

Belgacom
Presenter: Didier Bellens
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Operator: Please stand by, this is Premiere Global Services, we are about to begin. Good afternoon ladies and gentlemen and welcome to today's Belgacom 2007 Third Quarter Results Conference Call. For your information this conference is being recorded. At this time I would like to turn the call over to your host today, Mr. Didier Bellens. Please go ahead sir.

Didier Bellens: Thank you very much and good afternoon, welcome to this conference call. As usual some colleagues of the management committee have joined me for this call and we will be happy to answer your questions when the Q&A line is open. We are of course very pleased with continued strong financial performance and our operational successes. I believe that we can continue well on track for our full year guidance and I am convinced that we have pleased our shareholders with the announcement of our additional returns. As I'm sure you all have gone through our extended press release and presentation, I am not going to run you through our results again, I think it would be a much better use of everyone's time if we just start immediately with the Q&A. So operator, can you please open the line for questions?

Operator: Thank you Mr. Bellens. The Q&A session will be conducted electronically. If you would like to ask a question, please press the * or asterisk key followed by the digit 1 on your telephone keypad. We will take questions in the order received and we will take as many as time permits. If you find that your question has been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions.

We will take our first question from Mike Williams from Citigroup. Please go ahead..

Mike Williams: Yes, good afternoon everyone, best conference call I've had so far this reporting season so thanks for that. Three questions if I can just quickly, firstly what impact do you expect the loss of the Allo distribution channel to have on the performance of Proximus going forward? Secondly Telenet's revised guidance seems to allow considerable room for quite aggressive pre-Christmas promotional activity. I wondered if you could give us any kind of flavour for how aggressive you expect promotional activity to be in the run up for Christmas in both the fixed and the mobile operations? Thirdly when should we expect the final decision on MTRs? Thanks very much.

Didier Bellens: Ok, maybe the first and the third questions for Michel Georgis.

Michel Georgis: Let me start with AlloTelecom. To be honest we do everything we can to avoid any impact of AlloTelecom that is now under control of Base and we have a distribution plan to counter that phenomenon.

Didier Bellens: And MTR Michel?

Mike Williams: Regarding MTR it's clear that we are today confronted with a delay from the regulators and at this stage we cannot mention quite a lot of information. We know that the EEC is in constant contact with the BIPT but there is no final outcome yet. We hope that before the end of the year something will be done but of course there is no guarantee. We do our job to try to push that because we believe that it's fair but I have no guarantee.

Didier Bellens: Ok. Regarding Telenet, Michel?

Michel Georgis: Telenet is not a surprise. It's clear that also based on our strong results for example in TV where we had some above-the-line and below-the-line activities where we were clearly

communicating cut the cable that we expect some reaction but again we also prepared for that battle and we stick to our ambition that in the long term we go for 50% market share in iDTV.

Didier Bellens: I think it just confirms that in the future the competition will be between cable and Belgacom, it's exactly what we've said in the past and we have also communicated to the outside world. We are very proud of the evolution of the TV customers and there we are gaining market share definitely. We are very proud about the evolution of the number of mobile customers and also we have turned around the evolution of the broadband customers, so of course it's a fierce battle. We don't want to destroy value in the market, I think that Telenet is not willing to destroy value in the market and I guess that the circumstances are becoming more and more complex for the other players in the Belgian market, so in the future you will see indeed cable operators and Belgacom as the two main players.

Michel Georgis: And also the strong success of the packs, it's clearly generating this type of reaction.

Didier Bellens: Ok, next question?

Operator: We'll take our next question from Bart Jooris from Fortis. Please go ahead.

Bart Jooris: Yes, good afternoon, congratulations on your results first of all. Second I would like to ask, your margin forecast for mobile leads to a very large decline in the fourth quarter even if I take in your predictions that there would be a €40 million roaming impact over the whole year, that does not explain that decline. Does that mean that this guidance is very cautious? Second of all also regarding mobile, the base by which the market seems to grow is not slowing down and this is a mature market – can you explain that? Then thirdly how do you react to the proposition of Telenet's CEO to split the football rights over different transmitters?

Didier Bellens: Ok, I'll take the last one. Maybe Michel you can take the first one regarding mature markets, it's related to what?

