



Interim Financial Report Second quarter 2017

Conference call transcript

Brussels – August, 8th 2017
Koen Van Gerven, CEO
Koen Beeckmans, CFO

Transcript of the conference call held on August, 8th 2017 10:00am CET

PRESENTATION

Operator: Ladies and gentlemen, welcome to the bpost Second Quarter 2017 Results Analysts 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 on listen-only mode and afterwards there will be a question and answer session. I would now like to hand over to Koen Van Gerven and Koen Beeckmans. Gentlemen, the floor is yours.

Koen Van Gerven: Thank you. Thank you very much. Good morning ladies and gentlemen and thank you for joining us. With me, next to Koen, I have Baudouin de Hepcée and Saskia Dheedene from our Investor Relations too. I imagine that you already had the opportunity to read through the materials we posted on our website yesterday evening and I will summarise as usual the key messages so that we can move on rapidly to Q&A.

Let's flip to page 3 and there you can see that the second quarter results are perfectly on track to realise our 2017 outlook. Our domestic as well as international parcel performance stands out this quarter. Domestic parcels registered again a record, with a volume growth of 25.5% and this was driven by strong e-commerce development, new customers and a continued positive trend in our C2C product offering. Domestic mail volume declined by 6.7% versus a high and therefore tough comparable base at minus 3.8% in the second quarter of 2016. And for the second consecutive quarter, we recorded a strong positive volume trend in advertising mail at +4.5%.

This was unfortunately offset by worsening volumes in transactional mail as a result of on one hand, a tough comparable base at minus 4.8% last year and on the other hand increased e-substitution. This being said I would like to point out that the overall mail volume decline over the first half of 2017 at 5.7% is still perfectly within our full year guidance range between 5% and 6%.

Revenues increased by €107.6 million driven by parcels as mentioned as well as the consolidation of acquisitions done last year.

Organic cost savings remained on track and our productivity improvements were in line with last year. Costs were however impacted by the consolidation of new acquisitions adding €107.5 million to the cost base and growth in our international business also typically translates into higher transport costs. All of this results in an EBITDA of €159.3 million, which is in line with the second quarter of 2016 and with our guidance. The acquisitions that we have done over the last year contribute to EBITDA as expected, although not yet at their full potential as the integration is in progress. Their contribution is however offset by the price increase that unfortunately we missed on our small user basket items this year.

On page 4 you can see that the EBITDA growth was driven by the excellent performance in parcels as already mentioned and was further supported by our acquisitions and strict cost control. And before handing over to Koen Beeckmans, I would like to give you an update on a couple of topics.

Yesterday we announced that we are acquiring Bubble Post, a company active in green and sustainable city distribution as well as in delivery of cooled and frozen products both to B2B and B2C. The company was founded in 2013 in Ghent and is now active in 16 cities, of which three in the Netherlands. With this acquisition we are taking another step forward in realising our ambition to become the undisputed product leader in last mile delivery and to grow into specialised logistics in our home market and the Benelux.

The parcels activity of Bubble Post focused on sustainable urban delivery is very complementary with our CityDepot business and it is obvious that by joining forces we will strengthen our current activities while benefiting from the strong brand image that Bubble Post has built up over the

years. Bubble's expertise in cooled and frozen delivery provides us with a nice building block to step up our product offering in that market segment, a segment where we believe there is still very high growth potential by the way. And I am excited about the transaction which perfectly fits in our growth strategy.

On the regulatory front, there is some progress on the new Postal Law as the Belgian government approved on July 14, the bill introduced by Minister De Croo. Based on information published by the government this bill includes a couple of regulatory changes. Firstly, the operational licensing conditions for mail will be removed as requested by the European Commission, with the exception of the requirement to use contractual workers. This means that the social level playing field is maintained and as indicated before, we are not concerned about the removal of the other three conditions with respect to territorial coverage, frequency of delivery and uniformity of tariffs. The postal market is fully liberalised since 2011 and as we also observe abroad the main competition is coming from e-substitution rather than from other physical players. It is after all not very appealing to set up a network in a market faced with structural decline.

