



## Q1 2019 Results

The Hague, 7 May 2019



### **Jochem van de Laarschot – Director Communications & Investor Relations PostNL:**

Good morning. Welcome in Amsterdam. The depot in Amsterdam is the newest one and was opened in the second half of last year. We are very happy to welcome you here at our Capital Markets Day, but first we will talk about the first quarter results. My name is Jochem van de Laarschot, head of Investor Relations of PostNL. It is my pleasure to introduce Herna Verhagen, our CEO, and Pim Berendsen, our CFO, who will talk about the first quarter results.



## Q1 2019 Results

### Key takeaways and business review

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**Herna Verhagen – CEO PostNL:** First of all, some key takeaways and of course a business overview.

## Over 50% of PostNL revenue now relates to e-commerce

Outlook 2019 UCOI confirmed

Revenue Underlying cash operating income

**Q1 2019** €684m €31m

Q1 2018 €674m €32m

Progress acceleration of transformation



#### Key takeaways

- Volume growth at Parcels continued, focus on improving operational leverage
- Ongoing attention for achieving cost savings in Mail in the Netherlands to offset volume decline

#### Process intended consolidation progressing as expected

- First step in formal process ended, PostNL and Sandd filed request for licence

#### Draft consultation Postal Act

- When presenting the conclusions of the postal dialogue in 2018, the State Secretary underpinned the need for new legislation reflecting the structural decline in the postal market.
- Following these conclusions, a consultation document with proposed amendments on the Postal Act was recently published

#### Final collective labour agreements reached

- New CLAs for PostNL and Saturday deliverers from 1 January 2019
- Increase in salary of 3% in total, in three steps

#### Divestment process Nexive and Postcon

- Disposal processes progressing in accordance with communicated timelines

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We saw a revenue growth in the first quarter of 2019. The underlying cash operating income is stable when you compare it to the first quarter of 2018. Key takeaway for us in the first quarter is that it is an okay-ish quarter.

With Parcels we continue to try to improve the leverage between the amount of volume and in the end of course the underlying cash operating income. This is also the subject of our Capital Markets Day, so this afternoon we will talk for a very long period of time about how we will be able to do this.

In Mail in the Netherlands volume decline continuous and I will give you an update on that a few slides later. Here, focus on cost saving remains of course of the utmost importance going forward.

The first quarter was also a quarter about consolidation. We announced consolidation on February 25 of this year, and we set the first steps towards consolidation. In phase 1 ACM decided that they wanted to have a request for license from PostNL and Sandd and we have of course submitted that licence request to ACM. We are now in the midst of phase 2. As you probably remember phase 2 is a maximum period of 13 weeks. Every time ACM asks us questions, they can stop the clock and that will extend that period of 13 weeks. The process is processing as we expected it to be.

We also saw the new concept of the new Postal law. It is a draft consultation in the beginning of April. When you look through that draft Postal law it gives a view of what the State Secretary already sent to Parliament in 2018. In 2018 she wrote to Parliament that in her view, with the structural declining market, it is necessary to adjust regulation. That is what you see into the draft consultation of the Postal act. Of course, we will give our view on that draft Postal act. That will be sent in in the next coming weeks.

We reached the final CLA together with three unions. That has an increase of salary of 3% over a period of 15 months. Last but not least, we are progressing in accordance with our communicated timelines when it comes to the divestment of Postcon and Nexive. That means that we expect to close or to finalise the divestment process by the end of Q2 2019, so by the end of Q2 this year.



In the first quarter of 2019 for the first time more than 50% of our revenue was related to e-commerce. You probably already read in our press release that we reconfirmed the outlook for the full year 2019.



In Parcels, for us it is important to keep focusing on improving the operational leverage. Revenue increased and underlying cash operating income was flat if you compare it to the first quarter of 2018. Volume growth in this first quarter was 16%. We tell it every quarter, but we will do it once again. If you look into the revenue of Parcels, part of that revenue is volume-related, the orange part of the circle you see on the slide. The 16% is related to that part of the revenue.

The revenue (excluding Spring) increased with 13%. We did see volume growth, but it was again slightly offset by a negative price mix effect. We do see still growth for value-added services. That demand is still growing. We see growth in revenue of our logistic solutions. That means that, if you look into our Parcels customers, they are of course interested in our Parcels Benelux network, but you also see that they pick up the extra services, because those extra service do give them extra value. Strong growth of our activities in Belgium. In Q1 growth in Belgium was around 30%.



