

# Edited Transcript of PNL.AS earnings conference call or presentation 4-May-20 9:00am GMT

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Thank you very much, Jochem. Welcome to all of you, and thanks for joining us this morning. I would first like to move to Slide 4. And of course, we would like to start with the new reality in which we are all living since the outbreak of the COVID-19 virus. The world around us and the way that people can interact has definitely changed, and we are very proud of our people who are fully focused on the ongoing delivery of mail, parcels and other shipments, such as medical goods and food, which allows other people to stay at home. Our mail and parcel deliverers are continuing their work, and with that, can provide a vital service to society. As early as in beginning of March, we have prepared ourselves for this new phase and have put a comprehensive business continuity plan in place.

To summarize, going forward, we see both challenges and opportunities related to COVID-19. The challenges relate to some of the points I just mentioned. And of course, we do not know yet what the overall

macroeconomic impact on the business environment will be.

For PostNL, there are certainly also opportunities. E-commerce is picking up, and consumer mail is becoming increasingly popular. Visibility on the longer run and longer-term consequences yet is still limited.

Now let's look into the Q1 results on Slide 6, which we qualify as a solid performance and significantly ahead of our own expectations.

Revenue was up EUR 17 million to EUR 701 million. As indicated when presenting our full year results back in February, normalized EBIT was down in comparison to 2019. At the same time, free cash flow improved and was EUR 5 million positive. We are committed to achieve our full year outlook of normalized EBIT of between EUR 110 million and EUR 130 million.

Let me add to that, that there are, of course, uncertainties about the duration and severity of the COVID-19 pandemic, which may impact our ability to achieve this result. But as said, we are committed and confident to try to achieve that full year outlook.

At Parcels, since mid-March, we see a strong development. Volumes are growing double digits, and it is supported by a positive price/mix effect. I'm very pleased with the progress of the integration of Sandd, which is ahead of plan in delivering the anticipated benefits and

synergies.

Looking at the composition of the mail bulk of our mail deliverers since mid-March, we see much more greeting cards. And obviously, that has a favorable impact on price/mix development. However, we've also saw lower direct mail activity as businesses decide to postpone their marketing efforts, which resulted in additional volume decline.

I already discussed the measures taken related to the health and safety guidelines for COVID. And of course, these had some impact on cost levels in the quarter.

So all in all, normalized EBIT for the quarter came in at EUR 15 million. And let me emphasize that this includes higher pension expenses and the impact of the new labor regulation, as indicated before. Also, we've sold some noncore activities and discontinued our unaddressed activities. So what we've sold, as you are aware, is our PostNL communication services business as well as our Spotta unaddressed business. And in Q1 2019, we still operated from PostNL an unaddressed network, which is discontinued. This did contribute positively to our earnings in Q1 2019.

On Slide 7, digitalization is one of the key pillars of our strategy on which we want to accelerate. So that's why I wanted to share with you some of the main developments that we've seen in this quarter. Growing importance of

digitalization help us serving our customers better, improving our customer journeys and at the same time improving efficiency in our operations.

First of all, in this quarter, we've had 114 million online visitors, a growth of 18%. Good to mention that also a larger percentage, 55% at this moment in time, of visitors reached us via the app. Number of PostNL accounts increased by 22% to 5.5 million accounts. We also see very strong growth in one of our latest innovations in mail stamp code. We sold 69% more stamp codes compared to Q1 last year. And then we see that more and more people can be helped by our chatbot Daan. 770,000 interactions with Daan this quarter, up over 100%.

These illustrates are just a few examples that illustrate the efforts that we're taking to further digitalize our business. Acceleration of becoming even more digital remains one of our key priorities for 2020 and beyond.

Now let's look at some more details in the business segments. First of all, we move to Parcels, which are explained on Slide #9.

In Parcels, we see a strong volume development since mid-March. The measures related to COVID-19 resulted in a pickup in e-commerce. What we see is that this growth is particularly visible amongst small and mid-sized web shops. This has had a positive impact on price/mix next to the amendments of price policy that we've

introduced as well. Part of this is offset by a declining trend in international flows. Please remember that, obviously, in China, February was already very much a month in which international trade from China to Europe has become more and more difficult. So also, in the overall growth of the volume in the first quarter of 2.8%, international parcels flows have declined significantly, a double-digit decline in comparison to last year. End of March, the run rate of volume growth was close to 14%, and we've seen a strong continuation of that growth during April. In January, February, volume growth was impacted, as we've explained before, by larger web shops opting for multi-vendorship, which basically means that they select a second carrier for their parcels, which was on the back of our max capacity in the peak period. And what we've said there is that, that temporarily will result in loss of market share because, let's say, the clients will switch part of their volume away from us to these parties. But subsequently, we'll continue to follow the growth trajectory of the market again. So that has not come as a surprise to us. The trend for a mixed growth pattern within the different e-commerce segments continued. For example, the more mature fashion segment did show slow growth, particularly in January, February of this year as well.

Very important is that price/mix effect are positive and are expected to be positive for the full year 2020. Apart from the changes in customer segment mix that resulted

in a favorable contribution, we also see the impact from our yield measures as announced last year at our Capital Markets Day. Improved pricing and indexation are part of the explanation for revenue growth.

Then let's go to the bridge on Slide 10. And there, we make the reconciliation of the normalized EBIT Q1 2019 of EUR 23 million to a normalized EBIT Q1 2020 of EUR 26 million. And we separated out the impact of new labor regulation of EUR 2 million, which brings the normalized EBIT on a like-for-like basis for Parcels at EUR 28 million.

So the volume effect in revenue is driven by the 2.8% volume growth in Q1; EUR 6 million positive price/mix effect, yield measures supported by the positive mix effects we talked about; and the organic cost increases of EUR 5 million, driven by collective labor increases and indexation of subcontractors, volume-dependent costs that relate to the growth in volume and other cost development, which is a combination of hit rate improvements and other cost developments, partially related to new depots that went into operation in 2019.