Secondly, the bill provides for a future-proof, stable and predictable regulatory framework for the Belgian postal sector and this includes a stable and predictable price control mechanism. The bill also introduces additional measures to safeguard the financial stability of the universal service. And finally, the bill appoints bpost as the universal service provider after expiry of its current mandate in December 2018.

The bill is now under review for advice by the State Council, after which it needs to be tabled to the parliament for approval. At present, we expect that the new Postal Law will enter into force before year-end and it cannot be excluded that under the new law bpost would be allowed to change the prices for the products in the small user basket for the next 2018 annual price revision round.

Another point I wanted to highlight is that on July 26, the Federal Government reached an agreement, on the budget and a couple of social and economic reforms of which a corporation tax reform. The corporate tax rate will be reduced gradually from 33.99% to 29.58% in 2018 and will further reduce to 25% in 2020. The Belgian government wants this measure to be budget neutral and therefore they disclosed a number of compensating measures. From the first analysis that we have performed we concluded these compensating measures will have a limited negative tax impact on bpost. So at this point we expect that our effective tax rate will decrease more or less in line with the announced reduction of the statutory rates. But as always the devil can be in the detail, so let's take time to take stock of the new bill as well as our proper analysis of the impact.

And I would like to hand over to Koen now for more details on the financials.

Koen Beeckmans: Thank you, Koen and good morning everybody. I am now on slide 5. Revenues and costs are both influenced by the consolidation of our new acquisitions which is why you see a significant increase in there. EBITDA is down €0.1 million and EBIT is down €0.7 million versus last year. Profit before tax is up €9.9 million as last year was impacted by higher non-cash financial charges related to the IAS-19 employee benefits due to a decrease in the discount rate at that time. The BGAAP net profit for the first half is in line with last year so we are fully on track to realise our full year dividend outlook.

Let's now have a look into the different product lines. We are on page 7 now with domestic mail. Koen already mentioned that we faced a tough comparable base as the second quarter of 2016 was the strongest quarter of the year in mail. This quarter's underlying mail volume decline came in at minus 6.7%. For the second consecutive quarter we booked a positive volume trend in advertising mail of 4.5% driven by our focus on growth segments and the use of indirect channels. This

performance was offset by transactional mail volumes at minus 9.9%. The comparable base at minus 4.8% was very tough, but besides that we also noticed increased e-substitution and a shift towards cheaper products. In press, we were impacted by two distribution days less in the quarter versus two additional days in the first quarter of 2017. In the table, as you can see, we don't correct for that in the underlying volumes, but if we would be eliminating for that effect, the volume trends would be in line with what we've observed in the past.

Parcels on slide 8 recorded again an excellent performance for this quarter, both domestically and internationally. Domestic parcels volumes were up 25.5% benefiting from thriving e-commerce in Belgium, new customers and the continued positive trend in our C2C online sales. Price mix stood at minus 6.6% which is higher than usual. This is the flip side of very strong volume growth from our biggest e-commerce clients. International parcels contributed €13.1 million in revenue growth driven by our successful acquisitions as well as increased flows out of Asia and Europe. The growth in Logistic Solutions is explained by the full consolidation of DynaGroup acquired in December last year.

On slide 9, regarding our additional sources of revenues we booked a positive evolution in international mail driven by increased business mail volumes in Europe. The decoder swap solution for a telco company is now largely behind us, which is the main reason for the revenue decrease in value-added services. For Ubiway, you know that we consolidate the sales under two revenue categories: "Distribution" and "Retail and Other". These two categories contribute €72.3 million in revenues. You might have noticed that this is significantly lower than the €115.6 million published for the first quarter. This relates to a restatement of revenues disclosed under distribution.

