

Interim Report January-September 2018: The transformation in Denmark is starting to show results

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THIRD QUARTER 2018

- Net sales increased to SEK 8,840m (8,547), representing organic growth of 0.1%
- Operating income improved to SEK -73m (-199)
- Adjusted operating income was SEK -65m (-123)
- Net income totaled SEK -122m (-224)
- Earnings per share were SEK -0.06 (-0.11)
- Cash flow from operating activities totaled SEK -371m (-370)

Message from Håkan Ericsson, President and CEO

At PostNord, the third quarter is seasonally the weakest of the year. In July and August, parcel and mail volumes are lower than during the rest of the year. However, the third quarter of 2018 proved better than the corresponding period in 2017, mainly because the losses in the Danish business narrowed. In Denmark, the savings from the transformation are starting to show through. Mail volumes in Sweden have started to fall more sharply than before, and it is now evident that the pace of digitization is rising in Sweden, too, and is adversely affecting results.

In both Sweden and Denmark the quarter was characterized by a consistently high level of quality in mail distribution. Mail quality is stable at a level above the quality requirements set by the governments, and unlike in earlier years we were able to prevent

a decline in quality over the holiday period.

Business operations showed a continued high level of activity during the quarter and, for example, an extension of our Nordic agreement with Zalando was signed. The agreement is estimated to be worth SEK 2.5bn over three years. Also, I am pleased to report that we extended our partner outlet agreement with Coop during the quarter. This creates a stable base for the next few years, with partner outlet agreements continuing with Sweden's three major grocery chains - ICA, Coop and Axfood - and new ones being signed with Pressbyrån and the 7-Eleven convenience store franchise. We maintain a steady focus on further expanding the number of partner outlets, in order to make it even simpler for recipients to find a distribution point that fits in with their busy everyday life. To date, we have increased the total number of distribution points by 461, 40 in Norway, 200 in Finland, 81 in Denmark and 140 in Sweden.

During the quarter, we launched a new concept for small and medium-sized e-retailers, ecNOW. The concept offers a flexible logistics solution that enables e-retailers to grow over time.

In addition to logistics services, our offering includes other options that may fit the needs of e-retailers, such as selection of target groups, customer servicing with direct mail, transport solutions, invoicing, follow-up, analysis and much more. The concept, which was launched on a minor scale during the summer, has already secured its first customers, and I am looking forward to an

exciting future for an omnichannel solution such as this, targeted at specific customer groups.

One important aspect of our work during the quarter was to prepare the organization for the most intensive period of the year, namely from Black Friday (November 23) until Christmas Eve. The whole system will be working under high pressure, and ahead we see particular days when the volumes handled in our system may be as much as 100 % higher than during a normal day. These volume increases do not apply just to us but throughout the industry. One effect of this is that extra transport capacity can be considerably more expensive than during a regular week. We will also need to take on extra staff for both sorting and delivery, not least because we have to operate our facilities 24 hours a day, 7 days a week. To

offset the higher costs that this labor-intensive period will bring, we announced in early September that during the November 15 to December 31 period, we will be applying a capacity surcharge of SEK 4 per parcel for Swedish B2C parcels. The intention of the surcharge is to achieve a certain level of cost coverage and not to maximize prices in the peak season. The capacity surcharge means an extra cost to e-retailers, but I believe that there is an acceptance for the cost increases that PostNord faces at peak periods such as this.

We are now entering the most intensive period of the year. It is an exciting but challenging period, and it is also now that our expertise and experience delivers the greatest benefit of all to our customers.

Source: [PostNord](#)

