(177)	(193)	(24)	(394)
Balance at 31 Dec 2017	141	72	44	257

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) and tested for impairment. The CGUs correspond to an operation in a particular country or region and the nature of the services provided. Compared to 2016, the CGU structure has not changed.

In 2017, the additions to goodwill related to the acquisition of PS Nachtdistributie (€10 million), JP Haarlem (€2 million), Shops United (€6 million) and Cheap Cargo (€2 million). The goodwill of all acquisitions is allocated to the CGU Parcels. Reference is made to note 5.3 for more detailed information. The disposals of goodwill of €2 million related to the sale of Print Management (CGU Mail in the Netherlands).

In 2016, the additions to goodwill related to the acquisition of Yourzine and Searchresult (€14 million, CGU Mail in the Netherlands), Witgoed Services (€1 million, CGU Parcels) and 50% of the shares of HIM Holtzbrinck 25 GmbH (€10 million, CGU Germany). The €8 million goodwill resulting from the acquisition of subsidiaries resulted from the HIM Holtzbrinck 25 GmbH acquisition.

PostNL

Goodwill per CGU

2016-2017, in € millions

Year ended at 31 December	2016	2017
Mail in the Netherlands	67	65
Parcels	12	32
Germany	42	42
Italy	2	2
Total	123	**141**

Based on the 2017 financial performance, a detailed review has been performed of the recoverable value of each CGU. The recoverable value is the higher of the value in use and fair value less costs of disposal. Fair value less costs of disposal represents the best estimate of the amount PostNL would receive if it sold the CGU. The recoverable value is determined based on the value in use. The value in use has been estimated on the basis of the present value of future cash flows.

For both mature markets and non-mature markets, the estimated future net cash flows are based on a nine-year forecast and business plan, as management considers these forecasts reliable based on past experience. For markets considered non-mature, no steady state has been achieved to date. The cash flow projections have been approved by management.

PostNL has determined the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The pre-tax discount rate used in the CGU valuations varies from 9% to 13% (2016: 9% to 13%).

Key assumptions used to determine the recoverable values for each individual CGU are the following:

- maturity of the underlying market, market share and volume development in order to determine the revenue mix and growth rate,
- level of operating income largely impacted by revenue and cost development, taking into account the nature of the underlying costs and potential economies of scale,
- level of capital expenditure in network-related assets, and
- discount rate to be applied following the nature of the underlying cash flows and foreign currency and inflation-related risks.

Management has carried out an impairment test for each individual CGU and concluded that the recoverable amount of the individual CGUs is higher than the carrying amount.

Software and other intangibles

The closing balance of software and other intangibles is build up as follows:

PostNL

Software and other intangibles

2016-2017, in € millions

Year ended at 31 December	2016	2017
Internally-generated software	40	65
Purchased software	4	7
Software under construction	17	11
Customer lists	21	33
Total	82	**116**

The additions to software mainly concerned IT investments related to replacement and improvement of sorting and delivery processes within Mail in the Netherlands and Parcels, and software licenses and costs of internally-generated software for various IT projects including investments in our online landscape, logistic service platform and back office functionality. The reclassification from other intangibles was due to finalised IT projects. The increase in customer lists relate mainly to the acquisition of PS Nachtdistributie and Shops United.

The decrease in amortisation of software compared to 2016 relate to a change in accounting estimate. Effectively 1 January 2017, management extended the amortisation period of self-produced software from 3 to 5 years, following a review of the historical actual useful live in combination with an assessment of the expected future useful live. The positive effect on the amortisation in 2017 amounted to €11 million.

The estimated amortisation expenses for software and other intangible assets are:

- 2018: €26 million,
- 2019: €25 million,
- 2020: €25 million, and
- thereafter: €40 million.

PostNL does not conduct significant research and development activities and therefore does not incur research and development costs.

3.4 Provisions for pension liabilities

Provisions for pension liabilities: €359 million (2016: 410)

Accounting policies
The net defined benefit liability/asset for all pension and other post-employment plans that qualify as defined benefit plans is determined by calculating the present value of the defined benefit obligation and deducting the fair value of the plan assets. The resulting deficit or surplus is adjusted for any effect of limiting a net defined benefit asset to the asset ceiling and for any effect of minimum funding requirements.

PostNL uses actuarial calculations (projected unit credit method) to measure the obligations and the costs. Assumptions are made about financial variables (such as the discount rate and the rate of benefit increases) and demographic variables (such as employee turnover and mortality). The discount rate is determined by reference to market rates using high-quality corporate bonds. The assumed return on plan assets equals the discount rate applied in the calculation of the pension obligations at the beginning of the year.

Service costs are recognised as operating expenses in the income statement. Gains or losses on the amendment or curtailment of a defined benefit plan (past service cost) and gains or losses on a settlement are recognised as operating expenses in the income statement on the date of the amendment, curtailment or settlement.

The net interest expense/income on the net defined benefit liability/asset, asset ceiling and/or minimum funding requirements, is recognised as ‘Interest and similar expenses/ income’ in the income statement (below operating income).

Deviations between the expected and actual development of the pension obligation and plan assets, resulting in actuarial gains and losses, are recognised immediately within Other Comprehensive Income (net of tax). The impact of the asset ceiling and/or minimum funding requirements is also recognised within Other Comprehensive Income (net of tax).

Pension costs for defined contribution plans are expensed in the income statement when incurred or due.

PostNL’s main Dutch defined benefit average pay pension plan (main plan) covers the employees subject to PostNL’s collective labour agreement and staff with a personal labour agreement in the Netherlands. The main plan is externally funded in ‘Stichting Pensioenfonds PostNL’ (main fund), an independent legal entity which is not owned or controlled by any other legal entity and which falls under the regulatory supervision of De Nederlandsche Bank.

PostNL also runs a number of defined benefit transitional plans, which mainly consist of a conditional pension benefit (“soft pension") ultimately granted and financed towards the main fund at 31 December 2020 or retirement, if earlier.

Main developments during 2017

On 31 July 2016, the main fund's 12 months average coverage ratio was 103.8%, below the minimum required funding level of 104.0%. This triggered the start of a 5-year recovery period, in which top-up payments might apply. The 5-year recovery period that started in Q3 2016, has ended at the end of Q3 2017 after three consecutive quarters in which the coverage ratio was above the minimum required level. Based on our projections we do not anticipate any top-up payments.

In 2015, PostNL started the payment of the unconditional funding obligation to the main fund by a first instalment of €32 million. In 2016 and 2017, the second and third instalment of €32 million were paid. At 31 December 2017, the outstanding funding obligation amounted to €65 million, which will be paid by 2 equal instalments during the years 2018 - 2019.

Following a change in fiscal regulations, PostNL and the trade unions agreed on the adjustment of the main plan's retirement age from 67 years to 68 years, starting 1 January 2018. As a result of this change in retirement age, the maximum accrual rate was allowed to remain unchanged at 1.875% of the pensionable base. Additionally, PostNL, the trade unions and the main fund also agreed on a change in the financing agreement of the main plan. Starting 1 January 2018, the actuarial contributions are calculated based on the main fund's expected return on plan assets in stead of by applying a 60-month moving average pension fund discount rate. The change positively impacts the resulting accrual rate. It will not result in higher cash contributions, as these remain bounded by an unchanged maximum level.

Further details of the main plan

The main plan is a defined benefit average pay scheme, with a basis accrual rate of 1.875% of the pensionable base and retirement age set at 67 years (till 2017, 68 years as of 2018). The pensionable base is derived as the pensionable salary, with a statutory maximum of €103,317 (level 2017), minus a state pension offset.

Pension (cash) contributions are bounded by a minimum level of 21.5% and a maximum level of 27.5% of the pensionable salary base. In 2017, the actuarial contributions are calculated by applying a 60-month moving average pension fund discount rate. Starting 2018, the calculations are based on the main fund's expected return on plan assets. The resulting contributions are increased by 10% if the coverage ratio is below 120% and by 5% if the coverage ratio is between 120% and 130%. Based on the total maximum premium amount, the intended pension accrual can be reduced in any year. Given the applicable financing arrangements and current low interest rates, it is expected that the accrual rate will be lower than the basis level of 1.875% for the coming years. The accrual rate for 2017 and 2018 has been set at 1.43% (retirement age 67) and 1.615% (retirement age 68) of the pensionable base.

In the event of a coverage deficit PostNL has an obligation for top-up payments of at most 1.25% of the fund's plan obligations per year, for at most five consecutive years. In determining the top-up payment obligation, the resilience of the pension fund will be taken into account. The requirement to supplement a deficit will be determined on the basis of the 'beleidsdekkingsgraad' (i.e. the 12-months average coverage ratio).

By the end of 2017, the month-end coverage ratio of the main fund amounted 115.8% (2016: 108.3%), including the outstanding payment of the unconditional funding obligation of €65 million by PostNL. The increased coverage ratio is mainly explained by the return on plan assets of 5.5%. The 12-months average coverage ratio amounted 113.4% per 31 December 2017 (2016: 103.6%).

The returns on plan assets are linked to the strategic investment policy of the main fund. The fund uses interest rate derivates to reduce the net interest exposure on its assets and liabilities. The plan assets may from time to time include investments in PostNL's own financial instruments through indirect holdings by mutual funds. Around 73% of the fund's total plan assets have a quoted market price in an active market. The unquoted part relates to investments in investment funds which invest in non-listed assets (for example real estate investments) and non-listed derivatives.

PostNL

Asset mix/return of main pension plan

2016-2017, in %

At 31 December	Actual mix 2016	Actual mix 2017
Equities	22%	32%
Fixed interest and inflation linked bonds	62%	61%
Real estate and alternative investment	16%	8%
Swaps	0%	(1%)
Total	100%	100%
Return	10.8%	5.5%

Statement of changes in provision for defined benefit plans

The following table presents an overview of the movement of the provision for post-employment benefit plans during 2017.

PostNL

Statement of changes in provision for defined benefit plans

2016-2017, in € millions

	Balance at 31 December 2016	Post-employment benefit income/ (expenses)	Employer contributions	Actuarial gains/(losses)	Pension asset ceiling/minimum funding requirement	Balance at 31 December 2017
Dutch main pension plan	(97)	(89)	106	29	(14)	(65)
Dutch transitional plans	(302)	(4)	35	(12)		(283)
Other plans	(11)	0	0	0		(11)
Provision for post-employment benefit plans	(410)	(93)	141	17	(14)	(359)

The following table gives a break-down of total pension costs, pension cash contributions, actuarial gains and losses, and the impact of the asset ceiling and/or minimum funding requirement.

PostNL

Details on cost, cash, gains and losses, and adjustments

2016-2017, in € millions

		2016	2017
Regular defined benefit costs		(101)	(104)
Past service costs/settlements		11	11
Defined contribution costs		(11)	(14)
Total employer pension costs		**(101)**	**(107)**
Of which included within salaries, pensions and social security contributions	refer to note 2.1.3	(90)	(99)
Of which included within interest and similar expenses	refer to note 2.2	(11)	(8)
Defined benefit cash contributions		121	109
Defined benefit payment unconditional funding obligation		32	32
Defined contribution cash contributions		11	14
Total employer pension cash contributions		**164**	**155**
Actuarial gain/(loss) due to:			
Change in discount rate	from 1.8% to 2.0% (2016: from 2.5% to 1.8%)	(974)	300
Change in rate of benefit increases	from 1.1% to 1.5% (2016: stable at 1.1%)		(643)
Change in rate of benefit accrual		25	(13)
Changes in demographic assumptions		(66)	6
Experience adjustments		134	84
Actuarial loss on benefit obligations		**(881)**	**(266)**
Actuarial gain/(loss) on plan assets		612	283
Total actuarial gain/(loss)		**(269)**	**17**
Net charge within Other Comprehensive Income		**(202)**	**13**
Adjustment for pension asset ceiling		146	
Adjustment for minimum funding requirement		99	(14)
Total gross adjustment		**245**	**(14)**
Net charge within Other Comprehensive Income		**184**	**(10)**

The actuarial loss of €13 million (2016: gain of 25) resulting from a change in the rate of benefit accrual follows from the maximum level of pension (cash) contributions of 27.5% of the pensionable base. Given current low interest rates and the applicable financing arrangements, it is expected that the benefit accrual rate will be lower than the basis level of 1.875% for the coming years.

The negative adjustment of €14 million is the consequence of the slight increase in the main fund's funded status (on the basis of IAS 19 accounting) during 2017, triggering adjustment of the recorded minimum funding requirement.

For 2018, we expect total cash contributions of around €150 million (2017: 155), including the fourth instalment of the unconditional funding obligation of €33 million (2017: 32).

For 2018, we expect total employer pension costs of around €140 million (2017: 118, excluding the past service costs of 11). The increase is mainly explained by the higher rate of benefit increases, reflecting the development of the coverage ratio of the main fund. As the net liability of the main pension plan is limited to the outstanding funding obligation, the increase in expenses will be compensated by an actuarial gain recorded in other comprehensive income.

Detailed reconciliation of the opening and closing balances

The following table reconciles the opening and closing balances of the present value of the defined benefit obligation and the fair value of plan assets, the funded status and the netted pension provisions, and the employer pension expenses of PostNL's defined benefit post-employment plans.

PostNL

Detailed overview of changes in consolidated defined benefit plans

2016-2017, in € millions

	2016	2017
Change in benefit obligation		
Benefit obligation at beginning of year	(7,636)	(8,542)
Service costs	(100)	(105)
Interest costs	(190)	(153)
Past service costs	7	11
Settlements	34	1
Actuarial (losses)/gains	(881)	(266)
Benefits paid	224	228
Benefit obligation at end of year	(8,542)	**(8,826)**
Of which funded benefit obligations	(8,232)	(8,534)
Of which unfunded benefit obligations	(310)	(292)
Change in plan assets		
Fair value of plan assets at beginning of year	7,458	8,165
Assumed return on plan assets	186	146
Employee contributions	19	18
Employer contributions	153	141
Other costs	(9)	(9)
Settlements	(30)	(1)
Actuarial (losses)/gains	612	283
Benefits paid	(224)	(228)
Fair value of plan assets at end of year	8,165	**8,515**
Change in funded status		
Funded status at the beginning of year	(178)	(377)
Operating expenses	(79)	(85)
Interest (expenses)/income	(4)	(7)
Employer contributions	153	141
Actuarial (losses)/gains	(269)	17
Funded status at end of year	(377)	**(311)**
Impact of pension asset ceiling		
Impact of minimum funding requirement	(33)	(48)
Netted pension liabilities	(410)	**(359)**
Components of employer pension expenses		
Service costs (net of employee contributions)	(81)	(87)
Interest (expenses)/income	(11)	(8)
Past service costs/settlements	11	11
Other costs	(9)	(9)
Total post-employment benefit income/(expenses)	(90)	**(93)**
Weighted average assumptions as at 31 December		
Discount rate	1.8%	2.0%
Rate of benefit increases	1.1%	1.5%
Life expectancy 65 year old men/women (in years)	21.1/23.4	21.2/23.5

The past service costs of €11 million (2016: 7) resulted mainly from the partly release of obligations on the transitional plans following additional restructurings within Mail in the Netherlands.

The change towards expected return on plan assets as a basis for calculation contributions positively impacts the expected benefit accrual rates. As cash contributions are bounded, the resulting increase of the defined benefit obligation of around €65 million is fully matched by a decrease in the expected rate of benefit increases. Consequently, the net impact of the change is zero.

The settlement in 2017 and 2016 both relate to the ending of smaller other funded defined benefit plans.

Key assumptions

The discount rate is based on the long-term yield on high quality (AA-rated) corporate bonds, taking into account the duration of the projected pension liabilities of around 18 years. The corporate bond yield information is sourced from Bloomberg, taking into account a minimum outstanding amount and other defined selection criteria. By applying curve-fitting procedures, a yield curve is generated. Using the full yield curve, the discounted value of the expected future benefit payments is matched with the comparable present value when using a single discount rate.

The conditional benefit increases are based on the (derived) Consumer Price Index. The assumed rate of benefit increases is based on advice, published statistics, the pension plan's ambition level and the actual financial status of the pension fund.

Assumptions regarding the longevity outlook are based on advice, published statistics and experience per country. The applied prospective longevity rates are derived from the Dutch mortality table 'AG prognosetafel 2016' taking into account experience rates based on postal areas, as applied by the main fund.

Sensitivity analysis of the defined benefit obligation

The table below shows the sensitivity of the defined benefit obligation at year-end 2017 to deviations in key assumptions, with all other assumptions held unchanged. The percentages presented exclude any impact from applying a liability ceiling, nor is the impact on plan assets, asset ceiling and/or minimum funding requirement included. The sensitivity to life expectancy of +1/-1 year is measured by assuming all plan participants 1 year younger/older. The percentages presented are prior to any effect of liability or asset ceiling.

PostNL
Sensitivity defined benefit obligation
2017, as indicated

	%-change in assumptions	impact on defined benefit obligation
Benefit obligation at end of year (in € millions)		**8,826**
Discount rate	+ 0.5%	-8.0%
Rate of benefit increases	+ 0.5%	9.7%
Life expectancy men/women	+ 1 yr	3.6%
Benefit obligation at end of year (in € millions)		**8,826**
Discount rate	- 0.5%	9.1%
Rate of benefit increases	- 0.5%	-7.9%
Life expectancy men/women	- 1 yr	-3.6%

3.5 Other provisions

Other provisions: €63 million (2016: 83)

Accounting policies

Provisions are recognised when there is a present obligation as a result of a past event, making it probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation on the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The gross-up of the provision following the discounting of the provision is recorded in the income statement as interest expense.

PostNL recognises termination benefits when the company has committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or provides termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Provisions for onerous contracts are recorded when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to arise from that contract, taking into account impairment of fixed assets first.

The following table presents the changes in the short-term and long-term provisions.

PostNL

Other long-term and short-term provisions

2016-2017, in € millions

	Other employee benefit obligations	Restructuring	Claims and indemnities	Other	Total
Non-current other provisions	15	7	11	6	39
Current other provisions	4	35	1	4	44
Balance at 31 Dec 2016	19	42	12	10	83
Additions	1	28	2	6	37
Withdrawals	(2)	(41)	(1)	(2)	(46)
Releases	(1)	(2)	(5)	(4)	(12)
Interest				1	1
Total changes	(2)	(15)	(4)	1	(20)
Non-current other provisions	13	1	6	3	23
Current other provisions	4	26	2	8	40
Balance at 31 Dec 2017	17	27	8	11	63

The estimated utilisation of the other provisions in 2018 is €40 million, in 2019 €8 million, in 2020 €3 million and in 2021 and thereafter €12 million.

Other employee benefit obligations

As at 31 December 2017, the other employee benefit obligations related to jubilee payments of €15 million and other employee benefits of €2 million.

Restructuring

The restructuring provision and changes thereof related mainly to the cost saving programmes, where €26 million of the total additions of €28 million in 2017 consisted of restructurings within operations (€14 million), marketing & sales (€3 million) and head office departments (€9 million), relating to around 310 FTE in total.

The restructuring within operations related to the implementation of the new organisational structure for management and staff of production and the restructuring of our commercial departments. The restructuring within head office departments results from adjusting the employee base to the volume decline within Mail in the Netherlands and Parcels.

The withdrawals of €41 million concerned severance payments under the cost saving programmes totalling €38 million related to around 460 FTEs and payments for other initiatives totalling €3 million related to around 110 FTEs.

The release of €2 million mainly related to the cost saving programmes within operations and head office departments, resulting from reduced redundancies and periodical reassessments of the expected cash costs.

Claims and indemnities

The provision for claims and indemnities includes provisions for claims from third parties with respect to PostNL's ordinary business activities, as well as indemnities and disputes related to the sale of PostNL's discontinued operations. More detailed information relating to these provisions is not provided, as such information could prejudice the company's position with respect to these claims and indemnities.

Other

Other provisions consist of anticipated contributions to the postal fund for unemployment, onerous contracts, dilapidation costs in relation to restructurings, guarantees provided to third parties and a tax related risk.

3.6 Investments in joint ventures and associates

Investments in joint ventures and associates: €9 million (2016: 17)

Accounting policies

An associate is an entity over which PostNL has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint arrangement is an arrangement of which two or more parties have joint control. There are two types of joint arrangements: joint operations and joint ventures. PostNL only participates in entities that can be considered as a joint venture.

PostNL's share in the results of joint ventures and associates is included in the consolidated income statement using the equity method. The carrying value of PostNL's share in joint ventures and associates includes goodwill on acquisition and includes changes to reflect PostNL's share in net earnings of the respective companies, reduced by dividends received. When PostNL's share of accumulated losses in a joint venture or associate exceeds its interest in the company, the book value of the investment is reduced to zero and PostNL does not recognise further losses unless PostNL is bound by guarantees or other undertakings in relation to the joint venture or associate.

For the accounting policy concerning impairments, reference is made to note 5.4.

The following table presents the changes in the carrying value of the investments in joint ventures and associates.

PostNL

Investments in joint ventures and associates

2016-2017, in € millions

	2016	2017
Balance at 1 January	33	**17**
Share in net result	2	(1)
Capital contribution		6
Impairment Postkantoren/Bruna	(10)	(9)
Transfer Whistl to available-for-sale financial assets		(3)
Fair value adjustment HIM Holtzbrinck 25 GmbH	7	
Disposal	(14)	
Dividend received	(1)	(1)
Balance at 31 December	17	**9**

As at 31 December 2017, the investments in joint ventures mainly related to the 50% interest in Postkantoren B.V, a joint venture with ING Bank N.V, within Mail in the Netherlands and Advo Sansula GmbH, a joint venture in Germany, within International. The investments in associates mainly related to minority shareholdings in Germany, within International. All joint ventures are private companies and there is no quoted market price available for their shares.

On 13 October 2017, Whistl replaced the PostNL guarantee of £32 million by a guarantee of an external party. The release of the guarantee was accompanied by other shareholding relationship changes, that led to PostNL losing its significant influence on the investment. As a result the investment in associate Whistl has been transferred to available-for-sale financial assets.

On 28 December 2017, Postkantoren B.V. completed the sale of its 100% subsidiary Bruna B.V. Completion was accompanied by a recapitalisation of Bruna of €5 million, which was preceded by a recapitalisation of Postkantoren of €6 million. The impairment of Postkantoren/Bruna of €9 million reflects the further deteriorated financial situation following the reduced performance of Bruna during 2017 for €4 million and the write-down of the sale-related recapitalisation of Bruna for €5 million.

In 2016, the fair value adjustment and disposal related to the acquisition of the remaining 50% of the shares of HIM Holtzbrinck 25 GmbH. With the acquisition of the remaining shares, PostNL obtained control of HIM Holtzbrinck 25 GmbH. The previously held equity interest of 50% was remeasured at fair value at acquisition date which resulted in a gain of €7 million reported as results from investments in joint ventures.

Management has assessed none of the investments in joint ventures and associates to be material to the company. On a 100% basis, the profit/(loss) of all immaterial investments in joint ventures amounted to -€3 million (2016: -2). The profit/(loss) of all immaterial investments in associates amounted to €4 million (2016: 16).

3.7 Deferred income tax assets and liabilities

Deferred tax assets: €29 million (2016: 38) and deferred tax liabilities: €43 million (2016: 40)

Accounting policies

Deferred tax assets and liabilities arising from temporary differences between the carrying amounts of assets and liabilities and the tax base of assets and liabilities are calculated using the substantively enacted tax rates expected to apply when they are realised or settled. Deferred tax assets are recognised if it is probable that they will be realised. At the end of each reporting period the amounts of deferred tax assets and the amounts of unrecognised deferred tax assets are reassessed. Deferred tax assets and liabilities within the same tax group, where a legally enforceable right to offset exists, are presented net in the balance sheet.

The following table shows the movements in deferred taxes in 2017:

PostNL

Statement of changes deferred taxes

2017, in € millions

	Net balance 31 December 2016	Changes via income statement	Changes via other comprehensive income	Acquisition of subsidiaries	Net balance 31 December 2017	Assets	Liabilities
Provisions	33	(8)			25	25	
Property, plant and equipment	(36)	(9)		1	(44)	16	60
Losses carried forward	9	2			11	11	
Other	(8)	6		(4)	(6)	11	17
Deferred tax assets/liabilties	(2)	(9)	0	(3)	(14)	**63**	**77**
Offsetting						(34)	(34)
Net deferred taxes	(2)	(9)	0	(3)	(14)	**29**	**43**

Of the deferred tax assets at 31 December 2017, €2 million (2016: 5) is to be recovered within 12 months and €27 million (2016: 33) after 12 months. Of the deferred tax liabilities at 31 December 2017, an amount of €8 million (2016: 17) is to be settled within 12 months and an amount of €35 million (2016: 23) after 12 months.

