



23 February 2015

Transcript Q4/FY 2014 results  
Analysts' call 23 February 2015

Karen Berg

Ladies and gentlemen, welcome to the presentation of the Q4 and full year 2014 results of PostNL. Also welcome to those on the line and via the webcast. My name is Karen Berg, I am here together with Herna Verhagen and Jan Bos. Herna will start with an explanation of the operational performance and then Jan will lead you through the financial performance. I give the floor to Herna.

Herna Verhagen

Thank you. Welcome to the Q4 results 2014 and of course full year results. Before we move to the business details I would like to spend a few words on innovations and changes. Reason for that is because we do think that when it comes to innovation, it is important to be a market leader and to stay a market leader. That is one and secondly innovations are important because part of these will be successful and will be part of our future. I will give you a few examples. And some of them were already mentioned last year and some of them are new. The food box, remember this was introduced last year February, the same day or at least also during our full year numbers 2013 and by then it was only an idea. An idea we developed together with the University of Wageningen, it is a box which is temperature controlled, which is temperature controlled for 19 hours, so we can deliver it via our normal parcel distribution network. The food box is in the meantime introduced and we are piloting this box in a few of the regions in the Netherlands. Another example of the new service is Sunday delivery. Sunday delivery is done as long as the consumer wants to have his or her parcel delivered on Sunday. It is a new service which we introduced during summer in 2014, by then for one customer, at this moment in time already five customers are in this pilot and it is very successful against a very high customer satisfaction rate, as well the receiving customer as the sending customer. The next generation sorting machines. A new machine which is developed together with the manufacturer of the sorting machine and it is able to not only sort small letters but also big letters and sealed letters in one go. That is a big change when you compare it to our current sorting machines, because then we have a separate machine for the small ones, a separate for the big ones and a separate for the sealed ones. So this will deliver higher quality but also efficiency. The first one is introduced in Utrecht last year and we will implement ten others in the next coming period. It is important for us, because it is one of our future cost saving areas. A fourth innovation is city logistics in Delft. City logistics means that we have a hub or a depot at the border of the city centre of Delft, where we collect parcels. Not only parcels from ourselves, but also from others, which are distributed by CO<sub>2</sub> neutral cars or electrical cars into the city centre of Delft. It helps avoiding congestion and it helps of course also avoiding CO<sub>2</sub> emission. In our view if you look into the future of the Netherlands with more and more congestion in cities, this is an important development. And of course these innovations did not bring in the big numbers of 2014, but one of these probably will for the future and therefore innovation in our view is of utmost importance.





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Moving into 2014 and I am looking into Q4 as well as to full year numbers. 2014 is a year of strong performance and with this strong performance in 2014 a solid base is laid for 2015. Revenue increased by 2% to € 4.25 billion. The underlying cash operating income doubled compared to 2013 to € 293 million. And the net cash from operating and investing activities came up to € 124 million. Healthy figures. These figures are based on first of all successful cost saving programmes and I will give you more detail in a minute around those cost saving programmes. But also of course growth within Parcels. 8.8% growth in Parcels. International volumes and revenue grew and the underlying cash operating income was below last year. We saw an improvement of net cash which will help us of course when it comes to our credit rating. The pension agreement which we delivered by the end of 2013 helped in the numbers of 2014. In my view also important is that next to a very strong financial year, it was also a strong year when it comes to customer satisfaction, when it comes to employee engagement and also when it comes to delivering quality. So also on those indicators we increased the scores over the year 2014. And those four indicators together, our customers, our own people and of course together with these financial results in my view are a solid base for 2015.

I give you a little bit more detail on business development within Mail in the Netherlands, Parcels and International. I will start first with Mail in the Netherlands. Mail in the Netherlands is focussed at delivering a sustainable cash flow. I think that is what they did in 2014. In 2014 we saw a volume decline of 10.7% versus 11.9% the year before. That is well within the bandwidth of 9 to 12% which we have given for 2014. It delivered a slightly lower revenue than in the year 2013 and this revenue is of course influenced on the one hand by the volume decline, secondly by price increases – and in 2014 we had the impact of two price increases – and thirdly of course the product mix. Cost savings are an important contributor to our underlying cash operating income and cost savings came in at an amount of € 127 million of which € 32 million are in pensions. Next to that we had the phasing of our restructuring cash out as we also explained in 2014. That delivered an underlying cash operating income number of € 231 million and it came up from € 78 million in 2013. All these changes which were necessary to deliver an underlying cash operating income of € 231 million were against a very high quality of 96.7%. That is well above last year, so well above 2013, but also well above the minimum level we have to do of 95%. So cost savings were a strong driver behind the performance of Mail in the Netherlands. Those cost savings plans were presented in February 2013 and in that year we explained of course how we would do the € 365 million of cost savings till the end of 2017. In 2013 and 2014 we did a total amount of € 222 million of cost savings. Those cost savings came out for example the migration of locations towards 99 locations by the end of 2014. May be you do remember the presentation we gave two years ago, in which we said 265 locations we have in the Netherlands and we will migrate by the end of 2015 to a 125. By the end of 2014, so a year earlier than expected, we are at 99 locations and it gives you a little bit of an idea around why we said that cost savings are coming in earlier than expected. Secondly we are not only reorganising of course in our operations but also within our overhead. And that is the overhead of our operational department but also overhead at head office and overhead at marketing and sales. A big contributor in 2014 was a smooth transaction to a five days a week delivery model. And of course as already mentioned, the pension agreement. The cost savings target for 2015 is a target of € 75 to € 95 million. It seems may be a little bit lower than 2014, but take into account that in the € 127 million of 2014 were € 32 million out of pensions. The main pillars behind the € 75 to € 95 million are reorganisation of plans which are already well known by you. For example, the further optimization of our locations, but also making our car unit more efficient. That means a further integration with Parcels, but it also means that where we now drive certain routes via car, we will do in the future by scooter.





