

Transcript

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Cees Visser

Good afternoon, my name is Cees Visser. Welcome especially to the ones in the room, even one made it from London and to those listening to the webcast and the conference call. We have here on my right Herna Verhagen, CEO, and Jan Bos to her right, our CFO. First Herna will look at the operational highlights of the quarter, then Jan will run through the Q2 financials. Then we will have a Q&A. Starting with Herna.

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Herna Verhagen

Thank you, Cees. Welcome to you all. As said I will start with the business highlights of Q2, followed by Jan Bos who will give a more in depth financial analysis on our Q2 numbers. Our main message for today is that if we look into Q2.

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We have a good performance in Parcels, a good performance in International and a lower performance in Mail the Netherlands, lower than anticipated, due to the quality issues we faced in Q2 and due to the fact that we delayed the reorganisation in the Netherlands. I give you some highlights on Mail the Netherlands, Parcels and International before I will give you more business details.

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First of all Mail in the Netherlands. In Mail in the Netherlands we had a volume decline of minus 8.3% in Q2, that is still within the bandwidth which we have given at the beginning of the year between 6.5% and 8.5%, but the upper part of the bandwidth. That of course had its effect on revenue and that is what you see on this slide as well, revenue is lower than in Q2 2011.

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Underlying cash operating income is also lower than Q2 2011 to minus € 24 million in this quarter. That is due to volume, but also due to the quality issues we had in Q2 and due to the fact that we delayed the Master Plans, so for Mail in the Netherlands weaker results than anticipated. If we move into Parcels.

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In Parcels we see volume growth, like for like 6% in Q2 compared to Q2 last year, resulting of course also in revenue growth, which is partly related to the volume growth and partly related to the acquisition of Trans-o-flex. Underlying cash operating income doing well as well, due to volume, due to Trans-o-flex and due to a good roll out of the operational transformation going on within Parcels.

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I will give you some details later. Then International. We have seen a good performance of International in Q2, in volumes, all three countries, in revenues and underlying cash operating income. So good results in Parcels, good performance in International, weaker results in Mail in the Netherlands and in total it sums up to slightly weaker results for PostNL than anticipated.

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I will give you more details on Mail in the Netherlands, Parcels and International and will start with Mail in the Netherlands. As said, Mail in the Netherlands had a weaker than anticipated performance, due to the quality issues and the delay of the reorganisation. The result in Q2 2011 was plus € 12 million, the underlying cash operating income in Q2 2012 is minus €24 million, which is a difference of € 36 million.

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I will give you some highlights of that difference and Jan Bos will come back to the bridge in detail. Part of the minus €36 million is of course the fact that we have 8.3% volume decline. But part of that is also and that is what you see in orange on this slide,

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the fact that we faced quality issues and the delay of the Master Plans for which we had to make extra costs for a total of € 10 million. We have lower Master Plan savings than expected and also the sale of real estate slowed down because of the economic downturn. In total a decline as said of € 36 million from € 12 million positive last year to minus € 24 million this year.

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I will give you more details on the two most important issues in that underlying cash operating EBIT decline which is quality and which is the inefficiency, caused by the delay of the Master Plans. To restore quality and to restore inefficiency was our main aim in Q2.

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We had to take actions, we had to take the necessary actions to make sure that we could improve quality and that we could improve inefficiency. Let me first answer the question, why was there inefficiency and why did you have quality issues. Those were related to the reorganisation we started in March and the main two issues out of that reorganisation were first of all our learning curve of new processes

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is underestimated, so we needed more time to get a smoothly running organisation than expected and secondly, we have in the operational chain, we have operational challenges. If you want to deliver mail, you start with collection. Collection you do at mail boxes, collection you do at big companies and you transport to sorting centres.

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In those sorting centres we sort mail into several directions and then the sorted mail is brought to preparation centres. In those preparation centres the mail is prepared into the mail routes of our mailmen. What we underestimated is that in all the reorganisations we have started in March, that the effect we had of quality in our sorting centres, in the end also had its effect on our preparation and had its effect on the prepared mail volume for our mailmen.

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So the chain effect was underestimated. Reasons for us to take the necessary action to improve quality and to improve the inefficiency. Actions we took to improve quality are for example the expanding of our flexible workforce. We needed more people to deliver quality up to expectations. We also improved our planning system

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which made it easier to plan people and mail volume together. Actions we took to improve our inefficiency are management focus and also better learning programmes for the people who do the preparation in our organisation, strengthening the implementation organisation so the organisation we have to implement all the changes and clear targets for management.

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In Q2 we saw first improvements on quality and first improvements on our inefficiency. As said, the costs related to quality and to inefficiency are € 10 million in Q2. We do expect that in Q3 and Q4 these costs will reduce. If we talk about the reorganisation and the delay of the reorganisation I would like to put that into a little bit more perspective.

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The reorganisations in Mail in the Netherlands is not one reorganisation, it is a combination of at least ten reorganisations which you see on this slide. Some of these reorganisations are already implemented. Some of them are being implemented, so most of the reorganisations are on track. And thinking about what is then on track

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for example is the reorganisation of our marketing and sales organisation, but also a reorganisation in which we transfer the registered mail from Mail in the Netherlands to Parcels. So in the past when you had a registered mail in the Netherlands, the mailmen would come to your door and ask for a

signature. Currently it is the chauffeur of our parcels service that will come to your door and ask for that same signature.

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So most of the reorganisations are still running and are progressing well. We delayed one, we delayed the reorganisation of our preparation and delivery and we delayed of course the transfer of our mailmen to those central preparation locations. It is an important reorganisation, because it is a significant part of the Master Plan savings.

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The migration to those preparation and delivery is under review, so if we talk about the delayed reorganisation, one out of ten, if we talk about the delayed reorganisation, we took concrete actions to ensure a feasible roll out which will be presented ultimately Q4. What is the main goal of that new roll out plan?

