6 May 2015

Transcript Q1 2015 results
Analysts' call 6 May 2015

Karen Berg
Good morning all and welcome to the Q1 2015 result presentation of PostNL. My name is Karen Berg and with me today are Herna Verhagen, our CEO, and Jan Bos, our CFO. Jan will first update you on the performance in the first quarter and after that Herna and Jan will be available for further questions. Over to you, Jan.

Jan Bos
Okay, thank you Karen, and welcome everybody. Looking at the first quarter, overall the results were in line with our expectations. During our Q4 presentation three months ago we gave you our full year guidance of underlying cash operating income between € 280 million and € 320 million for the full year and with the results we present you today, we can reconfirm that outlook. Let's have a look at the overall picture. When looking at the group numbers, we see an increase in revenue to € 1,058 million. When excluding the currency effects, revenue remains stable. The revenue growth in Parcels and International offset the revenue decline in Mail in the Netherlands. Underlying cash operating income showed a decline of € 9 million as expected, mainly explained by the impact of phasing elements in the volume decline and cost savings in Mail in the Netherlands. Addressed volume decline at 13.2% was outside the bandwidth of 9% to 12% for the full year. This number is in line with expectations given the impact of fewer working days and phasing and substitution. The outlook for the volume decline for 2015 of between 9% to 12% therefore remains unchanged. More details on this will follow when going through the details of Mail in the Netherlands. The phasing of our restructuring in 2015 is back-end loaded, which explains the cost savings of € 15 million in Q1. Our outlook for the full year cost savings remains unchanged. I will give you more background information on a separate slide. So, all in all, the performance in Q1 is in line with our expectations and looking forward, we continue to expect the second half year to be stronger than in 2014. Therefore we reconfirm our full year 2015 outlook of underlying cash operating income between € 280 million and € 320 million. Finally our financial position developed positively with an improved debt and equity position. The application of a pension liability ceiling in the accounting of the pension obligation significantly reduces the further sensitivity of our equity position for lower interest rates. We support the announced offer by FedEx to acquire TNT Express, which will have an additional positive impact on our financial position when completed.

On the next slide I will now give you more detail on the business developments within Mail in the Netherlands. Operationally we are able to maintain a high delivery quality and the negotiations on the new social plan started. I would like your attention for two innovations. The first innovation is that we have implemented track and trace on election mail, which improves our competitive position. Secondly we have introduced 'gemakspost' which is a full service proposition for larger clients, where we arrange the complete mail process including handling the parcels. So far more than 40% of the targeted first customers are using this extensive service. We will further market this product. Then looking at the business performance. The volume decline has to be seen in relation to the one working day less than previous year and substitution that showed a phasing effect related to annual statements. For the full year we expect volume decline to be within the bandwidth of 9% to 12% and I will show you more on the next slide. Price increases were in Q1 well above inflation which explains the mid-single digit revenue decline in Q1. Cost savings were € 15 million and I will explain more on the phasing on the next slide. Cost savings and lower pensions and restructuring cash out did not fully offset the effect of lower volumes, which results in an underlying cash operating income of € 46 million.

Of course there is the question why volumes and cost savings are phased differently throughout the year than previous year. Let me give you an explanation. On the left hand side of this slide you will see the indicative fluctuations we expect in the volume decline, which average to a number between 9% to 12%. The reason behind these fluctuations is the following. First you see the effect of the number of working days. Q1 and Q2 had one working day less and Q4 will have two days more than the previous year, so this will influence the quarterly volume decline numbers. Secondly, this quarter more annual statements were sent electronically by insurance companies. This had its impact on our volumes which is mostly visible in the first quarter. Thirdly we anticipate a slowdown in the impact from competition which is mainly due to phasing. The effect we see is mainly contributable to the loss of a larger customer in the second half of the year (2014). As said earlier we focus on maintaining our current market share of around 75%. When adding to these effects together and looking at the full year, we expect volume decline to be in the earlier guided range of 9% to 12%. Then, looking at the financial impact of the restructuring plans on the right hand side of the slide, we also see phasing effects, resulting in benefits being more back-end loaded. This is especially applicable for some of the larger projects. First example of this is the implementation of the redesign of our car unit, which is being rolled out in a controlled manner and in a region by region approach. The further this implementation is rolled out, the more results we will see and the more synergies will start to pay off. Other examples are the restructuring of our marketing and sales and overhead organisation and the implementation of the next generation sorting machines.