Furthermore, within other results, you can see that Spring and logistics performance in comparison to last year have improved as well.

Then let's move to Mail in the Netherlands. I would like to say -- I'd like to start by spending a bit of time on the integration of Sandd. After the closing of the transaction

in October of last year, we have integrated the networks of Sandd and PostNL on February 1. We're very happy to conclude that this integration went very smoothly. We're ahead of plan, and Sandd has already -- has been accretive to normalized EBIT in this quarter. Total contribution was EUR 5 million to the normalized EBIT number.

Mail volumes were down 12.8% or 12.3% when corrected for the fact that we've had 1 working day less. Also good to mention that we've had elections in 2019 and not in this year, which accounted for a volume decline of 1.8%.

Next to these 2 elements, we've, of course, had the impact of COVID-19. More greeting cards on the one side. But on the other hand, additional volume declined due to less direct mail activity, which brings the total impact of around 2% as well. We also expect that this will be visible in Q2. Overall, this means a normal decline in relation to substitution and a roughly 2% impact of COVID-19 on the volume development within Mail.

And again, as said in the Parcels segment, also international mail activities have been impacted by the COVID-19 crisis.

The effect from volume decline was partially offset by a positive price/mix effect, which has -- which was more favorable this quarter than it usually is.

When looking at the revenue development, please also

remember that we've sold PostNL communication services and Spotta and that we've discontinued our unaddressed activities. The combination of these 3 accounted roughly for EUR 25 million of revenues in 2019.

The drivers for the result developments were Sandd, impact of COVID-19, focus on our core activities and, of course, the usual business development. Cost savings in the quarter progressed according to our plan.

On Slide 12, you'll find the bridge, the reconciliation of the normalized EBIT for the mail segment, where you see a positive volume impact of EUR 13 million, which is, of course, driven by EUR 37 million related to the consolidation of Sandd and a volume decline of 12.8%. And a positive price/mix effect of EUR 10 million. It's a combination of moderate pricing strategy supported by the favorable development in price/mix, driven by the greeting cards as well.

Organic costs mainly related to collective labor agreements. And then the volume-dependent cost, obviously, include the costs related to the additional volumes from Sandd. And in other costs, you'll see the combination of our cost savings, efficiency measures and one-off integration costs of EUR 17 million, still related to the Sandd integration. Other result, minus EUR 7 million, and that is the impact on profit of PCS, Spotta and the discontinuation of unaddressed activities, bringing the



normalized EBIT for the first quarter to EUR 5 million.

Now let's move to the financials with a little bit more detail. And firstly, we go to the cash flow bridge on Slide 14. We're happy with the development on cash. Although normalized EBIT was down, our free cash flow was better than in the first quarter of 2019, and this slide explains the different components of how you can bridge the normalized EBIT to free cash flow.

So EUR 15 million normalized EBIT. Normalizations related to the Sandd acquisition. Depreciation and amortization up also because of Sandd. CapEx slightly below last year's numbers. Lease payments up also. That includes temporary effects because they still include lease payments on leaseholds of Sandd and a change in working capital, which is negative EUR 6 million, significantly less negative than predicted before. That is on the back of a continuation of strong working capital management and the big improvements that we've shown on Q4 2019 have really improved our run rate working capital position.

Large difference in cash-out can be explained that we've had a large amount to pay to the tax authorities last year. And this year, we don't expect to pay any taxes also because of the soft pension tax -- the costs related to soft pensions that obviously reduced the taxable amount in 2020.

All in all, our free cash flow of EUR 5 million, which is a positive improvement.

And then important to spend a bit of time on pensions. And first, some good news there. We've reached an agreement in principle with our pension fund for another way of determining the final payments for the transitional pension scheme without affecting the entitlements of the employees.

First, the regular contributions of the transitional plans within 2020, remember, we not only pay a final payment in 2020, but also 1 last regular contribution to those transitional plans. And the amount to pay has come down by EUR 5 million. Then the final payment that needs to be paid at the end of the year, which was expected to be around EUR 300 million, will be lower. It will, in any event, be capped at EUR 290 million and can come down if interest rates and coverage ratios move favorable. A substantial part of this amount will be deferred and paid in 5 installments over the period 2021 to 2025.

Beneficiary for our leverage ratio, obviously, are the lower pension payments for the regular contribution as well as the EUR 10 million difference between EUR 300 million and EUR 290 million. And of course, from a liquidity perspective, the part of the payments that can be deferred will help our cash position end of year.

What is substantial? You could -- you should think at

roughly EUR 60 million to EUR 80 million of that amount can be paid in later years than 2020 is our current expectation. Accounting-wise, as you know, the lower interest rate at the start of the year translate into higher pension expense, around EUR 25 million for the year, so EUR 9 million of which is accounted for in the first quarter. This is only an accounting thing that has very limited impact on cash. On top of that, the equity -- the impact on equity will be mitigated by a positive effect in other comprehensive income. This was EUR 23 million net of tax in this quarter, part of which is phasing.

And the last item that I want to mention about pension is the coverage ratio of the pension fund. The actual coverage ratio of the fund was 98.9% end of March. This brings the relevant coverage ratio, which is the 12-month average coverage ratio of 108.3%, still above the minimum required level of 104%, taking into account the resilience of the pension fund. No top-up obligation is foreseen.

Then some words on the balance sheet. Consolidated equity up EUR 11 million compared to last year. The same movement is also visible in total comprehensive, of course, driven by the pension effect that we just talked about. And as you know, the normalized comprehensive income will be the basis for the dividend payout ratio.

Driver for the movement are the net loss of EUR 12 million, which includes EUR 7 million for discontinued

operations. And that loss is more than offset by the OCI effect from pensions of EUR 23 million, net of tax.

Adjusted net debt is down to EUR 699 million from EUR 736 million. This is mainly explained by the improvement in the cash position and the lower pension liabilities.