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The main goals are an improved and feasible roll out plan, a plan which has a lower impact on customers and a lower impact on our employees and which enables us to have quality under control. In order to do so, there are a lot of actions taken and will be taken in Q2, Q3 and Q4. In Q2 we took measurements in order to look into the chain dependencies.

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In order to simplify the process in our central preparation locations in order to strengthen the implementation team. In Q3 we will further test a lot of measurements which we need to test in order to be sure that the further roll out can be done more smoothly than the one we did in March this year. Those pilots on improved processes will be run during Q3 and partly during Q4,

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which will deliver us results in Q4 and which enables us to create a new roll out plan with a new phasing and all cost related to that. So final decision and final plan on the roll out of the delayed reorganisation will be at the latest in Q4. When it comes to the long term Master Plan savings

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we remain confident that those Master Plan savings will be reached. The business in Mail in the Netherlands is not only influenced by reorganisations and cost saving programmes, it is also influenced by the regulatory environment in the Netherlands. In these three slides I would like to update you on the dossiers where we made progress in Q2 and the items which are still left and will be running in the next coming period or the next coming years.

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We made progress on two regulatory issues. First of all Monday delivery. For Monday delivery new legislation is prepared and will be brought to Parliament as we expect in Q3 or Q4 of this year. That new legislation will allow us or will allow to put the mandatory Monday delivery out of the Universal Service Obligation (USO).

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That is important to us, because it is part of our future reorganisations and part of our future cost savings. The second important part where we made progress, is the net cost compensation. Law in the Netherlands allows PostNL to deliver a bill to the regulator when the USO is costing us money.

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So we delivered a bill which is based on the cost of the USO in 2011 of around € 100 million to the Dutch regulator. The Dutch regulator will first review the costs and will take a decision on which costs are viable and which are not and then secondly, will take a decision how the bill will be split over the several postal operators in the Netherlands.

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There are also new regulatory developments. The first one is the extension of power of the regulator. There is a proposal made in legislation which probably also will be brought to Parliament in the second half of this year, which extends the powers of the regulator. To give you an example, it extends the

power that they can ask more information from PostNL, but it also extends the power that they can give us a fine if we don't deliver the quality as expected.

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The second important item is significant market power. End of June the consultation process started on significant market power and significant market power is a process or is a proposal which gives the regulator more power to look into those markets where postal parties can have significant market power.

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It is still in consultation, which means it is not translated yet into final legislation. In that consultation process PostNL put forward of course our ideas and thoughts around significant market power. And there we said, we do not think that it is necessary for the Dutch market to have more regulatory power. Regulatory power is already provided for at this moment in time and in our view is provided for to a good level at this moment in time.

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Secondly, more regulation brings harm to all our stakeholders and thirdly we said, did government really take into account the effect significant market power could have on PostNL or is this disproportionate towards the future? It will be a long process. We expect that it will take at least two to three years before this will be approved in Parliament.

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Then it will go to the regulator and the regulator has to decide which markets, which postal markets in the Netherlands are markets with significant market power and then decide on proportionate actions and measurements. So it will take a long time. Therefore it is very important for us, for PostNL, that we are actively engaging in those regulatory processes in order there where possible, influence of course the outcome of such process.

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Last but not least, a short update on the unions, CLA and pensions, also influencing of course Mail in the Netherlands. We made progress in Q2 together with the unions and we said in a joined intention which was published to our internal people that we will come to an agreement ultimately by the end of this year.

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So discussions are going on, discussions are moving in the right direction and the joined intention is what we put on paper. For us that is good news. That is Mail in the Netherlands. So weaker results than anticipated, mainly due to the quality issues we faced, to the fact that we delayed part of our reorganisation. Let's move on to parcels.

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In Parcels we saw good results in Q2. We saw good results in revenue, plus € 32 million. Partly because of the volume increase, 6%, and partly because of the acquisition of Trans-o-flex and the transfer of registered mail. That is what you see over here, that is € 18 million out of the € 32 million. The underlying cash operating income went up with € 14 million compared to Q2 2011, partly because of Trans-o-flex and partly because of real business improvements.

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The good results of Parcels and the strong performance in Q2 are based on of course volume growth, the plus 6%, are based on a good integration of the acquisition of Trans-o-flex and are based on a good implementation of a difficult reorganisation going on within parcel service on our operational new logistical infrastructure.

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On Trans-o-flex and the new logistical infrastructure we will give you a few more details. First of all Trans-o-flex. We consider Trans-o-flex as a good acquisition. It fits clearly into our strategy. It enables PostNL Parcels in the Netherlands to have a better 2B platform, especially in pharma.

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In single parcels as well as pallets. It made it also possible to integrate very quickly the volumes of Trans-o-flex into our parcel network in the Netherlands. In Belgium the acquisition of Trans-o-flex created a 2B platform which we did not have before. So for Belgium it made us the number two player in the market on 2B parcels.

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The management of Parcels did a quick turnaround which led to the fact that it already has a positive impact on our results in 2012. So Trans-o-flex fits well into our strategy and has a positive impact on our results. So we had volume as a reason for strong performance, we had Trans-o-flex and the third reason for the strong performance is the implementation of the new logistical infrastructure.

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Also within Parcels a big reorganisation is going on. We are moving there from 37 depots and three sorting centres into 18 new sorting and distribution centres. Those 18 new sorting and distribution centres are important to us, because they enable us to deliver more and more parcels in the future, so it enlarges the amount of parcels we can deliver per year from 100 to 150 million.

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That is one. Secondly, it is important to us because it will bring down the costs per parcel and that is what we already see at this moment in time. It is a complex transformation from 40 centres into 18 new ones. It is complex, because we have to change almost all daily routes of our chauffeurs and subcontractors. The roll out is going well.

