



3 November 2014

Transcript Q3 2014 results

Analysts' call 3 November 2014

Richard Piekaar

Ladies and gentlemen, good afternoon and welcome to the Q3 2014 results presentation of PostNL. My name is Richard Piekaar and with me today are Herna Verhagen, our CEO, and Jan Bos, our CFO. Today Jan will start with the presentation on the results and after that we will take your questions. This call is also being webcast on our website and a recording will be made available afterwards. With that Jan, I would like to hand over to you.

Jan Bos

Okay, thank you Richard. I will start with an overview of the business highlights and after that I will present you the financial details. We had a solid set of results this quarter. Revenue was up €19 million and the underlying cash operating income doubled to €34 million. Based on what we achieved this year so far and taken into account the usually strong fourth quarter, I remain confident that we are well on track to deliver our full year 2014 outlook of underlying cash operating income of between €260 and €290 million. Going to the next slide, in Mail in the Netherlands we saw lower revenue and a higher underlying cash operating income, which increased by €23 million year on year. There are three main drivers for this solid performance. The cost savings and price increases as expected more than compensated for volume decline, autonomous cost increases and other effects. The price increases that affect these figures, are the price increases in August 2013 for one month of course and in January 2014. Secondly, the cost savings, still at a high level of €25 million but lower than last year explained by the speed of implementation last year. As we have indicated before the programme runs very well and we are ahead of schedule. The total expected cost savings target remains unchanged. And thirdly, we had lower cash out for restructuring which is partly a phasing effect towards next year and lower cash contributions. So, these are the three main reasons for the solid performance in Mail in the Netherlands. Furthermore I would like to note the impact of a negative phasing effect on which we will elaborate later. Then some other important elements to mention. We announced a tariff increase for January 2015 and this increase is based on intermediate regulation by the Dutch regulator ACM. We also have reached an agreement regarding a new CLA for mail deliverers. The agreement includes salary increases and a cost allowance. The CLA will remain in effect until 30 September 2015. This new CLA agreement is in particular beneficial for the mail deliverers, who have worked for us for a longer period of time to underline our appreciation to them. The agreement is also in line with our objective of keeping the cost level of our employment benefits manageable. Last but not least we have been able to maintain our high delivery quality of 97.1%.

On the next slide I will show you some more insight in the ongoing restructuring plans. We initially had planned to decrease the number of depots by 135 to 125 locations. With the learnings during the process and the continued critical look, we have identified opportunities to optimize this process and to increase this migration number to 160. With the current number of 159 migrated we are well on track to get that number before the end of the year. As indicated





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earlier we identified the opportunities for further efficiency gains of the car unit, for instance by combining routes of parcels and mail. We are now implementing improvements for the car unit in the first region and preparations for other regions have started. Also we have started the installation of the first new sorting machine. This machine will replace the current large sorting machine and will help to increase efficiency and save costs and in the future to develop and implement new services. Finally the reorganization of our head office and marketing and sales organisation proceeds as planned.

Then going to the Dutch regulatory environment. There are three main topics and I will give you a status update on these. First the amended Postal Act. This amendment has been sent to Parliament. The Commission of Economic Affairs has completed a written report on the examination of the Bill. The Minister of Economic Affairs now needs to reply to this report by means of a memorandum of reply. At this moment the Minister of Economic Affairs has not yet sent this reply to Parliament. Secondly on the tariff head room, which is one of the subjects the ACM is working on, a final decision by the ACM is expected in November. In August ACM has issued intermediate regulation in which they determined the tariff head room of 7.9% for 2015. Based on this we have announced a price increase as per 1 January 2015, this has been verified by the ACM and fits into the intermediate regulation. Finally on significant market power, following the market consultation on potential competition issues ACM has focussed on unsorted bulk mail next day delivery. ACM has announced that the preliminary decision is expected in November or December 2014. This decision will include both a view of ACM on potential competition issues and in case of any potential issues, the manner in which the ACM intends to address these. This preliminary decision will be published with a reaction deadline of six weeks. In the meantime we will continue our dialogue with ACM in anticipation of their preliminary findings.

