



Interim Financial Report

Second quarter 2016

Conference call transcript

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Koen Van Gerven, CEO

Koen Beeckmans, CFO

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PRESENTATION

Operator: Ladies and gentlemen, welcome to the bpost Q2 2016 Results Conference Call. I am pleased to present Mr Koen Van Gerven, CEO and Koen Beeckmans, CFO. For the first part of this call let me remind you that all participants will be in listen-only mode and afterward there will be a question and answer session. I would like now to hand the call over to Mr Koen Van Gerven and Koen Beeckmans. Gentlemen, please go ahead.

Koen Van Gerven: Thank you, Mr Operator. Ladies and gentlemen, good morning and thank you for joining us for this presentation on the Q2 2016 results. Next to Koen, who was already mentioned, I do have the IR team with Saskia Dheedene and Baudouin de Hepcée with me. You had certainly already opportunity to go through the materials we posted yesterday. I will try to summarise and then we can flip to the Q&A.

On page 3 you can see that we delivered solid results for the second quarter this year. Revenues were down only 1% or €5.7 million. This was fully due to the lower SGEI compensation of €8.1 million and excluding this impact, revenues would have been up €2.4 million. Again, this quarter the growth from parcels more than fully compensated the revenue decline from mail. Mail volumes continue their resilient trend with an underlying decline at 3.8% driven by a good performance in our different product portfolios. In addition, we posted excellent domestic parcels volume growth at 18.3% combined with a positive contribution from our acquisition strategy in international parcels.

Our cost savings continued to be on track and delivered €6.6 million. The reported average FTEs and interim reduction versus the second quarter of 2015 was 77 units. This number was impacted by additional FTEs and interims needed for higher volumes in parcels and solutions, as well as the

integration of Deltamedia and new subsidiaries. Excluding these elements our underlying productivity improvements came in at 707 FTEs and interims on average for the quarter. This is slightly below our outlook because we witness a temporary loss of productivity linked to the rollout of our Vision 2020 programme which involves the transfer of activities from distribution to sorting centres. However, I'm confident that we can compensate that through managing the cost factor in swapping temporary workers that we scheduled by auxiliary postmen that are less expensive. So all in all we managed, as in Q1, to fully offset the SGEI impact on our bottom line with EBITDA nearly stable at almost €160 million.

Moving to page 4, you can see that the result of the effects that I just mentioned they lead to nearly stable EBITDA for the quarter and before giving the floor to Koen I'd like to update you on a couple of things. First of all, the anti-competition process on the acquisition of the Belgium activities of Lagardère Travel Retail follows its normal course. We're still awaiting further feedback from the Belgium competition authority but we remain confident to be able to close the transaction in the second half of this year. We have also been quite active this quarter in the field of parcels. On the domestic front we have launched an Uber-like platform, a scoop in Belgium, allowing users to send and receive parcels using an app on their smartphone. On the international front we have acquired Apple Express in June and this US and Canadian based business will secure the transportation, fulfilment and last mile delivery to customers in both countries. And the acquisition will be consolidated into our P&L as of July. And I understand most of you were initially surprised about talks between us and PostNL. Since then a lot has been written about it. I read between the lines that upon reflection it was considered an interesting plan by almost everybody and of course I fully agree on that. Personally, I am still convinced that the combination would be powerful both for customers, employees and shareholders. But let's say that the chapter is closed for now.

With those remarks, Koen, the floor is yours to elaborate on more details on the financials.

Koen Beeckmans: Thanks you, Koen, and good morning everybody. I'm now on page 5 of the presentation. We see there that the EBITDA is in line with last year and the EBIT is down €1.5 million. Profit before tax is down €9 million as a result of higher non-cash financial charges related to IAS19 employee benefits and that is due to a decrease in the discount rate. The BGAAP net profit, which moves in line with the EBIT, was down €2.4 million for the quarter. However, we note that for the first half-year the BGAAP result was slightly up compared to last year so we are fully on track to realise our full-year dividend outlook.

On page 7 we show the details of the product lines starting with domestic mail. As mentioned before, domestic mail continued its resilient trend with an underlying volume decline at minus 3.8% compared to minus 6.1% for the same quarter last year. Please note that the underlying volume is corrected for two additional working days in the quarter. Transactional mail showed a better underlying decline at minus 4.8% as we didn't witness any acceleration in e-substitution. Advertising mail at minus 2.2% recorded a strong quarter in unaddressed mail and continued to benefit from the new selling approach in a couple of key focus sectors. Press showed an improved trend at minus 0.3% mainly driven by periodicals which benefitted from acquisition campaigns resulting in the distribution of free samples.

