interim report

H1 2006

belgacom

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Key figures

Income Statement (EUR million)	Six months ended 30 June 2005	2006
Total revenue before non-recurring items	2,709	3,032
Non-recurring revenue	238	0
Total revenue	2,947	3,032
EBITDA (1) before non-recurring items	1,153	1,110
EBITDA (1)	1,392	1,110
Depreciation and amortization	-342	-399
Operating income (EBIT)	1,050	711
Net finance revenue	55	4
Income before taxes	1,105	715
Tax expense	-250	-207
Minority interests	74	73
Net income (Group share)	780	434

Cash Flow and Capital Expenditures (EUR million)	Six months ended 30 June 2005	2006
Cash flows from operating activities	842	788
Capital expenditures	-226	-286
Cash flows from / (used in) other investing activities	397	-552
Free cash flow (2)	1,014	-50
Cash flows used in financing activities	-1,044	-455
Net decrease of cash and cash equivalents	-30	-505

Balance sheet (EUR million)	Au 30 juin 2005	2006
Balance sheet total	5,095	6,060
Non-current assets	3,620	4,224
Investments, cash and cash equivalents	380	382
Shareholders' equity	2,098	2,185
Minority interests	305	451
Liabilities for pensions, other post-employment benefits and termination benefits	697	950
Net financial position	89	-74

Data per share	Six months ended 30 June 2005	2006
Basic earnings per share (EUR)	2.23	1.28
Diluted earnings per share (EUR)	2.23	1.28
Weighted average number of ordinary shares	350,041,779	340,439,989

Data on employees	Six months ended 30 June 2005	2006
Number of employees (full-time equivalents) (3)	16,366	18,100
Average number of employees over the period	16,481	18,179
Total revenue before non-recurring items per employee (EUR)	164,365	166,772
Total revenue per employee (EUR)	178,826	166,772
EBITDA (1) before non-recurring items per employee (EUR)	69,982	61,056
EBITDA (1) per employee (EUR)	84,443	61,056

(1) Earnings Before Interests, Taxes, Depreciation and Amortization.
(2) Cash flow before financing activities.
(3) 2006: Including 2,564 Telindus employees

Business update

Fixed Line Services (FLS)

The market today

The ever-changing residential market.

Consumers are evidently keen on bundled[1] services, especially if it means reducing their costs. The challenge for operators, therefore, is not only to create a bundle that works but also to deliver value for the customer. The industry moved increasingly in this direction during the first half of the year.

The ability to offer the customer a full range of options combining fixed and/or mobile voice, Internet, digital TV services, and even data services to some extent, has increased competition. In addition to these well-defined packages, customers have also been the target of a barrage of promotions and free offers from various telecom, cable, mobile and ICT operators.

The increasing number of 'voice over data' offers is putting pressure on traditional switched telephony services, and will intensify competition in the market.

Mobile operators are becoming more active due to the growing number of MVNO[2]s, low cost distribution channels, a more detailed segmentation approach, and continued communication initiatives on the simplification and renewal of mobile rate plans. And the offer of DSL solutions without a fixed voice line gives new impetus to the "cut-the-line" strategy and fixed-mobile substitution.

Television has embarked on a new era, in which viewers actively participate in their own entertainment. Never before has television offered so much choice and flexibility, all in full digital quality. In a market long dominated by cable TV, this is no doubt an advantage for users, to which several players have responded. Extended TV offers with interactive services or complete bundles including TV, Broadband and Fixed Voice have introduced a new type of player onto the telecom market.

The role of integration in the professional market.

Belgium is shifting towards an integrated operator model, whether through the integration of mobile and fixed data solutions or the integration of IT and telecom solutions.

Mobile operators are very active in the professional market, offering data services over their mobile network.

Trends indicate that operators are extending service offerings from a geographical point of view, and are increasingly using a segmentation approach with special attention to small businesses and independent traders, which represent a very important sector of the Belgian economy.

[1] As far as bundling is allowed under the new telecom law of 13 July 2005. Article 112 states that the following products and services should be considered as a "whole" in the trade practices law, and are therefore allowed to be offered as a bundle: telephony services, Internet, television and/or intermediate interactive products, offered via an integrated technology. Some additional conditions must be met; e.g. each product and service must also be offered separately and clear information must be provided to the customer on the price and advantage of the bundle.

[2] Mobile Virtual Network Operator

Belgacom defending its leadership position

The Belgacom market approach is strongly focused on segments, with a view to increasing customer retention and winback.

In the residential market, ongoing promotional offers and advertising campaigns have kept customer cancellations at the same level compared to the same period last year.

A stronger focus on the forms of communication aimed at professional customers increased customer reach. An adapted website with information for business customers and improved marketing for corporate customers on the opportunities of converging data and voice technologies, are just a few examples.

Voice, taking different shapes, leads to higher volumes but lower ARPU

Financial results show that traditional voice is still dominant, representing about 48.5% of the FLS core revenue. The launch of innovative price packages (flat rates and unlimited calling) has delivered in terms of customer retention and volume evolutions, but with the inevitable reduction of ARPU.

Voice access line losses slowed down compared to the same period last year (-85,307 equivalent lines compared to -95,269 in the first half of 2005). The Belgacom traffic market share on its own network increased 3.0pp during the first half of 2006, whereas its growth was still only 0.5pp for the same period of last year, which again illustrates the success of the price packages. Voice Access ARPU decreased 1.8% to EUR 14.3, driven by promotional offers and the change in the product mix. Voice Traffic ARPU decreased 6.5% to EUR 13.2, mainly as a result of new rate plans.

New services are driving Broadband growth

With a penetration rate of 42% (Q1 ’06), the growth of the Belgian Internet market is clearly slowing down. Being a mature and consolidated market, this means that the fight for market share and market leadership will continue to be challenging. Competitors are acting on different levels, whether in pricing, bundled offers or additional Internet services.

Although light offers and promotions are driving ADSL ARPU down (-6.2% year-over-year to EUR 31.4), it is clear that new Broadband services, whether payable or free of charge, have kept the churn rate at the same level as last year and have led to the continued growth of Belgacom’s Broadband customer base (+17.3%).

Skynet has become the reference as a digital mediacompany in Belgium. On the one hand its portfolio of web products has further evolved and on the other hand Skynet delivers services for BelgacomTV.
Services on the exclusive website “www.adsl.be” are continually expanding. Notable examples are the professionalization of the music offering thanks to the cooperation with iTunes, the free domain name for Belgacom ADSL customers, the football portal www.11online.be, and the free back-up of PC data on the Belgacom servers.

Increased importance of data solutions

The corporate ICT market is in full transition at the moment, showing strong convergence (voice/data, fixed/mobile, etc.), and a clear trend towards outsourcing and a commoditization of ICT. The partnership between Telindus and Belgacom is now a fact. As a full member of the Belgacom Group, Telindus became the ICT entity. In addition to the existing offering, four new end-to-end ICT propositions were defined and launched over the summer. These four, unique

selling propositions, branded Telindus with an updated logo and style, are offered to the "real-time enterprise[3]". They include a secure and well managed infrastructure, risk management, collaboration, and business application integration.
With the Telindus partnership, Belgacom is revitalizing the value chain and strengthening its position in the market to cover the complete range of ICT demands. No other company in Belgium can offer such a total solution including integrator capabilities, ICT know-how and international coverage.
Within the data connectivity domain, convergence seems to be gaining ground, e.g. LAN/WAN networks moving to Ethernet networks, and Belgacom is keeping up with these evolutions.

Initial results indicate a slight increase in data revenues (+2.0%). The growth in Network Integration Services (+56.4%) has more than offset the drop in national Leased Lines revenue, which is being affected by fixed-mobile substitution.

The rise of next generation services

Belgacom TV
The number of Belgacom TV customers has continued to grow. At the end of June, 73,653 customers had subscribed to Belgacom TV, and the number keeps on rising. Belgacom is confident of achieving the 100,000 customer mark..
But Belgacom is not resting on its laurels. True to its announcement a year ago, Belgacom TV has expanded its offering to keep up with an increasingly demanding market: an interactive TV guide, an extensive array of channels, easy navigation, parental control, and programs and videos on demand have now become a customary part of watching TV. As of 1 July 2006, Belgacom TV also includes a two-stream offer, enabling the connection of two television sets. As far as football is concerned, everything is in place to make the 2006-2007 season even more exciting, with a focus on ease of use and value for money.

e-health
Belgacom launched an e-learning solution dedicated to the healthcare sector. With this new offering, Belgacom/Telindus has become a market leader in e-learning solutions dedicated to the healthcare sector.

electronic billing
Two years ago, Belgacom launched Bill Online in cooperation with Certipost. Today, the electronic bill is attracting an increasing number of customers. Belgacom will step up efforts to encourage residential ADSL customers to adopt this more practical, environmental-friendly alternative.

Future evolutions

Looking ahead, market and customer needs will continue to evolve. Belgacom is committed to responding to these changes through service flexibility and new packages, convergence between fixed and mobile services, VoIP, etc.

Network

Belgacom has an extensive and technologically advanced network infrastructure with national coverage, and plans to further invest in this network. Broadway is on track, implementing VDSL and ADSL2+ technologies. A detailed analysis on how to move to a core infrastructure based on IP is the next step in preparing the network for next generation service delivery.

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[3] The Real Time Enterprise creates competitive advantage by using up-to-date information to progressively remove delays in managing and executing its critical detection, reporting, decision-making and response business processes.

