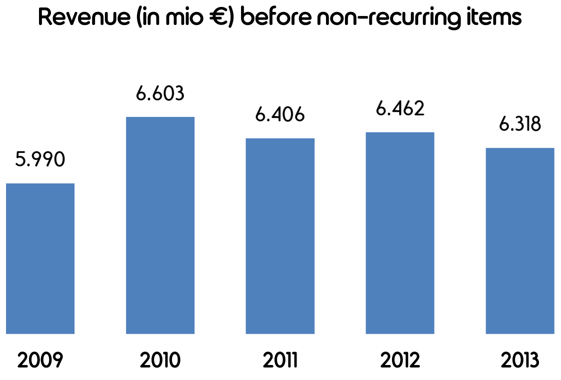
CONSOLIDATED MANAGEMENT REPORT

Management discussion and analysis of financial results

Belgacom Group

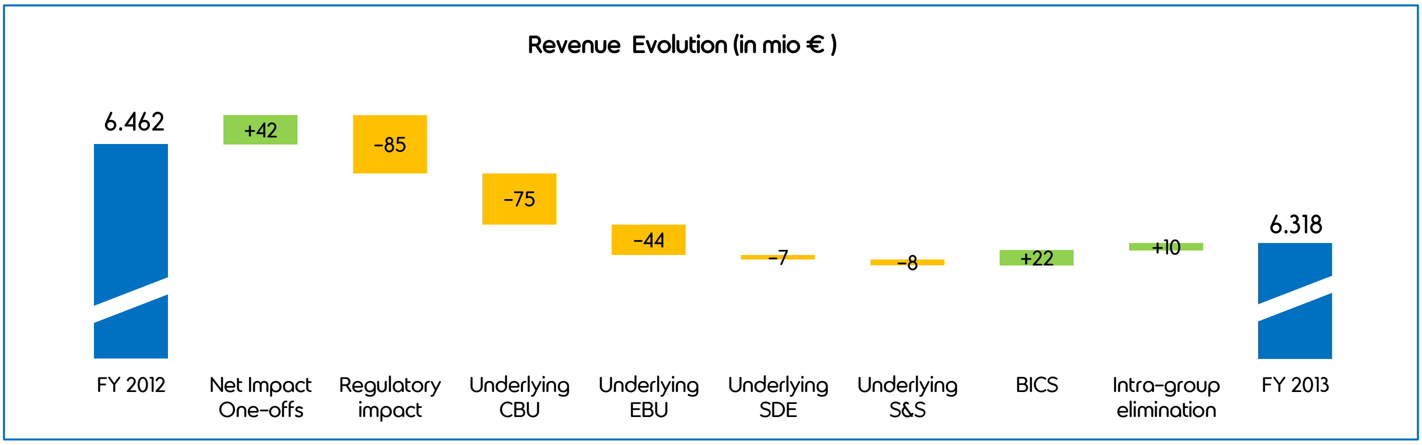
- Group revenue of EUR 6,318 million; 2.2% lower than for 2012
- Group EBITDA[1] of EUR 1,713 million, i.e. -4.9% lower than for 2012
- Full-year EBITDA margin of 27.1%
- Belgacom generated EUR 505 million Free Cash Flow in 2013

Revenues



The Belgacom Group ended the year 2013 with total revenue of EUR 6,318million, or -2.2% lower than for 2012. Capital gains[2] and other one-off[3] impacts excluded, the Belgacom Group revenue was 2.9% or EUR 186 million lower than the previous year. Like its peers in the European Telecoms industry, Belgacom saw its revenue pressured by regulatory measures[4], including both local and European imposed price reductions. This caused a EUR 85 million revenue loss for the Belgacom Group, or -1.3%. Furthermore, as a result of the sale of some its The Phone House stores[5], Belgacom generated less revenue from this sales channel.

Belgacom's revenue was significantly impacted by a tough mobile market, resulting from the new Belgian Telecom law, in force since October 2012, and more aggressive price competition on the Belgian Mobile market.



In particular, Belgacom saw its mobile revenue going down due to the loss of mobile postpaid and prepaid customers, and because of lower revenue per user due to the introduction of new attractive mobile prices. Even though Belgacom's ramping down of mobile prices and its successful retention actions could fairly quickly restore the customer

1 EBITDA before non-recurring items

2 In 2013, the Belgacom Group realized EUR 31 million capital gains on the sale of technical buildings in the framework of its network simplification program.

3 One-off amounts impacting the year-over-year variance, including accounting adjustments and provision reversals.

4 Regulatory price reductions on Roaming rates and Mobile Termination Rates.

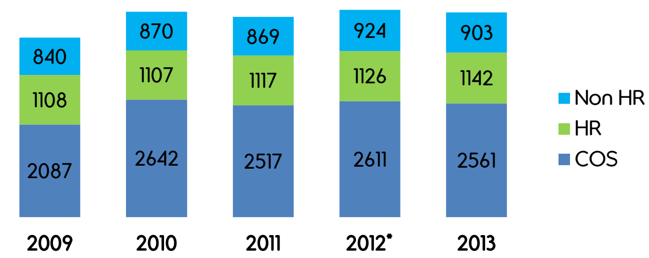
5 As part of the agreement with the Competition Council, Belgacom sold some of The Phone House stores in November 2012.

churn levels and turn the mobile postpaid customer base back to growth, the financial effect was substantial for both the Consumer and Enterprise segment.

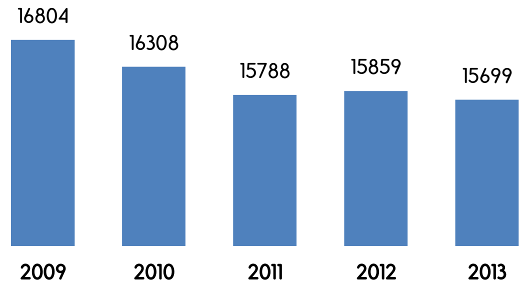
The revenue pressure on Mobile was to some extent offset by a firm financial performance of the Fixed business, with growing revenue for Fixed Internet and TV services. For both services, Belgacom grew its customer base over the year 2013 and saw its revenue per customer slightly increase as a result of price indexation.

Belgacom's International Carrier Segment, BICS, also showed a positive revenue contribution compared to the previous year driven by a firm uptake in Mobile revenue.

Operating expenses (in mio €)



Headcount evolution (in FTE)



Operating expenses

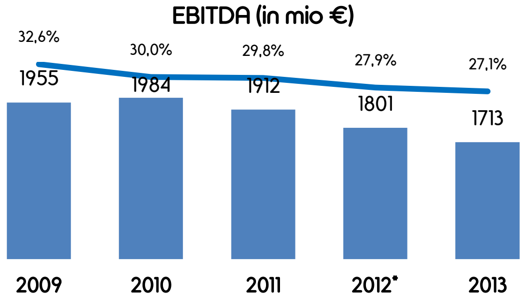
The Belgacom Group's total operating expenses for 2013 amounted to EUR 4,605 million before non-recurring items, which is 1.2% lower compared to the year before.

The Belgacom Group ended the year 2013 with EUR 2,561 million **Cost of Sales**, i.e. 1.9% lower than the previous year. One-offs[6] excluded, Belgacom's Cost of Sales was 0.9% lower. In addition to the positive effect from Belgacom's efforts to reduce costs through value management, the favorable evolution was driven by lower costs related to The Phone House as some of the stores were sold, and a positive impact from the lowered Mobile Termination Rates. The lower costs from the customer segments were partly offset by higher costs for BICS.

The 2013 **HR-expenses** of EUR 1,142 million were up +1.4% versus 2012. This increase was mainly driven by the inflation-based wage indexation in January 2013, for a large part offset by the year-on-year reduction in headcount to 15,699 full-time equivalents (-160 FTEs) and more capitalized manpower resulting from Belgacom's network and IT simplification projects in 2013. Early 2013, the last wave of employees which signed up for the "Tutorship" restructuring program, left Belgacom. This was partly offset by some business-critical hiring.

The 2013 **non-HR expenses** for the Belgacom Group were down by 2.3% to a total of EUR 903 million, benefitting from continued company-wide cost containment efforts, and the lower costs related to The Phone House. This largely offset the impact in 2013 from resources required for Belgacom's simplification projects within the Service Delivery Engine segment.

EBITDA



The Belgacom Group reported EUR 1,713 million **EBITDA**[7] for 2013, or 4.9% less than for 2012. Capital gains[8] and other one-off[9] impacts excluded, the Belgacom Group EBITDA was 8.7% or EUR 160 million lower than the previous year.

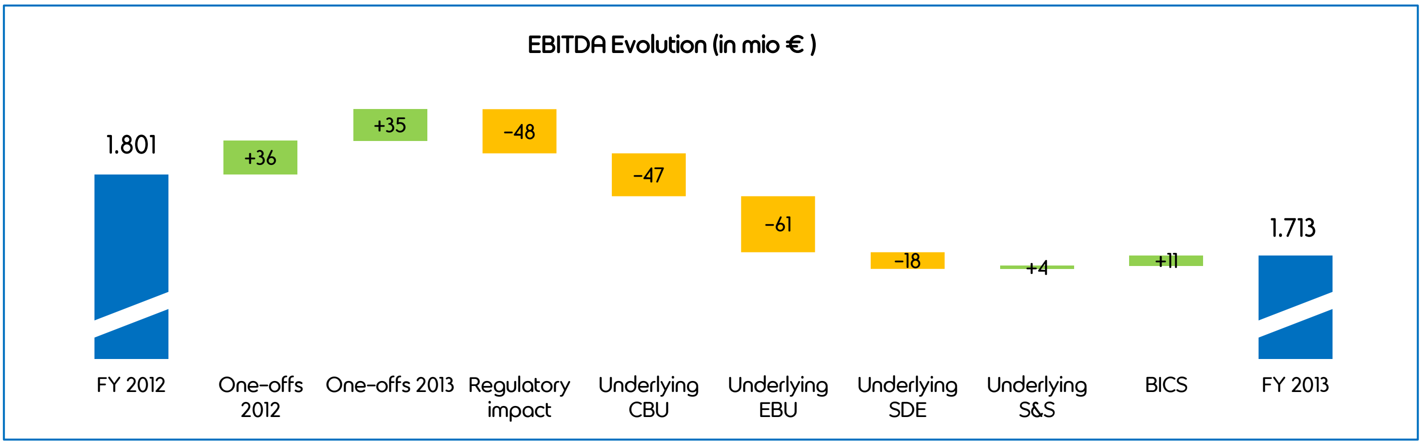
Regulatory measures had a negative impact for a total amount of EUR 48 million, or -2.7%. The remaining decrease in EBITDA is mainly driven by a lower direct margin within the two customer segments.

[6] Accounting adjustments recorded in the second quarter 2012 following the adoption of the New Telecom law and an accounting reallocation in the third quarter 2013

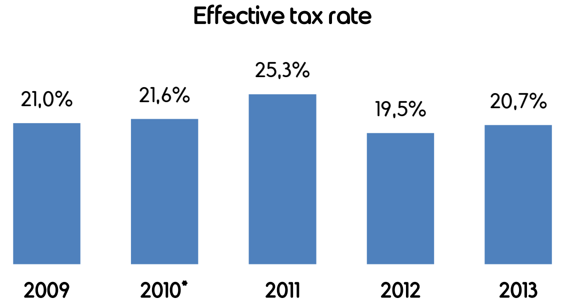
[7] Before non-recurring items

[8] In 2013, the Belgacom Group realized EUR 31 million capital gains on the sale of technical buildings in the framework of its network simplification program.

[9] One-off amounts impacting the year-over-year variance, including accounting adjustments, impairment and provision reversals.



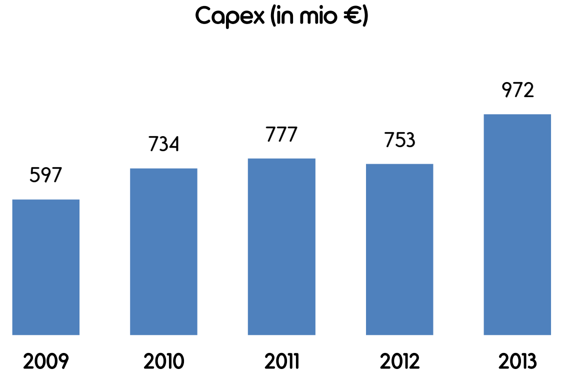
Tax Expense

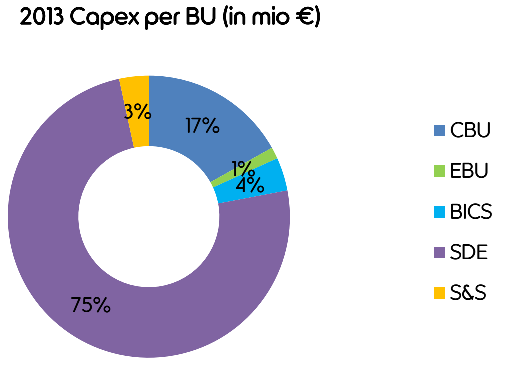


* Normalized effective tax rate, excluding the non-recurring non-taxable gain of EUR 436 million

The effective tax rate was 20.7% for the year 2013. This is slightly above the effective rate of 19.5% for the year 2012 which included an accelerated use of tax losses. The 2013 tax rate results from the application of the general principles of Belgian tax and international law.

