

President & Group CEO Håkan Ericsson's speech to the PostNord Annual General Meeting on April 23, 2014

NOTE: The speech as delivered orally supersedes this written script.

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Chairman, valued meeting participants.

I have now been with PostNord for about seven months. It has been an interesting time, with a very interesting company in a very challenging market.

When I was contacted regarding my interest in PostNord the decision was a quite an easy one to make. What interested me was PostNord's fantastic position – with strong Nordic-region brands, an interesting universal service obligation and a Nordic platform. And in an industry that is challenging but also undergoing exciting change.

Looking back on 2013, we delivered 5.9 billion letters and other mail items, 110 million parcels and 2.5 billion kilos of goods to 25 million Nordic residents and two million Nordic businesses. We are a Nordic company, with 5,341 distribution points in the Nordic region where we distribute goods to individual customers.

Digitization continues unabated, which means that mail volumes are falling. We work continuously to adapt to lower volumes. But we also maintain a very high level of service. We have good service levels to all households and businesses in the Nordic region, particularly in Sweden and Denmark, 52 weeks per year and 5 business days per week – and on Saturdays in Denmark as well.

Profitability is a challenge, and we need to continue working to cut our costs. We will create a more balanced logistics company that also includes mail as part of logistics, but with greater balance between falling mail volumes and an increase in heavy logistics – especially e-commerce-related logistics.

Growth is happening mainly within logistics, and we view e-commerce as the greatest growth area. We grew last year within B2C – private parcels – by around 12 percent, as other markets were fairly stagnant and the mail market is shrinking.

The group's net sales increased 2 percent in 2013, mainly within the logistics business – heavy logistics. We made a number of acquisitions but also grew organically, chiefly within e-commerce logistics. The operating margin rose from the previous year's 1.3 percent to 1.7 percent. This was achieved mainly through the earnings measures taken and the cost savings and major structural changes made, though with lower conversion costs than we had during the previous year. Our cooperation with employee union organizations was very good during the year.

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The margin for the mail business was 2 percent, the margin for the logistics business was 1.3 percent and the margin for Strålfors was 0.6 percent. Results were not good enough in any business area. These figures are very low, so we need to continue working with our conversion. Digitization will continue, and we expect it to increase. The drop in mail volumes will most likely increase in Sweden and continue in Denmark. We therefore need to continue to make cost adjustments and adapt the businesses – and be prepared for a continued drop in volumes.

Thanks to a stable financial position, we were able to make a number of key strategic acquisitions and investments in line with the Roadmap 2015 strategy that has been previously presented. On the logistics side we acquired Byrknes Auto, one of Norway's largest thermal carriers within fish and grocery transports.

In Sweden we acquired Nordisk Kyl Logistik and Transbothnia, which give us a strong position within groceries and industry. The investments we made in the mail business were chiefly in businesses that are in the interface between digital and physical distribution – ISS Document in Denmark and Aditro Document Automation in Sweden. Strålfors acquired another business in Poland – a printing and inserting business – that has an annual capacity of around 60 million mailings.

As we announced last year, we have initiated a major investment program in the Swedish terminal network. Operations began in Hallsberg, an ultramodern mail facility, and we will open Rosersberg, a similar facility, this year. We also opened a new parcel terminal for our logistics business in Veddesta, north of Stockholm.

It is challenging to work at PostNord when you consider the major cost reductions and the dramatic structural changes to the businesses that have been made for the past several years without a break – and without achieving sufficient profitability.

But we need to continue to cut costs and create a more balanced logistics company. The industry is still changing and we must not sit idle. We have looked at the pace of digitization, at the cut-backs that

have been made, and defined new reinforced measures to meet the relatively weak market-economic situation and continued drop in mail volumes that are expected.

In late 2013, starting in November, we therefore initiated an analysis of all of the group's priorities. This was a substantial job, where we looked at what is important for the entire group in terms of our future success based on this market situation. As a result of this work we agreed on five basic priorities that are important for our conversion, and four underlying factors for our success.

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There is one overriding key priority – to continue the conversion to digitization. This is a fundamental condition. First of all, we are – and will remain – the leading e-commerce player in the Nordic region. Secondly, we will build further on creating a balanced logistics company and growing within heavy logistics. Then, new core products for service logistics. We have a major opportunity to establish new solutions for our customers within the “last mile”, as it's popularly known. And finally, to create a group-wide communication offer and run a sustainable business.

The two first priorities – being the leading e-commerce player in the Nordic region and building further on our logistics initiative – are fairly closely related. Logistics and e-commerce customers often view the Nordic region as one market, and it's a matter of having a strong Nordic platform in order to be able to manage the Nordic region in an integrated way. We have an excellent starting point here.

We work with the entire logistics chain. From helping our customers communicate with their own customers, with ads and mailings, through the entire goods flow, with warehousing, handling, pick-and-pack services, return management and delivery. It is a very important for us to build this balanced company and really take the position as the leading e-commerce player.

The third priority is new core products for service logistics. This is about the last mile in distribution. We have seen that there is a new market that has started to grow quite dramatically, and it has a lot to do with home deliveries. This may involve groceries, medicine, medical equipment and home electronics. We are incredibly well positioned. We have thousands of mail carriers and vehicles and we can do more work within this sector. This is a new market in some respects, and still relatively small – but we have already achieved success, chiefly in Denmark. And we will create more opportunities in other countries as well.

