

Transcription Q1 2011 results – Analyst presentation

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Cees Visser

Good afternoon to you. I am Cees Visser. I am substituting for Andrew Beh who is coping with illness in his family. Today you will hear from Bernard Bot, the CFO of TNT N.V. and Jan Bos the CFO of Mail. And the order of things is: Bernard will set out the Q1 highlights, then update you on the demerger process. Jan will explain the Mail results and then Bernard will return to go through the Express financials. And then finally we'll go through your questions. So first to Bernard.

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Bernard Bot

Thanks Cees and good afternoon. The highlights and we'll have the opportunity to talk more about them, but here we go. Underlying cash operating income in Mail €76 million. Just to highlight, that is €39 million lower than last year. And just to be very clear, the underlying operating income €180 million to €120 million, but that did include a €27 million negative on pensions.

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So I think and we will probably spend some time clarifying that, but it is important to note. And also the €76 million very much in line with the expectations and if you look at the guidance for Mail €130-170 million cash operating income for the year, you will see that a fair share of that already has been realized. Now other things to note: decline 8.6% in volumes in the Netherlands also in line with expectations.

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Other operations on track. And beginning of April good news. We had clarity on the new tariff regulation for the USO. Express: in line with the trading update on April 8. Two things: one is the impairment non-cash we took for Brazil €120 million and the targeted savings of €40-50 million in indirect which we are aiming to achieve.

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Before we go to Mail and Express, the q1 results, quick update on the demerger. The summary is that everything is on track for the vote on the 25th of May. If we look at the requirements, which we set out on December 2, all of those have been met in terms of the credit ratings of Mail and Express. You note that on April 11, we received the credit ratings for Express, Ba1 and triple B+.

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There is some provisional ideas for TNT N.V. PostNL, which we noted here Baa1. S&P is triple B, but note that they do not account for the minority share in Express. So, it excludes that disposal value and obviously we believe that once that happens that should give a notch up on the ratings.

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Then to equity. Well, the demerger accounts have been filed and there is positive equity in the books and we also believe that the impact of the changing pension accounting in 2012-13 that we will be able to cover that with the value of the Express stake. And finally the capital market structure to note the Express shareholding by Mail and as you have been able to read in the prospectus there is a relationship agreement.

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A couple of things set out there: a financial shareholding and again returns from this disposal could be given back to shareholders as soon as possible. Let's go to the demerger structure for those who are interested in the technique of what's going to happen. We show the pre-demerger structure and the post-demerger and merger structure. First, you see TNT N.V. with the Mail businesses and highlighted in red the two Express units Holdco and TNT Express N.V.

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What will happen is the demerger of 70.1% of the shares in TNT Express Holdco and a receivable to TNT Express N.V. and subsequently TNT Express Holdco and TNT Express N.V. will be merged. And as part of those transactions, there will happen two things. All of the existing TNT N.V. shareholders will receive one share in TNT Express N.V. and PostNL N.V. will then hold 29.9% of Express.

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And through that operation mathematically you will also see that the total share capital of TNT Express N.V. will be 542 million ordinary shares whereas now we are I think around 379-380 million for the TNT N.V. Next to some special items. The relationship agreement, which I already mentioned, and some other related party transactions.

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So the shareholding by Mail and Express will be purely financial: six months lock-up after demerger before they can sell. Then a maximum offering of 15% of the shares in TNT Express to one party or related party. And then there is some rules: if there is a public offer which is supported, then they have to tender and if it is not recommended or neutral, then a majority share will advise.

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With respect to some of the other separation agreements, not only regards to mail but also the pension funds, what will happen is that Express and Mail will have separate execution agreements with the Dutch pension fund. The other thing: the majority of the pensioners, be it active or inactive belong to Mail, but some of them are from Express and for that there will be a separate execution agreement.

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And then as part of demerger regulation and law, there is a subsidiary cross-guarantee, which has been agreed to between all the parties and the pension funds with respect to the accrued pensions benefits at the date of demerger should one or the other party default or be bankrupt. But for the rest there will be in regards to the future a main liability of Express for their active employees and main liability for Mail for their active employees in the pension fund. Nothing more and nothing less.

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Then to other points, specifically the TNT Brand, as also stated on December 2, remains with Express with an agreement for some conditional use of the brand by Mail for 1 to 36 months a little bit depending on the geography. Now looking forward to the 25th of May. Tomorrow we have the Capital Markets Day for Express. Monday next week will be Mail's turn.