Thanks to the combined rollout of both technologies (VDSL and ADSL2+), at the end of June 2006, Belgacom TV had coverage of about 64.8% of Belgian households. By end of 2006 this will be extended to 80%.

Regulatory aspects

Wholesale Line Rental (WLR)
In its final decision on the analysis of the fixed retail access markets of 19 June 2006, the Belgian regulator (BIPT) obliges Belgacom to sell telephone subscriptions to its competitors. The BIPT requests Belgacom to submit its reference offer proposal by 1 October 2006 and to implement WLR by 1 April 2007. The regulator has opted for a retail minus approach for the line fees, but the reduction to be given to competitors has not yet been defined.

Fixed interconnection
In its final decision on the fixed call termination market of August 11, the Belgian regulator (BIPT) favors a maximum termination rate for the alternative operators limited to 15% higher than Belgacom's rates. Telenet and Versatel currently charge substantially higher rates. For these operators, the BIPT decided to use a transition mechanism based on a glide path until 1 January 2009: The maximum delta authorized with Belgacom's rates will be 370 % from 1 January 2007, 190% from 1 January 2008 and 15% from 1 January 2009.

Outlook

The second half of 2006 is expected to be as challenging as the first. FLS will continue to fight fiercely and reiterates its expectations for the full year, i.e. a revenue decline for our core business of up to 3%, while working hard to keep the EBITDA margin flat. For Belgacom TV, there will be a negative EBITDA impact of about EUR 30 to 40 million, targeting over 100,000 customers by the end of 2006, with an estimated ARPU of EUR 13.

Mobile Communications Services (MCS)

The Market today

During the first half of 2006, competition in the Belgian mobile market from existing and new players in the residential and business markets continued to intensify. More new entrants, particularly MVNO[4]'s are expected to enter the market over the coming months. New trends also appeared on the Belgian market, with a decline in the prepaid market and a rise in postpaid. This transfer of growth is generated by very attractive postpaid offers, with the lowest ever commitment level for postpaid customers, and prices that keep falling. As a consequence, pressure on price has never been so high.

Proximus confirms its market share leadership

In a highly competitive and maturing market, where room for growth is clearly limited, Proximus has opted for a long-term strategy of defending its market share by strengthening its customer-oriented approach, while doing its best to avoid being caught in a price war.

In June 2006, the active penetration rate of Belgium's mobile telephony reached an estimated 85.7% (compared with 84.1% at the end of 2005), with an estimated 9 million users. Proximus retained its leadership position in terms of active market share with an estimated 47.3% at the end of June 2006.

Thanks to targeted acquisition initiatives, 39,000 new active customers were added year-over-year, bringing the total number of customers to 4.253 million. This was also made possible by the launch of segmented rate plans, such as Pay&Go Classic and Pay&Go Generation or by the extension of the postpaid offer (Smile 60, SME Packages, etc.).

Thanks to strict cost control through the operational excellence program, Proximus has maintained the highest profitability on the mobile market in Belgium, with an EBITDA margin of 49.5%.

High-quality customer portfolio

Proximus still holds a very high-quality customer portfolio. During the first half of 2006, Proximus noted a slight increase in its percentage of active customers, which stood at 98.0% in June 2006 compared to 97.8% at the end of June 2005. Proximus' active rate is by far the highest on the market.

Thanks to various initiatives to retain and reward its best customers, an outstanding result was achieved in terms of customer churn rate, which fell to 15.4%, compared to 17.0% for the same period last year. The postpaid churn rate dropped to the lowest level ever. The number of postpaid customers increased 124,000 year-over-year, resulting in a postpaid/prepaid ratio of 43/57 at the end of June 2006, compared to 41/59 a year ago.

At the end of June 2006, the blended ARPU was EUR 40.7 for the active customer base, compared to EUR 41.1 at the end of June 2005. This represents an average of EUR 69.5 for a postpaid customer (compared to EUR 72.0 at the end of June 2005), and EUR 19.2 for a prepaid customer (compared to EUR 19.8 at the end of June 2005). Taking the blended net ARPU (ARPU minus Credits and Discounts), we arrive, at the end of June 2006, at EUR 37.7 compared to EUR 38.9 a year ago. The decrease in ARPU is due to the success of the new Smile bundle for postpaid customers, with price decreases of up to 25%.

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[4] Mobile Virtual Network Operator

A top class network

The Proximus GSM/GPRS network covers more than 99% of the Belgian population. The set up, together with careful maintenance, ensure first-rate quality and reliability.

Proximus is the Belgian leader in 3G coverage. In 2004, Proximus was the first mobile operator to offer 3G services in Belgium and, at the end of June 2006, was still the only operator to provide 3G services to both its professional and residential customers. The 3G network coverage is far above 3G legal deployment obligations. Proximus will continue the roll out of the 3G network and by the end of 2006 more than 80% of the population will have 3G coverage.

Proximus will continue to invest in building a superior network for its customers and to confirm its leadership in innovation. In June 2006, Proximus was the first Belgian mobile operator to launch **3G Broadband** for its professional and residential customers, offering an enhanced data experience using higher speed than 3G. HSDPA[5] enables data transmission speeds of up to 1.8 megabits per second.
By the end of this year, the entire Proximus 3G network will be equipped with HSDPA technology. Proximus has also increased the range of Vodafone Mobile Connect data cards for laptop users. The data card provides customers with a quick and secure wireless connection to the Internet, e-mail and business applications while they are on the move.

Proximus leads the Belgian market in terms of worldwide reach, and continues to expand its roaming coverage. Its postpaid customers can use their mobile phone via the GSM network in 193 countries thanks to voice roaming agreements with 395 operators. For its prepaid customers, Proximus has voice roaming agreements with 117 operators in 73 countries. Proximus also has GPRS roaming agreements with 196 operators in 93 countries and 3G roaming agreements with 48 operators in 34 countries.

Developing a superior offer

Proximus continues to develop a superior and innovative offer for its customers in order to respond to their expectations and needs. The focus is on improving customer satisfaction and service excellence, in order to enhance the customer’s experience every time he/she contacts Proximus. The dedicated 0800 number launched in April for the self employed and SME is one example.

In a very competitive mobile telephony market, Proximus continues to launch initiatives aimed at strengthening the loyalty of its existing customers and attracting new customers. Mobile telephony rates are decreasing, and Proximus has been a part of this trend by launching new, less expensive and simplified rate plans for its customers. After the successful introduction of Smile in 2005, Proximus introduced **Pay&Go Classic and Pay&Go Generation**. This new prepaid offer addresses the demand for more simplicity, more value for money, and rewards the customers with a lifetime bonus. For SMEs, Proximus introduced **SME Package Easy** and **SME Package Extended**, simple and attractive rates adapted to the needs of SME customers.

Through the **Vodafone live!** portal, customers can access a wide range of online services, such as ringtones, news, sport, games and information. The portal is updated continually to provide richer content: Mobile TV channels have more than doubled since its launch in September last year (22 channels at the end of June), and the number of tracks available for Music Download is now 4 times higher. Rates and browsing charges to access the portal have been reduced, making the portal more attractive to customers.

[5] High Speed Downlink Packet Access

In January, Proximus introduced **Proximus M-Pay** in Belgium, a new, fast and secure way of buying digital products online – via the mobile and Internet. Proximus M-Pay allows customers to pay for digital content on any WAP site or website displaying the Proximus M-Pay logo.

In May, Proximus launched **PlazZza,** the easy-to-use search engine for mobile Internet in Belgium. PlazZza is an initiative by the three Belgian mobile operators to offer mobile phone users easy access to multimedia services and third-party content 'outside' the operators' own portals.

The roll-out of **Service Level Agreements** (SLAs) was important for business customers. These SLAs will provide corporate customers with an objective evaluation of the quality of services supplied. In April, Proximus launched **Vodafone World Exclusive** and **Vodafone Data Roaming Bundle**, offering more advantageous roaming rates for its business customers.

Proximus was the first operator in Belgium to launch the **3G BlackBerry 8707v** for professional customers. The device offers increased flexibility by enabling users to send and receive e-mails, browse the Internet or use other mobile data applications while they are calling.

Regulatory aspects

Mobile interconnection (MTR)
In its ruling of August 11, the BIPT has decided to progressively halve the mobile termination rates over the November 2006 to July 2008 period. During 2007, the BIPT will review the tariffs in order to reach symmetry between Proximus and Mobistar during 2008 and to reduce the tariff difference with Base in order to reach symmetry after 2008 (unless objective cost differences outside the control of the operator).

No draft decision for the wholesale market for mobile access and call origination has been made public so far.

International roaming
On 12 July 2006, the European Commission adopted a draft regulation on international roaming. The regulation proposes wholesale and retail price controls that would drastically cut roaming prices for end users. Retail and wholesale charges would be capped:

- Wholesale prices (charges between the mobile operators):
  - calls within the visited country: maximum of two times the average EU mobile termination rate.
  - calls from the visited country to another EU Member State: maximum of three times the average EU mobile termination rate.
- Retail prices:
  - Received calls abroad: maximum of 130% of the average EU mobile termination rate.
  - Outgoing calls: maximum of 130% of the related wholesale charges.

The proposed regulation also introduces a mechanism for increasing roaming price transparency for consumers.
Given that international roaming is very high on the EU regulatory agenda, a rapid approval process is expected. The Commission aims to have the regulation adopted by the Parliament and Council before summer 2007. A regulation, unlike a directive, has immediate effect in all 25 Member States and does not require further transposition into national law.