Another very important factor in the operating environment of Mail in the Netherlands are the regulatory files. The increased attention of the supervisory authority in the pending regulatory files continues to be a significant point of our attention, given potential impact after 2015. Let me highlight the three main items on the agenda. First the amended Postal Act. The Postal Act and the underlying postal regulation contain the possibility to reduce the amount of post offices and mailboxes by 50%. It is now up for approval by the Senate and we expect this to take place later in May. Further review of the underlying postal regulation is scheduled to take place in May or June. If the Postal Act is approved by the Senate and the postal regulation has been reviewed by all relevant bodies, the Postal Act will be effective which then is followed by a consultation period of a couple of months. The Postal Act is expected to be effective 1st of July, 2015 at the earliest, which might even prove to be a challenging date. According to the postal regulation, discussions with ACM on the allocation of our cost in USO and non-USO mail are ongoing. This discussion can influence the head room we have to increase our tariffs as of 2016. We continue to be in close contact with ACM on this subject and the outcome is expected in Q2 2015. Finally, significant market power. In our view the mail market has to be seen as part of the total communication market. Our real competitor is not physical competition, but substitution. In the communication market we do not have a dominant market position. ACM is expected to publish its findings in Q2. The consultation document implies not only requirements on transparency of tariffs, but also obliges PostNL to permit access to its delivery network without taking into account the difference in service levels for different customers.

Let's now turn to Parcels. The market Parcels is operating in, is a growth market. Further development of e-commerce will result in an increase in volumes. This means that this market is also attractive for other market players, but this will also continue to attract new partners to enter the market. One of the main requirements for continued growth in this market is to fulfil the increase in demand for value and services. Investment in innovations and expansion of our service proposition will continue to be necessary to strengthen our market position and expand into niches. Let me highlight two examples where we are further improving our proposition by innovations. In 'mijnpost.nl' we have created a feature that allows the customer to reroute a package to be delivered at a different address at the time the customer chooses if the initial delivery attempt failed. Secondly, after the successful first food distribution pilot in 2014, we further extend our food delivery proposition. We do this by developing an improved cool box – and now also suitable for frozen food – and offering new delivery time frames. Looking at the business performance, volumes continue to grow by 8%. The growth of our domestic B2C volumes follows the trend in the e-commerce market and the increase in International volumes continues. In 2B we saw volume decline mainly driven by the fact that the large customer in media distribution has insourced its distribution. Revenue increased to € 216 million. We see a continued trend that our larger customers are growing faster than the smaller customers. Despite its impact on our profit and customer mix this also gives the opportunity to continuously monitor where the needs are and to be able to stay ahead of competition in our service offerings. We also see an ongoing trend in e-commerce translating into international flows and opportunities for our business. Underlying cash operating income remains stable at € 25 million. The efficiency gains and the better business performance were able to compensate the expected increase in subcontractor costs. We see our subcontractors as business partners. Our cooperation with them continues to be based on respect and mutual understanding. We are looking at ways to come to a sustainable delivery model and continue to comply with all rules and regulations. We are monitoring all related developments closely and we are in an open dialogue with the subcontractors and other stakeholders. All in all, Parcels continues to follow the e-commerce trend and is able to further innovate and capture new opportunities.

International revenue increased by 13% to € 461 million. Adjusted for the currency effect, revenue was up 6%. Underlying cash operating income was € 3 million, € 1 million more than in 2014. The increase is explained by better performance of Germany and our cross border activities. In Germany revenue increased by 5% to € 131 million, driven by additional volume from existing and new customers. We saw the first effect from initiatives to attract new extra volume and realise cost savings. In March a reorganisation focussing on centralisation of overhead was announced. Italy is fully on track and revenue was € 63 million. Volume growth in Formula Certa continued. To further expand our position in Italy we will initiate the roll-out of a parcels network in the second half of this year. In the UK revenue was € 210 million. Adjusted for the currency effect, revenue increased by 5%, helped by price increases and growth in end to end. We regret that the joint venture with LDC did not succeed. Amongst others, the continuous regulatory uncertainties in the international markets we operate in, have led us to launch a strategic review of our activities abroad.

So, before looking into the financial details, let me summarise the main messages for this quarter. The performance in Q1 was in line with our expectations and we are on track to achieve the full year 2015 outlook. Of course we support the announced offer by FedEx to acquire TNT Express, which will have an additional positive impact on our financial position when completed.

The application of the pension liability ceiling in the accounting of our pension obligation significantly reduces the further sensitivity of our equity position for lower interest rates.

Now, let's turn to the financials. Let's first look at revenues. The growth in the reported revenue this quarter is fully attributable to the currency effect. The decline in revenue in Mail in the Netherlands was fully compensated by the growth in Parcels and International. To give a good insight on the actual performance, reported operating income is adjusted for one-offs. The larger part of the one-offs are restructuring related charges. Underlying operating income was € 80 million. Then our main KPIs. Underlying cash operating income and this is underlying operating income adjusted for cash effects of pensions of € 5 million and provisions of € 7 million, the underlying cash operating income came in at € 68 million, a decrease of € 9 million compared to the same quarter last year. This decline was in line with our expectations as we expect that the higher part of our underlying cash operating income will be realised in the second half of 2015 compared to 2014. Net cash from operating and investing activities was € 21 million, which is in line with the prior year and mainly explained by a better performance on working capital, almost fully compensating the higher tax payments.