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Then both teams will be on road show in preparation of the 25th at which the demerger will be voted on. And then what you see here highlighted is that the first day of trading expected for the Express share. The two separate shares will be the 26th. According to Euronext rules, basically once a decision has been taken to demerge, that is also the way the shares should trade even though the legal demerger is expected to take place only the week thereafter to be effective on the 31st of May.

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And the last slide just shows some of the details of the ticker and what exactly happens in time for your information. And that concludes basically the demerger update and I hand over to Jan for the results of Q1 mail and then I will follow up again with Express.

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Jan Bos

Thank you Bernard and good afternoon to you all. I will start with the highlights for Mail. For Mail totals, our underlying cash operating income which is the KPI we are focussing on is €76 million and that is a decline of 34% against Q1. This outcome is in line with our full year expectations of 130 to 170 million.

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We had a strong cash flow in Q1 mainly due to tight working capital management. And we can reconfirm our outlook in 2011 that we have given in December. Mail in the Netherlands: volume

declines in line with our guidance for 8 to 10% and that decline mainly represents substitution. The revenues are only going down with 6.3% and explained by other services in Mail the Netherlands than just the direct mail.

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Underlying cash operating income has developed in line with lower revenues in Mail in the Netherlands and the positive development in the current quarter is the fact that Dutch parliament has now passed the USO tariff regulation based on a 10% reasonable rate of Return on Sales. Quality in mail delivery in the first quarter was 96.7%, well above the agreement we have had with the regulator.

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As you know, Works Council have referred the question on whether the new reorganisations are allowed by law to the Enterprise Chamber. This mainly relates to the question on whether we can substitute full-time labour by part-timers. The outcome of this procedure is expected in August and we are very convinced of a positive outcome.

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The development of parcels is on track. We are building there a strong historic performance in this area. For international, all countries have shown improved performance in the quarter. We finalized our disposal of Belgium and Italian unaddressed operations with a good profit and this will be included in the second quarter results.

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If you now look at the next slide. Revenues are up 4.3% and this is caused by the changed VAT regulation in Germany in mid-2010. Like-for-like this means a decline of 2.7%. The underlying operating income is down by €60 million and this caused some misunderstanding in your expectations I believe, because the main driver of the decline is the increase in non-cash pension cost by €27 million.

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If you adjust for that, the decline is around €30 million and this amongst other is the reason why we introduced our main KPI, underlying cash operating income. The underlying cash operating income is down with €39 million as Bernard already explained and mainly because of the revenue decline in Mail the Netherlands.

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Next to that, higher pension cash-out and higher restructuring cash-out are reasons for the decline. The net cash from operating activities showed a particularly strong development because of tight working capital management. And overall, we can conclude that the first quarter outcome is in line with our expectations.

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Looking at the next slide to bridge between operating income and underlying operating income, you see that for 2011 the only item to bridge is the IFRS-effect of the pension contribution to Express, whereas in 2010, there was also the effect of the profit pooling with Express Germany. Then turning to the next slide and that is showing the bridge for the development of the underlying cash operating income in the first quarter.

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First the explanation of the €60 million declining operating income. And as you know one of the main explanations is the \$27 million pension expenses. Further there is a decline of €32 million due to revenue decline partly compensated by €13 million of additional master plan savings, with a related implementation cost increase of €3 million.

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And there you see also the €25 million adjustment for pension cash out and that is an adjustment on the higher pension cost, because the pension cash out was only €2 million higher in the quarter. Last, the restructuring cash out was €4 million higher than last year. And as I said before, these developments are in line with our expectations.

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Let's turn now to the results per segment and I will focus on the underlying operating income and the cash equivalent. As you see in Mail the Netherlands a reduction against last year is mainly caused by the revenue decline. We achieved €13 million of master plan savings in the quarter and had a restructuring cash out of €16 million.

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In parcels, the volumes increased at 6.1% and a revenue increase of 7.7%. We have also started to work with the new logistics infrastructure in parcels which involved capital expenditure of €240 million. We already introduced that on December the 2nd and that €240 million will be spread over the next few years.

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On international results have improved, but are of course impacted by the network roll-out investments in Germany. Then there are differences between underlying operating income and underlying cash operating income mainly in the segments mail in the Netherlands and Mail other and these are the result of allocation of pension and restructuring cash out.

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On the next slide a statement of income. The main changes are taxes, which are lower although our effective tax rate is higher. This is because of the end of the profit pooling arrangement in Germany. And in 2010 we had a positive one-off impact relating to prior years. Profits from discontinued operations relate to the Express business and reported and held for demerger. Concluding: this profit attributable to shareholders is €123 million for the quarter.