Although Proximus is currently conducting an in-depth evaluation of both the decision on MTR and the proposal on International Roaming, it is clear that the financial impact will be significant on implementation.

Outlook

MCS believes that its forthcoming initiatives, continued intense competition and regulatory pressure will have an impact on its revenues and EBITDA margin.

MCS will continue to compete vigorously and to implement commercial initiatives in support of its Market Leadership Program. MCS therefore reiterates its guidance for the full year of 2006. Total revenue could decline from 3% to 5% but based on the first six months of 2006, it will probably be more towards the lower end of the range and the EBITDA margin should remain above 46%.

International Carrier Services (ICS)

The market today

The wholesale carrier market is marked by shrinking retail prices, a steadily eroding incumbent operator traffic and the onset of VOIP. This means that increasingly efficient cost structures are needed to stay competitive in a market that has excess capacity. Consolidation is therefore becoming an economic imperative, underscored by the need to invest in the development of new and differentiated services targeting specific customer segments (mobile operators, ISPs, etc.).

According to OVUM, global voice minutes continue to grow and are expected to double over the next 10 years, reaching 16 trillion in 2015. The three main trends influencing the market are:

- The emergence of new voice-market regions, especially the Middle East, Africa, Asia-Pacific, China and India.
- The continued growth of mobile telephony with fixed to mobile substitution and the integration of fixed and mobile services. By 2015, 50% of the world population is expected to be mobile.
- Finally, the emergence of VOIP, which is expected to account for 30% of all calls by 2015. While cannibalization of the current voice market seems inevitable over time, VOIP also represents an opportunity to address a new market segment.

Recent movements in the carrier wholesale market confirm the trend towards consolidation.

Building the Belgacom ICS of the future

The merger of the respective carrier operations of Belgacom and Swisscom Fixnet into Belgacom ICS created a company with circa EUR 1 billion revenues, which is EBITDA and cash-flow positive. The merger was driven by operational synergies of almost EUR 40 million, and offers the advantage of a long-term supplier relationship to the companies of the Belgacom and Swisscom groups. The full integration is scheduled to be completed by the first quarter of 2007.
Meanwhile Belgacom ICS has also been developing its mobile data business and its mobile customer base with a particular focus on growth regions such as the Middle East and Africa.

In order to secure growth and innovation, the legacy switching infrastructure has been upgraded with a next-generation based capacity extension and a new soft-switching platform.

Finally, the upgrade of the BICS Pan European Network using next-generation optical equipment will improve costs and performance and create business growth opportunities.

Belgacom ICS business highlights

Notwithstanding the tough competition, Belgacom ICS can boast an overall positive performance for voice in the first half of 2006.

Belgacom ICS continued the successful execution of its post-merger integration with Swisscom, and is implementing MTN outsourcing, through which Belgacom ICS provides the entire international connectivity to an African group of mobile operators.

The "*Instant Voice*" product, a connectivity offering that leverages next-generation softswitch technology, specifically targeting ISPs and voice over broadband providers, was successfully launched.

In the mobile data area, excellent results are being booked and further growth is guaranteed thanks to the implementation of a new SMS transit platform. Belgacom ICS recently became the world's leading GRX provider (GRX is the backbone network for mobile data roaming) and supports mobile operators in the deployment of HSDPA.

Outlook

The Belgacom ICS strategy will continue to focus on increasing in size and scale through consolidation and insourcing as a commercial alternative.

The IP capabilities introduced in its network will allow Belgacom ICS to further aggregate traffic, as it shifts to IP, while addressing the ISP market with hosted VoIP services.

Last but not least, Belgacom ICS will continue to enrich its mobile services portfolio with roaming, numbering, messaging and presence solutions targeting existing and emerging mobile operators as well as MVNOs.

Financial report

Belgacom Group

Revenue

Total revenue per business segment	Six months ended 30 June				
(EUR million)	**2005**		**2006**		**Variance**
Fixed Line Services	1,498	55.3%	1,814	59.8%	21.1%
Mobile Communications Services	1,085	40.1%	1,069	35.3%	-1.5%
International Carrier Services	333	12.3%	350	11.5%	5.0%
Inter-segment eliminations	-207	-7.7%	-201	-6.6%	-3.0%
Total	**2,709**	**100.0%**	**3,032**	**100.0%**	**11.9%**
Non-recurring revenue	238		0		
Total	**2,947**		**3,032**		**2.9%**

During the first half of 2006, the total revenue of the Belgacom Group increased 2.9% to EUR 3,032 million. Excluding non-recurring revenue and adjusted for the contribution of entities disposed of in 2005 and new entities acquired in 2006, the revenue of the Group slightly decreased 0.3% (EUR 9 million) to EUR 2,692 million and was with EUR 1,364 million even nearly flat during the second quarter of the year.

Operating income before depreciation and amortization (EBITDA)

EBITDA per business segment	Six months ended 30 June				
(EUR million)	**2005**		**2006**		**Variance**
Fixed Line Services	598	51.8%	569	51.3%	-4.8%
Mobile Communications Services	543	47.1%	530	47.7%	-2.5%
International Carrier Services	13	1.1%	12	1.1%	-8.7%
Total	**1,153**	**100.0%**	**1,110**	**100.0%**	**-3.8%**
Non-recurring revenue	238		0		
Total	**1,392**		**1,110**		**-20.2%**

The Group's EBITDA decreased to EUR 1,110 million. Excluding non-recurring items and adjusted for the contribution of disposed or new entities, the Group's EBITDA decreased 4.9% (EUR 56 million) to EUR 1,092 million.

Depreciation and amortization

The increase of depreciation and amortization expenses from EUR 342 million for the first six months of 2005 to EUR 399 million for the first six months of 2006 was mainly due to the acquisition of the Telindus Group and the amortization of football and broadcasting rights acquired as from July 2005 for Belgacom TV.

Net finance revenue

Year-over-year, the net finance revenue decreased significantly due to the fact that the first half of 2005 included EUR 62 million of gain on the disposal of Alert Services Holding and Eutelsat Communications SA in particular.

Tax expense

The increase of the effective tax rate from 22.6% in June 2005 to 29.0% in June 2006 was due to the non-taxation of the significant gains that were realized in 2005 on the disposal of consolidated and not consolidated interests.

Net income (Group Share)

Net income (Group Share) decreased to EUR 434 million. This decrease was mainly due to gains on the disposal of consolidated entities and other participating interests realized in 2005 and higher depreciation and amortization expenses recorded in 2006.

Capital expenditure

Capital expenditures per business segment	**Six months ended 30 June**				
(EUR million)	**2005**		**2006**		**Variance**
Fixed Line Services	127	56.3%	191	66.7%	50.0%
Mobile Communications Services	97	42.8%	93	32.6%	-3.5%
International Carrier Services (1)	8	3.7%	2	0.7%	-76.0%
Inter-segment eliminations (1)	-6	-2.7%	0	0.0%	-100.0%
Total	**226**	**100%**	**286**	**100%**	**26.6%**

(1) In 2005, includes the irrevocable right of use (IRU) of the Belgacom network.

Capital expenditures of **Fixed Line Services** rose by 50.0% or EUR 64 million year-over-year, mainly due to Belgacom TV (investment of EUR 50 million in the first six months of 2006) and to Telindus capital expenditures (EUR 14 million).

Mobile Communication Services capital expenditures are showing a decrease of EUR 3 million (-3.5%), mainly driven by the timing of network related investments. 3G-related investments amounted to EUR 41.9 million for the first six months of 2006, or an increase of EUR 1 million compared to the first half of 2005.

The capital expenditures of **International Carrier Services** decreased year-over-year by EUR 6 million. The capital expenditures of 2005 were impacted by the EUR 6 million related to the right to use the Belgacom network (IRU) after the transfer of ICS activities to the subsidiary Belgacom International Carrier Services. Excluding IRU, capital expenditures slightly decreased by EUR 0.1 million to EUR 2 million.

Cash flow

	Six months ended 30 June	
(EUR million)	**2005**	**2006**
Cash flows from operating activities	842	788
Capital expenditures	-226	-286
Cash flows from / (used in) other investing activities	397	-552
Cash flow before financing activities or "free cash flow"	1,014	-50
Cash flows used in financing activities	-1,044	-455
Net decrease of cash and cash equivalents	-30	-505

Other investing activities generated significant cash inflows in the first half of 2005, primarily due to the disposal of consolidated and non-consolidated interests. In the first half of 2006, other investing activities generated significant cash outflows, largely due to the acquisition of the Telindus Group.

Financing activities used much more cash in 2005 due to minority interests and an extraordinary dividend of EUR 194 million, paid in 2005 on top of the normal dividend. Additionally, on 30 June 2005, Belgacom had acquired treasury shares for an amount of EUR 182 million in the framework of the share buy-back program decided by the Board of Directors in February 2005.

Balance sheet and shareholders' equity

The acquisition of the Telindus Group had a significant impact on the balance sheet of the Group for 2006 (see chapter on the Telindus acquisition).

