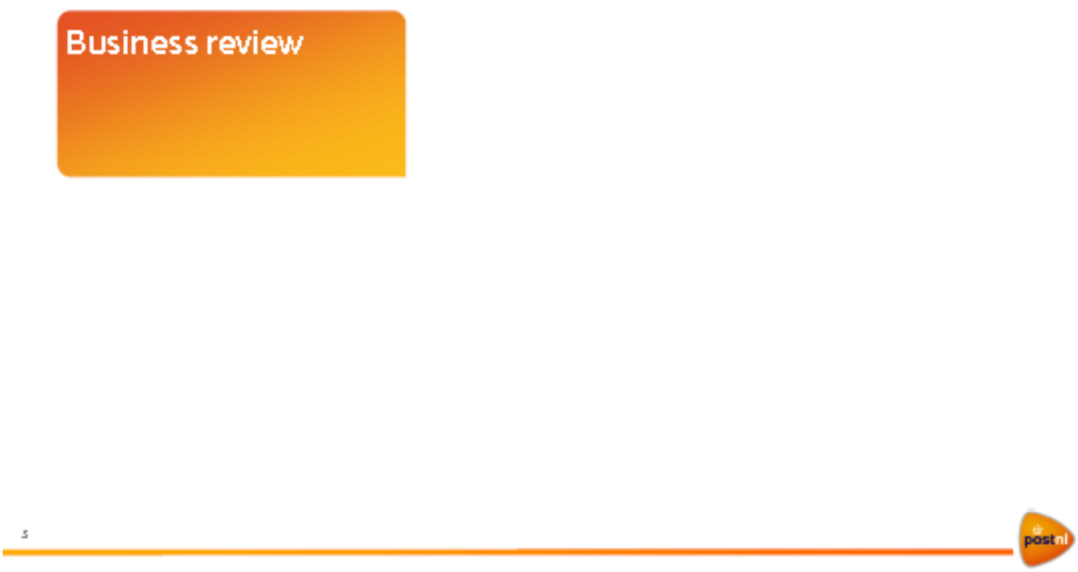

Q2 16 Analysts Meeting

8 August 2016

**Karen Berg**: Good morning and welcome to the Q2 results analyst presentation of PostNL. I am here together with Herna Verhagen and Jan Bos. Herna will start with explaining the business results and then Jan will go into the financials. Herna?

**Herna Verhagen**: Welcome to the Q2 results of PostNL. First of all, let me start to give you a little bit of an overview.




The world around us is digitising. That is no news to you and that is no news to us. That means that we see growth in web shops and in e-commerce, which translates into parcel volumes. On the other hand, it is also the fact that mail volumes are declining, which we do see in Q2 as well.

In that framework of digitisation, PostNL has a role to play and that is our strategy, in which we think PostNL will be THE mail and logistics solutions provider in the Benelux.

This strategy, which was presented last year November, will be implemented and is implemented step by step. The first steps were taken in Q1 and the next steps were taken in Q2 and I will share some highlights with you. Going forward, we will continue to implement that strategy.


When it comes to the second quarter, we see solid results of course together some highlights of that quarter.

In the second quarter, we sold the shares in TNT Express. This lead to a cash-in of EUR 643 million to PostNL. We ended the negotiations with bpost. We could not reach an agreement on the conditions that are normally part of a merger agreement.

Also important in this second quarter is that we found comfortable headroom going forward if interest rates go down further, next to the fact that the impact of pensions on our equity in the second quarter was limited.

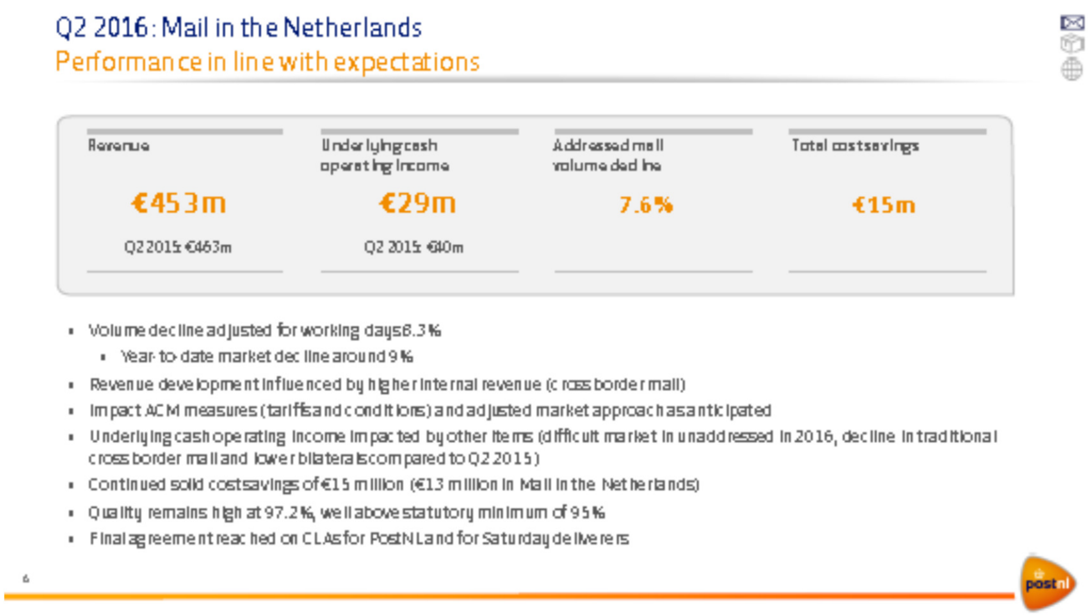
A good operational performance, which I will highlight over the next slides, together with of course what we expect for the second half of the year, brings us to reconfirming the outlook for ‘16 of between EUR 220 million to EUR 260 million. We think we can continue that operational performance in ‘17. That means that for ‘17 we give an outlook, which is higher than the one of ‘16, of between EUR 230 million to EUR 270 million.

Our operational performance together with the sale of our shares in TNT Express and together with the headroom of interest rates were to reduce further, makes us say that we expect and are committed to resume paying dividend in 17. And of course going forward, step by step implementing our strategy towards, in which we again confirm our ambition of underlying cash operating income of EUR 285 million to EUR 355 million. That is a solid Q2!


In the second quarter we saw revenue in line with the revenue of last year. The underlying cash operating income was down from EUR 65 million to EUR 47 million. The reasons I have already mentioned at the strategy update of last year. They are partly in our adjusted market approach; we said it is important to maintain volumes in our own network. They are partly because of measures taken by ACM and partly because of the implementation of the sustainable delivery model, the fact that we offer subcontractors within Parcels the possibility to get a labour contract with PostNL. Those are still the main reasons for the underlying cash operating income of EUR 47 million in the second quarter of '16.

Important in the second quarter was the improvement of our financial position, partly because we moved from a net debt to a net cash position after the sale of shares in TNT Express, and partly because of the improvement of our consolidated equity. Jan will go into much more of the highlights around pensions, the effect of pensions in Q2, but also the expected effect going forward in case interest rates would come down further. A solid quarter.


If you look into more details, I would like to step into Mail in the Netherlands, Parcels and after that of course International.




First, Mail in the Netherlands. In Mail in the Netherlands, we saw an underlying cash operating income of EUR 29 million. The underlying cash operating income is partly impacted by volume decline, 7.6% in the second quarter. If you adjust for working days, it is 8.3% and that with a year-to-date market decline of 9%.

Underlying cash operating income is also impacted by the measures of ACM and, as already said, by our adjusted market approach.

If you want to offset volume decline, then there are three ways to do so. First of all, of course, cost savings, secondly price increases and thirdly innovation, making sure that your customer is the focus of what you do, also in a declining mail market.

In the next slides I will give you some more information around ACM and the price increases in ‘17, about cost savings and about innovation. Let's start with the regulator.

