

# Transcript Analysts' meeting,

Q2 and HY results PostNL

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Cees Visser

Okay, good afternoon, my name is Cees Visser, for the ones following us through the webcast and listening in by conference call. Next to me Jan Bos on my right, CFO, and on his right Harry Koorstra, our CEO. Firstly Harry will look at the highlights of the second quarter and then Jan will look at some of the financial subjects in some more detail. Then we have a Q and A afterwards, so let's start with Harry.

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Harry Koorstra

So good afternoon, ladies and gentlemen. One of the first questions, this morning of the journalists was why I was not sitting in the middle. The simple answer on that is, then it would be a kind of Jan sitting this way, myself and Cees and that is why I am not sitting in the middle. So, first of all some slides showing the overview.

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The first time that we as an independent company, separated from Express, are showing our quarterly results. Let's say, the title of this slide 'encouraging results' is all about that if you compare – and actually that is the way how we look at our numbers – if you compare our numbers with the outlook, we more or less already stated in the analyst meeting on December 2 in London,

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but certainly on the analyst meeting May 9, some months ago, then we are pretty close or even better to those expectations we have communicated since then. Of course important was an article in one of the Dutch newspapers 'Will they deliver?' Yes, we are delivering.

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The €75 million dividend, you can add to that around €6 million of Express, makes it €0.21 or at an annual base €0.42, which is close, if you calculate it to the last stock price of Friday to, 8.83% from a dividend percentage calculation.

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Of course we had to impair – Jan will certainly go into the details there – some of the value of Express with a 25% journey downwards the last month and so far the €25 million underlying cash operating income for the quarter is in line with our expectations, but of course less than last year.

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Also that will be explained further. Now again, if you look to our portfolio, it is always important that we are in the never ending decline in the Netherlands, but we have compensating elements in the portfolio through Parcels and International. Now, where we had a negative volume and revenue development in the Netherlands, that is in line with our guidance.

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You know the guidance was 8 to 10% this year and with 8.9% it is pretty in the middle. Parcels, 10% growth in revenue, in volume and in profit. International 10% growth and an even larger growth in performance improvement. So, also for our portfolio perspective, in line with our expectations,

meaning Mail in the Netherlands in decline and the compensating elements out of Parcels and International.

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If it is about partnerships, this quarter we have launched a partnership in Italy with Buffetti, where we can now cooperate on their outlet structure, which is an outlet structure of 800 outlets in total, of which we are using today 600 and that is related to the registered mail service model in Italy.

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You have to take into account that registered mail in the Netherlands is hardly there, some percents, but in the Italian market the market of registered mail is one billion, is 20% overall. Through our Formula Certa service we have been able to build up quite a market share there. If it is about the geographical scope, then we can communicate this afternoon as you have read last week, that we have finalised the trimming down of the geographical scope,

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so we are now fully concentrating on the UK, Italy and Germany with the last sale of the Czech and Slovakian entities. If it is on retail and e-tail potential, we have launched a new packet and service module, both to business as well as to consumer customers and small catalyst opportunities together with mijnwinkel.nl.

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We have launched a partnership in setting up web shop, web shop related services for the small and mid-sized companies. No surprises for the Netherlands, again both revenue as well as volume in line with our expectation. If it is about average price development, then the average price in the single pieces is up.

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The average price in the bulk mail, the development is close to zero, which is positive, because every year as we have communicated earlier, we are expecting consolidation in the Netherlands, that the average price will increase in the coming periods. All time high quality, with 96.7%.

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For the rest I would say that all the milestones we have communicated in December last year and the first half of this year, all the milestones for the Netherlands, that is the approval of Parliament on the profitability on USO. We have sent in our application to OPTA, being able to increase prices from January 2012 onwards.

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As we indicated, Sandd has not only of course to absorb the higher labour cost, but that will reflect their price setting. Well, they have communicated the increases of their prices. July 15%, but for the coming periods another 20% and probably more. Last but not least, though we already had a final understanding with the unions,

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in this country you have to negotiate twice, the first round is with the unions, the second round the same people, but then they are called Works Council. The Works Council has tried to make clear to their members, we will do everything what we think is in your interest, so they started a procedure with the Ondernemingskamer, the administrative court, which we have won on all the items.

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On Parcels, I mentioned it earlier, whether it is on revenue, whether it is on volume or whether it is on cash operating income, everything is up around 10%. Also in Parcels we have launched some new services. Check Pay is the service for those consumers who are still hesitating in using Internet for shopping, because they were not certain about the payment.

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The payment in relation to the quality of the stuff they have ordered. So they can now really check what they have ordered at their front door and only then if they have made a digital signature, the payment is definitive. We will launch further improvements the coming months, all related to more convenience, both for the sender as well as for the receiver.

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For instance till some hours, you can now follow a parcel on the web, not only the normal track and trace, but what we will launch in the coming weeks is a service that till I think two hours before the packet will be, final be delivered at your home, you can still change the address or the time window you like to receive it.

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Those types of improvements will be further launched. International again, 10% like growth, but more important – Jan will show the details – is the improvement in the operating performance. If you dive into the countries, I would say no surprises.

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In the UK development like planned, what is new in the UK is that we announced in the beginning of this year that we will start a service on packets and parcels. We have now the first large customers in, for instance Guernsey Post only will use our services and our network for 14 million packets and parcels this year only.