Please note that the pension liabilities on balance sheet represent the accounting value of the liabilities, which is not necessarily the same as the cash value.

On Slide 17, building on the solid performance in Q1, we are committed to achieve our normalized EBIT outlook for 2020 of between EUR 110 million to EUR 130 million. I have to add that, of course, there are uncertainties regarding the duration and severity of the COVID-19 pandemic that may impact the ability to achieve this result. But said, at the moment, solid performance Q1. We're ahead of our own plan and, as said, committed to realize the EUR 110 million to EUR 130 million.

Of course, we're also committed to achieve the free cash flow, as shared with you earlier, of minus EUR 315 million to minus EUR 285 million. And of course, I put your attention on the agreement in principle with the pension fund. And those outcomes are not yet reflected in this cash flow outlook. We'll do so at the moment that the agreement is very -- is final. And then we'll update the free cash flow guidance for the remainder of the year.

Then let's spend a bit of time forward looking to the

attentions point -- for the attention points for the second quarter of 2020.

As indicated earlier, the normalized EBIT in 2020 will be largely achieved in the second half of 2020. You can see an indication of the percentages of normalized EBIT over the quarters and the graph on this slide.

What you also see is that we expect that Q2 will have the smallest contribution to normalized EBIT in 2020, which was different in 2019. So broadly, the negative consequences on the mail business of COVID-19 will be predominantly visible in Q2, and we've been conservative in our estimation of that impact.

Obviously, very important to note is, if you look at this graph, there is a big gap difference between the Q4 numbers of 2019 and the 2020 numbers. Obviously, Q4 2019 included the impact of the acquisition of Sandd. That was roughly around EUR 40 million of negative EBIT. That obviously will not repeat itself within 2020. So it's fair to assume that this year's Q4 results will amount or much -- will account for a much larger percentage of the full year number.

Please note that the phasing for Q3 and Q4 is indicative as visibility on COVID-19 implications is low at the moment.

Some specific attention points for Q2. We expect volume decline in bulk mail to continue in the second quarter.

Additional volume growth from Parcels, as said. Run rate -- growth rate at Parcels at the end of March was around 14%, which significantly increased throughout April. We expect a better price/mix to continue both in mail and in parcels, but we also have additional costs due to the measures of social distancing and throughout April still, albeit deteriorating additional cost of staff absence. International mail and international parcels volumes are still impacted by lower airfreight capacity, and we expect that to continue throughout the second quarter.

Some other elements that are -- you are familiar with, also in the second quarter, a higher pension expense, roughly EUR 6 million; the impact of new labor regulation, also around 2 million; a small positive contribution of the integration of Sandd; and the continuation of the mail volume decline and delay of cost savings that were part of the business case of Sandd.

So fair to assume that normalized EBIT for next quarter will be significantly below last year. And in the translation to free cash flow, please note that also -- please take into account phasing effects in working capital and other cash flow drivers such as a gradual increase in CapEx and lease payments throughout the year.

Then to conclude all of this on Slide 19. Q1 has been an unprecedented quarter with the COVID-19 crisis impacting people and businesses on a global scale. Health and safety for our people, partners, clients,

consumers, has been and will remain to be our first priority.

Since early March, we have anticipated quickly and have introduced a set of comprehensive continuity plans to ensure the continuity of our main networks, and we are fully operational and able to continue our primary business activities.

We were able to report a solid Q1 performance ahead of our own plans and the free cash flow improved. Also, because of the integration of the networks of Sandd and PostNL, which are ahead of plan in delivering the anticipated benefits and synergies and is already accretive in this first quarter.

In line with the volume development, we today announced that we will be opening a new depot in Belgium. Preparations for this depot just started. Also good to mention that our liquidity position is very strong. We've got EUR 485 million cash at hand at the end of March.

Going forward, we see both challenges and opportunities as e-commerce has picked up, resulting in strong volume growth in Parcels since mid-March, and consumer mail becomes more popular.

Building on the solid Q1 performance, we continue to be committed to achieve our full year 2020 outlook.

That concludes my presentation. So back to you, Jochem.

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Jochem van de Laarschot, PostNL N.V. - Director  
Communications & IR [3]

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Thank you, Pim. We're opening the floor for your questions. (Operator Instructions) The first one to find that out was David Kerstens of Jefferies. So operator, can you open his line, please?

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Questions and Answers

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Operator [1]

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(Operator Instructions)



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David Kerstens, Jefferies LLC, Research Division - Equity Analyst [2]  
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I've got a few questions, please. First of all, you're saying that Q1 came in ahead of your own expectations. Does that mean that you had a positive net effect from COVID-19 in the quarter? What was driving that beat versus your own expectations? And can you quantify that effect?

Then in the Parcel business, if you strip out the improvement in Spring and logistics, the underlying number for Parcels Benelux was relatively stable year-on-year despite the increase in volume. Is that the trend we should anticipate going forward? And do you still expect to achieve the 7% to 8% volume growth for the year if January and February -- I estimate it was probably down 5% if March is half of the quarter? Is that a fair assumption for the underlying business, excluding COVID-19?

And then on Mail in the Netherlands, can you please quantify what the impact is of social mail? How important is that in the mix and direct mail and how important these factors will contribute going forward?

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [3]  
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Okay. And please remind me, David, if I've missed out on one because this went very, very quick.

The net impact in the first quarter, if we look at, let's say, the first quarter results and the comparison to our own plans, we are ahead of schedule and that's driven by a couple of components. The Sandd integration has resulted in a better trajectory. Basically, we've reached positive contribution on the integration already in the first quarter, which was better than expected.

At the same time, also with lower volume growth in the first months of the quarter, Parcels has managed to improve the margin. And at the same time, also, the realization of cost savings in the mail side were in accordance with our plan.

So those elements together contributed also to a better-than-expected outcome of this first quarter.

If you talk about the growth of parcel volume, then the January, February numbers were impacted, as I said, by

multi-vendor, so switch to multi-vendor, which taken the volume growth down, as well as the international streams coming from Asia towards mainly Europe.

