



24 February 2014

Transcript Q4/FY 2013 results
Analysts' call 24 February 2014

Richard Piekaar

Okay, ladies and gentlemen, good afternoon and welcome to the Q4 and full year 2013 results presentation of PostNL. My name is Richard Piekaar and with me today are Herna Verhagen, our CEO, and Jan Bos, our CFO. Today Herna will start the presentation with an update on the operational developments and outlook for 2014 and 2015 and this will be followed by a more detailed look at our financials by Jan. We will then take your questions and we have of course our live audio webcast on the website and a recording will be available afterwards. With that Herna, I would like to hand over to you.

Herna Verhagen

Welcome this afternoon. I would like to give you an introduction to the Q4 results and of course full year results 2013 and after that 2014 and 2015. I logically start with 2013. If you look at the outcome of 2013, it is on underlying cash level, it is €141 million which is in between the bandwidth of €130 million to €260 million. The contribution to the €141 million came from Mail in the Netherlands as well as Parcels as well as International. I would like to give you a little more in-depth analysis on these three segments, when it comes to the full year results of 2013. I will start with Mail in the Netherlands.

If we look to Mail in the Netherlands, it had when it comes to the underlying cash operating income a good year. From €20 million last year to €69 million in 2013. This was partly due to price increases in 2013 and partly because of our cost savings. As you can see on this slide as well, our cost savings went up from €39 million last year to €95 million this year. The cost savings are ahead of schedule and together with the price increases, we were able to offset or more than offset volume decline. Volume decline 2013 came for the full year at 11.9%. Other important steps in 2013 are of course the new pension agreement, which we closed in December and which will give us a lower pension contribution and a smaller risk for paying top up payments. So our top up payments are capped. Another important pillar under 2013 was quality. The quality level went up with 2% from 2012 to 95.9%. Let's give you a little bit more information around our cost savings. Last year I showed you this graph with 60% of our cost savings coming out of Mail in the Netherlands and then 10% out of marketing and sales and 30% out of overhead. With the €95 million cost savings in 2013 we are ahead of schedule. The expectation in 2013 was €40 million to €60 million and we reached €95 million, largely because of operations. Last year I told you we would mitigate 260 locations in our operations to 125 and by the end of 2013 we already went to 145, which means that more than 80% of that migration is done. That also delivers lower housing and transportation costs. Also within marketing and sales we see that the reorganisation is leading to a smaller organisation, but also a smaller support organisation in retail, and brings in more cost savings. It is the same trend we see in overhead. Also there we restructured our shared services and we implemented a lean management structure at the head office which gives us the €95 million of cost savings in total. Why is reorganisation successful in





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2013, especially when you compare of course to 2012? A few reasons. First of all this reorganisation is much more phased and on a smaller scale approach, which means it is easier for people to adapt to new procedures, to new ways of working and it is easier for us to keep a balance between the experienced and new people. Secondly, we pilot. So if we want to change something, we pilot first to find out if what we think we could do, does work in reality. Of course findings out of those pilots do improve our roll out schedule. And also important in this success is the constructive communication with our employees and the workers councils, because also they are of huge importance when it comes to the change we are going through. So all by all, 2013 a successful year, when it comes to our reorganisations and when it comes to cost savings. A second important part when it comes to Mail in the Netherlands, is of course our regulatory environment. Mail is a quite regulated business. We saw positive developments in 2013. First of all in the Postal Act. In the Postal Act, Parliament approved skipping Monday delivery and Sunday evening collection and that of course excludes funeral mail and that excludes medical mail. Secondly, we expect that the new Postal Law will go to Parliament this summer and in that law the approval of Parliament is asked to reduce the amount of post offices and to reduce the amount of mail boxes, which will help us with our further cost savings. Also Postal Regulation changed by the end of 2013 and in that Postal Regulation a new tariff regulation is in force. That is of importance for us, because it gives us the opportunity not only to increase our prices with inflation, but also take into account volume decline. With the approval of skipping Monday delivery and Sunday evening collection, Parliament also approved the law around significant market power. Significant market power came into place as per the first of January this year and ACM, the Dutch regulator, started their market consultation and asked players in the market to give their idea around significant market power. Of course PostNL is part of that process.

An important step for PostNL is the fact that the mail market is not only no longer only a pure physical mail market, but is also about the digital communication. So if you want to talk about the future of mail, you have to talk about the future of communication. The process will run during 2014 and the impact on this company is uncertain.

Parcels. In Parcels we saw continued strong growth, so the volume in parcels came up to 6.7% last year versus 5.6% the year before, so more than 1% increase. Next to the fact that the underlying cash operating income was €11 million lower, but for that please take into account that in 2012 we had a bad will of €15 million of trans-o-flex. Those numbers came of course in the number of €100 million, so if you want to compare apples to apples, you have to compare €85 million in 2012 with €89 million in 2013. Other important developments for Parcels are for example the roll out of our new logistical infrastructure. 14 locations opened till the end of 2013 and 80% of our parcel volume is now running through that new logistical infrastructure. Another four to open this year and next year. Three this year and the last one next year.

With the acquisition of Fiege and then especially the two men's delivery part of Fiege, we became market leader in two men's delivery in the Benelux. Two men's delivery means we deliver heavy things to your home and place them into your home. We already had our own two men's delivery network and with the combination of the two men's delivery of Fiege, it became a strong network and is now market leader. Also important to know is that the first financial impact for subcontractors was visible in Q4. So within Parcels we saw continued strong volume growth and on the other hand also a growth in underlying cash operating income.

International. If you look into the underlying cash operating income, it is €27 million last year, and €27 million 2013. That is not taking into account the one off cost we had out of E2E, the roll out





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of E2E in the UK and next to that, of course the one off cost we had because of the discussion with Compador in Germany. Those one off costs in 2013 were €6 million. If you take that into account, the underlying cash operating income from International moved up from €27 million in 2012 to €33 million in 2013. Important milestones in the UK, of course the roll out of E2E in London and last November also started in Manchester. Also an important step is the joint venture with our partner LDC, which is of course there to further roll out our E2E strategy. In Germany we reached the point of break even in 2013. That was because of the fact that we saw strong volume growth and therefore also revenue growth. The discussion we have with Compador and then especially the discussion on is there a level competitive level playing field in the German market, is ongoing. In Italy volumes of Formula Certa grew further, as well as our coverage, which means at this moment in time or by the end of 2013 almost 74% of Italian households are delivered mail by PostNL. Next to that, we did a pilot around packets and parcels, which was successful in Q4 and which we try further to roll out in 2013. So improved results if you exclude the start-up costs of E2E and the one off costs of Germany.