The initial consolidation of Ubiway was done based on financial statements audited in line with IFRS by the seller's auditors. However, during the purchase price allocation process we noticed that for

some major press distribution contracts, bpost Group applies a much stricter interpretation of the different criteria for IAS-18 revenue than the previous owners did. In addition the new IFRS norm, IFRS 15, that will become applicable as of 1 January 2018 also supports our stricter interpretation regarding revenues from these contracts. Therefore, we decided to align the interpretation of IAS-18 already now so as to avoid a restatement next year when the new IFRS rule, IFRS 15 rule becomes applicable. Important to mention is that this restatement has no impact on EBITDA as certain sales and cost of sales have now been presented on a net basis. But it results in a decrease of distribution revenues and other costs by €42.5 million for the first quarter of 2017.

Moving to costs on slide 10, you see that costs were impacted by our acquisitions for €107.5 million. Our organic cost evolution is perfectly on track with costs up only €0.3 million. When excluding organic transport costs, which evolve in line with international revenue growth, we realised organic cost savings of €8.2 million, mainly in payroll and interim costs as well as in other SG&A.

Overall, payroll and interim costs went up by €17.7 million, driven by an increase of 1,499 FTEs and interims, on average, for the quarter. We continue to reduce the number of FTEs through productivity improvements that remain on track and were in line with last year. However, this effect is offset by the consolidation of our new subsidiaries. Organic other SG&A decreased by €7.9 million, mainly as a result of lower third party remuneration and insurance costs, partly offset by an increase in rent and rental costs and energy costs, which is linked to an increase of the fuel price and growing fleet. Finally, organic other costs increased by €4.4 million, explained by the evolution of provisions of last year.

Moving to cash flow on slide 11, you can see that free cash flow increased by €15.4 million, mainly as a result of lower cash outflows for M&A, compared to last year. With this, I'd like to end here and hand over to Koen, again, for some closing remarks.

Koen Van Gerven: Thank you, Koen, for the first half and now I am on page 13 of 2017. We increased our EBITDA by €1 million, despite the lack of price increase on our small user basket. This means that our acquisitions are positively contributing to the bottom line, although this is not directly visible in our results, due to the small user basket pricing.

This quarter proved that we are fully on track to realise our 2017 outlook, which we reiterate, and we are indeed confident to realise the same recurring EBITDA and pay out the same dividend as in 2016. I'd just like to flag that on this slide, we have adjusted the price mix in domestic parcels to around -4 from around -3% previously, and of course, this is the flip side of the very high volume growth witnessed by our major e-commerce clients. And with this, we are happy to answer your questions. Please open the lines.

QUESTIONS & ANSWERS

Operator: Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. And we have a first question from Mr Ruben Devos from KBC Securities. Sir, please go ahead.

Ruben Devos: Yes, good morning. Thanks for taking my questions. The first one is probably a bit of a predictable question, but regarding the latest development in transactional mail, has bpost's view on the mid-term outlook for mail volume decline changed somewhat, yeah, versus the Capital Markets Day in November? I'm asking since transactional mail is still 60% of mail revenues in the last four quarters. The volume decline seems to have gathered pace. I realise you have been successful in turning around the volume trend on advertising mail, but would it be fair to assume that this might be a somewhat temporary effect, while transactional is rather a structural trend? And maybe if you could give some colour on what have been the developments across sectors, such as the banking, telecom, utilities and whether you've seen some digitalisation of government services?

Then the second question, a smaller one, in the last three quarters, domestic parcel volumes have been growing in excess of 20%, so could you give an idea to what degree your cooperation with DHL has helped volume growth in B2C parcel delivery? Thank you.

Koen Van Gerven: Okay, thank you Ruben for these questions. Taking the question of the mail volume decline, of course it is not a good quarter, but you can't forget that the comps with the same quarter last year make the comparison tough. Now, the question is, is there really something completely new? My answer would be, there is nothing really new. We don't see a cliff, but as we stated in a previous quarter already, there is somewhere the feeling that there is a second wave in what we would call e-substitution. We did see the first wave in 2014, which was fairly brutal, and

took us somewhat with surprise and I think it's fair to say that there we lived the first wave of e-substitution in Belgium. Today, 30% of the end-users are digital, so there is 70% that's still in place.