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End to end again, we have started preparations, but as communicated earlier, we are waiting for a definitive announcement on the VAT-ruling over there. Germany, we made clear two milestones will be important. Milestone one, we have to win the court case or the legal procedure against Deutsche Post, because it can't be the case that they have absorbed,

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when the decision was there on level playing field on VAT, that they absorbed that cost advantage or disadvantage. Now, we have won that court case, that was important. Secondly, because we have our cooperation ship with Mail Alliance, the 87% share ownership of Holzbrinck and ourselves, we have a mail alliance.

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Because of that we were able to dismantle our own network Regioservice, because nobody is waiting for three competitive networks in Germany. That is now on the road and only those areas Rhein-Ruhr which are very important for us, will be covered through our own networks. Now in Italy, the Formula Certa is still very successful, the Italian market now being liberalized.

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So only growth further possible and again, mentioned earlier, the cooperation with the Buffetti shops and may be later on this cooperation, because we have now an outlet structure in place. As you know, if you like to expand services in packets and parcels, then an outlet structure can be important. This is again showing you what we have put forward ourselves as milestones.

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So far all the milestones are achieved, and of course there is one milestone pending and that is related to our end-to-end decision in the UK. Dividend, I would say no surprises and in line with market expectation. Now what we have made clear this morning through the press release, is that we have fine-tuned our outlook in a way that we are expecting to achieve at the top of the second half of our guided range.

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Master plans will be in line with what we have targeted, Master plan savings in quarter two €18 million. Half year €31 million, so pretty underway to the €50 and €60 million and again the volume development in the Netherlands, we are expecting no surprises. That is the overview, Jan will dive into the details and then we have empty space and time for questions.

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#### Jan Bos

Thank you, Harry. My agenda for today is first the financial highlights, then the cash development, more deep dive into the accounting effects of the demerger and the equity development of PostNL. Then I ask your special attention for some other subjects and I will end with the outlook. So, first of all the financial highlights.

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Our revenues, reported revenues increased by 3.2%. If you adjust that as you know for the change of the VAT-regulation in Germany, the accounting effect of that, and exclude FX-effects, our revenue declined by 2.5%. Then our main KPI's as we have explained to you at the capital markets day, are underlying cash operating income and the cash from operating and investing activities.

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First look at underlying cash operating income, first, the second quarter showed a decline of €42 million, mainly caused by the volume decline in the Netherlands. Our net cash from operating and investing activities had a good number or good result of €107 million, but mainly caused by the sales proceeds coming from the sale of our Belgium activities.

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Looking at the one-offs, we have adjusted on the reported figures to derive the underlying operating income or the underlying cash operating income. The one-off's in the second quarter of 2011 were mainly the book gain on our sale of the Belgium activities and secondly, the costs of the demerger for €23 million. In the second quarter of 2010 the main one off was the Master plan provision, you see at the last part of the slide, the €168 million.

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Then the bridge of our underlying cash operating income, a decline as I said of €42 million, caused by declining underlying operating income of €44 million. As you see, the main cause is the €44 million decline in Mail the Netherlands, mainly caused by volume decline and also by autonomous cost increases and not compensated fully by the Master plan savings of €18 million.

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Parcels showed a good growth of €2 million and International a significant growth of €12 million in the underlying operating income. All countries contributed to that increase and a part of that increase is due to one-offs. The minus €14 million at Mail Other is partly explained by increased pension expenses and partly by the fact that the Belgium activities are out of our figures, so also the contribution to the profit is out of our figures.

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The change in pension liabilities is an increase, because the increase in our pension expense last quarter was higher than the increase in pension cash out. The change in provisions is the increased restructuring cash out we had in the last quarter. So the total result on underlying cash operating income, the total decrease is €42 million.

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If you look into more detail to the development per segment, then you see that in Mail in The Netherlands the revenue declined with 5.3% and mainly caused by the decline in addressed volumes of 8.9%. That also resulted in a decline of the underlying cash operating income of €50 million. So the main explanations for that decline,

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are first of all the volume decline, which contributed around €30 million on the decline of cash operating income. Secondly, autonomous cost increases, both not fully compensated by Master plan savings. Next to that, we had more expenditure on pensions and more expenditure on restructuring and implementation cost of Master plans.

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That is the combined explanation for the decline of €50 million in Mail the Netherlands. Then Parcels showed a revenue increase of 10.6% in line with the volume growth of 10%. The underlying operating income increased by €2 million, that was an increase due to more revenues of about €4 million and compensated or set off partly by more cash out on pensions of around €2 million.

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International revenues showed an increase of 32%, if you adjust that for the VAT impact on the German revenues, the revenue increase was around 10%. Our underlying cash operating income showed an increase of €12 million, as I said, partly due to one-off's and all countries contributed to that increase.

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On Mail Other you see also a negative impact on the revenues, that is caused by the fact that we sold the Belgium activities. That is also visible in the development of the underlying cash operating income and next to that also in Mail Other we see some higher pension cash out. Then the reported statement of income. As you can see, it is highly influenced by two figures.

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First of all the results from associates, minus €394 million, mainly impacted by the impairment of the Express stake. Secondly, the profit of discontinued operations and that is the profit we have accounted for according to accounting rules on the gain on the TNT Express shares to market value at the moment of demerger. If you exclude the TNT Express effect, then the profit for the period is €54 million. Then the cash development.

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Cash generated from operations is down €44 million, that is in line with the underlying cash operating income. Then the net cash from operating and investing activities showed a number of €107 million. As you can see, it is mainly influenced by the number for acquisitions and disposals and that includes the sales proceeds from the Belgium activities.

