

# Consolidated Financial Statements

Prepared under International Financial Reporting Standards for each of the two years ended 31 December 2011 and 2010

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# Consolidated income statement

(EUR million)	Note	Year ended 31 December	
		2010	2011
Net revenue	20	6,552	6,361
Other operating income	21	51	45
Non-recurring income	22	436	11
<b>Total income</b>		<b>7,040</b>	<b>6,417</b>
Costs of materials and services related to revenue	23	-2,642	-2,517
Personnel expenses and pensions	24	-1,107	-1,117
Other operating expenses	25	-870	-860
Non-recurring expenses	26	8	-26
<b>Total operating expenses before depreciation and amortization</b>		<b>-4,612</b>	<b>-4,520</b>
<b>Operating income before depreciation and amortization</b>		<b>2,428</b>	<b>1,897</b>
Depreciation and amortization	27	-809	-756
<b>Operating income</b>		<b>1,619</b>	<b>1,141</b>
Finance income		21	30
Finance costs		-123	-137
<b>Net finance costs</b>	28	<b>-102</b>	<b>-106</b>
<b>Income before taxes</b>		<b>1,517</b>	<b>1,035</b>
Tax expense	8	-233	-262
<b>Net income</b>		<b>1,283</b>	<b>773</b>
Non-controlling interests	15	17	17
Net income (group share)		1,266	756
Basic earnings per share (in EUR)	29	3.94 EUR	2.36 EUR
Diluted earnings per share (in EUR)	29	3.94 EUR	2.36 EUR
Weighted average number of outstanding ordinary shares	29	321,138,048	319,963,423
Weighted average number of outstanding ordinary shares for diluted earnings per share	29	321,712,030	320,514,286

# Consolidated statement of other comprehensive income

(EUR million)	Year ended 31 December	
	2010	2011
<b>Net income</b>	<b>1,283</b>	<b>773</b>
<b>Other comprehensive income:</b>		
Available-for-sale investments:		
Transfer to profit or loss on sale	-5	0
Exchange differences on translation of foreign operations	0	-1
<b>Other comprehensive income net of related tax effects</b>	<b>-5</b>	<b>-2</b>
<b>Total comprehensive income</b>	<b>1,278</b>	<b>772</b>
Attributable to:		
Equity holders of the parent	1,262	755
Non-controlling interests	17	17

# Consolidated balance sheet

(EUR million)	Note	As of 31 December	
		2010	2011
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	3	2,337	2,323
Intangible assets with finite useful life	4	1,190	1,155
Property, plant and equipment	5	2,348	2,401
Investments in associates	6	2	3
Other participating interests	7	26	31
Deferred income tax assets	8	158	121
Pension assets	9	2	2
Other non-current assets	10	122	180
		<b>6,185</b>	<b>6,217</b>
<b>CURRENT ASSETS</b>			
Inventories		114	116
Trade receivables	11	1,246	1,328
Current tax assets	8	198	143
Other current assets	12	142	152
Investments	13	43	36
Cash and cash equivalents	14	584	320
		<b>2,326</b>	<b>2,095</b>
<b>TOTAL ASSETS</b>		<b>8,511</b>	<b>8,312</b>
<b>LIABILITIES AND EQUITY</b>			
<b>EQUITY</b>			
<b>Shareholders' equity</b>	15	<b>3,342</b>	<b>3,303</b>
Issued capital	15	1,000	1,000
Treasury shares		-484	-570
Restricted reserve		100	100
Stock compensation		11	13
Retained earnings		2,476	2,532
Foreign currency translation		4	2
<b>Non-Controlling interests</b>	15	<b>235</b>	<b>225</b>
		<b>3,342</b>	<b>3,303</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	16	1,406	1,931
Liability for pensions, other post-employment benefits and termination benefits	9	565	479
Provisions	17	203	180
Deferred income tax liabilities	8	187	157
Other non-current payables	18	3	2
		<b>2,364</b>	<b>2,749</b>
<b>CURRENT LIABILITIES</b>			
Interest-bearing liabilities	16	783	41
Trade payables		1,304	1,343
Tax payables	8	188	229
Other current payables	19	529	647
		<b>2,804</b>	<b>2,260</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,511</b>	<b>8,312</b>

# Consolidated cash flow statement

(EUR million)	Note	Year ended 31 December	
		2010	2011
<b>Cash flow from operating activities</b>			
Net income (group share)		1,266	756
<b>Adjustments for:</b>			
Non-controlling interests	15	17	17
Depreciation and amortization on intangible assets and property, plant and equipment	5	809	756
Increase of impairment on intangible assets and property, plant and equipment	5	1	2
Increase of provisions		26	2
Deferred tax expense	8	75	20
Fair value adjustments on financial instruments		1	4
Loans amortization		0	-1
(Gain) / loss on disposal of consolidated companies and remeasurement of previously held interest	6	-437	6
Gain on disposal of property, plant and equipment		-3	-3
Other non-cash movements		10	9
<b>Operating cash flow before working capital changes</b>		<b>1,766</b>	<b>1,569</b>
Increase in inventories		-27	-8
Decrease / (increase) in trade receivables		1	-103
Decrease / (increase) in current income tax assets		-28	1
Decrease in other current assets		58	42
Increase in other non current assets		0	-34
Increase / (decrease) in trade payables		-2	82
Increase in income tax payables		48	86
Increase / (decrease) in other current payables		-13	28
Decrease in net liability for pensions, other post-employment benefits and termination benefits	9	-113	-85
Decrease in other non-current payables and provisions		-23	-26
<b>Increase in working capital, net of acquisitions and disposals of subsidiaries</b>		<b>-99</b>	<b>-17</b>
<b>Net cash flow provided by operating activities (1)</b>		<b>1,666</b>	<b>1,551</b>
<b>Cash flow from investing activities</b>			
Cash paid for acquisitions of intangible assets and property, plant and equipment	3, 4, 5	-734	-757
Cash paid for acquisitions of other participating interests		-26	-6
Cash (paid) / received for acquisition of consolidated companies, net of cash acquired		56	-14
Cash received from sales of consolidated companies, net of cash disposed of	6	0	4
Cash received from sales of intangible assets and property, plant and equipment		16	7
Net cash received from other non-current assets		1	1
<b>Net cash used in investing activities</b>		<b>-686</b>	<b>-764</b>
<b>Cash flow before financing activities</b>		<b>980</b>	<b>788</b>
<b>Cash flow from financing activities</b>			
Dividends paid to shareholders	30	-702	-701
Dividends / capital paid to non-controlling interests	15	-30	-24
Net sale / (acquisition) of treasury shares		25	-86
Net sale of investments		26	8
Decrease of shareholders' equity		-1	-2
Issuance of long term debt		6	495
Repayment of long term debt		-4	-773
Issuance / (repayment) of short term debt		-49	32
<b>Net cash used in financing activities</b>		<b>-728</b>	<b>-1,051</b>
<b>Net increase / (decrease) of cash and cash equivalents</b>		<b>252</b>	<b>-264</b>
Cash and cash equivalents at 1 January		332	584
Cash and cash equivalents at 31 December	14	584	320
<b>(1) Net cash flow from operating activities includes the following cash movements :</b>			
Interest paid		-93	-91
Interest received		5	8
Income taxes paid		-139	-154

# Consolidated statement of changes in equity

(EUR million)	Issued capital	Share premium	Treasury shares	Restricted reserve	Available for sale and hedge reserve	Foreign currency translation	Stock Compensation	Retained Earnings	Shareholders' Equity	Non-controlling interests	Total Equity
<b>Balance at 1 January 2010</b>	<b>1,000</b>	<b>0</b>	<b>-509</b>	<b>100</b>	<b>5</b>	<b>4</b>	<b>10</b>	<b>1,911</b>	<b>2,521</b>	<b>7</b>	<b>2,528</b>
<i>Fair value changes in available-for-sale investments</i>	0	0	0	0	-5	0	0	0	-5	0	-5
Equity changes not recognised in the income statement	0	0	0	0	-5	0	0	0	-5	0	-5
Net income	0	0	0	0	0	0	0	1,266	1,266	17	1,283
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>1,266</b>	<b>1,262</b>	<b>17</b>	<b>1,278</b>
Dividends to shareholders (relating to 2009)	0	0	0	0	0	0	0	-539	-539	0	-539
Interim dividends to shareholders (relating to 2010)	0	0	0	0	0	0	0	-161	-161	0	-161
Dividends of subsidiaries to non-controlling interests	0	0	0	0	0	0	0	0	0	-9	-9
Non-controlling interests arising in a business combination	0	0	0	0	0	0	0	0	0	220	220
Treasury shares	0	0	0	0	0	0	0	0	0	0	0
Exercise of stock options	0	0	17	0	0	0	0	-2	15	0	15
Sale of treasury shares under a discounted share purchase plan	0	0	9	0	0	0	0	-1	7	0	7
Stock options	0	0	0	0	0	0	3	0	3	0	3
Stock options granted and accepted	0	0	0	0	0	0	-3	0	-3	0	-3
Deferred stock compensation	0	0	0	0	0	0	3	0	3	0	3
Amortization deferred stock compensation	0	0	0	0	0	0	-2	2	0	0	0
Exercise of stock options	0	0	0	0	0	0	0	0	0	0	0
<b>Total transactions with equity holders</b>	<b>0</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>-701</b>	<b>-675</b>	<b>211</b>	<b>-464</b>
<b>Balance at 31 December 2010</b>	<b>1,000</b>	<b>0</b>	<b>-484</b>	<b>100</b>	<b>0</b>	<b>4</b>	<b>11</b>	<b>2,476</b>	<b>3,108</b>	<b>235</b>	<b>3,342</b>
<i>Currency translation differences</i>	0	0	0	0	0	-2	0	0	-2	0	-1
Equity changes not recognised in the income statement	0	0	0	0	0	-2	0	0	-2	0	-2
Net income	0	0	0	0	0	0	0	756	756	17	773
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2</b>	<b>0</b>	<b>756</b>	<b>755</b>	<b>17</b>	<b>772</b>
Dividends to shareholders (relating to 2010)	0	0	0	0	0	0	0	-540	-540	0	-540
Interim dividends to shareholders (relating to 2011)	0	0	0	0	0	0	0	-159	-159	0	-159
Dividends of subsidiaries to non-controlling interests	0	0	0	0	0	0	0	0	0	-24	-24
Non-controlling interests resulting from acquisitions and disposals	0	0	0	0	0	0	0	-1	-1	-3	-4
Treasury shares	0	0	0	0	0	0	0	0	0	0	0
Exercise of stock options	0	0	5	0	0	0	0	0	5	0	5
Acquisition of treasury shares	0	0	-100	0	0	0	0	0	-100	0	-100
Sale of treasury shares under a discounted share purchase plan	0	0	8	0	0	0	0	-1	7	0	7
Stock options	0	0	0	0	0	0	3	0	3	0	3
Stock options granted and accepted	0	0	0	0	0	0	-3	0	-3	0	-3
Deferred stock compensation	0	0	0	0	0	0	3	0	3	0	3
Amortization deferred stock compensation	0	0	0	0	0	0	0	0	0	0	0
Exercise of stock options	0	0	0	0	0	0	-1	1	0	0	0
<b>Total transactions with equity holders</b>	<b>0</b>	<b>0</b>	<b>-86</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>-700</b>	<b>-784</b>	<b>-27</b>	<b>-811</b>
<b>Balance at 31 December 2011</b>	<b>1,000</b>	<b>0</b>	<b>-570</b>	<b>100</b>	<b>0</b>	<b>2</b>	<b>13</b>	<b>2,532</b>	<b>3,078</b>	<b>225</b>	<b>3,303</b>

# Notes to the consolidated financial statements

## Note 1. Corporate information

The consolidated financial statements at 31 December 2011 were authorized for issue by the Board of Directors on 1 March 2012. They comprise the financial statements of Belgacom SA, its subsidiaries and joint ventures (hereafter "the Group") as well as the Group's share of results in associates.

Belgacom SA is a "Limited Liability Company of Public Law" registered in Belgium. The transformation of Belgacom SA from "Autonomous State Company" into a "Limited Liability Company of Public Law" was implemented by the Royal Decree of 16 December, 1994. Belgacom SA headquarters are located at Boulevard du Roi Albert II, 27 1030 Brussels, Belgium.

As from 1 January 2008 onwards, the Board of Directors, the Chief Executive Officer and the Belgacom Management Committee manage the operations of the Belgacom Group based on the new customer-oriented organization structured around the five following reportable operating segments:

- The Consumer Business Unit (CBU) sells voice products and services, internet and television, both on fixed and mobile networks, to residential customers, mainly on the Belgian market;
- The Enterprise Business Unit (EBU) sells ICT services and products to professional customers, whether they are self-employed persons, small companies or major corporations. These ICT solutions, including telephone services, are marketed mainly under the Belgacom, Proximus and Telindus brands, on both the Belgian and international markets;
- The Service Delivery Engine & Wholesale (SDE&W) centralizes all the network and IT services and costs (excluding costs related to customer operations and to the service delivery of ICT solutions), provides services to CBU and EBU and sells these services to other telecom and cable operators;
- International Carrier Services (ICS) is responsible for international carrier activities;
- Staff and Support (S&S) brings together all the horizontal functions (human resources, finance, legal, strategy and corporate communication), internal services and real estate that support the Group's activities.

Further information concerning the operating segments is included under note 37.

The number of employees of the Group (in full time equivalents) amounted to 15,788 at 31 December 2011 and 16,308 at 31 December 2010. For the year 2011, the average number of headcount of the Group was 147 management personnel, 14,239 employees and 2,034 workers. For the year 2010, the average number of headcount of the Group was 151 management personnel, 14,702 employees and 2,113 workers.

## Note 2. Significant accounting policies

### Basis of preparation

The accompanying consolidated financial statements as of 31 December 2011 and for the year then ended have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. The Group did not early adopt any IASB standards or interpretations.

The consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of derivatives and available-for-sale financial assets. The carrying values of assets and liabilities that are hedged with fair-value hedges are adjusted to record the change in the fair value attributable to the risks that are being hedged.

### Changes in accounting policies

The accounting policies applied are consistent with those of the previous financial years except that the Group applied the new or revised IFRS standards and interpretations as adopted by the European Union that became mandatory on 1 January 2011 and that are detailed as follows:

IFRIC 19 ("Extinguishing Financial Liabilities"),

IFRIC 14 ("Prepayments of a Minimum Funding Requirement"),

IAS 32 ("Financial Instruments: Presentation - Classification of Rights Issue"),

IAS 24 Revised ("Related Parties") and

Improvements to IFRS's issued in 2010.

The adoption of these new standards and interpretations did not affect the financial statements of the Group. The Group doesn't anticipate the application of standards and interpretations.

### Basis of consolidation

Note 6 lists the Group's subsidiaries, joint ventures and associates.

Subsidiaries are those entities controlled by the Group. Control exists when Belgacom has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The investments in subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Intercompany balances and transactions, and resulting unrealized profits or losses between Group companies are eliminated in consolidation. When necessary, accounting policies of subsidiaries are adjusted to ensure that the consolidated financial statements are prepared using uniform accounting policies.

Companies that are jointly controlled (defined as those entities in which the Group has joint control through a contractual arrangement requiring unanimous consent of the parties sharing control) are included using the proportionate consolidation method, from the date on which joint control is established and until the date on which the Group ceases to have joint control over the joint venture. The Group's share of the assets, liabilities, expenses, income and cash-flow of joint ventures are combined on a line-by-line basis with similar items in the consolidated financial statements. The Group's proportionate share of the intercompany balance and transactions and resulting unrealized profits or losses between Group companies and jointly controlled entities are eliminated in consolidation.

Associated companies in which the Group has a significant influence, defined as an investee in which Belgacom has the power to participate in its financial and operating policy decisions (but not to control the investee), are accounted for using the equity method. Under that method, the investments held in associates are initially recorded at cost and the carrying amount is subsequently adjusted to recognize the Group's share in the profit or losses of the associate as from the date of acquisition.

These investments and the equity share of results for the period are shown in the balance sheet and income statement as investments in associates and share in the result of the associates, respectively.

Subsidiaries and joint ventures acquired and held exclusively with a view of disposal within twelve months are consolidated and presented in the balance sheet as assets and liabilities held for sale.

### **Judgments and estimates**

In preparing the consolidated financial statements, management is required to make judgments and estimates that affect amounts included in the financial statements.

Judgments and estimates that are made at each reporting date reflect conditions that existed at those dates (e.g. market prices, interest rates and foreign exchange rates). Although these estimates are based on management's best knowledge of current events and actions that the Group may undertake, actual results may differ from those estimates.

Major judgments and estimates are principally made in the following areas:

#### ***Claims and contingent liabilities***

Related to claims and contingencies, judgment is necessary in assessing the existence of an obligation resulting from a past event, in assessing the probability of an economic outflow, and in quantifying the probable outflow of economic resources. This judgment is reviewed when new information becomes available and with support of outside experts advises.

#### ***Recoverable amount of cash generating units including goodwill***

In the context of the impairment test, the key assumptions that are used for estimating the recoverable amounts of cash generating units including goodwill are discussed in note 3 (Goodwill).

#### ***Actuarial assumptions related to the measurement of employee benefit obligations and plan assets***

The Group holds several employee benefit plans such as pension plans, other post-employment plans and termination plans. In the context of the determination of the obligation, the plan asset and the net periodic cost, the key assumptions that are used are discussed in note 9 (Assets and liabilities for pensions, other post-employment benefits and termination benefits).

#### ***Acquisition of control in BICS on 1 January 2010***

The shareholders' agreement of BICS foresees new decision-making rules and a deadlock procedure in force as from 1 January 2010 leading to the Group to conclude that it controls BICS as from that date. As a result of this and in application of the revised IFRS 3, BICS is fully consolidated as from 1 January 2010 and the previously held interest is re-measured to fair value. The Group estimated the fair value of this interest to EUR 564 million using valuation methodologies, such as discounted cash flows with a terminal value.

### **Foreign currency translation**

#### ***Foreign currency transactions***

The presentation currency for the Group is the Euro. Foreign currency transactions are translated, on initial recognition, at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the balance sheet date using the exchange rate at that date. Net exchange differences on the translation of monetary assets and liabilities are classified in "other operating expenses" in the income statement in the period in which they arise.

#### ***Foreign operations***

Some foreign subsidiaries and joint-ventures operating in non-EURO countries are considered as foreign operations that are integral to the operations of the reporting enterprise. Therefore, monetary assets and liabilities are translated using the exchange rate at balance sheet date, non-monetary assets and liabilities are translated at the historical exchange rate, except for non-monetary items that are measured at fair value in the domestic currency that are translated at the exchange rate when the fair value was determined. Revenue and expenses of these entities are translated at the weighted average exchange rate. The resulting exchange differences are classified in "other operating expenses" in the income statement.

For other foreign subsidiaries and joint-ventures operating in non-EURO countries, assets and liabilities are translated using the exchange rate at balance sheet date. Revenue and expenses of these entities are translated at the weighted average exchange rate. The resulting exchange differences are taken directly to a separate component of equity. On disposal of such entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

All exchange differences arising from a monetary item that forms part of the Group's net investment in such entity are recognized in the same separate component of equity.

### **Goodwill**

Goodwill represents the excess of the sum of the consideration transferred, the amount of non-controlling interests, if any, and the fair value of the previously held interest, if any, over the net fair value of identifiable assets, liabilities and contingent liabilities acquired in business combination. When the Group obtains control, the previously held interest in the acquiree, if any, is re-measured to fair value through the income statement.

When the net fair value, after reassessment, of identifiable assets, liabilities and contingent liabilities acquired in a business combination exceeds the sum of the consideration transferred, the amount of non-controlling interests, if any, and the fair value of the previously held interest, if any, this excess is immediately recognized in income statement as a bargain purchase gain.

Changes in a contingent consideration included in the consideration transferred are adjusted against goodwill when they arise during the provisional purchase price allocation period and when they relate to facts and circumstances existing at acquisition date. In other cases, depending if the contingent consideration is classified as equity or not, changes are taken into equity or in the income statement.

Acquisition costs are expensed and non-controlling interests are measured at acquisition date either at their value or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Goodwill is stated at cost and not amortized but subject to an annual impairment test at the level of the cash generating unit to which it relates and whenever there is an indicator that the cash generating unit to which the goodwill has been allocated, may be impaired.

### **Intangible assets with finite useful life**

Intangible assets consist primarily of the Global System for Mobile communication ("GSM") license, the Universal Mobile Telecommunication System ("UMTS") license, 4G license, customer bases and trade names acquired in business combinations, internally developed software and other intangible assets such as football rights and broadcasting rights and externally developed software.

The Group capitalizes certain costs incurred in connection with developing or purchasing software for internal use when they are identifiable, when the group controls the asset and when future economic benefits from the asset are probable. Capitalized software costs are included in internally generated and other intangible assets and are amortized over three to five years.

