Transcript PostNL Q2/HY 2013 analysts' presentation

5 August 2013

Richard Piekaar

Ladies and gentlemen, good afternoon and welcome to the second quarter and half year 2013 results presentation of PostNL. My name is Richard Piekaar, Director Treasury and Investor Relations and with me today are Herna Verhagen, our CEO and Jan Bos, CFO. Herna will start today presenting an update on the recent operational developments and the progress we are making towards achieving our 2015 goals. This will be followed by a more detailed look at our financials and our 2013 outlook by Jan. We will then take your questions. The presentation is broadcast live on our website and a recording will be available afterwards. With this, Herna, I would like to hand over to you.

Herna Verhagen

Welcome to you all and also welcome to the ones on the webcast. I'll present to you today the Q2 figures of PostNL and I will give you an update on 2015. Q2 figures are in line with the already updated outlook last May of € 50 million to € 90 million and when it comes to our goals 2015, I will show you the steps we took in Q2 2013 and show you why we say we are on track towards 2015. I will start with the Q2 numbers. First of all the overall numbers, the Q2 results. We do see an underlying cash operating performance which is above expectation and in line, as said, with the already updated underlying cash operating income. Underlying revenue is almost flat when you compare to Q2 2012, but what is behind this underlying revenue, it is a steeper volume decline than expected. And that volume decline forecast is adjusted to 9% to 11% for 2013. For the reasons behind that volume decline I will come back to you on a later slide. The underlying cash operating income is better than in Q2 2012 and you see a movement up from € 10 million last year to € 22 million in Q2 this year. That is partly because the reorganisation is on track. And that means we were successful in implementing the more phased reorganisation which I presented to you in February this year. And on track means a bit ahead of schedule as well in implementation as well as in cost savings and that is the reason for increasing the cost savings outlook for this year from € 40 million to € 60 million what we said previously, to € 60 million to € 80 million at this moment in time. So Q2 performance related to the underlying cash operating income is above expectation and in line with the € 50 million to € 90 million which we forecasted for the end of the year. I would like to give you a bit more detail per segment. I will start with Mail in the Netherlands, then Parcels and after that International.

First of all Mail in the Netherlands. What is most obvious on this slide is the volume decline going further down from 8.3% to 11.3%. 11.3% is the number of Q2, the average of the first half year is minus 10.3%. That of course impacts the underlying revenue and underlying revenues go down from € 546 million to € 507 million if you compare Q2 2012 to Q2 of this year. The underlying cash operating income shows an increase of € 25 million. The € 25 million is partly because some of the cost we had in Q2 2012, were less or not existing in Q2 2013. First of all, as you may remember, last year we had € 10 million of cost because of the quality issues we had in the past reorganisation. That € 10 million did not appear in Q2 2013. Secondly, what we see in Q2 2013 is lower implementation costs and lower restructuring cash out compared to Q2 last year. But that is not the only thing. What is of utmost importance to us is that the roll-out of the reorganisation is tightly managed, is well underway, is a bit ahead of schedule and delivers the necessary cost savings. So the combination of those two makes that the results of Mail in the Netherlands show good improvement when it comes to Q2 2013. It is a tightly managed reorganisation which shows good results despite a steeper volume decline. Our second segment is Parcels. In Parcels we see volumes going up. 6% Q2 last year, 7% this year. That is mainly because of people doing more and more shopping on the internet. So web shopping becomes more and more popular and that is what you see translated in these volumes. Of course it has an effect on underlying revenue. And underlying revenue within Parcels is up € 16 million. What probably surprises you is the underlying cash operating income coming down from € 35 million Q2 last year to € 20 million this year. Let me explain you what the difference is between last year and this year. The first big difference between last year and this year is the acquisition of trans-o-flex, which is an amount of € 12 million, which had an effect last year, not this year. The second important effect here is the double cost we have because of the implementation of the new logistical infrastructure. We are opening new sorting and distribution centres and we are closing down old ones. That is an extra cost of € 1 million in Q2 2013. And thirdly, the new CLA gives an extra cost for Parcels of € 4 million. If you sum that up, it is a total of € 17 million and that means that the underlying business performance shows an improvement of € 2 million. So, we saw volume growth, of course reflecting into revenue growth and the underlying business performance shows an improvement of € 2 million. Then the third part is International. In International we saw strong revenue growth because of strong volume growth in all countries. That is what is reflected in the underlying revenue if you compare 2012 to 2013. It is an improvement of € 24 million. It is coming out of all countries, first of all in the UK. In the UK we saw a revenue improvement of 6.1%, coming partly from a successful package and parcels segment and partly because we are still growing in the downstream access volumes in the UK. Germany showed an improvement in revenue of 7.3%. That 7.3% came out of the different organisations we have in Germany. So it came out of our downstream access organisation in Germany called Postcon, it came out of National, the national organisations, and it came out of the regional organisation. We did see some negative impact of actions from Compador. And I will give a little bit more detail when I come back to a slide on Germany specifically. Thirdly Italy. In Italy we saw double digit growth, 12.2%. Partly because our product Formula Certa which is a track and trace delivery of mail, is still very successful. We saw a growth in Formula Certa of 11.7%. And secondly, we are still expanding the number of households covered in Italy. In Q1 we did 69%, in Q2 we do 71% and that means that 71% of the Italian households have mail delivered by TNT Post Italy mailmen. The underlying cash operating income is flat. In Q2 2013 we have end-to-end cost in the results of the UK and that means that in reality the underlying cash operating income is € 1 million up if you compare apples to apples. That is the reason for us, if you look back into Mail in the Netherlands, Parcels and International, that we say, Q2 showed us good results. The underlying business performance which is best seen in the underlying cash operating income, showed improvement, partly of course because of tightly managed reorganisation and partly because of good results out of Parcels and International.