Two other important steps are taken in 2013. The first one is the reduction of our net debt. Our net debt position in 2012 was €1,200 million. Partly because of the sale of TNT Express and partly because of business results, you see that net debt in 2013 came back to €798 million, which is a reduction of more than €400 million and an important step towards our BBB+ rating. Secondly, our net cash from operating activities. Also there we saw huge improvement in 2013. A negative in 2012 of €212 million and a positive of €32 million in 2013, which means a net cash improvement of around €244 million. That comes partly because of tight capex management, but also partly because of strong cash from operations.

So 2013 was a year with a solid performance. A solid performance in Mail in the Netherlands based on of course the successful reorganisations, the cost savings as well as our price increases. Within Parcels because of strong volume growth and within International, because we see cash and cash profitability improving. We did two important steps towards our goal in 2016, which are shown on this slide: a reduction in net debt and of course also an improvement in net cash. A solid year giving us a solid fundament for our future.

Then 2014 and 2015. In 2014 and 2015 I would like to go through Mail in the Netherlands, International and Parcels and give you an update on market developments, but also the consequences of those market developments on our numbers. I will start with Mail in the Netherlands. If we look into 2013 as already said, volume decline was around 11.9%. If we look into digital trends, we do think that they will have a greater impact on mail substitution. I will give you a few examples. For example transaction mail, so the bank statements and invoices you receive from insurance companies. Your mobile app will help you mobile banking, does substitute for example bank statements. We see the same within periodicals. How many of those periodicals do you still receive physically and how many do you read on your iPad or on another tablet? Also there we see an increase in trends that people start reading from their tablets. Thirdly, direct mail. Direct mail is personally addressed advertisement mail. The developments in direct mail are slightly different from the other two, because here you see that direct mail is still very successful when it comes to reaching out to people and trying them to buy something or decide something. But you see two effects in direct mail. First of all economy. The economy has an effect on marketing budgets and marketing budgets do have an effect on direct mail. And secondly, companies are becoming smarter and smarter when it comes to their CRM and that means that they receive better balances between digitally and physically reaching out to their customers for advertisements. Fourthly of course, social media or single mail items. The fact that





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we twitter, Facebook, WhatsApp, sms does have an effect on of course our single mail items. That is the reason for us that we say, we do expect a stronger volume decline to the end of 2017 and that volume decline is 9% to 12%. It is not because of stronger competition. Competition still in the expectation of a bandwidth of around 2% to 3%, which is already the case for a few years. But it is in substitution, for reasons I just mentioned. In transaction, in periodicals, but also in single mail items and in direct mail. That comes to an average volume decline of 9% to 12% till 2017. That probably immediately raises the question with you: what does that mean for the 8% to 10% margin for Mail in the Netherlands in 2015? I will give you two answers. First of all, we do expect that we can offset that volume decline, partly by price increases. And our pricing policy remains a pricing policy for bulk as well as for single mail items, which is well above inflation. That is what we did in 2013 and that is what we already did for 2014. The raise for single mail items already done last January and of course the raise in bulk mail is negotiated with our customers by the end of 2013 and already implemented for 2014. Also you always have the question of price elasticity when it comes to price increases. What we said in the past is that the expected price elasticity with price increases is 0.1% to 0.3%. That is still what we see, when we look into the price increases we did in 2012 and mainly in 2013. So we see them still within the same bandwidth of price elasticity. This will partly offset volume decline. But another important step in offsetting the extra volume decline is extra cost savings. Therefore we raise our cost saving targets from €290 million to €365 million over the period 2013 till 2017. The €75 million extra of cost savings do not have an additional FTE reduction. So the total bandwidth we communicated earlier last year between 2,700 and 3,500 fte is still valid. Next to that we do expect that we can do the extra cost saving of €75 million with the remaining bandwidth of restructuring cash out, so also here you find a bandwidth we already showed you last year and it is the same for our implementation cost. Capex will increase by €20 million. This probably raises the question: but how do you save an extra €75 million in cost? I would like to give you a few examples, where we do think we can do the extra €75 million. Two thirds of the €75 million comes from higher savings from existing plans. When we did our first calculations on our cost savings programme last year, we were a bit cautious, especially after the failure in 2012. Seen those reorganisations in 2013, means that we do see that we can save extra cost out of existing plans. That partly comes for example that we can do our transport between locations more efficient. It partly comes for example that we have less rental cost, less electricity cost, less facility cost. But it also comes from our redesign of the retail network, our click and collect points are less costly than our normal post offices and we also do see that consumers are becoming more and more on line, also when it comes to sending and receiving their parcels. That brings in extra cost savings. Another example is, we are bringing our applications to the cloud, also there we see extra cost savings. So around €50 million of the €75 million we do think we can deliver out of higher savings from existing plans. Next to that there will be savings from new initiatives and these new initiatives are mainly around further automation by new sorting machines. Those new sorting machines will bring more efficient sorting, but also give us the ability to sort small and large mail items together. So in total, €75 million extra of cost savings.

That brings us to the outlook of Mail in the Netherlands in 2015. We do expect that we can reach an underlying cash operating income margin from 8% to 10%, like earlier forecasted. That is up from 3.8% in 2013 to somewhere between 6% to 8% in 2014 and then 8% to 10% in 2015. Also after 2015, we will be focussed and will maintain focus on improving of course the cash coming out of Mail in the Netherlands.

Then the second part, International. In International I first would like to go through the technical adjustments we have to do. The first one is of course the IFRS adjustments on joint ventures.





