



**Company:** Belgacom SA  
**Conference Title:** H1 2010 Results  
**Presenter:** Didier Bellens  
**Date:** Friday 30<sup>th</sup> July 2010 – 14h00 CEST

**Operator:** Good day ladies and gentlemen and welcome to today's Belgacom 2010 Half Year Results Conference Call. For your information this conference is being recorded. At this time I would like to turn the call over to Nancy Goossens, Head of Investor Relations. Please go ahead.

**Nancy Goossens:** Thank you and good afternoon everyone. I assume that you have all seen the detailed results by now so we will not waste too much time to repeat them to you. As usual our CEO Didier Bellens will take you through some highlights and then we will open the line for questions. So with this I'd like to pass the word on to Mr. Didier Bellens. Thank you.

**Didier Bellens:** Nancy, thank you very much and good afternoon to all of you. Welcome to our conference call. Just a couple of items that I would like to bring to your attention. First of all I'm pleased about our accomplishments so far. Our strong revenue increase for example has continued in the second quarter and even improved to a growth of 10.7%. This is including a positive effect from the full consolidation of BICS and we have Daniel Kurgan here around the table and the contribution of MTN BICS but it's important to note that our underlying business in Belgium but also let's say the BICS underlying business is also growing as well by nearly 1%. BICS is growing organically and we see also significant revenue growth from Belgacom TV. It is a success, we'll talk later about Belgacom TV but also we see growth in fixed and mobile data revenues which is also very positive for us. The positive evolution has helped us to achieve a total revenue of €3.3 billion, a growth of 10.3% compared to the first half of last year. The figures are right Ray?

**Ray Stewart:** Yes.



Didier Bellens: Thank you Ray. So despite the fact that the group revenue growth is mainly coming from our lower margin business BICS we were able to keep our EBITDA margin stable at 30.2% which means that we are extremely pleased about the development of what we are doing in Belgium in terms of revenue growth but also in terms of profitability margin which means that let's say our business is profitable in itself and we are able to control the costs. We achieved this thanks to initiatives we have launched to optimise our direct margins and thanks to our ongoing efforts to reduce non-HR expenses where we have been once again Ray very good. He is saying yes.

Our personnel related costs are evolving in the right way. This is the result of the ongoing headcount reduction program which is now clearly showing its benefits. So all in all we have done great efforts to improve our cost structure and it's starting to show in the results.

Regarding the full year financial expectations we think that based on our solid results so far and taking into account our estimate for the remainder of the year we will end this year with a revenue growth between 9% to 10%. Even so most of this additional revenue growth is coming from our lower margin business unit BICS, we are still targeting a full year EBITDA margin of 30% which means that if we do that we'll be I think extremely pleased, it will be good for all the stakeholders of the company.

We are pleased about the operational results and I'm going just to highlight a few of the operational results. First the growth of our mobile post-paid customer base by 39,000, Michel Georgis will talk probably more about that later. We also continued to enhance our customer base by increasing the number of multi-play customers, so there we are talking about the packs we added in the second quarter, 88,000 packs bringing the total to 741,000 packs. You know that we believe in conversion and when we just look at the number of packs sold, conversion is definitely the right strategy. In particular our unique market position with the pack including free TV is obviously very successful. Our IPTV solution is indeed doing very well. We have added in the second quarter another 54,000 TV customers bringing our total TV customers close to 870,000. This means that we increased our TV customers by 47% compared to last year. In addition we also see a strong growth in the number of mobile internet customers. By the end of



June we had about 140,000 mobile internet customers which means a growth of nearly 60% compared to one year ago. This is a market with still great potential on which we will continue to focus.

With this I think that I have covered let's say the main highlights and I suggest that we open the line now for the Q&A. Thank you.

Operator: Thank you sir. The question and answer session will be conducted electronically. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone keypad. We request that while your question is being answered that you mute your line when not speaking to avoid any background noise. We also request that you limit your questions to two per person. If you find that your question has already been answered you may remove yourself from the queue by pressing \*2. Again please press \*1 to ask a question. We will pause for just a moment to allow everyone to signal.

Our first question today comes from Nicolas Cote-Colisson of HSBC. Please go ahead.