Intangible assets with finite life acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Intangible assets with finite useful life are stated at cost less accumulated amortization and impairment losses. The residual value of such intangible assets is assumed to be zero. Customer bases and trade names acquired in business combinations are straight-line amortized over their estimated useful life. GSM and UMTS licenses, other intangible assets and internally generated assets with finite useful life are amortized on a straight-line basis over their estimated useful life. Amortization commences when the intangible asset is ready for its intended use.

The useful lives are assigned as follows:

	<b>Useful life (years)</b>
GSM, UMTS, 4G and other network licenses	Over the license period
Customer bases and trade names acquired	3 to 20
Software	5
Rights to use, football and broadcasting rights	Over the contract period

The amortization period and the amortization method for an intangible asset with finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses when it does not extend the life of the asset or does not significantly increase its capacity to generate revenue. The cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, the obligation for which the Group incurs as a consequence of installing the item.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Depreciation of an asset begins when the asset is ready for its intended use. Depreciation is calculated using the straight-line method over the estimated useful life of the asset.

The useful lives are assigned as follows:

	<b>Useful life (years)</b>
<b>Land and buildings</b>	
• Land	Indefinite
• Buildings and building equipment	22 to 33
• Facilities in buildings	3 to 10
• Leasehold improvements and advertising equipments	3 to 10

### **Technical and network equipment**

• Cables and ducts	15 to 20
• Switches	8 to 10
• Transmission	6 to 8
• Radio Access Network	6 to 7
• Mobile sites and site facility equipment	5 to 10
• Equipment installed at client premises	2 to 8
• Data and other network equipment	2 to 15

### **Furniture and vehicles**

• Furniture and office equipment	3 to 10
• Vehicles	5 to 10

The asset's residual values, useful life and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Costs of material, personnel expenses and other operating expenses are shown net of work performed by the enterprise that is capitalized in respect of the construction of property, plant and equipment.

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.

### **Impairment of non-financial assets**

The Group reviews the carrying value of its non-financial assets at each balance sheet date for any indication of impairment.

The Group compares at least once a year the carrying value with the estimated recoverable amount of intangible assets under construction and cash generating units including goodwill. The Group performs this annual impairment test during the fourth quarter of each year.

When indication of impairment exists or when annual impairment testing for an asset or a cash generating unit is required, an impairment loss is recognized when the carrying value of the asset or cash generating unit exceeds the estimated recoverable amount, being the higher of the asset's or cash generating unit's fair value less costs to sell and its value in use for the Group.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

Impairment losses on goodwill, intangible assets and property, plant and equipment are recorded in operating expenses. An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, impairment losses in respect of assets other than goodwill are reversed in order to increase the carrying amount of the asset to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement in operating expenses.

### **Deferred taxation**

Deferred taxation is provided for all temporary differences between the carrying amount of assets and liabilities in the consolidated balance sheet and their respective taxation bases.

Deferred tax assets associated to deductible temporary differences and unused tax losses carried forward are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference or the unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case the tax effect is also recognized directly in equity.

Provision for taxation that could arise if undistributed retained profit of certain subsidiaries is remitted to the parent company, is only recognized where a decision has been taken to remit such retained profit, i.e., where the subsidiary intends to distribute a dividend.

### **Pensions, other post-employment benefits and termination benefits**

The Group operates several defined benefit pension plans to which the contributions are made through separately managed funds. The Group also agreed to provide additional post-employment benefits to certain employees. The cost of providing benefits under the plans is determined separately for each plan using the projected credit unit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized gains or losses for an individual plan at the end of the previous reporting period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at the beginning of the year. This excess is recognized over the average remaining service life of the employees participating in the individual plan.

The Group also operates several defined contribution plans. Contributions are expensed as incurred.

The Group operates several restructuring programs that involve termination benefits or other forms of additional compensation. The actuarial gains and losses on these liabilities are recognized in the income statement when incurred.

The total expense recognized in the income statement is classified in personnel expenses and pensions, except non-recurring expenses and the interest cost that is classified as finance cost in respect of the liability for termination benefits and additional compensations resulting from external mobility programs and from the collective labor agreement of 2005.

### **Short term and long term employee benefits**

The cost of all short-term and long-term employee benefits, such as salaries, employee entitlements to leave pay, bonuses, medical aid and other contributions, are recognized during the period in which the employee renders the related service. The Group recognizes those costs only when it has a present legal or constructive obligation to make such payment and a reliable estimate of the liability can be made.

## **Financial instruments**

### ***Fair value of financial instruments***

The following methods and assumptions were used to estimate the fair value of financial instruments:

- For investments in quoted companies and mutual funds, the fair value is their quoted price;
- For investments in non-quoted companies, fair value is estimated by reference to recent sale transactions on the shares of these non-quoted companies and, in the absence of such transactions, by using different valuation techniques such as discounted future cash flow models and multiples methods;
- For investments in non-quoted companies for which no fair value can be reliably determined, fair value is based on the historical acquisition cost, adjusted for impairment losses, if any;
- For long term debts carrying a floating interest rate, the amortized cost is assumed to approximate fair value;
- For long term debts carrying a fixed interest rate, the fair value is determined based on the market value when available or otherwise based on the discounted future cash flows;
- For trade receivables, trade payables, other current assets and current liabilities, the carrying amounts reported in the balance sheet approximate their fair value considering their short maturity;
- For cash and cash equivalents, the carrying amounts reported in the balance sheet approximate their fair value considering their short maturity;
- For derivatives, fair values have been estimated by using different valuation techniques, in particular the discounting of future cash flows.

### ***Criteria for initial recognition and for de-recognition of financial assets and liabilities***

Financial instruments are initially recognized when the Group becomes party to the contractual terms of the instruments. Normal purchases and sales of financial assets are accounted for at their settlement dates.

Financial assets (or a portion thereof) are de-recognized when the Group realizes the rights to the benefits specified in the contract, the rights expire or the Group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. Financial liabilities (or a portion thereof) are de-recognized when the obligation specified in the contract is discharged, cancelled or expires.

### ***Criteria for offsetting financial assets and liabilities***

Where a legally enforceable right of offset exists for recognized financial assets and liabilities, and there is an intention to settle the liability and realize the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

### ***Criteria for classifying financial instruments as held to maturity***

Some financial instruments are classified as held to maturity based on the ability and the intention of the Group to keep these instruments until maturity. The Group has already a large experience of respecting that statement. This is reinforced by the fact that the financial instruments classified as held to maturity are medium to short term.

### ***Criteria for classifying financial instruments as available-for-sale***

Non-derivative financial assets that the Group has no intention nor ability to keep until maturity, that the Group does not classify as loans and receivables and that the Group does not designate as at fair value through profit and loss at inception, are classified as available-for-sale.

Shares in equity of non-consolidated entities are usually classified as available-for-sale financial assets. Shares in mutual funds or similar funds are classified as available-for-sale, if not designated at fair value through profit and loss at inception.

### ***Other participating interests***

Other participating interests are equity instruments in entities that are not subsidiaries, joint ventures or associates. They are initially recognized at cost, being the fair value of the consideration given and including acquisition costs associated with the investment. These interests are classified as available-for-sale financial assets in the balance sheet.

After initial recognition, other participating interests are carried at fair value, with recognition of the changes in fair value directly in equity, until the financial asset is sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously reported in equity is included in income statement.

### ***Other non-current financial assets***

Other non-current financial assets include derivatives (see below), long-term interest-bearing receivables such as loans to joint-ventures, personnel and cash guarantees and long-term investments such as notes and purchased bonds. Long-term receivables are accounted for as loans and receivables originated by the Group and are carried at amortized cost. Long-term investments are classified as held-to-maturity and are carried at amortized cost.

### ***Trade receivables and other current assets***

Trade receivables and other current assets are shown on the balance sheet at nominal value (generally, the original invoice amount) less the allowance for doubtful debts.

### ***Investments***

Investments include shares in funds and mutual funds, fixed income securities and deposits with a maturity greater than three months but less than one year.

Shares are initially recognized at cost, being the fair value of the consideration given and including acquisition costs associated with the investment. After initial recognition, shares are treated as available-for-sale, with re-measurement to fair value recorded directly in equity until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously reported in equity is included in income statement.

Fixed income securities are initially recognized at cost, being the fair value of the consideration given and including acquisition costs associated with the investment. After initial recognition, fixed income securities that are classified as available-for-sale, are measured at fair value, with gains and losses on re-measurement recognized in equity until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss reported in equity is included in income

statement. Fixed income securities that are intended to be held-to-maturity are measured at amortized cost, using the effective interest rate method.

Deposits are considered as held-to-maturity and measured at amortized cost.

#### ***Cash and cash equivalents***

Cash and cash equivalents include cash, current bank accounts and investments with an original maturity of less than three months, and that are highly liquid.

Cash and cash equivalents are carried at amortized cost.

#### ***Impairment of financial assets***

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. When the carrying amount of the financial asset is greater than its recoverable amount, an impairment loss is recorded.

An allowance account is always used to account for impairment losses, whether impairment is caused by credit losses or not.

Allowances and impairment losses on financial assets are accounted for as finance costs when the asset relates to financing activities. When the asset relates to operating or investing activities, allowances and impairment losses are accounted for as other operating expenses.

Impairment losses on receivables are determined when it is probable that the Group will not be able to collect any amount due, on basis of individualized criteria or based on portfolio statistics and analysis of ageing balances.

In case of impairment due to credit losses, the impairment allowance is reversed when it becomes probable that the Group will collect the financial asset, as a result of various indicators such as the receipt of collaterals, a successful capital increase at the customer etc.

The impairment allowance will also be reversed when the asset is definitively sold, collected or at the opposite, uncollectible, at what time, the definitive gain (loss) on disposal of the asset is recorded in income statement.

Impairment losses on available for sale equity investments are recognized in net income in case of significant or prolonged decline in the fair value below cost. These impairment losses are not reversed in income statement. If it appears that an existing impairment loss has to be reversed, reversal will be recorded in equity, as a re-measurement to fair value.

#### ***Interest-bearing liabilities***

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received, net of issuance costs associated with the borrowings.

After initial recognition, debts are measured at amortized cost using the effective interest rate method, with amortization of discounts or premiums through the income statement.

#### ***Derivatives***

The Group makes use of derivatives such as IRS, IRCS, forward foreign exchange contracts and currency options to reduce its risks associated with interest rate and foreign currency fluctuations on underlying assets, liabilities and anticipated transactions. The derivatives are carried at fair value under the captions other assets (non-current and current), interest-bearing liabilities (non-current and current) and other payables (non-current and current).

The Group uses IRS and IRCS to reduce its exposure to interest rate and foreign currency fluctuations on long-term debts. These economical hedges are not accounted for as hedges.

The Group does not hold or issue derivative financial instruments for trading purposes but some of its derivative contracts do not meet the criteria set by IAS 39 to be considered as hedges and are therefore treated as derivatives held-for-trading, with changes in fair value recorded in the income statement.

The Group uses currency options and forward foreign exchange contracts to manage its foreign currency exposure arising from operational contracts. Nevertheless, since the matching between these instruments and the underlying exposure is not sufficiently effective, or the effectiveness cannot be easily demonstrated, these instruments are not accounted for as hedges and are consequently carried at fair value, with changes in fair value recognized in the income statement.

Some debts issued by the Group include embedded derivatives. Such derivatives are separated from their host contract and carried at fair value with changes in fair value recognized in the income statement. The mark-to-market effects on these embedded derivatives are neutralized by those on other derivatives.

As from September 2011, the Group started contracting derivatives to hedge its exposure to part of commodity price fluctuations for highly probable forecasted transactions. The Group applies cash flow hedge accounting; the effective portion of the gains and losses on the hedging instrument is recognized via other comprehensive income until the hedged item occurs. At the time of the initial recognition of the asset the carrying amount is adjusted to include the amount previously recognized via other comprehensive income. The ineffective portion of a cash flow hedge is always recognized in profit or loss.

#### ***Net gains and losses on financial instruments***

The Group excludes dividends, interest income and interest charges from the net gains and losses on financial instruments. Dividends, interest income and interest charges arising from financial instruments are posted to the finance income/(costs).

Net gains/(losses) from disposals or settlements of financial instruments are accounted for as finance income/(costs) when the instruments relate to financing activities. When the financial instruments relate to operating or investing activities, net gains/(losses) from disposals or settlements are accounted for as other operating income/(expenses).

Net gains and losses resulting from fair value measurement of derivatives used to manage foreign currency exposure on operating activities that do not qualify for hedge accounting under IAS 39 are recorded as operating expenses.

Net gains and losses resulting from fair value measurement of derivatives used to manage interest rate exposure on interest-bearing liabilities that do not qualify for hedge accounting under IAS 39 are recorded in finance income/(costs).

#### ***Inventories***

Inventories are stated at the lower of cost and net realizable value.

Cost is determined based on the weighted average cost method except for IT equipments (FIFO method) and goods purchased for resale as part of specific construction contracts (individual purchase price).

For construction contracts, the percentage of completion method is applied. The stage of completion is measured by reference to the amount of contract costs incurred for work performed at balance sheet date in proportion to the estimated total costs for the contract. Contract cost includes all expenditures directly related to the specific contract and an allocation of fixed and variable overheads incurred in connection with contract activities based on normal operating capacity.

### **Leases**

Leases of assets through which all the risks and the benefits of ownership of the asset are substantially transferred to the Group are classified as finance lease. Finance leases are recognized as assets and liabilities (interest-bearing liabilities) at amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at inception of the lease. Amortization and impairment testing for depreciable leased assets, is the same as for depreciable assets that are owned. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Leases of assets through which all the risks and the benefits of ownership of the asset are substantially retained by the leasing company are classified as operating lease. Payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

### **Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation resulting from past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A past event is deemed to give rise to a present obligation if, taking into account the available evidence, it is more likely than not that a present obligation exists at the balance sheet date.

Certain assets and improvements that are situated on property owned by third parties must eventually be dismantled, and the property must be restored to its original condition. The estimated costs associated with dismantling and restorations are recorded under property, plant and equipment and depreciated over the useful life of the asset. The total estimated cost required for dismantling and restoration, discounted to its present value, is recorded under provisions. Where discounting is used, the increase in the provision due to the passage in time is recognized in financial expense in the income statement.

### **Assets and associated liabilities classified as held for sale**

Assets and associated liabilities held for sale are recorded at the lower of their carrying value or fair value less costs to sell, and are classified as current assets.

### **Share based payment**

The fair value of share options issued under the Group's Employee Stock Option Plans is determined at grant date taking into account the terms and conditions upon which the options are granted, and by using a valuation technique that is consistent with generally accepted valuation methodologies for pricing financial instruments, and that incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price. The fair value of the share options is recognized in personnel expenses over their vesting period, together with an increase of the caption "stock compensation" of the shareholders' equity for the equity part and an increase of a dividend liability for the dividend part. When the share options give right to dividends declared after granting the options, the fair value of this right is re-measured annually.

### **Revenue and operating expenses**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific revenue streams and related recognition criteria are as follows:

- Revenue from wireline, carrier and mobile traffic is recognized on usage.
- Revenue from connection fees and installation fees is recognized in income at the time of connection or installation.
- Revenue from sales of communication equipment is recognized upon delivery to the third party distributors or upon delivery by the own Belgacom shops to the end-customer.
- Revenues relating to the monthly rent or access fees, which are applicable to wireline and mobile revenues are recognized in the period in which the services are provided.
- Subscription fees are recognized as revenue over the subscription period on a pro-rata basis.
- Prepaid revenue such as revenue from pre-paid fixed and mobile phone cards is deferred and recognized based on usage of the cards.
- Maintenance fees are recognized as revenue over the maintenance period on a pro-rata basis.
- Commissions received are recognized when the Group acts as an agent, i.e. when the Group does not bear inventory risk and credit risk, does not set the prices nor change or perform part of the services and has no latitude in the supplier's selection.
- The revenue from sales arrangements with multiple deliverables are allocated to the different components of the arrangements based on their relative fair values.

Net revenue is defined as the gross inflow of economic benefits during the period arising in the course of the ordinary activities and taking into account the amount of any trade discounts and volume rebates allowed by the Group. The award credits (loyalty programs) are recorded as a separate component of the sales transaction and recorded as deduction from the initial sale in net revenue. Revenue from award credits is recognized at redemption.

Expenditure on research activities is recognized in the income statement as an expense as incurred.

The Group's consolidated income statement presents operating expenses by nature. Operating expenses are reported net of work performed by the enterprise that is capitalized.

The costs of materials and services related to revenues include the costs for purchases of materials and services directly related to revenue.

Costs for advertising and other marketing charges are expensed as incurred.

The upfront dealer commissions relating to contracts in excess of one year with mobile post-paid customers, are expensed over the estimated contract period. Commissions to dealers for other contracts are expensed as incurred.

Non-recurring income and non-recurring expenses include gains or losses on the disposal of consolidated companies exceeding individually EUR 5 million, fines and penalties imposed by competition authorities or by the regulator exceeding EUR 5 million,

costs of employee restructuring programs including actuarial gains and losses and the effect of settlements of post-employment benefit plans.

### Note 3. Goodwill

(EUR million)	Goodwill
<b>As of 1 January 2010</b>	<b>2,088</b>
Acquisition of control in BICS	252
Acquisition of MBS TELECOM NV	1
Acquisition of Sahara Net LLC	5
Price adjustments of Scarlet	-7
Other	-1
<b>As of 31 December 2010</b>	<b>2,337</b>
Acquisition of Eudasys SAS	6
Disposal of Telindus SA (Spain)	-17
Disposal of Scarlet BV (Curaçao)	-2
<b>As of 31 December 2011</b>	<b>2,323</b>

In 2010, as a result of the acquisition of control on BICS on 1 January 2010 requiring to re-measure the previously held interest at fair value (see notes 6.4 and 22), goodwill increased with EUR 252 million in 2010. The Group elected not to apply the full goodwill option for this acquisition, meaning that the non-controlling interests are measured at acquisition date at their share in the net assets of BICS measured at fair value.

In 2011 the goodwill evolution was mainly impacted by the disposal of Telindus SA (Spain) in June 2011.

Goodwill is tested for impairment at the level of operating segments as these are the Group cash-generating units, the performance, financial position (including goodwill) and capital expenditures within the Group being monitored at operating segment level.

For the purpose of impairment testing, goodwill acquired in a business combination is, at acquisition date, allocated to each of the Group operating segments that is expected to benefit from the business combination. Therefore this allocation is based on the nature of the acquired customers and activities. At 31 December 2011, all businesses acquired were fully allocated to one single operating segment, with the exception of the goodwill resulting from the acquisition of non-controlling interests in 2007, which was allocated to the Consumer Business Unit and the Enterprise Business Unit on basis of their relative value in use for the Group at 31 December 2007.

The carrying amount of goodwill is allocated to the operating segments as follows:

(EUR million)	As of 31 December	
	2010	2011
Consumer Business Unit	1,001	999
Enterprise Business Unit	1,084	1,073
International Carrier Services	252	252
<b>Total</b>	<b>2,337</b>	<b>2,323</b>

The recoverable amount at segment level (including goodwill) was based on the value in use estimated through a discounted free cash flow model. The key variables used in determining the value in use are the EBITDA (except for the International Carrier Services segment for which the direct margin is more important), the capital expenditures, the long term growth rate and the post-tax weighted average cost of capital.

The free cash flows considered for calculating the value in use are estimated for the concerned assets in their current condition and exclude the cash inflows and outflows that are expected to arise from any future restructuring to which the Group is not yet committed and from improving or enhancing the assets performance.

For the years 2012 to 2016, the operating segments free cash flows were based on the Five Year Plan as approved by the management and Board of Directors. For subsequent years, the data of the Five Year Plan were extrapolated based on a growth rate varying between 0.0% and 1.0% per year (CBU:0.5%, EBU:1.0% and ICS:0.5%), reflecting management vision about the long term evolution of the market and based on historical data.

Free cash flows of each segment were discounted with the Group post-tax weighted average cost of capital of 7.08%, with the exception of the ICS segment for which a specific post-tax weighted average cost of capital of 9.04% was used, its activities being deemed different enough from those of the rest of the Group to justify a specific calculation. The Pre-tax weighted average cost of capital, derived from the post-tax weighted average cost of capital via an iterative method, was comprised between 9.60% and 10.95%. The calculated weighted average costs of capital at Group level and for the ICS segment are based on the relative weight of their capital structure components and include a risk premium specific to their inherent risks.

None of the goodwill was impaired at 31 December 2011.

Sensitivity analysis for all segments demonstrates that in case of a reasonable change in one of the key assumptions the value in use still exceeds the net carrying value of the cash generating units (segments).

