

Nine month results January-September 2002



CEO Lennart Grabe talks with customers in Stockholm about the new service network.

- Operating income for the nine months ending September 30, 2002 was SKr491m (-150), of which Messaging and Logistics and Swedish Cashier Service accounted for SKr-425m (-130) and SKr-73m (-233), respectively. Posten Group's earnings improvement is attributable to reversed provisions of SKr916m related to future losses by the cashier network.
- Posten announced new rates and criteria for domestic and international postage. The new rates will take effect on January 1, 2003.
- Posten's phased rollout of the new service network is proceeding according to plan. The network has been rolled out in 65 of Posten's 91 localities.
- 1.6 million postal ballots, or roughly one-third of the votes tallied, were cast in this year's general elections, in line with previous years.

Posten



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Quarterly data

	2002				2001 Proforma ^{*)}				
	Jan-Mar	Apr-Jun	Jul-Sep	Jan-Sep	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full Year
Net sales, Skr m	5,874	5,815	5,625	17,314	5,846	5,316	4,990	5,876	21,668
Provisions, Skr m		916		916			-158	451	293
Operating earnings, Skr m	67	503	-79	491	-1	-252	103	1,570	1,420
Profit margin, % excluding provisions	2,4	neg	neg	neg	0,1	neg	6,4	21,5	6,3
Total assets, Skr m	15,954	15,142	14,509	14,509	14,927	15,980	16,210	17,311	17,311
Equity, Skr m	3,777	3,710	3,671	3,671	48	-124	110	3,299	3,299
Return on equity (ROE), %	2,3	10,6	neg	11,5	neg	neg	170,4	122,6	136,6
Return on capital employed (ROCE), %	1,5	8,6	neg	8,9	0,2	neg	2,1	51,8	51,7
Equity-assets ratio, %	21,2	24,5	25,3	25,3	0,3	neg	0,7	19,1	19,1
Investments in tangible and intangible fixed assets, Skr m	298	432	356	1,086	175	359	240	413	1,187
Customer Satisfaction Index, CSI	62	62	62	62	62	62	62	63	63
Employee Dedication, VIP	59	59	59	59	57	58	58	59	59
Average number of employees	38,132	38,776	39,630	39,630	38,541	38,996	39,662	39,466	39,466

^{*)} Pro forma see p. 3. The effect of the accounting change is explained in Posten Annual Report 2001, p. 39.

Net sales and operating income by business segment

Skr m	Net sales		Operating income	
	Jan-Sept 2002	Jan-Sept 2001	Jan-Sept 2002	Jan-Sept 2001
Messaging and Logistics	16,122	15,177	-425	-130
Swedish Cashier Service ^{*)}	904	623	-373	-333
Grants	300	100	300	100
Total Swedish Cashier Service	1 204	723	-73	-233
Reversal of provisions corresponding to results			73	220
Internal elimination	-12	-108		
Total business segments	17,314	15,792	-425	-143
Provisions			916	-158
Capital gain relating to Postfastigheter				151
Total	17,314	15,792	491	-150

Messaging and Logistics

Operating income for the Messaging and Logistics business segment was SKr-425m (-130) for the nine months ending September 30, 2002, and SKr-79m (138) for the third quarter.

Compared with the same period a year earlier, net sales grew by SKr945m, or 6.2 percent, to SKr16,122m (15,177). Adjusted for acquisitions and the effect of an accounting change totaling SKr1,127m, Posten's air carrier, Falcon Air, is being affected by an underlying decline in mail volumes and weaker passenger revenues. Lower mail volumes are primarily due to the proliferation of electronic substitutes and the economic downturn, and are expected to remain weak for the remainder of the year.

Operating expenses rose SKr1,469m (9.6 percent) to SKr16,735m (15,266). Additional costs relating to acquisitions and an accounting change account for SKr1,054m of the increase. The remainder of the increase is due largely to the rollout of the new service network and the E25 austerity program (excluding costs that have been capitalized).

Domestic postage rates have not increased since 1997. During the five years that domestic rates have remained flat, Posten has streamlined operations and pursued an aggressive cost-cutting strategy. However, escalating wage and transport costs can no longer be absorbed and require that we introduce a rate increase. We provide overnight delivery anywhere in Sweden at rates that, even after the increase, are competitive. And independent surveys show that customers rate the quality of our service as world class. The ratemaking process is subject to a statutory price ceiling linked to the consumer price index (CPI). The pending rate increase conforms to the standards imposed by this price ceiling. Posten will also be reviewing the prices it charges for its other services.