Nicolas Cote-Colisson: Thank you very much, I've got two questions please. From what you know from Mobistar's ambition in quad-play do you think you have the right offers in place or should we expect some new offers from you from September? My second question is on the consumer business unit. In Q2 the revenue growth seems to be almost flat year on year and it was 2% year on year in Q1 so can we have a bit more colour about the slowdown and what kind of trends we could expect for H2 please?

Michel Georgis: I will answer the two questions. Regarding the first question on Mobistar TV, I'm first pleased to see that also the mobile centric operators now see that conversion is the right strategy, so we have to see what they will put on the market. We start from scratch. After five years we achieve as mentioned by Didier more than 850,000 customers so we are quite confident that we can continue to increase our number of customers and also our market share in the TV market, so that's it I would say for the question regarding TV. Now if I look at your second question regarding the revenue line for CBU, what you have to take also into account is



the impact of BVAS. You know that as from April we changed our connecting model for premium rate services that are impacting the fixed voice, mobile voice and data. I think that we communicate a number of an impact of €19 million revenue and zero at EBITDA level. The most impacted business unit is of course the consumer business unit, so if I look at the figures excluding regulation/collecting model we improve in fact our revenue line compared to a year ago.

Nicolas Cote-Colisson: That's great. Thank you very much.

Didier Bellens: Let's go to your first question. I think it was related to Mobistar and you were talking about the quad-play offer. I have to say this one I missed completely. I've never heard about a quad-play offer made by Mobistar in the Belgian market, so as far as I know let's say they are good in mobile. They have been a catastrophe in broadband and they are nowhere in TV. Even if they've talked a lot about in TV in the past remember they've postponed the launch. So they will come with a TV offer. What we do, we just don't change our strategy and you'll see that we just add customers. We are not going to change our strategy. We are working on our next Belgacom TV platform. It's going to be a much richer platform with entertainment, other types of entertainment richer than what we have today, that's clear. You have seen let's say the moves we've done in the gaming area so you have an idea about what we may do in the future. You've seen what we've done in the area of compression and for the rest we think that people are interested in much more than entertainment which may be let's say a social element, societal content and we are going to develop our platform in this kind of area. So we want to keep the leadership with new content which is not only entertainment. So if Mobistar is coming we wish them good luck. We believe there is still room for let's say decreasing the strength of cable operators and we don't see any problem for us. We have our own strategy and it doesn't depend on Mobistar.

Nicolas Cote-Colisson: That's very clear. Thank you very much.

Operator: Thank you. We will now move to Dimitri Kallianiotis of Citi. Please go ahead.



Dimitri Kallianiotis: Hello, good afternoon. My first question is just regarding the competitive environment in Belgium, you're increasing some of your targets in fixed and mobile in August. Your competitors don't seem to have followed. How do you see the competitive environment landscape in the second half and do you expect to do a little bit more on handset subsidies? My second question for Ray, just regarding the tax rate that we should use for this year, in terms of free cash flow it was better partly because you've been doing a great job in terms of tax optimisation with the merger of all the entities. Should we still use that 25% rate for the year? Thank you.

Didier Bellens: Before Ray the first one for Michel.

Michel Georgis: To answer your question regarding competition on the market I would say that the Belgian market is a quite competitive market but we don't see I would say an increase of the competition in the recent months so regarding the second part of the year and your question regarding subsidisation I would say that we don't change at all our strategy regarding subsidisation and it's clear that if we go for subsidisation, first of all we have the advantage that we can learn from what happened in the other European markets in terms of value destruction, but we see some positive elements in the subsidisation if we can create value and comps with a positive business case to go for really targeted and segmented type of offers because we have the best network, we have with Proximus the strongest mobile brand and that we play a leading role in the device market.

Ray Stewart: Your second question, yes, right now I just would continue to use the 25% in your model, I think that's fine.

Dimitri Kallianiotis: Thank you.

Operator: Thank you. Our next question today comes from Frederic Doussard of Oddo Securities. Please go ahead.



Frederic Doussard: Yes, hello, two questions. First you just said that if Belgacom can create value through handset subsidies then you can look at that on a segmented approach in a specific niche. Did I understand well? Does that mean that you could consider and yes, you could consider to subsidise handsets before the end of this year, some specific handsets? That's the first question.