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You see also in the numbers for 2010, the high number on income tax paid and that was phasing of tax payments in last year and that were payments for previous years. If you look at the drivers for our cash flow development, are first of all the Master plan savings.

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We have put there in this slide the figures for the first half-year and compare that with the full year guidance, we have given to you. First of all the savings, year to date, a figure of €31 million are in line with guidance. On the restructuring cash out and the implementation cost, you see that we are lower than the full year figure divided by two and that is explained by the phasing in our Master plans.

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We expect higher cash out on restructuring and implementation cost in the coming half-year. On Capex, you see, first you see two effects in effect. First of all, expected phasing in investments, so we expect higher investments in the second half year and next to that, you see also the contribution coming from I would say, tight Capex control.

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We still expect to be around €200 million of Capex, but I guess a little bit lower than the €200 million. On working capital, what we told you at the capital markets day, due to the changed combination of our revenue mix, we will have a need to invest in working capital the coming years.

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So for the end of 2010 we had a negative investment in working capital of minus 9% of revenues and that increased to minus 8% at the first half year and that is in line with the guidance we have given to you at the capital markets day for 2015. Then going to the accounting impact of the demerger.

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First of all we had to account for a step up in the shares of Express after demerger and towards a market value. That market value derived from the first moment of the official demerger and that is the opening share price of the 1<sup>st</sup> of June and that was €9.77. That led to a gross gain on the demerger of more than €2.3 billion and also an increase in equity.

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That had to be adjusted also according to accounting rules, for the allocation of the pension asset to Express and next to that, the allocation of the foreign exchange hedges in the reserves, also to Express. Those numbers are the €53 million and €146 million. That resulted in a net gain on the demerger of €2.1 billion.

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After the 1<sup>st</sup> of June as you have all seen, the share price of Express decreased towards €7.32 at the 2<sup>nd</sup> of July. That is also a decline of 25% and also according to accounting rules, that is triggering an event to impair on the value of our asset and we had to impair the value of the stake with €397 million.

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I like to remark that if the share price would increase again, we can reverse the impairment, there is no hurdle rate on that. If the share price would decline further, more than 10% compared to the €7.32, we have to impair again. And then the hurdle rate is 10% share price decline.

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This all of course has its impact on our equity and here I show you the equity bridge, so we started with the €2.4 billion equity at the end of 2010. Part of that is restricted. We add the profit for the first

half year, that is almost €200 million. Then the demerger has its impact by taking the book value of Express,

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that is the €2.1 billion out of our equity, added to that the agreed demerger receivable of €84 million and added to that the pension asset allocated to Express. So, those are negative developments in our equity. That is partly compensated by the step up in Express of almost €700 million and it is a step up in the 29.9% stake.

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Then you have the impact of the impairment of the Express stake of almost €400 million. The other part direct equity movements relate to foreign exchange results, related to the Express business before demerger. So the end result is an equity of €566 million.

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You can also see that in the summary of our balance sheet, so you see the equity of €566 million and also the net debt of €925 million and that is the net result of the long term debt, the short term debt and the cash in our balance sheet. Yes? Then looking at the development of our equity in the coming years and this is an illustrative slide.

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You see, there is a high impact of the pensions, expected pension adjustment, expected in 2013. That effect is caused by implementation of new accounting standard and that is called IAS 19. So, some of you have attended our pension workshop, so I think you know what IAS 19 is.

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If you calculate the impact of IAS 19 on the parameters at half year end close, that is an impact of €775 million on equity. This impact, I like to emphasize that, is highly dependable on the development of the interest rates. Next to that, our equity position depends also on the valuation of the Express stake,

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so in the bridge you can assume each value for the Express stake and the value at this moment is the value we have taken into our accounts. There is no doubt of course that our equity position and therefore our short-term ability to pay dividend, is depending on both items, so the development of the effect of IAS 19 and also the impact of the valuation of the Express stake.

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If you take into account also the mitigating opportunities we have to influence our equity, and take a longer term view, I am confident and we are confident that our equity position, on our equity position and also on our ability to pay dividend, the promised dividend.

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Let's now turn on the market view we see on dividend yields, that is one of the special subjects I like to share with you. First of all the most general market view you see is that you divide the dividend received from PostNL and the dividend of the Express stake by the value of the share price. Then you get like Harry told you, a dividend yield of around 8%.

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Some other views you see in the market, the analysts try to calculate the dividend yield of PostNL sec, PostNL share sec, excluding the impact of the TNT share. What they do, they divide then the dividend

from PostNL by the PostNL share price and deduct from that the total value of the Express stake and then you can calculate a dividend yield of around 15%.

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Those views do not take into account that part of the stake in Express is necessary to close the funding gap in PostNL to come to a triple B, the desired triple B plus credit rating. If you take that into account, the dividend yield will be lower – and that is the third market view you see – and the dividend yield is then around 10%.

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Second subject I like to share with you, is the seasonality in our underlying cash operating income. This slide shows you the underlying cash operating income development last year and the first two quarters of this year. What you see is that first of all there is a seasonality in our quarterly income development

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and what you generally see is that our first quarter and fourth quarter are the strongest quarters and our third quarter is the weakest quarter. Secondly you have to take into account when looking at the projections for Q3 and Q4, that we will have additional restructuring cash out and implementation cost for the Master plans as I told you before.