On page 8 we note the highest ever volume growth in domestic parcels at 18.3% while we continue to see a negative price mix impact of minus 3% in line with full-year 2015. It is important to understand that we still manage to increase prices line by line but it's the change in composition of the client and product mix that is causing this negative effect. International parcels grew by €1.8 million, mainly supported by our growth and acquisition strategy. Flows out of the US slightly decreased as US goods continued to suffer from decreased price competitiveness due to the strong US dollar. Shipments to and from China decreased by €3.9 million.

On page 9 we see that the additional sources of revenues were driven by our value-added services which continued to grow. International mail continued to decline but to a lesser extent than in previous quarters. This is due to the consequent execution of our pricing strategy in order to safeguard reasonable profit levels.

Moving to costs on page 10, you see that our cost savings remain on track. We managed to reduce costs on an underlying basis by €6.6 million. We have tried to make things comparable to previous quarters as this quarter had been impacted by some exceptional elements not directly related to our underlying business performance. As you can see, the net effect of those is a €1.3 million cost increase for the quarter. Excluding all those elements, payroll and interim costs went down by €6.4 million. Transport costs and other costs are down, respectively €2.2 million and €0.7 million. Finally, other SG&A increased by €2.6 million, mainly driven by higher publicity and maintenance costs.

Finally, looking at the cash flow on page 11, we see that free cash flow and cash generation improved versus the same quarter last year. This was mainly driven by the increase in the results of operating activities, excluding the SGEI revenue impact, which is non-cash this quarter. You know that we received the SGEI payments in January, so we have seen the full effect in cash in the first quarter already. The Alpha pay-outs amounted to €6.3 million this quarter. Working capital evolution showed a positive trend, mainly due to phasing of commissions received from bpost bank. Capex was higher than last year, mainly as a result of additional investments with relation to the construction of our new sorting centre in Brussels. Outflows for M&A were largely in line with last year. With this, I'd like to hand over to the other Koen for some closing remarks.

Koen Van Gerven: Thank you. Thank you, and to conclude, I'm pleased to see that this second quarter keeps us fully on track for 2016. We again managed to compensate the impact of the

reduced SGEI compensation on our profitability. I'm also glad to see the positive contribution from our growth and acquisition strategy in the international arena. Finally, we have revised our outlook slightly upwards and we now expect underlying mail volume decline to come out at around 5% for the full year. We have also raised our ambition to realise at least the same normalised EBITDA as in 2015 and to pay at least the same level of dividend. And with this, we are happy to answer your questions. Please open the lines.

QUESTIONS & ANSWERS

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please dial 01 on your telephone keypad.

We have a question from Ruben Devos from KBC Securities. Please go ahead.

Ruben Devos: Yes, good morning. Two questions, please. First one on domestic mail. For four consecutive quarters, you've now delivered mail volumes below 5%. Initially you benefited from your efforts at advertising mail, but now it seems the performance is being driven across the board with both transactional and press chipping in. Could you give some comments whether you believe the performance of transactional mail and press is sustainable or is it basically just the result of the volatile nature of these activities? And now that we're 40 days into the third quarter, how has the development been? How has the development been of volumes in the meantime and how has this influenced your guidance raise?

And the second question, basically on parcels. In one of the previous calls, it was highlighted that you could easily absorb additional parcels in the existing network, sort of highlighting the operating leverage effect. But obviously since 2014, margins have improved substantially, but I was wondering, bearing in mind that they're still roughly 12 percentage points lower than your legacy mail business, at what sort of level would you believe –what sort of level would you believe is manageable in the mid- to long-term in terms of margins? Thank you.

Koen Van Gerven: Okay, thank you Ruben for those questions. First of all, as mail is concerned, as we already indicated, making big predictions on how we are going to evolve in transactional measures is very difficult. Volatility indeed remains high. When we did modify slightly our outlook,

you can't – or you have to bear in mind that indeed 5% is even above where we are today, but you have to bear in mind that the comps of last year were stronger or heavier or more challenging in the second half of the year than in the first year of – in the first half of the year. So that's why we think that with the figures and the outlook that we have, it's about the reality, it's prudent, but I'm not sure that we can see already whatever trend changing.

