7 May 2013

Transcript Q1 2013 results
Analysts' call 7 May 2013

Cees Visser
Good afternoon, my name is Cees Visser. Welcome to those listening to the webcast and conference call. With me are Herna Verhagen, our CEO, and Jan Bos, the CFO. Jan will take us through the presentation and after that both Jan and Herna are available for questions. So over to you Jan.

Jan Bos
Thank you, Cees, and welcome to everyone. I will first give you some Q1 highlights after which I will dive into the financials. Please note that due to the adoption of IAS19 revised and a reclassification of our stake in TNT Express, we have restated the comparative 2012 figures and in this restatement we have also taken into account the transfer of Customer Contact Services. I shall explain the restatement on a later slide. The first quarter was in line with our expectations. The underlying performance of Mail in the Netherlands was as expected, impacted by the volume decline of 9.5% which was within the guided range of 8% to 10% for 2013. The start of the new roll out of the reorganisation is satisfactory and we were able to restore our quality to 96.1%. Parcels continued with strong growth in volumes with an increase of 6.2% on a like-for-like basis and with good progress in the roll out of the new logistical infrastructure.

In International volumes and revenues overall showed solid growth, which resulted in a positive performance for the segment. In Mail in the Netherlands our underlying revenues declined by 5.4% due to the decline of the addressed mail volumes of 9.5% which is working day adjusted. The underlying cash operating income was €1 million negative, which is a decline of €23 million. Lower addressed mail volumes, partly offset by a positive price mix effect, are the main reason for this decline. Other important drivers are the autonomous cost increases and the cost savings of €9 million in Mail in the Netherlands. As I said earlier, the new roll out of the reorganisation is progressing well. Our works council has given a positive advice on the implementation of the new roll out and so far we have migrated 35 depots. At the same time we were able to restore our quality to 96.1%, above the level required by the USO. Furthermore, the voluntary outflow of employees is on track. For Mail in the Netherlands the members of the unions have approved the in-principle CLA which runs from 1 January 2012 to the end of March 2013 and the extension of the social plan to the end of 2015. Together with the unions we are now discussing the proposed new pension arrangement with the pension fund board. We have also reached an agreement in principle for the CLA for mail deliverers, running from 1 January up to and including the end of December 2013.

Now let's turn to the regulatory news. One of the items on our agenda is pricing. Given the rate of volume decline, an increase in our prices is necessary. The Minister of Economic Affairs has proposed to increase the basic rate for letters by € 0.06 as of 1 July 2013. He considers it essential to take further measures to guarantee cost recovery and affordability of the USO. He is also considering adjustments in the total of USO commitments and tariff regulation. The Minister will expand these proposals and integrate them in the vision on the future of the postal market, which he has promised to the Second Chamber and which he will send to the Chamber this month. Implementation is expected in 2015. Based on these intentions of the Minister, PostNL has withdrawn its application for net cost compensation in respect of 2011. The Minister has also recently sent to Parliament a proposal to amend the Postal Act 2009. The aim is to cancel the Monday delivery commitment and to introduce a significant market power regime for the Dutch postal market. Decision making on legislation is expected in 2013 and the implementation by the regulator, ACM, will take one or two additional years.

As you can see, Parcels had a good volume growth of 6.2% like-for-like. This is also reflected in the growth of underlying revenues. €20 million of this increase are external revenues, of which approximately €10 million comes from the trans-o-flex acquisition. Looking at the results, underlying cash operating income increased by €1 million. Operational performance continued to be strong, also thanks to the efficiency improvements. The underlying performance this quarter however was impacted by restructuring charges of trans-o-flex and temporary migration cost due the transfer from the old to the new logistical infrastructure. Our new logistical infrastructure programme is fully up to speed and on track for completion in 2015. We have opened new depots in Born and in Leeuwarden and until now nine depots have been opened, so the 50% milestone has been reached. At the end of the 1st quarter 2013 approximately 45 to 50% of our volumes run through the new network.

