



Capital Markets Day 2016

Full transcript

Antwerp – November, 15th 2016

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Introduction

Koen van Gerven
Chief Executive Officer

I. Preamble

Good afternoon everybody. These feel like interesting times, do they not? I am happy to have all of you here, and on behalf of the Executive Committee and Investor Relations I would like to welcome here you here to Antwerp. It is our first capital market day; we will take the opportunity to shed some light on what we want to do, what we intend to do, the plans that we have and the ambition that we have in the years to come.

It is our first capital market day since our IPO, now a little bit more than three years ago. I know that there are more than a couple of new people that came in, both from sell-side analysts and investors, so I think it would be useful to have a quick recap of the journey that we started off and that we continue to walk.

II. Journey

I presume that most of you will remember the slides that show the highlights of the investment case that we put forward at the time of the IPO. It was about our leading position in the resilient market of Belgium, enjoying what we call the balanced regulatory framework. It was about focus on parcels and mail. It was about continuous cost improvements. It was about strong financial performance with good cash flow generation, the potential to pay dividends and, of course, it was about the track record that we had built before.

All of that was about continuing to work and to deliver on the journey that we kicked off some years before at the turn of the century. When we started off at that period, we did not only change the offering of the company and all the operations that were associated with it, but we also had the ambition of changing the shareholdership and the governance. The way the government at that time kicked-off the transformation process was, in my view, very intelligent: taking on board a shareholder, like CVC and Denmark Post, because they assured the sense of urgency at the time. They assured the momentum that had to be created, and they assured the kick-start of everything.

III. Governance

You all know that CVC is not considered to be one of the easiest shareholders; neither is it a complacent shareholder, but in that period what we learned was the importance of efficiency management and disciplined execution. This became, amongst other things, part of our DNA. Later down the road, around the period that we started thinking of IPO, we realised we had to work on governance.

Our ambition was to bring the governance of this company to international stock quoted company level and that is what we did. During 2015 we had a couple of details to rectify, and that is what we did last year. We are fully in line with what you see, what you hear, and what you have in all serious companies. When I hear last week someone saying that, even with six years shareholdership by CVC and three years IPO, the transformation still has to start in the company, I have to admit that I am somewhat flabbergasted. I want to make that point too.

With all of this change, the proof of the pudding is in the eating: I think that it is fair to say that with the consecutive dividends and the increase that we had in the last three years, we delivered upon expectations. We are confident that we are going to pay at least the same dividend over this year too.

IV. Investment Case

The investment case was built on a strategy around four pillars. You know them: I am not going to repeat them, but it is about mail, growth, efficiency improvements, and about keeping everybody on board. Going forward the case and the strategy will be in continuity with what we have, and we will provide you with an update on our views, changes and we will put forward a couple of plans and ambitions in different areas.

The execution of the strategy delivered very clear value creation for our customers, and rewards for the shareholders. As far as mail is concerned, it is not about paper against digital, it is about the combination of both. As far as growth is concerned it is about organic growth, as well as what we call inorganic growth or external growth in different areas, but close to what we know, and our proposition about the last mile.

Operational excellence, here we know the different levers we have to work on: technology, continuous improvement, as well as performance culture, and the natural attrition that we can use to monetise the improvements that we realise.

Last, but not least, is stakeholder management, and one of the points I would like to draw your attention to is, of course, that good labour relations are very important from that perspective. With all of this, we continued to work.

I would like to come back here to 2016. If we take the strategy and the strategy execution, it is fair to say that we are completely confident with what we did this year, and we go from here to another very good year. This year we had a particular challenge with the decline of the SGEI compensation, but basically after three quarters of good execution we feel completely comfortable that we move in the direction of the guidance we improved in the second quarter.

V. Mail Density

Let me now come back on a couple of things that are both relevant for 2016 and the years beyond. This is a slide that you will recognise, because it was used at the time of the IPO to underpin the resilience of the market. The figures changed, but the messages remain the same. What we indicate on the left is the density of mail: the number of pieces of mail per capita in a country. We are at the low-ish end of the pack, which indicates that there is less to lose than in other situations: that is not bad news. I always give the example of bank statements: in Belgium we never had the culture of sending bank statements in the mail, you went to your bank branch, you picked up your statement, afterwards you got it from the statement printing machine: something you do not have you cannot lose.

Interesting with these updated figures to see is that if you take PostNL, which was much higher a couple of years ago, it came closer to the pack of Belgium, Germany and other countries. I understand that this is one of the reasons why they feel comfortable about the lower decrease in mail decline going forward than they had in previous years. The right side of the slide shows that the decline in Belgium is similar to other countries like Germany, Austria and Switzerland.

The message remains largely unchanged: we are not a complete outlier in this world, we have already part of the digital transformation behind us, and we will continue to evolve like other countries. That the digital transformation has to start in Belgium is not at all true either. One example, more than half of tax declarations in Belgium are going over the net today, so a big chunk of what should be done is already done.

VI. Volatility

This brings us to 2016, and we are perfectly in line with the guidance we gave of up to 5% after three quarters, even at the right side. As you know, the 5% of guidance we provided is at the same level as we had last year. I have already shared with you the volatility for the last couple of quarters: we have observed an increase in volatility in different products. I remember last year, the second quarter with a 9.9 decline in advertising mail, I was more than concerned: I shared this concern with you.

If you look to a couple of figures, volatility increases amongst quarters, so making big statements based on the outcome of a quarter becomes more difficult. Marc will come back on that later, but I do not see the cliff, we do not feel the cliff. So I think it is fair to say that we are confident with the strategy that we have.

From the perspective of the balanced regulatory framework, 2016 was a very good year. We got some insight and confirmation on a couple of new, important contracts that you are aware of: the sixth management contract, scrutinised and approved by the European Commission. We had the press tendering. Nothing to mention on the USO. There are a couple of things that we did change in the Belgian law, but the normal framework still stands over here.

VII. SGEI

Let me clarify a couple of things on the SGEIs, because I feel that there too there is some lack of clarity. SGEI is not something that is particular for Belgian, neither its features, nor its framework. It is something that is framed within a European Commission framework, and it is something that exists in different countries, not only in Belgium. Let me be clear what SGEI is all about: services of general economic interest. It is a kind of service that is deemed necessary for a civilised society, on the one hand, but is not considered viable from an economic point of view. In this context government can compensate part of the related costs, but the compensation has to be conducted in a very strict framework, which is established by the European Commission in order to prevent state aid and to prevent distortion of the market.

The framework is very well defined: four points first of all. There is a model behind it, which is called net avoided cost. It is a counterfactual model that you run in terms of what you would have earned in terms of profit both with and without the constraint. The difference is what they call the net avoided cost, which is the max that you can get. Within the framework you have to have incentives to improve your service, in order to avoid that you lay back, and that the money comes in. It has to have a cap, and it has. The fourth point is: it is not about USO. SGEI and USO are two different things, and as far as USO is concerned there is no compensation, there is no contribution from the state in Belgium.

VIII. Strategic Pillars

1. Growth

Let me go briefly to the other pillars: if we look to the pillar of growth then parcels is the obvious one, both domestically and internationally. I would qualify the domestic evolution since 2011 as strong, driven by e-commerce. If we go to the international part, I would qualify it as even stronger. Here the USP is about Landmark, supported overtime by bolt-on acquisitions that we did in order to strengthen the proposition.

It is in those fields, both domestically and internationally, that we are going to continue to invest in potential partnerships, in acquisitions, in creative and innovative start-ups, as we did recently in Parcify, Bringr and so on. With double digit domestic growth on the one hand, and good international growth on the other hand, I feel comfortable that we will fully realise the outlook and be compliant with this year's guidance.

2. Acquisitions

In the second pillar, the acquisition of Lagardère Travel Retail was very good news this year, because it is about something that we know, it is very close to our DNA, about retail proximity, distribution and convenience. It is something that will strengthen our proposition; it is something with growth potential; it is something where we can find synergies and where we have potential to improve the operations. Marc will come back on that later.

3. Efficiency Gains

The third pillar is about efficiency gains: efficiency gains are very important in the type of company that we are, because it is about cost control. The magic word in this field is discipline. Discipline: having a good plan, having the right projects, having a good pipeline that you can fill continuously. And then of course excellent execution on the one hand and the potential to monetise your benefits and reap the profits of that, where of course, we have the natural attrition. If you take it over the longer run, you can observe that we walk with 4% annually, and this will continue in 2016 up to the last quarter. I am confident that we will realise the efficiency gains that we guided for this year.

I realise that I did not do a very good job in last week's call: I hope that I can take this slide to try to catch up on that. With all the figures on FTEs, I would like to explain the part of efficiency gains: I can confirm that we are very comfortably in line with where we should be. We gave guidance of 800; there is the integration of Delta Media, which you know about, so in terms of efficiency gains, we should end up at 500, and we stand after three quarters at 486. I am not too worried about the slight difference.

This brings me to the other element: we are focused on the FTE part of the equation of cost control, but we work on another lever too, which is about unit costs. We replace expensive civil servant type workers, with less expensive contractual workers: the ones that leave for retirement are replaced by younger and cheaper ones. This is the second lever in keeping our labour costs almost stable, and we are able to absorb almost completely both inflation and wage drift.

With those two elements in mind, I would like to share an observation: I understand that cost control is very important, and the proxy we have used in the past was FTE reduction. I am convinced that this proxy was very relevant in the past, but it has become less relevant because a couple of years ago FTE evolution was mainly driven by efficiency gains. It was about mail and it was efficiency gains in that area. But over time we fairly successfully diversified away from mail, and therefore the reading and evolution of FTE needs a broader explanation.

We continue to work on these efficiency gains, but next to that there is part that has to be explained by organic growth, the mix of products, which has changed with parcel solutions. We have done a couple of acquisitions and a couple of integrations, which all means that looking forward we feel it is more relevant to put more emphasis on long-term EBITDA commitment, rather than only on FTE evolutions. Koen will come back on that later.

4. Delivery

I felt I was not very convincing and a little bit blurry in last week's call on the delivery of what we do: let me be clear that as far as 2016 is concerned we had a couple of very important things to deliver, and we delivered on budget or below budget and within the timeframe given. This was about the extension of the sorting centres, the rollout of the mixed sorting machines, and the start of the new Brussels X. With all of that, I feel comfortable on what we have to deliver this year. And let me be clear, we continue to apply the discipline we acquired and that we built under the CVC reign: nothing has changed from that point of view, so we will continue to work in a well-disciplined way.

Let us go to 2017 where we will have a couple of very visible deliveries: we will have the new sorting centre, to be delivered somewhere mid-year opening in September, and we will have the big parcel delivery, which will be up and running in the new sorting centre. They are not only very visible, but they are going to be very important, because if we have those two big pieces of the puzzle, together with a couple of other projects, we will be able to fundamentally change the way we work today. We will move all parcel sorting to one place; we will have much more capacity, and that is why I said in the call that 2017 was going to be a transformation year.

My understanding was that this transformation year was read in a completely different way – perhaps I did not use the right wording – but transformation year in that context means that the world and the way we work is going to be different before and afterwards. In terms of efficiency gains, let me be clear, the efficiency gains that we will realise next year are going to be fully in line with what we should expect, and will be in line with what we did in previous years. I am not going to give guidance on that at this moment; a more precise outlook on the year to come will be provided in the first quarter of 2017, but I wanted to be very clear and precise after the misunderstanding in last week's call.

IX. PostNL

Going forward, we remain as committed as we were in the past, to all stakeholders: our customers, our employees, our shareholders, and nothing is going to change as far as that is concerned; this will be the framework in the years to come. Before we go back to the strategy, allow me to elaborate briefly on the proposed offer that we sent out to PostNL. The rationale of the deal still stands – both a business rationale and a financial rationale.

The business rationale is about parcels, about international footprint, and about mail. It is about a sustainable, solid company covering a home country of almost 30 million people. The financial rationale is on the complementarity of balance sheets and dividend accretion. That has not changed and, as you know, for a couple of months on several occasions we discussed this and fully agreed the soundness of this business rationale.

I am not going to go through the timeline in detail, but it is not something we came up with yesterday. After the break up in May, we tried to listen carefully where the pain points were, because they were not very clear to us. We were able to identify the six most important ones, and those were the things that we sent out in the proposal and tried to considerably improve. It is my understanding that it was very well received in the market by analysts and investors.

On Friday we received a letter that declined our offer; I am still in the process of reading the letter, because somebody told me, 'What you should read in the letter is that we smashed the door, but we left the window open'. I am now looking around for a ladder to see if I can get through the window eventually. Let us be clear, as far as I am concerned the deal is not yet off, although I stated that this is not going to be a hostile takeover.

X. Conclusion

In order to pursue this dream I suggested that we put the two companies together, to have a glance at what we are talking about. I know bankers and analysts do not like this match; to me, it is an artist's impression: we add up both and we see what it represents. We did not take into account a couple of things that we would like to do if we combine both companies, and to make this dream complete we made a ranking in terms of revenue: we would become a very sizeable group on the European continent, a very profitable and interesting group from the shareholders' point of view.

That is what I wanted to share with you. Our strategy and investment case going forward will bring continuity, but it will be with a couple of different accents, a couple of changing ambitions and plans that we are happy to share with you. Marc Huybrechts, my Executive Committee colleague taking care of Retail and Mail Solutions, will talk to you about mail going forward.

We Are Mail

Marc Huybrechts

Director Mail and Retail Solutions

I. Preamble

[Inaudible – off mic]

There are no indications that it is going to accelerate. What is important here is consumer preference, which is still very high for paper. In this area the focus will be on selective initiatives: selective, which means they have a clear impact on efficiency or customer experience. On the right side: advertising mail. Yes, we face the same competition; there is a shift from traditional media to digital media. However, we are strong believers in the power of paper in the media mix of advertisers, and we will see that this year's results are going in the right direction. There are three ways to act on that: focusing on the right segments; launching new products, and leveraging new indirect sales channels.

II. Transactional Mail

Let us start with transactional mail: e-substitution, it is a fact, we know it. How are we trying to react against this evolution? We can structure this around five points: first, the importance of quality. We continue to focus on quality, we offer high quality if we compare ourselves to other European postal operators. Second, we know our customers, and we will always try to anticipate their needs: we will try to adapt our solutions, to adapt the quality of our service to consumers.

