

*** begin transcriptie

Cees Visser

Okay, good afternoon, my name is Cees Visser, welcome to everybody listening to the webcast and conference call. There is quite a bit of interest from all over the world, pleased to see, so let's start with Jan, CFO, to run you through the Q3 results and then we have some time for all your questions.

Jan Bos

Okay, thank you, Cees, and welcome to everyone. The key message of our third quarter result is threefold. Our operating results are better than expected. We have impact of the turbulence in the financial markets on our equity and funding position and third we are taking measures to mitigate the effects. First I will take you briefly through the business highlights. After that we dive into the financials and I will further explain the turbulence in the financial markets on our equity and funding position. I will end the presentation with the outlook for 2011.

Let's now look at the summary of Q3. With respect to the good operating results we saw the strong performance of the second quarter continued. Addressed mail volumes in the Netherlands were better than expected at minus 6.9%. Parcels delivered as promised and International saw a strong improvement. Our underlying cash operating income was in line with Q3 2010 and better than expected. We expect it will exceed the guided range for the full year that lies between €130 and €170 million.

As you can see, the financial markets have been extremely turbulent in the last quarter. This is reflected in the impairment of our stake in Express and the coverage ratio of our pension funds. The developments of course also impact our financial situation. Based on those current parameters our intention is to pay stock dividend in 2012. Let's first have a look at the operational highlights of Mail in the Netherlands. As I have said, the volume decline was 6.9% on addressed volumes and was less than expected. We also are making substantial progress on the Master Plans, both on the central preparation locations as well as on the delivery site.

We continue to maintain our service quality at high levels, at a level of 96.5% and that is well above the required level of 95%. Also on the side of the tariffs there is progress as we will increase our tariffs on the Universal Service Obligation at the beginning of next year. We also plan to increase the tariffs on the non-USO products. The underlying cash operating income of Mail in the Netherlands was mainly impacted by the lower volumes and the price and wage inflation.

Now look at Parcels. Parcels saw a good volume growth of 7.5% which you also see reflected in the underlying revenue. We also got new volumes for our new product Extra@home, which contributes to the growth. Our second depot in Elst is expected to come into operation in November and the construction of the depots in Den Bosch and Hengelo has started.

In International we concluded our product value with the sale of our share in Telepost, a small mailroom service company and we are now focussing on our core business in the UK, Germany and Italy. We saw strong volume growth and the underlying organic revenue growth of 10.7%. Underlying cash operating income showed an improvement of €9 million and turned positive in the third quarter. In the UK the draft report that was published by OFCOM and that is the UK regulator and competition authority. This report recognises the benefits competition can have on Royal Mail's efficiency. In general the report was positive for us. We still have to wait in which direction this will go, which will be clear in 2012. Germany saw increases in volumes and revenues, driven by growth in Postcon. Better productivity and direct cost reduction helped to improve the underlying results. Germany is still on track towards break even in 2013. Also in Italy we saw strong growth in our product Formula Certa on the back of further network coverage and new customers.

The main elements of our outlook for the full year 2011 have been slightly adjusted. We now expect our full year underlying cash operating income to exceed the guided range of €130 till €170 million and mainly driven by the operational performance and a little bit by the phasing of restructuring cash out. Our Master Plan savings start off slightly higher in the range of €60 to €70 million. On track to counter the effect of volume declines in addressed mail business in the Netherlands.

Now towards the details of the financial performance after which I will explain more on the impact of the turbulence in the financial markets on our equity and funding position. Looking at the reported revenues, they were down 2.5% in line with previous quarters. If you adjust that for foreign exchange and disposals, the organic growth was plus 2%. Then our main KPI's, underlying cash operating income and cash from operating activities. Underlying cash operating income was in line with previous years. The fact of lower operating income was compensated by phasing of cash out on pensions. Net cash from operations was down €170 million. The two main drivers were the change in working capital, the one-offs in the third quarter of 2010 and a repayment of income taxes with respect to 2008. If you look at the one-offs, those are the adjusted between the reported operating income and the underlying operating income. In the third quarter there were only two. These were the rebranding costs for the new brand PostNL and the cost of resizing of International.

