Transcript

Cees Visser
Good afternoon, I am Cees Visser. Welcome to those listening to the webcast and the conference call. With me present are Herna Verhagen, our CEO, and Jan Bos, CFO. Jan will go through the Q3 highlights and financials and after Jan's presentation Herna and Jan will answer your questions. Jan, the floor is yours.

Jan Bos
Thank you Cees, and welcome to everyone. Let's start with an overview. Following the slow start of the year, in this quarter the performance of Mail in the Netherlands remained under pressure. The first quarter was marked by a decline of addressed mail volumes of 10.1% and the main reason for this decline remains substitution, where the trend seems to be more negative. After the temporary stop of the roll out of the new infrastructure in Mail in the Netherlands in April, improvement initiatives have been implemented resulting in an enhancement of quality levels almost back at standard levels. In Q3 Parcels saw good volume growth in the Trans-o-flex integration progressed according to plan. With six new depots now operational the new logistics infrastructure programme is on track and fully up to speed. Despite the challenging competitive and economic environment International showed volume growth everywhere. Overall the results improved against the previous year as they did in the last two quarters.

As I mentioned in the previous slide, the addressed mail volumes declined by 10.1%. The main reason for this decline remains substitution where the trend seems to be more negative. Combined with a positive price effect our underlying revenues declined by 5.9%. This also resulted in a decline of €19 million in underlying cash operating income. We have announced a rate increase for both consumer mail and small business mail as from the first of January 2013. Also the rates in the larger business contracts are being increased. The adjustments to the rates have been reviewed by the Dutch regulator Opta and are within the limits for tariff development.

PostNL and the unions are still in constructive discussion. The pension arrangements for the CLA are part of the on-going negotiations.

In the third quarter we have done two small investments enabling us to offer new product propositions to our customers. These are Marvia, a start-up offering desk top publishing solutions, and a minority shareholding in Scoupy, the leader in the rapidly growing mobile couponing market in the Netherlands. The total purchase price was less than €2 million. After the decision to temporary stop the roll out of the new central preparation locations, our first priorities were to restore quality and improve efficiency in order to retain customers. Different measures resulted in an improvement in quality levels in Q3. Examples of these measures are the strengthening of the implementation organisation and a more intensive training of new employees. All in all we are able to improve quality levels and improve efficiency as you can see from the graph. In Q3 we hardly incurred any extra cost to address the inefficiency and quality issues we encountered in Q2. In the fourth quarter however we do expect some costs. Our main goal of the review of the migration process is to create a feasible roll out plan and make sure we are in control of the quality levels. We are currently investigating and testing the simplification of the processes. Alternatives have been developed and tested and one of the main pilots starts today. A test in Alkmaar in which three locations will be integrated. This test will show the potential for cost reduction against a lower risk profile, because business process changes will be less disruptive. We will take a decision with respect to the further roll out of the reorganisation and update you at the latest with our Q4 results.

Now let's turn to the regulatory news. First regarding the USO and the Monday delivery. At the request of Parliament further study was done into the effects of cancelling Monday deliveries. The results support the decision of the State Secretary to drop the Monday delivery requirement. The amendment to the Act will be sent to Parliament soon. Secondly regarding significant market power, the final proposal is expected to be sent to Parliament and Parliamentary discussions on the proposal are expected to start in November 2012. And finally the Postal Act. Parliament recently voted in favour of two amendments to the Postal Act. The first amendment provides for a legal basis to the administrative order on labour conditions for postal workers. The order includes the obligation that at least 80% of the postal workers must have a labour contract before October 2013. The second amendment to the Act that Parliament approved, strengthened the supervisory controls by Opta of the USO. It enhances amongst others the powers of Opta to set fines.

Then onto Parcels. Parcels continued to improve volumes up 4.5% like for like with price mix again being negative. Revenues grew strongly by €40 million mainly due to the acquisition of Trans-o-flex and the shift of distribution of registered mail from Mail the Netherlands to Parcels. Underlying cash operating income approved by €3 million, the net effect of Trans-o-flex was around €2 million. This quarter showed migration costs as a result of transferring volumes to the new depots. Without these temporarily higher costs the increase would have been a few million higher.