Then off to International. Underlying revenues of International increased by 5.5% to €419 million. Underlying cash operating income improved to €7 million with all countries contributing. The UK showed a good overall growth, both in the field of addressed mail volumes as well as parcels. We have started preparations for the expansion of our E2E pilot into the Southwest of London. As announced in our Q4 presentation, we are looking for a co-investor and we will update you when we have more news on this. The regulator Ofcom published its final guidance on the E2E competition and concluded that there was no need for regulations that restrict E2E. In Germany revenues increased by €11 million, driven by new customers as well as by more volumes from existing customers. Postcon revenues were not affected by actions of Compador so far. Cost savings were realised according to plan. In Italy revenues increased by 9.6% to €57 million. Formula Certa volumes and revenues continued to show strong growth both in direct mail as well as in registered mail. The coverage of Formula Certa increased further to 69% of households.

On the next slide you can see a recap of all our main drivers towards the outlook for 2015. On pricing we see good progress and the intention of the Minister to increase basic rate on 1 July 2013. The roll out of the reorganisation has had a good start this quarter. The Works Council gave a positive advice on the roll out and we migrated 35 depots, whilst restoring quality. The voluntary outflow of employees is on track and we have started the redesign of our head office and our marketing and sales organisation. To maximise synergies in our network we are currently preparing a pilot in rural areas combining parcel and mail delivery. We are also integrating the delivery of parcels and registered mail by the new logistical infrastructure. Our discussions on the new sustainable pension arrangement are on-going. Parcels is fully on track with the roll out of the new logistical infrastructure and International was able to improve profitability again with all countries contributing. In summary, we are on track to a sustainable delivery of cash in 2015.

Now over to the financials. First an overview of the quarter. Reported revenues overall are slightly up by €4 million, whilst reported operating income decreased by €36 million. The one off this quarter were charges to the provision for the restructuring in the Netherlands of €8 million. Then we come to our main KPIs. Underlying cash operating income was €27 million lower than in 2012 and was mainly driven by the volume decline in Mail in the Netherlands. Our net cash used in operating and investing activities was €97 million lower than the prior year. This was mainly caused by the lower cash operating income and the top up pension invoices we paid.

As mentioned at the start of the presentation, the comparative figures 2012 have been restated to reflect the effect of the adoption of IAS19 revised, the reclassification of our stake in TNT Express as well as the transfer of our Customer Contact Services from Mail in the Netherlands to the segment of PostNL Other. The table shows the impact per segment. The transfer of Customer Contact Services had an effect on revenues, underlying operating income and underlying cash operating income, where you can see the shift from Mail in the Netherlands to PostNL Other. The impact of IAS19 revised is only visible on the underlying operating income. The impact of the reclassification of our stake in TNT Express is in the 1st quarter only visible in the balance sheet in the reclassification from assets held for sale to investments in associates. In our press release you will find a more detailed explanation on the accounting changes.

Now let’s look at the details per segment. The underlying revenues of Mail in the Netherlands were down 5.4%. The volume decline of 9.5% was partly compensated by positive price mix effects. Underlying revenues of parcels were up €37 million of which around €10 million is explained by the acquisition of trans-o-flex and €17 million by increased internal revenues. International revenues were up €22 million driven by good growth in all countries. Underlying cash operating income of Mail in the Netherlands declined by €23 million, mainly caused by lower addressed mail volumes and price mix changes for an amount of €17 million, increased autonomous costs for €7 million and an increase in other costs of €16 million. Cost savings for an amount of €9 million, lower implementation cost also for an amount of €9 million and lower pension expenses partly offset this. In Parcels underlying cash operating income increased by €1 million. Operational performance continued to be strong, also thanks to efficiency improvements. The underlying performance in Parcels was impacted negatively by restructuring charges for trans-o-flex and other incidentals, without the result would have been €1 million to €2 million better. The underlying cash operating income of International improved to €7 million with all three countries improving the results again.

The next bridge then shows the overall development of the underlying cash operating income. The underlying operating income was down €30 million. The drivers were a decline in Mail in the Netherlands and a positive contribution from Parcels and International and a €13 million movement in PostNL Other. This movement was mainly explained by the allocation of pension costs and lower management fees allocated to the other segments. Underlying cash operating income decreased from €49 million to €22 million and the change in pension liabilities reflects as you know the difference between the higher pension expenses for €5 million and lower regular pension cash out for €4 million. The change in provisions mainly reflects higher cash out for voluntary redundancy agreements and the restructuring of trans-o-flex. Please note that the underlying cash operating income of €22 million does not include the paid top up payments of €64 million.