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The second one, because we are positive on the joint venture in the UK, is we are taking out revenue of the UK as well. That has an impact on our numbers in 2015. We do expect that it will have an impact of around €20 million on the underlying cash operating income in 2015. I give you a short update per country. First of all the UK. In the UK we expect the downstream access growth will continue in 2014. We also will continue with the roll out of E2E. What you also probably heard, is that Royal Mail did a proposal to differentiate their tariffs in the UK. That proposal to differentiate tariffs can have a negative impact on the roll out of E2E and that is the reason why we put in a complaint with Ofcom, the UK regulator, which they have taken into investigation. In Germany we reached a break- even point in 2013 and we do expect that our focus will remain on of course volume growth and cost leadership with the expectation that it will improve our cash profitability. Also here the discussion with Compador and especially a discussion around competitive friendly market environment is still going on. So the German regulator, Bundesnetzagentur, Bundeskartellamt, remains important for us. In Italy we will continue growing, growing in Formula Certa, growing in our coverage, but also growing in the roll out of retail locations. Next to that, improving our efficiency. So the expectation for International in 2015 is that we will come to the margin of 2 to 4%, which is the same outlook as last year and of course taking into account that the joint ventures are out, as well as the UK.

Then moving on to Parcels. In Parcels we are focussing on further extension of our services. These will strengthen our position as a market leader and we need additional investments for that. To give you a few examples of what is that, additional services. First of all, additional services is within home delivery. For example evening delivery, that we can deliver a parcel in the evening, but also early morning delivery, so that you can pick up your parcel at post offices at around 08:30 in the morning, but also premium collection. Customers can deliver their parcels to our sorting centres till late at night, 00:00 or 01:00 am at night and we still deliver the next day. This gives of course an extension of the window in which you as a consumer can order your products. But it is also an extension of our service proposition. We did the roll out of 300 parcel points with Gamma and Karwei by the end of 2013. That offers extra convenience for consumers that they have the ability to pick up their parcel at the moment which is convenient for them at a location which is near the highway. We will further roll out parcel points in other chains. Secondly, we did a pilot on a parcel automated station at the central station of Almere. That pilot was successful, so we are planning to roll out to more high density central stations in the Netherlands in 2014. The same counts for Belgium. We are growing fast in parcel delivery in Belgium and we are extending our retail locations in Belgium to 600 before summer 2014. We are not only focussing on extension of our services, but also on further profitable growth in existing and new 2B and 2C areas. To make this clear, I will give you a few examples. First, growth in areas 2C. For example in fulfilment. We saw strong growth in fulfilment in 2013 and we do think that in warehousing and fulfilment we can further grow in 2014. Another example, already mentioned, is the acquisition of Fiege, which is of course focussing on extra at home delivery, so heavy stuff delivery. Also there we see an opportunity for further growth becoming a market leader after this acquisition. And thirdly is of course the growth we see in Belgium and therefore also the extension in retail outlets which makes it easier for us to fill in further growth there. But also in 2B. In 2B meaning delivering parcels to companies. What companies find important, is that they have morning delivery services. We will adjust our routing that for 2B deliveries we can do morning delivery services. Other examples are the niches which we already discussed in earlier quarters like for example the high valuables within Mikropakket. We are now extending Mikropakket to Belgium as well, and Pharma & Care Benelux. This focus on further profitable growth and of course when it comes to the extension of our service, we do think that together with the status of subcontracting and I will give you some highlights on that, will impact





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the margin of parcels in 2015. Market developments already discussed, extension of services, strengthening our position through additional investments.

When it comes to the status of subcontractors, there is of course a big discussion going on in the Netherlands on pseudo self-employment. Almost all our self-employed partners provided us with a declaration of independent supplier status. That means that they have a declaration in which they can say, I am independent. After the strike we had last June in 2013, we started up a process with our subcontractors to find out how can we make sure that our mutual relation becomes more stable. That leads to changes in increasing interaction and communication, but it also for example leads to changes in the adjusted fees and further route optimization. So strengthening our market position and also a change in subcontracting mix and the additional measures will impact the margins on parcels. The expectation we have for 2015 is that the underlying revenue will keep growing at around a level of mid-single digit. And that the underlying cash operating income will go to 11% to 13%, where it was 13% to 15% in 2015. Also after 2015, we maintain focussed on further profitable growth and we also foresee further growth in our high margin single parcel segments.

That brings us of course, what does that mean for 2014 and what does that mean for 2015? To start with 2014. The outcome of 2013 was €141 million. We expect to reach an underlying cash operating income of €180 to €220 million in 2014. Then up to €260 to €330 million in 2015. There is a difference of €20 million because of the IFRS adjustments and the UK and there is an effect of €20 million, which is the business development within Parcels. So two major steps in the direction of course of 2016. If you translate that into numbers of revenue and the numbers of underlying cash operating income. Within Mail in the Netherlands we do expect in 2014 to be at a margin of around 6% to 8% going up to 8% to 10% in 2015. For Parcels we maintain 11% to 13% for 2014 and 2015 and for International we go up from 1% to 3% in 2014 to 2% to 4% in 2015. That means that 2014 will come at a level of €180 million to €220 million, which is 5% to 7% underlying cash operating margin and in 2015 €260 million to €330 million. With the €260 million to €330 million we are on track for a sustainable delivery of cash and we are on track to starting to pay dividend in 2016.

I will ask Jan to give you a little bit of an in-depth analysis on the Q4 numbers, but also the full year 2013 numbers and then of course a little bit more detail on special and important occasions of 2013 like for example pensions and like for example the sale of part of our TNT Express stake. So I hand over to Jan.

Jan Bos

Thank you, Herna. I will start with the financial overview of the quarter. There we are. Reported revenue was flat this quarter and reported operating income increased by €84 million to €258 million. To give a better comparison as you are used to with the actual performance, reported revenue is adjusted for the foreign exchange effects and reported operating income for one offs. The larger part for the one offs this quarter was an adjustment of the past service pension cost and these are mainly related to the amended pension scheme following the pension agreement. Then we come to our main KPI's. Underlying cash operating income increased with €14 million and this is mainly driven by strong savings and the effect of price increases more than offsetting the volume decline in Mail in the Netherlands and autonomous cost increases. Net cash from operating and investing activities was €539 million, mainly explained by the sale of our stake in TNT Express and the interest expense on the bond buy back. Excluding these two effects the net cash from operating and investing activities was €90 million and €86 million up and mainly





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explained by the higher operating results and also the top up payment of €84 million we paid in 2012.

Now, looking at the bridge which explains the development of as well the underlying operating income and underlying cash operating income. Underlying operating income was up by €29 million to €145 million mainly driven by Mail in the Netherlands by price increases and cost savings more than offsetting the lower volumes. The negative result at PostNL Other is explained by a pass through of cost savings, full year cost savings, on staff and services at head office, cost towards Mail in the Netherlands and Parcels. I will explain that in a little more detail in a minute. Underlying cash operating income increased by only €14 million and that is explained by a higher restructuring cash out in the last quarter.