Net sales by channel within the Messaging and Logistics business segment:

Skr m	Net sales	
	Jan-Sept 2002	Jan-Sept 2001
Messaging and Logistics		
- Market Communication	3,810	3,778
- Administrative Communication	4,245	4,176
- International Mail	1,156	971
- Outsourcing	1,325	1,212
- eCommerce & Logistics	4,321	2,929
- Individual	1,339	1,355
- joint	736	1,771
- internal elimination	-810	-1,015
Total Messaging and Logistics	16,122	15,177

Swedish Cashier Service

Operating income was SKr-73m (-233). Swedish Cashier Service began operation on April 1, 2001. Therefore, the comparative period is for the six months ending September 30, 2001. The increase in annual state funding from SKr200m to SKr400m dramatically improved operating income compared with the same period a year ago.

On June 1, the cashier service operation became Posten's wholly owned subsidiary, Svensk Kassaservice AB (Swedish Cashier Service). The company provides routine cashier services via a nationwide network. Through Svensk Kassaservice AB, Posten serves as an agent for Nordea, FöreningsSparbanken, Postgirot Bank, and Länsförsäkringar Bank. Swedish Cashier Service offers bank deposits and withdrawals as well as bill payment, business receipt management, and check cashing services.

The number of transactions continues to decline by 15-20 percent annually.

Future loss provisioning for the cashier network

Posten has received annual state funding to provide cashier service in commercially unviable areas that lack suitable alternatives. The annual grant of SKr200m – allocated by the state up to 2001 – proved insufficient to cover Posten's costs. The Swedish Parliament has therefore increased its funding for this purpose to SKr400m in 2002.

The EU Commission examined the grants and found them to be in compliance with EU regulations. The ruling facilitated the reversal at the end of the second quarter of a provision relating to future losses in the cashier network of SKr916m. The provision relating to the operating loss for the current period of SKr73m was also reversed.

At September 30, 2002, the provision totaled SKr1,117m, which corresponds to projected losses up to 2006 excluding those covered by the annual grant of SKr400m. At yearend 2001, the equivalent provision amounted to SKr2,093m.

Other operating income

The absence of rental proceeds following the sale of Postfastigheter AB, coupled with last year's capital gains, accounts for the decline in other operating income, which totaled SKr114m (435).

Financial position

Total assets

Between December 31, 2001 and September 30, 2002, total assets declined by SKr2,802m to SKr14,509m. The change is primarily due to a drop in current interest-bearing liabilities and reversed provisions.

Equity

	30 Sep. 2002	31 Dec. 2001	30 Sep. 2001 Proforma
SKr m			
Opening balance		726	726
Effect of the change in accounting principles 2001*		-783	-783
Opening balance for the period (adjusted according to above)	3,299	-57	-57
Dividend	0	0	0
Translation difference	3	-76	-1
Net income for the period	363	3,432	168
Closing balance	3,671	3,299	110

*) Explained in Posten Annual Report 2001 p. 39.

Equity-assets ratio

At September 30, 2002, the equity-assets ratio was 25.3 percent, an increase of 6.2 percentage points from December 31, 2002.

Cash flow

Investment activities

The group's increased investments are primarily attributable to restructuring the service network and cashier service, and relate mainly to tangible fixed assets.

Financing activities

The cash flow from financing activities of SKr-2,408m is attributable to the difference in brokered service arrangements relating to Swedish Cashier Service's unsettled payments as well as redemptions relating to the MTN program and commercial paper that matured during the period.

Operations

The phased nationwide rollout of Posten's new service network and the integration of the Swedish and international parcel operations are proceeding according to plan. These programs are part of our strategies to cut costs, enhance availability and grow parcel volumes.

The period has also been characterized by Posten's "E25" austerity program, which is aimed at simplifying, improving, and streamlining Posten's administrative and sales processes. E25 will result in new methods that require fewer staff and cut Posten's administrative costs from SKr4bn to SKr3bn over three years. As part of this program, Posten centralized all of its Swedish cash receipts and disbursements on October 1. In addition, the accounting and payroll functions of Posten Sverige AB and Logistik AB will merged into a single organizational unit. The decision has been made to merge Posten Sverige AB and Posten Logistik AB early next year.

Posten handled more than 30 million election mailings and 1.6 million Swedes elected to cast their ballot either via one of our 2,700 rural mail carriers or at one of our 1,400 designated postal-ballot drop-off locations. The number of postal ballots declined somewhat compared with previous elections; however, this was merely symptomatic of a broader slump in voter turnout. The percentage of postal ballots, one-third of the votes cast, remained unchanged.

In August 2002, Ulf Spång announced that he would step down from the board of directors.

Posten's new executive vice president and CFO, Bo Friberg, will join the Executive Committee on November 1.

Customer Satisfaction Index, CSI

At 62 (62), CSI, a customer satisfaction indicator, was unchanged compared with the same period a year earlier

Employees

The average number of employees was 39,630 (39,662), of which 1,598 were employed outside Sweden, an increase of 888 compared with yearend 2001. The increase is primarily the result of acquisitions and an accounting change that includes 50 percent of joint venture employees. The number of employees in Sweden fell by 1,434 during the same period.

The ViP index, an employee satisfaction scorecard, was 59 (58).

