

Company: Belgacom SA
Conference Title: Half-Year Results 2009
Presenters: Nancy Goossens
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Operator: Good morning, ladies and gentlemen, and welcome to today's Belgacom 2009 Half Year Results Conference Call. For your information, today's conference is being recorded. At this time I would like to turn the call over to your host today, Mr Didier Bellens; please go ahead, sir.

Didier Bellens: Good afternoon; welcome to our conference call on our Half Year results of 2009. As usual, my colleagues on the Management Committee have joined me for this call, and we will be all very happy to answer your questions, once the Q&A line is open. I'm sure you all have gone through the results in detail, so I will just keep my introduction to a couple of highlights. First of all, I am very proud we can announce a set of solid results, especially seeing the challenging economic environment we operate in. Our recorded Group revenue grew by 1.4% compared to last year. Even if we exclude the impact from acquisitions and divestments, our revenue is slightly growing. As we predicted, the residential part of our business is showing good resilience to the crisis. CBU do not show any significant impact from the slow economy.

The impact of the crisis on our enterprise business unit is also within our expectations with some weakness in the IT domain, and a slowdown in the mobile usage.

Our international carrier service continued with very strong revenue increase, with year-over-year revenues growing 18%, and also growing its margin now close to double digits. In terms of revenue, the ICS business now represents about 15% of our Group revenue. As far as the operational costs are concerned, I am very pleased to see that the strategy decisions that we have taken are showing a visible positive

impact. Our non HR expenses are down by more than 2%, on a comparable basis, which means a reduction by more than 4%. This proves that our strong refocus on costs since the start of this year, but also the measures that we have taken in the past are paying off. We are therefore comfortable in keeping our commitments to end the year with organic costs between 4 and 5% lower than in 2008.

I am also proud to see that the past and ongoing headcount reduction programmes enable us to report today flat headcount cost, knowing that salaries were impacted by the indexation from 2008. Here too we keep our commitments to end the year with flat personnel costs compared to 2008. Our efforts on the costs side will also help to mitigate the impact on our margin, from the higher sales related cost. End of June, our EBITDA margin was 33.2%. All these things considered, we feel comfortable in reiterating our 2009 full year guidance on all metrics. This means that we foresee our recorded results before non-recurring items to be as follows: group revenue decline of about 1%; EBITDA margin between 32 and 33%; capex to revenue ratio between 10 and 11%. Now I would like to open the line for the Q&A session. Thank you.

Operator: The question and answer session will be conducted electronically. If you would like to ask a question, please press *1 on your telephone key pad; please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. As a reminder, please ensure you mute your line when not speaking, and to switch off any mobile phones to avoid any interference. In order to give everyone the opportunity to ask a question, please limit your questions to two. Also, please ensure you pose your question clearly. If you find that your question has been answered, you may remove yourself from the queue by pressing *2. We will pause for just a moment to allow everyone to signal for questions.

Our first question comes from Paul Sidney from Credit Suisse; please go ahead.

Paul Sidney: Would Belgacom consider subsidising handsets in the future, following a law change in Belgium and what does Belgacom believe would be the impact of the potential

introduction of handset subsidies, particularly on margins, if one of the players would react, or even Telenet would use handset subsidy as a way of gaining market share very quickly?

Didier Bellens: Michel, on handset subsidies.

Michel Georgis: I would say that the first thing that we wait is a fair and clear legal framework regarding joint offers; for sure that we are prepared to launch joint offers that create value and keep costs under control. Our focus is clearly on retention, as well as containing our acquisition costs, so we need to find the right balance between those two elements. It is sure that the Belgium market will change with device subsidisation, but we believe that with all the control distribution in Belgium we are well placed to have an important hold in this new model. Also, the fact that we entered quite late compared to our European peers in the joint offers should help us also to not repeat the mistakes that have been made in some other markets, where we saw a quite important increase of cost of acquisition and at the same time, also a spectacular increase of churn.

Operator: Our next question comes from Bertrand Kuentzler from ING; please go ahead.