The second part of this presentation is about our path towards 2015. I presented to you last February that PostNL will be a company which is smaller in Mail and bigger in Parcels. It will be a company that can deliver sustainable cash. To get to that position we need to grow to an underlying cash operating income of around € 300 million to € 370 million in 2015. Let me summarise shortly what I told you about the several steps we have to take towards 2015. First of course the pillar down, that is the pillar on volume decline and autonomous cost. In the next slide I will show you the volume decline in Q2 and the reasoning behind it. Volume decline does impact, as already said in February, of course the steps we have to take up to come to the € 300 million to € 370 million. The important step up, first of all the big pillar. That is the pillar of Mail in the Netherlands. In Mail in the Netherlands we have to balance price increases. If you look into volume decline, it cannot only be managed by cost savings, so it needs to be a combination of price increases and cost savings. The price increases are an important step. The second important step is the regulatory environment in which we operate. I will give you an update on the regulatory environment today. The third important step of course are reorganisations. The reorganisation within our production unit, where we of course unfortunately failed to do it right last year, but we presented last February a new roll-out and I give you an update on where we are today. The same is of course for a more efficient overhead structure, within productions, but also within marketing and sales and within overhead. Last February we updated our forecast on cost savings from € 330 million to € 400 million in 2017. A second important pillar to reach the € 300 million to € 370 million is of course our pension contributions and preferably our reduced pension contributions. The third and fourth important pillars are the contribution of Parcels and the continuing contribution of International. So to build up an underlying cash operating income of € 300 million to € 370 million in 2015 does need many steps. It does mean of course that we have to take into account volume decline and there are many steps up that will bring us to the € 300 million to € 370 million.

I will give you an update on each of these. I will start with the volume decline. The addressed volume decline in Q2 was 11.3% and the average over the first half year was 10.3%. As you can see in the graph shown on this slide, the major part of volume loss is still in substitution. That did not change. What did change in Q2, was more competition and a worsening economic situation. More competition means that we saw with some of our big customers non-rational pricing from our competitor. That is the reason why you see the arrow going up when it comes to competition. Competition is still within the bandwidth. You may remember that 1.5 years ago we guided for the market share of PostNL and said: that will be somewhere between 70% and 75%. Market share today is somewhere between 78% to 79% of PostNL. Second, even more important factor, is the economic situation. What we see happening or we saw happening in Q2 is first of all more insolvencies in small and medium business accounts and insolvency unfortunately means that the volume of such a company disappears in total. Second, what we do see, is that big customers do save costs and specially on their marketing budget. Direct mail, one of our, of course, mail products, is always part of a marketing budget and when we see cost cutting in marketing budgets, it does have an effect on the volume in direct mail. The total of these three, substitution, competition and economic situation, has led to an adjusted volume outlook of 9% to 11%.

Then the four pillars up. The first pillar up is Mail in the Netherlands and the first important part there was price increases. This update is what happened in Q2 on price increases. We increased our stamp price last August by € 0.06. On the stamp price are connected several other products, like franking machines and inbound in the Netherlands and also there we have adjusted those prices with the price increase. When it comes to bulk mail, mail from our big customers, we set a price policy last February and that policy was, we will adjust prices well above inflation. That is the price policy which we will maintain for the second half of this year. In the end this will lead to an improved average revenue per item. Of course we look carefully into a balance of price increases and substitution.

The second important part of the pillar up for Mail in the Netherlands is regulation. The Minister of Economic Affairs has sent a letter to Parliament and in that letter he gives his explanation or his vision on the universal service obligations for the future. PostNL supports that vision, because it does underpin our cost savings and price increases. So what were the main important parts of his letter? First of all the direct effect of the price increase of 1 August by € 0.06. In the short term Parliament approved to cancel Monday delivery and Sunday evening collection from 1 January 2014. And that is a cost savings as already mentioned, of somewhere between € 15 million to € 20 million. He also gave us additional tariff headroom per1 January

2014. That tariff headroom needs to go through a formal approval process with the regulator and if it is approved, we can use the additional headroom. The third very important part of that letter is that he proposed a different tariff mechanism. A tariff mechanism that is more directly linked to the volume decline we see in the Netherlands. The short term actions and long term actions made that we didn't apply for a net cost compensation in 2012. What were the long term actions in his letter? Important for us are fewer mandatory mail boxes and fewer mandatory postal offices and secondly, a new financing mechanism around net cost compensation. A letter which was very important for us and which created a more positive regulatory environment for PostNL towards the future and underpins cost savings and price increases. Part of the discussion in Parliament was also legislation around significant market power. And Parliament approved the proposal or the legislation around significant market power. What was very important to us, is that they accepted the principle of proportionality. The principle of proportionality means that when the ACM or the Dutch regulator comes to the fact that PostNL has market dominance, the measurements they can take have to be proportional to what they have seen in the market, so there needs to be a balance between what they see and what they do, which was for us very important when it comes to a prudent implementation. We still have some steps to go. It needs to be approved in the Senate, which will probably happen after summer. And secondly, we are now preparing ourselves for discussions with many stakeholders to make sure that prudent implementation will be done when it comes to the significant market power legislation. First outcome is expected in 2015. Because of so many discussions still to go and details still to question, it is for us impossible to say at this moment in time what the impact will be. The pillar up Mail in the Netherlands, we have discussed price increases and the steps we took in Q2, we discussed regulatory and the third important part is of course reorganisation. The reorganisation as presented to you last February exists of four buckets. An important bucket is of course the reorganisation of our production organisation in the Netherlands. The second, third and fourth part is the reorganisation of our staff, staff within production, within marketing and sales and overhead. Let's first dive a little bit deeper into the reorganisation in our operation. It is ahead of schedule and we do see cost savings in Q2 of € 17 million. We presented last February that we would migrate a 130 to 140 locations towards our new preparation locations. We are well underway. 79 locations done at this moment in time and that means we are ahead of schedule.