As far as – and, yes the start, of course, of the third quarter, but we don't provide figures or we don't change outlook in function of the evolution within the quarter. Then as parcels is concerned indeed, we do operate a mixed network of both, but as I already told in the past, the margin determination of the different projects in that network would be a cost allocation exercise, so – and which is fairly arbitrary, so it's important for us that we manage the profitability of the integrated network, and that we do in a quite dynamic way, but the all-over profitability is the benchmark that we use to evaluate how they work.

Ruben Devos: Okay. Thank you. And just a small follow-up for advertising mail, so, yeah, typically we see large fluctuations in advertising spend at great sport events, such as the Euro soccer cup, obviously, and then the Olympics. Just... So could you give an idea, how did this affect your performance of advertising mail in June and July and what you'd expect from August? So just in terms of whether we should take that into account in setting our Q3 forecast?

Koen Van Gerven: Indeed, there are a couple of important events, but we're quite confident that the world will continue turning and that we will, at regular occasions, have important events. What's positive in our conviction is that, we did change our approach, We have put more focus on a couple of sectors, and you know the sectors. And that we see that the efforts and the approach deliver results, and so we will continue to work on that.

Ruben Devos: Okay. Thank you.

Operator: Thank you. Our next question is from David Kerstens from Jefferies. Please go ahead.

David Kerstens: Good morning, gentlemen. Two questions, please. First of all, you have now looked at the Romanian postal operator as well as on – as well as at PostNL. I was wondering if you could share your views on the strategic rationale of cross-border consolidation in the European postal sector, and perhaps more specifically on PostNL.

The second question is regarding the outlook. I think some of your competitors have already provided the 2017 guidance. You are currently clearly enjoying strong underlying earnings momentum with EBITDA growth of 6%, excluding the lower SGEI compensation. I was wondering if – the cost drivers that you have in place for 2016, to what extent are they sustainable into next year, and is that the – the current earnings momentum, is that what we should expect going forward as well? Thank you very much.

Koen Van Gerven: Okay, thank you, David, for the questions. The first question is a broader question, and indeed we did look in a previous period to post – to the Romanian post. I have to stress that the dynamics of both files were completely different. The Romanian post was not about trying to create an integrated market. It had to do with the experience that we had built in transforming quite profoundly a postal operator, and this is what we wanted to monetise in that case. So the idea was not to build integrated business, but, as you know, that didn't work out. The dynamics of the PostNL case were completely different, of course, and we already elaborated on that. We did see quite some interesting elements in creating a strong domestic player in a big market, which would be the Benelux or the Bene; Belgium and Netherlands. We do see geographical complementarities in our international presence. If you map it all over the world, the

overlaps are quite limited, but the complementarities are quite important. And then probably we were convinced – although this was not the main driver of the rationale – that even in the mail market – and the mail markets in the Netherlands and Belgium are quite different, so the idea was not to merge them together and to integrate them. We would continue to run them fairly separately with a USO which is slightly different and a regulatory framework which is slightly different, although going forward, provided that mail is still important in both realities, in both areas, we thought that we could benefit from a bigger platform being better ready for developing new technologies as far as that's concerned.

So the rationale was completely different. Question, can we replicate this rationale somewhere else? In my opinion, it's very important that you have markets that are physically close to each other. And then you can try to create a logical, more important domestic market. So with the two files we did elaborate the rationale was different, and I am not sure we can replicate it in whatever other market in Europe and make a general statement on the consolidation of the mail market in Europe.

That's as far as the first question is concerned. As far as outlook is concerned, 2017, you know that we don't provide long-term outlooks. 2017 of course, as every year, will be challenging. We will continue to work on the different levers in order to continue to deliver in line with the expectations of the shareholders. So that is what we will prepare, and we will continue to work as well on the revenue levers, on the price levers, as on the cost levers.

David Kerstens: Okay. Thank you very much.

Operator: Thank you. We have a next question from Christopher Combé from JP Morgan. Please go ahead.

Christopher Combé: Good morning. Apologies, I missed the very beginning of the call in case you've touched on some of these. But just three questions. First of all, given the very strong advertising growth, can you elaborate on how much dilution you're seeing in terms of the average unit revenue for domestic mail from that factor alone?

And then, looking at H2, your full-year guidance for volumes suggests a pretty significant drop in the trend. Is it safe to say that if current trends hold we're likely to see a result starting with a four rather than a five?