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The next slide shows the statement of cash flows. Not much to add to the good numbers and mainly caused by continued focus on working capital management. The outlook, and this is the last slide. You have already seen it in December and we can reconfirm it. I don't want to go through all of it, but would like to highlight the volume decline, the higher restructuring cash out, implementation cost of master plans as well as the higher pension cash out.

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All these elements are reflected in the underlying cash operating income forecast of €130-170 million. Some people try to reconcile the €76 million over the first quarter to the outlook of €130-170 million full year. You have there to take into account the seasonality of our operational results and the phasing of pension and restructuring cash out.

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We can also reconfirm our dividend policy, with a minimum dividend of €150 million and this is reflection of our confidence in the future. Over to you Bernard.

Bernard Bot

And thank you, Jan. Then to Express the highlights as seen here with the key comments per segment. EMEA basically resilient: the performance was slightly up from last year,

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with good cost control which offset some of the negative impact we had regarding the fuel prices which led to product-mix pressure, capacity under utilisation and the fuel lag and we also have seen some pressure on domestic pricing. And in order to counter that, also in the next quarter, we are taking various tariff measures and sales initiatives to improve the position in regards to the international Express product and our large and medium accounts.

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ASPAC, again as also noted on our trading updates: a slow start tot the year, but that is recouped. Also some negative one-offs in Australia and Japan and the restructuring cost for the head office. Now, the Americas where the central item there is Brazil, which we noted, also in our trading update.

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We have taken on the basis of that an impairment of €120 million non-cash in the quarter and taken measures to turn around the situation in Brazil with a deadline of realizing that no later than the second half of 2012. Then some additional savings targets. €40-50 million in the indirect area from head office to the countries and related charges for them and write-offs of €45-65 million.

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If we then look at some of the financial highlights. The revenue is up and that's basically supported by the con and kilo growth, 1.5% and 6.5% respectively, countered by lower quality in the revenues, with the yield down 1.8% excluding fuel. And in the €79 million negatives, there is a €120 million impairment. Next the underlying: €49 million. And the net cash from operating activities was slightly below last year.

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Next page: I am showing you the key adjustments, with impairment €120 million, the main one and then a couple of smaller items relating to demerger and pensions. I think of even more interest is the... the table with the underlying result per segment. Just to highlight a couple of things: EMEA up from last year and that's, you know, the cost measures we have taken against the pressure on yield that we have seen.

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In ASPAC basically a €40 million lower. Probably less than half of that is China with the slow start we noted and then there is some one-offs related to Australia, the strikes and the flood, a little bit of Japan, slightly lower, geared to the events there and restructuring costs in the head office. Americas, which is €19 million lower. Main share there Brazil. Again also some smaller items in North America and restructuring of the head office there.

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If I now move to the volumes and the yields. What we have seen is basically very strong kilo growth, 6.5%, but slower consignment growth, 1.5%. And the growth was particularly strong in our international economy segment, also strong in domestic and not as strong as we would have liked in international express and that is obviously where all our focus is now to improve and to increase the growth there.

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Now, those growth patterns also have their impact on yield, which you see here. The core revenue quality yield excluding fuel, which is again the average of cons and the average of kilos minus -1.8%. If we were to include fuel, it is actually only -0.4% and as you can see the RPC is positive. And, you know, the yield is the result of three things: one, the product mix change that I just highlighted, second, the higher growth that we see in the major accounts,

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and thirdly some pressure on our domestic pricing. I then move to our restructuring initiative and Brazil. I think we will talk more about that tomorrow, but just in summary, the strategic value is there. Many reasons: customer related growth, positioning for our activities in Brazil, integration challenges and indeed the action taking in terms of a new team focussing on things like organization, customer and operations for a turnaround no later than the second half of 2012.

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Impairment and yes there will be additional losses this year and we will also have take restructuring charges and some other provisions. Then looking at the savings and the review of indirect and non-core. It's across the board. I just said from the head office to the units and third-party and staff. We set a target of €40-50 million. The functional directors are working on that and we expect before the summer to be with our Works Council to discuss the impact of these.

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And provisionally we expect total charges and write-offs of €45-55 million, around one-third non-cash. Quickly the statement of income, which you see here: the operating income, the interest and the taxes. It includes the €120 million impairment and we do include the depreciation and amortization which Mail doesn't include in its reporting for discontinued operations.