Then let's have a look at Parcels. Parcel volume this quarter increased by 8.1%, mainly as a result of the continued growth of the e-commerce market and in line with our expectations. Revenue increased by 6% to €204 million. Underlying cash operating income of €19 million compared to €20 million last year, a better performance as a result of the strong volume, price mix effects and efficiencies. These are more than offset by higher cost for subcontractors as a result of the agreement with SubcoPartners and initial costs for the expansion of our service offerings. As you know we are rolling out our new logistic infrastructure, currently around 90% of the volume runs through this new infrastructure, but we are retaining a high quality. Last quarter we already announced some pilots on new business initiatives that we started. I will mention five of them. We have introduced evening delivery on Tuesday and on Thursday. The pilot on Sunday delivery has started in August. Together with our client Coolblue we now offer the choice to customers to have the electronics they ordered via the website to be delivered on Sunday. The pilot with fresh food delivery is now expanded to the North of the Netherlands. In this pilot we collaborate with universities, packaging companies, consultancy organisations and customers. The pilot is focussed specifically on convenience, sustainability and food and safety considerations. Then the fourth development. We will deploy nine new parcel lockers in the fourth quarter at the main railway stations in the Netherlands and at the airport. This is an extension to our innovative parcel network. Customers can now decide to have their parcels stored in the parcel locker, so they can decide for themselves when to collect the parcel, twenty four hours a day, seven days a week. And finally, we saw a strong growth in our Extra@Home service, both in one man deliveries as well as in two men deliveries. Extra@Home delivers large goods, such as white goods, beds, bicycles and furniture. At request Extra@Home also does the





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installation or the assembly. Extra@Home has recently won an award for the most stimulating e-commerce service.

Then our international business. First some highlights for the UK. UK showed volume and revenue growth. The growth is mainly driven by a price increase and a more favourable product mix. On the regulatory side, Ofcom is currently expected to publish its consultation document about the regulatory framework before the end of the year. Our end-to-end activities perform according to plan. We await the consultation document of Ofcom before we will continue to roll out the end-to-end service. Since mid-September our activities in the UK are rebranded Whistl. Then the main topics in Germany. The consolidation business was impacted by the fierce competitive situation, resulting both in lower revenues and operational results. We are still awaiting rulings from the Bundeskartellamt and Bundesnetzagentur, required to foster a competition friendly market environment. On the other hand, the revenue decline in the consolidation business was partly compensated by new business wins and growing volumes in the other business lines. We have initiated actions in Germany to attract additional volumes and implement further cost saving plans to improve profitability. Then Italy. In Italy we had both higher volumes and higher revenues, though we also see some price pressure. Especially Formula Certa showed good volume growth of 5%. The overall result in International was down from €6 million to €1 million, mainly due to the fierce competitive situation in Germany. Necessary action has been taken to improve cash profitability.

I will now start with the financial highlights of the quarter. The reported revenue was up 2% to €988 million this quarter and reported operating income increased by €5 million to €40 million. To get a better understanding of the actual underlying performance, reported operating income is adjusted for one-offs. The one-offs this quarter totalling €13 million by rebranding and project cost and addition to provisions. Then we come to our main KPI, which is underlying cash operating income. This is underlying operating income adjusted for the cash effects of pensions of €9 million and provisions of €10 million. This resulted in an underlying cash operating income of €34 million, an increase of €17 compared to last year. Net cash from operating and investing activities was minus €66 million and that is €148 million less than prior year and mainly explained by the impact of expected income tax paid in Q3 2014 and received in Q3 2013, related to prior years.

Let's look at the results per segment, first at revenue. Revenue of Mail in the Netherlands in the quarter declined by 5% to €442 million. The volume decline was 11.1%, which was partly compensated by price increases as the last part of the effect of the price increase of August 2013, which was visible in July 2014. Revenue of Parcels increased 6% to €204 million with 8.1% volume growth. This is the result of the strong growth of the e-commerce market, partly offset by changes in product and customer mix and lower internal revenue. In International revenue increased by €30 million to €420 million. Germany continues to feel the impact from the competitive situation and the consolidation business. Adjusted for the currency effects revenue in International was up 4%. Then on to our underlying cash operating income. The underlying cash operating income in Mail in the Netherlands increased by €23 million to €22 million. Main contributors to that increase were the cost savings, lower implementation cost and lower restructuring and pension cash out, partly offset by autonomous cost increase. The total volume price and mix effect was flat in Q3. I will show a complete picture of the main drivers on my next slide. The result was also impacted by the phasing effect of over €5 million, which lowered the Q3 results and which will have the opposite effect in Q4 and reflects phasing of collector items business. In Parcels the volume growth, efficiency gains and lower pension cash out were offset





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by the €2 million increase in subcontractor cost and €2 million initial costs for the announced expansion of our service offerings. This resulted in a slightly lower underlying cash operating income of €19 million. The underlying cash operating income in International was down €5 million compared to last year and as I have said, the decline is mainly explained by the competitive situation in Germany. And finally in PostNL Other underlying cash operating income was flat at minus €8 million.