The bridge on the next slide explains the development of the underlying operating income and underlying cash operating income. Underlying operating income was down € 23 million, this was mainly driven by cost savings, not fully offsetting negative volume and price mix effects and autonomous cost increases. The negative result in other is a combination of small items, amongst others lower results in addressed and cross border mail. As mentioned on the previous slide the underlying cash operating income showed an expected decline of € 9 million to € 68 million as a result of the lower underlying operating income and partly compensated by lower cash-out for pensions and lower cash-out for restructuring. I would like to emphasize again that the first quarter was marked by two main phasing effects. First the financial impact of cost savings, that will be higher in the second part of the year, and secondly the impact of the volume decline which will be lower in the coming quarters as a result of the number of working days and phasing and substitution and competition effects.

Now a more detailed look at the results per segment. Revenue in Mail in the Netherlands in the quarter declined by 6%, underlying cash operating income showed a decrease from € 62 million to € 46 million in Q1. Main contributors to this decrease were the negative volume price mix effect in addressed mail of € 19 million, autonomous cost increases of € 5 million and some other small effects partly offset by cost savings of € 15 million and lower cash-out for pension restructuring of € 12 million. In the second half of the year the effect of the volume decline is expected to be lower and cost savings will be higher. Parcels continue to show a strong volume growth of 8%. Revenue increased by 7% explained by the volume growth and the change in customer product mix. Volumes were again helped by a strong increase in our international volumes to China, especially milk powder, which accounts for 1.4% of our volume growth and around € 11 million of revenue growth. Underlying cash operating income remains flat at € 25 million. Better business performance and efficiency gains were offset by the expected increase in subcontractor costs. Adjusted for the currency effect International revenue increased by 6%. Underlying cash operating income in International was € 3 million compared to € 2 million in 2014. The increase is explained by the better performance of Germany and Spring. Finally in PostNL Other cost savings resulted in a € 6 million higher underlying cash operating income.

Now let's turn to the statement of income. Our profit for the period was € 34 million and compared to last year the decrease is mainly the result of the expected lower business performances this quarter, partly offset by related lower income taxes spent. Then turning to our cash flow. In cash generated from operations we have seen an improvement of € 27 million which reflects a better performance in working capital compared to last year, partly offset by the decrease in our business performance. As we told you last quarter, we expected income tax payments to be higher in the first half year of 2015, which is partly reflected in the € 37 million higher income taxes paid in this quarter. Capex was € 7 million lower. Overall net cash from operating and investing activities remains flat at € 21 million. Looking forward we also expect higher tax payments in the second quarter. In the table below you see an update on the Capex which we expect to be max at € 115 million.

Then pensions. The coverage ratio of the main pension fund following the new definition in pension legislation was 110% at the end of the first quarter compared to 112% at the end of 2014. The end of quarter coverage ratio was around 106%. The limited impact of pensions on our consolidated equity can be explained as follows. In 2014 we anticipated the upcoming new pension legislation together with the ongoing decline in pension discount rates. The pension discount rate has decreased strongly in Q1 2015, resulting in a material increase in the net pension liability. Due to the 2013 financing agreement with the pension fund, the cash exposure for PostNL is however maximised. As a consequence the accounting obligation should be aligned with the funding arrangements. IFRS gives guidance hereto via the so called liability ceiling. The rate of benefit increase is adjusted for this alignment. This is why we have shown an extra offset in gain on the change in benefit increases. This application of the pension liability ceiling in the accounting of our pension obligation significantly reduces the further sensitivity of our equity position for lower interest rates.

Now we turn to the balance sheet. Consolidated equity improved compared to the end of Q4 and is now € 574 million negative. The improvement is explained by the net profit of € 34 million, a fair value change of our stake in TNT Express of € 22 million and other effects of € 7 million. Pensions had a small negative impact on equity of € 40 million. Corporate equity is now € 1,965 million positive of which distributable corporate equity is still € 257 million negative. Net debt improved in the quarter by € 25 million to € 658 million. This improvement is mainly explained by the positive net cash from operating and investing activities. Standard & Poor's positively updated the stable outlook to a positive outlook with the possibility of an upgrade by up to two notches if PostNL continues to improve its financial performance and/or sell the stake in TNT Express and reduces debt. Our credit rating remains BBB-.