The transition is done while maintaining a very high quality. Quality Q2 was 96.3%, which is far above last year, but also well above the level which is set by the regulator. We can do it together with our voluntary leave which is on track, which means that for people who have to leave the organisation, we try to find together with them jobs outside PostNL and also there we are on track. These reorganisations take place against lower implementation cost and restructuring cash out compared to Q2 2012. It is also the reason for increasing our update, our outlook when it comes to cost savings to € 60 million to € 80 million. The second important part of this reorganisation is of course the implementation of a lean overhead structure. Also there we are on schedule. When it comes to production staff, the request for advice is now delivered to the workers council and we expect an advice in Q3. And all employees of our production staff are informed about changes that probably will take place as of 1 January 2014. And it will probably be related of course to the fact that we need to have a positive advice from the workers council. Within marketing and sales positive advice from the workers council is already received and that means that implementation is well underway. In overhead, so head office, the lean management structure is already implemented in Q2. ICT cost savings projects have been started and we expect that the advices to the workers council will be sent in Q3. So also here on schedule and well underway. An important element in doing the reorganisations as smoothly as possible is the fact that we have our social plan extended till the end of 2015. That creates certainty for our employees about the circumstances under which we reorganise. Next to that we have a new CLA for parcels, a new CLA for Saturday deliverers and a new CLA for mail deliverers. That was the pillar up for Mail on the Netherlands, price increases, regulatory environment, of course reorganisations and next to that workers councils, unions and social plan.

The second important step up is on pensions. On pensions we are in continuous dialogue with the pension fund. Last February I presented to you that comparing to 2012 we want to have in 2015 a € 100 million less pension cash out. 60% of that pension cash out is related to headcount reduction. With our reorganisation well underway and a bit ahead of schedule, that means that also this headcount reduction is well underway. 40% of the € 100 million is related to the agreement we want to reach with the pension fund. By the end of last year we reached an agreement with the unions in which we said what sort of pension arrangement could be there for the future. That joint proposal is now under discussion with the pension fund and we do expect clarity before the end of 2013. The aim of those discussions is of course to reduce pension cash out in two ways. First of all pension cash out in the arrangement, but secondly also reduce the risk of our top-up payments. When it comes to the coverage ratio of our pension fund, Jan Bos will tell you in detail what it is by the end of June and what conditional invoices we received.

A third important pillar up is Parcels. Within Parcels we see further profitable growth and as already explained when we talked about the Q2 results of Parcels, the underlying business shows an improvement of € 2 million. Next to that we are looking into small bolt-on acquisitions to further extend our competencies in new areas of work for Parcels, like food and spare parts. A second important part is the agreement with subcontractors which we have reached by the end of June and which gives us a solid base for further cooperation into the future. To give you some examples, clients, customers. We made a deal with Gamma and Karwei, a do it yourself shop in the Netherlands and Belgium. When you order stuff at the Gamma and Karwei website, you can choose to have it delivered at your home and it will be done then by PostNL Parcels or you can say: deliver it at my do-it-yourself shop and we are opening collection and of course return points in those do-it-yourself shops in the Netherlands as well as in Belgium. A second example is for example the deal we made with Mobistar. Mobistar is a Belgian telecom company, it is a new client for Mikropakket Belgium and as you may be remember, Mikropakket is the company in which we do secure deliveries of items. And together with Mobistar it gives us the opportunity to grow further into secured delivery in Belgium.

What of course underpins the efficiency within Parcels is the roll-out of the new logistical infrastructure. The new logistical infrastructure is of utmost importance. First of all to make sure that the amount of volume we have today, can be handled in our sorting and delivery centres. But secondly also because those new sorting and delivery centres give us efficiency. At this moment in time ten depots are operational, so ten out of the 18 depots have been opened and 50% to 55% of parcel volume is now running through the new network. We also closed two old sorting centres and still two to go this year and one next year. This big change from four sorting centres to 18 sorting and distribution centres is done with a high efficiency and also with maintaining high quality, which is reached by PostNL Parcels.

Last but not least of course our forth pillar and that is the pillar of International. In International we started with an end-to-end piloti n the UK last year April. This pilot is successful, successful in efficiency, successful in cost, successful in customers, successful when it comes to hiring employees. And that is the reason for deciding to expand that into Southwest London. That will double the amount of households in London where we are delivering mail daily. So we were at 360,000, after the roll-out in Southwest London we will be around 720,000 households. As I presented to you last February, to do a full roll-out of a successful end-to-end in the UK we do need a co-investor. PostNL is not able to find enough cash to invest in this end-to-end and that means that last May we started a process to find a co-investor and at this moment in time we can say we are well underway, which means that there is interest and that we are talking to several parties. Second one is Germany. In Germany we saw limited impact from actions of Compador. Compador, which is part of Deutsche Post, did an attack to Postcon, one of the TNT Post companies in Germany, last January. It took away 25 people and tried of course to attack our customers. A lot of actions have been taken and those actions are successful, which means those vacancies are filled and there are not many customers that left Postcon. What means limited impact? Limited impact means that all the legal actions we have started and the actions we have started in the direction of the Bundesnetzagentur and the Bundeskartellambt, the regulators in Germany, do cost money. Nevertheless we expect Germany to be break even in 2013. And Italy, in Italy we see continued growth in all attractive segments. We see double digit growth when it comes to our product of Formula Certa. In Italy we also started a pilot around parcels which is progressing well, but it is too early to say real things about that.

If you summarize that, the steps we took in Q2 when it comes to price increase, when it comes to the roll-out of the reorganisation, when it comes to the regulatory environment, the high quality we can remain and of course also the voluntary leave which is on track, the good performance within Parcels when it comes to volume, when it comes to the roll-out of the new logistical infrastructure and the positive contribution of International makes that we say that we are on track for 2015. On track to be a bigger Parcel and a smaller Mail company, a company which is based on their core competencies which is having efficient logistical networks, based on a motivated workforce and of course a high performance culture. To be a predictable and solid business means that we further have to adjust our mail organisation to the volume decline, that we further have to expand Parcels and that in the end will bring us to a company which can sustainably deliver cash and can pay cash dividend to our shareholders. I would like to hand over to Jan to give you more details on the financials.