Now into more detail on Mail in the Netherlands. As said, underlying cash operating income in Mail in the Netherlands increased from minus €1 million to €22 million. The main drivers behind this were cost savings of €16 million, excluding €7 million on pensions, visible in pension cash, lower implementation cost of €5 million, increases in autonomous costs of €7 million and other effects of €9 million. A large part of the €9 million in Other is explained by the already mentioned phasing effects in collector stamps and finally lower cash out for restructuring and pensions in total of €18 million.

Then the statement of income. Since the sale of half of our stake in Q4 last year, the results from TNT Express are accounted for as financial assets available for sale. Changes in fair value are recognized in other comprehensive income. Excluding TNT Express our profit for the period increased by €6 million to €8 million, mainly the result of the improvement of our operating income and lower financial expense, partly offset by higher income taxes. Then turning to our cash flow. In cash generated from operations you see a decline of €16 million. This is mainly the result of improved operating income, more than offset by a change in working capital, which saw some positive non-recurring effects in Q3 2013. The movements in the tax line are explained by the impact of income taxes paid and received related to prior year. A €65 million payment in Q3 2014 and a €73 million refund in Q3 2013 on preliminary tax assessments in the Netherlands. The payments in Q3 were according to expectations and in line with our previous expectations around a BBB+ credit rating. We also had slightly lower capex this quarter, mainly as a result of lower investments for the reorganisation and continued tight capex control. Overall net cash from operating and investing activities was minus €66 million in Q3 2014.

Our focus on cash remains visible in the performance of our cost savings and our capex performance. The total cost savings came in at €25 million. Restructuring cash out and implementation cost are again lower than last year and in line with our 2014 outlook. This is partly a phasing effect to 2015. Please note that we expect our capex for the full year to come in at around a €100 million, which is a bit lower than the earlier indicated €120 million, mainly due to phasing of the restructuring projects.

Then to pensions. This slide gives you the usual overview of the coverage ratio. The coverage ratio of the main pension fund was 110.5% at the end of the third quarter. The decrease is mainly explained by the effect from decreased interest rates, partly offset by the asset performance of the pension fund. The cash contributions in the third quarter were €40 million, which is significantly lower than the €57 million last year. The decline in cash is attributable to the reduction in work force, but also to the new pension arrangements we closed last year with the unions and the pension fund.

Then have a look at the balance sheet. Consolidated equity is minus €747 million, a decrease of €129 million compared to the last quarter. On the next slide I will elaborate more on the development. At the end of Q3 2014 the net debt was €861 million which compares to €788 million at the end of Q2 2014. The increase is explained by the expected tax effects I explained





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earlier. Corporate equity is around €1.7 billion and decreased also compared to the end of Q2, mainly as a result of the decrease of the value of our stake in TNT Express.

Now let's turn to the consolidated equity development. Total equity attributable to equity hold of the parent decreased to minus €747 million from minus €618 million. The main drivers for the decrease were first the profit for the period of €12 million, secondly the decrease of the book value of the stake in TNT Express of €125 million, related to the share price decline from €6.51 at the end of Q2 to €4.95 at the end of Q3. And thirdly the net actual loss for pensions of €20 million due to the lower interest rates and this is the net of increased plan assets, increased pension liabilities and the effect of the asset ceiling and the minimum funding requirement. Our intention is to resume paying dividend in 2016, for which we need to have a positive equity position. The main variable to restore our equity position is our operational results, which is developing in a positive direction. That is in our control and we have demonstrated the ongoing improvement in PostNL's operational performance. Next to this interest rates and the share price of TNT Express are important variables of which current developments were not helpful. We remain a financial shareholder in TNT Express and continue to expect to sell our stake in the medium term. We will continue to work hard to realize our 2016 dividend target.

So summarizing the quarter we again reported solid results this quarter, mainly due to strong cost savings and price increases in Mail in the Netherlands and lower cash out for pensions and restructuring. Parcels saw healthy growth of volumes and revenue. The effect of the higher volumes helped by improved operational efficiencies was offset by higher subcontractor cost and initial cost for the expansion of our service offering. International showed revenue growth, but especially the result in Germany being impacted by fierce competition. For the full year we expect underlying cash operating income to come in between €260 and €290 million, as we already indicated in the previous quarter, especially when taking into account the seasonality pattern of a strong Q1 and an even stronger Q4. This year the fourth quarter will even be stronger, given the already mentioned phasing of the collectors business. We are also on track to realise the underlying cash operating income margins per segment as shown on the slide. 2014 is a year for us in which we further solidify the foundation of our company. We are adjusting our Mail organisation to maintain profitability. We have motivated people who are working hard every day and are able to maintain our high quality. We are building and expanding in Parcels and International and the expansion of our services will underpin volume growth in the e-commerce market. We are working towards a sustainable delivery of cash and lower financial risks. With that I would like to hand back to Richard for the Q&A.

