6 May 2014

Transcript Q1 2014 results
Analysts' call 6 May 2014

Richard Piekaar
Ladies and gentlemen, good afternoon and welcome to the first quarter 2014 results presentation of PostNL. My name is Richard Piekaar and with me today are Herna Verhagen, our CEO, and Jan Bos, our CFO. Today Jan will start with a presentation on the results, after that we will take your questions. This call is also being webcast on our website and you can follow this live on the website if you like. A recording will be available afterwards and with this Jan, I would like to hand over to you.

Jan Bos
Thank you, Richard. I will start with an overview of the business highlights and after that I will present you the financial details. Please note, the financials are based on the new joint venture accounting, the comparative 2013 numbers have been restated and details on the restated numbers can be found in the appendix. Please also note that the reported figures still include the UK as the anticipated joint venture is not yet closed. The next slide, this quarter proved to be a strong start of the year with revenue flat and in increase of underlying cash operating income to €77 million. The main reasons for this are the smooth implementation of the reorganisation in Mail in the Netherlands leading to cost savings coming in early, the price increase as per the first of August last year and the first of January this year and also lower cash out for restructuring and pensions. Parcels showed continued volume growth. Based on this solid quarter we now expect the underlying cash operating income for the full year to come in at the high end of the guided range of €180 to €220 million. In Mail in the Netherlands our revenue declined by 3%, due to decline of addressed mail volumes of 11.5%. On a like for like basis the volume decline was 11.9% and our quality further improved to 97% this quarter. Underlying cash operating income in Mail in the Netherlands was very strong in the first quarter. This had several reasons. Firstly, the smooth implementation of the cancellation of the Monday delivery and a leaner overhead structure resulted in savings coming in early. Secondly, we saw a positive contribution from the price increases leading to a better volume and price mix. Thirdly, lower cash out for restructuring and for pensions and finally, the mild winter also contributed to lower cost. On the subject of the CLA there is no news. The discussions on the new CLA with the unions have commenced in the first quarter. Looking in detail at the execution of the reorganisation this quarter another 11 depots were migrated bringing the total number of depots migrated to 126. As I mentioned before, the implementation of the cancellation of the Monday delivery and the Sunday collection went very smooth. Also the implementation of the leaner overhead structure is progressing well. These both resulted in strong cost savings coming in early.

Now let's turn to the regulatory developments. One of the items we closely follow is the intended amendment of the Postal Act with an adjustment of the service obligation. This includes a reduction of the number of required postal offices and mail boxes which will help us to further reduce our cost base. The current expectation is that this amendment will be sent to Parliament before summer. The other related developments we closely monitor, are the next steps in the implementation of the significant market power regime. The ACM concluded the market consultation phase in which PostNL has stated that the postal market must be seen in the context of both physical and digital communication. The ACM has now started an enquiry into the market for unsorted mail with a focus on next day delivery. PostNL will cooperate in this research and has confidence in the outcome. We expect an outcome of this enquiry after the summer. Parcels continued to see volume growth in line with expectations this quarter by 5.3%. And please note that the volumes include registered mail volumes. Excluding these volumes, the volume growth of Parcels was 7.1% against 6.2% in 2013. The roll out of the new logistical infrastructure continues according to plan and we see some improved efficiency from this. The increased volumes came with a change in customer and product mix resulting in a lower average price. Our external revenues showed an increase of 5% which includes a small impact of the Fiege acquisition. The impact of higher revenue was partly offset by a slight increase in subcontractor cost and the negative impact of Pharma & Care in Belgium resulting in a small increase in underlying cash operating income. In the UK adjusted for positive currency effect this quarter revenues decreased by 1%. The end to end delivery was expanded into Harrow and Liverpool. The roll out impacted underlying cash operating income. As you know we filed a complaint with Ofcom about Royal Mail's proposal to differentiate the tariffs. Ofcom, the UK regulator, indicated they will handle our claim under competition law. In Germany all businesses were branded to Postcon, the name we already used for our German consolidation activities. We were able to attract more volumes from our existing and from new clients. Unfortunately we still see a negative effect from the competitive situation in the consolidation business. And the third part of our International business, Italy, continues to grow with volumes in the Formula Certa product up by 14%.

