Company: **Belgacom**

Conference Title: **Full Year 2011 Results**

Presenter: **Didier Bellens**

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Operator: Good afternoon ladies and gentlemen and welcome to today's Belgacom 2011 Full Year Results Conference Call. For your information this conference is being recorded. At this time I would like to turn the conference over to Nancy Goossens, Head of Investor Relations. Please go ahead.

Nancy Goossens: Thank you. Welcome to this conference call. I guess that most of you already know the format that we like to use for the call, so as usual our CEO will start with an opening statement and afterwards we will make some time for all of your questions. For the Q&A session we have here the members of the Belgacom Management Committee and they will all be very happy to take your questions, but first I will pass the word on to our CEO Didier Bellens for his opening statement. Please go ahead.

Didier Bellens: Thank you Nancy, good afternoon to you all and welcome to this conference call. I take it that you all have seen our press release of this morning. I will keep my introduction short so we can spend most of the time to answer your questions. This morning we announced financial results for the last quarter of 2011 which as you could see led to a full year performance in line with our guidance. Our customer gains in the fourth quarter were solid thanks to some new initiatives we launched and a well targeted year end campaign. Our focus remains on convergence. Within these multi-play offers we also used some targeted subsidies such as the pack including a Samsung Tablet and a Samsung TV at €1 for all new TV and internet customers. These type of offers proved to be successful. Going forward we will continue to aim for smart usage of subsidies meaning for targeted offers in a convergence pack and in a view of value creation. Besides attracting your customers we also saw churn rates improving. This is the result of the efforts that we have done regarding customer servicing which led to greater customer satisfaction. In the meantime we saw the football related churn quickly fading, so virtually no longer affecting churn in the fourth quarter.

We are not only attentive to customer expectations but we are also listening carefully to our shareholders. We want to underline our intention to ensure our shareholders an attractive return. I am therefore pleased to announce that our board approved the normal dividend of €1.68 per share over the result of 2011 on top of the €0.50 per share base in December. This will be subject to the approval of the Annual Shareholder Meeting on 18th April.

Over the result of 2012 Belgacom's board committed to a gross dividend per share of at least €2.18. As a last point I would like to quote the outlook for this year for which we expect the following: group revenue about 1% lower compared to 2011. EBITDA, 5-6% lower compared to 2011; group capex in the upper end of the range of 10-12% of group revenue, so these are the up front comments I wanted to make and now I am sure we can start with the Q&A and go through all the business units and the financials. Thank you.

Operator: We will now take our first question from Stefaan Genoe from Petercam. Please go ahead.

Stefaan Genoe: Yes, good afternoon, Stefaan Genoe, Petercam. Two questions basically. In the press release we see of course the impact mentioned several times of the salary indexation on the HR costs in 2011. Can you give us the potential impact in 2012 and which periods of indexation we will have? Then secondly for the full year you are guiding for a decline of EBIT 5-6% which is of course below the decline of the fourth quarter. Some one-offs or more or less one-off items are mentioned in the press release which put in perspective, the 9.9% from Q4. Can you clarify a bit what will be the main easing factors in 2012 to see a more moderate decline from the 9.9% to the 5-6% for the full year? Related to that could you indicate whether the TV set subsidisation is included in that in 2012? Thank you.

Didier Bellens: Ok, so Michel for the indexation. There will be two indexes of 2%, so it's 4%...

Michel Georgis: There's an index foreseen in March of 2% indeed and the second one we believe would take place in December.

Didier Bellens: So if that's happening let's say it's 4% on a global mass of about…

Ray Stewart: It should be somewhere around 15 million.

Stefaan Genoe: Ok, but that's for the full 12 months?

Ray Stewart: Yes, for 2012.

Didier Bellens: The rest of the question, I guess it's for Ray.

Ray Stewart: I guess part of your question was if you look at the fourth quarter, if we strip out let's say and get to what we consider the underlying business in the fourth quarter, you'd get to an EBITDA reduction of somewhere around 5%, 5.5% and that's pretty much what we are guiding for in 2012, so there doesn't have to be any significant trend changes to allow us to hit the guidance that we have provided. Then your follow-up question on the TV subsidy, I will let Scott handle that.

Scott Alcott: All I'd say is our guidance is our guidance and I'm not giving any specific information about a promotion I may do or not, which subsidy, which offer, but anything we do is reflected in our guidance.

Stefaan Genoe: Alright, thank you.