Looking at underlying result per segment. Underlying revenue of Mail in the Netherlands decreased by 3% to €628 million. The underlying volume decline was 13.4% and was compensated by a positive price effect on addressed mail and a change in revenue mix. Revenue of Parcels was up 5% to €219 million with 7.5% volume growth. There was a change in customer and product mix which had a negative impact on the average price per parcel. In International underlying revenue increased by €19 million to €449 million, mainly driven by revenue growth and higher volumes in Germany and Italy and in the UK we saw also volume growth, but there the product mix led to a stable revenue. Underlying cash operating income in Mail in the Netherlands increased by €32 million to €71 million. Main contributor to that increase were the cost savings of €25 million, lower implementation cost of €13 million and a positive volume price mix of €7 million and lower internal charges from PostNL Other of €17 million. These more than offset the autonomous cost increases of €9 million, other cost increases of €9 million and €12 million higher cash out for pensions and restructuring. In Parcels underlying cash operating income increased by €3 million and that was explained by better business performance. The underlying cash operating income in International was down €1 million compared to last year. This is explained partly by incidentals for the roll out of E2E and also for some incidents we had in Germany on Compador. If you adjust for that, also International slightly improved. Then looking at PostNL Other. As I mentioned earlier, the €19 million reallocation consists mainly of passing through of full year cost savings of the head office to the other segments. In Q4 that was €17 million to Mail in the Netherlands and €2 million to Parcels.

Then the statement of income. You see in the investment in associates the book loss we had to take in the sale of TNT Express. Excluding this effect our profit for the period increased €15 million to €125 million. This increase is partly the result of the improvement of our operating income and was partly offset by the increased net financial expenses mainly related to the bond buy back. For the full year, profit for the period excluding TNT Express was €164 million, which is also mainly impacted by the interest related to the bond buy back, which you see.

Then turning over to our cash, because we focus of course on cash delivery. If you are looking at cash generated from operations that was €163 million, an increase of €46 million. Partly explained by the higher underlying cash operating income, partly explained by the top up payment we paid in 2012 of €84 million and partly offset by working capital. The interest we paid on the bond buy back, you see back on the line interest paid, which increased and the interest we paid on the bond buy back was €56 million. Capex was €20 million lower this quarter, mainly as a result of lower investments for the reorganisation and also a tight capex control.





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The cash we received on the sale of our part in TNT Express is visible in the €505 million and if you exclude these proceeds and also the interest we had to pay on the bond buy back, our net cash from operating and investing activities is €90 million which is an improvement of €86 million compared to last year. Looking at the full year, there the improvement of our cash performance is even better, with a full year performance of €32 million compared to negative €212 million last year. Our continued focus on cash is also visible in the performance on our cost savings, on our capex performance and also in the development of our working capital. First looking at our cost savings. In the last quarter we realised €31 million of cost savings, contributing to a total of €95 million for the full year which is in line with the guidance we have given in November. The related restructuring cash out is also in line with expectations with a performance of €94 million. Tight cash management also lead to lower capex, €37 million for the quarter and €117 million for the full year, which is below our expectations. Working capital also improved to the last quarter Q3, when it was minus 8% and it has developed to minus 9% and partly explained by phasing of payments for cross border mail and also a positive effect in Parcels and International.

Then over to pensions. This slide gives you an overview of the coverage ratio and also the underlying pension expenses and pension cash out. The coverage ratio and that is good news, improved to 112% at the end of 2013. This includes the €150 million unconditional commitment to the pension fund as a result of the pension agreement we realised in December. The increase of the coverage ratio is mainly explained by the asset performance of the pension fund, the changes in the application of longevity which the pension fund applies and also the unconditional commitment of €150 million. In the table below you also see the full year pension expenses and the pension cash out. The pension expenses are adjusted for the adjustment of the past service pension costs and the pension cash out is adjusted for the top up payments. If you are looking at the underlying developments, you see that the pension cash out has decreased to a level of €247 million and which is below previous year and mainly explained by reduction in our work force.

Then over to the stake in TNT Express. Proceeds of the sale of 82 million shares were €507 million. When you take off €2 million of cost the net proceeds are €505 million. Of this we used €400 million to reduce our debt. The debt reduction results in an annual interest saving of around €20 million and the book value at the end of Q4 of our remaining stake was €542 million. Like we said before, we have the intention to sell the remaining stake in the medium term.

Now we turn to the balance sheet. The consolidated equity remains negative at almost €680 million and in line with the end of Q3. The positive profit for the period was offset by the net impact of the partial sale of our stake in TNT Express, the interest related to the bond buy back and a negative impact of pensions. Corporate equity increased by €912 million and mainly the result of a reversal of the impairment of the group companies and dividends received from group companies. Our distributable corporate equity is still negative with an amount of €341 million. Net debt decreased by €426 million to €798 million. The decrease is mainly explained by the sale of TNT Express. Please note that our financial and equity position remains vulnerable for interest developments.

Before I turn to the outlook, let me first explain the impact of the joint venture accounting and the impact that we have taken out the figures for the UK. Revenue and operating income of joint ventures will no longer be included in our consolidated figures. Next to that, in our outlook we excluded the revenue and operating income of the UK, given the announcement of the joint venture. We restated the 2013 figures, so you have comparative numbers for the numbers we





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provide to you in the outlook. In Mail in the Netherlands the restate is the result of taking out the joint venture 'postkantoren' and the related Bruna bookstores from our figures. In Germany and in International it is also joint ventures in Germany and next to that exclusion of the UK. For more details there is an appendix three slides on the impact on balance sheet and profit and loss account. So these technical adjustments also impact the outlook for 2015, as we have given earlier, and is restated for €20 million as Herna already showed you.

Then over to the outlook for 2014 and 2015. Mail in the Netherlands is expected to further improve its performance. The higher volume decline is partly compensated by price increases resulting in a lower and small low single digit decrease in revenue and further cost savings and also lower restructuring cash outs are expected to lead to an increase in underlying cash operating income margin for 6% to 8% in 2014 and 8% to 10% in 2015. In Parcels we expect revenue to grow mid-single digit. We will see some impact as Herna explained, from market developments and the cost increases on subcontractors and we expect the margin to remain between 11% and 13% in Parcels. In International the outlook is also adjusted for the joint venture accounting in the UK. Revenues are expected to grow mid-single digit and our underlying cash operating income margin will be between 1% and 3% in 2014 and slightly increasing to 2% to 4% in 2015. That means that in total PostNL will show a low single digit growth of revenue and will reach an underlying cash operating income between €180 million and €220 million in 2014 and €260 million till €330 million in 2015.