With a more group-wide communication offer we help our customers communicate with their own customers and market themselves to their customers through a combination of digital and printed communication – ads and mailings – and we also plan campaigns for our customers. This is something we have not previously offered to all our customers, but we are now gathering this and offering it on a broader basis to our customers. We have a unique position with information flow to our customers.

Sustainable business has been important to us for a long time as a group, but we think we need to further increase our focus. Sustainable business is sustainable financially, socially and environmentally.

Starting on the environmental side, we set a target in 2009 to reduce CO2 emissions by 40 percent by 2020 – and we are on the road to achieving this target. But regulatory changes are needed to enable us to move more goods from air transport to rail or truck. We are in discussions with decision-makers concerning the regulatory conditions on how this might work.

In the sustainable business area we also include issues of workplace equality and number of female managers, and achieving at least 40 percent female executives. We have not achieved our target here. We are aware of this and we are increasing focus, among other things, through the entire recruiting process, development of personnel, and following this up on a quarterly basis. But we are not satisfied with what we have achieved so far.

There are four underlying factors we need to have to succeed with our strategy. Our values are to be a dependable, accessible business partner with sustainable solutions for our customers, and it is therefore important that the IT systems are very stable. We have not had enough stability in our IT system. Among other things, we had a fire at a supplier. We have many different systems and we need to harmonize more, so this is a focus area.

Reduced cost base. We have been working with cost reductions for many years at PostNord. And we will be working with cost reductions for many years to come. This work is never completed. We are trying to increase the pace and focus even more on reducing the cost base.

Creating an integrated production model is a major issue. Our current production model is based on the fact that we have separate systems. We pick up mail from a customer with one vehicle, we come with another vehicle to pick up parcels and with a third to pick up pallets. We act like three companies towards our customers. This is not efficient – it is not efficient for the customer and is also inefficient for us.

We have the possibility to bring together production activities much more in the future – to pick up with one vehicle, to have different flows in the same terminal structure and to arrange things so our mail carriers and chauffeurs have more substance to their work and deliver more than only mail or only parcels. We have decided to do this, but it is a big change that will take a relatively long time to implement. But it is an important part of our future streamlining efforts.

Finally, a more goal-oriented delivery culture. Perhaps the most important of all the prerequisites. It's a matter of us as people – as managers and as employees. We will improve the culture to become more delivery oriented, become better at taking notice of good performance and rectifying poor performance. This is work that will underpin the entire business, and it starts at my level.

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Once we had focused in on our priorities, it became clear that there were two things that we needed to do. It became clear to us that we needed to change our organization. We needed to become more uniform in terms of how we communicate with our customers and also internally.

We introduced a new organizational model in the company, effective as of March 31st. This is a fairly major change. In Sweden, Norway and Finland we built a country organization for all mail and logistics operations, which has been operating since March 31st. This has proceeded very rapidly. And it meant that we were able to eliminate many administrative duties that were previously duplicated. We were able to eliminate internal competition, and we reduced the number of management levels.

This was done in very close collaboration with the employee union representatives, and we have had a positive dialogue. It also meant that we will be saying goodbye to around 600 employees in the immediate future – most of who have already been informed. It is unfortunate to have to give notice to employees, but it improves our capacity to become more efficient in the market. This does not affect production personnel but rather managers, administrators, customer service, etc.

In parallel with this we introduced a new business area – “Mail & Communication”. This is a small group that works with product strategy, product development, implementation of shared products and best practice throughout the various countries. We still have Logistics as a business area. But Logistics was previously an independent group within PostNord – today, it is a business area with a small group that works with the coordination of product development, strategy and best practice.

Strålfors is its own unit but is much more closely linked to the rest of the business, since we have products that we mutually sell, with the Mail & Communication business area having coordinating responsibility for the communication business with Strålfors. As of now we will no longer call it Strålfors, but rather PostNord Strålfors.

E-commerce is very large focus area for us. We are a leader in the Nordic region, but we will not remain a leader if we do not continue to invest in this and work more uniformly in the Nordic region. We have now established a group function for e-commerce and corporate clients – the very largest clients – in order to become more uniform in terms of how we work with the market.

And lastly, a natural consequence of what I mentioned, is that we need to act more uniformly towards customers. We have therefore decided to phase in PostNord as our brand for our business, supported by the strong post horns for our businesses in Sweden and Denmark. We will absolute not remove these. On the contrary, we will put a lot of focus on the post horns since they are well-known in the market. But we are linking this with PostNord. And Strålfors is now named PostNord Strålfors. Going forward, we are PostNord. We will not be making major investments in this – it will be implemented gradually over a period of three years or so.

There have been some adjustments to legislation and postal regulations throughout the world, including in Great Britain and Finland. We are now pleased about the amendment to the postal law in Denmark, which was enacted this year but prepared last year. This means that we have the possibility to adapt our business a bit more to the current circumstances.

To sum up, PostNord is a Nordic logistics company that there is every reason to be proud of. We are in the midst of a major change process and we have highly skilled and knowledgeable employees. I would like to take this opportunity to thank our employees, who have delivered extremely high quality to our customers and recipients – despite the fact that we are implementing all of these dramatic changes. It is understood within the organization that we need to make these changes, and we are maintaining a high level of service quality. We will continue to be our customers' natural first choice in this more balanced logistics company in our Nordic home market.

I look forward to meeting here again in a year's time to talk about the successes I'm confident we will have achieved with this strategy that we are in the process of implementing.