For the particular situation of the ICS segment, the impairment test outcome is sensitive to a change in direct margin. The ICS segment value in use would not support a decrease of that direct margin, in isolation, by more than 46% compared to its level assumed in the Five Year Plan. Per 31 December 2011, management estimates this risk as being remote.

## Note 4. Intangible assets with finite useful life

(EUR million)	GSM and UMTS licenses	Internally generated assets	Customer bases and trade names acquired	TV rights	Other intangible assets	Total
<b>As of 1 January 2010 net of accumulated amortization and impairment</b>	<b>111</b>	<b>100</b>	<b>148</b>	<b>83</b>	<b>181</b>	<b>623</b>
Additions	74	67	0	69	67	277
Acquisition of subsidiary	0	0	541	0	9	550
Disposals	0	0	0	0	-1	-1
Reclassifications	-7	0	0	0	8	1
Amortization charge for the year	-24	-36	-67	-68	-65	-260
<b>As of 31 December 2010 net of accumulated amortization and impairment</b>	<b>154</b>	<b>132</b>	<b>621</b>	<b>83</b>	<b>199</b>	<b>1,190</b>
Additions	20	70	0	54	84	229
Acquisition of subsidiary	0	0	8	0	0	8
Disposals	0	0	0	0	0	0
Disposal of subsidiary	0	0	-1	0	0	-1
Reclassifications	0	0	0	0	-4	-4
Impairment charge	0	0	0	0	-1	-1
Amortization charge for the year	-24	-59	-62	-60	-61	-266
<b>As of 31 December 2011 net of accumulated amortization and impairment</b>	<b>150</b>	<b>143</b>	<b>566</b>	<b>78</b>	<b>217</b>	<b>1,155</b>

(EUR million)	GSM and UMTS licenses	Internally generated assets	Customer bases and trade names acquired	TV rights	Other intangible assets	Total
As of 31 December 2010						
Cost	450	450	790	219	877	2,786
Accumulated amortization and impairment	-295	-318	-169	-136	-678	-1,596
<b>Net carrying amount</b>	<b>154</b>	<b>132</b>	<b>621</b>	<b>83</b>	<b>199</b>	<b>1,190</b>
As of 31 December 2011						
Cost	470	520	797	156	831	2,773
Accumulated amortization and impairment	-319	-377	-230	-78	-614	-1,618
<b>Net carrying amount</b>	<b>150</b>	<b>143</b>	<b>566</b>	<b>78</b>	<b>217</b>	<b>1,155</b>

The increase in 2010 results primarily from the full consolidation of BICS and the acquisition of control of BICS leading to a purchase price allocation of BICS (see note 6.4).

The GSM and UMTS licenses addition in 2010 relates to the Global System for Mobile communication ("GSM") and Universal Mobile Telecommunication System ("UMTS"). In 1994, the Group acquired a GSM license (covering the use of 900 MHz spectrum) in Belgium for an amount of EUR 226 million. Amortization started in 1995 over the initial life of the license (15 years). Since 6 April 2008, the GSM license has been prolonged until 8 April 2015 free of charge. On 15 March 2010, the Belgian State adopted a Law imposing an additional fee for the extension of the 2G licenses until 2015 for EUR 74 million (for 12 MHz duplex), amortized over 5 years. Belgacom has chosen to pay by installments. On 18 August 2010, Belgacom lodged an annulment procedure before the Constitutional Court against the 15 March 2010 law. The Belgian Constitutional Court has referred to the Court of Justice of the European Union for a preliminary ruling.

Beside this annulment procedure, Belgacom has initiated an action against the Belgian State and the BIPT to ensure the possibility to recover the amounts paid.

In March 2001, the Group acquired an UMTS license in Belgium for an amount of EUR 150 million. Amortization started in June 2004 over the initial life of the license that is scheduled to end in 2021.

In 2011 Belgacom acquired a 4G license in the 2,6 GHz frequency band for an amount of EUR 20 million which will be paid in 2012. The license is valid for 15 years effective as of 1 July 2012, amortization will start as from July 2012.

Customer bases and trade names acquired include intangible assets recognized as part of business combinations (see note 6.4).

TV rights include football rights and broadcasting rights acquired.

Other intangible assets mainly include purchased software and rights of use for cables.

The acquisition value of the disposed intangible assets amounted to EUR 240 million in 2011 versus EUR 137 million in 2010.

## Note 5. Property, plant and equipment

(EUR million)	Land and buildings	Technical and network equipment	Other tangible assets	Assets under construction	Total
<b>As of 1 January 2010 net of accumulated depreciation and impairment</b>	<b>512</b>	<b>1,788</b>	<b>109</b>	<b>11</b>	<b>2,420</b>
Additions	16	397	30	14	457
Acquisition of subsidiary	0	28	2	3	34
Disposals	-4	-7	0	0	-11
Reclassifications	0	12	1	-14	-1
Impairment	0	0	0	0	-1
Depreciation charge for the year	-38	-480	-31	0	-549
<b>As of 31 December 2010 net of accumulated depreciation and impairment</b>	<b>486</b>	<b>1,738</b>	<b>110</b>	<b>13</b>	<b>2,348</b>
Additions	9	493	36	11	548
Acquisition of subsidiary	0	0	0	0	0
Disposals	-3	-1	0	0	-4
Disposal of subsidiary	0	-4	0	0	-4
Reclassifications	0	23	-2	-18	4
Impairment	0	-1	-1	0	-1
Depreciation charge for the year	-34	-423	-33	0	-489
<b>As of 31 December 2011 net of accumulated depreciation and impairment</b>	<b>459</b>	<b>1,825</b>	<b>111</b>	<b>6</b>	<b>2,401</b>

(EUR million)	Land and buildings	Technical and network equipment	Other tangible assets	Assets under construction	Total
As of 31 December 2010					
Cost	839	10,531	378	13	11,761
Accumulated depreciation and impairment	-353	-8,792	-268	0	-9,413
<b>Net carrying amount</b>	<b>486</b>	<b>1,738</b>	<b>110</b>	<b>13</b>	<b>2,348</b>
As of 31 December 2011					
Cost	831	10,451	392	6	11,680
Accumulated depreciation and impairment	-371	-8,627	-281	0	-9,279
<b>Net carrying amount</b>	<b>459</b>	<b>1,825</b>	<b>111</b>	<b>6</b>	<b>2,401</b>

The increase in 2010 results primarily from the full consolidation of BICS (see note 6.4).

The acquisition value of the disposed tangible fixed asset amounted to EUR 631million in 2011 and EUR 483 million in 2010.

## Note 6. Investments in subsidiaries, joint ventures and associates

### Note 6.1. Investments in subsidiaries

The consolidated financial statements include the financial statements of Belgacom SA and the subsidiaries listed in the following table.

Name	Registered office	Country of incorporation	Group's participating interests	
			2010	2011
Belgacom SA under Public Law	Bld du Roi Albert II 27 1030 Bruxelles VAT BE 0202.239.951	Belgium		Mother company
Belgacom Finance SA	Rue de Merl 74 2146 Luxembourg	Luxemburg	100%	100%
Belgacom Group International Services SA	Bld du Roi Albert II 27 1030 Bruxelles VAT BE 0466.917.220	Belgium	100%	100%
BGC Re	Rue de Merl 74 2146 Luxembourg	Luxemburg	-	100%
Finbel Re SA	Rue de Merl 74 2146 Luxembourg	Luxemburg	100%	-
Connectimmo SA	Bld du Roi Albert II 27 1030 Bruxelles VAT BE 0477.931.965	Belgium	100%	100%
Belgacom Skynet SA	Bld du Roi Albert II 27 1030 Bruxelles VAT BE 0460.102.672	Belgium	100%	100%
Skynet iMotion Activities SA	Rue Carli 2 1140 Evere VAT BE 0875.092.626	Belgium	100%	100%
Tango SA	Rue de Luxembourg 177 8077 Bertange	Luxemburg	(9)	100%
Telindus Group NV	Geldenaaksebaan 335 3001 Heverlee VAT BE 0422.674.035	Belgium	100%	100%
Telindus - ISIT BV	Krommewetering 7 3543 AP UTRECHT	The Netherlands	100%	100%
Telindus International BV	Krommewetering 7 3543 AP UTRECHT	The Netherlands	(1)	100%
Telindus Networks SA	Chemin des Primevères 45 1701 Fribourg	Switzerland	(2)	100%
Telindus SA	Chemin des Primevères 45 1701 Fribourg	Switzerland	(2)	100%
Telindus SA	Plaza Ciudad de Viena 6 28040 Madrid	Spain	(3)	100%
Telindus SA	Route d'Arlon 81 - 83 8009 Strassen	Luxemburg	(4)	65%
Telectronics SA	2 Rue des Mines 4244 Esch sur Alzette	Luxemburg	(4)	65%
Beim Weissenkreuz SA	Route d'Arlon 81 - 83 8009 Strassen	Luxemburg	(4)	64%
Telindus LTD	Centurion - Riverside Way - Watchmoor Park Camberley - Surrey -GU15 3 YL	United Kingdom	(4)	100%
Telindus Surveillance Solutions Ltd	Centurion - Riverside Way - Watchmoor Park Camberley - Surrey -GU15 3 YL	United Kingdom	(4)	100%
Telindus France SA	ZA de Courtaboeuf- 12, Avenue de l'Océanie 91940 Les Ulis	France	(4)	100%
Groupe Telindus France SA	ZA de Courtaboeuf- 12, Avenue de l'Océanie 91940 Les Ulis	France	(4)	100%
Telindus Sweden AB	p/a Advokatfirman VINGE Smarandgatan 20 - Box 1107 111 87 Stockholm	Sweden	(4) (2)	100%
Telindus Morocco SAS	Casablanca Nearshore Park, 1100 Bd. Al Qods, Shore III, Casanearshore, Sidi Maârouf Casablanca	Morocco	(4)	100%
ISit BV	Krommewetering 7 3543 AP UTRECHT	The Netherlands	(4) (1)	100%
ISit ICT Services BV	Krommewetering 7 3543 AP UTRECHT	The Netherlands	(4) (1)	100%
ISit NV	Culliganlaan 1B 1831 DIEGEM	Belgium	(4) (2)	100%
Euremis SA	Chaussée de Nivelles 81 1420 Braine-l'Alleud	Belgium	(2)	100%
Belgacom Bridging ICT NV	2146 Luxembourg Koning Albert II laan 27 1030 Brussels	Belgium	100%	100%
Belgacom ICT - Expert Community CVBA	VAT BE 0826.942.915 Ambachtenlaan 34 3001 Heverlee	Belgium	-	94%
Belgacom Opal SA	VAT BE 0841.396.905 Bld du Roi Albert II 27 1030 Bruxelles	Belgium	100%	100%
Belgacom Development SA	VAT BE 0861.583.672 Rue de Merl 74 2146 Luxembourg	Luxemburg	100%	100%
Beldiscam SA	Bld d'Avroy 242 4000 Liege	Belgium	100%	100%
Mobile-For SA	VAT BE 0440.935.769 Bld du Roi Albert II 27 1030 Bruxelles	Belgium	100%	100%
	VAT BE 0881.959.533			

Name	Registered office	Country of incorporation		Group's participating interests	
				2010	2011
Tango Mobile SA	Rue de Luxembourg 177 8077 Bertange	Luxemburg	(7)	100%	-
Tango Fixed SA	Rue de Luxembourg 177 8077 Bertange	Luxemburg	(7)	100%	-
Tango Services SA	Rue de Luxembourg 177 8077 Bertange	Luxemburg	(7)	100%	-
Scarlet NV	Ketelmeerstraat 198 8226JX Lelystad	The Netherlands	(5)	100%	100%
Scarlet Telecom BV	Ketelmeerstraat 198 8226JX Lelystad	The Netherlands	(5)	100%	100%
Scarlet Belgie Holding BV	Ketelmeerstraat 198 8226JX Lelystad	The Netherlands	(5)	100%	100%
Scarlet Extended NV	Belgicastraat 5 1930 Zaventem VAT BE 0463.815.792	Belgium	(5) (10)	100%	-
ST Integration NV	Belgicastraat 5 1930 Zaventem VAT BE 0472.046.243	Belgium	(5) (2)	100%	-
Scarlet Business NV	Belgicastraat 5 1930 Zaventem VAT BE 0463.079.780	Belgium	(5)	100%	100%
Scarlet Luxembourg SARL	Rue Jean Piret 3 2350 Luxembourg	Belgium	(5)	100%	100%
Scarlet Telecom BVBA	Belgicastraat 5 1930 Zaventem VAT BE 0466.942.657	Belgium	(5) (2)	100%	-
NetNet BVBA	Belgicastraat 5 1930 Zaventem VAT BE 0461.549.853	Belgium	(5) (10)	100%	-
Scarlet Belgium NV	Belgicastraat 5 1930 Zaventem VAT BE 0447.976.484	Belgium	(5)	100%	100%
Full Telecom NV	Belcrownlaan 13i 2100 Deurne VAT BE 0864.940.684	Belgium	(5) (10)	100%	-
MBS TELECOM NV	Belgicastraat 5 1930 Zaventem BE 0882.760.574	Belgium	(5) (6)	100%	100%
Sahara International Ventures NV	Fransse Kampweg 6 1406 NW Bussum	The Netherlands	(3)	51%	-
Sahara LAC BV	Amstel 108 1017 AD Amsterdam	The Netherlands	(3)	51%	-
Sahara Net LLC	Al-Dabal Commercial Tower (ACT) 2nd Floor, Prince Mohammed P.O. Box 5480 Zip Code 31422 - Damman Saudi-Arabia			36%	70%
Scarlet BV (Curaçao)	Fokkerweg 26 Willemstad Curacao	Netherlands Antilles	(6) (3)	42%	-
Caribbean Satellite Communications Inc	50 Soldado Serrano, Ocean park San Juan 00911	Puerto Rico	(6) (3)	42%	-
Scarlet NV (BTS)	Kaya J.A. Abraham Boulevard 73 Bonaire	Netherlands Antilles	(6) (3)	42%	-
Scarlet NV (SNM)	Three Palm Plaza 60, Unit 1, Welfare Road, Colebay Sint Maarten	Netherlands Antilles	(6) (3)	42%	-
Carib - online NV	Fokkerweg 26 Willemstad Curacao	Netherlands Antilles	(6) (3)	42%	-
Scarlet Inc	1334 Redwood Avenue Brighton Iowa 52540	United States	(6) (3)	42%	-
Scarlet AARC NV	Santa Rosaweg 17 Willemstad Curacao	Netherlands Antilles	(6) (3)	42%	-
All America Cables and Radio (Sint Maarten) NV	36G Airport Road, Simpson Bay Sint Maarten	Netherlands Antilles	(6) (3)	42%	-
Scarlet Telecom NV	Watapanastraat 7 Oranjestad	Aruba	(6) (3)	42%	-
Rainbow Internet Services NV	Watapanastraat 7 Oranjestad	Aruba	(6) (3)	42%	-
Scarlet (BVI) Ltd	Arias Fabrega & Fabrega Trust Co BVI Ltd Wickhams Cay, Roa Tortola British Virgin Islands		(6) (3)	42%	-
Belgacom International Carrier Services SA	Rue Lebeau 4 1000 Brussels VAT BE 0866.977.981	Belgium	(11)	58%	58%
Belgacom International Carrier Services Deutschland GMBH	Mendelssohnstrasse 87 60325 Frankfurt	Germany	(11)	58%	58%
Belgacom International Carrier Services UK Ltd	Great Bridgewaterstreet 70 M1 5ES Manchester	United Kingdom	(11)	58%	58%
Belgacom International Carrier Services Nederland BV	Wilhelminakade 91 3072 AP Rotterdam	The Netherlands	(11)	58%	58%
Belgacom International Carrier Services North America Inc	Corporation trust center - 1209 Orange street USA - 19801 Willington Delaware	United States	(11)	58%	58%
Belgacom International Carrier Services Asia Pte Ltd	80, Robinson Road # 02-00, Singapore 066898	Singapore	(11)	58%	58%
Belgacom International Carrier Services (Portugal) SA	Avenida da Republica, 50, 10th floor 1069-211 Lisbon	Portugal	(11)	58%	58%
Belgacom International Carrier Services Italia Srl	Via della Moscova 3 20121 Milano	Italy	(11)	58%	58%
Belgacom International Carrier Services Spain SL	Avenida de Aragon, 330 Edificio 5,3º 28022 Madrid	Spain	(11)	58%	58%
Belgacom International Carrier Services Switzerland AG	Papiermülhestrasse 14 3014 Bern	Switzerland	(11)	58%	58%
Belgacom International Carrier Services Austria GMBH	Teinfaltstrasse, 4 1010 Wien	Austria	(11)	58%	58%
Belgacom International Carrier Services Sweden AB	Drottninggatan 30 41114 Goteborg	Sweden	(11)	58%	58%
Belgacom International Carrier Services JAPAN KK	#409 Raffine Higaski Ginza, 4-14 Tsukuyi 4 - Chome - Chuo-ku Tokyo 104-00	Japan	(11)	58%	58%
Belgacom International Carrier Services China Ltd	Three Pacific Place - Level 28 1, Queen's road East Hong Kong	China	(11)	58%	58%
Belgacom International Carrier Services France SAS	Rue du Colonel Moll 3 75017 Paris	France	(11)	58%	58%

(1) Entity merged in 2011 into Telindus ISIT BV

(2) Liquidated in 2011

(3) Entity disposed in 2011

(4) Subsidiaries of the Group Telindus

(5) Subsidiaries of the Group Scarlet

(6) Entity indirectly controlled by the Group

(7) Entity merged in 2011 in Belgacom Invest SARL- renamed in Tango SA

(8) Entity merged in 2010 in Telindus SA (Luxembourg)

(9) Previous name Belgacom Invest SARL

(10) Entity merged in 2010 in Scarlet Belgium NV

(11) BICS Group, fully consolidated as from 2010

## Note 6.2. Investments in joint ventures

The Group has a joint-venture interest in the following companies.

Name	Registered office	Country of incorporation	Group's participating interests	
			2010	2011
Allo Bottin SA	101/109, rue Jean-Jurès 92300 Levallois-Perret	France	(1) 50%	50%
E-Port Communications Systems SA	Slijkenssesteenweg 2 8400 Oostende VAT BE 0864.818.940	Belgium	(2) 50%	50%

(1) In liquidation

(2) Joint ventures of Belgacom SA

## Note 6.3. Investments in associates

The Group has a significant influence in the following companies.

Name	Registered office	Country of incorporation	Group's participating interests	
			2010	2011
Tunz.com SA	Boulevard de Waterloo 1000 Bruxelles VAT BE 0886.476.763	Belgium	40%	40%
ClearMedia NV	Zagerijstraat 11 2960 Brecht VAT BE 0831.425.897	Belgium	40%	40%

## Note 6.4. Acquisitions and disposal of subsidiaries, joint ventures and associates

### Acquisition of control into BICS on 1 January 2010

Effective 1 January 2010, the BICS shareholders' agreement foresaw new decision-making rules and a deadlock procedure in force as from 1 January 2010 leading to the Group to conclude that it controls BICS as from that date. As a result of this and in application of the revised IFRS 3, BICS is fully consolidated as from 1 January 2010 and the previously held interest is re-measured to fair value. The Group estimated the fair value of this interest to EUR 564 million using valuation methodologies, such as discounted cash flows with a terminal value. The Group has not identified intangible assets that can't be individually separated and reliably measured due to their nature. The resulting non-recurring gain amounts to EUR 436 million. The Group has chosen not to apply the full goodwill option for this acquisition. This means that the non-controlling interests aren't measured at fair value. No equity instruments were issued as part of the cost and the Group did not incur any cost in this transaction of acquisition of control.

The fair value of the identifiable assets and liabilities of BICS Group at the date of acquisition and the corresponding carrying amounts immediately prior to the acquisition were:

(EUR million)	Fair value recognised on acquisition	Carrying value
Intangible assets with finite useful life	639	156
Property, plant and equipment	77	77
Trade receivables	366	366
Current income tax assets	2	2
Other current assets	24	24
Investments and cash and cash equivalents	121	121
<b>Total assets</b>	<b>1,229</b>	<b>746</b>
Non-current interest-bearing liabilities	0	-2
Liability for pensions and termination benefits	-2	0
Provisions and contingent liabilities	-5	-5
Deferred income tax liabilities	-166	-2
Trade payables	-419	-419
Income tax payables	-8	-8
Other current payables	-101	-101
<b>Total non-controlling interests and liabilities</b>	<b>-700</b>	<b>-536</b>
<b>Net assets</b>	<b>529</b>	<b>210</b>
Non-controlling interests	-217	-82
<b>Net assets acquired</b>	<b>312</b>	<b>128</b>
Goodwill arising on acquisition	<b>252</b>	
<b>Previously held interest measured at fair value</b>	<b>564</b>	
<b>The cash outflow on acquisition is as follows:</b>		
Consideration paid	0	
Net cash acquired of the subsidiary	121	
Unpaid amounts	0	
<b>Net cash outflow</b>	<b>121</b>	

Due to the fact that BICS was jointly controlled in 2009, the cash increased with EUR 51 million when changing from a proportional consolidation on 31st December 2009 to the full consolidation on 1 January 2010. At the date of acquisition, trade

receivable amounted to EUR 410 million nominal value and EUR 43 million allowance for doubtful debtors. The purchase price allocation did not lead to the recognition of contingent liabilities.