Richard Piekaar

Okay, thank you, Jan. Before we start with the Q&A session, I would like to ask everybody asking a question to state his or her name before asking the question and also please state the company you work for. I would now like to hand over to the operator to explain the procedure to register your question.

Operator

Thank you, sir. As a reminder, ladies and gentlemen, if you wish to ask a question, please stress star 1 on your telephone key pad and wait for your name to be announced. If you wish to cancel that request, please press the hash key. Star 1 to ask a question. Your first question comes from the line of Christopher Combe of JP Morgan London. Please ask your question.





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Christopher Combe, JP Morgan London

Hi everybody. Just two questions really. Could you comment first of all towards that you are seeing any change in core mail volume and parcel volume developments in Q4 versus Q3 and is it €6 million that you expect to recover in revenue in EBIT for collectors in Q4. My second question is, has to do with cash flow. What would you expect in Q4 or for full year looking at working capital and cash tax development? Thank you.

Jan Bos

Okay, let's first answer the change on mail and parcel volume. We haven't seen any changes in the volume development of mail as well as parcels, so the collector item business does not influence the volume development because is not addressed mail revenue, it is other revenue. Your second question on cash flow, we haven't guided for working capital for this year, but I would say in line with the development of say small working capital investments year on year. On tax we expect for Q4 tax payment in line with Q4 last year.

Christopher Combe, JP Morgan London

Okay, just a follow up on the collectors. Is it €6 million that you expect in the fourth quarter as an offset?

Jan Bos

Yes, it is around €6 million.

Christopher Combe, JP Morgan London

Okay, thank you.

Operator

The next question comes from the line of Maarten Bakker, ABN AMRO Amsterdam. Please ask your question.

Maarten Bakker, ABN AMRO Amsterdam

Yes, good afternoon all, it is Maarten Bakker, ABN AMRO. Jan, you mentioned that the interest rates remain an important variable in PostNL's equity position. I remember from pension workshops in 2011 and 2012 that PostNL indicated a sensitivity of somewhere around that every 10 basis points change in the discount rate hits the equity by some €60 million and from the 2013 annual report it seems that sensitivity has even become higher at around €100 million even. That said, I have to say that the impact in the third quarter of only €20 million was surprisingly low. Can you elaborate on this? Is the sensitivity indeed lower than I always thought it would be? What will the sensitivity be in the reversed direction if interest rates go up again?

Jan Bos

Maarten, a good question. We have explained that also at Q2 that related to the asset and liability ceiling in the pension liability and pension asset calculation which between interest rates between 2.8% and 3.2% does not impact pension assets and liabilities as much as they do outside that range. That is the reason why you don't see a higher impact on equity this quarter.

Maarten Bakker, ABN AMRO, Amsterdam

Okay. And what is the sensitivity if the interest rate is outside this range?







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Jan Bos

It is still about €80 million per say 10 basis points.

Maarten Bakker, ABN AMRO, Amsterdam

Okay, thank you.

Operator

The next question comes from the line of Doug Hayes of Morgan Stanley London. Please ask your question.

Doug Hayes, Morgan Stanley, London

Good afternoon, three questions please. First, can you give a little bit more insight into what you are seeing in the UK market. You mentioned good volume growth and a good mix shift. Can you give us just a little bit more insight in what you saw there?

Herna Verhagen

Of course when we talk about the UK, we talk about downstream access and we talk about end-to-end. In downstream access we did see good volume growth and in end-to-end of course as we said we stopped the investment and we are awaiting the outcome of Ofcom. So we are mainly talking about downstream access volumes in this case. The development in the UK for downstream access as well as for end-to-end is according to expectations.

Doug Hayes, Morgan Stanley, London

Okay, great, thank you. Second question. Can you just remind us of the rules on when you have to mark-to-market the TNT Express stake? Is it the same as when you were taking it through the P&L or is there some more flexibility now that you are just taking it directly to equity?

Jan Bos

I don't understand the question.

Doug Hayes, Morgan Stanley, London

So I was under the impression that if the value of the TNT Express stake moves by more than 10% you have to write it down.