To conclude this presentation, results are in line with expectations. As explained there are a couple of phasing effects this year which will result in a better performance in the second half of 2015. The main effects are, and I repeat, Q1 and Q2 have one working day less and Q4 has two more working days than last year. Phasing in volume decline where we expect that the decline for the full year will be within the guided range from 9% to 12% and thirdly, the financial impact of the restructuring plans will be back-end loaded. All in all we are confident that we are able to deliver on our 2015 targets.

Karen Berg
Thank you, Jan. We will now open the call for Q&A and the operator will explain the procedure.

Operator
If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. To cancel the request please press the hash key. We do have several questions.

Please wait for your name to be announced. The first question comes from the line of Hugo Turner, Credit Suisse. Please go ahead, sir.

Hugo Turner, Credit Suisse
Hi, it is Hugo Turner. I have got two questions please. The first is, looking at mail volume declines over the first quarter of the year, I am just trying to understand why you expect working day adjusted mail volumes to improve over the rest of the year, when the volume declines in the first quarter look structural, with kind of a client loss and then corporates sending fewer mail volumes. Maybe you can just explain that, that would be very helpful.
The second is just relating to LDC. Can you provide some us with some information what you might do with the UK business following LDC's statement last week? Thanks.

Jan Bos
Hi Hugo, I will take the first question. The explanation of the higher volume decline in Q1 is not only working days, but it is also phasing and substitution. That is about annual statements of insurance companies and that high substitution is only visible in Q1. In the coming quarters we don't see that, because there are no annual statements. The second is phasing and competition loss. We have lost one big customer and that impact you will only see in the first two quarters and then competition loss will also be more limited in the second half year.

Herna Verhagen
Your question on LDC. As we also said in our press release of last week, we will look into alternatives when it comes to the end to end operations in the UK. We were of course disappointed that the joint venture with LDC could not be finalised. We are now looking for alternatives which will take place in the next coming weeks, months. Then we will come back to you with our final conclusion.

Operator
The next question comes from the line of Doug Hayes, Morgan Stanley.

Doug Hayes, Morgan Stanley
Hi, Doug Hayes from Morgan Stanley. Three questions please. First just on the working capital improvement. Can you just give us a little bit more insight as to what drove that, is that just tighter management or is it some phasing effects around payments?

Jan Bos
To answer your first question, it is partly savings but also a big part is due to the increased export volume. We also have more advantages in working capital. It is mainly related to cross-border activities.

Doug Hayes, Morgan Stanley
Okay, great, thank you. Secondly, as we look at some of the regulatory decisions, regulatory questions in Mail in the Netherlands, how do you guys think about the response to something like network access? Is it something where you might need then to re-evaluate your cost base or do you think that is something where you potentially offset the volume shift or mix shift or in other ways maybe to pricing or something like that?

Herna Verhagen
From the regulator in the Netherlands there was of course a first view on significant market

power. In that first view they gave clarity around what sort of aspects they think are necessary for the market when it comes to significant market power. We are now in the process of reviewing their view which means that all market parties have the opportunity to deliver their view on significant market power. Our view remains that in our market it is not a question of significant market power because we have to look to the communication market and not solely to a physical postal market. We are now in a process together with ACM in which we have to wait for their final vision and final view. What we do think is that in the end we also have the possibility after knowing of course what their final view is, to do some mitigating actions and those mitigating actions indeed can be in the area of price, in the area of services, in the area of conditions and in the area of course of products as well. There are several areas where we do think mitigating actions are possible. Nevertheless, and that is also what we said in the statement, we of course spend a lot of management attention to all materials related to the regulator, because it can have an impact but the impact will not be seen in 2015, but as of 2016.

Doug Hayes, Morgan Stanley
Okay, great, thank you. And then finally on the international side of things. I realise that you are considering all options as you take the strategic review of all three operations. But can you give us just a little bit more insight into what you are looking at and what you are thinking about as you review these operations?

Herna Verhagen
The honest answer is we cannot give you any of those insights, because we just started the review. We stated that all options are open. There are of course several reasons why we came to the conclusion that we had to do a strategic review. The main reason is the regulatory uncertainty in those countries. For example, and take as an example the UK, but you can also take Germany as an example, next to the fact that of course they have a positive developing cash profitability. Nevertheless, those two regions are a reason for us to look into international and look into what the options are. All options are on the table, but it is too early to give you some guidance on what the preferred option will be in the future.

Doug Hayes, Morgan Stanley
Okay, better be a balance between profitability and regulatory and growth and stuff like that.

Herna Verhagen
Yes.

Doug Hayes, Morgan Stanley
Okay, great, thank you very much.

Herna Verhagen
You are welcome.

Operator
The next question comes from the line of Philip Scholte, Kempen & Co.