### Mail in the Netherlands regulatory environment
### Significant management attention remains important

**USO**

- In accordance with postal regulation: evaluation of USO will be conducted after Summer
- Process for new stamp price increase in 2017 started
- Adjustment retail network based on postal regulation effective 1 January 2016

| | 2015 | 2016 | Target |
|---|---|---|---|
| Post boxes | 18,000 | Roll-out started | ~6,700 |
| Postal offices | 2,300 | Closing ~300 | ~1,000 |
| Parcels points | 600 | Opening ~475 | 2,000 |
| Outlets for stamps | 5,000 | | 6,000 |

**Non-USO**

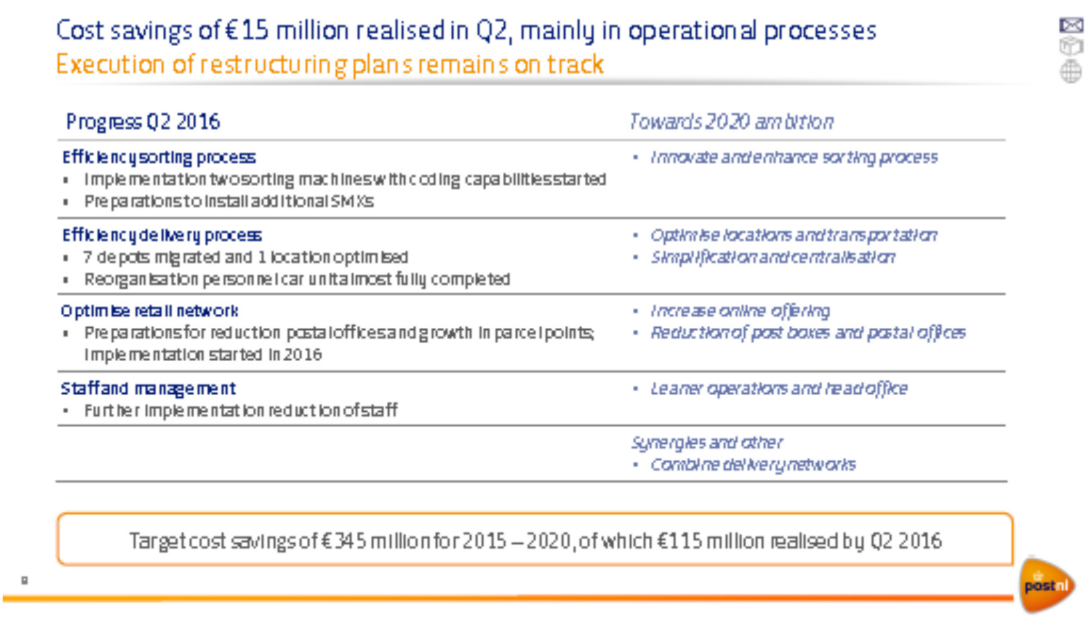
- ACM published new draft decision on Significant Market Power (SMP) and Ministry of Economic Affairs published draft policy guideline about interpretation of SMP in a declining mail market
- PostNL has submitted its view on both documents
- PostNL is concerned about expected adverse effects
  - recent measures of ACM
  - possible outcome of SMP, also taking into account outcome of recent court cases
- As earlier indicated, financial impact of ACM measures expected to be between €30 million and €50 million annualised; full effect visible over 3-4 years period (2016-2019)

In the regulatory environment we always talk about the Non-Universal Service Obligation, (non-USO) which is bulk mail if I simplify it a little bit, and Universal Service Obligation, the USO.

In the non-USO arena, we have to handle significant market power. The ACM came up with that draft decision on significant market power together with the fact that the Ministry of Economic Affairs came up with draft policy guidelines. We gave our views on both documents. In the combination of the two, we still think that the financial impact is somewhere between the EUR 30 million to EUR 50 million, as already earlier indicated to you.

In the Universal Service Obligation, there is of course an evaluation of the USO by the Ministry of Economic Affairs. That evaluation started this summer. Next to that, we started the process for a price increase for our stamps as of January 1, '17. That process is expected to be finalised somewhere in Q4.

We started the adjustment of our retail network. In the new regulation in the Netherlands, PostNL has the possibility to reduce the amount of post boxes and the amount of post offices. That is what we are planning to do over the next coming years, starting July 1 of this year. We expect to close 300 post offices in '16. On the other hand, we are opening parcel points. In this change you see the transformation of our company: less mail, more parcel volumes. In total, the amount of postal and parcel points where you can do your parcel and postal business, will grow. We will go from around 2,350 points at this moment in time to around 3,000 in a few years from now but those 3,000 are much more parcel-oriented and parcel-focused. If you want to offset volume decline, price increases are necessary. As already said, that process started this summer.




Secondly, cost savings. Cost savings came in for EUR 15 million in the second quarter. They are based upon several projects and those projects did not change. We summarised these in Q1 as well. A more efficient sorting process, where we installed the next sorting machines. Also, a more efficient delivery process in which we have closed 7 depots and migrated those to centralised occasions. The optimisation of the retail network as just explained and staff and management, where we further reduced.

In the strategy update we said that EUR 345 million is the goal of cost savings till the end of 202. By the end of Q2 this year, we did EUR 150 million. The EUR 230 million, which we still have to do till the end of 202, is underpinned with plans. Those plans are in the area of what is mentioned here in the column ‘Towards 202 ambition’ such as enhancing our sorting process, further centralisation and the optimisation of our locations. Of course also further implementation of the reduction of post offices and mail boxes, leaner staff and leaner management, and finding synergies also in the combination of the delivery networks of Mail and Parcels.


The third important element when it comes to offsetting volume decline remains to be innovation. We are a people's company, a company in which 50,000 people connect customers day after day. The innovation is also partly shown in the advertisement campaign that we started. This is irregular for an analyst meeting but in the next 45 seconds I would like to show you our advertisement campaign that we started on television. It is in Dutch, so for most people in this room it is no problem. To the ones who are listening in, stay with me for 45 seconds and then I will get back on Parcels.

VIDEO

**Herna Verhagen**: Let's move on to Parcels.

The second quarter for Parcels was a very strong quarter.


We saw volume growth of around 16% and adjusted for working days it was 14%. That is translated into revenue and also into underlying cash operating income. The increase in underlying cash operating income of 12.5% is partly because of course of volume growth but also partly because of the fact that the 18 new logistical infrastructure centres are fully operational; they are well connected to each other and are also delivering the efficiency we expected them to deliver.

We are on track with the implementation of our sustainable delivery model and that means that the impact of EUR 10 million over the full year is expected to be the impact in '16.

To maintain growth within Parcels, also innovation is important. Part of the growth we do see in the e-commerce market is also because of innovations done together with customers. If you think about the last few years and the fact that we have introduced evening delivery, early morning delivery, same day delivery, Sunday delivery, delivery in the early morning at post offices and other examples that we have introduced, this creates a possibility for e-commerce customers to grow and to grow much faster than in many other markets in Europe.

I would like to highlight two innovations.

Continuous and sustainable innovation
Expanding service offering


The first is an acquisition that we did. We talked many times about Extra@Home, which is delivery of heavy goods to consumers at home. We acquired a company, which gives us the possibility to do not only the delivery of the heavy goods but also the installation and the installation in your kitchen. The expanding of this service offering is important to enhance further growth of Extra@Home.

Continuous and sustainable innovation
Progress food delivery

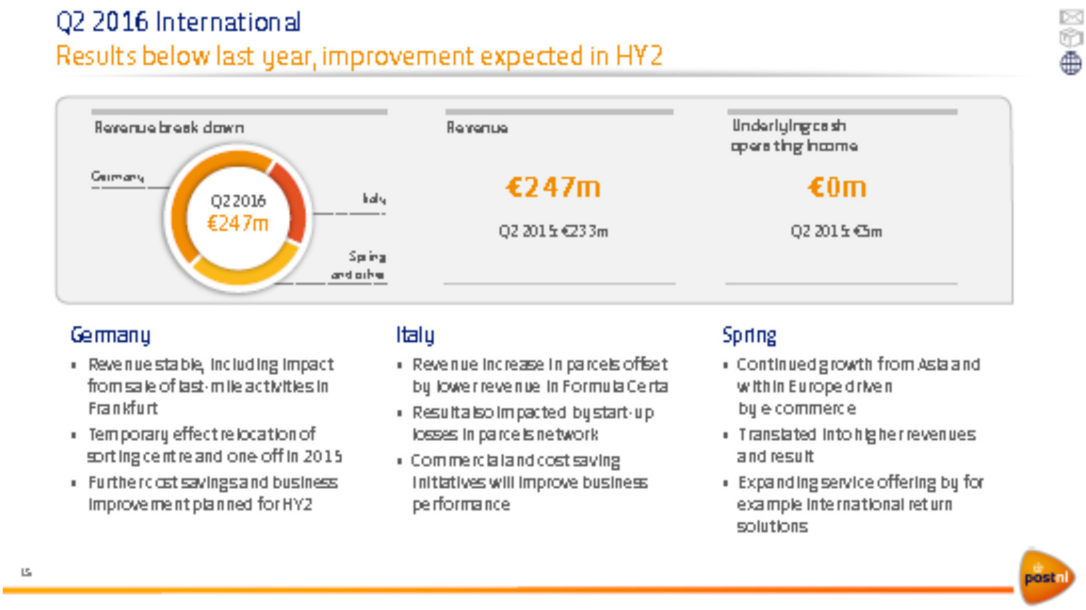
**Food: strong growth in main markets**

- Online supermarkets (local and national)
- Meal boxes (preselected ingredients and recipes)
- Niche and convenience services

- Growth in number of clients and volume per client
- Expanding food network on back of existing assets

The second example is food. You will probably remember the first food box that we showed in this meeting as well. We see for example that the volume of food doubled from Q1 '16 to Q2 '16. We do fresh food deliveries, meal boxes, and all sorts of different fresh food deliveries to homes. It is a nation-wide covered network, which is delivered in the evening. National but also local retailers use the opportunity of our parcel network to have the possibility to deliver in the whole of the Netherlands. So Parcels, a strong quarter with strong growth.