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The third special subject is the pensions. Some of you attended like I said, the pension work shop. It is I think an illustration for the fact that we want to be transparent on pensions. What we explained also in the pension workshop, that there is a big difference in our case between pension expenses and pension cash out, so the pension expenses in the second quarter were €30 million,

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compared to €4 million in the second quarter of 2010. Our pension cash out was €73 million and that is more than €60 million higher than the pension cash out in the second quarter of 2010. So the impact it had on the difference between underlying operating income and underlying cash operating income is €43 million.

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If you look at the full year guidance, then our guidance for the pension expenses €125 million for the full year and for the pension cash out €265 million, but may be a little bit higher due to phasing of payments for transitional arrangements.

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The last one is the picture below in the slide, is the coverage ratio. At the end of the second quarter our coverage ratio for the pension fund is 112%. Of course the present developments in the financial markets have its impact also on the coverage ratio and the impact will be that it is lower than the 112% I am showing you now. My last slide is the outlook for 2011.

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This outlook I also shared with you on our capital markets day and also at the end of 2010. What you see is and what we can say, is that the outlook remained unchanged, so we can reconfirm our outlook, also per segment, but that we will expect at the end to be at the top half of the range of the expected underlying cash operating income.

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That is my last slide for today, thank you for your attention and I now give the word to Cees for coordinating the Q and A.

Cees Visser

So as usual we take questions from the floor first, but those who want to ask a question by phone can already register now by pressing star 1. If you want to cancel, press the hash key. Let's start with the floor. Philip.

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Philip Scholte, Rabobank

Thank you, it is Philip Scholte, Rabobank. To start off with the equity position immediately. On your chart 26 you are actually showing that it is possible that the equity position will be negative. If you are so confident, why are you making the chart like that? I mean, there seems to be a clear possibility that you will hit negative territory.

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Jan Bos

It was also included in the slide that there are some possibilities, opportunities to repair equity and we are looking at that at this moment, that is mainly the explanation why we are confident. But we cannot guarantee a positive equity, that is also impossible, because it is also dependable on the development of the Express stake and also on the development of the pension asset.

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Philip Scholte, Rabobank

Can you maybe elaborate then a bit more on your strategy towards 2013? I mean, is there a point in time at which you would say, we pre-emptively we are going to skip dividend or are you just going to pay the dividend up until there is no equity and then you say, yeah, that's it.

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Harry Koorstra

I think we have to make a distinction between the cause of a negative equity. If the negative equity is caused by a continuous bad performance of your business, of your operational results, that is quite different than that in our case we have a technical momentum. The technical momentum is caused by two items.

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The accounting item of the pensions and the value element of Express. Now, as Jan quoted earlier and showed on the slide, we do think we have alternative ways to compensate for that, but you never know, so in case of then it is only a momentum, because the underlying cash is there.

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Or it is a momentum versus the underlying performance and the underlying cash that is available, may be not on that momentum, but then pretty close to that momentum. That is the theoretical discussion around it.

Philip Scholte, Rabobank

Right, but if the underlying, your cash development is okay, you would just continue to pay dividends up until there may be a possibility that there is no dividend anymore?

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Jan Bos

I would say yes. It is speculative just now to predict what the equity position will be in 2013.

Philip Scholte, Rabobank

True. My second question is on the pricing, the operational question that is. How many percentage wise of your bulk mail is covered by contracts and how quick will you be able to work through price increases? Can you may be say a bit more already on your stamp price expectations for next year?

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Harry Koorstra

If you look to the around €2.5 billion revenue in the Netherlands, then we have communicated earlier that around €600 million is under USO, the single pieces. Now we already see this year a price increase in single pieces that will be continued next year, because the application is now within the office of the regulator.

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They have to approve it and they have to communicate their feedback somewhere in October to us. In our preparation we will further increase single piece prices from January 1 onwards as we have communicated earlier with a growth percentage for the next two or three years. We foresee increases that can go up to 15%, as we have stated in May already.

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Now, on bulk mail, we see a development that the price development in bulk mail is neutralized, neutralized in a way that the negative spiral that was in the market when and Sandd, and Selekt Mail and ourselves and then of course VSP were all trying to get a piece of the cake. That negative spiral is not there anymore.

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At the same time we have to be realistic and it is though of course Sandd has announced increases of their prices, also their volume like our volume is partly under contract. You can't break that open immediately, so the first material improvements should be shown from January 1 onwards, also for the bulk mail.

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Philip Scholte, Rabobank

But can you say how long it will take to work through all contracts?

Harry Koorstra

I think that is not an issue as such. It is of course a spread along the contracts. We are not that stupid that all the contracts are in a parallel contractual period, but as such the message is, from January onwards we are expecting improvements, also in the price development of bulk mail.

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Cees Visser

Maarten.

Maarten Bakker

You mentioned mitigating opportunities to keep equity in positive territory. Among other things you mentioned the accelerated disposal of real estate. What can you tell us about the value of the real estate in the balance sheet and how easily can it be disposed off in current market conditions? And is it fully owned by TNT or is it also partially owned by ING?

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Jan Bos

First of all, real estate is owned by ourselves and secondly, so I explained before, that the total value of our real estate is around €200 to €300 million and of course dependent on market circumstances.

Maarten Bakker

The €200 to €300 million is the book value or market value?

Jan Bos

Market value.

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Cees Visser

Thijs. Oh, Axel first.

Axel Funhoff, ING

Hi, Axel Funhoff from ING. One question on volume development. Obviously volumes slipped a little bit versus the first quarter. What are your best estimates with respect to volume development into let's say, the next twelve months or so? How would you expect them to develop? Secondly also, can you give us an update on your position and your interest and your strategy for VSP network?