Jan Bos

It is now completely market-to-market value, but market value changes are accounted for under other comprehensive income, so not in our net result anymore.

Doug Hayes, Morgan Stanley, London

Okay, but even if it moves by 5% or 2%, it is every quarter mark-to-market.

Jan Bos

Yes, correct.

Doug Hayes, Morgan Stanley, London

Okay, great, thank you. Then finally, you guys are continuing the efforts in Germany to improve the operations there. At what point do you have to consider a plan B?





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Herna Verhagen

As always said, we will act rational when it comes to International and also when it comes to Germany. We strive for a better cash profitability and at this moment in time a lot of cost reduction plans are installed and are in place. Hopefully we will see the results of that in the next coming period. Secondly, we of course also have actions in place when it comes to increase the volumes, which helps of course in the end the profitability of the organisation as well. But we do restate that we will act rational when necessary.

Doug Hayes, Morgan Stanley, London

Okay, but it sounds like there is a cost side to things or a volume side, either lever you can pull on improving the operations?

Herna Verhagen

We will pull both, volume side as well as the cost side.

Doug Hayes, Morgan Stanley, London

Okay, great, thank you very much.

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 have got three questions if I could please. Firstly I wanted to get an update on the number of people who left the business in Mail in the Netherlands division year to date and what you expect for this year and perhaps next year and the year after as you work your way towards the 3,100 target. My second question is on the UK. I saw something about a VAT-decision has gone against Whistl. Is this an important factor in LDC's decision to invest as well as the Ofcom investigation is going on? And thirdly is a kind of a housekeeping question really. Do you have the reported divisional operating income which I don't think was included in the press release this time and it usually is. Thank you.

Jan Bos

Okay. I think we normally are not doing that, Andy, only Q2 and Q4.

Herna Verhagen

So on the VAT question to start with your second question. I did not forget the one on people. VAT was not the most important part in the business case we made there with LDC. Nevertheless we are disappointed and looking at this moment in time to appeal.

Jan Bos

And on the people part, for year to date 2014 via redundancy and mobility about 300 to 400 people have left the company, so that is besides natural attrition.

Andy Jones, RBC Capital Market

Some memory that was about some 600 in the full year and in 2013. What would you then expect?







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Jan Bos

2013 that was in total about 900 and that is mobility and redundancy.

Andy Jones, RBC Capital Market

Okay, and you are able to help at all with the expectations going forward or is that something that you are not comfortable sharing at this point?

Jan Bos

We are comfortable with sharing those numbers.

Herna Verhagen

And still expecting to end up in the range of 2,750 to 3,500 fte.

Andy Jones, RBC Capital Market

Okay, thank you very much. Could I have just one very quick follow up on the CLA that was announced last week. Can I just ask and check the cost of that will be included in the Q4 P&L as costs and are they particularly material or not so much?

Jan Bos

They will be included in the P&L and they are say around for the total of the period at around €4 to €5 million.

Andy Jones, RBC Capital Market

Okay, thank you very much for your help.

Operator

The next question comes from the line of Tobias Sittig, Main First Bank. Please ask your question.

Tobias Sittig, Main First Bank

Yes, good afternoon, it is Tobias Sittig from Main First Bank. I have got three questions if I may. Firstly on the discount rates you are using for pensions. Can you give me the discount rates you are applying both the Dutch and IRS pensions at the end of Q3? Secondly, could you tell me how much impact the Christmas stamp, I think you had a higher price tag for the Christmas stamp last year and that was a quite important contributor to Q4, what the year over year impact of that will be. Lastly may be a little bit cheeky, but your last four reporting dates have been moving the share price by more than 10% in each occasion. I am wondering what you can do to sort of soften the impact or give us may be a little bit more update in between that the market is close at what is really happening to the company, because it is very volatile around results at the moment. Thank you.

Jan Bos

Okay, on your first question, so for the discount rate. For IFRS the discount rate is 2.9% this quarter and for the pension fund it is 2.4%. So, for the Christmas stamp we announced also the increase in the Christmas stamp and the contribution will be between €5 and €10 million, more or less.

Tobias Sittig, Main First Bank

Positive?





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Jan Bos

Yes, of course.