If you then look at the underlying cash operating income and the underlying operating income, the bridge explains the development of that income. Underlying operating income was down €13 million and mainly due to the drop in volumes in Mail in the Netherlands, offset by contributions from parcels and International. Underlying cash operating income was only down €2 million driven by phasing of pension cash outs. The cash out for provisions was €1 million higher.

We are now looking at the underlying results per segment. At Mail in the Netherlands revenues went down by 3.4% driven by 6.9% volume decline. Underlying cash operating income went down by €22 million, main reasons being the lower volumes and price and mix changes, autonomous cost increases and increase in costs to implement the Master Plans. These cost increases are not fully compensated by the €18 million Master Plan savings. Parcel revenues went up 7.5%, driven by equal volume growth. Underlying cash operating income went up by €3 million. International revenues went up 10.7% excluding the impact of disposals. As you see, our underlying cash operating income turns positive towards €4 million and showed an improvement of €9 million. That is mainly due to the increased volume and also the impact of the resizing of our business in Germany and International business. Mail other had a negative impact on revenue caused by the disposals of the Belgian and Italian unaddressed activities, which had revenues in 2010. The positive impact of the underlying cash operating income was mainly caused by one-offs and savings.

Looking at the statement of income, the next slide, this quarter was influenced by the impairment we had to take on the share in Express, following a decline in share price from €7.32 to €5.22. And please remember, if the share price of TNT Express recovers, this impairment can be reversed and if the share price drops further by more than 10%, we have to do a further impairment. Looking at the cash development, cash generated from operations compared to Q3 2010 was €70 million lower. That is the decline of €105 million in 2010 towards €35 million in 2011. This is mainly because of the substantial improvement in working capital in the third quarter of 2010, which will not repeat itself each year. That impact is about €60 million. Our main KPI net cash from operating and investing activities was €89 million negative, mainly because of the drop in cash from operating activities- I just explained – and savings of income taxes paid.

The next slide updates you on the current state of our Master plans, Capex and working capital. Like I said, the new guidance for the Master Plan savings for this year is now slightly higher between €60 and €70 million. Due to the phasing of the restructuring cash out, our guidance here is slightly lower at €70 to €80 million. Also the implementation costs are expected to be a little bit lower at a level of €65 million. Given present conditions, we remain tight on CAPEX, which is reflected in a lower guidance of €140 million. We remain focussed on bringing back this number. And last is the working capital. The levels are on track and remain in the guidance range towards 2015.

Now we look at the turbulence in the financial markets. Since our Q2 results the financial markets have been extremely turbulent. This slide shows you an overview where this turbulence has been affecting PostNL most. First the equity market saw a drop in share prices. As a result we had to take an impairment of €337 million on our stake in Express. This also has its impact on our distributable equity and our funding position. The lower interest rates impact the coverage ratio of our pension funds. As you see, the coverage ratio is now around 96%. This may well results in recovery payments and higher pension premiums. And thirdly, due to the turbulence of the financial markets, the impact of IAS19 has increased. This will have its effect on distributable equity. I will explain more on this, but first have a look at our balance sheet.

You will see that our equity now is at a level of €221 million and this equity has significantly decreased due to the declining of the value of our stake in Express. Our net debt position now has increased to more than €1 billion, mainly because of, as I earlier explained, negative cash flow from operating and investing activities. The next slide explains in more detail the development of our equity position and gives an update compared to the second quarter. As you can see, there is a big impact of the impairment of the Express stake. At the end of this quarter our distributable equity amounts to €181 million. Till the end of 2012 this amount will increase by the net income during this period.

Then calculated at the parameters at the end of Q3 the impact of the implementation of the new accounting standard on pension, in 2013 is around €1 billion. Of course this impact depends on the development of the long-term interest rates. So the first main driver impacted projected distributable equity, is long-term interest rate and secondly the main driver is the share price development of Express.

As you can see, the projected equity at the start of 2013 will be negative. Consolidated equity expected to become negative as per the 1st of January, based on the anticipated IAS19 implementation. We consider negative equity not a proper reflection of our business as it could create uncertainty for stakeholders relating to the continuity of PostNL and it prohibits to pay out dividend. As the underlying business currently performs in line with or better than our plans and the fair value of PostNL is considerably higher than the expected negative equity suggests, we intend to change the accounting principles in our corporate financial statement from Dutch GAAP to EU IFRS including amendment of the comparative financial year. This includes a re-evaluation of the underlying Mail investments resulting in a positive equity in the entity accounts in PostNL N.V. This change provides additional insight into the equity of PostNL and the underlying value of the Mail investments. Upon introduction of IAS19 in 2013 we expect the equity in the corporate financial statements will remain positive.