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Harry Koorstra

First on volume. We have communicated in an earlier stage that somewhere at the end of this year we will come up with new guidance for the volume development. Reason for that is that we need more observations in our own modelling, more observations to be able to communicate that to you. What is behind it?

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As we have stated earlier, we will migrate from a market share policy only to a combined market share and margin policy, so we will not focus only anymore on volume. Secondly, the volume development is mainly caused by substitution. The volume we are losing to Sandd, is pretty well calculated by us on customer and even on product level per customer.

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So that is not the complexity. We know the price setting of their network, we know their approach to the market, we know when they have reached in some of their infrastructure the high end of their capacity, et cetera, et cetera. That is in our modelling, that is not the complexity. The complexity is in the area that the so called paper intensive industry, the banks, the insurance companies, the telco's, the utilities,

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they have now more or less finalized their switch from analogue to digital. To model that part of the customer is modelling, let's say your top 40 or 50 customers. We know all their plans, we know enough details to be able to model that. That has happened for the last years. Now with a delay in phasing, the small and mid-sized companies are now in the middle of rolling out their digital approach to their customers.

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That is not only a 40 or 50 customers, that is a database of 150 to 200.000 customers. Now, the number of observations we need to find out what will be the pace of their programmes, we just need more time, as we have stated earlier. In our own planning we will have finalised that somewhere at the end of this year

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and that will be the moment that we come up with new guidance on combined volume and average price development, so from that moment on we will introduce a new guideline, not only based on

volume, on the combination of volume and price development. Now, your second question was on VSP.

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I think it is clear and then I take your question on VSP addressed and not on VSP, on the brochure and unaddressed side, because that is a very attractive company and will remain in the market. VSP addressed is always positioned as an instrument twofold.

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An instrument towards the unions, should at the end of a lot of negotiations, we not be able to come to an agreement with the unions, we can always use the instrument of further rolling out VSP. That is a technical instrument towards the unions. At the same time VSP has been and still is an instrument to its competition, to its physical competition, that is Sandd in this case.

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Now, though we have made quite some progress, positive progress in the two areas, whether it is our conversations with the unions and the fact that Sandd is now really proving that they are absorbing their higher labour costs and changing that fact into a new price regime. So the first proves are there.

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We think, we still, we are conservative here, we still need some more observations and some more proofs, before we come to a final decision on VSP. But if all those segments remain positive, then you could ask the question, does it make sense to remain VSP as a separate entity in the market place. By asking the question myself in the tone of voice I did, I have given you the answer.

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Axel Funhoff, ING

Can I ask one more follow up, may be two. You have shown in the slide on the equity development, that obviously you are crucially dependent on the value development of the TNT Express stake. Do you perhaps have the plan at PostNL to become a more active shareholder of TNT Express, more actively influencing the management to do something that is good for shareholders?

00:00:47:15 00:00:47:46

That is the first question. Secondly, about half a year ago, you announced that you would also like to look for corporations with larger American players. Can you give us a progress report there?

Harry Koorstra

First of all, on the value of Express. We are still in a lock up period. It is only two months ago, but I think nobody expected and hoped for the movements we have seen.

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Now, we have our own obligation towards ourselves as a company and towards our shareholders and that is trying to maximise the value of that stake. We are not in a time squeeze, so we organise our own momentum and our own planning when we think it is the best moment. Your second question was, can you or will you create momentum.

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I think that is too early in the process. The separation was partly done on request of the market, so let's first wait and see what market initiatives will come up the coming months and in line with that, we will have a more detailed vision on our role in that.

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Axel Funhoff, ING

Sorry, I think the second question was slightly misunderstood, because I was more looking for the cooperation attempt in parcels business, that you would play a role in cooperation with some people who don't have a significant market share in Holland yet. Have there been talks already potentially? Is there something in the pipeline?

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Harry Koorstra

I have given in May some examples of possible partnerships. I have also added that it always takes two to tango. But I would say in plain Dutch, Dutch like to drink coffee, we are drinking a lot of coffee.

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Thijs Berkelder, Petercam

Coming back on the Dutch Mail volumes. You are reporting an 8.9% decline in the Dutch mail volumes. Is that working day corrected or not? Is that per working day?

Jan Bos

Yes, that is working day corrected and election corrected, so both reported and underlying figures are therefore the same.

Thijs Berkelder, Petercam

Okay. And that includes roughly 1.5% effect of Veronica? Then adding to that.

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Jan Bos

I think it is less, Thijs.

Harry Koorstra

It is only delivered on a few days

Thijs Berkelder, Petercam

Okay, then underlying, let's say mail volume still coming down, let's say close to 10%. You are saying, the big customers will have finalised their switch. Can you give us or report what the government is doing, because especially the Dutch government is using the cost brakes now. What are you seeing on the government side?

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Harry Koorstra

First of all our predicted range was between 8 and 10% and there we have taken everything into account, even Veronica. Secondly, the Dutch government is typical Dutch. They don't make real choices, so they try to be friendly to everybody and that is towards Sandd but also towards us, that they split their volumes.

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Thijs Berkelder, Petercam

But how much is the government down this year?

Harry Koorstra

Down in volume?

Thijs Berkelder, Petercam

Yes.

Harry Koorstra

They are following the market. Certainly de Belastingdienst is way ahead of the rest of the government in organising down their volumes, whether it is with us or part of that volume is also with Sandd.