In International, the results are below last year.

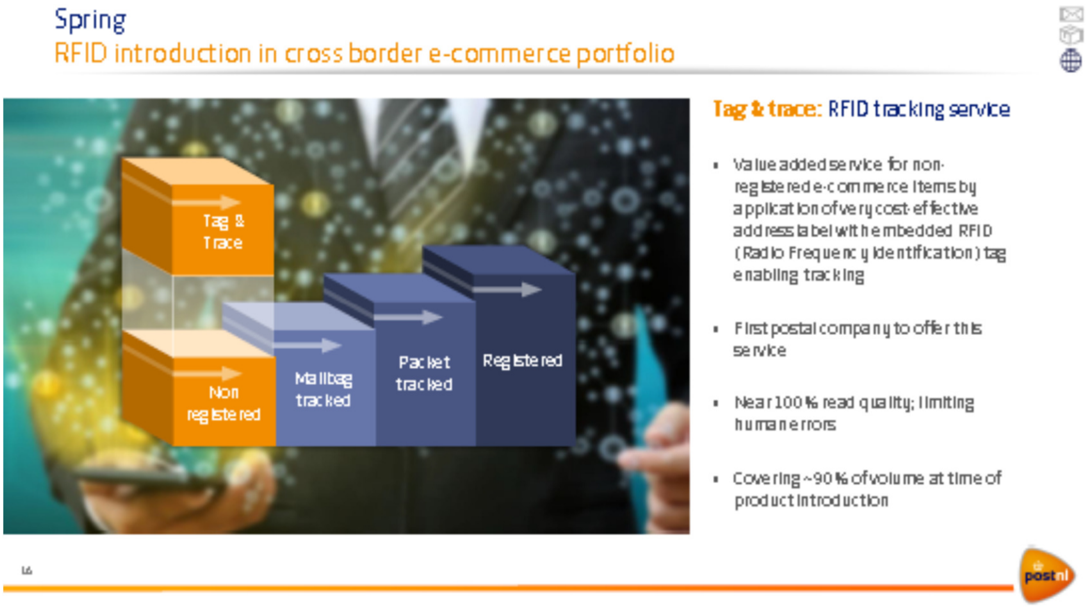



EUR 5 million last year in Q2, zero this quarter, partly because of Germany. In Germany, we had a temporary effect of the relocation of sorting centres and one-offs, which we had in the second quarter of '15. In Italy, we see that the volumes of Formula Certa are slightly lower than last year, together with price competition with Poste Italiane; next to the fact that we are investing in of course building up our parcel network and parcels is growing.

We expect improvement in the second half year, based on cost saving plans which were already implemented and where we expect that cost savings are coming in in the second half year and secondly of course commercial successes, which were realised in the first half year and where volumes will come in in the second half year.

Spring is doing very well. Growth of 32% of Spring in revenue. That is mainly due, also here, to e-commerce, streams out of Asia and of course from Europe. That is also translated into results.

If you want to continue growing in international e-commerce, innovation is important in this area as well. I will give you an example of how we innovated over the last period within Spring, which helps us to grow the international volumes.



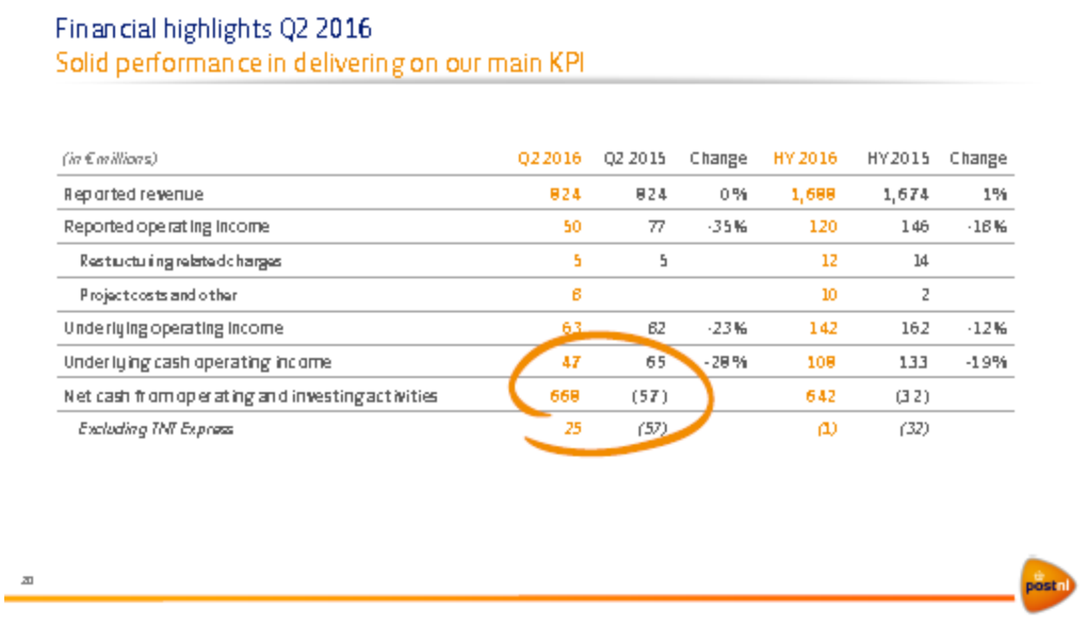

We all know registered. Registered means you have a signature at arrival and in most cases it is tracked and traced. We developed a tag & trace for e-commerce: if you print your address label, the RFID tag is immediately incorporated in that address label. So, you can follow your parcel or your package from Asia to Europe or from countries within Europe to the Netherlands from the beginning till the end. These solutions are important to be a big e-commerce player in an area where we have a lot of competition.


A solid second quarter, making us say that we do believe and do expect to reach the year-end results as forecasted. Together with the sale of TNT Express and of course the headroom we see in case interest rates come down further, we expect and are committed to pay dividend in '17, partly also based on operational performance in '17 where we gave an outlook or a guidance on our underlying cash operating income, which is higher than '16.

Now, I would like to hand over to Jan.

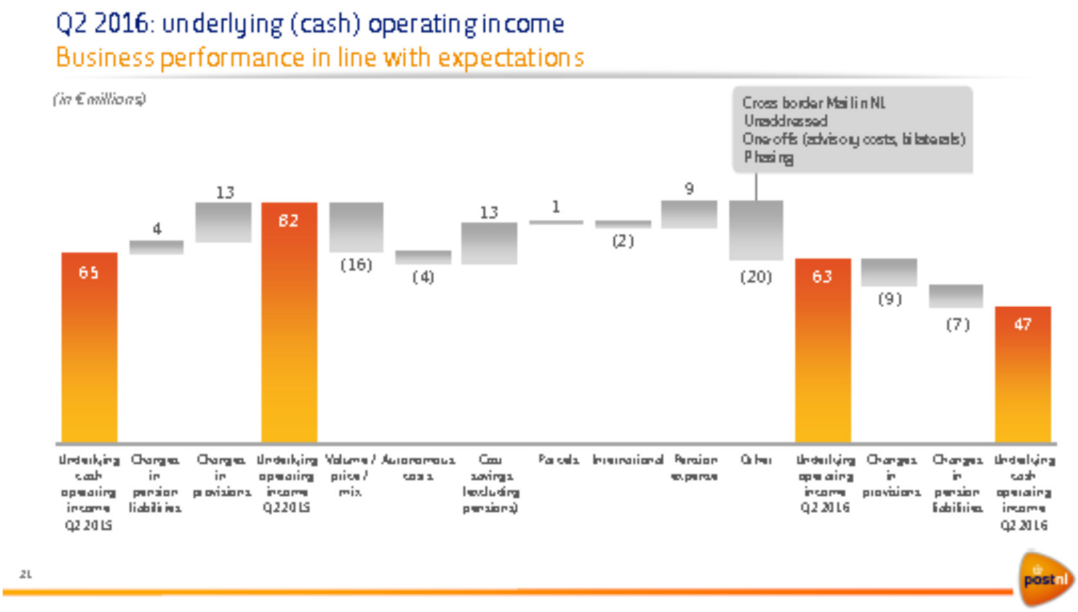
**Jan Bos**: Thank you, Herna. Let's go to some details of the financials.

