



Company: Belgacom S.A.
Conference Title: Q1 2011 Results
Presenters: Didier Bellens, Ray Stewart
Date: Friday 6th May 2011 – 14h00 CET

Operator: Good afternoon ladies and gentlemen and welcome to today's Belgacom 2011 Q1 Results Conference Call. For your information this conference is being recorded. At this time I would like to turn the call over to Nancy Goossens, Head of Investor Relations. Please go ahead.

Nancy Goossens: Yes, thank you. Hello everybody and welcome to this conference call. I have here around the table our CEO Didier Bellens and our CFO Ray Stewart and the heads of each of our business units, so Michel, Bart and Scott. They will be taking your questions as soon as we open the line. I assume that you have all seen the detailed numbers by now so I'd like to keep our usual format which is that we just take a short moment for the introduction of the CEO and then we will use the rest of the time to address your questions.

So with this I'd like to pass the word on to our CEO, so please go ahead.

Didier Bellens: Thank you Nancy and good afternoon to all of you. Welcome to our conference call on our 2011 First Quarter Results. Before we go to your questions I would like to frame a bit our decision to lower our full year guidance. As you could read in our press release the group revenue for the first quarter was 3.5% lower compared to last year. This includes a significant impact from regulatory measures. If we exclude these the underlying group revenue was slightly down year over year so contrary to our expectations the underlying growth trend that we have seen for the group in 2010 did not continue in the first quarter. The drivers for this are the consumer segment and BICS. For both of them the revenue growth trend as seen in the previous year turned into a year over year revenue decline in the first quarter. For BICS we saw revenues being significantly impacted by the European-wide decreasing mobile termination rates while for the consumer segments the main reason for the changing revenue trend was mobile voice where we saw an unexpected decline in mobile usage. In our fixed products as



well we saw some weaknesses in a market which is getting increasingly penetrated and intensively competitive. TV and mobile data are doing well and continue to grow but this was not sufficient to offset the slowing revenue from more traditional products. The revenue evolution was the main cause for the EBITDA to decrease by 3% in the first quarter together with some expenses related to our customer centricity project which aims at further improving the level of customer satisfaction. With our first quarter results falling short of our expectations we decided that we need to further strengthen our focus on market share improvement, therefore we will take additional measures in the course of this year aiming at stabilising and eventually reversing the downwards market share trend that we have experienced over the last few years for both fix and mobile. Based upon our best estimate for the remainder of the year and the additional resources needed for the initiatives regarding market share improvement, we expect our full year revenue to be 1-2% lower than last year and our absolute group EBITDA to be 4-5% lower. The outlook for capex remains the same where we think we will end the year at the high end of the range, 10-12% of group revenue.

I conclude my introduction here so we can now use the remaining time to answer the questions you may have. Thank you.

Operator: Thank you. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

We will take our first question today from Dimitri Kallianiotis from Citi. Your line is now open, please go ahead.

Dimitri Kallianiotis: Good afternoon, thank you for taking my questions. I've got three questions please. The first one regarding your new EBITDA guidance, I just wanted to know how much is in there for mobile subsidies bearing in mind Telenet will launch the iPhone soon and Base seems to be a bit more aggressive on subsidies and business, so I just wanted to get your view on what you plan to do there? The second question, you mentioned additional measures to try



to regain market share in fixed and I wanted to know, I saw that you've done some new promotions, quite aggressive for internet products. Is it mostly trying to do some re-pricing or are you planning to launch some new convergent products? My last question was regarding shareholder remuneration, I just wanted to get your view if that changed your position regarding shareholder remuneration in terms of dividend but also mostly on the share buyback that you mentioned that you might do over this year or next year. Thank you very much.