We are now assessing how the increase in equity in the corporate financial statements can be distributed to shareholders. The legal capital protection requirements in the Netherlands will be adhered to. As I said on an earlier slide, the current turbulence also affects the position of our pension funds. The coverage ratio of the main pension fund has decreased through 96%. Main driver for this is the nominal discount rate. As you can see with the development in October, this situation changes by the day. Investment policy of our pension fund is not in our hands, but I can highlight the main characteristics. First of all, by the use of derivatives and swaptions the main pension fund has created a virtually full protection against coverage ratios below 92%. Via options it also has created upward potential from increase in equity markets. The coverage ratio of the main pension fund of around 96% translates in a pension deficit of around €470 million or around €350 million after tax. This deficit has to be recovered within twelve quarters. As a first recovery payment we will be charged around €40 million in the first quarter of 2012, but only if the coverage ratio by the end of 2011 is still below the minimum required level of 105%. This mechanism will repeat every quarter until the required level is at or above the minimum level. The amount of the recovery payment is determined at the end of the quarter and if the coverage ratio has not yet recovered at the end of next quarter, the recovery payment will be charged. The lower interest rate also has a second effect, because the regular premiums are also likely to increase, given the current circumstances. The regular premium is based on the interest rate at year-end, so for the 2011 premium the interest rate at year-end 2010 was taken which was 3.5%. A change in interest rates of 10 basis points has an impact of between €3 and €4 million on the premium. So the premium for next year is not yet fixed and can only be determined with the interest rates at year-end 2011.

So to conclude, at present parameters our funding position could be impacted by the decrease of the share price of Express, the pension deficit and the possible increase in pension premiums. As explained, the impact is determined by the present parameters and these can change. Based on the situation at the end of Q3 2011 the impact is more than €700 million. To counter the explained effects on our funding position we will take a measure to preserve cash for instant reviewing our Capexneeds. Secondly we show you again the conditions of paying cash dividend instead of stock dividend and that is a positive consolidated equity and certainty of credit rating on the level of BBB+ and B81. As at present parameters, this means no cash dividend in 2012.

As I said at the beginning of the presentation, we have three key messages. First of all, operating results better than expected, secondly impact of the turbulence in the financial markets on our equity and funding position and thirdly we are taking measures to mitigate these effects. If we are now looking at the operating results and the outlook presented to you at our capital markets day, we can reconfirm the outlook with the expectation that we will exceed the guided range of the underlying cash operating income.

Finally some good news, we now announce that we will do the publication of our quarterly figures a bit earlier. As from next year we will do that at half past seven to give some more time to go through the figures. Thank you for your attention and I hand back to Cees for the Q&A.

Cees Visser

Thank you, Jan. Operator, can you open the lines for Q&A please and explain the procedure to everybody.

Operator

Ladies and gentlemen, if you do have a question at this time, please press star followed by 1 on your telephone keypad, to cancel your question please press the hash or forward key. There will be a short silence for registering your questions. Our first question comes from the line of Gert Steens, please go ahead.

Gert Steens

Good afternoon, this is Gert Steens at SNS. One question on your plan to reduce Capex. Can you be a bit more elaborate on what level you think Capex will be the coming years and where you see most of the opportunities to keep it down, because I thought it was already quite a lean programme anyway.

Jan Bos

Now, as said on our capital markets days, we have three kinds of Capex necessary for the Master Plans. Those necessary for the roll out of our new parcel infrastructure and a normal Capex for growth and replacements. If you look at our Capex, we can do some on the phasing of the infrastructure on parcels, so the phasing of the replacement Capex. Those levels aren't where supposed at the capital markets day.

Gert Steens

So, no material changes from those levels.

Jan Bos

More on phasing.

Gert Steens

Okay, thank you.

Operator

The next question comes from the line of Roger Elliott, please go ahead.

Roger Elliott

Good afternoon, gentlemen, two questions. Firstly, should a spike in pension expenses or pension cost have an impact of the computation of the 10% allowable return on USO services and secondly, what target increase in non-USO business do you think is likely in 2012? Have you agreed any major contracts on the basis of higher tariffs yet?