The underlying cash operating income is in line with last year. That has to do with our operations. We still see that with the growth of volume our operational efficiency is growing. That has for example to do with the drop duplication. So, more and more households have more than one parcel when we deliver. On the other hand, in the first quarter we saw higher labour cost in a tight labour market. We hired lots of new people and those people need to be trained. We make some cost to retain them because in the end people who stay with us and work with us for a long time become more efficient. That is one, but they also become people who know their customers much better and much more than when they work with us for a short period of time. We had additional cost because of the opening of the three new depots in 2018 and we think those costs will phase out over the rest of the year.

Logistics is growing in revenue and also in results. That is also what we see in Spring. Spring has a decline in revenue, but a slightly better result than in the first quarter of 2018. So, there we are on track to see the improvements we expected to see in 2019.

So, for Parcels: strong volume growth and focus on operational leverage is of the utmost importance over here.

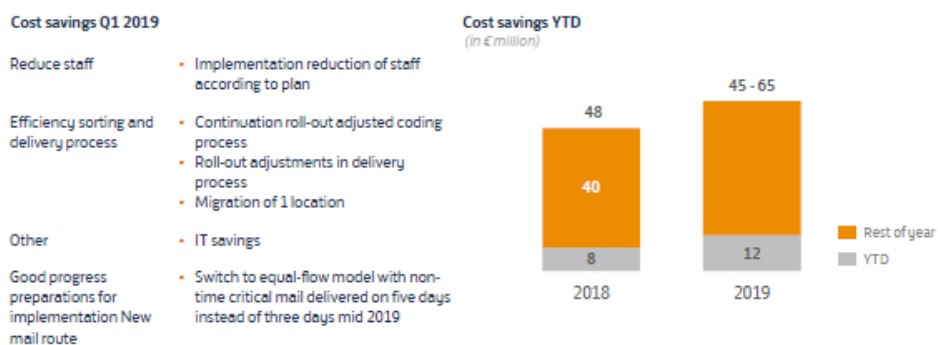




With Mail in the Netherlands there are always a few elements important when we come to the results. The first one is of course volume decline. The volume decline in the first quarter was 9.8% (adjusted volume decline 9.1% corrected for one working day). This 9.8% is partly in the single mail items, which means the items where we have a relatively high margin. There is also a loss to competition, where we see that postal operators in the Netherlands still deliver more mail themselves and do not bring it to PostNL.

A second important part in the results of Mail in the Netherlands are cost savings. The cost savings in the first quarter were EUR 12 million. That is in line with the expected run rate we saw in Q4 2018 and the improved run rate we saw in Q4 2018. We did see that in Q1 as well. In the end, delivery quality in the first quarter was 95%. That brings us to a declining revenue and of course also a small decline in underlying cash operating income from EUR 17 million first quarter 2018 to EUR 15 million first quarter 2019. The total cost savings were an amount of EUR 12 million, which is for the biggest part cost savings within Mail Netherlands, so our postal company, and partly cost savings within head office.

**€12m cost savings achieved in Q1 2019, continuing run-rate Q4 2018**  
 FY 2019 cost savings expected to be in range €45m - €65m



Those EUR 12 million cost savings need to add up to a total cost savings amount by the end of the year of around EUR 45 million to EUR 65 million. The cost savings in the first quarter



came from reduction of staff, which is of course staff within the head office of Mail in The Netherlands itself, but also staff at the head office of PostNL, and more efficient sorting and delivery processes. Here we see that the roll-out of our automatic coding machines and the combibundel in our delivery process do deliver more efficiency and brings in the necessary cost savings. There were also savings in IT and last but not least we are busy of course with the preparations for the new route of the mail. At the announcement by the end of February, the Q4 numbers, we said that in 2019 a very important step for Mail in the Netherlands is the introduction of the new route of the mail. That will bring us to an equal flow system for mail in the Netherlands instead of having peaks and of course troughs that we have today. Why is it so important? Because it will enable us to create more efficiency going forward with the expected volume declines also for the years to come.

### UCOI outlook 2019 confirmed

(in € million)	Revenue		UCOI / margin	
	2018	outlook 2019	2018	outlook 2019
Parcels	1,555	+ low teens	117 (7.5%)	7.5%-9.5%
Mail in the Netherlands	1,678	- mid single digit	93 (5.5%)	3%-5%
PostNL Other / eliminations	(461)		(22)	
<b>Total</b>	<b>2,772</b>	<b>+ low single digit</b>	<b>188</b>	<b>170-200</b>

Following the announcement 'PostNL and Sandd to form one strong national postal network for the Netherlands', the financial outlook for 2019 might change

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If we look into the first quarter and into the results of Mail in the Netherlands and Parcels, we confirm the outlook 2019. That means that for Parcels we expect to be in the bandwidth of the 7.5% to 9.5% margin, which is of course comparable to the margin we had in 2018. The same for Mail in the Netherlands: 3% to 5%. When it comes to the overall underlying cash



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operating income for PostNL, we expect a margin somewhere between EUR 170 million to EUR 200 million.

