PostNL
Q2 and HY 2015 Results

3 August 2015

Mr. **Kors**: Good morning, ladies and gentleman. Welcome to the press conference for the presentation of PostNL's Q2 figures. My name is Dick Kors. Next to me is Herna Verhagen, our CEO. Next to her is Jan Bos, our CFO. Both will elaborate on the figures, after which we will have a Q&A. Herna, please go ahead.

Mrs. **Verhagen**: Let me go into the Q2 results. Q2 was a solid quarter. That means, if you consider the revenue, that it was basically similar to Q2 of the previous year. We saw a strong equity improvement and we are on track to achieve the end-year results of 280 to 320 million. We also notice recent developments in Parcels and in the sustainable delivery model we aim to implement which we offer to our parcel deliverers, and in the sale of our operations in England. I am going to talk about both developments first. Both happened after the end of Q2, but I think it is important to say a bit about them. After that, I will tell you more about the Q2 results.
First, let me go into the delivery model for Parcels. We achieved a negotiating result in July with the FNV trade unions. We said that we would make an offer to our independent parcel deliverers. We would offer them a permanent contract in keeping with the working conditions for the parcel deliverers already employed by us, or they can remain independent. That would mean that they receive a higher compensation of 10% than they receive at this time. It would offset the cost difference between people employed by us and people who work for us independently. We think that this is an important step toward a sustainable delivery model. This is important for us, because we envisage that volumes in Parcels will continue to grow in the years ahead.

The costs of this sustainable delivery model are 15 to 20 million per annum. We will see those total costs in 2016. We expect to take the first 5 to 7 million in the second half of 2015. Nonetheless, we expect to remain within the guided range of 11 to 13% underlying cash operating income for Parcels at that margin. We have 1,150 independent parcel deliverers. We will see how we will make that offer to all of them, and whether they would like to be employed by us or choose to remain independent.

We communicated that second important development last Thursday. That is the intention on the management buy-out of our business to the management in England. The most important reason why we did this is because in our strategic review that we do for all countries, including England, we examined the opportunities we saw in England and compared them to the risks identifiable for England. Based on that, we think that a sale to management at this time would be best. We will retain 17.5% of the shares, because we are confident in what the management intends to do in the coming period. We expect at the end of this year or in the course of this year that we will finalize this deal. It depends in part on financing and in part on the final documents that have yet to be drafted.

The UK will have an impact of 43 million. That relates to exit costs end-to-end. In the second quarter we announced that we would discontinue end-to-end, in part as a consequence of regulatory uncertainties in England. Those costs amount to a gross 23 million. You will see this on the slide. In addition, there is a 24 million impairment. If you net that, it is an impact of 43 million. Of course these EUR 43 million are non-recurring costs, but we see that this reflects a difference between our profits of last year and this year. That explains the difference of 43 million. The strategic reviews of Germany and Italy are ongoing. Options are open there.

Two important elements that took place after Q2 are still worth mentioning here. Let me go back to the Q2 figures. The figures of Q2 are solid. Revenues are roughly similar to the revenues in 2014. Underlying cash operation income is 12% up compared with last year. There is a significant improvement in our consolidated equity. That relates to the increase in share price of TNT Express, which is reflected in our equity, and the increase in interest, which is also reflected in our equity. That is an improvement from 574 million negative at the end of Q1 to 357 million negative at the end of Q2. Also noteworthy is that in Q2 we made a repayment to our bond to the tune of EUR 349 million. That was a debt redemption. We did that from our own cash.

As I said, underlying cash operating income was 12% higher. I will give you the breakdown on that in a moment. A solid Q2 gives us sufficient confidence to reconfirm the outlook for the full year. That means that at the end of this year, we expect 280 to 320 million in underlying cash operating income.
Now I am going to review the results by segment, and you will see where the improvements are and where we are in line with the previous year.

I will first discuss Mail in the Netherlands. The performance is in line with the expectations. We see that the volume decrease is partly offset by price increases and cost savings. The volume decreases in Q2 amounted to 11.2%. If you adjust that for working days and elections, the underlying decrease is 9.1%. That volume decrease is offset in part by cost savings of 22 million in Q2, which is slightly less than last year. Part is also offset by price increases, which were well above inflation. That was in keeping with our pricing policy.

What is also important, is that innovation remains important. This is crucial to cultivate customer loyalty and sustain the business. One example of this is the roll-out of our track and trace for Mail. The barcode that you have on Mail and with which you can track postal items from store to end is also done for items such as elections mails. In that way, you know who received their voting pass and which voting passes are returned. You can for example see that those people have moved, or that those people didn't receive their passes, and so on and so forth. In letters we continue to innovate and to cultivate customer loyalty, and to retain volume as long as possible. Important elements in Mail in the Netherlands are price increases and cost savings. I am going to elaborate on that.

