

**REPORT BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING OF  
SHAREHOLDERS ON 14 APRIL 2010 ON THE ANNUAL ACCOUNTS OF BELGACOM S.A.  
UNDER PUBLIC LAW AS AT 31 DECEMBER 2009**

Dear Shareholders,

We have the pleasure of reporting on the operations in the 2009 financial year and of submitting, for your approval, the annual accounts closed as of 31 December 2009.

We first discuss the development of Belgacom in 2009 and of early 2010 and then examine the results for the 2009 financial year. We also report on the most important risks and uncertainties, on the use of financial instruments, on the evolution in research and development activities, on the branches, on information about the remuneration of members of the governing bodies, on information about the remuneration of the Belgacom Management Committee and on the positions of conflicting interest.

**Development of Belgacom in 2009 and of early 2010**

The capital of Belgacom Invest SàRL has been decreased end 2009. This capital decrease of € 3,919.5 million takes place in the framework of the convergence strategy and has an important impact on the financial fixed assets and the other amounts receivable.

The amounts paid out in 2009 for the BeST program, the social agreement 2005 in respect of the work organization and the external mobility projects with the federal government decreased the provision for reorganization costs.

The payment of the dividend of 2008 and the interim dividend of 2009 were primarily financed with new debt, which results in an increase of the total financial debts.

To realize the convergence strategy and to have the necessary flexibility to be able to respond quickly to the competition and the evolutions of the market, the Belgacom Board of Directors approved on 22 October 2009, the further integration of the Belgian subsidiaries of the Belgacom Group in Belgacom S.A.. This concerns Belgacom S.A., Belgacom Mobile S.A., Telindus Group S.A. (only the national activities), Telindus S.A., Telindus Sourcing S.A. and Belgacom Skynet S.A..

On 4 January 2010, the shareholders' meetings of Belgacom and the subsidiaries concerned formally approved this integration in a single legal entity. The "new" Belgacom will be more innovative and closer to its markets. It will offer even better "total solutions" in the future, which are perfectly adapted to the needs of customers. The different brands continue to exist.

On the same day € 5,500.0 million of short term loans have been transformed into long term debt. This refinancing realises a better tuning between the term of the debt on the one hand and the average lifespan of the fixed assets on the other.

*Right and commitments not accrued in the balance sheet*

Belgacom guarantees third-party commitments - mainly within the framework of the leasing contracts entered into by the Belgacom Group - for an amount of € 69 million. Moreover, Belgacom has the right to issue Commercial Paper for a total of € 1,000 million and Euro Medium Term Notes for a total of € 2,500 million. Belgacom has also issued a parent guarantee to cover the unlimited obligation of Belgacom Skynet towards important distributors of movies.

**Results of the 2009 financial year**

The increased competition from fixed-line and mobile operators in traditional telephony and the new mobile termination rates negatively affected the operating income. The turnover for broadband services and digital television have known a further increase. Because of these elements, the decrease of the turnover was limited to 0.9 %.

In 2009 Belgacom International Carrier Services S.A., the international traffic affiliate of the Belgacom Group, has distributed a dividend of € 74.4 million.

The financial charges have been influenced by a decrease of the interest rate for short term loans.

The extraordinary results primarily originate from the actualisations of the provisions for personnel restructuring plans and the write down on financial fixed assets.

The profit for the 2009 financial year amounts to € 244.4 million, compared to € 140.7 million in 2008.

**Appropriation account**

After the processing of untaxed reserves, the profit available for distribution amounts to € 245,749 thousand. We propose the following appropriation (in € thousands):

Profit of the period available for appropriation	245,749
Net transfers from the reserves	433,653
Profit to be distributed	679,402
Return on capital (dividends)	667,197
Other allocations (personnel)	12,205

**Most important risk and uncertainties**

Belgacom's operating profit and net profit may decline if growth in the Belgian telecommunications market continues to slow down. The persistently strong competition in the Belgian market from cable companies and mobile operators who want to push through their "cut-the-fixed-line" strategy could result in a loss of market share. However, Belgacom is taking the necessary measures to stay competitive. These measures could lead to reduced rates, through additional promotions or other means. Belgacom will also continue to pursue a strict cost control policy.