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The penultimate slide is the cash flows. They are very much in line on the operating level with last year and a slightly higher Capex than a year ago. But overall the target for the year for Capex will be lower than the €300 million which we indicated in February. Finally 2011 outlook, again in line with what we stated in the trading update. Europe to remain resilient, largely in line with last year. ASPAC to recover on the back of the better volumes we are seeing.

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And Americas that will depend on the turnaround plan that we have in place and the speed at which we are able to execute on that. That's it for the presentation part and now over to your questions.

Cees Visser

Yes, I pass on to the operator for your questions.

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Operator

Thank you, sir. So, ladies and gentlemen, if you have a question at this time then please press star followed by 1 on your telephone keypad. To cancel your question please press the hash or pound key. So once again it's star 1 to register a question and the hash or pound key to cancel. There will be a short pause while participants register for questions. And the first question comes from Arun Rambocus from Kempen Amsterdam. Please go ahead with your question.

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Arun Rambocus, Kempen Amsterdam

Good afternoon gentlemen can you hear me?

Bernard Bot

Yes

Jan Bos

Ja.

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Cees Visser

Ja.

Arun Rambocus, Kempen Amsterdam

So, the first question is on Mail. So, again, can you confirm the €76 million EBIT is overstated in terms of phasing of pension liabilities and other stuff and that the underlying operational is sort of in line with expectations. That's what you said?

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Jan Bos

What I said is that the €76 million is a high figure because most of the cash are coming from restructuring cash out and from pensions. It's expected in the next quarter. So, it's not overstated I would say.

Arun Rambocus, Kempen Amsterdam

Okay, thanks. The next question is on Express for Bernard.

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I am just trying to get some feeling on the Holding merger technicalities, the stuff we discussed at the Capital Markets Day in December. I mean how much slack has been built in that calculation because of course if you look at the performance within Express so far it has been below expectations. And presumably also looking forward, the business plan projections will come in lower than what was anticipated for 2011-2015.

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And on top of that of course we have seen the share price dropping 20% since then, basically implying a lower valuation for the Express business, at least that is my view. So, where do we stand in terms of that calculation for the funding gap and the equity gap? Can you shed some light on that please?

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Bernard Bot

Yes and no, because I have of course my own opinions on the value of Express, but let's take them in turn. The funding gap again is not an issue at all, because irrespective of what value you pin Express exactly at, it is basically an excess asset, excess cash position with the share of Express. Because what we pegged the 29.9% on was in part to cover the funding gap,

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But as you remember, we said there would be returns to shareholders from any excess. That is substantial and that is because this is in regards to the funding gap: you remember Mail could have a €300-500 million debt on its sheet. With Express we will have basically a plus on the balance sheet. So there is an excess to be returned and that seems basically with a very far and big margin compared to the value of Express.

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The key item for pegging the 29.9% was the demerger accounts where we look at the book value of Express. And secondly was 2012-13: what would happen with the value of the pension asset in Mail's books. And there you remember what would happen if Express would step up the market value and then in the introduction of the new IFRS-19 rules there would a charge against equity of the pension asset.

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Now, that was in balance then and we also believe it is in balance now based on the value of Express and based on the value of the pension. And remember, the unrecognised losses in the pensions obviously go down as interest rates against which those are calculated go up. So on both terms we are comfortable with the demerger books.

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Arun Rambocus, Kempen Amsterdam

Okay, thanks, and maybe a final question on the delay in fuel surcharges within Express. Assuming a sort of a flattish outlook for the oil price, what will be the impact on a positive note in the second quarter. I mean to put it differently: how much EBIT was slipped into the next quarter assuming a flat oil price?

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Bernard Bot

That is always a very tricky calculation. But let's say there is a two month lag. So any negative impact which, you know, would be anywhere between €5 and 10 million this quarter, will be depending a little bit on how the fuel price goes and offset next quarter.

Arun Rambocus, Kempen Amsterdam

Okay. Thank you

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Operator

The next question comes from the line of Menno Sanderse from Morgan Stanley in London. Please go ahead with your question.

Menno Sanderse, Morgan Stanley

Yes. Let's take them one by one. First on the net debt situation. The €909 million, just to be sure that's before the €160 million the company is going to receive from Belgium and Italy. Is that correct?

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Jan Bos

That is correct.

Menno Sanderse, Morgan Stanley

So you have a pre-split net debt of around €800 million versus initial guidance of a billion. Is that roughly right?

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Jan Bos

I also thought it had already been taken into account in those incoming profits?

Menno Sanderse, Morgan Stanley

Okay, so let's split it in two. The net debt will be €800 million roughly if you take into account the €160 million. That's correct?