The on-going implementation of the new logistics infrastructures continues successfully. We opened new depots in Breda and Amersfoort and up to now six depots have been opened and around 30% of our parcel volumes are running through the new network. In September Valid Express was acquired. This small acquisition provides Parcels with a nationwide courier network which fits our ambition to grow in the Netherlands. We have not disclosed the purchase price. Within in International underlying revenues increased by 7.5% to €389 million. Underlying cash operating income improved to €7 million from €4 million in Q3 2011. UK realised 7% growth in volumes and packets and parcels contributed to this growth. The end-to-end pilot in London is progressing according to plan. We have currently five delivery units and over 400 mail deliverers. Volumes are running at over 300,000 items per week in line with plan. In the UK the uncertainty remains on regulatory developments for example on the decision on VAT. In Germany cost savings were realised according to plan. Germany is still on track for breakeven in 2013, driven by further revenue growth. Going forward we will keep our focus on necessary volume growth. In Italy revenues increased 18% like for like. Formula Certa volumes and revenues continued to show strong growth. The coverage of Formula Certa also increased to 67% of households.

I will now start with the financial overview. Reported revenues are up 3.1%, underlying revenues were up 1.2%. Growth in Parcels and International more than compensated the decline in revenues in Mail the Netherlands. Underlying operating income was down €10 million. This decrease is mainly due to the drop in mail volumes in Mail the Netherlands and autonomous cost increases. I will come back on the detailed breakdown on my next slides. Then our main KPI's. Underlying cash operating income was down €17 million mainly driven by volume decline and delay in the restructuring in Mail the Netherlands. Net cash from operating activities was minus €62 million, but €13 million better than the prior year. The change is mainly explained by lower net taxes paid and almost offset by lower cash operating income and higher investments in working capital. The next slide gives you an overview of the one-offs to go from reported operating income to underlying operating income. The main item in Q3 was the fair value adjustment on the TNT Express stake we had to take due to the decline of the share price compared to Q2. All the one-offs were adjustments in the restructuring provisions from Mail the Netherlands and rebranding costs. The main items in the last year were the rebranding costs and the resizing of International. The next bridge explains the development of the underlying operating income and the underlying cash operating income. Underlying operating income was down €10 million. The decline in Mail the Netherlands was only partly compensated by positive contributions from Parcels, International and PostNL other. I will explain more on Mail the Netherlands on the next slide. Underlying cash operating income was down €17 million. The change in pension liabilities reflects the difference between the lower pension expenses of €16 million and the higher pension cash out of €1 million. The change in provisions mainly reflects lower cash out for mainly voluntary redundancy agreements. Looking now at the segments. Underlying revenues of Mail the Netherlands were down 5.9%, the volume decline of 10.1% was partly compensated by positive price mix effect. I will explain the development of the underlying cash operating income in the next slide. Underlying revenues Parcels was up €40 million. Underlying cash operating income of Parcels increased by €3 million of which €2 million is the net effect of the Trans-o-flex acquisition. This quarter showed higher operational cost than the previous year. This is mainly caused by temporarily higher sorting costs per parcel in the old sorting centres as a result of transferring volumes to the new depots. Without these temporary migration costs the increase would have been a few million higher. International revenues were up €27 million driven by all countries. Underlying cash operating income in International grew by €3 million to plus €7 million, of which the UK and Italy were the main contributors.

The next slide explains in more detail the decline in underlying operating income and underlying cash operating income in Mail the Netherlands. The high volume decline of 10.1% together with the change in price mix resulted in €12 million lower results. The usual autonomous cost increases explain €13 million. Because of the delay in Master Plans initial costs were lower than last year. Pension expenses were €3 million lower this quarter and together with an increase in other cost of €2 million this resulted in a decline in the underlying operating income of €18 million. The change in pension liabilities reflects the difference between the €3 million lower pension expense and €5 million higher pension cash out. And finally we had lower payments for mainly voluntary redundancy programmes compared to last year. In total this adds up to the €19 million decline in underlying cash operating income.

Let us now look at the reported statement of income. The comparison with last year is influenced by the way the results of TNT Express are accounted for. As from June 2011 until Q1 2012 these were accounted for as results from and impairments of investments in associates. As from Q2 2012 the results from TNT Express are accounted for as assets held for sale which falls in operating income. Due to the lower share price of TNT Express at the end of Q3 we had to book a fair value adjustment on the stake of €180 million. This is reflected in the decline in operating income. Excluding the effect of TNT Express our profit for the period of €19 million is €8 million lower compared to last year, in line with the developments in underlying operating income.