As we already said in a previous quarter, a second wave, which is different from the first wave. First of all, it's less brutal, it's more targeted, that's our understanding. So the big mailers are more selective and they don't go anymore with opt-out but more with opt-in, which makes a difference. I think it's fair to say that they do it in a more subtle way, so what we observed is that in a number of cases, the e-invoice becomes an integral part of the offering. So you can have a bundle, a very price aggressive bundle, but you have to accept e-invoice. If you don't accept, then you don't have the bundle. So second observation, a third one, I think it's fair to say that the acceptance of the digital in that part and in those verticals, that are impacted first, that the acceptance grows with the receiving party. And there you asked the verticals that we see are more advanced in that area, then we see the telecom, the banks and the utility companies, so the usual suspects.

Now, of course, the other side is – the good news is the advertising mail, and of course we're happy about that, I think the analysis we did a couple of quarters ago, and the energy we did put into it pays off. I think that going forward, we're quite confident on that part too, because I see positive signs, in terms of GDP growth of the economy, and we know that there is a close correlation between both. And I did recently observe that there are some questions about e-advertising, even with big advertisers, so probably I expect that there is more good news to come from that side.

Now, with all of this, we remain confident that we can stay within the range of our outlook and we did some maths to underpin this position, and Koen will explain briefly the way he did the maths to come to the conclusion that we're confident on the outlook that we have for this year.

Koen Beeckmans: Yes, Ruben. Just to put things into perspective, I remember that last year in the first quarter we had a domestic mail volume decline of 4.0%. Second quarter last year was good as well (*cf.* -3.8%), which means that on H1 2016, we had a mail volume decline of 3.9%. And that's what we mean with very tough comps. Now, in 2017, for H1, we are at a mail volume decline of 5.7%, so we are within our full year 2017 guidance of between -5 to -6%. Therefore, we don't see a reason to review the guidance. We already said, and, you know, we've seen it here as well, that the volatility between the quarters is increasing and, you know, as I just said, the comps were tough.

But if we would bring both figures from last year to -5%, being the full year 2016 average decline, that was at -5%, the second quarter of 2017 would have been at -5.6%, perfectly in line with our guidance and, this is important, the first half of 2017 would have been at -4.6%, so better than the average yearly trend of last year that was -5%. So, I hope this is helpful.

Ruben Devos: Yes.

Koen Van Gerven: Okay, on the second question on parcels, of course we're very happy on the 25.5 growth figure on domestic. There all big customers do grow favourably.. Happy to mention that the C2C, which was a couple of quarters ago still one of our concerns, continues to grow and supports this growth quite favourably. Of course DHL is one of the growing customers. You know that in the first half of the year we were in a ramping up. I think that probably we are now in more of a steady state, so ramping up is behind us. But of course we don't disclose figures on individual customers.

Ruben Devos: All right. Thank you very much.

Operator: The next question is from Mr Chris Combe from JP Morgan. Sir, please go ahead.

Chris Combe: Good morning, everyone. Just a couple of questions. First of all, to follow up on mail volumes, can you elaborate a bit on what you mentioned regarding the day count differences for press distribution and what impact that would have on the headline underlying numbers in both Q1 and Q2?

And then second, if we shift to parcels, is it wrong to assume that there's an implicit domestic parcel volume upgrade equal to an offsetting in the price mix guidance? And further to that, do you expect a similar pace of volume growth in the second half? Is that sort of baked into the guidance?

Then lastly, if we look at tax, can you talk a bit about implications for deferred tax assets and if any write-downs would impact the Belgian GAAP dividend basis?