Philip Scholte, Kempen & Co.
Good morning everybody, a couple of questions please. Can you update us on the progress of the implementation of your new sorting machines, as in how many locations you have now implemented them? The second question is on the other part, maybe for Jan. You mention it is

down to unaddressed and cross-border mail, but it is a significant amount. I guess in Mail in the Netherlands the delta is about € 11 million in EBIT. What are the real underlying drivers behind that? I mean, is it a fundamental change in the business or is it really one-off things happening there? The third question is about the profitability of the UK business actually, because your outlook excludes the UK, but you are now of course reporting including the UK. Can you please split that up for the moment?

Herna Verhagen
Your first question. You refer of course to the SMX, the new sorting machine in our letter sorting centres. We did an implementation of three at this moment in time.

Philip Scholte, Kempen & Co.
So, that is one more than last quarter I guess?

Herna Verhagen
Yes.

Philip Scholte, Kempen & Co.
How is that developing? I mean, are you ramping it up still? What is it right now?

Herna Verhagen
No, what we did say is that we will do the implementation in 2015 and partly also in 2016. That is the reason why Jan said that when you come through the year, of course cost savings will go up because of the fact that the implementation is then further ahead.

Jan Bos
Okay, on your second question on the reasons for unaddressed in cross-border. Unaddressed are, I would say, market circumstances or competition. Cross-border is a mixed bag of causes including working day impact. The total is not € 11 million, so the two items are in total around € 8 million.

Philip Scholte, Kempen & Co.
Okay, that means there are still some other other things in there.

Jan Bos
Yes, small items.

Philip Scholte, Kempen & Co.
Right. If I may, the delta in cross-border has nothing to do with last year, because there in Q2 we actually had the positive incidentals of the multi-year.

Jan Bos
Bilateral, that impact you also will see in the second quarter, but it is not the reason for the € 4 million decrease in underlying cash operating income.

Philip Scholte, Kempen & Co.
Right.

<u>Jan Bos</u>
Can you repeat the third question, Philip?

<u>Philip Scholte, Kempen & Co.</u>
The impact of the UK business on the results, or actually, what is the result of the UK?

<u>Jan Bos</u>
If you look at revenue, the UK is I think about € 200 million of revenue and on results we don't guide.

<u>Philip Scholte, Kempen & Co.</u>
Okay, but your outlook is of course excluding the UK, but as things stand today, the UK will be maintained within the group for a year.

<u>Jan Bos</u>
If the question would be what the impact will be on the outlook if the UK would be in the outlook, then the impact is estimated between € 5 million and € 7 million positive.

<u>Philip Scholte, Kempen & Co.</u>
Positive, yes, all right, great. Thank you.

<u>Operator</u>
The next question comes from the line of Marc Zwartsenburg, ING.

<u>Mark Zwartsenburg, ING</u>
Thank you for taking my questions. Jan, the first question is on the pension liability ceiling. Can you explain to me how this works exactly? Does it mean that you are protected more to lower interest rates, but how does this work when interest goes up? That is my first question. Then related to pensions. Recently the Dutch state bond yields are increasing again. Is it now the case that your liability side is quite hedged? That any movement in the interest rate does not change your liability side, but that the asset side is still exposed fully to the Dutch state bond yields, and if so, will we then see a negative impact if the Dutch state bond yields remain where they are? My third question is on the savings for 2015, the guidance, € 75 million to €95 million. You had € 15 million in Q1. Can you give me a bit of a feeling for the phasing of the savings towards the second half? It seems to me that you started with 15, that this is on the low end side. Is there any chance that you will achieve the high end and if so, where should it come from? Then another question, sorry, I have quite a lot of questions. On the dividend statement, I don't see it in the press release. Has anything changed to the dividend statement? Lastly, the strategic review of the operations abroad. Herna, I think you said all options are open. Is the option still open that you might invest yourself and do the end to end yourself in the UK without a joint venture partner? Related to that, is it also possible that you divest all activities and if so, would that then involve perhaps a book profit? Your best guess on that one.

<u>Jan Bos</u>
So, starting with the first question, Marc. How does the liability ceiling work? In our financing agreement with the pension fund our premium contributions are maximised and because of that, under IFRS also your pension obligation is maximised to the expected cash-out flows. In that sense you have a maximum on your pension obligation and that is called liability ceiling. How

does that work? If the interest rates further decrease, it is compensated by a lower expected benefit increase in the calculation of the defined benefit obligation. Is that understood?

Mark Zwartsenburg, ING
Sort of. I try to write it all down as quickly as I can. Does it mean that you are now hedged on your liability side, downwards and upwards?

Jan Bos
Not completely, but we are now significantly protected against further lower interest rates.

Mark Zwartsenburg, ING
But if they increase again, do you then benefit?

Jan Bos
Yes, we benefit, but only when the interest rates are up to again 3.7%.