Didier Bellens: I think you have three questions. Shareholder remuneration, Ray will take this one; the subsidies, it's probably for Michel and I would like to take the additional measures. So when we are meeting you on a regular basis face to face we are always telling you that we don't want to fight head to head against let's say mobile operators for instance or cable operators. We think that we have the right strategy with convergence and we think that with our bundles and you've seen how our bundles are successful, we think that we have the right strategy to use bundles and to be very creative in terms of bundles to offer to the markets the right product and then because of that to gain eventually market share or to reverse the trend at least. So when we talk about additional measures we are not going to have a price war, it's not our intention but it's definitely our intention to be more aggressive in terms of setting the scene and saying "Well, the market has changed. The needs are changing. We've told you during the last roadshow that indeed with the smart phone, with the new tablets there are other opportunities to sell new types of bundles and we are indeed the best positioned to do that. So now it's high time to implement that and just to deliver, so that's the message on your second question. On the first question, subsidies, Michel, is it included in EBITDA guidance?"

Michel Georgis: The answer is yes.

Didier Bellens: But subsidies if we do it, it's going to be let's say extremely specific, so we are not going to subsidise everything.

Michel Georgis: So we maintain the fact that we will go for subsidisation only creating value for the group and it will be in the context of conversion offers.



Didier Bellens: Ok, fine. Shareholder remuneration, Ray?

Ray Stewart: There has been no change in the shareholder return policy that was communicated to you prior, so no change.

Dmitri Kallianiotis: Thank you very much.

Operator: We will take our next question today from Nicholas Collison from HSBC. Your line is now open, please go ahead.

Nicholas Collison: Thank you. Just a follow-up question on the competition, if you could give us some more colour on the fierce competition you thought you were facing in the south of the country in fixed and in fixed you have ways to do promotions only for this part of the country. I've got a second question about BICS, if you can give us some ideas of where the growth could be over the next quarters because we have such a big switch from growth to negative growth, some indication would be very helpful indeed. Thank you.

Didier Bellens: Thank you very much. Competition for the country Michel and BICS will be for Daniel.

Michel Georgis: I confirm that when we look at our fixed results for the first quarter we even increased our share of net adds in the north of the country for broadband and TV so the main pressure is coming clearly from the south of the country where we see the continuation of what happened in the second part of 2010 with very aggressive promotions from Voo as well as also very important above the line campaigns.

Daniel Kurgan: Good afternoon. Regarding our growth I need to remind you that there is a strong seasonality effect in our business so if you compare volumes year over year we've posted growth. As we said revenue was negatively impacted by mobile termination rates. There is also an important aspect is that a big part of our revenues are in US dollars and this is pretty much beyond our control, so going forward we expect the same seasonality effect and no change in the trend that we keep growing our volumes of business year over year.



Nicholas Collison: Ok, thank you.

Operator: We will take our next question today from Michael Bishop from Barclays Capital. Your line is now open, please go ahead.

Michael Bishop: Hi, good afternoon. A couple of questions please. Firstly in the press release you mention higher competition in the indirect sales channel and obviously with the Phone House Belgium acquisition I was keen to get a bit more colour on your exact strategy because clearly in the release you say that you're going to continue to operate as independent stores, so how are you going to improve the distribution situation? Secondly back to the shareholder remuneration, if the shareholder remuneration isn't changing can we read across that you believe you can generate enough free cash flow to cover the 2.18 dividend given the lower EBITDA and also the higher capex from the initial full year guidance? Thirdly just on the trends in mobile, it seems that whilst the minutes of use are getting worse in consumer, enterprise wasn't too bad so on an underlying basis for group service revenue ex-VAS and also termination rates, is the decline from Q4 to Q1 sort of 100-200 basis points? Does that sound right? Thanks very much.

Didier Bellens: I think we have two questions for Michel, so the indirect sales channel and the distribution Michel and then the trend of mobile MOU and then we have again a question on dividends Ray. So maybe Michel you can start.