We had a solid performance in Q2, with stable revenue, a decline in underlying cash operating income which is in line with the full-year trend and also an improvement of our financial position, turning to a net cash position.




| *(in € millions)* | Q2 2016 | Q2 2015 | Change | HY 2016 | HY 2015 | Change |
|---|---|---|---|---|---|---|
| Reported revenue | 824 | 824 | 0% | 1,688 | 1,674 | 1% |
| Reported operating income | 50 | 77 | -35% | 120 | 146 | -18% |
| Restructuring related charges | 5 | 5 | | 12 | 14 | |
| Project costs and other | 8 | | | 10 | 2 | |
| Underlying operating income | 63 | 82 | -23% | 142 | 162 | -12% |
| Underlying cash operating income | 47 | 65 | -28% | 108 | 133 | -19% |
| Net cash from operating and investing activities | 668 | (57) | | 642 | (32) | |
| *Excluding TNT Express* | 25 | (57) | | (1) | (32) | |

If you look at our underlying cash operating income, this came in at EUR 47 million. There you have to take into account that we had some one-offs in '15, which more or less explains that the Q2 results were in line with the full-year trend.

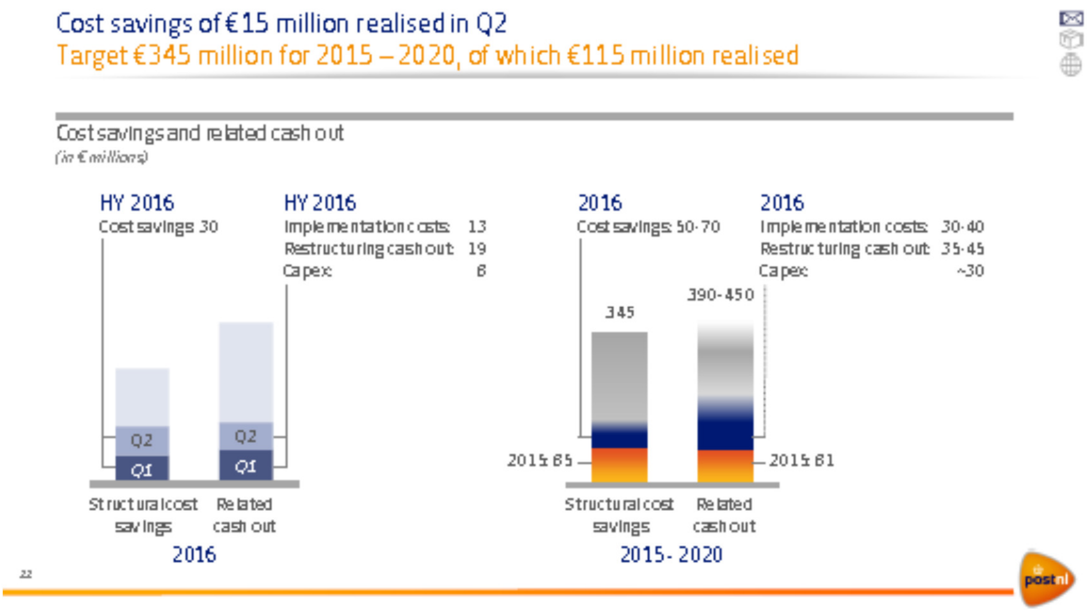



If you look at the bridge of underlying cash operating income, you see that the first and large orange bar show the development of the underlying cash operating income. The second and third are explaining the development of the underlying operating income.

Let me start with the last part, the underlying operating income. First you see the negative volume/price/mix effect coming in from the volume decline of Mail in the Netherlands not fully compensated by price increases. Then we have the autonomous cost increases and that is not fully compensated together with the volume/price/mix effect by our cost savings.

Parcels are coming in with additional profits and, as Herna also said, International with a decline in profit compared to last year. Then, we see an improvement coming in from pension expenses. The last part is EUR 20 million on other effects. That is explained by a decline in traditional cross border mail in Mail the Netherlands, that is a one-off step down in unaddressed results because of difficult market circumstances in unaddressed, then some one-offs related to advisory cost and also the bilaterals I mentioned realised in Q2, ‘15. Then some phasing of cost or say phasing effects.

That explains the EUR 19 million decline in underlying operating income and then we have a net positive effect from less cash out for pensions and provisions. That explains the EUR 18 million decline in underlying cash operating income.




Let me give you some more details on cost savings. We realised EUR 15 million of cost savings, so year-to-date EUR 30 million realised. So, we are well on schedule for our outlook for the full year '16 of cost savings between EUR 50 million and EUR 70 million.

If you look at cost and capex coming in with those cost savings, those are also a little bit higher than last year, which we also forecasted. Also, our outlook for the full year on implementation cost, restructuring cash out and capex is maintained. You have to be aware that we will invest a little bit more in the second half year on capex and that is related to the sorting and coding machines in Mail in the Netherlands.

Let me give you some highlights on the results per segment.

## Q2 2016: results per segment
### In line with expectations

| (in € millions) | Revenue | | Underlying operating income | | Underlying cash operating income | |
|---|---|---|---|---|---|---|
| | Q2 2016 | Q2 2015 | Q2 2016 | Q2 2015 | Q2 2016 | Q2 2015 |
| Mail in the Netherlands | 453 | 463 | 41 | 57 | 29 | 40 |
| Parcels | 235 | 221 | 27 | 26 | 27 | 24 |
| International | 247 | 233 | 1 | 3 | 0 | 5 |
| PostNL Other | 45 | 45 | (6) | (4) | (9) | (4) |
| Intercompany | (156) | (138) | | | | |
| Total PostNL | 824 | 824 | 63 | 82 | 47 | 65 |
| | HY 2016 | HY 2015 | HY 2016 | HY 2015 | HY 2016 | HY 2015 |
| Mail in the Netherlands | 925 | 939 | 92 | 116 | 67 | 86 |
| Parcels | 469 | 437 | 56 | 51 | 55 | 49 |
| International | 513 | 485 | 4 | 6 | 3 | 8 |
| PostNL Other | 89 | 92 | (10) | (11) | (17) | (10) |
| Intercompany | (308) | (279) | | | | |
| Total PostNL | 1,688 | 1,674 | 142 | 162 | 108 | 133 |

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First of all, the decline in Mail in the Netherlands. Volume decline was around 8%, revenue decline less but in the revenue decline you have to take into account that we had additional internal revenues with cross-border within our international segment. So the underlying revenue development is more in line with the volume decline.

If you look at the underlying cash operating income of Mail in the Netherlands, you see EUR 11 million decline, partly explained by the volume/price/mix effect and autonomous cost increases not fully compensated by cost savings but also by the Other impact in unaddressed and declining cross-border mail.

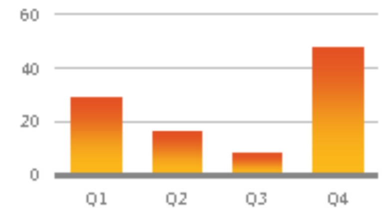
Within Parcels, Herna already explained the difference between the 16% volume decline and 6% revenue increase. So, there we have seen the impact of declining milk powder and also the decline in non-volume related revenue. And if you look at underlying cash operating income, you see an improvement of 12.5%. That is also a good and solid performance for Parcels.

On International, it is good to repeat that we expect better results in the second half-year in Germany and Italy, related to already installed actions, commercial actions and cost saving actions, from which we expect to have improved results in the second half-year.

Last but not least is PostNL Other, and there you see also the increase in advisory costs related to regulation and also to our project with bpost.