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Jan Bos

Okay, we have to see what the movements are until demerger, but you could calculate some of the € 800 million is the starting point but obviously there are movements between now and then.

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Menno Sanderse, Morgan Stanley

Fine. There is a bit of working capital and a bit of Capex, a touch of it. It shouldn't be huge. Okay, and then the gain on sale in Belgium and Italy is that taken into account in the underlying cash earnings of € 130-179 million?

Jan Bos

Not in the underlying cash income, but in cash flow of course.

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Menno Sanderse, Morgan Stanley

Fine.

Bernard Bot

But that is a quarter 2 event.

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Menno Sanderse, Morgan Stanley

Yeah, yeah, okay, but it is not in the full year guidance of Mail, the € 130-179 million? That gain of sale is not in there?

Jan Bos

Yes, correct Menno.

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Menno Sanderse, Morgan Stanley

Okay, good. Then on the pension payments. I was a bit surprised about the phasing comments made. Last year Q1, you had €59 million pension payments and for the full year around €239 million. Now you have €69 million in Q1 and your guidance is €265 million. Why is there a bit more phasing towards later quarters this year? It seems to me that your guidance is quite conservative for the full year.

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Jan Bos

Yeah, but I think that is the intricacies of when the pension fund's cash comes in and so.

Bernard Bot

And it is also related to the labour cost phasing, Menno.

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Menno Sanderse, Morgan Stanley

Okay, so you are happy with the €265 million versus €59 million in Q1?

Jan Bos

Yes, we are happy.

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Menno Sanderse, Morgan Stanley

And in the €59 million payment out of the €265 million, I presume you have €300-370 million long-term cash earnings? There is nothing different this quarter to put that number at risk?

Jan Bos

No, not at all.

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Menno Sanderse, Morgan Stanley

Okay, good. Finally on Mail, price increases were 4% for the USO. What was the yield development in the USO Mail. Was it down year-on-year?

Jan Bos

There was/is still some price pressure and coming also from. the irrational pricing of SelektMail in 2010. But that stopped.

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Menno Sanderse, Morgan Stanley

So, basically that problem should get easier in the second half of business Mail. Is that fair...?

Jan Bos

Not so much in 2011, because they have yearly agreements with customers. So...

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Bernard Bot

So the benefits will come in 2012.

Menno Sanderse, Morgan Stanley

Okay, that makes sense. Thanks a lot.

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Operator

The next question comes from the line of Damian Brewer from RBC in London. Please go ahead with your question.

Damian Brewer, RBC

Yes, good afternoon even and thanks for taking the questions. Just some questions on Mail and Express. First of all on the Mail Business. It looks like you reduced average FTE's in the Dutch mail business by about 3% year-on-year in the first quarter.

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Could you just clarify where that comes from? Is that just simply natural attrition or is there already some business process change happening there? And as we go through the year, do you have any feeling yet as to what rate that could develop into as you speed-up on the restructuring plans? A second Mail question. I will come back to the Express afterwards. On the international Mail business, you lost €2 million. Obviously that is a lot better.

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Could you give us a feel for what that looks like excluding the German Regio business and what the cash looks like in that business as well? Thank you.

Jan Bos

So, I return to your first question on the FTE development. That is partly caused by natural attrition and partly because of the voluntary leave and some small redundancies and we expect an increase especially in voluntary leave in the coming quarters,

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and that is due to our announcement to our labour force in the Netherlands for the implementation of the restructuring measures. So, we expect an increase in voluntary leave.

Damian Brewer
Okay, thank you.

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And then the other question.

Jan Bos
Oh what Question. I don't recall the question. What was the question? Sorry Damian.

Operator
Sorry, that line is disconnected.

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Bernard Bot
I think the question was the losses and I don't think we comment on the specific losses on the Regioservice and the cash losses. And there will be a capital markets day on Monday next week and there you can ask all your questions on Germany and International.

Operator
The next question from the line of Andy Chu from Deutsche Bank in London. Please go ahead with you question.

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Andy Chu, Deutsche Bank
Good afternoon gentlemen, I have 3 questions. If I may just start with your cash report. And maybe you could just help us There is restructuring and pension. How is the shape of cash like? What can we expect in terms of what will be the strong quarters in the next 3 quarters? What will be the weak quarters? Can just help us in terms of the pattern, because obviously clearly that is from our side of the fence...

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Bernard Bot
You have to look a little at the pattern of last year. Then you see also that Q2 and Q3, especially Q3 are weaker quarters, and then a better quarter is Q4.