And then lastly, can you give us an update on B2B market share developments since the IPO, when I believe the share was around 5%? Thank you.

Koen Van Gerven: On the first, basically, there is nothing very important to mention on dilution. I think that the three parts of our portfolio evolved quite positively and you can see in the material that – on page 6 – that it doesn't move very much. So nothing especially to mention on that.

As far as the volume drop is concerned – and I did elaborate already briefly on that – but indeed, if you do the maths, then you could expect – or you could think that we expect an important drop in the second half of the year to come, which is not the case. I think that I can mention – and I did mention – that the comps of last year were – if we make the comps then, of course the second half of the year was more challenging. The first half of 2015 we had a drop of 5.7 in volume, where the second half of the year we were at 4.3. So it will be more challenging to compare it with last year. That is the only reason. And then the other reason, probably, is that we tend to be – and we continue to be – prudent people.

Christopher Combé: Great, thanks. And on the B2B market share developments?

Koen Van Gerven: Well, nothing very important to mention. If you look at the number or the increase of the volume, then we grew faster than the GDP. And as you know, this kind of market develops in line with GDP, we expect that we catch up in market share, so but as planned on our journey that we stipulated already in the past.

Christopher Combé: And just one follow-up on that: is there any scenario where you would find the need eventually to develop dedicated B2B distribution as some of your peers have done, as that becomes a bigger segment – a more important segment?

Koen Van Gerven: It is a very interesting question but what do I say? Unfortunately, or fortunately, we don't have to reflect them. I think with volumes that we have, even with doubling the market share, if you compute the volumes that we have to work on, especially in part of the market where the B2C characteristics of the products are quite similar to the B2B, I'm not sure it would be a good idea in the short term to develop a separate network on that, except for, of course, the sprint activities, where we have already a separate operation as you know.

Christopher Combé: That's very helpful, thank you.

Operator: Thank you, we have no further questions for the moment. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please dial 01 on your telephone keypad.

We have a question from André Mulder from Kepler. Please go ahead.

André Mulder: Good morning. André Mulder, Kepler. Two questions. Firstly, I don't think you have ever done this before, but looking at your competitors, they have reported on change in the

parcels adjusting for the working day effect. You have mentioned only 18%. How would that number look like if you adjust for that working day effect?

Koen Van Gerven: Indeed, we don't modify or we don't make corrections on parcels for working days. It is something we never did and well, there is a big logic behind it, but I'm not sure that that's that relevant. But next to that I think we're quite in line with Q1 in terms of volume growth if, theoretically, we would make this change. So in Q1 we were at 14.6% and if we do that for the second quarter we are going to be almost in the same area.

André Mulder: Okay, second question on the tax rate. How will that evolve going forward?

Koen Van Gerven: The tax rate? That is something for the CFO.

Koen Beeckmans: Thank you Koen. On the tax rate, I think it will be in line with last year. You see that the effective tax rate is in percentage lower than what we normally have. We came out at the end of Q2 at 32.5%. That has to do with phasing things because we exclude the result, for example, of our subsidiaries. The bank had some negative impact due to IFRIC 21 in the first quarter, which means that, relatively, compared to last year, the results of the bank went up. When we exclude the better result in Q2, then you see that the effective tax rate was lower than that. So, to answer your question, it will be in line with last year.

André Mulder: Okay, thanks.

Operator: Thank you, our next question is from Philip Scholte from Kempen. Please go ahead.

Philip Scholte: Yes, it's Philip Scholte from Kempen. A question on your FTE reduction target; I understand that it's a bit lower, probably due to a better-than-expected growth in parcels, but does that mean that you also expect that number to actually catch up still in the coming years, or is that actually also still dependent on volume growth in the parcels side in the next coming years?

Koen Van Gerven: A couple of remarks on that, Philip. First of all, indeed, if the business develops better than expected, of course, then it will have impact on the FTEs, which in my opinion is good news. Although, as I already mentioned in my opening remarks, we experienced some delay in the reduction that we tried to realise with the roll out of Vision 2020. We currently, in that project, are in the phase that we start transferring activities – preparing activities from the mail distribution centre to the industrial mail centre, our sorting centres. As you know, the idea is that, at the end of the Vision 2020, the mailbag of the mailman will be fully prepared in an industrial way and it will be sequenced and the mailman will receive it and he will start doing the distribution.