Herna Verhagen

When it comes to the reporting dates, I think when you look into the Q3 numbers and that was already stated by Jan as well, the outlook which we have for the end of the year, the €260 to €290 million is of course confirmed again and together with an even stronger Q4 than normally, we are confident to reach those numbers. Secondly, what we did confirm is also of course the margins we do expect for example within Parcels. So a lot of the important milestones for this organisation are confirmed during Q2 and again also during Q3. So what can we do? In my view the best thing we can do is deliver whatever we need to deliver on UCOI (underlying cash operating income) and on the other aspects. Of course we always look into where we can improve to update market earlier or better than we do today.

Tobias Sittig, Main First Bank

May be one follow up on Germany. Do you have any thoughts on the timeline when the antitrust authorities or regulator will decide on how they view the competitive behaviour of Compador?

Herna Verhagen

That is to be honest very difficult to say. So, we have a very clear timeline in the UK, we do not have such a clear time line in Germany.

Tobias Sittig, Main First Bank

Okay, which means anything between a month and a year?

Herna Verhagen

We emphasize the importance month over month, so hopefully lesser than a year, but to be honest, I don't know exactly.

Tobias Sittig, Main First Bank

We have been looking into it for quite a while now right.

Herna Verhagen

Yeah, correct, fully correct. It is also what we say. You are looking into it for just quite a while, so what makes it so difficult to come up with a conclusion?

Tobias Sittig, Main First Bank

Okay, thanks.

Herna Verhagen

You are welcome.

Operator

The next question comes from the line of Hugo Turner, Credit Suisse London. Please ask your question.

Hugo Turner, Credit Suisse London

Hi, two questions for me please. The first is, when did you stop investment in the UK, was that triggered by the loss of the VAT court case? The second question is, can you provide some kind





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of sensitivity is to a potential negative significant market power decision on Mail in the Netherlands. What are the sensitivities and what are the potential impacts please.

Herna Verhagen

We did stop the investments in the UK by the end of Q2 and that was not related to the VAT discussion. We of course are still doing end-to-end in the cities where we opened, so what we stopped is the further roll out to be very clear on that. A potential negative impact on significant market power, we can't estimate at this moment in time. The reason for that is, because the only thing that we did hear from the regulator till now is that they will look into 24-hours unsorted bulk mail, so we do have an idea in what area they are looking for. At this moment in time we are in I would say, in constructive discussion with the ACM and answering all their questions and delivering the information they need to have to come up with the decision, but still for us difficult to forecast or difficult to say which direction they will choose. So, they first have to of course decide on is there a case of significant market power and if they decide there is a case of significant market power, they have to come up with measures which are fitting to of course the significant market power they see. This is to be honest something what we expect at the beginning of December.

Hugo Turner, Credit Suisse London

Okay, one more follow up question. Is there anything that has triggered you to stop investing in the UK market?

Herna Verhagen

Yes, especially of course the fact that firstly the Ofcom announcement would be done in August and then they postponed till september and then they postponed till October and they postponed till November. That has lead in our organisation to say, we will continue end-to-end in all the cities where we are delivering end-to-end at this moment in time, but we will stop the further roll out as long as we have an outcome of Ofcom.

Hugo Turner, Credit Suisse London

Great, thanks.

Herna Verhagen

You are welcome.

Operator

The next question comes from the line of Matthew O'Keeffe, Berenberg, London. Please ask your question.

Matthew O'Keeffe, Berenberg London

Yes, thank you, it is Matthew at Berenberg. Just two questions please on the one-offs in Q3, the €6 million I assume that falls entirely in the International Division, I suspect that is related to Whistl, but on the rebranding, perhaps you can clarify that. Then on the €7 million for restructuring. I am assuming part of that falls in International and part of it falls in your core business Netherlands, but again perhaps you could portion those numbers a little bit more precisely for us. Thank you.





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Jan Bos

Your first on the €6 million one-offs, it is partly related to project cost within International or rebranding and the €7 million restructuring it reflects the net impact of release and additions to provisions in Q3 and mainly for the restructuring Mail in the Netherlands and head office.

Matthew O'Keeffe, Berenberg London

So, okay, the €6 million is all in International. Is that what you are saying?

Jan Bos

Yes, it is mainly in International.

Matthew O'Keeffe, Berenberg London

And the €7 million is mainly in?

Jan Bos

Mail in the Netherlands.

Matthew O'Keeffe, Berenberg London

Mail in the Netherlands. All right. I mean, as a matter of interest, further to your earlier question, you did provide this break down Q3 last year, so it would be useful to provide it on an ongoing basis. Okay, thank you.

Jan Bos

We are now giving that split and specification at Q4 and/or Q2, because we are now going to do more trading updates at Q3 and Q1. That is the reason.

Matthew O'Keeffe, Berenberg London

Got it, thank you.