Andy Chu, Deutsche Bank
Okay, fine, so two weak quarters followed by a strong quarter? Okay, that sounds good.

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Bernard Bot
Yes. And if you look at the cash EBIT, then you have also to take into account the restructuring cash out and the higher pension cash out expected in the next three quarters.

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Andy Chu, Deutsche Bank
Okay. And then some concerns about your Mail other. That has actually fallen by €19 million on the underlying EBIT line and you mentioned the pensions as well as other reasons but I think pensions has actually stretched in the underlying EBIT. So, what is actually going on in that? So, you know the underlying and restructuring cost in that.

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Jan Bos
In Mail other on the operating income, not the underlying cash operating, but the underlying operating income, we account in Mail other the difference between cash pensions and the IFRS pension cost and that explains the main difference in mail other on operating income.

Andy Chu, Deutsche Bank

Yeah, so that is about € 19 million roughly, I mean in that order...

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Jan Bos

It's a little bit more and then have you some other cost development.

Andy Chu, Deutsche Bank

Okay. And then just on the parcels business. Your parcels business is up... but you basically are now flat on EBIT, year-on-year with your volumes up 6%. Could you just maybe give us an indication of what is going on in that business? I guess there is some P&L investments. You mentioned some Capex investments.

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Bernard Bot

No, it has nothing to do with Capex, but the main reason why there is almost only an increase of € 1 million in the underlying cash operating income is because parcels also have higher pension cash out of about € 2-3 million.

Andy Chu, Deutsche Bank

And then my last question is just on Brazil. And you mentioned that sort of the second half 2012 in terms of the investment to be back on track.

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But what does that actually mean? I mean is it that the business is going back into a profit? So, is it sort of customer retention. Could you just help us in terms of, you know, what that actually for the turnaround level, because clearly the risk in Express is to carry on restructuring and actually the best thing might be another option. And we see many examples of restructurings in Express going on for too long. Could you just clarify that, please?

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Bernard Bot

Well Andy, let me be very clear. That is something we will be monitoring continuously. So, the turnaround plan is being developed and a new management is in place since a couple of weeks and taking some immediate action. So, I wouldn't worry. If we don't see an upward trajectory let's say as of the summer, and that should be quarter by quarter and consecutive, we will, you know, review our situation in Brazil.

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What it needs in terms of turnaround is that it should be either break-even or profitable with a good trajectory from there at the latest by the second half of 2012. But agreed, we are I think giving this an enormous priority and we will not make this say a, you know, a lingering restructuring story.

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Andy Chu, Deutsche Bank

Okay, thanks very much.

Operator

We have a follow-up question from the line of Damian Brewer. Please go ahead with your question.

Damian Brewer, RBC

Can you hear me this time?

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Jan Bos

Yes.

Damian Brewer, RBC

Perfect. Good, 2 questions, both Express. First of all, you mentioned in your presentation domestic pressures in the business. Could you tell us a little bit more where they are coming from and whether

there is any risk that we are seeing in terms of the down trading is not cyclical but structural and what gives you confidence that particularly the international express business will return.

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And then secondly I am just a little bit mystified. Your Asian volumes are up, nearly... so are your revenues are up nearly 10% in the first quarter. Could you give us a little bit more of a bridge about why the cost and performance there was weak. Was there a cost issue there and what is on track for that cost to come out.

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Bernard Bot

Yeah, the domestic pressure is a little bit of an anomaly. I think it is a different market than the international market. So, we will I think continue to see pressure and, you know, more likely flat yields than highly increasing yields. I think the good news is that in the international economy we are seeing both very good increasing yields and very good volume growth.

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So, that gives us room to potentially improve or increase prices further there to dampen a little bit and reduce a little bit the growth in international economy. And on international express, I think we also feel positive price development there. But I think what we acknowledging now is that we do want more growth in that area and especially in the large and medium accounts.

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So, we are taking tariffs measures and giving targeted volume discounts, incentivizing the sales force to particularly target that segment. And we can do that we think with an overall positive view of outcome by specifically focussing on those segments and that should then spur on the growth in that segment and add to the profitability.

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And tomorrow our commercial, marketing and sales director Jan Willem Been will tell more about it. So, I think overall in the mix, there is opportunity for a positive view. We are seeing it already in international. We see it particularly in the economy side. So, it is really a question of working on both the customer and the product mix. And domestic: also there the growth was pretty brisk.