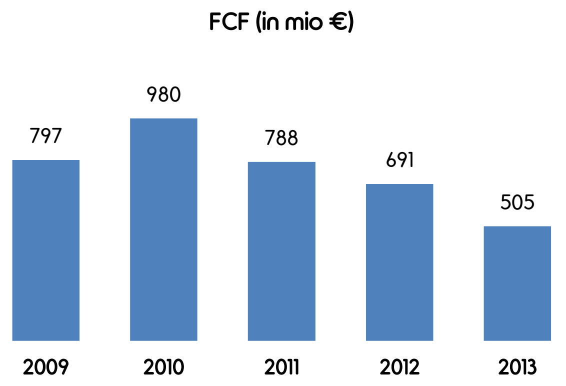
CAPEX





The Belgacom Group's invested amount for the full-year 2013 totaled EUR 852 million, or 13.5% of Group revenue. This is EUR 972 including the 800 MHz spectrum license which Belgacom obtained for the minimum price of EUR 120 million. With network quality being an important differentiator in a more intense Belgian competitive market, investments in the Fixed and Mobile networks represent the majority of invested amounts. Apart from ongoing basic network investments for renewal and expanding capacity, Belgacom invested in increasing its download speeds on the broadband network through the implementation of Dynamic Line Management, an in-house developed technology, and started to prepare the network for the Vectoring roll-out in 2014. Furthermore, on the mobile side, Belgacom increased its mobile data speeds to 6 Mbps on average on 3G, rolled out Dual Carrier and continued to deploy the 4G technology, reaching over 50% outdoor coverage end-2013, with 4G availability in over 260 Belgian cities. The SDE&W division is also implementing a Network Simplification program and a company-wide IT change plan.

Free Cash Flow*



Belgacom ended the year 2013 with EUR 505 million of **Free Cash Flow** or EUR 186 million less than for the same period of 2012, mainly due to higher income tax payments, higher cash paid for Capex, and lower EBITDA partially offset by a positive evolution in the working capital.

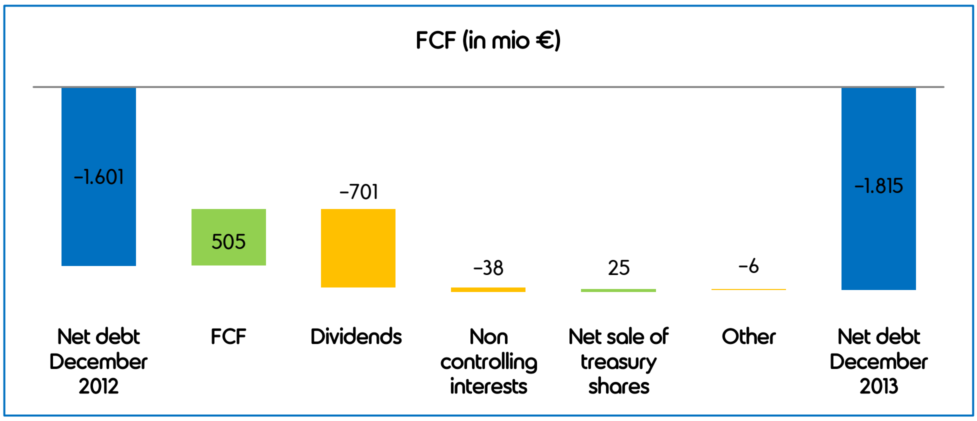
The FCF does not include the Capex acquisition of the 800 Mhz spectrum license paid over a 20-year period (EUR 120 million). Acquisition and financing are treated as a non-cash transaction. The 2013 reimbursement of EUR 6 million is included in the financing activities of the cash flow statement.

(*) Cash flow before financing activities

Net financial position

Compared to end-2012, the net financial debt increased by EUR 214 million to EUR 1,815 million per end of 2013 as the cash returned to shareholders in the form of dividends exceeded the 2013 Free Cash Flow.

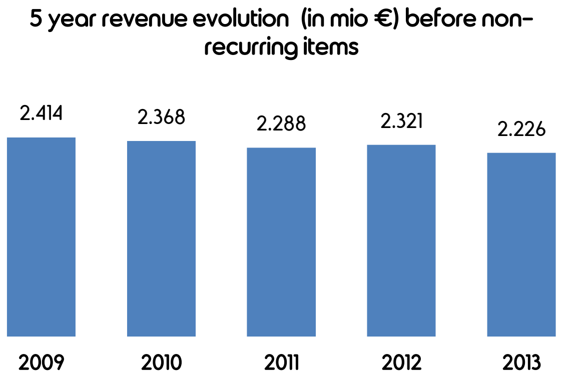
The outstanding long-term gross financial debt (re-measured at fair value) amounted to EUR 1.9 billion at the same date. The outstanding amount of EUR 114 million from the deferred payment arrangement for the 800 MHz license is not included in the net financial debt.



Consumer Business Unit – CBU

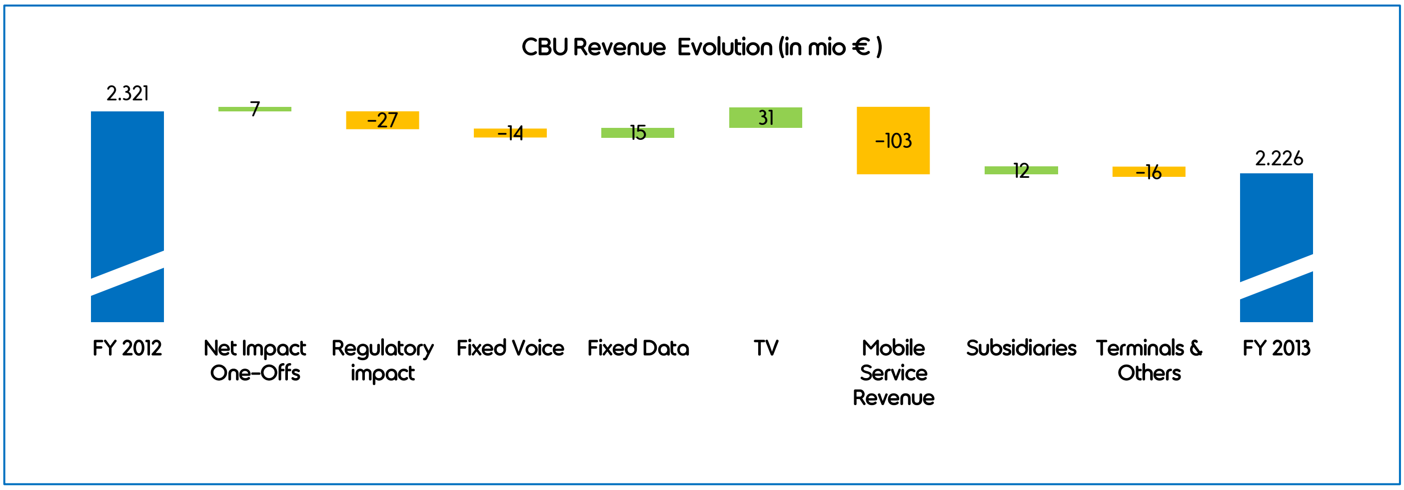
- Consumer segment generated EUR 2,226 million revenue in 2013, down 4.1% from 2012
- The disruption in the mobile market significantly reduced Mobile revenue
- Revenue growth from solid Fixed business provided some relief
- Good customer growth in 2013 for TV, Internet and Mobile postpaid
- Full-year segment result of EUR 971 million, i.e. a 2% decline compared to 2012

CBU revenues



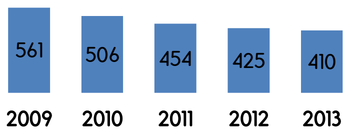
For the full-year 2013, CBU reported revenues of EUR 2,226 million or 4.1% less than for 2012 or -4.4% on a comparable basis[10]. The year-over-year decrease is driven by the impact from the mobile disruption in the Belgian market. The increased price competition in combination with a new Telecom law, in force since October 2012, triggered an unprecedented volatility in the mobile market. Even though Belgacom succeeded in lowering churn levels early 2013, the prior Postpaid customer loss, a continued declining prepaid customer base, and the re-pricing of existing customers resulted in a significant loss of Mobile revenue. This was partly compensated for by a solid performance of fixed products, with both TV and Internet showing a sound revenue growth.

Furthermore, regulatory measures reduced the 2013 revenue by EUR 27 million (-1.2%). This entails the effect from a further decline of Voice roaming tariffs, lower Mobile Termination Rates and the resulting decline in fixed-to-mobile tariffs, as well as the regulated capping of Mobile Data Roaming pricing.

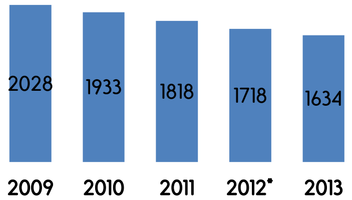


[10] Excluding one-off accounting adjustments in 2012 and 2013

Fixed voice revenue (in mio €)

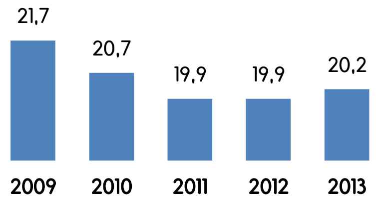


Fixed voice customers (in '000)



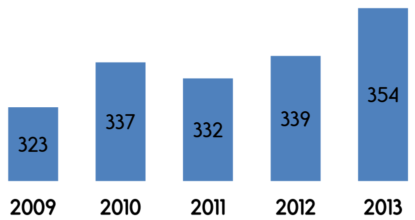
*Year-over-year difference differs from net add figures due to a re-segmentation exercise between the Business Units

Fixed voice ARPU (in €)

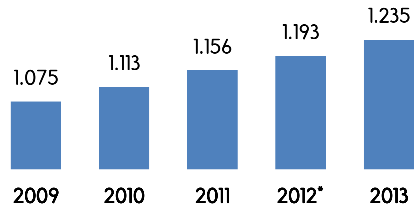


Belgacom generated EUR 410 million from **Fixed Voice**, or 3.4% less compared to 2012. The revenue pressure is mainly driven by a stable, though continued Fixed line erosion. In 2013, the consumer Fixed Voice customer base decreased by 84,000 lines. As a result, the Consumer segment ended 2013 with a total of 1,634,000 lines, 4.9% lower than the prior year. The ARPU, however, slightly increased to EUR 20.2 (+1.5%), positively impacted by price changes in 2013.

Fixed Internet revenue (in mio €)



Fixed internet customers (in '000)



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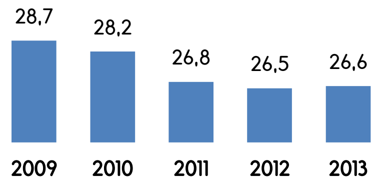
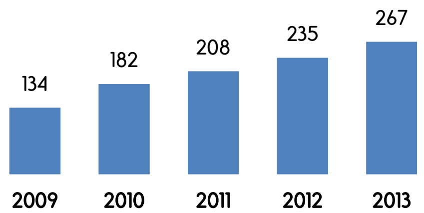
Fixed Internet ARPU (in €)

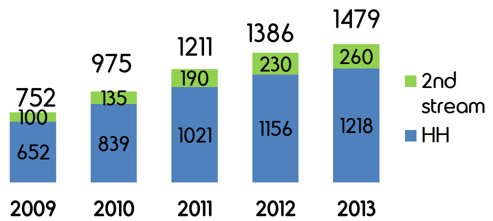


Revenue from **Fixed Internet** grew 4.5% to EUR 354 million in 2013. This results from a combination of a growing customer base and some price changes in 2013. Driven by its successful Pack offers, the Consumer segment added 42,000 new Internet customers in the course of 2013, growing its customer base by 3.6% to 1,235,000. In 2013, the ARPU went up by 0.4% to EUR 26.6 as customer pricing was adjusted in exchange for more volume and speed.