If we now look at the reported statement of income. The results from investments in associates reflect the results from TNT Express and the impairment line is dependent on the share price development of TNT Express. When excluding the effects of TNT Express, the profit for the period was €30 million lower than the previous quarter. Then over to the net cash from operating and investing activities. The development in the 1st quarter 2013 was in line with expectations, as we have always referred to 2013 as a year in which we would have a cash dip. The net cash from operating activities decreased by almost a €100 million to minus €80 million and this change is mainly explained by lower cash operating income, the €64 million top up payment and higher cash for working capital. This is partly offset by lower income taxes paid. Capital expenditure was €18 million lower and the proceeds from the sale of assets were €14 million lower. As a result the net cash from operating and investing activities was down by €97 million against the 1st quarter of 2012. The next slide updates you on the financial status of our cost savings, Capex and working capital. As you can see, the financial indicators for the cost savings are in line with our outlook. The related implementation costs are on the low end. Capex is developing in line with our expectations. Our working capital at around minus 8% showed a negative development when compared to the end of 2012, but was in line with expectations.

Then on to our balance sheet. Our consolidated equity is now as expected at a level of minus €689 million, due to the implementation of IAS19 revised and the decline in the share price of TNT Express. Our corporate equity remains positive at a level of a little bit more than €1.2 billion. Our net debt is now €1.3 billion, which is an increase of around €100 million, which is explained by the negative net cash from operating and investing activities that I showed you earlier.

The coverage ratio of our main pension fund was at 105% at the end of the 1st quarter 2013, which is above the minimum of 104%, so the conditional top up invoice of €13 million was cancelled. There is no change to the expected full year pension expenses and cash contributions. In the table below you see pension cash and pension expenses excluding the top up payment of €64 million. The pension expenses and operating income for the quarter was € 32 million compared to cash contributions of €64 million. New is the interest line of €6 million. With the adoption of IAS19 revised, we have decided to show the net interest on the net defined benefit liability in the interest line. For 2012 we show the restated numbers. The restate was €11 million in expenses as I have shown on slide 11. Of course the most important message of this slide of course is the improvement of the coverage ratio just above the minimum required level.

Then on to our stake in TNT Express. Here you see the development of the share of TNT Express in the 1st quarter. Accordingly the book value of the stake in TNT Express at the end of the 1st quarter has changed to a little bit more than €900 million, which is €440 million lower than at the end of 2012. In other words, a value adjustment of minus €440 million. Based on the changes made in the relationship agreement between PostNL and TNT Express, PostNL has recommended Mr Sjoerd Vollebregt for appointment as a member of the Supervisory Board of TNT Express. The appointment of Mr Vollebregt took place on April 10, 2013 by the AGM of TNT Express.

As of 1 January 2013 the consolidated equity of PostNL is negative because of the implementation of IAS19. We expect to return to positive consolidated equity by 2016 at current parameters. It is unfortunately unavoidable that PostNL's equity position will continue to be vulnerable to changes in interest rates. As you can see in the graph our consolidated equity position at the end of the quarter was minus € 689 million, mainly impacted by the adoption of IAS19 revised and the value adjustment of TNT Express.

In April both Moody's and Standard & Poor's have published an update of our credit rating. Moody's downgraded PostNL from Baa2 to Baa3 and Standard & Poor's downgraded PostNL from BBB to BBB-. The main reasons for the downgrade are similar for Moody's and Standard &

Poor's and related to our financial ratios and business risk profile. The financial ratios have worsened in 2012 and 2013, mainly because of cash out relating to our current restructuring programme and low market interest rates leading to an increase of pension debt. Also they did not include our stake in TNT Express into the calculation of the financial ratios. The business risk profile has worsened because of higher volume decline and execution risk regarding the roll out of the reorganisation. The worsening of the financial business risk profile is partly mitigated by qualitative credits given for our stake in TNT Express. Based on our outlook we expect at present parameters to get back to financial ratios belonging to a BBB plus or Baa1 rating in 2016. So to conclude, we reconfirm our outlook for 2013 and please note the seasonality of our business. The first and last quarter of the year are normally our strongest quarters. Over to you, Cees for the Q&A.