Then on to the financial overview for the first quarter. Reported revenue was flat this quarter and reported operating income increased by €26 million to €99 million. To come to our main KPI underlying cash operating income we adjust for exchange effects and one offs and we adjust for restructuring cash out and pension cash out. The one offs were some restructuring related charges and some cost for rebranding and other projects to a total of € 4 million. Underlying cash operating income increased by € 54 million, this is mainly driven by the strong cost savings, the effect of the price increases more than offsetting the volume decline in Mail in the Netherlands and lower cash out for restructuring and pensions. Net cash from operating and investing activities was €23 million, an increase of €122 million compared to 2013. This increase is mainly explained by better operating cash flow and the impact of the top up payment in the first quarter of 2013.

Now looking at the complete overview of the results per segment. Mail in the Netherlands revenue declined by 3% to € 497 million. The volume decline of 11.5% was partly compensated by a positive price effect. Parcels revenue was up 1.5% to € 201 million and the volume growth of 5.3% was offset by a lower average price per parcel, due to a shift in product and customer mix and also by lower internal revenues. In International revenue increased by € 6 million and adjusted for the foreign exchange effect the revenue was flat. Looking at underlying cash operating income, in Mail in the Netherlands the underlying cash operating income increased by € 61 million, main contributors to this increase were the cost savings coming in early, a positive volume and price mix effect and lower restructuring and pension cash out. In Parcels underlying cash operating income went slightly up by
€ 1 million, driven by volume growth and partly offset by a slight increase in subcontractor cost and a negative impact of Pharma & Care in Belgium. Underlying cash operating income in International declined due to incidentals for the roll out of end to end in the UK and some

negative effect from the competitive situation in the consolidation business in Germany. On the two next slides you see more details for Mail in the Netherlands and PostNL Other. First Mail in the Netherlands. You see that the most important driver of the increased underlying cash operating income are the cost savings. Note that these shown cost savings exclude the effect from pensions of €4 million in Mail in the Netherlands. Secondly lower pension and restructuring cash out contributed €26 million to the increase in underlying cash operating income. Other drivers were lower implementation costs and lower allocated cost from PostNL Other. This was partly offset by increased autonomous costs. This quarter the impact of 11.5% volume decline was more than compensated by the price increase of the first of August and the first of January and the total effect of volume and price mix effects was
€2 million positive. When looking at underlying cash operating income in PostNL Other you see a decline of €4 million. Bottom line the main explanation of the decline is the reallocation of savings to Mail in the Netherlands as explained on the previous slide and some increase in other costs.

Then the statement of income. The line 'results from investments and associates' in 2013 mainly reflects results from TNT Express and the impairment line is the impairment we had to take in the first quarter of 2013 due to the share price development of TNT Express. Since the last quarter of last year the results from TNT Express are accounted for as financial assets, available for sale. Changes in fair value are recognized in other comprehensive income. Excluding TNT Express our profit for the period increased by €22 million to €54 million and are mainly the result of the improvement of our operating income.

Then turning over to our cash. We remain focussed on cash delivery. If you look at cash generated from operations, you see an improvement of €121 million to €54 million. This is mainly explained by a better operating cash flow and the impact from the €63 million top up payments in 2013. We also had slightly lower capex this quarter, mainly as a result of lower investments for the reorganisation and continued tight capex control. Overall this resulted in a positive net cash from operating and investing activities. Our focus on cash is also visible in the performance of our cost savings and in our capex performance. The total cost savings came in at €41 million, of which €35 million from Mail in the Netherlands. In the related restructuring cash out and implementation cost we see some phasing effects this quarter and we expect them to be at high levels in the coming quarters.

Then to pensions. On this slide you see the development of the coverage ratio of our main pension fund. The coverage ratio of the main pension fund was at 112.4% at the end of the first quarter. The increase in the coverage ratio of 0.5% is mainly explained by the asset performance of the pension fund, largely offset by the effect from decreased interest rates. The pension expense in the first quarter amounted to €32 million, the same as in 2013. The cash contributions are €45 million which is lower than in 2013 when they were €64 million. The decline is the result from a decrease in people or labour and the new pension agreement.