## FY 2016 underlying operating income outlook reconfirmed: €220 million - €260 million
### Q3 2016 expected to be better than FY 2016 trend

Average UCOI split 2010 - 2015
(%)




Working days

| | 2016 | 2015 |
|---|---|---|
| Q1 | 64 | 61 |
| Q2 | 62 | 60 |
| Q3 | 65 | 65 |
| Q4 | 64 | 68 |
| Total year | 255 | 254 |

**Q3 2016**

- Expected strong performance in Parcels
- Anticipated improved performance in International
- Higher capex and possible phasing of working capital between Q3 and Q4

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If you look at our full-year expectations, then we reiterate our outlook for the underlying cash operating income between EUR 220 million and EUR 260 million for the full year 2016. We also give some additional information on the expectations for Q3, where we expect better results than the full-year trend, partly driven by expected better performance in Parcels and also by the improvement in our results for International.

Then on the cash side, we see a little bit higher capex, also related to the investments in sorting and coding machines in Mail in the Netherlands, and then some phasing effects on working capital, so negative in Q3 and positive in Q4.

## Statement of income
Profit for the period includes completion sale of TNT Express

| (in € millions) | Q2 2016 | Q2 2015 | HY 2016 | HY 2015 |
|---|---|---|---|---|
| Revenue | 824 | 824 | 1,688 | 1,674 |
| Operating income | 50 | 77 | 120 | 146 |
| Net financial expenses | 127 | (19) | 110 | (40) |
| Results from investments in associates and joint ventures | 0 | (2) | 1 | (1) |
| Income taxes | (11) | (17) | (26) | (31) |
| Profit/(loss) from continuing activities | 166 | 39 | 205 | 74 |
| Profit/(loss) from discontinued activities | | (43) | | (44) |
| Profit for the period | 166 | (4) | 205 | 30 |
| *Excluding TNT Express* | *21* | *(6)* | *60* | *28* |

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Going to the statement of income, an improvement in profit for the period of EUR 170 million, of course mainly explained by a recycling effect from other comprehensive income to normal profit from the sale of TNT Express. That was EUR 145 million. Then the next part is that last year we had the one-off loss of the discontinued activities in the UK of EUR 43 million and then, if you adjust for those two items, our net profit also in line with the normal operational development. So, a decline in operating profit.

## Net cash impacted by TNT Express
Lower interest and income taxes paid

| (in € millions) | Q2 2016 | Q2 2015 | HY 2016 | HY 2015 |
|---|---|---|---|---|
| Cash generated from operations | 37 | 44 | 86 | 128 |
| Interest paid | (1) | (14) | (2) | (15) |
| Income taxes received / (paid) | (2) | (61) | (67) | (106) |
| Net cash (used in) / from operating activities | 34 | (31) | 17 | 7 |
| Interest / dividends received / other | (2) | (2) | (1) | (1) |
| Capex | (14) | (25) | (27) | (41) |
| Proceeds from sale of assets | 650 | 1 | 653 | 3 |
| Net cash (used in) / from operating and investing activities | 668 | (57) | 642 | (32) |
| *Excluding sale TNT Express* | *25* | *(57)* | *(1)* | *(32)* |

| | | Q2 2016 | HY 2016 | 2016 outlook |
|---|---|---|---|---|
| Capex | Base capex | 10 | 19 | |
| | Cost savings initiatives | 4 | 8 | |
| | New sorting and delivery centres | - | - | |
| | Total | 14 | 27 | Around 100 |

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Regarding net cash we have reached our milestone to be net cash positive due to the proceeds coming in from the sale of TNT Express. If you look at the Q2 results, it is also good to highlight we had less capex in Q2 and also less interest paid because we have less bonds outstanding. Next to that, as we also explained you last quarter, we did the tax payment in Q1 in 2016 and in 2015 these were spread over Q1 and Q2. So that explains more or less the improvement in our cash position.

As I said, we still expect to spend around EUR 100 million on capex for the full year 2016, related to expected higher investments in the second half-year on the new sorting machines and coding machines but also on Parcels.

## Consolidated statement of financial position

### Financial position further strengthened

| *(in € millions)* | 2 July 2016 | | 2 July 2016 |
|---|---|---|---|
| Intangible fixed assets | 146 | *Consolidated equity* | *(177)* |
| Property, plant and equipment | 486 | *Non-controlling interests* | *2* |
| Financial fixed assets | 86 | Total equity | (175) |
| Other current assets | 522 | Pension liabilities | 479 |
| Cash | 987 | Long-term debt | 913 |
| Assets held for sale | 11 | Other non-current liabilities | 65 |
| | | Short-term debt | 3 |
| | | Other current liabilities | 933 |
| Total assets | 2,238 | Total equity & liabilities | 2,238 |

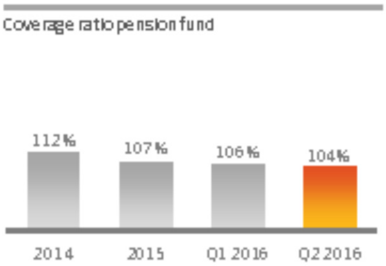
- Net debt decreased by €655 million to €(77) million compared to the end of Q1 2016
- Consolidated equity improved by €17 million to €(177) million compared to the end of Q1 2016
- Corporate equity of €2,301 million, of which €223 million distributable

On our balance sheet, I want to highlight three items. First of all, the improvement of our debt position to a net cash position, second, the improvement in our consolidated equity, mainly related to the net profits we have just shown, and last but not least, our distributable equity has increased with more than EUR 200 million, partly explained by TNT Express but also by dividend coming in from the underlying companies to PostNL N.V.

## Pensions

### Limited negative impact of €(8) million on equity

| *(in € millions)* | | Q2 2016 |
|---|---|---|
| Return on plan assets in excess of interest income | | 248 |
| Defined benefit obligation | | (271) |
| *Of which:* | | |
| *Lower IFRS discount rate* | *(271)* | |
| Minimum funding requirement | | 12 |
| Total pension | | (11) |
| Net effect on equity within OCI | | (8) |




- IFRS discount rate per end Q2 2016 at 1.5%

Then my favourite subject of course: pensions. First of all, as to highlight the Q2 results, you see a rather limited impact on our equity of EUR 8 million despite the decline of the corporate bond rate from 1.7% to 1.5%. That is related to better-than-assumed return on assets of the pension fund.

If you look at the performance of the pension fund, so more on the cash side, you see a further decline in the 12-month average coverage ratio to 104.2%. As you know, the minimum coverage ratio is 104% exactly.

## Limited sensitivity to equity position if interest rates would further decline

### Alignment IFRS accounting and (potential) top-up payments

- Ongoing decline interest rates to current low level triggered additional analysis on impact equity
- Current analysis shows that main pension liability is expected to be capped to:
  - unconditional funding obligation of €129 million, plus
  - estimated top-up payments
- Estimated top-up payments are:
  - triggered when 12-months average coverage ratio pension fund is below 104%, and
  - pension fund unable to recover to 104% within five years, taking into account development of interest rate pension fund and assumed reasonable excess return on assets of 1.5%*, and
  - capped at 1.25% of obligations of pension fund (currently around €95 million, pre-tax) per annum, for at most five consecutive years
- Based on our projections (starting point Q2 2016 actuals, interest rate pension fund ~1.0%):
  - 0.5% decline in the pension fund's interest rate compared to Q2 would only impact equity relatively limited
  - Each 0.1% further decline** would impact equity by around €50 million

* Based upon expert opinions
** All other relevant variables remaining unchanged

That gave us also reason for further analysis of the impact of further declining interest rates on our equity position because that is important for our ability to pay dividend. The current analysis shows that the impact of further declining interest rates – and that is on the main pension liability – is capped to the unconditional funding obligation which is already in our balance sheet of EUR 129 million and then an estimate of our top-up payments. Where these 'estimated' top-up payments are based on: that is triggered when the 12-months average discount rate comes below 104% and the pension fund is unable to recover to that 104% in five years. That is something that you already know, because that is the deal with our pension fund. Taken into account the expectation of recovery, we calculate with an average return on assets of the pension fund of 1.5%.

Next to that, the top-up payments are already capped at 1.25% of the pension obligation per year, which at this moment is around EUR 95 million. Based on all those facts and further analysis, our starting point is the Q2 results and also a discount rate of the pension fund of around 1%, our projections at this moment are that we have still headroom for a further decline of interest rates of 0.5%. That means that the interest rate of the pension fund can have a further decline to 0.5% before equity is relatively impacted.