Koen Beeckmans: Okay, so thank you Chris for these questions. I think your first question relates to the press volumes. In the past, and we've kept it like that, we don't correct for working day differences, so you don't see a difference in our table between the reported and the underlying volumes for press. However, we've seen that in this quarter, we had two working days less, which had an impact, of course, on the press distribution, and you know, in order to calculate that, we would see that – if we would take it into account - you would see that it's following the general trend of the press distribution volumes. So conclusion, yes it had an impact. Of course two days was having an impact, but we don't correct for that, so you don't see it in the table.

Koen Van Gerven: On the parcels, do we have an implicit upgrade? You could see it that way, but on the other hand, the flipside is that there is the price mix that will walk in the opposite direction.

And of course if you go back to last year, the second half in terms of growth of parcels was very, very heavy – half and two quarters. So I think that with the growth rate that we outlooked, we think that we can keep them and we didn't feel comfortable, and we didn't feel the need to change them, fundamentally.

Koen Beeckmans: Then on your third question, Chris, on the deferred tax asset, I think it relates to the proposal from the government to lower the effective tax rate in Belgium. And as we've said, yes, it will have a positive impact on bpost. When the effective tax rate will be lowered to 29.58%, yes, it will have an impact on the deferred tax assets, but that effect, of course, will increase our effective tax rate, with a couple of percentages. That's what we've calculated up till now, again, without fully knowing what the measures will look like, but the first estimate would be that our effective tax rate would increase a couple of percentages due to that because we have to reverse the deferred tax assets. Again, and I think that's important as well, it (*i.e. write-down of the deferred tax assets*) will not have an impact on the dividend distribution capacity (*for 2017 or when it occurs*), because IAS19 (*to which most deferred tax assets are related*) does not have an impact on our BGAAP standalone results, and therefore, of course, it will not have any impact on the dividend distribution capacity (*for 2017*). Just to be clear on that.

Chris Combe: Thank you. That's clear.

Operator: The next question is from Mr David Kerstens from Jefferies. Sir, please go ahead?

David Kerstens: Yes, good morning, gentlemen. I have a question on the new postal law. I was wondering if you already have visibility on the future pricing framework and how that will impact your pricing strategy going forward. I understand you will have to submit your price proposals before the end of this month. I understand the new postal law isn't finally approved yet. How does

that impact your ability to increase prices next year, and are you looking for compensate for the missed opportunity in 2017?

And maybe a more general second question, what's your view on the potential cross-border M&A in the European postal sector, and the opportunity to set up a Benelux parcel platform?

Koen Van Gerven: On the first point the new postal law, as I said before, it is our ambition, and we will prepare what we have to prepare, an increase of the small user basket and of course the other products, too, next year in line with what we did in previous years. And of course the future will tell in what kind of framework it has to be framed. It's not this month that normally spoken our – oh, yes. You're right. On this month we are already August. So but we will prepare the file. We will see in what framework it will land. But it is our ambition and our desire to increase the price in line with what we did in the past.

Then on cross-border M&A, look, I think that we had a vision on that, but basically it's a vision that is selective in terms of geography, and it's a vision in terms of geography where not all geographies are equal. You remember our story on creating a larger home market with a neighbouring country and that made sense for basic parcel distribution. It didn't work, and I'm not sure that we can replicate it with another country. That's my first observation. The second observation, of course there is more in this world than basic standard parcel distribution. You have – and that's the good news – more and more added-value services, and there the dynamics are different and basically the requirements in terms of volumes and proximity and things are different, because the willingness to pay is more important. And there we continue to work on cross-border networks, as we already did for example, with the acquisition of Dyna, which is of course value added, and therefore you need less density. So – and I'm very happy on what we did with Dyna last year. In some way I think you have to take that element into account if we talk about the

acquisition of Bubble Post. Bubble Post is, as I mentioned, present in value-add activities, being the cooled and frozen B2B and B2C delivery in Belgium in 13 cities, but they develop their activity in the Netherlands too. They are present in three cities. One of the points that we will consider is can we use this platform to grow in this added value business in a larger territory than Belgium?