Mark Zwartsenburg, ING
So if you go back to 3.7% from the current …

Jan Bos
The current interest rate is 1.4%.

Mark Zwartsenburg, ING
Okay, clear. Then the Dutch state bond yields on your asset side.

Jan Bos
Yes, that is on the asset and liability side of the pension fund. The pension fund has its own, let's say investments, but also has to calculate against state bond related discount rates, so that is a different part. If you look at our equity part, to the accounting part, there it is a combination of asset returns and the net obligation. Like I said before, in the net obligation we are protected by the liability ceiling also for those developments.

Mark Zwartsenburg, ING
There is a sense now, the obligation is quite protected and stable, but on the asset side you are exposed to the …

Jan Bos
No, on the equity part we are protected, on the pension fund part, so the question for example if we should do top-up payments, there we are not completely protected, but in that sense it is not a lesser sensitivity because the assets as well as the obligations of the pension fund are calculated against the state bond related discount rate.

Mark Zwartsenburg, ING
Okay, clear.

Herna Verhagen
Then on the savings and your question to give a little bit of colour around why they would increase in the quarters to come. We do not guide to the upper or lower part of the bandwidth of € 75 million to €95 million. I state that upfront. Some of the reorganisation plans which are

underneath our cost savings in 2015, for example the implementation of the new routes within our car unit, are more back-end loaded. That has to do with the fact that of course the cost savings do come out of implementing the new routes together with having less people on those routes together with changing from cars to scooters. That will take place over time. It is more heavily focussed on the second half of this year, next to the fact that of course the combination of several cost savings in the end also has a multiplier effect on your cost savings. That is one example. A second example is what we already mentioned to the question of Philip, when it comes to the SMX, the new sorting machines in our letter operations. There you will also see that cost savings come in when more machines are placed of course. That is also a phasing in how it will be implemented in 2015. That is the reason for stating that it will be more back-end loaded than in 2014 and also reason for still stating that we expect to be in the bandwidth of € 75 million to € 95 million. Did something change in our dividend statement which we gave at Q4 2014? The answer is no, so nothing changed. The strategic review on International. All options are open. We just started the review, so it is too early to say what the direction will be, so all options are on the table. When it comes to end to end in the UK, also there and that is what we also stated in the press release, we will set alternative scenarios for the end to end operation and in the meanwhile we remain committed of course to further develop our downstream access business. Also this review of the end to end operations and the strategic alternatives we have, will be done in the next coming period.

Mark Zwartsenburg, ING
But nothing is excluded upfront?

Herna Verhagen
Nothing is excluded upfront, so all is open.

Mark Zwartsenburg, ING
Okay, clear, thank you very much.

Herna Verhagen
You're welcome.

Operator
The next question comes from the line of Mark McVicar of Barclays.

Mark McVicar, Barclays
Yes, good morning. I have just two quick questions. First of all, could you remind us what the capital employed is in the International division? The second question is, would you consider monetizing the TNT stake ahead of the possible, probable closure of the FedEx deal which is estimated to be early next year? I mean, there are probably derivative structures that you could use to secure the cash now rather than being left if something would go wrong, in the same position you were when the UPS bid failed in 2013.

Jan Bos
The first question, to give you an indication of the book value of the activities abroad, that is an indication of capital employed, in Germany it is about € 80 million, in the UK about € 26 million and in Italy about € 40 million.

Herna Verhagen
Then your second question.

Jan Bos
Your second question on FedEx and TNT, given the size of our share and also the agreement we have, we don't think about derivatives.

Mark McVicar, Barclays
Okay, that is great, thank you very much.

Operator
The next question comes from the line of Angus Tweedie, Bank of America.

Angus Tweedie, Bank of America
Just one question on Chinese milk powder. I was wondering if you could remind us to the total revenues that you get from sales in that direction. What are your ambitions there? I mean, certainly some of your peers are saying they think the market is maturing. Where do you think you can get to in time? Thanks.

Herna Verhagen
The Chinese milk powder in Q1 was € 11 million of revenue, for last year it was € 14 million of revenue. Apart from that, of Chinese milk powder we said from the beginning that we do not think it will be all sustainable in the long term, but for this moment in time we see a lot of growth when it comes to the international business. That is not only milk powder, but also other parcels sent abroad. I think it is a trend on which we can live, on which we can have a profitable growth as well. So, is it sustainable? Part of the international growth in Parcels will be sustainable. The part which is related to milk powder, is still questionable.

Angus Tweedie, Bank of America
Okay, thanks.

Herna Verhagen
You're welcome.

Operator
The next question comes from the line of Andy Jones, RBC.