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Thijs Berkelder, Petercam

Second question, coming back on the credit rating. Briefly you said that the credit rating really needs to stay what it is, that is triple B plus. What is now let's say the hurdle for the dividend or the return of access cash in terms of credit rating?

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Jan Bos

It is still in the desired debt capacity, the debt capacity for a credit rating of triple B plus is after the sale of Express between €300 and €500 million. That is the net debt capacity.

Thijs Berkelder, Petercam

But it is not, let's say, looking at your equity position, let's say Standard & Poor's now and then in a weekend changes its view on credit ratings. If Standard & Poor's let's say tomorrow goes one notch down on your company, does that have impact on the dividend or not?

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Jan Bos

They are already one notch down compared to triple B plus, they are already triple B, and that is caused by the fact that they are not taking into account the valuation of Express.

Thijs Berkelder, Petercam

A third question. Royal Mail raised its tariffs, likely causing TNT also to lift tariffs. What kind of revenue or impact was in the Q2 results because of the tariff rise in the UK?

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Harry Koorstra

It helps us and we leave it that way.

Thijs Berkelder, Petercam

And did it help profitability as well? Okay. Rebranding cost, €4 million taken in the second quarter. Still the same amount guided for the whole year?

Jan Bos

So, on the rebranding, I think we don't have given guidance on full year rebranding costs separately. So the €4 million is the rebranding cost for this quarter.

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Thijs Berkelder, Petercam

What can we expect in the second quarter then?

Jan Bos

I don't give an answer to that, Thijs!

Thijs Berkelder, Petercam

Okay, that then, Parcels is growing 10%.

Harry Koorstra

We will not give an answer to that, but the planning for the rebranding is around two years from start in the Netherlands and then we need another year outside the Netherlands. So, we will report on a kind of one-off approach to make numbers comparable on rebranding for the next two, two and a half years.

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Thijs Berkelder, Petercam

Looking at the growth of Parcels, you are reporting 10% volume growth. Can you give us maybe a split per segment, let's say, what is fashion growing, what are books growing, what is electronics roughly growing? What is exactly happening there in the market?

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Harry Koorstra

Well, I would say, no surprises, though the sale of CDs, DVDs as a logical result of the development of new distribution channels for that type of digital products, will change in the future. You can also, if you look to the portfolio discussion, a company like bol.com has organised themselves and then you can observe

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that they are broadening their portfolio and that is to find compensation for their starting portfolio in the CD/DVDs and books. So, our customers are developing in line with market developments. We are developing with our customers. Overall and I think that is our key message, we have had another 10% growth in the second quarter.

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Thijs Berkelder, Petercam

Thanks.

Cees Visser

André.

André Mulder, Kepler

André, Kepler. You just spoke about the difference between an operational performance and technicalities. If we leave aside this operational performance and focus on technicalities, if one year you would let's say, only be able to pay half the dividend, would that mean that next year you pay one and a half the dividend?

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Jan Bos

If the technical limit, let's say, would then be half the way, yes of course. Because we have given a dividend promise.

Harry Koorstra

That is what I meant with the timing issue.

Robert van Overbeek, Cheuvreux

One question on the demerger, slide 22 stated that you account for the demerger against fair value as control TNT Express has been lost. Yet, you still have more than 20%. What was triggering that event, the demerger itself or?

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Jan Bos

It is an accounting rule and it implies that when you lose more than 50% dominant control towards a lower control percentage and that is as high as 27, and then you have to account for a step up to fair value.

Robert van Overbeek, Cheuvreux

15%?

Jan Bos  
50.

Robert van Overbeek, Cheuvreux  
50%.

Jan Bos  
Of course.

Robert van Overbeek, Cheuvreux  
And then on the net assets on the balance sheet, there are net assets for sale €35 million, €23 million real estate I believe. Is the remaining €12 million that Czech Republic and Slovakia?

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Jan Bos  
Amongst others and some little activities in Italy also.

Robert van Overbeek, Cheuvreux  
Okay. Then on International, given the €4 million loss in the first half of the year and also a relative weak third quarter, due to seasonality. You expect a pretty strong swing in the fourth quarter. Can you comment on the sources of that? Because you guide for 0-1% underlying EBIT margin.

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Jan Bos  
That is what we see every year on International. The strongest quarter in International is the fourth quarter. So it is no special.

Robert van Overbeek, Cheuvreux  
The last year there was a loss in the fourth quarter.

Jan Bos  
Yeah, but I think that is partly caused by one-off's and we don't expect that.

Robert van Overbeek, Cheuvreux  
Finally on the book value of the real estate to be sold. You mentioned €200 to €300 million market value. What is the book value of that then?

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Jan Bos  
Lower, but I don't give there any figures to you.

Robert van Overbeek, Cheuvreux  
Okay, thanks.

Cees Visser  
Last question from here then.

Piethen Leune, ING  
Just a couple of nitty gritty ones. You mentioned that there were one-offs in the international results. Certain one-offs in almost every country. Could you elaborate a little bit more? The same with regard to the opportunity to increase equity.

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I mean the real estate has been mentioned, but are there other opportunities? And then lastly, with regard to the accounting change, the value of Express. Why is there a hurdle down of 10% and there

is no hurdle up? Wouldn't it be just easier overall just to put market value at standard at the end of the quarter?

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Jan Bos

To answer the last question, because we account for an impairment, you can reverse the impairment. After you have reached €9.77 then you can't revalue any more. That is the reason and that is why there is only a hurdle rate further down. And to answer your first question on the one-off's.