David Kerstens: Thank you very much.

Operator: The next question is from Mr Edward Stanford from HSBC. Sir, please go ahead.

Edward Stanford: Good morning, yes, two questions. First of all, just following up on the postal law draft. Do you have any clarity on what sort of format the price regulation will take going forward? Can you provide a little bit of clarity on what it means for the stability of the USO going forward? And also, just a very quick one on the tax rate this year. It was slightly lower in the second quarter, but 33% for the first half. Is there anything going on there, and what should we expect for the full year? Thank you.

Koen Van Gerven: Thank you, Edward. On the postal law element, it is our understanding, because we don't have the details on it, but as the Minister in his press release stressed basically his understanding that it's important to have a stable regulatory framework, a clear and stable regulatory framework. So, he understood it quite well, because he even told in his press release that he understands that's important to have sufficient innovation in this kind of sector too. So, he understands the message. And what our understanding is that within the new price control mechanism, they take into account the affordability element, which was already in the previous one, but they took into account – and this is very important – the cost orientation element. Because as you remember, this was the thing that was not clarified, nor in any other country, and that our regulator wanted to clarify, and they clarified as they did. And now basically in this new

bill, both the affordability and the cost orientation will be provided in a law and therefore will become imperative to all of us, which I expect should give sufficient comfort. And I don't exclude that, based on that, we will be able to increase the prices of the small-user basket going forward and for 2018 too.

Koen Beeckmans: Okay, then Edward, on your second question on the effective tax rate. Yes, of course, the effective tax rate per quarter may be different depending on positive impacts, tax-exempt, non-tax-exempt things, etc, disallowed expenses. I think important to mention here is that we expect for the full year 2017 an effective tax rate very close again to the statutory rate of around 34%. This not taking into account, of course, as I explained earlier, the fact that this year hopefully the Government will provide a final law on the decreasing of the tax rates in Belgium. And therefore, as I explained, yes, we will have to release some deferred tax assets, which will have an impact on our effective tax rate that will increase this year, in anticipation of course on the good news for the following years, being the lowering of the tax payments that will really benefit bpost. Is that clear?

Edward Stanford: Yes, that is very clear. Can I just follow up on the deferred tax issue? If you do increase it this year, relating to the deferred tax assets, that presumably takes into account the two proposed reductions in tax in the coming years, does it?

Koen Beeckmans: Correct. Once the law has been finalised and the law is fully clear on that, we will make a calculation on all the different elements. And at that time, we will book it in our accounts. So, hopefully it's done before year-end, so that we can start with a clean sheet as of next year and see the full benefit of the tax reduction in our cash and results.

Edward Stanford: Thank you. And so if I may just follow-up on the postal issue in terms of the cost orientation principle, do you think that, I mean have you had any indications from government that that might impose greater on pressure on bpost to become a more focused on cost to reduce and perhaps a less ability to raise prices or has that not been the indication you had from the government?

Koen Van Gerven: We don't have the details, but it doesn't point in that direction. So I think the important point is that they understood the importance of having a stable and predictable regulatory environment and so I think that in their understanding they did what they had to do.

Edward Stanford: Thank you very much.

Operator: We have no further questions. So ladies and gentlemen let me remind you that if you wish to ask a question please press 01 on your telephone keypad. We have a question from Ruairi Cullinane from RBC. Please go ahead.

Ruairi Cullinane: Good morning. I was wondering if you had a view on the price elasticity of stamp price increases? Presumably if you are successful in securing stamp price increases, do you think the volumes will hold? Clearly, this year there's been significant volume decline without stamp price increase?

Koen Van Gerven: I think that not only us, but a lot of operators they tried to establish a model. And I'm not sure that there is a lot of clarity on that. Of course, probably in one way the laws of economics play but this being said that with no price increase this year when I'm a little bit cynic, I would say that it should have played in our favour. But I'm not sure that this is the case. So to be honest, we don't spend much energy anymore on trying to predict the elasticity.