All in all, we definitely do expect the full year parcel growth number to be within the 7% to 9% volume growth expectation. Obviously, depending as well on how long the increased volume growth that we currently see. And as said, that has significantly increased also from March run rates or will continue. But at this moment in time, we definitely expect a 7% to 9% full year growth on Parcels.

Then another question was related to Mail Netherlands. The split between single items and bulk mail, we don't have a more specific split between bulk mail and transaction mail and direct mail. But in comparison on a full year basis, you basically need to look at single items being roughly 10% to 15% of full year numbers. But per quarter, that can vary a bit because big direct marketing campaigns can influence that relative position throughout the different quarters.

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David Kerstens, Jefferies LLC, Research Division - Equity Analyst [4]

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Great. Can I ask one quick follow-up, please, with regards to the parcel EBIT? You highlighted in the presentation that Spring contributed -- Spring and logistics contributed EUR 6 million, but you talked about the volume pressure in March. What's driving that improvement in Spring? And is that sustainable going forward?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [5]

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But let's make the -- let's make the split. We've got international parcels, let's say, coming to the Parcels network. And next to that, we've got Spring. So what I was talking about predominantly was the international parcel streams. Import flows have been affected earlier than in the Netherlands and Belgium by COVID-19. As Spring has improved in comparison to last year, both -- well, of course, last year, we've talked a lot about Spring answer in comparison to last year. That improvement was driven by more e-commerce-related businesses within Spring, predominantly in Mainland Europe, and a better improvement on costs.

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Operator [6]  
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The next question comes from Mr. Ruben Devos, KBC Securities.

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Ruben Devos, KBC Securities NV, Research Division - Senior Financial Analyst [7]  
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Just 2 for me. The first one as well on the run rate volume growth of Parcels. At the end of March, it was about 14%. You've seen even stronger growth in April. Could you possibly quantify the trend in the last few weeks, please? The reason I'm asking is that we've been seeing a lot of new strong potential growth of e-commerce with volumes as high as in the end -- of the year-end holiday period. I've read the reports as well that you expanded capacity 40%. Belgium is seeing a tremendous catch-up in growth. So next to the volume trends, would be much appreciated if you could comment on these.

Secondly, just on Amazon. They've gone live in March. I

understand it's still early days, but would it be possible to expand a bit on what you've seen since its entrance? Some flavor on the market dynamics? What web shop behavior has been, pricing pressure, that sort of thing.

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [8]

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If I -- the -- let me talk about the volume growth end of March and then in the direction of April. We did not quantify it, but what we did say, and what Pim repeated, of course, in his presentation is that it's significantly higher than end of March. And that's what we do see for the whole of April. And it is indeed correct that volume growth in Belgium is even much higher than it is in the Netherlands and that had mostly to do with the fact that most of the shops were closed in Belgium, and they were not in the Netherlands.

Amazon did go live, of course, in March. It didn't have a big impact yet on the market, so not in price pressure, not in the way market acted. But I also do think that COVID-19, of course, is the biggest impact in e-commerce at this moment in time and what real impact of Amazon will be -- will only be visible over time. So, so far,

no changes seen or measured in the market.

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Ruben Devos, KBC Securities NV, Research Division -  
Senior Financial Analyst [9]

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All right. And I'd just like to add one question, if I may. So interesting to read that you'll open a new depot in Belgium. About 120,000 parcels per day will be handled, I read, yes. Could you talk a bit how the depot fits within the capacity plan that you unfolded at the CMD and when the development will be finished?

And related to that, very curious to hear what elements have led you to decide to build the depot in Willebroek.

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of  
the Management Board & CEO [10]

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I think the depot in Belgium was already communicated and planned when we had our Capital Markets Day in

2019. By then, we did say we want to open 2 in Belgium. So it will add capacity, of course, in Belgium itself. And what it does do as well is that it releases some capacity of our Southern depots in the Netherlands. So part of the sorting today taking place in the depots we have in Limburg and Brabant, and that will be handed over, of course, to the new-to-open depot in Belgium. And that releases capacity in The Netherlands as well. So it helps on 2 fronts, and the opening is planned in 2021.

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Operator [11]

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Next question comes from Mr. Marc Zwartsenburg, ING.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [12]

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Yes. A couple of questions. Let's take them one by one, please. First, on the extra cost for health and safety measures, can you give us a bit of an indication how



much extra costs you've seen in Q1 and what we should expect for Q2?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [13]

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Well, of course, a combination of elements led -- has led to those additional costs. It's a combination, of course, of the steep increase in illness rates and the amendments to the processes that we've had to undertake to ensure the 1.5 meters distancing. It's difficult to be very exact in the normal numbers going forward, Marc. But let's say, the combination of the illness rate implications in month already had several millions impact in the March numbers. And luckily, we've seen the April illness rates come down throughout April. So the average run rate in April has still been significantly higher than normal, but it's getting down relatively close to the numbers of pre-mid-March illness rates.

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [14]

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Another thing good to understand, Marc, is that we currently are using a very broad definition of illness, which means that what we did say to people working for PostNL, everyone who feels sick, stay at home. Everyone who has people in their family who are sick together with, for example, cough or something like that, stay at home. Some of the elderly people in our organization who are vulnerable and while we cannot create a working environment where they are safe, stay at home. So our definition of illness from the start of the COVID-19 crisis, it's much broader than what you would normally use as probably illness. That helped us enormously in making sure that we could continue our operations and in making sure that we didn't have that much of people getting sick at our locations.

And as Pim said, fortunately, of course, people are coming back relatively quickly over the month of April.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [15]  
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And are these costs mainly in Parcels where I can imagine that you have more safety measures to be taken care of? Or is it equally spread?

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [16]

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It's both. And also in mail, you have to take lots of measures because we have big sorting centers. We still have lots of preparation locations where people prepare the mailbags for our mail deliverers. And we have more than 2,000 depots in the Netherlands where people pick up their delivery bags. So I would say it's equally spread.

