

# **PARTIAL DEMERGER PROPOSAL**

**Proposal of a transaction equivalent to a demerger by acquisition between Belgacom Skynet SA and Belgacom SA under public law in accordance with the procedure of section 677 juncto 728-741 of the Belgian Companies Code.**

On 22 and 23 October 2009, the Boards of Directors of:

1. **Belgacom Skynet SA**, a public limited liability company governed by Belgian law, with its registered office at Bd. du Roi Albert II 27,1030 Brussels, registered with the Crossroads Bank of Enterprises under number 0460 102 672;

the '**Company to be Partially Demerged**' or '**Belgacom Skynet**'; and

2. **Belgacom SA under public law**, a public limited liability company limited by shares governed by Belgian law, with its registered office at Bd. du Roi Albert II 27,1030 Brussels, registered with the Crossroads Bank of enterprises under number 0202.239.951;

the '**Acquiring company**' or '**Belgacom**'

in accordance with section 677 juncto 728 - 741 of the Belgian Companies Code (hereafter referred to as "BCC"), have decided to propose to their respective shareholders' meetings the following partial demerger proposal with a view to a partial demerger of Belgacom Skynet into Belgacom.

## **1. Preliminary remarks**

This partial demerger proposal of Belgacom Skynet takes place in the broader context of the global development of the Belgacom group is, as well as the more general evolution of the telecommunications and media market.

Since its liberalization, Belgacom has continuously expanded its range of activities and has always been a pioneer in the field of fixed and mobile telephony, internet and television. All services offered by the Belgacom group, which were formerly separate services, are now evolving into total convergence. This requires an adaptation of the existing legal structures of the Belgacom group.

The attraction of convergence and the new organization lies mainly in the fact that they (i) not only facilitate customer acquisition and build up customer loyalty via a combined telecommunications offering, but also allow to (ii) expand the product range through innovation, and (iii) realize efficiencies thanks to the synergies present.

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To fully exploit its convergence strategy and have the flexibility that is needed to respond to the competition and market developments, Belgacom's board of directors has decided, in its implementation of the convergence strategy, to propose to the shareholders' meeting to align the group's legal structure with its operational structure by integrating all Belgian players of the converging services, i.e., Belgacom, Belgacom Mobile, Telindus, Telindus Sourcing, Skynet and Telindus Group, into a single legal entity. May we point out that given the current economic situation and the competition in the telecommunication sector, these changes are indispensable to secure the future of the Belgacom group.

Given the focus of the Scarlet group on the specific segment of the price sensitive residential customers and taken into account the obligations imposed by the Belgian competition authorities ('Raad van de Mededinging'/'Conseil de la Concurrence') with respect to the acquisition of the Scarlet group, the Scarlet group continues to pursue an independent course of action, complementary to the course of action of the Belgacom group, within a separate legal structure.

Note that the aforementioned operations and the partial demerger of Belgacom Skynet are necessary for the restructuring of the group and that they form an integral part of the group's convergence strategy.

In the context of the production and broadcasting rights for football images which were granted to Belgacom Skynet by the professional football league on 9 May 2005, the *Conseil Supérieure de l'Audiovisuel* ('CSA' - an independent authority of the French-speaking community to protect the freedom of audiovisual communication) objected to Belgacom Skynet's direct application or maintenance of these rights, as it was of the opinion that the composition of Belgacom Skynet's board of directors did not offer sufficient guarantees of independence towards the Belgian state. This is why the group proposed to CSA to have the rights exploited by SiA (a subsidiary of Belgacom Skynet). This would offer the necessary guarantees of independence towards the state (since SiA is not a direct subsidiary of Belgacom, of which over 50% is controlled by the Belgian state). The license was therefore granted to SiA.

However, the consequence of a merger through a takeover of Belgacom Skynet would be that its participation in SiA would be automatically transferred to Belgacom, which is contrary to the agreements with the CSA. For this reason, all operational activities of Skynet, with the exception of its participation in SiA and the investments placed with BGIS, are being transferred to Belgacom through a partial demerger of Belgacom Skynet. This ensures that Belgacom Skynet's operational activities are integrated and that it maintains the structure that is needed to preserve the independence of SiA (requested by the CSA).

The Boards of Directors of Belgacom Skynet and Belgacom declare that they are aware of the statutory obligation to file the partial demerger proposal with the Clerk's Office of the Commercial Court at least six weeks prior to the shareholders' meeting which takes the final decision about the partial demerger (**section 728 BCC**).