Michel Georgis: Correct. I would say that it's fully in line with what we mentioned previously and I would say that we believe that smartphones and eventually tablets could be intuitive devices, a booster for mobile internet but again we will only do it if we see that it creates value for the group.

Didier Bellens: Your second question please?

Frederic Doussard: The second question is your growth in mobile data is weaker than from Mobistar for instance. How do you explain that and you renewed data plants in June if I remember, are they successful?

Didier Bellens: Michel?

Michel Georgis: Regarding our figures for mobile data I'm quite pleased with our current numbers. Again you have to exclude the impact of BVAS. When I look at our numbers for H1 I see a growth of 12% and if I zoom in advance data in the part regarding mobile internet, there we have a growth of 50%.

Frederic Doussard: Ok, and for your new internet mobile data plants mentioned in June, are they successful? Do you know already?

Michel Georgis: It's probably too early but again we are quite confident and believe that with the right device strategy and the right tariff plans we will continue to be the leader in Belgium in mobile data.



Frederic Doussard: Ok, thank you.

Operator: Thank you. We will now move to Frederic Jeanmaire of Merrill Lynch. Please go ahead.

Frederic Jeanmaire: Good afternoon, two questions please. First one, you've seen a reduction in FTEs in H1. What do you expect for H2 and maybe could you summarise what we can expect for the years to come? The second question is given the change in consolidation, do you still expect a seasonally softer Q4 in terms of margins and if yes doesn't it make it hard to meet your margin target? Thank you.

Didier Bellens: Ray, do you want to?

Ray Stewart: First on the FTE, most of those come out in the first half with our early retirement programmes that we've got in place, so definitely you don't double those numbers for sure. There could be some let's say further improvement but nothing like we had in the first half, so that's clear. In terms of ongoing years we've talked about in the past that our target is to try to take let's say several hundred employees out every year. We think that's easier for the business to manage than trying to take out let's say 1,000 at one time, so I think that strategy still holds and we'll do that by improving processes, efficiency and then our move to all IP. So that will continue. The second question, you talked about the fourth quarter. Yes, there could be some direct margin issues but we still believe that the guidance we gave is the appropriate one for the year. In terms of being able to hit a 30% EBITDA margin it means if we have some negatives someplace we have to come up with some additional savings somewhere else, so we still believe that 30% is appropriate.

Frederic Jeanmaire: Maybe could you focus on which areas in H2 you would be targeting?

Ray Stewart: Every line item I would say in the Opex side continues to be fair game to look at control or reduce and then also we're having let's say an increased focus on the costs of good sold to see how maybe we can start improving the direct margins a little bit on some of the products.



Frederic Jeanmaire: Alright, thank you very much.

Operator: Thank you. We will now move to Paul Sidney of Credit Suisse. Please go ahead.

Paul Sidney: Thank you, just one question please. I think we partially touched on it but if you look at your mobile service revenue growth it seemed to go negative in Q2, a slight slowdown from Q1 and I just wanted to ask a general question about why you think you're lagging Mobistar and BASE in the Belgian market on service revenue growth. I'm just trying to really understand why that is. Thank you.

Didier Bellens: Ok. Michel.

Michel Georgis: I will answer for the group mobile results. What you have to take into account, what I mentioned previously in the conference call is also the impact of the BVAS that is impacting our mobile revenue by 19 million in Q2 because this new collecting model was implemented on 1<sup>st</sup> April. So if I take our numbers excluding regulation, so mainly roaming and the BVAS effect we have a growth of 1.5 in Q1 and we have a growth of 5.2 in Q2, so clearly an improving trend also mentioned in our highlights where you see an improving trend of mobile usage in CBU and a stabilising one in EBU.

Paul Sidney: Ok, thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder if you would like to ask a question please press \*1 on your telephone keypad. Our next question today is from James Britton of Nomura. Please go ahead.

James Britton: Good afternoon, thank you very much. I have three questions please. Firstly how do you reconcile the press trend on corporate mobile spending with the recovery you're seeing on the ICT side? Would you expect enterprise spending on mobile to pick up from here I guess ex-regulation? The second question is should we expect any acquisitions to help you execute on your medium term strategy for entertainment and content? Thirdly can you just update us on



what you're doing with MVNOs at the moment? It seems as though you have not really made any progress on MVNOs in the last two quarters. Thank you.