Moreover, Belgacom attaches great importance to a high-quality network, such as the broadband network, which is being renewed with fiber to the street cabinet. This is producing a strong increase in capacity, which allows new products and services, including TV services, to be developed. This in turn will enable Belgacom to retain current customers and attract new ones. The need for the development and implementation of new technologies may oblige Belgacom to make significant additional investments.

Certain rates for fixed-line and mobile telephony are determined by or are subject to the approval of the B.I.P.T., which could have an impact on the pricing, turnover and operating profits.

Although the telecom sector does not appear to be strongly affected by the current economic crisis, it cannot be ruled out that a persistent weakening of the Belgian economy could have an impact on Belgacom's operating income.

## Use of financial instruments

Belgacom is exposed to market risks, including interest rate risk and foreign exchange rate risks, associated with underlying assets, liabilities and anticipated transactions. Based on analysis of these exposures, Belgacom selectively enters into derivatives to manage the related risk exposures.

Belgacom manages its exposure to changes in interest rates and its overall cost of financing by using amongst other interest rate swaps (IRS), interest rate and currency swaps (IRCS) and forward rate agreements (FRA). These financial instruments are used to transform the interest rate exposure from a fixed to a floating interest rate or vice versa.

Belgacom's currency exposures relate to financial debts that have to be paid in foreign currency and to operational activities in foreign currencies that are not "naturally" hedged. In order to hedge the currency exposure, Belgacom frequently uses derivatives such as IRS, IRCS, currency options and forward foreign exchange contracts.

Belgacom could be exposed to credit losses in the event of non-performance by a counterparty on derivatives. Belgacom as a rule does not require collateral or other security from counterparties as these are highly rated financial institutions.

## Evolution in research and development activities

In general, the research and development activities cover 4 key steps in the adoption cycle of a technology or a service based on technology:

- Study of the technology's potential: determination of the technological and commercial opportunities and its positioning in the technology portfolio;
- Introduction of the technology: as the technology is selected, an engineered solution is necessary for deployment, exploitation and day-to-day management;
- Evolution of the technology: once deployed, the technology will continue to evolve in accordance with its potential and market demand;
- The preparation of the introduction of new services.

In 2009, the research and development activities covered the following:

- Study of the potential of new technologies:
  - The study of the opportunities raised by IP technology that have become ubiquitous in all types of networks and services e.g.: Ethernet backhauling, Access Gateway to replace the old technologies supporting voice services (PSTN, ISDN);
  - Fibre to the Home study (FTTH) to examine different architecture and deployment scenarios. A first trial was made in the city of Rochefort, other trials are in preparation;
  - Environment (Green): the environmental impact of the technologies used by Belgacom is studied to define our action plan in order to achieve our CSR objectives;
  - Smart Metering: new technologies were tested together with a energy service supplier concerning the putting in service of smart meters in the consumer environment.
- Introduction of new technologies:
  - IMS (IP Multimedia Subsystems): the first developments executed on this platform will support all the future voice services (Voice over IP...);
  - Important IT projects have been launched aiming at improving the customer experience by offering more interactivity and more flexibility. They also contribute at reducing the troubleshooting time and facilitating the fixed-mobile convergence;

- Continuing research in the context of the Belgium HF project to develop ICT means in order to better foresee heart attacks.
- Evolution of the technology in terms of improvement and existing services extension such as:
  - The IPTV platform (TV over IP) : following on from the High-Definition television, this platform continues to enrich the functionalities to improve the customer experience;
  - VDSL2: this technology continues to be deployed and additional functionalities are being developed to improve its potential.
- The preparation of the introduction of new services:
  - Technical pilot projects were deployed in the framework of mobile payment. Different pilot projects in several sectors were set up in order to prepare a commercial launch.

Belgacom collaborates with universities, industrial partners and several other bodies, such as I.B.B.T. (Interdisciplinair Instituut voor Breedband Technologie) and the H.G.I. (Home Gateway Initiative forum).