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We move ahead with of course implementing a leaner organisation for head office and a leaner organisation for marketing and sales. We will implement the first phase of our new generation sorting machines and a further optimization of our retail network. So these plans were already earlier introduced, but will contribute to the 2015 cost saving target and also will contribute to the cost savings we still have to do in 2016 and 2017. Those cost savings are necessary, because we do face volume decline in the Netherlands, 10.7% as already said in 2014. That 10.7% is still mainly substitution, so the fact that you and I are sending less mail, the same, companies are sending less mail and to a much lesser extent it is competition. To offset volume decline we use cost savings, but we also use price increases. What we said in the beginning of 2013, is that we will on average between 2013 and 2017 raise our prices well above inflation. That is what we did in 2013, that is what we did in 2014 and that is what we did in 2015 as well. The price increases of 2015 are of course negotiated by the end of 2014 with our customers. That is the reason why we can say that also pricing 2015 is well above inflation.

Another important factor for Mail in the Netherlands is regulatory and our regulatory update is a quarterly update we do to you to give you a feeling and to give you an idea around what is happening in this area. In 2014 important steps in the regulatory environment are taken. And in 2015 we will see conclusions on postal regulation and on significant market power and on the Postal Act. What is the status at this moment in time? For the Postal Act it is of course agreed by our Parliament. That is the status at his moment in time. The Postal Act contains that we have the possibility as PostNL to reduce the amount of post offices and mail boxes on the street with 50%. It is now up for approval at Senate and that is what we expect in the first half year of 2015. When they will approve we are up for implementation July 1 2015, so mid this year. A second important dossier is the one of postal regulation. In postal regulation there is of course a discussion around the division of cost over universal service obligation and non-universal service obligation. The way those costs are divided, does have influence on the tariff head room we have for the years ahead. The regulator at this moment in time is reviewing the way we divided costs over universal service obligation non-universal service obligation. We are expecting the final decision in the first half of 2015.

Last but not least significant market power. The first view of ACM or the regulator came by the end of December 2014 and the regulator said that in certain areas they do see that PostNL has significant market power and they want to give access to resellers. Of course we are now in the phase that everyone has to contribute their views to ACM again and that is what we did over the last weeks. We are still of the opinion that if you look into mail, only mail, market, that is too small, it is too narrow. Mail market has to be looked in as communication, because our real competitor is not physical competition, it is substitution. So if you truly want to say anything around the developments within the mail markets, you have to look at the communication market. In that market we do not have a dominant market position. It will have a lot of management attention in 2015 as well. Depending of course on the outcome we will take mitigating effects to as much as possible dampen the effect of measurements ACM or regulator can take. If they will take any measurements, the impact will be beyond 2015. So for Mail in the Netherlands a very strong year, mainly based on a very smooth execution of cost saving plans.

For Parcels. Parcels is focussed at further profitable growth. That is what they did in 2014. Volume in 2014 was up 8.8% and that of course translated into revenue which you see over here: € 854 million which was 6% up if you compare to 2013. Of course it also came into underlying cash operating income which was up almost 10% to € 98 million. Main reasons





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behind the growth in revenue but also growth in underlying cash operating income lies in the development of the e-commerce market. Strong growth in volume is largely driven by e-commerce. Of course we also have an increased volume from milk powder sending to China and reason for mentioning it over here is because we do think it is rather incidental than sustainable. Improved business performance was not only based on volume. It is also based on the more efficient operations within Parcels. And that is of course where we invested a lot of money over the last few years to implement our new logistical infrastructure. 17 out of 18 depots are opened at this moment in time, the 18<sup>th</sup> is expected in 2015 and 95% of our volume runs through the new logistical infrastructure. The costs were impacted by an increase in subcontractor cost which is in line with our expectations. Of course within Parcels we see as well as in Mail in the Netherlands that they are capturing the synergies between Mail in the Netherlands and Parcels.

Last year we not only informed you about subcontractors, we also said we want to invest money in expanding and extending our services. That is what we did in 2014. A few of these examples were already given during our presentations in 2014, but it gives you an overview about what we did with the sentence "we will invest in extending our services" and this is what we did in 2014. In the mijnpakket.nl app more than 3.5 million unique Dutch people did download on their iPhone and they can follow their parcel which is fully tracked and traced anytime of the day. What we added in 2014 is the opportunity that you can reroute your parcel. So wherever you want to have your parcel sent to, you can reroute it via that app. Another example is we expanded the amount of post offices where you can do your parcel delivery, but also receiving with 600 points. So we have 600 points more than in the beginning of 2014 where you can do your parcel things, which means that our location is always nearby. We have rolled out our Sunday delivery, we have rolled out our evening delivery and we have rolled out early morning delivery. Also in the to business markets we made steps. In the to business markets we now have morning delivery services guaranteed time slots. Before 10 a.m., before 12 a.m. we deliver to business parcels. We are able to do multi coli delivery, which means that a lot of parcels coming from different directions, are delivered at you at one moment in time via one parcel driver. There is a dedicated customer service implemented in 2014 and what we see is that in the to business market we become a stronger player. We did win new customers in 2014 and we see growing volumes. And then of course we not only have our parcel network, we also do have other networks, like for example the networks in which we deliver the heavy things, our network via which we deliver valuable things. Also there we extended our services. For example for Extra@Home we are now by the acquisition of Fiege by far the market, the biggest market player in the Netherlands and we spent a lot of attention in 2014 in increasing our quality and making sure that we deliver on appointment. So for Parcels strong volume growth translated into also underlying cash operating income together with operational efficiency and of course money spent into extending our services which is necessary to surpass the expectations of our customers.