Operator: We will now take our next question from Kirk Boodry from New Street Research. Please go ahead.

Kirk Boodry: Could you talk a little bit about your expectations for effective tax rates in 2012 and then if you have anything that you think you can add about going farther out I would appreciate it. Thanks.

Ray Stewart: Right now we would guide somewhere around an effective tax rate of 26% from everything we know today on the law changes.

Kirk Boodry: Ok, thank you very much.

Operator: We will now take our next question from Guy Peddy from Macquarie. Please go ahead.

Guy Peddy: Yes, good afternoon everyone. Just a couple of quick questions please. On the capex outlook I would be intrigued to know where actually you will continue to be spending your money on capex in 2012 and how much of it is going to be variable related, i.e. dependent on customer growth and things like that? Then secondly a question for Ray, just an update on the buyback. Any sense of when we could see the next tranche being kicked off? Thank you.

Ray Stewart: Ok. On the buyback as part of the release and our discussion yesterday with our board, the minimum dividend commitment we've made for the 2012 results is 2.18 and I guess what we still commit is that in addition to the 2.18 there will at least be an additional 100 million shareholder return this year and the only caveat is we will reserve the right. We haven't made a final decision whether we do that 100 million or more in an extra dividend or a share buyback but we will be making the announcement I would say in the next couple of months.

Scott Alcott: On the capex everyone knows we haven't broken out line item by line item. Before I don't want to help my competitors with how many set-top boxes I'm planning, but having said that it's the usual suspects Belgacom continues to invest in, more coverage and more speed, fixed and multiple so in particular we are going to extend our famous Broadway footprint from the 80% that it is today up to 85% and perhaps a little bit more. We are going to also be investing in the speed of that Broadway network. I think everyone heard in the broadband world forum we are going to be the leader again commercialising systems level, vectoring in

DSM which will allow us to bring increasingly higher bit rates to 50mbit and 70mbit for our customers as well as compression, that means that you will need less bit rate as we go forward. On the mobile network everyone knows that we have just completed Europe's quickest radio network swap with Huawei and that we have upgraded backhaul but what's next for that is additional coverage as well as setting up core network changes and things to set up next which is 4G and LTE which is coming. Then of course there is growth capex for things like set-top boxes and the like. Don't forget the famous subject of content as well, so some of the various renewals of contracts and some of the new things that you've seen us take replacing some of the football content with other things, it's all in the numbers.

Guy Peddy: Thanks a lot.

Operator: We will now take our next question from Siddy Jobe from Bank DeGroof. Please go ahead.

Siddy Jobe: Good afternoon gentlemen, Siddy Jobe, Bank DeGroof. Two questions, first on the guidance and referring to the outlook Mobistar gave, the impact they expect of the upcoming change in the telecom law, could you indicate whether your guidance includes an increased competitive environment following this change in the upcoming telecom law, so basically whether it's already included or not in the 5-6% EBITDA decline? Then the second question and that's more for my general understanding, Belgacom was one of the first in the Belgian market to launch the Wi-Fi hotspots together with FON and I was wondering what kind of dynamics that has on Wi-Fi offloading or data offloading from the 3G network to the Wi-Fi network and also what the revenue impact of that is going further?

Didier Bellens: Scott, you take the hotspot and I will try to explain the competitive landscape.

Scott Alcott: Very good. First the hotspot is not a technical strategy for offloading. It's a convergence strategy for being the only operator in Belgium that can offer national Wi-Fi, mobile and of course television, high grade video connections to the home, so we are differentiating on the fact that all of your content, all of your social networking, all of your access can be done in a new network which is the combination of those three. We think it's a reason to come to us, it's not a technical strategy to manage capacity in the mobile network. In terms of the impact on revenue streams we think it's a very positive front for causing customers who today only buy service from cable operators or the large population that is mobile only for voice with an analogue cable connection to say hey, Belgacom's a better choice. If you are in the youth market, you've established a new home and you are using your mobile phone only for voice and you are watching TV on analogue, you know because of your flat screen and your table and your smartphone that you need Wi-Fi now at home and nationally and so we think it's a reason for those guys to get connected to a fixed line again and for people who have cable to come and switch to Belgacom. We also think while there is a mix of use occasions let's be clear: if you're on the highways or if you're on the trams or if you're on the buses or if you're biking in the forests, that's an occasion for the mobile network and the national Wi-Fi network is not a cannibaliser or substitute of that. It's for those moments that you're sitting in a café or in a stationary location and we think the complement of those things gives us the unique offer that we can price in a bundle and win share and capture incremental ARPU, that's how we intend to use that.