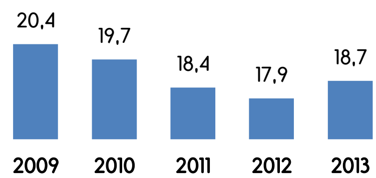
TV revenue (in mio €)



TV customers (in '000)



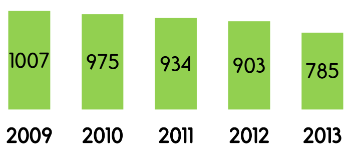
TV ARPU (in €)



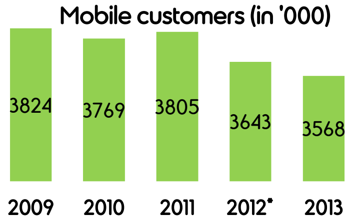
Belgacom continued to grow its **TV** revenue, reaching EUR 267 million for 2013. This 13% revenue growth compared to 2012 resulted from Belgacom's successful convergent Pack sales, attracting 62,000 new households to Belgacom TV. By end 2013, Belgacom's TV customer base counted 1,218,000 TV households, or 1,479,000 when including multiple set-top boxes.

Another revenue growth driver was the ARPU, supported by a price increase for rented settop boxes since February 2013. The 2013 ARPU increased to EUR 18.7, up 4.4% over the prior year.

Mobile Service Revenue (in mio €)



Mobile customers (in '000)



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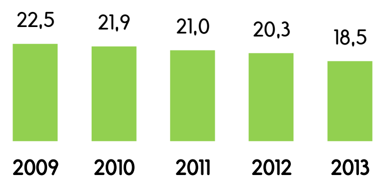
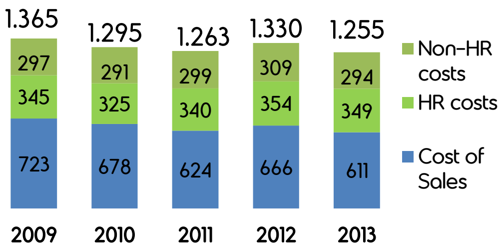
Mobile Blended ARPU (in €)



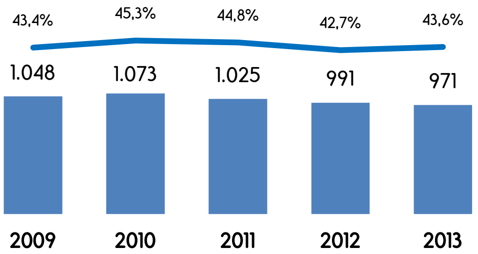
The revenue generated by Belgacom's Consumer segment from **Mobile services** (i.e. combined revenue from Mobile Voice, Mobile Data and SMS) was significantly reduced in 2013 as a result of regulatory measures[11] and the mobile market disruption. This started mid-2012 and reached its zenith when the new Telecom law was adopted on 1 October 2012. In 2013, the consumer segment saw its revenue from Mobile services being reduced by EUR 119 million or 13% versus the prior year. This was due to a combination of postpaid customers lost in 2012, a decreasing prepaid customer base, and the effect of customers signing up for Belgacom's new, more attractive mobile price offers. Backed by its superior mobile network, attractive mobile offers and convergent Pack offers, Belgacom was able to restore the port-in/port-out balance fairly quickly, resulting in a net growth of 208,000 mobile postpaid Voice and Data cards. This brought the total postpaid base to 1,928,000 mobile cards by end-2013. Prepaid cards, however, continued to show a declining trend. The Consumer segment lost 283,000 prepaid cards, resulting in a total of 1,640,000 cards by end-2013. With mobile prices becoming more attractive, the blended mobile ARPU eroded to EUR 18.5, 8.9% lower compared to 2012.

CBU operating expenses

Total expenses (in mio €)



Segment result (in mio €) & margin



The **total expenses** from the Consumer segment were EUR 1,255 million or 5.6% lower than previous year.

The 2013 **Cost of Sales** ended 8.3% lower to reach EUR 611 million. This is the combined result of positive regulation effects, the divestment of part of The Phone House stores, as well as the benefits from a value management approach.

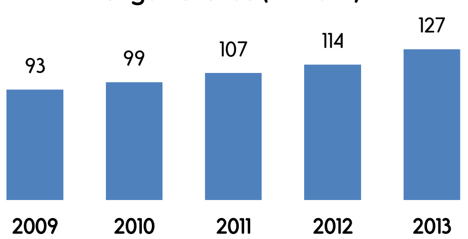
The Consumer segment recorded EUR 349 million **HR costs**, 1.3% lower than for the prior year. The impact from the January 2013 inflation-based wage indexation was more than offset by the positive impact from the divestment of part of The Phone House stores.

This divestment also positively impacted the **non-HR** costs, totaling EUR 294 million or 4.9% lower compared to 2012. Furthermore, costs were reduced through continued cost optimization efforts.

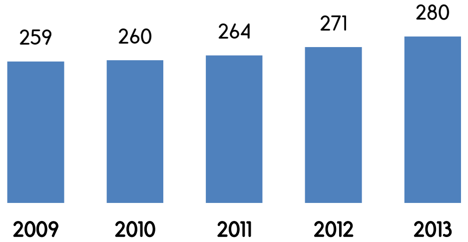
The CBU full-**year segment result** amounted to EUR 971 million which is EUR 20 million or 2% below that of 2012. The year-on-year variance was impacted by a one-off accounting adjustment[12] and litigation provisions and a loss on disposal. Adjusted for these, the segment result was down by 5.4% from 2012. Apart from a negative impact from regulation for EUR 8 million, the segment decline was mainly driven by the pressure on the Direct Margin, partly compensated for by a lower cost base. The 2013 full-year contribution margin[13] was 43.6%.

Subsidiaries: Tango & Scarlet

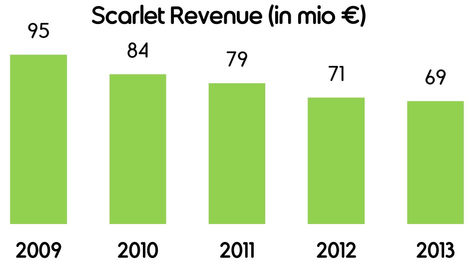
Tango Revenue (in mio €)



Tango Mobile customers (in '000)



Scarlet Revenue (in mio €)



For the full-year 2013, **Tango**, Belgacom's Luxembourgish mobile operator, continued to do well with reported revenues of EUR 127 million or an increase of 11.2% compared to 2012. This growth is driven by the good trend of smartphone sales with Tango's leading 4G subscriptions in Luxembourg and a growing customer base for quadruple play, including TV. Furthermore, over the year 2013, Tango added 9,000 customers.

With **Scarlet**, Belgacom's multi-brand strategy in its home market started to pay off with the full-year revenue loss substantially declining versus previous years. In the last quarter of 2013, Scarlet's year-over-year evolution came to a turnaround point and progressed to a slight growth.

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11 Lower regulated rates for Mobile Termination, Voice and Data Roaming

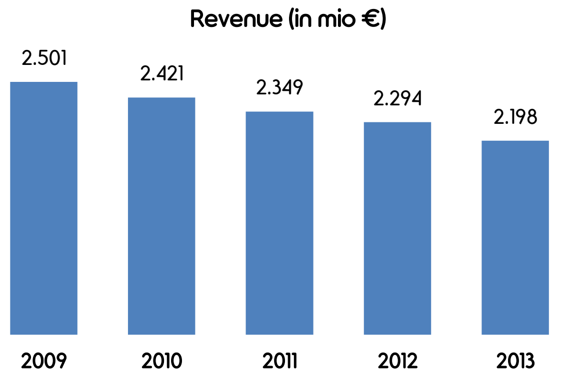
12 A EUR 26 million accounting adjustment was recorded in the second quarter 2012 following the passing of the new Telecom law

13 Belgacom does not apply a full cost allocation. Network and IT costs are therefore mainly centralized within SDE&W

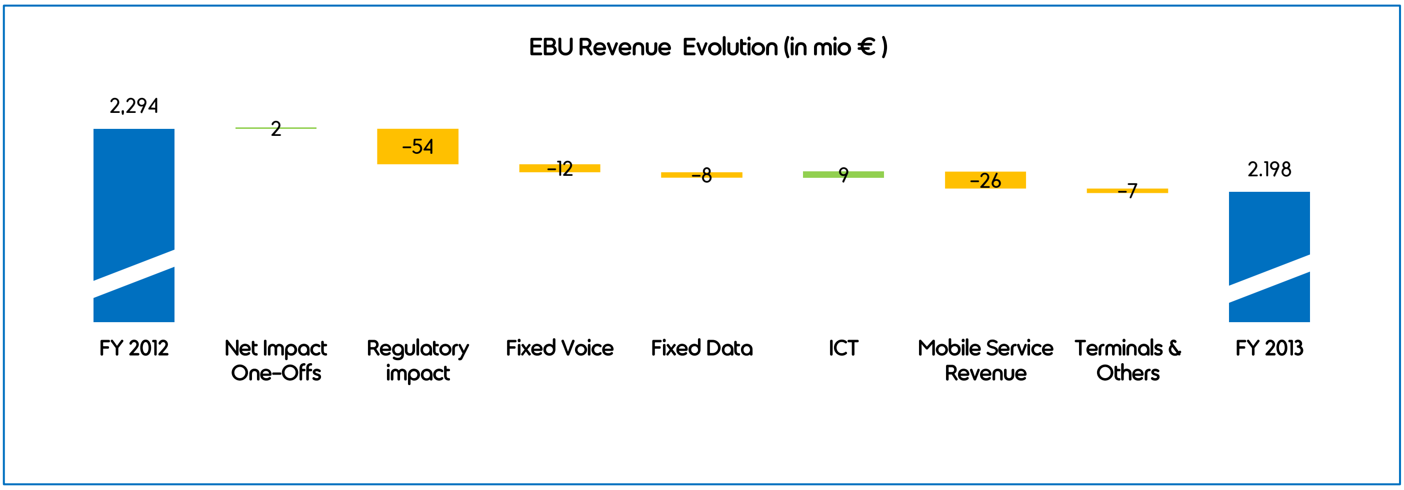
Enterprise Business Unit – EBU

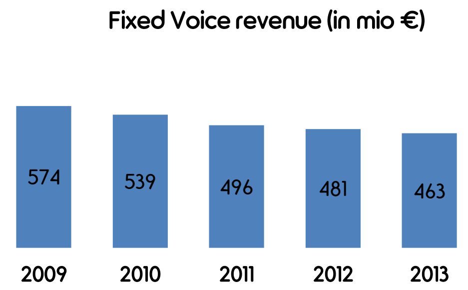
- Mobile disruption spill-over to business market impacting revenue and direct margin
- Solid growth in Mobile customer base
- Slow economy hampers ICT growth
- Regulatory price cuts significantly impacted revenue and segment result
- 2013 segment result totals EUR 1,023 million

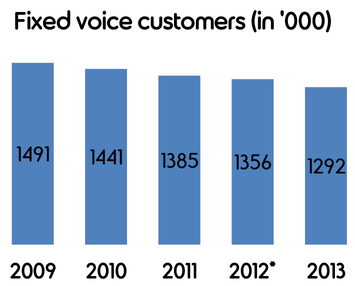
EBU revenues

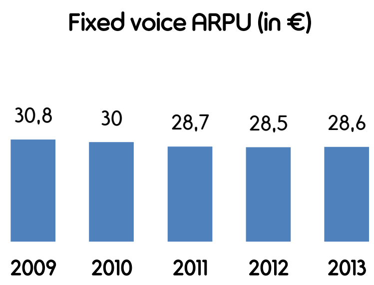


Over the year 2013 Belgacom's professional customer segment generated EUR 2,198 million in revenue, i.e. 4.2% lower than for 2012. This decline was partly caused by regulatory[14] measures, lowering EBU's 2013 revenue by EUR 54 million or -2.3%. The remaining decline was primarily due to the disruption in the Belgian mobile market, with a substantial spill-over effect on the business market. The introduction of more abundant offers, including higher volumes of free minutes and SMSes, as well as higher data volumes, caused a significant pressure on the mobile revenue. This could not be fully compensated for by higher revenue from ICT, whose growth was hampered by a weak economy.







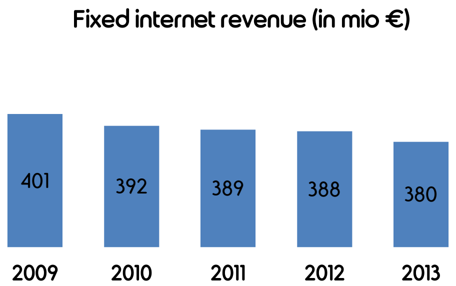


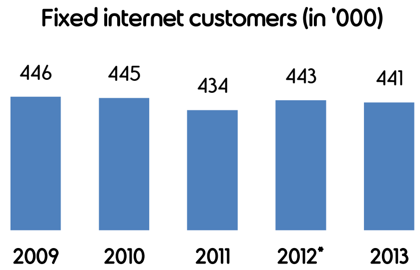
*Year-over-year difference differs from net add figures due to a re-segmentation exercise between the Business Units

With enterprises rationalizing on their Fixed Voice lines, EBU's **Fixed Voice** business continued its declining trend in 2013. Over the full-year 2013, EUR 463 million was generated in Fixed Voice, or 3.8% less than for 2012. This is in part due to the lowered Fixed-to-Mobile rates, and in part to the continued erosion of Fixed Voice lines. In 2013 EBU's Fixed Voice

[14] Lower Mobile Termination Rates and the flow-through to Fixed-to-Mobile rates, lower Voice and Data Roaming rates

line base eroded by 64,000 lines to a total of 1,292,000. The price changes in 2013 gave some support to the 2013 Fixed Voice ARPU[15] which slightly increased to EUR 28.6.