Bart Jooris: The growth in mobile.

Didier Bellens: The growth in mobile, ok, fine.

Michel Georgis: I'll take the two first ones. Regarding EBTIDA margin you know that there is a clear big seasonality in the Belgian market and if year after year you look at the evolution in terms of EBITDA margin in 2004, in 2005, 2006 you will see that there is a drop between 5-6 points margin from Q3 to Q4 and that's also a reality. You know also that December is a very heavy month in terms of promotions and that's also why we stick to the current guidance of around 44%. The second one regarding the growth, it's clear that we come now to roughly, in terms of active penetration, 96%, in terms of card penetration we are already above 100%. It's a combination for me of three elements, you have for sure an increase of competition. You have also the phenomenon of the second card that is of course pushed by MVNO, and a certain number of players on the market that are promoting the calls to ethnic population and where you see a lot of second cards in the market. The third element is that some operators as you know use free cards that they distribute in the market and that has of course also an impact in terms of penetration because those figures are immediately considered prepaid customers and these are a different element that of course are boosting the current penetration. By the way we are very close to a certain number of penetration in other markets, you know that Belgium was a little bit behind in terms of penetration compared to peers in Europe and now we are close to the other European markets.

Didier Bellens: Regarding Telenet and soccer rights, it's indeed interesting to read this kind of declaration. At least it confirms that the idea we've had to buy the rights three years ago was a good one because it seems that they do consider that they would prefer to have the Belgian

soccer rights everywhere on all and every platform. It's good for Duco to say that to the market, we're not going to respond officially to that. The only thing I have in mind is that the exclusivity brought a lot to Belgacom as the TV platform should be different than other TV platforms in the country, so that was definitely a positive thing and we'll see in the future what the league is going to offer to the different operators and what will be the opportunities for Belgacom to react. We've said at the very beginning of the process that we are not going to negotiate publicly what we want to do so we are not going to react publicly to Duco but we know what the value for the soccer rights was. There is one value as exclusivity, another value as if it's free for everybody and I don't have a legal analysis showing that we can come as all platforms negotiating with the leagues because it looks like a kind of infringement or competition law, so I don't know what kind of game he's playing but my takeaway is really he's coming and saying "listen, it would be nice for Telenet to have also access to some of the soccer but I'm not quite sure we have the money to pay for it".

Bart Jooris: Ok, thank you.

Operator: We'll take our next question from David Wright from JP Morgan. Please go ahead.

David Wright: Hi, a couple of questions, three actually. Just first on the fixed line business you had a noticeable drop in the wholesale revenue line. I'm just wondering whether we should start to use the kind of €93 million that you reported as a benchmark or whether we should see recovery back to the first half levels. On the mobile side the CapEx was obviously very low, if you could maybe give us a little bit of guidance for the full year just to enable us to look through the seasonality a touch. Just very finally on the mobile revenues themselves, I'm just looking at the post paid ARPU which is obviously declining fairly sharply now and I'm trying to understand to what extent there is pricing pressure on top of the MTR and roaming cuts, so if you could maybe give us a little bit of an indication of the kind of implied yield you're getting on the post paid ARPU and how that is trending? Thank you.

Didier Bellens: Thank you for these questions, it gives me the opportunity to give the floor to Scott Alcott, Ray Stewart for the second and Michel again for the third.

Scott Alcott: First of all the second half wholesale is definitely worse than the first and it's going to continue to decline. There's a couple of factors at work here, one the consolidation that we're seeing in the voice market across the OLOs, notice that we've seen in the retail market a decline that's happened and now we're starting to see that follow through into the wholesale market as well. In terms of the speed of that I assume that the second half trend will flatten but we're not giving wholesale guidance specifically into the next year. The other factor to consider is the termination rates that we had declining as well as the trends from Proximus that is now going to base. Those are things that are causing the difference between the first half and the second half but I would say you'll see a little bit of a smoothing but that trend is something that should continue.

Ray Stewart: On the CapEx the only guidance we've given and we continue to give is at the group level and what we've said this year is we'd be fairly close to last year and we still think we'll be somewhere in that ballpark and there will be adjustments whether it's on the fixed or mobile side and especially as we move toward the convergence, so I think in your models if we still include something fairly close to last year you should be ok.