Jan Bos
Thank you, Herna. Let's first have a look at the financial highlights. First of all, our reported revenues were down € 15 million this quarter and our reported operating income was down € 34 million. As you know and to better reflect our underlying performance, we used the KPI underlying cash operating income and we therefore adjust for one-offs like the provision we have taken this quarter for restructuring and we also include the cash out for restructuring and also the cash out for pensions. If you look at the underlying cash operating income, it was up € 12 million, so € 10 million in 2012 and € 22 million in 2013, and mainly driven by less restructuring cash out this quarter compared to 2012. Then a look at our net cash from operating and investing activities. This quarter € 33 million negative, € 80 million better than in 2012 and mainly driven by the better underlying performance in underlying cash operating income and also driven by less investments in working capital and less capex. Looking at our underlying operating income and underlying cash operating income, first of all the underlying operating income was down € 13 million. A little bit strange picture of the segments if you compare to last year, mainly explained by incidents in 2012 and we will explain that further on. Underlying cash operating income like I said, was up € 12 million and mainly driven by less restructuring cash out compared to 2012 like you have seen in the change in provisions.

Then looking at the segments. Underlying revenues of Mail in the Netherlands was down 7.1%. The addressed volume decline of 11.3% was partially compensated by positive price mix effects. If we are looking at Parcels, the revenue improved by € 16 million. Of that € 5 million was internal revenue, € 3 million was the acquisition effect of trans-o-flex and the remaining € 8 million is the combined effect of positive volume impact and negative price mix effects. In International like Herna explained, the 6.2% revenue increase was driven by volume growth in all three countries, so good performance for International. In the total it led to a stable underlying revenue compared to 2012. Looking at the underlying cash operating income of Mail in the Netherlands it is an improvement of € 25 million, but it was driven by incidents from 2012, so € 10 million of quality cost we spent in 2012 and we also had in total € 29 million higher restructuring costs and cash out in 2012 compared to 2013. The remaining € 40 million decline is driven by € 14 million combined effect of a volume decline and positive price mix effects and autonomous cost increase of € 7 million and also other effects of € 7 million and compensated partially by our structural cost savings of € 14 million for Mail in the Netherlands. In Parcels the € 15 million decline in underlying cash operating income and I repeat, was driven by the acquisition effect of trans-o-flex of € 12 million. Then € 1 million of double infrastructure cost of our roll-out of the new logistic infrastructure and then € 4 million of mainly the impact of the new CLA, in which we gave a one-off payment to our parcel deliverers. If you adjust for all those effects, then remains a € 2 million improvement of our underlying cash operating income in Parcels. Then International, almost flat, if you adjust for the end-to-end roll-out cost, then it is a € 1 million improvement compared to last year and in total that leads to a € 12 million improvement of underlying cash operating income.

Then coming to our statement of income. So, the net profit for the period was down from € 22 million to
€ 3 million. If you adjust for the impact of TNT Express, then the figure for 2012 was € 38 million and for 2013
€ 5 million. The main reason for the decline is the higher charges for the provisions we have accounted for in the second quarter for the restructuring of Mail the Netherlands. Then the development of our net cash used in operating and investing activities, like I said, an improvement of € 80 million. If you look at the cash generated from operations, it is an improvement of € 59 million. That is partially driven by the improvement of the underlying cash operating income and also by lower investments in working capital. You also see that the capex is lower, from € 60 million in 2012 to € 30 million in 2013, partially driven by less investments for the restructuring of Mail the Netherlands, but also driven by tight management of our cash position.

Coming back to the financial update on cost savings, capex and working capital, then you see that we are ahead of schedule for our cost savings plan with € 29 million year to date cost savings in the first half year. That has led to an adjustment of our outlook for 2013 from € 40 million to € 60 million, to € 60 million to € 80 million structural annual cost savings. The related restructuring cash out and implementation cost are a little bit behind schedule, but we expect them to reach within outlook in 2013, so we will get to the € 100 million to € 120 million for restructuring cash out and also to the € 40 million to € 60 million for the related implementation costs. Then on capex, you also see the main capex is in the roll-out of the new logistic infrastructure with an investment this quarter of € 20 million and you also see that we try to invest as less as possible in the other operations with a € 9 million on the base CAPEX. Last but not least, working capital. It is a minus 7% of the revenue. That is a negative development, but in line with expectations, because we always expected to have investments in working capital because of the changed mix in revenue with lower revenues in Mail the Netherlands and higher revenues in Parcels and International.

Then pensions. We unfortunately have seen a lower coverage ratio of our main pension fund of 100.2%. The main reason for that lower coverage ratio is the higher interest rate with a time lag in the interest, the three month average yield curve we use for discounting the pension obligations. That had an impact this quarter of 3%, a negative impact on the coverage ratio and the expectation is that it will improve next quarter. That is also necessary, because if the coverage ratio stays below the 104%, so the minimum coverage ratio, then we have to pay the now conditional invoice of € 46 million to solve the undercoverage of the pension fund. Then you also see the difference between pension expenses and pension cash out. So the pension expense is € 33 million this quarter and the cash out € 64 million. The cash out is taken into the underlying cash operating income.

Then our balance sheet. Three items I want to discuss. First of all the consolidated equity, that is negative and more negative compared to the first quarter and that is caused by the pensions. I will explain that later on in a little bit more detail. Our corporate equity is still positive with € 998 million. Then our net debt position has increased € 46 million to € 1,373 million. It is caused by the negative net cash from operating and investing activities. Last but not least, our stake in TNT Express has decreased in value by € 24 million caused by the accounting for direct equity movements in TNT Express and received dividend from TNT Express and adjusted for a small net result from TNT Express. Then the development of our consolidated equity. So like I have said, increased negatively more than € 200 million and that is caused by actuarial losses. Those actuarial losses are caused by lower than assumed return on assets of the pension fund this quarter.