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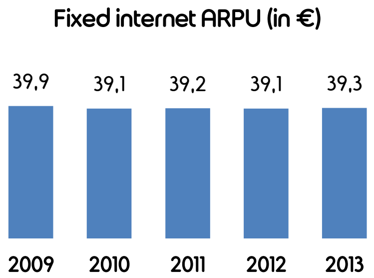
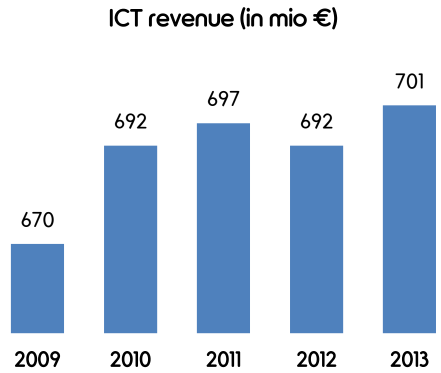
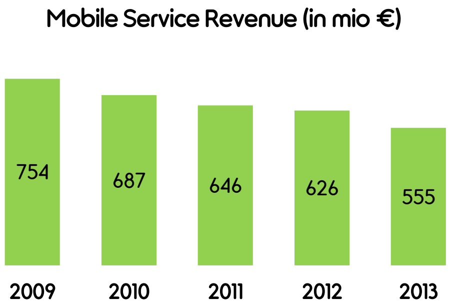
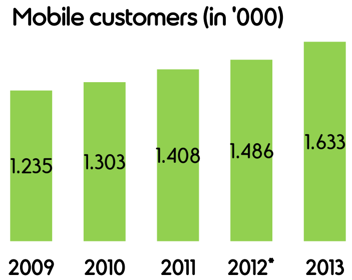


For the full-year 2013, EBU reported EUR 380 million **Fixed Data** revenues, 2.1% less than for 2012. This includes revenue from Fixed Internet and data connectivity. The decline is in part due to a continued migration from older technologies to the Belgacom Explore platform, for which pricing is more favorable for customers. Furthermore, EBU ended the year 2013 with a slightly smaller customer base of 441,000 Internet customers (-0.5% year-on-year), partly offset by a 0.5% increase in ARPU to EUR 39.3, mainly driven by price adjustments. This offset the impact on ARPU from SOHO and SME customers increasingly opting for advantageous converged Packs.

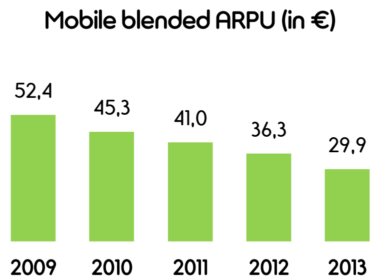


EBU reported EUR 701 million **ICT** revenue for 2013. This is EUR 9 million or 1.3% more than in 2012, in spite of an unfavorable economic climate, with customers delaying IT projects or opting for private Cloud-based solutions, triggering a shift from one-time revenue to monthly service fees.





*Year-over-year difference differs from net add figures due to a re-segmentation exercise between the Business Units



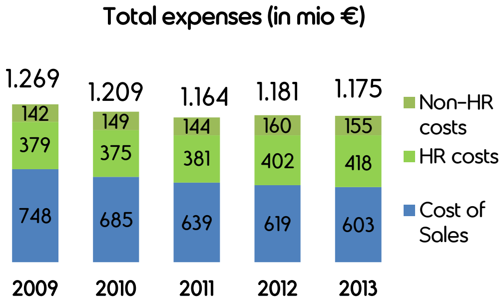
The **Mobile service revenue**, i.e. the combined revenue from Mobile Voice, Mobile Data and SMS, within the Enterprise Segment declined from EUR 626 million in 2012 to EUR 555 million in 2013 or -11.4%. Regulatory[16] price cuts significantly reduced the mobile revenue, with Mobile Data in particular being impacted by the capping of retail Data Roaming prices since July 2012, further reduced on 1 July 2013. In addition, EBU's Mobile Service revenue was impacted by a spill-over effect on business customers from the mobile re-pricing triggered by the new Telecom law. EBU's new Mobile pricing, supported by a recognized high-quality Mobile network, resulted in a rapid restoration of the port-in/port-out balance as of mid-2013. With an annualized Mobile churn rate of 11.9% for 2013, the churn fell even below the 12.7% mark of 2012. Mobile cards sold in a multi-play Pack did very well in 2013, and pushed the Mobile sales to a strong growth of 147,000 mobile cards, including Mobile Voice, Mobile Data and Machine-to-Machine cards. This brought the EBU Mobile customer base by end-2013 to 1,633,000 cards, up by 10% year-on-year.

With mobile pricing under severe pressure, and an increasing number of Machine-to-Machine cards at low ARPU, the blended mobile ARPU amounted to EUR 29.9, down by 17.6% from the prior year. Most of the ARPU pressure, however, is caused by regulatory price cuts and the uptake of more abundant price plans, including more free Voice usage.

15 Average revenue per user on a monthly basis

16 The final cut in Mobile Termination Rates (1 January 2013) and the reduced Voice and Data Roaming rates

EBU operating expenses

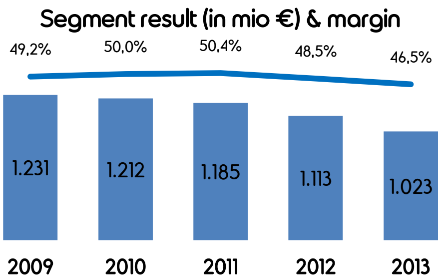


The **total operating expenses** for the Enterprise Business Unit for 2013 totaled EUR 1,175 million, 0.5% lower compared with the previous year. This results from lower Cost of Sales and Other operating expenses, partly offset by higher HR costs.

For 2013, EBU reported EUR 603 million in **Cost of Sales**, i.e. 2.6% less than for 2012. This results from the positive effect from lower Mobile Termination Rates, more than offsetting volume-driven commissions and SMS interconnection costs.

Year-over-year the **HR expenses** increased by 3.9% to EUR 418 million in 2013, mainly due to a higher personnel base versus the previous year to support the increased servicing to Business customers and the migration from 'old' to 'new' technologies, along with the inflation-based salary indexation of January 2013.

EBU segment result and contribution margin

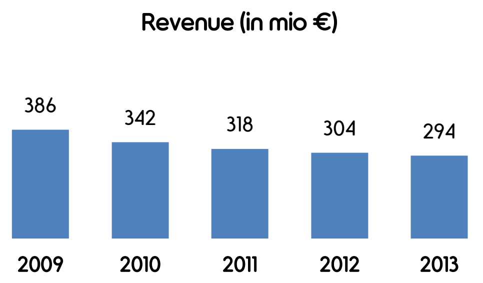


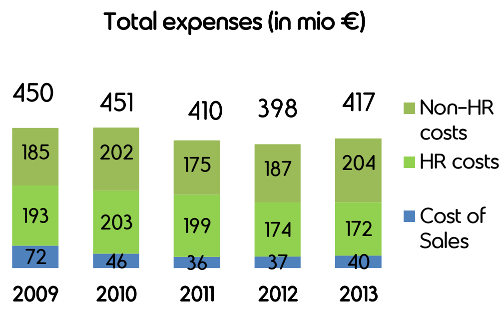
EBU's **segment result** over the full-year 2013 totaled EUR 1,023 million, 8.1% lower compared to 2012 or 8.8% lower on a comparable[17] basis. This includes a EUR 37 million (-3.3%) negative impact from regulation. The remaining decrease was mainly driven by a lower Direct margin resulting from the pressure on Mobile Service and Fixed Voice revenue.

The contribution margin[18] decreased to 46.5% in 2013.

[17] Corrected for the EUR 8.1 million accounting adjustment in the second quarter 2012 following adoption of new Telecom law
18 Belgacom does not apply a full cost allocation. Network and IT costs are therefore mainly centralized within SDE&W

Service Delivery Engine & Wholesale – SDE&W





SDE&W revenues

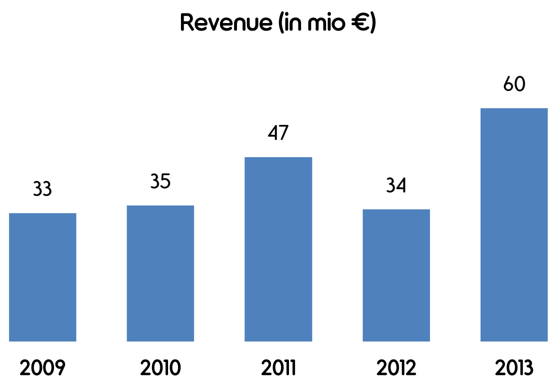
Revenue within the SDE&W segment relates mainly to wholesale activities from Belgacom. Over the full-year 2013 the SDE&W revenues amounted to EUR 294 million, or 3.4% below those of 2012. This includes the negative effect from some regulatory[19] measures, lowering the SDE&W revenue by EUR 4 million (-1.2%) in 2013. The remaining decline is due to lower broadband volumes, partially compensated for by the commercial wholesale offer to Base and the growth in Roaming volumes which compensated for both regulated and commercial price reductions.

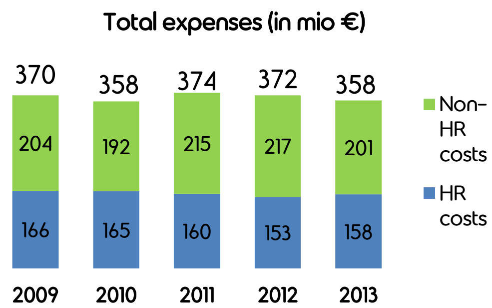
SDE&W operating expenses

Over the full-year 2013, the HR expenses totaled EUR 172 million, slightly down from the prior year. The salary indexation of January 2013 was more than compensated for by the effect from a lower headcount and more capitalized manpower resulting from increased network investments and IT development in 2013.

The total non-HR expenses for the full-year 2013 totaled EUR 204 million. Besides the one-off provision reversal in the third quarter 2012, costs were up year-on-year because of the resources required for Belgacom's simplification projects.

Staff & Support – S&S





The revenue from Staff & Support over the full-year 2013 totaled EUR 60 million, of which EUR 31 million was driven by capital gains recorded in the first and last quarter of 2013. These capital gains came from the sale of technical buildings as part of the network simplification project.

S&S operating expenses

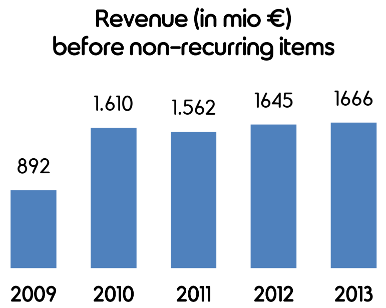
The full-year 2013 non-HR expenses were down 7.7% from a high comparable base, driven by some unfavorable incidentals recorded in 2012 (impairment, provision for environmentally driven soil works) as well as the funding of the cost-efficiency project initiated in 2012. The HR expenses were up by 3% as a result of the inflation-based wage indexation in January 2013, partially offset by the lower headcount compared to end-2012.

19 Regulatory impacts from Mobile Termination Rates and lowered Local Loop Unbundling and Bitstream prices

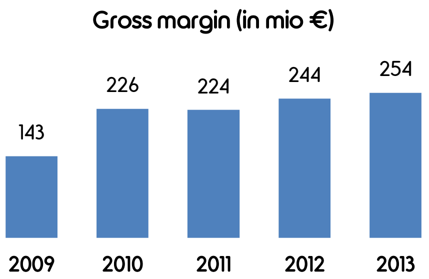
International Carrier Services – BICS

- Revenue increase of 1.3% over 2012
- Favorable destination mix to large extent offset by EU-wide MTR cuts & dollar effect
- Continued strong uptake of Mobile data
- 2013 gross margin up by 3.9% from 2012

ICS revenues

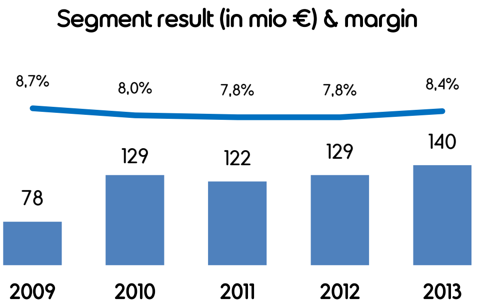


Over the full-year 2013 BICS reported EUR 1,666 million revenue, up by EUR 22 million or 1.3% compared to 2012, driven by BICS' non-Voice business. Revenue from the Voice business was fairly stable in relation to the previous year, as the benefit from a better destination mix was neutralized by the negative effect from European-wide MTR reductions and a disadvantageous dollar evolution.