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We are in plan, we are within our cost budget and the results till now are even better than expected. Then the last segment, International. In International we saw real improvement in our performance. That is what we saw in all three countries, in the UK, in Italy as well as in Germany. We saw volume growth in the three countries.

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The volume growth of course had a positive impact on revenue and had a positive impact on the underlying cash operating income. And the result of International was minus € 2 million in Q2 2011 and is up to a positive result of € 5 million in 2012. A little bit more detail per country. First of all the UK.

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In the UK we saw good performance, we saw volume growth from national clients, partly offset by lower volumes of regional clients. We saw the underlying revenues going up, mainly impacted by a price increase of Royal Mail. We started our end-to-end pilot, so last mile delivery, which means that our mailmen go to the door in the UK to deliver mail. We started our pilot in April in London.

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That pilot is progressing well. The pictures you see over here on this slide are our own TNT Post mailmen on the streets in London, delivering mail in the western part of London and since July also to Parliament, to Buckingham Palace etcetera, etcetera. So they are all over the streets in London at this moment in time. We had a positive outcome from Ofcom, the regulator in the UK, because the regulator in the UK had to confirm our end-to-end plans

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And they confirmed that they will not restrict the out roll of our end-to-end activities. So end-to-end is progressing well, developing positively and the evaluation of the pilot will be done at the beginning of 2013. Then Germany. In Germany we started a big turnaround March last year and that turnaround pays off. We are on track for break even in 2013.

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We did see in Q2 of 2012 volume growth also resulting in revenue growth. Cost are very well controlled, of course by the cost savings programmes we started last year, and because of the fact that in a few regions in Germany we started an entrepreneurial model, which means that entrepreneurs are doing the last mile delivery for us.

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And the ones you see on the picture over here is the entrepreneur and his employees in Frankfurt. We need to have continued focus on the necessary volume growth going forward. So on track with focus for further volume growth. And then last but not least on International Italy. In Italy in Q2 we saw a continuing good performance.

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Based on the growth in Formula Certa, our main product in Italy, 22% volume growth, but also based on upselling, which means that we sell to current customers in Formula Certa new products like for example print. Our print centre in Milan you can see on the picture over here.

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And because we are entering into new markets, like for example small and medium business accounts. The coverage of Formula Certa at this moment in time, Q2, is 66%, which means that our own mailmen are delivering to 66% of the households in Italy. All by all, Q2 for PostNL was slightly weaker than expected, we had very good performance in Parcels, good performance in International and a weaker performance in Mail in the Netherlands,

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due to quality and due to delay of the reorganisation. And as said, we will come up with a roll out plan for that reorganisation ultimately in Q4. The three segments, Mail in the Netherlands, Parcels and International underpin our portfolio. The balance between the three is important, because it balances out opportunities and risks.

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So we remain focussed on filling in and implementing our strategy, which is for Mail in the Netherlands focus on cash, reinstallment of course of the reorganisation, solving pensions. For Parcels it means growth, growth in volume and therefore also growth in revenue and for International it means growth in volume and revenue underlying cash EBIT as well.

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An important part of the strategy is of course our dividend policy. We reconfirm our dividend policy, which means that around 75% of our underlying net cash income per year with a minimum of € 150 million will be paid in cash to our shareholders. There are two important conditions.

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The first one is that we have a positive consolidated equity and the second one is the certainty of a triple B plus rating. The positive consolidated equity depends on two items. IAS19, the accountancy change on pensions and of course the sale of the stake in TNT Express and Jan will later on give you more details on those two dependencies.

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The interim dividend will be paid in shares and will be around € 0,18 per share. To conclude the business highlights, I will come to the outlook. The outlook 2012 for the underlying cash operating income is reconfirmed at the bottom half of our range. We see two sensitivities.

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The first one is in the Master Plans of the reorganisation and the second one is in the sale of real estate. The explanation of changes in revenue will be done in the financial presentation. So a reconfirmation of our outlook, at the bottom half of the range. Thank you and I would like to hand over to Jan.

Jan Bos

Okay, thank you, Herna.

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And good afternoon to you all and may be good morning to some of you who are listening on the call. I will start at the financial highlights for this quarter. So reported revenues were up 1.6% and if you adjust that for foreign exchange effects, then the underlying revenues were down 0.2%. So the growth in Parcels and International almost compensated the decline in the Netherlands.

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Underlying operating income was up € 8 million from € 89 to € 97 million and that increase is mainly caused by € 50 million lower IFRS pension expense. If you look at our main KPI's, that is underlying cash operating income and net cash from operating activities. First of all the underlying cash operating income was down € 15 million and mainly explained by the volume decline in the Netherlands

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and by the delay in the Master Plans. The net cash from operating activities was down € 57 million, partly by the lower profit, but also by more investments in working capital, mainly in International. Then the one-offs to derive from reported operating income. The underlying operating income in the second quarter 2012 we had some adjustments in the provisions for Mail the Netherlands.

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Then rebranding costs and some value adjustments in the stake in TNT Express. In the second quarter of 2011 we had two main adjustments in the one-offs. One is the demerger costs, may be you know, and the second one was the book gain we booked on the sale of our unaddressed activities in Belgium and Italy. So that is why the underlying operating income is increasing from € 89 till € 97 million.

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The bridge from underlying cash operating income, a decline of € 50 million, and also the bridge for the underlying operating income. So the underlying operating income had an increase of € 8 million. There you can see that the decline in Mail the Netherlands is compensated by Parcels, International and PostNL other. I will come into more detail in the later slides. Then the change in pension liabilities is the difference between lower pension expenses

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of € 15 million and lower pension cash out of € 8 million. The change in provisions is the withdrawal of provisions we are taking in the Netherlands and mainly for the voluntary leave of a lot of mailmen, but also for the closure of post offices and the closure of our addressed network VSP. So in total that is a decline in underlying cash operating income of € 15 million.