Shape of USO: we have already mentioned this; we are uniquely positioned to shape the future of USO. Innovation: in Transactional we are launching some new products in order to respond to new needs, which combine well with digital communication media. Finally, we have the pricing, which I have already mentioned.

A few words on quality: what you can see here is our high level of quality if we compare ourselves to European peers. We deliver 93% of D+1 products on time. We have even higher quality for parcels. If we look at customer satisfaction, we rank among the best in terms of customer satisfaction, and this is the case both for residential customers as well as for business customers.

III. Digital

In a market where internet penetration is high, including broadband internet penetration, it is important to see that the consumer still prefers to receive their administrative communications on paper. We conducted a survey earlier this year: to avoid confusion, you can see that the sum is more than 100%, which is because each percentage is calculated on the number of people that are aware of this communication channel. If you take a 20% website, Zoomit, of the group that know they can use Zoomit only 20% would prefer to use Zoomit. It is showing that even if there are other alternatives, people still prefer to receive communications on paper. It has declined a bit over the last few years, but it is still very high.

How are we reacting to this? Koen said that it is not a question of fighting against digital; it is a question of investing in digital, in combination and in complementary ways. We can structure this answer around five points: first, globally we adopt a reactive approach, our objective is not to invest in digital; it is to invest in hybrid solutions. We will always invest in digital solutions if they are close to our business, and if they are a good complement to our paper products. We combine the power of paper with the possibilities offered by digital; the impact of this is to avoid cannibalisation.

Second, we plant seeds, which means that we are going to continue to launch new products and to develop new services when they have a clear impact on efficiency or on customer demand. Third, we buy if relevant: sometimes we do not have the expertise, and if it is needed we will acquire it. The best example here is Speos, one of our subsidiaries, and the Belgian leader in digital and paper document management solutions. Speos is already working for main players that have decided to outsource some of their printing capabilities. Speos is receiving the data from the businesses, and sending the documents to their customers, either electronically or on paper.

Fourth, where we do not have scale we will dispose: this is the case for SEPA where we decided to stop the platform this year. Finally, if it is needed we decide to operate some businesses through dedicated subsidiaries. Why is it needed? It is not only because sometimes we do not have the right expertise within bpost, but we want to make sure that bpost managers are devoting enough management attention to our core business: mail products.

IV. QuickStamp

I will give one example of a hybrid product: QuickStamp is our answer to the new regulations that are applicable to registered mail. As you know, deregistered and traditional registered mail now have the same legal value providing that players respect conditions in terms of security and identification. A few months ago we launched QuickStamp, which is the first phase, with the objective of keeping registered on paper, but making customer's lives easier. It means they can produce a barcode in their office, stick it on the envelope, and put it in all the red boxes that we have in Belgium. The main advantage is that these customers do not have to go to the post office.

In the second phase we will have a real hybrid QuickStamp, which means that the preparation will be fully digital. Companies will send the data and information electronically to bpost or Speos, we will print and take care of the franking, and we will distribute. In these two steps we still have registered mail on paper, but the customers' lives are made easier; they will also receive a proof of deposit electronically. We are preparing for full e-registered mail, and we will start this project the day we see there is enough demand for the product.

V. Advertising

Advertising is a different story. We also have the impact of e-substitution: we see that there is a shift from traditional media to digital media. However we still believe that there is a place for paper mail in the marketing mix of all advertisers. Why do we think that? First, it is the specific positioning of advertising on paper, perhaps you have seen it on the film that was screening when you came entered the room. It is a question of emotions; it is a question of impact on the customer, and relevance: the right time, the right message. Second, it is also return on investment: if we compare the cost of one useful contact, the return on investment of paper mail is higher than traditional media like television and radio. Third, and most importantly, it is the fact that advertising on mail complements digital. We have conducted different market surveys and they all show that it is the best combination if we want to reach the right customers. For these reasons, we are a strong believer in this domain, and we are going to continue to invest.

How are we already doing this? There are three pillars in this approach: first, focusing on some segments; second, leveraging indirect channels. Thus far we have mainly used our own sales channels, account managers, and post offices, but from now we are leveraging other indirect channels and other partners. Finally, we have started to launch new innovative solutions.

VI. Strategic Pillars

1. Priority Growth Segments

Let's start with the first pillar: SME and five priority growth segments. On the left side you see that we have selected five segments: fast moving consumer goods; retail and distribution (the large supermarkets); automotive; fashion; travel and leisure and on the right side, the SME market. The SME market is an interesting market; a market that we believe represents big potential for bpost. If you look at this market we see that the traditional players, especially the creative and media agencies, are always targeting large companies, which means that the SMEs only have a limited number of options. They are looking for other options and good partners to advertise, to reach new customers.

How are we going to reach this market? Through developing our own CRM product, we already have a new automated targeting campaign platform, which is Eloqua, Oracle's platform. In the first half of next year we are going to launch a real SME loyalty programme inspired by retail experiences, and we are going to launch new products. What you can see is a simplified vision of our development plan for SMEs. In the first phase we are working on market awareness: many SMEs do not know bpost; they do not know what products we can offer them and how we can help them to reach new customers.

In this phase we are developing our new product, what we call the basic offer. We are building a multi-channel offering, because not all SMEs want to go to the post office, they also want to access bpost digitally on the web or through our contact centre and we are developing an SME loyalty program. In the second phase we are going to expand this offer, we are going to capitalise on this multi-channel approach, and we are going to develop other close partnerships. Is it going to work? It is too early to claim victory today, but the first indications are positive. These are the figures that you know: for the first nine months' of the year we have a 1.1% decline in volume. The breakdown in segments shows that we are already growing in the two the segments, priority sectors and SME.

Distance sellers are declining: these are 3Suisses and La Redoute, which have been declining for years. The good news is that they do not represent a lot of revenues for us anymore. In the non-priority sector you have the impact of banks and insurance, -15%, and the impact of utility companies; some of these sectors have been cutting costs over the last few months. The good news is that our new strategy is bringing some positive results.

2. Channel Approach

The second pillar is about the channel approach. Of course, we are going to continue to capitalise on our own salesforce, account managers for corporates, the contact centre, and the post offices for the SME market. What we are going to do more than in the past is work on enablers and prescribers: it is important to see that in the advertising market more than 50% of advertising expenditures are decided based on the advice of a prescriber, in most cases the creative agency or the media agencies. In the past, we were not really working with these intermediaries, but we have started to do that, and I will show you one of the products that we launched in order to better serve these media agencies.

It is for that reason that we have created Welcome Media. Welcome Media is our own media sales house. Its mission is to promote and sell our own advertising products. There are two advantages to creating our own Welcome Media House: first, flexibility. We have more flexibility to create new products for media agencies. Second, paying commissions: through the Welcome Media house we are paying a commission to media agencies; it is part of the deal. If we do not pay a commission they will not put our products in the media mix that they are going to advise their own customers to buy. The creation of Welcome Media has been an important step this year.

3. Innovation

a. Data

The third pillar of our strategy is innovation: we started to innovate and we continue to launch new products and new services. There are two main objectives: the first one is about more and better data. We need to provide our customers with good data; it is essential for direct mail. We are doing that internally and externally: internally, we are further developing our own databases. I do not know if you know our database, Select Post, which is a database of 850,000 households, including some lifestyle questions. We are going to expand this database to cover 50% of the Belgian population. The second important database is Do My Move: the database has information about people who are moving, which is important information for many companies.

We are going to invest internally; we are also going to invest externally, together with some of our partners. We have Data Publica for the SMEs and the corporate sector, and we have a good, constructive partnership with BizNote. BizNote is the Belgian market leader in consumer data, and together we are building new solutions to serve our customers.

b. Hybrid Solutions

The second objective is to develop hybrid solutions: it is not that we want to be limited to paper products; we see the value in the combination of the power of paper with digital communication channels. 2 examples: we launched our product the Mailing Maker a few months ago; it is a product that has been specifically designed for SMEs, with the objective of making their life easier. If they think about sending direct mail door-to-door to their customers or to prospects, they have to think about the communication message, and if they want to reach their own customers they have to upload, for us to download, their customer database. This means that if needed we can provide them with additional target groups to contact, we will take care of the printing, the franking, and distribution, as well as providing additional services. Today this product is live for direct addressed mail. In the first half of next year we are going to add a door-to-door solution to this product.

Another product is the one I was referring to for media agencies: OptiTouch. OptiTouch is a product that we launched for media agencies. The originality of this product is that it is combining unaddressed and addressed mail in one product. This means that depending on the budget of the advertiser, depending on the target groups they want to reach and the number of regions they want to reach, we will calculate the best mix. In some regions it will be more cost-effective to send it door-to-door, because you want to reach a large number of people; in other regions where the penetration of your target group is lower, we will opt for dedicated addressed mail. This product was launched a few months ago and we have already had good results with the first media agencies.

VII. Online Retail Platform

I could spend days explaining some of our other ideas, but I understand from my boss that I do not have the time for that. I will comment on our online retail platform, which is currently in pilot with one of the main Belgian retailers, Delhaize. The objective of this online retail platform is to offer a good solution for corporates, not only retailers, it could be an insurance company or another companies: companies that have a large network of franchises, stores, branches or brokers. The solution offers a mix between a centralised brand, a centralised database, one national campaign, with local marketing.

This means that is Delhaize is launching a new campaign with one theme and a strong brand, the local stores will be able to adapt the communication to the local market, for example, limiting the number of products that are in promotion to the local market, making it possible to add their picture or their own address to this door-to-door. It is a very important initiative that is going to be launched early next year, the first big customer is Delhaize, but we are sure that we will be able to convince other customers.

That is the story from mail: I hope that I was able to convince you of the value of mail. The two products that we have talked about are very different in terms of dynamics. Transactional mail: the impact of e-substitution and the need to be very selective in the initiatives we are going to launch. Advertising mail: there is the impact of e-substitution and digital advertising media, but the power of paper is there, and we are going to invest in new products, innovative and hybrid solutions combining digital, media and paper, focusing on a number of segments where we believe there is strong potential, and leveraging indirect distribution channels.

We Grow

Marc Huybrechts

Director Mail and Retail Solutions

I. Convenience Solutions

1. Government Solutions

I will now shift to a completely different topic, so I have to change my mind-set. The guy who was here talking about efficiency targeting and declining business is also in charge of growing another part of the business: it is a completely different approach. I would like to spend some time on the importance of investing in convenience solutions. We have tried to cluster these new solutions around four topics, four families. The first one is government solutions: we have a proven track record in this area. We are offering good solutions for public institutions, local, regional and federal state governments. We know that the government and other public institutions face many challenges, including the need to reduce cost and we are able to offer them some good solutions. This is the first cluster.

2. Customer Solutions

The second one is customer solutions at home: the philosophy is bringing solutions to the home for customers. There are different kinds of solutions: small, technical, but easy interventions at home; the best example is the Proximus decoder and modem swap. Proximus outsourced these operations to bpost; we built the site for them, and we built everything so that customers had the choice between, 'I want to have it at home', 'I want to take it in the post office', or, 'I want to have it delivered to a locker'.

The second example is information: we have the network, the last mile, and the people to gather information. The third example is about customer relationship management: we can help providers to improve the relationship they have with their own customers. One example: banks needed to update their data, and sometimes customers were not responding. If we visit the customer and we ask them to update their own data, the success ratio is much higher than through all other channels.

3. Combo

The third cluster is Combo: Combo is the service launched just over one year ago in home delivery. The Belgian grocery market is an important market comprising €24 billion. In Belgium the penetration of online shopping is still limited: it is between 1% and 1.5%, much lower than in other countries, but it is increasing. We believe very strongly in the potential of this online shopping market, and we are going to continue to invest in that market. We launched Combo, which is already present in three cities, Brussels, Ghent and Antwerp, and our objective is to extend that to real home delivery. We are already working with big retailers like Carrefour, Wink and Cora. To be honest, the volumes are still limited, but it is growing.

4. Lagardère

The last example is retail convenience solutions: the best illustration of that is the acquisition of Lagardère. The acquisition of Lagardère fits perfectly into our strategy: we believe very strongly in the development of proximity and convenience shopping. Why? Due to changing consumer behaviours people want to be able to shop close to their home, on their way to work

or close to the office; they have mobility problems, they are looking for simple access. Beside price and value for money, proximity is the number one decision criteria for consumers to select their shop. We believe in this market, and the acquisition of Lagardère Travel Retail in Belgium is one way to capture this potential.

We have three main ambitions with this acquisition: the first is to diversity into the growing retail proximity and convenience distribution. Lagardère is a network of 220 point of sales, mainly Relay in train stations and in airports, and Press Shop, mainly in high traffic streets. Our ambition is to open new stores and to renovate existing stores; Lagardère has not invested a lot over the last five years, so we are going to do so. We are going to accelerate the product diversification, bringing other products than the traditional tobacco and press products.

The second objective is a contribution to the growth strategy in parcels, and the objective is to expand the number of delivery the objective is to expand the deliveries of PUDO points for all customers; with Lagardère we acquire a network of 750 Kariboo! PUDO points, so we are expanding our offer with a different service. Finally, we are in the best place to support the press distribution sector, and we are going to capitalise on Lagardère's distribution platform AMP.

You could ask why we have not done this with our own distribution network, our post offices. There are three main reasons: first, location. If you want to be present in that market, you need to be where the commuters are, you need to have a very good location, which is not the case for post offices. The second one is opening hours: having extended opening hours aligned with commuters, or very late if you work in the proximity, is very important. We do not have extended opening hours in our post offices.

The third and most important reason is the identity of bpost: a market survey that we did two years ago, in order to understand the way consumers saw bpost, the identity that we have, showed we are aligned with some shopping missions. When you think about bpost you think about some shopping missions, but you do not think about other shopping missions. The consumer told us, yes, they are willing to buy other products from bpost, but only when they are close to the centre of these slides, close to our core products. If bpost wants to offer other products that are important in the convenience proximity market, we do not have the image or the identity: you do not go to Colruyt to buy other products, and you do not go to DeliTraiteur for other shopping missions. It is different: we do not have this image.

Buying Lagardère and relying on the Relay and Press Shop network will give us the capability to reach these segments. I should add that the acquisition of Lagardère is providing us with an alternative, an additional option in the long-term. If one day we would consider reducing the number of post offices, we will have built an additional network.