Didier Bellens: The competitive landscape and the evolution, you are reading also the information about all our competitors. The way I look at the market is that we are much stronger today compared with the beginning of 2011 for different reasons. The first one is that we are talking about Mobistar. Their strategy is everything but clear. Let's say one year they say they want to go for broadband, the other year they say they've topped broadband and then they start TV, now they have stopped TV. That's not very clear, they remain a strong competitor in the mobile area as a mobile only competitor to Belgacom, attacking all the different markets where Belgacom is present from residential up to enterprise. Regarding KPN Belgium let's say they don't invest a lot. They are the low end of the market which is a very nice niche and saying that it's also a profitable niche, so at least let's say it's a clear strategy, but it's a niche strategy. Then the cable operators, we've seen VOO in the south being extremely active trying to buy market share by overspending and making huge losses. The real question is when are the shareholders of VOO going to be tiered by their strategy? My guess is very quickly because the shareholders of VOO are at the end of the day indirectly the local authorities. They have lost already a lot of money in companies like Dexia and things like that, so I may imagine that there is a time they want to have also some profitability. In the north it appears that even Telenet one day we hear that they want to go mobile and to invest in mobile. The other day they don't want to go for mobile and they have no cash investing in mobile and our feeling is that their cash will be used for Netherlands. So we are in a very strong position I think in terms of competitive position and we have to take this advantage to keep on investing, which means that we are not going to stop investing. We are in a free market. We have seen this morning the announcement of Telenet to switch the analogue TV to digital. It's clear that gives us an opportunity to go after these customers which means it's an investment but a profitable medium term investment and it's a unique opportunity to do that. They have made a very arrogant announcement and we have to take advantage of that. What we have announced this morning, had a press conference and I have to say for those who are not living in Belgium, if you were listening to Flemish radio in the morning, that was really very, very tough saying how arrogant they are especially for a segmented part of the population and switching just like that, decreasing the number of TV channels was not well received at all, so that gives us an opportunity. So all what I am talking about, our very strong position, the competitive advantage we have and the willingness we have to invest in the market is included in our guidance.

Scott Alcott: I would also add that this law change, we think it's a mistake. If an operator confuses himself that that's an opportunity to enrich equipment manufacturers and the launch value destructive subsidies, we saw it differently when the law was announced. Contracts are the number one source of dissatisfaction in the market, the number one complaint. It's also expensive to administrate. When contracts expire there's an awful lot of promotions, discounts and credits to renew the customer; and the competitive life cycle is kind of organised around the expiration of contracts as well and it's actually a negative and we think that the market doesn't need a stick in order to stay with the operator and that a carrot is better. We think that we are in the best position to do that. I would rather incentivise a customer to stay than have expensive administration, subsidies and costs to force them to stay. So I think frankly Mobistar is thinking in an old way and they are just trying to figure out a way to recreate the old and the negative instead of moving on to the future. We are going to notice that if the whole market had contracts one day and then tomorrow the whole market doesn't that in theory there should be no change except for Belgacom which is the quadruple play operator that can offer great services and incentives for people to stay with us but it is absolutely not my intention to take this law change and say “wow, I want to change my policy towards subsidisation and become wild and crazy. I don’t understand it. I think it’s an opportunity to become more customer focused and to try to do something to incentivise them rather than to penalise them.

Siddy Jobe: Ok, thank you very much for your lengthy answer. Perhaps just one follow-up question on the Wi-Fi and perhaps stepping in on Scott’s expertise in the sector, when do you think that seamless switching back and forth between 3G and Wi-Fi will become a consumer application?

Scott Alcott: I think it’s a couple of years off. You may have seen at Barcelona Alcatel has announced that they are looking to integrate that into their magic cube strategy which is a Cloud based radio network in location. They are working on integration of that but it’s very early. I don’t want to get technical on a conference call but IMS systems that will allow for authentication across networks and hand-offs, that’s all coming in the future. But I think that’s engineering, people talking like engineers. The truth is that customers don’t generally have that need. Customers are either in a stationary location at home or somewhere else using Wi-Fi. They’re not trying to have Wi-Fi hand off; or they’re in a train or in their car and they are fully mobile. It’s an engineer’s dream to have Wi-Fi hand to mobile and back and forth and it will come, but it’s not the main news case of how customers actually use the network today.