#### Other acquisitions in 2010

In 2010, the Group acquired MBS TELECOM NV for an amount of EUR 2 million and Sahara Net LLC (Saudi-Arabia) for an amount of EUR 5 million.

The fair value of the identifiable assets and liabilities of these acquisitions at the date of acquisition and the corresponding carrying amounts immediately prior to the acquisition were:

(EUR million)	Fair value recognised on acquisition	Carrying value
Intangible assets with finite useful life	2	0
Property, plant and equipment	1	1
Trade receivables	3	3
Other current assets	2	2
Investments and cash and cash equivalents	3	3
<b>Total assets</b>	<b>11</b>	<b>9</b>
Trade payables	-6	-6
Other current payables	-3	-3
<b>Total non-controlling interests and liabilities</b>	<b>-9</b>	<b>-9</b>
<b>Net assets acquired</b>	<b>2</b>	<b>0</b>
Goodwill arising on acquisition	5	
<b>Consideration</b>	<b>7</b>	
<b>The consideration is detailed as follows:</b>		
Cash paid to shareholders	7	
<b>Consideration</b>	<b>7</b>	
<b>The cash outflow on acquisition is as follows:</b>		
Consideration paid	7	
Net cash acquired of the subsidiary	-3	
<b>Net cash outflow</b>	<b>4</b>	

#### Acquisition of 2011

The acquisitions of 2011 impacted the Group financial statements as follows:

(EUR million)	Fair value recognised on acquisition	Carrying value
Intangible assets with finite useful life	8	0
Trade receivables	3	3
Other current assets	1	1
Investments and cash and cash equivalents	5	5
<b>Total assets</b>	<b>17</b>	<b>9</b>
Non-controlling interests	3	3
Deferred income tax liabilities	-3	0
Trade payables	-4	-4
Other current payables	-1	-1
<b>Total non-controlling interests and liabilities</b>	<b>-4</b>	<b>-2</b>
<b>Net assets acquired</b>	<b>13</b>	<b>7</b>
Goodwill arising on acquisition	6	
Equity movement	1	
<b>Consideration</b>	<b>19</b>	
<b>The consideration is detailed as follows:</b>		
Cash paid to shareholders	19	
<b>Consideration</b>	<b>19</b>	
<b>The cash outflow on acquisition is as follows:</b>		
Consideration paid	19	
Net cash acquired of the subsidiary	-5	
<b>Net cash outflow</b>	<b>14</b>	

The net cash outflow linked to the acquisitions of 2011 results mainly from the acquisition by the Group in April 2011 of 100% of the shares of Eudasys SAS, a data-storage market leader in France, for EUR 11 million. Eudasys SAS merged into Telindus France SA in 2011.

## Disposals of 2011

In 2011 the Group sold some minor participations.

The net assets disposed with respect to those subsidiaries are summarised as follows:

(EUR million)	Note	Disposals of 2011
Non-current assets disposed of		25
Current assets disposed of, excluding cash and cash equivalents		32
Cash and cash equivalents disposed of		69
Non-controlling interests disposed of		-1
Non-current liabilities disposed of		-17
Current liabilities disposed of		-29
<b>Net assets disposed of</b>		<b>80</b>
<b>Consideration received, net of transaction costs</b>		<b>73</b>
<b>Gain/(loss) on disposal</b>		<b>-7</b>
- including non-recurring income	22	11
- including non-recurring expense	26	-18
The net cash inflow on disposal is as follows:		
Cash received		73
Cash and cash equivalents disposed of with the subsidiaries		-69
<b>Net cash inflow / (outflow)</b>		<b>4</b>

## Note 7. Other participating interests

Other participating interests only include participating interests for which the Group does not exercise control, joint control or significant influence.

The net carrying amount of other participating interests evolved on the following way:

(EUR million)	As of 31 December	
	2010	2011
<b>Net carrying amount as of 1 January</b>	<b>1</b>	<b>26</b>
Additions	25	5
<b>Total</b>	<b>26</b>	<b>31</b>

(EUR million)	As of 31 December	
	2010	2011
Cost	33	37
Accumulated impairment losses	-7	-7
<b>Net carrying amount</b>	<b>26</b>	<b>31</b>

In 2010, the Group acquired minority interests in Onlive Inc, In3Depth Systems NV and Jinny Media LTD for an aggregate amount of EUR 25 million.

In 2011, the Group acquired minority interests in Dacentec NV and Awingu NV for an aggregate amount of EUR 5 million.

## Note 8. Income taxes

Gross deferred income tax assets / (liabilities) relate to the following:

(EUR million)	As of 31 December	
	2010	2011
<i>Deferred income tax liabilities</i>		
Accelerated depreciation for tax purposes	-16	-9
Fair value adjustments on acquisition	-172	-158
Statutory provisions not retained under IFRS	-15	0
Deferred taxation on sales of property, plant and equipment	-5	-4
Other	-16	-24
<b>Gross deferred income tax liabilities</b>	<b>-223</b>	<b>-195</b>
<i>Deferred income tax assets</i>		
Fair value adjustment on fixed assets	43	44
Remeasurement of financial instruments to fair value	7	8
Liability for post-employment and termination benefits	119	86
Tax losses carried forward	10	8
Capital losses on investments in subsidiaries	1	1
Other	14	12
<b>Gross deferred income tax assets</b>	<b>195</b>	<b>160</b>
Net deferred income tax assets / (liabilities), when grouped per taxable entity, are as follows :		
Net deferred income tax liability	-187	-157
Net deferred income tax asset	158	121

The deferred income tax liabilities decreased in 2011 mainly as a result of the amortization of the assets recognized in 2010 in the price purchase allocation of BICS.

Deferred tax assets have not been recognized in respect of the losses of subsidiaries that have been loss-making for several years. Cumulative tax losses carried forward and tax credits available for such companies amounted to EUR 237 million at 31

December 2011 (EUR 289 million in 2010) of which EUR 110 million has no expiration date, EUR 2 million and EUR 26 million expire respectively in 2013 and 2014 and EUR 99 million has a longer expiration date.

The share of Belgacom in the undistributed retained profit of subsidiaries amounts to EUR 5,401 million at 31 December 2011 (EUR 5,940 million in 2010) and is taxable at an effective tax rate of 1.7% upon remittance to the parent company. No deferred tax liability is recorded for such undistributed earnings except when a decision is taken to remit such retained profit i.e. when the subsidiary intends to distribute a dividend.

In the income statement, deferred tax income/ (expense) relate to the following:

(EUR million)	Year ended 31 December	
	2010	2011
<i>Relating to deferred income tax liabilities</i>		
Accelerated depreciation for tax purposes	26	7
Fair value adjustments on acquisition	18	16
Excess liabilities	-1	0
Remeasurement of financial instruments to fair value	1	0
Other	9	-8
<i>Relating to deferred income tax assets</i>		
Fair value adjustment on fixed assets	0	1
Remeasurement of financial instruments to fair value	-1	1
Liability for post-employment and termination benefits	-39	-33
Tax losses carried forward	-45	-2
Capital losses on investments in subsidiaries	-40	0
Other	-3	-3
<b>Deferred tax expense of the year</b>	<b>-75</b>	<b>-20</b>

The consolidated income statement includes the following tax expense:

(EUR million)	As of 31 December	
	2010	2011
<i>Current income tax</i>		
Current income tax expense	-160	-241
Adjustments in respect of current income tax of previous periods	1	-1
<i>Deferred income tax</i>		
Expense resulting from changes in temporary differences	-30	-19
Expense resulting from use of tax losses carried forward and tax credits	-45	-2
<b>Income tax expense reported in consolidated income statement</b>	<b>-233</b>	<b>-262</b>

The reconciliation of income tax expense applicable to income before taxes at the statutory income tax rate to income tax expense at the group's effective income tax rate for each of the two years ended is as follows:

(EUR million)	As of 31 December	
	2010	2011
<b>Income before taxes</b>	<b>1,517</b>	<b>1,035</b>
At Belgian statutory income tax rate of 33.99%	516	352
Lower income tax rates of other countries	-2	-1
Income tax consequences of disposal of subsidiaries and other participating interests	-148	2
Income tax consequences of capital losses on investments in subsidiaries	-7	0
Non-taxable income from subsidiaries and notional interest deduction	-128	-134
Non-deductible expenditures for income tax purposes	9	27
Other	-6	17
<b>Income tax expense</b>	<b>233</b>	<b>262</b>
<b>Effective income tax rate</b>	<b>15.39%</b>	<b>25.28%</b>

The effective tax rate for 2011 was 25.28% whereas this was 15.39% in 2010 as a result of the realized non-taxable capital gain of EUR 436 million through the acquisition of control of BICS on 1 January 2010.

The non-taxable income from subsidiaries mainly relates to the application of general principles of tax law such as the notional interest deduction applicable in Belgium.

Non-deductible expenditures for income tax purposes primarily relate to various expenses that are disallowed for tax purposes and unrecognized tax losses carried forward.

Other adjustments for the year 2011 mainly relate to taxes on intragroup dividends.

The tax effects relating to each component of other comprehensive income are as follows:

(EUR million)	As of 31 December	
	2010	2011
Equity increase from remeasurement to fair value of available-for-sale investments	2	0
<b>Total</b>	<b>2</b>	<b>0</b>

## Note 9. Assets and liabilities for pensions, other post-employment benefits and termination benefits

The Group has several plans that are summarized below:

(EUR million)	As of 31 December	
	2010	2011
Termination benefits and additional compensations in respect of restructuring programs	353	257
Defined benefit plans for complementary pension plans (net liability)	1	1
Post-employment benefits other than pensions	196	204
Other liabilities	15	16
<b>Net liability recognized in the balance sheet</b>	<b>565</b>	<b>479</b>
Defined benefit plans for complementary pension plans (net asset)	-2	-2
<b>Net asset recognized in the balance sheet</b>	<b>-2</b>	<b>-2</b>

The calculation of the net liability is based on the assumptions established at the balance sheet date. The assumptions for the various plans have been determined based on both macro-economic factors and the specific terms of each plan relating to the duration and the beneficiary population, in order to apply the most relevant measure of estimated outflow of resources.

### Note 9.1. Termination benefits and additional compensations in respect of restructuring programs

Termination benefits and additional compensations included in this chapter relate to employee restructuring programs. No plan assets are accumulated for these benefits.

In 2002, Belgacom SA implemented the Belgacom E-Strategic Transformation ("BeST") employee restructuring program. Under the terms of the plan, the Group will pay guaranteed salary allowances until the year 2012.

In 2005, the Group implemented a leave program and a career outphasing program (tutorship). Under the terms of the plan, the Group will pay benefits until the year 2015.

In 2007, the Group implemented a voluntary external mobility program to the Belgian State for its statutory employees.

In 2008, the Group increased its liability for restructuring programs by an amount of EUR 53 million, disclosed as non-recurring expenses. This increase reflects the impact of the evolution of the index during 2008 on all the salary components of all restructuring programs (EUR 19 million), and the success of the external mobility program started in 2007 (EUR 34 million).

In 2009, the Group implemented restructuring programs for employees in subsidiaries that resulted in a non-recurring expense of EUR 7.5 million (see note 26).

In 2010, the Group introduced additional conditions for participants to benefit from a leave premium in the voluntary external mobility program launched in 2007, leading to a reduced number of volunteers.

Any subsequent re-measurement of the liability for termination benefits and additional compensations is recognized immediately in the income statement.

The funded status of the plans for termination benefits and additional compensations is as follows :

(EUR million)	As of 31 December	
	2010	2011
Defined Benefit Obligation	353	257
<b>Benefit obligation in excess of plan assets</b>	<b>353</b>	<b>257</b>

The components of the expense recognized in the income statement are as follows :

(EUR million)	Year ended 31 December	
	2010	2011
Interest cost	11	5
Actuarial (gain) / loss recognized	-8	5
<b>Expense recognized in the income statement, before curtailment, settlement and special termination benefits</b>	<b>4</b>	<b>10</b>
Special termination benefits	0	0
<b>Expense recognized in the income statement</b>	<b>4</b>	<b>10</b>

The movement in the net liability recognized in the balance sheet is as follows :

(EUR million)	Year ended 31 December	
	2010	2011
At the beginning of the year	469	353
Expense for the period	4	10
Business combination	1	0
Actual employer contribution	-121	-105
<b>At the end of the year</b>	<b>353</b>	<b>257</b>

Change in plan assets :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	0	0
Actual employer contribution	121	105
Distributions to beneficiaries	-121	-105
<b>At the end of the year</b>	<b>0</b>	<b>0</b>

Change in the defined benefit obligation :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	469	353
Interest cost	11	5
Actuarial (gain) / loss recognized	-8	5
Business combination	1	0
Distributions to beneficiaries	-121	-105
<b>At the end of the year</b>	<b>353</b>	<b>257</b>

The liability for termination benefits and additional compensations was determined using the following

	As of 31 December	
	2010	2011
Discount rate	2.6 %- 4.5%	2.6 %- 4.5%
Future price inflation	2.00%	2.00%

### Sensitivity analysis

An increase or decrease of 0.5% in the effective discount rate involves a fluctuation of the liability by approximately EUR 2 million.

The Group expects to pay an amount of EUR 102 million for termination benefits and additional compensations in 2012.

### Note 9.2. Defined benefit plans for complementary pensions

Belgacom SA and some subsidiaries have a joint complementary defined benefit pension plan for their employees. This plan provides pension benefits for services as of 1 January 1997. The related separately administrated pension fund was created in 1998. The pension fund of Belgacom Mobile created in 2001 merged into the Belgacom SA pension plan in 2009.

Telindus BV, a subsidiary established in the Netherlands, has a complementary defined benefit pension plan for its employees financed through an insurance company.

The funded status of the pension plans is as follows :

(EUR million)	As of 31 December	
	2010	2011
Defined Benefit Obligation	239	273
Plan assets at fair value	-211	-231
<b>Deficit / (surplus)</b>	<b>28</b>	<b>43</b>
Unrecognized actuarial gain / (loss)	-29	-44
<b>Deficit / (surplus) after unrecognized actuarial gain / (loss) composed of :</b>	<b>-1</b>	<b>-1</b>
Net liability recognized in the balance sheet	1	1
Net assets recognized in the balance sheet	-2	-2

Historical data:

(EUR million)	As of 31 December				
	2007	2008	2009	2010	2011
Defined Benefit Obligation	5	168	196	239	273
Plan assets at fair value	-4	-131	-172	-211	-231
<b>Deficit / (surplus)</b>	<b>0</b>	<b>37</b>	<b>24</b>	<b>28</b>	<b>43</b>
Experience adjustment on plan liabilities : gain / (loss)	0	10	2	-10	5
Experience adjustments on plan assets : gain / (loss)	0	-45	10	5	-20

The components of the expense recognized in the income statement are as follows :

(EUR million)	Year ended 31 December	
	2010	2011
Current service cost - employer	25	31
Interest cost	11	12
Expected return on plan assets	-11	-14
<b>Expense recognized in the income statement</b>	<b>25</b>	<b>29</b>

The movement in the net liability/(assets) recognized in the balance sheet is as follows :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	-1	-1
Expense for the period	25	29
Actual employer contribution	-25	-29
<b>Deficit / (surplus) after unrecognized actuarial gain / (loss) composed of :</b>	<b>-1</b>	<b>-1</b>
Net liability at the end of the year	1	1
Net assets at the end of the year	-2	-2

Change in plan assets :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	172	211
Expected return on plan assets	11	14
Actuarial gains / (losses) on plan assets	5	-20
Actual employer contribution	25	29
Benefits payments and expenses	-3	-3
<b>At the end of the year</b>	<b>211</b>	<b>231</b>

Change in the defined benefit obligation :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	196	239
Service cost	25	31
Interest cost	11	12
Benefits payments and expenses	-3	-3
Actuarial loss / (gain)	10	-5
<b>At the end of the year</b>	<b>239</b>	<b>273</b>

The pension liability was determined using the following assumptions :

	As of 31 December	
	2010	2011
Discount rate	5.00%	5.00%
Expected rate of return on plan assets Telindus BV	2.25 %	2.25 %
Expected rate of return on plan assets Belgacom Group	6.20%	6.20%
Future price inflation	2.00%	2.00%
Nominal future salary increase	2.00% - 4.50%	2.00% - 4.50%
Nominal future baremic salary increase	2.00% - 3.95%	2.00% - 3.95%

The expected return on plan assets is an assumption based on market data and future long term expectations. It takes into account the asset allocation of the respective pension plans that may evolve over time depending on achieved and future expected returns.

The assets of the pension plans are detailed as follows:

	As of 31 December	
	2010	2011
Equities	49%	46%
Fixed income : bonds and cash	44%	47%
Insurance deposits (for the plan of Telindus BV)	7%	7%

The actual return on plan assets is as follows:

(EUR million)	As of 31 December	
	2010	2011
Actual return on plan assets	16	-7

The Group expects to contribute an amount of EUR 31 million to these pension plans in 2012.

### Note 9.3. Post-employment benefits other than pensions

Historically, the Group grants to its retirees post-employment benefits other than pensions in the form of socio-cultural aid premium and other social benefits including hospitalization. There are no plan assets for such benefits.

In 2011, the Group decided to replace the hospitalization plan and to settle a large part of the risks related to the future benefits payments for retirees. In the new plan, the amount to be paid by the group will be based on an indexed lump sum per beneficiary. This resulted in a total net negative impact of EUR 3 million on the income statement.

The funded status of the plans is as follows :

(EUR million)	As of 31 December	
	2010	2011
Defined Benefit Obligation	253	256
Plan assets at fair value	0	0
Unrecognized actuarial loss	-55	-50
Unrecognized past service cost	-2	-2
<b>Net liability recognized in the balance sheet</b>	<b>196</b>	<b>204</b>

Historical data:

(EUR million)	As of 31 December				
	2007	2008	2009	2010	2011
Defined Benefit Obligation	69	235	238	253	256
<b>Benefit obligation in excess of plan assets</b>	<b>69</b>	<b>235</b>	<b>238</b>	<b>253</b>	<b>256</b>
Experience adjustment on plan liabilities : gain / (loss)	0	2	0	-12	-25

The components of the expense recognized in the income statement are as follows :

(EUR million)	Year ended 31 December	
	2010	2011
Current service cost - employer	2	3
Interest cost	13	12
Amortization actuarial loss	1	2
<b>Expense recognized in the income statement, before curtailment, settlement and special termination benefits</b>	<b>17</b>	<b>18</b>
Curtailment or settlement loss / (gain) and past service cost	0	3
<b>Expense recognized in the income statement</b>	<b>17</b>	<b>21</b>

The movement in the net liability recognized in the balance sheet is as follows :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	191	196
Expense for the period	17	21
Actual employer contribution	-12	-12
<b>At the end of the year</b>	<b>196</b>	<b>204</b>

Change in plan assets :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	0	0
Actual employer contribution	-12	-12
Distributions to beneficiaries	12	12
<b>At the end of the year</b>	<b>0</b>	<b>0</b>

Change in the defined benefit obligation :

(EUR million)	As of 31 December	
	2010	2011
At the beginning of the year	238	253
Service cost	2	3
Interest cost	13	12
Settlement	0	-25
Distributions to beneficiaries	-12	-12
Actuarial (gain)/loss	12	25
<b>At the end of the year</b>	<b>253</b>	<b>256</b>

The liability for post-employment benefits other than pensions was determined using the following assumptions :

	As of 31 December	
	2010	2011
Discount rate	5.00%	5.00%
Future cost trend	2.00% - 4.00%	2.00%
Future price inflation	2.00%	2.00%

The liability for post-employment benefits other than pensions is determined based on the entity's best estimate of the financial and demographic assumptions which are reviewed on an annual basis.

#### Sensitivity analysis

An increase or decrease of 1% in the medical cost trend would result in an increase of EUR 14 million respectively a decrease of EUR 11 million of the defined benefit obligation, and in an increase or decrease of the expense (service and interest cost) of the year of respectively EUR 2 million and EUR 1 million.

The Group expects to contribute an amount of EUR 15 million to these plans in 2012.

#### Note 9.4. Other liabilities

The Group has a legal obligation to pay child allowance benefits to a limited number of statutory retirees and to the beneficiaries of the employee restructuring programs.

Telindus France has a legal obligation to pay a one-time post-employment benefit in accordance with local law in France.