The shareholders' equity slightly decreased in the first half of 2006 due to the payment of dividends to Belgacom shareholders on the 2005 results, nearly compensated by the net income of the first six months of 2006 and by re-measurements to fair value of other participating interests, primarily in respect of Neuf Cegetel.
During this period, Belgacom employees exercised 10,736 stock options with strike price of EUR 24.50 and bought 138,549 treasury shares under a discounted share purchase plan offering a discount of 16.67%.
As approved by the Board of Directors on 23 February 2006, Belgacom offered in April 2006 608,928 stock options to its senior management. The exercise price of EUR 25.94 is based on the closing price of 21 April 2006. These options become one-third vested after one year, two-thirds vested after two years and fully vested after three years, and are exercisable until 23 April 2013.

Headcount

At the end of the first half of 2006, the total staff complement of the Belgacom Group reached 18,100 FTE , an increase of 1,734 FTE compared to the same period in 2005. The main cause for this increase was the acquisition of the Telindus Group (2,564 FTE), partly offset by headcount reductions following restructuring programs (- 541 FTE) and natural attrition.

Fixed Line Services (FLS)

Segment revenue

During the first half of 2006, FLS total revenue before non-recurring items increased 21.1% (EUR 316 million), compared to the same period last year.
Over the first half of 2006, FLS core business revenue (excluding disposed companies, Telindus and Belgacom TV) decreased 1.4%. The revenue growth in Internet, Network Integration Services and National Wholesale was able to partly offset the decline of traditional voice products.
The Telindus Group, consolidated from 1 January 2006 on, contributed EUR 339 million to the total FLS revenue. Services generated 43% of the Telindus revenue, whereas products generated 57%.

Segment operating income before depreciation and amortization (EBITDA)

FLS EBITDA before non-recurring items decreased 4.8% to EUR 569 million.

FLS core business EBITDA (excluding Telindus, disposed companies and Belgacom TV) decreased 3.3%, mainly due to a decline in voice revenue and a change in product mix, generating higher charges to revenue. These additional costs were partly offset, however, by a decrease in HR expenses (-8.0%), resulting from a lower number of FTE.
Compared to the overall 2005 margin, FLS managed, during the first half of 2006, to keep the EBITDA margin of its core business stable at 39.0%.

FLS total EBITDA margin was influenced by both Belgacom TV costs and Telindus, resulting in an overall EBITDA margin of 31.4%.
Belgacom TV, being a new business, showed a negative EBITDA contribution of EUR 22 million.
The Telindus Group contributed EUR 18 million to FLS EBITDA, with an EBITDA margin of 5.2%.

The increase of FLS' costs of materials and charges to revenue with EUR 232 million is related to Telindus Group costs and to the impact of a change in product mix in the FLS core business.

Segment operating income (EBIT)

FLS' EBIT decreased to EUR 288 million, explained by a lower EBITDA, including the effect of the non-recurring revenue recorded in the first half of 2005, and a higher depreciation and amortization cost. This increase of depreciation and amortization is mainly explained by the acquisition of the Telindus Group and the amortization of football and other broadcasting rights (Belgacom TV) acquired since July 2005.

	Six months ended 30 June		
(EUR million)	2005	2006	Variance
TOTAL SEGMENT REVENUE	**1,498**	**1,814**	**21.1%**
Costs of materials and charges to revenue	-285	-516	81.4%
Personnel expenses and pensions	-417	-465	11.5%
Other operating expenses	-199	-264	32.8%
TOTAL OPERATING EXPENSES before depreciation & amortization	**-901**	**-1,245**	**38.3%**
TOTAL SEGMENT RESULT (1)	**598**	**569**	**-4.8%**
Segment result margin	*39.9%*	*31.4%*	*-8.5 pp*
Non-recurring revenue	238	0	
OPERATING INCOME before depreciation & amortization	836	569	
Depreciation and amortization	-236	-281	
OPERATING INCOME	**600**	**288**	

(1) Operating income before depreciation and amortization and before non-recurring revenue and expenses

	Six months ended 30 June			
	FLS Core	Belgacom TV	Telindus	FLS Total
Total Revenue	1,469	6	339	1,814
Operating Expenses before depreciation and amortization	-896	-28	-321	-1,245
EBITDA	573	-22	18	569
EBITDA margin	*39.0%*	-	*5.2%*	*31.4%*

Segment revenue detail

	Six months ended 30 June			
EUR million	**2005**	**2006**	**Variance %**	**Variance**
FLS Core	***1,490***	***1,469***	***-1.4%***	***-21***
Voice Access	395	374	-5.3%	-21
Voice Traffic	376	338	-10.1%	-38
Internet	213	226	6.4%	14
Data	105	107	2.0%	2
Terminals	80	74	-7.0%	-6
Other retail (1)	126	119	-5.6%	-7
National Wholesale	188	225	19.4%	37
Others	7	5	-26.1%	-2
Disposed companies	***8***	***0***	**-**	***-8***
Telindus	***0***	***339***	**-**	***339***
Belgacom TV	***0***	***6***	**-**	***6***
Total revenue before non-recurring items (2)	**1,498**	**1,814**	**21.1%**	**316**

(1) *Other retail includes mainly revenues from international activities, directory services and other fixed business subsidiaries.*
(2) *Some product definitions were changed in 2006. In particular, voice terminals revenue, which was previously part of access revenue, is now identified separately with other terminals revenue. Figures for the previous year have been restated accordingly.*

Voice access and traffic revenue decreased 7.6%, impacted by stiff competition and substitution.
The FLS traffic market share on the Belgacom network increased 3 p.p. while it had increased 0.5 p.p. in the first half of 2005. This improvement was mainly noticed in the residential and small business segments. Thanks to good results during the first quarter of the year, voice access line loss slowed down globally (-85,307 equivalent lines compared to -95,269 in the first half of 2005).
Voice Access ARPU decreased 1.8% to EUR 14.3, driven by promotional offers granted to customers and changes in the product mix. Voice Traffic ARPU decreased 6.5% to EUR 13.2, mainly as a result of new rate plans.

The increase in **Internet** revenues (6.4%) was driven by the growth of the ADSL lines (+17%). However ADSL ARPU decreased 6% over the same period, due to a changing product mix in ADSL lines (higher proportion of time-based and light ADSL lines) and to promotional offers granted in 2006.

Within the **Data** products category, **Network Integration Services**, grew 56.4%. By this they are more than offsetting the decline of national leased lines, which are marked by substitution. Since June, the ICT activities of the Belgacom Group have been branded through Telindus ("Telindus-Belgacom ICT"), and joint teams have been set up. This will allow Belgacom and Telindus to offer integrated ICT solutions that cover the complete range of customer ICT demands.

Other retail revenue decreased 5.6%, mainly as a result of a revenue decline in satellites and lower revenue related to the e-ID project.

National Wholesale revenue increased 19.4%, thanks to the growth of both national transit traffic to mobile operators (+70.6%) and carrier broadband lines (+32.1%).

At the end of June, more than 73,000 subscriptions to **Belgacom TV** had been sold. This is showing an accelerating trend in the second quarter of the year, as a result of coverage improvement, an expansion of the offering (launch of thematic channel packages, movies and programs on demand, local channels broadcast) and marketing campaigns.
Belgacom TV Net ARPU amounts to EUR 10.9, a decrease compared to the first quarter of the year. This decrease is explained by different types of promotional offers granted (e.g. the "Try & Buy" offer).

Operationals (retail)

	Six months ended 30 June		
	2005	**2006**	**Variance**
Number of access channels (thousands)			
Residential			
PSTN	3,102	2,988	-3.7%
ISDN	374	366	-2.3%
ADSL, VDSL	785	922	17.4%
Total	**4,261**	**4,276**	**0.3%**
Business			
PSTN	261	250	-3.9%
ISDN	591	584	-1.2%
ADSL, VDSL	116	135	15.6%
Total	**968**	**969**	**0.1%**
Traffic (millions of minutes)			
Residential			
National	2,420	2,732	12.9%
Fixed to Mobile	408	401	-1.7%
International	179	177	-1.1%
Total	**3,006**	**3,310**	**10.1%**
Business			
National	1,040	945	-9.1%
Fixed to Mobile	262	250	-4.4%
International	209	191	-8.6%
Total	**1,511**	**1,387**	**-8.2%**
ARPU (EUR)			
ARPU Voice Access (1)	14.5	14.3	-1.8%
ARPU Voice Traffic (2)	14.1	13.2	-6.5%
ARPU ADSL Residential (3)	33.5	31.4	-6.2%
ARPU Net Belgacom TV (4)	-	10.9	-

(1) ARPU Voice Access is equal to total voice access revenue, excluding activation revenue, divided by average voice access channels for the period considered, divided by the number of months in that same period.
(2) ARPU Voice Traffic is equal to total voice traffic revenue, excluding payphone traffic revenue, divided by average voice access channels for the period considered, divided by the number of months in that same period.
(3) ARPU ADSL Residential is equal to total ADSL revenue divided by average number of ADSL lines for the period considered, divided by the number of months in that same period, for the residential segment.
(4) Net ARPU Belgacom TV: includes only customer-related revenue and takes into account promotional offers.

Mobile Communications Services

Segment revenue

During the first half of 2006, MCS revenue decreased 1.5% to EUR 1,069 million compared to the first half of 2005.
Service revenue remained fairly stable, dropping slightly by 0.3%. The 6.5% growth of data services compared to the first six months of 2005 (including a strong 24% growth for advanced data services such as mobile office applications) nearly offsets the 1.6% decrease of voice services revenue caused by the success of new bundled pricing plans (such as Smile, Business and SME Packages).