Now we turn to the balance sheet. The consolidated equity is minus €608 million, an improvement of €71 million compared to the end of Q4 2013. The improvement is explained by the net profit of €54 million and the increased value of our stake in TNT Express of €30 million, partly offset by a negative pension effect of €13 million. Assets held for sale is €196 million and mainly consisting of the UK business. Corporate equity at €1.9 billion remained at around the same level compared to the end of Q4. And at the end of Q1 2014 the net debt was €785 million which compares to the €823 million at the end of 2013.

Then a note on the phasing effect of some elements in the result of the quarter. The first is the seasonality pattern in our results, the first and the last quarter of the year are always stronger quarters then Q2 and Q3. Secondly, on the performance element, thanks to the smooth reorganisation, cost savings were achieved early and the mild winter did help to avoid some normal extra cost. Thirdly, when comparing to the previous year you also see an effect of the price increases that we implemented in Augustus 2013 and January 2014. So this will not be a full year effect. Fourthly, as explained before, there is a phasing effect in the restructuring cash out and in the implementation cost. For the full year we still expect these in the ranges we indicated earlier, so they will pick up in the course of the year. Fifthly and finally, later this year we expect to see the effect from the new CLA, also higher cost for the subcontractors will become more visible during the rest of the year. All in all, we expect our full year underlying cash operating income to come in at the high end of the guidance of between €180 million and € 220 million. Looking ahead, we will continue to focus on adjusting our mail operations in the Netherlands to the decline in volumes and focus on growth in Parcels as well as in International. This should contribute to a sustainable delivery of cash in the future. This enables us to strengthen our financial position and eventually the payment of dividend. With this first quarter and seeing our credit rating at BBB- with a stable outlook, we are well on track towards our 2015 targets. With that I would like to hand back to Richard for the Q & A.

Richard Piekaar
Thank you, Jan. We will now open the call for questions and I would like to ask the operator to explain the procedure to register your questions.

Operator
Thank you. As a reminder, if you wish to ask a question, please press star and 1 on your telephone key pad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Star plus 1 for any questions. The first question comes from the line of Christopher Combe, JP Morgan. Please ask your question.

Christopher Combe, JP Morgan
Thank you, just a couple of questions. Jan, in reference to that last slide where you talked about some of the effects looking over the next couple of quarters, how much impact would you expect from operating day differences and what it is in volumes, looking at the second quarter to the fourth quarter. And then second, on International, can you elaborate a bit please on the competitive pressures that you seeing in Germany and with respect to the UK, can you give us some sense of what proportion of revenue longer term you will expect to generate from end to end. Thanks.

Jan Bos
To answer your first question towards phasing on working days and the elections, there will be some small effects in the next three quarters, but I would say within the bandwidth of the 9% and 12% we have given to you for the volume decline.

Herna Verhagen
When it comes to the pressure and then especially of course competitive pressure in Germany, I think it did not change much compared to last year, so there is competitive pressure from Compador, which is our competitor in the area of Postcon downstream access and that is what we see continuing also in Q1. What we also see in Germany that new volumes do come in, so we also see in that sense growth, which helps of course the underlying business.

Jan Bos
And then coming back to your question on the UK, to give you an indication, we expect the coverage ratio in the UK by full roll out between about 30% and 40%, so that gives you an indication of the revenue development for end to end.

Operator
The next question comes from the line of Dieter Furniere, KBC Securities. Please ask your question.

Dieter Furniere, KBC Securities
Yes, good afternoon, a couple of questions from my side. Firstly, in the beginning of your presentation you said that part of the reason to increase your guidance to the high end of the range was phasing effects. Since phasing effects usually see this throughout the year, but giving it a full year guidance, what exactly is the meaning of the wording? Does that mean that 2015 cost savings come in earlier in 2014 or some cash outs go into 2015? That is my first question. My second question is on Mail NL, where we saw revenues going down from €530 million to € 479 million, while you guide that price mix was offsetting volume decline. Could you may be give a bit of flavour how come then the revenues were down? Was this working day or something else? A third one is regarding real estate. I think before you mentioned, I think it was already some quarters ago, that you target €150 million in real estate gains over the period 2011 to 2015, may be a bit of a rough guidance, but nevertheless. Now, when I look at the numbers in the quarters, I come up that there is still €110 million or something remaining, so my question is do you still expect these real estate gains to be booked over 2014, 2015? My second question is, do you take into account this type of real estate gains in your underlying cash operating income guidance, so is it part of your guidance for 2014, 2015? Thank you.