Those amounts are directly paid by the Group and therefore no plan assets are accumulated for such benefits. Any subsequent re-measurement of the liability is recognized immediately in the income statement.

The funded status is as follows :

(EUR million)	As of 31 December	
	2010	2011
Defined Benefit Obligation	15	16
<b>Net liability recognized in the balance sheet</b>	<b>15</b>	<b>16</b>

The liability was determined using the following assumptions :

	2010	2011
Discount rate	3.75%	3.75%
Future price inflation	2.00%	2.00%

#### Note 10. Other non-current assets

(EUR million)	Note	As of 31 December	
		2010	2011
Other derivatives	31	106	132
Non-current investments		5	5
Other assets		11	43
<b>Total</b>		<b>122</b>	<b>180</b>

#### Note 11. Trade receivables

Most trade receivables are non-interest bearing and are usually on 30-90 days terms. Terms are somehow longer for the receivables of the International Carrier Services segment, since major part of its trade receivables on other Telco operators are paid via netting agreements.

The analysis of trade receivables that were past due but not impaired is as follows:

As of 31 December	Gross receivables	Allowance for doubtful debtors	Net carrying amount	Neither past due nor impaired	Past due but not impaired					
					< 30 days	30-60 days	60-90 days	90-180 days	180-360 days	> 360 days
(EUR million)										
2006	1,340	-133	1,207							
2007	1,295	-138	1,158							
2008	1,350	-145	1,205	933	125	29	18	31	34	35
2009	1,209	-120	1,089	858	102	34	15	28	14	37
2010	1,389	-143	1,246	923	84	44	29	45	47	73
2011	1,472	-144	1,328	933	97	53	33	66	58	87

As of 31 December 2010 and 2011, 74% and 70% respectively of the total of trade receivables were neither past due nor impaired.

For the two years presented, no trade receivables were pledged as collaterals. In 2011, Belgacom Group received bank and parent guarantees of EUR 7 million (in 2010 EUR 6 million) as securities for the payment of outstanding invoices.

The evolution of the allowance for doubtful debtors is as follows:

(EUR million)	Note	2010	2011
<b>As of 1 January</b>		<b>-120</b>	<b>-143</b>
Increase posted in operating expenses	25	-8	-4
Other movements		-15	2
<b>As of 31 December</b>		<b>-143</b>	<b>-144</b>

## Note 12. Other current assets

(EUR million)	Note	As of 31 December	
		2010	2011
VAT receivables		7	16
Other derivatives	31.1	1	3
Prepaid expenses		100	108
Accrued income		19	12
Other receivables		14	13
<b>Total</b>		<b>142</b>	<b>152</b>

## Note 13. Investments

(EUR million)	Note	As of 31 December	
		2010	2011
Shares	31	43	36
<b>Total</b>		<b>43</b>	<b>36</b>

Shares include Sicavs and funds invested mainly in money markets instruments, euro-bonds and equity instruments.

(EUR million)	As of 31 December	
	2010	2011
Cost	43	36
Accumulated re-measurements to fair value	0	0
<b>Net carrying amount</b>	<b>43</b>	<b>36</b>

On the two years presented, the net carrying amount of investments evolved on the following way:

(EUR million)	Note	As of 31 December	
		2010	2011
<b>Net carrying amount as of 1 January</b>		<b>76</b>	<b>43</b>
Additions		38	8
Disposals		-64	-16
Re-measurements to fair value			
Transfer to profit or loss on sale	28	-7	0
<b>Net carrying amount as of 31 December</b>		<b>43</b>	<b>36</b>

## Note 14. Cash and cash equivalents

(EUR million)	As of 31 December	
	2010	2011
Fixed income securities	332	147
Short-term deposits	195	109
Cash at bank and in hand	57	64
<b>Total</b>	<b>584</b>	<b>320</b>

The Group invests part of its liquidities in treasury certificates held-to-maturity. Short-term deposits are made for periods varying between one month and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Cash at bank earns interest at floating rates based on daily bank deposit rates.

## Note 15. Equity

### Note 15.1 Shareholders' equity

At 31 December 2011, the share capital of Belgacom SA amounted to EUR 1 billion (fully paid up), represented by 338,025,135 shares, with no par value and all having the same rights, provided such rights are not suspended or cancelled in the case of treasury shares. The Board of Directors of Belgacom SA is entitled to increase the capital for a maximum amount of EUR 200 million.

Distribution of retained earnings of Belgacom SA, the parent company, is limited by a restricted reserve built up in prior years in accordance with Belgian Company Law up to 10% of Belgacom's issued capital.

Belgacom SA has a statutory obligation to distribute 5% of the parent company income before taxes to its employees. In the accompanying consolidated financial statements, this profit distribution is accounted for as personnel expenses.

On 31 December 2011, the number of treasury shares amounts to 20,376,314 of which 4,663,114 entitled to dividend rights and 15,713,200 without dividend rights. Dividends allocated to treasury shares entitled to dividend rights are accounted for under the caption "Reserves not available for distribution" in the statutory financial statements of Belgacom SA.

In 2010 and 2011, the Group sold respectively 294,304 and 277,474 treasury shares to its senior management for EUR 6 million under discounted share purchase plans at a discount of 16.67% (see note 35).

During the years 2010 and 2011, employees exercised respectively 573,654 and 189,681 share options. In order to honor its obligation in respect of these exercises, Belgacom used treasury shares (see note 35).

In 2010, the Group granted 1,023,210 share options to its key management and senior management with an exercise price of EUR 26.445. In 2011, the Group granted 1,036,061 share options to its key management and senior management with an exercise price of EUR 25.015 (see note 35).

In the context of the share buyback program, Belgacom acquired in the second and third quarter of 2011 4,300,975 treasury shares for an amount of EUR 100 million.

In order to cover the outstanding stock options with dividend rights granted in 2010 and 2011, the Board of Directors approved the conversion of 2,025,774 treasury shares without dividend rights into treasury shares entitled to dividend rights, on 27th October 2011.

Number of shares (including treasury shares):	2010	2011
<b>As of 1 January</b>	<b>338,025,135</b>	<b>338,025,135</b>
Cancellation	0	0
<b>As of 31 December</b>	<b>338,025,135</b>	<b>338,025,135</b>

  

Number of treasury shares:	2010	2011
<b>As of 1 January</b>	<b>17,410,452</b>	<b>16,542,494</b>
Acquisition	0	4,300,975
Sale under a discounted share purchase plan	-294,304	-277,474
Exercise of stock option	-573,654	-189,681
<b>As of 31 December</b>	<b>16,542,494</b>	<b>20,376,314</b>

## Note 15.2 Non-controlling interests

Non-controlling interests include

- the 42.4% of the minority shareholders (Swisscom and MTN Dubai) into BICS as from 1 January 2010;
- the 30% stake of the minority shareholder in the equity and net income of Sahara Net LCC;
- the 35% stake of the minority shareholder Arcelor Mittal in the equity and net income of Telindus SA (established in Luxembourg) and subsidiaries (see note 6).

## Note 16. Interest-bearing liabilities

### Note 16.1 Non-current interest-bearing liabilities

(EUR million)	Note	As of 31 December	
		2010	2011
Unsubordinated debentures		1,306	1,798
Leasing and similar obligations		3	2
Credit institutions		8	4
Other derivatives	31	89	127
<b>Total</b>		<b>1,406</b>	<b>1,931</b>

All long term debt is unsecured. During 2010 and 2011 there have been no defaults or breaches on loans payables.

Over the two years presented, interest rate swaps (IRS) and interest rate and currency swaps (IRCS) were used to manage the currency and interest rate exposure on the JPY unsubordinated debentures. The swaps enabled the Group to transform the interest rate on these debentures from a fixed interest rate to a floating interest rate or vice versa.

Non-current interest-bearing liabilities as of 31 December 2011 are summarised as follows:

	Carrying amount	Nominal amount	Measurement under IAS 39	Maturity date	Interest payment / repriceable	Interest rate payable	Effective interest rate
	(EUR million)	(EUR million)				(b)	
<b>Unsubordinated debentures</b>							
Floating rate borrowings							
JPY (a)	84	73	Amortized cost	Dec-26	Semi-annually	1.51%	1.51%
Fixed rate borrowings							
EUR	746	750	Amortized cost	Nov-16	Annually	4.38%	4.50%
EUR	178	200	Amortized cost	Nov-16	Annually	4.38%	7.16%
EUR	125	125	Amortized cost	Dec-13	Annually	6.00%	6.11%
EUR	495	500	Amortized cost	Feb-18	Annually	3.88%	4.05%
	1,544	1,575					
JPY (a)	83	73	Amortized cost	Nov-15	Annually	6.18%	6.18%
JPY (a)	88	72	Amortized cost	Dec-15	Annually	6.21%	6.21%
	171	145					
<i>Total unsubordinated debentures</i>	1,798	1,792					
<b>Credit institutions</b>							
Fixed rate borrowings							
EUR	4	4	Amortized cost	Nov-13	Semi-annually	3.78%	3.78%
<b>Leasing and similar obligations</b>							
	2	2	Amortized cost	2014	Quarterly	4.85%	4.85%
<i>all non-current financial liabilities (derivatives excluded)</i>	1,804	1,798					
<b>Derivatives</b>							
Derivatives held-for-trading (c)	127	-	Fair value				
<b>Total</b>	<b>1,931</b>	<b>1,798</b>					

(a) converted into a loan in EUR via currency interest rate swap

(b) for floating rate borrowings, interest rate is the one prevailing at the last repricing date before 31 December 2011

(c) Economic hedges of JPY borrowings

Unsubordinated debentures in EUR and in JPY are issued by Belgacom SA. The capital is repayable in full on the maturity date. In January 2011 the Group issued a seven-year unsubordinated bond of EUR 500 million under the Euro Medium Term Note program, partially offsetting the reimbursement of two loans maturing in November 2011, for a nominal amount of EUR 775 million.

The foreign currency exposure on liabilities in JPY is fully hedged economically by interest rate and currency swaps converting these liabilities in JPY into liabilities in EUR (see note 31).

The credit institution in EUR is primarily a loan granted to Belgacom SA by a bank for which interests are payable semi-annually and the capital is amortized semi-annually. An amount of EUR 4 million of the total nominal amount is reimbursed annually.

## Note 16.2 Current interest-bearing liabilities

(EUR million)	As of 31 December	
	2010	2011
Unsubordinated debentures - current portion	773	0
Leasing and similar obligations - current portion	3	2
Credit institutions - current portion	4	4
Other loans	3	35
<b>Total</b>	<b>783</b>	<b>41</b>

## Note 17. Provisions

(EUR million)	Workers' accidents	Litigation	Illness days	Other risks	Total
Additions	2	13	9	8	32
Utilisations	-3	-4	-13	-4	-24
Withdrawals	0	-1	0	-5	-6
Unwinding	2	0	0	0	2
<b>As of 31 December 2010</b>	<b>42</b>	<b>96</b>	<b>25</b>	<b>39</b>	<b>203</b>
Additions	0	16	20	8	44
Utilisations	-3	-3	-15	-4	-25
Withdrawals	-1	-42	0	-1	-44
Unwinding	2	0	0	0	2
<b>As of 31 December 2011</b>	<b>41</b>	<b>67</b>	<b>30</b>	<b>42</b>	<b>180</b>

The provision for workers' accidents relates to compensation that Belgacom SA could pay to members of personnel injured (including professional illness) when performing their job and on their way to work. Until 31 December 2002, according to the law of 1967 (public sector) on labor accidents, compensation was funded and paid directly by Belgacom. This provision (annuities part) is based on actuarial data including mortality tables, compensation ratios, interest rates and other factors defined by the law of 1967 and calculated with the support of a professional insurer. Taking into account the mortality table, it is expected that most of these costs will be paid out until 2053.

As from 1 January 2003, contractual employees are subject to the law of 1971 (private sector) and statutory employees remain subject to the law of 1967 (public sector). For both the contractual and statutory employees, Belgacom is covered as from 1 January 2003 by insurance policies for workers' accidents and therefore will not directly pay members of personnel.

The provision for litigation represents management's best estimate for probable losses due to pending litigation where the Group has been sued by a third party or is subject to a judicial or tax dispute. The expected timing of the related cash outflows depends on the progress and duration of the underlying judicial procedures. The major part of the withdrawals results from a settlement of network related disputes in 2011.

The provision for illness days represents management's best estimate of probable charges related to the granting by Belgacom of accumulating non-vesting illness days to its statutory employees. The provision has been determined based on statistical data.

The provision for other risks mainly include the expected costs for dismantling and restoration of mobile antenna sites and sites where payphones are installed, environmental risks and sundry risks. It is expected that most of these costs will be paid during the period 2009-2024. The provision for restoration costs is estimated at current prices and discounted using a discount rate that varies between 2% and 5%, depending the expected timing to settle the obligation.

## Note 18. Other non-current payables

(EUR million)	2010	2011
Other amounts payable	3	2
<b>Total</b>	<b>3</b>	<b>2</b>

## Note 19. Other current payables

(EUR million)	As of 31 December	
	2010	2011
VAT payables	18	25
Payables to employees	107	131
Accrual for holiday pay	78	79
Accrual for social security contributions	65	55
Other taxes	17	91
Deferred income	191	195
Accrued expenses	24	36
Other amounts payable	29	34
<b>Total</b>	<b>529</b>	<b>647</b>

Deferred income mainly includes prepaid telecommunication and ICT services.

Other amounts payable mainly relate to advances received on ICT contracts and amounts collected on behalf of third parties.

## Note 20. Net revenue

(EUR million)	Year ended 31 December	
	2010	2011
Sales of goods	565	565
Rendering of services	5,987	5,796
<b>Total</b>	<b>6,552</b>	<b>6,361</b>

## Note 21. Other operating income

(EUR million)	Year ended 31 December	
	2010	2011
Gain on disposal of intangible assets and property, plant and equipment	4	4
Gains on realization of trade debtors	1	2
Other income	45	39
<b>Total</b>	<b>51</b>	<b>45</b>

Other income mainly includes compensation for network damages as well as employee and third party contributions for sundry services.

## Note 22. Non-recurring income

(EUR million)	Year ended 31 December	
	2010	2011
Gain on disposal of subsidiaries	0	11
Remeasurement to fair value of previously held interest in BICS	436	0
<b>Total</b>	<b>436</b>	<b>11</b>

Gains on the disposal of subsidiaries and joint-ventures are reported as non-recurring income when they individually exceed EUR 5 million.

In 2010, as a result of the acquisition of control into BICS and in application of the revised IFRS 3, the previously held interest into BICS has been re-measured to fair value, leading to the recognition of a non-recurring income of EUR 436 million (see note 6.4).

In 2011, the disposal of a consolidated company engaged in non-core activities resulted in a non-recurring income of EUR 11 million.

## Note 23. Costs of materials and services related to revenue

(EUR million)	Year ended 31 December	
	2010	2011
Purchases of materials	438	428
Purchases of services	2,204	2,089
<b>Total</b>	<b>2,642</b>	<b>2,517</b>

Purchases of materials are shown net of work performed by the enterprise that is capitalized for an amount of EUR 63 million in 2010 and EUR 77 million in 2011.

## Note 24. Personnel expenses and pensions

(EUR million)	Year ended 31 December	
	2010	2011
Salaries and wages	818	818
Social security expenses	202	203
Pension costs	25	29
Post-employment benefits other than pensions and termination benefits	20	23
Other personnel expenses	43	44
<b>Total</b>	<b>1,107</b>	<b>1,117</b>

Salaries and wages and social security expenses are shown net of work performed by the enterprise that is capitalized for an amount of EUR 60 million in 2010 and EUR 70 million in 2011.

## Note 25. Other operating expenses

(EUR million)	Year ended 31 December	
	2010	2011
Rent expense	116	116
Maintenance and utilities	205	206
Advertising and public relations	99	85
Consultancy	136	141
Administration and training	62	62
Telecommunications, postage costs and office equipment	38	43
Outsourcing	113	139
Allowances for trade debtors	8	4
Loss on realization of trade debtors	25	22
Impairment on intangible assets and property, plant and equipment	1	2
Taxes other than income taxes	30	6
Other operating charges (1)	37	36
<b>Total</b>	<b>870</b>	<b>860</b>

(1) Including unrealized and realized net exchange gains amounting to EUR 5 million in 2010 and EUR 5 million in 2011.

Other operating expenses are shown net of work performed by the enterprise that is capitalized for an amount of EUR 132 million in 2010 and EUR 143 million in 2011.

## Note 26. Non-recurring expenses

(EUR million)	Year ended 31 December	
	2010	2011
Loss on disposal of subsidiaries	0	18
Termination benefits and additional compensation	-8	8
<b>Total</b>	<b>-8</b>	<b>26</b>

Losses on the disposal of subsidiaries and joint-ventures that individually exceed EUR 5 million, costs of restructuring programs (including actuarial gains and losses) and the effect of settlements of post-employment benefit plans are recorded as non-recurring expenses.

In 2010, the Group reviewed the assumptions used in the estimation of the liability for termination benefits that resulted in a decrease of the liability with EUR 8 million (see note 9.1)

On 30 June 2011, the Belgacom Group disposed Telindus SA (Spain) and recognized a loss on disposal of EUR 18 million through the non-recurring expenses.

In 2011, the Group replaced the group's hospitalization plan resulting in a non-recurring expense of EUR 3 million (see note 9.3), and reviewed the estimation of the liability for termination benefits resulting in a non-recurring expense of EUR 5 million (see note 9.1).

## Note 27. Depreciation and amortization

(EUR million)	Year ended 31 December	
	2010	2011
Amortization of licenses and other intangible assets	260	266
Depreciation of property, plant and equipment	549	489
<b>Total</b>	<b>809</b>	<b>756</b>

## Note 28. Net finance income / (costs)

(EUR million)	Year ended 31 December	
	2010	2011
<i>Finance income</i>		
Interest income on financial instruments		
At amortized cost	4	8
At fair value through income statement	1	2
Interest income on assets		
On receivables	0	8
Gain on disposal of		
Investments	7	0
Fair value adjustments of financial instruments		
Not in a hedge relationship	6	9
Other finance income	2	3
<i>Finance costs</i>		
Interests and debt charges on financial instruments		
At amortized cost	-92	-101
At fair value through income statement	-11	-12
Discounting charges		
On provisions	-1	0
On termination benefits	-9	-5
On long term payables	0	-2
Fair value adjustments of financial instruments		
Not in a hedge relationship	-7	-13
Other finance costs	-4	-3
<b>Total</b>	<b>-102</b>	<b>-106</b>

## Note 29. Earnings per share

Basic earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders, by the weighted average number of ordinary shares outstanding during the year, both adjusted for the effects of dilutive potential ordinary shares.

The following table reflects the income and share data used in the computation of basic and diluted earnings per share.

(in millions, except per share amounts)	Year ended 31 December	
	2010	2011
Net income attributable to ordinary shareholders (EUR million)	1,266	756
Weighted average number of outstanding ordinary shares	321,138,048	319,963,423
Adjustment for share options	573,981	550,862
Weighted average number of outstanding ordinary shares for diluted earnings per share	321,712,030	320,514,286
Basic earnings per share (EUR)	3.94	2.36
<u>Diluted earnings per share (EUR)</u>	<u>3.94</u>	<u>2.36</u>

Earnings per share are influenced by non-recurring items included in the net income (see notes 22 and 26).

The stock options granted in 2004, 2007 and 2011 are anti-dilutive and hence not included in the calculation of diluted earnings per shares, while the other options granted are dilutive.

## Note 30. Dividends paid and proposed

(in millions, except per share amounts)	Year ended December 31	
	2010	2011
Dividends on ordinary shares:		
Proposed dividends (EUR million)	540	534
Number of outstanding shares with dividend rights	321,482,641	317,648,821
Dividend per share (EUR)	1.68	1.68
Special dividend proposed to the shareholders' meeting (EUR million)	-	-
Special dividend per share (EUR)	-	-
Interim dividend paid to the shareholders (EUR million)	161	159
Interim dividend per share (EUR)	0.50	0.50

The proposed dividends for 2010 have been effectively paid in April 2011. The interim dividend of 2010 has been paid in December 2010. The interim dividend of 2011 has been paid in December 2011.

## Note 31. Additional disclosures on financial instruments

### Note 31.1 Derivatives

(EUR million)	Note	As of 31 December	
		2010	2011
<i>Non-current assets</i>			
Other derivatives - interest related	10	106	132
<i>Current assets</i>			
Other derivatives	12	1	3
<b>Total assets</b>		<b>107</b>	<b>134</b>
<i>Non-current liabilities</i>			
Other derivatives - interest related	16	89	127
<b>Total liabilities</b>		<b>89</b>	<b>127</b>

The Group makes use of derivatives such as interest rate swaps (IRS), interest rate and currency swaps (IRCS), forward foreign exchange contracts and currency options.