Bertrand Kuentzler: Two questions from my side: first of all, maybe you could just give us a small update regarding the evolution of the broadband markets. How do you see the evolution of wholesale broadband and volume cable for instance over the past two or three quarters? Also a question regarding the deal with MTN; what kind of advantage you see? Do you think you could possibly improve your gross margin through that, or access larger customers internationally?

Didier Bellens: The second question is for Daniel and the first for Michel.

Michel Georgis: I will start then, with broadband; I would say that as usual, the Second Quarter is a low quarter in terms of sales. We sold 23,000 net adds – we did, for the consumer side, for the first part of the year. We are quite confident that we can continue to grow in the residential broadband market in Belgium. We also are strong believers

that a combination of fixed broadband and mobile internet can also boost our broadband total Group revenue. We also believe that with the acquisition of Scarlet, as already mentioned, we have some opportunity in terms of segmentation to attract some customers that were difficult to the low cost part of the market that with Scarlet should be able to reach in the coming months.

Daniel Kurgan: Good afternoon – as far as the MTN deal is concerned, for Belgacom ICS, it further increases our exposure to the African and Middle East markets, where in many cases, the voice prices, interconnection prices are higher than in the mature markets and there is more growth. We expect overall, a slightly positive impact is being sensed. Some of these markets are already very competitive, and the carrier market is very competitive as well, so it's never going to increase massively the margin percentage point.

Operator: Our next question comes from Akhil Dattani from JP Morgan; please go ahead.

Akhil Dattani: Two questions please – firstly, just on your guidance: at the H1 stage, you're clearly running comfortably ahead on both revenues and EBITDA. I appreciate that going into H2 from Q3, your acquisition impact unwinds, and I guess you have relatively tough comp when it comes to the ICS division in Q4. I'd be interested to get your comments in terms of whether you now think that the guidance targets you have are relatively comfortably achievable, or whether maybe you could comment on whether you think that you're more likely to come towards the higher end, particularly when it comes to margins. Secondly, it's been a while since we've had an update from the regulator on termination rates. I wondered whether you would be able to offer some comments in terms of when you expect a glide path to be announced, and whether through a conversation with the regulator, you have any sense for what the expectations might be.

Didier Bellens: For guidance it's Ray, and termination will be Grégoire Dallemagne.

Ray Stewart: On the guidance, you did a good job of framing it because what you pointed out is some of the things that will drive us, I think, to be definitely in the range of the guidance that we provided at the end of the year, and we reiterated at the second

half. In terms of where we are in the guidance, if I had that same question at the press conference – it's tough enough to try to forecast and do guidance, especially when you've only got a 1% spread to talk about whether you're going to be in the upper or lower end of the guidance, and it's not a slam dunk. We're going to have to stay focussed for the second half of the year, both on the revenue and the cost side, to deliver that guidance, so it isn't like it's on the auto pilot. As Didier said, we felt comfortable reiterating the guidance, but we're still going to have to work hard at it.

Grégoire Dallemagne: When it comes to mobile termination rates, you know that in May, the European Commission has adopted a recommendation for the MTR and it's aiming at MTR between 1.5 and 3 Euro Cents by 2012, and they also strongly support symmetry, meaning the same rates for everyone, except for a very short period after the launch of the new operator of the market and they even indicate just four years. As you know, we are pleading for symmetric rates in Belgium, actively. We hope for movement in the coming quarters. We expect in Q3 or 4 that the BIPT will issue a draft decision. It remains to be seen when it will come into practice, and when it comes to the level of the MTR, it's difficult for us to predict at this stage, but we believe and expect that it will be in the frame of what is recommended by the European Commission.

Operator: Our next question comes from Dimitri Kallianiotis from Citi; please go ahead.

Dimitri Kallianiotis: I've got two questions: the first one is on opex. You've done a very good job at cutting opex; shall we expect opex reductions to accelerate as the headcount comes down since we should see an acceleration in the rate of natural attrition? My second question is again just on broadband. What are your expectations in terms of growth there, because obviously Q2 was pretty weak? Do you think it's just really a seasonal impact, or do you think that structurally now, the market is pretty much ex-growth in Belgium?