Operator

The next question comes from the line of Damian Brewer, RBC London. Please ask your question.

Damian Brewer, RBC London

Good afternoon, I have got two questions please. Going back to Matthew O'Keeffe and previous questions. Could you please explain again why we are not getting the net reported by division. I just thought restructuring charges are an important of trading, so I am just trying to understand why you are not disclosing that on a three monthly basis. If you could provide us with some details, that would be very useful. And then secondly, given the outlook for ever lower interest rates in Europe given the deflationary pressures, where do you sit on your expectations as to the ability to pay dividend now I mean now it appears TNT share price is down, obviously also some pension pressures. How much would you need to improve underlying profitability by to generate enough equity to pay the dividend and what sort of timescale do you envisage there? Thank you.

Jan Bos

Okay, Damian, to answer your first question. We decided to have a less detailed press release at Q1 and Q3, more in line with trading updates and they are more detailed than normal trading updates. And to answer your second question. What we have said also at Q2, the main contribution to our intention to pay dividend in 2016 is of course our operational results. There





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are we perform according our expectations. If you look at TNT Express and interest rates, it is more or less under our control and of course at present interest rates and present share price of TNT Express, it is say then not the expectation that we can pay dividend in 2016.

Damian Brewer, RBC London

Okay, thank you. I understand your first point, but I still don't understand why restructuring cost are not part of trading.

Jan Bos

Yeah, we adjust for them in the underlying results and we explained the one-offs in the underlying results, but we don't make a split per segment.

Damian Brewer, RBC London

Okay, but coming back to the, this is a follow on what Herna was saying about being rational about capital. I would have thought that the restructuring cost are part of the invested cap we have to put into International business for instance. How we are meant to see from the outside that you are being rational if we can't see that on a quarterly basis?

Jan Bos

Okay, we take your opinion with us, but we are always improving our information to our shareholders, if you want to make that point. We try to make the Q1 and Q3 press releases as simple as possible.

Damian Brewer, RBC London

Okay, point taken. Thank you.

Operator

The next question comes from the line of Philip Scholte, Rabobank. Please ask your question.

Philip Scholte, Rabobank

Good afternoon, everybody. You haven't really talked about your outlook for or your targets for 2015. Is it fair to assume that you are still reiterating those targets, especially the cash underlying EBIT of course? Can you already say something about whether or not you are developing plans beyond that and when you expect to give us a new long term earnings framework?

Herna Verhagen

Philip, we do reiterate our targets 2015, which are the underlying cash operating income targets, of which we said they will be between €260 and €330 million. Yes, we are of course developing plans for the years to come and will announce those to market in the first half year of 2015.

Philip Scholte, Rabobank

Okay, thank you.

Operator

The next question comes from the line of André Mulder, Kepler Cheuvreux. Please ask your question.





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André Mulder, Kepler Cheuvreux

Good afternoon, a question on pricing. I believe that in the past years you said you had the impression that the regulator wanted a sort of inverted compensations for the volume declines, so let's have a 10% price volume decrease, you would be able to increase your prices by 5%. Is that still the case, is that still your view on that?

Herna Verhagen

Yes, that is still the case and that is still the view and that is also what is laid down in the Postal Regulation. There is an approved Postal Regulation by Parliament, in which is stated that price increases will be inflation and partly offsetting volume decline of the year before.

André Mulder, Kepler Cheuvreux

But it would also be in the same kind of matrix? So 50% inverted contribution?

Jan Bos

More or less, yes.

André Mulder, Kepler Cheuvreux

Okay, thanks.

Operator

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

Matija Gergolet, Goldman Sachs

Good afternoon, it is Matija Gergolet from Goldman Sachs. I just wanted a clarification.

Richard Piekaar

Sorry, can you speak up please, because your line is a bit bad from your side.

Matija Gergolet, Goldman Sachs

Yeah, I wanted a clarification about the discount rates for the pension just if I heard correctly. Is that 2.9% on 2.4%? If you can confirm that please?

Jan Bos

Yes, 2.9% for the equity, for the accounting part, 2.4% where the pension fund is calculating with.

Matija Gergolet, Goldman Sachs

Okay, thank you very much.

Operator

The next question comes from the line of Sander van Oort, Kempen. Please ask your question.