The total accumulated losses available for carry forward at 31 December 2017 amounted to €230 million (2016: 228). With these losses carried forward, future tax benefits of €67 million could be recognised (2016: 66). Tax deductible losses give rise to deferred tax assets at the statutory tax rate in the relevant country. Deferred tax assets are recognised if it is probable that they will be realised. The probability of the realisation is impacted by uncertainties regarding the realisation of such benefits, for example as a result of the expiration of tax losses carried forward and projected future taxable income.

As a result PostNL has not recognised €56 million (2016: 57) of the potential future tax benefits and has recorded deferred tax assets of €11 million at 31 December 2017 (2016: 9).

The expiration of total accumulated losses is as follows:
- 2018: €4 million,
- 2019: €6 million,
- 2020: €5 million,
- 2021: €1 million,
- 2022 and thereafter: €10 million, and
- Indefinite: €204 million.

The following table shows the movements in deferred taxes in 2016:

PostNL
Statement of changes deferred taxes
2016, in € millions

	Net balance 31 December 2015	Changes via income statement	Changes via other comprehensive income	Acquisition of subsidiaries	Net balance 31 December 2016	Assets	Liabilities
Provisions	31	(4)	6		33	33	
Property, plant and equipment	(39)	3			(36)	12	48
Losses carried forward	6	3			9	9	
Other	4	(3)	(2)	(7)	(8)	8	16
Deferred tax assets/liabilties	2	(1)	4	(7)	(2)	62	64
Offsetting						(24)	(24)
Net deferred taxes	2	(1)	4	(7)	(2)	38	40

3.8 Assets classified as held for sale

Assets classified as held for sale: €10 million (2016: 4)

Accounting policies
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs of disposal. Assets held for sale are no longer amortised or depreciated from the date they are classified as such. Accounting for assets classified as held for sale requires the use of assumptions and estimates. In line with IFRS 5, management assessed compliance with these statements and the assumptions used in the fair value calculations as well as the estimated costs of disposal.
For the accounting policy concerning impairments, reference is made to note 5.4.

As at 31 December 2017, assets classified as held for sale amounted to €10 million (2016: 4) and related to buildings held for sale in the Netherlands.

Property plant and equipment
Property, plant and equipment included in assets held for sale relate to buildings in the Netherlands. The book profit from the sale of buildings is included in other income in the consolidated income statement. The following table presents the movements of the balance sheet positions during 2017 and 2016.

PostNL
Property, plant and equipment
2016-2017, in € millions

	2016	2017
Balance at 1 January	13	**4**
Disposals	(6)	(8)
Impairments	0	0
Transfers to/from property, plant and equipment	(3)	14
Balance at 31 December	4	**10**

3.9 Commitments and contingencies

Accounting policies

Commitments are probable obligations that arises from past events whose existence will only be confirmed by the occurrence (or non-occurrence) of one or more probable future events.

Contingencies are possible obligations (contingent liabilities) or possible assets (contingent assets) that arise from past events whose existence will only be confirmed by the occurrence (or non-occurrence) of one or more uncertain future events, not wholly within the control of the entity.

PostNL
Off balance sheet commitments
2016-2017, in € millions

At 31 December	2016	2017
Rent and operating lease	146	153
Capital expenditure	42	37
Purchase commitments	55	74

As at 31 December 2017, €165 million of the commitments indicated above are of a short-term nature (2016: 157).

Rent and operational lease contracts

In 2017, operational lease expenses (including rental) in the consolidated income statement amounted to €81 million (2016: 84). There were no significant individual lease contracts as at 31 December 2017. Future payments on non-cancellable existing lease contracts mainly relating to real estate, computer equipment and other equipment are as follows:

PostNL
Repayment schedule rent/operational leases
2016-2017, in € millions

At 31 December	2016	2017
Less than 1 year	59	59
Between 1 and 2 years	40	37
Between 2 and 3 years	23	26
Between 3 and 4 years	15	16
Between 4 and 5 years	7	6
Thereafter	2	9
Total	146	**153**

Capital expenditure

As at 31 December 2017, commitments in connection with capital expenditure amounted to €37 million (2016: 42) and are related to property, plant and equipment. These commitments primarily relate to the new processing and distribution centres of Parcels.

Purchase commitments

As at 31 December 2017, PostNL had unconditional purchase commitments of €74 million (2016: 55), primarily related to various service and maintenance contracts for information technology, security, salary registration and cleaning. The increase is mainly caused by commitments related to the migration from IT-systems into the cloud.

Contingent tax liabilities
Multinational groups of the size of PostNL are exposed to varying degrees of uncertainty related to tax planning and regulatory reviews and audits. PostNL accounts for its income taxes on the basis of its own internal analyses, supported by external advice. PostNL continually monitors its global tax position, and whenever uncertainties arise, assesses the potential consequences and either accrues the liability or discloses a contingent liability in its financial statements, depending on the strength of the company's position and the resulting risk of loss.

As a specific contingent tax liability, at the end of December 2017 a tax dispute has arisen in the segment International. The dispute relates to the year 2012 and can be estimated, using a probability-weighted assessment, at €3 million. Although we believe that this risk is in the low possibility range (20%-30%), supported by external advice, the outcome of the matter will depend upon the result of any negotiations with the relevant tax authorities and the outcome of expected related litigation. Furthermore, it is uncertain whether comparable tax disputes will arise for the years as from 2013 onwards.

Guarantees
As at 31 December 2017, PostNL, on behalf of its subsidiaries, had various parental and bank guarantees outstanding. However, none resulted in an off-balance sheet commitment for the Group as the relating obligations to external parties have already been recognised by these subsidiaries following their ordinary course of business. As at 31 December 2016, PostNL had a £32 million guarantee outstanding for its investment in associate Whistl that has been released on 13 October 2017.

Contingent legal liabilities
The company is involved in several legal proceedings relating to the normal conduct of its business, such as claims for loss of goods, delays in delivery, trademark infringements, subcontracting and employment issues, and general liability. The majority of these claims are for amounts below €1 million and are insured and/or provided for. PostNL does not expect any liability arising from any of these legal proceedings to have a material impact. The company is also involved in regulatory proceedings. While it is not feasible to predict or determine the ultimate outcome of these proceedings, the company is of the opinion that they may have an impact on the company's financial position, result of operations and cash flows going forward. The company has made provisions for probable liabilities where deemed necessary and to the extent a reliable estimate of the future cash outflows can be made.

Separation agreement PostNL and TNT Express
Following the demerger of Express, PostNL and TNT Express entered into a separation agreement, which remained valid despite the sale of the shares in TNT Express under the public offer by FedEx in May 2016. The separation agreement creates certain rights and obligations for both PostNL and TNT Express after the demerger. Relevant aspects relate to pensions, litigation, such as claim and litigation handling, non-allocated and non-anticipated claims and release of provisions.

Pursuant to the pension arrangements concluded between PostNL, TNT Express and the pension funds, PostNL provided a subsidiary guarantee for TNT Express in the event of violation of contractual terms, irregularity of payments and bankruptcy. This subsidiary guarantee only relates to pension benefits accrued under the existing pension plans (up to the date of the demerger) and will comprise a liability that gradually decreases over time. In addition, PostNL has provided a guarantee for future TNT Express pension payments, barring certain unforeseen circumstances. The guarantees of PostNL will only exist as long as the coverage ratio of the TNT Express fund is below a certain level. If the coverage ratio rises above that level and remains above that level for three consecutive quarters, the guarantees lapse.

As at 31 December 2017, no events had occurred that triggered disclosure of a significant contingent asset or liability following the aforementioned agreement with TNT Express.

3.10 Segment information

Accounting policies
PostNL reports three operating segments: Mail in the Netherlands, Parcels and International and one other segment: PostNL Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. These chief operating decision-makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified as the Board of Management of PostNL that makes strategic decisions. Transfer prices between operating segments are on an arm's length basis.

Balance sheet information

A reconciliation of the segment information relating to the balance sheet of the reportable segments is presented below. Segment information relating to the income statement is reported in note 2.5.

PostNL

Segmentation - balance sheet and capital expenditures

2017, in € millions

At 31 December 2017	Mail in NL	Parcels	International	PostNL Other	Total
Intangible assets	103	63	67	24	257
Property, plant and equipment	228	242	20	20	510
Trade accounts receivable	168	63	154	1	386
Other current assets	71	40	125	631	867
Total assets	587	415	391	687	2,080
Trade accounts payable	106	29	56	29	220
Other current liabilities	496	126	119	255	996
Total liabilities	842	228	195	778	2,043
Cash out for capital expenditures	46	41	14	11	112

The segmented balance sheet information as at 31 December 2016 was as follows:

PostNL

Segmentation - balance sheet and capital expenditures

2016, in € millions

At 31 December 2016	Mail in NL	Parcels	International	PostNL Other	Total
Intangible assets	99	23	66	17	205
Property, plant and equipment	237	223	18	27	505
Trade accounts receivable	166	48	144	0	358
Other current assets	78	35	133	566	812
Total assets	602	331	383	625	1,941
Trade accounts payable	81	34	50	23	188
Other current liabilities	517	102	111	383	1,113
Total liabilities	860	203	183	771	2,017
Cash out for capital expenditures	41	34	12	8	95

The segment information from a geographical perspective is derived as follows: the basis of allocation of assets and investments by geographical area is the location of the assets.

PostNL

Geographical segmentation - assets

2016-2017, in € millions

At 31 December		2016			2017	
	Intangible assets	Property, plant and equipment	Financial fixed assets	Intangible assets	Property, plant and equipment	Financial fixed assets
The Netherlands	143	486	37	194	489	30
Germany	58	10	10	57	11	9
Italy	4	7	9	5	8	10
Rest of Europe		2	1	1	2	1
Europe	205	505	57	257	510	50
Rest of the World						
Total	205	505	57	257	510	50

Section 4: Capital structure and financing costs

This section sets out the Group's capital structure and related (financing) costs.

We start by exploring our net asset / net debt position, the Group's key measure used to evaluate total cash resources net of the current outstanding debt. We next disclose how the Group manages its financial risks. PostNL's activities expose the company to a variety of financial risks, such as market risks, credit risk and liquidity risk. PostNL's overall risk management programme focuses on mitigating these risks, which arise in the normal course of business. We continue with a summary of the Group's financial instruments.

We conclude this section with the disclosure of our equity structure, the individual components therein and an analysis of the movements during the year.

Accounting policies

PostNL distinguishes the following categories of financial assets and liabilities:

- financial assets and financial liabilities at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments,
- available-for-sale financial assets,
- financial liabilities measured at amortised cost.

Management determines the classification of PostNL's financial assets and liabilities at initial recognition.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are derivatives including the following instruments:

- fair value hedges (hedges of the fair value of recognised assets and liabilities of a firm commitment);
- cash flow hedges (hedges of a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction); or
- net investment hedges (hedges of a net investment in a foreign operation).

These instruments are carried at fair value. Unrealised gains and losses are recognised in profit or loss. If a derivative is designated as a cash flow hedge or net investment hedge, changes in its fair value are considered to be effective and recorded in a separate component in equity until the hedged item is recorded in income. Any portion of a change in the fair value of a derivative that is considered to be ineffective, or is excluded from the measurement of effectiveness, is immediately recorded in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit and loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the asset or liability.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time remain in equity until the underlying transaction is ultimately recognised in the income statement. When an underlying transaction is no longer expected to occur, the cumulative gains or losses that were reported in equity are immediately transferred to the income statement.

Fair value measurement is based on the following fair value measurement hierarchy: 1) quoted prices (unadjusted) in active markets, 2) inputs other than quoted prices that are observable either directly (prices) or indirectly (derived from quoted prices), and 3) inputs not based on observable market data. Valuation techniques used include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, statutory/management reports and discounted cash flow analysis.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which PostNL has no intention of trading. Loans and receivables are carried at amortised cost using the effective interest method.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which PostNL has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories above. Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as a gain or a loss.

Financial liabilities measured at amortised cost
Financial liabilities measured at amortised cost are recognised initially at fair value net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

4.1 Net cash

As at 31 December 2017 net cash amounted to €27 million (2016: 86) and included the items disclosed hereafter.

Other loans receivable: €7 million (2016: 1)

As at 31 December 2017, other loans receivable mainly include a lessor loan of €6 million relating to the finance lease of a sorting machine by Bol.com.

Cash and cash equivalents: €645 million (2016: 640)

PostNL
Cash and cash equivalents
2016-2017, as indicated

At 31 December	Nominal amount	Average amount	Effective interest rate
Cash at bank and in hand	237		
Bank deposits	175	247	(0.19%)
Money Market Funds	228	198	(0.21%)
Total cash and cash equivalents 2016	**640**		
Cash at bank and in hand	253		
Bank deposits	100	120	(0.20%)
Money Market Funds	292	217	(0.33%)
Total cash and cash equivalents 2017	**645**		

As at 31 December 2017, included in cash and cash equivalents was €0 million (2016: 0) of restricted cash. The fair value of cash and cash equivalents approximated the carrying value.

Debt: long-term debt: €400 million (2016: 227) and short-term debt: €225 million (2016: 328)

PostNL
Total borrowings - maturity schedule
2017, in € millions

	Eurobonds	Derivatives	Financial leases	Total
2018	199	26		225
2019			2	2
2024	398			398
Total borrowings	597	26	2	625
Of which included in long-term debt	398		2	400
Of which included in short-term debt	199	26		225

The increase in debt in 2017 is due to the issuance of a €400 million eurobond with an annual coupon of 1.0%. The proceeds will be used for general corporate purposes, including the redemption of our outstanding eurobonds in November 2017 and August 2018. The derivatives of €26 million (2016: 20) represents the £177/€223 million cross-currency swap outstanding to hedge the foreign exchange exposure on the £177 million Eurobond. Refer to note 4.4 for more details on the outstanding eurobonds.

The non-cash changes in the debt amounted to €3 million and related for €2 million to a loan obtained with the acquisition of PS Nachtdistributie.

4.2 Capital management

Capital management is focused on the following components of the current capital structure:

- targeting a leverage ratio (adjusted net debt/EBITDA) not exceeding 2.0 (outcome 2017: 1.2);
- structural availability of €300 million to €400 million of undrawn committed facilities out of our revolving credit facility (reference is made to note 4.3);
- structural funding via a combination of public and bank debt, with a risk-weighted mix of fixed and floating interest;
- cash pooling systems that ensure optimal cash requirements for the PostNL Group by facilitating centralised funding and surplus cash concentration at group level;
- tax-optimal internal and external funding focused on optimising the cost of capital for PostNL, within boundaries that are sustainable on a long-term basis.

4.3 Financial risk management

PostNL's activities expose the company to a variety of financial risks, such as interest rate risk, foreign currency exchange risk, credit risk and liquidity risk. All these risks arise in the normal course of business and PostNL therefore uses various techniques and financial derivatives to mitigate them.

The following analyses provides quantitative information regarding PostNL's exposure to the financial risks described above. There are certain limitations and simplifications inherent in the analyses presented, primarily due to the assumption that rates change in a parallel fashion and instantaneously. At the same time, for example, the impact of changes in interest on foreign exchange exposures and vice versa is ignored. In addition, the analyses are unable to reflect the complex market reactions that would normally arise from the market shifts assumed.

PostNL uses derivative financial instruments solely for the purpose of hedging currency and interest exposures. The company enters into contracts related to derivative financial instruments for periods commensurate with its underlying exposures and does not take positions independent of these exposures. None of these financial instruments are leveraged or used for trading purposes or to take speculative positions.

Financial risk management is carried out by Group Treasury under policies approved by the Board of Management. Group Treasury identifies, evaluates and hedges financial risks and exposures in close cooperation with operating units. The Board of Management provides written principles for overall risk management, as well as written policies covering the financial risks. Periodic reporting on financial risks is embedded in the overall risk framework and is provided to the Board of Management in a structural way.

Group Treasury matches and manages the intragroup and external financial exposures. Although the company generally enters into hedging arrangements and other contracts to reduce its exposures, these measures may be inadequate or may subject the company to increased operating or financing costs.

Interest rate risk

PostNL identifies interest rate risk associated with its financial assets and borrowings. Virtually all debts are at fixed rates, an increase in the rate will therefore not affect the cost base. As at 31 December 2017, PostNL's gross interest-bearing borrowings, including finance lease obligations, totalled €625 million (2016: 555), all at fixed interest rates. Financial assets are on average of a short-term nature.

At 31 December 2017, if interest rates on borrowings and financial assets had been 1% higher with other variables held constant, the profit before income tax would have been €6 million higher (2016: 6). The potential profit increase is entirely attributable to interest income on the cash and cash equivalents. Equity would be positively affected by €0 million (2016: 1), due to the change in the interest curve projection applied for the calculation of the fair value of the £177/€223 million cross currency swap, as well as the €6 million (2016: 6) positive impact on profit before income taxes (see also note 4.4 to the consolidated financial statements).

Foreign currency exchange risk

PostNL has international operations that generate foreign currency exchange risks arising from future commercial transactions, recognised assets and liabilities, investments and divestments in foreign currencies other than functional currencies of the respective business units of PostNL, irrespective of whether it is the euro (PostNL's functional and reporting currency) or another functional currency. For accounting purposes the European Central Bank is used as the source.

The main currencies of PostNL's external hedges are the British Pound, Hong Kong Dollar and US Dollar.

The Board of Management has set a policy requiring Group companies to manage their foreign exchange risk against the functional currency. Group companies are required to hedge material exposures via the use of foreign exchange derivatives with Group Treasury, whereby a financing company operated by Group Treasury trades these foreign exchange derivatives with external banks. As at 31 December 2017, PostNL had no net investment hedges outstanding. Significant acquisitions and local debt are usually funded in the currency of the underlying assets.

As at 31 December 2017, if the euro had weakened 10% against the British Pound, the Hong Kong Dollar and the US Dollar with all other variables held constant, the profit before income taxes on the foreign exchange exposure on financial instruments would have been €0 million lower/higher (2016: 0). In 2017, the net income sensitivity to movements in euro/pound sterling, euro/HK dollar and euro/US dollar exchange rates is neglectable and did not change compared to 2016. Equity would have been positively impacted by €8 million (2016: 3 negative), all related to the move in the hedge reserve.

Credit risk

Credit risk represents the potential losses that the company would incur if counterparties are unable to fulfil the terms of underlying agreements. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks and financial institutions as well as credit exposures relating to customers. The credit risk exposure is minimised by only transacting with financial institutions, ensuring established credit guidelines are met and by managing its customer portfolio.

On the reporting date, there was no significant concentration of credit risk across the customer portfolio. The top 10 trade accounts receivable accounted for 10% of outstanding trade receivables as at 31 December 2017.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, PostNL attempts to maintain flexibility in funding by keeping committed credit lines available. The terms and conditions of PostNL's material long-term and short-term debts, as well as its material drawn or undrawn committed credit facilities do not include any financial covenants. There are no obligations to accelerate repayments of these material debts and committed facilities in the event of a credit rating downgrade. A downgrade in PostNL's credit rating may negatively affect its ability to obtain funds from financial institutions and banks and increase its financing costs by increasing the interest rates on its outstanding debt or the interest rates at which the company is able to refinance existing debt or incur new debt.

At 31 December 2017, the €400 million committed credit facility (maturity date: 10 April 2022) was undrawn (2016 undrawn).

The following table analyses PostNL's financial liabilities, categorising them into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The outgoing flows disclosed in the table are the contractual undiscounted cash flows that contain the redemptions and interest payments.

PostNL
Maturity liquidity risks
2016-2017, in € millions

At 31 December	Less than 1 year	Between 1 and 3 years	Thereafter	Book value
Eurobonds	361	239		533
Financial leases	1	1		2
Interest rate and cross-currency swaps - outgoing	16	239		20
Foreign exchange contracts - outgoing	236			
Trade accounts payable	188			188
Other current liabilities	68			68
Total outgoing flows	870	479		811
Interest rate and cross-currency swaps - incoming	16	239		
Foreign exchange contracts - incoming	236			
Total mitigation via incoming flows	252	239		
Total liquidity risk 2016	618	240	0	811
Eurobonds	243	8	416	597
Financial leases		2		2
Interest rate and cross-currency swaps - outgoing	239			26
Foreign exchange contracts - outgoing	215			
Trade accounts payable	220			220
Other current liabilities	66			66
Total outgoing flows	983	10	416	911
Interest rate and cross-currency swaps - incoming	239			
Foreign exchange contracts - incoming	215			
Total mitigation via incoming flows	454			
Total liquidity risk 2017	529	10	416	911

4.4 Financial instruments

In line with IAS 39 and IFRS 13, the following categories of financial assets and financial liabilities can be distinguished.

PostNL
Financial instruments - assets
2016-2017, in € millions

At 31 December	*Notes*	Input information level (IFRS13)	Loans and receivables	Derivatives used for hedging	Available for sale	Total
Other loans receivable		level 2	1			1
Other financial fixed assets		level 3			1	1
Accounts receivable	*3.1.1*	level 2	389			389
Foreign exchange contracts [1]		level 2		2		2
Cash and cash equivalents	*4.1*		640			640
Total assets as per balance sheet 2016			1,030	2	1	1,033
Other loans receivable		level 2	7			7
Other financial fixed assets		level 3			5	5
Accounts receivable	*3.1.1*	level 2	436			436
Foreign exchange contracts [1]		level 2		2		2
Cash and cash equivalents	*4.1*		645			645
Total assets as per balance sheet 2017			1,088	2	5	1,095

1. Foreign exchange contracts are included in prepayments and accrued income in the statement of financial position.

PostNL

Financial instruments - liabilities

2016-2017, in € millions

At 31 December	Notes	Input information level (IFRS13)	Financial liabilities measured at amortised costs	Derivatives used for hedging	Total
Long-term debt	*4.1*	level 1&2 [2]	207	20	227
Trade accounts payable		level 2 [1]	188		188
Short-term debt	*4.1*	level 2 [2]	328		328
Other current liabilities [3]	*3.1.2*	level 2 [1]	65	3	68
Total liabilities as per balance sheet 2016			**788**	**23**	**811**
Long-term debt	*4.1*	level 1&2 [2]	400		400
Trade accounts payable		level 2 [1]	220		220
Short-term debt	*4.1*	level 1&2 [2]	199	26	225
Other current liabilities [3]	*3.1.2*	level 2 [1]	65	1	66
Total liabilities as per balance sheet 2017			**884**	**27**	**911**

1. We consider the fair value equal to the book value as these items will be settled within short-term and therefore level 2.
2. Eurobonds level 1 and finance leases and derivatives level 2.
3. Other current liabilities include 'Payments from customers received in advance' for €44 million (2016: 42) and 'Other' for €22 million (2016: 26), refer to note 3.1.2.

All financial instruments are reported on a gross basis per instrument. Netting of financial instruments per contractual counterparty will not have a material impact on the outstanding balances.

Eurobonds

For the details on the outstanding eurobonds, see the table below.

PostNL

Outstanding eurobonds

2016-2017, in € millions

At 31 December	Nominal value	Costs/discount to be amortised	Hedge accounting	Carrying value	Fair value
5.375% eurobond 2017	328	1	No	327	343
7.500% eurobond 2018 (£177 million)	223	1	Yes	206	228
Total outstanding eurobonds 2016	**551**	**2**		**533**	**571**
7.500% eurobond 2018 (£177 million)	223	0	Yes	199	207
1.000% eurobond 2024	400	2	No	398	400
Total outstanding eurobonds 2017	**623**	**2**		**597**	**607**

Financial leases

For the details on the outstanding financial leases, see the table below.

PostNL

Outstanding financial leases

2016-2017, in € millions

At 31 December	Nominal value	Fixed/floating interest	Hedge accounting	Carrying value	Fair value
Total outstanding financial leases 2016	2	fixed	No	2	2
Total outstanding financial leases 2017	2	fixed	No	2	2

Derivatives - Cross-currency swaps

As at 31 December 2017, PostNL had £177/€223 million cross-currency swap outstanding to hedge the foreign exchange exposure on the £177 million eurobond. These swaps act as to hedge the future cash flow risk and mature in 2018.

For the details on the outstanding cross-currency swaps, see the table below.

PostNL

Outstanding swaps

2016-2017, in € millions

At 31 December	Nominal value	Forward Starting	Currency	Outstanding	Pay	Receive	Hedge	Fair value
Total cross-currency swaps 2016	223	No	GBP/EUR	Yes	fixed	fixed	cash flow	(20)
Total cross-currency swaps 2017	223	No	GBP/EUR	Yes	fixed	fixed	cash flow	(26)

The fair value of the outstanding long-term cross-currency swaps is recorded as a liability in 'short-term debt' and includes credit and debit valuation adjustments.