Net Service revenue decreased 2.3%, driven by a six-month impact in 2006 of credits and discounts granted in the framework of the market share leadership program.

Handsets revenue increased 18.1%, driven by higher average price and volume.

With its market share estimated at 47.3%, Proximus is still a leader in terms of market share of active customers.

Segment operating income before depreciation and amortization (EBITDA)

MCS EBITDA fell 2.5% to EUR 530 million, sustaining a high EBITDA margin at 49.5%. This was mainly due to strict cost control through the operational excellence program, which is delivering results. Operating expenses decreased 0.5%, but charges to revenue increased (costs of interconnection and devices linked to an increased level of sales, partly compensated by lower roaming out).

Segment operating income (EBIT)

MCS operating income decreased 4.6% to EUR 423 million, as a result of the EBITDA decrease and higher depreciation and amortization cost.

	Six months ended 30 June		
(EUR million)	**2005**	**2006**	**Variance**
TOTAL SEGMENT REVENUE	**1,085**	**1,069**	**-1.5%**
Costs of materials and charges to revenue	-328	-331	0.9%
Personnel expenses and pensions	-72	-72	-1.0%
Other operating expenses	-141	-136	-3.4%
TOTAL OPERATING EXPENSES before depreciation & amortization	**-542**	**-539**	**-0.5%**
TOTAL SEGMENT RESULT (1)	**543**	**530**	**-2.5%**
Segment result margin	*50.1%*	*49.5%*	*-0.5 pp*
Depreciation and amortization	-100	-107	6.7%
OPERATING INCOME	**443**	**423**	**-4.6%**

(1) Operating income before depreciation and amortization

Segment revenue detail

EUR million	Six months ended 30 June 2005	2006	Variance %	Variance
Voice services (1)	917	902	-1.6%	-15
Data services (1)	177	188	6.5%	12
Total Service revenue	**1,094**	**1,090**	**-0.3%**	**-3**
Credits and discounts	-55	-76	-37.7%	-21
Net Service revenue	**1,038**	**1,014**	**-2.3%**	**-24**
Handsets	38	45	18.1%	7
Other revenue	8	9	12.2%	1
Total revenue	**1,085**	**1,069**	**-1.5%**	**-16**

(1) Including roaming-in

Operationals

	Six months ended 30 June 2005	2006	Variance
Number of active customers[(1)] (in thousands)	4,214	4,253	0.9%
Prepaid	2,492	2,407	-3.4%
Postpaid	1,722	1,846	7.2%
Active customers as a percentage of total customers[(2)]	97.8%	98.0%	0.3 pp
Annualized churn rate [3)] (blended - variance in pp)	17.0%	15.4%	-1.7 pp
ARPU[(4)] (in EUR)			
Prepaid	19.8	19.2	-2.9%
Postpaid	72.0	69.5	-3.4%
Blended	41.1	40.7	-1.0%
Blended voice	34.3	33.6	-2.0%
Blended data	6.8	7.1	4.4%
Net ARPU[(5)] (in EUR)			
Prepaid	18.1	17.5	-3.0%
Postpaid	69.2	64.9	-6.2%
Blended	38.9	37.7	-3.1%
Market share of active customers [(6)]			
Prepaid	45.9%	46.1%	0.2 pp
Postpaid	53.3%	49.0%	-4.3 pp
Total	48.7%	47.3%	-1.4 pp
UoU[(7)] (units)	215.0	213.6	-0.6%
MoU[(8)] (min)	167.5	164.9	-1.6%
SMS[(9)] (units)	47.5	48.7	2.6%

[(1)] Active customers are customers who have made or received at least one call or sent or received at least one SMS in the last three months.
[(2)] Percentage based on total number of Belgacom Mobile SIM cards in circulation.
[(3)] Annualized churn is the total annualized number of SIM cards disconnected from the Belgacom Mobile network (including the total number of port-outs due to mobile number portability), during the given period, divided by the average number of customers for that same period.
[(4)] ARPU has been calculated on the basis of monthly averages for the period indicated. Monthly blended ARPU is total services revenues, excluding roaming-in and activation revenues, divided by Belgacom Mobile's active postpaid and prepaid customer base for that period
[(5)] Net ARPU is equal to ARPU minus credits and discounts.
[(6)] 2006 figures are Belgacom Mobile estimates
[(7)] UoU (Units of Use) : voice minutes of use + SMS (where 1 SMS equals 1 minute) per active customer per month
[(8)] MoU (Minutes of Use): duration of all calls from or to Proximus, per active customer and per month
[(9)] SMS: number of SMS per active customer per month

International Carrier Services[6]

Segment revenue

During the first half of 2006, ICS revenue increased 5% compared to the same period of previous year.
Voice revenue increase was mainly a result of fixed inbound/outbound volumes generated by the Swiss partner and the outsourcing agreement signed in February 2006 with MTN Group, a leading provider of cellular and communications services in Africa.
Non-voice revenue growth was driven by data and capacity. Data grew strongly (+154%) with revenues generated by mobile data products (mainly signaling products and SMS). Capacity revenue increase was largely due to international leased lines (incorporated from the Swiss partner).

Segment operating income before depreciation and amortization (EBITDA)

ICS recorded an EBITDA of EUR 12 million, decreasing by EUR 1 million compared to the previous year. This decrease is explained by favorable settlements with foreign operators recorded in the first half of 2005. Excluding the effect of these settlements, ICS EBITDA has increased year over year, largely as a result of the business generated by the Swiss partner.

Segment operating income (EBIT)

ICS EBIT decreased by EUR 6 million to EUR -0.1 million, explained by lower EBITDA and higher depreciation and amortization costs, due to the reduction of the useful life of some network assets to reflect new technology. These assets will be replaced in the course of 2006, resulting in additional transmission capacity, improved reliability and savings in operating expenses over the coming years.

	Six months ended 30 June		
(EUR million)	**2005**	**2006**	**Variance**
TOTAL SEGMENT REVENUE	**333**	**350**	**5.0%**
Costs of materials and charges to revenue	-289	-307	5.9%
Personnel expenses and pensions	-10	-10	-4.1%
Other operating expenses	-20	-21	5.7%
TOTAL OPERATING EXPENSES before depreciation & amortization	**-320**	**-338**	**5.6%**
TOTAL SEGMENT RESULT (1)	**13**	**12**	**-8.7%**
Segment result margin	*3.8%*	*3.3%*	*-0.5 pp*
Depreciation and amortization	-7	-12	**79.4%**
OPERATING INCOME	**6**	**0**	**-**

(1) Operating income before depreciation and amortization

[6] The year-over-year comparison of ICS results is affected by Swisscom Fixnet AG's contribution of its international carrier activities to Belgacom International Carrier Services SA (BICS), in exchange for a 28% ownership and joint control with the Belgacom Group, effective on 1 July 2005. Revenues and expenses of the ICS segment are proportionally consolidated at 72%, since that date.

Segment revenue detail

EUR million	Six months ended 30 June 2005	2006	Variance
Voice	320	330	3,3%
Non Voice	13	20	48,1%
Total revenues	**333**	**350**	**5,0%**

Operationals

in billion of minutes	Six months ended 30 June 2005	2006 (1)	Variance
TOTAL	**3.57**	**5.79**	**61.9%**
Total to fixed destination	1.74	3.02	73.2%
Total to mobile destination	1.83	2.77	51.1%

(1) BICS volumes included at 100%, for the comparison

Acquisition of Telindus

Early January 2006, the Group acquired all outstanding shares and warrants of the Telindus Group, a leading provider of network-based ICT solutions and services, with its headquarters in Belgium, and quoted on Euronext Brussels. On 14 March 2006, Belgacom asked the Brussels Euronext stock-market authority to delist the Telindus Group share.

The total acquisition costs amount to EUR 605 million, of which EUR 601 million was paid to shareholders and warrant holders and EUR 4 million were costs directly attributable to the acquisition. No equity instruments have been or can be issued as part of the cost. The net amount of cash paid for the acquisition is EUR 584 million (after deduction of cash acquired)

The Group is still analyzing the fair value of all identified assets and liabilities acquired. For this reason, the fair value of the identifiable assets and liabilities of the Telindus Group, as at the date of acquisition, has been determined provisionally for these interim financial statements and amounts to EUR 447 million for non-current assets, EUR 318 million for current assets, EUR 8 million for minority interests, EUR 37 million for non-current liabilities and EUR 263 million for current liabilities. Consequently, such provisional initial accounting led to the recognition in these interim financial statements of a goodwill of EUR 148 million. The Group has not identified intangible assets that can not be individually separated and reliably measured due to their nature and therefore should be included in the goodwill. The goodwill includes mainly future synergies with The Belgacom Group, the know-how of Telindus Group employees, and revenue protection.

The acquisition took place early in January 2006. Therefore, the revenue and expenses of the Telindus Group have been incorporated into the Belgacom Group financial statements starting 1 January 2006, contributing EUR 339 million to the total revenue, EUR 18 million to the operating income before depreciation and amortization, and EUR 8 million loss to the net profit of the Group for the six months ended 30 June 2006.

Interim financial statements

Interim condensed consolidated financial statements

These half-yearly financial statements have been subject to a review by the independent auditor (see limited review report).

The interim condensed consolidated financial statements are established under International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and are drawn up in accordance with IAS 34, Interim Financial Reporting.