Sander van Oort, Kempen, Amsterdam

Hi good afternoon. Sander van Oort, Kempen, Amsterdam. Two questions if I may. First of all on the Parcels business where the operational results were negatively impacted by €2 million for innovations and €2 million for higher subcontractor costs. What kind of numbers can we expect in the quarters to come? Is it a number especially for innovation, that will increase a bit or is it







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just kind of initial investment that will level off in the current levels? And secondly on the price volume impact in Mail in the Netherlands. As you show on page 13 of the presentation, that is zero and it was up a couple of millions in the first two quarters. Is it fair to assume that will go in negative territory or do you expect the december stamp price increase to allow you to stay at around zero? Thank you.

Herna Verhagen

When it comes to Parcels, it is indeed €2 million of cost for subcontractors. Last February we have said that we expect that the total sum of €15 million is necessary to work with our subcontractors. That is partly in 2014 and will be partly in 2015. When it comes to innovation, we do expect first quarter, first half next year. Then your second question on price regarding Mail in the Netherlands. I would like to ask you to repeat it, because I did not clearly understand.

Sander van Oort, Kempen, Amsterdam

The overview, the graph on slide 13 shows a zero volume price mix, so I was wondering it was positive of course, given the two consecutive price increases last year. Do you expect the december stamp price increase to allow you to stay at around zero, also in the fourth quarter?

Jan Bos

They will stay around zero, so you are right the positive effect of the December price increase and the negative impact that we are losing one, you know, the August 2013 price increase of which we had one month. So you are right, more or less.

Sander van Oort, Kempen, Amsterdam

Okay, thank you.

Richard Piekaar

Okay, then we have time for one more question

Operator

The next question comes from the line of Henk Slotboom, the IDEA!. Please ask your question.

Henk Slotboom, the IDEA!

Good afternoon, Henk Slotboom. Herna, Jan, a question that is not so much related to the third quarter of this year, but on a somewhat longer perspective. We have seen a couple of changes in the USO pricing regime. I think pretty much in your favour. But there is the other segment as well, the bulk mail segment. Now, you have been making steady progress, inflation plus increases, but how do you look at it at a slightly more longer perspective. I understood from the tax authorities in Holland that they are going to make some drastic caps in volumes in 2016, 2017, likewise with a number of big banks. How do you look at it? Are we going to return, what are the risks for us seeing a return to a harsh battle for volume again with the likes as Sandd for example?

Herna Verhagen

To give an answer to the few questions you are asking, the volume of our tax authorities is volume with our competitor. That is one. Secondly, of course we are looking into price elasticity, so what is the effect of price increases on substitution. That is one, and secondly of course also how does Sandd our competitor, follow us in of course the price increases. We do see that





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Sandd is in most of the occasions acting rationally and sometimes they do not, but in most of the occasions they do and that was also reason for saying during Q2 that we expect to continue to increase prices well above inflation. So that is still what we do think is possible and realistic, because of the fact that we do not see that price increases have more impact on our volume than expected in our price elasticity. Secondly, we do follow competitors very closely and we also do see as just said, that they act in most of the occasions rational.

Henk Slotboom, the IDEA!

Okay, perhaps a brief add on to that. Do you see any changes, over the past couple of years you lost about 2 to 3% volume on average to Sandd. Do you see any changes in that or has that stabilised, has that levelled off?

Herna Verhagen

We do not see any changes.

Henk Slotboom, the IDEA!

Okay, thank you.

Herna Verhagen

Thank you, Henk.

Operator

We do have one more question and it is from the line of Dieter Furniere of KBC Securities.

Please ask your question.

Dieter Furniere, KBC Securities

Thanks very much for taking my question. I think two small ones. I think the first one relates to International. I think you have seemed to confirm your margin target for the year, while if I look at the results you posted over the first nine months, that would imply that International excluding the UK would need a margin underlying cash operating income of around 4% in the fourth quarter. Am I missing something here or how do you see that repeating the 1 to 3% margin target. I think my second question relates to your equity position. Could you give us the distributable equity positions, so the distributable of corporate equity that is likely what is important for the dividend in cash. Thanks so much.

Jan Bos

Coming back to your first question on International. It is the same I would say as in all business lines. Q4 is always the strongest quarter for all our business lines. So we expect still for the full year a margin for International of between 1 and 3%. And maybe it comes at the low end of the bandwidth, but still within the bandwidth of 1 to 3%. And on the distributable equity it is about €386 million negative at the end of Q3.

Dieter Furniere, KBC Securities

Okay, thanks very much.

Herna Verhagen

Thank you.





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Richard Piekaar

Then I would like to thank everybody for your participation today at the call. If you have any follow up questions at any time, please give Inge or me a call and I hope to speak to you soon. Operator, you can close the call. Thank you.

