

Year-End 2002 Results



- Adjusted operating earnings were SKr-703m (-150).
- The negative result is attributable to excessive development and administrative costs. Moreover, Posten has found it difficult to quickly match fixed production costs to eroding mail volumes and waning transaction volumes in over-the-counter cashier services.
- Net earnings for the year were SKr-788m (3,432)
- Cash flow before financing activities was SKr-1746m (-1,433).
- The nonsubsidized segment of the Cashier Service operation is currently generating major losses. A cost-cutting regime aimed at achieving a break-even position by 2005 will be launched this year.

Message from the President and CEO

Adopted in 1999, Posten's corporate vision has been the foundation-stone for the far-reaching changes that have reshaped us in recent years. Much has occurred in the world and Posten is realigning its vision, goals and strategies to facilitate the next phase of change. Loss-making operations will be jettisoned, costs reduced and expenditures rigorously prioritized. We will focus on enhancing profitability in the core business.

The already planned administrative staff reductions—affecting 1,000 people across production, corporate functions and business units—will be carried out. Further cutbacks may be necessary. Paid sick-leave costs, an area we clearly must prioritize, are also inordinately high.

In the long term we need an economically sustainable solution for the cashier-service operation. Posten, however, does not set the parameters for this service mandate. Because these services are mandated, dialogue must be sought with the state (our owner), legislators and the public to resolve our challenge responsibly.



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Quarterly data

	2002					2001 Pro forma *)				
	FY	Q4	Q3	Q2	Q1	FY	Q4	Q3	Q2	Q1
Net sales, SKr m	23,632	6,318	5,625	5,815	5,874	21,668	5,876	4,990	5,316	5,486
Adjusted operating earnings, SKr m	-703	-278	-79	-413	67	-150	-7	110	-252	-1
Provisions/reversals, SKr m	732	-184		916		293	451	-158		
Net operating earnings, SKr m	29	-462	-79	503	67	1,420	1,570	103	-252	-1
Profit margin, %, excluding provisions/reversals	0.1	neg	neg	neg	2.4	6.3	21.5	6.4	neg	0.1
Total assets, SKr m	13,863	13,863	14,509	15,142	15,954	17,311	17,311	16,210	15,980	14,927
Equity	2,587	2,587	3,671	3,710	3,377	3,299	3,299	110	-124	48
ROE, %	neg	neg	neg	10.6	2.3	136.6	122.6	170.4	neg	neg
ROCE, %	3.7	3.7	neg	8.6	1.5	51.7	51.8	2.1	neg	0.2
Equity-assets ratio, %	18.8	18.8	25.3	24.5	21.2	19.1	19.1	0.7	neg	0.3
Cash flow before financing activities, SKr m	-1,746					-1,443				
Investments in tangible and intangible fixed assets, SKr m	1,740	654	356	432	298	1,187	413	240	359	175
CSI, index	61	61	62	62	62	63	63	62	62	62
ViP, index	60	60	59	59	59	59	59	58	58	57
Average number of employees	39,554	39,554	39,630	38,776	38,132	39,466	39,466	39,662	38,996	38,541

*) The effect of the 2001 accounting change is explained in the 2001 annual report (pg 39). Pro forma refers to Posten excluding Postgirot.

Posten Group

Operating income

Net sales

Net sales were SKr23,632m (21,668), a SKr1,964m increase from a year ago. Acquisitions and joint ventures, reported using the proportional consolidation method, boosted year-on-year net sales by SKr1,505m. Price increases, primarily in logistics and e-services, and robust election-season volumes were responsible for the remaining improvement. These developments offset the effect of dwindling volumes in conventional mail services and lower passenger revenue in Posten's air carrier, Falcon Air.

Other operating income

Other operating income was SKr130m (1,802). The loss of rental income in conjunction with the divestment of Postfastigheter AB in 2001, coupled with last year's capital gains (SKr1,277m), increasingly explains the decline.

Operating costs

Staff costs

Staff costs were SKr12,965m (12,787). Acquisitions and joint ventures, reported using the proportional consolidation method, boosted year-on-year staff costs by SKr310m. The average number of employees during the year was 39,554 (39,466).

Of the average number of employees, 1,658 were employed outside Sweden. The increase, 948, is due primarily to acquisitions and joint ventures. In Sweden, the average number of employees declined by 887. Pay raises averaged 3.8 percent between the years, boosting staff costs by SKr506m.