Then International. In International everything is focussed on enhancing cash profitability. If you look into the numbers of 2014, you understand why that is necessary. Revenue grew in 2014 with 6% to € 1.7 billion. The underlying cash operating income came down from € 24 million in 2013 to € 8 million in 2014. That was mainly because of the investments we did in the roll out of end to end in the UK and because of fierce competition we have in the consolidation market in Germany. A little update country by country. First of all the UK. In the UK we have a very successful downstream access business and the revenue growth you see over 2014 is partly because of this downstream access business, where we have a better product mix, we do more packages and where we could follow price increases which were implemented by Royal Mail in the UK market. We also further rolled out our end to end and stopped that in the summer of





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2014. Reason for that it is, it took Ofcom the regulator, a little bit longer then they firstly expected to come out with their final view on postal markets in the UK. By the end of 2014 Ofcom, the UK regulator, came out with their view and that had enough positive points to of course start discussions with LDC again and we are now at this moment in time working on the joint venture agreement, again after having clarity around how the regulator in the UK thinks the market will develop. In Germany. In Germany we did see a slight revenue decrease, mainly because of volume loss within our consolidation business which was almost balanced by volume wins in other businesses we have in Germany. Unfortunately that was not the case for the underlying cash operating income. And there we did see fierce competition from the other competitors in the German market. Many actions have been taken in 2014 and also will be implemented partly in 2015 to have cost control to reduce cost and to bring in new volumes. What remains important in Germany is that we get support from the German regulator. Coming to Italy. In Italy we saw volume growth, so Formula Certa is a very successful product and still is successful which is also seen in volume growth. That is partly offset by a slight price decline because of competition with Poste Italiane. Next to volume growth there was an extension in our coverage. So we are now almost at 80% of nationwide coverage, and that means households where we deliver our mail. Italy did a pilot on packets and parcels via our own distribution network. That was very successful. So overall for International we steer on cash profitability and for 2015 that I think is the main aim when we think and talk about International.

If we look back to 2014, we do think it is a year of sustainable delivery, a year in which we saw a delivery of sustainable cash flow within Mail in the Netherlands, profitable growth within Parcels and we do have to enhance cash profitability in International. A year in which we see increasing numbers in customer satisfaction, but also in employee engagement and increasing delivering quality. A strong performance creating a solid base for 2015. Then what is the guidance for 2015? The guidance for 2015 is an underlying cash operating income of € 280 million to € 320 million which is a margin of 8% to 9%. That is built up by a margin of 10% to 12% for Mail in the Netherlands, 11% to 13% for Parcels and 1% to 3% for International. These numbers are excluding the UK. It means we are delivering on the promises we made when it comes to 2015. Financial numbers are of utmost importance, next to the fact that we are still working on creating more customer focus in our organisation, people at the heart of our company creating even more engagement than we have today and staying in close contact with all our stakeholders. That concludes my more operational story around 2014 and some of the important milestones for 2015. I would like to hand over to Jan to give his view on 2014, but also highlight why he has trust in 2015. Thank you.

#### Jan Bos

Thank you Herna. I will start with a dive into the quarterly figures. I will focus myself also on the quarterly figures and dive then into the outlook. First of all, to give a better view on the actual performance, we adjust reported revenue for foreign exchange effects and adjust the reported operating income for one offs. If you look at the underlying revenue, that was up 3% this quarter and underlying operating income was up 4% to € 148 million. The largest part of the one offs is explained by past service pension costs and these resulted this quarter from the amended pension scheme due to new legislation. Last year the one off in pension also related to the new pension agreement. Then to our main KPI, that is the underlying cash operating income. This is underlying operating income adjusted for the cash effects of pensions for € 8 million and for restructuring of € 18 million. Underlying cash operating income was € 122 million, an increase of € 38 million compared to the same quarter last year. The increase is mainly driven by cost savings and lower cash out for pensions and restructuring and then more than offsetting the







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volume decline in the Netherlands and autonomous cost increases. Net cash from operating activities and investing activities was € 172 million and when you exclude the effects of the sale of TNT Express last year and also the related bond buy backs, net cash showed a solid improvement of € 76 million. This improvement is mainly explained by the good operational performance and also good performance on working capital. The bridge on the next slide explains the development of the underlying operating and underlying cash operating income. Underlying operating income like I said was up € 4 million and for Mail in the Netherlands this was mainly driven by strong cost savings and more than offsetting the effect of volume decline and autonomous cost increases. Then you see the positive contribution of Parcels and a small negative effect at International which I will explain later. The negative result in Other is a combination of small items. As mentioned on the previous slide, underlying cash operating income increased by € 38 million and mainly explained by the better operational performance, but also by lower pension cash out and restructuring cash out.

Now a more detailed look at the results per segment. First at revenue. Revenue at Mail in the Netherlands declined this quarter by 1% and this largely is a result of a positive price mix effect, particularly explained by the price increase of the base stamp but also of the December stamp and increased other revenue offset by the impact from volume decline of 9.3%. Parcels continue to show strong volume growth of 12.8% in the fourth quarter and revenue increased by 12% explained by the volume growth and the change in customer product mix. Volumes this quarter are helped like Herna explained, by an increase in international volumes to China, especially milk powder, which counts for 1.5% of the volume this quarter and around € 14 million of revenue this quarter. International revenue increased by 10% and all countries contributed to the growth except for Germany, where revenue was flat compared to 2013. Adjusted for the currency effect revenue was up 5%.