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So, even though that we see price pressure there, there is room also then to put the foot a little bit on the brake pedal in terms of growth and try to even that out in terms of pricing. Now in the Asia Pacific, what we are seeing there is a return of volumes. Obviously we would have liked to see even further revenue growth. And what basically has happened is that the loss and there are other elements in the loss we are choking on in Asia-Pacific.

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We had a one-off for Australia and there is about a million for Japan on the tsunami, but that's basically that capacity under utilization which we have seen in the first 10 weeks. And so, we have gone from commercial liner last year to putting in some additional capacity in the... over last year which which was under utilized at the beginning of the year. And that has basically caused as I said a little less than half at Delta and that we see on Asia Pacific.

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Now luckily we have seen the volumes come back, things that work. So, we are pretty confident that we can recover going forward on the Asia Pacific profitability.

Damian Brewer, RBC

Okay, thank you. And just to be clear, the assets on the utilization, that is on the international airside or are there elements of that in the domestic and trucking businesses there as well?

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Bernard Bot

No, no, so let's be very clear. The capacity utilization is twofold, one on the intercontinental line, or was on the intercontinental China to Europe. That's resolved and what we are seeing in Europe is

lower volumes in international express, again slightly higher capacity compared to last year and we are still seeing some under utilization, but the growth in the road is brisk.

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And also that has less of a fixed nature than Air because it is more on individual routes that you are working.

Damian Brewer, RBC

Thanks very much.

Operator

The next question comes from the line of Robert Joynson from Macquarie in London. Please go ahead with your question.

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Robert Joynson, Macquarie

Good afternoon gents. A couple of questions from me on Mail and then one on Express if I may. First of all, just in terms of Mail cost during Q1. Just of the €30 million rebranding and central cost that you expect for the first four years, can you just confirm how much of that was taken in Q1 please?

Jan Bos

No more than a couple of million.

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Robert Joynson, Macquarie

Okay, and then just a second question on the cost. In terms of the €27 million P&L pension expense, which was taken in Q1, is that consistent with the run rate which we can expect during the remainder of this year?

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Jan Bos

No, it is only in the first two quarters and then we also still will get a recalculation of the pension cost due to the demerger in the second quarter. So, we still have to do that calculation and we will elaborate on that more when that's known.

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Robert Joynson, Macquarie

Okay, understood. And then just a question in terms of the 10% RoS which was recently agreed with the parliament on the USO. Can you just maybe provide some comment on how that return compares with the return that the USO is currently making?

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Jan Bos

We don't disclose at this moment the rate of return on the USO. What we have disclosed until now is the USO returned over 2009 and these are around, I think around 5% out of the top of my head?

Bernard Bot

4 to 5%.

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Jan Bos

4 to 5% and developing negatively. And what we are doing is that we are allowed based on a reasonable return on sales of 10% to set a new tariff at the beginning of 2012 and based on that reasonable rate of return, but only on the USO product.

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Robert Joynson, Macquarie

Okay, that is clear. Thank you. And then just one question on Express. Just on the utilization rates on China to Europe, which have increased back to the expected level after week 10. Is that because of general market developments or is that because of specific actions taken by TNT?

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Bernard Bot

Well, obviously we know what happens to our capacity utilization which is back. But if I read the IATA statistics and I look at what the various airports are reporting in terms of utilization, they all note that the start of the year was relatively slow. So, I think it is a general trend.

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It may be to some extent, I don't know, compounded by the specific customers that we have, that was also high-tech, that's, which is the main share of exports from China and had a slow start. So, I would say probably 90% is indeed also market-driven and if you going into the stats then you see very much a similar development.

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Robert Joynson, Macquarie

Okay, that's clear, thank gents.

Operator

The next question comes from the line of Philip Scholte from Rabobank in Utrecht. Please go ahead with your question.

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Philip Scholten, Rabobank.

Yes, good afternoon. First of all, you are indicating some further impairment and restructuring charges in Brazil. Can you give a bit more detail onto what size or what potential size we are talking about? Secondly on the Mail business, can you specify the EBIT-contribution of the divested businesses in Belgium and Italy?

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And thirdly, maybe back to Express. The net debt position of Express seems to be increasing and actually seems to be a bit on the high side as far as I am concerned. But what are the drivers behind that for the quarter?

Bernard Bot

They are under the restructuring and the provisions, not impairments.