Cees Visser
Thank you, Jan. Operator, can we open the lines for Q&A?

Operator
Of course. As a reminder, if you wish to ask a question, please press star and 1 on your telephone key pad. If you wish to cancel a request, please press the hash key. Star plus 1 for any questions. The first question comes from the line of Damian Brewer. Please ask your question.

Damian Brewer, RBC
Good afternoon and thanks for taking my question. You just mentioned the €9 million savings in the Netherlands Mail business. But still looking, it looks about two thirds of the reduction in revenues there is generated reduction in EBIT. Could you tell us in addition to that €9 million what the run rate of the programme is at the end of Q1 and what you expect that to be by the end of Q4 this year. Not in terms of sort of achieved, but the actual run rates in terms of momentum of the programme.

Jan Bos
I give you an answer, Damian. So the run rate and that is also the outlook for the Master Plan savings for the full year, is €40 to €60 million for the full year of 2013 and we have also given an outlook for the total Master Plan Savings until 2017.

Damian Brewer, RBC
Okay, just to be clear. On the end of December you will be at the €40 to €60 million run rate annualized in 2013 savings. You would not have achieved that on a fully low digit basis in 2013. I am just trying to understand the direction of when the cost savings start to outpace the revenue pressures.

Jan Bos
Okay. So, that will not be in 2013 as you have seen in our outlook, but that will be in 2014 and 2015.

Damian Brewer, RBC
Okay, thank you.

Operator
The next question comes from the line of Julia Winarso. Please ask your question.

Julia Winarso, HSBC
Hi, good afternoon every one. Just quite a simple question from me. On slide 17 you refer to your corporate equity as €1.2 billion. Is that IAS19 adjusted?

Jan Bos
Yes, that is IAS19 adjusted, Julia.

Julia Winarso, HSBC
Okay. Is there any way that we could get a reconciliation between corporate equity and the consolidated equity, so that we can have a better understanding of the dynamics between the two?

Jan Bos
Okay, we give it annually in our annual report, for 2012 you can see it in the annual report.

Julia Winarso, HSBC
Okay. Thank you.

Operator
The next question comes from the line of Arun Rambocus. Please ask your question.

Arun Rambocus, Kempen
Yes, good afternoon. A couple of questions from my side. Let's start with a couple of simple ones, just the bookkeeping. First of all, on the lower management fee charge in Mail Other to the other divisions. First of all why was there a change and what was the impact on the results. Can you quantify that, especially on Parcels and Mail? The second one is on your comments about price mix in Mail in the Netherlands. How did that evolve in the quarter and do you already see an uptick in pricing in that particular division and what is the outlook for the remainder of the year? The third question is, looking at working days in the 1st quarter, I assume it has a negative impact, like for many other companies. So what was the impact on the EBIT in Mail in the Netherlands in the quarter, affected by working days? Those were my questions, thank you.

Jan Bos
The management fee is just a recalculation of the management fee, not more and not less.

Arun Rambocus, Kempen
What do you mean by a recalculation?

Jan Bos
Every year we recalculate the management fee and this year it was a lower management fee.

Arun Rambocus, Kempen
What is it affected by, why is the management fee lower this year compared to last year? I just try to understand why this happened.

Jan Bos
Because we are also doing saving programs on the head office departments and that leads to lower management fees.

Arun Rambocus
Okay.

Jan Bos
That is the first question. Then in the division of the management fees, an impact of around €7 million, of which I would say more than half is allocated to Mail in the Netherlands and the rest I think evenly to International and Parcels. Then price mix. I think we have already announced that at Q4 that we see on the bulk mail price increases within Mail in the Netherlands and in the letter box mail we see the improvement of the rate increase as of 1 January 2013. What is also happening, because the rate of decline in the letter box mail was higher than in the bulk mail, we have seen a negative price mix effect.

Arun Rambocus, Kempen
So, the negative price mix effect is overall in the 1st quarter? That is what you have to receive?

Jan Bos
No, not overall, but we see a positive price mix effect, but a little bit less positive because of the rate of decline in the letter box mail.

Arun Rambocus, Kempen
Okay, clear

Jan Bos
And the third question is on working day impact. So we calculated the volume impact of the working days at 0.6% and that had an EBIT impact of around €2 million.