Derivatives - Foreign currency exchange contracts

For the details on the outstanding foreign exchange contracts, see the table below.

PostNL

Outstanding foreign exchange contracts

2016-2017, in € millions

At 31 December	Carrying value	Fair value	Nominal value	Hedge	Amount in equity
Asset	2	2	68	fair value/ cashflow	1
Liability	3	3	168	fair value/ cashflow	2
Foreign exchange contracts 2016					
Asset	2	2	135	fair value/ cashflow	1
Liability	1	1	80	fair value/ cashflow	0
Foreign exchange contracts 2017					

The fair value of these outstanding foreign exchange hedges is recorded as a current asset in 'prepayments and accrued income' or as a current liability in 'total current borrowings' and includes credit valuation adjustments.

In 2017, the total ineffective portion on all derivatives recognised in the income statement that arises from the use of fair value and cashflow hedges amounted to €0 million (2016: 0).

4.5 Equity

Issued share capital €36 million (2016: 36) and Additional paid-in capital €160 million (2016: 157)

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases PostNL's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity.

Authorised share capital

Since 4 August 2011, the company's authorised share capital amounts to €120 million, divided into 750,000,000 ordinary shares and 750,000,000 preference shares B, both of €0.08 nominal value each.

Form of shares

The ordinary shares are in bearer or registered form. Ordinary shares in bearer form are represented by a global note held by the Dutch clearing system Euroclear Netherlands and are transferable through Euroclear Netherlands' book entry system. ADRs represent ordinary shares in bearer form represented by the note held by Euroclear Netherlands. Ordinary shares in registered form are transferred by means of a deed of transfer and PostNL's written acknowledgement of the transfer. PostNL does not have share certificates for ordinary shares represented by the global note. The preference shares B are in registered form.

Issued share capital

At 31 December 2017, the company's issued share capital amounted to €36 million (2016: 36). The number of authorised, issued and outstanding shares by class of share is as follows:

PostNL
Shares
2016-2017, number of shares

Before proposed appropriation of profit	2016	2017
Authorised by class		
Ordinary shares	750,000,000	750,000,000
Preference shares B	750,000,000	750,000,000
Total authorised	1,500,000,000	1,500,000,000
Issued and outstanding		
Per 1 January of the reported year	441,570,664	442,805,079
Issued for stock dividend		9,920,567
Issued under its incentive schemes	1,234,415	804,549
Per 31 December of the reported year	442,805,079	453,530,195
Issued and outstanding per 31 December by class		
Ordinary shares	442,805,079	453,530,195
of which held by the company to cover share plans	0	0
of which a foundation incorporated by the company only holds the legal title	1,620,231	1,625,690
Preference shares B	0	0

Issuance/repurchase of shares to cover share plans

For all equity-settled and cash-settled share plans, PostNL intends to perform the settlement (or in case of cash-settled plans, fund the settlement) by issuing new shares. As a result, the company issued 804,549 ordinary shares in 2017 (2016: 1,234,415) under its incentive schemes to 'Stichting Managementparticipatie PostNL' (Foundation Management Participation PostNL). The company did not purchase any ordinary shares in 2017 (2016: 0) to cover its obligations under the existing share plans. At 31 December 2017, the total number of shares held for this purpose was nil (2016: 0). The company also held no ordinary shares for cancellation at 31 December 2017 (2016: 0).

Incentive scheme and Foundation Management Participation PostNL

For administration and compliance purposes, since May 2013 all shares belonging to PostNL employees under PostNL incentive schemes are held by Stichting Managementparticipatie PostNL (Foundation Management Participation PostNL) on an omnibus securities account with ING Bank, the Netherlands. Foundation Management Participation PostNL legally owns the shares, while the beneficial ownership of the shares is vested in the employees, who are also entitled to dividend received by Foundation Management Participation PostNL on their behalf. At 31 December 2017, the number of PostNL shares involved amounted to 1,625,690 shares (2016: 1,620,231) with a nominal value of €0.08 per share.

Foundation Continuity PostNL and preference shares B

Stichting Continuiteit PostNL (Foundation Continuity PostNL) was formed to safeguard PostNL's interests and the enterprises connected with PostNL and all interested parties, by, among other things, preventing as far as possible any influences that would threaten PostNL's continuity, independence and identity. Foundation Continuity PostNL is an independent legal entity and is not owned or controlled by any other legal person.

PostNL's articles of association provide for protective preference shares B that can be issued to Foundation Continuity PostNL to serve these interests. The preference shares B have a nominal value of €0.08 and have the same voting rights as PostNL's ordinary shares.

PostNL and Foundation Continuity PostNL have entered into a call option agreement, which enables Foundation Continuity PostNL to acquire a number of preference shares B not exceeding the total issued amount of shares minus one and minus any shares already issued to Foundation Continuity PostNL. The call option agreement is meant as a preventive countermeasure against influences that might threaten the continuity, independence and identity of the company. Preference shares B will be outstanding no longer than is strictly necessary. At 31 December 2017 no preference shares B were issued.

Additional paid-in capital

At 31 December 2017, additional paid-in capital of €160 million (2016: 157) is fully exempt for Dutch tax purposes to the extent that this has been paid in by shareholders of the company.

Section 5: Other notes

This section includes the notes not explained elsewhere in the financial statements. We disclose the following items in the following order:

- The components of the remuneration of the Supervisory Board, Board of Management and senior management.
- The related party transactions and balances from trading relationships with joint ventures and unconsolidated companies in which PostNL holds minority stakes.
- Business combinations.
- A summary of all remaining accounting polices.

We conclude this section with a description of subsequent events, where we provide information received between 31 December 2017 and the date of this report about material events applicable for understanding our year-end position.

5.1 Remuneration of Supervisory Board, Board of Management and senior management

Accounting policies

Equity-settled share-based compensation plans
PostNL operates a number of equity-settled share-based compensation plans, under which the employees receive (conditional) shares of the Group for services rendered. The fair value of the employee services received, as measured at the grant date, in exchange for the grant of the shares is recognised as an expense, with a corresponding increase in equity.

Non-market performance and service conditions are included in assumptions about the number of (conditional) shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. In addition, for some share-based compensation plans, employees provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense between service commencement date and grant date. At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Remuneration of members of the Supervisory Board

PostNL
Remuneration Supervisory Board
2016-2017, in €

	Base compensation	Meeting fees [1]	Total remuneration
Mr J. Wallage	53,750	13,000	66,750
Mr E. Blok	40,000	9,000	49,000
Mr J.W.M. Engel	40,000	11,000	51,000
Ms A.M. Jongerius	40,000	11,500	51,500
Ms T. Menssen	40,000	18,500	58,500
Mr F.H. Rövekamp	40,000	12,000	52,000
Total current members	**253,750**	**75,000**	**328,750**
Mr J. Nooitgedagt [2]			0
Mr M.A.M. Boersma [3]	16,042		16,042
Total 2017	**269,792**	**75,000**	**344,792**
Total 2016	286,667	75,000	361,667

1. Payments of meeting fees relating to number of Supervisory Board committee meetings attended and number of meetings held.
2. Up for appointment at the Annual General Meeting of Shareholders on 17 April 2018.
3. Former member, retired as of 1 May 2017.

The members of the Supervisory Board receive no compensation related to performance and/or equity and accrue no pension rights with the company. The members of the Supervisory Board receive no severance payments in the event of termination. PostNL does not grant loans, including mortgage loans, advance payments, guarantees and options or shares to any member of the Supervisory Board.

Remuneration of members of the Board of Management

In 2017, the total remuneration of the Board of Management consisted of:
- base salary,
- variable remuneration,
- other periodic compensation, and
- pension costs.

PostNL
Remuneration Board of Management
2016-2017, in €

	2016		2017	
	Herna Verhagen	Jan Bos	Herna Verhagen	Jan Bos
Fixed remuneration				
Base salary	625,000	475,000	625,000	475,000
Variable remuneration				
Accrued for short-term incentive	234,375	178,125	70,313	53,438
Accrued for long-term incentive	219,137	166,544	212,688	125,564
Other periodic compensation [1]	310,458	182,245	199,123	146,914
Pension costs [2]	17,678	18,966	20,485	21,739
Total remuneration	**1,406,648**	**1,020,880**	**1,127,609**	**822,655**

1. Other periodic compensation include company costs related to tax and social security, pension allowances, company car and other compensation. In 2016, part of the performance shares 2013 have been sold to cover the wage tax liability (sell-to-cover transaction). As the proceeds of the relevant sell-to-cover transaction were insufficient to completely fulfil the tax liability, a compensation award was made to cover the remaining tax liability. Also in 2016, Herna Verhagen received a jubilee payment (25 years in service) of one month's gross salary.
2. Pension costs represent the service costs of the defined benefit scheme.

Base salary
As adopted at the 2013 Annual General Meeting of Shareholders on 16 April 2013, the annual base salaries for members of the Board of Management were set at €625,000 for Ms Verhagen, CEO, and €475,000 for Mr Bos, CFO.

Accrued for short-term incentive

The short-term incentive represents a potential reward of 37.5% of the annual base salary which is based on challenging but achievable annual targets. Individual targets can only contribute to the short-term incentive payout if they are fully met, which means there is no stretch and no threshold on the annual targets. This short-term incentive plan rewards with a yearly cash payment reflecting the realised achievements of targets. The focus areas for the short-term incentive are in line with the current remuneration policy and represent a multi-stakeholder approach, with 60% financial targets and 40% non-financial targets.

PostNL accounts for the short-term incentive on the basis of the performance of the year reported. In 2017, an amount of €123,750 was accrued for. In accordance with the remuneration policy, this amount will be paid in cash in 2018. In 2017, an amount of €412,500 was paid to the members of the Board of Management in relation to the short-term incentive of 2016.

Accrued for long-term incentive

In 2017, the total share-based payment costs relating to the long-term incentive for the members of the Board of Management amounted to €338,252 (2016: 385,681), which related to the performance share plan as shown below.

Performance share plan

The Board of Management is awarded a long-term incentive, which represents a potential reward of 37.5% of the annual base salary in the form of a performance share plan that contains three-year internal targets. The performance share plan contains the following characteristics:

- it is a conditional equity-settled share plan based on three-year internal targets,
- shares are conditionally allocated to the Board of Management from 2013 onwards,
- a conditional dividend equivalent is added to the conditional shares equal to the dividend rights of ordinary shares,
- the conditional shares and their conditional dividend equivalents will vest after a performance period of three years,
- vesting is subject to the extent to which the long-term targets supportive to the attainment of PostNL's strategy have been achieved,
- if a member of the Board of Management leaves the company during the performance period due to circumstances involving fraud or gross misbehaviour, any accrued rights on the long-term incentive plan will terminate and become void, and
- if a member of the Board of Management leaves the company due to other reasons, a pro rata performance and time-based vesting applies.

In compliance with the Dutch Corporate Governance Code, following a three-year performance period the retention period for vested shares expires after two years or at termination of employment if this occurs earlier. For compliance reasons, a sale of shares may not occur earlier than six months after termination of the employment. Any sale of shares for the purpose of using the proceeds to pay for the tax due at vesting of these shares is exempted.

Settlement agreement Jan Bos

Jan Bos will leave PostNL in the course of the second quarter of 2018. There is no notice period and severance payment applicable. Mr. Bos has a good leaver status, whereby vesting of the LTI plans 2016-2018 and 2017-2019 will be pro rata regarding time and performance. For his period of service in 2018 all regular remuneration elements apply time-based. Also the STI 2018 will be paid pro rata, based on actual performance over 2018, and will be payable in 2019 upon adoption of the 2018 annual accounts by the general meeting of shareholders.

PostNL

Performance share plan Board of Management

2017, number of shares

	Year of grant	Vesting period	Number outstanding 1 Jan 2017	Granted during 2017[1]	Dividend shares[2]	Settled during 2017	Forfeited during 2017[3]	Number outstanding 31 Dec 2017
Herna Verhagen	2014	7 May 2014 to 7 May 2017	75,169		2,065	(65,649)	(11,585)	0
	2015	7 May 2015 to 7 May 2018	52,823		2,424			55,247
	2016	10 May 2016 to 10 May 2019	61,497		2,821			64,318
	2017	9 May 2017 to 9 May 2020		50,859	912			51,771
Jan Bos	2014	7 May 2014 to 7 May 2017	57,128		1,569	(49,893)	(8,804)	0
	2015	7 May 2015 to 7 May 2018	40,146		1,842			41,988
	2016	10 May 2016 to 10 May 2019	46,738		2,145		(24,102)	24,781
	2017	9 May 2017 to 9 May 2020		38,653	693		(34,657)	4,689
Total			333,501	89,512	14,471	(115,542)	(79,148)	**242,794**

1. The number of conditional shares is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the grant date (€4.6084).
2. Dividend shares related to the final dividend 2016 and interim dividend 2017.
3. The forfeited shares of Jan Bos related to the plans 2016-2018 and 2017-2019 result from the settlement agreement, with pro rata performance based on 73% and 33% respectively. Forfeiture of these shares will take place in May 2018.

Note that the number of outstanding conditional shares does not represent the total number of shares held by each member of the Board of Management, which include vested shares under PostNL's performance share plan and variable remuneration.

In 2017, an amount of €338,252 (2016: 385,681) was expensed for the cost of the performance shares of the Board of Management. The costs are determined by multiplying the number of granted performance shares by the fair value of such shares on the date of the grant (performance share plan (PSP) 2017-2019: €4.361 per share; PSP 2016-2018: €3.619 per share; PSP 2015-2017: €4.387 per share; PSP 2014-2016: €3.334 per share) and by taking into account expected vesting percentages.

Other periodic compensation

Other periodic compensation included company costs related to tax and social security, pension allowances, company car and other compensation.

Pension costs

The pension costs consist of the service costs for the reported year, net of employee contributions. The members of the Board of Management are participants in a career average defined benefit scheme.

Loans, advance payments or guarantees

No loans, advance payments or guarantees were granted to members of the Board of Management in 2017 (2016: nil).

Remuneration of senior management

Short-term incentive

The short-term incentive for senior management represents a potential reward of a percentage of the annual base salary (the percentage depending on the job level), which is based on challenging but achievable annual targets. Of the realised achievements of targets 50% is paid in cash and 50% is paid in PostNL shares in the following year. Shares will be granted unconditionally and will be delivered without restrictions or a restricted period, other than those defined in the PostNL insider trading policy.

The 50% of the short-term incentive settled in shares is accounted for as an equity-settled share-based payment. The total share-based payment costs relating to this short-term incentive amounted to €0.9 million in 2017 (2016: €2.7 million). This amount will be granted and paid in PostNL shares in 2018.

Performance share plan

A selected group of members of senior management is awarded a long-term incentive, which represents a potential reward of 37.5% of the annual base salary in the form of a performance share plan that contains three-year internal targets. The company sees the long-term incentive as part of the remuneration package for this selected group of senior management. It is aimed particularly at aligning their interests with the long-term interests of the company and shareholders.

The performance share plan contains the same characteristics as the performance share plan of the Board of Management.

PostNL

Performance share plan senior management

2017, number of shares

	Year of grant	Vesting period	Number outstanding 1 Jan 2017	Granted during 2017 [1]	Dividend shares [2]	Settled during 2017 [3]	Forfeited during 2017 [3]	Number outstanding 31 Dec 2017
Performance share plan	2014	7 May 2014 to 7 May 2017	193,663		5,321	(175,459)	(23,525)	0
	2015	7 May 2015 to 7 May 2018	162,978		7,991	(36,814)	(13,103)	121,052
	2016	10 May 2016 to 10 May 2019	213,761		10,377	(25,259)	(33,438)	165,441
	2017	9 May 2017 to 9 May 2020		168,058	2,629	(2,639)	(18,838)	149,210
Total			570,402	168,058	26,318	(240,171)	(88,904)	435,703

1. The number of conditional shares is based on 37.5% of the annual base salary divided by the five-day average Euronext Amsterdam share price of PostNL prior to the grant date (€4.6084).
2. Dividend shares related to the final dividend 2016 and interim dividend 2017.
3. Due to reorganisations, pro rata vesting has been applied for several senior management members.

In 2017, an amount of €680,594 (2016: 630,859) was expensed for the cost of the performance shares of senior management. The costs are determined by multiplying the number of granted performance shares by the fair value of such shares on the date of the grant (performance share plan (PSP) 2017-2019: €4.361 per share; PSP 2016-2018: €3.619 per share; PSP 2015-2017: €4.387 per share; PSP 2014-2016: €3.334 per share) and by taking into account expected vesting percentages.

Bonus/matching share plan

Since 2011, senior management have had the opportunity, on a voluntary basis, to participate in a bonus/matching plan. The company sees the bonus/matching plan as part of the remuneration package for the members of senior management, particularly aimed at aligning their interests with the long-term interests of the company and shareholders. At the discretion of the Supervisory Board, grants are made on an annual basis in accordance with the bonus/matching plan which has been approved by the Supervisory Board. The significant aspects of the plan are:

- bonus shares are purchased by the participant using 25% of the gross (cash) variable remuneration and delivered upon the grant of the right on matching shares,
- the number of bonus shares is calculated by dividing 25% of an individual's gross annual bonus relating to the preceding financial year by the share price on Euronext Amsterdam on the date the grant is made,
- the rights to matching shares are granted free of charge and as of 2014 the number of matching shares is equal to the number of bonus shares.
- the matching rights vest three years after the delivery of the bonus shares,
- as of 2014, the number of matching shares are granted in shares of PostNL (equity-settled scheme).
- for each bonus share that is sold within three years, the associated right to one matching share lapses. If more than 50% of the bonus shares are sold within three years, the entire right to matching shares lapses with immediate effect,
- if a participant leaves the company for certain reasons (retirement, certain reorganisations, disability or death), the right to matching shares will vest immediately and he/she can exercise his/her right pro rata, and
- a participant loses the right to exercise his/her right on matching shares when he/she leaves the company for reasons other than those mentioned.

The exercise of the rights to matching shares is subject to the PostNL rules concerning the prevention of use of inside information.

PostNL

Bonus/matching plan senior management

2017, number of shares

	Year of grant	Vesting period	Number outstanding 1 Jan 2017	Granted during 2017	Settled during 2017 [1]	Forfeited during 2017 [1]	Number outstanding 31 Dec 2017
Matching rights	2014	7 May 2014 to 7 May 2017	38,732		(38,207)	(525)	0
	2015	7 May 2015 to 7 May 2018	33,772		(2,232)	(2,930)	28,610
	2016	10 May 2016 to 10 May 2019	31,315		(991)	(2,570)	27,754
	2017	9 May 2017 to 9 May 2020		31,322	(110)	(1,363)	29,849
Total			103,819	31,322	(41,540)	(7,388)	86,213

1. Due to reorganisations, pro rata vesting has been applied for several senior management members.

In 2017, an amount of €109,593 (2016: €116,435) was expensed for the cost of the equity-settled bonus/matching shares. The costs are determined by multiplying the number of granted matching shares by the fair value of such shares on the date of the grant (2017: €4.361 per share; 2016: €3.619 per share; 2015: €4.387 per share; 2014: €3.334 per share) and by taking into account expected vesting percentages.

Financing of equity-settled plans

For all equity-settled and cash-settled share plans, PostNL intends to perform the settlement (or in case of cash-settled plans, fund the settlement) via the issuance of new shares. Accordingly, the company does not need to actively hedge the risk in connection with its obligations. As a result, the company did not purchase any additional shares in 2017 (2016: 0) to cover its obligations under the existing share plans. As at 31 December 2017, the total number of shares held for this purpose was nil (2016: 0).

5.2 Related party transactions and balances

The PostNL Group companies have trading relationships with a number of joint ventures as well as with companies in which PostNL holds minority stakes. In some cases, there are contractual arrangements in place under which PostNL companies source supplies from such undertakings, or such undertakings source supplies from PostNL. Transactions are carried out at arm's length.

During 2017, sales of PostNL to joint ventures and associates amounted to €2 million (2016: 5). Purchases of PostNL from joint ventures and associates amounted to €0 million (2016: 0). The net amounts due from the joint ventures and associates amounted to €0 million (2016: 1).

Related party transactions with PostNL's pension fund are presented in note 3.4 to the consolidated financial statements.

PostNL considers the members of the Board of Management and Supervisory Board as key management personnel as defined by IAS 24. For disclosure on related party transactions with the Board of Management and Supervisory Board, see note 5.1 to the consolidated financial statements.

5.3 Business combinations

The following table presents the entities acquired by PostNL during 2017.

PostNL

Specification business combinations

2017, in € millions

Company name	Segment	Month acquired	% owner	Purchase price	Goodwill on acquisition
PS Nachtdistributie	Parcels	May	100.00%	23	10
JP Haarlem Delivery	Parcels	June	100.00%	3	2
Shops United	Parcels	November	100.00%	8	6
Cheap Cargo	Parcels	November	100.00%	4	2
Total				38	20

The cash balances in the acquired companies amounted to €3 million and the deferred payments of the purchase price amounted to €2 million, resulting in a cash outflow from acquisition of subsidiaries net of cash of €33 million.

On 2 May 2017, PostNL acquired PS Nachtdistributie, a leading player in overnight distribution in the Benelux region, at a purchase price of €23 million and with net assets of €5 million. The acquisition fits within the strategy to enhance and expand PostNL's networks. The purchase price allocation resulted in intangible assets of €11 million, a relating deferred tax liability of €3 million and goodwill of €10 million.

On 21 June 2017, PostNL acquired JP Haarlem Delivery, a full service supplier in the business of furniture delivery and assembly, at a purchase price of €3 million including €0.5 million that will be paid in 2018 and 2019, depending on operating results in 2017 and 2018. The acquisition fits within the strategy to enhance and expand PostNL’s networks. The purchase price allocation resulted in intangible assets of €1 million and goodwill of €2 million.

On 7 November 2017, PostNL acquired Shops United, an online platform where webshops can send their packages through multiple carriers, at a purchase price of €8 million including €1 million that will be at most paid in 2018, depending on various measures of which operating results. Shops United is an addition to PostNL's offer for webshops because customers have a choice of multiple carriers. The purchase price allocation resulted in intangible assets of €3 million, a relating deferred tax liability of €1 million and goodwill of €6 million.

On 28 November 2017, PostNL acquired Cheap Cargo, an online supplier and reseller of transport services and transport related services, at a purchase price of €4 million and with net assets of €1 million. The acquisition fits within the strategy to enhance and expand PostNL’s networks. As the acquisition was done close to year-end, only a provisional purchase price allocation was performed which resulted in intangible assets of €1 million and goodwill of €2 million.

The pre-acquisition balance sheets and the opening balance sheets of the acquired business is summarised in the table below.

PostNL
Balance sheets
2017, in € millions

	Pre-acquisition	Post-acquisition
Goodwill		20
Other non-current assets	7	23
Total non-current assets	**7**	**43**
Total current assets	7	7
Total assets	**14**	**50**
Equity	6	38
Non-current liabilities	3	7
Current liabilities	5	5
Total equity and liabilities	**14**	**50**

Acquiree's results

In 2017, the acquiree's total revenue and net income attributable to shareholders accounted for within PostNL, since acquisition date, amounted to €12 million and €0 million respectively and mainly related to PS Nachtdistributie en JP Haarlem Delivery.

Pro forma results

The following table presents the pro forma results of PostNL for 2017 as if the acquisitions had taken place on 1 January 2017. Pro forma results are not necessarily indicative of the future performance of PostNL.

PostNL
Pro forma results business combinations
2017, in € millions

Year ended at 31 December	As reported 2017	Pro forma results 2017
Total operating revenue	3,495	3,514
Profit for the year	148	149
Profit attributable to the equity holders of the parent	148	149
Earnings per ordinary share (in € cents) [1]	33.0	33.2

1. Earnings per ordinary share are in 2017 based on an average of 448,645,255 outstanding ordinary shares.

5.4 Summary of all other accounting policies

Consolidation

The consolidated financial statements include the financial figures of PostNL N.V. and its subsidiaries, associates and joint ventures and have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances have been eliminated on consolidation. A complete list of subsidiaries, associates and joint ventures included in PostNL’s consolidated financial statements is filed for public review at the Chamber of

Commerce in The Hague. This list has been prepared in accordance with the provisions of article 379 (1) and article 414 of book 2 of the Dutch Civil Code.

Subsidiaries

A subsidiary is an entity controlled directly or indirectly by PostNL N.V. Control is defined as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether PostNL controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to PostNL and are de-consolidated from the date on which control ceases.