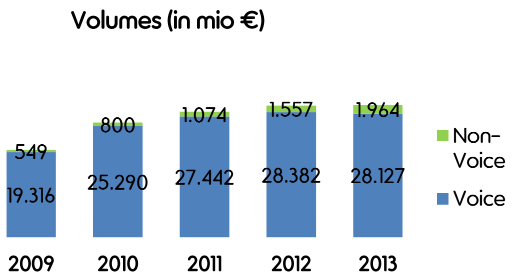
The Gross margin over the full-year 2013 totaled EUR 254 million, a 3.9% year-on-year increase. While Voice revenues remained stable, the Voice gross margin improved by 8.2% driven by the high-margin traffic to Asia, while the MTR and dollar impacts are limited on gross margin. On the other hand, non-Voice revenues were up by 12.9% whereas the Gross margin was down by 0.9% because of fierce price competition.

ICS EBITDA and margin



Driven by a higher Direct Margin and somewhat lower expenses, BICS reported over the full-year 2013 a segment result of EUR 140 million, up 8.6% from 2012, and a segment margin of 8.4%.

ICS Volumes



Voice volumes were slightly down versus 2012 whereas non-voice volumes continued to grow strongly in 2013, up by 26% from the prior year.

Quarterly results as reported

Group – Financials

(EUR million)	Q112	Q212	Q312 Restated	Q412	2012	Q113	Q213	Q313	Q413	2013
Revenues (1)	**1,588**	**1,611**	**1,620**	**1,644**	**6,462**	**1,586**	**1,583**	**1,568**	**1,582**	**6,318**
Consumer Business Unit	577	575	587	581	2,321	553	567	549	556	2,226
Enterprise business unit	579	576	560	579	2,294	554	554	533	557	2,198
Service Delivery Engine & Wholesale	78	76	75	76	304	75	74	73	72	294
Staff&Support	9	7	7	11	34	18	7	10	25	60
International Carrier Services	382	409	424	430	1,645	417	413	437	401	1,666
Intersegment eliminations	-37	-34	-33	-33	-137	-31	-32	-34	-30	-127
Costs of materials and charges to revenues	**-614**	**-667**	**-649**	**-680**	**-2,611**	**-637**	**-645**	**-636**	**-643**	**-2,561**
Personnel expenses and pensions	**-278**	**-281**	**-290**	**-278**	**-1,126**	**-290**	**-283**	**-288**	**-282**	**-1,142**
Other operating expenses	**-226**	**-224**	**-217**	**-256**	**-924**	**-218**	**-225**	**-216**	**-244**	**-903**
EBITDA (1)	**470**	**438**	**464**	**429**	**1,801**	**441**	**430**	**428**	**413**	**1,713**
Segment EBITDA margin (1)	**29.6%**	**27.2%**	**28.6%**	**26.1%**	**27.9%**	**27.8%**	**27.2%**	**27.3%**	**26.1%**	**27.1%**
Non recurring items	**0**	**-10**	**-1**	**-4**	**-15**	**0**	**0**	**1**	**-15**	**-14**
Ebitda after non-recurring items	**470**	**428**	**463**	**425**	**1,786**	**441**	**430**	**430**	**398**	**1,699**

(1) before non-recurring items

Group reported to underlying

	Q112 Restated	Q113	Var in %	Q212 Restated	Q213	Var in %	Q312 Restated	Q313	Var in %	Q412 Restated	Q413	Var in %	2012 Restated	2013	Var in %
GROUP - REVENUE															
Reported	**1,588**	**1,586**	**-0.1%**	**1,611**	**1,583**	**-1.7%**	**1,620**	**1,568**	**-3.2%**	**1,644**	**1,582**	**-3.8%**	**6,462**	**6,318**	**-2.2%**
One-offs	0	-11		12	0		0	1		0	-20		12	-30	
Like-for-like	**1,588**	**1,575**	**-0.8%**	**1,623**	**1,583**	**-2.5%**	**1,620**	**1,569**	**-3.1%**	**1,644**	**1,561**	**-5.0%**	**6,474**	**6,288**	**-2.9%**
Regulation		24			30			16			15			85	
Underlying	**1,588**	**1,599**	**0.7%**	**1,623**	**1,612**	**-0.6%**	**1,620**	**1,585**	**-2.1%**	**1,644**	**1,576**	**-4.1%**	**6,474**	**6,373**	**-1.6%**
GROUP - EBITDA															
Reported	**470**	**441**	**-6.1%**	**438**	**430**	**-1.9%**	**464**	**428**	**-7.7%**	**429**	**413**	**-3.7%**	**1,801**	**1,713**	**-4.9%**
One-offs	0	-11		34	0		-2	-8		4	-16		36	-35	
Like-for-like	**470**	**430**	**-8.4%**	**472**	**430**	**-9.0%**	**462**	**421**	**-9.0%**	**433**	**397**	**-8.3%**	**1,838**	**1,678**	**-8.7%**
Regulation		15			20			7			5			48	
Underlying	**470**	**446**	**-5.2%**	**472**	**450**	**-4.7%**	**462**	**428**	**-7.4%**	**433**	**402**	**-7.1%**	**1,838**	**1,726**	**-6.1%**

One-offs: net impact provisions, the new Telco Law accounting adjustments in Q2'12, capital gains realised on the sale of a technical buildings, the Q3'13 (EBITDA-neutral) accounting reclassification and the loss on a disposal

Regulation: includes impact from lower Mobile Termination and Roaming rates, and other regulatory impacts

Revenue evolution in percentages

	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
GROUP										
Reported YoY variance	**0.3%**	**-0.1%**	**1.5%**	**1.7%**	**0.9%**	**-0.1%**	**-1.7%**	**-3.2%**	**-3.8%**	**-2.2%**
Like-for-like YoY variance	0.1%	0.8%	0.4%	0.7%	0.5%	-0.8%	-2.5%	-3.1%	-5.0%	-2.9%
Underlying YoY variance	1.0%	1.8%	2.7%	2.1%	1.9%	0.7%	-0.6%	-2.1%	-4.1%	-1.6%
CBU										
Reported YoY variance	**2.1%**	**-0.7%**	**2.8%**	**1.5%**	**1.4%**	**-4.2%**	**-1.5%**	**-6.5%**	**-4.2%**	**-4.1%**
Like-for-like YoY variance	0.5%	-0.8%	0.3%	-1.0%	-0.3%	-4.2%	-3.1%	-5.9%	-4.2%	-4.4%
Underlying YoY variance	1.7%	0.7%	2.8%	0.7%	1.5%	-3.1%	-1.8%	-4.7%	-3.2%	-3.2%
EBU										
Reported YoY variance	**-2.2%**	**-2.9%**	**-2.2%**	**-2.1%**	**-2.3%**	**-4.4%**	**-3.8%**	**-4.7%**	**-3.8%**	**-4.2%**
Like-for-like YoY variance	-1.0%	-0.3%	-2.5%	-2.4%	-1.5%	-4.4%	-4.2%	-4.7%	-3.8%	-4.3%
Underlying YoY variance	0.1%	0.8%	1.3%	-0.3%	0.4%	-1.5%	-0.7%	-3.1%	-2.4%	-1.9%
SDE&W										
Reported YoY variance	**-4.3%**	**-4.9%**	**-3.2%**	**-5.0%**	**-4.4%**	**-3.0%**	**-3.4%**	**-2.4%**	**-4.7%**	**-3.4%**
Like-for-like YoY variance	-5.1%	-6.1%	-4.5%	-6.3%	-5.5%	-3.0%	-3.4%	-2.4%	-4.7%	-3.4%
Underlying YoY variance	-4.3%	-4.9%	-3.3%	-5.0%	-4.4%	-1.8%	-1.7%	-1.9%	-3.2%	-2.1%
BICS										
Reported YoY variance	**2.6%**	**5.5%**	**5.7%**	**7.3%**	**5.3%**	**9.1%**	**0.9%**	**3.0%**	**-6.8%**	**1.3%**

Like-for-like: i.e. excluding impact from M&A, the re-segmentation, the new Telco Law accounting adjustments, capital gains realised on the sale of a technical buildings, the Q3'13 accounting reclassification and litigation settlement

Underlying: i.e. like-for-like excluding impact from regulatory measures

Group – Capex

(EUR million)	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
Group Capex	**186**	**174**	**160**	**234**	**753**	**193**	**177**	**176**	**426**	**972**
Consumer Business Unit	61	33	30	40	164	48	30	26	61	164
Enterprise business unit	4	4	3	5	15	3	3	2	5	13
Service Delivery Engine & Wholesale	116	126	114	158	514	134	137	139	315	725
Staff&Support	5	8	8	19	40	2	5	7	18	33
International Carrier Services	1	3	5	12	20	6	2	3	26	37

CBU – Financials

(EUR million)	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
			Restated							
Revenues	**577**	**575**	**587**	**581**	**2,321**	**553**	**567**	**549**	**556**	**2,226**
From Fixed	**274**	**270**	**274**	**277**	**1,096**	**279**	**281**	**282**	**283**	**1,124**
Voice	110	105	105	105	425	104	103	102	101	410
Data	85	84	85	85	339	87	89	90	89	354
TV	55	57	61	62	235	64	66	67	69	267
Terminals (excl. TV)	6	6	7	7	25	6	6	6	5	23
Scarlet	19	18	17	18	71	17	17	17	18	69
From Mobile	**281**	**282**	**292**	**278**	**1,133**	**255**	**262**	**250**	**252**	**1,019**
Voice	130	123	133	120	505	100	107	99	94	399
Data	97	102	98	100	398	97	98	95	96	386
Terminals (excl. TV)	27	29	32	28	116	29	25	25	29	109
Tango	27	28	28	30	114	29	32	32	33	127
Other	**22**	**23**	**22**	**25**	**92**	**19**	**24**	**17**	**22**	**82**
Costs of materials and charges to revenues	**-162**	**-182**	**-157**	**-166**	**-666**	**-149**	**-165**	**-139**	**-159**	**-611**
Personnel expenses and pensions	**-89**	**-87**	**-91**	**-87**	**-354**	**-88**	**-86**	**-88**	**-87**	**-349**
Other operating expenses	**-74**	**-73**	**-77**	**-86**	**-309**	**-68**	**-74**	**-65**	**-88**	**-294**
Segment result	**252**	**234**	**263**	**243**	**991**	**248**	**243**	**258**	**223**	**971**
Segment Contribution margin	**43.7%**	**40.6%**	**44.7%**	**41.8%**	**42.7%**	**44.9%**	**42.8%**	**46.9%**	**40.0%**	**43.6%**

CBU – Operationals

	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
FROM FIXED										
Number of access channels (thousands)	**2,938**	**2,926**	**2,918**	**2,912**	**2,912**	**2,895**	**2,883**	**2,872**	**2,870**	**2,870**
Voice	1,780	1,758	1,737	1,718	1,718	1,693	1,673	1,653	1,634	1,634
Broadband	1,159	1,169	1,181	1,193	1,193	1,203	1,210	1,219	1,235	1,235
Traffic (millions of minutes)	**1,086**	**1,027**	**965**	**1,060**	**4,138**	**1,086**	**988**	**901**	**971**	**3,945**
National	828	754	703	768	3,053	787	696	639	689	2,810
Fixed to Mobile	164	179	170	187	701	190	184	164	174	712
International	94	93	92	104	383	110	108	98	108	423
TV (thousands)	**1,254**	**1,301**	**1,340**	**1,386**	**1,386**	**1,412**	**1,428**	**1,447**	**1,479**	**1,479**
TV - households	1,057	1,093	1,125	1,156	1,156	1,170	1,184	1,198	1,218	1,218
of which multiple settop boxes	196	209	216	230	230	242	245	249	260	260
ARPU (EUR)										
ARPU Voice	20.2	19.7	19.7	20.0	19.9	20.1	20.2	20.3	20.3	20.2
ARPU broadband	26.9	26.4	26.5	26.1	26.5	26.3	26.7	26.9	26.4	26.6
ARPU Belgacom TV	17.6	17.6	18.1	18.2	17.9	18.3	18.6	18.7	19.0	18.7
FROM MOBILE										
Number of active customers (thousands)	**3,805**	**3,811**	**3,748**	**3,643**	**3,643**	**3,561**	**3,572**	**3,560**	**3,568**	**3,568**
Prepaid	2,116	2,071	1,992	1,923	1,923	1,815	1,733	1,684	1,640	1,640
Postpaid	1,690	1,739	1,756	1,720	1,720	1,746	1,838	1,876	1,928	1,928
Annualized churn rate (blended - variance in p.p.)	**20.4%**	**19.9%**	**25.8%**	**36.0%**	**25.9%**	**33.3%**	**26.5%**	**26.1%**	**26.5%**	**28.0%**
Net ARPU (EUR)										
Prepaid	14.0	14.2	13.6	14.4	14.0	13.3	14.0	12.6	12.5	13.1
Postpaid	27.9	27.3	28.9	26.6	27.7	24.1	24.4	23.5	22.8	23.7
Blended	20.1	20.1	20.8	20.1	20.3	18.5	19.2	18.3	18.0	18.5
Blended voice	11.6	11.1	12.0	11.1	11.5	9.5	10.2	9.5	9.0	9.5
Blended data	8.5	9.0	8.7	9.0	8.8	9.0	9.1	8.8	9.0	9.0
UoU (units)	**377.9**	**391.7**	**357.5**	**389.9**	**379.1**	**375.3**	**384.4**	**348.6**	**373.3**	**370.7**
MoU (min)	**101.5**	**104.7**	**100.5**	**101.7**	**102.1**	**102.2**	**109.4**	**108.1**	**110.4**	**107.6**
SMS (units)	**279.8**	**291.3**	**262.1**	**294.2**	**281.7**	**279.8**	**283.0**	**249.2**	**272.3**	**271.4**