Michel Georgis: Regarding the post paid ARPU first of all you need to know that when you look at the evolution of the total market in terms of value in Q3 you certainly observe that we have for the total market -6%, of course the total market is hit by the regulations / roaming measures and for specifically in all numbers the post paid ARPU MTR is something for €1.06 year to date September. Another phenomenon is that we have a certain number of bundles that are quite successful where we don't ask any more to pay an access fee. The other element is the spectacular change in terms of conversion from pre-paid to post-paid. You certainly say that in a

little less than one year we moved from 43% post paid to 50% and of course we have a certain number of pre-paid customers in the total ARPU now that are interesting valuable pre-paid customers but with a lower APRU than the original ones. The last element is of course the further penetration in the SME market where you see that not only the top business customers but also employees are entering that segment and those employees are of course calling less and so the ARPU is lower.

David Wright: Just a quick follow-on on that, the guidance that you raised at the first half to 4% decline on the mobile side, it was clear that Q3 would be fairly aggressively impacted by MTR and a small touch of roaming. You're now pretty well at -4%, -3.8% I think is the nine months after doing -5% in Q3 and Q4 we would probably expect to be incrementally worse because of the roaming impact which you've quantified, so I'm wondering, is there anything specific in Q4 you were expecting when you raised that guidance because it looks like 4% could be fairly tough to beat given that's where you are now and Q4 is only going to be worse. Thanks.

Michel Georgis: It's challenging but we'll stick to it and we believe we will deliver

David Wright: Ok, thank you.

Didier Bellens: Ok, thank you Michel.

Operator: We'll now take our next question from Richard Barker from Credit Suisse.

Richard Barker: Thank you very much, it's a bit of a three parter I'm afraid so please bear with me. I just wonder if you could talk a little bit in terms of from a fixed line perspective about whether you're seeing any material changes in the competitive environment. Specifically I think you talked about local loop unbundling activity picking up in the second quarter, I just wondered if you've got an update on that, whether that's continued, whether that's dropped off. Secondly there seems to

be some uncertainty as to when wholesale line rental product is going to be introduced and I wondered if you could just update us on that and thirdly I just wondered if you could maybe qualitatively update us in terms of whether you're starting to see any kind of competition from telephone and broadband and cable in the south of the country? Thanks.

Didier Bellens: Scott maybe for the first two.

Scott Alcott: Sure. It's clear and we've been saying it for a couple of years now that the movement to flat rate and packages is the target and I expect everyone on the phone knows we feel we're in the best position to exploit that because we have all the assets but the short answer is it's going to increase. The trend that we're seeing in the fixed is to combine the mobile, the fixed, the internet and bundle it with TV, so combinations of double, triple and even quadruple play is definitely the target and I think you're going to see from all of the operators attempts to do that and volumes going up. I keep reminding everyone that when the others do it, they're doing it through partnerships, they're leveraging MVNOs, they're tacking things together that are not interoperable and that may not capture the profits in the house from the individual operators so we think we're best positioned for that trend and we encourage that trend. Last I'll mention that it's not true that every household is both a Belgacom and Proximus customer and there's a lot of opportunities to take the 27% mobile only population and get a vital Belgacom fixed link with them and it's also an excellent opportunity to add Proximus to the accounts that could benefit from our TV offer and our strong fixed offer and to put that into a package so there's a lot of upside for us to pursue that and I expect the market to accelerate. As far as wholesale line rental goes, the short answer on that as well is that there is not a target date that has been finalised. It's clear that it will be a retail minus and it's clear that it's happening in an environment where voice over IP is more and more of the target including for the other local operators so our view is that the regulator has not felt that it's a rush to bring that as a solution into the market. We think it'll happen while it may create some volume impact in the coming year if it happens because of the

nature of the retail minus and the one time connection fees that can happen and the like it should be a relatively minor impact on revenue as an incremental issue.

Didier Bellens: Number three, Michel maybe.

Michel Georgis: I believe that the consolidation in the south is making our lives a little bit more complicated and that VOO is becoming a more competitive player than it was a couple of years ago but ok, that's something that we mentioned since a certain number of years and that was also the reason why we wanted to be proactive also in the south to further develop our position and leadership in the south but it's clear that we have there a huge market share and that we need to fight to stick to that level of position on the market.