Then to our underlying cash operating income. In Mail in the Netherlands underlying cash operating income showed an increase of € 75 million to € 99 million in Q4. Main contributors to the increase were cost savings of € 34 million, a lower cash out for pensions and restructuring of € 30 million, which I mentioned before, more than offsetting the negative volume price mix effect in addressed mail of € 9 million, autonomous cost increases of € 9 million and the effect of internal charges allocated from PostNL Other to Mail in the Netherlands. In Parcels underlying cash operating income increased by € 8 million to € 33 million. Main contributor was the improved business performance of € 6 million. The increase in underlying cash operating income was also helped by lower implementation cost for our new logistic infrastructure of € 1 million, lower pension cash out of € 2 million and some other cost, partly offset by € 3 million higher subcontractor cost. Underlying cash operating income in International was € 3 million compared to € 8 million last year and the decline is mainly explained by the roll out of the end to end service, but also by lower results in cross border service and mainly explained by some incidentals in cross border. Finally, in PostNL Other, the Q4 results were impacted by the re-allocation of full year cost we made last year.

Now to the statement of income. Excluding TNT Express our profit for the period was slightly down by € 9 million. Remember we had a positive effect from curtailments in pensions last year of € 140 million and this year of € 36 million. If you adjust for that also the net profit improved. The same applies for the full year 2014 compared to 2013. Then to our cash flow. In cash generated from operations you see an improvement of € 49 million, which reflects a strong performance in operations and also improved working capital. Due to the interest related to the bond buy back last year and also the improved debt situation, there is a significant decrease in





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interest paid this year. Capex was also € 5 million lower this quarter, mainly explained by phasing to 2015. When excluding the proceeds from the sale in TNT Express and also excluding the bond buy back, you see a significant improvement in net cash from operating and investing activities from € 96 million to € 172 million. I also like to highlight that in the full year 2014 we paid € 72 million of income taxes which almost fully relates to prior settlements. Compared to receivable of € 56 million in 2013. And looking forward we expect taxes paid to be higher in 2015 and these payments are mainly expected in the first half year.

This slide shows the usual overview of our cost savings and also related capex. Our focus on cash remains visible in this performance. Total cost savings came in at € 32 million and totalling to € 127 million for the full year, which is well within our guided bandwidth. The same applies to the restructuring cash out and implementation cost which developed in line with the outlook for the full year. As we indicated in Q3 we expected capex of € 100 million, mainly due to phasing like I said, this came in a little bit lower with € 94 million.

Now turning to the balance sheet. Consolidated equity improved compared to the last quarter to € 597 million negative. Corporate equity is now almost € 2 billion positive of which distributable equity is still € 239 million negative. Net debt decreased this year by € 178 million and this decrease is mainly explained by strong operational performance. If you do a deep dive in the development of the consolidated equity, there was an improvement of € 146 million this quarter and main contributors to this improvement are the profit for the period, the increase in the share price of TNT Express and the limited negative effect of pensions. If you look at the pensions, then you see that the limited impact can be explained by the fact that the negative impact of the lower discount rate was compensated by a higher than assumed return on plan assets, the technical release of the minimum funding requirement a change in the rate of benefit increase and a few other effects. Together this had a negative net impact on our equity of € 25 million and which was limited compared to what you may be expected. If you look at the other developments, you see that the coverage ratio of the main pension fund was 109% at the end of Q4, slightly down from 110.5% at the end of Q3. The small decrease is a result of the asset performance of the pension fund including contribution of derivatives and offset by the decrease in interest rates.

As you know we strive to resume paying dividend in 2016 for which we require a positive consolidated equity position. The main variable to restore our equity position is our operational result which is well on track. That is in our control and we have demonstrated ongoing improvement in PostNL's operational performance. Next to this we need improving interest rates and/or improving share price of TNT Express. We expect that 60% of the necessary equity improvement will come from our operational performance. The rest has to come from interest rate improvements and/or share price improvements of TNT Express.

Let's now go to the outlook for 2015. Revenue of Mail in the Netherlands is expected to show a mid-single digit decline where continued volume decline is partly compensated by price increases. Like you know, in 2015 we only have one price increase on the stamp and last year we had the impact of two tariff increases. With further cost savings we expect Mail in the Netherlands to maintain the underlying cash operating income margin in the range of 10% to 12%. In Parcels we expect revenues to grow mid-single digit. This will be the result of strong growth in e-commerce as well as the growth in other business. In 2015 we expect the margin to remain between 11% and 13%. In International the outlook is excluding the UK. Revenues are





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expected to show a low single digit growth with an improved margin of between 1% and 3%. In total we expect revenue to remain stable and an underlying cash operating income between € 280 million and € 320 million. This target is in line with the outlook we already have given to you, though with a smaller bandwidth. The next slide shows a guide of expected development of the underlying cash operating income in 2015 and some important things to note are the impact of volume decline and autonomous cost increases almost compensated by cost savings and price increases from Mail in the Netherlands. Parcels and International are expected to contribute to the improved underlying cash operating income and this is also priced to the expected lower cash out for pensions. I would like to emphasize that due to seasonal effects mainly explained by the phasing of working days, the phasing of our underlying cash operating income will be different compared to 2014 with a larger part realised in the second half year.

Here an overview of other outlook indicators for 2015. We expect addressed mail volume decline to remain between 9% and 12% in 2015. Also here seasonal effects will lead to some difference per quarter in the volume decline. Cost savings are expected to come in between € 75 million and € 95 million. Implementation cost between € 25 million and € 45 million. Pension cash contributions will be slightly lower than in 2014 around € 150 million, partly helped by expected delay in early retirement cash outs. Pre-pension expenses also expected to be around € 150 million of which around € 15 million in financial expenses. Net financial expenses will be in the range of € 75 million and € 85 million and the cash out from provisions will be within a bandwidth of € 45 million to € 65 million. Cash capex will be around € 115 million. The increase compared to 2014 is mainly explained by our investments in the new and next generation sorting machines in Mail in the Netherlands.