And then when you come to the amount of people, of course, in mail, you have much bigger amount of people than we have in Parcels.

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Marc Zwartsenburg, ING Groep N.V., Research Division - Head of Benelux Equity Research [17]

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Yes, true. Then one for Pim. The working capital, you mentioned that you had -- yes, that it was far better than you anticipated. And also for the full year and the guidance is EUR 65 million, EUR 75 million negative investments in working capital, would you say that guidance now come down maybe to a different number?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [18]

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Yes. Well, as said, I think if we turn back the clock, we've seen a very good outturn on working capital in Q4 2019. Then it's always a bit, let's say, interesting to see how much actually sticks and whether or not you lose a bit of that in the beginning of the new year. And I think looking at the minus EUR 6 million, that's, let's say, a significantly lower investment in working capital than we have estimated. So that also has positive implications on the full year expectations on the investment in working capital, albeit that we monitor obviously also very closely whether or not there is any change on our receivable positions because of COVID-19 liquidity issues potentially at our clients. At the moment, not significantly yet, but you can assume less investment in working capital than

assumed before.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [19]

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Any range you want to give that? Or...

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [20]

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Yes. No, that's a bit too early for that right now.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [21]

Okay, okay. And then going back to the Parcel volumes, [Herna] also say something like negative numbers for Jan and Feb. Could you maybe comment a bit on what happened in January and Feb and what the trend was and perhaps also indicate what the negative impact was from the international parcel business on the growth rate? Because we know the stock is down today, and I think it maybe relates to these 2 numbers. So if you could give a bit more color on what happened in January and Feb, that would be great.

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [22]

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Well, I'm afraid I will get back to the same points. So January and Feb together driven or influenced by multi-vendor, and that basically, as we've guided before, takes a few percentage points off the overall growth. So bigger clients like bunq.com bank or Zalando have opted earlier to use a second carrier for part of their volume just to make their business model less reliant only on us in peak capacity periods in the end of the year. But that has materialized as we expected in January and February.

Next to that, the continuation of the volume growth

trends in more mature categories, like fashion, impacted that growth number as well. On top of that, as of February, we've seen a steep decline of the import flows of cross-border. And if I say steep, you need to think a double-digit decline in comparison to last year. But of course, take into account that international part of the volume is a relatively small part, let's say, 10% to 20% of total volume. But still, a double-digit decline on 10% to 15% of that volume is relevant numbers here.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [23]

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But the growth is negative in Jan and Feb?

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [24]

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No, not the combination of those, not. And also in the first 2 weeks of March, we already saw our growth

numbers picking up as we expected. And that subsequently accelerated towards the 14% run rate numbers in the second part of March.

The first 2 weeks of March were already significantly higher than Jan and February, accelerated throughout March and continue to accelerate to today -- of today.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [25]

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Yes. If you're significantly accelerating into April, then I'm thinking of more than 20% volume growth in April. I know you're not willing yet to disclose the number, but could you give us a bit of a feel for the number versus -- yes.

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [26]

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I think that is a fair estimate.



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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [27]

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Okay. And then lastly, on Sandd -- sorry?

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [28]

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And for May, a lot lower.

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Marc Zwartsenburg, ING Groep N.V., Research Division -  
Head of Benelux Equity Research [29]

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Good, good. No, that's already very helpful. And then on

Sandd's run rate, EUR 22 million in Q1. Obviously, the master plan saving and the delays may be more geared to the second half. It's far ahead in terms of run rate than the EUR 55 million guided for 2022. Is it perhaps unlikely to think that we would see a number of EUR 60 million, EUR 70 million already for this year? Or am I now talking blue sky? Or...

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [30]

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No, it's not unlikely. But please take into account the point that you make yourself that predominantly, in the second part of the year, we'll see the bigger consequences of lower cost savings as a consequence of the integration. That you need to deduct from the kind of run rate synergies. But if you do that, you get close to the numbers you just mentioned.

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Marc Zwartsenburg, ING Groep N.V., Research Division - Head of Benelux Equity Research [31]

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That's probably also the reason why you mentioned specifically that Q1 is ahead of plan and better than expected, that you're fairly confident then that you maybe end up towards the higher end of the range then, I think, if it's better than expected to start with. Is that a logical conclusion?

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [32]

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That's not a conclusion we have drawn. We kept the range at EUR 110 million to EUR 130 million mark and still with low visibility how COVID will develop over the next month or next half year. And as said, we're very proud on how successful the integration of Sandd is also on the people side as well as on the side of social workplaces. So there are many aspects in the integration of Sandd on which we are proud that it's, in our view, running and going as well as it does. But don't forget the delay in cost savings we've, of course, also forecasted in the graph you probably remember when we presented the business case of Sandd.

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Operator [33]

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The next question comes from Mr. Henk Slotboom, The Idea.

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Henk Slotboom, The Idea-Driven Equities Analyses Company - Research Analyst [34]

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Hope you're all well. I've got a couple of questions, and like Marc, I would like to take them one by one as well. First of all, Pim, a question on the net working capital. It's pleasing to see the improvements in the -- and that sticks. To what extent is it caused by a shift in mail to social mail, for example? Does that have a material impact on your working capital?

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Pim Berendsen, PostNL N.V. - CFO & Member of the

Management Board [35]

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No.

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Henk Slotboom, The Idea-Driven Equities Analyses  
Company - Research Analyst [36]

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Okay. That's clear.

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [37]

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The improvement in working capital is fundamentally driven by kind of quicker re-invoicing, reducing the DSO and optimizing our payable positions to the moment that we said we would pay and not earlier than that. But no implications whatsoever by this mix effect that you allude

to.