The accounting policies and methods adopted are consistent with those applied in the 31 December 2005 consolidated financial statements, except that the Group adopted all new standards, interpretations, revisions and improvements that are mandatory for Belgacom Group as from 1 January 2006.

During the first six months of 2006, aside from the acquisition of all shares and warrants of the Telindus Group, the Belgacom Group did not acquire or dispose of any significant subsidiary, joint venture or affiliate.

Consolidated income statements

(EUR million)	Three months ended 30 June 2005	Three months ended 30 June 2006	Six months ended 30 June 2005	Six months ended 30 June 2006
Net revenue	1,352	1,499	2,672	2,990
Other operating revenue	18	26	37	42
Non-recurring revenue	0	0	238	0
TOTAL REVENUE	**1,370**	**1,525**	**2,947**	**3,032**
Costs of materials and charges to revenue	-370	-482	-722	-975
Personnel expenses and pensions	-246	-272	-500	-547
Other operating expenses	-176	-207	-333	-400
TOTAL OPERATING EXPENSES before depreciation & amortization	**-792**	**-960**	**-1,556**	**-1,922**
OPERATING INCOME before depreciation & amortization	**578**	**565**	**1,392**	**1,110**
Depreciation and amortization	-174	-203	-342	-399
OPERATING INCOME	**404**	**362**	**1,050**	**711**
Finance revenue	54	10	74	25
Finance costs	-12	-11	-18	-21
Net finance revenue / (costs)	**42**	**-1**	**55**	**4**
INCOME BEFORE TAXES	**446**	**361**	**1,105**	**715**
Tax expense	-122	-104	-250	-207
NET INCOME	**323**	**257**	**855**	**507**
Minority interests	37	37	74	73
Net income (Group share)	286	219	780	434
Basic earnings per share	0.82 EUR	0.64 EUR	2.23 EUR	1.28 EUR
Diluted earnings per share	0.82 EUR	0.64 EUR	2.23 EUR	1.28 EUR
Weighted average number of ordinary shares	349,389,554	340,484,909	350,041,779	340,439,989
Weighted average number of ordinary shares for diluted earnings per share	349,552,547	340,535,437	350,247,118	340,502,520

Consolidated balance sheet

(EUR million)	As of 30 June 2005	As of 31 December 2005	As of 30 June 2006
ASSETS			
NON-CURRENT ASSETS	**3,620**	**3,808**	**4,224**
Goodwill	0	0	232
Intangible assets with finite useful life	474	602	643
Property, plant and equipment	2,539	2,497	2,505
Other participating interests	132	198	426
Deferred income tax assets	389	440	375
Pension assets	5	5	5
Other non-current assets	79	65	38
CURRENT ASSETS	**1,475**	**2,022**	**1,836**
Inventories	50	61	100
Trade receivables	921	947	1,165
Current income tax assets	51	67	79
Other current assets	74	64	111
Investments	85	86	89
Cash and cash equivalents	295	798	293
TOTAL ASSETS	**5,095**	**5,831**	**6,060**
LIABILITIES AND EQUITY			
EQUITY	**2,403**	**2,591**	**2,635**
Shareholders' equity	**2,098**	**2,221**	**2,185**
Issued capital	1,000	1,000	1,000
Treasury shares	-446	-564	-560
Restricted reserve	100	100	100
Remeasurement to fair value	6	68	109
Stock compensation	3	4	5
Retained earnings	1,435	1,614	1,531
Foreign currency translation	0	0	1
Minority interests	**305**	**370**	**451**
NON-CURRENT LIABILITIES	**1,254**	**1,542**	**1,476**
Interest-bearing liabilities	317	296	286
Liability for pensions, other post-employment benefits and termination benefits	697	1,010	950
Provisions	199	193	199
Deferred income tax liabilities	39	42	40
Other non-current payables	1	1	1
CURRENT LIABILITIES	**1,438**	**1,698**	**1,949**
Interest-bearing liabilities	45	111	198
Trade payables	787	1,038	1,103
Income tax payables	173	202	157
Other current payables	433	347	491
TOTAL LIABILITIES AND EQUITY	**5,095**	**5,831**	**6,060**

Consolidated cash flow statements

(EUR million)	Six months ended 30 June 2005	2006
Cash flow from operating activities		
Net income	780	434
Adjustments for:		
Minority interests	74	73
Depreciation and amortization on intangible assets and property, plant and equipment	342	399
Increase of impairment on intangible assets and property, plant and equipment	0	1
Increase of provisions	11	12
Deferred tax expense	87	54
Fair value adjustments on financial instruments	8	-11
Gain on disposal of consolidated companies	-243	0
Gain on disposal of other participating interests and enterprises accounted for using the equity method	-61	-2
Gain on disposal of property, plant and equipment	-8	-11
Other non-cash movements	1	1
Operating cash flow before working capital changes	**992**	**951**
Increase in inventories	0	-4
Decrease / (increase) in trade receivables	-81	18
Increase in current income tax assets	-1	-8
Increase in other current assets	-21	-25
Increase / (decrease) in trade payables	8	-53
Decrease in income tax payables	-47	-48
Increase in other current payables	61	28
Decrease in net liability for pensions, other post-employment benefits and termination benefits	-63	-64
Decrease in other non-current payables and provisions	-6	-8
Decrease in working capital, net of acquisitions and disposals of subsidiaries	**-150**	**-163**
Net cash flow provided by operating activities	**842**	**788**
Cash flow from investing activities		
Cash paid for acquisitions of intangible assets and property, plant and equipment	-226	-286
Cash paid for acquisitions of other participating interests	-9	0
Cash paid for consolidated companies, net of cash acquired	0	-584
Dividends received from non-consolidated companies	0	7
Cash received from sales of consolidated companies, net of cash disposed of	253	0
Cash received from sales of intangible assets and property, plant and equipment	18	21
Cash received from sales of other participating interests and enterprises accounted for using the equity method and from other non-current assets	135	4
Net cash (used in) / provided by investing activities	**171**	**-838**
Cash flow before financing activities	**1,014**	**-50**
Cash flow from financing activities		
Dividends paid to shareholders	-679	-517
Dividends paid to minority interests	-176	0
Net disposal / (acquisition) of treasury shares	-174	4
Sale / (purchase) of investments	-2	-3
Increase of equity	1	1
Repayment of long term debt	-25	-2
Issuance of short term debt	13	63
Net cash used in financing activities	**-1,044**	**-455**
Net decrease of cash and cash equivalents	**-30**	**-505**
Cash and cash equivalents at the beginning of the period	325	798
Cash and cash equivalents at the end of the period	295	293

Consolidated statements of changes in equity

(in EUR million)	Issued capital	Treasury shares	Restricted reserve	Remeasure-ment to fair value	Foreign currency translation	Stock Compen-sation	Retained Earnings	Sharehol-ders' Equity	Minority interests	Total Equity
Balance at 31 December 2004	**1,000**	**-271**	**100**	**59**	**0**	**2**	**1,332**	**2,223**	**407**	**2,630**
Fair value changes in available-for-sale investments	*0*	*0*	*0*	*-54*	*0*	*0*	*0*	*-54*	*0*	*-54*
Equity changes not recognised in the income statement	0	0	0	-54	0	0	0	-54	0	-54
Net income	0	0	0	0	0	0	780	780	74	855
Total recognised income and expense	**0**	**0**	**0**	**-54**	**0**	**0**	**780**	**727**	**74**	**801**
Dividends to shareholders (relating to 2004)	0	0	0	0	0	0	-679	-679	0	-679
Dividends of subsidiaries to minority interests	0	0	0	0	0	0	0	0	-176	-176
Treasury shares										
Exercise of stock options	0	4	0	0	0	0	0	4	0	4
Acquisition of treasury shares	0	-182	0	0	0	0	0	-182	0	-182
Sale of treasury shares under a discounted share purchase	0	3	0	0	0	0	1	4	0	4
Stock options										
Stock options granted and accepted	0	0	0	0	0	1	0	1	0	1
Deferred stock compensation	0	0	0	0	0	-1	0	-1	0	-1
Amortization deferred stock compensation	0	0	0	0	0	1	0	1	0	1
Exercise of stock options	0	0	0	0	0	-1	1	0	0	0
Total transactions with equity holders	**0**	**-174**	**0**	**0**	**0**	**0**	**-677**	**-851**	**-176**	**-1,028**
Balance at 30 June 2005	**1,000**	**-446**	**100**	**6**	**0**	**3**	**1,435**	**2,098**	**305**	**2,403**
Balance at 31 December 2005	**1,000**	**-564**	**100**	**68**	**0**	**4**	**1,614**	**2,221**	**370**	**2,591**
Fair value changes in available-for-sale investments	*0*	*0*	*0*	*41*	*0*	*0*	*0*	*41*	*0*	*41*
Currency translation differences	*0*	*0*	*0*	*0*	*1*	*0*	*0*	*1*	*0*	*1*
Equity changes not recognised in the income statement	0	0	0	41	1	0	0	42	0	42
Net income	0	0	0	0	0	0	434	434	73	507
Total recognised income and expense	**0**	**0**	**0**	**41**	**1**	**0**	**434**	**476**	**73**	**549**
Dividends to shareholders (relating to 2005)	0	0	0	0	0	0	-517	-517	0	-517
Acquisition of minority interests	0	0	0	0	0	0	0	0	8	8
Treasury shares										
Sale of treasury shares under a discounted share purchase	0	4	0	0	0	0	0	4	0	4
Stock options										
Stock options granted and accepted	0	0	0	0	0	1	0	1	0	1
Deferred stock compensation	0	0	0	0	0	-1	0	-1	0	-1
Amortization deferred stock compensation	0	0	0	0	0	1	0	1	0	1
Total transactions with equity holders	**0**	**4**	**0**	**0**	**0**	**1**	**-517**	**-513**	**8**	**-505**
Balance at 30 June 2006	**1,000**	**-560**	**100**	**109**	**1**	**5**	**1,531**	**2,185**	**451**	**2,635**

Contingent liabilities

No changes occurred during the first six months of 2006 in the contingent liabilities mentioned in note 35 of the consolidated financial statements for the year ended on 31 December 2005, except for the "Benefit Excellence" complaint.