Didier Bellens: The first one is for Scott.

Scott Alcott: Hi James. We don't see a direct relationship between the traditional lines of business in enterprise for example voice mobile and the recovery that we're seeing in ICT. As you know during the crisis James a lot of the bigger capital programmes from the bigger enterprises either got cancelled or stretched out or shrunk and we are happy to see and we hope it's a sign of the global recovery but we're happy to see some of those projects rolling back on. We think those projects James are about generating revenue and infrastructure in some of the core businesses at the enterprises and we're seeing them come back, not just in Belgium but internationally. That trend is clear. I think in the first quarter we saw about 1.8% increase and it ramped to 4.2% in the second quarter, so we feel good that that after really dipping is starting to come back. The story on the mobile side, James, you know it's a mix. The mobile voice, we're the significant player in the market for this sector and I think you see the story there is we're trying to keep our share while there's price decline as well as regulatory impact and that is a trend that we know is going to happen. We know that per minute voice usage in mobile including with roaming is on the decline and the trend is quite clear. You see that the mobile voice is taking a significant hit, the revenue is down about 5.7% and the minutes of usage is also declining, but on the other side the good news is we see similar numbers in terms of mobile data increasing and I expect that trend to continue James and I don't see a relationship between the projects for IT coming back and the restriction and price competition and regulation on the mobile voice side.

Didier Bellens: Ok, thank you Scott. The second question is acquisitions in the entertainment area. Of course the entertainment area, Michel tried to speak on this, we need to buy rights, that's for sure. So we go on buying rights, TV rights, video on demand rights, that's for sure. We are developing let's say new platforms, TV platforms. We are going to expand the content to non-entertainment so we are going to be active there. Are we going to buy entertainment companies or production companies? Up to now it's out of scope so we have no objective in this area. MVNO, there was a question on MVNO.



James Britton: That's right, yes. Just looking for an update on how you want to use MVNOs as an alternative distribution channel because your MVNO growth hasn't been great.

Michel Georgis: I will comment on the MVNO. You could say that MVNO is roughly 9% of the total mobile market. If you exclude Telenet that is post-paid, the majority of those MVNOs are prepaid. We had one MVNO, it was Mobisud from Maroc Telecom. As you know some weeks ago we decided to buy Mobisud because we believe that besides Scarlet Mobisud could be part of our Belgacom Group multi-brand strategy in the consumer market and we see that in Belgium of course this community is quite important so we believe that it fits perfectly in our strategy of Scarlet's simplicity and we have to see if besides I would say what we will do in mobile if we extend that to some other products of the group in the months to come.

James Britton: Ok, thank you.

Operator: Thank you. Our next question today comes from Jacques de Greling of Natixis. Please go ahead.

Jacques de Greling: Thank you. My first question is regarding mobile broadband. Could we have an idea of your current subscriber base and the similar figure for a year ago? Second question regarding regulation. Nelly Kroes has announced that she wants the premium on roaming prices inside Europe to be removed by the end of 2012. Could you give us a rough estimate of what would be the costs for this? Thank you.

Michel Georgis: I will answer the first question regarding mobile data. Didier announced at group level a figure of 140,000 mobile data subscribers. This is growth of 60% versus Q2 2010 to 2009 where we had 87,000 mobile internet customers.

Didier Bellens: The second, it's too early to give more detailed figures.



Operator: Thank you. Our next question today comes from Michael Bishop of Barclays. Please go ahead.

Michael Bishop: Hi, good afternoon, two questions please. Firstly we're still seeing an increase in commissions as part of the CBU cost of sales. I was just wondering whether you expect this to continue in the second half and if you could comment on what's driving this, whether it's more mobile TV, broadband etc? Secondly with the penetration of Belgacom TV around 70% of your CBU DSL base. How much further do you think you can penetrate the base and also do you think once that gets higher will that start to actually drive broadband growth again? Thanks.

Didier Bellens: Who is taking the first question? Michel?