Siddy Jobe: Ok, thank you.

Operator: We will now take our next question from Emmanuel Carlier from ING. Please go ahead.

Emmanuel Carlier: Yes, hi, good afternoon. I have one question, so in the press release you mentioned that Belgacom will launch a company-wide efficiency effort, so could you maybe give some more details on the potential restructuring charges and also the potential cost savings that could come from this programme in 2012 and also in the years thereafter? Thank you.

Didier Bellens: This one is for Ray.

Ray Stewart: Ok. I've talked about this programme before but basically what we did about a year ago, we did a huge benchmarking exercise against our peers in Europe on pretty much all the processes in the company and activities and of course some of those we benchmarked very well and others not so well and so the ones that we didn't benchmark not so well we are looking to make improvements, but we are just beginning those now and it's going to be like a 2, 3 year process to make this happen. It's no dramatic impact on 2012 so that's not driving the guidance one way or the other, so it would be the early days this year on the projects in terms of what the potential costs could be and what the potential savings are. But if we are able to hit some of the targets after three years the savings could be substantial, but we've not given any financial targets yet.

Emmanuel Carlier: Ok, thank you.

Operator: We will now take our next question from Antoine Pradayrol from Exane. Please go ahead.

Antoine Pradayrol: Yes, good afternoon everyone. I have two questions please, the first one is on your free cash flow for 2012. If I read your guidance correctly on EBITDA and capex, your EBITDA minus capex will probably be declining by roughly €100 million. Should we expect free cash flow to decline by a similar amount or are there any specific elements to expect at the free cash flow level below EBITDA minus capex? That's the first question. The second one is on The Phone House, I'm not sure about…I don't know what kind of revenues we should be expecting from The Phone House in 2012 in your guidance and also if possible any EBITDA contribution. Thank you very much.

Didier Bellens: The first question on free cash flow in 2012 is for Ray.

Ray Stewart: Yes, we provide our guidance, we give the elements so we have been very consistent, we don't guide on free cash flow. There's nothing out there though that I am aware of that's any significant amount that you should adjust whatever you're using to forecast free cash flow for in 2012 versus what you did in 2011.

Antoine Pradayrol: Ok, that's great.

Didier Bellens: Second for Scott.

Scott Alcott: Just remember the strategy by the way. It's to get more control of direct distribution and have brands that can reach different segments but we do not give channel by channel revenue numbers and we will not break that out for our competitors.

Antoine Pradayrol: Thanks.

Operator: We will now take our next question from Ulrich Rathe from Jefferies. Please go ahead.

Ulrich Rathe: Yes, thanks very much. Maybe coming back to the earlier question about the efficiency effort, Ray, you said that we shouldn't be expecting the beneficial effect materially in 2012 but you do mention this particular programme in the context of your EBITDA guidance, so I was just wondering whether it is a material part of the EBITDA decline that you are guiding for for this year or whether it's a very minor part and you chuck it in there to highlight the fact that you're doing it? Thank you.

Ray Stewart: It's more just to highlight the fact that we're doing it. It's not really a big driver on the cost side of our guidance, it's just more or less to make everybody aware that the project is ongoing.

Ulrich Rathe: Thank you.

Operator: We will now take our next question from Usman Ghazi from Berenberg Bank. Please go ahead.

Usman Ghazi: Good afternoon gentlemen, just one quick question please. Is it a foregone conclusion that the telecom law will mandate a six month contract termination rule or is that still all up for discussion? Thanks.

Scott Alcott: We don't have a law and things are still in discussion and I guess while things are being discussed anything can happen, but look, what it looks like is there will be a going forward provision and a bit of a kind of soft landing on contracts that are in place and that will all be articulated to the market. I hope my message was extremely clear though, that we see this as a de-escalation in the market and we think operators are mistaken if they think they should use that to escalate subsidies and devices and all that. It's not Belgacom's policy and it's our hope that the market will be more satisfied and sticky, when everyone behaves without contracts it should be stable and we are not expecting dramatic efforts on that, certainly not led by us.

Usman Ghazi: Thank you very much.

Nancy Goossens: Ok, if there are no more questions I guess we can end this call now, so I thank you all for participating. If you would have any follow-up questions then obviously you can still call the IR team. Thank you very much.

Operator: Thank you for your participation ladies and gentlemen, you may now disconnect.