Michel Georgis: Regarding the question on distribution it's clear that for our sales of mobile we are highly dependent from the indirect channel and mainly the non-exclusive ones where we didn't perform well in the first quarter and that's probably I would say the main driver of our poor performance in mobile net adds for the first quarter of the year. Also you have to take into account that in those shops the biggest part of the sales is happening in standalone mobile while as you know we focus more and more on conversion offers and trying to sell mobile in our packs. That's I think an answer to your question regarding distribution. Regarding the minutes of use, it's clear that when you compare the trend in 2010 we had there a slight growth in terms



of usage while you see that if we compare the last quarter of 2010 with the first quarter of 2011 we have there a decrease of 5% decreasing from 107.7 to 102.2. Also compared to the first quarter of 2010 we have there a decrease of -2%. You can see part of the explanation is also linked to the success of our mobile tariff plans with free SMS because there you see that the number of SMS even if we normalise them with the free ones we have quite a significant growth in terms of SMS in Q1.

Ray Stewart: Back to the shareholder return on the dividend that we've committed we will deliver it – period. I won't get into all the details but it will be paid.

Michael Bishop: Thank you, very clear.

Operator: We will take our next question today from Andy Parnis from UBS. Your line is now open, please go ahead.

Andy Parnis: Hi there guys, thanks for taking my questions. I've got two questions. The first question is just on the revised EBITDA guidance, if you had to provide a split of what percentage of the downgrade is going to be spent trying to gain market share in the fixed business and how much of it is going to go towards gaining share in the mobile business? Secondly just on the fixed business, could you just give a bit more detail on why you think you're losing share particularly in the south of the region? Is it a pricing issue? Are you pricing too expensive or is it more of a value issue that your competitors are offering better speeds? Thanks.

Didier Bellens: Maybe the first question, guidance EBITDA is for Ray and the second will be the fixed business in the south, Michel, why are we losing market share? You can answer this question. Ray?

Ray Stewart: On the guidance first keep in mind we've been a converged company for a while so we don't manage the fixed and mobile business, so CBU is managed as one entity where they have television, fixed and mobile and then our enterprise is the ICT with fixed and mobile. So we just don't manage and look at the business that way number one; and number two even if I did I



wouldn't want to share with my competitors where my firepower is going to be spent, whether it's on the mobile or the fixed side.

Michel Georgis: Regarding your question regarding the south of the country it's clear that we have today still quite high market shares in the south of the country and of course due to I would say the promotional and advertising initiatives of Voo we lost some share there. Our objective is clearly to stabilise our position. We lose in fixed line and broadband but we continue to grow in terms of TV subscribers and share.

Andy Parnis: Ok, thank you.

Operator: We will take our next question today from Stefaan Genoe from Petercam. Your line is now open, please go ahead.

Stefaan Genoe: Yes, good afternoon, Stefaan Genoe, Petercam. The first question is on the sudden decline in Q1 of mobile voice. You mentioned also the SMS cannibalisation. Can you first perhaps give some more colour why this sudden deterioration from quarter to quarter? Secondly do you also see an impact from other applications, new applications on mobile, messaging services etc? Then second question, in the southern part of the country you mentioned in the press release specifically on the fixed line. Can you give some colour on the momentum or the competitive environment in broadband both in the southern part of the country and in the northern part of the country? Thank you.

Didier Bellens: Michel?

Michel Georgis: To answer the first question it's clear that we see some decrease of the mobile usage and I mentioned the minutes of use and that part of it is taken by SMS usage. Maybe another element that partially explains also the weaker usage in the first quarter is the exceptional bad weather conditions in the first quarter of 2010 with quite a lot of snow while in the first quarter of this year we had much better weather conditions and this is certainly also generating less revenue also for the fixed line too. Regarding your question for voice, for the south of the



country, there it's clear that the cable operator is aggressively promoting the packs offering the fixed line package for free like we do when we bundle the fixed line with broadband and TV, but they do it for the fixed line. That's I would say the explanation for the aggressive competition in the south and the fact that we lose there some ground.

Stefaan Genoe: Perhaps one follow-up. On the way KPN indicated of course the Netherlands, they've got a higher smartphone penetration than Belgium but do you see other applications having an impact apart from SMS on the lower minutes of use?