Then the last slide handles the outlook for 2013. First of all we have changed our outlook for the volume decline, given also the results of the second quarter, and adjusted the outlook to 9% to 11% for 2013. We have also changed our outlook for the cost savings plan for 2013 and increased the outlook to € 60 to € 80 million and we are remaining confident in our outlook for 2013 for the € 50 to € 90 million. We have updated you in May. The main reason for the higher outlook is the increased tariffs as of 1 of August, 2013. Thank you for your attention. I will hand over to Richard for questions.

Richard Piekaar
Thank you. We will start taking questions from everybody here in the room, after which we will switch to people on the conference call. For those on the line I would like to remind you to press star 1 to ask a question. I would also like to ask everybody to state their name and company name before asking a question and also limit the number of questions to a maximum of 3, so everybody can have their turn.

Maarten Bakker, ABN AMRO
Maarten Bakker, ABN AMRO. My first question is about the 11% decline in average mail volumes. I mean you have quite explicitly now mentioned this time for the first time I believe, increased competition. Do you see a change in the behaviour of your competitor? You have also mentioned that you have seen non-rational pricing behaviour of your competitor and therefore I wonder whether there is room to uphold policy of price increases well above inflation in the business mail segment. Then on Parcels. There was a consolidation effect of plus 6% and the volume growth of plus 7%. Then my conclusion is that there seems to be a negative yield or mix effect for Parcels of 4% in the second quarter compared to a positive yield effect, price effect of 4% in the first quarter. My last question is, the increased guidance for cost savings. That is I believe mostly a matter of phasing I suppose, but can you shed

some more light on the phasing of the savings in the coming years? Are these, I mean, brought forward mostly at the expense of 2014 or is it later years?

Herna Verhagen
First your question on the 11% of average mail volume decline and increased competition were changed. What we indicated I think 1.5 year ago, is that we do expect that PostNL will go back to a market share of between 70% to 75%. And the other part of the market is then for our competitor. That is still what we expect. Our market share at this moment in time is around 78% to 79% for PostNL. So what changed? Nothing in the sense that was still underway to the 70% to 75%. What we did see in Q2 is what I mentioned as non-rational pricing behaviour, which means that what we did see, that with some of our big customers we did see prices from competition which were very low. That is changed in the sense of that we did not see that before. Your second related question to that is, does that give you room to increase prices well above inflation. In my view, if you look into the postal market, in general it is inevitable that prices need to go up. If you want to have a profitable mail market, also into the future, and that is for us as well as for the competitor, it needs to be against a higher price than we have today. Your second question was about parcels, the volume growth of 7% and the negative yield effect or the negative mix effect. What we do see within Parcels and that is also what we saw in Q1 and what we forecasted as well in the direction of 2015, is that there is a negative price mix effect when it comes to parcels. So when you look in to the volume growth of parcels, volume growth in percentages is bigger with our big customers than it is with small customers. That means that in general the average price for parcels goes down a bit. That is in general what you see in the market. Reason why we do reiterate the margin 13% to 15% in 2015 has to do with the fact that there is a balance of course between volume growth, negative price mix effects and the efficiency we can reach with the roll-out of the new logistical infrastructure. Then the increased guidance on cost savings. It is indeed phasing. € 290 million of cost savings is the target we have set for 2017. With a cost savings target this year which was € 40 million to € 60 million now raised to € 60 million to € 80 million, which leaves us at least € 210 million to € 230 million to go, of which the biggest part will be in 2014 and 2015. If we talk about phasing, this will mainly impact 2014 and 2015.

Maarten Bakker, ABN AMRO
I have a quick follow-up question if I may. The volume decline that you anticipate for the coming years, do you still foresee 8% to 10% declines despite the acceleration you have seen in the first quarter, second quarter?

Herna Verhagen
We do maintain the guidance of 8% to 10% for 2014 and 2015 and of course we will keep a close eye on what happens in the market in the second half year and if necessary we will come back with an update. What we also see is that a part of the volume decline we saw in Q2, is an effect of the economic downturn. Part of that is in our expectation that when the economy will go up, we will be back. That is mainly related to direct mail. If the economy will worsen in the coming years, it can of course have an impact on the volume, but as said we maintain guidance between 8% to 10% for 14 and 15.

Richard Piekaar
Okay, next question for Arun.

Arun Rambocus, Kempen
Arun Rambocus, Kempen. I have two questions. First of all on the regulatory environment. You are talking about a new financing mechanism for net cost compensation. Can you shed some light on what the deal will be and how it is different from the current deal? The second one, you said you have a deal with the subcontractors on the parcel business. Does that mean that you managed to negotiate a lower price and can you also elaborate a bit on what kind of deal you have reached?

Herna Verhagen
The new financing mechanism around net cost needs to be developed by the Ministry of Economic Affairs, so we do not have more insight in that at this moment in time, except for what the Minister of Economic Affairs has said in his letter. His letter said there will be a new financing mechanism and what is added to that, is that he will think about being net cost paid by government. But that is all we know and there needs to be a further explanation from the Ministry of Economic Affairs, that

will be done probably in the second half of this year and only then we have more clarity around that. So, it is still quite uncertain what it really means.

Arun Rambocus, Kempen
So currently you are allowed to have 10% return on sales on the USO, right?

Herna Verhagen
That is a different part of it. We are allowed to have 10% on the USO. The new financing mechanism about net cost, what does that mean? Current financing mechanism is that we can send in a net cost bill and that bill has to be paid by market parties. So in the end, 80% of that bill for example if you take today, 80% of that bill will be paid by PostNL and 20% will be paid by our competitor. When the Minister talks about a new financing mechanism on net cost, he is pinpointing at the way the bill is paid. He is not pinpointing at the USO.

Richard Piekaar
Okay, the second question.

Herna Verhagen
The subcontractors' part. The deal with the subcontractors also mentioned in the press release we issued at the end of June on the deal we made, it will have certain cost, so it is not against lower prices. It will have certain cost. It also gives us a more sustainable cooperation for the future. We do reiterate the 13% to 15% in 2015 and the reason for that is because we think we can find a balance between the volume growth we see, the efficiencies we reach out of the new logistics infrastructure and the cost this agreement will have.