On the next slide you see the overview of the development of our net cash from operating and investing activities. Net cash from operating activities was as explained before, with minus €62 million negative, but €13 million better than the prior year. The change is mainly explained by lower tax payments offset by lower cash operating income and higher investments in working capital. Capex was €11 million higher, mainly driven by investments for the Master Plans and the roll out of the new parcels infrastructure. Proceeds from the sale of assets were €5 million lower mainly explained by lower proceeds from the sale of real estate. As a result the net cash from operating and investing activities was minus €96 million, €7 million more negative than last year. In the following slide we give an update on the current status of our Master Plans, Capex and working capital. On Master Plans savings and implementation costs are lower than expected, due to the delay of the roll out. For the full year expected savings and implementation costs will be at the low end of the range. On Capex you can see the investments we have made in the central preparation locations and the new parcel infrastructure. All in line with our expectations. Our working capital at around minus 7% was slightly worse than in Q2 mainly caused by developments in Mail the Netherlands. As anticipated settlements with other postal operators for cross boarder mail delivery had a negative impact. Working capital in International has shown an improvement during the quarter.

On our balance sheet position please note the following. Our equity is now at the level of €925 million and our net debt is now at €1,216 million and this is an increase of €85 million compared to Q2. In line with the development of net cash from operating and investing activities I earlier explained.

Then over to pensions. The coverage ratio of our main pension fund at the end of Q3 was 102.2% including the disputed invoices. The implementation of the new discount rate, the ultimate forward rate, affected the coverage ratio by around 2.5% and investments contributed another 2.5%. On this slide I also show you the overview of the pension expenses and pension cash out in Q3. Pension cash out in Q3 was €67 million. For the full year we expect a pension cash-out of around €270 million and this number excludes top up payments. The pension expenses this quarter were €16 million and for the full year we expect these to be around €60 million. Based on the coverage ratio at the end of Q3 as calculated by the pension fund, the €50 million invoice of the pension fund became unconditional and we received a new conditional invoice of €14 million. As explained earlier, we dispute the necessity of these top up payments. As the pension fund board had a different opinion, a dispute committee was installed. Both parties expressed their opinion in writing and the hearing session of both parties has taken place. The ruling of the dispute committee is delayed to Q4. Like you are used to, we also calculated the impact of the implementation of IAS19 revised on our equity position as per the first of January 2013. At current parameters the net negative impact went up by €220 million due to a decrease in the discount rate. As in last quarter we included the estimated impact of IAS19 revised on the pension expenses going forward. Based on the parameters 2012 and all other things being equal, the net impact is an increase in pension expense of around €35 million. The following slide shows you the development of the consolidated equity. As you can see based on the current parameters, the IAS19 revised revision as of the first of January 2013 will result in a negative equity. This outcome depends of course on the developments of the discount rate and remains volatile.

Now onto the developments of the sale of our stake in Express. On the 19 of October UPS and TNT Express received a Statement of Objections. They have indicated that they have an open and constructive discussion and will respond within weeks. On the 31st of October the offer period has been extended until one week after clearances from the European Commission and the Chinese Ministry of Commerce, but under no circumstances later than the 28th of February 2013. UPS and TNT Express indicated that they expect the deal to be completed early 2013. Although we have the right to sell 10% since September 19 we currently don't see this as opportune. I also would like to reconfirm the prioritisation in the use of the expected proceeds.

Let's now turn to our outlook for 2012. We expect the addressed mail volume decline to be between 8% and 10% for 2012 and the underlying cash operating margin of Mail in the Netherlands to be between 0% and 2%. We expect underlying revenues for International to show mid-single digit growth and for PostNL total we expect total revenues to be in line with 2011. We reaffirm our outlook for underlying cash operating income in the bandwidth of €110 to €160 million and as we have said at Q2, we expect the result to be at the bottom half of the range. Lower pension cash out and cash out from restructuring provisions compensated the lower outlook of Mail in the Netherlands. The outlook remains sensitive for further developments in the roll-out of Master Plans and the sale of real estate.

In the next slide I like to emphasize the seasonality we normally see in the operational results of PostNL. As you can see Q3 is normally the weakest quarter and Q4 by far the strongest. As we are getting nearer to year end, I also included in the presentation of today an update of some other relevant indicators for the outlook of 2012. And to conclude, a summary of Q3, Parcels showed good volume growth and strong operational performance. The programme on the new logistics infrastructure is on track and fully up to speed. International also showed good volume growth and continuation of improvement in results despite the negative economic developments. Our performance in Mail the Netherlands was weaker than expected, due to higher than expected volume decline and delays in the Master Plan savings. Mail the Netherlands made good progress to restore quality and to repair a new roll out plan for the Master Plans. For PostNL we have reconfirmed our outlook for the underlying cash operating income for 2012. Now over to you Cees, for the Q and A.