Belgacom has centralized several activities concerning research and development, that were executed in its affiliates (Belgacom Mobile as well as Telindus), into one entity that reports to Group Strategy.

## **Branches**

Belgacom has a branch in the Grand Duchy of Luxemburg, which was established in 2002. This branch is responsible for the management of Luxemburg financial assets. For this purpose, Belgacom has allocated its shares in Belgacom Finance S.A. to this branch.

## **Information about the remuneration of members of the governing bodies**

The remuneration and compensation of the directors has been decided by the General Meeting of 2004. The calculation of this compensation has not changed in 2009: an annual fixed compensation of € 50,000 for the Chairman of the Board of Directors and of € 25,000 for the other members of the Board of Directors, with the exception of the President & CEO, is foreseen. All members of the Board of Directors, with the exception of the President & CEO, have the right to an attendance fee of € 5,000 per attended meeting of the Board of Directors as well as to an allowance of € 2,000 per year to cover communications costs. Finally attendance fees of € 2,500 have been foreseen for each member, with the exception of the President & CEO, per attended meeting of an advising committee to the Board of Directors. For the Chairmen, these attendance fees are doubled. For the Chairman of the Board of Directors, the allowance for communications costs is also doubled.

In 2009 Belgacom organized 5 Board of Directors meetings (Board), 5 meetings of the Audit and Compliance Committee (ACC), 5 meetings of the Nomination and Remuneration Committee (NRC) and 1 meeting of the Strategic and Business Development Committee (SBDC). The Board of Directors in its meeting of 30 July 2009 decided to create an ad hoc Committee, consisting of the members of the Nomination and Remuneration Committee extended with the Chairman of the Audit & Compliance Committee in order to prepare the Board's position with respect to the investigation of the CBFA on the misuse of privileged information.

Given the attendance at Board and Committee meetings this results in the following remuneration for the members of the Board of Directors:

Name	Board (total 5)	ACC (total 5)	NRC (total 5)	Ad hoc Ctee (total 1)	SBDC (total 1)	Total Remuneration
Theo DILISSEN	4/5		4/5	1/1	1/1	124,000 €
Didier BELLENS	5/5				1/1	0 €
Jozef CORNU	4/5					40,750 €
Guido J.M. DEMUYNCK	5/5				1/1	54,500 €
Pierre-Alain DE SMEDT	5/5	5/5				64,500 €
Carine DOUTRELEPONT	5/5					52,000 €
Martine DUREZ	5/5		5/5	1/1		67,000 €
Philip HAMPTON	4/5	5/5		1/1		74,500 €
Georges JACOBS	5/5		5/5	1/1		67,000 €
Mimi LAMOTE	5/5					52,000 €
Michel MOLL	5/5	4/5				67,000 €
Oren G. SHAFFER	5/5	5/5			1/1	67,000 €
Michèle SIOEN	4/5					47,000 €
Robert TOLLET (*)	2/5				1/1	33,250 €
Lutgart VAN den BERGHE	5/5		5/5	1/1		67,000 €
Paul VAN de PERRE	5/5	5/5				64,500 €

(\*) End of mandate 30/09/2009

## Information about the remuneration of members of the Belgacom Management Committee (BMC)

The amount of remuneration and other benefits granted directly or indirectly to the President & CEO and the members of the Belgacom Management Committee comprises following components: basic and variable remuneration, group insurance premiums, other benefits and share-based remuneration.

For 2009 the following amounts were paid to the President & CEO: 1.328.948,70 € in basic remuneration, 481.428,36 € in variable remuneration, 106.860,01 € in group insurance premiums, 10.176,80 € in other benefits and 475.972,12 € in share-based remuneration (employers' social security cost included).

For 2009 the following amounts were paid to the members of the Belgacom Management Committee: 3,124,986.78 € in basic remuneration, 1,067,656.03 € in variable remuneration, 551,880.91 € in group insurance premiums, 207,952.89 € in other benefits and 906,245.86 € in share-based remuneration (employers' social security cost included).