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I think we have taken the impairment for now. We are only saying that there will be a restructuring and some additional provisions, probably in the line of €10 to 15 million and a fair share of that will be non-cash if it relates to write-offs. And the others question is in regards to net debt. Yeah, that is something we are watching and there is further work to be done in regards to management of our Capex and working capital,

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But nothing concerning at this point, but obviously we have guided that we will be tighter on Capex with 300, which was indicated in February and we are going to be doing all that all the year and we will be very tightly watching our working capital position.

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Jan Bos

And on operational results so far of Belgium and Italy, the operational results are around €10 million.

Operator

The next question comes from the line of Tobias Sittig from MainFirst Frankfurt. Please go ahead with your question.

00:47:13:00 00:47:27:00

Tobias Sittig, MainFirst

Yes, good afternoon. Actually most of my questions have been answered to. Remaining is just on the consolidation of the Dutch Mail market. I hear that the regulator has approved the merger of Sandd

and SelektMail. Have you seen any changing behaviour in the market place of these two players so far?

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You made some allusions to SelektMail being less price aggressive now. Can... can you elaborate a little bit on that. Secondly, on pensions and the Dutch pension scheme. My understanding was that as interest rates go up in the market, your need to fund under Dutch GAAP would become less. I'm surprised that the number of €250 million hasn't changed at all. Is there any sensitivity to interest rates and when would we see that in your sort of pension contribution forecast? Thank you.

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Jan Bos

On the last question on pensions, when the coverage ratio comes up there will be no recovery payment. So, that we will be better for the next years. So, and also when the interest goes up, then our pension contribution of course will be lower.

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Tobias Sittig, MainFirst

But it is just for 2012 and the years thereafter and not for 2011 or how do we look at it?

Bernard Bot

No, if the interest rate goes up, that has to do with the coverage ratio and therefore with the risk of having to do recovery payments. We are not anticipating to have to do any this year.

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And then there is a recalculation by the pension fund basically every year on what the premium should be and that is more forward looking and you see that cash number is really much more stable year-on-year. And you should see that independently from the coverage ratio which is mostly indicating what the risk would for the recovery payment.

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Jan Bos

And on the Dutch market, basically I expect from a two party model that there will be more rational pricing, but the effect of that we expect in 2012 and further years, not for 11.

Tobias Sittig, MainFirst

Okay, thank you.

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Operator

The next question comes from the line of Axel Funhoff from ING equity markets. Please go ahead with the question.

Axel Funhoff, ING equity markets

Yes, good afternoon gentlemen. Yeah, indeed most of my questions have already been asked, so that I would like to ask a question slightly from a different direction on Mail.

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The market really seems to be quite negative on this Dutch ruling of this Return on Sales threshold of 10% in the USO related service. You seem to be quite confident that you can convince the OPTA that your... your current margin is really below this. Can you just explain again where you think the market needs to be convinced that this is a positive and not a negative ruling please.

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Bernard Bot

That surprised me a little bit based on two things. First of all, it is based on the figures already presented to the OPTA on the basis of 2009 which are lower than the reasonable rate of return of 10%. And secondly, you can also see it in the cash EBIT margins of Mail in the Netherlands and the development there, that there is also room for some price increases and also especially on the USO. So, it is also reasonable to explain to the OPTA.

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Axel Funhoff, ING equity markets

Okay, interesting. Second question then on Express. The €40-50 million in additional cost savings that you target, how do you want to achieve them, what will be done in order to get the cost structurally down.

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Bernard Bot

We are in the phase of developing the very specific plans and have the internal discussion, that basically relates to indirect functions or supporting functions, so like finance, but also communication, HR, part of marketing, OPS support, IT as you name it. So we are looking at those starting from the head office, to the regions, to the countries and we already alluded that we got some additional cost, head office cost because of the demerger.

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We had to allocate what was previously unallocated to the two divisions. So, we took that allocation as a starting point to say how can we optimise the indirect cost and what we are looking at is, what is weird, what is of lower priority, how can we streamline some of the processes, what are your various projects and third party costs, delivering and not delivering and going through that in great detail to come up with a new set-up,

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and related to that new cost with a very clear target of € 40-50 million mentioned and that will be across, head office, regions and operating units. So, it's a fair chunk we are looking at and you know it's an exercise more companies do and we felt this was a good time to do it and to accelerate it in relation to the demerger and the additional cost we got from the allocation of the head office cost to the unit.

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And... so all that is being worked on. We all are going to be at the summer to talk to the... the works council about it and then roll-out in the second half of this year and full-year impact then expected in 2012.

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Axel Funhoff, ING equity markets

Okay, thank you.

Cees Visser

Okay, that was the final question in fact. So, thanks for your attention and we will meet again no doubt.