Other external costs

Other external costs were SKr10,498m (8,653), an increase of SKr1,845m. Acquisitions and joint ventures, reported using the proportional consolidation method, raised costs by SKr1152m. Underlying cost increases—enhanced service-network rollout efforts, the E25 administrative efficiency program and the new corporate headquarters—together amounted to SKr265m. The price effect on other external costs was SKr275m, an average of 2.2 percent.

Depreciation/amortization

Depreciation and amortization increased SKr97m, primarily due to the DPD acquisition.

Provisions

At December 31, 2002, provisions totaled SKr3,752m (5,249). The change, SKr1,497m, is attributed to charges against costs of SKr696m, reversals totaling SKr1103m, and new provisions of SKr302m.

Loss provisions taken for the cashier service operation are based in part on operating earnings and in part on the financial results. Other provisions on the income statement are based solely on operating earnings.

Posten is reimbursed by the state for providing legislatively mandated service in sparsely populated areas where no alternative exists. This business generates an annual loss of about SKr400m. The reimbursement program was reviewed and approved by the European Commission.

The nonsubsidized segment of the cashier service operation reported an operating loss for 2002 of SKr260m. Posten's board has sanctioned measures aimed at achieving a break-even position by 2005 at the latest. Posten will take all steps necessary to achieve this goal. Action is required in several areas, primarily in regards to the number of offices, pricing and service range. The loss provision in the cashier service operation is based on the assumption that a break-even position is achieved in accordance with the decision by the board.

A new SKr49m provision related to administrative staff reductions, a partial effect of the E25 program, has been made.

Financial items

Provisions

The reversal of provisions related to the financial results of the cashier service operation was SKr69m (0).

Tax for the year was SKr-865m (-254), comprising a SKr-95m tax on net earnings for the year and a SKr-770m writedown of the group's deferred tax credit. The valuation of the deferred tax credit refers to a downward revision due to a worsened earnings outlook for coming years.

Financial position

Total assets

At December 31, 2002, Posten had total assets of SKr13,863m (17,311), a decrease of SKr3,448m. The change is due primarily to a decline in short-term interest-bearing liabilities, and the reversal of provisions.

Equity

Group, SKr m	Share Capital	Restricted reserves	Unrestricted reserves	Net earnings	Total
Opening balance	600	693	-1,426	3,432	3,299
Appropriation of earnings.....			3,432	-3,432	0
Transfers between restricted and unrestricted reserves		1,000	-1,000		0
Translation difference			76		76
Net earnings.....				-788	-788
Closing balance	600	1,693	1,082	-788	2,587

Accumulated translation differences charged directly against equity amounts to SKr0m (-76)

Equity-assets ratio

At December 31, 2002, the equity-assets ratio was 18.8 percent (19.1).

Intangible assets

Goodwill amounted to SKr1096m (782), an increase of SKr314m. This year's investments in the international business—i.e., Businesspoint, Masterlink and Baltic Logistic Systems—further activated goodwill of SKr62m. Acquisitions and joint ventures, reported using the proportional consolidation method, increased year-on-year consolidated goodwill by SKr317m. Scheduled amortization was SKr63m.

Other intangible assets increased SKr329m to SKr544m (215). The increase reflects investments in a new business support system (SKr228m), development of the service network and the e-send service (SKr99m) and license agreements for the logistics and outsourcing arms (SKr50m). Scheduled amortization was SKr41m.

Machinery and equipment

Machinery and equipment amounted to SKr3,339m (2,942). The new service and cashier-service networks account for most of this year's expenditures (SKr634m). Other investments, in Information Technology (IT), vehicles and production machinery, totaled SKr543m. Scheduled amortization was SKr855m.

Associated companies

Participations in associated companies amounted to SKr4m (419). The difference reflects reclassifications due to an accounting change, whereby joint ventures are reported using the proportional consolidation method.

Deferred tax credit

The deferred tax credit was SKr481m (1,269). The credit was revised downward in light of financial forecasts for the coming years. The valuation takes into account forecasted earnings for the next six years. Adjustments may be made in line with an improved outlook.

Cash flow

Cash flow from operating activities was SKr45m.

Investing activities

Cash flow from investing activities was SKr-1,791m. Increased group expenditures during the year are primarily attributable to the ongoing restructuring of the service and cashier-service networks. Considerable investments have also been made in IT equipment as well as in companywide projects related to a new business support system. Investments refer primarily to tangible fixed assets.

Cash flow before financing activities therefore was SKr-1,746m.