Next to that, the equity impact will be around EUR 50 million if the interest rate would further decline, for instance from 0.5% to 0.4%. Those are net amounts, so after tax, and that is the equity impact. That is further insight compared to where we were a quarter before.

That leads to our main conclusion for today and that we expect to be able to pay dividend in 2017. We also like to repeat that it is our commitment to pay dividend in 2017. And that is next to the key messages for today: a reconfirmation of our outlook for 2016, a reconfirmation of our ambition for 2020 of an underlying cash operating income between EUR 285 million and EUR 355 million and we expect gradual improvement already in 2017. That is the reason why we give an outlook for 2017 of an underlying cash operating income of between EUR 230 million and EUR 270 million.

With that, I would like to finish my presentation and thank you for your attention.

**Karen Berg**: Thank you Herna, thank you, Jan. I would now like to start with the Q and A. We will begin with the people here in the room and then the people who are dialling in can ask their questions by pressing *1.


- **Mark Zwartsenburg – ING**

I have a couple of questions. First, given that you are now cash positive, and the question has been asked before, where do we stand in terms of debt reduction? What are the options there, looking at the market rates and potential penalties? Can you give me a bit of an update of what we can see in terms of uses of your cash?

Secondly, you now provide an outlook for 2017. Can you share with us also the building blocks to come from 2016 to 2017, in terms of cost savings for instance, cash out for restructuring and all that, so the main building blocks to get to the outlook for 2017?

And then on the ACM draft: you still provide the range of EUR 30 million to EUR 50 million, but is the draft now different from your initial thoughts for instance one year ago? What is more positive, what is more negative? Can you maybe narrow down the impact? We already had some impact from ACM. It is already in the P&L, but since you are appealing to this first draft, does this also mean that the first draft is perhaps less in line with expectations than previously anticipated?

**Jan Bos**: I will start with the first two questions. First of all, as we said before, we use the proceeds coming from TNT Express for further debt reduction. That is our priority. We are looking at an economically wise possible bond buy-back. Secondly, we take into consideration the impact it will have in 2016 and 2017 on our consolidated equity.

**Mark Zwartsenburg – ING**: But is it still as likely or possible since interest rates came down? Has that situation changed, are there potential penalties, et cetera?

**Jan Bos**: Yes, you have to take into account the declining interest rate is also affecting – so, the interest we are paying – our cash position. That means they economically balance, almost comparable to where we were.

Your second question was on more building blocks on 2017. For today, we stick with the guidance for 2017 fro now and we will, as we normally do, come back on building blocks with the Q4 results.

**Herna Verhagen**: Then on significant market power; our concerns have not changed. We are working in a very strongly declining market and if you want to maintain a sustainable network over the next coming five to ten years, you have to take that into account when regulating the market. Together with, as also earlier said, that the impact of significant market power may also have an impact on the amount of people working for PostNL. We try to do this with prudence. I think significant market power is a new territory, which means that there is no other country in Europe, except for Malta, that implemented significant market power. That means that for both parties it is not always an easy exercise to make sure that significant market power is implemented as good as possible going forward. There are two draft views on the table at this moment in time. That is of course the draft view of ACM on significant market power and the draft policy of the Ministry of Economic Affairs, which gives guidance as to how to implement and how to explain significant market power. Because the two are still drafts, there is no reason for us to adjust the EUR 30 million to EUR 50 million which we earlier communicated. What we did say – to refer to the last part of your question – is that of course some of the effects of measures taken by ACM are in our numbers but they were part of the EUR 30 million to EUR 50 million as well. As explained at the end of last year, it will hit our numbers in the next three to four years. The first year was 2016 and the full amount will be visible in 2019.

**Mark Zwartsenburg – ING**: Are these drafts in line with each other or is there a big discrepancy between what was initially the task from the government and what is now the outcome from the ACM, which is an independent party now coming up with a draft? Is that in line with what was initially targeted by the government? Could you also share with us the timeline from now as to what we can expect? When will we see a final outcome?

**Herna Verhagen**: I am not sure if it was targeted upfront by the government how it is now viewed by ACM. The only thing that I see is that there are two views on the table, a view of the Ministry of Economic Affairs which gives guidance to how to implement significant market power and a view on significant market power of the ACM.

It is difficult to give a timeline. To be honest, I do not know what the exact timeframe is in which they will come up with the conclusion because both have to come up with their final view. In principle the guideline of the Ministry of Economic Affairs has to be taken into account in the final view of ACM on significant market power.

**Mark Zwartsenburg – ING**: Thank you.

- **Philip Scholte – Kempen**

Jan, also my favourite subject is pensions. If the accounting is now more aligned with the cash, does that also mean that we actually have to smooth the coverage ratio of the pension fund? With the official reported coverage ratio of course there is a 12-month average. Does that mean that the impact on your equity position only kicks in if the smoothed coverage ratio drops below that 99%?

**Jan Bos**: I think there are two different answers. There is more alignment. We have an agreement with the pension funds, which states that every year you have to look if the 12 months average coverage ratio comes below the coverage ratio we agreed with the pension fund. Then we have to pay the top-up payment.

If you look at accounting, we have to make an estimate in accounting terms for the full five years of top-up payments. So, that is a different impact: for the pension fund is looking every year if you have to do top-up payments for that year and for equity you have to look at the full five-year estimate and there you have to take into account an assumption on the return on assets and also the coverage ratio. It is a different method but it is more aligned.

**Philip Scholte – Kempen**: Right. So, the impact on your equity position would be more based on a spot rate of the actual coverage ratio?

**Jan Bos**: Yes, and it is triggered only when you have to look at that estimate. It is triggered when the 12-months average coverage ratio comes below 104%. By the way, that will probably be the case at Q3.

**Philip Scholte – Kempen**: Okay. And then a short follow-up on that. You say that the relative impact is modest with the first 50 bps. Can you quantify that?

**Jan Bos**: It gives you an idea that after that 0.1% it has an impact of EUR 50 million, so it should be less. Secondly, you have to take into account it is the impact not only from the main pension fund, because we are also still a little bit interest-sensitive on the other pension obligations. That is mainly the conditional pension obligation for the soft pensions.

**Philip Scholte – Kempen**: Thank you. Right. Okay, thanks. Then on bpost: Herna can you maybe share your thoughts and give a bit more detail on why you think it did not really work? And because you have given more clarity on the pension side you have given today, was that part of the issues, part of the discussion and maybe part of a solution?

**Herna Verhagen**: What we will share on bpost is what we shared in the press release. We did not come to a finalisation of the conditions of a merger agreement. The gap on those conditions was too big to come to an agreement. That is the conclusion which we both shared over the last weekend before we came to the market on Sunday evening. What played a role of course is that when you talk about all those conditions you also have to talk about deal certainty, so what makes a deal certain. In the end, there was not enough deal certainty to finalise it. I also read all the speculations on the reasons why it did not happen. The only thing I can say, is that if you look into those reasons, it was part of the conditions but there was much more when it comes to conditions in a merger agreement, which in the end did not lead to a positive conclusion. We closed the book that weekend and that is the reason why we went to the market, to give clarity around that we ended negotiations.

**Philip Scholte – Kempen**: Can you maybe share one other issue with us that you did not read in the press or wherever to give us a bit more feeling about what we can think about?

**Herna Verhagen**: Yes. What we also shared with bpost is that when it comes to negotiations around these sort of mergers, trust is necessary, to make sure that you can negotiate in a trustworthy environment, also after the deal. This means that we will highlight on issues, we will not highlight on specific conditions. It was the total deal which in the end came not to a conclusion and which led to the conclusion by the end of the weekend to not finalise it.

**Philip Scholte – Kempen**: Then thirdly if I may, on the unaddressed mail business in the Netherlands: are we bottoming out here? It continues to impact the Other line. Are there any possibilities to just close it or fully integrate it in your Mail business, to just stop the - what I assume to be - operating losses at the moment?

**Jan Bos**: I think I have used the term 'more a one-off step down' in unaddressed, because of difficult market circumstances and our projections is that it will be a one-off step down for 2016.

**Philip Scholte – Kempen**: But then it is loss-making?

**Jan Bos**: No, no, it is still profitable.

**Philip Scholte – Kempen**: Okay.

- **Henk Slotboom – The Idea**

I have a couple of questions. Jan, sorry to be such a pain on the pension fund; that starts with a P as well. Where does the 1% come from, this rate that you apply for a discount rate as of now? Is it a fixed thing, can we try and trace it ourselves? Could you shed some light on that?