PostNL uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred also includes the fair value arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date irrespective of the extent of any minority interest. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred over the fair value of PostNL’s share of the identifiable net assets of the subsidiary is recorded as goodwill. If the cost of acquisition is less than the fair value of PostNL’s share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

The non-controlling interest is initially measured at the proportion of the non-controlling interest in the recognised net fair value of the assets, liabilities and contingent liabilities. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary’s equity are allocated against PostNL’s interests, except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Functional currency and presentation currency

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

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated to the functional currency using year-end exchange rates. Foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and balances and from the translation at year-end exchange rates are recognised in the income statement except for qualifying cash flow hedges and qualifying net investment hedges that are directly recognised in other comprehensive income.

Foreign operations

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rates,
- income and expenses are translated at average exchange rates, and
- the resulting exchange rate differences based on the different ways of translating between the balance sheet and the income statement are recognised as a separate component of equity (translation reserve).

Foreign currency exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the translation reserve. When a foreign operation is sold, such exchange differences are recycled in the income statement as part of the gain or loss on the sale.

Impairment of goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset might be impaired. For the purposes of assessing impairment, assets are grouped at the lowest levels at which there are separately identifiable cash flows, being the cash-generating units (CGUs). If the recoverable value of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the CGU and then pro rata to other assets of the CGU. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset-specific risks. For the purpose of assessing impairment, corporate assets are allocated to specific CGUs before impairment testing. The allocation of the corporate assets is based on the contribution of those assets to the future cash flows of the CGU under review. Impairment losses recognised for goodwill are not reversed in a subsequent period.

Impairment of investments in joint ventures and associates

PostNL assesses on each balance sheet date whether there is objective evidence that an investment in a joint venture or associate may need to be impaired. If the recoverable value of the investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset-specific risks. The fair value less costs of disposal of a joint venture or associate is reviewed based on observable publicly available market data. Possible impairment charges may be reversed if there is an indication that the impairment no longer exists or has been reduced.

Impairment of finite-lived intangible assets and property, plant and equipment

At each balance sheet date, PostNL reviews its finite-lived intangible assets and property, plant and equipment for an indication of impairment. If any indication exists, the recoverable amount of the assets is estimated. The recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss is recognised immediately in the income statement. Impairment losses recognised in prior periods shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The recoverable amount shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous periods. A reversal of an impairment loss is recognised immediately in the income statement.

Profit sharing

The company recognises a liability and an expense for profit-sharing by employees, based on a calculation that takes into consideration quantitative and qualitative performance measures in accordance with contractual arrangements.

Dividend distribution

Dividend distribution to PostNL's shareholders is recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders. If PostNL offers its shareholders (the choice of) dividends in additional shares, the additionally issued shares are recognised at their nominal amount.

5.5 Subsequent events

There were no subsequent events to report.

Corporate Financial Statements

Corporate primary statements

PostNL N.V.

Corporate income statement

2016-2017, in € millions

Year ended at 31 December	Notes	2016	2017
Dividend income	6.2.1	195	**104**
Reversal impairment/(impairment) Mail investments	6.2.2	369	(79)
Salaries, pensions and social security contributions	6.2.3	31	14
Other operating expenses		(6)	3
Total operating expenses		394	**(62)**
Operating income		589	**42**
Interest and similar income		145	1
Interest and similar expenses		(92)	(35)
Net financial expense	6.2.4	53	**(34)**
Profit/(loss) before income taxes		642	**8**
Income taxes	6.2.5	16	6
Profit/(loss) for the year attributable to shareholders		658	**14**

PostNL N.V.

Corporate statement of comprehensive income

2016-2017, in € millions

Year ended at 31 December	Notes	2016	2017
Profit for the year attributable to shareholders		658	**14**
Actuarial gains/(losses) pensions, net of tax	6.4.2	(185)	21
Pension asset ceiling/minimum funding requirement, net of tax	6.4.2	184	(10)
Other comprehensive income that will not be reclassified to the income statement		(1)	**11**
Gains/(losses) on cashflow hedges, net of tax		5	1
Change in value of available-for-sale financial assets		8	
Recycling of change in value of available-for-sale financial assets		(136)	
Other comprehensive income that may be reclassified to the income statement		(123)	**1**
Total other comprehensive income for the year		(124)	**12**
Total comprehensive income for the year		534	**26**

The accompanying notes form an integral part of the financial statements.

PostNL N.V.

Corporate statement of cash flows

2016-2017, in € millions

Year ended at 31 December	Notes	2016	2017
Profit/(loss) before income taxes		642	**8**
Adjustments for:			
(Reversal impairment)/impairment Mail investments		(369)	**79**
Share-based payments		1	**0**
Dividend income		(195)	(104)
Interest and similar income		(145)	(1)
Interest and similar expenses		92	35
Investment income		(248)	**(70)**
Pension liabilities		(37)	(20)
Other provisions		1	(3)
Changes in provisions		(36)	**(23)**
Changes in working capital		4	**(3)**
Cash used in operations		(6)	**(9)**
Interest paid		(88)	(32)
Income taxes received/(paid)		12	2
Net cash used in operating activities	*6.3.1*	(82)	**(39)**
Dividend received		195	104
Interest received		0	1
Proceeds from sale of available-for-sale financial assets		643	
Net cash from investing activities	*6.3.2*	838	**105**
Dividends paid			(40)
Financing related to Group companies		(414)	(97)
Proceeds from long-term borrowings			398
Repayments of long-term borrowings		(341)	
Repayments of short-term borrowings			(328)
Net cash used in financing activities	*6.3.3*	(755)	**(67)**
Total change in cash and cash equivalents		1	**(1)**
Cash and cash equivalents at the beginning of the year		0	**1**
Total change in cash and cash equivalents		1	(1)
Cash and cash equivalents at the end of the year		1	**0**

The accompanying notes form an integral part of the financial statements.

PostNL N.V.

Corporate statement of financial position

2016-2017, in € millions

At 31 December	Notes	2016	2017
Before proposed appropriation of profit			
Assets			
Investments in Mail	*6.4.1*	3,316	3,239
Deferred tax assets	*6.2.5*	1	0
Total non-current assets		3,317	**3,239**
Accounts receivable from Group companies	*6.4.3*	92	188
Income tax receivable		4	4
Cash and cash equivalents		1	0
Total current assets		97	**192**
Total assets		3,414	**3,431**
Equity and liabilities			
Issued share capital		36	36
Additional paid-in capital		157	160
Hedge reserves		(3)	(2)
Revaluation reserve investments in Mail		2,411	2,332
Other reserves		(517)	205
Retained earnings		658	(1)
Total shareholders' equity	*6.3.4*	2,742	**2,730**
Provision for pension liabilities	*6.4.2*	98	65
Eurobonds	*6.4.4*	206	398
Other provisions		7	3
Total non-current liabilities		311	**466**
Accounts payable to Group companies	*6.4.3*	20	26
Eurobonds	*6.4.4*	327	199
Other current liabilities		14	10
Total current liabilities		361	**235**
Total equity and liabilities		3,414	**3,431**

PostNL N.V.

Corporate statement of changes in equity

2016-2017, in € millions

	Issued share capital	Additional paid-in capital	Hedge reserves	Available-for-sale financial assets	Revaluation reserve investments in Mail	Other reserves	Retained earnings	Total shareholders' equity
Balance at 31 Dec 2015	35	153	(8)	128	2,042	(153)	7	**2,204**
Total comprehensive income			5	(128)		(1)	658	**534**
Appropriation of net income						7	(7)	0
Share-based compensation	1	4				(1)		4
Addition revaluation reserve					369	(369)		0
Balance at 31 Dec 2016	36	157	(3)	0	2,411	(517)	658	**2,742**
Total comprehensive income			1			11	14	**26**
Appropriation of net income						633	(633)	0
Final dividend previous year							(25)	(25)
Interim dividend current year							(15)	(15)
Share-based compensation		3				(1)		2
Addition revaluation reserve					(79)	79		0
Balance at 31 Dec 2017	36	160	(2)	0	2,332	205	(1)	**2,730**

The accompanying notes form an integral part of the financial statements.

Section 6: Corporate financial statements

This section sets out the results and performance of the corporate company PostNL N.V. Similar to the approach applied in the consolidated financial statements, we have structured the disclosures and analyses in this section along the following categories:

- Basis of preparation
- Result of the year
- Balance sheet information
- Other notes

As a holding company for the Group companies of the PostNL Group, dividend received from these investments reflects the basic earnings included in the result for the year.

The other notes include a reconciliation between corporate and consolidated equity and comprehensive income, and a description of subsequent events, where we provide information received between 31 December 2017 and the date of this report about material events applicable for understanding our year-end position.

We conclude this section with the dividend proposal for 2017 of the Board of Management and the appropriation of profit.

6.1 Basis of preparation

General information and description of the business

PostNL N.V. (hereafter referred to as ‘the company’) is a public limited liability company with its registered seat and head office at Prinses Beatrixlaan 23, 2595 AK, 's-Gravenhage, the Netherlands. The Chamber of Commerce number is 27124700.

The company’s principal activity is acting as a holding company for the Group companies of the PostNL Group (‘the Group’) that provide businesses and consumers in the Benelux, Germany and Italy with an extensive range of services for their mail needs. Through our international sales network Spring, we connect local businesses around the world to consumers globally. The company is the ultimate parent company of the Group.

The corporate financial statements were authorised for issue by PostNL’s Board of Management and Supervisory Board on 26 February 2018 and are subject to adoption at the Annual General Meeting of Shareholders on 17 April 2018.

Summary of significant accounting policies

The significant accounting policies applied in the preparation of these corporate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. All amounts included in the financial statements are presented in euros, unless stated otherwise.

Accounting principles applied

The corporate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and Dutch law. IFRS-EU includes the application of International Accounting Standards (IAS), related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and interpretations of the Standing Interpretations Committee (SIC), issued and effective, or issued and adopted early, as at 31 December 2017.

Basis of measurement

In the corporate financial statements, the same accounting principles have been applied as set out in the notes to the consolidated financial statements, except for the valuation of the investments as presented under financial fixed assets in the corporate financial statements. These policies have been consistently applied to all years presented.

In the corporate financial statements, the Mail investments are recorded at cost less impairments (deemed cost upon adoption of IFRS-EU). In the corporate statement of income, dividend received from the investments is recorded as dividend income. Due to this application, the corporate equity and net result are not equal to the consolidated equity and net result. A reconciliation for total shareholders’ equity and total comprehensive income is presented in note 6.5 to the corporate financial statements.

Changes in accounting policies and disclosures

For new and amended standards we refer to the descriptions included in the 'Changes in accounting policies and disclosures' in the notes to the consolidated financial statements. The company has assessed the impact on the corporate financial statements. None of these is expected to have a significant effect on the corporate financial statements.

Functional and presentation currency

The corporate financial statements are presented in euros, the company's functional currency.

Use of estimates and judgements

The preparation of the corporate financial statements in conformity with IFRS-EU requires management to exercise judgements and make estimates and assumptions that affect the application of the company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the corporate financial statements are disclosed in the note 'Critical accounting estimates and judgements' to the consolidated financial statements.

Key accounting estimates and judgements affecting the assessment and measurement of impairment are included in note 6.4.1 to the corporate financial statements.

Share-based payments

Equity-settled share-based compensation plans

PostNL operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for (conditional) shares of the Group. For the company's accounting policies on equity-settled share-based compensation plans, we refer to note 5.1 of the consolidated financial statements.

Specifically for PostNL N.V., the grant by the company of shares to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the corporate financial statements, in the period in which the dividends are approved by the company's shareholders.

6.2 Result for the year

6.2.1 Dividend income: €104 million (2016: 195)

Dividend income is recognised when the right to receive payment is established. The dividend income from the company's subsidiaries for 2017 was €104 million (2016: 195).

6.2.2 Reversal impairment/(impairment) Mail investments: €79 million impairment (2016: 369 reversal impairment)

In 2017, an impairment of €79 million on the company's investments in Mail was accounted for (2016: 369 reversal impairment). Reference is made to note 6.4.1 to the corporate financial statements.

6.2.3 Salaries, pensions and social security contributions: €14 million income (2016: 31 income)

In accordance with IAS 19.41, the net defined benefit cost for the company's pension plans shall be recognised in the corporate financial statements. For PostNL, the contributions charged to other Group companies more than offset the pension expense incurred, resulting in a positive amount of salaries, pensions and social security contributions over the year. For further information on defined benefit pension costs, see note 6.4.2 to the corporate financial statements. PostNL N.V. does not have any employees other than the Board of Management.

6.2.4 Net financial expense/(income): €34 million (2016: 53 income)

PostNL has financing relationships with both external banks and with PostNL companies, mainly with PostNL Finance B.V. As a result, PostNL records both external interest income and expenses from financial institutions and from PostNL Finance B.V.

PostNL N.V.

Net financial expense/(income)

2016-2017, in € millions

Year ended at 31 December	2016	2017
Interest expenses on long-term borrowings	48	32
Premium paid on bond buy-back	33	
Interest on net defined benefit pension liabilities	4	2
Hedge reserve recycled to profit and loss	4	
Other interest and similar expense	3	1
Interest and similar expense	92	**35**
Profit on the sale of the stake in TNT Express	(145)	
Other interest and similar income	0	(1)
Net financial expense/(income)	(53)	**34**

In 2017, interest expenses on long-term borrowings decreased as a result of the bond buy-back transaction in 2016. Reference is made to note 4.1 to the consolidated financial statements.

In 2016, the profit on the sale of the stake in TNT Express of €145 million includes the positive effect of €136 million from the recycling through the income statement of the fair value adjustments previously recognised in other comprehensive income.

6.2.5 Income taxes: €6 million income (2016: 16 income)

Accounting policies

The company is tax-resident in the Netherlands. The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of income, except to the extent that it relates to items recognised directly in other comprehensive income.

The amount of income tax included in the statement of income is determined in accordance with the rules established by the tax authorities in the Netherlands, based on which income taxes are payable or recoverable.

PostNL N.V.

Corporate income taxes

2016-2017, in € millions

Year ended at 31 December	2016	2017
Current tax expense	(17)	(3)
Changes in deferred taxes	1	(3)
Total income taxes	(16)	**(6)**
Income taxes paid/(received)	(12)	**(2)**

The difference between the total income taxes in the income statement and the current tax expense is due to temporary differences. These differences are recognised as deferred tax assets or deferred tax liabilities.

PostNL N.V.

Corporate effective income tax rate

2016-2017, in %

Year ended at 31 December	2016	2017
Dutch statutory income tax rate	25.0	25.0
Tax effects of:		
Non and partly deductible costs	0.0	1.1
Non taxable impairment reversal/non deductible impairments	(14.4)	246.9
Exempt income	(13.2)	(335.5)
Other	0.1	(12.5)
Effective income tax rate	(2.5)	**(75.0)**

In 2017, the income taxes of -€6 million (2016: -16) on the result before income taxes of €8 million (2016: 642), resulted in an effective income tax rate of -75.0% (2016: -2.5%). Adjusted for the tax-exempt dividend income of €104 million (2016: 195) and the non deductible impairment of €79 million (2016: 369 non taxable impairment reversal), the result before income taxes would have been -€17 million (2016: -67, taking into account the 2016 non taxable gain from the sale of the stake in TNT Express of 145), which with income taxes unchanged at -€6 million (2016: -16) would have resulted in an effective income tax rate of 35.3% (23.9%).

The following table shows the movements in deferred tax assets and liabilities.

PostNL N.V.

Statement of changes corporate deferred tax assets

2016-2017, in € millions

	Provisions	Other	Total
Deferred tax assets at 31 December 2015	0	3	**3**
Changes via other comprehensive income	1	(2)	(1)
Changes via income statement	(1)		(1)
Deferred tax assets at 31 December 2016	0	1	**1**
Changes via other comprehensive income	(4)		(4)
Changes via income statement	4	(1)	3
Deferred tax assets at 31 December 2017	0	0	**0**

Of the deferred tax assets as at 31 December 2017, €0 million (2016: 0) is to be settled within 12 months and €0 million (2016: 1) is to be settled after 12 months.

Deferred tax assets and liabilities are presented net in the balance sheet if the company has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

6.3 Cash flow performance and equity development

6.3.1 Net cash from/(used in) operating activities: -€39 million (2016: -82)

The decrease in net cash used in operating activities of €43 million mainly related to the change in interest paid and income taxes received. In 2017, the total cash outflow for interest paid of €32 million (2016: 88) related to interest on PostNL's long-term borrowings of €32 million (2016: 54) and in 2016 included the premium paid on the bond buy-back transaction of €33 million. In 2017, the company received income taxes totalling €2 million (2016: 12 received) which include payments relating to prior years and internal settlements with Group companies within the PostNL fiscal unity.

6.3.2 Net cash from investing activities: €105 million (2016: 838)

In 2017, the total cash inflow from dividend received from the company's subsidiaries was €104 million (2016: 195). In 2016, the proceeds from sale of available-for-sale financial assets of €643 million related to the sale of the 14.6% stake in TNT Express.

6.3.3 Net cash used in financing activities: -€67 million (2016: -755)

In 2017, dividends paid related to the final 2016 cash dividend paid of €25 million and the interim 2017 cash dividend paid of €15 million. Financing related to Group companies amounted to -€97 million (2016: -414) mainly relating to intercompany financing of PostNL by PostNL Finance B.V. In 2017, proceeds from long-term borrowings of €398 million related to a new eurobond and repayments on short-term borrowings of €328 million related to the repayment of a eurobond. In 2016, repayments on long-term borrowings of €341 million related to the bond buy-back transaction of the eurobonds.

6.3.4 Equity: €2,730 million (2016: 2,742)

For the disclosure on issued share capital, additional paid-in capital, the hedge reserve and the reserve relating to available-for-sale financial assets, see notes 2.4 and 4.5 to the consolidated financial statements. The tax impact on the cash flow hedges included in the hedge reserve at 31 December 2017 is €1 million (2016: 1).

The revaluation reserve investments in Mail, the reserve relating to available-for-sale financial assets and the hedge reserve are legal reserves and are restricted for distribution.

As at 31 December 2017, the revaluation reserve of €2,332 million (2016: 2,411) related to the applied deemed cost approach for the investments in Mail as of 1 January 2010, partly offset by the net recorded impairment charges of €250 million.

During 2017, the other reserves increased to €205 million from -€517 million, mainly due to the appropriation of net income for 2016 of €633 million and a reclassification from the revaluation reserve of €79 million.

6.4 Corporate statement of financial position

6.4.1 Total financial fixed assets: €3,239 million (2016: 3,316)

Accounting policies

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are stated at cost, less impairment. Dividend income from the company's subsidiaries and associated companies is recognised when the right to receive payment is established.

Impairment of investments in subsidiaries

At each balance sheet date, the company reviews whether there is an indication that its investments in subsidiaries might be impaired.

An indication may include management's downward adjustment of the strategic plan or other areas where observable data indicates a measurable decrease in the estimated future cash flows. These determinations require significant judgement. In making this judgement, management evaluates, among other factors, the financial performance of and business outlook for its investments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If any indication for impairment exists, the recoverable amount of the investments is estimated. The recoverable amount is defined as the higher of an investment's fair value less costs of disposal and its value in use. If the recoverable amount of an investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. Any impairment loss is recognised immediately in the statement of income.

The investments' fair value less costs of disposal represents the best estimate of the amount the company would receive if it sold its investments. The fair value of each investment has been estimated on the basis of the present value of future cash flows, taking into account costs of disposal. The determination of the investment's value in use is based on calculations using pre-tax cash flow projections based on financial budgets approved by management covering a nine-year period. Cash flows beyond the nine-year period are extrapolated using estimated growth rates.

Impairment losses recognised in prior periods shall be reversed only if there has been a change in the estimates or external market information used to determine the investment's recoverable amount since the last impairment loss was recognised. The recoverable amount shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories above. Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as a gain or a loss.

The movement in total financial fixed assets is as follows:

PostNL N.V.
Total financial fixed assets
2016-2017, in € millions

	Investments in Mail	Available-for-sale financial assets	Total
Balance at 31 Dec 2015	2,944	626	3,570
Additions to capital	3		3
Reversal impairment Mail investments	369		369
Change in value available-for-sale financial assets		8	8
Disposal of available-for-sale financial assets		(634)	(634)
Balance at 31 Dec 2016	3,316	0	3,316
Additions to capital	2		2
Impairment Mail investments	(79)		(79)
Balance at 31 Dec 2017	3,239	0	3,239

Investments in Mail

The subsidiary undertakings of the company as at 31 December 2017, and the company's percentage interest, are set out below.

PostNL N.V.
Breakdown corporate investments
2017

Name of direct subsidiairy	Country of incorporation	Ownership %
PostNL Holdco B.V.	Netherlands	100%
PostNL Holding B.V.	Netherlands	100%

A complete list of investments in subsidiaries, associated companies and jointly-controlled entities will be attached to the company's Annual Report made available to the Chamber of Commerce.

A detailed review has been performed of the recoverability of the Mail investments. The recoverable value of each investment is the higher of the value in use and fair value less costs of disposal. The recoverable value is determined based on the value in use as this was higher than the fair value less costs of disposal at year end 2017. The value in use has been estimated on the basis of the present value of future cash flows. For all investments, the estimated future cash flows are based on a nine-year forecast and business plans, as management considers these forecasts reliable based on past experience.

The estimated future cash flows are derived from the most recent strategic planning approved by management, including inherent uncertainties like future volume developments, efficiency measures and the impact of regulatory decisions and developments. The applied growth rate does not exceed the long-term average growth rates on the related operation and market.

The company has determined the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The pre-tax discount rates in the investments' valuations vary from 9% to 13% (2016: 9% to 13%).

Key assumptions used to determine the recoverable values for the investments of the company are the following:
- maturity of the underlying market, market share and volume development in order to determine the revenue mix and growth rate,
- level of operating income largely impacted by revenue and cost development, taking into account the nature of the underlying costs and potential economies of scale,
- level of capital expenditure in network-related assets, and
- discount rate to be applied following the nature of the underlying cash flows and foreign currency and inflation-related risks.

As the Mail investments are vulnerable to changes in the discount rate and changes in operating income, a sensitivity analysis has been performed for the Mail investments. The sensitivity analysis included the impact of the following items which are considered to be most critical when determining the recoverable value:
- an increase or decrease in the discount rate of 0.5%, and
- an increase or decrease in operating income of 5%.

If the discount rate were to change by 0.5%, this would impact the Mail investments by around €245 million (2016: 220). A change in operating income of 5% would impact the Mail investments by around €130 million (2016: 150).

The detailed review of the value of the Mail investments resulted in the carrying value of the Mail investments exceeding their recoverable value by €79 million. The recoverable value was derived from the 2017 strategic planning, taking into account uncertainties relating to volume decline, efficiency measures and the impact of regulatory decisions and developments within Mail in the Netherlands. The value decrease mainly followed from reduced business plans within Mail in the Netherlands negatively impacted by the regulatory decisions, which for a large part was offset by improved business plans within Parcels reflecting increased volume developments. Based on the detailed review, management concluded that an impairment of €79 million was present for the Mail investments. Consequently, management recorded an impairment charge of €79 million in 2017 (2016: impairment reversal of 369). Within equity, the revaluation reserve associated with the initial revaluation of the Mail investments has been lowered by the impairment charge amount.

In 2017, the additions to capital of €2 million (2016: 3) represented the company's compensation for equity-settled share-based payments to the investments' employees. As the company grants its shares directly to its investments' employees without charging its investments, the company recognised, in line with IFRS, the increase in the investments as a capital contribution.

6.4.2 Provisions for pension liabilities: €65 million (2016: 98)

Accounting policies
For the accounting policies on pension liabilities, reference is made to note 3.4 to the consolidated financial statements.

The company is the sponsoring employer of the main Dutch pension plan, which is externally funded in a separate pension fund and cover the majority of PostNL's employees in the Netherlands.

In accordance with IAS 19.41, PostNL recognises the net defined benefit cost in the corporate financial statements of the company. The relevant Group companies recognise the costs equal to the contributions payable for the period in their financial statements. In its corporate financial statements, PostNL recognises the contributions received from the relevant Group companies as a benefit that offsets the defined benefit pension expense. The impact of the contributions is represented as participant contributions in the following table.

For the company, the contributions received from the relevant Group companies more than offset the pension expense. As a result, the corporate financial statements record a defined benefit pension income of €15 million (2016: income of 30), whereas the consolidated financial statements record defined benefit pension expenses of €93 million (2016: 90).

The following table reconciles the opening and closing balances of the present value of the defined benefit obligation and the fair value of plan assets, the funded status and the employer pension income for the sponsored pension plan of the company.

PostNL N.V.