Didier Bellens: Let's be clear because they still have a lot to do before really being competitive with Belgacom. Ok, next question.

Operator: We'll now move to Thijs Berkelder from Petercam.

Thijs Berkelder: The question is regarding Belgacom TV. Can you tell me whether Belgacom TV is still EBITDA negative and if so when will it be EBITDA positive? Can you maybe quantify the number of football viewers and can you tell me in your viewer numbers is that the real viewer number or is that the number of set-top boxes? How many multi-boxes are there per household? Then a follow-up question on Telindus, can you maybe give a bit of grip on the margin of Telindus? Finally pre-paid ARPU is sharply up, is there a specific reason for that?

Didier Bellens: Pre-paid ARPU is for Michel.

Michel Georgis: Yes, you have certainly the gross ARPU where of course you have in the number a certain number of free mainly SMS that of course by a little bit of the situation, that's the main reason you have a growth of ARPU in the interim report.

Didier Bellens: The Telindus margin and Belgacom TV, when is it going to be positive? That's for Ray.

Ray Stewart: On Telindus we really don't even track it separately anymore, it's part of our fixed line business and it's part of the whole ICT area which includes business we used to have from Belgacom and the new Telindus so we really don't report or track that margin anymore, it's just part of the fixed line margin. On television last year we told you and gave you the number that television was negative at the EBITDA level and I also made the comment that we would hopefully see television be positive in 2008 at the EBITDA level which would lead you to the obvious answer that in 2007 it's still negative but we're not tracking that separately or reporting, but we still stand and hopefully next year it will turn positive.

Didier Bellens: For the football viewer I think we don't give the number of viewers. The third question I've missed...

Thijs Berkelder: The number of set-top boxes.

Didier Bellens: Yes, the number of viewers is based on set-top boxes.

Ray Stewart: It is based on viewers and by far, I'm going to say 98%. 99% of the set top boxes we sell and we rent but by far today the majority are rental. But our customers are based on the people that subscribe to Belgacom TV, whether they buy a set-top box or rent it doesn't matter.

Didier Bellens: To be clear it's based on households, so if there are many viewers in a household, it's household and not viewers.

Thijs Berkelder: Then maybe a follow-up question on that. Is it correct that let's say if your percentage of penetration on your residential broadband base, you're already at close to 25% of your broadband users?

Ray Stewart: What was the percentage?

Thijs Berkelder: 25%.

Didier Bellens: If you do the maths...what's your question?

Thijs Berkelder: What's realistic to reach in your opinion?

Didier Bellens: It's easy, we have 50% market share in broadband. As you know the OLOs, they have roughly 15% and they are using our network and they don't have a TV offer, and cable represents roughly 35% market share so I've always said that what is realistic is to have let's say 50% market share in TV.

Thijs Berkelder: Thank you very much.

Operator: We will take our next question from Dirk Saelens of KBC.

Dirk Saelens: Thank you, good afternoon. I had only one question, it refers to the number of traffic minutes which seems to have had an important fall in the third quarter. Could you give some indication of what happened there and what you expect in terms of the evolution of those minutes going forward and what initiatives you intend to take? Thank you.

Didier Bellens: Ok, I guess it's for Ray.

Ray Stewart: I guess as we've said in the past as we move more and more to a flat rate environment whether it's a flat rate over PSTN or whether it's voice over IP, we just think in the future the only people that are really going to track traffic minutes are the engineers that have to engineer the network so it's not really something we get too concerned about and that will continue.

Dirk Saelens: Thank you.

Operator: We will now move to Luis Prota from Morgan Stanley.

Luis Prota: Yes, hello, I have two questions please. The first one is on the cost savings in fixed telephony in the first quarter, I wonder if you could elaborate a bit on the nature of the cost cutting whether it's recurrent or it's a one-off and what happened in the national wholesale cost of sales? The second question is on the net debt figure for the quarter which has been a bit surprised, I was expecting a higher figure. Is there anything seasonal this quarter in terms of cash payments of interest, taxes, maybe restructuring costs which are having a positive impact this quarter?