Arun Rambocus, Kempen
One follow up, purely on the equity position which is more than € 200 million lower. Does it have an impact on the restart of the dividend payment which now is initially planned for 2016? Does it have an impact at all?

Jan Bos
Our equity position remains sensitive for interest rate developments. Based on our Q4 figures we have said that we expect to pay dividend in 2016. At the present parameters that would be delayed.

Arun Rambocus, Kempen
Thank you.

Philip Scholte, Rabobank
Thank you. Philip Scholte from the Rabobank. Probably a question for Jan. Do you exclude in the new pension arrangement, do you exclude any one-off top-up payment to improve the coverage ratio to get to the new financing arrangements? My second question is on the tariff room you may have for 2014. I understand that the regulator still needs to review that. Does that mean it needs to be finalized this year, in order for you to be able to raise prices further? How do you look at that? I guess there is a lot of discussion going on about the cost accounting of the USO. Can you say something about the timing and your thoughts on that?

Jan Bos
On the pensions, like Herna also said, we are in discussion with the pension fund. The discussion is about the proposal from social partners, unions and ourselves. Our goal is to reduce the risk of top-up payments first of all and secondly to lower the pension premiums. We are discussing that and details are not for this table.

Herna Verhagen
When it comes to the tariff, the headroom we have on tariffs 2014, it does need approval from the regulator, from ACM. If we want to increase prices as of January 1, then we need at least two months in advance, so it needs to be there somewhere before October. Do we see issues with that? Of course it is difficult to forecast, but what ACM will do, they will test if we are still under the level of 10% return on sales on our USO. That is what they will test.

Hugh Turner, Credit Suisse

Hi, Hugh Turner from Credit Suisse. I have got two questions. The first touches on restructuring. Your mail depots, if you look into the 125 target and we take the current run rate over the first half of this year, it looks like you can actually hit those by the end of this year. Can we imagine that cost savings can come even earlier this year, in the second half? The second question, if I look at capex, restructuring cash out and provisions for Q2 2012, they were all higher for a mail decline of 8% to 10%. Do you think the restructuring now is going far enough, given that mail declines are actually accelerating?

Herna Verhagen

Your first question, if you look into the speed we are making in transforming or transferring those depots into the new preparation locations, what we do during summer but also during the period of Santa Claus, Christmas and New Year, there will be almost no transfers. As said we want to do this transformation against the high quality and that means that in our most busy period, which is Christmas and New Year, but also in the period where people do have a lot of holidays, the amount of transfers is almost zero. So that is what we have to take into account first of all. Secondly, if you look into this reorganisation on the transfer of depots, it is a reorganisation existing out of two parts. The first part of the cost savings is in transferring depots to new locations, so we have for example fewer leasing costs, et cetera, et cetera. The second part of the savings is in bringing those locations up to the right efficiency levels. That part of the reorganisation will be done in 2014. So if you look solely into the amount of depots, then it will probably be earlier than by the end of 2014-2015, but we have to do a second part of this reorganisation which has to do with efficiency. So, that is the reason for saying, yes, it is ahead of schedule, but it is mainly phasing and there is still a second step to do when it comes to the transformation or the transfer of those depots. Then your second question on restructuring cash out, the implementation, capex and of course does the reorganisation, do they live up or do they balance the volume decline? What we are seeing in Q2 of course as said, the reorganisation does bring in more cost savings and can balance volume decline. That is what we will expect to be the case also for the end of the year, because that is one of the reasons why we reiterate the € 50 million to € 90 million.

Marc Zwartsenburg, ING

Marc Zwartsenburg, ING. A quick follow up on the last one. You mentioned 2013. That will be compensated. But looking a little bit longer out, if you maintain that to say the minus 9%, minus 11% range in terms of volume declines, would you then be able to squeeze out more cost in that continuous towards 2015? My first question. The second question, on the second quarter volume decline, Herna, I think you mentioned that the substitution effect was similar to Q1, so the acceleration of the trend came from competition and economic environment, if that is correct. Could you give a split in terms of the acceleration where it came from, from competition and the economic environment? My last question, on the pension fund coverage ratio. Jan, could you shed perhaps a little bit more light on how the moving parts came to the 100.2% at the end of the quarter, because I think the market had expected a little bit better ratio? It is a fact of life, but can you give us a little bit more understanding of the movement of the assets and liabilities and how this works out also in the discount rate for the IFRS calculation?

Jan Bos

Okay, first to start with our outlook. For 2015 we stick to the outlook for 2015. We also haven't changed our volume outlook for 2014 and 2015 and also haven't changed our cost savings outlook for 2014 and 2015. We only have changed our outlook for 2013 on volume decline and on cost savings and also you have to take into consideration that the outlook for the € 300 million to € 370 million is a combination of a lot of measures. It is not only volume decline, it is also price increase, it is Master Plans, it is improvement on pensions, Parcels and International. That is why we remain confident in the outlook for 2015. Then the second part on the volume decline, so the split between competition and economy. It is not exact science, so to say, but say half, half. And the third question on the pension fund coverage ratio, it is something different than accounting. It is a calculation the pension fund makes, we are not making that. And it is a calculation in which they have to apply a three month average yield curve of the interest rate on which they discount the pension obligation. What you have seen on the pension asset side is, by the improved interest rate, the value of the assets declined. And because of the time lag difference, we had a negative impact estimated around 3% on the coverage ratio. And the accounting side, it is a different world. There we have a calculation based on IFRS and there we use the bond yield to discount the pension obligations and we use also an assumed return on assets. If that return on assets is not realised, for example by the lower bond prices, then you have a negative impact on your actuarial losses. That is the reason for the € 200 million or € 194 million decline in equity.