The tables below show the positive and negative fair value of derivatives, included in the balance sheet respectively as current/non-current assets or liabilities, together with the notional amounts presented by the term of maturity.

As of 31 December 2010 (EUR million)	Fair value		Notional amount (1)				Total	
	Asset	Liability	Within 2 months	3 - 12 months	1 - 5 years	over 5 years		
Interest rate swaps	0	-25	0	0	144	0	144	
			0	0	-144	0	-144	
Interest rate and currency swaps	106	0	0	0	145	73	217	
			0	0	-145	-73	-217	
Interests and currency related - other derivatives	0	-64	0	0	0	0	0	
			0	8	1	0	8	
Forward foreign exchange contracts	1	0	0	-22	-99	0	-121	
			0					
<b>Derivatives not qualifying as hedges</b>	(1)	<b>107</b>	<b>-89</b>	<b>0</b>	<b>-14</b>	<b>-98</b>	<b>0</b>	<b>-112</b>
<b>Total</b>		<b>107</b>	<b>-89</b>	<b>0</b>	<b>-14</b>	<b>-98</b>	<b>0</b>	<b>-112</b>

(1) The sign "+" refers to notional amounts to be cashed in and the sign "-" to notional amounts to be cashed out.

As of 31 December 2011 (EUR million)	Fair value		Notional amount (1)				Total	
	Asset	Liability	Within 2 months	3 - 12 months	1 - 5 years	over 5 years		
Commodity swap	0	0	-1	-6	-1	0	-8	
<b>Derivatives qualifying as cash flow hedges</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>-6</b>	<b>-1</b>	<b>0</b>	<b>-8</b>	
Interest rate swaps	0	-25	0	0	144	0	144	
			0	0	-144	0	-144	
Interest rate and currency swaps	132	0	0	0	145	73	217	
			0	0	-145	-73	-217	
Interests and currency related - other derivatives	0	-101	0	0	0	0	0	
			0	9	18	0	27	
Forward foreign exchange contracts	3	0	0	-15	-72	0	-87	
			0					
<b>Derivatives not qualifying as hedges</b>	(1)	<b>134</b>	<b>-127</b>	<b>0</b>	<b>-6</b>	<b>-54</b>	<b>0</b>	<b>-60</b>
<b>Total</b>		<b>134</b>	<b>-127</b>	<b>-1</b>	<b>-12</b>	<b>-54</b>	<b>0</b>	<b>-68</b>

(1) The sign "+" refers to notional amounts to be cashed in and the sign "-" to notional amounts to be cashed out.

## Note 31.2 Financial risk management objectives and policies

The Group's main financial instruments comprise unsubordinated debentures, trade receivables and trade payables. The main risks arising from the Group's use of financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group is also exposed to financial risks associated with forecasted transactions.

All financial activities are subject to the principle of risk minimization. To achieve this, all matters related to funding, foreign exchange, interest rate and counterparty risk management are handled by a centralized Group Treasury department. Simulations are performed using different market (including worst case) scenarios with a view to estimating the effects of varying market conditions. All financial transactions and financial risk positions are managed and monitored in a centralized treasury management system.

Group Treasury operations are conducted within a framework of policies and guidelines approved by the Board of Directors. Group Treasury is responsible for implementing these policies. According to the policies, derivatives are used to hedge interest rate and currency exposures. Derivatives are used exclusively as hedging instruments, i.e., not for trading or other speculative purposes. Derivatives used by the Group mainly include forward exchange contracts, interest rate swaps, interest rate and currency swaps and future rate agreements (FRA's).

The Group's internal auditors regularly review the internal control environment at Group Treasury.

No material changes occurred during the period 2010-2011 in the nature of the exposure of the Group to financial risks nor in the Group's policies and processes for managing financial risk.

### Interest rate risk

The Group's exposure to changing market interest rates primarily relates to its long-term financial obligations. Group Treasury manages exposure of the Group to changes in interest rates and the overall cost of financing by using a mix of fixed and variable rate debts, in accordance with the Group's financial risk management policies. The aim of such policies is to achieve an optimal balance between total cost of funding, risk minimization and avoidance of volatility in financial results, whilst taking into account market conditions and opportunities as well as overall business strategy.

Accordingly, the company entered into several interest rate swaps (IRS) and interest rate and currency swaps (IRCS) to transform the interest rate exposure on certain financial liabilities from a fixed interest rate to a floating interest rate mechanism or vice versa.

These IRS and IRCS derivatives are economic hedges and do not qualify for hedge accounting.

The tables below summarize the non-current interest-bearing liabilities (excluding leasing and similar obligations), the interest rate and currency swap agreements (IRCS), the interest rate swap agreements (IRS) and the net currency obligations of the Group at 31 December 2010 and 2011.

As of 31 December 2010												
Direct borrowing				IRCS agreements			IRS agreements			Net currency obligations		
	Notional amount	Weighted average interest rate (1)	Average time to maturity	Amount payable (receivable)	Weighted average interest rate (1)	Average time to maturity	Amount payable (receivable)	Weighted average interest rate (1)	Average time to maturity	Amount payable (receivable)	Weighted average interest rate (1)	Average time to maturity
	(EUR million)		(in years)	(EUR million)		(in years)	(EUR million)		(in years)	(EUR million)		(in years)
EUR												
Fixed	1,858	4.43%	4				144	6.20%	5	2,002	4.55%	4
Variable				217	1.15%	9	-144	1.27%	5	73	0.93%	16
JPY												
Fixed	217	4.99%	9	-217	-4.99%	9				0		
<b>Total</b>	<b>2,076</b>	<b>4.48%</b>	<b>4</b>	<b>0</b>			<b>0</b>			<b>2,076</b>	<b>4.43%</b>	<b>4</b>

(1) Weighted average interest rate taking into account last repriced interest rates for floating borrowings.

As of 31 December 2011												
Direct borrowing				IRCS agreements			IRS agreements			Net currency obligations		
	Notional amount	Weighted average interest rate (1)	Average time to maturity	Amount payable (receivable)	Weighted average interest rate (1)	Average time to maturity	Amount payable (receivable)	Weighted average interest rate (1)	Average time to maturity	Amount payable (receivable)	Weighted average interest rate (1)	Average time to maturity
	(EUR million)		(in years)	(EUR million)		(in years)	(EUR million)		(in years)	(EUR million)		(in years)
EUR												
Fixed	1,579	4.41%	5				144	6.20%	4	1,723	4.56%	5
Variable				217	1.61%	8	-144	1.74%	4	73	1.37%	15
JPY												
Fixed	217	4.99%	8	-217	-4.99%	8				0		
Variable												
<b>Total</b>	<b>1,796</b>	<b>4.48%</b>	<b>5</b>	<b>0</b>			<b>0</b>			<b>1,796</b>	<b>4.43%</b>	<b>5</b>

(1) Weighted average interest rate taking into account last repriced interest rates for floating borrowings.

The Group expects immaterial impacts for 2012 on the income statement resulting from interest payable on floating rate borrowings on the one hand and from measurement at fair value in income statement of some IRS derivatives that do not qualify as hedging instruments on the other hand<sup>1</sup>.

### Foreign currency risk

The Group's main currency exposures result from its operating activities. Such exposure arises from sales or purchases by operating units in currencies other than their respective functional currency. Transactions in currencies other than the functional currency mainly occur in the International Carrier Services ("ICS") segment whose international carrier activities generate payments to and receipts from other telecommunications operators in various foreign currencies, as well as in some affiliates of the Telindus subgroup running USD denominated operating activities and finally also, in relationship with international activities (roaming, capital and operating expenditure) of the Group.

Risks from foreign currencies are hedged to the extent that they are liable to influence the Group's cash flows. Foreign currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of assets and liabilities

<sup>1</sup> The volatility on the financial income/(costs) depends on the fluctuations of the EURIBOR at three months (EURIBOR 3M) for the interest payable on the floating rate borrowings and of the IRS-EURIBOR at seven years (IRS-EURIBOR 7 years) for the measurement at fair value of the IRS derivatives.

of foreign operations into the Group's reporting currency) as a rule are not hedged. However, the Group could envisage hedging such so-called translation differences should their potential impact become material to the Group's consolidated financial statements.

The typical financial instruments used to hedge foreign currency risk are forward foreign exchange contracts.

In 2010 and 2011, the Group only incurred currency exposures relative to its operating activities. Any re-measurement to fair value of underlying open trade positions in foreign currencies is recorded via the income statement and reduced or offset by the accompanying re-measurement to fair value of derivatives used to hedge such underlying exposures.

The Group performed a sensitivity analysis on the exchange rates EUR/USD, EUR/SDR<sup>2</sup> EUR/GBP, and EUR/CHF, four currency pairs to which it is typically exposed in its operating activities, for the years 2010 and 2011. For 2010 and 2011, there was no material impact on the Group's income statement. For 2012, the Group does not expect any material impact of currency fluctuations on its overall financial performance either. This results on the one hand from the fact that overall the Group continues to have relatively limited (albeit increasing in light of the growing ICS activities) foreign currency exposures and on the other hand from timely and adequately hedging such exposures as they surface in the course of business.

#### **Credit risk and significant concentrations of credit risk**

Belgacom is exposed to credit risk from its operating activities and from its financing activities (financial investments done to manage cash of the Group). Credit risk encompasses all forms of counterparty exposure, i.e. where counterparties may default on their obligations to Belgacom in relation to lending, hedging, settlement and other financial activities.

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations in relation to each class of recognized financial assets, including derivatives with positive market value, is the carrying amount of those assets in the balance sheet.

To reduce the credit risk in respect of financing activities and cash management of the Group, transactions as a rule are only entered into with leading financial institutions whose credit rating equals at least A (S&P) and/or A2 (Moody's).

Credit risk on operating activities with significant clients is managed and controlled on an individualized basis. When needed, the Group requests additional collaterals. These significant customers are however not material to the Group, since the client portfolio of the Group is mainly composed of a large number of small customers. Hence, credit risk and concentration of credit risk on trade receivables is limited. For amounts receivable from other telecommunication companies, the concentration of credit risk is also limited due to netting agreements with accounts payable to these companies, prepayment obligations, bank guarantees, parent guarantees and the use of credit limits obtained via credit insurance.

The Group is exposed to credit loss in the event of non-performance by a counterparty on financial derivatives (see note 31.1) and a cross-border lease arrangement (see note 34). However, the Group does not anticipate non-performance by any of these counterparties, seeing it only deals with prime financial institutions. In one case, a collateral (margin call) of EUR 32 million was obtained from a bank to contain the counterparty risk within the Group policy limits.

In addition, the Group is exposed to credit risk by occasionally granting financial guarantees. At 31 December 2011, it had granted bank guarantees for an amount of EUR 34 million.

#### **Liquidity risk**

In accordance with the treasury policy, Group Treasury manages its overall cost of financing by using a mix of fixed and variable rate debts.

A liquidity reserve in the form of credit lines and cash is maintained to guarantee the solvency and financial flexibility of the Group at all times. For this purpose, Belgacom SA entered into bilateral credit agreements with different maturities and into two separate Syndicated Revolving Facilities. For medium to long-term funding, the Group uses bonds and medium term notes. The maturity profile of the debt portfolio is spread over several years. Group Treasury frequently assesses its funding resources taking into account its own credit rating and general market conditions.

The table below summarizes the maturity profile of the Group's interest bearing financial liabilities at each reporting date. This maturity profile is based on contractual undiscounted interests payments and capital reimbursements and takes into account the impact on cash flows of interest rate derivatives used to convert fixed interest rate liabilities into floating interest rate liabilities and vice versa. For floating rate liabilities, interest rates used to determine cash outflows are the ones prevailing at their last price fixing date before reporting date (as of 31 December 2010 and 2011, respectively).

(EUR million)	2011	2012	2013	2014	2015	2016-2029
<b>As of 31 December 2010</b>						
Non-current interest-bearing liabilities	59	62	189	52	197	1,083
Current interest-bearing liabilities	818	0	0	0	0	0
<b>Total</b>	<b>877</b>	<b>62</b>	<b>189</b>	<b>52</b>	<b>197</b>	<b>1,083</b>
<b>As of 31 December 2011</b>						
Non-current interest-bearing liabilities		78	209	72	216	1,645
Current interest-bearing liabilities		43	0	0	0	0
<b>Total</b>		<b>121</b>	<b>209</b>	<b>72</b>	<b>216</b>	<b>1,645</b>

#### **Bank credit facilities at 31 December 2011**

In addition to the interest-bearing liabilities disclosed in notes 16.1 and 16.2, the Group is backed by long term credit facilities of EUR 350 million and short term credit facilities of EUR 515 million. These facilities are provided by a diversified group of banks. As at 31 December 2011, there were no outstanding balances under any of these facilities. A total of some EUR 865 million of credit lines was therefore available<sup>3</sup> for drawdown as at 31 December 2011.

The Group has also established a EUR 2.5 billion Euro Medium Term Note ("EMTN") Program and a EUR 1 billion Commercial Paper ("CP") Program. As at 31 December 2011, there was an outstanding balance under the EMTN Program of EUR 1,575 million and no outstanding balance under the CP Program.

<sup>2</sup> SDR: Special Drawing Rights: basket of currencies, transactional money used in netting agreements between telecom operators

<sup>3</sup> Some credit facilities are conditional to the compliance with certain debt ratios at group level.

### Note 31.3 Net financial position of the Group and capital management

The Group defines the net financial position as the net amount of investments, cash and cash equivalents minus any interest-bearing liabilities and related derivatives (including re-measurement to fair value).

(EUR million)	Note	As of 31 December	
		2010	2011
<b>Assets</b>			
Non-current investments (1)	10	5	5
Current investments (1)	13	43	36
Cash and cash equivalents (1)	14	584	320
Non-current derivatives	10	106	132
<b>Liabilities</b>			
Non-current interest-bearing liabilities (1)	16	-1,406	-1,931
Current interest-bearing liabilities (1)	16	-783	-41
<b>Net financial position</b>		<b>-1,451</b>	<b>-1,479</b>

(1) after remeasurement to fair value, if applicable.

Non-current interest-bearing liabilities include non-current derivatives at fair value amounting to EUR 89 million in 2010 and EUR 127 million in 2011 (see note 16.1).

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 updated by the Belgacom Board of Directors of 25 February 2010 and Belgacom now commits to return, in principle, most of its annual cash flow before financing activities (or "Free Cash Flow"), to its shareholders. The return of free cash flow either through dividends or share buybacks will be 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 years presented, the Group did not issue new shares or any other dilutive instruments.

### Note 31.4 Categories of financial instruments

The Group has interest rate and currency swaps (IRCS) to manage the exposure to interest rate risk and to foreign currency risk on its non-current interest bearing liabilities (see note 31.2).

The following tables present the Group's financial instruments per category defined under IAS 39, as well as gains and losses resulting from re-measurement to fair value. Based on market conditions at 31 December 2011, the fair value of the unsubordinated debentures, which are accounted for at amortized cost, exceeds the carrying amount by EUR 116 million. The Group does not intend to reimburse these loans before their maturity.

As of 31 December 2010 (EUR million)	Note	Category according to IAS 39 (1)	Carrying amount	Amounts recognized in balance sheet according to IAS 39			
				Amortized cost	Acquisition cost net of impairment losses, if any	Fair value adjustment recognized in equity	Fair value adjustment recognized in income statement
<b>ASSETS</b>							
<b>Non-current assets</b>							
Other participating interests	7	AFS	26		26	0	
Other non-current assets							
Other derivatives	31.1	FAHFT	106				106
Non-current investments	10	AHTM	5	5			
Other financial assets	10	LaR	11	11			
<b>Current assets</b>							
Trade receivables	11	LaR	1,246	1,246			
Other current assets							
VAT and other receivables	12	LaR	21	21			
Prepaid expenses	12	LaR	100	100			
Accrued income	12	LaR	19	19			
Other derivatives	31.1	FAHFT	1				1
Investments	13	AFS	43		43	0	
Cash and cash equivalents							
Fixed income securities	14	HTM	332	332			
Short-term deposits	14	LaR	252	252			
<b>LIABILITIES</b>							
<b>Non-current liabilities</b>							
Interest-bearing liabilities							
Unsubordinated debentures not in a hedge relationship	16	FLAC	1,306	1,306			
Leasing and similar obligations	16	FLAC	3	3			
Credit institutions	16	FLAC	8	8			
Other loans	16	FLAC	0	0			
Other derivatives	31.1	FLHFT	89				89
Other non-current payables	18	FLAC	3	3			
<b>Current liabilities</b>							
Interest-bearing liabilities, current portion							
Unsubordinated debentures not in a hedge relationship	16	FLAC	773	773			
Leasing and similar obligations	16	FLAC	3	3			
Credit institutions	16	FLAC	4	4			
Interest-bearing liabilities							
Other loans	16	FLAC	3	3			
Trade payables		FLAC	1,304	1,304			
Other current payables							
Accrued expenses	19	FLAC	24	24			
V.A.T. and other amounts payable	19	FLAC	314	314			

(1) The categories according to IAS 39 are the following :

AFS: Available-for-sale financial assets  
AHTM: Financial assets held-to-maturity  
FAHFT: Financial assets held-for-trading  
LaR: Loans and Receivables financial assets  
FLAC: Financial liabilities at amortized costs  
FLHFT: Financial liabilities held-for-trading

As of 31 December 2011 (EUR million)	Note	Category according to IAS 39 (1)	Carrying amount	Amounts recognized in balance sheet according to IAS 39			
				Amortized cost	Acquisition cost net of impairment losses, if any	Fair value adjustment recognized in equity	Fair value adjustment recognized in income statement
<b>ASSETS</b>							
<b>Non-current assets</b>							
Other participating interests	7	AFS	31		31	0	
Other non-current assets							
Other derivatives	31.1	FAHFT	132				132
Non-current investments	10	AHTM	5	5			
Other financial assets	10	LaR	43	43			
<b>Current assets</b>							
Trade receivables	11	LaR	1,328	1,328			
Other current assets							
VAT and other receivables	12	LaR	29	29			
Prepaid expenses	12	LaR	108	108			
Accrued income	12	LaR	12	12			
Other derivatives	31.1	FAHFT	3				3
Investments	13	AFS	36		35	1	
Cash and cash equivalents	14	LaR	320	320			
Fixed income securities	14	HTM	147	147			
Short-term deposits	14	LaR	173	173			
<b>LIABILITIES</b>							
<b>Non-current liabilities</b>							
Interest-bearing liabilities							
Unsubordinated debentures not in a hedge relationship	16	FLAC	1,798	1,798			
Leasing and similar obligations	16	FLAC	2	2			
Credit institutions	16	FLAC	4	4			
Other derivatives	31.1	FLHFT	127				127
Non interest-bearing liabilities							
Other non-current payables	18	FLAC	2	2			
<b>Current liabilities</b>							
Interest-bearing liabilities, current portion							
Leasing and similar obligations	16	FLAC	2	2			
Credit institutions	16	FLAC	4	4			
Interest-bearing liabilities							
Other loans	16	FLAC	35	35			
Trade payables		FLAC	1,393	1,393			
Other current payables							
Accrued expenses	19	FLAC	36	36			
V.A.T. and other amounts payable	19	FLAC	341	341			

(1) The categories according to IAS 39 are the following :

AFS: Available-for-sale financial assets  
AHTM: Financial assets held-to-maturity  
FAHFT: Financial assets held-for-trading  
LaR: Loans and Receivables financial assets  
FLAC: Financial liabilities at amortized costs  
FLHFT: Financial liabilities held-for-trading

### Note 31.5 Assets and liabilities measured at fair value

The Group held as at 31 December 2011 financial instruments measured at fair value.

Those instruments are disclosed in the table below according to the valuation technique used. The hierarchy between the techniques reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable for the asset or liability, either directly or indirectly;

Level 3: valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data.