<u>Cees Visser</u>
Thank you Jan. Operator, can we open the lines for Q and A? I ask you to explain the procedure.

<u>Operator</u>
If you would like to ask a question, you can press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. The first question comes from the line of Joel Spungin. Please go ahead announcing your company name.

<u>Joel Spungin, Merill Lynch</u>
Yeah hi, good afternoon, guys, it's Joel Spungin here from Merill Lynch. A couple of questions. I was wondering if you could give us some more colour on the regulatory developments for the Dutch Mail business, particularly what the significant market power proposals may mean for the business and also what the amendments to the Postal Act may mean. Could you also give us an update on the net cost compensation which I think was being reviewed by the regulator when we last spoke about it at Q2. And then finally, with regard to your cash tax in Q3, can you explain why there was a cash tax inflow in Q3?

<u>Herna Verhagen</u>
All right, to start with your first question to give a little bit more colour on the significant market power. There is a draft proposal from the ministry sent to the Raad van State, which is a Dutch institution. They give remarks on the proposal back to the ministry, but that process is a secret process, which means we don't know what they exactly said to the ministry. So we have to wait at this moment in time for the final proposal from the ministry sent to Parliament. We expect them to send it somewhere by the end of this year. So the status quo we have is exactly the status quo we had during Q2 numbers. We have no more indication or more knowledge on the exact content of the law. Then your second question was on the amendments on the Postal Act. There are two amendments made in the Postal Act. The first one is that the regulator has received more powers. To give you an example, they have more opportunity to fine us when we are not able to reach our quality levels. They can do that at the start of the Postal Act, which means at the start of January 2013. And the second change in the Postal

Act is related to the postal market and it says that, when you are working in the postal market, you have to have 80% of your employees with a labour contract. For PostNL it has no consequences, because the companies we have for postal distribution are already working with labour contracts. For Sandd it does have an impact, because they have to rebuild their company into at least 80% of labour contracts. Your next question was on the net cost compensation. As said during the Q2 presentation we sent in a net cost bill and we received first questions from the regulator a few weeks ago, so we are now in the middle of the process in which the regulator tries to find out what the underlying assumptions are for our net cost bill, so no update on the outcome of that process. We are in the middle of it. As said also during the Q2 presentation, there is no defined end to this process and we do not know exactly when the regulator will come to a conclusion. Your third question was on cash and tax.

Jan Bos
Yeah, I will answer that one. That is related to a discussion we have with the Dutch tax authorities on tax compensation on pensions and especially on the phasing of that.

Joel Spungin, Merill Lynch
Okay, thank you very much.

Operator
The next question comes from Damian Brewer. Please go ahead announcing your company name.

Damian Brewer, RBC
Yes, good afternoon, everybody, Damian Brewer from Royal Bank of Canada. Three questions if I can please. First of all, just notice the employee head count in terms of fte is down by 4.5% in Mail the Netherlands, even though restructuring had slowed down. Can you give some idea of how much that has to do with natural attrition and how much is thereof built into the business going forward as well and how much was the result of restructuring already achieved. The second question really just on the press call this morning. I think Jan mentioned about measures to restore equity within the business. Could you just give us, if you can't give us what the exact measures are, what you're thinking is around those and how dependent next year's scrip dividend will be on that. And then very finally, on UPS/TNT I appreciate you can't mention the transaction itself. What are your thinkings as a board in terms of contingency planning if that transaction does not happen, if the EU does not allow it to happen and where your average debt maturity is set against that, please.

Jan Bos
On the third question, employee head count, our normal natural attrition in Mail the Netherlands is between 300 and 500 fte per year. The other changes are mainly based on voluntary leave of people. The second one, measures on equity. Like I said this morning, we have no comments. So what I said before, we are studying several possibilities to improve our equity position on consolidated equity as well as on corporate equity. And on UPS, if the deal won't go on, so our comment until now is that it looks positive, so the deal between UPS and TNT Express. We have a contingency plan if the deal won't go through.

Damian Brewer, RBC
Okay and just come back on those. Then what is your average debt maturity. I am just to be absolutely clear. The corporate and consolidated equity measures you could take, where you are at the moment, would those be sufficient to allow you to pay scrip dividend or would that still be a challenge even with those measures. You must have some feel for the kind of corridor that the value of those measures could come in at this point.

Jan Bos
Damian, of course that also depends on the development of the discount rate. So I won't comment on that one, but we are developing measures on the contingency, so we are looking at contingency measures.