So, we say it was an okay quarter. There is underlying work to do when it comes to Parcels, operating leverage. When it comes to Mail, of course cost savings remain to be of the utmost importance. Overall confirmation of the outlook 2019.

Let us dive into the financials, Pim.

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Q&A



**Pim Berendsen – CFO PostNL:** Thank you, Herna. Good morning, everyone.





## Financial highlights Q1 2019

(in € million)	Q1 2018	Q1 2019
Reported revenue	674	684
Reported operating income	40	22
Restructuring related charges	1	
Project costs and other	2	9
Consolidation effect with discontinued operations	(2)	(1)
Underlying operating income	41	30
Underlying cash operating income	32	31
Net cash (used in) / from in operating and investing activities	11	4

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Let us look at the key financial highlights. First of all, underlying cash operating income came in at EUR 31 million compared to EUR 32 million in the same quarter last year. If you look at how that has been created, first and foremost looking the reported operating income, you see a delta of EUR 18 million. To some extent that delta has been bridged by the explanation of project costs, which were EUR 9 million compared to the EUR 2 million in previous years. Those project costs relate partly to our significant market power discussions, if you want to call them like that. They relate to our attempt to acquire Sandd and they relate to liquidation costs in relation to stock on one of the initiatives that we stopped. That brings the underlying operating income comparison to a gap of EUR 11 million, which I will explain in the next slide. The net cash used from operating and investing activities is EUR 7 million down in comparison to 2018. That is a function of course of lower operating results and phasing elements in our working capital developments in this quarter, which I will also address a little bit later on.

## Underlying (cash) operating income Q1 2019



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This is a slide you are familiar with. Let us look at the second and third orange bar to begin with. That explains the EUR 11 million deviation between underlying operating income Q1 2018 and the underlying operating income in this quarter. The first element is of course volume/price mix developments within Mail in the Netherlands, driven by the 9.8% volume decline as well as the mix effects that Herna talked about. Decline in higher priced products like single items, in comparison to bulk mail, has resulted in a EUR 12 million effect volume/price mix and autonomous cost increases of EUR 7 million and subsequently countered by the EUR 12 million of cost savings, of which EUR 8 million relates to cost savings in our Mail business. Parcels results on underlying operating income are flat, explained by Herna. The volume increase has led to volume leverage operationally, but was offset by additional costs in operations, which also partly are phasing elements that will improve throughout the remaining quarters of the year. In Other, there is a combination of some positive and in general negative elements, for instance lower results from bilaterals, lower proceeds from real-estate disposals. That makes a negative of EUR 4 million. That brings us to the EUR 30 million of underlying operating income for this quarter. The change in pensions and provisions compared to last year is EUR 10 million better. That subsequently leads to the underlying cash operating income of EUR 31 million.



## Statement of income

(in € million)	Q1 2018	Q1 2019
Revenue	674	684
<b>Operating Income</b>	<b>40</b>	<b>22</b>
Net financial expenses	(8)	(3)
Income taxes	(9)	(4)
<b>Profit from continuing operations</b>	<b>23</b>	<b>15</b>
Loss from discontinued operations	(9)	(9)
<b>Profit for the period</b>	<b>14</b>	<b>6</b>

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Then a bit more detail on the statement of income. The profit from continuing operations was EUR 15 million for the quarter. The results from discontinued, which is the compensation of elimination elements and real business performance in these countries, remained the same. This brings the profit for the period to EUR 6 million. The explanation for operating income from EUR 40 million to EUR 22 million is for a large extent the project costs and on the other hand of course the EUR 11 million bridge I just explained in operating income.