Andy Jones, RBC
Good morning all. I just have a couple of questions as well if I could. First one on the Postal Act implementation. Were there any cost saving expectations in 2015 as a result of that being implemented and how big an impact might a delay have on that? My second question was on the conditional top-up payments on the pension from where the dividend is paid. I just wonder if we could have kind of a status update on what the kind of current condition of those conditional top-ups might be on top of the € 150 million that is unconditional. Is there any scenario in which you take the positive TNT marked to market and pay a dividend when the interest rates are actually down quite low in the range of 1.4% or wherever? My third question on the UK, what is your ultimate objective that you are working to? What is the kind of key KPI which you want to achieve of the UK, whatever the decision you might take on the business? Thank you.

Herna Verhagen
When it comes to the Postal Act implementation, part of the cost savings are of course in our 2015 expectations, but it is a number which is lower than 5 million. Then your second question.

Jan Bos
Top-up payments. So, if you look at our obligation, then our obligation to the pension fund is if the pension fund is undercovered and is not able to recover within a certain period, our maximum top-up payment is the 1.25% each year of the pension obligation. The minimum required coverage ratio is around 104%.

Herna Verhagen
The third question was on the UK and the ultimate objective. I would say. As I already said, we are looking into our alternatives when it comes to the end to end operations in the UK. I do think that for management, employees and all stakeholders in the UK it is important to give them the time at this moment in time to look into those alternatives and to not speculate on what our ultimate objective would be. We are looking into the alternatives we have and we will come back to you as soon as possible.

Andy Jones, RBC
Okay, thank you. Can I just come back to the conditional top-up payments question? Jan, would you be so kind as to kind of explain to us just once more in terms of what the conditions were if you do have to make those 1.25% top-up contributions? Can that be done before you start paying the dividend, can they accrue in advance of you paying a dividend or is that only once you have paid a dividend? Thank you.

Jan Bos
Maybe then to be fully clear. So we have the unconditional of the € 150 million. Then we have a top-up payment obligation of 1.25% per year which takes into account also the ability of the pension fund to recover itself. Then added to that, we have a conditional obligation ending in 2018, when for example the pension fund would have to cut the rights of the retired people. Then there is a conditional obligation of € 315 million. That is the third one. The chance that this will be applicable, is very low, given the new pension legislation in the Netherlands. What is helpful in maximising the 1.25% is that it takes into account the ability of the pension fund itself to recover.

Andy Jones, RBC
Okay, so that is effectively a forward looking view on where the interest rates go up again?

Jan Bos
No, many years they also had higher asset returns than the discount rates and that also helps to say for example, the first year when they have a coverage ratio of 100%, then they are still able to reach the 104% at the end of the period and then you should not pay any top-up payment.

Andy Jones, RBC
Okay, thank you. What would then determine whether or not you have to pay this? What is the trigger point when the trustee says: that is enough, you have to make this contribution, you can't recover yourself?

Jan Bos

At the end of the recovery period eventually 104%, but what helps is that it is not starting with 104%, the required coverage ratio.

Andy Jones, RBC
Okay, so it starts with from 110%?

Jan Bos
No, it starts below. For example, the minimum required coverage ratio at the end of the recovery period is 104%, they start for example the first year at 98%. We only then have to do a top-up payment if the coverage ratio is below the 98%. The second year it is 102%, and the third year it is 104%. That is measured against the actual coverage ratio which at this moment is 110%.

Andy Jones, RBC
Okay. And those 110% include the unconditional € 150 million?

Jan Bos
Yes.

Andy Jones, RBC
Okay, thank you very much.

Operator
The next question comes from the line of Matija Gergolet, Goldman Sachs.

Matija Gergolet, Goldman Sachs
Yes, hello, good morning, it is Matija Gergolet of Goldman Sachs. My first question would be on the regulation on page 6. If you can give us your current views, your comments about the postal regulation with regards to the tariff head rooms. What are your current expectations, particularly for the next year, what do you currently expect to get realistically? Is there any change? Then secondly on the implementation of the sorting machines. You now have three up and running. How many do you expect to have up and running in total? Finally a question on the interest rates and the asset ceiling. But fundamentally, and correct me if I am wrong, rising interest rates on the Dutch 10 year bonds are going to have a positive equity on your net consolidated distributable equities and most likely also a positive equity on your pension coverage, although of course we need to wait for the return of the asset plans.

Herna Verhagen
Your first question on regulation, especially when it comes to postal regulation and tariff head room. What we do see is that we are in a constant process with ACM, the Dutch regulator, on all these files. It is important for all our stakeholders to not give out information proactively about where we are in that process and what the possible scenarios are. The process can be positively impacted by maintaining it as a process between us and ACM. When it comes to postal regulation, we think that they will come with a view on significant market power in the second quarter and they will come up with a view on the tariff head room as well, also expected in the second quarter. We are maintaining our contacts with ACM on these files as intensively as possible. We are not going to guide you on what we expect the outcome will be except the fact that we do see that is does require significant management attention and that attention we pay to it. It can have an impact as of 2016.
Then your second question, how many machines will there be by the end and that is a number of

ten, so we will have ten new sorting machines within our letter sorting centres.