Arun Rambocus, Kempen
Thank you very much.

Operator
The next question comes from the line of Joel Spungin. Please ask your question.

Joel Spungin, BoAML
Yeah, hi there. Just a couple of questions from me. I was wondering first of all if you could may be give us a bit more detail about what potential legislation around significant market power and what potential impact that could be on the regulatory environment for you, based on your discussions today. My second question is whether you could give us a bit more colour on the working capital position and why the working capital outflow in the quarter was higher than potentially you might have expected?

Herna Verhagen
To answer your first question. To give you a bit more detail on the potential impact of the legislation around significant market power. The proposal or the legislation around significant market power has been brought to Parliament together with skipping the Monday delivery. So there is now a first proposal within Parliament, which we have seen as well. What we are doing at this moment in time, is trying to influence politicians because there will be a second round of asking questions to the Minister and the Ministry about the proposal. That will happen in the coming next two to three weeks. So what we are doing at this moment in time is trying to

influence politicians in the sense that we would like to see changes in the proposal will indeed be asked to the Ministry. That is what we are doing at this moment in time. Then we expect a final proposal, which can be before summer, but it will be probably there after summer, then we expect voting on this proposal after summer together with of course skipping of the Monday delivery. Then the second part of your question, can you tell something around what the impact will be of the significant market power legislation. That is difficult at this moment in time for two reasons. First of all we have to wait for final legislation proposal sent to Parliament and I just explained in what process we are at this moment in time. Secondly, when legislation is indeed approved by Parliament, it will go the ACM, to our regulator and in the end the regulator will decide on how to implement legislation. That will take one to two years from now. And the implementation of legislation is much more important on the impact than the legislation in itself. Unfortunately, that question cannot be answered at this moment in time.

Joel Spungin, BoAML
A follow up on that. Is the draft legislation that will go to Parliament, public?

Herna Verhagen
It is.

Joel Spungin, BoAML
Right, so it is possible to see what the current issues and considerations would be.

Herna Verhagen
What you can see on the internet, is indeed the proposal which is there. The considerations of the several political parties are not public. That is not public.

Joel Spungin, BoAML
I see.

Jan Bos
Then on working capital. You have to remind that our working capital is negative and was minus 10% at the end of last year. That is a normal seasonality pattern. So what you normally see, is then declining in the 1st, 2nd and 3rd quarter and then up again in the 4th quarter, so minus 8% is in line with our expectations. What we also see is some economic impact of customers paying later, for example government.

Joel Spungin, BoAML
Okay, and do you think that is obviously a trend that is going to continue?

Jan Bos
No, what we have also said, the main trend is that we will see a decline in our working capital to minus 4% to minus 6% in 2015. That is mainly due to the mix in our revenues and not caused by further economic deterioration.

Joel Spungin, BoAML
So the be clear, so the impact on the change in mix will offset pressure on payments from some customers?

Jan Bos
Yes.

Joel Spungin, BoAML
Okay, thank you.

Operator
The next question comes from the line of Marc Zwartsenburg. Please ask your question.

Marc Zwartsenburg, ING
Yes, good afternoon. First of all on the question about the savings rate in the run rate. You had €9 million savings in Q1. I think Jan, you said, we will achieve the run rate at the end of the year, by then the €40 million to €50 million cost savings will be achieved in 2014, if I am correct.

Jan Bos
No, you are not correct, Marc, sorry to interrupt you. The run rate is on yearly basis €40 million to €60 million. That is the savings we will achieve in 2013. That is the annualized savings compared to 2012. It is €40 million to €60 million.

Marc Zwartsenburg, ING
Okay, clear. So I am not so concerned about that any more. Then on the working day impact. Could you share us a bit the trend through the 1st quarter and perhaps also already a bit of flavour on April if you can and perhaps also a bit on how you calculated the working day impact.

Jan Bos
We will give you information on April, but I think we see a volume trend in line with our expectations of the volume decline in April of 10% and then on the working day impact, we have two working days less than in the 1st quarter of 2012, but in the calculation of our working day impact we take into account the amount of volume in those days and those days were with low volumes. So that is how we derive the 0.6% adjustment on volume decline for the working day impact.