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Some of those one-offs were writing off some bad debt provisions and we had some discussion with Poste Italiane we have won and those one-off's are in the results. If you exclude for that, say half the result is still structural result development and also there all countries contributed to those profits.

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And the second question, other opportunities on what?

Pietheijn Leune, ING

Equity.

Jan Bos

Oh, yeah, what we are discussing, but that is internally, it is likely that we are entering negotiations with our unions on pensions for example, that could be another opportunity.

Cees Visser

I think you have had your chance, Philip. Okay, one question then, because it is you.

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Philip Scholte, Rabobank

Okay, thank you, thank you very much. Can you please remind us of any Master plan provisions that are still scheduled for the next coming years?

Jan Bos

I think we have guided for you, I mean additional Master plan provisions. Those are I think not more than an additional €75 million.

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Cees Visser

That was very good, very good, a short answer as well. Let's now move to the questions by the phone. I suppose most people have registered by now, so let's see what is available.

Operator

Yes, thank you, sir. So the first telephone question comes from the line of Menno Sanderse from Morgan Stanley. Please go ahead with your question.

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Menno Sanderse, Morgan Stanley

Yes, good afternoon. Two questions please. The first on the guidance range, €130 million to €170 million, how do you set the upper end of the range? Is that driven by lower pension payments, lower restructuring payments or higher underlying performance?

Harry Koorstra

What I did mention was not the upper end of the range. The top end of the range, meaning the second half of the range, but that is easy, that is something between €150 million and €170 million.

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Menno Sanderse, Morgan Stanley

What is driving this? Is it underlying or is it lower restructuring payments or lower pension payments?

Harry Koorstra

Actually it is a combination of business performance and one-off's.

Menno Sanderse, Morgan Stanley

Perfect. Now on the mix in Mail in The Netherlands. One of the comments in the press release was that there were some negative mix effects. What are those exactly and can you give us some, can you quantify the figure, is it minus €5 million, minus €1 million?

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Jan Bos

So, Menno to answer that question. The negative mix effect is partly caused by the decline in single mail items and our revenue composition and secondly by for example adding Veronica to our volumes, that also had a negative effect on our average revenue.

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Jan Bos

More than we expected I would say, yes.

Menno Sanderse, Morgan Stanley

And then finally on the new infrastructure in parcels. The first depot is live per the first of July in Waddinxveen. How did it go, one, and two, is it representative for all the other depots that you are going to open? Therefore, can we take some experience of that?

Harry Koorstra

May be we can invite you guys the next time in one of the new depots, that seems to me a good idea. It is now live, meaning that operational implementation has started.

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It is not on their full capacity yet, that will be grown in the coming weeks, but both the morning shift and the evening and night shifts are live, so we are adding now more and more volume. Because keep in mind, though we had a pilot entity in Utrecht, this is the first full scale new, but so far it is really in line with our expectations. Somewhere the next quarter I think, we will open the next one.

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Menno Sanderse, Morgan Stanley

Is it a representative one in terms of size?

Harry Koorstra

Yes, yes.

Menno Sanderse, Morgan Stanley

Perfect, thanks a lot.

Operator

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

Damian Brewer, RBC

Yes, good afternoon. A few questions. First of all on the mail decline volumes for the year. It is still targeted at 8 to 10% and we have not seen any adjustments in that range, that implies potentially at the lower end that we might see a decline, a rate of decline of mail volumes in the second half.

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Would that be a correct interpretation or is this just that you have not updated the number? And then secondly, could you explain on the balance sheet, you carry high amounts of gross cash and gross debt at the end of the period. Can you explain what the strategy towards that is, is that an on-going strategy or would you look at low end gross amounts going forward?

Harry Koorstra

Let me pick your first question on the volume development. Again we predicted between 8 and 10% and we are more or less in the middle with 8.9%.

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We will come up with a new guidance at the end of this year, but the new guidance will be a real new guidance and will be a combination on volume and average price development. So far we don't have indications, otherwise we would have mentioned it, for different volume development for the rest of the year, as we have stated earlier.

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Damian Brewer, RBC

Okay, thank you.

Jan Bos

Your second question. We are looking now at our buying back strategy and that is partly related to the strategy on the Express stake. On that strategy we will also come back to our cash position at this moment on our balance sheet.

Damian Brewer, RBC

Okay, thanks.

Operator

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

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Tobias Sittig

Yes, good afternoon, gentlemen. Tobias Sittig from Mainfirst. I have two questions. Firstly on the dividend. You offer a dividend in cash or shares, which means that the number of shares eventually goes up, which then in turn means that the €150 million is divided by a higher number of shares. The question is, will you take any measures to keep the dividend per share stable over time as well or will you comment on that? The second question, you already indicated that July has been a rough month for your pension asset. Could you give a bit more of granularity on how the pension assets develop and how the current split looks like in terms of asset mix and also regional mix of the pension assets there. Thank you.

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Jan Bos

So the first question, we only guarantee the €150 million dividend, so we are not at this moment promising more than €150 million and on the pension asset, it is just mainly invested in bonds and there are some, also some option strategy in the pension fund to profit from increases in say the stock exchanges.

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Tobias Sittig

The last that you gave us, was 45% equity if I remember correctly. Has that changed materially?

Jan Bos

I think it is less than 45%. I think it is mainly bonds and an option strategy.

Tobias Sittig

Okay, thank you.

Operator

The next question comes from the line of Wenchang Ma of JP Morgan. Please go ahead with your question.