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Let's look now into more detail to the reconciliation of the bridge of the development of the underlying cash operating income of Mail the Netherlands. It is a decline of € 36 million, starting with a volume decline. So we had a volume decline in the Netherlands, addressed volume decline of 8.3% and that was at the high end of our guidance between 6.5% and 8.5%. In combination with some positive price mix effects, that has resulted in a decline in underlying cash operating income of € 13 million.

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Next to that as usual the effect of price increases, that is another € 10 million decrease in underlying cash operating income and then you see the impact of the delay of the Master Plans on as well implementation cost and savings, so that is the € 6 million and € 6 million, because those were lower than expected.

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Pension expenses, the impact of the lower IFRS pension expense on the income of Mail the Netherlands and then you also see the impact, also Herna explained earlier to you, it is the impact of more inefficiency and also the cost of quality measures on the result of Mail the Netherlands. That is the € 10 million. The € 15 million is like I said, the impact of withdrawal of provisions for mainly the voluntary leave of mailmen in the Netherlands.

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On total, that is a decline of € 36 million. Looking at Parcels we saw a revenue increase of € 32 million from € 146 million to € 178 million, mainly it is related to an increase of earned internal revenues and the acquisition of Trans-o-flex. If you look at the like for like development of the revenues of Parcels, it is a € 6 million increase.

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Looking at underlying cash operating income, it is an increase from € 21 to € 35 million, which is a total increase of € 14 million. Of that € 11 million is related to the acquisition of Trans-o-flex and € 3 million stands for the better operational performance of Parcels. I like to emphasize that € 11 million or the goodwill booked on Trans-o-flex is also meant to compensate losses in the coming quarters.

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For International we saw a revenue increase of € 90 million towards € 371 million. It is visible in all countries. Looking at the development of the underlying cash operating income, it is an increase from minus € 2 million to a positive number of € 5 million and mainly caused by the improvement we have seen in Germany. Then looking at the statement of income.

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There you see a lot of impact from our stake in TNT Express. The first five months of 2011 we accounted for the results of TNT Express under discontinued operations. Since June 2011 till the first quarter of 2012 those results are visible under investments in associates and since Q2 we account the results on TNT Express, and those are only value adjustments, as assets held for sale under operating income.

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If you adjust for all that impact, you can see at the lower line, it is the profit for the period excluding TNT Express, we saw a small profit decline from € 54 million to € 46 million. Then cash of course is important. If you are looking at our cash result, the net cash from operating and investing activities

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like I said, it is a decline of the net cash from operating activities from € 15 million to € 72 million. A decline of € 57 million is partly related to the decline in profit, but also to higher investments in working capital in International. The proceeds coming in from acquisitions and disposals, in 2011 we have seen proceeds coming in from the sale of our unaddressed activities in Belgium and Italy. That explains the € 115 million.

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On Capex, the increase in Capex is mainly related to the higher investments necessary for the roll out of the Master Plans and for the roll out of our new infrastructure in Parcels, which also Herna explained. Looking at the proceeds from sale of assets, the € 21 million in 2011 is mainly related to the transfer of assets from Post or Mail to TNT Express in 2011.

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As a result, our net cash from operating and investing activities in the second quarter was negative for an amount of € 113 million and that also has an impact on our net debt position. Next slide you see an update you are used to. It is an update on the Master Plans, capex and working capital. On Master Plans the delay in the restructuring has an impact on our outlook for 2012.

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We have adjusted our outlook for the Master Plan savings towards a lower level of € 25 million to € 40 million and for the implementation costs towards a level of € 60 million to € 80 million. For capex you see the impact of the investment in the new logistic infrastructure and Master Plans. It is a big part of our investments in the second quarter. On working capital we are still on a level of minus 8% of the revenues.

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So that is a negative working capital, but we have seen some deterioration on working capital in International and management accents are in place to improve that position in the second half year. All this has an impact on our balance sheet. Our equity position has slightly improved to more than € 1 billion and our net debt position like I explained, increased by € 98 million compared to Q1.

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On pensions we have also seen deterioration of the coverage ratio of our main pension fund towards a level of 96.6%. It is explained by the impact of the lower interest rates and partly compensated by return on investments. The coverage ratio of 96.6% includes the top up invoices the pension fund invoiced to us.

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Looking at the cash out. The cash out this quarter was € 65 million and the pension expense was € 15 million. Looking for the full year 2012 we expect a pension cash out of € 280 million, that is € 10 million lower than the outlook we previously guided. The pension expense is still on a year level of € 60 million.

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And all those outlooks, especially the cash outlook, exclude the top up payments. Then first look at the top up invoices. The € 24 million invoice we received last quarter has become unconditional and we have received another invoice of € 50 million and that is conditional up to the effect that it becomes unconditional when the coverage ratio is still lower than 104% at the end of Q3.

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As you know we dispute the necessity of those top up invoices. The dispute is now at the Dispute Committee and we expect a result from that Dispute Committee before the end of Q3. Also in our opinion given the low coverage ratio at this moment, top up payments are necessary for an amount of € 14 million.

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That amount will become unconditional in our opinion at the end of Q3 if the coverage ratio is then still below 104%. Next to the impact of the pensions on our cash position, it also has an impact on our equity position. Like you know, we calculate each quarter the impact of the new accounting rules on pensions, IAS19 revised. That impact increased this quarter by € 280 million because of the lower discount rates.

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We added for you as an information also the impact IAS19 will have on our pension expense going forward and based on the parameters of 2012 this also will have a negative impact on 2013 going forward for an amount of € 35 million per annum. Like I said, pension and IAS19 revised has an impact on our equity position.