Didier Bellens: Michel, will you take broadband.

Michel Georgis: Yes, I confirm that Quarter 2 is linked to seasonality, look at Quarter 2 2008 and we are quite confident that there is still growth potential for broadband in Belgium. I see, for example, that in the context of the recent launch of bundles, packs with free TV – we got there some promising results, so we see still some growth for the future.

Ray Stewart: On the opex, we don't see any acceleration of it. We'll continue to stay focused on the cost control. Didier talked about it in his remarks, he said we're trying to make the non HR organic opex to be down 4-5% year-over-year, and I think in the first half, we were in that range, and so in the second half we'll be there. We don't see headcount attrition or anything like that accelerating in the second half of the year.

Citi: But for next year do you expect headcount to fall more than this year?

Ray Stewart: We'll talk to you about next year towards the end of this year. We've not given any guidance for next year yet. It's still kind of early.

Operator: Our next question comes from Bart Jooris from BNP Paribas Fortis; please go ahead.

Bart Jooris: I have also two questions and an updated question on broadband. In the Second Quarter of 2008 you still had around 10,000 net additions, if I'm not mistaken: while it's flat now, has there been some special actions or some special losses at Scarlet this year, anything unusual? Then, my second question regarding the fine; I know you're going into appeal. Will this fine influence any way your payout to the shareholders?

Ray Stewart: I'll take the second question; the fine does have an impact on our results, as you saw, and it's something we paid and we've appealed. When we have the discussion with the Board later this year, as we always do every year, on shareholder return, one of the biggest things will be just what is the status of the business, and how's the business doing? I would say that probably would have more of an influence on any shareholder return, rather than the fine, just isolated, by itself. Michel, you want to do the broadband?

Michel Georgis: Regarding broadband, I would say that the figures of the first part of the year are slightly negatively impacted by Scarlet, but again this was also part of our commitment when we acquired Scarlet, end of last year, that customers could leave without paying any penalties. On the other hand, we are confident that we will have some positive net adds in with Scarlet Broadband in the second part of the year. They suffer also from the fact that today, they don't have, I would say, a TV offer yet. We are working on it, and this is the combination of internet and TV, is for the time being quite popular. I am speaking of course about the residential numbers, so the 10K you mentioned is of course 5 for CBUs, consumer, and 5 for enterprise.

Operator: Our next question comes from Guillaume Tastet from ODDO; please go ahead.

Guillaume Tastet: Two questions from my side – the first one, I would like to know if you can give us an update on the competition level in mobile, especially given that you had, it looked to me, quite aggressive promotions in prepaid during summer, and how you see this market moving in the next quarter. The second question would be can you give us the total transaction value at EBU in Q1 and Q2 2008, so we can have an idea of how it delivers, compared to last year?

Ray Stewart: First of all I'll let Michel Georgis take care of mobile competition.

Michel Georgis: Regarding competition - of course I speak for the consumer side - I would say no special changes in the competition. We remain with two tough competitors, Mobistar and Base. You saw that in Quarter 2 both of them did some cleaning in their customer base. What we of course see is that with a card penetration of close to 120%, we see some saturation there in the market, mainly in the prepaid segment, where we see more and more the phenomenon of the second card; of calling card behaviour generating quite a lot of volatility of those prepaid customers. I'm quite pleased to confirm that in the growth that we generated in the first part of the year, everything is coming from postpaid where also we have some good generators.

Guillaume Castay: Were you happy with the promotions – the 50% discount on prepaid accounts during Summer; is it something you could do again in H2 for example?

Michel Georgis: I don't see any special in terms of aggression in promotional activities for prepaid during the summer. I would say that it's business as usual. We know that this period of the year is a quite important one for mobile operators, like the end of the year, but I would say business as usual.

Michel De Coster: With regards to EBU on mobile competition, it's also business as usual. Mobistar very in the market. With regards to your question on the total order value, 248 million in Q2, 212 million in Q1. These are numbers that are sometimes very seasonal so don't expect Q3 to be higher or lower. It's good progress compared to Q1, and we're very happy about it.

Guillaume Tastet: Those were the figures from 2009, right?