Then some other outlook indicators. Volume decline 9% to 12% for 2014. Cost savings in a bandwidth of between €95 million and €115 million. It is good to point out that within those cost savings €30 million of savings on pensions resulting from the pension agreement is included. The related restructuring cash out for the restructuring in Mail in the Netherlands is between €50 million and €70 million and we expect cash capex to be around €140 million and the increase compared to 2013 is explained by more investments in the restructuring in Mail in the Netherlands, some phasing in the investments in Parcels and also some small investments in growth.

Then the last one is employer pension expenses, are expected to be around €140 million and the expected pension cash out to be around €180 million. The last one is an enormous reduction compared to 2013, partly the result of the pension agreement and partly the result of reduction of our workforce.

To be clear, our conditions for paying cash dividend is the certainty of a credit rating of BBB+, that means ratios belonging to a BBB+ credit rating and also positive consolidated equity. Neither of these two conditions are met at this moment, and based on the current projections we expect to be able to pay cash dividend in 2016.

Looking ahead, we will continue to focus on adjusting the mail operations in the Netherlands to the declining volumes and focus on growth in Parcels as well as International. This should contribute to a sustainable delivery of cash in the future. This enables us to strengthen our financial position and eventually the payment of dividends as from 2016. Thank you for your attention and we will go over to the Q and A.

Richard Piekaar

Thank you, Jan. We will first give the people in the room the opportunity to ask questions after which we also give people on the conference call the opportunity. I would just want to like to





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mention for those on the conference call to please press star 1 if you have any questions. Who can I give the question here?

Philip Scholte, Rabobank

Yes, thank you, it is Philip Scholte from Rabobank. First of all, probably for Jan, your dividend outlook. Do you expect to pay dividend in 2016 or over fiscal year 2016? Can you maybe take us through your bridge towards that year, because I have difficulties getting to a positive equity in 2016. Now I know that involves my estimates, but I doubt whether you will get there. The second question is on the Parcels, the negotiations with the subcontractors. Does it actually involve just a simple increase in the fee you are paying to them, which is putting pressure on your margins or can you give a bit more colour on what exactly did you decide on and what the framework is, and may be also a little bit more going forward. What will happen if volumes continue to grow, is there a fee framework or anything specific there?

Jan Bos

I will start with your first question so on our projections. So you have to take into mind there is a difference between underlying cash operating income and underlying operating income, so that is a difference for the restructuring cash out and also the difference between pension cash out and pension expenses. So net profits are higher which we add to our equity. In our calculations we expect to reach the target of being able to pay dividend in 2016.

Philip Scholte, Rabobank

So that would mean paying a dividend over 2016.

Jan Bos

In 2016. Interim dividend is also possible.

Philip Scholte, Rabobank

Okay. All right.

Herna Verhagen

Then your second question on subcontractors. What we did over the last half year of 2013 were many discussions with the subcontractors. Those were discussions around fees but also around routings, around mutual respect, around increased communication, et cetera, et cetera. By the end of Q4 we came to a set of measurements we think we have to take in 2014 and 2015. It is still a fee paid per parcel. That is still the concept on which it is based. It is based on a new to develop routing model, which gives more certainty of the routes we drive and that is important for being able to deliver in certain time frames. It is a bit higher fee per parcel and it is based on a different way of steering in the sense more communication, more interaction with our subcontractors. So there is also on our side something to do. So it is a basket of measurements we will take when it comes to subcontractors.

Philip Scholte, Rabobank

Do you thereby exclude that you have to take more of these subcontractors on your own payroll or is that discussion already finalised?





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Herna Verhagen

That is the discussion on pseudo self-employment. Almost all of our subcontractors received a declaration of independency for 2014 and that means that the tax authority says to them, you are an independent worker.

Philip Scholte, Rabobank

Right.

Richard Piekaar

Okay, then the next question, the gentleman.

Maarten Bakker, ABN AMRO

I think in the last couple of years investors had to digest already a few downgrades to the volume guidance for the Mail in the Netherlands division. And the previous guidance was 8% to 10% decline until 2015 or 2016 I believe and then started to level off. So my question is, how comfortable do you feel that at some point there will be a natural level to mail where you expect the volume declines to start levelling off? Then my question on, I have a question on mail pricing in the bulk mail segment. I assume that you have tried to push through new prices, negotiate new prices since the start of this year. My question is, have those been successful pushing those prices through?

Herna Verhagen

All right. The downgrades on volume. The downgrade to 9% to 12% is the best estimate we can give at this moment in time. It is based on our trend analyses, it is based on a lot of discussions with customers, on how they think their mail volumes will develop into the future, on how they think their customers will act and react when it comes to further digitization, so that is where it is based upon. We do expect that also after 2017 there will be a volume decline, although not as steep as when it comes to the 9% to 12%, so it will level off. Will there be a bottom? We don't know exactly. We do expect, but do not know exactly at what moment in time there will be one. Then your second question, on mail pricing and then especially on bulk mail pricing. We did the negotiations on the rise in prices for bulk mail over 2014 already by the end of 2013. We were very successful in that, which means that the total volume of bulk mail reached a price increase well above inflation over 2014.

Maarten Bakker, ABN AMRO

I have a follow up question. I thought there is a new pricing mechanism, was already or still needed to be negotiated. The new tariff regulation.

Herna Verhagen

No, it was in the Postal Regulation, which is approved by Parliament by the end of 2013.

Maarten Bakker, ABN AMRO

But the mechanism, exactly how volumes are going to be linked, prices are going to be linked with volumes?

Herna Verhagen

That is in the Postal Regulation.





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Maarten Bakker, ABN AMRO

Okay.

Richard Piekaar

Okay, Marc.

Marc Swartsenburg, ING

First a question on the reduction of the outlook €20 million. You have €75 million more savings. How much of the €75 million savings is included in the outlook for 2015? How much still is left for after 2015? Should I read it that for example if everything is included, that the decline of say €50 million is due to the volume declines? Is that how I should read it? That is my first question.