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Chris Combe JP Morgan

Hi, it is actually Chris Combe here of JP Morgan. Some follow up questions regarding one of the potential remedies you mentioned, the equity situation. That is negotiations for pensions. Can you give us some sense of what the scope of negotiations then is and it is not perhaps one we could expect to hear an update or one you would expect to reach a resolution, either positive or negative.

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Jan Bos

So, the first question is on the negotiations. I can't comment yet on the negotiation strategy, because we even haven't started with the negotiations with the unions, but of course the discussion will go about the risk on pensions and also about the pension contribution we pay for our employees.

Chris Combe JP Morgan

Okay, and then finally, is that something that could be resolved by year end or?

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Harry Koorstra

What we have agreed with the unions, is to start the conversations on the pensions and on the development of a cost premium, a premium per employee, but also we have to take into account the new collective labour agreements will start in the coming months. That will be combined and therefore and that is why we are not, let's say, communicating on our starting strategy over there.

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Chris Combe JP Morgan

One second question on parcels. Are there any price effects, it looks like pricing on average is roughly flat with revenue and volumes tracking to somewhere 10%. Is that in fact the case or are there any mix effects?

Harry Koorstra

Depending on the segment, but there is some price pressure in the market, that did not harm us yet, but there is price pressure in the market on parcels.

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Chris Combe JP Morgan

Does that suggest you have some positive for mix given the results?

Harry Koorstra

If you look to our results, that has to do with the mix of our parcels, that is not reflected in the results. But the differentiation in price setting between the industry, between single pieces, consumer

business, that complex combination has put some price pressure in the system, but again not reflected in the results.

Chris Combe JP Morgan

Thank you.

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Operator

Ladies and gentlemen, once again, press star 1 to register your questions or the hash or bound key to cancel. The next question comes from the line of Bill Casey from Bank of America Merrill Lynch. Please go ahead with your question.

Bill Casey, Bank of America Merrill Lynch

Hi guys, Bill Casey here. Just to add a quick question, because a lot has been answered at this stage. The first one is on the UK. It is 18% growth. Just interested to see if you won any share in DSA, what is really been going on there, what is becoming positive and then obviously has that lead to the next step on your decision to invest in end-to-end and when that might be made, that decision?

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The second question is just regarding your debt capacity level. It is obviously back in December it was I think between €200 million to €500 million to keep at BBB+ rating. I am just wondering where is that trend the next few years for 2013? Has that gone up to a billion or so? Could you give us a ceiling on the debt capacity please?

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Harry Koorstra

On your first question on the UK. Actually we are covering over the three markets, the national market through the downstream access, the regional market and the packet and parcel market. The volume growth is a combination of those markets. Certainly there is a very interesting growth in the regional part.

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The regional part is important and attractive, because the margins over there are better and it can help us to speed the roll out, apart from the VAT decision of the end-to-end solutions. On downstream access we have kept a little bit, improved our market share, but in downstream access there is true competition and we have seen some price pressure there.

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Again with a 46% or 48%, I don't know, market share over there, we can't really grow anymore or not that easy anymore in downstream access, but certainly we are still growing in regional volumes and in the packet and parcels arena.

Jan Bos

On the debt capacity to give you an answer. Our debt capacity is between €300 and €500 million. That will be a little bit lower in 2012 and then increase, when our operational results improve.

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Bill Casey, Bank of America Merrill Lynch

Okay guys, thank you very much.

Operator

The next question comes from the line of Robin Byde from HSBC. Please go ahead with your question.

Robin Byde, HSBC

Good afternoon, everybody. Just a quick one on the UK parcels and packet business. What are your annual volume guides and expectations for that business?

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Shall we see a 10% per year? Also, can you put any other numbers to this activity, for example what the portion of the €155 million of UK revenue is as it is? Thanks.

Harry Koorstra

I don't remember we have specified volume or revenue numbers on parcels in the UK, but I can tell you that the first large customers are in, for instance Guemsey Post with 14 million items are in and some others are in.

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So the development in that arena is on track. May be we will specify later on market shares and revenue numbers, but not at this moment in time.

Robin Byde, HSBC

Okay.

Operator

The next question comes from the line of Matthew O'Keefe from Société Générale. Please go ahead with your question.

Matthew O'Keefe, Société Générale

Yeah, hi there. Two questions from me, just a minor question. I see that you have a €3 million contribution from associates and I am just for now struggling to reconcile that.

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If I am not wrong, TNT last week showed a net contribution of €4 million at the bottom line, so I am probably just thinking about that wrong. If you could talk about the arithmetic there? And may be a more major question on the composition of the dividend. Should we assume that a cash and paper payment is here to stay as long as your equity position remains a little bit fragile?

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And at longer term, would you like to move back to cash only payments for the dividend? Those are my two questions.

Jan Bos

I think the €3 million results on associates coming from the June results for Express and there is a difference with the reported Express figures, because we also have to amortise part of the goodwill, specially the allocated goodwill on customers on Express. So there is I think €60 million amortisation and then the Express result reported €19 million,

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so I am not into your figures that the difference is only one. The difference should be €13 million or €16 million. The second question is on the equity position. So, when the equity position improves, of course we could pay only in cash, but like we have done now, some shareholders want to have paid the dividend in shares. So, it could be that we leave open the option to pay also in shares.

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Matthew O'Keefe Société Générale

Okay, thank you.

Operator

We appear to have no further telephone questions, so I hand the conference back to you.

Cees Visser

Okay, thank you very much, that concludes the session.