II. Ambitions for Lagardère

I will finish with two additional slides. What are our ambitions? Our ambition is to improve the profitability of these activities. We know that the current profitability is too low, the figures for 2015 show a margin of 3.3%. We are going to increase this through opening new stores, renovating some stores, and by accelerating product diversification, and, even if it is not the main objective of the acquisition, by realising some synergies in press distribution.

The transaction was approved last week by the Belgian Competition Authority, and is subject to 10 commitments, which are perfectly in line with our strategy and will have no negative impact on our business plan. There is one commitment regarding Kariboo!: we are going to keep Kariboo! as an open network for other operators. This was the objective, and we confirmed this vision.

There are a few commitments relating to press distribution: in a nutshell, it is about keeping the level and quality of service for editors. This also includes maintaining the system of returns, so taking back the unsold copies, which is part of the business model in Belgium. Finally, we have some commitments relating to non-discrimination of our own post offices: we

have committed to not give a better service to our own points of sale, compared to other external points of sale. We have also committed to not give the priority to our own points of sale when we have to select new postal points. There are 10 commitments; there is very good collaboration with the Belgian Competition Authority, and these commitments will have no negative impact on our business plan.

We Grow – Parcels

Kurt Pierloot

Director, Parcels & International

I. Preamble

I will talk about two important growth pillars next to solutions: domestic parcels and international parcels. First, we will talk about domestic parcels. If you look back at the last couple of years, we see that we have demonstrated nice growth numbers, definitely over the last two years, 2015 and the ongoing 2016, where we have growth numbers in the range of 10-15%. Our strategy is paying off, and we are achieving these growth numbers in recent history.

II. Growth Rates

It is our ambition to continue with these growth rates of 10% to 15% in the next years. If you do the math, which you are all excellent at, that should bring us in 2020 to about €58 million or 75% growth versus our 2015 numbers. These are important ambitions in our domestic market, even with the volumes we already have today.

We will do this by covering all of the market segments in Belgium. The B2C segment is an important segment for us, because that is the e-commerce segment, and it is also the segment that is growing at a high pace, a segment we are comfortable in with the different solutions, so the B2C segment will be a focus. At the same time, we will not leave the other segments, and definitely the B2B segment, which is an important segment, a stable one, but where we are also going to selectively capture the growth opportunities presented that will also realise part of our growth. It is covering all segments, focusing on B2C, but not neglecting the important segments that we have in the important Belgian market.

III. Strategy

Our strategy is actually pretty simple and focused for the domestic market: we are going to strengthen and further leverage our cost leadership. We have our cost leadership today thanks to synergies with mail, but also thanks to our density, which really helps us to have a good position in that very competitive B2C market. We are not going to neglect it: we keep on investing in it, we keep on ensuring that we have extreme low costs there, so we can have extremely good competitive positioning versus our competitors, and attract all these important B2C e-commerce players.

At the same time we are going to selectively invest in much more product leadership, and be much more customer oriented, to really be the preferred logistic partner for all e-commerce activities in Belgium. It is combining our cost leadership – traditionally we have been strong on that – leveraging it and partially investing in it, to ensure that we become the reference in the Belgian market on that side.

IV. Initiatives

1. Value Chain

We have translated these two big pillars into a set of eight initiatives, which cover both the cost leadership part and the product leadership part. I would like to highlight three important initiatives of those eight. The first initiative is expanding our role in the value chain. Traditionally we have been focusing mainly on the parcel delivery side, the sorting and the delivery, but selectively we also want to expand our role in the value chain. A good example to illustrate this is everything that is related to e-fulfilment, by which I mean the fulfilment

that we have to do for the e-commerce player. It is not the mass fulfilment that the traditional warehousing company and logistic companies are doing; we are talking about fulfilling individual parcels.

Today in the Belgian market, but even in the Benelux markets, you only have a limited number of offerings in that segment. We believe, being an important player in the domestic market, we should further develop the market by offering a decent e-fulfilment solution in the Benelux market. We more or less concentrate ourselves in a 300km range around Brussels, so it is Benelux, north France, etc. The ambition is to build up a meaningful stake and help our clients, definitely more the medium-sized and smaller clients, not the bigger ones, because they are strong enough to develop their own fulfilment. It is on the medium and smaller clients that we believe by offering a decent solution we can help them further develop the market and be successful, which would be part of our success.

Currently we have fulfilment activities internationally: we have some limited ones in Belgium, but we want to strengthen that, and there we are selectively looking at some specific M&A activities to accelerate the acquisition of competencies to really be a good offering for our clients. That is the first important initiative: to have a stronger product offering and to have e-fulfilment solutions.

Another initiative is the high end delivery, where we are currently mainly focusing on the standard parcel delivery. We have a not yet very appealing offering, which is related to two man delivery installation services, etc. where larger e-commerce clients are asking more and more for a compelling offering on that front, to take away an additional hurdle to further e-commerce development.

2. Hybrid Network

The second initiative is the hybrid network: within bpost we all know what we are talking about when we refer to the hybrid network, but it is worthwhile spending some time to understand what we mean with the hybrid network. Today we leverage our strong mail network where our postmen also deliver parcels in a cost-effective, but highly reliable and high quality way, where we are able to absorb important volume peaks, as they will be coming to us in the next couple of weeks with the Christmas and end of year period. We want to keep on leveraging that network, and that network is excellent for a standard parcel, because the postman knows it, it will be delivered, and a consumer knows when it is coming, so it is a good, efficient and reliable tool, which we will continue to capitalise upon.

We call it hybrid, because we will complement this with a series of complementary networks, which will ensure that you can do specific things, the things where you do not have density, where you do not have synergies with mail, etc. If you look at big mail networks they are not made for tailored solutions: it is a general standard product for reliability. If you need a specific solution we will have a tailored, specific network focused on that.

We are partially doing this today, because the network we have deployed for Sunday delivery, evening delivery, specialised deliveries, etc. is not a standard mail network, because it has not been designed for that. A standard mail network is good for big things, for hundreds of thousands of parcels a day; it is not made for 2,000 or 3,000 parcels at high prices, but very specific solutions. This is the reason that we call it the hybrid network, because it nicely combines the elements of our standard delivery network with a series of complementary networks that are specialised and tailored to delivery certain goods or services. We have prepared a short video on the hybrid network.

[Video plays]

You can see, you all types of different services that are coming up, and the idea is not to ask the postmen to do that, insert it into his round, because that would not be cost-efficient, but we will use different methods. You have, for example, seen in Antwerp that specific delivery could be Parcify. You have to imagine that every parcel that would come in from our clients, we would decide how we were going to distribute it: if it is a standard parcel it would go into

the massive network. Reliability is important, quality is important, but cost efficiency is also important. If it is a special parcel that needs a special service, because it is a Sunday service, an installation service, needs a two man delivery, or is an on demand service where there is an appointment to deliver the parcel, we are going to direct that parcel into that specific network.

That network can be owned by us, but it could also be an external party who is doing it. In that context, the Parcify acquisition is important: it is a young start-up that is experimenting in providing a special delivery to the client. You deliver the parcel to the person, based on the information on their mobile phone, so we try to give that extreme 'wow' in terms of customer experience. Bringr is the same, where we are trying to show how we will be different, how we can use the crowd to help deliver and to make express delivery available at more accessible prices. City Depot was also one of the examples where we have said that the postal network is not the best for city delivery. Can we deviate and also deliver larger things in cities with a dedicated vehicle?

It is important to know that in hybrid we have our standard network complemented with additional networks that are very strong in delivering their specific value proposition. That is the second element that I wanted to highlight.

3. Open Networks

The third one is on open networks: if you look around, and we all know the examples where the largest hotel chain no longer has any accommodation or the largest taxi company does not have any cars. The world has evolved enormously in the last couple of years, and we believe that the delivery market, the parcel market, has a lot of characteristics similar to the markets where we have seen a lot of revolutions. This is also the reason why we say that if we want to be a leading player in the Belgian market, in our home market, we should also be an active shaper of that open network.

Marc already talked about Kariboo!, which is a perfect example of an open network, where we will be operating the collect and pick-up points, and we will have other operators and other types of companies as our clients. It is our commitment to further develop that and really become the reference in everything related to pick-up and delivery networks.

The same is true for the example of de Buren: we strongly believe that if a strong postal operator in a certain market is putting energy into it, you can make the difference in terms of parcel lockup markets, but to have a profitable business case, if you do the maths, you will find that you need density and throughput through these parcel lockers. We can contribute in a significant way, but you can turn it into a success if you can move the whole market, and as a result we have decided it will be an area where we will actively pursue other players, other postal operators, but different companies to actively use these parcel lockers. The first talks with de Buren's current clients in Belgium and the Netherlands confirmed that other operators are open to working with us.

You can go one step further and basically say: what can you do with your last mile network? If we want to be the reference and we want to maintain our strong position, what can we do more of? That is the reason why we are also actively approaching other operators to say, 'Can we help you in distributing? How can we find a win-win situation where we could be your partner in certain lower density areas? For example, where typically others witness high cost and where we could have a win-win, we could make a nice margin and we could strengthen our position, and, at the same time, there could be a win for you too.' If you look at it on an international perspective, you see that all parcel operators already do work with each other, so it is translating that concept into the Belgian market, and we believe we can play an important role in that.

V. External Growth

External growth is also on our radar for multiple initiatives: we have talked about open networks. It is easier to talk about it when there are clear names against it, with Kariboo! and

de Buren. Product leadership is a type of innovation where we believe that we need to reach out to what is happening in the world, and instead of doing everything ourselves, for example, with initiatives like Bringr, we complement and strengthen that by looking outside, and selectively investing in initiatives where we believe that they could potentially have an important impact.

E-fulfilment is the same: there are great start-ups and young companies who already have invested in building a client base, IT infrastructure, and have experience in certain verticals. Instead of doing it ourselves we are actively looking at whether we should consider that as an alternative. For all the different initiatives, we are actively looking at both larger and smaller acquisitions to see how it could strengthen our path to success and to be the reference player in Belgium for everything related to e-commerce logistics.

VI. International Parcels

That is domestic parcels. If we move to international parcels we will start with the good volume growth that we have seen in the last year. I have shown the revenue growth and the CAGR is no longer the most relevant indicator of success, but over a couple of years we have built a business from close to zero to €170 million business, with high double-digit margins in the last couple of years, so it is promising. On the international we have experimented with focusing on the mail side, when you could still stick some attractive margins on the mail side. More and more we have focused on parcels, and then more the high end parcels, because there is some value to be captured.

For the past two years, we have grouped all our international activities under one name and brand, which is Landmark Global. Internationally we have positioned ourselves as Landmark Global. Today we are present in about 25 physical locations around the globe, with about 50% in the States and North America, and the rest in over the rest of the world. We are present in 11 countries, but those are our own physical locations, as we are working with a lot of partners and we typically do not own the last mile operator for the international approach. We are present in more than 100 countries through partners, because these partners typically do the final mile delivery for us.

VII. Landmark

The sales proposition in Landmark is pretty straightforward, because what we are doing there is to help mid-sized e-tailers to do cross-border business. Typically a client would be successful in the domestic market; let us take the US as an example, the client would have built a product offering, would have launched it in the US successfully, and is thinking, 'What is my next growth horizon?' We are there to help them to realise that growth horizon.

First, when a US-based company is looking for international growth they are looking at the North American border, and they are looking at Canada, as Canada is the second market to native US companies. We enable that international cross-border growth. What does enabling mean? It is a lot of little things, but they are important things to make it happen: first, product registration. How do you help these e-tailers to ensure that they have to right product registrations in the country in which they want to operate? How do you make sure that they have everything in order in relation customs? How do you ensure they have an efficient returns process, because you all know that to be successful in international e-commerce you need to be able to offer a decent returns solution; otherwise you create an unnecessary hurdle for your clients to buy.

Over time, typically when the client is growing, they will also ask for more and more local fulfilment in the country. Typically with Landmark we do fulfilment; it is not a high, complex fulfilment, but typically the low number stock keeping units that you would have, you would fulfil out of different facilities that we have in Canada, but, for example, also in Australia. It is helping the midsized businesses to grow internationally, and typically we do it lane by lane, and grow with these customers, which also helps us growing our revenue base in a relatively impressive way. First, a successful company into the domestic market will go to Canada, then

we will help them solve the same types of issues in other markets that Americans look at, which would be Australia, Europe, Russia and Latin America. Every time there is a certain complexity to be solved, and when there is a complexity to be solved we are an attractive alternative for our customers.

If you compare us to competitors it is always difficult, but overall and in general terms we would say that we are close to the express service, but much closer to post price. It is much faster than the post, or the traditional solutions that we have, but far less expensive than express. The other thing that we have, which is different for small and mid-sized companies, and what they currently do not find on the market, is a good tailored solution for the needs that they have. For bigger e-commerce players they will typically develop it themselves, or they will be willing to do the investment, but smaller to mid-sized players they do not have the tailored approach for these clients. We all know that e-commerce is growing fast, and these numbers illustrate that: 70% of consumers shopped on a foreign website in the past year, which illustrates the big potential in this market, despite the complexity and the hurdles that you have witnessed today in building that business.

Our ambition for Landmark, for our international parcel business, is to double our revenues in the years to come: by 2020 we want to double our revenues of international parcels in a gradual linear way to that €340 million.

VIII. Strategy

A simple way that we will do that is to focus on cross-border parcels: that is what we are good at; that is where we help our clients; that is where we get positive feedback from our clients. We will help them to conquer the world, and if they are successful, we will be successful too. While the overall theme is the same, it is differentiated by region, because we have a good solution for the US, so it is more about building upon that to continue the profitable growth, ensuring that we add additional lanes as the clients are growing, and ensure that we have a decent e-fulfilment solution across the globe.

In Europe, the ambition is to become a strong leader in parcels: there we are still assembling the building blocks, we have a pretty clear view on it, but we are still in the assembly phase. Asia is a very significant market; we want to gain a substantial footprint, but focusing again on the high value parcels. We are not going to focus on the low-value, high price competitive parcels, because we believe it can help us as an opportunity approach, but we will not make the difference versus others who are probably better at it. Given that the market is that big, we strongly believe you can also have a very good offering in the high value parcel.