We are in the phase that we did install, as you know, last year and we're still in the process of installing these big, mixed sorting machines and we are in the process that we now sort the big flats on a round level. The tuning of the machines to realise this takes slightly more time than we expected, or it goes a little bit slower than we expected. And that means that it takes, at the moment, still a little bit more people than we expected and we can – ballgame figure on that, it's going to be between 100 and 150 people. So we experience a slight delay, which is the less good news.

The good news on that is that, in our plans, covering this period should have been done by temp workers, which are more expensive than contractual workers. The size – provided that it will take a little bit more time, we decided to swap these temp workers for less costly contractual workers.

So in the figures – in the financial figures, you will not see it, although in the FTE figures, we are slightly behind, but I am quite confident that we will catch up in the months and the year to come.

Philip Scholte: And has that also led to a deterioration in your delivery quality?

Koen Van Gerven: Not really because the thing I'm talking about is in the sorting part, so when we would have not modified the staffing, then the impact could have been on the quality and the delivery of the quality but provided that we consider this as very important, even more in the parcel activity than in the mail activity, probably, we don't compromise on quality.

Philip Scholte: Right. And then the second part of the question was: do you expect to catch up on this already in the second half and/or in the next coming years?

Koen Van Gerven: As I said, we work hard on that but I'm not sure that we will completely compensate in the second half of this year and as I explained, I don't have too big concerns on that because we can mitigate, as we should do. But of course, the challenge is that we fully catch up with that in the course of next year.

Philip Scholte: Right, right. And then, if I may, another question on – can you update us on where you are in the Alpha plan, maybe in terms of percentage of completion or anything like that?

Koen Van Gerven: It runs as expected and I think, by far and large, we can say that we are at two-thirds of the journey. You remember that the idea was to reduce the headcount with something more than 600–625. Altogether, if you add up what we did already, we are at 470, so there is still 150 to go and that will be realised in the remaining part of this year and as we always

said, probably there's going to be a small tail in the course of 2017. So I'm confident that that goes as planned.

Philip Scholte: Cool, thanks.

Operator: Thank you. Our next question is from Marc Zwartsenburg from ING, please go ahead.

Marc Zwartsenburg: Yeah, it's Marc Zwartsenburg, ING. To follow up on Philip's question on the FTEs, if I hear it correctly, I would take it – your comments as that the guidance for this year is that you will not be in the 800–1,200 range, or at least not on the low end but perhaps even below that range; is that correct? And then, if I take it further, to 2017, as you mentioned that you will catch up there. Does that mean that you will then, indeed, go into the range of the decline of, say, 800–900 for next year? That's my first question.

Given that there are also some acquisitions kicking in, how should I read that into FTE numbers? Because we're now talking, I presume, excluding acquisitions. Can you give me a feel for what the acquisitions will add in terms of revenues but also in terms of FTEs; how many FTEs we should add to the count? And perhaps also the cash outflow planning for paying for acquisitions.

And then another question: can you give us the current level of premium equity reserve that you have available?

And the last question I have – no, second last, actually, sorry – real estate sales, what is the pipeline currently for the second half of this year? Should we expect any and how should we go about that for next year?

And then the last one: can you give us also the trend to milk powder parcels and what the revenues were in Q2 from that segment? Thank you.

Koen Van Gerven: Thank you, Marc. As far as FTEs is concerned, it is indeed correct that – my expectation is that, by the end of the year, we're going to below the 800 that we outlooked in the beginning of the year. There is still a little bit of uncertainty on that, but, as I said, I'm not going to glorify the figure. What I said to my people, 'Look I don't want to compromise on quality, I don't want to see it in my figures and we have levers with the financial figures, we have levers to work on that, and they will do that. And then we have to prepare to catch up next year. We don't provide outlooks for next year, but it's certainly the ambition that we will work hard on that to catch up for next year.

The second question was about acquisitions.

Baudouin de Hepcée: Acquisitions, the impact in the revenues for the acquisitions. For Q2, we had an impact in revenue for 6.2, in OPEX, minus 5.7. And in FTE, the total FTE included for these new subsidiaries was 196 FTE additional.

Koen Van Gerven: So – and those are the two acquisitions that we did include, which are the bold-ons FDM and the Poland acquisition. Apple Express that we did acquire recently was not yet in the figures, and neither was of course Lagardère.

Marc Zwartsenburg: And how would those numbers then look like in the second half?

Koen Van Gerven: I don't have it on the top of my head.