The members of the Belgacom Management Committee, other than the President & CEO, are Mrs. A. De Lathauwer and Mrs. R. Stewart, S. Alcott, M. Georgis, M. De Coster and G. Dallemagne.

In annex 1 you can find the activity report of the Nomination and Remuneration Committee.

Belgacom has, on its own initiative, appointed members of the BMC and of its staff to offices in companies, groups and organisms in which it has holdings and is involved. Such offices are unpaid. A list of the persons concerned is given in Annex 2.

**Position of conflicting interest**

Mr. Didier Bellens declared, during the Board of Directors of 5 March 2009 to have a conflict of interest in connection with the employee incentive plans, item of the agenda of this Board meeting. In accordance with article 523 of the Belgian Companies Code, the minutes of this meeting are included in annex 3.

At the Board of Directors' meeting of 30 July 2009, and at the request of Belgacom's Chairman, the President & CEO, Mr. Didier Bellens, informed the Board that at the time Belgacom decided to launch a public take-over bid on Telindus in the summer of 2005, his estate contained a small investment (14.000 shares) in Telindus. Mr. Bellens declared that : "given the amounts involved, his personal interest was not sufficient enough to influence his voting behaviour at the Board meetings of 29 September 2005 and 15 December 2005, when the decision to launch a take-over bid on Telindus was taken and that, consequently, there was no obligation to apply the rules of Article 523 of the Companies Code. Moreover, these circumstances have had no unfavourable financial impact whatsoever on Belgacom".

**In conclusion**

We would like to propose that you approve the annual accounts as they are presented herein and respectfully request that you grant discharges to the directors and auditors of the annual accounts for the execution of their mandate during the past financial year.

We would also request that you grant a special discharge to Mr. Robert Toilet whose mandate ended on 30 September 2009.

On recommendation of the Nomination & Remuneration Committee we would suggest to nominate in accordance with article 18 of the bylaws, Mr. Pierre Alain De Smedt and Mrs. Lutgart Van den Berghe as candidates for member of the Board of Directors for a period which will expire on the date the Annual General Meeting is held in 2016.

**Terms of office****Board members**

The mandate of Mr. D.Bellens as President & CEO has been extended for a renewable term of six years by Royal Decree of 16 December 2008. This mandate will expire on 28 February 2015.

The mandate of Mr. T. Dilissen as member of the Board has been extended for a renewable term of six years by Royal Decree of 11 March 2009. This mandate will expire on 28 February 2015. His mandate as Chairman was renewed for a renewable period of three years which will end on 29 February 2012.

The terms of office of Mrs. M. Durez, Mrs. M. Lamote, Mrs. M. Sioen and Messrs. M. Moll and P. Van de Perre will come to an end on 23 December 2012.

The terms of office of Mrs. C. Doutrelepont and Messrs. G. Jacobs, O. Shaffer and G.J.M. Demuynck, will expire on the date of the 2013 annual general meeting.

The terms of office of Mr. J. Cornu will expire on the date of the 2015 annual general meeting.

The term of office of Mrs. L. Van den Berghe and Messrs. Ph. Hampton and P-A. De Smedt will expire on the date of the 2010 annual general meeting.

## Members of the Joint Auditors

Ernst & Young Statutory Auditors SCCRL and Callens, Guevar, Van Impe & Co SCCRL: mandate will expire on the date of the 2010 annual general meeting.

We would suggest to appoint Deloitte Statutory Auditors SC sfd SCRL, Berkenlaan 8a, 1831 Diegem, represented by Mr. Geert Verstraeten and Luc Callaert SC sfd SPRLU, Zwaluwstraat 132, 1840 Londerzeel, represented by Luc Callaert, for the statutory audit mandate of Belgacom S.A. for a six-year period, which shall expire when the Annual General Meeting is held in 2016. We also propose to set the remuneration of the auditors at respectively € 220,000 and € 20,000 (to be indexed annually).

Mr. Rion: mandate will expire on the date of the 2010 annual general meeting.

Mr. Lesage: mandate will expire on June 30, 2014.