Ray Stewart: If you could repeat the net debt question or the issue there because I missed it?

Luis Prota: Sorry, the question is that I was expecting a higher figure, probably...

Ray Stewart: You wanted it for net debt?

Luis Prota: Yes, and the question is whether there is something seasonal this quarter.

Ray Stewart: The answer is no, there's nothing exceptional that happened in the third quarter from a cash flow standpoint whether it's either anything on the working capital or other payments, it was fairly clean.

Didier Bellens: On the cost savings on the fixed?

Scott Alcott: Mainly what you saw and it was indicated in the presentation, there were slightly higher personnel costs that were offset mainly by reduced cost of goods sold and that was found in the reduced termination rate charges and that's the key driver for that quarter.

Luis Prota: Ok, thank you.

Operator: We'll take our next question from Matthew Bloxham from Deutsche Bank. Please go ahead.

Matthew Bloxham: Good afternoon, a couple of questions. One on broadband, obviously you've put the prices up on broadband at the beginning of 2007. I was just wondering if you think that the market environment would support another price increase in '08? A question on the buyback, I think you start that buyback programme next week, I'm just wondering if you plan is to try and execute that before the year end or should we assume that it kind of spills over into the next financial year? Then there was a question on the PSTN line losses which I think visually have kind of stepped up a bit in Q3 but looking at the presentation and reading reports you've been moving some customers onto your own kind of all IP product. I'm just kind of wondering how much of that accelerating line loss trend is migrations onto our own other products?

Didier Bellens: Ray, share buyback?

Ray Stewart: The share buyback won't be completed by year end. The plan right now is we'd have it completed some time next year before the end of the first quarter.

Scott Alcott: In terms of indexation we say the same thing every year, we're not going to help our competitors with their plans and we take a hard look at the market situation year over year and we make the decision. I would tell you that I think it was a good call in terms of what we had last year with the indexation but it remains to be seen what we're going to do for next year.

Michel Georgis: Maybe I can answer the third one about the loss of fixed line. It's clear that it's linked to two or three main reasons, the first one is the launch of ADSL without the fixed line. The second reason is a decrease in the new voice access lines and of also attractive offers of a certain number of mobile operators giving free on-net minutes that are also quite aggressive in terms of above-the-line communication on cut-the-line. The last element of course was the launch of the I-Talk and the move to voice over IP.

Matthew Bloxham: Great. Have you given any customer numbers on I-Talk or is it too early for that?

Michel Georgis: It's too early.

Matthew Bloxham: Ok. Just one very quick follow-up, the tax rate in the P&L remains at a pretty low level. I'm just kind of wondering whether the kind of year mid-20s run rate is the right thing to think about for the rest of this year, whether that's right for next year or should we be thinking about the low 30s for next year?

Ray Stewart: The big thing this year that drove the rate down was the capital gains that we had earlier this year in Belgium, those aren't taxable. So for your models next year I would probably model something around 28%, something like that.

Matthew Bloxham: Ok, thanks.

Operator: We'll take our next question from Russell Waller from New Street Research. Please go ahead.

Russell Waller: Hello, my question is on the fixed business, it looks as though you've had a pretty good quarter in terms of margins and I was just thinking about your margins in the fourth quarter. I know the guidance is for margin to be fairly stable but for them to be flat year on year it would imply a margin in Q4 of about 29% and that's obviously down quite heavily year on year and the margins are actually up in the first nine months of the year and I presume they are also going to improve going forward mathematically because you're losing fixed to mobile revenue and I was just wondering if you had a comment on that please?

Didier Bellens: Ok, that's margin and fixed line, Ray?

Ray Stewart: As far as our guidance it'll stay fairly stable. Fairly doesn't imply exact and even if you do the math, you're maybe a couple of basis points off so we still hold our guidance that it will be fairly stable year over year. It's not going to be exact but it'll be close.

Scott Alcott: It's clear the difference because you're right, if you look at the Q3 versus what's implied for Q4, we've been clear, it's about the fixed to mobile decrease in tariffs because of the regulatory driven aspect that'll come through. That's going to impact both the demand side and the volume as well as the price income component, so you add all that up and that's how we get there.

Russell Waller: Alright, thanks. So it's not because for example there's a structural shift of minutes of the mobile business ?