## 2. Identification of the companies involved in the partial demerger

### Belgacom SA under public law (Acquiring Company)

- name: Belgacom
- legal form: public limited liability company under public law
- registered office: Bd. du Roi Albert II 27, B-1030 Brussels
- Crossroads Bank of Enterprises: 0202.239.951
- object:

*The corporate purpose of the Company is:*

1. *to develop services in the field of telecommunications in Belgium or elsewhere;*
2. *to perform any operations aimed at promoting, whether directly or indirectly, its activities or ensuring the optimal use of its infrastructure;*
3. *to acquire public or private participating interests in Belgian, foreign or international bodies, companies or associations, whether public or private, existing or to be created, which may directly or indirectly contribute, to the achievement of its corporate objects;*
4. *the delivery of radio and TV broadcasting services.*

### Belgacom Skynet SA (Company to be Partially Demerged)

- name: Belgacom Skynet
- legal form: company limited by shares
- registered office: Bd. du Roi Albert II 27, B-1030 Brussels
- Crossroads Bank of enterprises: 0460.102.672
- object:

*The Company's objects are: the design, development and marketing of systems, products and services in connection with the Internet, informatics and electronic communication, inter alia, radio and television programs, including programs against payment.*

*The company may acquire, rent or rent out, manufacture, transfer or exchange all movable or immovable assets, materials and supplies in Belgium or abroad and in general undertake any coordination activities that are directly or indirectly related to its corporate object, including the management of any related intellectual and industrial or commercial property rights.*

*It may acquire any movable and immovable property as an investment, even if these are not directly or indirectly related to the objects of the company.*

*The company may observe the governing board and the liquidation in all its related affiliates with whom there is a type of shareholding link, and can authorize loans and provide guarantees for these companies.*

*It may, through a contribution in cash or in kind, or a merger, subscription, shareholding, financial mediation or other means, acquire a share in any existing companies or companies to be set up in Belgium or abroad, whose company objects are identical, similar or related to its own, or of a type that promotes the performance of the company's objects.*

*This list is provided as an example and is not restrictive.*

### 3. Exchange ratio

#### Method for establishing the exchange ratio

In theory, there are several ways to determine the exchange ratio. This case concerns a partial demerger, whereby the company to be partially demerged (Belgacom Skynet) is a subsidiary which is 100% owned by the acquiring company (Belgacom). This requires compliance with accounting continuity principles. In such situations, a method based on accounting valuations can be considered.

If possible, however, a method based on market valuations is generally preferred. Since Belgacom is listed on the stock market and an independent valuation has recently been made of Belgacom Skynet, the method based on market values has been adopted.

#### Determination of the exchange value of both companies

Belgacom is a listed company, which makes it possible to assess the market value of one Belgacom share on the basis of the stock exchange index. Although the stock exchange indexes have generally been very volatile in the past year, we can reasonably state that for a "defensive" share such as Belgacom's, the average closing rate on Euronext Brussels during the month of September 2009 is sufficiently representative for the current market value. We therefore assume that one Belgacom share has a market value of €26.8075.

The market value of the goodwill of the business to be demerged has been valued by independent experts at €5,380,000. Taking into account the net book value of the assets and liabilities which are being transferred (forecast of €3 million on 1 January 2010), for Skynet we obtain a total estimated market value of €84,742,000. The market value of the assets and liabilities to be transferred is estimated at €8,380,000.

#### Determination of the exchange ratio

The exchange ratio can be determined on the basis of the estimated market value of the transferred activities and the related assets and liabilities and the Belgacom share value (i.e. by dividing the market value of the assets and liabilities to be transferred by the market value of one Belgacom share). This exchange ratio would thus be €8,380,000/€26.8075 or 312,599 Belgacom shares.

However, in accordance with section 740, para. 2 of the Commercial Companies Code, the shares of an acquiring company (Belgacom) may not be exchanged for shares of a company to be partially demerged (Belgacom Skynet) which is owned by the acquiring company. Since Belgacom is therefore not issuing shares, the above-mentioned calculation of the exchange ratio has no further consequences.