Accounting change and related business

Posten began accounting for interests in joint ventures using the proportional consolidation method on January 1, 2002. Previously, Posten accounted for joint ventures using the equity method. Under the accounting change, goodwill is also reported for joint venture companies. Comparative values have not been restated.

Last year, future conditional pension benefits were adjusted upward at yearend. Adjustments are being made on a continual basis during 2002.

For the nine months ending September 30, 2002, taxes were computed according to tax situation in each respective country. Deferred tax receivables attributable to losses were computed only for the net loss in Sweden. In previous years, the standard tax rate was computed based on the group's consolidated results.

"Posten Pro forma" refers to Posten excluding Postgirot. This report refers exclusively to Posten Pro forma.

This report has been prepared in accordance with regulation RR20 of the Swedish Financial Accounting Standards Council.

Parent company

Operation

The business conducted by the parent company, Posten AB (publ), is limited in scope.

Sales and earnings

The parent company's net sales were SKr1m (157). The change in net sales is attributable to the absence of state funding. From 2002, Svensk Kassaservice AB, Posten's subsidiary, will report this item. Net interest income was SKr193m (93) and income after financial items totaled SKr115m (1,009). The change compared with the previous year relates to dividends from subsidiaries.

Financial position

At September 30, the parent company's total assets were SKr6,351m (7,606). Cash and cash equivalents, including short-term investments totaled SKr341m (991). After the sale of Postgirot Bank AB, the parent company's postal giro account balance is reported as cash and cash equivalents. Last year these were reported as intercompany financial receivables.

Equity amounted to SKr3,488m (3,817) and the equity-assets ratio was 54.8 percent (50.6).

Like the same period a year earlier, the parent company has not invested in tangible fixed assets.

Stockholm October 23, 2002

Posten AB (publ)

Lennart Grabe
President and CEO

The information contained in this report has not been audited.

Posten's income statement at a glance

Skr m	January-September		Q 3		Full Year	
	2002	2001	2002	2001	2001	2001 ^{*)}
	Pro forma		Pro forma		Pro forma	
Net sales	17,314	15,792	5,625	4,990	21,668	24,072
Other operating income	114	435	34	216	1,802	1,723
Total operating income	17,428	16,277	5,659	5,206	23,470	25,795
Operating expenses	-17,853	-16,219	-5,738	4,945	-22,343	-24,058
Provisions	916	-158	0	-158	293	293
Total operating expenses	-16,937	-16,377	-5,738	-5,103	-22,050	-23,765
Operating earnings	491	-150	-79	103	1,420	2,030
Financial items	67	-76	16	-38	-55	-56
Earnings after financial items	558	-226	-63	65	1,365	1,974
Tax on net earnings for the year	-202	0	12	0	-83	-254
Minority's share of net earnings for the year	7	1	6	4	1	1
Net earnings before the sale of Postgirot		-225		69	1,283	1,721
Transfer of income from Postgirot to remaining operations		393			438	
Capital gains on the sale of Postgirot					1,711	1,711
Net earnings for the period	363	168	-45	69	3,432	3,432

^{*)} Including Postgirot during 11 months

Posten's balance sheet at a glance

Skr m	Sept 30	Sept 30	Dec 31	
	2002	2001	2001	2001
	Pro forma		Prof orma	
Assets				
Fixed assets	6,273	9,383	5,935	5,935
Current assets	4,172	3,783	4,299	4,299
Cash and cash equivalents including short-term investments	4,064	3,044	7,077	7,077
Total assets	14,509	16,210	17,311	17,311
Equity and liabilities				
Equity	3,671	110	3,299	3,299
Minority interest	14	1	4	4
Provisions for pensions	703	2,728	5,492	5,492
Other provisions	4,162	5,575		
Long-term liabilities	631	1,323	708	708
Current liabilities	5,328	6,419	7,808	7,808
Total equity and liabilities	14,509	16,210	17,311	17,311

Posten's statement of cash flows at a glance

Skr m	Jan-Sept	
	2002	2001 Pro forma
Cash flow provided by continuing operations before changes in working capital	583	36
Cash flow provided by continuing operations	607	-462
Cash flow provided by investment activities	-1,212	-167
Cash flow provided by financing activities	-2,408	347
Cash flow for the period	-3,013	-282
Liquid funds at the beginning of the period	-3,013	3,326
Liquid funds at the end of the period	4,064	3,044

Posten's net sales and operating income broken down by geographic area

Net sales and operating earnings by geographic area

Skr m	Net sales	Operating earnings	Operating earnings
	Jan-Sep 2002	Jan-Sep 2002 excl. Provisions	Jan-Sep 2002
Sweden	15,854	45	961
Other Nordic countries and Baltic region	1,231	-26	-26
Other countries	229	-1	-1
Companywide costs *		-443	-443
Total	17,314	-425	491

*Companywide costs include costs relating to the E25 project as well as to smaller projects and the corporate management.