## Net cash from operating and investing activities

(in € million)	Q1 2018	Q1 2019
Cash generated from operations	72	56
Interest paid	(2)	(2)
Income taxes received / (paid)	(47)	(43)
<b>Net cash (used in)/from operating activities</b>	<b>23</b>	<b>11</b>
Interest / dividends received / acquisitions / other	1	0
Capex	(17)	(10)
Proceeds from sale of assets	4	3
<b>Net cash (used in)/from operating and investing activities</b>	<b>11</b>	<b>4</b>
Base capex		8
Cost savings initiatives		2
New sorting and delivery centres		
<b>Total capex (FY 2019: max €100m)</b>		<b>10</b>

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Then, looking at the net cash from operating and investing activities, you see EUR 4 million in comparison to EUR 11 million. Let us start at the top of the graph. EUR 56 million cash generated from operations. Within that number there are various elements. There is an investment in working capital, which is higher, and partly will be phasing towards the remainder of this year. There is the benefit of higher cash as a consequence of IFRS16 adjustments that will go down later on in the cash flow statement, bringing the net cash from operating activities to EUR 11 million. There was slightly less investment in capex than the same quarter last year, bringing the difference to EUR 7 million. Base capex is EUR 8 million and EUR 2 million is related to cost saving initiatives.



## Coverage ratio pension fund at 115.3%, well above minimum required level

(in € million)	Q1 2019			
Return on plan assets in excess of interest income	497	113.4%		
Defined benefit obligation	(471)			
Asset ceiling	(34)			
<b>Total pension</b>	<b>(8)</b>			
Net effect on equity within OCI	(6)			
		2017	2018	Q1 2019

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Then talking about pensions, the results from our investments as well as the consequences of results from interest changes have led to a negative result on pensions of EUR 8 million. The net effect of that is EUR 6 million negative and is reported as other comprehensive income. The actual coverage ratio of the fund end of March is currently 113.1%. That brings the average coverage ratio to 115.3%, still well above the required coverage ratio for the fund.



## Consolidated statement of financial position

(in € million)

Intangible fixed assets	209	Consolidated equity	46
Property, plant and equipment	451	Non-controlling interests	3
Right-of-use assets	160	Total equity	49
Other non-current assets	102	Pension liabilities	309
Other current assets	443	Long-term debt	398
Cash	253	Long-term lease liabilities	102
Assets classified as held for sale	236	Other non-current liabilities	57
		Short-term lease liabilities	47
		Other current liabilities	738
		Liabilities related to assets classified as held for sale	154
<b>Total assets</b>	<b>1,854</b>	<b>Total equity &amp; liabilities</b>	<b>1,854</b>

- Adjusted net debt position is €621m; gross debt (Eurobond, other debt/receivables), pension liabilities (adjusted for tax impact), lease liabilities (on-balance sheet and off-balance sheet commitments, adjusted for tax impact) and cash position
- Adoption of IFRS 16 Leases per 1 January 2019
  - Recording of right-of-use assets and increased lease liabilities for operating leases, mainly related to rent and lease of buildings and transport fleet
  - Right-of-use assets include transferred finance leases and capitalised leasehold rights and ground rent contracts (from PP&E)

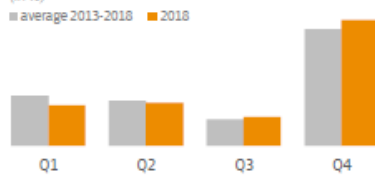
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On the balance sheet a couple of new elements. First and foremost, the consolidated equity remained EUR 46 million. There was EUR 6 million profit, offset by the negative other comprehensive income of EUR 6 million on pensions that we just talked about, making the equity position stable compared to last quarter. On this balance sheet you see the changes as a consequence of IFRS16. You see on the left-hand side the right-of-use assets coming in and on the right-hand side the long-term and short-term lease liabilities that relate to those use of asset rights. The adjusted net debt position at the end of the quarter is EUR 621 million as we have seen before calculated like this.

## Expected development Q2 2019

Average UCOI split 2013 - 2018  
(in %)



Working days	2018	2019
Q1	64	63
Q2	61	62
Q3	65	65
Q4	64	65
<b>Total</b>	<b>254</b>	<b>255</b>

### Attention points for Q2 2019

- UCOI Q2 2018: €33m
- One additional working day in Q2 2019
- FY 2019 cost savings expected to be between €45m and €65m, of which €12m realised in Q1
- Impact lower cash-out for restructuring also visible in Q2

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Maybe it is good to spend some words on how we look from this quarter onwards to the remainder of the year. As Herna already said, we confirm the outlook of EUR 170 million to EUR 200 million underlying cash operating income. The quarterly spread over the year always makes the first quarter, particularly at Parcels, slightly below the average. Over the remaining quarters we will see an increase. Of course, again the biggest part will be Q4, but for the next quarter we will have one working day more, and I think it is very important to know that in comparison to last year the cash out on restructuring will be significantly lower in the second quarter than the previous year. That should lead to an improvement of the UCOI from Q1 to Q2 as well.