#### **4. The way in which shares are distributed, the date on which these shares give right to a share of the profit and the distribution of Belgacom's shares by the shareholders of Belgacom Skynet.**

Belgacom currently owns 100% of Belgacom Skynet's shares. A partial demerger of Belgacom Skynet therefore results in a transfer of part of Belgacom Skynet's corporate assets to Belgacom and in principle should result in Belgacom, as 100% shareholder of Belgacom Skynet, obtaining shares of the acquiring company, i.e., Belgacom itself.

Section 740, para. 2 BCC nevertheless prescribes that there shall be no exchange of shares of the acquiring company for and to the extent of the number of shares of a company to be partially demerged already held by the acquiring company.

In practice, this provision to the partial demerger of Belgacom Skynet therefore implies that Belgacom may not issue and/or acquire new shares in exchange for the shares that it holds in Belgacom Skynet. At the level of Belgacom, the book value of the participation in Belgacom Skynet (which is part of the financial fixed assets) is, as a result of the partial demerger, partially replaced by (i) the assets and liabilities transferred by Belgacom Skynet, and (ii) goodwill.

#### **5. Tax and accounting impact of the partial demerger**

As from 1 January 2010, from an accounting point of view and a point of view of direct taxes, all operations made by Belgacom Skynet will be considered to be carried out for the account of Belgacom.

#### **6. Special advantages and remuneration**

Within Belgacom Skynet, there are neither holders of shares conferred with special rights nor holders of securities other than shares.

No specific advantages are granted to the directors of Belgacom or Belgacom Skynet.

The limited liability cooperative firm Ernst & Young Bedrijfsrevisoren (external auditors), with its registered office at 1831 Diegem, De Kleetlaan 2, represented by Mr. E. Golenvaux, is instructed by the Company to be Partially Demerged to draw up the report cited in section 731 of the BCC. The special remuneration allocated for this contract amounts to 8,000 euro.

Belgacom has instructed the statutory auditors, members of the College of Statutory Auditors, i.e., the civil company having taken the form of a cooperative company with limited liability Ernst & Young Bedrijfsrevisoren, with its registered office at Kleetlaan 2, 1831 Diegem, represented by Mr. M. Van Dooren, on the one hand, and the civil company having taken the form of a cooperative company with limited liability Callens, Guévar, Van Impe & C° Bedrijfsrevisoren, with its registered office at Bd. de Tervuren 313, 1150 Brussels, represented by Mr. H. Van Impe on the other hand, to draw up the reports referred to in sections 731 and 602 BCC.

The special remuneration for this assignment amounts to 8,000 euro, respectively 2,000 euro.

## 7. Assets and liabilities to be distributed

All the operational activities and related assets and liabilities of Belgacom Skynet, with the exception of (i) the financial participation in Skynet iMotion Activities SA, a limited liability company with its registered office at rue Carli 2, 1140 Evere, and registered in the Crossroads Bank for Enterprises (CBE) under number 0875 092 626 ("**Skynet iMotion Activities**") and (ii) the investments placed with Belgacom Group International Services SA, a company under Belgian law with its registered office at Geldenaaksebaan 335, 3001 Heverlee, and registered in the CBE under number 0466 917 220 ("**BGIS**") are transferred to Belgacom.

The assets which are not transferred and which therefore remain in Belgacom Skynet are:

- The financial participation in Skynet iMotion Activities: Belgacom Skynet owns 19,999 of the 20,000 shares of the public limited liability company limited Skynet iMotion Activities, which acquired the broadcasting rights for the Belgian Jupiler League football competition for three-year periods in 2005 and 2008. It ensures the exploitation of these rights as well as the provision of video on demand for Belgacom TV. The accounting value of this financial participation on the balance sheet date of 30 September 2009 amounts to €999,950.00.
- Cash investments: Belgacom Skynet has a considerable amount of investments which are not transferred. These investments are placed via BGIS, the Belgacom group's coordination center. On 30 September 2009, the accounting value of these investments amounts to €74,101,635.42.

All the operational activities of Belgacom Skynet are transferred to Belgacom. These activities can be summarized in the following three sections:

- Content acquisition is currently the most important activity of Belgacom Skynet, with regard to assets, purchases and turnover. This includes the acquisition and provision of the traditional and thematic channels for Belgacom TV;
- Webmedia activities mainly consist of the exploitation of websites such as (but not limited to) [www.skynet.be](http://www.skynet.be), [www.justforyou.be](http://www.justforyou.be), [www.kidcity.be](http://www.kidcity.be) and [www.arena51.be](http://www.arena51.be). This also includes the commercial activities relating to the advertising space on these websites;
- Advertising sales activities mainly include the sale of advertising banners on websites which do not belong to Belgacom Skynet or another company belonging to the Belgacom group.