Herna Verhagen

The €20 million, the €20 million UCOI-decline is related to Parcels, so we do expect the 8% to 10% to be reached for Mail in the Netherlands. Then when it comes to your €75 million more savings, it is front end loaded, although still some savings to do in 2016 and 2017 and that is also the reason, why we said, it is €365 million till the end of 2017. But front end loaded.

Marc Swartsenburg, ING

So most of it will be in the 2015 outlook already?

Jan Bos

In the 2014 and 2015 outlook.

Marc Swartsenburg, ING

So basically taking it all into account, €20 million is explained by Parcels, but you have €75 million more cost savings, so the rest of the savings is gone due to the volume declines. Is that how I should read it?

Jan Bos

Yes, of course, the volume, so the cost savings have to compensate the volume decline.

Marc Swartsenburg, ING

And then I have got a question on the €20 million impact from the joint ventures. How should we take the UK Mail into the P&L? Is €20 million all the joint ventures I heard? How much is the UK and how much shall we put in the associated line for the UK?

Jan Bos

In the appendix you see more figures and more detailed figures, but roughly it is €15 million for the 2015 outlook, €15 million for the UK and then €5 million for the other joint ventures. That is partly split between Mail in the Netherlands and Germany, so in International.

Marc Swartsenburg, ING

Then a final question, if I may. Your outlook for 2015 does not explicitly state how much cash out for provisions is included. Quite an important element. How much is in your outlook?

Jan Bos

We haven't guided, but I would say, so after 2014 cash out will reduce a little bit more and then we still have some cash out to do in 2016.





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Marc Zwartsenburg, ING

€50 million to €70 million for 2014 off the top of my head and then slightly below for 2015. Okay, thank you.

Richard Piekaar

Okay. Henk there in the middle.

Henk Slotboom, the IDEA!

Sorry to be such a pain on the subcontractors, but you emphasized that for 2014 they have the VAR declaration. Now there is new legislation on the way by mr Asscher which will take effect as of 2015. Could you give any colour on how you look at that? A second question is with regard to the dividend. You quite rightfully stated that the dividend is depending on two main factors, one being a positive consolidated equity and the other one, you have the somewhat cryptical phrase on the credit ratings. Is it a hard thing that the credit rating should indeed be BBB+ and Baa1 or is the fact that you believe that you are on those standards, but it has not recognised by Standard and Poor's or Moody's yet, the main factor? And then the last question is on your intention to open 600 retail points in Belgium and Luxembourg for parcels. We have seen several similar initiatives, for example DPD wants to have 1,500 collection points in the Benelux, 500 in Belgium, 500 in Holland and a remainder part in Luxembourg I believe. GLS is opening a number of collection points. bPost has a number of collection points. Kiala has over 600 collection points in Belgium. How do you think you will make money in Belgium? DPD for example says, it takes us three years before we reach break-even on the back of this expanded collection point network. How do you see that in the case of PostNL?

Herna Verhagen

First your question on Asscher, which of his legislation are you pointing at?

Henk Slotboom, the IDEA!

I saw legislation with regard to the, he wants to impose further restrictions on the VAR, so it is less easy to get a VAR. Secondly, he has a, the way I understood it, you have to prove that you are working with real subcontractors as opposed to fake constructions, let me put it in those phrases. So if somebody works more than 10 hours a month for PostNL and so many hours per week, but then on several consecutive weeks, then basically you have to prove that you are in the right place. Do you think that the set up you have designed as of the end of 2013 is 2015 proof, because he wants to implement these rules for 2015.

Herna Verhagen

I think when it comes to the discussions on pseudo self-employment they are much broader then only the parcel industry. So they will impact almost over one million people in the Netherlands who have an independent status. That also makes these discussions quite difficult, also in Parliament, because they are affecting many, many of the people living and working in the Netherlands. What we try to do of course when it comes to the way we work with subcontractors is designed in that way that they are truly independent workers. That is the way we already designed it in the past and that is the way we designed it for the future as well. So that is what it is at this moment in time. Next to that, we are working in several committees with the Ministry of Social Affairs to of course think about pseudo self-employment and how to avoid pseudo self-employment, which we do as well with several other parties in the Netherlands. So we are quite well connected to where it is heading at and where it is going for.





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Then I hand over the question of the dividend to Jan, but answer your question around the 600 retail locations in Belgium first. When it comes to delivering parcels in Belgium we are already more than break-even, so it is cash profitable and it is a profitable business for us. The way we do the set-up of those business and retail locations is the same as we do it in the Netherlands, which means that we pay locations per handling and not with strict fees. So we do not expect that it will have a lot of up-front investment necessary to open 600 locations in Belgium.

Jan Bos

On our dividend policy. So I stated before, BBB+ credit rating is belonging in our opinion to profile for our company and like I stated also in my explanation, we say, we have to reach ratios, specially the EBITDA ratios belonging to a BBB+ credit rating.

Richard Piekaar

Okay, anybody else in the room a question? Philip.

Philip Scholte, Rabobank

Yeah, it is Philip Scholte, two follow up questions. Do you believe, Jan, that if you would sell your stake in TNT, your remaining stake, that you would immediately get to the BBB+ rating? Is that the main prerequisite for that? And the second question is on the joint venture accounting, actually the impact in 2013 is only minus 4 and you are guiding for an impact of 20 for 2015. How do I reconcile those numbers?

Jan Bos

The first question is so for part of the sale of TNT Express contributes to debt lowering. Then of course also our results have to improve still in 2014 and 2015 and the combination will lead to in our projection to a BBB+ credit rating ratio. That is one. Your second question was about the €4 million. So what you see in the 2013 figures, you see a contribution from the UK positively of €10 million and then from the subsidiaries in Mail in the Netherlands, especially on post office, you see the impact of the restructuring cash out, the remaining restructuring cash out and that was minus €9 million. And the joint ventures in Germany contributed €3 million.

Philip Scholte, Rabobank

Okay, so that minus €9 million in the Netherlands includes a bit of restructuring....

Jan Bos

... cash out, because it is underlying cash operating income and also the remaining restructuring cash out on post offices.

Philip Scholte, Rabobank

Right, right, right, thanks.

Richard Piekaar

Okay, then I would like to give the people on the conference call the opportunity to ask questions. please state your name and company when you get the opportunity. Is anybody on the line for a question?