That summarizes the Q1 performance on the financial part. Over to Jochem for the Q&A.



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**Q&A**

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**Jochem van de Laarschot – Director Communications & Investor Relations PostNL:**

Thank you. Actually, over to you. We have about half an hour for your questions. Please go ahead.

- **Marc Zwartsenburg – ING**

First of all, I have a question on Parcels. You mentioned some phasing of costs and that it will phase out throughout the year. You are also maintaining the margin target of 7.5% to 9.5%, but you are starting at 3.8% (Note PostNL: margin Parcels Q1 2018 was 5.8%). Can you give us an indication of what kind of phasing we had in Q1 or additional costs? You have more DC's in the pipeline. How should we look at the development in the margin in Parcels?

**Pim Berendsen – CFO PostNL:** There are a couple of elements to it. We opened some of the depots in peak season last year and opened a new one just a couple of days ago. Opening those straight after the peak period in this quarter has taken significantly more costs to optimise the routings, to sorting the routes, to transport lines and to rebalance the network





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and the costs in the operations part in relation to those new depots coming in. We will open a few more during this year, but we will not do that in the busy peak season but slightly earlier in the year, around summer time. That allows a better settlement balancing in the network in comparison to last year. That is one element. Another element is that there are operational costs in this quarter that do relate to bringing on more own staff. Training and bringing that staff up to speed and getting them to the efficiency levels, had its implications in Q1, but we will benefit from that in the remainder of the year. Another element is that there is some phasing in costs related to compensation that we paid to our partners if they comply with regulations. In our Q1 results we reported that we have taken that into account for the entire year, but we anticipated maybe a different phasing. Finally, you always see that in the first quarter of Parcels we have slightly below average margins in comparison with other quarters in the year as well.

**Mark Zwartsenburg – ING:** So, you are very convinced of the 7.5% to 9.5%?

**Pim Berendsen – CFO PostNL:** Certainly. That is also the reason why we can remain at EUR 170 million to EUR 200 million guideline.

**Mark Zwartsenburg – ING:** Following up on that, the topline growth was 8%. Your guidance medium-term is to accelerate that to 10% to 12%. Where does that 10% to 12% topline guidance come from?

**Herna Verhagen – CEO PostNL:** That is a Capital Markets Day question, but it does not matter. We will answer it and will do it again this afternoon.

**Pim Berendsen – CFO PostNL:** That 10% to 12% average growth on revenue is a function of our expectation that the volumes will grow on average with 14% a year. You see that volume growth and revenue growth will become more in sync with each other. That is driven by our yield management initiatives, that later on Liesbeth and her team will elaborate on in much more detail. The analysis behind the 14% volume growth is driven by many different angles. We have done of course our bit of market research, we have talked to our clients as to how they predict their volume growth to go, we have seen that there are still a lot of products where we are still not as mature as others. Only 17% of overall retail spend is



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online. Still, the average number of parcels per Dutch household increases. We believe that these are all very robust foundations to expect that volume increase to continue with on average that 14%.

**Marc Zwartsenburg – ING:** But then maybe keeping it a bit closer to the Q1: it was plus 8% in Q1, so we should see already an acceleration in the coming quarters then?

**Pim Berendsen – CFO PostNL:** Yes, also throughout this year on average we expect in total a higher revenue growth than 8% this quarter and going forward with 10% to 12% for the next years on average.

**Herna Verhagen – CEO PostNL:** And we always take into account that revenue growth it is of course a combination of the whole circle, so Logistics, Spring and Parcels Benelux.

**Marc Zwartsenburg – ING:** And then on the divestments. Can you give us an update on Germany and Italy, where we stand there in terms of the process? Also, the book value was EUR 80 million at the end of last year. We see a result of minus 9. If it is another 9 in Q2, should we assume that the proceeds in the end will be EUR 60 million or should we still work with the EUR 80 million?

**Pim Berendsen – CFO PostNL:** On process we are still engaging with several potential buyers in both countries. As Herna said, we anticipate being able to commit to transactions before the end of Q2. We did not see a need or requirement to change our view on valuation in this quarter other than some of cost of sales adjustments that we have made to the equity position. That is all I can say right now. So very much involved to get to those committed transactions before the end of Q2. At the Q2 numbers update internally much more guidance than I can give you right now.

**Mark Zwartsenburg – ING:** I will save the rest for later, then!

**Pim Berendsen – CFO PostNL:** Much appreciated!

**Herna Verhagen – CEO PostNL:** For this afternoon!



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## Question

**Mayri Voute - CMI:** I have a question about the ongoing substitution. Is there anything that you can imagine or invent to stop that and reverse that?