Marc Zwartsenburg, ING
A quick follow up on your first answer. My question was not: did you change the targets for 2015? I know they are unchanged, but is there a scenario, a backup plan for what if volumes indeed stay in this range, could you then still do more than what you indicated now?

Jan Bos
We are always managing of course the company on several parts, but as I said, it is not only volume decline and cost savings plans, it is also pricing and also the other parts.

Henk Slotboom, the IDEA!
Henk Slotboom, the IDEA! Three questions. One basically connects to Marc's question about volume declines. You can look at the absolute figure, you can also look at the mix effects. If we go back, let's say about a year and a half, two years back in time and we look at how USO prices have increased, then it adds up to more than 30%. So I can very well imagine that people using stamps or franking machines or whatever, that the rate of attrition there is the biggest. Could you perhaps shed some light on it? The second one is with regard to Parcels. You cite that there was healthy volume growths of around 7%. Yet in the press release you also mention the fact that the acquisition of trans-o-flex has helped in terms of turnover. And we had the transfer of the contact mail, the telegrams and those kinds of things last year. Unfortunately the press release does not highlight what the real underlying volume growth was in Parcels. Then the last question relates to the UK. You say that there is good interest in participating as a financial partner for PostNL in the process of rolling out the end-to-end access. Is it imaginable that you pull out of the UK all together?

Herna Verhagen

First your question around mix effects and the price increase in USO since one and a half, two years ago. Of course we do take into account when we make forecast around volume decline the price increases we forecast. Now what we do see is that the volume decline in USO mail is not that different from the volume decline we see in bulk mail.

Henk Slotboom, the IDEA!

Does the same apply for the people using franking machines, because officially that is not part of the USO, that is part of …

Herna Verhagen

It is part of bulk mail, so, yes it does. It is more or less equal. Your second question about the 7% or the € 16 million of revenue growth within Parcels. € 3 million out of that is trans-o-flex, € 5 million is internal revenue and € 8 million is external revenue. That is how it is split up.

Henk Slotboom, the IDEA!

But that is in value terms. How does it break down in volume terms? If I were to adjust for the telegrams, for the contact mail and the trans-o-flex effect. How does it add up? What is real like-for-like?

Jan Bos

In the volume decline it is only the core parts which are included, so not the business from trans-o-flex and also we make a like for like figure for the volume growth and that excludes the transfer effects of registered mail, so the 7% is a like for like number.

Herna Verhagen

Then your third question on the UK. Good interest. And is it imaginable that we fully pull out of the UK? As said we are looking for a co-investor, which means that we are looking for someone who will share with us the costs and will share with us the future of TNT Post UK. So the answer is no.

Richard Piekaar
Any other questions in the room?

Nigel van Putten, Kempen & Co.
Nigel van Putten, Kempen & Co. Maybe then two questions. First of on the effect from competition. Is that by any means a seasonal effect where the competition might adjust its cost base or utilization for the summer months, or can we expect perhaps lower volumes in the third quarter as well? And also on the new logistical infrastructure. We have read in the papers that you have been looking at food to add at the parcels and to what extent have you been basically rolling out plans for that in the coming years?

Herna Verhagen
First of all your question about competition and possible seasonal effects. As said what we do think, is inevitable for the mail market is that prices need to be increased to keep this market profitable. So that is also what we keep doing when it comes to our pricing policy for single mail as well as for bulk mail. I hope or do expect that in the end there will be a market trend. When it comes to NLI, when it comes to food, the NLI centres are well underway or the New Logistics Infrastructure centres are well underway. Food is one of the examples we gave when we presented growth of Parcels into the future and we are discussing with several retailers in the Netherlands possibilities of delivering food. There will be around three of those NLI centres, but we will do that via or together with a customer. And nothing concrete at this moment in time.

Nigel van Putten, Kempen & Co.
Perhaps one follow-up. In terms of the pricing effect in Mail NL. We all know it is not all related to volume mail. We know the volume effect is minus 11%. How much of that will be sort of positive pricing in the quarter?

Jan Bos
If you look at the volume on addressed mail, the positive price mix effects are about 4.5%.

Nigel van Putten, Kempen & Co.
So can I then take just the minus 7% I think for the top line and then the difference between minus 11%? What happens to the other let's say 40% to 50% of documents solutions et cetera? I mean, I am just trying to reconcile the full impact there.

Jan Bos
No, what you also see, is a decline on other revenues. That explains why the 7% is in line with the combination of volume decline and average price increase.

Nigel van Putten, Kempen & Co.
Okay, thank you.

Richard Piekaar
Okay, I would now like to give the people on the conference call the opportunity to ask questions. Operator?

Operator
Thank you once again. To remind you: if you ask a question, star 1 on the telephone. To cancel a request please press the hash key. Your first question comes from the line of Joel Spungin. Please go ahead.

Joel Spungin, Merrill Lynch
Good afternoon, it is Joel Spungin here from Merrill Lynch. I do have a question, one on these actuarial losses again. I am just wondering, really, if you could just as much for my sort of understanding as much as anything else ... I mean, are we now likely to see wild swings in the value of the equity according to where you are coming out or is there anything unusual in this 194 million? It seems like such a big number. And obviously in the context of your overall equity position, it could end up being pretty significant. So, is this now something, an area of volatility that we are likely to see in your reported equity numbers every quarter?

Jan Bos
To give you an answer, what we have said before, we remain sensitive also on the equity accounting, on the interest rates. On two sides, first of on the obligation sides

where it is discounted against corporate bond rates, so they link to corporate bonds. And also on the asset side, if the return on assets are lagging behind, they do not return 6.5%.

Joel Spungin, Merrill Lynch
Okay, why are the assets lagging so far behind?

Jan Bos
Because of the higher interest rates last quarter which had a negative impact on the assets of the pension fund.

Joel Spungin, Merrill Lynch
Okay, thanks.

Operator
Your next question comes from the line of Damian Brewer of RBC, London. Please go ahead.