**Jan Bos**: It is a discount rate that the pension fund uses, so it is not a public rate available to follow that. If you follow the 12- or 20-year pension fund rate of the Dutch Central Bank and the change in that, it is a good indicator for the development of this discount rate.

**Henk Slotboom – The Idea**: I asked you already before the meeting: when did it become clear to you that there was a deviation between the guidance you issued in November of last year at the pension workshop, and now, given the fact that there has been quite a lot of research written in the past few weeks on the pension fund and the possible impact, the potential impact of the discount rate on the pension liability and with it on the consolidated equity? Was there enough time to have prevented all these reports from being issued and that you would have said for example that you are investigating it and you would clarify this in the second quarter results?

**Jan Bos**: As we said before, it is undefined territory, the combination of the declining interest rates and that you crossing the liability ceiling, together with our limited top-up payment obligations. That was also the conclusion of our experts and our auditor. So, we did a very thorough analysis also because of the implications it has on our ability to pay dividend. I think that analysis ended just a few days ago, to be actual, also with conclusions of the impact on our equity. That is why we communicate it today.

**Henk Slotboom – The Idea**: Let's go for something completely different, to put it in Monty Python terms, and let's look forward. The good news of all of this is of course that you expect to be able to pay a dividend in 2017. If I look at the annual report, then your dividend policy shows that you aim at a pay-out ratio of 75%. I know that the guidance you gave on the underlying cash earnings is not the same as the basis on which you define the dividend. But suppose, purely for argument's sake, 75% of the definition that you use is EUR 150 million, you have EUR 150 million-ish as a benchmark figure next year as a consolidated, positive consolidated equity, would you go as far as paying out this EUR 150 million dividend in one go, for example, if that equals 75%? Or do you say, let's take it easy, let's save something for a rainy day and we want to pay a dividend in 2018 as well; you never know what happens?

**Herna Verhagen**: First of all, of course, we were planning to pay dividend on our consolidated equity, which means that we add the net profit of the two quarters still to go in 2016, and then, of course, the profit over 2017. We pay a dividend over 2017, so it should be expected in the second half of the year. By that time we will apply our dividend policy, which is indeed 75% of the underlying net cash income.

**Henk Slotboom – The Idea**: So, if the underlying cash net income in my example would equal EUR 150 million, you would be prepared to pay out the full EUR 150 million to go to an equity position of zero again?

**Herna Verhagen**: As long as we can follow, of course, we have to have a positive corporate equity. We want to be a structural dividend payer, and we will apply our dividend policy, which is 75% of the underlying net cash income.

**Henk Slotboom – The Idea**: Sorry to be such a pain, but even if it means going to, in this case, you pay out 99.9% of EUR 150 million, hypothetically that is possible, you say?

**Herna Verhagen**: Yes.

**Henk Slotboom – The Idea**: Jan, one last question for you, is about the building blocks of the distributable corporate equity. I am completely lost there. Every time this figure is a big surprise for me.

**Jan Bos**: To help you with this distributable corporate equity and the positive development: it is actually the release of the value increase in our TNT Express share, due to the fact that the sale is accomplished. That is about EUR 140 million. Next to that, corporate equity is depending on dividends coming in from underlying companies to PostNL N.V. That is the other EUR 100 million more or less, which is dividend from underlying companies to PostNL N.V. That also explains an increase in distributable corporate equity. We are a little bit unique because we have a difference between corporate and consolidated equity, but that you know already.

**Henk Slotboom – The Idea**: Maybe one more question? You referred to the draft letter, the consultation letter written by the Dutch Minister of Economic Affairs. Do you agree with me that the undertone is a bit friendlier than what we have seen from the ACM so far in terms of ex ante supervision? I get the impression that Kamp is saying to ease off a little bit, be careful with the ex-ante supervision.

**Herna Verhagen**: We gave our view, which is confidential, to the Ministry of Economic Affairs on its draft policy rule [*Correction PostNL: view on draft policy rule is not confidential*]. I would say from my position, I would like to wait until the final policy is there. Then I will give you my view on it.

- **Maarten Bakker – ABN AMRO**

The ACM is also looking into the parcels side of your business. Can you give us some colour on where you expect this discussion to go to?

Then regarding the impact on the Mail Netherlands results of ACM measures that have already been taken, you have indicated EUR 30 million to EUR 50 million in the coming years. To what extent are these already being seen in the second quarter? How much more is to come? Could you give a percentage or something?

My final question for Jan is whether the pension accounting also affects corporate equity to the same degree as consolidated equity?

**Herna Verhagen**: ACM reviewed the parcel market in the Netherlands and they came up with a report. Based on that report they asked follow-up questions which we have answered in the meantime as well. I do not have a real expectation at this moment in time where that discussion leads to, but in their report they said they did not see that there are hindrances for competition in the parcels market at this moment in time, but that they want to review the market again in a year from now. I do not know how these follow-up questions will be incorporated in their final view. We have to wait for that, but that is what they said in their in-between view.

Regarding ACM measures, at the strategy update we said that our adjusted market approach together with the ACM measures has an impact of EUR 35 million in 2016. The impact of both is in line with expectations, also for the second quarter. So, part of that EUR 30 million to EUR 50 million has its impact in 2016.

**Jan Bos**: Your last question is regarding the main pension plan. The pension accounting has the same impact on corporate equity.

**Maarten Bakker – ABN AMRO**: One on one, it is the same?

**Jan Bos**: Yes.

- **Wijnand Heineken – Independent Minds**

I still have a few questions on pensions. You mentioned that it is expected that the coverage ratio will be below the minimum required level in Q3 and that is definitely something to expect, taking into account the trends we have seen. But there is still something that is not just clear to me, because it is not automatically happening that when you touch lower than 104%, you need to get into top-up payments. It depends on the recovery of the fund itself by the return on its investments. I just wanted to have a bit more background, if possible, on how that process is working, because the recovery power is based on anticipated returns on your investments, or the investments of the pension fund. That will not depend on one quarter, so you must have a feel at this moment of what will happen next when we hit less than 104%. How big is the chance that you actually need to get into the top-up payments? The actual top-up payments of premiums is linked to the dividend payment as well. Is that still the case?

Finally, the unconditional funding obligation is kept at EUR 129 million. Does that mean that there is a chance that actual payments will be higher than the EUR 1 million you guided for the year?

**Jan Bos**: Regarding your first question: we have already reached an agreement with the pension fund at the end of 2013. We agreed on the mechanism of how to determine top-up payments. That is based also on new legislation adopted. It is based on the average coverage ratio, and that is determined at the end of the year. And then the pension fund takes into account its own ability to recover. They take into account their own return on assets, but also the fact that during a period of under-coverage there is also no indexation for the retired people. That means that in the first year it needs to reach a coverage ratio below 98.6% before you have to do a top-up payment. The second year it will be a higher, say about 99.5% or something like that, until the last year you have to reach 104% and then every year our top-up payment obligation is maximised to 1.25% of the pension obligation.

Then the unconditional pension obligation is EUR 129 million. That is still the same number. Payment was formerly linked to the ability to pay dividend, but we have changed that last year because we are also paying interest on that obligation. That is the reason why we already started to pay off that obligation in 2015. The remaining part, EUR 129 million, is still on our balance sheet and we expect at the end of this year that we still pay one-fourth of that number, which is about EUR 30 million.

- **André Mulder – Kepler Cheuvreux**

Can you split the volume increase of 14% in Parcels into the Benelux, Belgium, and international activities?

I would also like to know what your growth rate was in B2B.

**Herna Verhagen**: These are understandable questions, but we never give any disclosure on the different growth numbers in Parcels. But Benelux, Belgium, and International are growing fast and B2B is almost in line B2C at this moment in time.

**André Mulder – Kepler Cheuvreux**: I have one last question. We are of course a long shot from the next topic, but in the past, you used to give this range of 3.7 to 1.5. Is the 3.7 still standing? So, that means that from there on every 10 bps will be EUR 100 million positive?

**Jan Bos**: That is still standing.

- **Mark Zwartsenburg – ING**

Can you give us an indication, Jan, of the expected dividend from the joint ventures or the other companies that are feeding into your consolidated equity? I think you mentioned now an amount of EUR 100 million. That is quite sizeable so, what do you have as a sort of ballpark figure in there for next year?

The other one is on the milk powder. Is that currently declining and, if so, at what rate? What proportion of parcels revenue is still in the milk powder?