Jan Bos

The first answer to the pension situation, when calculating return on sales on our USO, we include the actual pension payments. So, if you look at the way in which the tariffs of the USO are calculated, it is once in each four years, that we have a new calculation of the starting tariffs. So it won't help in 2012, for example. The second answer to our question, on the non-USO tariffs, those are around inflation and a mix of some lower tariffs especially on our new products in the peak –through days and a mix of more price increases on the other volumes.

Roger Elliott

Okay, thank you.

Operator

Our next question comes from the line of Mark McVicar, go ahead.

Mark McVicar

Hi and hi Cees, a couple of questions if I may please. First of all, you went a fair way in talking about on the fact of the re-evaluation of the Mail as such, should wipe out the deficit created by the end of corridor accounting in 2013. Can you give us a sort of a new merit range around the size of that re-evaluation? Because it is going to have to be a several €100 million isn't it to restore the reserves properly.

Jan Bos

First of all to be clear, the re-evaluation only impacts the corporate accounts, so not the consolidated accounts. Secondly, we are still in the process of valuing the investments, so I can't give you an indication at this moment, but what I can say and what I have already said, it has already taken into account the impact of the new pension accounting, it will be enough for our equity position in the corporate accounts.

Mark McVicar

Okay, and creating that, yes and the corporate account carry us through to the consolidated accounts to the purpose of these reserves, yes?

Jan Bos

The corporate accounts the determine the ability to pay dividend.

Mark McVicar

Right, okay.

Jan Bos

It is the separate part of the accounts in our annual report. You have the consolidated accounts and at the back you have the corporate accounts.

Mark McVicar

Sure, okay. Second question, could you remind us broadly of the level of debt that you will need to get down to hold onto that BBB+ rating?

Jan Bos

What we said at the demerger, the required net debt level is between €300 and €500 million, but you all have to be aware of the fact that that debt level can increase when operational results are improving.

Mark McVicar

I mean, presumably, is it linear the relationship?

Jan Bos

According to the net debt to the gearing levels from belonging to a BBB+ rating, I would say.

Mark McVicar

Okay, thank you. The following one, could you talk us through the decision to pay a stock dividend rather than just scrap the dividend completely until you have got both the distributable reserves and the cash to return to a proper cash dividend list.

Jan Bos

First of all we want to stick to our dividend policy and secondly, by implementing the dividend policy it helps when we can still pay dividends in share for some of our shareholders who in their investment policy have the obligation to invest in funds with a dividend.

Mark McVicar

Because they can still count the scrip dividend as a dividend of some sort, yeah?

Jan Bos

Yeah, the scrip dividend counts also as dividend.

Mark McVicar

Okay, and given that you are increasing the number of shares at a current level by some 11 or 12% every year, we assume that is a one-year effect or could it run beyond that?

Jan Bos

At present beyond that.

Mark McVicar

Okay, that is great, thanks very much.

Operator

The next question comes from the line of Menno Sanderse, please go ahead.

Menno Sanderse

Good afternoon. First on the accounting change. It is very clear from the statement that you have not decided yet if you make this part of the distributable or non-distributable reserves in the corporate accounts. Can you tell us please what will determine if it becomes part of the distributable or non-distributable? Is that talks with the accountants, talks with supervisory board?

Jan Bos

As the discussion we have with our advisers, is the best way to make it accessible to our shareholders and that is in the way of making the distributable reserves are in a form of bonus shares.

Menno Sanderse

Okay, when will you know that roughly?

Jan Bos

I think at the end of this year.

Menno Sanderse

Okay, perfect. And then secondly, on the pension fund, the 92% swaptions derived floor. What is the duration of that swaption? Is it until the end of this year or is it beyond the end of this year?

Jan Bos

I think it is beyond the end of this year. I have to keep the answer to you, because I have to check that.

Menno Sanderse

Okay, who knows what will happen next year?

Jan Bos

That is why I think it is over the year.

Menno Sanderse

Okay. If you can give us a duration that would be most helpful to assess the risk.

Jan Bos

We will forward the answer later on.

Menno Sanderse

Perfect, thanks. Then the final point on the other measures to counteract the impact of the turbulence of the financial markets. What other measures are you referring to?