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And based on the parameters of Q2 2012 our equity position might be negative at the first of January 2013. I like to emphasize that this impact is very volatile and depending on the development of the discount rate. On our stake in TNT Express, as you know UPS and TNT Express communicated that the expected closing of the transaction before the end of Q4,

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based on and depending on the outcome of the phase II review by the European Commission. So we have the right under the irrevocable with UPS to sell 10% of our stake after the 19th of September. At this moment, given what I said before, we don't see it as opportune to use that right.

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When the stake in Express is sold, we have communicated to you also a prioritization in spending the proceeds coming in from TNT Express and we also like today to reconfirm that prioritization. Then going to the outlook, Herna explained it already.

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But in more detail, our outlook for Mail the Netherlands on revenue decline. We have adjusted that to mid-single, minus mid-single digit and that is related to the first half year, a weak result of the first half year. For Parcels we adjusted the outlook to a plus low double digit and we have included in that outlook the acquisition of Trans-o-flex. On total our revenue will stay stable and we expect to stay that stable for the total of 2012 because of the change in mix.

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We reconfirm our outlook for the underlying cash operating income, although at the bottom half of the guided range. We also like to emphasize the sensitivities of that outlook on further developments of the Master Plans and also in the sale of real estate. Thank you for your attention and now going over to the Q&A.

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Cees Visser

Okay, time for questions. as usual we take them from the floor first. Philip.

Philip Scholte, Rabobank

Thank you. Philip Scholte, Rabobank. On the pensions of course. You say you see the necessity to pay € 14 million recovery payment. Is that a cumulative number over the last couple of quarters or can you give us some more background as to why you believe that it is necessary?

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What is the rationale behind that?

Jan Bos

We take into account in that calculation the expected return on assets the pension fund has and it is a cumulative number. So the € 14 million is the total number until now. If this gives an answer to your question.

Philip Scholte, Rabobank

Yeah, sort of. Are you then working towards a coverage ratio which you believe given their investment style, they should achieve by the end of this year?

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Jan Bos

At the end of 2013, because then that is the period for the recovery plan of the pension fund.

Philip Scholte, Rabobank

Right. Okay. Then on your full year outlook. You actually say that the outlook is still sensitive to Master Plan savings, but is that on top of what you actually say today, that you say, it will be on the lower half of the range.

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Is there additional downside risk to that given possible changes in the Master Plans? If so, what are those potential changes in the Master Plans, because I think you have rescheduled your reorganisation right now and you have a pretty good visibility on that.

Herna Verhagen

We have no reasons at this moment in time to change the outlook, except of saying that it will be the bottom half of the range.

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And then of course there are sensitivities, which have to do with the sale of real estate and which have to do with the Master Plans, but as said till now no reason to change the outlook, except that we say it will be bottom half of the outlook.

Philip Scholte, Rabobank

Okay. And then lastly if I may on the Trans-o-flex. Herna, you say it is a profitable business. Indeed with the bad will accounting it is, but if I read your press release,

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you are actually saying it is a loss making and you expect further losses in the rest of the year.

Herna Verhagen

No, what I said is that it contributes positively to our results. It is not a profitable business, but we can make it profitable because we can integrate in our own network, we share the same customer base, so we have a lot of upselling opportunities and for Belgium as said, it creates for us a new platform. So we do see a lot of possibilities and opportunities. Yes.

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Philip Scholte, Rabobank

Thank you.

Maarten Bakker, ABN AMRO

Yes hi, it is Maarten Bakker, ABN AMRO. Assuming that the IAS19 hit on equity will be indeed € 1.4 billion as it was at the end of the second quarter, would you expect that there is enough distributable equity to pay out a dividend in cash over 2013?

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Jan Bos

We said that it is a condition that we need a positive consolidated equity and given that, it is unlikely given the figures of Q2 that there will be a positive equity.

Maarten Bakker, ABN AMRO

Okay, clear. And what happens if you receive the cash from TNT Express in the fourth quarter, the final dividend over 2012 will that be a cash dividend or again a stock dividend?

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Herna Verhagen

To be decided by the end of the year. As said, when we pay cash dividend, we need to fill in two conditions, which is a positive consolidated equity and the certainty around the triple B Plus rating. The positive consolidated equity depends on IAS19 as just said and on the sale of TNT Express. So, we will answer that question by the end of the year.

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Maarten Bakker, ABN AMRO

But it could be the case that the final dividend over 2012 will be cash and the dividend over 2013 will be stock again.

Jan Bos

It is possible given the present equity position and the expected impact of IAS19 that also in 2013 it could be a stock dividend. You have to take into account and that number I showed for consolidated equity the value of TNT Express is almost included. It is based on the value of the share at the end of the first half year.

Maarten Bakker, ABN AMRO

Okay. And can you explain to me what the sense of paying a stock dividend is as it creates quite a strong dilution.

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Jan Bos

Yes, but it is according to our dividend policy and based on the reasons that we expect improvements also eventually in equity position, we want to continue with our present dividend policy.

Maarten Bakker, ABN AMRO

Okay.

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Nigel van Putten, ING

Nigel van Putten, ING. Three questions if I may. First on the decline in Mail that came in as minus 8.3%. Would it be fair to assume that the addressed mail decline was then in fact double digit as you mentioned that the mix was worse and also do you now see the long expected decline in the small and midcap enterprise market? That is the first.

Herna Verhagen

The minus 8.3% is only addressed, so it is not a combination of addressed and unaddressed.

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It is only addressed, so it is minus 8.3%, so not double digit. It is due to substitution. So what we saw in Q2 is that as we saw also last year, more and more people using e-mail and internet and that caused the decrease or the decline of the volume. We did not see customers leave to our competitor.