Damian Brewer, RBC
And the debt maturity for where you sit today?

Jan Bos

Debt maturity, our debt is a, our bonds are ending in 2015, 2017 and 2018. I think you can read it in our annual report also.

Damian Brewer, RBC
Great, just wanted a check. There was not any change, but it sounded like a change. Perfect, thanks very much.

Operator
The next question comes from Philip Scholte. Please go ahead announcing your company name.

Philip Scholte, Rabobank
Good afternoon. On the volume declines in Mail the Netherlands, can you quantify the impact of the election mail in the third quarter? Regarding your new guidance for the full year, it seems to imply a pretty wide range on volume declines in Q4 and a low end would even imply a decline in mail volumes of about 13.5%. Is that in your view a realistic possibility or is that a bit of a wide target setting? Has the recent development in mail volumes changed your views on 2013 volumes already? Because I think that before you are actually looking at mail declines of about 7%, has that really changed? And in another category on parcels, can you confirm that you have actually changed the bad will gain from the acquisition of Trans-o-flex and that the additional €4 million is actually now included in EBIT parcels in Q3?

Jan Bos
Back to your first question, excluding election mail, Philip, our volume decline would have been 11.4%, so the impact of the election mail is 1.3%. Secondly the bandwidth rate, we consider that as the given bandwidth and to parcels, yes, we included in the underlying cash operating income the net impact of the badwill and the losses we had seen in Trans-o-flex and the net impact is €2 million.

Philip Scholte, Rabobank
The net impact is €2 million. Right, but that is all included in Q3, the additional?

Jan Bos
Yes, it is €3.5 million bad will and I think €1.5 million operational loss.

Philip Scholte, Rabobank
Right. I am coming on the mail volumes. I mean, I understand it is not the target, but may be, I mean the minus 13 for Q4, do you really see an acceleration in your volume declines? It sounds like a hefty number to me.

Herna Verhagen
We of course saw a bit of acceleration between Q2 and Q3 but nothing special to be honest Philip, so it is much more a range than that it is set as a target or an expectation.

Philip Scholte, Rabobank
And may be your views on 2013?

Herna Verhagen
We are reviewing 2013 and further and it seems of course if you look into the volume decline of the last quarters, we will come back to the forecast with our Q4 numbers, but we are reviewing at this moment in time.

Philip Scholte, Rabobank
Right, right. May I have one follow up or additional question? In your presentation you are talking about a negative price mix effect in parcels. But if I am correct, the volumes were up 4.5% and if I make the calculation your revenues were up 6.3% actually. To me it is not a negative price mix.

Jan Bos
The reason for that, Philip, is that when we are talking about negative price mix, we are only looking at a part of the revenue and that is parcel related volume and we also have freight in the revenues of for example parcels. If freight is growing, you could include it in a price mix effect, but that is non-information I would say.

Philip Scholte, Rabobank
Right, right, okay, but is pricing pressure the same, is it intensifying?

Jan Bos
It is the combination of three things. One, it is a little bit of price pressure. Secondly, it is that we are growing in the low priced bulk volumes and we are losing volume under small customers. The total has a negative price mix effect on the parcel revenue.

Philip Scholte, Rabobank
Okay, thank you very much.

Operator
The next question comes from Julia Winarso. Please go ahead announcing your company name.

Julia Winarso, HSBC
Hi to everyone, it is Julia Winarso from HSBC. Just got two questions if you don't mind. The first one is, do you have any idea why the rates of Mail and such things take up so much in the third quarter. Is there anything you are seeing in the market? Are there any government initiatives to try and push people to go paperless? My second question is how much in terms of property disposal is actually included in the guidance now. Thank you.

Herna Verhagen
Coming back to your first question which is the decline of mail. The decline of mail we see mainly in the business market, which means there is more substitution to e-mail and to digitally sent statements et cetera. So it is not really a change, substitution is in the market. What we see in Q3 is that it is a bit stronger than expected.

Jan Bos
On the profit of real estate included in the outlook for 2012 we don't disclose that. What we have disclosed is the total book gain we expect on real estate in the total period until 2015 and that is about €150 million.

Julia Winarso, HSBC
Okay, thank you.

Operator
The next question comes from Doug Hayes. Please go ahead announcing your company name.

Doug Hayes, Morgan Stanley
Good afternoon, Doug Hayes from Morgan Stanley. Two questions if I may. First on the pension coverage ratio. You mentioned it includes 102% now including the top up payment that you guys are making yet. What happens if the coverage ratio reaches a 104% including those top up payments. Will you guys then be forced to make those payments or will you still be able to withhold them?