Parcels: growth focus, but at the same time you are not forgetting part of our history, which means that opportunistically we also follow the mail market. We have good profits in there on certain contracts; we will keep them, we will monitor them, and selectively we will participate. It will not be the focus, but we will definitely not throw it away: it is good money; it helps us also to build some lanes. We have some synergies on the carrier flights between two destinations with a smart combination of the relatively heavy mail and the light parcel, which helps us to negotiate good deals with carriers; we will keep on doing that going forward.

IX. Technology

A couple of important enablers for this strategy include technology, IT. When we have internal management meetings we basically say that on the international side, we are more an IT company that happens to be in the logistics business than anything else. That is probably exaggerated, but it illustrates well the importance of IT for integration with clients. The more you are integrated with your clients, you can ensure that you have smooth information flow, and that should happen in days or weeks rather than months, because these clients want to shift fast. At the same time, if you say it is three or six months of integration there are also a lot of costs associated with it, so you need to avoid that.

We are carrier agnostic, so we will work with the last mile partner that we believe is best suited to our clients. We work with all parcel operators and postal companies to deliver these

parcels, and we will choose in function of the needs of our clients. That also means that you need to be extremely well integrated with these players, and you need to make sure that it is not costly and a hassle to connect every time.

You can see the parallel with the domestic market, where we say that domestic wise we want to be able to connect with all the different operators who are in Belgium. Here internationally we say that we will receive that parcel of a client, and we will determine together with the client what the best network is in which you want to have it distributed. If you want to go to France, for example, and you say, 'Okay, I would like to have good, decent quality operator', you will look at DPD or Chronopost, but at the same time if they also want to have a good pickup solution, than we will offer Mondial Relay. If they have a need for two man delivery, we can relatively easily connect an additional two man regional delivery player in there. Therefore: IT is crucial. Mercury is the name of the IT system, and that is the reason why it is mentioned; it is extremely well known within bpost and definitely within Landmark.

X. Product Management

Product management is also key, and it should be developed in a continuously agile way, because once you have cracked a certain nut, for example, from the US to the Canadian market, you want the whole championship, it continues and you need to be innovating, you need to build access to the Canadian market, and focus on solving the next challenge together. In that context, for example, you also need to position the acquisition that we have done in Australia with FDM, and its traditional customer. The first customers were more customers who had a limited number of shipments to Australia, so that you can easily do parcel-by-parcel: you fly them over at a certain cost, at a certain service level.

If you have flown to Australia, it takes some hours before you are there. At a certain moment clients are successful and will say, 'Yes, but now I would like to see how we can have a different cost position, because it is relatively expensive to send parcel-by-parcel. On top, in terms of service level to my clients, I do not want those four, five, six, seven days before it arrives in Sydney; I want it to be locally on the ground.' That is what FDM is doing: FDM is basically doing local fulfilment, the majority of which is oriented to US based clients. That is a perfect transition to help our clients migrate from the 1-2-1 to local fulfilment with a different service offering to their clients.

Custom brokerage is key for these markets, and you can consider it as an important element for product management. A very important element is the whole entrepreneurial lean and agile culture that we want to foster within Landmark and Bpack, because we believe it is extremely important to listen to the customer and to be extremely quick in terms of reacting to customer demand. If we are not going to do it, someone else will, and we will be out of business. Therefore, when we are acquiring these younger companies we want to make sure that we also import their entrepreneurial DNA into the company. That has gone relatively successfully so far, but it is key going forward.

XI. Partnerships

Partnerships are key: typically we have partnerships with all these postal operators, but also with traditional parcel operators. In this field we also have a unique position as a postal operator, because all of you know that as a postal operator you have standard preferential deals with other postal operators, with UPU, REIMS, InterConnect, etc. That gives us an advantage versus other parcel operators, because for all of our clients we can say, 'Okay, will we link it to one of our postal agreements, or are going to leverage one of our commercial agreements?'

As Landmark we can have a perfect commercial agreement with PostNL, with DHL, with French Post, with Canadian Post, with UBS, with FedEx, we have them all. Then we can do it through post, which has certain advantages, or through the commercial way with direct injection and typically better service agreements than you would have with postal. Again, if a client wants the cheaper solution then a postal solution is often a good, reliable solution. It takes a bit

longer, but the client is often happy with it; if, on the other hand, the client wants high end delivery, we can do that too. It is also for us to do the upselling for the customer, because typically a client, for example, a Chinese client, would start with a cheap, cheap solution, and some of them we believe we can upgrade by offering a full track and trace service, where there is more value. It is up to us and our salespeople to sell it.

Partnerships is one we need to develop further. Asia is definitely focus area, but let us not forget that Latin America is also an important area of growth demand of our American-based clients. We are looking at the reliable customers there, because if it is a developing, complex market that is an environment where we are good. If the solution still needs to be crafted then we would like to be the ones holding the pen to craft that solution for our clients.

At the same time we are looking actively at acquisitions, mainly to strengthen our product offering, and it should be in the spirit of the FDM or Apple Express. Why did we do Apple Express? For two reasons: the Canadian market is a very important market for us from the US to Canada, with millions of parcels, about 8 million parcels a year are shipped from the US to Canada. We are an important customer for Canada Post, and to not be too dependent on Canada Post we wanted to have an alternative ourselves, which is one of the reasons why we invested in Apple Express. They offer that and today they can deliver relatively easily 30 to 40% of our daily volumes, which was, for example, very good in the last couple of months, because there were strike threats in Canadian Post. Our clients appreciated at that time that we had the alternatives of FedEx and UPS, but also our own solution.

XII. Conclusion

At the same time, Apple Express helps us to experiment with high end delivery in an international market. We can say, 'Okay, we can do the standard product offering, but if you want a more complex product offering, we can also offer that internationally'. That concludes the three important pillars for growth: the solution pillar, which is an important pillar that Marc explained, and, at the same time, two important growth pillars on my side. In domestic parcel, we want to become the reference logistic player for everything related to e-commerce activity. That is broader than parcels, but we want to be recognised as the reference player, leveraging our cost position, but also becoming stronger on the product side. On the international side, we want to enable e-commerce for clients who want to grow and help them in building their success.

Questions and Answers

Baudouin de Hepcée

I would like to invite Koen van Gerven and Marc Huybrechts for this first Q&A session. We would like to organise the Q&A session around the different themes that have been covered, so the questions addressed now should be about the overall strategy introduced by Koen and the "We are Mail" pillar of our strategy for Marc, and for "We Grow" Marc and Kurt. If you could, please limit yourself to one or two questions per person to allow everyone the chance to ask a question.

Andy Jones, RBC

One question on domestic parcels: I remember at the IPO B2B was quite a bit focus, I think it was doubling your market share, is that a target that still stands or is this an initiative that is just a matter of better return for your effort in B2C?

Kurt Pierloot

That ambition still stands, but it is more about capturing the specific market opportunities. We see that we are mainly successful in the product offerings that are close to our B2C offering. Traditionally there was a clear difference between the B2C parcel offering and the B2B parcel offering; you all know that has become more of a continuum, where you still have the extreme on the low end, low quality pick up order, up to the high end B2B offering where there is an extremely valuable piece to be delivered. There are still the extremes, but in today's world it is much more of a continuum. The B2B part that we typically are good at is close to the B2C, and when I would give you a parcel you would basically not see the difference between B2B or B2C. These players do exist; they are not so big, of course, because with the large B2C players all of us know them. In the B2B players they are typically smaller, and a bit less well known, but typically the parcels we ship are exactly the same, and that is the niche where we can definitely capture volumes to realise the ambition of doubling our market share.

Chris Combe, JP Morgan

With respect to your overall target of 620 of EBITDA by 2020, can you elaborate on what is purely organic, existing platform, versus inorganic, and how does the overall capital expenditure fit into that play in the M&A budget?

Baudouin de Hepcée

Chris, I will take this question at the second Q&A at the end of this afternoon, because Koen Beekmans will come back on that later on if that is okay.

Chris Combe

Sure. Lagardère: it sounds like you think the consumer wants proximity to home versus office, something that is en route. How could that play into the USO going forward, and the minimum number of retail locations that may be required. Where do you see flexibility in redefinition of the USO?

Koen Van Gerven

The road we want to go and the diversification of Lagardère is close to our DNA, but is not associated to USO as it is defined going forward. USO is about the distribution of mail five days a week. What we have currently is an SGEI about proximity networks, the post offices: the post offices are not USO, the post offices are SGEI. There we have comfort in a contract that runs until 2020. What will happen afterwards will be part of a discussion, which is what Marc made reference to. One of the interesting points about Lagardère is to provide a chip

going forward: there is value in this acquisition in the short term, changing market behaviour, trying to position proximity and convenience, and we will continue to work on this in the years to come. However, in a changing world it is not bad to prepare for the period afterwards and to have a couple of chips. This is one of the reasons I consider Lagardère to be a very interesting acquisition.

Your second question was about what is going to happen with USO: as you know, we are the USO provider until 2018, and probably USO will continue afterwards; I am not too concerned about that. The only point I want to discuss with government, somewhat to avoid that a contribution should be provided by government as foreseen in the European Framework, is that we have to reflect and to think about what the most meaningful USO is from the customer's point of view. At the end of the day, it is about the customer, so let us reflect whether we have to keep this large USO we enjoy in Belgium unchanged.

The second thing I want to discuss with them is that now we have fixed the USO for a period of 10 years, which is probably something that sounds like eternity in this fast-changing world. I feel comfortable committing to a longer period, which provides stability, but could we not include a kind of flexibility within that framework. This is the thinking, but this is something that we still have to discuss and agree with government. Overall I am not too concerned on that.

Edward Stanford, HSBC

One of the other parts of the regulatory architecture that is being reviewed is greater access to the mail network: how do you view the risks of greater access mail competition in your network?

Koen Van Gerven

This is a very interesting discussion, and there are a couple of people that tend to say, 'Look, there is no competition in Belgium'. My response is: get real. The real competition is not coming from a second, third or fourth operator – you have seen it abroad and it was tried on a couple of occasions in different countries. My reading of all of that is that it was not very successful. The real competition is about digital. This competition is all over the place in Belgium and other countries. It can happen, and we have a second operator in Belgium, and it is a very niche operator. I think the economic logic of having last my delivery all around the place perhaps sounds ideologically very interesting, but seems to be more difficult to realise in a declining mail market.

To be honest, it will be on the agenda. It is not that there is no competition at all: Marc elaborated on that, we will continue to work on that, but a second, third or fourth operator is, in my opinion, not the most reasonable thinking of how we perceive the competition going forward.

Mark McVicar, Barclays

What do you think are the key drivers behind the increased volatility of mail volumes quarter-by-quarter, which you have alluded to a number of times now? What extra challenges and responses does that bring from you? Can you manage headcount over that shorter period of time? Can you manage other resources? What are you able to do in response to that volatility is the first question?

Koen Van Gerven

I can imagine a couple of reasons: we live in a period where the response time, in terms of how you drive, how you organise your business, becomes shorter and shorter. Let us give you an example of what we experienced last year, which I pointed to in my call: in the third quarter last year, there was a bunch of mail sent out, because there was a decision on the change of VAT on electricity in Belgium. It is a simple example. Those are things that are not prepared for over a long period; even in politics it goes to a shorter and shorter way of

organising themselves. You can put it in a positive way, as an opportunity, or in a negative way that there is a problem, and then they decide and we have to react. This is what we see in general, not only in our business, but in a couple of other businesses.

The second question is relevant: how do we absorb this? The way we are organised, the declining business and a growing business, is very helpful from that perspective. We have an integrated distribution of mail and parcels; we will elaborate on that later on, and the integrated network is about volume, density and how you organise your last mile distribution in the most efficient way. This is one of the levers that is very helpful in this changing environment. Am I going to reorganise my whole world due to that? At least for the moment I am not too concerned, but it has to be on the agenda.

Kurt Pierloot

On the volatility: from a financial perspective these numbers seem to be enormous, but if you look at the mail business daily variation is easily between an index of 70 and 130 or 140. Daily you are already made to absorb much, much bigger variations, and the same for parcels. It helps our score if you combine them, but all of us know that in the end of year period you are handling double the volume, which takes some energy, but we are able to absorb these things. From an operational day-to-day perspective it is definitely not a concern, 1 or 2% more – it does not matter too much from an operational perspective.

Marc Huybrechts

Just on this volatility, especially for Q3, the main mail senders, like the telecoms, banks, and so on, have already digitalised 50-70% of their volume for the day-to-day communication flows. When they have to organise a big communication event – rebranding, a new platform, or VAT – they still decide to do it on paper. Then it is everyone, so the variation for these big customers is much bigger, because the normal day-to-day volumes are lower. In Q3 we did not have any big communications, but there will be other ones in the future.

Mark McVicar

My second question was around the slide where you said you want to push into taking over the management of fulfilment centres. What sort of e-tailers do you think would want to outsource those fulfilment centres? If I look at the very big ones they regard it as part of their DNA; you cannot see Amazon giving that to somebody else, as an example. Can you give us an idea on the types of companies that you are targeting?

Kurt Pierloot

That is an excellent, excellent question. We are definitely not targeting the ones that are big enough to set it up themselves, although if they are big enough they can still decide to outsource it, but that is a different type of business. What we are looking at is more the ability to be able to fulfil hundreds of clients in a certain facility as opposed to one or two clients, which is typically the outsourced business where there are other parties who are good at it. Why is what we are looking at different? If you look at the business typically, fulfilment in general, but e-fulfilment more specifically is realising good margin if there is a certain focus: a focus on a certain approach, a certain segment, etc., because they know it, they master it. The margins are not huge, but they are decent if you focus on it.

If you look at how Zalando is doing its fulfilment, or how Coolblue is doing its fulfilment, or how bol.com is doing its fulfilment, it strongly depends on how many items you have to pick per order. Fulfilling where you have one item per order is completely different in terms of set up than when you have three: it is not that you cannot do it, but in terms of the one you will make money, the other one you will lose money. That is why we focus more on those companies who are not big enough and do not have a lot of options today; today they would go to a bigger one, but have no decent solution, and today they might even still go to the

fulfilment by Amazon, but most of them are not too happy about it. Typically they would start doing it themselves, but that is taking a lot of energy in an area that they are not good at.