Financing activities

Cash flow from financing activities was SKr-617m, explained primarily by the amortization of loans.

Liquid funds therefore have decreased by SKr2,363m to SKr3,324m at the close of the period.

Net sales and operating earnings by business area

SKr m	Net sales		Operating earnings	
	2002	2001	2002	2001
Business area Messaging and Logistics	22,514	21,005	2	397
Business area Cashier Service	1,181	932	-660	-444
Appropriations *)	400	150	400	150
Total business area Cashier Service	1,581	1,082	-260	-294
Reversal of provisions corresponding to results in Cashier Service			260	260
Consolidated expenses			-705	-513
Internal elimination	-463	-419		
Total net sales and adjusted operating earnings	23,362	21,668	-703	-150
Provisions			732	293
Capital gains, Postfastigheter				1,277
Total net sales and operating earnings	23,632	21,668	29	1,420

1) Comparative year refers to Posten pro forma, i.e., Posten excluding Postgirot.

2) In 2001, SKr2000 was received. Because the Cashier Service business area began operating on April 1, 2001, the comparative year refers to three quarter.

Messaging and logistics

Operating earnings totaled SKr2m (397). Fourth-quarter operating earnings declined SKr17m compared with the previous quarter, and SKr177m compared with the same quarter last year.

Net sales were SKr22,514m (21,005). Acquisitions and joint ventures, reported using the proportional consolidation method, increased year-on-year net sales by SKr1,505m. Last year, net sales from the cashier service operation of SKr422m were included in the January-March period.

Excluding structural changes, net sales grew SKr390m, despite a decline in passenger revenue at Posten's air carrier, Falcon Air, of SKr241m. The increase primarily reflects rate increases for business parcels, bulk mail and our e-services, in addition to revenues generated during the fall general elections. The rate increases and election-season revenues offset lighter conventional mail volumes attributable to broader usage of electronic substitutes, heightened competition and the overall economy.

Operating costs were SKr22,268m (20,748). Acquisitions and joint ventures, reported using the proportional consolidation method, increased costs by SKr1,552m. Costs related to rolling out the new service network were SKr630m (373).

Cashier Service

In compliance with the Routine Cashier Service Act, which took effect on January 1, 2002, Posten provides nationwide bill presentment and payment services at uniform prices. A new customer channel for routine bill presentment and payment services was established during the year: Svensk Kassaservice (Swedish Cashier Service).

Operating earnings were SKr-260m, compared with SKr-294m between April 1 and December 31. Reimbursement for legislatively mandated service in sparsely populated areas totaled SKr400m, an increase of SKr200m from previous years. Posten has an estimated 75 percent share of the manual payment and bank transaction market, but transaction volumes continue to decline. Volumes, which have in recent years decreased an average of 15 percent per year, are expected to dwindle at an increasing rate going forward.

The nonsubsidized cashier service operation reported an operating loss in 2002 of SKr260m. Posten's board has sanctioned measures aimed at achieving a break-even position by 2005 at the latest. Posten will take all steps necessary to achieve this goal. Action is required in several areas, primarily in regards to the number of offices, pricing and service range.

Consolidated expenses

Consolidated expenses were SKr-705m (-513). In addition to costs related to the corporate functions, consolidated expenses include companywide projects as well as the E25 program, which entails the introduction of a new business support system, SAP. E25 aims to simplify, improve and streamline Posten's administrative and sales functions, leading to new ways of working that require fewer staff. Posten aims to reduce administrative overhead by 25 percent in three years.

Parent company

Operation

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

Sales and earnings

The parent company's 2002 net sales were SKr1m (208). The change in net sales is attributable to the transference of reimbursement for legislatively mandated services. From 2002, Svensk Kassaservice AB will report this reimbursement. Net interest income was SKr3,847m (790) and earnings after financial items totaled SKr3,735m (892). The change compared with the previous year is attributable to dividends from subsidiaries.

Financial position

At December 31, the parent company's total assets amounted to SKr8593m (7188). Cash and cash equivalents, including short-term investments, totaled SKr2,462m (1,846). Equity was SKr6143m (3,372) and the equity-assets ratio was 71.9 percent (47.4).

Highlights

The parent company sold its stake in Posten Logistik AB to Posten Sverige AB (prior to their pending merger) and Posten AB purchased all of the shares in Posten Logistik AB's subsidiaries.