Jan Bos
Okay, to start with your first question. So coming in early, that means that we expected lower savings in the first quarter. Because of a smooth implementation those savings came out higher, and that means that it is the main reason for the expectation that we end up at the high end of the range of
€180 million to €220 million. For Mail in the Netherlands, what you see, we have addressed the volume development compensated by price increases, but if you look at the underlying cash operating income we also had some volume dependent savings included, so that is why we see a combination of a positive price volume effect. So because we include in that €2 million, we also include the volume dependent cost savings. That is the second one. Real estate, so what we said before, we still expect the €150 million of book gains, but may be with some delay, because of pressure in the real estate market, and yes, we include those book gains in our guidance.

Dieter Furniere, KBC Securities
Okay, thank you.

Operator
The next question comes from the line of Damian Brewer, RBC London. Please ask your question.

Damian Brewer, RBC
Good afternoon and thanks. I have got two questions. First of all, can you help me understand a bit more on the issue of phasing and the timing of capex and restructuring and why it sort of

pushes back to Q2 and Q4. What is causing that and if there is a sort of later near bold, where is the peak of that or is it something which still establishes itself? And then secondly on the Parcels business, you mentioned a sort of product and customer mix etcetera. Could you tell me a bit more about whether it is coming from very large bold key mailers or is it just a mix of different industry verticals?

Jan Bos
Okay, to answer your first question. Phasing on capex and restructuring, for example capex means some phasing in investments in sorting machines and IT and also in our new logistic infrastructure in Parcels. If you look at restructuring, that is a little bit depending on the moment we make people redundant and they leave PostNL. That is also, I would say, depending on the moment they leave, so there is a normal phasing relating to the restructuring. Looking at Parcels, to the customer and product mix. I think it is a combination first of all increasing larger customers with lower average prices which has a negative impact on the total average price. And then secondly, we also see some transfer from say more expensive products to less expensive products with lower added value within Parcels.

Damian Brewer, RBC
Okay, could I follow up on both answers, please.

Jan Bos
Of course.

Damian Brewer, RBC
Just on the phasing, I mean, is this something deliberate where you are going to try and avoid doing major change in your sort of peak year, Q1 and Q4 seasons. Could I expect to see more of that change occurring in Q2 and Q3, as there is less sort of volume pressure on the business in Mail Netherlands. Then on the parcels, just to tight that one down, if you are able to, could you say how much of that sort of price, yield mix effect came from the former thing you talked about highly, the big volume customers and how much was just simple what seems to be structural down trading.

Herna Verhagen
I think when it comes to the reorganisations with Mail in the Netherlands. What we said is savings came in early, that means that we are still guiding full year for a saving potential of around €95 million to €115 million. It does not mean that we take savings from 2015 into 2014 and it also does not mean that we are shifting cash out from 2014 to 2015. That is not what is happening. When it comes to reorganisation, they are not connected to the quarters in which we have more volume or the quarters in which we have less volume. I think when it comes to the savings you see in Q1, they are fully related to the fact that we skipped Monday delivery and Sunday evening collection per the first of January. That is one, and secondly, what we also did per the 1 of January, we reduced the amount of overhead within our production organisation with almost 50%. Those are the reasons behind the better performance when it comes to cost savings in Q1. When it comes to Parcels, is it down trading or is it large customers? We are not splitting it up, so we do not guide for that, but the main part I would say is large customers. So there is more volume coming in from large customers, that is one and secondly, what you also do see is that smaller webshops are taken over or bought by the larger webshops, so that are changes you see in the market.

Damian Brewer, RBC
Okay, thank you very much.

Herna Verhagen
You are welcome.

Operator
The next question comes from the line of Tobias Sittig, Main First, Frankfurt. Please ask your question.

Tobias Sittig, Main First
Yes, good afternoon, thank you for taking my question. I have just got one, it is basic on the pricing in the business mail, because when I, you don't share the volume data with us, but when I calculate the pricing, it must be up on average around 4.5% given the price increases that you have in the regulated arena around 15%, which is more. I conclude that business mail was flat in pricing, but you said you had price increases coming in. Can you confirm that you have got price increases also on the business mail side, how big are they and when will they be visible in your P&L really? Thank you.

