Company: **Proximus**

Conference Title: **Q2 2015 Results**

Presenter: **Nancy Goossens**

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Operator: Please stand by. This is Premiere Global Services. We're about to begin. Good afternoon, ladies and gentlemen, and welcome to today's Proximus 2015 Q2 Results Conference Call. For your information, this conference is being recorded. At this time I would like to turn the call over to Nancy Goossens, Director of Investor Relations. Please go ahead.

Nancy Goossens: Thank you. So good afternoon, ladies and gentlemen. Thank you for joining us on this conference call. I trust that you have all received the report that we issued this morning as well as the slides on Proximus's second quarter results. Like always, we will dedicate as much as possible of our time to your questions. I'm joined here by the CEO Dominique Leroy and CFO Sandrine Dufour as well as some other members of the Executive Committee. They will all be happy to take your questions after the opening statement of the CEO. So with this, I'll turn it over to Dominique.

Dominique Leroy: Yes, good afternoon, everyone, or good morning for our friends out of America, and welcome to our conference call. I am very proud that we have announced another strong set of figures. With our solid achievement so far, we have beaten our own ambition and see our growth objective to be achieved already in 2015.

The commercial results confirm the positive trends we have seen over the previous quarters. We obtain again a good net customer growth in mobile, fixed internet and TV and this for our two main brands, Proximus and Scarlet. Thanks to our continuous efforts to improve the customer experience, Proximus not only attracts new customers; we also manage to better retain our existing customers. For the Scarlet brand, we continued to attract remaining Snow customers on the Scarlet triple play offer. The customer growth translated into a favourable evolution of our market shares and this in all regions of the country. Comparing to where we were a year ago especially our TV and broadband market shares improved. Our TV market share end June was 34.4%, meaning a 2.2 percentage points increase from one year ago; and for broadband our market share was 45.7%, so 1.5 percentage points higher versus last year. On the mobile side, our market share in postpaid was 47%. This is slightly up from one year (+0.4 percentage points). In spite of the many promotional offers by all players in the second quarter, we grew our postpaid customer base by 61,000 cards. We also progressed on our convergence strategy to move customers to three and quadruple play offers. We ended the second quarter with 42% of our households and small offices on triple and quad play, which is an increase of 4 percentage points year-on-year. Of all multi-play households and small offices, 54.7% are now combining fixed and mobile services.

The sustained `good operational performance clearly benefited the financial performance of our core business, with both fixed and mobile revenue showing continued progress. The underlying core revenue grew in the second quarter by 2.4% while the underlying core EBITDA progressed by 1.6%. BICS too posted a strong EBITDA, supported by the continued growth in mobile data, the stronger US dollar and the benefit from favourable, though volatile, market conditions. The solid performance from our core business and from BICS combined resulted in a 4.3% underlying EBITDA growth for the Group in the second quarter.

This brings us to 2015 first semester results that are beyond our own expectations. The achievements so far prove we are making good progress on our Fit for Growth strategy, and this gives us confidence to revise the full year 2015 guidance upwards. This means that we would achieve our growth ambition one year earlier than expected. So more precisely, we estimate that we will end the year 2015 with underlying core revenue growth of around 2% year-on-year and for the BICS, the more volatile part of our business, we consider ending the year 2015 with a slightly positive underlying revenue. For the Group underlying EBITDA, we expect to end this year with a growth of 3-5% compared to 2014. The upwards revision of our EBITDA guidance is based on the expectation that our core business will continue its improving performance. For BICS on the other hand, we don't expect a repetition of the rather exceptional growth we have seen in the first semester. Our capex estimation remains unchanged, so around €900 million excluding the capex for the spectrum renewal.

That was it for me. I think we should turn now to your questions. Thank you.

Operator: If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has already been answered, you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We will take our first question from Emmanuel Carlier from ING Bank. Please go ahead.

Emmanuel Carlier: Hi, good afternoon, I have three questions. The first one is on your net adds on the fixed side. Could you maybe there disclose a little bit more on you gained those customers mainly in Flanders or rather in Wallonia? Secondly, in your press release I see some comments on cable regulation but could you share with us the feedback that you have given to the regulators on the last proposal. And then thirdly is on BICS, so there was clearly a positive surprise in Q2. Could you maybe explain a little bit there in more detail the reason for the strong margin increase and what you expect from that unit in terms of growth rates and EBITDA margins in the next couple of years? Thank you.

Phillip Vandervoort: Well, we don't disclose the market shares between the north and the south but if you look, as Dominique said, on broadband, we gained market share, and on fixed voice we lost some volumes but a lot less than in previous quarters, and saw improvement. We can say that we're adding – we're having very good results in the north and in the south – we aren't disclosing specific market shares – but really, we're growing on both sides.

Dirk Lybaert: So on our reaction first to the regulator for the cable offering, and I suppose that you are referring to the pricing which was set by the BIPT, we indeed reacted that the methodology they use should be more – should be better defined. So we have criticised the methodology they used, and especially the temporary reduction for new entrants is something that we have criticised.