Detailed overview of changes in corporate defined benefit plans

2016-2017, in € millions

	2016	2017
Change in benefit obligation		
Benefit obligation at beginning of year	(7,289)	(8,224)
Service costs	(90)	(97)
Interest costs	(182)	(148)
Past service costs		(3)
Other movements	(32)	(28)
Actuarial (losses)/gains	(851)	(254)
Benefits paid	220	226
Benefit obligation at end of year	(8,224)	**(8,528)**
Change in plan assets		
Fair value of plan assets at beginning of year	7,431	8,159
Assumed return on plan assets	185	146
Other movements	39	34
Participants contributions	126	121
Employer contributions	3	3
Other costs	(9)	(9)
Actuarial (losses)/gains	604	283
Benefits paid	(220)	(226)
Fair value of plan assets at end of year	8,159	**8,511**
Change in funded status		
Funded status at the beginning of year	142	(65)
Operating expenses (incl. participants contributions)	34	17
Interest (expenses)/income	3	(1)
Employer contributions	3	3
Actuarial (losses)/gains	(247)	29
Funded status at end of year	(65)	**(17)**
Impact of pension asset ceiling		
Impact of minimum funding requirement	(33)	(48)
Netted pension liabilities	(98)	**(65)**
Components of employer pension expenses		
Service costs	(90)	(97)
Interest (expenses)/income	(4)	(2)
Past service costs		(3)
Other costs	(2)	(4)
Participants contributions	126	121
Post-employment benefit income/(expenses)	30	**15**
Weighted average assumptions as at 31 December		
Discount rate	1.8%	2.0%
Rate of benefit increases	1.1%	1.5%
Life expectancy 65 year old men/women (in years)	21.1/23.4	21.2/23.5

6.4.3 Accounts receivable from Group companies: €188 million (2016: 92) / Accounts payable to Group companies: €26 million (2016: 20)

As at 31 December 2017, accounts receivable from Group companies mainly relates to €187 million receivable from PostNL Finance B.V. (2016: 91). Accounts payable to Group companies relates to €26 million outstanding intercompany cross-currency swaps from PostNL Finance B.V. (2016: 20). The fair value of the accounts receivable from and payable to Group companies approximated the carrying value, due to the short-term nature.

6.4.4 Eurobonds: non-current €398 million (2016: 206) and current €199 million (2016: 327)

For the disclosure on the eurobonds, reference is made to notes 4.1 and 4.4 to the consolidated financial statements.

In 2017, there are no non-cash changes in the total debt including the accounts receivable from and accounts payable to Group companies.

6.5 Other notes

Reconciliation corporate and consolidated equity and comprehensive income

PostNL N.V.

Consolidated to corporate equity and total comprehensive income

2016-2017, in € millions

Year ended at 31 December	2016		2017	
	Equity	Income	Equity	Income
Consolidated: Equity and total comprehensive income	(79)	135	**34**	**151**
Reconciliation items previous years	2,417		2,821	
Reversal impairment/(impairment) Mail investments	369	369	(79)	(79)
Results from investments	10	10	(55)	(55)
Other comprehensive income (CTA/hedges/associates/pensions)	20	20	9	9
Other direct equity movements	5			
Total reconciliation items	2,821	399	**2,696**	**(125)**
Corporate: Shareholders' equity and total comprehensive income	2,742	534	**2,730**	**26**

The differences between total shareholders' equity and total comprehensive income according to the IFRS-EU consolidated financial statements and the corporate financial statements under IFRS-EU in general relate to the accounting of the Mail investments at cost less impairments (deemed cost upon adoption of IFRS-EU) in the corporate financial statements and subsequent (reversal of) impairments.

The reconciling items for equity and income are further detailed below.

Reconciliation items

The 'reconciliation items previous years' of €2,821 million in 2017 relate to the difference between the consolidated equity as at 31 December 2016 of -€79 million and the corporate equity of €2,742 million at that date.

For details of the reversal of the impairment of the Mail investments recognised in the corporate financial statements in 2017, see note 6.4.1 to the corporate financial statements.

The 2017 results from investments were €55 million lower in the corporate financial statements and can be calculated from the result from the corporate income statement of €14 million, plus the impairment of the Mail investments of €79 million, minus the result from the consolidated income statement of €148 million. The difference relates to the difference between the dividend income and the result from the Mail investments. The 2016 results from investments were €10 million higher in the corporate financial statements and can be calculated from the result from the corporate income statement of €658 million, minus the reversal of the impairment of the Mail investments of €369 million, minus the result from the consolidated income statement of €279 million. The difference relates to the difference between the dividend income and the result from the Mail investments.

The reconciliation item 'Other comprehensive income' represents hedge and currency translation adjustments and adjustments for actuarial gains/(losses) which were recognised in the consolidated financial statements but not in the corporate financial statements as the investments are stated at cost. It also represents other comprehensive income from the investments in joint ventures and associates that was recognised in the consolidated financial statements but not in the corporate financial statements.

The 2017 difference in other comprehensive income of €9 million included -€8 million of actuarial gains on pensions, -€3 million of currency translation adjustments related to movements in exchange rate differences on converting foreign subsidiaries and €2 million other items. The 2016 difference in other comprehensive income of €20 million included -€17 million of actuarial gains on pensions, -€1 million of currency translation adjustments related to movements in exchange rate differences on converting foreign subsidiaries and -€2 million other items.

In 2016, the difference in other direct equity movements of €5 million mainly related to the buy-out of the minority shareholder of Postcon National of -€6 million.

Commitments and contingencies

Declaration of joint and several liability

At 31 December 2017, the company issued a declaration of joint and several liability for some of its Group companies in compliance with article 403, book 2 of the Dutch Civil Code. Those Group companies are:

PostNL N.V.

Declaration of joint and several liability

2017

Cendris Customer Contact B.V.	PostNL Finance B.V.
DM Productions B.V.	PostNL Holdco B.V.
G3 Worldwide Europe B.V.	PostNL Holding B.V.
G3 Worldwide Mail N.V.	PostNL Pakketten Benelux B.V.
Koninklijke PostNL B.V.	PostNL Pakketten Holding B.V.
Logistics Solutions B.V.	PostNL Real Estate B.V.
Netwerk VSP B.V.	PostNL Real Estate Development B.V.
PostNL Communicatie Services B.V.	PostNL Real Estate Holding B.V.
PostNL Data & Document Management B.V.	PostNL TGN B.V.
PostNL Data Solutions B.V.	PostNL Transport B.V.
PostNL E-commerce Services B.V.	

Fiscal unity in the Netherlands

The company forms a fiscal unity with a majority of its Dutch subsidiaries for corporate income tax and VAT purposes. A company and its subsidiaries that are part of these fiscal unities are jointly and severally liable for the tax payable by these fiscal unities.

Guarantees

In addition to the declaration of joint and several liability in compliance with article 403, book 2 of the Dutch Civil Code, the company provided parental support relating to the following items:
- committed revolving credit facilities of €400 million;
- guarantee facilities of €105 million;
- ordinary business activities of the Group of €12 million;
- ISDA agreements.

Separation agreement TNT Express

For details on the separation agreement with TNT Express, see note 3.9 to the consolidated financial statements.

Financial risk management

For disclosure on the company's overall financial risk management programme, reference is made to note 4.3 to the consolidated financial statements.

Financial instruments

For a summary of the company's financial instruments relevant to these corporate financial statements, reference is made to note 4.4 to the consolidated financial statements.

Related party transactions and balances

The company's shares are widely held. As such, no ultimate controlling party can be identified. The company, acting as a holding company, has relationships with a number of Group companies. In some cases, there are contractual arrangements in place under which the company sources supplies from such undertakings or such undertakings source supplies from the company. Transactions are in principle carried out at arm's length.

PostNL N.V.

Related party transactions

2016-2017, in € millions

Year ended at 31 December	2016		2017	
	Transactions	Balances	Transactions	Balances
Dividend income PostNL Group companies	195		104	
Accounts receivable from PostNL Group companies/interest income		92		188
Accounts payable to PostNL Group companies/interest expense				
Hedge accounts receivable/(payable) to PostNL Group companies/hedge income/(costs)	(7)	(20)	(2)	(26)
Net financing activities from Group companies	(414)		(97)	
Income tax received from/(paid to) PostNL Group companies	72		33	

For the compensation of the members of the Board of Management and Supervisory Board, see note 5.1 to the consolidated financial statements.

Subsequent events

There were no subsequent events to report.

Subsidiaries and associated companies at 31 December 2017

The full list containing the information referred to in article 379 and article 414 of book 2 of the Dutch Civil Code is filed at the office of the Chamber of Commerce in The Hague.

Appropriation of profit

Dividend proposal 2017

The Board of Management has decided, with the approval of the Supervisory Board, subject to shareholders approval at the 2017 Annual General Meeting of Shareholders, to declare a dividend of €0.23 per ordinary share over 2017, of which €0.06 per ordinary share has been paid as an interim dividend. The dividend will be paid, at shareholder's election, either in ordinary PostNL shares or in cash.

Appropriation of profit

The Board of Management, with the approval of the Supervisory Board, shall make the corporate profit of €14 million available at the disposal of the General Meeting of Shareholders and as such shall appropriate no profit to the reserves. For detailed information on PostNL's corporate performance, and the resulting profit, refer to section 6 of the financial statements. Furthermore, the Board of Management, with the approval of the Supervisory Board, proposes to make an amount of €78 million out of the distributable part of the shareholders' equity available for distribution of the proposed dividend.

Following this appropriation and proposal, a total amount of €92 million remains at the disposal of the General Meeting of Shareholders. Subject to the adoption of PostNL's financial statements by the General Meeting of Shareholders, and given an 2017 interim dividend of €0.06 per ordinary share has been paid, the proposed 2017 final dividend has been set at €0.17 per ordinary share of €0.08 nominal value, based on the outstanding number of 453,530,195 ordinary shares as per 31 December 2017. The dividend of €0.17 will be paid, at shareholder's election, either in ordinary PostNL shares or in cash. The dividend in shares will be paid out of additional paid in capital as part of the distributable reserves, free of withholding tax in the Netherlands.

The ex-dividend date will be 19 April 2018, the record date is 20 April 2018 and the election period will start on 23 April 2018 and will end on 7 May 2018 at 3PM CET. The conversion ratio will be based on the volume-weighted average share price for all PostNL shares traded on Euronext Amsterdam over the three trading day period from 3 May 2018 up to and including 7 May 2018. The value of the stock dividend, based on this VWAP, will, subject to rounding, be targeted at but not be lower than the cash dividend. There will be no trading in stock dividend rights. The dividend will be payable as of 9 May 2018.

Upon approval of this proposal, corporate profit will be appropriated as follows, whereby the final dividend represents a cash dividend under the assumption of 100% cash election.

PostNL

Appropriation of corporate profit

2017, in € millions

	2017
Profit attributable to the shareholders	14
Appropriation in accordance with the articles of association:	
Reserves withdrawn by the Board of Management and approved by the Supervisory Board (article 31, paragraph 2)	78
Dividend on ordinary shares	**92**
(Interim) dividend paid in cash	(15)
Final dividend	**77**

The Hague, 26 February 2018

Board of Management

H.W.P.M.A. Verhagen (CEO)

J.P.P. Bos (CFO)

Supervisory Board

J. Wallage (Chairman)

E. Blok

J.W.M. Engel

A.M. Jongerius

T. Menssen

F.H. Rövekamp

PostNL N.V.

Prinses Beatrixlaan 23

2595 AK The Hague

The Netherlands

Section 7: Other information

Appropriation of profit

Extract from the articles of association on appropriation of profit

Under PostNL's articles of association, the dividend specified in article 31, paragraph 1 will first be paid on the preference shares B if outstanding. Subject to the approval of PostNL's Supervisory Board, the Board of Management will determine thereafter which part of the profit remaining after payment of dividend on any preference shares B will be appropriated to the reserves (article 31, paragraph 2). The remaining profit after the appropriation to reserves shall be at the disposal of the General Meeting of Shareholders (article 31, paragraph 3). No dividend shall be paid on shares held by PostNL in its own capital (article 31, paragraph 6). Preference shares B were not issued in 2017.

Independent auditor's report

To: the shareholders and Supervisory Board of PostNL N.V.

Report on the audit of the financial statements 2017 included in the Annual Report

Our opinion

We have audited the financial statements 2017 of PostNL N.V. (hereinafter: the Company), based in The Hague, the Netherlands.

In our opinion the accompanying financial statements give a true and fair view of the financial position of PostNL N.V. as at 31 December 2017, and of its result and its cash flows for 2017, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS), and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and corporate statement of financial position as at 31 December 2017
- The following statements for 2017: the consolidated and corporate income statement, the consolidated and corporate statement of comprehensive income, the consolidated and corporate statement of changes in equity and the consolidated and corporate statement of cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of PostNL N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€12.6 million (2016: €14 million)
Benchmark applied	5% of operating income
Explanation	We consider an earnings-based measure as the most appropriate basis to determine materiality. We consider operating income to be the most appropriate earnings-based benchmark, as it provides us with a consistent year on year basis for determining materiality and is one of the key performance measures for the users of the financial statements. The benchmark applied is in line with last year's audit.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of €630,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

PostNL N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of PostNL N.V.

Our group audit mainly focused on significant group entities of PostNL N.V. within the segments Mail in the Netherlands, Parcels and International.

Due to their significance and/or risk characteristics, we performed full scope audit procedures on the significant group entities within Mail in the Netherlands and Parcels. For the segment International the significant group entities within Postcon, including the newly acquired company Pin Mail AG, Nexive as well as Spring Hong Kong were assigned a full scope. In addition, specific procedures were performed at three entities within Mail in the Netherlands.

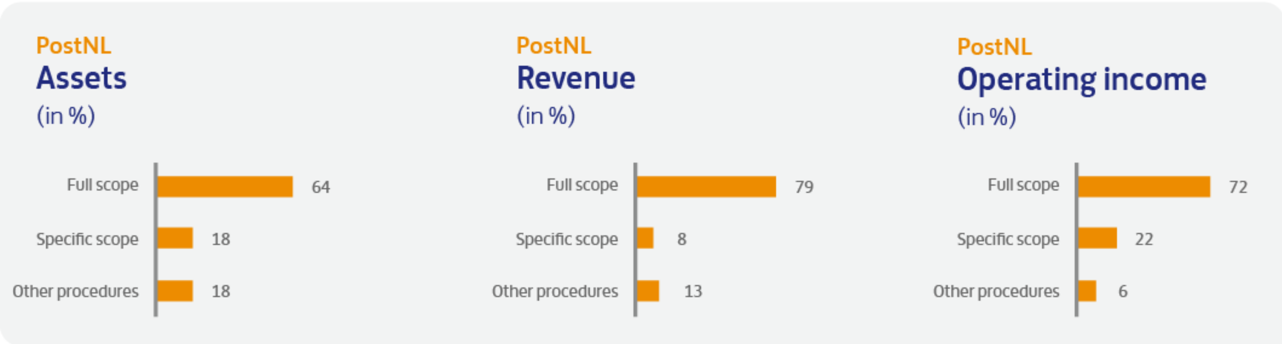
For the entities in scope within Mail in the Netherlands and Parcels the group engagement team performed the work. For Postcon, Nexive and Spring Hong Kong we used EY component auditors, who are familiar with local laws and regulations, to perform detailed audit procedures to obtain sufficient coverage for financial statement line items from a consolidated financial statements perspective.

Component materiality was determined by our judgment, based on the relative size of the component and our risk assessment. Component materiality did not exceed €6.3 million and the majority of our component auditors applied a component materiality that is significantly less than this threshold.

We sent detailed instructions to all component auditors, covering the significant areas that should be covered and set out in the information required to be reported to us. We interacted regularly with the component teams where appropriate during various stages of the audit. Based on our risk assessment, we visited component locations in Germany (Postcon) and Italy (Nexive). These visits encompassed amongst others: reviewing key local working papers and conclusions, meeting with local and regional leadership teams and attending closing meetings.

The group consolidation, financial disclosures and a number of complex items were audited by the group engagement team at the Company's head office. These included goodwill and Mail investments impairment testing and pensions. We involved several EY specialists to assist the audit team, including specialists from our tax, valuations, actuarial and treasury departments.

In total, in performing these procedures, we achieved, by performing full and specific scope procedures, the following coverage on the financial line items:



None of the components covered through other procedures (remaining components) individually represented more than 2% of total group revenue. For those remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components. By performing the procedures mentioned above at entity, segment and at group level, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our 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. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

Compared to the key audit matters identified in 2016, Impact of laws and regulations on the valuation of the business of PostNL has been added as a key audit matter, following communication of the ACM in relation to tariff setting and significant market power.

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.

Risk	Our audit approach	Key observations
Pension accounting PostNL has a defined benefit plan with a significant impact on the overall balance sheet, equity and the results. Actuarial calculations are used to measure the obligation and costs. These actuarial calculations include several assumptions such as discount rate, benefit accrual rate and longevity rates. In addition, the Company has a minimum funding requirement and additional funding requirements depending on the development of the coverage ratio of the pension fund. Further reference is made to note 1.3, 2.1.3 and 3.4 to the consolidated primary statements.	We have performed a walkthrough to confirm our understanding of, and tested the design of the Company's internal controls around pension accounting and assumptions setting process. Our audit procedures included, amongst others: • verification of the consistent application of the methodology; • identification of the significant estimates used by management in the calculation of the pension provisions; • comparing the discount rate with external market data, longevity rates with available mortality tables in the market and verified that the benefit accrual rate is based on the analysis of PostNL with information from the pension fund. We involved our EY actuarial specialists in the testing of assumptions, performing procedures to verify movements in the balance sheet position and pension expenses and testing the calculation and consolidation of the defined benefit liability. We furthermore took notice of the pension agreements and assessed the developments in the coverage ratio. Additionally, we validated the basic data used for the calculation of the pension provision to internal HR data and tested plan assets by performing detailed testing on existence and on valuation based on external pricing data. We also assessed the adequacy of the Company's related disclosures, including sensitivity analysis, as included in notes 1.3, 2.1.3 and 3.4 of the consolidated primary statements.	We consider management's assumptions to be within the acceptable range and we assessed that the disclosures for pensions are appropriate. We agree with management's conclusion, that based on the development of the coverage ratio of the pension fund no additional funding requirement needs to be recognised in the defined benefit liability.
Valuation of goodwill (consolidated primary statements) and Mail investments (corporate primary statements) At 31 December 2017, the total carrying value of goodwill as included in the consolidated primary statements amounted to €141 million. Under EU-IFRS the Company is required to annually test the goodwill balance for impairment or more frequently if there is a triggering event. In addition, in the corporate primary statements the value of Mail investments amounted up to €3,239 million. At each balance sheet date the Company reviews whether there is an indication that its Mail investments are impaired or whether there are indicators that a previously recognised impairment may no longer exist or may have decreased. We focused on these areas given the significant judgement and complexity of valuation methodologies used to determine whether the carrying value of goodwill and Mail investments is appropriate, which includes assessing the assumptions used within the models to support the recoverable amounts of goodwill and Mail investments. The assumptions, sensitivities and results of the tests performed are disclosed in note 3.3 to the consolidated primary statements for goodwill and note 6.4.1 of the corporate primary statements for the value of Mail investments. In addition, the general accounting policy around impairment is disclosed in note 1.3 and 5.4 of the consolidated primary statements.	We have gained an understanding of the goodwill and Mail investments impairment testing processes, performed a walkthrough of the impairment analysis process (e.g. controls over the data and assumptions used in the analysis such as the discount rate) and evaluated the control design in this area. Our EY valuation specialists assisted us with our audit of PostNL's annual impairment analysis. We reviewed the valuation model to assure that the methodology used is in line with IAS 36 Impairment of assets. We validated that the projected financial information (cash flows, internal forecasts) used in the analysis was derived from PostNL's most recent strategic plan and long-term forecast as approved by the Board of Management and Supervisory Board and have evaluated the historical accuracy of management's assessment by comparing the historical actual results to the forecasts used. We challenged the assumptions used by the Company in their valuation model by comparing to external information such as expected inflation rates, discount rates and implied growth rates. We confirmed that the cash flow projections and cash generating units (CGUs) determined are appropriate and consistent with the information approved by the executive committee, reconciled the carrying value to financial information from the accounting system and ensured that new business combinations are taken into consideration. On top of the procedures mentioned before, we have assessed and challenged the sensitivity analysis as performed by the Company specifically for the Mail investments. In the sensitivity analysis for the Mail Investments the Company stress tested the key assumptions discount rate and operating income to calculate the impact of a change in assumption. We also assessed the adequacy of the Company's disclosures around goodwill and Mail investments as included in note 1.3, 3.3 and 5.4 of the consolidated primary statements and note 6.4.1 of the corporate primary statements respectively.	We consider management's assumptions to be within the acceptable range and we assessed that the disclosures for goodwill and Mail investments are appropriate. For Mail investments the Company impaired €79 million in 2017. For goodwill the Company concluded that no impairment was necessary. We agree with management's conclusion.

Risk	Our audit approach	Key observations
Deferred revenue and revenue related accruals (stamps and terminal dues) Various assumptions are being made in the measurement (model inputs) of deferred revenue and revenu related accruals. The estimates used in the calculation of the deferred revenue and revenu related accruals can have an impact on the operating revenues and accrued liabilities. Further reference is made to note 3.1.3 to the consolidated primary statements. In addition, the general accounting policy around deferred revenue and revenue related accruals is disclosed in note 1.3 of the consolidated primary statements.	We have gained an understanding of the deferred revenue stamps and the terminal dues and related revenue related accruals process, performed walkthroughs of the revenue classes of transactions and evaluated the design and effectiveness of controls in this area. For deferred revenue stamps we performed detailed analytical procedures on the model used. We performed testing procedures on variables used as input for the deferred revenue balance and reconciled them to source documentation. We identified, challenged and verified the reasonableness of significant assumptions made by management and included in the model to calculate the deferred revenue stamps. Furthermore, we performed retrospective procedures on the assumptions used by management. For terminal dues we performed detailed analytical procedures of the positions, which included inquiry of management of the Company on the development of the postal volume and took in consideration external reports provided by other postal services, as defined in the Universal Postal Service obligations, on postal volume delivered to PostNL as well as the status of the negotiations. We performed test of details procedures on the contractual agreements on the volume and price developments, which includes a retrospective assessment of previous estimates. We performed detailed procedures to determine the correctness of adjustments by substantiating the balances by agreeing the amounts to supporting documentation. We also assessed the adequacy of the Company's related disclosures as included in note 3.1.3 of the consolidated primary statements.	We confirm that the Company's revenue recognition accounting policies were appropriately applied. Furthermore, we have assessed that management's assumptions are within the acceptable range and the positions as per 31 December 2017 are management's best estimate. In addition, we assessed that the disclosures are appropriate.
Impact of laws and regulation on valuation of business of PostNL PostNL is obliged to provide services as stated in the Postwet and is bound to the related obligations. As a result, PostNL operates in a heavily regulated market. Monitoring of the compliance to these regulations is delegated by the Dutch government to the Autoriteit Consument en Markt (hereafter: ACM). During the financial year the ACM challenged postal services companies in the Netherlands, in particular regarding rulings on tariff setting and significant market power (SMP). This area is significant to our audit, as there is a risk that one of the current and/or future challenges and/or allegations could have an impact on future business and therefore on the valuation of Mail investments of the corporate financial statements. Further reference is made to note 6.4.1 Total financial fixed assets.	We have gained an understanding of the process related to regulatory proceedings. We furthermore inquired with both internal and external legal staff as well as with the Company's financial staff in respect of ongoing regulatory proceedings and investigations, inspected relevant correspondence, inspected the minutes of the meetings of the Audit Committee, Supervisory Board and Board of Management, requested and obtained a confirmation letter from the group's in-house legal counsel, requested and received lawyers letter from the external attorney to assess the position of management. Our EY law specialists assisted us in understanding all the pending proceedings and the possible impact they could have on the financial statements for the year. We also assessed the adequacy of the Company's related disclosures as included in note 6.4.1 Total financial fixed assets of the corporate primary statements.	We note, that based on the information available to date and taking into account the inherent uncertainties, management has taken in consideration the impact of the regulatory developments and proceedings in its valuation of Mail investments. We consider management's assessment of the impact to be within the acceptable range. Furthermore we assessed that the disclosures for Mail investments of the corporate financial statements are appropriate.

Report on other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, the Annual Report contains other information that consists of:

- The Report of the Management Board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- CR Performance Statements.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

Following the appointment by the Annual General Meeting of shareholders on 14 April 2015, we were engaged by the Supervisory Board on 11 January 2016 as auditor of PostNL N.V., as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:

- Assurance report on the Corporate Responsibility reporting included in the Annual Report
- Audit services on financial statements of group entities
- Assurance report on the ISAE 3402 report for third parties
- Agreed upon procedures to attest filings and assurance reports to regulatory authorities (ACM)
- Assurance report on basic data to be provided to the pension fund
- Assurance services to provide consent and a comfort letter to security offering

Description of responsibilities for the financial statements

Responsibilities of Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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
- Obtaining 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 Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management'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 Company'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 a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board 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 the Supervisory Board, 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, not communicating the matter is in the public interest.