EBU – Financials

(EUR million)	Q112	Q212	Q312 Restated	Q412	2012	Q113	Q213	Q313	Q413	2013
Revenue	**579**	**576**	**560**	**579**	**2,294**	**554**	**554**	**533**	**557**	**2,198**
From Fixed	**408**	**409**	**398**	**418**	**1,633**	**406**	**406**	**391**	**412**	**1,615**
Voice	124	120	118	119	481	118	117	114	114	463
Data	99	99	96	95	388	96	96	94	95	380
Terminals	18	18	18	18	72	18	18	17	17	71
ICT	167	172	167	186	692	174	175	166	186	701
From Mobile	**166**	**162**	**158**	**155**	**640**	**143**	**144**	**137**	**141**	**565**
Voice	106	102	100	96	403	88	88	83	83	343
Data	56	58	55	54	223	53	53	52	54	212
Terminals	3	3	3	5	14	2	2	2	4	10
Other	**5**	**5**	**4**	**6**	**21**	**5**	**5**	**5**	**5**	**19**
Costs of materials and charges to revenues	**-149**	**-157**	**-150**	**-163**	**-619**	**-148**	**-149**	**-146**	**-159**	**-603**
Personnel expenses and pensions	**-99**	**-102**	**-102**	**-100**	**-402**	**-107**	**-105**	**-104**	**-102**	**-418**
Other operating expenses	**-40**	**-39**	**-39**	**-41**	**-160**	**-38**	**-37**	**-38**	**-41**	**-155**
Segment result	**291**	**278**	**268**	**276**	**1,113**	**260**	**263**	**245**	**255**	**1,023**
Segment Contribution margin	**50.2%**	**48.3%**	**48.0%**	**47.6%**	**48.5%**	**47.0%**	**47.5%**	**45.9%**	**45.7%**	**46.5%**
Mobile Data - detail	**56**	**58**	**55**	**54**	**223**	**53**	**53**	**52**	**54**	**212**
			Adjusted*							
SMS	26	26	25	26	103	25	24	23	24	96
Advanced data	31	32	30	28	120	28	29	29	30	117

*The split between SMS and advanced Mobile Data has been adjusted due to a refinement in the allocation of data bundles. The 2012 results have been adjusted accordingly to keep a correct comparable basis.

EBU- Operationals

	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
FROM FIXED										
Number of access channels (thousands)	**1,841**	**1,824**	**1,815**	**1,799**	**1,799**	**1,781**	**1,760**	**1,746**	**1,732**	**1,732**
Voice	1,394	1,379	1,370	1,356	1,356	1,338	1,318	1,305	1,292	1,292
Broadband	446	445	444	443	443	444	442	441	441	441
Traffic (millions of minutes)	**754**	**699**	**636**	**686**	**2,775**	**695**	**654**	**592**	**630**	**2,571**
National	502	459	416	451	1,828	457	422	382	410	1,672
Fixed to Mobile	167	161	147	160	635	161	156	140	151	607
International	84	79	73	75	311	77	76	69	70	292
ARPU (EUR)										
ARPU Voice	28.9	28.4	27.9	28.6	28.5	28.7	28.8	28.3	28.7	28.6
ARPU Broadband	39.5	39.0	39.1	38.8	39.1	39.0	39.3	39.5	39.2	39.3
FROM MOBILE										
Number of active customers (thousands)	**1,413**	**1,449**	**1,470**	**1,486**	**1,486**	**1,516**	**1,549**	**1,589**	**1,633**	**1,633**
Postpaid	1,413	1,449	1,470	1,486	1,486	1,516	1,549	1,589	1,633	1,633
Annualized churn rate (blended - variance in p.p.)	**11.7%**	**11.0%**	**10.8%**	**16.8%**	**12.7%**	**14.2%**	**13.6%**	**10.0%**	**10.4%**	**11.9%**
Net ARPU (EUR)										
Postpaid	38.7	37.2	35.5	33.9	36.3	31.5	30.8	28.8	28.4	29.9
Postpaid voice	25.3	23.7	22.9	21.6	23.3	19.7	19.2	17.8	17.2	18.4
Postpaid data	13.5	13.5	12.6	12.2	12.9	11.8	11.6	11.1	11.2	11.4
UoU (units)	**375.8**	**377.0**	**339.9**	**366.8**	**364.7**	**360.2**	**363.9**	**337.4**	**361.4**	**355.7**
MoU (min)	**327.8**	**326.6**	**293.3**	**314.3**	**315.4**	**310.2**	**315.8**	**290.9**	**311.1**	**306.8**
SMS (units)	**106.6**	**111.7**	**104.7**	**118.1**	**110.3**	**117.7**	**118.9**	**113.1**	**125.3**	**119.0**

SDE&W – Financials

(EUR million)	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
			Restated							
Revenues	**78**	**76**	**75**	**76**	**304**	**75**	**74**	**73**	**72**	**294**
Costs of materials and charges to revenues	**-9**	**-9**	**-9**	**-10**	**-37**	**-11**	**-10**	**-10**	**-10**	**-40**
Personnel expenses and pensions	**-43**	**-43**	**-46**	**-43**	**-174**	**-45**	**-42**	**-44**	**-41**	**-172**
Other operating expenses	**-48**	**-50**	**-41**	**-48**	**-187**	**-50**	**-52**	**-51**	**-50**	**-204**
Segment result	**-23**	**-26**	**-21**	**-25**	**-94**	**-30**	**-31**	**-32**	**-30**	**-122**

SDE&W – Operatoinals

	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
FROM FIXED										
Number of access channels (thousands)										
Voice (1)	12	11	11	11	11	10	10	10	10	10
Broadband (1)	1	1	1	1	1	1	1	1	1	1
FROM MOBILE										
Number of active Mobile customers (thousands)										
Retail (1)	8	9	8	8	8	8	7	9	9	9
MVNO	5	7	8	8	8	5	7	7	6	6

(1) i.e. Belgacom retail products sold via SDE&W (OLO's own usage and reselling)

S&S – Financials

(EUR million)	Q112	Q212	Q312 Restated	Q412	2012	Q113	Q213	Q313	Q413	2013
Revenues	9	7	7	11	34	18	7	10	25	60
Costs of materials and charges to revenues	1	-1	0	-2	-2	0	0	0	0	0
Personnel expenses and pensions	-37	-38	-40	-38	-153	-40	-38	-40	-40	-157
Other operating expenses	-50	-50	-49	-67	-217	-50	-50	-50	-50	-201
Segment result	-78	-82	-81	-96	-338	-71	-82	-80	-65	-298

ICS – Financials

(EUR million)	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
Revenues	382	409	424	430	1,645	417	413	437	401	1,666
Costs of materials and charges to revenues	-326	-347	-361	-367	-1,400	-355	-347	-370	-340	-1,412
Personnel expenses and pensions	-10	-10	-11	-11	-43	-11	-11	-12	-12	-45
Other operating expenses	-18	-17	-17	-20	-73	-16	-18	-17	-18	-69
Segment result	28	34	35	32	129	35	37	38	31	140
Segment EBITDA margin	7.3%	8.4%	8.3%	7.3%	7.8%	8.3%	8.9%	8.6%	7.7%	8.4%

ICS – Operationals

Volumes (in million)	Q112	Q212	Q312	Q412	2012	Q113	Q213	Q313	Q413	2013
Voice	6,907	6,984	6,934	7,556	28,382	7,267	6,701	7,287	6,872	28,127
Non-Voice (SMS/MMS)	323	361	428	445	1,557	451	461	540	512	1,964

Risk management

This section presents an overview of the Group's Risk Management including a description of its major risks and uncertainties and its main mitigation efforts.

Taking risks is inherent in doing business and successfully managing risks delivers return to Belgacom's stakeholders. Belgacom believes that risk management is fundamental to corporate governance and the development of sustainable business. The Group has adopted a risk philosophy that is aimed at maximizing business success and shareholder value by effectively balancing risk and reward. The objective of risk management is not only to safeguard the Group's assets and financial strength but also to protect Belgacom's reputation. Financial risk management objectives and policies are reported in note 33 of the consolidated financial statements, published on the Belgacom website. Risks related to important ongoing claims and judicial procedures are reported in note 35 of these statements. The Enterprise and financial reporting risks are detailed below, together with the related mitigating factors and control measures. Note that this is not intended to be an exhaustive analysis of all potential risks Belgacom might be facing.

1. Enterprise risks

The Group's Enterprise Risk Management (ERM) covers the spectrum of risks ("potential adverse events") and uncertainties that Belgacom could encounter. Belgacom ERM is a structured and consistent framework for assessing, responding to and reporting on risks that could affect the achievement of Belgacom's strategic development objectives. It seeks to maximize value for shareholders by aligning risk management with the corporate strategy, assessing the emerging risk from regulation, new technologies or the market, and developing risk tolerance and mitigating strategies. Belgacom ERM has been reviewed and updated every year since 2006. This risk assessment and evaluation takes place as an integral part of Belgacom's annual strategic planning cycle. The resulting report on major risks and uncertainties is then reviewed by the management committee, the CEO and the Audit and Compliance Committee. Among the risks identified in the ERM exercise of 2013, the following risk categories were prioritized: 1- Human resources flexibility, 2- competitive market dynamics, 3- regulatory pressure, 4- dependence on equipment and technology.

Principal risks	Description	Mitigation actions
Human resources flexibility	Through a burdened HR framework, strict HR rules and unionization of personnel, Belgacom might miss the much needed flexibility to significantly reduce its workforce costs in order to preserve the company's EBITDA.	Belgacom's human resources department is in negotiations with unions to obtain more flexibility on the company's workforce. In the meantime, Belgacom has established a simplification program aiming for increased company agility and flexibility, a lower structural need for headcount, and an improved customer service.
Competitive market dynamics	A new market entrant or radical price competition could further pressure Belgacom's market share and force Belgacom into revising its pricing downwards, negatively impacting revenue and profit. Competitive behavior could prevent Belgacom to monetize investments in new technologies.	Belgacom applies a disciplined pricing strategy, being careful not to trigger further market value destruction. It employs a multi-brand strategy to address the price-sensitive segment separately. Belgacom has other levers than price thanks to its convergence strategy and investments in a superior mobile network, providing a competitive advantage.
Regulatory pressure	Belgacom's results could be materially negatively impacted by regulatory policy changes or actions from European or national regulatory entities. Belgacom still faces a much different regulatory playing field than cable operators in Belgium.	Belgacom communicates and negotiates with the Belgian and EU regulators to try to convince them (i) not to impose unfavorable terms and conditions and (ii) to put in place a fair and balanced regulatory framework.
Dependency on equipment and technology	Network systems could be impacted by damage, computer viruses, natural disasters and unauthorized access which could lead to loss of business and liability claims. Part of Belgacom's nation-wide fixed access network has been in place for a long time. Ageing copper cables could increase fault rates and decrease network performance.	A multi-year cyber security plan is being implemented and a dedicated Cyber Defense Unit is being created. To address the ageing copper cables, Belgacom's fixed access renewal strategy is brought in line with the future target destination of its network. Legacy systems are being replaced by integrated systems. Service and license agreements with suppliers and vendors are strictly monitored.

1.1. Limited human resources flexibility

With Belgacom's revenue under pressure for the past few years, the costs of the company need to be significantly reduced in order to preserve the EBITDA. A significant part of Belgacom's expenses is driven by the costs of the workforce, whether internal or outsourced, for which the company faces a global increase that is not sustainable for the future.

Through a burdened HR framework, strict HR rules and unionization of personnel, Belgacom may lack the much needed flexibility. All this at a time when business complexity is increasing, creating a need for upgraded skills and up-staffing in customer-facing functions. Moreover, Belgium applies automatic inflation-based salary increases, leading to higher costs, not only of Belgacom's own employees but also of the outsourced workforce, with the outsourcing companies being subject to the indexation as well.