Michel De Coster: They were the numbers for 2009, Q1 and Q2.

Guillaume Tastet: And for 2008, what was the level?

Michel De Coster: This is the first time we report it, so there's no apples with apples comparison possible with last year. This is a scoop for this time; this is the first time we announced quarterly on the TTVA numbers.

Operator: Our next question comes from Nicolas cote-Collison from HSBC; please go ahead.

Nicolas cote-Collison: My first question is that I was wondering what was the growth in ICS, excluding the impact of FX; and secondly, how does your all-in-one package sell compared to your expectations, and how easy do you find it to sell this kind of a converging package.?

Daniel Kurgan: The FX impact on the ICS growth and the revenue is minimal. It's below 2% and the same on the margin – there is a slightly positive impact, but it's not material in the total growth.

Ray Stewart: Michel, do you want to take the ...

Michel Georgis: Regarding our conversion offers, and specifically regarding all-in-one, it's probably a little bit premature to speak about success or not. I would say that the first results are promising; for sure that all the bundles of fixed products are very promising, and regarding the combination of fixed and mobile, we see some good numbers for the data pack, where we have the combination of fixed broadband and mobile internet. Regarding voice, I would say that the trend is slowly taking up, and that there is still a lot of education that we will do, but again, we are the leader on the market; we are I think with the all-in-one offers, also the pioneers, but we believe that there is good opportunities for the years to come with those cross selling and up-selling opportunities.

Operator: Our next question comes from Emmanuel de Feydeau from Natixis Securities; please go ahead.

Emmanuel de Feydeau: Two questions, if I may; the first one on ICS – could you give us some colour on the growth rates, starting in Q4, during which you will have a most typical comparison; in fact, whether it will be close to 0%, 5% or 10%. The second question comes from EBU and the cost last year; it seems that in Q2 last year you had a restructuring cost, so you have a much better comparison effect this year. Will it be the same in Q3 and Q4; shall we expect a sharp decline of Opex due to this comparison effect onwards?

Ray Stewart: Daniel will take the ICS question.

Daniel Kurgan: On ICS of course we cannot provide a detailed guidance on the growth; you have seen that we had very strong growth last year in the Second Half. Since then the trend has continued so there has not been any disruption, so sequentially there is a

very strong growth H1-to-H1; you will not have the same H2-to-H2, but the trend is maintained, there is not much that we can say.

Michel De Coster: On the cost improvement over Q3 and Q4 we don't expect further improvement because the divestment are now almost completely closed so the effect has been taken in Q2 and Q1, so we shouldn't expect an improvement there.

Operator: Our next question comes from Siddy Jobe from Bank de Groof.

Siddy Jobe: Basically my question was the following: in the Netherlands we have UPC setting a very attractive offering in the market for internet, 120 megabytes for about €70 and they are doing this with their DOCSIS 3.0. Telenet in Belgium is also getting its DOCSIS 3.0 ready, so they will be able to offer higher speeds towards the end of the year. I would like to know what Belgacom's position on that is because with the current network I do believe that there will be bigger discrepancy in terms of offerings to the customers and I would like to know whether Belgacom starts to think to fibre to the home.

Scott Alcott: Yes; DOCSIS 3.0, as everyone is aware, is an international phenomenon that will enable and increase bit rate on traditional coax cable networks. I think everyone on the call is also aware that it is a shared medium and it has limitations related to upstream speed. Belgacom has shown that it can take on the cable operators and maintain a bit rate that allows the services that we need to bring. We are a Top 5 player in the world on fibre and to date we are bringing two simultaneous HDTV channels to the customer and we have absolute parity with the cable operators related to the services we provide. That is enough, by the way, for fast internet as well as voice override all at the same time. The strategy for Belgacom is to continue to up that bit rate to keep to the services that customers need. We have many tools to do that include fibre deeper into the access network to boost VDSL. It does include Fiber to the home. We have done a trial in Rochefort, another one in Sint-Truiden in Flanders and we will make that part of our access strategy together with other hybrid solutions. There are other evolutions on VDSL including vectorisation, 17

megahertz and ways that we can bring that bit rate up and our strategy is to continue to grow that bit rate at the speed of the customer needs.