Jan Bos

First of all the Capex and secondly we will have a discussion on the level of pension payments we have to do. We will start discussion with our unions. We already said that, it is a problem to tackle with more speed than may be before.

Menno Sanderse

Exactly. The normal wage negotiations with the unions, when are they due again?

Jan Bos

The CLA ends at the first of January 2012, so in December we start the negotiations with our unions.

Menno Sanderse

No doubt wage increase versus pension is negotiated together, I presume.

Jan Bos

I think we negotiate at that table and not with you.

Menno Sanderse

That is very smart! Finally, you can increase the prices whatever you want for non-USO mail, but if the customer says no, how confident is the company that it will get the stamp price increase for non-USO mail?

Jan Bos

As I said earlier before, we see some rational behaviour in the Dutch market, we see room for a tariff increase in the Dutch market. We now start the contract negotiations with our customers. We can give an update later on this year.

Menno Sanderse

Perfect, thanks.

Jan Bos

Menno, thanks.

Operator

The next question comes from the line of Philip Scholte, please go ahead.

Philip Scholte

Yes, hi, good afternoon. First of all, coming back may be on the volume and price effects in 2012. Can you say a little bit more about the combined volume price and mix effects in 2012? Will that still be fairly negative or do you believe that your price increases will may be lead you to a positive number there? Secondly on the pension. The regular premiums, that is just in the reported EBIT number right or is it just on the additional cash payment only? The third question, what happened to the pass through of the TNT dividend? Can you say if you will keep that in your house itself or will you pass that on? May be lastly, on the target EBIT for 2015, do you still stick to the target of €300 to €370 million or is it too uncertain for now given what the pension fund is doing?

Jan Bos

Okay, so, Philip, are you in an open working space?

Philip Scholte

Yes. And we have another fire alarm here at the Rabobank.

Jan Bos

Looking at your question on the volume, we don't give an outlook for 2012 yet, but it certainly will be that the volume decrease in 2012 will not be fully compensated by price increases. Otherwise we would not need Master Plans. Secondly, on the pension cash out, pension cash out is only included in the cash EBIT, but not in the normal operating income. I think that already explained a lot in our pension workshop how that works. Then the dividend from Express. It is included in our dividend policy that we don't pay any cash dividend as long as we have a negative consolidated equity and or not have reached a BBB+ credit rating. Then our target for the cash EBIT in 2015 of €300 to €370 million remains.

Philip Scholte

Right. A short follow up if I may. Do you consider impressing on TNT cash dividend through stock dividend or will that remain that completely in your own cash balance?

Jan Bos

As a stock dividend.

Philip Scholte

Right, but you will pass it on, so it will be on top of the €150 million.

Jan Bos

Yes. Like our dividend policy declares, only changes in the implementation of the dividend policy. It changes from cash or a choice towards only shares.

Philip Scholte

Right, thank you.

Operator

Our next question comes from the line of Maarten Bakker, please go ahead.

Maarten Bakker

Gentlemen, all my questions have already been answered, sorry, thank you.

Jan Bos

Thank you, Maarten.

Operator

The next question comes from the line of Wijnand Heineken, go ahead.

Wijnand Heineken

Yes, I am Wijnand Heineken, Independent Minds. I have a few questions, first on the dividend. In the Q2 meeting you said that if you would miss at any point in time cash dividend payment due to negative equity, then it would be compensated for the time when that was restored. Now you are mentioning a change in dividend policy. Is it fair to conclude that you are now saying that the stock dividend comes instead of the €150 million cash payment, so no compensation for missed cash payments in the future? That is question number one. The second one is on the coverage rate on the pension fund. A minimum of 92% you mentioned. I am a bit puzzled by the mechanics of it, because you have to restore that coverage ratio, so that will likely lead to additional payments. Obviously the aim is that it will go up. So how does that work towards the minimum level of 92%, because my feeling is that you will do everything by additional payments to get not at that level or below anyhow. So, when comes the guarantee in place and how useful is it? Then the final question, I presume that your change in dividend, i.e. stock dividend is starting as of the final dividend of 2011. Those were my questions.