I am sure that this will look familiar, because it is identical to what we showed you for Q1. What we are showing here, is that the phasing that we see in volumes, and the phasing in cost savings lead to the expectation that the volume decline will be between 9 and 12% at the end of 2015, and that cost savings will increase in HY2 compared to the previous year. That relates to the phasing of our restructuring plans. An example is the implementation of the new sorting machines. They are proportionately greater in the second half of the year than in the first half of the year. Also the restructuring in marketing and sales is focused more on HY2 than on HY1. We expect a volume decline in a guided range of 9 to 12% and cost savings in a guided range of EUR 75 to 95 million.

A third element that we always address when we are talking about Mail in the Netherlands concerns regulations. The regulatory environment in the Netherlands has experienced some significant events in Q2 as well. First, there is the Postal Act that was approved by the Senate. What was approved in the Senate was then carried over to a new postal regulation, which is now pending before the Council of State for approval. Ultimately, if it is approved, we will be able to start reducing the number of post offices and mailboxes from January 1, 2016.

The second element is cost allocation. We have reached an agreement with ACM about the principles of cost allocation. Cost allocation determines the distribution of service between a universal service obligation and a non-universal service obligation, and it determines our tariff headroom for increases in 2016 and beyond.

The fact that we have achieved an agreement about the principles for cost allocation enables us to get to work and to supply all the data based on which ACM will be able to determine the tariff headroom for 2016. We expect that in 2016 we will have another tariff headroom in keeping with our pricing policy.

A third important file considers significant market power. The ACM presented a second consultation document and asked parties to respond to that second important consultation document. We did that, once again presenting similar arguments. We state that we do not think that there is a significant market power, because in addition to construing physical mail, you have to examine digital mail. We said that, if measures are taken, these should be in proportion to the market power that ACM perceives. While significant market power remains a subject of discussion, we are still in discussion with ACM. In the second half of 2015, ACM expects to issue a ruling. It remains crucial for us to maintain a reliable, accessible mail network today, tomorrow and over the long term. That is consistently our principle in our talks with ACM. All this means that Mail in the Netherlands is in keeping with expectations. We will have a strong HY2 as a consequence of facing the cost savings and because the second half of the year has two working days more than the first half of the year.

I am now coming to Parcels. In Parcels we experienced a 7% volume growth, which arises in part from growth into the consumer market, which is you and I ordering Parcels from web shops. We are following the ecommerce market trend, which results in part from the growth we see in international volumes. That is mainly related to milk powder to China.

That 7% volume growth has of course carried over to our revenue growth of 8% to EUR 221 million and an increased margin of EUR 24 million in Q2 2015. That margin increase relates in part to volumes, and in part to the fact that we are able to operate more efficiently. Higher subcontractor costs have been taken into consideration here.

In Parcels, we are innovating a lot as well. The Parcels market is growing very rapidly, and to remain an important operator in that growth, we need to innovate and retain a competitive edge. We do that for example through a pilot in which we keep post offices and parcel collection depots open till very late. In many cases, these points have been open only until 5 or 6 pm, and we are going to extend that to 9 pm. That pilot is in progress. If it is successful, we are going to extend it to additional places in the Netherlands, so that we are making our parcel network accessible for small web shops until late in the evening.

I will now move on to volumes. Of course, international volumes started growing last year. At the time, we also said that we doubt whether part of these volumes, such as milk powder in China, will be sustainable in the long run. In any case at some point, the growth will taper off. In Q3 and Q4 of last year, we experienced a strong growth in milk volume to China. In 2015, we expect to retain that volume. The strong growth that we saw in Q2 of 2014 is not expected to recur in the second half of 2015. The 2C volumes will continue to grow in keeping with the ecommerce market, but some of that will have a modest effect on volume growth in HY2015, especially on the revenue growth in HY2015. The average price of milk powder to China is higher than the price of the average parcels sent in the Netherlands.

The revenue for the entire year will be somewhere around mid single digits as a guided range, close to the market. It is important to understand the effect of milk powder in our figures. I already stated that the growth into consumers will continue, in keeping with the trend we noticed in the ecommerce market. This means that this growth will be strong. In short, the results for Parcels are good.

Let us move to International. We have omitted England from the figures. England is now reported under discontinued operations. We notice revenue growth in International of 8% to EUR 233 million and we see an increase in underlying cash operating income as well. That increase in the underlying profit of EUR 5 million is from all segments contributing to our international result. Germany is important in that: we see higher revenues there. There is greater volume in the operations in Germany. We also see an improved performance because of the cost savings plans that they introduced in 2014. They are actually delivering cost savings. In Italy, the results are on track. That means that revenue growth and results are developing as expected. As I mentioned previously, the strategic review of the countries Germany and Italy is ongoing. We have not completed that yet.

Now, combining all segments leads us to say that we have had a solid quarter, which is a foundation to reconfirm the previous full-year 2015 outlook. We also expect to improve our equity position significantly. In HY2 we have several important things that we need to do, including firstly the significant management attention to pending regulatory files, secondly the review of the other countries and International, and thirdly the implementation of our sustainable delivery model for Parcels. We are on track for the 2015 outlook of EUR 280 to 320 million.

We would like to give you a bit more content on the segments and figures and I hand you over to Jan for that.