Ruairi Cullinane: Okay thank you.

Operator: We have a next question from Mr Mark McVicar from Barclays. Sir, please go ahead.

Mark McVicar: Thank you. Good morning everybody. I had two questions. First of all, if I look at the segments overview, I know you run the business as one unit but just for the sake of clarity, you had obviously huge amounts of volume and revenue growth in parcels in international but the profit growth is tiny. I mean it's just a few €100,000. Is there something going on within the segmental presentation that's holding back that profit progress is my first question? And the second question is a bit more sort of longer term. Obviously, the net cash balance keeps on growing whether we look at year-on-year, half-on-half. Are you still exploring ways of returning that surplus cash back to shareholders or is it kind of but where? Thank you.

Koen Van Gerven: Okay thank you Mark for these questions. On the operating segment, I can walk through them and then we can see what happens over there. Taking the first segment mail and retail services MRS, then of course there the margin is impacted by the accelerated mail volume decline, which could not be fully compensated by the positive contribution of Ubiway that you will find in the same segment. Secondly, we know that the EBITDA margins of the acquisitions are lower than what we're used to experience within bpost so there we have a dilution. And then thirdly, I think it's fair to say, as I already stated in my introductory remarks, that the synergies from Ubiway are not fully materialised so this is on the first. The second is on what we call the P&I, so Parcels & International. There of course, we have international revenue growth. But as you know transport costs are correlated with the way we grow there.

In the added value services, which is part of that segment too, there we have typically pilots and pilots costs on one hand. And secondly this is the field where we find most of the innovative things

and the innovation that we do. And there we still have a couple of activities that enjoy negative EBITDA next to the other ones that have lower EBITDA than we're used to again. And here too we expect that the synergies going forward of the acquisitions will grow and that, of course, will play favourably going forward on the margins. The third segment is the corporate segment and there, of course we have an increased margin because the revenues are higher and there, you know, it has to do with the sale of buildings and so on and on the other hand the costs are lower. They have to do with a favourable evolution of employee benefits and on the other hand, you know, the last year in the second quarter there was of course this big, what we called, a big strategic project what incurred considerable costs that we don't have this year any more.

Koen Beeckmans: Yeah, the second question, Mark, on the net cash balance – are we willing to return money to shareholders? Well, let us not speculate on that. I mean the possibility always exists but we believe that we have plans to use it in an optimal way. So, for the time being, you know, that is not – how shall I say? It's a theoretical discussion, Mark, that I will not elaborate further on.

Mark McVicar: Okay, that's great. Thank you.

Operator: The next question is from Mr Chris Combe from JP Morgan. Sir, please go ahead.

Chris Combe: Just one quick follow-up. With respect to the regulatory changes, can you confirm that there is no change to the bonus mechanism with respect to pricing. And also can you remind us where that sits at present? Thanks.

Koen Van Gerven: This is not clear, so, because there will be a new regulatory price mechanism, my understanding, taking into account the affordability and the cost orientation, my expectation is that it will replace the current one. So, no clarity on that.

Chris Combe: Okay and does that mean you would – would there be any right to retain some of the benefit which you've accrued or would you simply surrender that?

Koen Van Gerven: Sorry Chris, but I don't have information on that, so I am not sure that we can speculate on that. There we have to wait what basically is in the bill.

Chris Combe: Alright, thank you.

Operator: We have no further questions.

Koen Van Gerven: Okay, if there are no more questions then. Okay, can we close down the call over here?

Operator: Yes sir, we have no other questions.

Koen Van Gerven: Okay, thank you. Thank you very much. I want to thank everybody and of course, as always, investor relations with Baudouin and Saskia are available for follow-up questions. For those who had already their vacation, sorry that you have to start working again. And for those that have their vacation periods in front of them, enjoy the vacation. And we will see each other during the road shows and with the Q3 results. Thank you very much. Bye-bye.

Koen Beeckmans: Thank you very much, bye.