Michel Georgis: Regarding your question on the commissions it's clear that for the first part of the year direct margin has been ongoing and a permanent focus for us so we wanted to keep commission under control and in our distribution strategy to move from uncontrolled distribution to controlled distribution. In that context we tried to have our commission under control. One of the explanations for the slight increase is linked to the fact that we begin now to sell more fixed products in our indirect channel, for example TV and the success of our fair bundling offer was quite successful also in some of our indirect channels.

Didier Bellens: The second question is penetration of Belgacom TV so our initial objective was 50% of market share. Together we have around 32% market share of the digital TV market which means that we are going quickly in the direction of our objective. That also means that somebody is probably losing market share. Regarding how to get to our objective of 50% it's in my view very clear, number 1 extension of our network. You know that we have one of the best quality fixed networks in the world and Scott may talk about that later. Second of course we have to propose to our customers the right content and the content is not just to copy what cable is doing, so it's not just let's say entertainment we had in the past. We need to add other entertainment concepts plus non-entertainment content, so we are working on that and we think that we can become a real leader in the TV area. TV is one thing that we also believe that all what is available on TV has to be available on broadband, so internet and on mobile internet



which means that we need to have tomorrow a platform much more flexible than the one we have today able to distribute content to any devices and we are very close to that.

Michael Bishop: Thanks very much.

Operator: Thank you. We will now take our next question from Marc Hesselink of RBS. Please go ahead.

Marc Hesselink: Hello. First question on the geographical split for your net adds in broadband and TV. Are there differences between the Walloon area and the Flanders area? Maybe also in this respect how is the competition evolving? The second question in the ICS, International Carrier Services you saw strong organic growth in the second quarter whereas in the first quarter it was more or less flat. What was the driver behind this and what can we see there for the remainder of the year?

Didier Bellens: Michel, the split? Are you ready?

Michel Georgis: It's clear that for the net adds we delivered in the first half of the year it's roughly 50% that is done in the Telenet zone. Regarding your question regarding VOO, it's clear that they have been rather active mainly in advertising and sales activity but this is also not a surprise. I think that we mentioned several times that one day or another they should wake up and that is what is happening today, but we fight back.

Marc Hesselink: Ok, then maybe following that your market share based on television penetration 32% market share, is that also similar for both areas or is that bigger in the Walloon area?

Michel Georgis : Of course we have specific market share per zone but of course at this stage we give only a nationwide market share and so I confirm the figure of Didier that the 32% market share and that digital television now is roughly penetration of 50% of the total market.



Marc Hesselink: Thank you. The second question on International Carrier Services?

Daniël Kurgan: Good afternoon. For BICS I guess we can say the second quarter growth even if a bit better is a continuation also triggered by events like ash cloud and the World Cup that also stimulate traffic and new customer sites that produce increased volumes and we don't see any discontinuity going further, especially with the product mix or data business keeps growing strongly and that's a continuous trend.

Marc Hesselink: Ok, thank you.

Operator: Hugh McCaffrey of Goldman Sachs has our next question. Please go ahead.

Hugh McCaffrey: Good afternoon guys, I've got two quick questions. Firstly just on SMS revenues, you continue to generate very strong growth there. Do you see any risk of cannibalisation as more advanced mobile data services take off? Secondly just on the mobile licence proportions, any view around timing on those and potential competition for the licences?

Michel Georgis: I will answer the first one regarding SMS. I mentioned also that direct margin and EBITDA margin are very important for us so SMS is of course a growth engine for us but we have to keep also the free SMS under control to have our cost of sales under control. By the way you have certainly noticed that we improved from Q1 to Q2 the direct margin of the CBU unit, so it remains a growth engine but we have to pilot it quite well and you see that roughly the paying SMS is growing H1 with 20% versus the same period of last year.

Grégoire Dallemagne: On the mobile life, for the moment the status is that the different text standards are completely final and it's quite uncertain when they would be I would say published in their definitive form given the political situation, so for us right now it's difficult to give an outlook and timing on that one.

Hugh McCaffrey: In this year or next year, can you clarify to that extent?



Presenter: I believe the intention that was announced earlier this year by the government was that it would happen in 2010, but until now the stakes have not been finally approved and the political situation is I would say in process of creation of a government, so we cannot answer that question I believe at this moment.