(EUR million)	Note	Category according to IAS 39 (1)	Balance at 31 December 2010	Fair values measurement at end of the		
				Level 1	Level 2	Level 3
<b>ASSETS</b>						
<b>Non-current assets</b>						
Other participating interests	7	AFS	26			26
Other non-current assets						
Other derivatives	31.1	FAHFT	106		106	
<b>Current assets</b>						
Other current assets						
Other derivatives	31.1	FAHFT	1		1	
Investments	13	AFS	43	43		
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Interest-bearing liabilities						
Other derivatives	31.1	FLHFT	89		89	

(1) The categories according to IAS 39 are the following :

AFS: Available-for-sale financial assets

AHTM: Financial assets held-to-maturity

FAHFT: Financial assets held-for-trading

LaR: Loans and Receivables financial assets

FLAC: Financial liabilities at amortized costs

FLHFT: Financial liabilities held-for-trading

(EUR million)	Note	Category according to IAS 39 (1)	Balance at 31 December 2011	Fair values measurement at end of the		
				Level 1	Level 2	Level 3
<b>ASSETS</b>						
<b>Non-current assets</b>						
Other participating interests	7	AFS	31			31
Other non-current assets						
Other derivatives	31.1	FAHFT	132		132	
<b>Current assets</b>						
Other current assets						
Other derivatives	31.1	FAHFT	3		3	
Investments	13	AFS	36	36		
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Interest-bearing liabilities						
Other derivatives	31.1	FLHFT	127		127	

(1) The categories according to IAS 39 are the following :

AFS: Available-for-sale financial assets

AHTM: Financial assets held-to-maturity

FAHFT: Financial assets held-for-trading

LaR: Loans and Receivables financial assets

FLAC: Financial liabilities at amortized costs

FLHFT: Financial liabilities held-for-trading

The evolution of the fair value of the instruments classified in Level 3 compared to the situation prevailing at 31 December 2010 originates from the acquisition of minority interests in Dacentec NV and Awingu NV for an aggregate amount of EUR 5 million. The reported amount of EUR 31 million consists, for an amount of EUR 30 million, of minority interests in companies still being in a start-up phase. These minority interests are valorized at fair value according to the Group accounting policy.

## Note 32. Related party disclosures

### Note 32.1. Consolidated companies

Subsidiaries, joint-ventures and associates are listed in note 6.

Commercial terms and market prices apply for the supply of goods and services between Group companies.

#### Associates

##### Tunz.com SA

In 2009, the Group acquired 40% of Tunz.com SA but the Group had no significant transactions with this minority participation in 2010 and 2011.

##### ClearMedia SA

In 2010, the Group acquired 40% of ClearMedia SA but the Group had no significant transactions with this minority participation in 2010 and 2011.

### Note 32.2. Relationship with shareholders

The Belgian State is the majority shareholder of the Group, with a stake of 53.5%. The Group holds treasury shares for 6.0%. The remaining 40.5% are traded on the First Market of Euronext Brussels.

#### Relationship with the Belgian State

The Group supplies telecommunication services to the Belgian State and various administrations of the Belgian State. All such transactions are made within normal customer/supplier relationships on terms and conditions that are not more favorable than those available to other customers and suppliers. The services provided to those administrations do not represent a significant component of the Group's net revenue.

### Note 32.3. Relationship with other State-controlled enterprises

The Group supplies telecommunication services to various State-controlled enterprises. All such transactions are made within normal customer/supplier relationships on terms and conditions that are not more favorable than those available to other customers and suppliers. The services provided to State-controlled enterprises do not represent a significant component of the Group's net revenue.

### Note 32.4. Relationship with key management personnel

Compensation of the directors is as follows: an annual fixed compensation of 50,000 EUR for the Chairman of the Board of Directors and of 25,000 EUR for the other members of the Board of Directors, with the exception of the President and Chief Executive Officer. All members of the Board of Directors, with the exception of the President and Chief Executive Officer, have the right to an attendance fee of 5,000 EUR per attended meeting of the Board of Directors. Attendance fees of 2,500 EUR per meeting are granted to each member of an advising committee to the Board of Directors, with the exception of the President and Chief Executive Officer. For the Chairman these attendance fees are doubled. The total remuneration for the directors amounts to EUR 914,375 for 2010 and EUR 1,065,000 for 2011. The directors have not received any loan or advance from the Group.

The number of meetings of the Board of Directors and advising committees are detailed as follows:

	2010	2011
Board of Directors	5	7
Audit and Compliance Committee	5	7
Nomination and Remuneration Committee	8	6
Ad hoc Committee	0	0
Strategic and Business Development Committee	2	2

In its meeting of February 24, 2011, the Board adopted a "related party transactions policy" which governs all transactions or other contractual relationships between the parent company and its board members. Belgacom has contractual relationships and is also a vendor for telephony, Internet and/or ICT services for many of the companies in which Board members have an executive or non-executive mandate. These transactions take place in the ordinary course of business and at arm's length. Belgacom is also a Partner of Guberna, the Belgian Institute for Directors (affiliated with Lutgart Van den Berghe who is Executive Director of Guberna), for which it has paid a fee of EUR 30,250 in 2011.

For the year ended 31 December 2010, a total amount of EUR 11,264,598 (social security costs and share-based payments included) was paid in aggregate to the members of the "Belgacom Management Committee" (BMC), Chief Executive Officer included. In 2010, the members of the Belgacom Management Committee were A. De Lathauwer, D. Bellens, R. Stewart, S. Alcott, M. Georgis, M. De Coster (8 months) and G. Dallemagne.

For the year ended 31 December 2011, a total amount of EUR 12,717,629 (social security costs and share-based payments included) was paid in aggregate to the members of the "Belgacom Management Committee" (BMC), Chief Executive Officer included. In 2011, the members of the Belgacom Management Committee were D. Bellens, S. Alcott, B. Chauvat (4 months); G. Dallemagne (3 months), A. De Lathauwer (9 months), M. Georgis, R. Stewart, and B. Van Den Meersche

These total amounts of key management compensation include the following components:

- Short-term employee benefits : annual salary (base and variable) as well as other short-term employee benefits such as medical insurance, private use of management cars, luncheon vouchers, and including social security contributions paid on these benefits;
- Post-employment benefits: insurance premiums paid by the Group in the name of members of the BMC. The premiums cover mainly a post-retirement complementary pension plan;
- Share-based payments: cost of the discount of 16.67% compared to the market price in Discounted Share Purchase Plan and the fair value of stock options (that is expensed over the vesting period in accordance with the graded vesting method); and
- Termination benefits: paid or accrued

EUR	Year ended 31 December	
	2010	2011
Short-term employee benefits	5,876,229	6,493,127
Post-employment benefits	1,958,144	1,059,795
Termination benefits	984,886	2,699,193
Share-based payments	2,445,339	2,465,514
<b>Total</b>	<b>11,264,598</b>	<b>12,717,629</b>

No other long-term benefits were granted to the BMC members in 2010 nor in 2011.

### Note 32.5. Regulations

The telecommunications sector is regulated through the legislation adopted in the Belgian parliament, through a series of Royal and Ministerial Decrees, and also through decisions of the Belgian Institute for Postal services and Telecommunications, commonly referred to as the "BIPT/IBPT". The Belgian licensing regime provides for individual licenses for the provision of public fixed voice telephony services, public network infrastructure services and mobile telecommunications services.

The company is also governed by certain provisions and principles of Belgian public and administrative law whereby Belgacom has obligations such as the delivery of regulated services and public services.

## Note 33. Rights, commitments and contingent liabilities

### Operating lease commitments

The Group rents sites for its telecom infrastructure and leases buildings, technical and network equipment, as well as furniture and vehicles under operating leases with terms of one year or more. Rental expenses in respect of these operating leases amounted EUR 125 million in 2010 and EUR 123 million in 2011.

Future minimum rentals payable under the non-cancellable operating leases are as follows at 31 December 2011:

(EUR million)	Within one year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Buildings	21	29	12	5	66
Sites	21	40	38	69	167
Technical and network equipment	16	4	1	1	22
Furniture	0	0	0	0	0
Vehicles	30	35	6	0	72
Other material	1	1	0	0	2
<b>Total</b>	<b>88</b>	<b>109</b>	<b>57</b>	<b>75</b>	<b>330</b>

### Claims and legal proceedings

From time to time, the Group has been, and expects to continue to be, subject to legal, regulatory and tax proceedings and claims arising in the ordinary course of its business. The Group is currently involved in various judicial and regulatory proceedings, including those for which a provision has been made (see note 17) and those described below for which no or limited provisions have been accrued, in the jurisdictions in which it operates concerning matters arising in connection with the conduct of its business. These include also proceedings before the Belgian Institute for Postal services and Telecommunications ("BIPT"), appeals against decisions taken by the BIPT, and proceedings with the Belgian tax administrations with respect to real estate withholding taxes and corporate income taxes.

1. After the launch on 1 June 2005 of the Happy Time tariff scheme by Belgacom, Tele2 filed a complaint with the Belgian Competition Authority i) alleging that said tariffs constitute an abuse of dominant position (27 June 2005) and ii) requesting interim measures, i.e. suspension of the Happy Time offer, pending the procedure (5 July 2005).

On 1 September 2006, Tele2's request for interim measures was initially rejected by the President of the Competition Council. Following an appeal by Tele2, the Court of Appeal, on 18 December 2007, nullified the aforementioned decision, arguing a.o. a lack of reasoning.

However, Tele2 did not ask the President to adopt a new decision on its request for interim measures but initiated on 18 April 2008 a damage claim before the commercial court based on an alleged abuse of dominance (the Happy Time plan) (claim for EUR 1 provisional and request for appointment of an expert to compute the precise damage). This case on the merits is still pending before the Court and the timing for a decision on the merits is unknown.

In the case on the merits with the Competition Authority, the Prosecutor issued on 29 September 2009 his reasoned report proposing to the Competition Council that Belgacom abused and still abuses its dominant position, retaining the allegation of price squeeze. The hearings before the Competition Council have taken place. The further timing for a decision on the merits is currently unknown.

Following the report of the Prosecutor, management reassessed the contingent liabilities of the Group, taking into account the current legal status of both litigation files. Belgacom will continue to monitor any further development in both cases and in the meantime vigorously continues to defend its interests.

It is to be noted that given different reorganizations within the KPN Group the claimant in the aforementioned case is now KPN Belgium.

2. Between 12 and 14 October 2010, the Belgian Directorate General of Competition started a dawn raid in Belgacom's offices in Brussels. This investigation concerns allegations by Mobistar and KPN regarding the wholesale DSL services of which Belgacom would have engaged in obstruction practices. This measure is without prejudice to the final outcome of the full investigation which has started. Following the inspection, the Directorate General of Competition is to examine all the relevant elements of the case. Eventually the College of Competition Prosecutors may propose a decision to be adopted by the Competition Council. During this procedure, Belgacom will be in a position to make its views heard. (This procedure may last several years.)
3. In June 2003, KPN Group Belgium (former BASE) filed a damage action against Belgacom (former Belgacom Mobile) before the Commercial Court of Brussels alleging that:

- Since 1 October 2000 Belgacom's, mobile termination rates are not in accordance with the official telecommunications regulations requiring cost oriented pricing;
- Belgacom's Proximus-to-Proximus tariffs, also referred to as on-net tariffs, as of 1999 constitute an abuse of Belgacom's alleged dominant position in the Belgian market.

In respect of both allegations, KPN Group Belgium's provisional estimate of its claims for compensation varied in the course of the procedure based upon different methodologies presented to the Court. Based upon the last documents in the file (prior to the 2007 interim ruling, detailed below), said claims amounted to approximately EUR 1 billion.

In March 2004, Mobistar filed a request to intervene voluntarily in the action brought by KPN Group Belgium against Belgacom, alleging the same in respect of Belgacom's on-net tariffs, although Mobistar's allegation targets primarily tariff schemes offered by Belgacom to business and corporate customers. Besides a claim for compensation, Mobistar requested the court to appoint a court expert to calculate the amount of the alleged damages.

On 29 May 2007 following an extensive exchange of factual and legal arguments, the Commercial Court of Brussels ruled the following:

- In respect of the first allegation, Belgacom did not infringe the obligation requiring cost oriented pricing for its termination rates; the damages claim in this respect was consequently dismissed; and
- In respect of the second allegation, the alleged abuse of dominant position as to the Proximus-to-Proximus tariffs:
  - The Court did not find any proof for the existence of a dominant position during 2005; for the former years (1999 – 2004) the Court considered Belgacom as being in a dominant position;
  - The Court rejected two types of alleged abuses; and
  - In respect of two possible other types of abuses, the Court requested a panel of experts, composed of Mr. Robert Wtterwulghé and Mr. Cyril Nourissant to further examine the case with the following mission:

Network effects:

- Determine whether the Proximus pricing plans, which contain an off-net/on-net differential and as such are criticised by KPN Group Belgium and Mobistar, have anti-competitive effects related to a network effect; and
- If possible, determine the damage caused.

Price squeeze:

- Determine whether there was an anti-competitive price squeeze in respect of the aforementioned tariff plans; and
- If possible, determine the damage caused.

On 2 October 2009, the panel of experts filed their preliminary report and concluded:

- To the existence of the alleged competition law infringements;
- That it could be considered that the alleged impact of the Proximus on-net tariffs during the years 1999-2004 amounted to EUR 1,18 billion.

According to Belgacom, this first preliminary report does not provide a demonstration of the alleged infringements of the competition rules nor the existence of any damages.

Belgacom observed that an unprecedented and prospective method was put forward by this panel of experts, and assessed the use and implementation of this method as inappropriate. The panel considered that due to the alleged competition law infringements KPN Group Belgium and Mobistar underperformed as compared to the results and market shares that they would have achieved in an efficient market, to which reasoning and conclusions Belgacom strongly disagrees. Furthermore, the panel referred for its benchmark of an efficient market to the UK during the period 1999-2004, which is according to Belgacom in this case highly disputable. Finally, review of the report raised a series of questions with respect to data used and mathematical accuracy of calculations at all levels of the assessment of the case. Taking these observations into account, Belgacom can only be of the opinion that the conclusions of this first preliminary report cannot be considered as a reliable outcome of the mission entrusted to the panel of experts.

On 10 December 2010, the panel of experts filed a second preliminary report, which a.o. takes into account the exchange of additional information that had been requested by the experts. Still pursuing the principles reflected in the first preliminary report, and thus, in particular, based on the same unprecedented and prospective method, this second report states that it could be considered that the alleged impact on Mobistar and KPN Group Belgium amounts to EUR 1,84 billion.

According to Belgacom, this second report, which remains preliminary of nature, does neither provide any demonstration of the alleged infringements of the competition rules. Following a thorough analysis, Belgacom noted that in the second preliminary report the vast majority of the observations and criticisms that it expressed on the first preliminary report remain unanswered and that moreover Belgacom's own expert reports related to the different elements to be assessed by the panel of experts, being the questions of network effect of the on-net tariffs, of the existence of price squeeze, of their respective anti-competitive effects and of the respective damages that these practices would allegedly have caused, were largely disregarded. Moreover this second report introduces certain new elements that Belgacom finds to be highly contestable (in particular, those new elements leading to an increase of the alleged amount of damages as compared to the first preliminary report, a.o. the introduction of a constant profitability benchmark for the whole period based on the UK market for the period 1999-2004, during which the UK operators were in a different phase of development as compared to those on the Belgian market).

For this and a number of other reasons, Belgacom decided to introduce a motion with the court in respect of the expert panel, requesting their recusal/replacement. Following the dismissal by the Commercial Court on 17 March 2011 of Belgacom's motion, an appeal procedure was initiated. In a preliminary ruling of 1 June 2011, the Court of Appeal decided to suspend the expertise awaiting the ruling of the Court of Appeal on the motion whereby Belgacom requests to recuse/replace said panel of experts. The pleadings on this request took place on 6, 7 and 8 February 2012.

In the meantime, on 2 January 2012, Belgacom lodged an appeal against the initial decision of 29 May 2007 of the Commercial Court. The introductory hearing took place and these appeal proceedings are to cover all relevant aspects of the case.

In any event and as foreseen in the proceedings, Belgacom will continue to submit at the required stages of the proceedings, its detailed observations and criticisms that will cover all aspects of the pending matter.

It is to be understood that it will always be upon the court (i) to decide whether anti-competitive practices have been committed that infringe the competition rules, (ii) to determine whether Belgacom is liable for such practices and (iii) to decide upon the amount of the possible damages to be paid, after having assessed the advice of the Expert panel and the parties' defense arguments.

Indeed, this matter does not only involve a debate on the possible damages that would have been caused, but first the existence of the alleged anti-competitive practices is to be demonstrated. If a final report should still be required, Belgacom considers that the experts will need to take the observations and criticisms of Belgacom into account.

Belgacom continues to contest the claims of both KPN Group Belgium and Mobistar and hence also the content of the second preliminary report of the panel of experts in respect of the existence of the infringements itself as well as in respect of the calculation of the damages. Belgacom also contests the claims of both KPN Group Belgium and Mobistar in the appeal proceedings that Belgacom has started.

Following the second preliminary report of the expert panel, management reassessed the contingent liabilities of the Group, taking into account the current legal status of this litigation file. Belgacom will continue to monitor any further development and in the meantime vigorously continues to defend its interests.

In October 2009, seven parties (Telenet, KPN Group Belgium (former Base), KPN Belgium Business (Tele 2 Belgium), KPN BV (Sympac), BT, Verizon) filed an action against Belgacom Mobile (currently Belgacom and hereinafter indicated as Belgacom) before the Commercial Court of Brussels formulating allegations that are similar to those in the case mentioned above (including Proximus-to-Proximus tariffs constitute an abuse of Belgacom's alleged dominant position in the Belgian market), but for different periods depending on the claimant, in particular, in the 1999 up to now timeframe (claim for EUR 1 provisional and request for appointment of an expert to compute the precise damage). In November 2009 Mobistar filed another similar claim for the period 2004 and beyond. This case has been postponed for an undefined period.

4. In the proceedings following a complaint by KPN Group Belgium in 2005 with the Belgian Competition Authority the latter confirmed on 26 May 2009 one of the five charges of abuse of dominant position put forward by the Prosecutor on 22 April 2008, i.e. engaging in 2004-2005 in a "price-squeeze" on the professional market. The Belgian Competition Authority considered that the rates for calls between Proximus customers ("on-net rates") were lower than the rates it charged competitors for routing a call from their own networks to that of Proximus (=termination rates), increased with a number of other costs deemed relevant. All other charges of the Prosecutor were rejected. The Competition Authority also imposed a fine of EUR 66.3 million on Belgacom (former Belgacom Mobile) for abuse of a dominant position during the years 2004 and 2005. Belgacom was obliged to pay the fine prior to 30 June 2009 and recognized this charge (net of existing provisions) as a non-recurring expense in the income statement of the second quarter 2009. Belgacom filed an appeal against the ruling of the Competition Authority with the Court of Appeal of Brussels, contesting a large number of elements of the ruling: a.o. the fact that the market impact was not examined. Also KPN Group Belgium and Mobistar filed an appeal against said ruling.
5. The Belgian tax authorities notified a foreign subsidiary of the Group in 2007 to be considered as a tax resident of Belgium rather than of Luxembourg and therefore to be subject to Belgian corporate income tax for the year 2004. In 2008, the Belgian tax authorities maintained their 2004 assessment and assessed the Belgian corporate income tax for the subsequent years 2005 and 2006. Belgacom has strong arguments to ward off the cumulative proposed tax assessment of EUR 69 million excluding interests (years 2004, 2005 and 2006 together) and has started legal proceedings before Court.
6. Since 2003, Belgacom considers the enrolments of real estate tax on telecom equipment as undue and therefore recognizes an asset against the tax authorities in the 'current tax assets' caption for an amount of EUR 116 million at 31 December 2011 (with a related liability of EUR 25 million) and EUR 170 million at 31 December 2010 (with a related liability of EUR 24 million).

### **Capital expenditure commitments**

At 31 December 2011, the Group has contracted commitments of EUR 70 million, mainly for the acquisition of intangible assets and technical and network equipment.

### **Other rights and commitments**

At 31 December 2011, the Group has the following other rights and commitments:

The Group received guarantees for EUR 7 million from its customers to guarantee the payment of its trade receivables and guarantees for EUR 8 million from its suppliers to ensure the completion of contracts or works ordered by the Group;

The Group granted guarantees for an amount of EUR 38 million (including the bank guarantees mentioned in note 31.2) to its customers and other third parties to guarantee, among others, the completion of contracts and works ordered by its clients and the payment of rental expenses related to buildings and sites for antennas installation;

Belgacom has a right, established by Belgian legislation with respect to Universal Services, to receive compensation from the Universal Services Obligation fund for offering Social Tariffs as from 1 of July 2005. This right is contested by some operators, and the European Commission attacked Belgium before the European Court. In October 2010, the European Court found the Belgian legislation non-compliant, requiring new legislative initiatives from the Belgian State. For these reasons, the Group qualifies the compensation receivable as a contingent asset.

### **Note 34. Cross-border lease arrangements**

During the period 1996 through 2001, the Group entered into several cross-border lease arrangements with foreign investors relating to part of its fixed and mobile switch equipment. Only the arrangement of Ben Nederland Group remained open at 31 December 2011. On 25 September 2002, the Group sold its investment in Ben Nederland Group but agreed it would continue to guarantee the payment of leasing debts, amounting to USD 25 million (EUR 20 million) at 31 December 2011, in case the payment undertakers on the related cross-border lease arrangement would become insolvent. The risk that this guarantee would result in a payment by the Group was mitigated by the fact that the deposit institutions involved are rated AA+ or A+ by Standard & Poor's. The early buyout option for the transaction has been exercised in January 2012, consequently terminating the last transaction the Group remained a party in. This early buyout had no impact on the Group's financial statements.