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Henk Slotboom, The Idea-Driven Equities Analyses  
Company - Research Analyst [38]  
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Okay. Perfect, that's clear. Then sticking to mail, yes, obviously, COVID-19 has influenced direct mail order campaigns. Can you give us any indication as to what kind of volume decreases we have to think of in direct mail when you look at April? And is it only restricted to direct mail? But are we also seeing, for example, a drop in transactional mail volumes because people are working from home and, call it, the paper trail is not so efficient when everybody is working from home?

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of  
the Management Board & CEO [39]  
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When you take the 12.8%, the volume decline we've set for mail in the Netherlands Q1, as said by Pim, 1.8% is

related to elections we had last year, which we do not have today, 0.5% is related to 1 work day less, and then more or less around 2% is related to COVID-19. That means that substitution is still in the band where we expected it to be. So we do not see at this moment in time a steeper decline in substitution.

And on your question, COVID-19, the influence, is it only direct mail? No, it is not, but it is mainly direct mail. So it is, of course, a little bit of business mail. It's a little bit of periodicals and then, for example, sponsored magazine. But it is mainly direct mail we see -- we don't see at this moment in time, at least in quarter 1, which we expected to see.

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Henk Slotboom, The Idea-Driven Equities Analyses  
Company - Research Analyst [40]

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But is it -- can you give us any feel on direct mail on the basis of what you've seen so far in April? Because figure in the first quarter was mainly impacted by the second half of March, I guess.

Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [41]

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That's correct. So it's impacted since the beginning of March, and then you see, of course, it's becoming a little bit steeper in the second half of March. As Pim said, we do have -- we made a Q2, which we gave a little bit of visibility on what we expect Q2 to be. And it's Q2 in which we've taken all precautions necessary. That gives you probably a little bit of idea.

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Henk Slotboom, The Idea-Driven Equities Analyses Company - Research Analyst [42]

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Okay. Then on the -- switching to Parcels, on the multi-vendorship, a lot has been said about it already. Now we've been reading a lot in the papers and in also a lot of media that most -- that since e-commerce volumes have picked up so steeply, there are delays in getting the stuff delivered at the right time at the right place. So what we've been picking up is a lot of companies shopping for, yes, others who can solve the problem for them, that



logistic problem for them.

If I understood it correctly, Pim said that especially during the peak period of last year, large clients were incentivized to go and look for alternatives, find multiple delivery firms working for them. Is this -- given what we've seen in COVID-19, as a result of COVID-19, it is picking up now. Is it fair to say that multi-vendorship will switch into another further gear? And if so, will that structurally -- could that structurally harm your market share? Because I guess people go to DHL or DPD, and then they will be perfectly willing to help them out provided that the client who want stuff being shipped wants to sign up for a longer period. They are not interested in an ad hoc business, but they try to glue the clients to them if I may say it.

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [43]  
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Yes. A couple of points from my side, Henk. We have not incentivized our customers to move to somebody else.  
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Henk Slotboom, The Idea-Driven Equities Analyses  
Company - Research Analyst [44]

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I'm sorry, that felt incentivized. So don't understand me  
wrong. But continue, please.

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [45]

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Yes. What I said is that because of peak and peak  
capacity and the fact that, as you know, we wanted to get  
to a better balance between volume growth, margin  
development and cash flow, there are just limitations to  
our capacity in that peak period in November, December  
times. And that's why some of our customers decided not  
to be completely dependent whether or not they could  
grow with us as quickly as they intended to go -- to grow  
and have opted to add a second carrier for the entire year  
because you just cannot switch only on November and  
December peak. You have to take a part of your volume  
for the entire year. That's what they've chosen to do, and  
that's what we expected and what is included in the first

quarter volume numbers of Parcels.

What we've subsequently seen is a ramp-up of our capacity of more than 40% as of March over the last weeks. Basically, if we talked peak in the past, we talked about a peak that lasts maybe 10 working days, 14 days from Black Friday to Sinterklaas and another peak in Christmastime. We're talking about peak and running at max capacity already as of mid-March. Although we scaled up 40%, some of the customers that we service have grown so fast that they have looked for alternative carriers as well if we couldn't take their parcels. By now, already quite a while ago, I think everybody is at max capacity, so DPD, DHL as well. And as said, we will continue to expand our capacity going forward to ensure that we can help our customers grow as much as we can.

Henk, that said, today, we've announced the opening of a depot in Belgium. Next year, we'll have the small sorting parcel center live that also increases capacity significantly. We'll continue to expand our capabilities to service our clients.

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Henk Slotboom, The Idea-Driven Equities Analyses  
Company - Research Analyst [46]

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So summarizing, you don't see a shift in multi-vendorship in a way that it accelerated since the peak of the -- the peak in volume.

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [47]

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Not structurally. As said, some clients have moved volume to other carriers because of the fact that we couldn't service them and because of the fact that the network was maximum utilized. But it remains to see whether or not that's structural or incidental. We don't see that at this moment in time.

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Henk Slotboom, The Idea-Driven Equities Analyses Company - Research Analyst [48]

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And a final question on Parcels. Last year, you discussed introducing a surcharge in peak periods. Meanwhile, unexpectedly, Bpost was the first one to introduce such a

surcharge. You didn't, as to my knowledge. Can you give me some background why you didn't do it? And are you still considering to do it given the fact that as you just said, that the peak is much more prolonged than during the year-end peak?

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [49]

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I think the -- I think, Henk, we did introduce peak pricing via normal contract negotiations. So that means that what we did do is last year, end of last year, in all contract negotiations of contracts that ended at that moment in time, we introduced peak pricing. Introducing COVID-19 extras like Belgium Post did without normal contract negotiations is not what we want to do.

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Henk Slotboom, The Idea-Driven Equities Analyses Company - Research Analyst [50]

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Okay. So basically, what you're saying is that the surcharge for new contracts applies for all the peak volumes? So let's assume that you say, "Okay, you can do 150% of your normal volume, and everything on top of that is subject to surcharge." Or how should I see...

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [51]

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In a specific period of the year, yes, in the last 6 weeks of the year.