The second one is the advantage of combining it for transport: if you are a big player you can put full trucks from where is your big fulfilment centre to your parcel partner, be it PostNL, be it DHL, be it bpost, etc. When you are smaller you cannot justify this type of investment; you need to be able to leverage one, and combining that as close as possible with a parcel operator in general, bpost or another one, you have an advantage. Once you can fill up your 50,000 square metres yourself it is a different model, and there are different players in the market who will be better than bpost at doing that. However, we believe we can have an offering for the smaller clients.

That is also what clients ask us for. If you reflect on the market, and you look at which fulfilment companies would be able to do that in Belgium, I cannot quote a lot. In the Netherlands you have some of them who are good at helping the smaller companies grow, and once they are big enough they might do it themselves, but we do not have it in Belgium. If we want to further grow the B2C e-commerce market in Belgium we believe we can also play a role there, make some nice money, and help us protect the parcel business.

I did not mention that in our international parcel business, once you are doing the fulfilment for a client you are much more interwoven with your clients in terms of IT, trust, etc. Typically a client is not going to shift to another fulfilment player if they are happy with the service. For international parcels, if you are not happy, for example, in the case of the Canadian Post strike risk, in two or three weeks' time we shifted 50% of our volume to alternatives and it works. It takes energy, but it works. In fulfilment you do not do that; it is too risky for clients as you are too close to their core business.

David Kerstens, Jefferies

A question on your transition next year: can you give an indication how much it will cost to move to a new parcel sorting centre and to run duplicate capacity for a certain period of time? Would it be fair to assume that your ongoing productivity improvements, which you indicated would be in line with this year, should be sufficient to compensate for those costs?

Koen Van Gerven

We are going to talk a bit about how this is going to work in the operations part, which will be after the break. By and large it is not that we have to put down the capacity and move the capacity, it will be a new capacity that we will build, which makes the transition much easier. In terms of the efficiency gains that we will produce next year, it will be as planned in line. It is not that we are going to have a weak year; we are going to have a year as we had in other ways, but come back for my outlook at the first quarter results of next year, as we usually do.

We will come back to that question after some more explanation of what we intend to do next year in terms of transition, moving parcel sorting to one big, new place that will be ready in the course of next year.

Matija Gergolet, Goldman Sachs

Two questions: one on parcels and one on mail, particularly advertising mail. First, on parcels: you laid out the case for Landmark quite well, but the target seems to be quite ambitious – a doubling of the revenues over five years, which seems to be a bit ahead of the market as a whole. Could you help us understand why you would expect to be gaining some market share versus the others? Additionally, relative to the bigger players, you operate in this mid-size companies area but what gives you the advantage over them particularly in faraway countries where you are not in your core market?

Kurt Pierloot

That is a good question. In terms of market share, at Landmark we do not talk about market share. In the domestic market, market share is typically something which is more relevant because you are a big player there and you have to ask whether you can grow faster or slower than the others that are there. It has a huge impact for it.

If you look at Landmark and if you relate that to the overall markets, you are not even talking about percentage – it is nothing – and, if you basically say ‘if you look at the numbers, we went from less than 10 million to 170 million’, you would say the market share was multiplied by 10 in a couple of years, which does not make sense. It is about how you make sure you find these clients and how you are successful in serving these clients. What we see there is that the medium-sized players are increasingly successful in certain segments and the segments that we are typically good at are everything related to fashion and lifestyle. Once you start to become known in the fashion and lifestyle world, certainly in the US, you start getting your name out there and, in that segment, you say ‘okay, they are good at that: they help you solve the issues in terms of customs; they help you find creative solutions in terms of bonded warehouse; they have a good return solution and so on’. Therefore, it is more a reference there. Fashion is an example.

The other example of a vertical is the multi-level marketing; the old pyramid type of selling. Those are typically also companies who basically have a subscription type of model and will sell it, and they say ‘okay, they have a certain market taking off’ and then it slows down and then they go typically to the next geographic market. In these verticals, we are becoming better and better.

Why more mid-sized? It is because our experience is that – and it is also a good learning for us in the Belgian markets because we have adapted our strategy there according to that – if you are a small player and you talk to a large company, and I am not going to name one because it would not be correct to only name one, and you are currently shipping 20,000 parcels, will that big party make a good deal and solution for your needs? If I have 2 million pieces or 10 million pieces, then they might be talking and they will be developing something. If not, you will push them a standard product.

What we do at Landmark, thanks to our IT, is we basically create the perception that we have a really tailored solution for our clients; but, behind it, we basically have the building blocks because of the volume that we get from client A and B and it is going to Canada. The majority will be handed off to one operator. Therefore, it is a perception of having a really dedicated tailored offering to those types of clients which they do not have from other places. It is also linked to the US-based markets where the big numbers were big and attractive and, as a result, there was a lot of focus on these companies; and that was the segment which was not well served. So far, it is helping us grow and it is also helping to grow that client and to continue to grow.

Churn has been extremely limited in the last couple of years because clients feel well-treated, despite the relatively correct margins we make on it because, again, I always believe that, if you bring a solution to a client, they are willing to pay something for it; and that is definitely specific also to the US clients.

Matija Gergolet

In terms of verticals, you mentioned two; but, in terms of doubling the revenues, do you think just growing with these verticals will be enough or do you need to expand into more verticals?

Kurt Pierloot

If you look at these markets and how they evolve, these growth numbers should already be enough to get there. Look at fashion lifestyle growth of e-commerce. They are impressive numbers. Look at MLM type of companies: impressive growth numbers. We are not going to limit ourselves to these companies, but these already have typically extreme high growth

rates. On top of it, it is also the geography, as Koen pointed out, which I have already explained. You are adding lanes and, for these clients, that is why we are adding Latin America as a market there currently. If you want to ship something out of the US to Latin America, it is extremely difficult. There is no reliability, no quality, and so forth. Therefore, if you find a good combination of partners there, it is again for that US-based company a great additional export market that you have. Therefore, it is also part of creating a market for these.

Matija Gergolet I have a quick one just on advertising. There was a slide showing the share of mail in advertising declining from 17.8% in 2010 to 14.8% today, and you showed 2020 staying at 14.8%. Therefore, basically you feel confident that we have reached the trough in the share of advertising through mail.

Marc Huybrechts

Yes, it is our ambitious. That is why I said that we do not claim victory yet. However, if we look at the first results and the plans for next year, we believe that it is a sound ambition. However, I agree with you: visually you would say 14.8 to 14.8. We will see. Also, we do not take into account any economic recovery. We take into account the flat advertising market.

Koen van Gerven

There you know that advertising or communication spend is highly correlated with GDP growth. We hope that one day GDP will pick up.

Marc Huybrechts

The perspectives with media agencies are very good as well as the perspective in FMCG especially in retail market. We still have a few customers that we are targeting. Do not forget the natural evolution of this market: less door-to-door and more one-to-one marketing. More addressed mail. In the second one, we are much more stronger than our competitor. Our main competitor is limited to door-to-door, which is only one part of the story.

Baudouin de Hepcée

Thank you. The next one is from Marc.

Marc Zwartsenburg, ING

Koen, can you give an indication of the additional capex that will be involved with Lagardère?

Koen van Gerven

I think that we disclosed it already. I think it was up to 10 in the years to come. As Marc indicated, it has to do with refurbishing and making the retail locations more attractive. There will probably be a couple of relocations. However, again, this is a world where you have to spend some money from time to time in order to remain state-of-the-art. That is what we will do because there is an ambition in what we are trying to realise; but it is going to be in this range.

Marc Huybrechts

The total capex will be up to 10: a bit lower than 10. 80% of that is for the retail operations and 20% is for the more press distribution activities Alvaldis and Karibool. The main part of it is for the retail network.

Marc Zwartsenburg

Can you give an indication of whether Lagardère will be earnings accretive or neutral for next year, or dilutive perhaps?

Koen van Gerven

It will be earnings accretive. We have the approval of the competition authority. The closing will be done and then we will have full access on the figures. We will have full access on the budget. We will integrate the budget and, by the first quarter results, we will shed clarity on all of that.

Marc Zwartsenburg

A final one just to get this thing straight on the transition year 2017. I took your words to mean that we would see some cost savings already coming in from the migration of the sorting centres but that the full impact will be seen in 2018. David was asking a question and he is referring to double running costs. Can we now perhaps get a full clear picture for next year? What will the balance be of all that, given that you indicate it will be a normal year in terms of SG&A savings and progress? It still seems that we have additional costs and not full savings and, in the end, pressure on your EBITDA.

Koen van Gerven

Can we take the question after the next part of the presentation? Probably, by then, it will be somewhat clearer on how it will be figured out.

Baudouin de Hepcée

Okay. We still have time for one question. Henk and Philippe, you can debate yourselves to choose one question. Thank you.

Henk Slotboom

Koen, I have one question related to what Marc was just saying. How will you safeguard the delivery quality of your firm with the switch to a new sorting factory near Brussels as well as the investments that you are making in the sorting capacity in parcels? You indicated that we were going to work in an entirely different way but any changes could lead to distortions with people having to get used to it, feeding problems and so on and so forth. Could you perhaps shed some light on that?

Koen van Gerven

Can you take the quality part please?

Kurt Pierloot

You are all analysing the results of the past too. I would invite you to consider the transition that we have done in the past in terms of the transition to four new sorting centres, going from nothing to four new sorting centres and an updated Brussels X. We have done that without any quality loss. It took a lot of effort and management attention but it has been realised without a loss in quality.

In terms of parcel quality, it seems for the external world a big change but, for me, it is a big relief. It is going to be easier to have good quality because we will have additional capacity. We always say that we will sort in two sorting centres but, as parcel volumes are growing nicely, currently we are already working out of five sorting centres. Our traditional sortings are helping out and, for the New Year period, we are launching additional capacity. We do those short-term moves to guarantee short-term quality and they are actually much more complex than the long-term new additional capacity. Philippe can comment on that later on. It is actually a luxury to have that additional capacity installed because you have your current

capacity and then you put the additional capacity and you test it out. Once you are comfortable, you are increasing it, etc. It is relatively comfortable versus, for example, what we are doing today, working closely with our clients to make sure that during the end-of-year period we have good quality. It is our challenge but it is the challenge of every postal and parcel operator end-of-year to accommodate this new capacity which is another complexity than having the luxury of having a parcel sorter which doubles the installed capacity of today. You still need to solve all the little teething problems but you have a perfect fall-back.

Koen van Gerven

It is not that we have to move the sorting capacity. I understand your concern that you have to take something down and you have to put it up somewhere else but that is not the case: we create a new one. The old one will continue to exist up until the moment that everything is fine-tuned. Additionally, as Kurt said, it is not about the same capacity: it is about doubling the capacity. In terms of efficiency gains, we will immediately have some savings. Then, of course, we will see how quickly we are going to run down the other ones that we do not need anymore. Therefore, perhaps you could say we are in quite a comfortable situation from the machinery point of view in terms of making sure that we can smoothly roll from the existing situation into the new situation.

However, let us park the question. If, after the explanation, there is still some concern then I am happy to return to it.

Baudouin de Hepcée

Thank you, Koen, Kurt and Marc for this first Q&A session. I remind you that we will have a second Q&A session at the end of the second part. I invite you now to have a coffee break, and we will back here in this room within 15 to 20 minutes. Thank you.

Baudouin de Hepcée

We will now start the second part of the afternoon. During the first part, we had an overall introduction about the bpost strategy for the next year and we explained in more detail the first pillar, 'we mail', the second pillar, 'we grow' and we are now announcing and explaining in more detail the third pillar of the strategy, which is 'we are lean, flexible and agile'. I would like to invite Philippe Dubois to explain this third pillar in more detail to you.

We are Lean, Agile and Flexible

Philippe Dubois

Director, Mail Services Operations

I. Preamble

Thank you, Baudouin. We are lean, we are agile and we are flexible. We are lean because we are focusing on added value activities and the elimination of waste in our different processes. We are agile to be able to move fast to seize opportunities, to respond to our customers and to cope with unexpected changes. We are also flexible to respond quickly and efficiently to the needs of all consumers and customers.

During this presentation, I will focus on three points. The first one is a reminder of our approach to continuously improve our cost. The main operational approach is called 'Vision 2020'. The second one is an illustration of the recent key achievements. The third one is a view on the next step foreseen.

II. Cost Improvements

1. Vision 2020

We continuously identify and capture cost improvement across the entire organisation. Vision 2020 is built on three different pillars. The first pillar is the further automation of mail preparation activities in the five industrial mail centres – the five sorting centres – and a centralisation of the mailbag preparation done until now in the distribution office. We now call the distribution office 'mail centres'.

The second pillar is the centralisation of sorting parcels in the new Brussels X with a new parcel sorting machine. This machine will have double the cumulative capacity of the current Antwerp X and Charleroi X machines. The current cumulative capacity is now 15,000 parcels per hour: 9,000 in Antwerp and 6,000 for the machine in Charleroi. The future parcels sorting machine in the new Brussels X will be able to treat 30,000 parcels per hour.

The third pillar is the optimisation of the distribution network around 60 mail centres as the backbone of our logistic networks.

2. Continuous Productivity Improvement

We have also some continuous productivity improvement initiatives in Mail Service Operations. The main one is our Georoute organisations programme. Georoute enables adaptation of the collection rounds and the distribution rounds to volume evolutions, to process improvements and to the project implementations. We organise each distribution office every 18 months.

Another important improvement initiative is the continuous benchmarking between the five sorting centres. All five sorting centres are similar. They use exactly the same sorting equipment and the same sorting machine, and we apply the same processes. Therefore, it is easy to compare and to challenge continuously the performance of the five sorting centres.

For transport, we closely follow-up KPIs to optimise continuously our transport logistic network.

3. Further Improvement of Factor Cost

We also work on further improvement of factor cost. The most important element in employment plans optimisation is the replacement of statutory workers with auxiliary postmen. We have today approximately 6,400 auxiliary postmen at lower costs. The relative difference of the cost between a statutory worker and an auxiliary postman is 30%.

4. Productivity Improvement Across the Organisation

We do not only improve the operational departments; we also have a lot of improvement initiatives across the rest of the organisation. In our retail network, for example, we are yearly restructuring and applying a productivity improvement programme. With our Alpha programme, we also drastically reduce our overhead across the organisation.