Nigel van Putten, ING

More specifically perhaps. You have always said, we know what our major clients are doing.

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That is basically our planning. Our visibility is pretty good and I remember you always said, we don't exactly know what is going to happen in the small and midcap sort of enterprise market. Considering these numbers are pretty high compared to last year, is that you see now the sort of smaller companies accelerating the substitution?

Herna Verhagen

To be honest I would not say accelerating substitution, we see the same trends in the market for big companies as well as the market for small and medium business accounts.

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Nigel van Putten, ING

Thank you. Then on Parcels. You received a € 13 million loss compensation I think. Basically used € 2 million in this quarter. Would it be fair to say that you expect another € 11 million in the second half of the year in terms of sort of Trans-o-flex losses?

Herna Verhagen

We can say at this point in time that we will need at least part of that money to resolve the losses within Trans-o-flex.

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Nigel van Putten, ING

Thank you. Then the last one. Perhaps more importantly, on the expected disposal gains of the real estate, basically including your guidance. If I were to assume no sale of real estate in 2012 at start of the year, how would guidance have looked like? Would it be fair to say that it would be around the € 60 million to € 110 million considering you basically want to sell or have profits of about € 150 million over the next three years you once said?

Jan Bos

No, that is not a correct analysis.

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But I won't comment on further details, but it has an impact, with zero real estate it has an impact.

Nigel van Putten, ING

Is that double digit?

Jan Bos

That is why we also are saying that our outlook is still sensitive to developments in the real estate market.

Cees Visser

Mister Slotboom.

Henk Slotboom, the IDEA!

Henk Slotboom, the IDEA! When we look at the 8.3% volume decline in Mail in the Netherlands

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I assume that that includes the effect of the migration of the registered mail to Parcels. Can you shed any light on that?

Jan Bos

The 8.3% is just addressed volume decline in Mail the Netherlands and including registered mail, so it does not have any impact.

Henk Slotboom, the IDEA!

Registered mail is now delivered by Parcels.

Jan Bos

Delivered by Parcels, but it is still commercially sold by Mail the Netherlands.

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So Mail the Netherlands is subcontracting so to say registered mail to Parcels and that you also can see in the internal revenues of Parcels, that have increased.

Henk Slotboom, the IDEA!

So, if I understand it correctly, the profit contribution from registered mail is still with Mail the Netherlands, so it is really like for like.

Jan Bos

Correct, but you saw it through that also Mail the Netherlands has to pay for the parcel delivery to Parcels.

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Henk Slotboom, the IDEA!

Okay. Talking about Parcels. As of when has the Trans-o-flex acquisition been consolidated, because you are saying, there is a € 29 million, I see a € 21 million, sorry there is a € 29 million effect from the migration from registered mail to Parcels. Did I understand it correctly that € 18 million of that is the registered mail and that the rest is Trans-of-flex?

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Jan Bos

No, on the total of the € 29 million I think, € 8 million is Trans-o-flex. So € 8 million of revenues is coming in this quarter from Trans-o-flex and € 21 million from increased internal revenues.

Henk Slotboom, the IDEA!

Okay, as of when has Trans-o-flex been consolidated?

Jan Bos

It depends for which country you are speaking for. In the Netherlands it is the full quarter and for Belgium it is part of the quarter.

Henk Slotboom, the IDEA!

Okay, then the last question for now at least.

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The targets for Germany, as far as I understand it, have been trimmed. It was, initially you expected a profitable year in 2013 and now you are saying we are on track towards achieving break-even. Is that caused by the price competition you are seeing and perhaps you can elaborate a little bit about that?

Herna Verhagen

If we look into Germany, also in the Q1 and full year 2011 we said break-even 2013. So that did not change.

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There is price competition in Germany, that is still going on although of course the Bundesnetzagentur had some verdicts around price and pricing of Deutsche Post. And although we have price competition in Germany, we see that the underlying cash operating income of Germany is improving and we see volume growth. So we still confirm the fact that we are on track for break-even in 2013 and we also expect that price competition will go on.

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And that is one of the reason why we say, we need to remain focussed on accelerating and getting in more volume into our own network.

Wijnand Heineken, Independent Minds

Just a few follow ups on previous questions as far as the Trans-o-flex acquisition is concerned. How long do you expect it to take before you have turned it around into profit?

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As far as Germany is concerned, where are we now as far as the results are concerned, because it comes from something like € 20 million to € 25 million operating losses. We know that it should break even next year, but where are we now?

Herna Verhagen

First your question on Trans-o-flex. We expect Trans-o-flex to be profitable and contributing in 2012 for the Netherlands and 2013 for Belgium. That is our expectation.

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And secondly, when it comes to Germany we do not give specific numbers for Germany. It is indeed correct that a few years ago it was minus € 22 million or minus € 25 million. We expect it to be break even in 2013 and that means that if you take a line between the minus € 22 million and break even in 2013, it is better than the minus € 22 million.

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Cees Visser

Okay, let's go to the conference call. Any questions coming in?

Operator

If you would like to ask a question, please press star 1 on your telephone and wait for your name to be announced. Our first question comes from Julia Winarso, HSBC. Please ask your question.

Julia Winarso, HSBC

Hi everyone. Thank you for taking the questions.

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Firstly, can I just ask about the working capital impact in International. I was not quite sure what was going on there. If you would not mind explaining. Secondly, on the property disposals, could you please give some more information as to why you included them in your cash EBIT guidance?

Herna Verhagen

We did not understand the last question, sorry.

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Julia Winarso, HSBC

I was asking on the property disposals. Can you just give some information as to why you had included them in your cash EBIT guidance and how much you actually included there?

Jan Bos

The first question on working capital. The total working capital impact is around € 45 million this quarter and it is mainly related to International and it has to do about payment terms of customers, mainly in I would say Italy and the UK and we are repairing that the coming quarters.