Jan Bos
We don't give percentages, Tobias, but as indicated, it is well above inflation and that means, so it is not 1% above inflation.

Tobias Sittig, Main First
Okay, that has already been the case in the first quarter? I can't really see it from your numbers.

Jan Bos
Yeah, but then you have to take into account that it is our composition of the revenues, so I would say the single mail, then also the bulk mail and other revenue.

Herna Verhagen
But those price increases, when it comes to bulk mail, are negotiated with customers in the last quarter of 2013. They are implemented per 1 January 2014, so they are part of the numbers you see in Q1.

Tobias Sittig, Main First
Thank you.

Herna Verhagen
You are welcome.

Operator
The next question comes from the line of Douglas Hayes from Morgan Stanley. Please ask your question.

Douglas Hayes, Morgan Stanley
Good afternoon, three questions please. First on Germany. You guys have mentioned the competitive issues there for the last couple of quarters now, do you think there is much more to go or do you think we have reached the end of competitive pressures there?

Herna Verhagen
I think it is a little bit between the two choices you gave me, so it is not much more to go, but we are not already at the end. What we do see is that the German market is a competitive market. Of course there are a few cases with the regulator in Germany. They are pending at this moment in time. What we also do see is that we see volume growth within our German business. So all by all, I do expect that competition will go on, but also will slow down over the next coming quarters.

Douglas Hayes, Morgan Stanley
Okay, thank you. And secondly for the domestic mail in the Netherlands. Can you provide us a quick update on the competitive position there? Are you still losing market share to the number two or has that balanced out?

Herna Verhagen
If it comes to the competition arena in the Netherlands. What we always said is that we expect to lose a market share in this year of around 2 to 3% to our competitors. That is still in line with the guidance we gave already a few years ago that we do expect to lose around 25 to 30% market share to competitors, so it is in line with our already long term given guidance. That is still what we do expect this year, so we do not see that speed increases. It is more or less the same like it was last year and more or less the same what we saw in Q1.

Douglas Hayes, Morgan Stanley
Okay, thank you. Finally for the UK, end to end roll out, a quick clarification question. Did I hear you correct earlier that you said that you wanted to cover a 30 to 40% of the country?

Herna Verhagen
Of the households. When it comes to square meters in the UK, that is totally different.

Douglas Hayes, Morgan Stanley
Yes, fine, then just quickly, could you provide an update on how the roll out is going in Harrow and in Liverpool? Is it as expected?

Herna Verhagen
Yes, it is as expected. Business is doing well, volumes from customers are moving from our downstream access business into our end to end business. Quality is good. What we did see during the pilot in London, is what we see in the other cities and areas as well. So far so good I would say.

Douglas Hayes, Morgan Stanley
Okay, thank you very much.

Operator
The next question comes from the line of Marc Zwartsenburg, ING. Please ask your question.

Marc Zwartsenburg, ING
Yes, good afternoon, Herna and Jan. First question on the mail volume declines, 11.5%. Can you share us a little bit on how the trend was through the quarter and what you expect a bit going forward? Because it is easing a little bit, so can you give us a little bit more flavour there? My second question, your outlook has been raised by say from a mid-range to the high end, that is

€15 million to €20 million. You explained it by volume, price, weather, is that explaining the whole bit of the increase in your outlook?

Herna Verhagen
When it comes to the volume decline, the 11.5%, we did not guide how the volume decline was divided over the quarters. We still do expect of course a volume decline of between 9% to 12% over the full year and the first quarter came in at 11.5%. What we also do see is that when it comes to single and bulk mail we do not see a lot of differences in volume decline.

Marc Zwartsenburg, ING
Yeah, but within the quarter, did you see any strange movements there, was it quite stable?

Herna Verhagen
No, it was quite stable, we did not see any strange movements.

Marc Zwartsenburg, ING
Okay.

Jan Bos
And then to your second question, Marc. So the €20 million, I would say they are mainly coming in from the savings coming in early and the good weather.

Marc Zwartsenburg, ING
So, you have your outlook still standing at €95 million to €115 million on the savings, coming in early, so that means that you are coming in also on the high end of your savings range?

Jan Bos
I would conclude that certainly, yes.