5. Financial Discipline

Basically, we have financial discipline at project level through thorough financial assessments and close follow-up during execution. We do not hesitate to stop those projects that do not deliver.

III. Approach to Cost Base Optimisation

Our approach to cost base optimisation has proven to drive cost reductions. You can see an average of more than 3% in reductions per year in terms of costs and also a reduction of approximately 4% in terms of FTE evolution.

Our favourable age pyramid has allowed us to reduce by a range of 800 to 1,200 FTE per year without forced redundancies.

We have needed to continue to hire some hundreds of auxiliary postmen per year.

IV. Change in Mix

1. Contract Types

Besides productivity gains, change in mix continues to contribute to labour cost control. We introduced auxiliary postmen at the beginning of 2010. 30% of our contract types are now auxiliary postmen; 25% are Baremic contractuales and 45% are statutories; less than half of the population now.

There is a huge average cost difference between statutories and auxiliary postmen with a reduction of 30% in terms of costs.

2. Structuring Positive Mix Effect

Here you can see the evolution of the number of FTE, statutory and auxiliary postmen this year since January. As has already been said, we need to continue to hire auxiliary postmen even with the FTE reductions due to a very favourable age pyramid.

All growth areas are covered in terms of marginal costs by auxiliary postmen. This is a huge advantage in terms of costs.

V. Reminder of Vision 2020

Vision 2020 is built on three different pillars, as said before. The first one is further automation of mail preparation and centralisation of the mailbag preparation in our sorting centres. The second one is the centralisation of the parcels in the new Brussels X with the new parcel sorting machine doubling the capacity. The third is optimisation of the distribution network around 60 mail centres as the backbone of the logistic network.

The new Brussels X will reinforce our position in the parcels market. The new central PSM is foreseen to have twice the current installed capacity. Today we have two industrial sorting centres for parcels: one in Charleroi and one in Antwerp. Due to the exchange between these two sorting centres, and due to the limited current capacity, it is currently difficult to accommodate 'very late in products' because of time windows. Today, in mail centres, the parcel round preparation is fully manual. The parcel routes are based on the knowledge of sorters and postmen.

Vision 2020 has several benefits. One is that, due to a completely new sorting machine technology with further automation, the sorting costs will be hugely reduced. Another example is that there will only be one sorting pass and no exchange between other sorting centres because we will only have one sorting centre for the parcels. Therefore, we have many possibilities of accommodating late-ins in the future.

The productivity improvement from automation and address recognition will allow us to optimise distribution rounds automatically because we will know the address for the parcels' delivery.

VI. Vision 2020 Savings

1. New Sorting Configuration

The Vision 2020 savings will come from six main levers.

The first one is the new sorting configuration, we will specialise our sorting centres. We actually have five sorting centres for the mail and for the letters and all of them do the same job and the same work. In the future, we will dedicate three sorting centres – one in Ghent, one in Charleroi and one in Brussels – to national sorting and the collection of mail.

We will organise regional sorting and mailbag preparation in the five sorting centres: Ghent, Brussels X, Charleroi, Liège and Antwerp.

The savings generated from productivity improvement will reduce overheads as the big format sorting will be automated with the new machines installed now. We already have 16 new machines, MSM (mixed sorting machines) installed with better address recognition and faster sorting machines for the new Brussels X.

2. Central Mailbag Preparation

The second lever is the central mailbag preparation: round sorting and sequencing large format mail on new MSMs. We will pick many products into the mechanical big format coming from the new machine. For the picking activities, we have developed some innovative processes and some innovative automated tools; and we have patented this innovative process and new tool.

3. New Parcels Model

The third lever is the new parcels model with an increasing of the productivity improvements due to further automation of the in-feeds of the machines and also with the direct chute foreseen for this new machine, but also with the automation of round preparation in our mail centres.

4. New Distribution Model

The fourth lever is the new distribution model. With the new mail centres set up, we will drastically reduce the stem time and the number of kilometres per cut. The collect activities will be integrated where possible with the parcels and refill bag distribution. It is also very important to maximise the number of parcels in our Courreg rounds. The Courreg round is the round for the letters. It is very important because every day we pass by all the front doors here in Belgium with the Courreg round. Therefore, if we put parcels, we can mutualise the driving time and driving cost and the stop time with the letters. The cost for parcels is only the cost at the door, the cost for the time at the door to deliver the parcels. If we cannot do that, if we have to organise a parcels round separate from mail, we have to add driving time and you have to add some stop time and so you have to add some costs for these activities. Therefore, for us, it is very important in the future to maximise the number of parcels integrated directly in the Courreg round with our mail activities.

5. Revamping Transport

The fifth lever is revamping transport. We will optimise transport based on the new footprint set-up with only one sorting centre for the parcels and only three sorting centres for national sorting. There will also be a standardisation of norming activities. This has already been done in distribution and we will now introduce a Georoute programme in our transport activities with a normalisation of different activities.

6. Forecasting and Planning

The last lever is forecasting and planning. We work better on forecasting and planning in order to reduce FTE 'buffers' to cope with uncertain demand forecasts in our industrial mail centres via more accurate workforce planning.

VII. Implementing Vision 2020

1. Extensions

Where are we today with the implementation of our Vision 2020?

Extensions were needed in the four provincial sorting centres – in Ghent, Antwerp, Liège and Charleroi – in order to further automate the preparation of mailbags via the new mixed sorting machines. These extensions have been completed ahead of planning and within the original budget. You can see here some pictures of these extensions.

2. Machine Installation

As said before, we have already installed 16 new mixed sorting machines. Therefore, 85% of large format is now sorted on the distribution round.

We still have 14 machines to install in order to sort not only on the distribution round but also to sequence the mail product within the round. We were the first post operator to industrially implement this kind of machine.

3. Saturday Parcels

Another illustration of Vision 2020 is the deployment of an integrated preparation and routing solution for Saturday parcels. This will also be deployed for the parcels distributions during the other days of the week.

4. Upcoming Milestones

What are our upcoming major milestones? With regards to centralisation, we will install the 14 additional machines before the end of 2018. We will centralise all mailbag preparation within four years. Building for the new Brussels X will be complete in June next year and we will begin to install the new parcel sorting machine at the beginning of next year. We will have this machine fully operational in October of next year, which is less than a year from now. For the distribution network, we will have four years to re-organise our distribution around the sixty mail centres. We now have more than 200 physical locations of distribution offices.

5. The New Brussels X

You can see here a picture of our new Brussels X sorting centre. The total surface is more than 100,000 square metres. It is thus a very great sorting centre. The letter sorting hall, on the right of the picture, will have a ground floor area of approximately 30,000 square meters. It will also have a mezzanine of over half the area, of 16,000 square metres. The parcel sorting hall will be 25,000 square metres and we foresee parking on the roof of the parcels part. We also foresee offices of 5,000 square metres.

As you can see, the parcels activity will be completely separated from the mail activity, even for the transport activity, in the new configuration of the new Brussels X.

6. New PSM

You can see here a picture of the new sorting machine. The new sorting machine will have two crossbelt sorters, each over 500 metres, thus creating over a kilometre of crossbelt sorting. That is enormous. We foresee 140 indirect chutes and more than 400 direct chutes with four fully automated in-feed areas, which is completely different to the technology installed today in Antwerp and Charleroi.

VIII. Beyond Vision 2020

1. Revamping Collect

Besides this vision, several continuous improvement initiatives have been identified.

The first is the revamping of 'collect'. Today, collect activities are organised locally and today there is a lack of visibility on the efficiency of the rounds of collection. For the future, we will redefine the collect organisation with a central support and with a dedicated round.

2. Benchmarking and Sharing Best Practices

For the sorting centre, we will reinforce the benchmark and share best practice in preparation. Today, there are significant productivity gaps between the five IMCs for the given work centre, and this is due to a lack of sharing of best practice. Now we have reinforced this benchmark and best practice sharing between the five sorting centres.

3. Reviewing Penetration Rate

We will also review the penetration rate on a continuous basis in distribution. What is the penetration rate on our distribution network? The penetration rate is the fraction of mailboxes receiving mail on a given distribution segment. With the current volume, not every mailbox receives a letter every day. We do not have to foresee the times for the postman to have a stop at each mailbox. Today the rate depends on mail volumes but tedious measurements are needed to update the rate. The last very extensive measurement dates from 2004. However, now, we have systematised the computation of volume decline impact with a mathematical model on penetration rates to size our organisation accordingly in the future.

4. Emerging Technology

As I said before, it is very important to integrate parcels in the courreg round. Therefore, it is also important to transform our tools to be able to take parcels by bicycles or motorbikes as you can see here in this picture. We will also include emerging technology in our integrated distribution network including the systematic use of mobile devices for the distribution of parcels and registered mail.

We will also investigate the use of cobots – collaborative robots – for repetitive and heavy manual processes in the future. We will also use cobot technologies to complement existing sorting machines. We think it is a great opportunity to help people in the sorting centre with this technology but also to drastically increase the productivity in the manual work centre.

IX. High Performance Hybrid Network

Kurt has already spoken about the high performance network hybrid. It is very important to us. It is very important to keep our bpost strengths for normal deliveries because, as I said before, every day we pass by all the front doors in Belgium. It is very important for us and our network with a very high density and with a lot of synergy between the mail and the parcels. That is very important for deliveries between 9.00am and 5.00pm in terms of putting these parcels on the network. It is also an important asset to respond to our customers and

to offer another possibility to be able to deliver parcels after 5.00pm or during the weekend or at a special time. There are many solutions to creating this hybrid network.

All parts of the organisation and all elements of the cost base offer opportunities for cost and productivity improvements. As we have done in the past, we will continue to address each of these elements.

X. Beyond MSO

1. ICT

ICT has already undergone substantial cost savings over the last year: more than 50%. We are now getting to the next level and we have launched an outsourcing process for selected development and maintenance elements. We have a new way of working: agile versus classical waterfall types of development. This will also allow us to optimise development time and development costs.

2. Central Support Functions

Our central and support functions project fast growth in the necessary fact base to continuously challenge less value adding activities and processing. We will leverage this going forward to continuously optimise our costs.

Next, similar to the mix of and the unit cost optimisation for MSO with the auxiliary postman, we will seek to optimise our unit cost in support functions; for instance through progressive young talent hiring programmes.

3. Retail Network

Our retail activities and network are similar to MSO and are a source of continual optimisation, be it in terms of contact centres, opening hours and so forth. We have a pipeline of measures to be considered and implemented in the next year.

4. Procurement

A number of new tenders have been launched to optimise our SG&A costs across spend categories. This is expected to deliver an impact in 2017 and beyond.

5. Parcels and International

We will not forget our non-domestic opportunities. Our double-digit growth across geographies can unlock cost savings and scale opportunities which we will seek to capture going forward.

6. Measures Toolbox

Last, but not least, we also have a toolbox of cost saving measures that are not especially relevant yet with the current volume decline but which would become relevant in case of volume decline and would substantially accelerate. Such measures include, for instance, alternative distribution set-ups.

7. Summary

All of this makes us confident that our intrinsic business model remains well in place and that there is room for further margin improvement.

XI. Continuous Cost Improvement

1. Collect, Preparation and Distribution

All in all, there will be scope for continuous cost improvement. Overall, ongoing and planned initiatives create room for continuous cost improvements of up to 4% on FTEs and interims in the following areas.

In Collect, Preparation and Distribution for the MSO network through the impact of Vision 2020, reducing and automating low value adding activities, reducing transport costs and capturing gain from the new footprint.

2. Distribution

In Distribution, specifically, through the continuous application of Georoute, 'beefed up' by the penetration rate as well as forward-looking reference volumes to design the new organisations.

3. Preparation

In Preparation specifically, through ongoing re-boost of Lean all across.

4. Transport

In Transport, from national / cross-regional optimisation.

5. Central and Service Units

In all central and service units, through Alpha-like initiatives.

6. Procurement and ICT

In Procurement and ICT assets, through demand management and selected outsourcing.

XII. Natural Attrition

As you can see, such savings will still benefit from natural attrition going forward. We will be able to take advantage of natural attrition going forward with approximately 40% of the workforce above 50. There is a double advantage to making our cost reduction programme. It is also an advantage by replacing statutory by auxiliary with lower costs.

Thank you for attention and I will hand over to Koen.

Financial Perspectives

Koen Beeckmans
Chief Financial Officer

I. Preamble

Thank you, Philippe. Good afternoon, everybody. I think I have met most of you but we are not out of here yet, so we will have plenty of time after the meeting and also this evening to get to know each other.

II. Strong Financial Performance

1. EBIT

I think all of my colleagues have talked with a lot of enthusiasm over the development journey bpost has taken over the last 13 years; and, from a financial point of view, this has led to fantastic results, as you can see in the graph there. The message here is that, over the last 13 years, bpost has delivered year-on-year in terms of EBIT and in terms of EBIT margins.

2. High Cash Flows

If you translate that into free cash flows, bpost has delivered high cash flows over the years and has delivered high margins.

3. Share Price

Our share price since the IPO has enjoyed a successful ride and you can see there a 46% increase if you compare that to June 2013 when the IPO was done. If you include also the dividends, there is a 72% yield and dividend increase included; so a total shareholding return outperforming the BEL20.

III. Delivering on 2016 Guidance

1. Underlying Domestic Mail Volume Decline

I have talked about the past. Let us talk about this year, as Koen has already done. We can fully confirm that we are on track to deliver the results for this year.

When we look at the underlying domestic mail volume decline – and Koen and Marc have talked about that – we see that there is an increased volatility but, on a cumulative basis year-to-date, we are at minus 4.5% in terms of mail volume decline, which is, if you compare that to our guidance of around 5%, still in line.

2. Domestic Parcels

With regard to the domestic parcels, we have said that we will be doing double-digit growth of parcels and we have been doing more than that. Cumulatively, up to Q3, we have been doing 15.2%.

3. Productivity Improvements

With regard to the productivity improvements, in terms of FTE reductions, we have given a range. Of course we have to correct, as Koen has explained, for the integration of the Delta Media; and it used to be outsourced before and now we have internalised that. We are, if you look at Q3, fully in line with the guidance that we gave for this year.

4. Gross Capex

With regard to our gross capex, at Q3 we are at €43 million and we will be able to be in line with the guidance we gave this year, which is around €80 million.

5. EBITDA

Therefore, all in all, as a result of all the elements above, we expect an EBITDA that is at least the EBITDA that we have been showing last year.