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Henk Slotboom, The Idea-Driven Equities Analyses Company - Research Analyst [52]

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Yes. And not bulk volume? Okay, okay. Fine, yes, that's clear.

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [53]

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What is positive about this peak, so to say, yes, is this -- we talked about 3 different peaks, Henk. I'm sure you do remember one peak at the end of the year, a peak in the end of the day but also a peak on the Tuesday within the week. And what is a positive development that helps efficiency as well is that we see now a much more equal flow over the days of the week, which leads to more efficiency in sorting and delivery of parcels. But that peak has been flattening out as a consequence of the growth that we've seen as of mid-March.

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Operator [54]

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The next question comes from Mr. Wijnand Heineken, Independent Minds.

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Wijnand Heineken, Independent Minds Limited - Equity

Analyst [55]

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Yes. Most of my questions have already been answered, but maybe one left, and that is about Q2 outlook. You mentioned being very conservative as far as the outlook is concerned, especially within the mail. If we do a bit of the math, because you have given the breakdown of the volume decline in Q1 but taking maybe the COVID-19 impact for a full quarter, one might get into something like close to 15% volume decline. Is that something that is a part of your assumptions? Or do you have taken a different angle on that?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [56]

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No, not a fundamentally different angle. So what we've done is we've used run rates for the second part of March, which is not that easy for me in comparison to Parcels because in mail, you see much more impact of bigger mail shops, DM, direct marketing, rather than a steady stream of multiple clients growing across the



board as in Parcels. But roughly, we've done your exercise, and on volume, that is, well, relatively close to our own expectations.

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [57]

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Yes. Together with, of course, that the price/mix effect is positive because of the single mail items. So there is, of course, a different mix and therefore also a different price/mix than we did see before COVID-19.

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [58]

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Yes. And also that, we've done the same as the positive price/mix effect because of higher single items continues in our expectations in Q2.

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Operator [59]  
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Your next question comes from Ms. Lotte Timmermans,  
ABN AMRO.

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Lotte Timmermans, ABN AMRO Bank N.V., Research  
Division - Analyst [60]  
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First, a question on the phasing of normalized EBIT. You  
already indicated during the full year '19 results that the  
majority of normalized EBIT would be achieved in the  
second half. Did anything change on your assumptions?  
And was this what you expected?

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [61]  
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No, no fundamental changes. There, still the biggest part of normalized EBIT will be realized in the second part of the year. And by far, the biggest component in the last quarter -- also because in 2019, you will remember normalized EBIT that we had to take provisions in relation to the integration of Sandd. And on top of that, we're also running losses at that moment in time in Sandd, which we'll now not have in the last quarter of this year.  
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Lotte Timmermans, ABN AMRO Bank N.V., Research Division - Analyst [62]  
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And then actually, the other way around. So that's a couple -- let's say, Q2 is actually lower than expected and that more of the normalized EBIT will be achieved in the second half year?  
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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [63]  
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Okay. That way around, well, Q2 is definitely lower than the quarter last year. And well, by taking the assumptions on the mail side, as Herna said, conservative, basically originally -- yes, yes, we've kind of expected a slightly lower Q2 than originally. That's the...  
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Lotte Timmermans, ABN AMRO Bank N.V., Research Division - Analyst [64]  
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Now you expected lower Q2 than originally, okay.  
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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [65]  
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Yes. But still, we're not ahead of plan. We still expect to be ahead of plan halfway in the year.  
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Lotte Timmermans, ABN AMRO Bank N.V., Research  
Division - Analyst [66]  
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Yes. When I look at the graph, when I see that you say  
about 20% volume growth in April in Parcels and that  
operating costs are okay-ish, then I would say that Q2  
seems conservative from my side.  
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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [67]  
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Yes, you're right.  
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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of  
the Management Board & CEO [68]  
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And also, what we did say, we did take it cautious. Of course, you make Q2 when we were just -- of course, when we were just in the start of COVID-19, so you take a cautious view. And let's hope it will be a little bit better than what we forecast at this moment in time. But in our view, it is good to give you at least a view on how we see Q2 and now you understand hopefully a little bit better what the assumptions are we've taken to underpin this Q2.

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Lotte Timmermans, ABN AMRO Bank N.V., Research Division - Analyst [69]

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Okay. And last question, you say that campaigns are postponed. Is there any visibility on if they're postponed until second half of the year? Or is there any guidance you can give on that one?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [70]

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Yes, difficult. Yes, there are parts of volume that we know we'll get back because those are actually postponements on some of the sponsored magazines, for instance, that you know that they've moved to a different date. But it's really difficult to say how much is actually delayed and how much will be lost. You can imagine, say, a spring campaign will not be postponed to autumn, but some other elements can indeed be postponed to later in the year. But it's difficult to really give you clear numbers on that.  
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Operator [71]  
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(Operator Instructions) And then we continue with a question of Mr. Andre Mulder, Kepler Cheuvreux.  
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Andre F. M. Mulder, Kepler Cheuvreux, Research Division  
- Analyst [72]  
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Yes. Can you give us a feel about the size of direct mail in terms of sales?

Second question, you mentioned on the disposals the effect on sales, the effect on the proceeds. But what was the actual transaction with that on disposals? Maybe a question related to that, in the balance sheet, that shows that your asset held for sale are EUR 68 million and liabilities at EUR 85 million. Does that conclude from that, that there are going to be some further losses there?

And question on the distribution of EBIT over the quarters. You originally mentioned EUR 66 million of EBIT in the fourth quarter 2019. Would you say that the normalized level, the real normalized level is something like EUR 40 million? Otherwise, the columns do not sit there. It should be as large as Q2, which was EUR 39 million. So there's quite a difference there.