Jan Bos

The last is the most easy one, Wijnand, that is correct. The change of dividend starts at the final dividend over 2011. Then look into the question on the cumulative dividend. First of all, at this moment it is not quite a question to answer, because we are not in the circumstances of having that cash and secondly I would say the €150 million stock is instead of cash. The implementation of the dividend policy we continue. The last question you had on the pension fund coverage ratio. What I said, is that the 92% is a minimum level which the investment policy of the pension fund covers. But the minimum level the pension fund has to reach, is the 105%. So, they are different.

Wijnand Heineken

Okay, thanks.

Jan Bos

Thank you.

Operator

The next question comes from the line of Arun Rambocus, please go ahead.

Arun Rambocus

Yes, good afternoon, gentlemen, thanks for taking my questions. First question is on the Dutch mail volume decline, which came in lower than expected. Do you feel that that is a market trend or is PostNL winning back market share? Can you update me on that? The second question is on Germany. You say you are on track to meet a break even next year. Can you share with me what kind of progress you are booking versus what level last year? How much is needed to achieve break even next year? Thanks.

Jan Bos

First of all the Dutch volume decline, we don't make a change in our outlook change just based on one quarter, but it is a better quarter, so that helps and the volume decline was with 6.9% lower than the trend of 8 till 10%.

Arun Rambocus

Do you feel that your success rate is going up?

Jan Bos

No, what I have said we have a rational behaviour in the Dutch market place, so I would not say that we are winning back market share. The second question, in Germany we are on track on break even. The projects we are running there, is that we are closing loss making regional activities and secondly we are changing the model to a more entrepreneurial model for especially in the Ruhrgebiet and Rheinland and Frankfurt and thirdly we are organising the overhead structure in Germany and those three projects contribute to cost savings. We are busy on getting Germany break even in 2013. So not 2012, I think you mentioned 2012.

Arun Rambocus

2013, yes, sorry, okay. May be a quick follow up on the dividend, I missed part of the answer you gave to Philip Scholte. So the new dividend policy.

Jan Bos

It is not a new dividend policy.

Arun Rambocus

Sorry, let me try to put the question right. Instead of paying out €150 million in cash, the investors now get entitled to stock dividend and then on top of that, the PostNL will continue to distribute the dividend received by TNT Express. Did I understand this correctly?

Jan Bos

Yes, correct, but also in shares.

Arun Rambocus

Also in shares, okay, thank you very much.

Operator

Our next question comes from the line of Christopher Combe, please go ahead.

Christopher Combe

Hi, it is Chris Combe from JP Morgan. Both of my questions have been answered, but I have a couple of follow-ups. Non-USO pricing, it sounds like your guidance is slightly mixed. You mentioned the rate of inflation with some offsetting mix of facts. Can you update us on what the anticipation is for pricing in a more rational market. At Q2 you indicated an initial 5% price increase from a competitor. How is that progressing and what does that mean to the VSP-network?

Jan Bos

You have to be aware of the fact that we have two impacts on our pricing policy next year. First of all we are changing the structure of our products to a peak - through model, so when customers are changing to the peak product, they get a lower price. So that is one impact and secondly, on all those

products, specially the peak day product, we are increasing prices and on average that leads to a small price increase.

Christopher Combe

Okay, thanks. A second question. Can you update us on what the official policy now is regarding the TNT Express equity stake and at which level do you seriously consider monetising that?

Jan Bos

Of course I will not answer that question. What we see is, we are looking at the Express share in close detail. We are also talking with the Express management. At this moment we don't see normal circumstances to sell the Express stake and we are also looking at the value creation strategy of the Express management.

Christopher Combe

Okay, thank you.

Operator

Our next question comes from the line of André Mulder, Kepler please go ahead.

Andre Mulder

Good afternoon, a question on parcels. The last few quarters we have seen a positive price impact that seems to have disappear in Q3. Can you fill us in on that?

Jan Bos

I think in the second quarter we thought on not positive, but O would say a negative mix effect in parcels. I would say that in the third quarter it is even better, so positive or equal price effects. The price mix effects are caused by the fact that we burn volumes on big customers, the b to c customers, with on average lower average revenue than the small customers on small medium sized business and consumer parcels. I would say it is the opposite then in your question.

Andre Mulder

Okay, thanks.

Cees Visser

Okay, that is the end of our questions and no doubt, we will meet again. Thank you.

*** Einde transcriptie