IV. Reported FTE Evolution

On the reported FTE evolution, we have given a range and we have already explained that, since the IPO, our company has changed. Yes, of course it is about the efficiency gains, and I think Philippe also indicated that the efficiency gains in terms of FTE's, own people and interims, will be fully in line with what we have always said minus 4%. However, on top of that, we have integrated the acquisitions and we have, of course, organic growth with regard to the parcels. Therefore, all in all, we see that the range that we have given may not any longer fully represent anymore the total business that we are in.

V. Overall Guidance for 2016 to 2020

1. EBITDA

On the next sheet you can see our overall guidance for 2016 to 2020.

When we go to the EBITDA guidance for 2020, we go from €584 million EBITDA in 2015 and we go to at least €620 million EBITDA. The question was asked 'what is in there?' Well, what is in there is all the organic growth and Lagardère, which means that all the acquisitions that we have already announced are in there in that number.

2. Revenue

On the different elements of how to get there, we start with the top line and a top line growth by 2020 will come from the growth in domestic parcels revenue. As Kurt has already explained, the volume will increase from 2015 to 2020 by 75% and we will try to mitigate the price mix of about minus 2% to 3%. For your information, we have seen that it was much lower up to Q3 this year but we may expect some competition, etc. Therefore, we have said that the negative price mix would be up to 2 to 3%.

Kurt has also elaborated on the growth in international parcels revenue and there we have an ambition to double the revenues by 2020 versus 2015. That of course will be partly offset by the domestic mail revenue decline, coming from the volumes and the volume decline, and we believe that, in the next year, we will be around 5%; but it may go up to 6% in the next couple of years. Of course we are going to work on the price and Marc has also explained that we are going to work on the mix.

3. Cost

Philippe elaborated on the different cost elements. It is not only about FTEs, and of course we are working on that and we keep our guidance there that we are able to decrease the FTEs with a minus 4%, interims and own people; but on top of that we are going to work on all the different elements of our opex, and here I have listed some initiatives that Philippe also explained during his presentation.

4. Capex

A reminder of the capex again and a little bit of history from 2006 to 2015. If we forget about the first year and average the last few years from 2007, we see that it is pretty stable. At the bottom of the graph you see the proceeds from the sale of property, plant and equipment and you see that, if you take an average of that, it is pretty stable as well.

For 2016 we have set that number that you know, which will be around €80 million. For 2017 and 2018 we will still have two high years of capex investments, as Philippe has pointed out, and that has to do with the new sorting machines for parcels and for mail and all the other investments that we are going to do in order to make sure that we can get our costs optimisation and be in line with what we have promised the market. Therefore, two relatively high years of about €90 million to come to a normal level again that we have seen in the past of around €60 million maintenance capex.

With regard to the proceeds from buildings, you can also see that the expected level will be in line with the average of the last few years.

5. Dividend Policy

The target dividend payout, as you know, is at least 85% of BGAAP net profit; that is the unconsolidated profit unlike IFRS which is the consolidated profit. We have increased dividends over the last three years and, for people who are perhaps not familiar with bpost, and I know some of you are not, we pay the biggest chunk in December over the first 10 months of the year as an interim dividend and then we pay the remaining part in May after the shareholders' meeting over the last two months of the year.

We have also said that, based on what we know right now, we will be able to pay a dividend of at least the dividend that we have paid last year, which was €1.29.

6. M&A on Top of Overall Guidance

We also lean, as most of you know, on a strong balance sheet which can support M&A. As you also know, we have some projects in the pipeline. If you look at our cash and cash equivalents, we had €724 million cash and cash equivalents at the end of September. If you look at the other side of the balance sheet, you see that we are not really leveraged.

7. Employee Benefits

It is also important to mention that, on the other side of the balance sheet, we have employee benefits liability. That is nothing to do with pensions because we are not carrying the pension liabilities on our balance sheet. It has to do with other employee benefit liabilities. The only volatility we see there is IAS-19, the discount rate volatility that has an impact on IFRS; but that does not have an impact on BGAAP because BGAAP does not recognise the volatility of IAS-19.

VI. M&A Decision Criteria

1. Core Business and Capabilities

I will move on to the decision criteria for M&A. First of all, it needs to be close to our core business and our capabilities.

2. Proximity and Convenience

Second of all, it needs to improve the proximity and the convenience of the product offering; and I think my colleagues have discussed this afternoon what we mean with proximity and convenience.

3. Earnings Accretive

It also needs to be earnings accretive; and there was a question on Lagardère and whether Lagardère will be earnings accretive. We get also some questions saying 'Yes, but your margin is pretty high and, if you do an acquisition, the potential margin dilution should be an issue'. Well, as long as the deal is accretive, we are not too concerned about our margin dilution. However, the deal needs to be accretive.

4. Sustainable Dividend Policy

Another criterion is that we need to maintain a sustainable dividend policy. We know that we are appreciated for the fact that we pay dividends. We are a dividend yield share. We are fully aware of that so every acquisition we will be doing will be in the framework of maintaining a sustainable dividend policy.

5. Solid Credit Rating

Last but not least, everything that we will be doing will be with a solid credit rating. We do not have an official credit rating but we are not going to endanger that as well, so that we are recognised to be stable company.

6. E-commerce

You will see there the two blocks that we are interested in for M&As. The first one is everything around e-commerce and the second one is everything around convenience and proximity. As you know, we have done some bolt-on acquisitions to capture the growth and to enhance our service offering, and we will be doing that. We have a pipeline of M&A activities that cover that.

Secondly, as Kurt has already explained, we would strengthen our international footprint and, of course, embrace the fact that Belgium and the Netherlands would be our domestic market for parcels. Additionally, of course, we would stretch the value chain of e-commerce around value added services like e-fulfilment and other services around parcels.

7. Convenience and Proximity

With regards to convenience and proximity, we will invest in growing profitable businesses such as Lagardère but we will also support innovative start-ups and own developments such as de Buren, Parcify, Citie, which was not mentioned but which is one of the other investments that we have done that is fully aligned with the strategy that we have presented this afternoon.

VII. Conclusion

Thank you very much. We are going to conclude with Koen and then we will come back to some Q&A.

Conclusions

Koen Van Gerven

Chief Executive Officer, bpost

I. Preamble

Thank you very much indeed to all of my colleagues. I am not going to take up much more of your time but I will give a short overview of what we have tried to explain this afternoon with the four pillars. Let me walk through a slide on each of them.

II. We Are Mail

We are mail. As far as transactional mail is concerned, e-substitution is there to stay on one hand; on the other hand, we will take into account the customer preferences. For the strong points of paper mail, the answer lies in a combination of both.

The reach of digital and the stopping power of paper; and this is something that we have developed for a couple of years and we are convinced that we will continue to work. That is both in the transactional but certainly in the advertising mail. Marc explained that, basically, there are some niches and there are some businesses of growth that we did identify; and we can continue to work on that.

III. We Grow

Next to that, of course, is growth. I am not going to repeat all the different parts but the most important part and the biggest ambition that we have is about parcels, both domestically and internationally, and you have seen the numbers; and Kurt did explain quite convincingly that we have a very nice project to work on that and we are confident that we can walk in the right direction.

IV. We Are Lean, Agile and Flexible

I will move on to 'Lean' and the efficiency gains.

We organise ourselves via well-prepared projects and we do the roll-outs by having a good pipeline and having the right execution and discipline. We will continue to work on that.

There is still a lot of work to do. The big chunk is about 2020. It is not new to us. We are on track, on time and on budget for the things that we did; and we continue to do that.

A very important new element that we did put forward in our thinking is the way we will organise distribution. Kurt elaborated on the hybrid network and Philippe came back on that as well, which is going to be a cornerstone of the distribution that we want to organise in the years to come. Why? Because we think that the combination of a solid robust distribution network integrated with mail and parcels is very intelligent and is very efficient in terms of penetration rates, as Philip mentioned. Therefore, we continue to build on this big and robust network; but, of course, what we observe is that, next to that, we will have to have more agile solutions in order to accommodate new expectations in this market with regard to two-man delivery, late-in delivery, evening delivery and so forth. There is more to come in that area. You have the possibility there to try to make this big, bulky, stable network more agile and more lean, which is in my opinion not the way to work because it is going to be very difficult, it is going to be very expensive and you do not need it in this bulky network. We will continue to use this bulky network for what it is good at.

On top of that, we will try to build and we will build those solutions that provide the agility that we need and the flexibility that we need. That is why we call it a hybrid ecosystem that will assure the optimal last mile distributions in a changing world, accommodating the

expectations of our customers. That is important and it is a very nice add-on in terms of what we are trying to develop in the years to come.

V. We Are at the Core

Lastly, of course, in line with the perception and the conviction that we had in the past, is that to make all of this happen of course, you have to keep everybody onboard in terms of stakeholders, be they the customers, employees or the shareholders. Of course, this remains important to us. If we cannot make that happen, we will not be relevant anymore in this world of tomorrow; but we are very comfortable and we will do it in a holistic way in order to really be in sync with the expectations of the different stakeholders.

VI. Conclusion

This is what I wanted to share with you in terms of how we want to work. Those are the things that we are going to do. These are going to be the plans. These are the ambitions that we have. As Koen told you, if we add all of this up, we come to a high-level outlook for 2020 in terms of where we want to go.

With all of this, I would like to leave you with this information; but of course now it is obvious that we will take the time to take a couple more questions and probably un-park a couple of the questions that we parked in the first Q&A.

Questions and Answers

Baudouin de Hepcée

This will open the second Q&A session and I would like to invite up the members of the Executive Committee of bpost, Koen van Gerven, Kurt Pierloot, Marc Huybrechts, Koen Beeckmans, Philippe Dubois and Mark Michiels. Thank you for joining us for this second Q&A session.

I think that I owe a question to Philip Scholte from Kempen from the previous session. Philip, your question is not answered. Go ahead.

Philip Scholte, Kempen & Co

I have a question that is probably for Koen – the CFO Koen – about the earnings trend until 2020. You give a target specifically for that year but can you say something about what you think the development towards that target will be over the year? Will that be a gradual one or should we expect big moves in between the years?

I have a second question, if I may, around the centralisation of the mailbag preparations. You showed a chart in which it will take until 2021 to finalise that project. Why is it taking so long?

Koen Beeckmans

I could answer that question but we have the specialist here, so we will leave that up to Philip. Regarding your first question, we do not give the detail over the different years; but, as we have said, in the first quarter of next year we will come with our outlook of 2017 and then you will figure out the rest of the path towards 2020. Therefore, the answer is: we do not give the details over the different years.

Philippe Dubois

For the central mailbag preparation, it depends on the new PSM and the new Brussels X. There is no place to install other mixed sorting machines at this moment. We will have to wait until 2018 before we can install the 14 new MSMs. They will be installed at the end of 2018 and, after that, we have two or three years to roll out the central mailbag preparation because it is a great work. We have more than 10,000 rounds all around Belgium. It will therefore take time.

Koen van Gerven

Basically, it is business-case driven. The alternative is to further extend the buildings in order to simultaneously accommodate additional machines next to the old parcel sorter. It is more interesting to phase the roll-out somewhat and to liberate place, and then we will get additional space in the two current mail sorting centres in Antwerp and Charleroi to accommodate the additional letter sorting machines that we still have to install. It is no more and no less than a business-case driven phasing.

Dominic Edridge, UBS

I have a question regarding the workforce. Just to be clear, at the time of the IPO and post that, you have had a strategy where you have not really needed to grow the top-line very much because obviously you have had the cost savings coming through on the labourers that you have shown. The impression I get is that, from 2020, there is going to be a little more required on the growth in terms of the top-line. What does the mix shifting more into parcels mean in terms of the amount of people you actually need? Can you still go down by the minimum of 800 FTEs a year or is that going to be more of an issue going forward given the change of mix?

Koen van Gerven

Basically, the important element is natural attrition. We have to be able to absorb the natural attrition. This is not going to be an issue but, as I explained before, a couple of years ago the efficiency gains or the cost control was about efficiency gains in the mail part of the business. Since then we have evolved to other kind of activities in terms of diversification of parcel solutions and we have basically added acquisitions, integrations and things like that. Therefore, we have to look at it in another way. However, of course, the decline will continue and the natural attrition will be a very important factor to absorb what we can gain and continue to gain in efficiency gains.

Dominic Edridge

Can I clarify? If we take whatever the end of this year's numbers are going to be and add Lagardère on top of it, the number of people employed there, and assuming there are no other changes to the portfolio between now and 2020, should we see roughly a similar sort of decline rate to what we have seen in the past or are there any other major issues that we should be thinking about?

Koen van Gerven

It should look fairly similar. However, of course, you have to rebase for the things that we do and eventually the re-basing of what we did abroad has to be brought into the figures too, that being FDM and the other ones. Yes.

Matija Gergolet

I have two questions: one on the 2020 targets and another on the bpost bank. On the 2020 targets, the previous presentation seemed to hint that the mail decline might perhaps slow down; but now you are giving an assumption of a 6% decline. Shall we just assume that you are being somewhat prudent in the assumption, if I can ask that? Perhaps you can help us on the prudent side. We have this room to increase prices for the quality. Is there some legroom there that you plan to utilise in order to hit your 620 or would that be on top?

Koen van Gerven

I will take it by pieces. This is not new and, as I have said, the decline will continue. There is no reason to expect that it will suddenly evaporate: it will continue. That is one observation.

Secondly, we think that it will be reasonable, and continue to be reasonable, and Marc explained a couple of initiatives that will support the evolution in finding the right combination of the digital and the paper part of it.

Then, of course, probably the levers that we will continue to use in order to compensate the decline could evolve. As you indicated, price is a very important one. What we observe in a couple of other countries is that price becomes more explicit and price increases become explicit. In the framework that we enjoy until today and that we know, which is stable and fairly predictable, we can increase with inflation plus – that system that you know – and the part that we do not use immediately we can, in some way, accrue to be used up to three years later.

Today, we still have 5.9% in the saving accounts; and, as Marc indicated already, we are not tempted to use it if we really do not need it to but of course, if we need it, we will be more than tempted to use it.

Baudouin de Hepcée

You had another question about bpost bank.