Last question. Yes, looking at Parcels, it now seems that every day is Christmas. Are you looking for an acceleration of the expansion there? Or should we view this as a sort of a temporary phenomenon?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [73]

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A lot of questions, Andre. Let's do the discontinued parts first. What we've said is that, let's say, there are separate transactions. We've sold Spotta, and that was really a derisking exercise given the changes in the unaddressed market. And that -- the same applies for stopping our unaddressed activities within 2019 within mail. PostNL Communication Services was sold. But let's say, the combination of the 2 did not really lead to a -- let's say, 3 did not lead to a material impact on results of -- transaction results, so to say. So those transactions have been done and are completed. And so I say yes, as all completion done, Spotta has been sold and also completed. So those elements are completely accounted for in the balance sheet.

What we still have to do is complete the transaction for Nexive, which you know has been signed. And we strive to complete that transaction end of May, hopefully beginning -- end of May, beginning of June. Of course, we're dependent there of Italian government to issue also postal licenses that were required to do the asset transfers that were part of the transaction. There's a bit of delay there caused by -- of the overall COVID-19 consequences in Italian government being slow on these -- in these elements.

On capacity increase, as said, we've ramped up capacity to 40% already. We will build a new depot in Zaandam

during 2021. The whole parcel sorting center will come live, which is a flexible way to increase capacity, because if we want to, if we need to, we can add sorters that will increase in a more efficient way the capacity that we can take. So these elements, we'll continue to build upon.

And let's see, yes, what is difficult to assess, some of the elements of the growth that we see might be structural. We see more households buying online than before. We actually visited addresses that we've never visited before. Although the Netherlands was already very mature online, there's still an increase of number of people that use online. That could definitely be there to stay. What is more difficult to predict at the moment is the impact of potential slowdown of macroeconomic circumstances and how they will then subsequently impact consumer behaviors and, as such, the growth. There's definitely parts of the change that we expect to be structural.

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [74]  
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I think the way we expand capacity at this moment in time is much more by, as said by Pim, the fact that we have equal flow over the week but also using more of our

sorting centers for sorting on a Sunday, filling in Monday as a full delivery day instead of as a partly delivery day. And so there are still several options we've already implemented and we will implement going forward to expand capacity.

I think you had a question around the distribution of EBIT over the quarters and Q4 normalized EBIT 2019 versus 2020. Think -- take into account what was said by Pim in the presentation that in 2019, in Q4 was added, of course, the cost we made for Sandd, the losses for Sandd and the integration costs we made for Sandd. So that's what you have to take in mind when you talk about Q4 2019, and those numbers will not be there in Q4 2020.

And your last question was on the size of direct mail in terms of sales. And that's what we didn't disclose and we did not split out. So sorry for that.

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Andre F. M. Mulder, Kepler Cheuvreux, Research Division  
- Analyst [75]

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And any indication we don't need the [government] support?

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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of  
the Management Board & CEO [76]

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No indication.

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [77]

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No.

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Operator [78]

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Next question comes from Mr. Marco Limite, Barclays.

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Marco Limite, Barclays Bank PLC, Research Division -  
Research Analyst [79]  
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Can you hear me?  
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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of  
the Management Board & CEO [80]  
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Yes, we do.  
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Operator [81]  
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Yes, we can hear you.  
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Marco Limite, Barclays Bank PLC, Research Division -  
Research Analyst [82]

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Sorry, I had it on mute. Just one question left for me. I was just wondering, what explains the difference between the normalized EBIT at EUR 15 million and the operating income that actually was negative at minus EUR 2 million?

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Pim Berendsen, PostNL N.V. - CFO & Member of the  
Management Board [83]

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That's driven by -- well, almost only explanation is an accelerated depreciation of Sandd assets in Q1. So that - partly, that was normalizations in Q4 '19. But that gap is completely explained by basically finally written down all remaining assets of Sandd as of February 1 because they were then not used anymore.

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Marco Limite, Barclays Bank PLC, Research Division -

Research Analyst [84]

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Okay. So we should not expect any more write-offs within...

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [85]

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Yes. That's to say that amount of normalizations will definitely not continue.

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Marco Limite, Barclays Bank PLC, Research Division - Research Analyst [86]

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Okay. And also another quick one. You have left the guidance for the cash flow unchanged compared to the full year '19. This means that in that guidance, you

haven't taken into account yet the new kind of deal on the pension settlement, right?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [87]

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Yes. What I said there is as soon as the agreement in principle becomes a full final agreement, we'll update that guidance on free cash flow. I've tried to help you with some numbers to get to a view as how they might look like, but as soon as we've got the final deal, we'll let you know.

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Operator [88]

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Last question comes from Mr. David Kerstens, Jefferies.

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David Kerstens, Jefferies LLC, Research Division -Equity Analyst [89]

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Just a quick follow-up, please, on the election effect that you called out. I was wondering, if that was included in your underlying mail volume decline and you didn't mention it a year ago, should we also take into account the election effects in the second quarter related to the European elections in 2019 and how large also the effect? I quickly googled what that election might have been in the first quarter last year and saw that's provinciale staat. Is the European election a lot more important?

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [90]

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No, not a lot more important. Kind of equally important, I would say. And we've, of course, taken that into account when we've given the volume guidance for full year.

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David Kerstens, Jefferies LLC, Research Division -Equity Analyst [91]

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Yes. So you have another 1.8% impact in the second quarter of '19 that you have to...

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Pim Berendsen, PostNL N.V. - CFO & Member of the Management Board [92]

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It depends a bit on the overall volumes in the second quarter, but roughly, yes. And when I announced -- has done this calculation of the expected volume growth, I've also taken a election effect in mind when I said that it was roughly -- roughly right, minus 15%. That's what I said, yes.

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Jochem van de Laarschot, PostNL N.V. - Director Communications & IR [93]

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Okay. Well, I think all questions have been asked at this stage. If you have any need for further information, you know where to find us. Let's stop it right here, and all I can say is stay safe and healthy and take care. See you next time. Thank you.  
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Hendrika W. P. M. A. Verhagen, PostNL N.V. - Chairman of the Management Board & CEO [94]  
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Thank you.  
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Operator [95]  
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Ladies and gentlemen, this will conclude the call. You may now disconnect your line. Have a nice day.