On 7 March 2006, Belgacom received a "statement of objections" from the Corps des Rapporteurs (College of Examiners), which is conducting the ongoing investigation. The statement of objections, to which Belgacom responded on 23 May 2006, considers that various Belgacom pricing plans for business customers involve infringements of the competition rules.

These infringements allegedly date back to October 2000, and some of them, in particular the loyalty rebates and the so-called discriminatory pricing conditions, are considered to be still in place to date.

The Corps des Rapporteurs heard Belgacom on this matter on 6 June 2006. Once the investigation is completed, the Corps des Rapporteurs will submit a reasoned report to the Belgian Competition Council, which will then have to rule on the objections raised against the Belgacom pricing schemes in question.

On 19 January 2006 the Belgian Competition Authority performed a dawn raid at Belgacom Mobile's premises based upon a complaint of Base dated 7 October 2005, alleging abusive pricing on the professional market. Several documents have been seized during this office search. Since then, the Competition Authority requested Belgacom Mobile to submit information and documentation as to its activities on the professional market. If the Competition Authority would ultimately find that Belgacom Mobile committed an abuse of dominant position, it may be subject to a maximum fine of up to 10% its annual turnover.

Subsequent events

On **5 July 2006**, Telindus acquired InfraSystems, a network and systems specialist established in Sweden, enabling Telindus to gain unique skills in the unified communication sector and a geographical presence in this country.

On **24 August 2006**, Belgacom and Vodafone have concluded an agreement under which Vodafone's minority shareholding (25%) in Belgacom Mobile (Proximus) will be sold to Belgacom for a total of EUR 2 billion, which takes into account a net cash position . It is estimated that at the end of September, Proximus' net cash position will be approximately EUR 1.4 billion. Following this operation, Belgacom Mobile will become a wholly-owned subsidiary of Belgacom. This transaction is subject to approval by the competent competition authorities. The business relationship between Proximus and Vodafone will be maintained.

On **24 August 2006**, Belgacom and SFR have concluded an agreement under which SFR will buy the Belgacom 5.8% stake in Neuf Cegetel. SFR will pay a minimum price of EUR 17 per share, or a total amount of EUR 187 million. Belgacom will realize a capital gain of EUR 67 million, and may receive an additional payment in case of IPO or other qualifying event.

Segment reporting

(EUR million)	Fixed Line Services	Mobile Communications Services	International Carrier Services	Inter-segment eliminations	Total
	Six months ended 30 June 2005				
Net revenue	1,389	991	291		2,672
Other operating revenue	28	8	0		37
Intersegment revenue	80	86	41	-207	0
TOTAL SEGMENT REVENUE	**1,498**	**1,085**	**333**	**-207**	**2,709**
Costs of materials and charges to revenue	-285	-328	-289	180	-722
Personnel expenses and pensions	-417	-72	-10	0	-500
Other operating expenses	-199	-141	-20	27	-333
TOTAL OPERATING EXPENSES before depreciation & amortization	**-901**	**-542**	**-320**	**207**	**-1,556**
TOTAL SEGMENT RESULT (1)	**598**	**543**	**13**	**0**	**1,153**
Non-recurring revenue	238	0	0	0	238
OPERATING INCOME before depreciation & amortization	**836**	**543**	**13**	**0**	**1,392**
Depreciation and amortization	-236	-100	-7	0	-342
OPERATING INCOME	**600**	**443**	**6**	**0**	**1,050**
Finance gains (net)					55
Tax expense					-250
NET INCOME					**855**
Minority interests					74
Net income (Group share)					780

(1) Operating income before depreciation and amortization and before non-recurring revenue and expenses

(EUR million)	Fixed Line Services	Mobile Communications Services	International Carrier Services	Inter-segment eliminations	Total
	Six months ended 30 June 2006				
Net revenue	1,681	986	322		2,990
Other operating revenue	32	9	1		42
Intersegment revenue	101	73	27	-201	0
TOTAL SEGMENT REVENUE	**1,814**	**1,069**	**350**	**-201**	**3,032**
Costs of materials and charges to revenue	-516	-331	-307	179	-975
Personnel expenses and pensions	-465	-72	-10	0	-547
Other operating expenses	-264	-136	-21	22	-400
TOTAL OPERATING EXPENSES before depreciation & amortization	**-1,245**	**-539**	**-338**	**201**	**-1,922**
TOTAL SEGMENT RESULT (1)	**569**	**530**	**12**	**0**	**1,110**
OPERATING INCOME before depreciation & amortization	**569**	**530**	**12**	**0**	**1,110**
Depreciation and amortization	-281	-107	-12	0	-399
OPERATING INCOME	**288**	**423**	**0**	**0**	**711**
Finance gains (net)					4
Tax expense					-207
NET INCOME					**507**
Minority interests					73
Net income (Group share)					434

(1) Operating income before depreciation and amortization and before non-recurring revenue and expenses

Limited review report

report of the INDEPENDENT auditor to the shareholders of BELGACOM SA DE DROIT PUBLIC / NV VAN PUBLIEK RECHT on the review of the interim condensed consolidated financial statements as of 30 jUNE 2006 and for the six months then ended

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Belgacom SA de droit public / NV van publiek recht (the "Company") as at 30 June 2006 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34") as adopted for use in the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of our Review

We conducted our review ("revue limitée/beperkt nazicht" as defined by the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren") in accordance with the recommendation of the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren" applicable to review engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the auditing standards of the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren" and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as adopted for use in the European Union.

Brussels, 24 August 2006

Ernst & Young Reviseurs d'Entreprises SCC/Bedrijfsrevisoren BCV
represented by

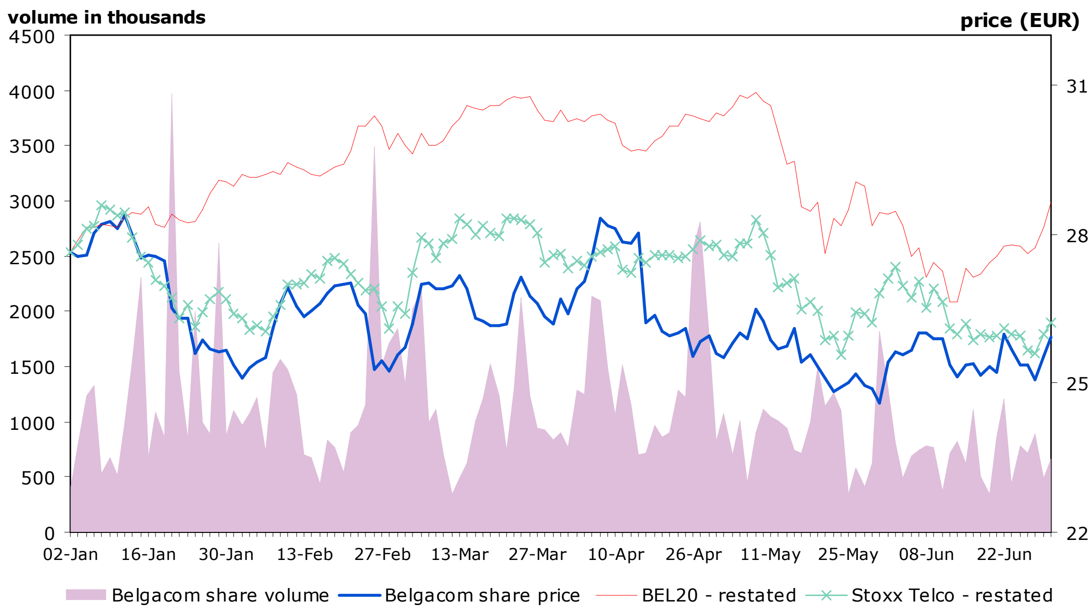
Marnix Van Dooren
Partner

Shareholder information

Belgacom shares on the stock market

Stock market:	First Market of Euronext Brussels
Ticker:	BELG
ISIN:	BE0003810273
National SVM code:	3810.27
Bloomberg code:	BELG BB
Reuters code:	BCOM

Belgacom share evolution over the first half of 2006



The average daily trading volume in the first six months of 2006 was 1,100,903 shares. The highest closing price was EUR 28.38 on 11 January 2006 while EUR 24.6 on 31 May 2006 was the lowest.

Treasury shares

At the end of June 2006 Belgacom owned 21,231,280 shares, representing 5.9% of the share capital. Treasury shares will be kept by the company to cover for existing and future employee incentive plans.

During the first half of 2006, 10,736 stock options were exercised at a price of EUR 24.5 and 138,549 treasury shares were bought by employees under a discount purchase plan offering a discount of 16.67%.