To conclude this presentation we can say that the results and with the results in 2014 we laid a strong base for 2015. Mail in the Netherlands is on track and will continue rolling out these cost savings programmes to maintain cash profitability. The regulatory files will keep our attention given the potential impact they could have beyond 2015. Parcels will focus on further strengthening its position by extending and enhancing its services. Within International we will focus on improving cash profitability and will monitor the progress closely. If necessary we will take further actions. All in all on this strong base we are confident that we are able to deliver on our 2015 targets. Thank you and I give now the word to Karen.

#### Karen Berg

Thank you Jan and thank you Herna. We now turn to the Q&A. I kindly request you to state your name before asking a question and the name of your company and to limit the number of questions to three to give everyone a chance to ask his or her questions. We start here in the room and then we go to the callers. The callers are kindly requested to press star 1 to register them for a question. So here in the room? Marc.

#### Marc Zwartsenburg, ING

Three questions. First, looking at the cost savings and the progress, I want to look a little bit further out. It seems that the Master Plan might well be finished in 2016 with may be a slight tail in 2017. What do you expect as from 2016 as the mail volumes continue to decline? Is there more possible, more needed? Is there already a sort of plan in development there? Then my second question is on the ACM. Reading your press release on that it seems to me that not much has changed. Access to your network I think was already the case, so can you share with us what is then potentially the negative impact besides that there is just a normal regulation perhaps on pricing that you cannot do, strong price increases or so, but to me it seems that if it is







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regulated, not much will change. Perhaps to the ACM and to the market and to Europe even positive that there is no price competition nor price abuse possible. Then my last one. On the Parcels mid-single digit growth this year. Isn't that perhaps a bit cautious looking at the trend towards the end of the year in volumes? Is that a cautious one or is there a reason to assume that indeed it will be mid-single digit?

Herna Verhagen

First one on cost savings. We do think that for 2016 and 2017 there is enough bandwidth on the current restructuring plans, so that is our expectation for 2016 and 2017. Of course we are always looking into new opportunities and new possibilities that is what we constantly do. That is also and that is what we said during Q3 as well, that is also what we do for 2018 and further on thinking about what should be the new areas of cost savings for PostNL and then especially Mail in the Netherlands. On ACM, I think the real impact can only be decided upon when we see final views and when we can think about our mitigating actions. So difficult to say, what can it be? Why is it not all normal in our view? If you look into the view which is given by ACM it gives of course opportunity to resellers to do at a certain point in our network downstream access. That means that the floor is given to resellers which can impact in the end in my view prices in the Netherlands. But to what extent and in what sense and if that will really be the view of ACM, that needs to be waited upon till we have a final view. As said our view is that the market view at this moment in time is too narrow, you should look at the communication market if you truly want to talk about the developments of post. Is mid-single digit growth cautious? As always said, we do have of course a change in product mix still within Parcels, which means that the big senders are growing faster than the smaller ones. That has a slight impact on the average price per parcel. That is one and secondly, Q4 is always a very strong quarter because it is the quarter in which we send to people a lot of presents and in which we order a lot of presents because of Sinterklaas and because of Christmas, so you can't take Q4 numbers and take them on average as the full year number and that is also of course what you see 2014 12.8% in Q4, 8.8% as an average over the year.

Marc Zwartsenburg, ING

May be a small follow up on that one. Is the milk powder impact, is that assumed as you expected more or less one off? You don't know when it will stop. Do you have it, is that included in the outlook? What was the number? € 14 million, Jan, I think you said, or Herna, was the number for Q4. What was the full year number if you have that?

Jan Bos

We haven't disclosed the full year number, just for the quarter. I think we didn't extrapolate the figures of the milk powder in 2015. But we have taken some volumes into account and that also is partly the explanation of the mid-single digit growth.

Karen Berg

Anyone else? Philip.

Philip Scholte, Kempen

First of all on the potential Postal Act implementation as of half year 2015. I remember that that should also lead to some cost savings. Is that included in your outlook or is that a potential upside? Secondly on your UK joint venture. You seem to be quite confident about closing of the deal. Can you may be elaborate a little bit on why and potentially also when do you expect to





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close that joint venture? The third one is on your USO and the regulatory environment around that. Are you willing to share with us the return on sales of the USO in 2014?

Herna Verhagen

You are smiling because you know the answer probably?

Philip Scholte, Kempen

Jan already gave the answer, but he did not say anything.

Herna Verhagen

All right. The Postal Act, the cost savings are included in the € 365 million till the end of 2017. So hopefully there will be a positive or there will be an approval by the Senate somewhere before July 1 2015 and we will start implementing as of 1 July 2015. As said it will take a few years before full implementation is done. Your second question on the joint venture in the UK. Are we confident? We had to wait for quite a long time on the final view of the British regulator, how they look into the postal market. That came in December 2014. We do think there are very positive angles on that report and that is enough basis to have the discussion with LDC. We do expect an outcome before mid this year. On the third question unfortunately the answer is no.

Karen Berg

Maarten.

Maarten Bakker, ABN AMRO

Can you tell me whether the decision by ACM to give access to resellers and regional postal players whether it includes Sandd for example? This is my first question. Then a follow up on Philip's question. Do you, well let me first post another question. I mean, we have seen a moderate deceleration of the decline in mail volumes in the fourth quarter. I could imagine mail volumes per capita or per household in Holland has been at a very high level in the past and it has come off. Where do we stand now do you think compared to other European countries? I could imagine a further deceleration once we approach the European averages in the coming years. Do you expect this point to be reached anywhere soon? And my third question, a follow up on Philip, is do you really need LDC to co-invest in this end to end opportunity in the UK, now that it seems that you are not that cash constraint anymore?