Marc Zwartsenburg, ING
The trend of the minus 9.5%, was that stable through the quarter or slightly deteriorating?

Jan Bos
I would say stable.

Marc Zwartsenburg, ING
All right, thank you very much.

Operator
The next question comes from the line of Tobias Sittig. Please ask your question.

Tobias Sittig, MainFirst
Yes, good afternoon, gentlemen. I have three questions if I may. Firstly you quoted other cost increases in Mail of €9 million. Could you elaborate on what caused the increase? And secondly on the E2E pilot in the UK. Could you provide a bit of more granularity and how that is going in terms of quality levels that you achieve, client feedback. So if there is anything you could share

with us, would be very interesting, I think. Lastly, the companies in Germany seems to be a bit counter intuitive that you continue to grow market share and volumes with the customers after the aggressive attack of Compador. How long is your contract time line? Have you had any client's feedback there and in which is that happening, because what we hear in the market here is a bit more negative on the volumes.

Jan Bos
Your first question. In Mail in the Netherlands we saw €9 million autonomous cost increase, that is more than inflation. The €16 million other has two main causes, that is lower profit from sale of buildings. The second one is that we see also in other non-addressed mail revenues a decline with an impact on our operational results.

Herna Verhagen
Your second question which is on the status of the E2E pilot in London. The E2E pilot is doing well, which means that we do deliver on the right quality levels, high quality levels. There are more than 600,000 of volume which goes through our network weekly, so it is building up. Customers are satisfied for two reasons, first of all because of high quality, but secondly also because we have a track and trace system on mail items in the UK. The customers can follow via internet that the mail items are truly delivered, which is new of course which is a USP in the UK mail market. We are expanding the pilot to the Southwest part of London against small investments and as said during our full year numbers in February, we are looking for a co-investor to roll out this successful pilot further into the UK. Till now or so far I would say, good results out of the pilot in London. Your third question on Germany. It is a bit counter intuitive from what you hear in Germany. What we see in Germany is that revenues are growing, because more volume comes in into our operations. That is not only Postcon, that is also via the other formulas we have in Germany. Then Postcon, which had a severe attack of Compador at the start of Q1. We replaced all the people who were taken away by Compador. We visited of course all customers and we replaced management as far as necessary. What we see is that there are no customers leaving Postcon. There is no volume leaving Postcon except of the normal customers that go and new comes, which is normal in a commercial company and commercial process. So, we have seen nothing strange and that is also what you see in the numbers of International. I would say that the attack which came from Compador at the beginning of January, is well replaced by the management in Germany.

Tobias Sittig, MainFirst
In which sectors you are gaining?

Herna Verhagen
It is in general, so we do see volume growth over Q1 and it is government financials, it is new customers and existing customers.

Tobias Sittig, MainFirst
Thank you.

Herna Verhagen
You are welcome.

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

Wenchang Ma, JP Morgan
Yes, hi, good afternoon everyone. I also have three questions please. The first two are on the legislation side. So first of all, do you have any numerical guidance on the revenue impact from dropping Monday delivery and secondly, do you expect to request any USO compensation for 2012 services? Please.

Herna Verhagen
All right. Your first question is on numerical guidance for the Monday delivery. When we get the opportunity to stop Monday delivery, which is under approval in Parliament, it will save us between €10 million and €20 million. Then on the USO compensation for 2012. That decision is not yet made. It needs to be made before 1 July. If we take a decision positive or negatively, that is depending on the letter that Minister Kamp will send to Parliament by the end of May, in March he already said that he would come up with his vision on the postal market for the future. The decision is not yet taken at this moment in time.

Wenchang Ma, JP Morgan
All right, thank you. And my last question is about on-going EBIT. Is your reported on-going EBIT adjusted for the implementation cost?

Jan Bos
You mean only the implementation costs?

Wenchang Ma, JP Morgan
Only the implementation costs.

Jan Bos
That is in this quarter only €8 million, but that is the adjustment for this quarter.

Wenchang Ma, JP Morgan
Okay, so it is included in the on-going EBIT number?

Jan Bos
Yes, it is included in the underlying number.

Wenchang Ma, JP Morgan
Thank you.

Operator
I have no more questions at this time. Please continue.

Cees Visser
Okay, that finalizes the Q&A question. Thank you very much and goodbye.