Operator

The next question comes from the line of Damian Brewer, please ask your question.





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Damian Brewer, RBC

Yes, good afternoon, I have a couple of questions for you. First of all, on the part of physical mail price elasticity demand. Could you tell us a little bit more about digitization increases the substitution rate or price sensitivity whether it is more you can do in terms of looking back and pricing up in advance or are you declined or are you limited to something that has reacted? And then secondly, also following the line of digitization and technology. Given the change of volume decline outlook and the increased level of savings, do you think there is any more incremental savings that can offset digital initiatives and also look at technology like sorting that you implement? Thank you.

Jan Bos

Answering your first question, Damian. So the price elasticity is still according to our calculation between 0.1% and 0.3%. For our bulk mail price elasticity and also our pricing power is also depending on competition, so that is why we say above inflation, but you can't do that maximising that a lot more than we do now. And on the USO, we are restricted to regulation.

Damian Brewer, RBC

So there is price elasticity on the increase, is there any effect and do you review that?

Jan Bos

No, it is the same still, the same calculation.

Herna Verhagen

On your second question which is, is there more to come when it comes to cost savings, so are there more ideas for incremental savings. Yes, there are more ideas on savings and those of course need to be developed first and need to be thought through first. That we will do in the next coming period and then when we are more sure about what it exactly could be, we will come up with it. But we do expect that there will be more savings possible also after 2017.

Damian Brewer, RBC

Okay, thanks.

Richard Piekaar

Okay, then the next question please.

Operator

The next question comes from the line of Wenchang Ma. Please ask your question.

Wenchang Ma

Hi, good afternoon everyone. Just one question from me please. So on the parcels slide, I understand that is €20 million downgrade on the 2015 guidance coming from parcels. If I understood correctly, I heard you mention about product and customer mix, extra investments and also the subcontractor cost. Could you comment on how much your flows actually are related to the B2C part of the volume growth and also is it possible, could you provide a split in terms of revenue or in terms of volume between B2B and B2C in your overall parcels portfolio and what is the differential between the two in terms of the volume related revenue to EBIT drop down, please. Thank you.





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Herna Verhagen

When it comes to the €20 million on the guidance we gave in 2015, it is related to extra service offerings and subcontractors as said and it is more or less in the balance of two thirds to subcontractors and one third to services. Then on the split between 2C parcels and 2B parcels I hand over to Jan.

Jan Bos

Yes, if you look at the to B and to C parcels, it is the €20 million on market development is mainly 2C parcels and on subcontractors on the whole parcel business I would say.

Wenchang Ma

And in your current overall portfolio for the entirety of the parcels, what is the split between B2B and B2C?

Jan Bos

It is about 40% 2B and 60% 2C.

Wenchang Ma

Thanks.

Richard Piekaar

Okay, next question please.

Operator

The next question comes from the line of Dominic Edridge, please ask your question.

Dominic Edridge, UBS

Just a couple of questions. First just going back to volume declines and where you see things going forward. I suppose if I am looking at the numbers you are coming out with, are estimates for 2013. The Netherlands is now around 225 letters per head per year, if you include the Sandd volumes. If I look at other countries out there like Germany, Belgium, et cetera which seem to be relatively more stable. They are around 200 letters per head per year. I mean in theory you can reach those 200 letters in around two years or so. Is there any structural reason for the fact that why the Netherlands you are going to dip below some of the other countries out there, given that the Netherlands initially be quite a heavy user of mail. That is my first question. The second question is hopefully a bit more straightforward, which is a straight financial one. In terms of the impact this year on the net interest line, I think I am right in saying that the underlying net interest in the last couple of years has been around €130 million. If I look at the bonds you bought back, roughly speaking about 27% of the face value of the bonds, I am just doing very simple arithmetic, that would say €26 million a year. Should we that foresee in that the net interest line this year should be around a €100 million to €110 million? Thanks so much.

Herna Verhagen

Your first question. If we look into the amount of mail items, we always calculate the amount of mail items per household in the Netherlands. We have around 7 million households. The amount of mail items per household 2012 are around 540 pieces per household. That is not including unaddressed. I am not sure what you mean with sampling mail. If you mean addressed direct mail, then it is included. If you mean unaddressed, then it is excluded. So all addressed mail in the Netherlands is around 540 items per household in 2012. And taken into account of course





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that in the Netherlands part of our market is in the hands of a competitor, so you cannot not only look into the volumes of PostNL, you have to count as well the volumes which are handled and delivered by Sandd, our competitor. Secondly to your question, if you look into the amount of volume we deliver per household yearly, the 540 million per household in the Netherlands are still higher than for example what Germany is doing, which is around 410 items per household per year. So there is still in the Netherlands more items per household than in most of the other countries, which are surrounding us.

Jan Bos

The impact on the net interest line, I think I explained that already in the presentation. We guided €20 million lower compared to 2013.

Dominic Edridge, UBS

Okay, thanks so much.

Richard Piekaar

Okay, next question please.

Operator

The next question comes from the line of Joel Spungin, please ask your question.

Joel Spungin, BoAML

Yeah, good afternoon, Joel Spungin from BoAML. Just a couple if I may, just first of all with regards to the postal regulatory, yeah, postal regulations which you talked about, being reviewed in the summer and that being going for closures of post offices or reduction of mail boxes and things like that. Are you factoring any savings from that into your guidance or would that be something incremental for further down the line? That is my first question. My second question is just about the credit rating. Have you actually had any discussions recently with the credit agencies if not about an upgrade given the reduction of debt, about a possible shift in the current negative outlook?

Herna Verhagen

Coming to your first question on postal regulation. It is correct that around summer Parliament will discuss the change in Postal Act and that encloses also the change in the amount of post offices and mail boxes. It is part of our savings and so part of our guidance till the end of 2017.

Jan Bos

For the rating agencies, we have our regularly update in April.

Joel Spungin, BoAML

Okay, thank you.

Richard Piekaar

Okay, next question please.

Operator

The next question comes from the line of Douglas Hayes, please ask your question.





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Douglas Hayes

Good afternoon, two questions please. First on Parcels. Can you just remind us at what point you might consider shifting some of the subcontractor volumes out of some contractors and into your own network? And second on that point, can you remind us what percentage of total volumes are handled by the subcontractors versus how much are handled through your own network right now?