Damian Brewer, RBC
Good afternoon, two questions. First of all, could you tell us a little bit more? In the presentation you mentioned you are in discussion about making long term mail prices reflect mail volume declines. Could you just say a little bit about the parameters of those discussions and what kind of relationships are being discussed there? Then secondly, in the near term your 9% to 11% decline rate for this year. I appreciate there are working day adjustments in the quarters, but that implies something like 6% to 9% for H2 despite the fact that you are putting prices up in August. Am I right in reading that or am I missing something there?

Herna Verhagen
Coming back to your first question. What is the tariff mechanism which connects tariff to volume decline more clearly than it does today? The current system is a system which creates opportunity for us to raise prices and what is, I would say, connected to the volume in 2010. The volume in 2010 compared to 2013, there is at least a difference of 20% volume decline. The newer system which is not yet described by the Ministry of Economic Affairs, will be a system where there is a

closer connection between volume decline and tariff mechanism. So, I assume it will be a system in which there will not be a time lag of 2, 3 or 4 years between tariff mechanism and of course the percentage they took of volume decline. But the real specifics of that mechanism are not yet clear and have to be described by the Ministry of Economic Affairs. Your second question, sorry for that, but we did not understand it. So could you please say it again?

Damian Brewer, RBC
Yeah, I am just sort of interested … Your volume decline was about 9.5% in Q1, about 11% in Q2. Q1 if one does not working day adjust, was down 12%, 13%. So I just don't understand how you get to 9% to 11% for the year, that seems to imply 6% to 9% decline for the second half of the year. Is your volume decline rate going to lessen at the same point in which you are putting up prices? Is that the right way to read that or am I missing something?

Herna Verhagen
The volume decline for the first half year is 10.3%, so the average volume decline in the first half year is 10.3% and that is how we came to the guidance of 9 to 11. Which means that probably guidance for Q3 and Q4 will be in the same bandwidth.

Damian Brewer, RBC
Okay, but even if it is mid of that term, you are still saying the volume decline rate is going to lessen slightly in the second half period as you are pushing up prices. To infer from that, have you not reached the limit of price elasticity for the product or is there something else there?

Jan Bos
Sorry to interrupt, but I am a little bit confused, because if in the second half year the volume decline is also 10.3%, we are still in an average yearly decline of 10.3%. So I don't understand your calculation. And on price elasticity, for the second half year there will be some impact of the price increases at 1 of August, but limited as we expect.

Damian Brewer, RBC
Okay, so effectively you have got a price increase that might kill off some demand, but effectively what you are saying is that for the second half of the year the demand worsening is going to be no worse than the first half of the year, which means something else must be making up that gap.

Herna Verhagen
I think we lost you, Damian. In our view the volume decline in the first half year is an average of 10.3%, so for the second half year and we guided for the full year 9% to 11%, so we will be somewhere between 9% and 11% also for the second half year. There will be some impact of the price increase of course as of 1 August for stamps, but that is quite limited and taken into account when we made the forecast of 9% to 11%. But I am not sure what we are missing.

Damian Brewer, RBC
Okay, what I am trying to understand is, if you put the prices up and there is no impact, so there is more price elasticity in the product, that means you could put the prices up more or alternatively, if your 9% to 11% range is reached, at the lower end of that range there is something else you are seeing that might cause the volume decline to lessen. So, number one, is there anything out there that you can see that will cause the volume decline to lessen and secondly, do you think your price increases still have an inelastic effect?

Herna Verhagen
We do not see any developments in the second half year which will bring us out of the bandwidth of 9% to 11%. Secondly, if you raise prices, it is not full inelastic, which means there is price elasticity when it comes to price increases. It is limited. We did take it into account when we came to the forecast of 9% to 11%.

Damian Brewer, RBC
Okay. Can I ask one final question then? How confident are you in the range given that we have had previous ranges volume decline which haven't always turned out to be what has actually been seen but has actually been worse. What facts do you think you have learned from those and how confident are you in this new volume decline level?

Herna Verhagen
I can imagine asking you that question, because I think this is the third adjustment we do in almost two years, but it is the best estimate we can give at this moment in time, taking into account the economic development, taking into account competitive behaviour and taking into account substitution and of course the fact that we have raised prices of our stamps last August. So it is the best estimate we can do at this moment in time.

Damian Brewer, RBC
Okay, thank you very much.

Operator
Your next question comes from the line of Wenchang Ma, JPMorgan, London. Please go ahead.

Wenchang Ma, JPMorgan, London
Yes, hi, good afternoon everyone. Two questions from my side please. The first one is regarding the competition, so we have talked a lot about the mail competition. Could you also give some colour on the parcel competition side please? What do you see your market share development in terms of B2B versus B2C and how do you see this in terms of pricing environment there? And then the second question is regarding the 2015 guidance. Could you also give us a little bit of clarity on whether you include any of the potential real estate proceeds in that guidance please? Thank you very much.

Herna Verhagen
When it comes to parcel competition, in the 2C market we do have a market share of around 70% to 75%, that is stable. In the 2B market and then I mean the 2B market of single pieces, we do have a market share of around 16% and also that is quite stable. When we talk about competitors in the parcels market, it is of course comparable to many other countries in Europe. It is fierce competition, it is a competition in 2C as well as 2B. In 2C because that is the main growth market when it comes to parcels and 2B, because that fits well in most of the networks. So we do have a significant market share when it comes to 2C delivery. It is a much smaller

market share when we come to 2B delivery, but we see that in this moment in time it is stable. Then I hand over to Jan for your questions about real estate and the guidance 2015.

Jan Bos
Like I said before, the 2015 guidance includes some book gains on real estate, the total book gain we expect and that for the period 2011 until 2015, it is around a € 150 million.

Wenchang Ma, JPMorgan, London
Okay, thank you very much.

Operator
We don't have any further questions at this time. Please continue.

Richard Piekaar
Okay, then I would like to thank everybody for coming here today or for joining our conference call. If any additional questions come up in the coming days, please give me a call. With that, operator, all I would like to ask you is to close the call. Thank you.