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And secondly why we include the disposals of real estate, because we also see them as related to the Master Plans and we also include in our cash EBIT or underlying cash operating income also the initial costs for the Master Plans. That is why.

Julia Winarso, HSBC

All right, thank you.

Operator

The next question comes from the line of Roger Elliot. Please ask your question.

Roger Elliot, Citigroup

Good afternoon everyone. I have got two questions. Can you give us some insight as to what the customer reaction has been to the quality issues seen in Mail Netherlands in the second quarter.

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And secondly, what has your early experience been in West London with end-to-end delivery in the UK? When is the earliest launch date for commercial end-to-end services in the UK?

Herna Verhagen

The customer reaction to the quality issues we received in Q2 was of course not always positive, but we had many discussions with the customers.

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We prepared them quite well on what was happening and due to the fact that we had the quality issues we had a lot of meetings with them to restore quality as quickly as possible. In the end customers stayed, which means no one left PostNL because of the quality issue. And for us it remains important to also when we come to a further roll out of the reorganisation, to be in close contact with those customers. Then the early experience of our end-to-end pilot in London.

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So last mile delivery. We started at the beginning of April with the roll out in West London, which means we are covering 350,000 households with around 300 TNT Post mailmen. The pilot is progressing well, which means it delivers according to the KPI's we have set for the pilot, but still six months to go for this pilot, which means that the first evaluation will be done beginning of 2013.

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And only then final conclusions will be taken for a further roll out.

Roger Elliot, Citigroup

If you decide positively, when could commercial services actually be launched?

Herna Verhagen

That depends of course. First of all we will have to take the decision to roll out and then secondly we have to take a decision around the phasing of that roll out and that decision is not taken yet.

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So I can't give a very concrete answer to your question.

Roger Elliot, Citigroup

Okay, thanks.

Operator

The next question comes from Damian Brewer, please ask your question.

Damian Brewer, RBC

Yes, good afternoon, thanks for taking my questions and congratulations on the results presented. Three questions. first of all on the Netherlands Mail. Could you talk through a little bit more about the factors that lifted the average yield there. What were they and which contributed how much to that approximate 4.5% accretion.

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I will give you the other two questions as well. Given you won't even know how the pilots have gone until Q4, how much change in terms of the risk profile of meeting your 2015 targets is there? It obviously has changed. How much do you think it has changed by? And then finally, can you talk us through or remind us again of some of the sensitivities to the pension position of the company and what would cause the deficit, particularly in economic terms, to reduce the PostNL?

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Jan Bos

I will take the first question, that is on the average yield. So you have to keep in mind that our revenues split in Mail the Netherlands is partly USO related, partly addressed related and partly

non- addressed related.

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The non-addressed related part is not really declining. The addressed part has declined by 8.3% and there you see including the USO, that we see a positive price effect on the USO business of around 6% and we see stable price effects on the non USO business in total.

Herna Verhagen

We come back to the reorganisation within Mail the Netherlands,

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but we will do it partly in Q3 and beginning of Q4 and come up with a new roll out plan ultimately Q4. Of course it changes the risk profile of the Master Plan savings or the reorganization savings, but let's put it in a little bit of perspective. As I showed you on one of the slides, this is one of the reorganisations out of a group of ten reorganisations going on at this moment in time.

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It is an important part of the savings, let's be clear on that as well, but most of the other reorganisations are progressing well and are still running. That is one and secondly, the pilots we are running additional at this moment in time and we will run further into Q3 have to prove the measurements we have taken to get a more feasible roll out plan of the Master Plans are correct and in the end that will lead to a new roll out plan with a new phasing.

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And of course, related to that, savings and costs, so that is to be seen by ultimately Q4.

Damian Brewer, RBC

And at this stage, would your Master Plan savings targets be the same? Or do you think that will see some alteration?

Herna Verhagen

What we did say is that we are confident in reaching our long term Master Plan savings. Those Master Plan savings are not only related to the delayed reorganisation of the central preparation location. It is based on many more reorganisations.

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And that is the reason why we say that we are still confident we can do the long term savings, based of course on a track record which we have within PostNL, while we were successful in the past on really realizing the savings we set. Based also on the fact that in every reorganisation we do and in every Master Plan we do, that the way you think a Master Plan will be run in the end of course is slightly different.

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Because things will change on the way and that is what is happening at this moment in time as well and that is what happened in the other Master Plans as well. The only thing which we did not expect and that is the reason why we delayed, is the quality issues we faced in Q2 and which were in our view, the quality was too low in order to continue the roll out.

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And that is the reason why we delayed.

Damian Brewer, RBC

Okay. Can I ask a quick follow up? If the savings become more back-end loaded to the 2015 period, but you are still permitted to make your regulated return on the USO, does that mean you can get price increases sooner on the regulated stamp pricing to offset some of those phasing issues?

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Jan Bos

It is a good question. We take this into account I would say.

Herna Verhagen

Damian, can you repeat your last question please?

Damian Brewer, RBC

I almost forgotten what it was, but it is just about the sensitivity on the pensions. A different assumption.

Jan Bos

Okay, so on the sensitivity on pensions we have of course the sensitivity of the interest rate. First of all on the cash out, on our pension premium, but that is determined, the pension premium each year.

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So if the interest rate decline further, you can expect also higher pension premium next year. And the second one is on the coverage ratio. That also has its impact. And a 0.1% lower interest rate almost has a 1% impact on the coverage ratio. And then we have of course the impact of the discount rate, but that is a different discount rate, the iBoxx rate on our IAS19 impact.

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Damian Brewer, RBC

Okay, thank you very much.

Operator

Once again, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. The next question comes from Joel Spungin, please ask your question.