Amsterdam, 26 February 2018

Ernst & Young Accountants LLP
signed by S.D.J. Overbeek – Goeseije

CR Performance Statements

18 CR Performance Statements

PostNL

Customer indicators

2013 - 2017, in % unless otherwise indicated

	Notes	2013	2014	2015	2016	2017
Customer satisfaction (% of satisfied customers)	*2.1*	83%	85%	86%	87%	88%
Reputation score (in points)	*2.1*	62.3	64.5	67.7	67.8	69.7
Delivery quality of Mail in the Netherlands (2017 preliminary)	*2.1*	95.8%	96.7%	96.4%	96.4%	95.4%
ISO 9001 certification (% of FTEs working in certified sites)	*2.1*	91%	91%	96%	98%	98%

PostNL

People indicators

2013 - 2017, as indicated

	Notes	2013	2014	2015	2016	2017
Workforce	*3.1*					
Headcount		56,475	52,364	49,174	46,456	44,263
Headcount out of CR reporting scope		1,983	1,842	1,897	0	0
Headcount in CR reporting scope		**54,492**	**50,522**	**47,277**	**46,456**	**44,263**
Full time equivalents (FTEs)		28,844	26,361	25,074	23,933	25,279
FTEs out of CR reporting scope		1,365	1,409	1,426	0	0
FTEs in CR reporting scope		**27,479**	**24,952**	**23,648**	**23,933**	**25,279**
Engagement and culture	*3.2*					
Employee engagement (% of engaged employees)		57%	59%	64%	67%	66%
Culture index		Not reported	Not reported	55	58	57
Recruitment and career development	*3.3*					
Training hours per FTE		17	18	21	17	16
Diversity and inclusion	*3.4*					
Percentage of females in management		24%	23%	25%	24%	25%
Health and safety	*3.5*					
Fatal accidents		0	2	3	1	2
Lost time accidents (per 100 FTEs)		2.2	2.2	2.9	2.9	3.5
Absenteeism (% of total working hours)		5.5%	5.2%	5.0%	4.9%	5.3%
OHSAS 18001 certification (% FTEs at certified sites)		89%	89%	95%	100%	100%

PostNL
Environmental indicators
2013 - 2017, as indicated

	Notes	2013	2014	2015	2016	2017
CO_2 efficiency index (2007 = 100)	4.1	57.3	56.1	51.4	49.2	**42.9**
Buildings	4.2					
Efficiency (kg CO_2 per m^2)		14.7	13.1	8.5	5.0	4.9
Electricity usage in KwH/m^2 building		107	105	103	108	107
Sustainable electricity usage (as % of total electricity usage)		79%	82%	89%	95%	100%
Gas usage in m^3/m^2 building		10.2	7.0	7.0	7.0	6.4
Small trucks and vans	4.3					
Efficiency (gr CO_2 per km)		243	239	231	241	174
Fuel usage liters diesel/100 km		9.1	8.8	9.2	9.8	9.9
Vehicles complying with Euro 6		0%	0%	2%	13%	47%
Vehicles complying with Euro 5		77%	95%	97%	86%	53%
Vehicles not complying with Euro 6 or Euro 5		23%	5%	1%	1%	0%
NO_x emissions in kg		18,907	16,669	15,032	14,427	11,319
NO_x emissions (gr/km)		0.32	0.30	0.28	0.27	0.21
PM_{10} emissions in kg		1,421	732	303	279	267
PM_{10} emissions (gr/km)		0.02	0.01	0.01	0.01	0.01
Large trucks	4.4					
Efficiency (gr CO_2 per km)		696	711	714	716	698
Fuel usage liters diesel/100 km		26.1	26.7	26.7	26.7	26.1
Vehicles complying with Euro 6		29%	53%	57%	84%	87%
Vehicles complying with Euro 5		71%	47%	43%	16%	13%
NO_x emissions in kg		48,236	35,783	28,317	14,558	14,534
NO_x emissions (gr/km)		1.84	1.28	1.07	0.63	0.58
PM_{10} emissions in kg		574	418	362	253	265
PM_{10} emissions (gr/km)		0.02	0.01	0.01	0.01	0.01
Absolute carbon footprint (in kilotonnes)	4.5					
Heating (gas, heating fuel)		16	10	9	10	9
Small trucks and vans		14	14	14	13	10
Large trucks		20	20	19	20	20
Scope 1 gross		**50**	**44**	**42**	**43**	**39**
Avoided carbon emissions heating (biogas)		(2)	(2)	(2)	(2)	
Compensated carbon emissions buildings (credits)		0	0	0	(4)	(6)
Compensated carbon emissions biogas vehicles (credits)		0	(0)	(1)	(0)	
Scope 1 net		**48**	**42**	**39**	**37**	**33**
District heating		1	1	1	1	0
Electricity (including electric vehicles)		47	42	39	45	43
Scope 2 gross		**48**	**43**	**40**	**46**	**43**
Sustainably sourced carbon emissions (sustainable electricity)		(40)	(36)	(34)	(43)	(43)
Compensated carbon emissions buildings (credits)		(6)	(6)	(6)	(3)	
Scope 2 net		**2**	**1**	**0**	**0**	**0**
Company cars		8	8	8	5	5
Business travel by air		1	1	1	1	0
External delivery partners		107	147	239	222	190
Scope 3 gross		**116**	**156**	**248**	**228**	**195**
Compensated carbon emissions company cars (credits)		(8)	(8)	(8)	(5)	(5)
Compensated carbon emissions business travel by air (credits)		(1)	(1)	(1)	(1)	(0)
Scope 3 net		**107**	**147**	**239**	**222**	**190**
PostNL's own gross carbon footprint (total scope 1 and 2)		98	87	82	89	82
PostNL's own net carbon footprint (total scope 1 and 2)		50	43	39	37	33
PostNL's total gross carbon footprint (total scope 1, 2 and 3)		214	243	330	317	277
PostNL's total net carbon footprint (total scope 1, 2 and 3)		157	190	278	256	223
Other environmental indicators						
ISO 14001 certification (% of FTEs working in certified sites)	4.6	90%	90%	96%	100%	100%

Section 1: Basis of preparation

This section sets out PostNL's Corporate Responsibility (CR) reporting policies and guidelines applied in the CR Performance Statements. We give an overview of the reporting process and critical estimates and judgements. At the end of the section, we provide an overview of the scope of the CR Performance Statements.

1.1 General

We report on our CR policy and Performance Statements, which are in accordance with the comprehensive option of the latest Global Reporting Initiative (GRI) G4 guidelines. Under these guidelines there is a strong focus on materiality. We consider topics to be material when they have a direct or indirect impact on our ability to create, preserve or weaken long-term value for us and our stakeholders.

Our CR strategy remained unchanged in 2017. We still strive to provide our customers with the most sustainable mail and parcels solutions. Long-term value creation is an integral part of our PostNL 2020 strategy. This is why it is important to have reliable and assured information on our CR performance, both internally and externally, so that all our stakeholders can make informed decisions to engage with our company. Consequently, we have integrated the monitoring and managing of financial and CR performance into our daily data processes and engaged our external auditor EY to provide reasonable assurance on the CR Information. EY's assurance covers the Corporate Responsibility Information in the Annual Report 2017, excluding the financial performance in chapter nine, Performance 2017 and outlook 2018, the Governance section (chapters 10-16), the Financial Statements (chapter 17) and the Appendices.

1.2 Materiality analysis

Defining the report content

We have defined the report in accordance with the requirements of the GRI G4 guidelines. Additionally, we considered the International Integrated Reporting Framework. Using our materiality assessments from previous years as a base, in 2017 we completed a new materiality assessment to help identify and validate the topics that, according to stakeholders, have the greatest importance to their (business) relationship with us. Below we describe the process we undertook, from identification of these topics through to evaluation and validation.

Understanding our stakeholders' needs

Stakeholder	Stakeholder description	Stakeholder expectations	How we engaged
Our customers	Customers and consumers sending and receiving mail and parcels and using related services.	Customers demand a reliable business partner, who understand their needs and offers seamless, high-quality, and sustainable services. Consumers expect accessible and reliable services.	• Close daily contact • Biannual customer satisfaction assessment • Customer events and knowledge sessions • Regular dialogue sessions
Our investors	The broader financial market	Our investors want a financially sound and reliable company, with a clear investment proposition, and solid long-term results.	• Meetings and conference calls with analysts and (potential) investors • Quarterly results and presentations
Our people	Everyone who works with or for us	Our people expect a safe and secure working environment, which supplies them with real job satisfaction and development opportunities.	• Annual employee engagement survey • Interact closely with people who work with or for us • Good relationships with trade unions and works councils
Society	The societies in which we operate, including suppliers, the media, the government, and NGOs.	Society wants a company that provides accessible and reliable delivery services, which takes care of society at large.	• Quarterly reputation survey • Supplier evaluations • Contact with regulatory authorities and the Dutch ministry of Economic Affairs • Relationship with the media

The needs and interests of each of our stakeholders are different. Fully understanding those issues that specifically affect our stakeholders means we can more effectively and efficiently allocate our resources. This enables us to shape and realise our ambition and create long-term value.

Identification of material topics

A material topic is a matter that impacts the relationship of our stakeholders with the company, and our ability to create long-term value over time. Identifying these material topics involved carrying out a number of internal and external analyses.

Our internal analysis involved a number of workshops with (senior) managers from across PostNL, who are in daily contact with our stakeholders. They brainstormed on potential material topics for each of the stakeholder groups. We also carried out desk research on the external environment. Together, these topics targeted:

- The material topics defined for the Annual Report 2016
- The potential impact of mega trends on our business
- Relevant aspects of the UN Sustainable Development goals (more information is available in chapter three)
- Benchmarks and guidelines, including the Integrated Reporting Framework, the guidelines for the sustainability reporting of the GRI, and the Dow Jones Sustainability index (more information can be found in 1.4 Guidelines, benchmarks and initiatives)
- A peer review, focusing on those companies active in our (inter)national markets
- The results from a range of relevant surveys covering previous years, including customer satisfaction surveys and the employee engagement survey.

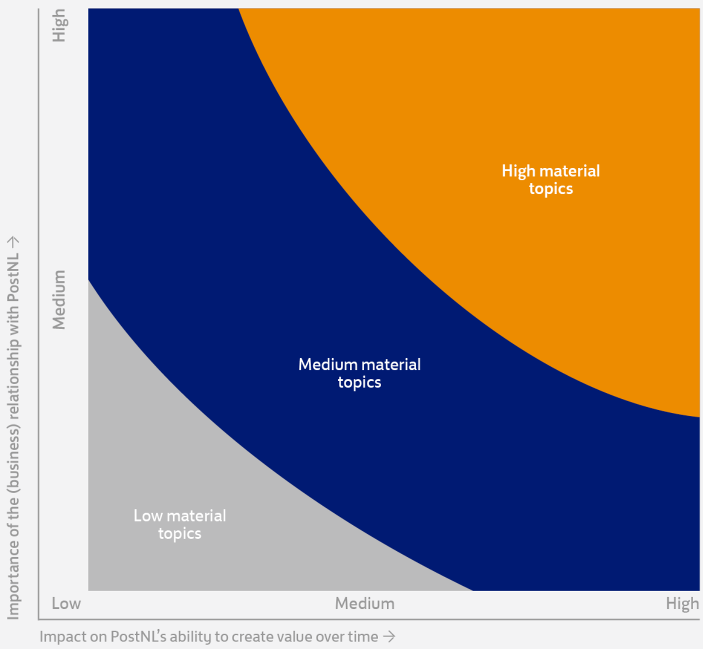
Prioritisation and validation of material topics

We have prioritised and validated the long list of material topics from our identification phase, based on the impact on our strategy, and ability to create long-term value. Additionally, we carried out external validation by sending a survey to a variety of stakeholders in the Benelux, including customers, investors, suppliers, governmental organisations, and NGOs. The survey included 41 questions spread over five main categories. These were: climate, company operations, innovation and technology, economy, and demographics.

The outcome was translated into a shortlist of material topics, as outlined in the materiality matrix below. This was then discussed and validated by the Board of Management and the Executive Committee. Our plan is to survey our stakeholders in Italy and Germany in the first half of 2018, and we will include the outcome in the update of our materiality analyses for 2018.

Materiality matrix

Below we have created an overview of those topics that are most important for our stakeholders and us.



High material topics

- Connected society
- Customer loyalty
- Economic value
- Empowered people
- Innovation and growth
- Sustainable operations
- Trusted company

Medium material topics

- Circular economy and recycling
- Clear and concise investment proposition
- Demographic developments
- Fair taxation
- Sustainable partnerships
- Sharing economy
- Stakeholder engagement
- Transparency

Low material topics

- Noise reduction

1.3 CR reporting process

In 2017 we established a dedicated CR reporting process that enables us to report on our performance and progress. CR data is collected on a monthly basis using a dedicated IT system, and is then consolidated and analysed centrally. We use company-wide definitions when reporting on the data, which are in line with the GRI G4 guidelines. These definitions, which do not differ from the 2016 definitions, can be found in Appendix 3: Glossary and definitions. For the overview of all GRI indicators, as well as where they can be found in this report, we refer you to the GRI content index on postnl.nl/annualreview2017.

Internal control over CR reporting

All reported data are subject to internal validation procedures on the basis of the data owner (first line of defense) and the control department (second line of defense). We have an integrated internal control framework in place which specifies all financial and CR control procedures and its timing and reporting formats.

Scope of the report

The report includes CR data from all entities that are either fully or majority owned by PostNL. In accordance with our policy on CR reporting, companies that are divested – fully or partially, whereby we no longer retain a direct or indirect controlling interest – are excluded from the CR reporting scope for the entire year in which the divestment took place.

Employees of joint ventures, associates, and commission-contracted workers are not included in our CR reporting scope. Commission-contracted workers are paid by output and do not have a labour contract. As external delivery partners play an important role in our business, we include the impact they have in terms of absolute carbon emissions and fatal accidents. These include external parties that transport mail or parcels for us, such as air freight carriers.

In prior years, a number of (smaller) entities were excluded from the CR reporting scope resulting in, for example, a difference between the total number of FTEs and headcount of PostNL and the total number of FTEs and headcount included in the CR scope. In 2017, we changed our policy on CR reporting to align the reporting scope of the CR data with the consolidated financial statements.

Data revision resulting from our new policy on CR reporting

As mentioned above we changed our policy on CR reporting in 2017. In accordance with the GRI G4 guidelines, PostNL focuses on the most material topics and the entities with the greatest impact on our CR performance. Our new policy on CR reporting follows the same principle allowing for effective and focused management. We have introduced three CR reporting scope levels based on the drivers which have the most material impact on our CR performance. These are:

- Full scope entities: entities with FTEs or M^2 that exceed 3.0% of the total FTEs or M^2 of PostNL, or have more than 250 small or 100 large trucks
- Medium scope entities: entities with FTEs or M^2 between 0.5% and 3.0% of the total FTEs or M^2 of PostNL and have less than 250 small or 100 large trucks
- Limited scope entities: entities with FTEs or M^2 less than 0.5% of the total FTEs or M^2 of PostNL and have less than 250 small or 100 large trucks.

The periodically-reported CR data depends on the scope of the entity. Where appropriate, certain CR data of medium or limited scope entities is estimated. Appendix 2 shows an overview of which scoping coverage resulted per line item in the CR Performance Statements. We have taken all reasonable steps to ensure that the CR information in this Annual Report is accurate and complete.

For comparability reasons we have revised the 2016 CR indicators that are impacted by the new policy on CR reporting. The key performance indictors based on measurements by third parties, including employee engagement, customer satisfaction and the delivery quality of Mail in the Netherlands, are not impacted by the new policy on CR reporting. In the table below we have displayed the main impact of the revision of the 2016 CR data.

As indicated in the table, the total FTEs and headcount of PostNL are included in the CR scope as a result of the policy changes. The increase in the lost-time accidents (per 100 FTE) of 0.2 is mainly related to smaller entities which have no operational personnel. Under the old CR reporting policy they reported almost no accidents, while under the new policy on CR reporting the accidents for these smaller entities are estimated based on the larger entities which do have accidents. A reverse effect applied for absenteeism resulting in a decrease of 0.2%.

PostNL

Scoping differences

2016 - 2016, as indicated

	2016: old scope	2016: new scope
Workforce		
Headcount in CR reporting scope	43,555	46,456
Headcount out of CR reporting scope	2,901	0
FTEs in CR reporting scope	22,508	23,933
FTEs out of CR reporting scope	1,425	0
People indicators		
Lost-time accidents (per 100 FTEs)	2.7	2.9
Absenteeism (% of total working hours)	5.1%	4.9%
Environmental indicators		
CO_2 efficiency index	49.5	49.2
Scope 1 net (in kilotonnes CO_2	37	37
Scope 2 net (in kilotonnes CO_2	1	0
Scope 3 net (in kilotonnes CO_2	222	222

The impact of the new policy on CR reporting on the reported CO_2 emissions relates to additional square meters of building in scope as a result of the inclusion of additional entities. The related additional emissions were fully offset by the effect of the increased percentage of sustainable electricity. The percentage of sustainable electricity increased as a number of smaller entities within our International business segment are estimated based on Nexive, which uses a relatively high percentage of sustainable electricity. The net positive impact on our CO_2 efficiency index amounted to 0.3.

Use of estimates and judgements

The accuracy and completeness of CR data depends on the method of measurement, the calculation procedure and whether estimates have been used. Estimates are based on historical experience and other factors, including expectations that we believe are reasonable under the circumstances. As mentioned above, where appropriate certain CR data of medium or limited scope entities is estimated. Appendix 2 shows an overview of which scoping coverage resulted per line item in the CR Performance Statements. We are partially dependent on our people to obtain information on accidents that have occurred during the year. Despite all measures taken, including an open safety culture, the risk of incomplete accident reporting remains.

To determine our carbon emissions for 2017, we use carbon conversion factors taken from the 2016 UK DEFRA tables. For electricity, we use the UK DEFRA tables for the period 2013 till 2015 and the OECD 2016 table for 2016 and 2017, as the DEFRA tables no longer cover electricity. These conversion factors relate to internationally acknowledged organisations, such as the Intergovernmental Panel on Climate Change, the International Energy Agency and the Greenhouse Gas Protocol.

The scope 3 carbon emissions impact for external delivery partners is determined based on estimates, as primary data, such as fuel consumption and type of fuel used, are not available. This means that there are inherent limitations to the accuracy of the reported scope 3 emission figures of external delivery partners.

The most important estimates are:

- The estimated carbon emission of our external delivery partners in the Netherlands is partly based on operational systems within PostNL. For kilometres driven, planned figures are used instead of actual figures, and these are combined with the average fuel consumption of our own fleet to estimate CO_2 emissions
- For international commercial line haul activities for both truck and air freight, we use distance travelled and kilogrammes of mail transported to calculate the number of tonne-kilometres. To calculate this we use the distance from the Netherlands to the hub in the country of destination
- To estimate the emissions for our activities abroad we use the latest Royal Mail figures, as reported in their Annual Report 2016/17 from 17 May 2017, in combination with the most recent public figures of Deutsche Post DHL Group as reported in their Annual Report 2016 from 16 February 2017.

1.4 Guidelines, benchmarks, and initiatives

Our assessment of material topics is also based on dominant topics in guidelines and benchmarks, such as the GRI guidelines, the ten principles of the UN Global Compact, with respect to human rights, labour, environment, and anti-corruption, which we support and the OECD guidelines. The following guidelines, benchmarks, and initiatives are particularly important for us.

Dow Jones Sustainability Index

Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of the leading sustainability-driven companies worldwide. They provide asset managers and other stakeholders with reliable and objective benchmarks for managing sustainability portfolios. In 2017, we were given a Bronze Award within the DJSI and were ranked in the top-10 of the Transport and Transportation industry. For further information, see www.sustainability-index.com.

Carbon Disclosure Project

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Over the past 15 years the organisation has created a system that has resulted in unparalleled engagement on environmental issues worldwide. In 2017 we were awarded a Level B score by the CDP for our climate reporting.

UN Global Compact

The UN Global Compact is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society.

Global Reporting Initiative

The GRI is a multi-stakeholder process and an independent institution whose mission is to develop and disseminate globally-applicable sustainability reporting guidelines for voluntary use by organisations that report on the economic, environmental and social dimensions of their business. The GRI incorporates participation of business, accountancy, investment, environmental, human rights and research and labour organisations from around the world. For more information, see www.globalreporting.org

International Post Corporation

The IPC is the leading service provider of the global postal industry that provides leadership by driving service quality, interoperability and business-critical intelligence to support posts in defending existing business and expanding into new growth areas. It is a cooperative association of 24 member postal operators in Asia Pacific, Europe and North America.

Diversity Charter

The Dutch Diversity Charter was launched in The Hague in July 2015, with 22 employers from the public and private sector. The Diversity Charter is an essential part of the project Diversity at Work. Through this project the Dutch Labour Foundation wants to support employers and employees in the public and private sector in their efforts to increase diversity in their businesses and work towards a more inclusive environment. PostNL was one of the original signatories of the Charter.

Talent to the Top

We are active in the Talent to the Top Charter. The Charter was developed in 2008, in close consultation with the business sector, public bodies and the Ministries of Economic Affairs and Education, Culture & Science. The aim is to achieve a higher intake, promotion and retention of female talent in top jobs.

Fira

The FIRA Platform is an online register in which companies (suppliers) can display their CSR practices to their clients (buyers). The FIRA Platform is closely aligned with international standards, such as ISO 26000, ISO 20400, AA1000 and GRI. PostNL was audited on the basis of a complete CSR report.

EcoVadis

EcoVadis is a trusted partner for procurement teams within more than 180 leading multinationals, helping them to reduce risk and drive innovation in their supply chains. The EcoVadis CSR analysis system covers 21 criteria across four themes of environment, fair labour practices, ethics/fair business practices, and supply chain. In 2017 we were given a 'Gold' rating by the organisation.

BREEAM

BREEAM, Building Research Establishment Environmental Assessment Method, is a globally-recognised method for assessing, rating, and certifying the sustainability of buildings. The assessment covers a range of environmental issues, including evaluating energy and water use, health and wellbeing, pollution, transport, materials, waste, ecology and management processes. Buildings are rated and certified on a scale of 'Pass', 'Good', 'Very Good', 'Excellent' and 'Outstanding'. Our most recent parcel distribution and processing centre was rated 'Excellent'.

Lean & Green

Lean & Green is Europe's leading program for sustainable logistics. It stimulates organisations to achieve a higher level of sustainability, by taking measures that are not only cost efficient, but also focused on reducing the environmental impact, resulting in a more efficient logistical process. Lean & Green is operated by Connect, an independent network for smart, sustainable and social mobility, and logistics. In 2017, we were awarded a Lean & Green star.

Section 2: Customer indicators

This section sets out how we measure the way our customers view us. We create value by focusing on the interests of our customers, from introducing innovative services and solutions to constantly striving to better our customer contact. The results of these efforts are indicated in the following customer indicators.

2.1 Customer indicators

PostNL

Customer indicators

2013 - 2017, in % unless otherwise indicated

	2013	2014	2015	2016	2017
Customer satisfaction (% of satisfied customers)	83%	85%	86%	87%	**88%**
Reputation score (in points)	62.3	64.5	67.7	67.8	**69.7**
Delivery quality of Mail in the Netherlands (2017 preliminary)	95.8%	96.7%	96.4%	96.4%	**95.4%**
ISO 9001 certification (% of FTEs working in certified sites)	91%	91%	96%	98%	**98%**

Customer satisfaction

We measure customer satisfaction twice a year through an online survey performed by an independent external research company. Over 30,000 customers, both consumers and business customers of our mail and parcels operations, were invited to participate. International customers are not included. The survey looks at how we resolve complaints, the delivery time of letters and parcels, and the quality of our delivery.

Where traditionally customers would only use mail or parcel services, the rise of omnichannel means that today's customers use a range of products and services across the entire company. During their customer journey, customers interact with us through multiple channels and often switch between channels. For example, when receiving a parcel it is not uncommon for customers to use a combination of our website, the PostNL app and our retail locations. This is why we are focussing on creating a unique and personalised customer experience that provides them with a uniform and consistent experience, no matter how, where, or when they interact with us.

This approach has enabled us to increase customer satisfaction levels to 88% (2016: 87%). From 2018 onwards, we will use the percentage of highly satisfied customers as our main performance indicator for measuring customer satisfaction.

Reputation score

In addition to customer satisfaction, we also monitor our corporate reputation. The independent Reputation Institute calculates the RepTrak pulse score for our Dutch operations, based on a representative sample of respondents from Dutch society.