Cable also has limitations and we should be aware that because we have strong cable competition in Belgium we need to continue to invest early and move fast to stay with and ahead of the competition; something we have been able to do.

Operator: Our next question comes from Luis Prota from Morgan Stanley; please go ahead.

Luis Prota: I have two questions: the first one is on roaming; could you please tell us what percentage of the total roaming revenues are normally generated in the Third Quarter, which I guess is a higher proportion of the total; and what impact are you expecting in revenues in the Third Quarter from new prices, but also from lower volumes potentially from lower travelling? The second question is on share buybacks; I know you said that discussions on shareholder returns will be later in the year, but are those discussions potentially going to include a new buyback programme? Thank you.

Michel Georgis: Yes, for the first question it is roughly 15% of consumer plus enterprise total mobile revenue.

Ray Stewart: That is what we have given away, publicly disclose is on a total basis. We don't get into quarterly numbers on those issues, so on the share buy...

Didier Bellens: It is not the right time to talk about the share buyback and yesterday at the Board we did not even spell the word share buyback and we haven't talked about share buyback.

We have said it will be time to talk about it somewhere in October probably, once we had the results of the Third Quarter and a very good idea about the Fourth Quarter and to see where we are, so up to now just like last year we don't want to talk about interim dividend, or share buyback; we stick to this position.

Luis Prota: If I can follow up on the roaming question: are you expecting any additional revenue drop in the Third Quarter because roaming revenues have been weaker than the rest of the year. Thank you.

Ray Stewart: I guess the best answer that I can give you, we have reiterated our guidance at the Group level on the revenue side and we don't get into providing guidance or forecasting line-by-line, as I think Michel told you earlier, 15% of our total mobile revenues, especially on the resolution side come from roaming and there is some seasonality of course in the roaming, which is natural based on travel, but other than getting more specific than that we wouldn't.

Operator: Our next question comes from Hugh McCaffrey from Goldman Sachs; please go ahead.

Hugh McCaffrey: Good afternoon guys, a couple of questions: firstly, on bundling and mobile; I understand you guys are waiting for a decision on the length of contract you can offer with bundled handsets – is that right and when do you expect that to come through? Secondly, also on mobile is on the distribution channels: are you seeing much competition from third party distribution and what is your distribution strategy going forward as handset subsidy comes into the market?

Michel Georgis: I am not so sure that I understood your question regarding, so I can reiterate what I mentioned previously regarding joint offers, but of course we want to do it in a creating value way and to keep our costs under control. I see some opportunity in the context of data where we believe that we are well placed with the best 3G network in Belgium to generate some growth opportunity for the Group. The strategy is clearly that there is inflation in the acquisition cost and churn rate and that customers will mainly look at the attractiveness of devices instead of choosing the best operator; but we can learn; I repeat what I mentioned earlier. We can learn from what happened in other markets in Europe and try to not repeat those mistakes.

Hugh McCaffrey: From what I understand you actually aren't doing very much on handsets out there at the moment at all, even though bundling and things have been legalised at this stage; when do you think you will start making these offers?

Michel Georgis: Again, I repeat we first expect a fair and clear framework; that is not the case today that we expect probably October I think, but that is it.

Operator: Our next question comes from Nico Melsens from KBC Securities; please go ahead.

Nico Melsens: I have got one just quick question from your Belgacom TV ARPU. Looking at reported Q2 numbers, 19.2, it is slightly down both on a sequential and on a year-over-year basis; it is down about 2% year-on-year, about 6% on a sequential basis. Could you explain to us what you think about the reasons behind that and what trends you expect going forward? Thank you.

Michel Georgis: Regarding TV ARPU, I would say first that indeed there is a little bit of a decline versus Quarter 1, but on the other hand that is roughly in line with the other Quarters mainly of 2008. Some explanation for the variance is linked to I would say terminals and accessory sales due to lower growth gross gains and lower percentage of sales in Quarter 2 versus Quarter 1. Another explanation is that in Quarter 2 we have less people viewing football as there are no football games as from mid-May; and the third element explaining the decline in ARPU is high discounts in Quarter 2 versus Quarter 1 for TV classic and comfort offers.