Jan Bos
That is not the, we have still a discussion with the pension fund, because the pension fund thinks we have to pay those top up payments. We are of the opinion that it is not necessary to pay them. That has nothing to do with getting to the 104%. That only reflects to possible future top up payments. So not to the path.

Doug Hayes, Morgan Stanley
Okay, so even if you had, PostNL could potentially still be liable for that additional, for those previously booked top up payments?

Jan Bos
Yes.

Doug Hayes, Morgan Stanley

Okay, perfectly, understood. And then secondly a quick one on Trans-o-flex. Are you seeing any growth there or what is the underlying business looking like for that division?

Herna Verhagen
The underlying business of Trans-o-flex is developing well. For the Netherlands it is now fully integrated into our Dutch business. For Belgium it is a step up into the toB market in Belgium, so till now I would say we are very much okay.

Doug Hayes, Morgan Stanley
Excellent, thank you very much.

Herna Verhagen
Thank you.

Operator
The next question comes from Mark McVicar. Please go ahead announcing your company name.

Mark McVicar, Nomura
Hi, it is Mark McVicar from Nomura. Two questions please. First of all, when you put the Master Plans together, can you just remind us of the rate of less amount decline than you expected over the restructuring period?

Herna Verhagen
What we said on the Master Plan savings on average, it was around 6%.

Mark McVicar, Nomura
That was the anticipated volume decline? Okay. And if we are running at considerably higher than that and we may continue to do so for another few quarters or another couple of years or something, presumably you won't then be able to get to the targets for Mail NL, the 8% to 10% underlying cash operating margin by 2015. Would you then have to review the Master Plan and make it tougher and take out more cost?

Jan Bos
That is one of the options. The second option is of course price policy where we see also opportunities and where we also implement price increases in the Dutch market.

Mark McVicar, Nomura
But those are obviously restricted to what is allowed by Opta?

Herna Verhagen
No, that is not the case. Of course it is restricted for USO mail when it comes to Opta and there we have the opportunity to put the inflation rate on our tariffs in the next coming years. When it comes to business mail it is different, because it is a free market, so it is free or open to us to decide on price increases.

Mark McVicar, Nomura
Okay, but the Opta piece would be the same, whether volumes are declining at 6% or 10% or 12%?

Herna Verhagen
That is true.

Mark McVicar, Nomura
Okay. But the other way around you would be looking on putting up prices faster than anticipated in the business market against the higher rate of decline, which does not look a very easy thing to do.

Herna Verhagen
It will be of course a combination, as said by Jan, of Master Plan and price increases.

Mark McVicar, Nomura

Okay. And is there a point at which you would want to do a sort of formal review of the Master Plan? If you do all your work in the next couple of months and you decide that or come to the conclusion it will be another 10% down next year. Would that be something that would trigger a further review of the Master Plans?

Herna Verhagen
I think we are used to review Master Plans to be honest very regularly and volume decline is one of the important developments of course, but not the only important development. So we review them regularly and we adjust Master Plans according to that and that is also what we did over the last 7 to 8 years.

Mark McVicar, Nomura
Okay. And then secondly, you said that in Q4 there was going to be some increase in cost in Mail having been insignificant in Q3. Can you give us a bit more detail on that?

Jan Bos
That has to do about cost we expect around keeping quality on the required level and especially while we are entering the Christmas and new year's period which is a period with a lot of volumes and also impactful on quality we are estimating that we could make an additional cost between €0 and €10 million.

Mark McVicar, Nomura
Okay, and then my final question is on slide 9 when you are talking about International. In Germany you say that the regulator is still investigating the tariff increases that Deutsche Post has proposed. I thought they have all been approved.

Jan Bos
I think it was even today on the wire that there is some review done by the Bundesnetzagentur on the tariff setting of Deutsche Post.

Mark McVicar, Nomura
No, that was the competition authority, wasn't it?

Jan Bos
Yeah, but that is the same I think as the Bundesnetzagentur, but I can mistake myself.

Mark McVicar, Nomura
No, okay, all right, that's it for today. Okay, thank you.

Operator
The next question comes from Tobias Sittig. Please go ahead announcing your company name.

Tobias Sittig, Main First
My question has actually been answered. Thank you.

Operator
The next question comes from Wenchang Ma. Please go ahead announcing your company name.