Treasury shares evolution	
Status 31 December 2005	21,380,565
Options exercised during the first semester 2006	-10.736
Discount Purchase Plan employees	-138.549
Status 30 June 2006	**21,231,280**

Ownership

Belgacom ownership	shares	% shares	%voting rights
Belgian State	180,887,569	50.0%	53.1%
Belgacom own shares	21,231,280	5.9%	0.0%
Free-Float	159,656,286	44.1%	46.9%
TOTAL	**361,775,135**	**100.0%**	**100.0%**

Time table

10 November 2006	Announcement of Q3 2006 result
11 April 2007	Annual Shareholder meeting
2 March 2007	Announcement of 2006 full year result

Quarterly overview

EUR millions	Quarters 2005				Quarters 2006	
	1	**2**	**3**	**4**	**1**	**2**
Group financials						
Total revenue before non-recurring items	1,339	1,370	1,388	1,361	1,507	1,525
Non-recurring revenue	238	0	0	0	0	0
Total revenue	1,577	1,370	1,388	1,361	1,507	1,525
EBITDA (1) before non-recurring items	575	578	557	503	545	565
EBITDA (1)	814	578	557	149	545	565
Depreciation and amortization	-168	-174	-189	-195	-196	-203
Operating income (EBIT)	646	404	369	-47	349	362
Net finance revenue	13	42	0	9	5	-1
Gain / (loss) from enterprises accounted for using the equity method	0	0	0	0	0	0
Income before taxes	659	446	369	-37	354	361
Tax expense	-128	-122	-112	23	-103	-104
Net income	532	323	257	-14	251	257
Minority interests	38	37	33	32	36	37
Net income (Group share)	494	286	224	-45	215	219
Revenue per business segment						
Fixed Line Services	753	746	724	739	909	905
Mobile Communications Services	530	555	553	543	527	542
International Carrier Services	158	175	200	180	172	178
Inter-segment eliminations	-102	-106	-89	-100	-101	-100
Total	1,339	1,370	1,388	1,361	1,507	1,525
EBITDA per business segment						
Fixed Line Services	300	298	294	256	277	292
Mobile Communications Services	272	272	253	244	264	266
International Carrier Services	4	9	11	3	5	7
Inter-segment eliminations	0	0	0	0	0	0
Total	575	578	557	503	545	565
Capital expenditures per business segment						
Fixed Line Services	53	74	200	161	74	117
Mobile Communications Services	47	49	35	64	46	47
International Carrier Services	7	2	2	9	0	2
Inter-segment eliminations	-6	0	0	0	0	0
Total	101	125	237	234	120	166

FLS revenue

EUR million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006	Q2 2006	2006
FLS Core	***750***	***741***	***723***	***737***	***2,951***	***728***	***741***	***1,469***
Voice Access	199	196	194	192	781	187	187	374
Voice Traffic	190	186	168	174	717	172	166	338
Internet	105	107	107	109	429	111	116	226
Data	52	53	53	57	215	53	54	107
Terminals	41	39	40	41	161	38	36	74
Other retail	65	61	65	52	244	53	66	119
National Wholesale	94	95	94	108	390	112	113	225
Others	3	4	2	5	15	3	3	5
Disposed companies	***3***	***5***	***0***	***0***	***8***	***0***	***0***	***0***
Telindus	***0***	***0***	***0***	***0***	***0***	***179***	***160***	***339***
Belgacom TV	***0***	***0***	***1***	***2***	***2***	***2***	***4***	***6***
Total revenue before non-recurring items	**753**	**746**	**724**	**739**	**2,961**	**909**	**905**	**1,814**

FLS operationals

Number of access channels (thousands)	**Q1 2005**	**Q2 2005**	**Q3 2005**	**Q4 2005**	**2005**	**Q1 2006**	**Q2 2006**	**2006**
Residential								
PSTN	3,145	3,102	3,073	3,064	3,064	3,042	2,988	2,988
ISDN	375	374	372	370	370	368	366	366
ADSL, VDSL	759	785	813	852	852	895	922	922
Total	**4,279**	**4,261**	**4,258**	**4,287**	**4,287**	**4,305**	**4,276**	**4,276**
Business								
PSTN	263	261	259	254	254	252	250	250
ISDN	597	591	589	585	585	585	584	584
ADSL, VDSL	111	116	119	125	125	130	135	135
Total	**971**	**968**	**967**	**964**	**964**	**967**	**969**	**969**
Traffic (millions of minutes)								
Residential								
National	1,249	1,171	1,171	1,358	4,949	1,406	1,326	2,732
Fixed to Mobile	199	208	193	203	803	198	203	401
International	91	88	84	89	352	90	87	177
Total	**1,539**	**1,468**	**1,448**	**1,650**	**6,105**	**1,694**	**1,616**	**3,310**
Business								
National	531	510	449	476	1,966	492	454	945
Fixed to Mobile	130	132	119	125	505	127	123	250
International	104	105	93	94	397	98	93	191
Total	**765**	**747**	**661**	**695**	**2,868**	**717**	**670**	**1,387**
ARPU (EUR)								
ARPU Voice Access	14.6	14.5	14.5	14.5	14.5	14.2	14.3	14.3
ARPU Voice Traffic	14.2	13.9	12.7	13.3	13.5	13.3	13.0	13.2
ARPU ADSL Residential	33.3	33.4	32.7	31.9	32.7	30.7	31.8	31.4
ARPU Net Belgacom TV	-	-	n.r.	n.r.	n.r.	11.9	10.1	10.9

MCS Revenues

EUR million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006	Q2 2006	2006
Voice services	444	473	472	450	1,839	441	461	902
Data services	85	91	96	92	364	92	96	188
Total Service revenue	**529**	**565**	**568**	**542**	**2,203**	**533**	**557**	**1,090**
Credits and discounts	-21	-34	-42	-29	-126	-33	-43	-76
Net Service revenue	**508**	**530**	**525**	**513**	**2,077**	**500**	**514**	**1,014**
Handsets	18	20	23	26	87	22	23	45
Other revenue	4	4	5	4	17	4	5	9
Total revenue	**530**	**555**	**553**	**543**	**2,181**	**527**	**542**	**1,069**

MCS Operationals

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006	Q2 2006	2006
Number of active customers (in thousands)	4,195	4,214	4,228	4,253	4,253	4,260	4,253	4,253
Prepaid	2,485	2,492	2,485	2,475	2,475	2,447	2,407	2,407
Postpaid	1,710	1,722	1,742	1,778	1,778	1,813	1,846	1,846
Active customers as % of total customers	97.7%	97.8%	98.0%	98.2%	97.9%	98.2%	97.9%	98.0%
Annualized churn rate (blended - var. in pp)	18.1%	16.1%	16.2%	16.2%	16.6%	15.6%	15.1%	15.4%
ARPU (in EUR)								
Prepaid	19.3	20.3	21.1	19.1	19.9	18.3	20.2	19.2
Postpaid	69.1	74.8	73.5	70.3	71.9	69.3	69.7	69.5
Blended	39.6	42.5	42.5	40.3	41.2	39.8	41.5	40.7
Blended voice	33.1	35.5	35.3	33.4	34.3	32.9	34.3	33.6
Blended data	6.5	7.0	7.3	6.9	6.9	6.9	7.2	7.1
Net ARPU(in EUR)								
Prepaid	18.1	18.0	18.3	18.1	18.1	17.1	17.9	17.5
Postpaid	66.9	71.4	69.4	66.2	68.5	64.8	65.0	64.9
Blended	38.0	39.8	39.2	38.0	38.7	37.2	38.2	37.7
Market share of active customers								
Prepaid	45.9%	45.9%	46.0%	46.6%	46.6%	46.1%	46.1%	46.1%
Postpaid	54.2%	53.3%	52.5%	51.1%	51.1%	50.5%	49.0%	49.0%
Total	48.9%	48.7%	48.5%	48.4%	48.4%	47.9%	47.3%	47.3%
UoU(units)	208.7	221.2	210.9	214.3	213.6	208.6	218.6	213.6
MoU (min)	162.6	172.7	162.3	165.6	165.8	160.6	169.1	164.9
SMS (units)	46.0	48.4	48.6	48.7	47.8	48.0	49.5	48.7

ICS revenue

EUR million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	2005	Q1 2006	Q2 2006	2006
Voice	151	169	186	169	675	163	167	330
Non Voice	7	6	14	10	38	9	10	20
Total revenues	**158**	**175**	**200**	**180**	**713**	**172**	**178**	**350**

ICS operationals

in billion of minutes	Q1 2005	Q2 2005	Q3 2005 (*)	Q4 2005 (*)	2005	Q1 2006 (*)	Q2 2006 (*)	2006 (*)
TOTAL	**1.72**	**1.86**	**3.07**	**2.93**	**9.57**	**2.87**	**2.92**	**5.79**
Total fixed	0.86	0.88	1.60	1.59	4.94	1.55	1.47	3.02
Total mobile	0.86	0.97	1.46	1.33	4.63	1.31	1.45	2.77

(*) BICS volumes included at 100%, for the comparison

General information

Investor relations

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B-1030 Brussels, Belgium
Tel.: + 32 2 202 41 11
VAT BE 202.239.951
Brussels Register of Legal Entities
Brussels Trade Registry 587.163

Date of constitution – Legal form
The transformation of Belgacom into a *"société anonyme"* (limited liability company) under public law was implemented by the Royal Decree of 16 December 1994, which was published in the Official Gazette on 22 December 1994, and became effective that same day.