**Herna Verhagen – CEO PostNL:** In the Mail business it is difficult to reverse substitution because the basis of that is the change in habits of us, the consumers. Most of the Dutch people want to do many more things online. They do their payments and their ordering online and they want to receive their bills online. Secondly, companies in the Netherlands are stimulating substitution as well. If you want to receive a bank statement on paper you have to pay for it. So, people need to pay when they want to have things on paper. But in general I would say that it is very difficult to reverse the trend of substitution. If you want to maintain a good postal service in the Netherlands for the long-term then consolidation is necessary because we cannot change the trend of substitution.

**Mayri Voute - CMI:** And then a small question about your pension liabilities, which came up as an extra cost. Is this one shot or does this come up every year?

**Pim Berendsen – CFO PostNL:** Every year, every quarter there are pension expenses for basically buying it a new pension entitlement of our staff. What is special in 2019 and 2020 is that in 2019 there is still a last payment, a top-up payment of EUR 32.5 million to be done. That is the last tranche of the top-up payments. Subsequently, in 2020 we have to fully finance the transitional pension schemes for the more elderly employees. They still have entitlements to those transitional plans. So if you would fast-forward to 2021 you will see significantly less pension expenses and significantly less pension cash-out in comparison to 2019 and 2020.

**Mayri Voute - CMI:** This is my ignorance but how long do these transitional plans go on?

**Herna Verhagen – CEO PostNL:** They stop by the end of 2020.

**Mayri Voute - CMI:** For the Netherlands or, in your particular case ...



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**Herna Verhagen – CEO PostNL:** At least in our particular case and I suppose for the Netherlands as well. It is mandatory. When you have to settle your transitional plans you have to settle them by the end of 2020. That is where it stops.

**Mayri Voute - CMI:** Thank you.

- **David Kerstens – Jefferies**

Two questions please. First of all, can you elaborate a little bit on the volume trends in Mail and Parcels relative to the market? In Mail, does the 9% include any potential contract gains from Sandd? And the 16% in Parcels was a slow-down compared to what you had in 2018; is there anything specific behind it that is driving that?

Secondly, you highlighted the draft legislation, the draft postal law. Can you maybe spend a bit more time explaining what are the key messages in terms of reducing legislation and is the Significant Market Power legislation still on the table? I understand that was a consultation currently going on, which you did not mention. Is that still relevant now that you have seen the draft Postal Act?

**Herna Verhagen – CEO PostNL:** Volume decline in Mail in the Netherlands – the 9% -- is more or less in line with markets, as we can see. That means that also market shares are relatively stable. The main part of that substitution is in Single Mail, which hits us when it comes to margin. But overall, we see postal operators still very active, still being able to get in their volumes and distribute their volumes on their own. Secondly, we see that substitution for the reasons as mentioned, continues. We expect to be in the bandwidth of 8%-10% overall this year, but no big moves that differ from the things we saw in 2018.

When it comes to Parcels and 16% you asked if there are specific reasons behind that. The answer is no. We think that 2018 was an exceptional year because we had growth of 22%. That is not what we expect in 2019. There is nothing in Q1 that differs from what we saw last year regarding competition, customers and self-distribution or whatever reason there could be behind 16% of volume growth. We do not see any difference compared to last year.



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**David Kerstens – Jefferies:** Does that imply a stable market share of around 70%?

**Herna Verhagen – CEO PostNL:** Our market share is of course a combination of ‘to be and to see’. We deliver to consumers and to business. Then the market share is a little bit lower than 70%. For what we see it is stable; nothing changed.

To be sure that we understand each other well, there is a consultation on the Postal Act. It is a draft and it is now consultation time. That means that everyone in the Netherlands who wants to send in his view on the Postal Act can send it in. That will end in the next coming weeks. Of course, we will give our views on that Postal Act as well. What the State Secretary said to parliament last year is indeed written down in this draft document. She said for example that in a market with a structural volume decline it needs a different regulatory framework. That also means that regarding the entrance to the PostNL network there will not be a Significant Market Power anymore after approval of the draft Postal Act. In that regulation there is also clarity around labour. As you may remember, we had a discussion for many years of the 80% of labour contracts. That is redefined and reconfirmed in this Postal Act that in this market there needs to be 80% of labour contracts. So you see changes, like the Significant Market Power, you see reconfirmation like the 80% of labour contracts and we see that in general much more of the regulation is focused towards the market that is in strong decline.