Scott Alcott: No, nothing like that at all.

Ray Stewart: Nothing structural, no.

Russell Waller: Alright, thanks.

Operator: We'll take our next question from Ulrich Rathe from Dresdner Kleinwort.

Ulrich Rathe: I have a question regarding the government stake, there has been some press reports that the government is currently discussing that or the forming government is discussing that. Is there anything that you have seen or heard directly in conversations with your owners with regards of their views and how they want to go forward?

Didier Bellens: It's difficult to really talk for them especially because you know we don't have a government for the time being so you don't know exactly what's going on but there is still a fair chance that the people talking together will form a government at the end of the day and what is different compared with the previous government, it's really the flexibility they are giving us, so they do believe that it's not as important as it used to be in the past that the government is keeping the 50% majority in Belgacom, so they may give up this majority especially if we come with good ideas about how to dilute the government. Now the question is open how to do it but it's quite clear that the ball is in our camp and I've already told them that if we dilute the government will dilute them only if it makes sense in terms of creation of value for all the shareholders, so that's where we are. They show that they have more flexibility than in the past and they are not going to drive a necessary decrease in their stake in Belgacom. They are expecting us to come with ideas.

Ulrich Rathe: Thank you.

Operator: We will take our next question from Matthew Ward from Bear Stearns. Please go ahead.

Matthew Ward: Hi there, I just had a couple of questions on the long term balance sheet structure which may be brief in answer but I'll give it a go. Given where your reserves currently sit and the lack of M&A opportunities that appear to be on the horizon, can you just give us a bit of flavour in terms of whether you would consider reducing the capital base to return more cash to shareholders next year given the rate of cash that you're creating at the moment? Secondly are there any opportunities out there that you have seen that look interesting to you?

Didier Bellens: We've been very consistent on this point so maybe Ray you can repeat our position.

Ray Stewart: We have a formal committed shareholder return or dividend policy and I think we've been fairly consistent that every year we've pretty much exceeded that and both Didier and I have said that for us we have no problem looking at the annual cash flow and if there are no other uses for that cash that we would look at returning that to the shareholders and I think we've got a pretty good track record of doing that, but we've said we're not ready today and we're still not ready today to make a decision on using the balance sheet for shareholder return, whether that would be a special dividend or a share buyback and I guess we're still there and I guess the follow-up question you had there is are there opportunities out there for us to invest? There are not a multitude of opportunities but there are still a few that we do take a look at and we'll see. We try to stay fairly disciplined when we're looking at M&A or investment opportunities, we try not to be overly conservative but disciplined but we are still looking, not to the point where we're saying "look, there are zero investment opportunities out there so we're going to lever up the balance sheet and do a big share buyback or special dividend". Now whether that will change next year or not I don't know but at least today I can say the best thing if I was looking at next year would be look at our track record of 2006 and 2007.

Matthew Ward: That's very clear, thank you.

Operator: Once again if you would like to ask a question or if you have a follow-up question, please press *1 to signal. We will take our next question from Richard Barker from Credit Suisse.

Richard Barker: Just a follow-up on the IT services part of the business. I just wondered whether you'd started to see any impact from for instance some of the fallout in the financial services sector? I understand that some of the European IT services players have been starting to talk down prospects because people are freezing investment because of the uncertain outlook. I wondered if that was something you'd come across? Also do you have any particular currency exposures that might have an impact over the next 12 months?

Ray Stewart: We're just watching it, we have nothing.

Didier Bellens: It's one of the advantages of being local you know.

Ray Stewart: In terms of the IT services, no, we haven't seen a reduction of projects being in the pipeline or any of that. In fact they're going to need some of our help with compliance software, we'll see. But at the moment no.

Didier Bellens: We are not at all impacted by the evolution of let's say the economy and what we may hear about the market.

Ray Stewart: No.

Richard Barker: Thank you,

Didier Bellens: Next question please.

Operator: For your information we have no further questions. I would like to turn the call back over to you gentlemen for any additional or closing remarks.

Didier Bellens: I would like to thank you and we will also be in Barcelona so I may imagine that we'll meet some of you in Barcelona. Thank you for joining this meeting and we'll talk later. Bye bye.

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