A subsidiary corporation was formed within Posten during the year, and Posten AB's AddressPoint AB and Svensk Adressändring AB shares were transferred to the parent company of the new corporation, AddressPoint International AB. Posten AB owns 85 percent of the shares in AddressPoint International AB, the remainder is owned by Optimail Sweden AB.

In 2002, Posten AB assumed 100 percent of the shares in Unidas AB. The book value of Posten AB's shareholding was written down by SKr56m. No investments were made in tangible fixed assets during the year.

Board and management

At the annual general meeting, held April 24, 2002, Claes Ånstrand was appointed to the post of chairman. Ulf Spång and Lennart Grabe stepped down from the board in August and November, respectively. At a special interim meeting, held December 3, Marianne Nivert was appointed to the board.

In November, Börge Österholm was appointed President and CEO.

Changed accounting principle

On January 1, 2002, Posten began reporting joint ventures using the proportional consolidation method. Previously, Posten reported these companies using the equity method. Comparative values have not been adjusted.

In the year-end results, taxes were computed according to the tax situation in each country, respectively. The deferred tax credit related to deficits was computed only for the net deficit in Sweden. Previously, the standard tax rate was calculated based on consolidated earnings during the fiscal year.

Posten Pro forma refers to Posten excluding Postgirot. All comparisons made in this report refer to Posten Pro forma.

Adjusted operating earnings, Operating earnings adjusted for items not included in ongoing operating activities, e.g., Provisions/reversals and capital gains on property divestments.

This report has been prepared in accordance with the Swedish Financial Accounting Standards Council's regulation 20.

Stockholm, March 3, 2003

Posten AB (publ)

Board of Directors

The information contained in this report has not been audited.

Posten's income statement at a glance

SKr m	Q 4		Full Year		
	2002	2001 ³⁾	2002	2001 ³⁾	2001 ^{1,3)}
	Pro forma		Pro forma		
Net sales	6,318	5,876	23,632	21,668	24,072
Other operating income	16	1,367	130	1,802	1,723
Total operating income	6,334	7,243	23,762	23,470	25,795
Operating expenses	-6,612	-6,124	-24,465	-22,343	-24,058
Provisions	-184	451	732	293	293
Total operating expenses	-6,796	-5,673	-23,733	-22,050	-23,765
Operating earnings	-462	1,570	29	1,420	2,030
Financial items	-96	21	-29	-55	-56
Provisions	69		69		
Earnings after financial items	-558	1,591	69	1,365	1,974
Tax on net earnings for the year	-663	0	-865	-83	-254
Minority's share of net earnings for the year	2	1	8	1	1
Net earnings for the period	-1,219	1,592	-788	1,283	1,721
Transfer of income from Postgirot to remaining operations ²⁾		45		438	
Capital gains on the sale of Postgirot				1,711	1,711
Net earnings for the year	-1,219	1,637	-788	3,432	3,432

¹⁾ Including Postgirot during 11 months

²⁾ Transfer of income from Postgirot¹⁾ to remaining business

Pretax earnings SKr610m

Tax SKr-172m

Net earnings for the year SKr438m

³⁾ Including capital gains relating to Postfastigheter, SKr 1,277m

Posten's balance sheet at a glance

SKr m	Dec 31 2002	Dec 31 2001
Assets		
Fixed assets	5,942	5,935
Current assets	3,752	4,299
Cash and cash equivalents including short-term investments (storage of cash in transit) ^{*)}	4,169 (845)	7,077 (1,390)
Total assets	13,863	17,311
Equity and liabilities		
Equity	2,587	3,299
Minority interest	12	4
Provisions for pensions	343	243
Other provisions	3,752	5,249
Long-term liabilities	615	708
Current liabilities	6,554	7,808
Total equity and liabilities	13,863	17,311

Posten's statement of cash flows at a glance

SKr m	Jan- Dec		2001 Total
	2002	2001 Pro forma	
Cash flow provided by continuing operations before changes in working capital	-81	258	1,729
Cash flow provided by continuing operations	45	1,664	1,706
Cash flow provided by investment activities	-1,791	3,520	-21,466
Cash flow before financing activities	-1,746	5,184	-19,760
Cash flow provided by financing activities	-617	-1,433	818
Cash flow for the period	2,363	3,751	-18,942
Liquid funds at the beginning of the period	5,687	3,326	26,019
Liquid funds at the end of the period	3,324	7,077^{*)}	7,077^{*)}

*) 2001 cash flow includes so-called storage of cash in transit of SKr1390m. This refers to cash transferred by Posten on the behalf of external customers, and is not utilized by business operations.