Herna Verhagen

The decision on ACM and access, in principle access is for everyone, so also including Sandd. I don't want to call it a decision yet, because it is their first view. A lot of parties at this moment in time are giving their views on the first view of ACM including us. Let's wait and see before they come up with their final view and therefore decision. Then, do you see a moderate decline in mail volume in Q4? The average over the year is 10.7%. If you look into the amount of mail items per household the Netherlands is still higher than most of the other European countries. That is also reason behind why we do think it is 9% to 12% till the end of 2017. What we did say, is after 2017 we do expect that it will level out. That does not mean it will be zero, but the percentages will come down, which means less than the 9% to 12%. Do we need LDC to co-invest? Reason why we asked LDC is for a few reasons. First of all we do think it is important to have a British based company part of our roll out in end to end and secondly and that is still the case, what we said is, if we can invest money and we can at this moment in time, then preferably we do invest in the Benelux. That was the reason for looking for a partner to co-invest with us in the roll out for





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end to end in the UK. So still the need in the sense, not in pure cash need but the need that we think we can be more successful if we do it together with a British partner.

Maarten Bakker, ABN AMRO

Perhaps a follow up on my second question about the decline in mail volumes. I can imagine or maybe you can deny or confirm it, if there is another year of let's say a 9% to 12% decline in mail volumes, then probably we are at European averages in terms of letters per household or are we still way above that?

Herna Verhagen

It depends very much on the level of decrease we see in the other countries and the other countries are decreasing faster than in the years before as well. It is not only our own situation, but also our own situation compared to the other European countries. I cannot answer your question with a straight yes or a straight no. It truly depends also on what happens in the other countries.

Karen Berg

More questions in the room? Henk.

Henk Slotboom, the IDEA!

Here we go again, Herna, International. If I have done my maths properly, then Germany must have shown a loss which in the double digits. Italy is profitable, Spring is profitable, eliminating the UK. What exactly is happening there and how do you expect to counter that? As far as Italy is concerned, Poste Italiane is probably going to be listed in the course of this year. That will probably put more pressure on them to become a normal efficient mail company and probably increase the competition in Italy. Given the fact that you are so successful with typical niche products like Formula Certa, isn't this the time to do something equal as in the UK? Then one clarification if I may, Jan. The figure of the milk was € 40 or € 14 million? The Chinese milk powder.

Jan Bos

14.

Henk Slotboom, the IDEA!

14, okay.

Herna Verhagen

On International. So how to solve Germany. I think two pillars behind, the first one are of course cost savings programmes which we developed over the course of 2014, partly implemented in 2014, partly will be implemented in this year. That has solved part of the case and secondly growth in volume. We did see volume growth in the other businesses, not consolidation business but the other business we have in Germany. That is the reason why we have trust to reinstall profitability again. When it comes to Italy, Poste Italiane listed. It is still a question mark. I would say, if it takes place, then hopefully it will lead as it does with most of the companies that become listed, that they will start increasing their prices and that will help us as well. In my view, Italy is a successful country, a successful company, can take profit of the fact that Poste Italiane will become listed. Formula Certa calling a niche product, they do more than 15% of market share, so I think it is a little bit more after all those years than a niche.





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Karen Berg

Okay, let's go to the callers on the line.

Operator

Thank you Karen. The first question comes from the line of Douglas Hayes, Morgan Stanley. Please ask your question.

Douglas Hayes, Morgan Stanley

Yes, good afternoon. Two questions, two and a half questions please. The first just on the baby milk powder and the volumes that you have mentioned. It sounds an awful lot like one of your peers. Is this a kind of that you have won from them or is this further growth in the Chinese baby milk exports to China?

Herna Verhagen

It is the further growth of exports to China.

Douglas Hayes, Morgan Stanley

Okay, great. And then on the back of that, can you comment a little bit on how successful you see sort of the rest of the roll out into Belgium for example?

Herna Verhagen

The growth of and I am not very sure if you are talking about the Belgian post sending milk powder to China or you are talking about us sending parcels into Belgium and delivering them there.

Douglas Hayes, Morgan Stanley

Your own operations in Belgium which you guys have ramped up this year.

Herna Verhagen

All right. Growth from the Netherlands to Belgium and that means parcels delivered in Belgium, was 25% to 30% over the last year, so also there I would say extreme good volume growth.

Douglas Hayes, Morgan Stanley

Okay, good, thank you. And then secondly, in looking at your slides when you talk about the competition impact in the letter mail side of things, it looks like that impact has decreased a little bit in 2014. Do you expect the competition impact to continue to fade a little bit as we go forward?

Herna Verhagen

What we always said is, we will defend our market share that is what we do. That means that competition will slightly grow and that is what you did see in 2014 as well, but the main aim is defending market share.

Douglas Hayes, Morgan Stanley

Okay, great. Finally on the cash generation. I think it was very strong this year. Are you comfortable with that run rate going forward? As you start to think about the potential for returning to a dividend, based on sort of what that free cash generation is or have you started to think about other ways in which you might introduce a dividend?





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Jan Bos

What I have said in the presentation is that we expect higher taxes paid in 2015 and also higher capex. That will have its impact on the cash flow in 2015 compared to 2014.

Douglas Hayes, Morgan Stanley

Okay, great, but beyond 2015 any feel for where the free cash could go?

Jan Bos

We don't guide for that, but you can calculate it in your models based on our I would say guidance yourself.