Michel Georgis: What you see is clearly that when you look at the evolution of events data and mainly what we call mobile solutions, so mainly internet on GSM and mobile internet, we have there a growth of 25% while to see that the explanation of KPN, we don't see it yet for the Belgian market. You know that as you mentioned we don't have subsidisation, very small subsidisation on the Belgian market and the proportion of smartphones in the total device portfolio is still between 20% and 25%, so again what we do more and more is to look and to try to have a stabilisation of a slight increase of the blended ARPU and when you look at the ARPU voice and the ARPU data together excluding regulation we show a slight growth if I compare Q1 2011 with the same quarter of last year.

Stefaan Genoe: Ok, thank you.

Operator: We will take our next question today from Marc Hesselink from RBS. Your line is now open, please go ahead.

Marc Hesselink: Yes, hello. Two questions, first obviously you're still pushing for the convergence but also there the net adds are a bit lower than they were in the previous quarters. Are we getting to a level that a lot of people are already impacted not only for you but also on the four competitors? Are we getting to a level that it will be very difficult to get at least the market growing on this side? Secondly on the handsets, just to be clear in the past you always said you're not going to be the first one after Telenet to introduce handset subsidies, but does that now imply that you are going to do that for the high end and the ones that are value accretive?



Didier Bellens: Convergence, Michel?

Michel Georgis: When we look at the evolution of our packs it's clear that now we have roughly 45% of our customers that are at least double play compared to 43 a year ago, so this means that we still have 55% of our customers that are single service of product at Belgacom, so we continue to see there a big opportunity to cross-sell and up-sell towards Belgacom only, so mobile products and the opposite for the mobile only in our customers. The objective at the end is to increase the ARPU per household and that's clearly our focus in our conversion strategy and to sell more per household.

Didier Bellens: As to the handset subsidies after Telenet, I think that Michel has already answered the question. It's in line with what we've already explained to you when we were on the road, so we may do that not across let's say all the products and for all the segments of the customers, so if we do it, it will be extremely segmented on let's say a few handsets and taking into account the advantage of our convergence strategy.

Marc Hesselink: Just to be clear, does that mean that you're going to do it or you're still looking at the possibility?

Didier Bellens: We're still looking. We don't want to speculate where we can create a buzz of course, but we don't want to speculate about that so when we are going to do it we are going to make an announcement.

Marc Hesselink: Ok, thank you.

Operator: We will take our next question today from Luis Prota from Morgan Stanley. Your line is now open, please go ahead.

Luis Prota: Yes, thank you very much. It's really a follow-up question on guidance again and sorry for that, but your EBITDA downgrade is now like three percentage points relative to your



previous guidance, so this is around €60 million and the question I have is, if I'm reading properly into the press release and your comments in the conference call it looks like only a small part of that is due to additional revenue weakness while most part of that is probably due to investing more in defending your marketing position and market share. So the question is out of this €60 million first if you could split between negative revenue impact and opex to defend your positioning? Secondly is this additional investing in defending your market share something that we should consider as a one-off this year and therefore next year we could release this out of the numbers or is this probably giving rise to a new level of spending that you think is going to be recurrent taking into account the new competitive environment? Thank you.

Ray Stewart: We're really not going to get into pluses and minuses and ins and outs on this change in guidance and how much is revenue and how much is for investment and how much of that is mobile, how much of that is fixed and then how much is going to reoccur next year. We're trying to deal with this year let alone talk about next year's guidance, so we're just not going to get that fine-tuned in splitting out. We've given you the reasons for the change in the guidance but we're not going to detail line by line the different amounts.

Luis Prota: Ok, thank you.

Operator: We will take our next question today from Paul Sydney from Credit Suisse. Your line is now open, please go ahead.

Paul Sydney: Thank you. I just had three quick questions please. Firstly in terms of the consumer MOU trend in Q1, did this trend actually worsen as we went through Q1, so for example was March the year on year trend worse than that 2%? Secondly just following on from that, was this MOU decline seen more in any particular sub-segment of the consumer division, any particular tariff causing more of a problem? Just lastly more of a general question, in terms of the fourth 3G licence auction which is coming up in the next few weeks, the LTE spectrum as well which is planned for the second half, how do you see that playing out and do you see an incremental level of competition in the second half due to these auctions? Thank you.