**David Kerstens – Jefferies:** But is ACM still trying to regulate the down in the [...] in access markets?

**Herna Verhagen – CEO PostNL:** They came with a draft Significant Market Power decision. We sent in our view a few months ago and we do not when they will come up with their final decision. As you understand, the draft Postal Act needs to be approved in parliament, which will probably take the next one year and a half. So before that is approved, Significant Market Power is still in place or current regulation – in which Significant Market Power is of course part of that – is still in place. So ACM can, if they want to, take another Significant Market Power decision.

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



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- **Matija Gergolet – Goldman Sachs**

My first question is on Parcels and then a follow-up on the pensions. So on Parcels, can you elaborate a little bit what is going on with Spring? It is not entirely clear to me. In the Netherlands are up 13%, so it actually seems to be within your range. In Spring you have a decline in revenues and you mention also competitive forces. You also say that the underlying profitability is improvement. That makes me wonder what is actually going on; I would expect a decline in profits given the decline in revenues. That is my first point.

Secondly, just on pensions. Can you quantify – or maybe you will this afternoon – the 2020 contribution of pensions, the one-off?

**Herna Verhagen – CEO PostNL:** When it comes to Spring, as we mentioned last year in 2018, we had a disappointing year related to Spring, which mainly had to do with the volumes from Asia to the Netherlands. That had an impact on our Revenue and also on the underlying cash operating income.

For 2019 we presented a plan in which we think we will be able to improve the underlying cash operating income of our Spring business, partly by new revenue streams, partly by cost reductions within Spring and partly also by the pick-up of volumes within Europe. When it comes to revenue, we face difficulties with the volumes from Asia but not more than expected. All actions do deliver some improvements and that is the reason why our result is slightly improved compared to the result we had in 2018. That is also the reason for us to say that we expect that Spring will have a better result than the result of 2018, as we also forecasted at our Q4 presentation.

**Pim Berendsen – CFO PostNL:** On pensions, the balance that we have shown indicates a pension liability of 309. That includes of course the pension expenses of this year, it includes the final top-up payment of EUR 32 million and the balance is a transitional pension plan obligation. So, at the end of 2020 that big liability of more than EUR 250 million related to transitional pension plans will go out of the balance sheet and will take the cash from the



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other side of the balance sheet. So from 2021 onwards you will only see the regular pension expense and the regular pension cash-out in your profit or your cash flow statements. This entire liability will evolve from this day onwards until the end of 2020.

**Matija Gergolet – Goldman Sachs:** So, it is 250-or so million?

**Pim Berendsen – CFO PostNL:** Yes, roughly.

**Mattia Gergolet – Goldman Sachs:** Okay, thank you.

- **Ruben DeVos – KBC Securities NV**

I just have one question on Mail. Basically, we have had a decline in Mail revenues of around 9.1% adjusted. I believe the filing impact was a bit lower than what we used to see in previous year. Last year, when you announced the price increase you already said that you were banking on a bit of price elasticity effect. I am just wondering what we should look for going forward in terms of compensation from the Mail volume declines and how you could compensate that potentially from price increases. Are we thinking of 20% or 30% of that?

And then more in general, have you seen more data points from price elasticity in Q1?

**Herna Verhagen – CEO PostNL:** I think the volume decline is 9.1% and revenue decline is a little bit less. When it comes to prices increases we still follow the policy that we increase well above inflation. For the stamp price this year we increased almost 5% and that was in earlier years around 6%. So, there we are 1% lower, which indeed partly has to do with price elasticity.

Over the last few years we were not fully able to offset volume decline by price increases and cost reductions. That is also the expectation we have for 2020 and then of course consolidation will come in, which probably we will discuss later. But also for 2020 we will not expect that we will be fully able to balance the volume decline and therefore revenue decline with cost savings and price increases.



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We do not see any different price elasticity from what we saw in 2018, so no other triggers in that except the normal elements, as we already explained and which explain the substitution rates.

- **Henk Slotboom – the IDEA!**

I have two questions; one is on the CLA. You said you have a new CLA in place until March next year. What happened to FNV? They were the only ones not to accept the CLA. Can you give some more colour? I assume the CLA was applicable to everybody, whether you are a member of FNV or not.

I have a rerun of a question I already asked around the time of the full year results. I know that FNV has been pushing hard to get rid of this company-specific CLA, the PostNL CLA. Have you made any progress there in order to renew the permit you have, which I believe expires in the fall of this year?