Douglas Hayes, Morgan Stanley

Okay, great, thank you very much.

Operator

The next question comes from the line of Christopher Combe, JP Morgan. Please ask your question.

Christopher Combe, JP Morgan

Hi everybody, three questions. First of all on what you expect as some key targets through what type of recourse any becomes available should things turn out below expectations or unfavourably. Second, you talked about Ofcom's comments in December which were quite favourable. Has that influenced your overall ambitions either significantly greater or lesser? Lastly, you have talked about seasonal effects over the coming year. Can you give us some more specifics on anticipated day count differences. Thanks.

Herna Verhagen

I did not hear your first question, sorry.

Christopher Combe, JP Morgan

The first question was regarding SMP and if the regulatory outcome is unfavourable, what type of recourse is immediately available if any?

Herna Verhagen

What we are doing in this moment in time is on the one hand of course giving our view on significant market power to the regulator in the Netherlands and trying to influence whatever the decision they will come up with. Secondly, we are developing mitigating actions. The only way you can do that at this moment in time is think of several outcomes they can come up with and in every outcome think of what sort of mitigating actions we can take to as max as possible dampen the effect of measurements taken by the regulator. Your second question was on Ofcom and that there were positive elements in the final view of Ofcom and did that influence our overall view on end to end. No, it did not. So we did not increase for example the roll out of end to end or speed it up or whatever. We still do think that end to end can be very successful. It does need a few years to roll it out fully and in that sense plans are not changed. But of course it is helped and also the joint venture will be helped by the way Ofcom looks into the mail market in the UK.

Jan Bos

On your last question, I think the spread of the working days is explained in our press release on the last page.







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Christopher Combe, JP Morgan

Okay, thanks. Just one follow up with respect to SMP. Is there a formal appeal process that will be made available let's see in parallel in implementing whatever the outcome is.

Herna Verhagen

There is a formal appeal structure, but it does not avoid us for having implemented the measurements which are by then proposed by the regulator.

Christopher Combe, JP Morgan

Okay, thank you.

Operator

Your next question is from Hugo Turner from Credit Suisse. Please ask your question.

Hugo Turner, Credit Suisse

Hi, I have two questions, please. The first is, do you still need to wait for a decision on your access mail appeal from the UK, from Ofcom, to actually progress with LDC or do you have enough confidence about the details that were released in December and the progress regarding that. That is my first question. And the second question goes back how you expect that underlying cash operating income to move over the course of next year. You said it be more back and loaded. Can you give some feel for the split this year in terms of proportion please?

Herna Verhagen

First your question on, do we have to wait for decision on the access mail from Ofcom. No, in our view not, so the discussions and talks with LDC are at this moment in time, we do have them and we hope to come up with the decision on the joint before summer this year, so no need for us to wait for a final decision from Ofcom on the access mail.

Hugo Turner, Credit Suisse

On you, I am sorry, I am speaking specifically on your appeal on rolling out access now and price increases.

Herna Verhagen

Same answer, no need to wait for that.

Hugo Turner, Credit Suisse

Okay.

Jan Bos

For the phasing effect on underlying cash operating income, if you look, normally we have already a seasonal impact on our underlying cash operating income with a weak second and third quarter and a good first quarter and a very good fourth quarter. Due to the working days phasing now a bigger part of the underlying cash operating income will be realised in the second half year.

Hugo Turner, Credit Suisse

Okay, but there is nothing in terms of cost savings that means that that is going to be changed significantly?





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Jan Bos

No, it is mainly due to working days.

Hugo Turner, Credit Suisse

Okay, thanks.

Operator

The next question comes from the line of Matija Gergolet, Goldman Sachs. Please ask your question.

Matija Gergolet, Goldman Sachs

Yes hello, good afternoon, three questions from my side. Firstly just on taxes. Can you just clarify and give us a bit more colour about how much you expect cash taxes to be in the year. It looks like that your reported tax will be probably € 70 to € 80 million. What about cash taxes then we should expect. Second question, just on the increase in prices for Mail. So you say well above inflation. Can you give us some more say detail? Can we assume above 5% or so, if you are willing to tell us more. Third point just on the UK, on the negotiations with LDC. I don't know if you are still confident in telling us, no, would you prefer a straight sale of 40% of the company or 60 or would you rather have the partners to contribute capital. If you can tell us. Sorry, I just ask a clarification. It does not say changes from the Postal Act, like having half of the post offices. I did not quite get that. Is that included or not in your current € 365 million cost cuttings. Thank you.

Herna Verhagen

To answer your last question first. The savings of the Postal Act are included in the € 365 million. Cost savings till the end of 2017. On your third question, the negotiations with LDC, do we have preference for a straight sale or a partnership to contribute in capital. I would say that is up to the discussions we have with LDC and we will come up with more details at a certain moment in time. Then the increase in prices for Mail. More details around the specific number of increase. I think what we said is between 2013 and 2017 we will do on average well above inflation and more specifics are not given, but you can of course have a little bit of idea when you look into the numbers of the slide which was shown by Jan.

Matija Gergolet, Goldman Sachs

Sure. And on taxes?

Jan Bos

On taxes we did not give specific guidance, but it will be higher than in 2014 and it will be paid mostly in the first half year.

Matija Gergolet, Goldman Sachs

When you say higher than in 2014, it does not say cash taxes.

Jan Bos

Yes of course.

Matija Gergolet, Goldman Sachs

Thank you.





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Operator

The next question comes from the line of Andy Jones, RBC Capital Market. Please ask your question.