## Term of office of the auditor responsible for certification of the consolidated accounts for the Belgacom Group

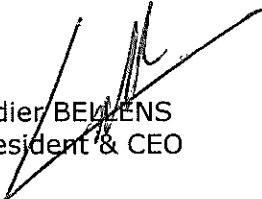
As the Board of Directors wishes to appoint Deloitte Statutory Auditors SC sfd SCRL not only for the statutory accounts of the mother company Belgacom S.A. but also for all the companies that are part of the Belgacom Group, and the actual auditor Ernst & Young Réviseurs d'entreprise/Bedrijfsrevisoren SCCRL, De Kleetlaan 2 in 1831 Diegem, represented by Mr. M. Van Dooren, has agreed to comply with the request of the Board of Directors to prematurely put the mandate of the certification of the consolidated annual accounts at our disposal, we propose to the General Annual Meeting to early withdraw this mandate.

We would suggest to appoint Deloitte Statutory Auditors SC sfd SCRL represented by Mr. G. Verstraeten and Mr. L. Van Coppenolle for the consolidated audit mandate of Belgacom S.A. for a period of 3 years, which expires at the annual general meeting of 2013. We also propose to fix the remuneration of the auditor at € 280,000 per year (to be indexed annually).

Lastly, we inform the General Annual Meeting of the decision of the General Meeting of the Court of Auditors on 10 February 2010, extending Mr. Rion's appointment as a member of the Board of Auditors of Belgacom S.A. de droit public/N.V. van publiek recht, for another six-year term.

Yours truly,

On behalf of the Board of Directors,  
Brussels, 25 February 2010.



Didier BELLENS  
President & CEO



Theo DILISSEN  
Chairman of the Board of Directors

Annex 1: Activity report of the Nomination and Remuneration Committee for 2009.

Annex 2: List of members of the Belgacom Management Committee and members of the company's staff that hold offices in companies, groups and bodies in which Belgacom has holdings and is involved.

Annex 3: Position of conflicting interest in connection with the employee incentive plans (minutes of the meeting of the Board of Directors of 5 March 2009)

**Annex 1****Activity Report of the Nomination & Remuneration Committee****Year 2009**

In 2009, the Nomination & Remuneration Committee had 5 meetings.

The composition of the Nomination & Remuneration Committee has remained unchanged compared to 2008. Mr. Theo Dilissen (chairman), Ms. Martine Durez, Mr. Georges Jacobs and Ms. Lutgart Van den Berghe are the members of the Nomination & Remuneration Committee.

**Activities in 2009****1. Nomination & remuneration of the Board of Directors**

The Committee advised the Board in connection with the requested profile and the procedure to follow for the appointment of Mr. Jozef Cornu as Board member.

**2. Nomination & remuneration of the Belgacom Management Committee (BMC)**

The Committee advised the Board in connection with the evaluation of the President & CEO and the members of the Belgacom Management Committee (BMC).

**3. Remuneration Plans**

The Committee advised the Board in connection with:

- ❑ the key performance indicators for the performance year 2010;
- ❑ the salary increase budget for 2010;
- ❑ the Long Term and Short Term Incentive Plans for CEO, BMC, TGR (Top Group Resources) and a limited number of non-TGRs;
- ❑ the review of remuneration policies for BMC and TGR members;
- ❑ the extension of the stock option plans in execution of the Economic Revival Law of 27 March 2009.

**4. Policy on Personnel**

The Committee closely followed up the HR strategy and plan for 2010, especially the social stability and the negotiations with the Unions, the competencies and performance, the employee satisfaction and the remuneration and cost control.

The Committee reviewed the methodology for the assessment and succession planning of the BMC and performed a competitive assessment for the total remuneration of BMC members and TGR's.

The Committee advised the Board in connection with the new remuneration policy for level 1 and sales in order to facilitate the integration of Telindus and Belgacom Mobile into Belgacom.



**5. Corporate Governance**

The Committee advised the Board in connection with:

- the Corporate Governance section of the Annual report;
- the update of the Corporate Governance Charter, the Charter of the Board and of the Committees.