Herna Verhagen

First of all, to have a correct understanding, it is our own network, which means that collection and then sorting and delivery, that is our network. And subcontractors are part of that network, so they deliver to us the last part of our delivery chain and that is handling the parcel and deliver it to the consumer at home. Which means that almost around 80% of our parcels are delivered by subcontractors and around 20% of our parcels are delivered by employed people. If you look into the quality levels reached by both, they are both high. If you look into the way they work, of course the subcontractor has much more freedom in how he will do his work and how he will run his routes, but both of course do of course a certain amount of parcels a day. But is the same network they are running. And then only the last part of the delivery chain is in 80% of the occasions outsourced to a subcontractor.

Douglas Hayes

Yes, so that was the confusion. And the question was at what point would you think about moving some of these subcontractors back into your own delivery team, that remaining 20%. Is that when quality has hit a certain level or is it cost? What is the decision factor there?

Herna Verhagen

Yes, of course the mix of how you act with your employees, with your subcontractors, with the companies we hire with their own employees, in that mix we do expect there will be some changes in to the future and that is mainly of course because we want to be very strict in certain delivery timeframes. You want to be very strict in the quality we can deliver, so there will be some change, but it is not clear at this moment in time and it will not lead to big changes.

Douglas Hayes

Okay, thank you. And second on the UK operations. Have you guys, are you ready to point out some targets for what you hope to be, you know, from a revenue or market share standpoint in five years or anything like that?

Herna Verhagen

We did not disclose where we want to be and would like to be in five years from now when it comes to the roll out of E2E. When you look at the status we reached by the end of 2013, we do 3.9 million mail items in the UK which is more than 50% of the downstream access market and which is around 25% of the total mail market of course in the UK. We did a roll out for E2E in the whole of London and last November in Manchester as well.

Douglas Hayes

Okay, thank you very much.

Herna Verhagen

You're welcome.





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Richard Piekaar

Okay, next question please.

Operator

The next question comes from the line of Hugh Turner, please ask your question.

Hugh Turner, Credit Suisse

Hi, I was wondering if the new pricing regulation approved in Parliament in January means that you really expect to cover the cost of your USO in January 2015 through price increasing. That is the first question. The second question is, I am trying to understand whether disruptions to restructuring at head office may have had an impact on market share losses to Sandd in the second half of 2013 and may be when you get through more restructuring, this might return in 2014. And the third question is, I am trying to understand whether Royal Mail's new pricing on access mail will influence the terms of your joint venture with LDC and whether the roll out with them is already agreed and on track. Thanks.

Jan Bos

On the new pricing regulation. There is a phasing in implementation, so first results are expected at the first of January 2015, because we have to go through a process of more transparency towards our regulator, ACM, and also discussions about for example cost allocation. That will take part of 2014 to be able to have our first price increase at the first of January 2015.

Hugh Turner, Credit Suisse

So by 2015 you expect to fully cover the cost of your USO?

Jan Bos

I would say, that is, there we are able towards depending on the amount of price increase. So we are not yet there.

Herna Verhagen

Well, your second question, which comes to the restructuring at head office and the impact on the market share of Sandd. We did not see an impact on the market share of Sandd because of the restructuring at head office. The volume we lose to Sandd is every year somewhere between 2 to 3% and that was in 2013 as well, although we did a significant price increase for our bulk mail items. We did not see that changing much. Then your last question on the terms with our joint venture partner LDC for the roll out of E2E. When it comes to the proposal which is done by Royal Mail on the differentiation of tariffs, that can have an impact on the profitability of E2E in the future. So that means that the outcome of the regulator is important for us, before we can close of course the joint venture with LDC. In the meantime we will further roll out E2E and I expect or we expect some more signals from Ofcom somewhere around September 2014 at the earliest.

Hugh Turner, Credit Suisse

Okay, so that means that the LDC deal could not go through still?

Herna Verhagen

Yes, that is correct.





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Hugh Turner, Credit Suisse

Okay, that is correct.

Richard Piekaar

Okay, thank you, next question please.

Operator

The next question comes from the line of Tobias Sittig, please ask your question.

Tobias Sittig, Main First

Good afternoon, two questions from my side. Firstly I think, a little bit the analysis in the room is that your share is down 20% because people did not see the guidance decrease coming really. I wonder what changed between November when you last confirmed your mid-term guidance and now, because all the reasons that you cite for the guidance come to me pretty much obvious before, so you see that the price mix would be deteriorating in the Parcels side. You have seen that the joint venture would happen in the UK. So, I think you could have given the market a little more guidance or put in a different way what has happened between November and now that made you take these measures. Is there any deterioration in the market environment why you think you should now be so much more cautious?

Herna Verhagen

I do think that by the end of Q4 we came to the conclusion around the measurements we think we have to take to subcontractors in 2014 and 2015 and that has an impact on the margin of Parcels. That is the main reason why we came up with the update today. And by the end of Q3 we did not have that full view on measurements which need to be taken.

Tobias Sittig, Main First

I mean, you gave interim announcement that all divisions were exceeding that plan, so we were told there should be a little more leeway to offset cost increases from the subcontractors and stick to that guidance which has been quite important to your communication in the past couple of years.

Herna Verhagen

In our view, if we look into Mail in the Netherlands we of course maintain our guidance from 8 to 10% and we of course offset volume decline by price increases and by extra cost savings of €75 million. Within International we maintained guidance for 2015 and when it comes to Parcels, in our view if you look at the adjustments which we do in services, but also which we do in our relation with subcontractors, this was a necessary step to make and also in my view the most honest way of communicating to you.

Tobias Sittig, Main First

Okay. Second question, when you look at PostNL 2015 is that basically a basis to build on for future growth or will you be in the defendant mode for the next five years as well?

Herna Verhagen

If I look into the future of PostNL, I see a future in which we have a smaller and profitable mail company and year by year a larger Parcel company. If you look into the basis which we have built for Parcels over the last ten years and if you look at where we are today, I truly believe that that basis is a basis for future growth and also future profitable growth. So, when it comes to





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PostNL for the future, that is my trust, that it is a company which can be healthy, which has a very solid financial basis and also has a lot of potential for growth, mainly it comes to Parcels.

Tobias Sittig, Main First

Thank you.

Richard Piekaar

Okay, thank you and I believe that was the last question on the conference call and with that I would like to close this meeting for today and I thank you all for being here today or joining us on the conference call and hope to speak to you soon. Thank you.