Lastly, on Parcels pricing. At the presentation of the full year results you said that you were increasing your Parcels prices by inflation+, or significantly more than inflation, especially in the SME segment. But I am picking up noises in the SME segment, which indicate the contrary. Could you perhaps give me some more colour on the pricing in the SME area?

**Herna Verhagen – CEO PostNL:** Let me first get to the CLA and the FNV. FNV decided not to sign the CLA but the other unions – we have four unions within PostNL – are representative for all our employees, so they could sign the CLA and therefore, the CLA is applicable to every employee of PostNL.

You probably refer to the BGV- CAO, which is another CLA in the Netherlands. It is a CLA for the logistical sector, which has much more to do with the CLA for Mail deliverers than with the general PostNL CLA. The discussion on Mail deliverers will start when the CLA ends and that is in September or October. By then, we expect the discussion on the Mail deliverers CLA. That is what it is about FNV.





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Then regarding SME pricing?

**Pim Berendsen – CFO PostNL:** Henk, I do not exactly know what noises you are referring to but in general price points have moved up on all elements of our business lines. But underlying there is still a change in product mix and customer mix and that leads to a negative price mix consequences also in this quarter. It is still driven because of the market trend that bigger customers grow faster than smaller ones. But in general, we have increase the price points for all segments. I am sure ...

[no microphone]

**Pim Berendsen – CFO PostNL:** I think that is a good one for Carlos later on, if he talks about the commercial view on Parcels this afternoon. He will certainly spend time on customer segmentation and how we expect our customer segmentation and margins to improve.

- **Andre Mulder – Kepler Cheuvreux**

Good afternoon. I have a question on the dividend policy. I missed part of the conference call. You said it is unchanged. I assume that this relates to the pay-out ratio but in line with the changed operating standard I would also assume that the pay-out is now based on net income instead of cash net income.

**Pim Berendsen – CFO PostNL:** The dividend policy is unchanged and the dividend policy holds several elements and not only the pay-out ratio. It also relates to the leverage ratio that we have indicated as our way to look at properly financed, so the adjusted net over EBITDA not exceeding 2.0. That is part of that policy. We have indicated that when we are going to new financial metrics, so to a normalised EBIT and a free cash flow metric that we will use as formal guiding instruments as of 2020. We will take 2019 to amend the different internal and external elements to accommodate that change from UCOI to underlying EBIT, which also



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needs an adjustment of the basis on which you will determine your dividend policy. But in itself, materially speaking, there is no change in dividend policy at all.

**Andre Mulder – Kepler Cheuvreux:** Thanks.

**Herna Verhagen – CEO PostNL:** If I may add, the year 2019 is of course still reported on underlying cash operating income, which means that for this year the dividend policy is exactly the same as it was. The new metrics will be used as of January 1, 2020.

**Andre Mulder – Kepler Cheuvreux:**

- **Mark Zwartsenburg – ING**

Maybe this is the gap of what is underlying and now normalized, what is the new definition, what is in there and what is not. To make that absolutely clear, you are guiding for a normalized EBIT, which is below the cash EBIT for this year, which normally you would expect the number to be higher. So, there must be something else in the bridge.

**Pim Berendsen – CFO PostNL:** And that is not a difference in what 'underlying' is. Just to be clear, the correction of underlyings or normalizations is exactly the same; we only take out significant one-off non-business-related costs or results. The change here is that you go from UCOI to a much more easy to understand profit number, being operating income or EBIT, so the deviation between those numbers is the difference between the cash-out and the expense. The reason why the normalized EBIT is lower than UCOI is because of a delta in cash and provisions on pensions and restructuring cash-out of approximately EUR 15 million. But there is no change in what we adjust or normalize or call underlying.

**Mark Zwartsenburg – ING:** So, the EUR 15 million is the difference between cash and ...

**Pim Berendsen – CFO PostNL:** The cash and the cost elements on restructuring and pensions. Approximately one third relates to pensions and two thirds relate to restructuring.



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

**Jochem van de Laarschot – Director Communications & Investor Relations PostNL:**

Thank you. That concludes the first part of today's meetings. We will welcome you back at one o'clock, when we will start talking about Parcels in our Capital Markets Day. For now, it is lunch and a break. Thank you!

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End of call



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## Q1 2019 Results

### Appendix

- Breakdown pension cash contribution and expenses





## Breakdown pension cash contribution and expenses

(in € million)	Q1 2018		Q1 2019	
	Expenses	Cash	Expenses	Cash
Business segments	24	27	24	26
IFRS difference	7		6	
PostNL	31	27	30	26
Interest	2		1	
<b>Total</b>	<b>33</b>		<b>31</b>	

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