Over the last five years, our reputation score has increased significantly, from 62.3 to 69.7. Our strategy is to continue to increase this trust and reputation. To achieve this, we provide high-quality services and solutions that satisfy our customers. At the same time, we are focusing on developing employee engagement, as engaged employees lead to more satisfied customers. This is the foundation upon which we build a good reputation, and is vital to create transparent and trusting relationships. We will continue to focus on these elements to increase our reputation score going forward.

Delivery quality Mail in the Netherlands

Another area that our customer satisfaction survey focusses on is the delivery quality of mail. In 2017, the on-time delivery quality of mail unfortunately decreased by one percentage point, from 96.4% to 95.4%. However, it remained above the required level of 95%. The drop was due to a number of factors, one of which was a tighter labour market in specific regions, due to the strong economic recovery in the Netherlands. This led to pressure on our overnight delivery quality. Additionally, we introduced a number of successful operational changes at the beginning of 2017, which led to greater sorting efficiency. However, some of these operational changes made it more challenging when processing the high volume of handwritten Christmas cards. We have already taken measures to stablise our operations, which will help us improve our quality levels going forward.

ISO 9001 certification

We also use our ISO 9001 certification to manage overall quality. ISO 9001 sets requirements for continuous quality improvements across the company, with a focus on providing better service and quality. We encourage all PostNL companies to acquire ISO 9001 certification. In 2017, the percentage of FTEs working at ISO 9001-certified sites stabilised at 98%.

Section 3: People indicators

This section sets out the results related to our people indicators. We are creating a working environment in which our employees feel valued and at home and are given the opportunity to grow and develop. We provide employees with training and, when necessary, new career opportunities. We invest in a sustainable future, both for our company and for the people who work for and with us. The outcome of these efforts are monitored and measured through employee engagement, recruitment and career development, employee turnover, diversity and inclusion, and health and safety indicators.

3.1 Workforce

PostNL

New hires and turnover

2013 - 2017, as indicated

	2013		2014		2015		2016		2017	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Workforce by gender	35,924	26,353	30,878	23,614	28,160	22,362	25,694	21,583	24,976	21,480
Workforce at Jan 1	62,277		54,492		50,522		47,277		**46,456**	
New hires										
< 30	4,289	3,070	3,830	3,126	3,332	3,136	2,543	2,207	2,817	2,277
30-50	1,458	2,246	1,556	2,588	1,782	3,139	1,410	2,613	1,427	2,576
>50	1,383	742	1,667	920	2,251	1,354	2,014	1,401	1,657	1,419
Total new hires	7,130	6,058	7,053	6,634	7,365	7,629	5,967	6,221	5,901	6,272
% of total headcount	20%	23%	23%	28%	26%	34%	23%	29%	23%	29%
Total turnover										
< 30	6,452	3,982	4,886	3,536	4,527	3,495	2,801	2,280	2,962	2,282
30-50	2,568	3,191	2,103	2,877	2,071	3,117	1,478	2,404	1,707	2,802
>50	3,156	1,624	2,782	1,473	3,233	1,795	2,406	1,640	2,627	1,987
Total turnover	12,176	8,797	9,771	7,886	9,831	8,408	6,685	6,324	7,296	7,070
% of total headcount	34%	33%	32%	33%	35%	38%	26%	29%	29%	33%
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Workforce by gender	30,878	23,614	28,160	22,362	25,694	21,583	24,976	21,480	23,581	20,682
Workforce at Dec 31	54,492		50,522		47,277		46,456		**44,263**	

As a postal company, we hire a relatively high number of part-time employees who work with us for less than a year. This is reflected in our new hire and turnover figures. There is a particularly high turnover rate among the under 30s, because many students take part-time jobs as deliverers. For those employees affected by job cuts, we offer a comprehensive mobility programme to help them from work-to-work.

PostNL

Workforce

2013 - 2017, as indicated

	2013	2014	2015	2016	2017
Headcount	56,475	52,364	49,174	46,456	44,263
Headcount out of CR reporting scope	1,983	1,842	1,897	0	0
Headcount in CR reporting scope	**54,492**	**50,522**	**47,277**	**46,456**	**44,263**
Full time equivalents (FTEs)	28,844	26,361	25,074	23,933	25,279
FTEs out of CR reporting scope	1,365	1,409	1,426	0	0
FTEs in CR reporting scope	**27,479**	**24,952**	**23,648**	**23,933**	**25,279**

As explained in Section 1: Basis of preperation, in 2017 we changed our policy on CR reporting to align the reporting scope of the CR data with the Financial Statements. As a result, there are no headcount or FTEs out of scope for CR reporting from 2017 onwards. The decline in headcount relates to the decline in headcount at Mail in the Netherlands, which is partially offset by growth of headcount in our Parcels and International segments. The number of FTEs grew to 25,279 (2016: 23,933). The main reason for this increase is the introduction of employees from PIN Mail Berlin related to the acquisition of HIM Holtzbrinck 25 GmbH.

3.2 Engagement and culture

PostNL

Engagement and culture

2013 - 2017, as indicated

	2013	2014	2015	2016	2017
Employee engagement (% of engaged employees)	57%	59%	64%	67%	66%
Culture index	Not reported	Not reported	55	58	57

To monitor our employee engagement, each year we carry out a company-wide online engagement survey. This survey is conducted by an independent external party. Employees from across the company, including our international operations, are invited to participate. In 2017, 26,100 employees participated in the survey.

Ongoing challenges in both the domestic and international postal markets mean we have to make changes and adaptations to our business, including introducing new technologies and restructuring. These changes impacted employee engagement in 2017, which was 66% (2016: 67%). This small decline was mainly driven by the reduced engagement of our operational staff, not fully understanding the necessity of all operational changes. Our goal in 2018 is to continue to stay connected to our people and learn in advance about their thoughts and needs. We also made an in-depth analysis of the 2017 results, resulting in improvement plans that are being implemented at the individual management-team level. Taken together, we believe this will help us increase our employee engagement score in 2018.

At PostNL, caring for everyone who works for and with us is the foundation of good employment. Creating an atmosphere where people are passionate and proud to work for PostNL makes our company stronger and more future-proof. This is why we believe having the right culture and behaviours is critical for the successful transformation of our company. In 2017 we sharpened our cultural values. These are: being customer focused, being results driven, working together, and innovating and improving. We expect to change our methodology for measuring the culture index in 2018, and will report on this accordingly then.

3.3. Recruitment and career development

PostNL

Recruitment and career development

2013 - 2017, in hours

	2013	2014	2015	2016	2017
Training hours per FTE	17	18	21	17	16

For us, employability is about helping employees at all phases of their career to be productive, skilled and well-trained, highly motivated and healthy enough to work inside or outside the company, today and in the future. The successful transformation of the company requires the right talent at every level of the organisation. To help achieve this, we are focusing on ensuring our employees remain employable.

To help secure people’s employability, over the last few years we have created a learning environment that stimulates curiosity. We now offer our people diverse online development opportunities, which are designed in such a way that employees are able to utilise them anytime, anyplace. This fits with the broader change across society where people increasingly use online platforms and apps that give them greater control of their lives. This dedicated online environment, located within My HR, uses content from third-party knowledge providers, which has enabled us to dramatically increase the number of available training courses and users, while lowering costs. From 2015 to 2017 we increased the number of learning items from 300 to over 35,000.

In 2017, the number of training hours per FTE stabalised at around 16.

3.4 Diversity and inclusion

PostNL

Diversity and inclusion

2013 - 2017, in %

	2013	2014	2015	2016	2017
Females in management	24%	23%	25%	24%	25%

We believe diversity is not about getting the numbers right. We intrinsically believe diversity and inclusion enables us to adapt more quickly and effectively, which is vital to achieving the transformation of our company. Diversity makes us stronger, more innovative and more appealing. We are taking full advantage of this by creating balanced teams that make us more competitive. To create a diverse and inclusive workforce, we focus on six key areas: a balanced age structure; a balanced male/female ratio; recruiting, hiring and promoting multi-cultural talent; full acceptance of the LGBT (lesbian, gay, bisexual, and transgender) group; improving opportunities for people with a distance from the labour market; and a mixture of skill sets within teams. Diversity and inclusion is an ongoing process, and our work is never done. More information on these matters can be found in our Diversity and inclusion policy, which is available on our website

To help create a more balanced male/female ratio within the company, in 2017 we continued running our successful Women Inclusion Network initiative and mentoring programmes. These and other initiatives enabled us to increase the percentage of management positions filled by women to 25 percent.

3.5 Health and safety

PostNL

Health and safety

2013 - 2017, as indicated

	2013	2014	2015	2016	2017
Fatal accidents	0	2	3	1	2
Lost time accidents (per 100 FTEs)	2.2	2.2	2.9	2.9	3.5
Absenteeism (% of total working hours)	5.5%	5.2%	5.0%	4.9%	5.3%
OHSAS 18001 certification (% FTEs at certified sites)	89%	89%	95%	100%	100%

Accidents

Despite our efforts and initiatives, we deeply regret having to report two fatal accidents across our operations in 2017 (2016: 1). At our Nexive operation, a subcontractor at one of our parcel partners fell under roll cages that were filled with metal fencing materials as he attempted to transport them. At our Dutch operations, in a crash between a delivery van and a motorcycle, the motorcyclist was killed. These events are tragic and we remain determined to prevent fatalities.

We continue to optimise our delivery methods to make them more efficient, lower costs, and minimise our environmental impact, which is why in 2017 we increased deliveries by (e-)bike and (e) scooters. However, this resulted in an increase in the number of lost-time accidents per FTE to 3.5 (2016: 2.9). Going forward, our aim is to increase the number of e-cargo bikes in use, which are safer, and we will improve our safe-driving training for deliverers who use (e)scooters.

Absenteeism

Absenteeism is an indicator of the overall health of our employees. In 2017, absenteeism increased to 5.3% (2016: 4.9%). This was primarily due to restructuring, and in general to the higher average age of our operational staff. Our focus in 2018 will be on reducing absenteeism by continuing to roll out our vitality programme across the company, and greater attention by management.

OHSAS 18001 certification

We encourage all of our business units to obtain the OHSAS 18001 certification, which is a standard for occupational health and safety management systems and is intended to help control risks. The percentage of FTEs working in certified sites was 100% in 2017 (2016: 100%).

Section 4: Environmental indicators

We report on our environmental performance. We strive to continually reduce our environmental impact by lowering our energy consumption. Our buildings, small trucks and vans, large trucks and independent parcel deliverers and other subcontractors impact our environmental footprint, as do our business travel and company cars.

Based on our materiality analysis, we selected the most material environmental topics: CO_2, NO_x and PM_{10} emissions. CO_2 has a long-term impact on the climate, while NO_x and PM_{10} emissions reduce air quality, impacting people's health.

The CO_2 efficiency index reflects our efforts to reduce our own carbon footprint. We describe which actions were taken to improve our CO_2 efficiency in 2016. At the end of the section we report on our absolute CO_2 footprint, divided into scope 1, scope 2 and scope 3 emissions, in line with the Greenhouse Gas Protocol.

4.1 CO_2 efficiency index

PostNL

CO_2 efficiency index

2013 - 2017, 2007 = 100

	2013	2014	2015	2016	2017
CO_2 efficiency index	57.3	56.1	51.4	49.2	**42.9**

As a postal and logistic solutions provider, it is clear we have an impact on the environment, and that our operations emit carbon as well as other emissions. Our aim is to minise our environmental impact by, for example, introducing environmentally friendly delivery methods and offering efficient packaging to decrease the amount of air that is transported.

Our main performance indicator to measure progress in this area is the CO_2 efficiency index. This index was introduced in 2008 and consists of three components: buildings, small trucks and vans, and large trucks. Our ambition is to reduce the CO_2 efficiency index to 45 by 2020 (base year 2007 = 100).

In 2017, we realised a CO_2 efficiency index of 42.9, well under our 2020 ambition. We will set a new environmental performance target in 2018, and expect to report on this in the 2018 Annual Report.

The decrease in the CO_2 efficiency index mainly relates to the improved CO_2 efficiency of small trucks and vans due to the introduction of additional biogas vehicles. In 2017, we increased the number of biogas vehicles from 295 to 730. Below we explain our progress made on each of the components, buildings, small trucks and vans, and large trucks, in more detail.

4.2 Buildings

PostNL

Buildings

2013 - 2017, as indicated

	2013	2014	2015	2016	2017
Efficiency (kg CO_2 per m^2)	14.7	13.1	8.5	5.0	**4.9**
Electricity usage in KwH/m^2 building	107	105	103	108	**107**
Sustainable electricity usage (as % of total electricity usage)	79%	82%	89%	95%	**100%**
Gas usage in m^3/m^2 building	10.2	7.0	7.0	7.0	**6.4**

In 2017, we used 94 million KwH of electricity (2016: 100 million) and our gas consumption reduced to 4.7 million cubic metres (2016: 5.5 million). We aim to minimise our environmental impact and continued to install solar panels on all our parcel processing and distribution centres in 2017. Our goal is to have 22,000 solar panels in place during 2018, which should provide around 40 percent of the processing and distribution centres' electricity needs. Looking ahead, we intend to fit new parcel processing and distribution centres with solar panels. In addition to our energy reduction initiatives, we also stimulate the use sustainable electricity in our buildings. We also partly offset the remaining CO_2 emissions of our building using Guarantee of Origins for renewable energy and Gold Standard credits.

To aid long-term comparability of emissions, we use a correction factor called 'degree days' to compensate for relatively mild or severe winter conditions. This correction factor was used in the CO_2 efficiency numbers presented above (kg CO_2/m^2).

4.3 Small trucks and vans

PostNL

Small trucks and vans

2013 - 2017, as indicated

	2013	2014	2015	2016	2017
Efficiency (gr CO_2 per km)	243	239	231	241	174
Fuel usage liters diesel/100 km	9.1	8.8	9.2	9.8	9.9
Vehicles complying with Euro 6	0%	0%	2%	13%	47%
Vehicles complying with Euro 5	77%	95%	97%	86%	53%
Vehicles not complying with Euro 6 or Euro 5	23%	5%	1%	1%	0%
NO_x emissions in kg	18,907	16,669	15,032	14,427	11,319
NO_x emissions (gr/km)	0.32	0.30	0.28	0.27	0.21
PM_{10} emissions in kg	1421	732	303	279	267
PM_{10} emissions (gr/km)	0.02	0.01	0.01	0.01	0.01

The CO_2 efficiency of small trucks and vans improved from 241 to 174. The improvement is due to the introduction of additional biogas vehicles. In 2017, we increased the number of biogas vehicles by over 245 percent to 730 (2016: 295). The increase in the percentage of vehicles complying with Euro 6 compared to 2016 results in an improvement of the NO_x and PM_{10} emissions.

Going forward we will work towards delivering in the most efficient and sustainable way. In addition to introducing biogas vehicles, where possible we will replace deliveries by small trucks and vans with e-cargo bikes, e-scooters, e-bikes and delivery on foot, lowering our carbon emissions.

4.4 Large trucks

PostNL

Large trucks

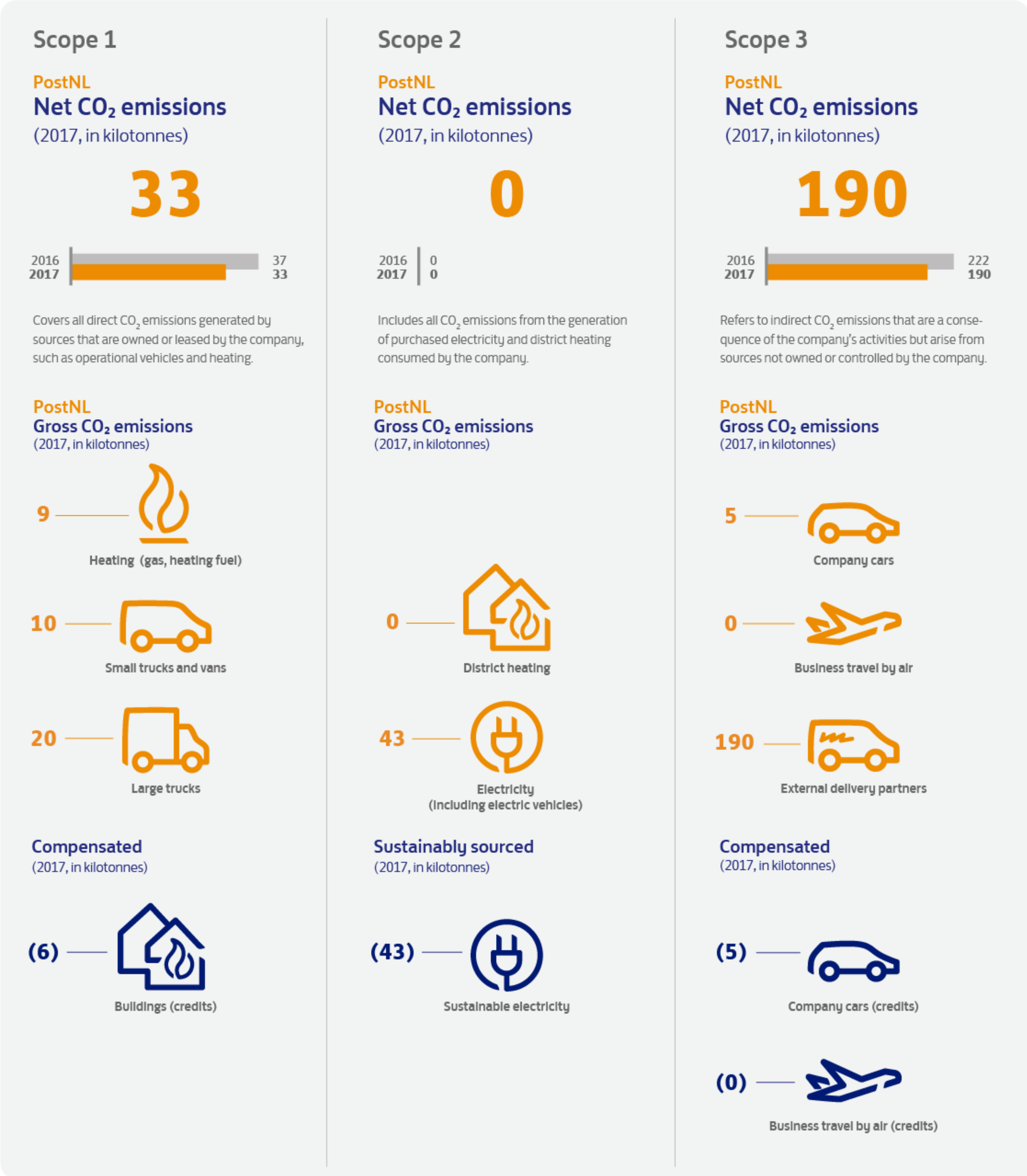
2013 - 2017, as indicated

	2013	2014	2015	2016	2017
Efficiency (gr CO_2 per km)	696	711	714	716	698
Fuel usage liters diesel/100 km	26.1	26.7	26.7	26.7	26.1
Vehicles complying with Euro 6	29%	53%	57%	84%	87%
Vehicles complying with Euro 5	71%	47%	43%	16%	13%
NO_x emissions in kg	48,236	35,783	28,317	14,558	14,534
NO_x emissions (gr/km)	1.84	1.28	1.07	0.63	0.58
PM_{10} emissions in kg	574	418	362	253	265
PM_{10} emissions (gr/km)	0.02	0.01	0.01	0.01	0.01

In 2017 the CO_2 efficiency of large trucks improved to 698 (2016: 716). The improvement is mainly related to the further optimisation of our parcel distribution network in the Netherlands, and the introduction of more fuel-efficient vehicles.

In 2017, NO_x and PM_{10} emissions were impacted by an increase in the number of kilometres driven and the number of large trucks complying with the Euro 6 norm. The impact of the Euro norm on the weighted average conversion factor for NO_x is greater than on the factor for PM_{10}. As a result the increase of NOx resulting from additional kilometres driven is completely offset by the change in the weighted average conversion factor, even resulting in a decrease of the NO_x emissions. For PM_{10} emissions, the additional emission from an increase in kilometres is only partly offset by the decrease in the weighted average conversion factor. Going forward, we expect to introduce vehicles complying with a higher Euro norm when we replace large trucks, lowering these emissions.

The decrease of NO_x and PM_{10} emissions between 2015 and 2016 relates to the new policy on CR reporting. The reported emissions for 2016 and 2017 are based on full scope entities (see 1.3 CR reporting process). One of the entities operating large trucks is a medium scope entity and as such is no longer included in these reported emissions.



4.5 Absolute carbon emission footprint

In addition to reporting on our carbon efficiency, which is described in the previous sections, we also report our absolute carbon emissions. In accordance with the Greenhouse Gas Protocol, the absolute carbon footprint in kilotons is divided over three scopes. Scope 1 includes all direct carbon emissions generated by sources owned or leased by PostNL. Scope 2 includes all carbon emissions from purchased electricity and district heating. And scope 3 relates to indirect carbon emissions that arise from sources not owned or controlled by PostNL.

Scope 1

Our gross scope 1 emissions decreased in 2017. The carbon emissions of our gas usage stabilised and we disposed of a number of older buildings within Mail in the Netherlands business segment. Carbon emissions from our small trucks and vans decreased by introducing biogas vehicles, while the emissions of our large trucks also slightly decreased by replacing older trucks with more fuel-efficient trucks.

Our net scope 1 emissions improved slightly. After compensating the carbon emissions of our gas usage within the Netherlands, this resulted in a positive effect of four kilotonnes of CO_2 compared to 2016.

Scope 2

Our gross scope 2 emissions decreased from 46 kilotonnes in 2016 to 43 kilotonnes in 2017. Our nominal electricity usage decreased from approximately 100 million KwH in 2016 to 94 million KwH in 2017. At a limited number of locations, we use district heating. The carbon emissions of district heating were less than one kilotonne.

We stimulate the use of sustainable electricity in our buildings. In addition, we partly offset the remaining CO_2 emissions of our building using Guarantee of Origins for renewable energy and Gold Standard credits. This resulted in net scope 2 emissions of 0 kilotonnes.

Scope 3

Our gross scope 3 emissions decreased to 195 kilotonnes in 2017 (2016: 228 kilotonnes) and relates to the emissions from our external delivery partners. The decrease in 2017 can be mainly explained by:

- Decrease of emissions from international air freight resulting from a decline in the export of milk powder to China and a move from air freight to transportation by trucks within Europe (impact 31 kilotonnes)
- Decrease of emissions resulting from lower international mail volumes in line with overall mail volume decline (impact 6 kilotonnes)
- Parcel volume growth increasing the emissions from external delivery partners in the Netherlands (impact 5 kilotonnes).

Additionally, we purchased Gold Standard credits to offset 5 kilotonnes of carbon emissions from company cars and business travel resulting a net scope 3 CO_2 emissions of 190 kilotonnes (2016: 222 kilotonnes).

4.6 Other environmental indicators

PostNL

Other environmental indicators

2013 - 2017, in %

	2013	2014	2015	2016	2017
ISO 14001 certification (% of FTEs working in certified sites)	90%	90%	96%	100%	**100%**

We have adopted the international standard ISO 14001, which helps us control environmental issues, minimise harmful effects on the environment and helps improve our ongoing environmental performance. We encourage all business units to acquire the ISO 14001 certification. In 2017, the percentage of FTEs working at ISO 14001-certified sites was 100% (2016: 100%).

Assurance report of the independent auditor

To: the Shareholders and members of the Supervisory Board of PostNL N.V.

Our opinion

We have audited the Corporate Responsibility Information in the Annual Report for the year 2017 of PostNL N.V. at The Hague.

Our audit engagement is aimed at obtaining reasonable assurance.

In our opinion, the Corporate Responsibility Information presents, in all material respects, a reliable and adequate view of:
- the policy and business operations with regard to corporate responsibility
- the thereto related events and achievements for the year 2017,

in accordance with the Sustainability Reporting Guidelines version G4 (option Comprehensive) of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in chapter 18 CR Performance Statements, Section 1: Basis of preparation of the Annual Report.

The Corporate Responsibility Information consists of the following chapters in the Annual Report:
- We are PostNL
- Message from Herna Verhagen
- How we create long-term value
- Our strategy
- What sets us apart
- Mail in the Netherlands
- Parcels
- International
- Performance 2017 and outlook 2018 (excluding the financial data)
- CR Performance Statements

Basis for our opinion

We have performed our audit on the Corporate Responsibility Information in accordance with Dutch law, including Dutch Standard 3810N ‘Assurance engagements relating to sustainability reports’, a Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000 ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’. Our responsibilities under this standard are further described in the section “Our responsibilities for the audit of the Corporate Responsibility Information” of our report.