On a Belgacom Group level, about one in three employees are statutory, benefitting from substantially higher protection against dismissal than that applicable to private sector employees. This may restrict Belgacom's ability to improve efficiency and increase flexibility to levels comparable to those of its competitors.

To address the much needed structural measures, Belgacom's human resources department is in negotiations with the unions. The aim of these negotiations is to obtain more flexibility to move employees within the organization, adapt the workforce faster in line with the actual workload and align remuneration items with common market practices. Belgacom has established a comprehensive simplification program aiming for increased agility and flexibility, a lower structural need for headcount, and improved customer service. The simplification project will prepare the company for the coming wave of retiring employees (over the 2018-2023 timeframe), minimizing the need for replacement by developing strategic workforce planning, fluent mobility and drastically simplifying and/or automating Belgacom's product and services, processes, systems and organization.

1.2. Competitive market dynamics

Belgacom's business is mainly focused on Belgium, a small country with only a few large telecom players, among which Belgacom is the incumbent. Belgacom is operating in maturing, and, according to some, even saturating markets. In such circumstances, market value is vulnerable to disruptive behavior among competitors. Moreover, Belgacom's main competitors Mobistar, BASE and Telenet, are subsidiaries of France Telecom, KPN, and Liberty Global respectively, all large international operators. Regarding TV services, Belgacom plays a challenger role, facing strong cable competition.

A new market entrant or radical price competition could cost Belgacom market share and negatively impact revenue and profit. For instance, Belgium's new Telecom Law, applicable since 1 October 2012 and indicated as one of the primary risks in the Risk Management chapter of the 2012 annual report, resulted in a significant increase in Mobile customer churn. This, combined with aggressive competitor mobile pricing (in both retail and wholesale), forced Belgacom to revise its mobile pricing offer at the end of 2012 and in April 2013, greatly increasing the value for customers for similar monthly price commitments. With churn levels normalizing in 2013 and mobile customer net additions back to positive, Belgacom applies a disciplined customer pricing strategy, being careful not to trigger further market value destruction. In case of market share loss due to a significant further reduction of competitor prices, however, Belgacom could be forced to revise its mobile pricing plans accordingly, which might result in additional pressure on mobile revenue. Nevertheless, as a result of its long-term strategy and continued network investments, Belgacom build itself an advantageous competitive position providing the company with other levers than just price. Belgacom offers mobile services on a superior mobile network, and its convergence strategy provides the company with a solid ground to compete, offering attractive multi-play solutions to its customers while reducing churn.

Another differentiator for Belgacom is to take the lead in mobile innovation. In this regard, it was the first operator to launch 4G in Belgium, ending 2013 with 258 cities and municipalities covered, or 50% of Belgium's population. Belgacom intends to get a decent return on its investments by introducing speed-tiering of its mobile price plans. This translates in making the full speed capabilities of the 4G technology accessible only via its high-end mobile price packages. Subscribers to the mid- and low-end mobile offers and having a 4G-enabled device will also enjoy higher speeds, though will be capped at 20Mbps. The monetization of 4G, however, could become challenging should competitors decide to offer full 4G-capabilities free of charge to all customers. Belgacom would then risk not being able to profit from the expensive investments made.

In the fixed market, Belgacom faces strong competition from the cable operators. Potential consolidation among cable operators or between cable and mobile network operators could further strengthen competitors' positions and open the cable network for new players. Substitution of fixed line services (e.g. by apps and social media like Skype, Facebook, etc.), TV content (such as Bhaalu, Stievie and Netflix in the future) could put further pressure on revenues and margins. Belgacom is responding to these threats through a convergent and bundled approach and by offering new services (e.g. TV Replay, Belgacom Cloud, Smart and Safe Living).

To preserve its Fixed and Mobile premium brands, Belgacom is applying a multi-brand strategy, addressing the price-sensitive segment via its subsidiary Scarlet. The latter offers attractively priced mobile and triple-play products.

In the SME market, besides the competitors also active in the Consumer market, we also face competition from niche players in the different product markets. Belgacom remains a reference in this market through its convergent offers, mixing fixed and mobile, as well as telecom and IT. In the large-company market, Belgacom faces competition from internationally oriented operators like Orange Business Services, Colt, Verizon Business and BT Belgium and from integrators such as Dimension Data, Getronics, Cegeka and RealDolmen. The scattered competitive landscape drives price competition, and might further impact revenue and margins.

In the international carrier services market, voice margins per minute have been under significant pressure over the past few years as a result of price competition, consolidation of competitors and the ease with which customers are able to change providers. If pressure on voice margins should continue and/or if the Group does not offset price decreases with increased volume, Belgacom's ICS growth rate, operating revenue and net profit could come under pressure. In addition, the pressure on the mobile data market might increase and therefore affect the growth profile of the International Carrier Services.

1.3. Regulatory pressure

Belgacom operates in highly regulated markets, limiting the flexibility to manage its business. Belgacom's results could be materially negatively impacted by regulatory policy changes or actions from European or national regulatory entities.

Among other things, the Group's revenue and profit could be affected by increased taxation, additional roaming regulation, additional consumer regulation and wholesale regulation. Current wholesale prices do not reflect the economic value of the underlying network assets. This could negatively affect the profitability of asset renewal (re-investments) and investments in next-generation networks. Belgacom still faces a much different regulatory playing field than its main competitors for fixed services, i.e. the regional cable operators. This provides them with a competitive advantage that distorts fair competition and that may negatively affect Belgacom's ability to compete for market share.

Belgacom communicates and negotiates with the Belgian and EU regulators, either personally or through trade associations such as ETNO and GSMA, to try to convince these authorities (i) not to impose unfavorable terms and conditions and (ii) to put in place a fair and balanced regulatory framework promoting investments and establishing a level playing field with the cable operators. Belgacom also develops sound regulatory cost models to defend its pricing vis-à-vis the regulators. Ultimately, Belgacom challenges unfavorable and unfair decisions before the courts.

1.4. Dependence on equipment and technology

Belgacom's business is highly dependent on technical infrastructure such as telecommunication equipment and IT platforms. Belgacom is able to deliver services only insofar as it can protect its network systems against damage from telecommunication failures, computer viruses, natural disasters and unauthorized access. Any system failure, incident, or security breach that causes interruptions to all or some of Belgacom's operations could impair its ability to provide services to its customers and could potentially have financial consequences and a reputation impact.

To mitigate the risks related to incidents (e.g. fire) affecting technical buildings, Belgacom has spread its technology across different locations and buildings (e.g. 3 data centers, splitting corporate ICT services and customer ICT services), 10 network services nodes and hundreds of local exchanges.

To ensure the security of its IT and telecom systems, a new multi-year cyber security plan is being implemented to allow more effective detection and remediation of cyber attacks. This new cyber security plan entails a wide range of actions consisting of:

- best-in-class security of IT platforms and networks for improved prevention;
- the creation of a Cyber Defense Unit exclusively devoted to detecting and solving cyber incidents;
- organizational measures and governance and the development of a more cyber-security-oriented culture and awareness towards the internal organization as well as towards partners, vendors and suppliers.

Belgacom's service portfolio becomes increasingly dependent on numerous IT platforms. To preserve the quality of service delivered to its customers, Belgacom needs to guarantee stability, processing time and agility. Any disruption or security breach resulting in loss or damage to customers' data or applications, or leading to inappropriate disclosure of confidential information, may lead to Belgacom incurring liability. In addition, the Group may incur additional costs to remedy the damage caused by these disruptions or security breaches. Belgacom possesses errors and omissions insurance, business interruption insurance and insurance specifically aimed to protect against certain losses resulting from, for instance, computer viruses and security breaches.

For critical IT applications, an extensive resilience plan has been put in place in 2013 which allows complete segregation and substantially better disaster recovery capabilities in case of failures. Furthermore, to prevent problems in the supply chain, Belgacom monitors strictly its service and license agreements with suppliers and vendors.

Belgacom has a nation-wide fixed access network, part of which has been in place for a long time, the so-called legacy copper network. Ageing copper cables could increase fault rates and decrease performance, which could require additional copper replacement. To remedy this, Belgacom is bringing its renewal strategy in line with the target destination of its network. The mobile network might be subject to technical failures, affecting the quality of service or causing temporary service interruptions, leading to customer dissatisfaction. Elaborate network resilience programs have been put in place to further boost the ability to keep the network in operation in the event of failures.

Belgacom continues to invest in stability improvements for both its fixed and mobile network by putting new technologies and architectures in place that enable higher redundancy (e.g. 4G, Vectoring, etc.). Belgacom also focuses on simplifying its legacy network through an elaborate network transformation program, although this could be subject to delayed implementation and consequently delayed savings from the out-phasing of technical buildings.

Nonetheless, in the event of network or IT interruptions, Belgacom has multiple measures in place to remedy problems as quickly as possible. Firstly, Belgacom has an extensive monitoring center in place allowing very fast detection and identification of any problem that could jeopardize the proper functioning of operations. Secondly, Belgacom has elaborate, well-prepared procedures in place to deal with and remedy high-impact incidents as quickly as possible through Emergency Response Teams which operate 24/7 and include the best experts in their fields.

2. Financial reporting risks

In the area of financial reporting, in addition to the general enterprise risks also impacting the financial reporting (e.g. personnel), the major risks identified include: new transactions and evolving accounting standards, changes in tax law and regulations, and the financial statement closing process.

2.1. New transactions and evolving accounting standards

New transactions could have a significant impact on the financial statements, either directly in the financial statements or in the notes. An inappropriate accounting treatment could result in financial statements which do not provide a true and fair view any more. Changes in legislation (e.g. pension age, customer protection) could also significantly impact the financials. New accounting standards can require the gathering of new information and the adaption of complex (billing) systems. If not timely and adequately foreseen, the timeliness and reliability of the financial reporting could be put at risk.

It is the responsibility of the Corporate Accounting department to follow the evolution in the area of evolving standards (both local GAAP and IFRS). Changes are identified, and the impact on the Belgacom financial reporting is proactively analysed.

For every new type of transaction (e.g. new product, new employee benefit, business combination), an in depth analysis from a financial reporting, risk management, treasury and tax point of view is performed. In addition, the development requirements for the financial systems are timely defined and compliance with internal and external standards is systematically analysed. Emphasis is on the development of preventive controls and setting up reporting tools that enable posteriori controls.

On a regular base, the Audit and Compliance Committee (A&CC) and the Management Committee are informed about new upcoming financial reporting standards and their potential impact on the Belgacom Group financials.

2.2. Changes in tax law and regulations

Changes in tax laws and regulations (corporate income tax, VAT…) or in their application by the tax authorities could significantly impact the financial statements. To ensure compliance, it is often required to set up, in a short timeframe, additional administrative processes to collect relevant information or to implement updates to existing IT systems (e.g. billing systems).

The tax department continuously follows potential changes in tax law and regulations as well as interpretations of existing tax laws by the tax authorities. Based on laws, doctrine, case law and political statements as well as draft laws available etc., an impact analysis is made from a financial perspective from an operational point of view.

2.3. Financial statement closing process

The delivery of timely and reliable financial statements remains dependent on an adequate financial statement closing process.
Clear roles and responsibilities in the closing process of the group financial statements have been defined. During the monthly, quarterly, half-yearly and annual financial statement closing processes, there is a continuous monitoring on the

different steps. In addition, different controls are performed to ensure quality and compliance with internal and external requirements and guidelines.

For Belgacom and its major affiliates, a very detailed closing calendar is established, which includes in detail cross-divisional preparatory meetings, deadlines for ending of specific processes, exact dates and hours when IT sub-systems are locked, validation meetings and reporting deliverables.
For every process and sub-process, different controls are performed, including preventive controls, where information is tested before being processed, as well as detective controls, where the outcome of the processing is being analysed and confirmed. Specific attention is given to reasonableness tests, where financial information is being analysed against more underlying operational drivers, and coherence tests, where financial information from different areas is brought together to confirm results or trends, etc... Tests on individual accounting entries are performed for material or non-recurrent transactions and on a sample basis for others. The combination of all these tests provides sufficient assurance on the reliability of the financials.

Internal control system

The Belgacom Board of Directors is responsible for the assessment of the effectiveness of the systems for internal control and risk management.
Belgacom has set up an internal control system based on the COSO model of 1992, i.e. the integrated internal control and enterprise risk management framework published by the Committee of Sponsoring Organisation of the Treadway Commission ("COSO") in 1992. This COSO methodology is based on five areas: the control environment, risk analysis, control activities, information & communication and monitoring.

Belgacom's internal control system is characterized by an organization with a clear definition of responsibilities, next to sufficient resources and expertise, and also appropriate information systems, procedures and practices. Obviously, Belgacom cannot guarantee that this internal control will be sufficient in all circumstances as risks of misuse of assets or misstatements can never be totally eliminated. However, Belgacom organizes a continuous review and follow-up of all the components of its internal controls and risk management systems to ensure they remain adequate.