## Note 35. Share-based Payment

### Discounted Share Purchase Plans

In 2010 and 2011, the Group launched Discounted Share Purchase Plans.

Under the 2010 and 2011 plans, Belgacom sold respectively 294,304 shares and 277,474 to the senior management of the Group at a discount of 16.67% compared to the market price (discounted price of respectively EUR 22.04 and EUR 20.85 per share). The cost of the discount amounted to EUR 0.9 million in 2010 and EUR 1,2 million in 2011 and was recorded in the income statement as personnel expenses (see note 24).

### Employee Stock Option Plans

In 2010 and 2011, Belgacom launched once a year a tranche of Long Term Incentive Plan (Employee Stock Option Plan) whereby respectively 1,023,210 and 1,036,061 share options were granted to the key management and senior management of the Group. The Plan rules have been adapted early 2011 according to the Belgian legislation. Therefore as from 2011, the Group launched two different series: one for the Belgacom Management Committee" (BMC), Chief Executive Officer included (382,232 share options in the 2011 tranche) and one for the other key management and senior management (653,829 share options in the 2011 tranche).

As prescribed by IFRS 2 ("Share-based Payments"), the Group recognizes the fair value of the equity portion of the share options at inception date over their vesting period in accordance with the graded vesting method and periodic re-measurement of the liability component. Such fair value amounts to EUR 3 million for the 2010 tranche and for the 2011 tranche. The annual charge of the graded vesting including the liability component re-measurement is recognized as personnel expenses and amounts to EUR 10 million in 2010 and EUR 9 million in 2011.

At the moment of exercise, the employee will pay the exercise price of 26.445 EUR per share for the 2010 tranche and 25.015 EUR for the 2011 tranche, with physical delivery of the share. The share options are exercisable until 02 May 2017 for the 2010 tranche and 08 May 2018 for the 2011 tranche at the latest.

The tranches granted in 2004, 2005, 2006, 2007, 2008 and 2009 are still open. All the tranches except the 2004 tranche provide the beneficiaries with a right to the dividends declared after granting the options. The dividend liability amounted to EUR 11 million on 31 December 2010 and EUR 16 million on 31 December 2011 and is included under the caption "Other current payables".

In 2009, the Group gave the opportunity to its option holders to voluntarily extend the exercise period of all the tranches (except the 2009 tranche) with 5 years, within the guidelines as established by the law.

For all the tranches except the 2004 tranche and the 2011 tranche for the BMC (as described below),

- in case of voluntary leave of the employee, all unvested options forfeit except during the first year, for which the first third of the options vests immediately and must be exercised prior to the second anniversary following the termination date of the contract, as for all vested options
- In case of involuntary leave of the employee, except for serious cause, all unvested options vest immediately and must be exercised prior to the second anniversary following the termination date of the contract or prior to the expiration date of the options whichever comes first, as for all vested options

For the 2011 tranche for the BMC:

- in case of voluntary leave of the BMC member during a period of three year following the grant 50% of the options immediately forfeit. If the voluntary leave takes place after that date, the options continue to vest according to the plan rules and regular vesting calendar. The exercise may only take place at the earliest on the first business day following the 3<sup>rd</sup> anniversary of the offer date. The exercise should take place prior to the 5th anniversary following the termination of the contract or prior to the expiration date of the options, whichever comes first, otherwise the options become forfeited.
- in case of involuntary leave of the BMC member, except for serious cause, the options will continue to vest according to the plan rules and regular vesting calendar. The exercise may only take place at the earliest on the first business day following the 3<sup>rd</sup> anniversary of the offer date. The exercise should take place prior to the 5th anniversary following the termination of the contract or the expiration date of the options, whichever comes first, otherwise the options become forfeited.

The evolution of the stock option plans is as follows:

	Number of stock options							
	Plan 2004	Plan 2005	Plan 2006	Plan 2007	Plan 2008	Plan 2009	Plan 2010	Plan 2011
<b>Outstanding at 1 January 2004</b>	<b>0</b>							
Movements during the year 2004								
Granted	1,128,500							
Forfeited	0							
Exercised	0							
Expired	0							
<b>Outstanding at 31 December 2004</b>	<b>1,128,500</b>							
<b>Exercisable at 31 December 2004</b>	<b>0</b>							
Movements during the year 2005								
Granted		538,541						
Forfeited	-21,114	-						
Exercised	-169,435	-						
Expired	-	-						
Total	-190,549	538,541						
<b>Outstanding at 31 December 2005</b>	<b>937,951</b>	<b>538,541</b>						
<b>Exercisable at 31 December 2005</b>	<b>210,255</b>	<b>0</b>						
Movements during the year 2006								
Granted			608,928					
Forfeited	-5,583	-1,600	-					
Exercised	-196,188	-5,562	-9,265					
Expired	-	-	-					
Total	-201,771	-7,162	599,663					
<b>Outstanding at 31 December 2006</b>	<b>736,180</b>	<b>531,379</b>	<b>599,663</b>					
<b>Exercisable at 31 December 2006</b>	<b>386,879</b>	<b>177,562</b>	<b>31,722</b>					
Movements during the year 2007								
Granted				475,516				
Forfeited	-5,255	-5,491	-5,341	-1,236				
Exercised	-140,292	-29,373	-81,096	-				
Expired	-	-	-	-				
Total	-145,547	-34,864	-86,437	474,280				
<b>Outstanding at 31 December 2007</b>	<b>590,633</b>	<b>496,515</b>	<b>513,226</b>	<b>474,280</b>				
<b>Exercisable at 31 December 2007</b>	<b>590,633</b>	<b>341,739</b>	<b>211,182</b>	<b>30,742</b>				
Movements during the year 2008								
Granted					796,197			
Forfeited	-2,310	-3,800	-4,096	-5,070	-			
Exercised	-269,776	-1,786	-9,358	-	-			
Expired	-	-	-	-	-			
Total	-272,086	-5,586	-13,454	-5,070	796,197			
<b>Outstanding at 31 December 2008</b>	<b>318,547</b>	<b>490,929</b>	<b>499,772</b>	<b>469,210</b>	<b>796,197</b>			
<b>Exercisable at 31 December 2008</b>	<b>318,547</b>	<b>490,929</b>	<b>354,825</b>	<b>183,044</b>	<b>21,584</b>			
Movements during the year 2009								
Granted						1,008,021		
Forfeited	-6,750	-18,735	-180	-617	-	-		
Exercised	-15,911	-31,496	-11,777	-	-	-		
Expired	-	-	-	-	-	-		
Total	-22,661	-50,231	-11,957	-617	-	1,008,021		
<b>Outstanding at 31 December 2009</b>	<b>295,886</b>	<b>440,698</b>	<b>487,815</b>	<b>468,593</b>	<b>796,197</b>	<b>1,008,021</b>		
<b>Exercisable at 31 December 2009</b>	<b>295,886</b>	<b>440,698</b>	<b>487,815</b>	<b>334,171</b>	<b>297,619</b>	<b>3,621</b>		
Movements during the year 2010								
Granted							1,023,210	
Forfeited	-2,406	1,500	-16,580	156	-308	-	-	
Exercised	-260,726	-37,960	-206,602	-7,237	-4,096	-57,033	-	
Expired	-	-	-	-	-	-	-	
Total	-263,132	-36,460	-223,182	-7,081	-4,404	-57,033	1,023,210	
<b>Outstanding at 31 December 2010</b>	<b>32,754</b>	<b>404,238</b>	<b>264,633</b>	<b>461,512</b>	<b>791,793</b>	<b>950,988</b>	<b>1,023,210</b>	
<b>Exercisable at 31 December 2010</b>	<b>32,754</b>	<b>404,238</b>	<b>264,633</b>	<b>461,512</b>	<b>579,250</b>	<b>341,745</b>	<b>40,435</b>	
Movements during the year 2011								
Granted								1,036,061
Forfeited	-2,305	-3,200	-6,464	-73,856	-1,109	-2,977	-5,514	-3,132
Exercised	-2,331	-103,449	-47,632	0	-1,849	-34,420	0	0
Expired	-	-	-	-	-	-	-	-
Total	-4,636	-106,649	-54,096	-73,856	-2,958	-37,397	-5,514	1,032,929
<b>Outstanding at 31 December 2011</b>	<b>28,118</b>	<b>297,589</b>	<b>210,537</b>	<b>387,656</b>	<b>788,835</b>	<b>913,591</b>	<b>1,017,696</b>	<b>1,032,929</b>
<b>Exercisable at 31 December 2011</b>	<b>28,118</b>	<b>297,589</b>	<b>210,537</b>	<b>387,656</b>	<b>788,835</b>	<b>642,363</b>	<b>437,768</b>	<b>20,361</b>

The following assumptions were applied for determining the weighted average fair value of the stock options at grant date:

	Plan 2004	Plan 2005	Plan 2006	Plan 2007	Plan 2008	Plan 2009	Plan 2010	Plan 2011
Option pricing model	Binomial	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes
Grant Date	22/03/2004	25/04/2005	24/04/2006	23/04/2007	21/04/2008	20/04/2009	03/05/2010	09/05/2011
Dividend rights as from grant date	no	yes	yes	yes	yes	yes	yes	yes
Contractual life of the options	7 years	7 years	7 years	7 years	7 years	7 years	7 years	7 years
Extension of the contractual period during 2009	5 years	5 years	5 years	5 years	5 years	-	-	-
Expected life	5 (to 6) years	6 years	6 years	6 years	6 years	6 years	6 years	6 years
Expected life for the extended options	11 years	11 years	10 years	10 years	10 years	-	-	-
Exercise price (EUR)	24.5	29.92	25.94	32.71	29.14	22.71	26.44	25.02
Expected volatility (compared to peer group volatility)	27.50%	18.00%	21.00%	19.83%	27.00%	38.50%	31.00%	33.00%
Expected dividend pay-out ratio	50% - 60%/ FCF(*)	50% - 60%/ FCF(*)	50% - 60%/ FCF(*)	50% - 60%/ FCF(*)	50% - 60%/ FCF(*)	50% - 60%/ FCF(*)	FCF(*)	FCF(*)
Risk free interest rate	ESAR (2)	ESAR (2)	ESAR (2)	ESAR (2)	ESAR (2)	ESAR (2)	ESAR (2)	ESAR (2)
Fair value of options granted (EUR)	4.29	4.15	4.02	6,245.00	6,679.00	6,895.00	3.47	3,495 - 5,051
Weighted average share price at exercise during the year (EUR):								
- 2005	32.96	-	-	-	-	-	-	-
- 2006	31.87	32.67	31.98	-	-	-	-	-
- 2007	33.86	33.87	34.13	-	-	-	-	-
- 2008	27.11	26.80	28.63	-	-	-	-	-
- 2009	26.07	25.64	26.81	-	-	-	-	-
- 2010	28.60	28.11	27.54	28.33	29.21	27.83	-	-
- 2011	27.70	23.55	26.96	0.00	27.22	25.65	-	-
Weighted average remaining contractual life (years)	3	3	5	5	5	4	5	6

(\*) FCF: Belgacom commits, as from 2010, to return, in principle, most of the free cash flow to its shareholders.

The volatility has been estimated based on the actual trading statistics of the share and taking into account alignment to certain peers, comparable in terms of risk profile.

## Note 36. Relationship with the auditors

The Group expensed for the Group's auditors during the year 2011 an amount of EUR 1,114,482 for the annual audit mandate fees and EUR 350,864 for non-mandate fees.

This last amount is detailed as follows:

EUR	Auditor	Network of auditor
Other mandatory audit missions	15,330	10,100
Tax advice	0	0
Other missions	28,794	296,640
<b>Total</b>	<b>44,124</b>	<b>306,740</b>

## Note 37. Segment reporting

As from 1 January 2008 onwards, the Board of Directors, the Chief Executive Officer and the Belgacom Management Committee managed the operations of Belgacom Group based on the new client-oriented organization structured around the five following reportable operating segments:

**The Consumer Business Unit (CBU)** sells voice products and services, internet and television, both on fixed and mobile networks, to residential clients, mainly on the Belgian market;

**The Enterprise Business Unit (EBU)** sells ICT services and products to professional clients, whether they are independent workers, smaller firms or major companies. These ICT solutions, including telephone services, are marketed mainly under the Belgacom, Proximus and Telindus brands, on both the Belgian and international markets;

**The Service Delivery Engine & Wholesale (SDE&W)** centralizes all the network and IT services and costs (excluding costs related to customer operations and to the service delivery of ICT solutions), provides services to CBU and EBU and sells these services to other telecom and cable operators;

**International Carrier Services (ICS)** is responsible for international carrier activities;

**Staff and Support (S&S)** brings together all the horizontal functions (human resources, finance, legal, strategy and corporate communication), internal services and real estate supporting the Group's activities.

No operating segments have been aggregated to form the above reportable operating segments.

The Group monitored the operating results of its reportable operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance was evaluated on the following basis:

- The operating income before depreciation and amortization and before non-recurring income and expenses; and
- The capital expenditures.

Group financing (including finance expenses and finance income) and income taxes were managed on a group basis and are not allocated to operating segments.

The accounting policies of the operating segments are the same as the significant accounting policies of the Group. Segment results are therefore measured on a similar basis as the operating result in the consolidated financial statements.

Intercompany transactions between legal entities of the Group are invoiced on an arm's length basis.

(EUR million)	Year ended 31 December 2010						Total
	Consumer Business Unit	Enterprise Business Unit	Service Delivery Engine & Wholesale	Staff & Support	International Carrier Services	Inter-segment eliminations	
Net revenue	2,337	2,401	267	6	1,541	-	6,552
Other operating income	20	6	3	19	2	-	51
Intersegment income	11	14	71	10	66	-172	0
<b>TOTAL SEGMENT INCOME</b>	<b>2,368</b>	<b>2,421</b>	<b>342</b>	<b>35</b>	<b>1,610</b>	<b>-172</b>	<b>6,603</b>
Costs of materials and services related to revenue	-678	-685	-46	1	-1,383	150	-2,642
Personnel expenses and pensions	-325	-375	-203	-165	-39	0	-1,107
Other operating expenses	-291	-149	-202	-192	-58	22	-870
<b>TOTAL OPERATING EXPENSES before depreciation &amp; amortization</b>	<b>-1,295</b>	<b>-1,210</b>	<b>-451</b>	<b>-355</b>	<b>-1,480</b>	<b>171</b>	<b>-4,619</b>
<b>TOTAL SEGMENT RESULT (1)</b>	<b>1,073</b>	<b>1,212</b>	<b>-109</b>	<b>-320</b>	<b>129</b>	<b>-1</b>	<b>1,984</b>
Non-recurring income					436		436
Non-recurring expenses	1			7			8
<b>OPERATING INCOME / (LOSS) before depreciation &amp; amortization</b>	<b>1,074</b>	<b>1,212</b>	<b>-109</b>	<b>-314</b>	<b>566</b>	<b>-1</b>	<b>2,428</b>
Depreciation and amortization	-153	-19	-480	-76	-82	1	-809
<b>OPERATING INCOME / (LOSS)</b>	<b>920</b>	<b>1,192</b>	<b>-588</b>	<b>-389</b>	<b>484</b>	<b>0</b>	<b>1,619</b>
Net finance costs							-102
<b>INCOME BEFORE TAXES</b>							<b>1,517</b>
Tax expense							-233
<b>NET INCOME</b>							<b>1,283</b>
Non-controlling interests							17
<b>Net income (Group share)</b>							<b>1,266</b>

(1) Operating income before depreciation and amortization and before non-recurring income and expenses

(EUR million)	Year ended 31 December 2010						Total
	Consumer Business Unit	Enterprise Business Unit	Service Delivery Engine & Wholesale	Staff & Support	International Carrier Services	Inter-segment eliminations	
<b>Capital expenditure</b>	<b>132</b>	<b>20</b>	<b>492</b>	<b>62</b>	<b>27</b>	<b>-</b>	<b>734</b>

(EUR million)	Year ended 31 December 2011						Total
	Consumer Business Unit	Enterprise Business Unit	Service Delivery Engine & Wholesale	Staff & Support	International Carrier Services	Inter-segment eliminations	
Net revenue	2,262	2,333	252	7	1,506	-	6,361
Other operating income	20	7	2	14	1	-	45
Intersegment income	6	9	64	26	54	-159	0
<b>TOTAL SEGMENT INCOME</b>	<b>2,288</b>	<b>2,349</b>	<b>318</b>	<b>47</b>	<b>1,562</b>	<b>-159</b>	<b>6,406</b>
Costs of materials and services related to revenue	-624	-639	-36	-1	-1,338	121	-2,517
Personnel expenses and pensions	-340	-381	-199	-160	-37	0	-1,117
Other operating expenses	-299	-144	-175	-215	-65	38	-860
<b>TOTAL OPERATING EXPENSES before depreciation &amp; amortization</b>	<b>-1,263</b>	<b>-1,164</b>	<b>-410</b>	<b>-375</b>	<b>-1,440</b>	<b>158</b>	<b>-4,494</b>
<b>TOTAL SEGMENT RESULT (1)</b>	<b>1,025</b>	<b>1,185</b>	<b>-92</b>	<b>-328</b>	<b>122</b>	<b>-1</b>	<b>1,912</b>
Non-recurring income	-	-	-	11	-	-	11
Non-recurring expenses	0	-18	-	-7	-1	-	-26
<b>OPERATING INCOME / (LOSS) before depreciation &amp; amortization</b>	<b>1,025</b>	<b>1,167</b>	<b>-92</b>	<b>-324</b>	<b>121</b>	<b>-1</b>	<b>1,897</b>
Depreciation and amortization	-139	-17	-446	-74	-80	1	-756
<b>OPERATING INCOME / (LOSS)</b>	<b>887</b>	<b>1,150</b>	<b>-538</b>	<b>-398</b>	<b>41</b>	<b>-0</b>	<b>1,141</b>
Net finance costs							-106
Share of loss on associates							0
<b>INCOME BEFORE TAXES</b>							<b>1,035</b>
Tax expense							-262
<b>NET INCOME</b>							<b>773</b>
Non-controlling interests							17
<b>Net income (Group share)</b>							<b>756</b>

(1) Operating income before depreciation and amortization and before non-recurring income and expenses

(EUR million)	Year ended 31 December 2011						Total
	Consumer Business Unit	Enterprise Business Unit	Service Delivery Engine & Wholesale	Staff & Support	International Carrier Services	Inter-segment eliminations	
<b>Capital expenditure</b>	<b>134</b>	<b>18</b>	<b>552</b>	<b>51</b>	<b>22</b>	<b>0</b>	<b>777</b>

In respect of geographical areas, the Group realized EUR 4,405 million net revenue in Belgium in 2010 and EUR 4,187 million in 2011 based on the country of the customer. The net revenue realized in other countries amounted to EUR 2,147 million in 2010 and EUR 2,174 in 2011. More than 90% of the segment assets are located in Belgium.

### **Note 38. Recent IFRS pronouncements**

The Group does not early adopt the standards or interpretations that are not yet effective at 31 December 2011.

This means that the Group did not apply the following standards or interpretations that are applicable for the Group as from 1 January 2012 or later:

- Amendments to standards:
  - IAS 12 ("Income Taxes: Deferred Tax: recovery of Underlying Assets"),
  - IFRS 7 ("Financial Instruments: Disclosures – Transfers of Financial Assets"),
  - IAS 1 ("Presentation of Financial Statements" concerning the Presentation of Items of Other Comprehensive Income),
  - Amendments to IAS 27 ("Separate Financial Statements") and IAS 28 ("Investments in Associates and Joint Ventures"),
- Newly issued standards:
  - IFRS 9 ("Financial Instruments"),
  - IFRS 10 ("Consolidated Financial Statements") that supersedes part of IAS 27 ("Separate Financial Statements") and SIC-12 ("Consolidated – Special Purpose Entities"),
  - IFRS 11 ("Joint Arrangements") that supersedes part of IAS 31 ("Interests in Joint Ventures") and SIC-13 ("Jointly Controlled Entities – Non Monetary Contributions by Venturers"),
  - IFRS 12 ("Disclosure of Interests in Other Entities"),
  - IFRS 13 ("Fair Value Measurement"),
- Revised standards:
  - IAS 19 ("Employee Benefits"),

The Group will investigate the possible impacts of the application of these new standards and interpretations on the Group's financial statements in the course of 2012. The IAS 19 Revised will involve amongst others the immediate recognition of the actuarial gains and losses through Other Comprehensive Income.

### **Note 39. Post balance sheet events**

In April 2011, Belgacom concluded an agreement to acquire the company that owns the chain of The Phone House Belgium stores for an amount of EUR 22 million. On 2nd of January 2012 Belgacom finalised this acquisition after the transaction was formally approved by the Belgian Competition Council on 23 December 2011 with the respect of a few commitments including the obligation for Belgacom to divest a number of points of sales.