The transferred assets consist of, inter alia:

- all trade mark registrations held by Belgacom Skynet;
- 165 contracts concluded with domestic and foreign companies for the broadcasting of the TV channels of these stations;
- The websites which are the property of Belgacom Skynet, including (but not limited to) [www.skynet.be](http://www.skynet.be), [www.justforyou.be](http://www.justforyou.be), [www.kidcity.be](http://www.kidcity.be) and [www.arena51.be](http://www.arena51.be);

- The customer bases which Belgacom Skynet has built up for the provision of the opt-in service that is marketed;
- All IT utilities, including hardware, software licenses, proprietary software developments, etc.;
- All amounts receivable which Belgacom Skynet has in companies of the Belgacom group and third-party customers;
- All credit balances which Belgacom Skynet has with the tax administration;
- Under the "liquid assets" item the bank assets at KBC (732-0042074-27) and ING (310-1216610-25).

Belgacom Skynet does neither own any real estate, nor is it holder of any right in rem with respect to real estate ("onroerend zakelijk recht"). As a result, no obligations vis-à-vis OVAM or other obligations resulting from environmental laws are applicable.

Given that all the operational activities and related assets and liabilities of Belgacom Skynet, with the exception of the financial participation in Skynet iMotion Activities and the investments placed with BGIS, are transferred to Belgacom, the assets, liabilities, rights and obligations which cannot be clearly allocated to one of the above activity areas are assumed to have been transferred to Belgacom Skynet.

For the sake of completeness, please note that the activities to be partially demerged and the related assets and liabilities are part of a business branch.

Based on the accounting statement of the assets as per 30 September 2009 of Belgacom Skynet, the assets are demerged as follows:

Split of the assets (30/09/2009 in euro)	Belgacom Skynet	Belgacom
Intangible fixed assets		31.034.651,68
Tangible fixed assets		285.635,28
Plant, machinery and equipment		215.290,04
Furniture and vehicles		15.522,19
Other tangible fixed assets		54.823,05
Financial fixed assets	999.950,00	
Affiliated enterprises – participating interest	999.950,00	
Amounts receivable within one year		10.854.321,69
Trade debtors		10.812.232,60
Other amounts receivable		42.089,09
Current investments	74.101.635,42	
Other investments and deposits	74.101.635,42	
Cash at bank and in hand		10.166,27
Deferred charges and accrued income		194.393,66
<b>Total Assets</b>	<b>75.101.585,42</b>	<b>42.379.168,58</b>

The transferred liabilities consist of, inter alia:

- Amounts payable after one year resulting from the acquisition of the broadcasting rights to several TV channels from different domestic and foreign suppliers;
- Amounts payable within one year, including the short-term part of the debts relating to the acquisition of the TV channels, as well as the trade debts resulting from the above-mentioned operational activities;
- Labor-related and social security debt;
- Debts to the tax administration.

Based on the accounting statement of the assets as per 30 September 2009 of Belgacom Skynet, the debts are demerged as follows:

Split of the Liabilities (30/09/2009 in euro)	Belgacom Skynet	Belgacom
Provisions for liabilities and charges		8.056,94
Other liabilities and charges		8.056,94
Amounts payable after more than one year		8.819.305,55
Trade debts – suppliers		8.819.305,55
Amounts payable within one year		43.548.875,72
Trade debts – suppliers		41.532.328,73
Liabilities - taxes		895.419,83
Liabilities - remuneration and social security		1.118.044,63
Other liabilities		3.082,53
Deferred charges and accrued income		117.831,39
<b>Total Liabilities</b>		<b>52.494.069,60</b>

The accounting statement on 30 September 2009 as summarized above reveals that the net book value of the demerged liabilities exceeds the net book value of the demerged assets. However, this situation, which presents a negative net asset position of €10,114,901.02 to be transferred, is only temporary.

In fact, before the end of the year, Belgacom Skynet will still invoice Belgacom a considerable amount (estimated at over €15 million) for services performed in connection with content offered for Belgacom TV during this quarter. These amounts receivable will not have been settled yet by the year-end or by the date on which the extraordinary general meetings of the companies concerned will pronounce a decision on the partial demerger.