Operator: Our next question comes from Justine Dimovic from Exane PNB Paribas; please go ahead.

Justine Dimovic: I have got a question relating to the advanced data ARPU in CBU, which is flat year-on-year and I was wondering if you can share some views on when that ARPU could grow given the strong sales you have achieved in terms of higher handsets. I was wondering if you can share some elements about the proportion of your subscriber base that is 3G enabled at the moment. That would be my first question; my second one is relating to the TV move you made offering TV for free; I am wondering what

is the trigger for such a bold move in terms of pricing. Are you unhappy with the net additions you achieved in Q2, or being more aggressive in preparation for potentially the upgrade to DOCSIS 3.0 that has been mentioned for Telenet towards the end of the year.

Michel Georgis: I think I am quite popular today. Regarding your first question and the data mobile and advance data; when you look at the numbers you see that is in Quarter 1 we had negative evolution of -5%. In Quarter 2 we have +9%, generating a +2% year-to-date June 2009. The main reason for that is a spectacular growth in SMS. It is clear that we have a spectacular increase also of free SMS, but also the paying ones. When you see the paying SMS users; we have an increase of 21% in Quarter 2, what is quite spectacular. The second driver is regarding advance data and products like televoting and the fact that if you remember we had a negative impact last year with a royal decree regarding stricter rules for voting and gaming and of course this plays in our favour in the year-on-year comparison in Quarter 2 '09.

That is for your first question; regarding your second question and our Free TV offer; I would say that it is part of our strategy to promote convergent offers and I would say after two weeks of launch we see some promising, encouraging results with quite a lot of increase of business, quite a lot of new TV subscribers, also internet ones and not a lot of cannibalisation.

Justine Demovic: To come back on the first question about the proportion of your subscriber base that is 3G enabled; if you have any data you can share that will be very helpful. Thank you.

Michel Georgis: Yes. The only thing that I can give you is that the number of devices detected on our network is close to 460,000.

Operator: We have a follow-up question from Nico Melsens from KBC Securities; please go ahead.

Nico Melsens: Thank you, just coming back to the Belgacom TV ARPU; what trend would you expect going forward? Would you expect for example as you grow your customer base you get more light users which take up less video on demand, which would dilute your ARPU.

Michel Georgis: Again we will do our best; we believe that video on demand is an opportunity for growth. It is clear that when I compare also with our peers in Europe the proportion of customers that use the video on demand is only part of the total customers, but again we took initiative to launch three preview channels in Quarter 2; we believe that it could help us to boost video-on-demand and come with a simplified way to promote movies at home and we were very successful recently with a movie TV campaign in the north of the country that was very popular and created a lot of hype on the web.

Operator: We have another follow-up question from Guillaume Tastet; please go ahead.

Guillaume Tastet: Having a look at WC a changed contribution to free cash flow, it looks like it was more negative in 2009 versus 2008. I was wondering if there any specific or non-recurring effects, or if it just basically the credit impact on the payment of the fine and it may be too soon to answer them, but can you give us some information on the impact of MTN transaction.

Operator: Can you please repeat your first question, Guillaume?

Guillaume Tastet: Yes; WC a changed contribution to free cash flow in H1 2009 was more negative than in 2008 and I am wondering if there are some non-recurring effects, or if it is basically the credit impact that makes you customer paying longer or just I would say the ordinary impact of credit.

Ray Stewart: I am sorry, the results, number one, free cash flow is actually up year-over-year, so I don't understand; and if you look at the working capital changes I think if I looked at those they are pretty much flat year-over-year. On the other, it is too soon; once we close the deal we will talk about the accounting.

Operator: As there are no further questions I would now like to turn the call back over to your host Mr Didier Bellens for any additional or closing remarks.

Didier Bellens: I would like to thank you to have attended this call and as you know we have our usual road show beginning of September so I guess that we will meet some or all of you in your own premises. Have a nice month of August and see you probably in September; bye.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.