Marc Zwartsenburg, ING
Okay, thank you very much.

Herna Verhagen
Thank you.

Operator
The next question comes from the line of Maarten Bakker, ABN AMRO. Please ask your question.

Maarten Bakker, ABN AMRO
Yeah, most of my questions have been asked, ladies and gentlemen. Perhaps one more question is, I mean, you have pushed through quite substantial price increases, both in bulk and single mail items recently and I was just wondering, you have always told us that the price elasticity is about for every 1% increase in prices volumes go down by 0.1% to 0.3%. You have been telling that for quite a number of years now. Having seen the price increase that you pushed through lately, is this still the guidance that you hold on to? Is it still the drivers that you see?

Herna Verhagen
The answer is yes, Maarten. So it is still within the bandwidth of 0.1% to 0.3%. And that also relates to the earlier question. We did not see strange movements in Q1 when it comes to volume.

Maarten Bakker, ABN AMRO
Okay, perhaps a bit on the behaviour of your competitor Sandd. Has it been the same lately, has it become more aggressive? What do you see the market in terms of competitor behaviour?

Herna Verhagen
I would say more or less the same, so not more aggressive and more or less the same means as I also said last year, that we sometimes see them of course acting with small price increases, but sometimes also see them acting with very low prices. What we also do see but that is out of their press releases, is that they are looking for different business, so they want to expand their business into different areas. That is what we see, but that is based on their press releases and articles in newspapers.

Maarten Bakker, ABN AMRO
Okay, those were my questions, thank you very much.

Jan Bos
Thank you.

Herna Verhagen
Thank you.

Operator
The next question comes from the line of Hugh Turner, Credit Suisse. Please ask your question.

Hugh Turner, Credit Suisse
Hi, I have got three questions please. The first is on negotiations on the CLA, slightly have cash pension impacts as we saw last time and when do you expect these to complete. The second is, I am trying to understand the cost savings in the first quarter, which are quite impressive. You spoke about leaner overhead. Is there any specific example that you can give us to help us understand where these cost savings do come from and why they have come early? And the third question is, I take it that you are funding the UK roll out at the moment yourself. If the LDC deal does not go through, do you think that you will be able to roll out at the same rate under self-funding?

Herna Verhagen
When it comes to the negotiations on the CLA, they are still pending. I think, both parties are satisfied with what it is, but we do not disclose anything around CLA while discussions are still pending. When it comes to leaner overhead, to give you a few examples. For example in the past, so last year we had six areas in the Netherlands and per area there was a bit of overhead. Those areas are now for example centralised with reducing the amount of overhead. Another example is of course that we are downsizing the amount of locations we have, from 260 to around 140 at this moment in time, that also means you can do with less management and less overhead on management. So there are several examples where leaner overhead works well. Why do we say, savings came in early? It is because of the fact that we did not expect that the

reorganisation would move so smoothly as it did. As of the first of January we changed the organisation and we almost did not have any problems with that. The self-funding of the roll out, the answer I would give at this moment in time, we are confident that Ofcom will give a positive ruling, that also confidence which is there with LDC. So at this moment in time we are looking forward to have that outcome and being able to move forward together.

Hugh Turner, Credit Suisse
Alright, thanks a lot.

Operator
The next question comes from the line of Joel Spungin, BoAML. Please ask your question.

Joel Spungin, BoAML
Hi, good afternoon, just a few questions actually on the UK roll out. A couple of questions or a clarification. First of all, regarding that 30 to 40% target that you were talking about. How long do you expect the roll out to take to reach that level? That is the first part of my question. My second question is again, with regards to closing the agreement with LDC, is that conditional on a positive outcome of the current complaint you have made to Ofcom, i.e. do they have a get out if they are not satisfied with the outcome of that review? And the third part is, there has been quite a lot of sort of media reports in the UK regarding TNT postmen throwing mail in rivers and things like that. I am just wondering, whether or not that had an implication on your business in terms of customers sort of raising this as an issue and things like that.