Mr. **Bos**: Thank you, Herna. I am going to elaborate briefly on the financials. First, it was a good quarter. We call it a solid quarter. It gives us confidence in the results for the rest of the year. Let us start by looking at the revenue: it is stable compared to Q2 of last year. Our most important key performance indicator is underlying cash operating income. That is the underlying operating income after restructuring and pension costs, which is up by 7 million to 65 million. Our net cash from operating and investing activities – the net cash flow – has in part been negative this year, because of the anticipated tax payment for 2014. That is why it is 57 million negative.

Considering the development of the results, I will first discuss the underlying operating income. Those are the second and third orange columns. It is down slightly from 86 to 82 million. You see a solid performance because of the impact of volume decrease, modest price increases and organic

increases compensated by cost savings of 22 million. It is shown that underlying cash operating income is up by 7 million. That is mainly because of lower restructuring and pension spending.
We will now consider the results for the different segments. Let us first take a look at Mail in the Netherlands. You see that the revenues are down by 5%. That is due to the 11% volume decrease, which is offset in part by modest price increases. Our underlying cash operating income from Mail in the Netherlands is down 8 million, from 48 to 40 million. That decrease is explained by the impact of volume decrease and modest price increase, which have had a negative impact of 14 million, plus the fact that organic price increase of 5 million has been offset in part by cost savings equaling 12 million.

We will now consider Parcels. The revenues are up there, driven in part by international growth as well as by growth in the B2C segment. The total volume growth equals 7% there. You can see that the result is up by EUR 3 million, from EUR 21 million to EUR 24 million. The impact that we achieved in Q2 from an increase of subcontractor cost by EUR 2 million has been more than offset by revenue increases in ongoing efficiency gains and operations, and thanks to investments in logistic infrastructure.

Our international revenue is also up to 233 million. It is up by 8%. You can see that all countries have contributed to this, especially Germany. You can also see that our result from break-even last year is now up to 5 million, with Germany as a special contributor. Please note that we benefited from some incidents in Q2.

PostNL Other comprises all head office operations. You can see that the result has increased by EUR 7 million there, especially thanks to cost savings. Overall, we have a good result with an increase in underlying cash operating income. As stated, that gives us confidence in the rest of the year.

Our net profits for continuing operations exclude the UK. They are about the same as last year, and have grown from EUR 42 to EUR 39 million. You see the non-recurring effect of the sale of our operations in the UK, with a net expense of EUR 43 million, due in part to the departure of our lost distribution. We had to take additional costs there. As I explained earlier, that results in a net total profit of negative EUR 4 million.

I have now come to our net cash. First I will discuss our cash generated from operations. That is the top line. It is up by EUR 7 million, from EUR 37 million to EUR 44 million. That is roughly in line with our result progression over Q2. Considering the taxes paid: as previously, we said that we expected to pay more taxes in our first half year, especially for previous years. In this case, we have paid the taxes for 2014 in Q2, which led to net cash from operating activities of negative EUR 57 million. We also invested more in assorting machines in Q2, which should yield efficiency gains in our Mail in the Netherlands operations. Overall, the result is as expected.

I have three comments about the pensions. The first is about the coverage ratio. That is the twelve month average policy coverage ratio, which is down slightly to 109%. That is well above the minimum coverage ratio of 104%. We also saw that this quarter increased interest contributed to improved equity. The change in interest therefore had a mildly positive impact of EUR 71 million. Finally, as we disclosed in our press release, we adjusted our implementation agreement with the pension fund to the new regulations, which means that the recovery period and the recovery obligation has been extended for our pension fund, from three years to five years. Our conditional top-up obligation of 315 million has been discontinued. That reduces the risk to our company.

In the statement on the financial position, you can see that in the equity – which was about 220 million worse last quarter – the EUR 140 million improvement arises from the improved share value of TNT Express. With the benefit for pensions of EUR 71 million, we now have only a EUR 357 million negative. We expect to improve the operating results and therefore our equity will improve in the quarters ahead. Our financial position has improved and our gross debt has declined. We have redeemed some debt from our own cash. We used EUR 349 million to redeem that debt. Finally, our credit rating by Moody's has improved as well. In the past quarter, Moody's issued a positive outlook. Overall, there was a good improvement in our financial position. That is why we are confident about the rest of the year. We are reconfirming our outlook for the full year 2015, with an underlying cash operating income between 280 and EUR 320 million.

I have a few specific remarks. In Parcels, we are going to face a volume growth that tapers off in HY2. We will also face the costs of our proposal to subcontractors. That will mean an additional cost burden of EUR 5 million to EUR 7 million. In return, we have two additional working days in Q4, which will improve our result. In addition, we expect that our cost savings in HY2 will exceed those of HY1. As a result we expect to achieve stronger results in HY2 than in HY1, and therefore we reconfirm our outlook for the full year 2015. Thank you very much for listening.

Mr. **Kors**: Thank you, Jan. Now, over to the Q&A. We have no callers on the webcast. As for the journalists present here in Amsterdam, we have agreed on a follow-up interview. We therefore propose to head up to the follow-up interviews, unless you have any really burning questions at this time.

I see that there are no questions now. We will then save the burning questions for the interviews. Thank you very much for your interest, and I will see you next quarter.

End of call