Wenchang Ma, JP Morgan
Yes, good afternoon. This is Wenchang Ma from JP Morgan. Two questions please. The first one, could you confirm when you expect the Dutch turnaround time for Trans-o-flex please. The second question is, I remember in the second quarter conference call you said if the coverage ratio of the pension fund remained at Q2 level by the end of Q3, then you would consider €14 million of top up payment as necessary. Could you give us a little bit of update on that, please? Thank you.

Herna Verhagen
The turnaround of Trans-o-flex for the Netherlands is 2012 and for Belgium will be 2013. The second question.

Jan Bos

On the top up payments. Last quarter we said that the €14 million should be payable when the coverage ratio would not be at a 104.1%, so that is becoming unconditional in our opinion. And then for this quarter we don't see any pension top up payments to be made, because we are now still on the path of recovery.

Wenchang Ma, JP Morgan
Right, so you mean that the €14 million that is still subject to the arbitration process, is that correct?

Jan Bos
So, we have two €14 million. In this quarter we have to make a payment of €14 million. That is included in an arbitrage committee. But in the last quarter we also said, also in our opinion, we have to pay €14 million, so that is a different €14 million. I was in the assumption that you were referring to that €14 million.

Wenchang Ma, JP Morgan
Yeah, that is right. So that €14 million, are you going to make payment in Q4?

Jan Bos
Of course we would like to do that if we have an agreement with the pension fund.

Wenchang Ma, JP Morgan
Right, okay, that is clear, thank you very much.

Operator
The next question comes from Arun Rambocus. Please go ahead announcing your company name.

Arun Rambocus, Kempen
Yes, good afternoon, Kempen & Co. Three questions. First follow up on Mail the Netherlands. You have explained that you in particularly see the accelerated decline within the business sector, but can you shed some light in which sector the decline is most profound versus previous expectations. And the second question is on mail tariffs in the Netherlands. You explained in the press release what the tariff increase is for small business and for the USO, but what is your view on the rate for bulk mail in the Netherlands for this year and next year? The third question is on the pension side. What is the reason for the delay of the ruling of the dispute committee? Can you shed some light on that? Thanks.

Herna Verhagen
First your first question is the accelerated decline in business mail and in which sector specifically. More specifically it is in direct mail and it has to do with the economic situation. Your second question was on the tariff increase on bulk mail for this year and next year. For next year as stated in the press release for our increase of our stamps we also stated that our bulk mail, that we will set in with 5% increase in bulk mail. Of course it is always in negotiations with your biggest customers, so our biggest customers. Negotiations have started mid-October, so we don't know exactly at this moment in time how it will be, what the outcome will be for 2013. But that is at least what we have announced and made public. Then the delay of the ruling of the dispute committee of pensions. We agreed with the dispute committee and the pension fund to delay and there is no further comment on that.

Arun Rambocus, Kempen
Okay, coming back on my second question. Looking so far at 2012, what has been sort of the result in pushing through price increases within bulk mail versus expectations. Has the company been successful in sort of achieving its targets or has it been a tough market? Can you shed some light on that as well, please?

Herna Verhagen
Yeah, in my view with the start of negotiations in 2011 over 2012 there was not a clear target of price increases as we have set for 2013, so there is a big difference in how we view price increases on bulk mail between 2012 and 2013.

Arun Rambocus, Kempen
Okay, you don't want to comment on the price development within bulk this year so far.

Jan Bos
What we can see, is that we received small increase on average on bulk mail and you have to include, Arun, in that average price increase also the implementation of the peak throat model which had a negative impact on the average bulk mail price.

Arun Rambocus, Kempen
Thank you very much.

Jan Bos
Thank you.

Operator
The next question comes from André Mulder. Please go ahead announcing your company name.

André Mulder, Kepler Capital Markets
Good afternoon, it is André Mulder from Kepler. First question on the volume development. You said the volume decline is mainly caused by substitution. Can you quantify that? Can you make some comments on the other part ex substitution?

Herna Verhagen
Yes, the volume decline of 10.1% is around 8%, 8 to 9% out of substitution and around 1 to 2% competition.

André Mulder, Kepler Capital Markets
Have you been facing any client losses during this lengthy process of the delay in the reorganisations?

Herna Verhagen
No, we did not see client losses, because of the quality issues we had in March, April of this year and we already forecasted to lose somewhere between 40 to 80 million pieces to Sandd, so that is the 1 to 2%. But there are no client losses because of the delay of Master Plans or quality issues we had.

André Mulder, Kepler Capital Markets
Okay. Can you comment on what is happening in Germany? You said that the UK and Italy are still the main contributors. Is that to the change in EBIT or to the EBIT itself?