We are independent of PostNL N.V. in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten’ (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in The Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined materiality levels for each part of the Corporate Responsibility Information and for the Corporate Responsibility Information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organisation.

Our key assurance matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our audit of the Corporate Responsibility Information. We identified the following key assurance matters:

Key assurance matter	How our assurance engagement addressed the matter	Key observations
Estimations and assumptions used for calculating CO_2 scope 3 emissions External delivery partners are a material part of PostNL's CO_2 emissions. The methodology for calculating the CO_2 emissions of these external delivery partners is based on the Greenhouse Gas protocol of the World Resource Institute (WRI)/World Business Council for Sustainable Development (WBCSD) and uses, in the absence of complete information from its external delivery partners, estimates and underlying assumptions to report Scope 3 - CO_2 emissions.	Our procedures focused on understanding and evaluating the reasonableness of the estimates and assumptions used. We assessed the sufficiency of related disclosures, including information on inherent limitations, and the consistent use compared to prior year	We concur with the estimates and assumptions used in calculating the CO_2 scope 3 emissions and the sufficiency of the related disclosures. In addition, we determined that the assumptions and estimations used did not change compared to prior year.
Methodology underlying indicators measured by third parties The reputation, employee engagement and the customer satisfaction indicators are at request of PostNL measured by third parties. The outcome is based on the methodology used by these third parties.	Our procedures focused on evaluating whether the methodology used by the third party is suitable and consistently applied. We assessed the sufficiency of related disclosures and the consistent use compared to prior year.	We concur with the methodologies applied, the sufficiency of the related disclosures and determined that the methodology used did not change compared to prior year.
Selection and reporting of material topics and boundaries Material topics for the Annual Report 2017 are based on a selection process, including stakeholder engagement and a materiality analysis. Some topics and related KPIs are presented with a different reporting boundary.	Our procedures focused on evaluating the suitability and consistent application of the process used to select the material topics. For the different reporting boundaries, we assessed the sufficiency of related disclosures and the consistent use compared to prior year.	We concur with the selection process for the material topics and the reporting boundaries applied. In addition, we determined that the selection process and reporting boundaries are sufficiently disclosed and did not change compared to prior year.

Limitations to the scope of our audit engagement

Unexamined prospective information

The Corporate Responsibility Information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherently, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Corporate Responsibility Information.

Unaudited references to external sources

The references to external sources or websites in the Corporate Responsibility Information are not part of the Corporate Responsibility Information as audited by us. We therefore do not provide assurance on this information.

Responsibilities of the Board of Management and the Supervisory Board for the Corporate Responsibility Information

The Board of Management is responsible for the preparation of the Corporate Responsibility Information in accordance with the Sustainability Reporting Guidelines version G4 (option Comprehensive) of GRI and the applied supplemental reporting criteria as disclosed in chapter 18 CR Performance Statements, Section 1: Basis of preparation of the Annual Report, including the identification of stakeholders and the definition of material topics. The choices made by management regarding the scope of the Corporate Responsibility Information and the reporting policy are summarised in chapter 18 CR Performance Statements, Section 1: Basis of preparation of the Annual Report.

The Board of Management is also responsible for such internal control as management determines is necessary to enable the preparation of the Corporate Responsibility Information that are free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the company's reporting process.

Our responsibilities for the audit of the Corporate Responsibility Information

Our responsibility is to plan and perform the assurance engagement with a reasonable level of assurance in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

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 decisions of users taken on the basis of the Corporate Responsibility Information. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We apply the 'Nadere voorschriften kwaliteitssystemen' (Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

We have exercised professional judgment and have maintained professional skepticism throughout the audit performed by a multi-disciplinary team, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

The procedures of our audit consisted amongst others of:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the organisation;
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management;
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the Corporate Responsibility Information, including obtaining an understanding of internal control relevant to our audit;
- Reconciling the relevant financial information with the Financial Statements;
- Identifying and assessing the risks of material misstatement of the Corporate Responsibility Information, whether due to errors or fraud, designing and performing further audit procedures responsive to those risks, and obtaining 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 errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and division level responsible for the Corporate Responsibility strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the Corporate Responsibility Information;
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the Corporate Responsibility Information;
  - Visits to Nexive (Milan, Italy) and Postcon (Ratingen, Germany) aimed to, on a local level, validate source data and to evaluate the design and implementation of the registration process of lost time accidents, fatal accidents, and scope 1 and 2 CO_2 emissions; evaluating relevant internal and external documentation on a test basis, to determine the reliability of the information in de Corporate Responsibility Information;
  - An analytical review of the data and trends submitted for consolidation at corporate level;
- Evaluating the presentation, structure and content of the Corporate Responsibility Information as a whole, including the disclosures, in relation to the reporting criteria used.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the review and significant findings, including any significant findings in internal control that we identify during our review.

From the matters communicated with the Supervisory Board we determine the key assurance matters: those matters that were of most significance in the audit of the Corporate Responsibility Information. We describe these matters in our assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amsterdam, 26 February 2018

Ernst & Young Accountants LLP
signed by J. Niewold

Appendices

Appendix 1: Other CR Performance Statements

PostNL

Other CR Performance Statements

2013 - 2017, as indicated

	2013	2014	2015	2016	2017
People indicators					
Females (as a % of total headcount)	43%	44%	46%	46%	47%
Employees with a disability	1,440	1,339	1,525	1,621	1,841
Disabled employees (as a % of total headcount)	2.5%	2.5%	3.2%	3.6%	4.2%

Environmental indicators					
Waste (tonnes per FTE)	0.4	0.4	0.3	0.3	0.3
Recycling of waste (% of total waste)	60%	67%	72%	61%	62%
Environmental incidents on site	10	8	3	8	1
Environmental incidents off site	0	3	1	2	0

Appendix 2: Data coverage

The periodically reported CR data depends on the scope of the entity. Were appropriate certain CR data of medium or limited scope entities is estimated. The tables below show an overview which scoping coverage resulted per line item in the CR Performance Statements.

PostNL

Data coverage table: Customer and people indicators

2017, scope

	Full scope	Monthly scope	Limited Scope
Customer indicators			
Customer satisfaction (% of satisfied customers)		All Dutch PostNL entities	
Reputation score (in points)		All Dutch PostNL entities	
Delivery quality of Mail in the Netherlands		Mail in the Netherlands	
ISO 9001 certification (% of FTEs working in certified sites)	√	√	√
People indicators			
Workforce			
Headcount	√	√	√
Full time equivalents (FTEs)	√	√	√
Engagement and culture			
Employee engagement (% of engaged employees)		All PostNL entities	
Culture index		All PostNL entities	
Recruitment and career development			
Training hours per FTE	√	√	√
Diversity and inclusion			
Percentage of females in management	√	√	√
Health and safety			
Fatal accidents	√	√	√
Lost time accidents (per 100 FTEs)	√	√	√
Absenteeism (% of total working hours)	√	√	√
OHSAS 18001 certification (% FTEs at certified sites)	√	√	√

PostNL

Data coverage table: Environmental indicators

2017, scope

	Full scope	Monthly scope	Limited Scope
CO_2 efficiency index	√	√	√
Buildings			
Efficiency (kg CO_2 per m^2)	√	√	√
Electricity usage in KwH/m^2 building	√	√	√
Sustainable electricity usage (as % of total electricity usage)	√	√	√
Gas usage in m^3/m^2 building	√	√	√
Small trucks and vans			
Efficiency (gr CO_2 per km)	√	√	√
Fuel usage liters diesel/100 km	√	√	Not reported
Vehicles complying with Euro 6	√	Not reported	Not reported
Vehicles complying with Euro 5	√	Not reported	Not reported
Vehicles not complying with Euro 6 or Euro 5	√	Not reported	Not reported
NO_x emissions in kg	√	Not reported	Not reported
NO_x emissions (gr/km)	√	Not reported	Not reported
PM_{10} emissions in kg	√	Not reported	Not reported
PM_{10} emissions (gr/km)	√	Not reported	Not reported
Large trucks			
Efficiency (gr CO_2 per km)	√	√	√
Fuel usage liters diesel/100 km	√	√	Not reported
Vehicles complying with Euro 6	√	Not reported	Not reported
Vehicles complying with Euro 5	√	Not reported	Not reported
NO_x emissions in kg	√	Not reported	Not reported
NO_x emissions (gr/km)	√	Not reported	Not reported
PM_{10} emissions in kg	√	Not reported	Not reported
PM_{10} emissions (gr/km)	√	Not reported	Not reported
Absolute carbon footprint (in kilotonnes)			
Small trucks and vans	√	√	Not reported
Large trucks	√	√	Not reported
Heating	√	√	√
Scope 1 gross			
Avoided carbon emissions heating (biogas)	√	√	√
Compensated carbon emissions buildings (credits)	√	√	√
Compensated carbon emissions biogas vehicles (credits)	√	√	√
Scope 1 net			
Electricity (including electric vehicles)	√	√	√
District heating	√	Not reported	Not reported
Scope 2 gross			
Sustainably sourced carbon emissions (sustainable electricity)	√	√	√
Compensated carbon emissions buildings (credits)	√	√	√
Scope 2 net			
Company cars	√	Not reported	Not reported
Business travel by air	√	Not reported	Not reported
External delivery partners	√	√	√
Scope 3 gross			
Compensated carbon emissions company cars (credits)	√	Not reported	Not reported
Compensated carbon emissions business travel by air (credits)	√	Not reported	Not reported
Scope 3 net			
PostNL's own gross carbon footprint (total scope 1 and 2)	√	√	√
PostNL's own net carbon footprint (total scope 1 and 2)	√	√	√
PostNL's total gross carbon footprint (total scope 1, 2 and 3)	√	√	√
PostNL's total net carbon footprint (total scope 1, 2 and 3)	√	√	√
Other environmental indicators			
ISO 14001 certification (% of FTEs working in certified sites)	√	√	√

Appendix 3: Glossary and definitions

Absenteeism
Total hours of absence divided by the total contractual working hours.

ACM
Dutch Authority for Consumers and Markets.

Application programming interfaces (API)
An API specifies how different computer programs should interact, by clearly defining a set of communication methods between various software components. We build our own APIs, which make it easier for our customers to interact with our software, such as Track & Trace.

Auditor
A chartered accountant (*registeraccountant*) or other auditor referred to in section 393 of book 2 of the Dutch Civil Code or an organisation in which such auditors work together.

Biogas
Biogas is broadly defined as gas consisting of or derived from biomass. Biogas consists of CO_2 that has recently been extracted from the atmosphere as a result of growing plants and trees, and therefore does not influence the CO_2 concentration in the atmosphere over a longer period of time. This is in contrast to fossil fuels, such as natural gas or crude oil, which are stored over millions of years so that their combustion and subsequent emissions do influence CO_2 levels in the atmosphere.

Business travel
Business travel refers to all business-related air travel.

Carbon neutral
Carbon neutral means that the net CO_2 equivalent emissions from activities are zero.

Carbon-neutral electricity
Carbon neutral electricity is electricity from 'green' or 'renewable' sources, such as solar, wind, geothermal, biomass, hydroelectric and ocean energy, purchased during the reporting period for power and lighting of all company locations (where this can be established from utility suppliers' invoices or other means). It does not include nuclear electricity.

CO_2 efficiency
CO_2 efficiency expresses the efficiency of PostNL's business in terms of carbon emissions related to the number of square meters of buildings or the amount of kilometers driven by trucks and vans.

Company cars
Company-owned or leased vehicles at the disposal of an employee for commuting and business travel.

Corporate governance
The OECD (see reference in this glossary) defines corporate governance as the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants, such as the board, managers, shareholders and other stakeholders, and defines the rules and procedures for making decisions. In doing so, it also provides the structure by which company objectives are set and the means of attaining those objectives and monitoring performance.

Corporate responsibility (CR)
Corporate responsibility is the umbrella term for the obligation a company has to consider the social (corporate social responsibility) and environmental (sustainability) impact of its activities and to go beyond this obligation in the treatment of economic, environmental and social activities to sustain its operations, financial performance and ultimately its reputation.

CR Council
This is a sounding board for the Board of Management for corporate responsibility-related subjects.

Culture index
Employees indicate in a survey the degree to which they recognise desired behaviour in the four cultural topics within the organisation. The culture index is calculated by averaging the topic specific scores.

Customer satisfaction
Customer satisfaction is an indicator of customer opinion towards the services we provided in the reporting period. We measure and categorise customer satisfaction into 'satisfied customers' and 'highly satisfied customers' through an online survey, which is carried out by an independent research company twice per year.

Delivery quality
Delivery of a consignment within the timeframe set for the service in question. An independent research firm tests our delivery process, by sending trackable letters through our network. These letters are scanned along the entire sorting process, enabling us to identify any delays.

Digitalisation
This refers to the digital transformation of society in which digital information and communication play an increasingly important role in all facets of life.

Digitisation
Digitisation refers to the transformation of analogue information into digital information. This process is necessary for the processing, modelling, and storage of data.

Disabled employees
Disabled employees are employees on the payroll whose medical condition has been recognised by the relevant authorities as a disability.

Dow Jones Sustainability Indices
Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of the leading sustainability-driven companies worldwide. They provide asset managers and other stakeholders with reliable and objective benchmarks for managing sustainability portfolios. For further information, see www.sustainability-index.com.

E-commerce
The online buying and selling of products and service by businesses and consumers.

Employee engagement
Employee engagement refers to the number of employees (employed by PostNL for three months or more) who stated in the employee engagement survey that they were 'engaged' or 'more than engaged' by PostNL as an employer. An 'engaged employee' is one who feels connected to the company, is enthusiastic about its work, and actively aims to improve the company and its reputation.

Environmental incident
An environmental incident is an incident that has led to the pollution of soil, water or air. This includes failures, breakdowns, floods, spillages, leaks and so forth. Environmental incidents are divided into onsite and offsite incidents. Onsite incidents occur at depots, hubs, offices and other locations owned, leased, rented or operated directly by PostNL. Offsite incidents occur away from depots, hubs, offices and other locations owned, leased, rented or operated directly by PostNL.

European emission standards
Euro 4, Euro 5 and Euro 6 are mandatory European emission standards (EU directives) applicable to new road vehicles sold in the European Union. They define levels of vehicular emissions such as nitrogen oxides (NO_x) and particulate matter (PM).

Fatal accidents
The death of any person because of an occupational accident. An occupational accident is an unexpected and unplanned occurrence, including acts of violence, arising out of or in connection with work activities performed for PostNL. It doesn't matter where the fatal accident has taken place or which person (employee or third party) is a casualty.

Full-time equivalents (FTEs)
FTEs refer to the total number of hours worked by the headcount divided by the local number of contract hours (e.g. 40 p/w or 196 p/m).

General Meeting of Shareholders
The meeting of shareholders and other persons entitled to attend meetings.

Global Reporting Initiative (GRI)
The GRI is a multi-stakeholder process and an independent institution whose mission is to develop and disseminate globally-applicable sustainability reporting guidelines for voluntary use by organisations that report on the economic, environmental and social dimensions of their business. The GRI incorporates participation of business, accountancy, investment, environmental, human rights and research and labour organisations from around the world. The GRI began in 1997 in partnership with the United Nations and became an independent body in 2002. It continues to collaborate with the United Nations Environment Programme and works with the United Nations Global Compact. For more information, see www.globalreporting.org.

Green gas
Green gas is a sustainable variant of natural gas and is produced by upgrading biogas to the same quality as natural gas. Green gas is a renewable fuel, which is produced cleanly.

Greenhouse Gas Protocol
The Greenhouse Gas Protocol (GHG Protocol) was established in 1998 to develop internationally-accepted accounting and reporting standards for greenhouse gas emissions of companies.

Group company
A group company as defined in article 2:24b of the Dutch Civil Code.

Headcount
Headcount is the number of employees on the payroll in active duty working for fully consolidated companies.

IFRS
International Financial Reporting Standards.

IFRS-EU
IFRS, as adopted by the European Union.

Internal promotion
The number of PostNL employees appointed to vacancies in management positions at the end of a reporting period. This refers to the number of actual appointments, not the number of FTE positions.

Internet of Things (IoT)
The Internet of Things (IoT) is the network of devices that connects online and shares data. This includes vehicles, buildings, white goods (such as fridges), and even clothes, which contain electronics, software, sensors, and network connectivity. The IoT allows objects to be sensed and controlled remotely across existing network infrastructure, creating opportunities for more direct integration of the physical world into computer-based systems, resulting in improved efficiency, economic growth, and innovations. Estimates are that the IoT will consist of almost 50 billion objects by 2020.

Investors in People (IiP)
Developed in 1990 by a partnership of leading businesses and national organisations, IiP helps organisations to improve performance and realise objectives through the management and development of their staff. For further information, see www.investorsinpeople.co.uk.

ISO (International Organization for Standardization)
The ISO is a network of national standards institutes from 146 countries working in partnership with international organisations, governments, industry, business and consumer representatives. The ISO is the source of ISO 9000 standards for quality management, ISO 14000 standards for environmental management and other international standards for business, government and society. For further information, see www.iso.org.

ISO 9001 (quality management)
The ISO 9000 standards cover an organisation's practices in fulfiling customers' quality requirements and applicable regulatory requirements while aiming to enhance customer satisfaction and achieve continual improvement of its performance in pursuit of these objectives.

ISO 14001 (environmental management)
The ISO 14001 standards are international standards for controlling environmental aspects and improving environmental performance, minimising harmful effects on the environment and achieving continual improvements in environmental performance.

Key performance indicators (KPIs)
KPIs are measurements that focus on achieving outcomes critical to the current and future success of an organisation. These indicators should deal with matters that are linked to the organisation's mission and vision, and are quantified and influenced where possible.

Letterbox parcel
Postal item containing goods weighing up to 2 kg, which generally fit through the slot of a letterbox.

Lost time accident
A lost time accident is an occupational accident resulting in the absence of a PostNL employee for at least one working day. An occupational accident is an unexpected and unplanned occurrence, including acts of violence, arising out of or in connection with work activities performed for PostNL. Each lost time accident is only counted once and in the month it occurs.

NOx
NOx (NO and NO2) refers to nitrogen oxides. Nitrogen oxides are produced during combustion, especially at high temperatures.

NPS
The Net Promoter Score measures the loyalty and relationship that exists between a company and a consumer.

Number of supervisory positions
According to Dutch law, the number of supervisory positions that managing and Supervisory Board members may hold in certain companies is limited (article 2:132a of the Dutch Civil Code for managing board members and article 2:142a of the Dutch Civil Code for Supervisory Board members). Since 1 January 2013 a person is prohibited from being appointed member of the Supervisory Board of more than five so-called large entities (including PostNL), whereby a chairman position counts twice. Existing positions are exempt, but if they exceed five, they must be reconsidered at the moment of (re)appointment. Board members holding more than the maximum number of positions on 1 January 2013 are not obliged to resign from these positions, but positions must be reconsidered at the time of reappointment.

OECD
Organisation for Economic Co-operation and Development.

OHSAS 18001 (occupational health and safety management)
OHSAS 18001 is a standard for occupational health and safety management systems. It is intended to help organisations control occupational health and safety risks and was developed in response to widespread demand for a recognised standard for certification and assessment. OHSAS 18001 was created through the collaboration of several of the world's leading national standards bodies, certification organisations and consultancies. For further information, see www.ohsas-18001-occupationalhealth-and-safety.com.

Omnichannel
An omnichannel organisation is one that focuses on the customer, without being dependent on time, place and channel. Customers experience a consistent experience across all channels because the organisation provides relevant and immediately available information and content.

Parcel
Goods to be transported by a distribution company, weighing up to approximately 30 kg.

PM_{10}
Particulates, alternatively referred to as particulate matter (PM), such as fine particles and soot, are tiny subdivisions of solid matter suspended in a gas or liquid. The notation PM_{10} is used to describe particles of 10 micrometres or less.

PostNL N.V.
A public limited liability company incorporated under the laws of the Netherlands, listed on the Amsterdam Stock Exchange, with its statutory seat in The Hague, the Netherlands, and its registered office at Prinses Beatrixlaan 23, 2595 AK The Hague, the Netherlands, until 31 May 2011 named TNT N.V.

PostNL (Group)
PostNL N.V. and its Group companies.

Reputation score
Reputation is a perception about the degree of admiration, positive feelings, esteem and trust an individual has for an organisation. Reputation is rooted in an assessment of the performance of an organisation over time, including in the past and with expectations about the future. Our reputation score is measured quarterly by the Reputation Institute, which measures reputation across stakeholders, countries and industries. It tracks 23 key performance indicators grouped around seven core dimensions.

Serious accident
A serious accident is an occupational accident where a PostNL employee is admitted to a hospital ward within 30 days after the accident happened. An occupational accident is an unexpected and unplanned occurrence, including acts of violence, arising out of or in connection with work activities performed for PostNL.

Processing and distribution centres
The sorting and delivery centres within our Parcels segment. These centres operate automated sorting, and are all directly connected by linehauls and serve as a starting point for distribution rounds and returns handling.

TNT Express
The former public limited liability company which was demerged from TNT N.V. on 31 May 2011 and until 25 May 2016 the ultimate parent company of the former express activities of TNT N.V. On 25 May 2016 it was acquired by FedEx, and subsequently delisted from the Amsterdam Stock Exchange on 4 July 2016.

TNT N.V.
Until the demerger of TNT Express on 31 May 2011, TNT N.V. was a public limited liability company incorporated under the laws of the Netherlands, listed on the Amsterdam Stock Exchange. Following the demerger on 31 May 2011, it was renamed PostNL N.V.

USO
Universal Service Obligation. The designation as Universal Service Provider obliges PostNL to collect and deliver domestic mail and parcels five days a week (mourning cards and medical post six days a week), and to provide for cross-border mail and parcels according to the Universal Postal Union (UPU) rules.

Working hours
The total number of individually-calculated working hours adjusted for overtime, leave or similar deviations.

Appendix 4: Summary of key figures

All numbers presented in this appendix are the reported numbers in the respective Annual Reports of 2013 till 2017, unless restated in a later year. Following the management buy-out of Whistl in 2015, revenues and underlying cash operating income of Whistl within segment International have been excluded for all earlier years presented.

PostNL

Key figures

2013-2017, in € millions, unless indicated otherwise

	2013	2014	2015	2016	2017
Financial performance					
Revenue					
Mail in the Netherlands	2,060	2,044	1,961	1,877	1,783
Parcels	803	854	917	967	1,110
International	885	921	983	1,017	1,051
PostNL	3,435	3,465	3,461	3,413	3,495
Underlying cash operating income					
Mail in the Netherlands	78	230	204	160	125
Parcels	89	98	101	106	120
International	14	2	19	14	6
PostNL Other	(44)	(43)	(21)	(35)	(26)
PostNL	137	287	303	245	225
Underlying cash operating income margin					
Mail in the Netherlands	3.8%	11.3%	10.4%	8.5%	7.0%
Parcels	11.1%	11.5%	11.0%	11.0%	10.8%
International	1.6%	0.2%	1.9%	1.4%	0.6%
PostNL	4.0%	8.3%	8.8%	7.2%	6.4%
Net cash from operating & investing activities (excluding TNT Express)	(13)	141	135	10	(22)
Net cash / (net debt)	(823)	(683)	(552)	86	27
Consolidated equity attributable to the equity holders of the parent	(692)	(597)	(213)	(79)	34
Corporate equity	1,925	1,983	2,204	2,742	2,730
Month-end coverage ratio main pension fund	111.9%	108.9%	106.0%	108.3%	115.8%
12-months average coverage ratio main pension fund	not reported	111.8%	106.8%	103.6%	113.4%
Cash out from pensions	309	168	179	164	155
Profit for the year (excluding TNT Express)	164	220	147	135	148
Earnings per share (excluding TNT Express in € cents)	37.3	49.9	33.3	30.5	33.0
Operational performance					
Mail in the Netherlands					
Addressed mail volume (in millions of items)	3,029	2,705	2,401	2,213	1,994
Volume decline percentage	(11.6%)	(10.7%)	(11.2%)	(7.9%)	(9.9%)
Delivery quality (2017 preliminary)	95.8%	96.7%	96.4%	96.4%	95.4%
Parcels					
Parcel volume (in millions of items)	131	142	156	177	207
Volume growth percentage	9.2%	8.8%	9.6%	13.3%	17.2%
Cost savings	95	127	85	64	56
Corporate responsibility performance					
Customer satisfaction (% of satisfied customers)	83%	85%	86%	87%	88%
Employee engagement (% of engaged employees)	57%	59%	64%	67%	66%
Absenteeism (% of total working hours)	5.5%	5.2%	5.0%	4.9%	5.3%
CO_2 efficiency index (2007 = 100)	57.3	56.1	51.4	49.2	42.9