Matija Gergolet

Yes, I have a second question on bpost bank. The book value is on €400 million, roughly 10% of the market cap. There was no specific mention today about bpost bank. How should we view it? Do you see it as strategic on the longer term or not? Could it also be considered in the context of the M&A that you plan to grow?

Koen van Gerven

If you go back a couple of years, we considered banking activities to be a nice complement to the activities in the postal office. Moreover, with the identity that Marc was making reference to as a post office, it is about mail and it is about financial services. Basically, it is very nice and it helps to bear the cost of post offices. What I said already a couple of years ago is that the bank will be there, or can be there, and can help us as long as we have post offices.

Is this a strategic asset? I think you would be surprised if I would position it in this current banking environment as a strategic asset. If you would have asked me before 2008 if this is a strategic asset, my answer would probably be different. However, today it is nice and my first concern is not the dividend that we get out of it. My first concern – and this is what we try to manage – is what we get in terms of compensation, payment, sales commission, servicing commission and in terms of running the back office. This is how we look at the bank today.

Baudouin de Hepcée

Thank you. We have a question at the back of the room.

Andre Mulder, Kepler Cheuvreux

I have a question on your financial ratios. You have got solid and you have got solid. Some would argue that net debt to EBITDA of one would be solid – you are at minus one. What would be the level, if that is the metric that you use, that you would still be comfortable with? Taking that a step further, if your cash is really building, how would you solve that? Would you first think of raising the dividend payout a bit further or would you decide to do share buybacks?

Koen Beeckmans

The question of credit rating will be there when we have a project for that which may or may not happen. That is the first part. Leaving aside the project that you are all aware of, we should be fine in terms of credit rating; and even with that project I think we should be fine. We are aiming for a stable good credit rating. That is the answer to the question.

Koen van Gerven

On the second part, one of the things that became clearer not only today but through what we have articulated earlier, and which was probably different from what we said a couple of years ago, is that, next to organic growth, external growth is one of the components that we want to include in our thinking. The reason is clear because we think that, in the parcel area, there is potential but, as Kurt explained, we still have to work on a couple of things to make our proposition more attractive. Is this completely new? The answer is 'no' because we already did a couple of bolt-on acquisitions to strengthen our proposition and we will continue to do that.

I leave aside the other file that we could elaborate on at length. Acquisitions will be on the agenda and will remain on the agenda; and this will of course be the first destination of the strong balance sheet that we have. We will put this balance sheet to work. Koen designed the criteria that we will use and, of course, it should always be accretive in terms of what it contributes to the company in order to continue to pay dividends as Koen indicated. It is a nice accretive evolution that we should have.

If, with that, we still have this cash piling up, then we will reflect on that. We will have to do that not only on our own but we will have to take into account the preferences of the shareholders or a shareholder as we did in the past. However, I do not exclude that if indeed we can continue to pile up. You are aware that, before we started to move on a couple of things in that area, we wanted to reconstruct a buffer of retained earnings because at the time, prior to IPO, we did empty the war chest and we returned it to the shareholders.

I feel comfortable having a buffer but I think that we did pretty good work over the most recent years. We used part of it last year, as you know, for the funding of the Alpha plan but we need a buffer to be sure that we do not have blips, or that we can absorb blips, in order to provide comfort on the dividend.

Baudouin de Hepcée

Thank you.

Tobias Sittig, MainFirst Bank AG

I have two questions. Firstly, there is a lot of discussion in the industry on same-day delivery; and some of your peers basically use sorting equipment at the depots to be able to handle the local flows within one or two hours. Your network set-up very much looks like it is optimised for next-day delivery but does not really tailored to same-day delivery. Is that based on the assumption that this will only be a niche market? How would you basically bring in same-day delivery into your network?

Koen van Gerven

I will provide you with the first layer of the answer and then I will hand over to the specialist so that I can prove that I understand something of the parcel business. There are basically two things. First of all, we do quasi same-day delivery for a customer where you can order until midnight and we deliver it the next morning. Secondly, with the set-up that Philippe explained, putting all the parcel sorting into one sorting centre, we will more easily accommodate late-in delivery, moving up to same-day delivery. We move in that direction but how big, when and what will be the value that customers attribute and are willing to pay for it? Perhaps Kurt and Philip can add some points on that.

Kurt Pierloot

Of course we are discussing that with our clients. Our approach is that we want to develop the Belgian market but that we want to co-develop it. We are not going to put all the money in there and put a network there and then hope that the volume will come. The discussions that we have with our clients are good discussions but it is also about sharing.

Typically, when you launch a product, you have two approaches. The approach can be that it remains a niche product and then you have to make sure that you attract value; and then you are much closer to the sprints business and the sprint type of prices that you have because same-day has already existed for years and it existed before B2C parcel delivery. It is the express business that everybody has where you have point-to-point delivery. That exists but it is a niche product and relatively expensive and, as a result, it is not that popular. The second approach is that it evolves more towards mass markets and then you are talking about a different element.

Of course, it is always difficult to expect where the market is going to have those two. If you look at Saturday parcel delivery, there is a clear path towards Saturday being like any other day. The volumes are evolving there and then you are much more competitive; and, by the way, if you have density, then remember that it is interesting to have a mass network.

Sunday delivery is another example. A lot of our clients were also positive about it. We launched it. It is still a niche product. It is a nice niche product but it remains a niche product and you should price for it because then it is a certain segment. A lot of clients do not only

care about putting massive volumes in there but they want to give the message to their consumers that 'whatever your choice, we will be able to accommodate it'. Often they are not pushing to have big volumes but to be able to offer it, like the same-day service that you have. Most e-retailers prefer not to have too much in the way of same-day but they would like to communicate to their clients that they have it in their offering.

Currently, the ones that have it, their volumes are still relatively limited; and, again, limited to extremely dense areas. Why is it limited to dense areas? Primarily because in that area you can do it at a significantly lower cost than if you did it nationally; and at a certain point it even becomes physically and operationally impossible to do next-day. One-hour delivery in Belgium is impossible if you have fulfilment not out of Belgium. It is physically impossible and clients understand that and, as a result, what you see is that these one or two-hour deliveries will typically happen in high dense areas like the big cities that we know.

In Belgium, we will have specific pilots and more region-specific services that you will develop, co-sponsored partially by us, by clients to see whether we can build volume or not. If it builds volume, it is fine to have it relatively cost-effective; and then you are talking about the big network. If it is a specific niche product, then you will remain with a dedicated network because there is no synergy in combining that with your big industrial machine. Therefore, there is a bit of a dual approach.

On the service that we are testing, we have seen the Parcify but also the Bringr where the Bringr is actually kind of a service that we are observing now where people like point-to-point which is more expensive than a standard parcel but cheaper than an express delivery. You see now that certain businesses are starting to use that because traditionally the express business was too expensive for their product offering; and now, for city delivery, if you pay anywhere between €5 and €10, you can do a point-to-point delivery thanks to crowdsourced funding.

Koen van Gerven

For your information, Bringr is a kind of Uber platform that we built and that we operate. It was actually an idea that came out of the innovation boot camp that we had internally, and you could position it as either you are afraid of disruption or you embrace disruption. Somewhere in this hybrid ecosystem there is probably a place for this kind of solution. Is this going to replace the mailman? The answer is 'no' but this is a nice example of what we see in terms of ecosystem.

Tobias Sittig

The other question is probably quicker to answer. As a management team, are you incentivised against the 2020 targets?

Koen van Gerven

We do have, as you know, a yearly bonus on yearly targets. We do not have a long-term incentive plan. We do not have options.

Koen van Gerven

However, there is ambition and there is more than monetary incentives to make all of this happen.

Mark McVicar

I have two relatively small questions. In your property sales guidance, that it stays roughly the same, does that assume that the two parcel centres that will become redundant over the next few years are not sold in that timeframe or are they included in that guidance?

Koen Beeckmans

If they are completely empty and we are not going to re-use them then they will be –

Koen van Gerven

No, we are talking about the sorting centres.

Koen Beeckmans

Oh, the sorting centres. They will continue to do mail.

Koen van Gerven

We will continue to at least use the Antwerp one.

Baudouin de Hepcée

It will be necessary for the central mailbag preparation.

Koen van Gerven

The two parcel centres that we currently operate will remain as an industrial mail centre; so we will continue to use them.

Kurt Pierloot

You actually transfer a lot activities from locally and regionally into your sorting centre. All the mailbag preparation activity, which is currently still done locally when your postman starts before his round, is moved to the sorting centre so the sorting centres will be pretty full, which is also one of the reasons why we extended some of those sorting centres to make sure that we have the square meters. Therefore, the square meter reduction will occur more in the local areas and not in the central ones. We will need those.

Koen van Gerven

Basically, the benefits in terms of square meters is not in the sorting centres but in the mail centres. That is a program that started some time ago, the reduction of the 270 mail centres with this movement; or, with the 2020, we can reduce over time to 60. We are in the process of doing that and we will continue to do that, and that is one of the things that we will continue as it used to be in previous years. This year it will continue into next year and will deliver part of what we want to realise. Therefore, there is nothing that will change as far as that is concerned.

Mark McVicar

Thank you. My very last question is: given the time horizons in your business, when do you have to start thinking about beyond 2020? Does that just get rolled forward or is another programme expected? How do you think about it given that Vision 2020 was known about five years ago?

Koen van Gerven

Philippe elaborated on a couple of things that we can see in that area and, basically, at the end of the day there is still going to be part of it that has to be treated manually. Emerging technology and cobots, which are robots that can work together with people, would be a very nice thing. We closely follow up the evolution and we can expect, and we will do, a couple of pilots about that before we end up in 2020. The future keeps us interested but first things first.

Paul de Branche

I have two questions. The first concerns your EBITDA growth guidance ambition. Can we expect to fully go into operating under free cash flow or should we be aware of certain items that could impact free cash flow? The second question is: does your EBITDA guidance include any possible changes in SGEI contribution?

Koen Beeckmans

On the first question, we have seen the capex in there and the sales in there. What is not in there is what we will pay for Lagardère. Aside from that, most of the things should be in there.

Koen van Gerven

Regarding the second question, as far as SGEI is concerned, as I mentioned we renewed both the sixth management contract as well as the distribution of the newspapers and the periodicals as from this year up until the end of 2020. Therefore, the period that we are covering with this outlook is fully covered with a contract that we have.

Kirsten Landau

I have two questions, if I may. I would like to start with a question on the domestic path for growth that you are targeting until 2020. How much of that volume growth do you expect to go to the traditional combined mail network and which part, or how much from today's perspective, might go through whatever kind of alternative networks that might have totally different economics?

Secondly, on your M&A ambitions, I would say EPS accretion is, in the current environment, not particularly ambitious; so why not have higher principles, such as return on investor capital? I am really keen on hearing your views.

Koen van Gerven

Do you want to take the first question?

Kurt Pierloot

That is an interesting question with a dynamic answer. If you were to ask me for my first reaction, I would say at least 80% to 90%, so a big majority. The interesting observation is that, if one of the niche products would become a big product, then you would organise yourselves differently and you would have a large network for that. The best example is probably that, if you would imagine parcel growth continuing to grow, in the long-term horizon – and I am not going to put a date on that – you could say that, if the volume is that big, you could have, in the evening, a fully fledged network which also delivers 150,000 parcels a day; and at that time, again, you are talking about something different and it is no longer niche. Do you consider that evening product, which is currently a niche product and part of the 5%, 10% or 15% that you do not do in your standard product? At that time, I would say that it is a standard product because it has been growing that much.

The same example for Saturday. In the beginning we launched Saturday very carefully and we had limited volumes; but now it is becoming a decent operation which you do again in an industrial way. The first glance would be that I would expect 80% to 90% still through a massive network but with that dynamic approach to it if volume really picks up in a certain niche product.

Koen Beeckmans

The second question is a very interesting one and of course we have said that this is our ambition to reach a minimum.

Koen van Gerven

We will take that, Kirsten as a reflection.

Baudouin de Hepcée

We will take one last and final question.

Koen van Gerven

I want to give an additional clarification on the question that was parked.

Baudouin de Hepcée

Okay, a further question from Marc.

Marc Zwartsenburg

Could you give us an indication on the balance of the normal phasing of the core savings and the new efficiencies coming in from the transition to the new sorting centres?

Koen van Gerven

Yes, and this was what I wanted to elaborate on. I hope that now you have better understood that what we are going to do in terms of efficiency gains next year is going to be fairly in line with what we do this year. We will continue to do the roll-out of the mailbag preparation. We will continue to reduce the number of mail offices as we did at the rate that we have done in previous years. We will continue to work on a couple of cost saving programmes. There is nothing new about that but, because the sorting centre and the arrival of this big new sorting machine as a complement to the existing capacity, as Kurt already indicated, is so visible, we will draw attention to that.

In terms of numbers, of course this is not going to happen overnight but we did include in the budget of next year the additional staff that we will need to accompany this migration. I will give you the number: on average 40 people over the year, which amounts to €1.5 million, which is not a material and substantial figure. Therefore, I am not worried about that.

Everything will go as it should go. The world is not going to stop. You will see the splendid new sorting centre and I hope that we can invite you to see it. The existing operations will continue to run up until the moment of the big new thing. Philippe explained that we will have immediate important efficiency gains because, in terms of the loading of this machine, in terms of the capacity and in terms of the features that this machine has, it will deliver as from day one as it is fully installed and tuned. It will deliver very interesting efficiency gains and it will help us to realise what we want to realise next year. There is no doubt about that.

Marc Zwartsenburg

Maybe a final question.

Baudouin de Hepcée

Marc, really, the final one.

Marc Zwartsenburg

Looking to 2020, would you expect, given your guidance on the mail division, that your EBIT generated from mail will remain roughly stable despite the declines? Do you think you can offset that with efficiency gains and price increases? Is that part of the budget?

Koen van Gerven

I do not have it off the top of my head because mail, in the way we report, basically is more than mail and there the retail activities will come in as we have today already a couple of other things that are included. We will continue to keep a couple of things together. As we do not disclose figures on mail separately and parcels separately and things like that, we are not going to do that. It is a very interesting question but I cannot, and I am not sure that we are able to, answer that because then we have to dive into a kind of cost allocation; and we know that I am not a big believer in all of that because you can prove whatever you want with that.

Baudouin de Hepcée

Thank you all for your attention this afternoon. Thank you to the members of the Executive Committee.