Koen Beeckmans: In the – well –

Koen van Gerven: I presume – Marc, is it okay to you if we come back to you with the correct figures?

Marc Zwartsenburg: Yeah, sure.

Koen van Gerven: Because I don't have it on the top of my head, so sorry for that.

Koen Beeckmans: But they will stay the same, Marc, because – well, of course, if we acquire Lagardère then it will be different, and that hasn't closed yet, but as of – with regard to the existing acquisitions, these are the employees that are currently working there, and that we are including in the numbers.

Marc Zwartsenburg: Yeah, they are already included. So only Apple needs to be included in the second half, and then perhaps later on Lagardère?

Koen Van Gerven: That's right, that's right. So – but we will come with figures on that.

Marc Zwartsenburg: Yeah, great.

Koen Van Gerven: Then you had a question that Koen will take on the...

Koen Beeckmans: Cash outflows, well, of course, that depends on two things: the closing of, for example, Lagardère, and that's an important one. And on – and then on the rest of the cash

outflows, that has to do with earn-outs that we have on the acquisitions, and that depends of course on the results of these companies, okay?

Marc Zwartsenburg: Roughly, any sort of liability on the balance sheet for that?

Koen Beeckmans: Yes, we will book liability on that on the balance sheet, yeah, that's correct.

Marc Zwartsenburg: Any size?

Koen Beeckmans: I don't think we provide the number separately, so – because it's a complete number for all the different items, and we took some assumptions there as well on the earn-outs. We don't provide that per company.

Marc Zwartsenburg: But only the earn-outs still need to be then on the balance sheet; all the rest has been paid for?

Koen Beeckmans: Yes, that's correct, yeah.

Marc Zwartsenburg: Okay.

Koen Van Gerven: Real estate?

Marc Zwartsenburg: Yeah, real estate.

Koen Beeckmans: Yeah, on real estate, first, the equity premium, last year it was around €97 million. And of course, depending on the interim dividend, we will add to that, the difference

between the reserves created this year minus the interim dividend payment, and of course, we will come back to that later this year.

On real estate sales, in the first half-year, yes, it was a little higher than last year, but we don't – as I said also last time, we don't fully control the timing of the closing of the transactions, but again, as I said in – earlier, we believe it will be in line with last year. And I also gave last time the average numbers on real estates, okay? Q2 was a little lower than Q1, but I think we will be in line there.

Koen Van Gerven: Marc, but – we don't have, as we had last year, a particular big transaction in the pipeline, so that unfortunately will not be reproduced this year.

Koen Beeckmans: Yes, Marc, as you know –

Marc Zwartsenburg: So in the second half – yeah, sorry, so the second half will be more or less in line with last year, but then excluding any big ones.

Koen van Gerven: That's right, yes, that's right. So – and we're going to be in line with what we did in the previous years, which was always around €15 million or something like that.

Marc Zwartsenburg: €50 million. Okay, thank you.

Koen Beeckmans: And then –

Koen Van Gerven: 1-5, Marc.

Marc Zwartsenburg: Sorry, 1-5, yeah. I've already thought about it, a high number. I was just looking on the model. Okay, the milk powder?

Koen Beeckmans: On the milk powder, we have lost some volume there, but that is due to the fact that we experienced higher last-mile delivery costs in China, and therefore we have, as of April, increased our prices in order to be able to cover that, because as you know, we are really focused on profitable growth, and if we incur higher costs, then we're also trying to recoup that through higher prices. So we have lost some volume there, but again, I think the increase of the prices of the last mile will be for everybody, so we are working very hard to get some volumes back on the milk powder.

Marc Zwartsenburg: And how should I read that, 'working hard to get it back'? Is it dropping prices or is it something else?

Koen Beeckmans: No, but as you know, the – no, no, definitely not. But as you know, this volume is rather flexible. I would say – and we've always said – that it's very nice to have, but it may disappear one day. Again, we believe that the last-mile delivery price increase in China will not only be for us, but again, we would like to have profitable growth, so therefore, we have increased our prices. We see that some volume is coming back again to us, so...

Koen Van Gerven: If it comes back, it's nice; if it doesn't come back, so be it. But we're not going to lose money on that.

Marc Zwartsenburg: Is it still big?

Koen Beeckmans: Yes.

Marc Zwartsenburg: And could you give us an indication on revenues in the quarter?