Hugh McCaffrey: Ok, thank you.

Operator: Thank you. Our next question comes from Luis Prota of Morgan Stanley. Please go ahead.

Luis Prota: Yes, thanks very much. I have two questions, the first is whether you could give us an update on the legal claim by Mobistar and whether there's something new in this regard or whether you can give us your best estimate of an expected timetable? The second question is on the carrier division. You have been talking about volumes improving but we have had comments from other telecom players in Europe on substantial pricing pressure in the carrier business and obviously because you are one of the main players in this space I would really like to look at your thoughts on this and where you are experiencing the same pricing pressure and will see the potential impact? Thank you.

Daniël Kurgan: Ok, I'll take the second question on carriers. Yes, it is correct that there is strong price pressure on the voice which remains a very volatile and fragmented market and we've seen that pressure as well. So far we've been very good at delivering a positive trade-off between volume increase and unit margin decrease and that has been seen in our results. I guess one of our strengths is that we are more diversified than many of our peers with a full service portfolio in a very steadily growing data business, that leads us to better results, better margin percentage and that's going to continue but I can confirm what you've heard from others.

Ray Stewart: On the BASE-Mobistar claim of different time schedules and due dates seem to come and go and things get extended so it's difficult to give you any real update on that. The only



thing I will add, at least within Belgacom because you see it in the results, we've made no change to our opinion on any provision needed.

Luis Prota: Ok, thank you.

Operator: Thank you. We will now have a follow-up question from Jacques de Greling of Natixis. Please go ahead.

Jacques de Greling: Thank you. A follow-up question regarding roaming. Could you remind us what approximately your percentage of mobile revenue is in roaming? Thank you.

Michel Georgis: Roughly 10%.

Jacques de Greling: What is about the percentage which is European? I would guess 80%.

Michel Georgis: That's something that we never disclose.

Jacques de Greling: Thanks.

Operator: Ladies and gentlemen, as a final reminder if you would like to ask a question please press \*1 on your telephone keypad. We will now take a follow-up question from Nicolas Cote-Colisson of HSBC. Please go ahead.

Nicolas Cote-Colisson: Thank you. Given the growing demand for mobile data can we have an indication of Capex trends in mobile compared to last year please?

Scott Alcott: Could you repeat the question please?

Nicolas Cote-Colisson: I was just wondering if you could give us an indication of the trends in mobile Capex given the increase in mobile data demand?



Scott Alcott: Yes. Listen, Belgacom is the operator that fulfilled its regulatory obligations and built our network and it's sitting there. I reaffirm that our guidance is to come in around 10% for Capex. We don't break that down between fixed and mobile but I can tell you that we have opportunities to grow mobile data with the asset that's already built. The strategy of Belgacom is to invest early and to fill, so we're ok there.

Nicolas Cote-Colisson: Ok, thanks.

Operator: We will now take another follow-up question from Frederic Doussard of Oddo Securities. Please go ahead.

Frederic Doussard: Yes. Coming back to handset subsidies when you said that if Belgacom can press value you can look at handset subsidies, so do you see today already some segments where you think that in Q2 you could create value thanks to handset subsidies and to create value, on what would that depend? So are you waiting for a converged fixed mobile internet platform or Christmas period where there is a strong growth, something like that?

Didier Bellens: Michel.

Michel Georgis: It's clear that again I repeat with the asset we have the best 3G network, a strong Proximus brand, the leading hold-in device market that we have a certain number of assets to do some subsidisation of joint offers but in a segmented way. It's clear that if we go for it it will be targeted towards high value mobile data customers. It's clear that today we see that in terms of smart phones or touch screen phones, they represent the biggest part of our data usage. It's really in our total device 20% of our device represents more than 80% of the advanced data consumption. So the focus will be of course on those type of customers if we do it.

Frederic Doussard: Ok, thank you very much.





Operator: It appears we have no further questions at this time. I would like to turn the call back over to you for any additional or closing remarks.

Nancy Goossens: Ok, so thank you. If there are any follow-up questions you can obviously address them to the Investor Relations team. Thank you again and have a nice weekend. Bye.

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