Ray Stewart: I will try to take your question on the first quarter. Normally we don't like to talk about month by month but I will say for the business in general and then I'll turn it over to Michel, the second part of the first quarter let's say was more negative than the first part of the first quarter, I'll just put it that way on the business in general, so we started seeing a decline toward the end of the first quarter. Michel?

Michel Georgis: Sorry, to answer your question regarding if we see some specific differences for some segments, the answer is no. We see the same trend in the different regions of the country, also in terms of tariff plans we don't see there big differences in terms of usage trends.

Scott Alcott: There were two questions, one was on the LTE spectrum and I think the 3G licence. I'll take the second one first. The LTE spectrum, I think the only news is that the currency of that has been devalued a little because the BIPT is talked about re-farming 1,800 to be allowed for LTE which I think makes the auction for additional frequency let's say less important. I think that gives options for the other providers. In terms of an additional licence I think our message has been clear. We think the global trend as you look at consolidations in the market, we think that Belgium is not likely to sustain four operators and that if someone buys and enters, we think it puts pressure on the low end of the market and we'll see how that shakes out but we're all reading the press and following that. But an additional operator I remind everyone needs not just spectrum because spectrum is only useful if you also have a network and build out that network, so that would have to follow as well. I would also add that I do expect a battle of marketing related to messages about LTE. We're already seeing Base make what I would say are questionable claims about 21 megabit and things like this, so people like to advertise speed and technologies sometimes beyond their actual ability to deliver. I remind you that the Proximus Belgacom has the highest coverage and measured highest speeds in the market and we'll continue that.

Paul Sydney: Thank you, that's very helpful.



Didier Bellens: Having said that I just want to add one thing to what Scott said. The business consequence will not be seen in 2011 of course because let's say all the auctions if it happens in 2011 will have a real impact only in 2012, so that's not going to change let's say our guidance or whatever and it's not going to change the competitive environment this year. Let's say our message towards the regulator is let's say we have enough competition in the country and it doesn't make any sense to have four 3G licences in the country because we'll have consolidation afterwards.

Paul Sydney: Thank you.

Operator: As a final reminder to ask a question at this time please press *1. We will take our next question today from Frédéric Doussard from Oddo. Your line is open, please go ahead.

Frédéric Doussard: Yes, hello. You just said that the second part of the quarter was more negative than the first part. Is that due to any change regarding SMS cannibalisation in mobile? Do you think that's due to a change in voice areas or SMS areas or a change in consumer habits?

Michel Georgis: The answer is no, I don't see I would say a further increase in the second part of the quarter in SMS usage compared to the first part, so that's at this stage we don't see that. Of course we monitor that very closely but at this stage I cannot conclude that.

Frédéric Doussard: Actually my question was more on how to explain the deterioration in mobile voice revenues.

Ray Stewart: We've heard several let's say of our peers and other people in Belgium give some what I'll call some theoretical assumptions in terms of what's changing usage. We don't have all the answers right now. All we're telling you is we are seeing...we did see a change and we're trying to look at it in detail. We can't attribute it to anything that we've done, either some new major promo or pricing plan or something like that, but we're not to the point where I can point to Facebook or people like that and say that that's for sure causing the problem.



Frédéric Doussard: So do you see the same trends for your MVNOs or maybe for some competitors? Do you already know that?

Michel Georgis: No.

Frédéric Doussard: Ok, thank you.

Operator: As there are no further questions in the queue that will conclude today's question and answer session. I would now like to turn the call over to Nancy Goossens for any additional or closing remarks.

Nancy Goossens: Thank you all for listening in to this conference call. If there are any follow-up questions you can obviously address them to the Investor Relations team. Thank you all and have a nice weekend. Bye.

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