Matija Gergolet, Goldman Sachs
Okay, thank you.

Jan Bos
Could you please repeat the third question?

Matija Gergolet, Goldman Sachs
My question is, we have all these questions about interest rates, pensions, the conditional and unconditional. We can make many scenarios, but fundamentally rising interest rates say on the Dutch 10 year bonds or long dated bonds, fundamentally should be positive for both your consolidated equity as well as for your coverage ratio, right?

Jan Bos
The coverage ratio is linked to the state bond, the equity is linked to corporate bonds. That is the only remark I make. What also helps to give you an indication, the liability ceiling helps us in equity to be protected against further decline in interest, but to profit from increasing interest rates, for that we have to a pension asset on our balance sheet. Then the interest rates have to be around 3.7%. The interest rate corporate bond at this moment is 1.4%.

Matija Gergolet, Goldman Sachs
Okay, thank you.

Operator
The next question comes from the line of Henk Slotboom, the IDEA!

Henk Slotboom, the IDEA!
Good morning. Two questions from my side. First of all with respect to Italy. If I understood it correctly, the review of the non-domestic business or the non-domestic addressed mail business is entirely under review, so all three countries where you are active. Yet in Italy you are going to invest further in rolling out a parcel activity as well. Could you shed some light on that, why is that and how much money will be involved in that? That is one.
The second one, with respect to addressed mail volumes in the Netherlands, you refer to the fact that the annual statements of insurance companies have caused a one-off effect in the first quarter, but going forward in 2016 and 2017 we will see most of the banks abandoning all the paper statements as well. Could you give your view on that, how that may work out on the market? Not only to you, but also your competitor Sandd has a volume in that field. Do you believe that a return to a let's say 2011 scenarios, where one party is fighting for volumes, could lead to a renewed price war?

Herna Verhagen
On your first question, the review is indeed about three countries; the UK, Italy and Germany. So all three countries. It is a review in which we have all options open, which means that we of course also have the option open that we continue the business. The Italian business is a very successful and very profitable business. That means that we see opportunities to further grow and that is mainly growing in packages, which will be delivered via our distribution network and some other contracted partners who deliver packages and parcels for us. We do see opportunities in that and in my view, every business which can develop positively and which fits

within a framework that we think is doable, should be stimulated to do so. That is our view on Italy specifically. As said, all three countries are under review. We do not guide on the amount of investments we do in Italy on the roll-out of our package and parcel network. When it comes to the 9% to 12% and then specially for 2016 and 2017, and then of course the fact that the bank statements, that banks will probably go further with substitution than they do today. When we made the bandwidth of 9% to 12%, we did take into account plans for example of banks, but also other companies to think about how they do think that they can substitute their volume and in what speed do they substitute their volumes. That is taken into account when it comes to the 9% to 12%. When we talk about maintaining our market share, then it does mean that within various specific segments in the market, we will have competition without a competitor in the Netherlands. That is on very specific segments and on very specific products and it is not an overall strategy as said.

Henk Slotboom, the IDEA!
Okay, thank you.

Karen Berg
Okay, are there any further questions?

Operator
There is one more question. Do you wish to take that?

Karen Berg
Yes, sure. That is the last one then.

Operator
The next question comes from the line of Damian Brewer of RBC.

Damian Brewer, RBC Capital Markets
Yes, good morning. Just one follow up question. I just understand the sensitivity is about the staff in the Italian, German and UK businesses. Just for our comfort, could you confirm that amongst the objectives, at least there would be one to be profitable in all these operations and cover your cost and capital once you make any decisions in result of the review?

Herna Verhagen
That has always been so.

Damian Brewer, RBC Capital Markets
Okay, clear, I just want to be clear on that, because it was not clear in the original answer. Then just a follow-up then. On the Italian business, the parcel business you plan to offer there, is that just on the existing network or would it go wider than the network that you currently deploy?

Herna Verhagen
The network we have in Italy, is a network built up with partners. Only in the big city Milan we have our own distribution network. Part of the parcels will be delivered via our own distribution network and part will be delivered by our other contracted partners in Italy.

Damian Brewer, RBC Capital Markets
Okay, very clear, thank you.

<u>Herna Verhagen</u>
Thank you very much.

<u>Karen Berg</u>
Okay, well, thank you all. If there are any further follow-up questions, do not hesitate to call Inge or myself. I wish you a good day. Thank you.

<u>Herna Verhagen</u>
Thank you very much.