Belgacom considers the timely delivery to all its internal and external stakeholders of complete, reliable and relevant financial information in conformity with International Financial Reporting Standards (IFRS) and with other additional Belgian disclosure requirements as an essential element of management and governance. Therefore, Belgacom has organized its internal control and risk management systems over its financial reporting in order to ensure this objective is met.

1. Control environment

1.1. Organization of internal control

In accordance with the bylaws, Belgacom has an Audit and Compliance Committee (A&CC), which consists of five non-executive Directors, the majority of whom must be independent. In line with its charter, it is chaired by an independent Director.

The members of the A&CC have sufficient expertise in financial matters to discharge their functions. Its Chairman, Mr. Pierre-Alain De Smedt, is competent in accounting and auditing. He is a "licentiate" in commercial and financial sciences. He occupied during his career several functions as CFO, CEO and COO. Amongst his non-executive functions he is also member of the Audit Committee of Avis Europe.

The A&CC's role is to assist and advise the Board of Directors in its oversight on (i) the financial reporting process, (ii) the efficiency of the systems for internal control and risk management of Belgacom, (iii) the Belgacom's internal audit function and its efficiency, (iv) the quality, integrity and legal control of the statutory and the consolidated financial statements of Belgacom, including the follow up of questions and recommendations made by the auditors, (v) the relationship with the Group's auditors and the assessment and monitoring of the independence of the auditors, (vi) Belgacom's compliance with legal and regulatory requirements, (vii) the compliance within the organization with the Belgacom's Code of Conduct and the Dealing Code.

The A&CC meets at least once every quarter.

1.2. Ethics

The Board of Directors has approved a Corporate Governance Charter and a Code of Conduct "The way we do responsible business". All employees must perform their daily activities and their business objectives according to the strictest ethical standards and principles, using the Group values (Respect, Can do and Passion) as guiding principle.

The Code "The way we do responsible business", which is available on www.belgacom.com, sets out the above-mentioned principles, and aims to inspire each employee in his or her daily behaviour and attitudes. The ethical behaviour is not limited to the text of the Code. The Code is a summary of the main principles and is thus not exhaustive.
In addition, Belgacom in general and the Finance department in particular have a tradition of a high importance to compliance and a strict adherence to a timely and qualitatively reporting.

1.3. Policies and procedures

The principles and the rules in the Code "The way we do responsible business" are further elaborated in the different internal policies and procedures. These Group policies and procedures are available on the Belgacom intranet-sites. Every policy has an owner, who regularly reviews and updates if necessary. Periodically, and at moment of an update, an appropriate communication is organized.

In the financial reporting domain, general and more detailed accounting principles, guidelines and instructions are summarized in the accounting manuals and other reference material available on the Belgacom intranet-sites. In addition, the Corporate Accounting department regularly organizes internal accounting seminars to update finance and non-finance staff on accounting policies and procedures.

1.4. Roles & responsibilities

Belgacom's internal control system benefits from the fact that throughout the whole organization, roles and responsibilities are clearly defined. Every business unit, division and department has its vision, mission and responsibilities, while on individual level everybody has a clear job description and objectives.

The main role of the Finance Division is to support the divisions and affiliates by providing accurate, reliable and timely financial information for decision making, to monitor the business profitability and to manage effectively corporate financial services. The establishment of the external financial reporting falls under the responsibility of the Corporate Accounting department.

The team of the Corporate Accounting department assumes this accounting responsibility for the mother company Belgacom and the major Belgian companies. They also provide the support to the other affiliates. For this centralized support, the organization is structured according to the major (financial) processes. These major processes include capital expenditures and assets, inventories, contracts in progress & revenue recognition, financial accounting, operational expenditures, provisions & litigations, payroll, post-employment benefits and taxes. This centralized support organized around specific processes and IFRS standards allows for in depth accounting expertise and ensures compliance with group guidelines.

The consolidation of all different legal entities into the Consolidated Financial Statements of the Belgacom Group is realized centrally. The Consolidation department defines and distributes information relating to the implementation of accounting standards, procedures, principles and rules. It also monitors changes in regulations to ensure that the financial statements continue to be prepared in accordance with IFRS, as adopted by the European Union. The monthly instructions for consolidation set forth not only the schedules for preparing accounting information for reporting purposes, but also includes detailed deadlines and items requiring particular attention, such as complex issues or new internal guidelines.

1.5. Skills & expertise

Adequate staffing is a matter to which Belgacom pays careful attention. This requires not only sufficient headcount, but also the adequate skills and expertise. These requirements are taken into account in the hiring process, and subsequently in the coaching and formation activities, facilitated and organized by the Belgacom Corporate University.

For financial reporting purposes, a specific formation cycle was put in place, whereby junior as well as senior staff have to participate mandatory. These internally and externally organized accounting seminars cover not only IFRS but local accounting rules & regulations, Tax and Company law & regulations as well. In addition, the knowledge and expertise is also kept up to date and extended for more specific domains for which staff is responsible (revenue assurance, pension administration, financial products, etc.) through attendance to seminars and self-study. Furthermore, employees also attend general formations session on Belgacom new business products & services.

2. Risk analysis

Major risks and uncertainties are reported in the caption 'Risk Management'.

3. Risk mitigating factors and control measures

Mitigating factors and control measures are reported in the caption 'Risk Management'.

4. Information and communication

4.1. Financial reporting IT systems

The accounting records of Belgacom and most of its affiliates are kept on large integrated IT systems. Operational processes are often integrated in the same system (e.g. supply chain management, payroll). For the billing systems, which are not integrated, adequate interfaces and a monitoring system have been developed. For the consolidation purposes, a specific consolidation tool is used.

The organizational set-up and access management are designed to support an adequate segregation of duties, prevent unauthorized access to the sensitive information and prevent unauthorized changes. The set-up of the system is regularly subject to the review by the internal audit department or external auditors.

4.2. Effective Internal communication

Most of the accounting records today are kept under IFRS as well as local GAAP. In general, financial information delivered to management and used for budgeting, forecasting and controlling activities is established under IFRS. A common financial language used throughout the organization positively contributes to an effective and efficient communication.

4.3. Reporting and validation of the financial results

The financial results are internally reported and validated on different levels. On the level of processes, there are validation meetings with the business process owners. On the level of the major affiliates, a validation meeting is organized with the accounting and controlling responsible. On Belgacom group level, the consolidated results are split per segments. For every segment, the analysis and validation usually includes comparison with historical figures, as well as budget-actual and forecast-actual analysis. Validation requires (absences of) variances to be analyzed and satisfactorily explained.

Afterwards, the financial information is reported and explained to the Belgacom Management Committee (monthly) and presented to the A&CC (quarterly).

5. Supervision and assessment of internal control

The effectiveness and efficiency of the internal control are regularly assessed in different ways and by different parties:

- Each owner is responsible for reviewing and improving its business activities on a regular basis: this includes a.o. the process documentation, reporting on indicators and monitoring of those.
- In order to have an objective review and evaluation of the activities of each organization department, Belgacom's Internal Audit department conducts regular audits across the Group's operations. The independence of Internal Audit is ensured via its direct reporting line to the Chairman of the A&CC. Audit assignments performed may have a specific financial processes scope but will also assess the effectiveness and efficiency of the operations and the compliance towards the applicable laws or rules.
- The A&CC reviews the quarterly interim reporting and the specific accounting methods. The main disputes and risks facing the Group are considered; the recommendations of internal audit are followed-up; the compliance within the Group with the Code of Conduct and Dealing Code is regularly discussed.
- Except for some very small foreign affiliates, all legal entities of the Belgacom Group are subject to an external audit. In general, this audit includes an assessment of the internal control, and leads to an opinion on the statutory financials and on the (half-yearly and annual) financials reported to Belgacom for consolidation. In case the external audit reveals a weakness or identifies opportunities to further improve the internal control, recommendations are made to management. These recommendations, the related action plan and implementation status are at least annually reported to the A&CC.

Other information

Rights, commitments and contingencies as of 31 December 2013

Disclosures related to rights, commitments and contingencies are reported in note 35 of the consolidated financial statements.

Use of financial instruments

Disclosures related to the use of financial instruments are reported in note 33 of the consolidated financial statements.

Circumstances which may considerably impact the development of the Group

Circumstances which may considerably impact the development of the Group are reported in the sections Risk Management and Internal Control of this management report.

Research and development activities

In general, the research and development activities cover 4 key steps in the adoption cycle of a technology or of 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 2013, the research and development activities covered the following:

- **Study of the potential of new technologies:**
    - Further detailed studies on solutions to phase out traditional technologies and to migrate to a fully IP based network. More specifically the solutions for replacing PSTN and ISDN (Access Gateway, ISDN Access Devices and alternatives) were further investigated on their technical, economical and operational feasibility.
    - Study to define future target transport network architectures and supporting technologies, aiming to cope with disruptive traffic growth, higher resiliency, as well as backbone network simplification.
    - Further studies for the introduction of IPv6 in the data networks.
    - Fibre to the Home (FTTH): technical-economic studies have been further conducted and preparations continued to deploy FTTH in green-field zonings. A first pilot for fibre-based connections in a new zoning was realized in the town of Brecht.
    - A study has been started to investigate the potential of deploying fibre closer to the homes, by re-using the last meters of the existing copper pair for connecting the home (solution based on G.Fast standards).
    - Investigation on viable solutions to optimize the data traffic handling on fixed and mobile networks, in order to ensure the optimal Quality of Service.
    - Belgacom started to investigate the capabilities of the newest video coding solutions (HEVC / H265 video coding).
    - Belgacom started also to investigate the potential of the integration of WiFi technology with the mobile data network to always deliver best data experience.

- Belgacom has a continuous focus on the "Green" aspect. With "green ICT" and "ICT for green", Belgacom actively participates in reducing our own environmental impact, as well as the impact of others. Several areas are being investigated (e-prescription, smart grids…).

- **Introduction of new technologies:**
  - Belgacom introduced in its mobile network the latest evolution in the 3G technology (HSPA+ or "3G+") which doubles the average download speed and increases significantly the upload speed for devices supporting this evolution.
  - Belgacom and Alcatel-Lucent have been further developing in a partnership a next step in VDSL2 technology ('Vectoring'). This solution allows for cancelling out interference in a copper cable and will allow increasing substantially the data speed that can be offered. A new modem ("Bbox3") that supports this Vectoring solution has been developed and introduced.

- **Evolution of the technology in terms of improvement and existing services extension:**
  - Belgacom further improved and extended its portfolio on Cloud-based Services with a residential cloud solution (storage and sharing).
  - Belgacom extended its "internet-of-things" services with the introduction of Home Control/View (multi-device view, alert and interaction with home devices).
  - Belgacom TV services have been further enriched. A new decoder has been developed and a faster application for TV Everywhere has been made available. TV Replay, a totally new service, has been introduced, allowing customers to watch TV programs at the moment which is most convenient for them.
  - The download speed on VDSL2 has been further increased (up to 50 Mbps) by further improving DLM ('Dynamic Line Management'), a technology which was developed in-house.

- **The preparation of the introduction of new services:**
  - Belgacom was one of the main participants in the fiber-based pilot network in Kortrijk, in which test users are provided with high-speed access. This "Living Lab" enables application developers to test new applications and services in a real-life environment with a representative number of test users. Belgacom has also been testing some advanced services.

Belgacom collaborates with universities, industrial partners and several other bodies, such as iMinds (independent research institute founded by the Flemish government), and I.W.T. (Agentschap voor Innovatie door Wetenschap en Technologie). In this way, Belgacom has been participating to several R&D programs in various domains. Belgacom takes also part in several User Committees for Strategic Research projects.

Treasury shares

Disclosures related to treasury shares are reported in note 17 of the consolidated financial statements.

Capital management

The purpose of the Group's capital management is to maintain net financial debt and equity ratios that allow for security of liquidity at all times via flexible access to capital markets, in order to be able to finance strategic projects and to offer an attractive remuneration to shareholders. The latter was last updated by the Belgacom Board of Directors on 25 February 2010. Since then Belgacom has committed to return, in principle, most of its annual consolidated cash flow before financing activities (or "Free Cash Flow"), to its shareholders. However, the return of such free cash flow either through dividends or share buybacks, is being reviewed on an annual basis, in order to keep strategic financial flexibility for future growth, organically or via selective merger and acquisition projects, with a clear focus on value creation. This also includes confirming appropriate levels of distributable reserves.

Over the two periods presented, the Group didn't issue new shares or any other dilutive instrument.

Post-balance sheet events

Disclosures related to post-balance sheet events are reported in note 40 of the consolidated financial statements.

On behalf of the Board of Directors,
Brussels, February 27, 2014

Leroy Dominique	De Clerck Stefaan
President & CEO	Chairman of the Board of Directors