Joel Spungin, BoAML

Yeah, hi there. I have got three questions actually. My first is just a clarification with regards to the performance of the Parcels business, so to speak, confused about what you say. Do you say that the clean growth rate, like for like growth rate was 6% or € 6 million on the revenue line.

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That is my first question. My second question is just to look after the regulatory changes and the possible removal of Monday from the delivery schedule. Is that integral to your Master Plan savings or if you get that, is that an added bonus?

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And my third question has just actually slipped my mind, so we just stay with those two for now.

Herna Verhagen

The first one on Parcels. The like for like volume growth was indeed 6% which resulted into a revenue growth of € 6 million, so that is correct. Your second one on regulatory changes, the possible removal of the Monday delivery out of the USO. It is included in our Master Plan numbers.

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So it is included in the reorganisations we have put into our Master Plans for the next coming years.

Joel Spungin, BoAML

Okay, thank you very much.

Cees Visser

Okay, the last question then from the conference call.

Operator

The last question comes from Christopher Combe, please ask your question.

Christopher Combe, JP Morgan

Yes, hello, many of my questions have been answered, I just had a couple of follow ups.

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Regarding the net cost compensation for 2011, should we think of that as a representative of a run rates compensation, that could be possible going forward?

Jan Bos

Now, we also expect for the net cost also the same amount of costs for 2012, but you have to keep in mind that depending on the development of requested service levels by the government that could change.

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Christopher Combe, JP Morgan

Okay, and regarding Master Plan savings, you have made it clear that the long term savings target is unchanged. Is it incorrect to assume that when you come forward with your new roll out plan in Q4, that the long term cost could also be revised upward?

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Jan Bos

The long term cost for 2012, you mean the net cost? They will be the same. The long term cost savings?

Christopher Combe, JP Morgan

The long term restructuring and implementation costs, to see the same long term savings.

Jan Bos

Okay, now I understand your question. They could change also.

Christopher Combe, JP Morgan

They could, okay. And lastly, with respect to the delayed initiative, it is one of ten reorganisations. Can you tell us roughly what proportion of the savings are related to the single reorganisation?

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Herna Verhagen

We don't give the exact build-up of the Master Plan savings out of the several projects. But it is a substantial part, that is what we already said, also in my presentation.

Christopher Combe, JP Morgan

Okay, and the very last one. Can you give us some update in terms of what type of cash pension cost contribution you are seeking from employees?

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Jan Bos

For the pensions? We have done some proposals for the CLA and we are targeting for a pension premium which is on average in the Netherlands of about 20% and that can come in from lowering the pension arrangement and/or a contribution from the employee. So all the elements are on the table, on the negotiation table.

Christopher Combe, JP Morgan

Okay, thank you.

Cees Visser

Sorry, Gert, we will give you the last question.

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Gert Steens, SNS Securities

Thank you, Gert Steens, SNS. Actually I have one follow up question left of the long list. Parcels, it was a deterioration in price and mix. Can you may be shed a bit of light on what happened in the prices and mix and also you mentioned briefly there has been an effect of the mix on the cost level, the cost per parcel. Could you give us some colour on that as well? Thank you.

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Herna Verhagen

First of all price mix within Parcels. We see a change in price mix because of the fact that we are adding more large volumes than small volumes, so what you see is that big customers are growing

quicker than the small ones. Big customers have lower prices than the small ones and that is the reason for the change in price mix. Second, what you see in the market is that many of the small web shops are consolidated into larger ones.

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So that is also one of the trends you see. When it comes to the cost per parcel, one of the reasons to step into the big transformation we are doing at this moment in time within Parcels from the 40 depots and sorting centres into the new 18 sorting and delivery centres, is the fact that we want to stabilize the cost per parcel or preferably and that is what is happening at this moment in time, lowering the cost per parcel.

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Now reason, give you one of the examples why it is possible to do so. In the current system and partly the old system we had sorting centres where we sorted the parcels into several routes. Then those parcels were transported to our depots and at the depots our chauffeurs and subcontractors came to put parcels into their vans and then of course bring them to consumers and our customers.

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In the new system, the sorting and distribution centres, the chauffeurs and subcontractors come directly to our sorting and distribution centre which means that directly from the conveyor belt where we sort the parcels, the parcels are brought to the vans. That means that you skip one part of the operational process, so that is an example why we can do this more cost efficiently than in partly the current and partly the old system.

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Gert Steens, SNS Securities

Thank you.

Cees Visser

You came all the way from London, the last question is for you.

Erik Bertillon, Credit Suisse

Thank you. Just a question on Parcels and are you taking market share within the Netherlands. Is that 6% in line with the market or do you feel that you outgrowing the market there?

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A second question as well. In case you would get negative equity at the start of the next year, could that stop potentially buying back bonds if those are trading at a premium? Thank you.

Herna Verhagen

The growth of 6% in volume is in line with the market. When it comes to the 2B market where of course the acquisition of Trans-o-flex is done, in the 2B market we saw because of that acquisition small growth. And I hand over the question to Jan on bond buy backs.

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Jan Bos

Sorry, I have missed your question on equity.

Erik Bertillon, Credit Suisse

In case you will have negative equity at the start of next year, and if you were to consider doing the buy backs then of depth, if the TNT acquisition would go through, could that be a potential problem then if consolidated equity is negative?

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Jan Bos

It does not cause a problem for buying back bonds, not at all. You need liquidity.

Erik Bertillon, Credit Suisse

If they are at a premium in your books.

Jan Bos

It means further deterioration, possibly for equity because of the premium

Erik Bertillon, Credit Suisse

But it will not stop you from doing it.

Jan Bos

We will take that into consideration as an impact, but it would not stop it per se.

Erik Bertillon, Credit Suisse

Okay, thank you.

Cees Visser

Okay thank you very much and see you next quarter.