Herna Verhagen
The target of 30 to 40% roll out will take three to four years, so that is the period we are thinking of. The closing with LDC, is it conditional with a positive outcome of Ofcom? I think the positive outcome of Ofcom is for the two of us important. As we already said of course when we started discussions around the joint venture, is, we can invest the money, but we only can invest the money when we are doing it together with somebody else. So yes, it is important and it is one of the conditions around closing. Then your third question around media reports of mailmen throwing mail into the river. That is of course very unfortunate, because if you talk about mail companies and if you talk about trust, it is all about quality and delivering what you receive to customers. What we did not see is, because we were very close to the ball when it came out, we did not see any negative reactions from customers. Of course, as hopefully well understood, it is not what we promised and it is not what we want to happen.

Joel Spungin, BoAML
Okay, thank you very much.

Herna Verhagen
You are welcome.

Operator
The next question comes from the line of Philip Scholte, Rabobank. Please ask your question.

Philip Scholte, Rabobank
Yes, good afternoon, could you talk a bit about the contribution of Pharma & Care Belgium with the parcels division? I have the feeling that it is actually running out a pretty significant EBIT loss the last couple of quarters. Could you talk a bit about why that is and what your plans are to

improve their performance? The second question is on the UK as well. I am a bit surprised by the negative product mix you are mentioning, whereas you would expect that the higher end to end coverage would actually lead to a higher price. Why is that performance a bit weakish?

Jan Bos
So, Philip, to come back to the contribution of Pharma & Care is indeed negative, but that is also what we have said before, that we needed the cash and that came in from Austrian Post to restructure the business and we also said last quarter that it will take a little bit of more time to get Pharma & Care cash positive. We expect that to come in in 2015. In the UK I think, it is not understood right. It is not a negative product mix, but it is just a change in product mix that had a negative impact on revenue and that is from, so we have a DSA-business in which the full revenue is coming in and also DSA-business of which only the added value shows. Depending on if it is a full contract business or agency business. That is what we meant with the revenue mix. That could make it for the margin to be better.

Philip Scholte, Rabobank
Alright. May be as a short follow up. If I google a little bit on the contribution of Fiege, it looks like they generate revenue of about €20 million in a year. Is that far off?

Jan Bos
That is far off, because it is about €8 to €9 million full year.

Philip Scholte, Rabobank
Full year, alright, great, thanks.

Operator
The next question comes from the line of Marc McVicar, Nomura London. Please ask your question.

Marc McVicar, Nomura
Thank you, good afternoon, I have two questions. First of all, turn it round the other way, with the cost savings in Holland. What do you think the net benefit was from moving from 6 to 5 deliveries?

Herna Verhagen
What we always said till now, the cost savings from 6 to 5 delivery days are around €15 million to €20 million and that is still what we expect, what it will be this year.

Marc McVicar, Nomura
That is the annual impact of going from 6 to 5 days?

Herna Verhagen
Yes.

Marc McVicar, Nomura
At EBIT level?

Herna Verhagen
Yes.

Marc McVicar, Nomura
Okay, thank you. Another question is, I am not sure if I understand, what is the regulator have to rule on with LDC? Just that LDC can become a participant in the UK mail market? Or is there something else that Ofcom has to approve?

Herna Verhagen
The complaint we gave to Ofcom is that Royal Mail wanted to differentiate their prices as of the first of January this year. And differentiating prices meant that Royal Mail was lowering the prices in areas where we have a roll out of end to end and increasing their prices in areas where we do not have end to end. So with that differentiating pricing system Royal Mail wanted to implement, they could jeopardize the roll out of our end to end network in the UK. So that is the reason why we put in a complaint, because we said it is anti-competitive and it does hinder competition. That complaint is taken on by Ofcom and as said, we still expect to have a first idea around outcomes end of quarter Q3.

Marc McVicar, Nomura
Okay, so until that ruling is complete, that competition investigation is complete, the LDC transaction does not complete?

Herna Verhagen
That is correct. That means that we will continue our roll out, that is one, and secondly, it also means that Royal Mail is not allowed to implement their pricing differentiating strategy until the ruling.

Marc McVicar, Nomura
Until the ruling, which is expected to come towards the end of the year.

Herna Verhagen
At least the first views on that.

Marc McVicar, Nomura
Yeah, okay, that is great, thank you very much.

Richard Piekaar
Okay, I believe there are no more questions. Then I would like to thank you all for participating at today's call. If there are any remaining questions at a later time, please don't hesitate to contact us. Again thank you very much and speak to you soon.