**Jan Bos**: A good indication for the dividend coming from the underlying companies is more or less the net profit of the whole company normalised for extraordinaries, so the underlying business profit, so to say.

**Herna Verhagen**: When we first communicated about milk powder, we already said that we did not expect this to be fully sustainable. That is also what we slightly saw in Q1 and more in Q2. We see a significant decline in milk powder to China. That is one of the biggest reasons why the 16% or 14% of volume growth in parcels is not translated one-to-one into revenue. Part of that milk powder decline is probably because of the fact that there is more milk powder made in the Netherlands, so the shortage we had is not there anymore. Part of it is because there is price competition in that market and part of it – but we do not know – could be that there is less demand in China. But the latter is difficult for us to estimate.

**Mark Zwartsenburg – ING**: What is the exposure to milk powder, of revenues, roughly?

**Herna Verhagen**: That is relatively small, if you compare the total revenue of Parcels.

**Mark Zwartsenburg – ING**: But it must be still quite sizeable, not like a few percentage points? Because it has quite an impact on your price mix. So it must be quite sizeable in terms of proportion of revenues in Parcels.

**Jan Bos**: You have to take into account that earlier, one and a half year ago, we guided that one quarter was EUR 11 million, EUR 12 million of revenues in milk powder. So, that gives an indication.

**Mark Zwartsenburg – ING**: That is significantly down from the number, roughly?

**Jan Bos**: If you look at operational results, of course, it is less.

**Mark Zwartsenburg – ING**: Thank you.

**Karen Berg**: There is no one on the line asking questions.

- **Philip Scholte – Kempen**

In that case, I will chip in. Herna, are you afraid of the evaluation of the USO or is that just a theoretical exercise?

**Herna Verhagen**: I do not think it is a theoretical exercise, because also the last evaluation of USO was done thoroughly. That is what I expect the Ministry for Economic Affairs to do this time as well. I am not afraid in that sense, but it will be in my view thoroughly reviewed.

**Philip Scholte – Kempen**: What could it lead to? They conclude something and then?

**Herna Verhagen**: Then there will be discussion in parliament.

**Philip Scholte – Kempen**: About?

**Herna Verhagen**: I do not know. That will of course be part of the evaluation. I do not know what the outcome will be, but what I do know is that they will come with the view on the evaluation of the Universal Service Obligation. That needs to be discussed in parliament and that may lead or can lead to changes. There can be changes in regulation, there can be changes in law, and those will need their own process in the end. So it is difficult to say at this moment in time. They just started.

**Philip Scholte – Kempen**: Right.

**Karen Berg**: I think I was quite effective so we now have two callers on the line as well.

- **David Kerstens – Jefferies**

Good morning. Just a question also on the discount rate for the pension fund. Do we now have to look at two different discount rates or does the interest rate of the pension fund move in line with the IFRS discount rate that you have been reporting?

The second question is regarding your guidance. You confirmed full-year 2016 guidance, but you leave the range unchanged after the six months in the year. I think you showed the historic seasonality and based on that you would expect that you arrive exactly in the middle of your guidance range. However, in the fourth quarter, you have highlighted you have four fewer working days. What is the likelihood that you will be able to end up in the upper end of the range? What will be the impact of the working days in the fourth quarter?

Has that perhaps to do with the subject of my final question, the UCOI bridge that you presented: the Other category of EUR 20 million negative that you had in the second quarter. Is that largely non-recurring? And is some coming back in the third and fourth quarter?

**Jan Bos**: Let me start with your first question. Also for accounting reasons, up till that we cross the liability ceiling, we still have to use the corporate bond rate as a discount rate in our accounting. But if we have crossed the liability ceiling, then we have to look at the estimated top-up payments. For that estimate, we have to look at the discount rate of the pension fund, and that is 1%. So it makes it a little bit more complex, but that is the trend.

Your second question is a question on guidance. We repeat and reiterate our guidance of between EUR 220 million and EUR 260 million and do not see reasons to guide to the lower or upper bandwidth.

The third question was on the EUR 20 million Other. It is partly declining in traditional cross-border mail. I think that is also what you could expect in the future. If you look at unaddressed, we call that one a step-down in 2016 and phasing in one-offs. Those are words that are used for phasing one-offs.

**David Kerstens – Jefferies**: Thank you.

- **Andy Jones - RBC**

I have three questions, all pension-related as well. Firstly, can you be clear on how this would be reported once you get below or once the liability ceiling starts to kick in? I saw your slide on pensions, but does this mean we see the full movement in the gross liability and then there will be a credit back from the impact of the liability ceiling?

My second question is whether the pension fund include the unconditional payments that you need to make in the future in calculating that 104% when it comes to the top-up calculations or top-up discussions

Finally, the reality of all of this is that as the discount rate falls, more of the risk is being pushed onto towards the pensioners rather than the company. So is this something that the union or the employees have an eye on? Is there any unrest around this? The worse a situation gets, that they might want to come back and change the situation with the pension agreement? Thank you.

**Jan Bos**: To answer your first question I think you are right in concluding it is a gross impact on pension liability and then netted by the tax position and the impact on the P&L is running via other comprehensive income.

And regarding your second question, yes, the pension fund takes into account under assets as an asset the unconditional pension obligation we are having towards the pension fund.

**Herna Verhagen**: On your last question, we did not change anything in the conditions and the agreement we have with the pension fund. So every payment we have to do to the pension fund will be done by PostNL. The changes you find or were discussed today and that we have highlighted in our press release, are in accounting. So in our discussions and meetings with the workers' council and the unions, there is nothing changed in the agreement we have and in the conditions underpinning that agreement with the pension fund.

- **Tobias Sittig – MainFirst**

Good afternoon. I will seize the opportunity to ask some questions on the international business, please. Firstly, in Germany your revenues are flat but you had higher pricing from Deutsche Post and a strike last year and the talk was that you are gaining some market shares. I am wondering whether that is only phasing that it is only flat?

The second question on Germany: there is a change in the legislation or in the way Deutsche Post handles registered mail. So do you think there are any major tenders for registered mail coming up that you could potentially win or benefit from in the second half?

The next question is on Italy. I am a little bit surprised that Formula Certa is moving backwards, given the price here in Italy is also moving upwards. What is your analysis of how competitive the product still is and what are the countermeasure to make it grow? The way it is today, it is probably not large enough from the network to be a profitable product in the long run.

Thirdly, on Spring: I am surprised by the 37% growth in revenue. Can you put a little more granularity on what that actually is, whether that is a new product that you have introduced as well? Is it parcels that are put in envelopes as letters that is replicating other businesses? Where is that strong growth coming from?

**Herna Verhagen**: First on Germany. Revenue is flat and that has partly to do with the fact that we have sold Frankfurt. Partly it has also to do with the fact that we did not increase our prices as much as Deutsche Post did.

The changes in legislation and especially on registered mail items, will we benefit from these standards? What I did see from our German team when I talked about the customers and the volume they have won that it was not in registered mail. It was in bulk mail and they are mainly specialised in B2C mail.

In Italy, the prices of Poste Italiane especially in bulk mail are not moving upwards. They are moving downwards, and that is where we see an impact in Formula Certa as well. Formula Certa is a profitable product. That is what we expect it to be going forward as well. We see the amount of mail growing in the non-USO arena and there we see opportunities going forward.

The growth in Spring is parcels and packages, and packages are small parcels in an envelope and parcels are normal parcels. It is both. It is from Asia to the Netherlands and from Europe to the Netherlands. We have seen this trend already over the last quarters.

**Tobias Sittig – MainFirst**: And just following up on Italy: can we expect that to bottom out volume-wise in the second half of the year? Do you look at that?

**Herna Verhagen**: We expect it will bottom out to a certain extent. Second, we expect further growth in parcels because also the roll-out of the parcel network is of course impacting the results in Italy.

**Tobias Sittig – MainFirst**: Thank you.

**Karen Berg**: Any more questions in the room? If not, thank you very much for attending this meeting and hope to see you next time. Thank you, bye!

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End of call

## Appendix

- Breakdown pension cash contribution and expenses

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## Breakdown pension cash contribution and expenses

| Pensions | Q2 2016 | | Q2 2015 | |
|---|---|---|---|---|
| *(in € millions)* | Expenses | Cash | Expenses | Cash |
| Business segments | 26 | 32 | 31 | 38 |
| IFRS difference | (1) | | 3 | |
| PostNL | 25 | 32 | 34 | 38 |
| Interest | 3 | | 4 | |
| Total | 28 | | 38 | |

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