Koen Beeckmans: Well, on the full year last year, as I said, it was €33 million, and we've lost now a couple of millions in the first half year.

Marc Zwartsenburg: Okay.

Koen Beeckmans: Okay?

Marc Zwartsenburg: Yeah, thank you very much.

Operator: Thank you. Our next question is from Christopher Combé from JP Morgan. Please go ahead.

Christopher Combé: Hi, sorry, just one follow-up on working capital. It looks like the guidance is the same; you've called out terminal due impacts and Alpha plan provision burn. If we set aside Alpha plan, can you give us some sense on the terminal dues impact in the second half, and, you know, are there any other underlying developments in working capital that are likely to persist? Thanks.

Koen Beeckmans: As you know, working capital is always, I would say, flexible and it depends on timing of payments, etc. We believe that, yes, we had a positive evolution of the working capital but, for the time being, well, we don't really see any impact that would kick in, in the second half of the year; that would be completely different. So for the time being, we have said that it's due to

positive phasing and higher recoverable VAT but aside from that, well, we don't have any elements that would change this opinion right now for the second half.

Christopher Combé: Great, thank you.

Operator: Our next question is from Henk Slotboom from The Idea, please go ahead.

Henk Slotboom: Good morning, gentlemen. Most of my questions were on the alpha thing and they've been answered already. Perhaps a little follow-up on the parcels business? You managed to grow your parcels business quite impressively, in volume terms, in the first half of this year and now we all know that volume growth – high growth numbers attract other people as well and in some cases companies like Coolblue have taken control – have been taking control on the delivery of a specific range of products themselves; Amazon, we see they are doing. Belgium is a small country but what do you think, in the long run? Are the odds of somebody else trying to squeeze into the market? I'm referring to the Coolblues, to the bol.coms and so on. Perhaps you can shed some light on that, please?

Koen Van Gerven: A couple of reflections on that, Henk. First of all, as you already indicated, Belgium is a small country but, on top of that, it's a fairly complicated country, with different languages, different cultures, which doesn't make it easier for someone who wants to start. But of course you can never exclude. But when I take the years ahead of us, probably, for this type of players, there are still more interesting markets than the Belgian market. That's the first observation I would like to make but, of course, we continue to monitor what happens in that world.

Secondly – and you make reference to one of the players – indeed what we see, that for a particular type of service, where, as they indicate, the customer should have the experience of the brand, I don't exclude that players will enter the market in providing these type of services. Okay, fine, we will have to learn about that, we will see how we can respond on that but what I learn is that this is always about very niche parts of the market and don't – or doesn't necessarily jeopardise the big chunks that we hope we continue to handle.

So those are the two remarks I would like to give to you.

Henk Slotboom: Okay, thank you very much.

Operator: Thank you. Our next question is from André Mulder from Kepler, please go ahead.

André Mulder: Yeah, it's two follow-ups, firstly on Lagardère, where are we in the process currently?

Secondly, I believe the Belgian government was thinking of lowering social charges for companies. What could be the impact and where are we there?

Koen Van Gerven: Sorry, first on Lagardère, as I already indicated in the beginning of the call, the Belgian competition council did gather the remarks of the market and a couple of parties did provide remarks. They are now running through it. We got a couple of questions and clarification requests. We expect that it will be a phase one process and that, in the weeks to come, we will interact with the Belgian authority – Competition Authority and that the entire procedure will come to a close somewhere in the third quarter, early fourth quarter, but at least for the end of the year. That's as far as Lagardère is concerned.

The tax shift on social security, I propose that Koen takes that question.

Koen Beeckmans: Yeah, on the tax shift, I – we believe – or we have calculated – it depends, of course, on the mix of people that you have – but we have calculated the full impact of 2016 at around 9 million and in – so in the second quarter it was around 1.5–2 million impact for us.

André Mulder: Okay, thanks.

Operator: Thank you. We have no further questions for the moment. Ladies and gentlemen, if you wish to ask a question, please dial 0 and 1 on your telephone keypad.

We have no other questions.

Koen Van Gerven: Okay, if there are no questions, I think that we can close the Q&A, thank you. And before leaving you, we hope that we can welcome you, in a large number, on our capital markets day. It will be the first capital markets day in Antwerp, on 15th November, later in the year. Early September, you will receive full details of that event, but in the meantime, don't hesitate to let our IR team know already if you prefer, or you desire to attend.

Thank you very much for now, bye-bye.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation; you may now disconnect.