On the basis of a financial forecast, it can be concluded that the net assets to be transferred on 1 January 2010 (date of the proposed partial demerger from the accounting point of view) will amount to approximately €3 million. Based on this forecast, the impact of the partial demerger on Belgacom's capital and reserves can be summarized as follows:

Change in equity of Belgacom Skynet (estimated 01/01/2010 in euro)	<u>Before</u> the partial demerger	<u>After</u> the partial demerger
Issued capital	33.923.680,57	32.359.918,31
Legal reserve	2.157.210,71	2.057.770,89
Retained earnings (estimated)	29.000.000,00	27.663.202,08
Total Equity (estimated)	65.080.891,28	62.080.891,28

As mentioned above, this partial demerger of Belgacom Skynet will therefore not lead to the issue of shares by Belgacom. At the level of Belgacom, the book value of the participation in Belgacom Skynet will be allocated to the transferred activity and the related assets and liabilities on the one hand, and to the remaining assets on the other hand. This will be a *pro rata* allocation, based on the market value represented by the Belgacom Skynet property components to be transferred compared to the market value of all the property components of Belgacom Skynet prior to the partial demerger. Based on the financial forecasts, the total market value of Belgacom Skynet consists of the market value of the transferred property components (€8,380,000) and the market value of the cash and participation in SiA (€76,362,000). The market value of the property components of Belgacom Skynet to be transferred, based on financial forecasts on 31 December 2009, therefore represents 9.89% of the total corporate assets of Belgacom Skynet (before the partial demerger). The book value of the total participation in Belgacom Skynet as included in the financial statements of Belgacom also amounts to €84,742,000. Taking accounting continuity into consideration, the partial demerger results, where Belgacom is concerned, in the replacement of €8,380,000 in financial fixed assets (i.e., 9.89% of the total value of the Belgacom Skynet participation in Belgacom's financial statements by:

- (i) property components which Belgacom Skynet transfers as a result of the partial demerger, and whose book value amounts to €3,000,000, and
- (ii) €5,380,000 to be booked as goodwill as a result of the partial demerger.

## 8. Compliance with tax regulations

The Boards of Directors of Belgacom and Belgacom Skynet to be Partially Demerged confirm that this transaction equivalent to a demerger by acquisition takes place in accordance with sections 211, 212 and 213 of the Income Tax Code, sections 11 and 18 para. 3 of the Belgian VAT Code and sections 117 and 120 in fine of the Code of duties on registration, mortgage and registry charges.

## 9. Special powers

The Boards of Directors of Belgacom and Belgacom Skynet have decided to grant a power of attorney to Peter Vandendriessche, Laurence Croufer and Sophie Peeters, attorneys at law with offices established at Ave. Louise 99, 1050 Brussels, each of them acting individually and with right of substitution, to perform any operations on behalf of Belgacom and Belgacom Skynet which are necessary or useful for the submission of this demerger proposal to Clerk's Office of the competent Commercial Court of Brussels.

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In order to implement the envisaged partial demerger in accordance with the statutory requirements and the articles of association, the boards of the companies involved in the partial demerger shall transfer and disclose all useful information to each other and to the respective shareholders as provided in the Belgian Companies Code, unless this would manifestly harm the interests of one of the companies concerned.

This partial demerger proposal will be submitted in the company files of the respective companies at the Clerk's Office of the Commercial Court in Brussels.

The partial demerger proposal will be presented to the shareholders' meeting of each company to be held on 4 January 2010 or on any other date determined on behalf of the companies' boards of directors.

Drawn up in four copies in Brussels on 22 and 23 October 2009. The board of directors of each of the companies involved in the partial demerger each acknowledge having received two copies, one for submission in the company's file at the Clerk's Office of the competent Commercial Court and the other to be kept in the company's registered office.

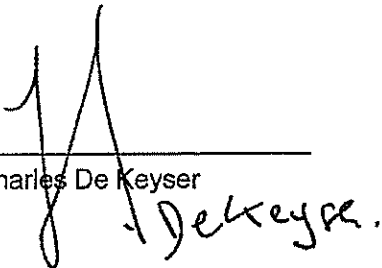
For Belgacom SA under public law,



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Didier Bellens  
President & C.E.O.

For Belgacom Skynet SA,



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Jean-Charles De Keyser  
C.E.O.