Andy Jones, RBC Capital Market

Good afternoon. I just had three questions please if I could. Firstly one on Parcels. Q4 appears to becoming peakier and peakier each year. When you set out to do the NLI investment and you came to the capacity number of € 170 million, was that based on an assumption that the peak would continue to grow? Or was it just assuming the pattern as was when you came up with the plan. My other two questions are related to pensions. In the annual report last year you had a very helpful table on the expense and cash cost per division. Could we have that break down for this year? And then finally, just a question on slide 26, the minimum funding requirement of € 108 million. Can you just clarify on what that actually is? Is this effectively € 108 million you would need to pay on top of the € 150 million once you start paying a dividend? Thank you.

Herna Verhagen

First on your question about parcels. We did of course take into account that the new logistical infrastructure should be up for peak moments in the months of November and December, because we did know out of our parcel flow and volumes over the years before of course that those were peak moments, so we did design the new logistical infrastructure also on peaks. We expect volume to grow also over 2015 and further on. We will be able to capture that within our 18 locations which we will probably have by the end of the year.

Jan Bos

On your second question, I think our investor relations will contact you afterwards for giving some more information. On the minimum funding requirement it relates to our unconditional obligations to pay € 150 million to the pension fund in exchange of the new pension arrangement. You have to account for when there are pension assets and because there is no pension asset, we can release them at the minimum funding requirement. It is an accounting thing, I would say.

Andy Jones, RBC Capital Market

Okay, thank you.

Operator

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

Dieter Furniere, KBC Securities NV

Yes, hi, also three questions from my side. May be firstly on the subcontractor discussion you had in 2014. Could you say this has been resolved now, because often some articles pop up on some continued unrest on that side. Is that something that could still come back? My second question is on capex and the € 115 million. Is that excluding, including the UK? How do you expect capex going forward especially since you mentioned investments in new sorting machines, may be some other things to drive cost savings. How do you see that evolve? The third question is in terms of working capital. In the past you said it would go to minus 4% to minus 6%, but that was still including the UK. In the meantime something has happened. How well are you now and where do you want to be let's say in some years. Thanks.





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Herna Verhagen

First question on subcontractors. We put a lot of effort over 2014 in rebalancing the relation with our subcontractors. That is I think what you see when it comes to their satisfaction, that is also what you see when it comes to the increase in cost which is in line with expectations. Is it all resolved? I think when it comes to relations between people and relations between a company and the people who work for that company, it always needs attention and that is still the case.

Jan Bos

If you look at capex, the € 115 million is excluding UK. If you look going forward on average our yearly base capex is a max of 2%. And then on top of that we invest in restructuring and that is the € 150 million we guided before, but it includes 2013 and 2014. And also investments in our new logistic infrastructure, but there we are almost at the end in 2015. On working capital we have not given specific guidance for the coming years, but what we see is I would say, we have to invest in working capital because of the change in the composition of our business with Mail in the Netherlands a very negative working capital, Parcels also, but International we have to invest in working capital. Due to the decline in Mail in the Netherlands you see continuously year on year investment in working capital.

Dieter Furniere, KBC Securities NV

Okay, thank you very much.

Karen Berg

I understand that there are no questions left on the call. So if there is someone here?

PietHein Leune, SNS Securities

Just a little bit on parcels in the Netherlands. Can you give us a little bit of flavour how the growth is divided between to consumers and to business units. How does that, the 25 to 30% growth in the Netherlands to Belgium play a role in those two units?

Herna Verhagen

The growth within 2C and 2B. 2B is more or less according to GDP growth and 2C is according to growth we see in the e-commerce market. The average is around 8.8%, so that is a simple calculation in my view.

PietHein Leune, SNS Securities

Very helpful!

Herna Verhagen

I think it is helpful. Then the growth 25 to 30% to Belgium. That is of course part of the volume we do, so part of the 142, 143 million parcels we do, but it is based on much smaller amounts.

PietHein Leune, SNS Securities

Is that mostly to consumer?

Herna Verhagen

Yes, it is, it is mostly to consumer.

Karen Berg





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Any further? Marc.

Marc Zwartsenburg, ING

Yeah, first I just want to check Jan, the interest expense, the 75 million to 85 million, that is excluding the pension expenses, just to clarify? Or is it included?

Jan Bos

Included.

Marc Zwartsenburg, ING

Included, okay. Then a final one. I know it is early in the year, but can you give us a bit flavour for what you expect for the pension impact in Q1. I know it is only half way. We have seen quite movement of course in interest rates. Is it fair to assume that the impact will be perhaps a little bit higher than given what we have now the € 25 million we have seen in Q4, but not a big chunk more. Can you give us some flavour there?

Jan Bos

I would say, too early to speculate, but what I can say is if you look at sec the impact of interest rates, a 0.1% decrease in interest rate has an impact of around € 100 million net on equity and can be compensated by asset performance, because of the derivatives in the pension fund and can be compensated by the say further decline in the expected benefit increase. But that is not a direct relation.

Marc Zwartsenburg, ING

Thank you.

André Mulder, Kepler Cheuvreux

I am a bit puzzled by the bar for parcels on sheet 29. It seems to be very small if you compare it to the other categories, also taken into account that you expect mid-single digit growth there. It almost seems to indicate that your margins will be under pressure there.

Herna Verhagen

The guidance we give for 2015 for parcels, the margin is 11% to 13% and that is given based on the trust that we can do 11% to 13%.

André Mulder, Kepler Cheuvreux

But there are no certain influences that could cause a decline compared to 2014?

Herna Verhagen

If we would know them at this moment in time, we would have given another guidance, so the answer is 11% to 13% is expected for Parcels in 2015.

Karen Berg

No further questions from the room? Okay, then I would like to thank you all for joining and or being here. I hope to see you the next time. Thank you.