The Committee formed, together with the Chairman of the Audit and Compliance Committee, an "ad hoc Committee" that prepared the position of the Board in relation to the CBFA investigation on a possible misuse of privileged information with respect to the acquisition by the company of Telindus in 2005.



Theo Dilissen  
Chairman of the Nomination & Remuneration Committee

**Annex 2**

**PARTICIPATIONS - BELGACOM  
(mandate not remunerated)**

PARTICIPATIONS	MEMBERS on 31/12/2009
BELGACOM MOBILE S.A.	D. Bellens R. Stewart M. Georgis S. Alcott G. Dallemagne
BELGACOM GROUP INTERNATIONAL SERVICES S.A.	R. Stewart G. Geerkens G. Kerremans P. Neyt
BELGACOM OPAL S.A.	E. Van Den Berghe O. Moumal D. Lybaert
BELGACOM INTERNATIONAL CARRIER SERVICES (BICS) S.A.	D. Bellens R. Stewart W. Mosseray D. Lybaert S. Alcott
TELINDUS GROUP S.A.	S. Alcott D. Bellens K. Verheye W. Mosseray R. Stewart M. De Coster
CONNECTIMMO S.A.	J. Joos O. Moumal P. Neyt S. Van Casteren
BELDISCOM S.A.	F. de Braey Ph. Lepage G. Van den Abeele
BELGACOM W S.A. in liquidation	K. Bosmans
FINBEL RE S.A.	O. Moumal L. Kervyn de Meerendré G. Kerremans
BELGACOM FINANCE S.A.	L. Kervyn de Meerendré O. Moumal G. Kerremans

PARTICIPATIONS	MEMBERS on 31/12/2009
BELGACOM INVEST Sàrl	O. Moumal G. Dallemagne
BELGACOM DEVELOPMENT S.A.	G. Kerremans
BELGACOM SKYNET S.A.	J-C. De Keyser Ph. Lepage M. Georgis
MOBILE-FOR S.A.	S. Vander Plaetse G. Geerkens K. Vervaet
SCARLET S.A. (Nederland)	D. Bellens R. Stewart M. Georgis S. Alcott
TANGO FIXED S.A.	M. Georgis D. Bellens G. Dallemagne M. De Coster L. Kervyn de Meerendré
TANGO MOBILE S.A.	M. Georgis D. Bellens G. Dallemagne M. De Coster L. Kervyn de Meerendré
TANGO SERVICES S.A.	M. Georgis D. Bellens G. Dallemagne M. De Coster L. Kervyn de Meerendré
SAHARA INTERNATIONAL VENTURES S.A. (Nederland)	R. Stewart G. Dallemagne S. Alcott
TUNZ.COM	S. Vander Plaetse G. Geerkens
BGC «VENTURE» PARTICIPATIONS M-Brussels (B) Pefa-Com (B) Info2Clear (B) Explio (B)	D. Lybaert

## **Annex 3**

### **Minutes of the meeting of the Board of Directors of 5 March 2009**

#### **Chairman's debriefing on Board Committees**

##### President & CEO

Before starting the next deliberation, Mr. D. Bellens makes the following conflict of interest statement, which is recorded in the minutes, upon which he leaves the room.

In accordance with article 523 of the Belgian Companies Code, the President & CEO, Mr. Didier Bellens, declares to have a conflict of interest in connection with the Employee Incentive Plans item of the agenda of the present Board meeting and more especially on the determination of the Short & Long Term Incentives granted to him under the Plan 2008.

Mr. D. Bellens requests the Board to take note of his statement in this respect and to include the necessary statements in the management report of Belgacom relating to accounting year 2009.

Mr. D. Bellens shall also inform the auditor of Belgacom of this conflict of interest.

Mr. D. Bellens voluntarily decides not to participate in the deliberation and voting on such items on the agenda and leaves the meeting for the agenda items impacted by this conflict of interest statement and situation.

After discussion and upon recommendation of the Nomination & Remuneration Committee the Board decides to grant an amount of 481,329 € for the short term incentives and an amount of 475,975 € for the long term incentives to the President & CEO.

For 2009, the Board mandates the Chairman to discuss the objectives that will determine the individual performance.