Herna Verhagen
What is happening in Germany is that Germany is still on track. We of course implemented code orange last year, which was a cost reduction programme. We are now in the final stages of that cost reduction programme and now the second part of our business plan to become breakeven in 2013 comes in and that is volume growth. That is the part we have to deliver to make sure we are breakeven in 2013.

André Mulder, Kepler Capital Markets
But the path is still one of smaller losses in Germany?

Herna Verhagen
Yes, true, yeah.

André Mulder, Kepler Capital Markets
Okay. Last question on your ability to increase prices. That is of course return based, so if results are becoming worse, then you do have a bigger ability to increase prices than just inflation?

Herna Verhagen
When it comes to USO mail, those of course is kept by government or by the regulator and for the USO mail we have the possibility to increase with inflation rate in the next coming years. When it comes to business mail which is out of the USO, we are free to price ourselves, so there you have the opportunity to price higher than only inflation.

André Mulder, Kepler Capital Markets

And now there is this return on 10% on sales. Where are you at this moment to feel what the ability is to raise prices stronger than inflation?

Jan Bos
The last figure we have is on 2011 and that was some minus 5% return on sales on USO. The reason for that is that the pricing mechanism of the regulator is based on the starting tariff of two years ago and does not include the volume decline of two years on a row, so we are always walking behind the possibility to make a return on sales of 10% and that is one of the reasons why we have sent a bill for the next cost of the USO.

André Mulder, Kepler Capital Markets
Okay, thank you.

Operator
The next question comes from Roger Eliott. Please go ahead announcing your company name.

Roger Eliott, Citi
Good afternoon, it is Roger Eliott, Citi, here. Two questions. Do you firstly, do you have any insight at the level of mail prices that Sandd intends to charge in terms of the increase of 2013? The second one is, can you give us an update on the CLA negotiations that are on-going, particularly the pension element and particularly whether the range of options you are looking at, have been narrowed down and hang close to agreement. Are you on them?

Herna Verhagen
All right. First of all the insights of bulk mail prices Sandd in 2013. Also in the I think the latest article of Sandd in the Dutch financial times, the CEO of Sandd quoted or stated that they will raise prices as well. So that is what we hope for of course in our tendering processes. When it comes to CLA negotiations, I hand over to Jan.

Jan Bos
So, Roger, the discussions we have with the unions are mainly on maximising the pension premium we pay. The pace at which we implement employee contribution and the lowering of the risk of the top up payments. It is a constructive dialogue and because of that we don't comment further on the progress of the dialogue.

Roger Eliott, Citi
Did you expect to reach agreement in the fourth quarter or is it going into next year?

Jan Bos
Depends a little bit. It are very complex negotiations and you have to include that there is a lot of changes in regulations in the Netherlands expected on pension. Secondly we also have to test the arrangements we make with the unions also with the pension fund and also with TNT Express and that makes the discussion a little bit difficult and that is why we take the time necessary.

Roger Eliott, Citi
Okay, thank you.

Operator
The next question comes from Robert van Overbeek. Please go ahead announcing your company name.

Robert van Overbeek, Cheuvreux
Yes hi, it is Robert from Cheuvreux Amsterdam. I have two questions. First on your ability to raise prices within the USO part. If the latter goes to five days per week mail delivery will not pass. Does that increase your ability to raise prices or are you then still restricted by CPI or inflation statistics? And on your unrecognised pension loss of €1.6 billion based on the interest rate sensitivity you will need an iBoxx corporate bond yield of almost 6% to solve the loss, which may appear unrealistic for the foreseeable future. So my question is, to what other options you are looking for to solve this issue and is that also part of your plan to de-risk the pensions?

Herna Verhagen
First to your first question. The ability to raise prices on USO mail when Parliament does not approve the 6 to 5 days a week delivery, then it does not give us extra opportunity to raise prices. So still the current regulatory framework on USO prices is then still there.

Jan Bos
On the pensions, the IAS19 impact is the right of unrecognised losses on the pensions that we have on the balance sheet, so what I follow is that we have an impact and the impact is now, say, may be impacting our dividend ability and if we are back to a right of say about €1 billion, then we are in normal circumstances again. That I think compares to a corporate bond rate of around 4, 4.5%.

Cees Visser
Okay, let's close there. I thank you very much for your attention and questions and we will meet again next quarter no doubt. Good bye.

Herna Verhagen
Bye, bye.

Operator
That concludes our conference for today. Thank you for participating. You may now disconnect your lines. Thank you.

*** Einde transcriptie