Daniel Kurgan: Hello. For BICS, I can give the explanation to the margin increase. If you look at the business, we have a voice and a data business and on the data business, we've got solid drivers with growth in messaging and in roaming that we are capitalising on, and there we can expect hopefully to keep growing that business. On the voice you may have seen, I mean our volumes do not really increase; on the contrary, the international voice traffic is under pressure from OTT cannibalisation and so forth. The thing is that we are highly exposed to emerging markets, Africa especially, in business which is volatile, which is a trading component and what we do is we optimise the traffic mix towards those destinations this year with a lot of success. Of course we keep doing our best but we cannot guarantee that we can keep the same trend because of the trading aspect of the business.

Emmanuel Carlier: Okay, thank you.

Operator: We will now take our next question from Vikram Karnany from UBS. Please go ahead.

Vikram Karnany: Yes, thanks, I've got a few questions. Firstly on mobile data monetisation, you know, I was just looking at the average data consumption growth in your consumers segment and historically it has been quite low in Belgium but it seems like the trend, the momentum of growth has also kind of slowed down sequentially in the consumer segment. So just wanted to understand how are you kind of incentivising customers to increase data usage? Will it be more subsidies, promotion activity? So what would be the drivers for data usage growth in your base? And then the second question was around the guidance once again. You've increased the financial guidance but not touched the dividend at this stage despite the unchanged capex. So I was wondering, with the Belgian government clearly having appointed advisors, we would expect the report coming out soon, would it have been from their perspective better to understand the potential value of the stake taking the new dividend issue, consider that? So what are your thoughts on that development over there? Thanks.

Phillip Vandervoort: So on our mobile data usage and data monetisation, we're quite happy to see a doubling of our overall data consumption and that is driven by a larger part and of course larger individual consumption. So we've doubled that. On the other hand, we have also a substantial Wi-Fi offload with our EAP-SIM and our FON environment. That really has taken care of the data consumption growth at this point in time but we see our data, mobile data being doubled. We will continue of course to drive our tiering up through joint offers and through promotions as we've done in the past.

Dominique Leroy: Okay, so on the guidance question, I think we have given last year a guidance on the dividend for three years, which is €1.50 for 2014, '15 and '16, and so far we have reconfirmed this dividend also in the documents. I think the dividend is very dependent on the cash flow, not so much on the EBITDA and so far we have our investment plan which is maintained, but will not decrease in the coming years. And as you have probably seen, we also face a higher tax rate, which also impacts the cash flow where last year we had some very exceptional cash from disposals, mainly Telindus France and also buildings. So all in all, we keep our dividend, which is mainly based on the cash generation of the company.

Vikram Karnany: Okay, that's clear, thanks.

Operator: We will now take our next question from Ulrich Rathe from Jefferies. Please go ahead.

Ulrich Rathe: Yes, thank you very much. Maybe two questions, one on BICS first. You mentioned earlier the drivers of the growth but you didn't really comment too much on the margin situation. I understand that there is a degree of volatility in all this but could you comment maybe on the degree of operating leverage, so to what extent the margin is simply related to the revenue growth and to what extent it is also a question of the volatility of the mix maybe between more profitable and less profitable regions, for example? My second question is on mobile sales revenues generally but maybe separated between CBU and EBU, it looks as if that's slowed down a bit. I think you indicated that actually on the Q1 call already, but maybe can you comment to what extent that is as expected, and whether you see any particular drivers behind what you would have expected at the end of Q1 already? Thank you very much.

Daniel Kurgan: Okay, I'll start with BICS. I'm going to try to be more clear. So again, we've got our two main businesses there. Obviously you can, on the data side, you will have a link between revenue growth and margin growth, okay? On the voice side, this is – as you said - much more related to the traffic mix and our ability to aggregate traffic to regions or specific countries or networks where the environment enables us to make a better margin than to other regions. We don't of course disclose the detail of that because it's very commercially sensitive information but that is much more the driver than the revenue growth, which you should not look at as margin – certainly not as the only margin driver for voice. Does it answer the question?

Ulrich Rathe: Yes, maybe if you can comment on whether the margin upside we've seen, certainly in the last two quarters, whether that establishes in the mix of the business a new level that we should sort of use as an anchor for forecast or whether it's really a question of overall volatility and can go up, it can go down, it can go sideways, we're not quite sure? Or is there really a new level now at this quite materially higher margin?

Daniel Kurgan: I wish it's a new level. We've been good at, again, aggregating a lot of traffic towards the African region where, I mean, obviously we can have slightly better margin than for instance Europe or Americas, if this is something we can maintain, well, it's supporting a better profitability. But again, there is a trading component and a volatility component that will always be there.

Dominique Leroy: Perhaps if I just can add to try to clarify a bit on this, I think this is two components – it's very either voice-centric or data messaging-centric. The whole strategy of BICS is to be less dependent on voice-centric products and to be, to have a bigger part of the mix on messaging and data, and I think that's an underlying trend that will increase profitability in the long run and reduce volatility. What you see in the first half is that also the mix has come through and we have indeed sold more data traffic versus voice traffic but on top of that, there has been a very positive margin coming from voice. That is something that probably cannot be repeated because it's very much dependent on the market circumstances and on the good trading. So I hope that clarifies. So there is a structural component but there is also a volatility component.

Ulrich Rathe: So thank you –

Philip Vandervoort: You had a second question I think on mobile revenue in Q2 and whether we expected the slowdown compared to the Q1 growth. I think first maybe explaining the trend in Q2 compared to last year, we are moving of course in areas where we have higher comparable basis, that may explain part of it. But also, we have fluctuation on the roaming revenue in the second quarter compared to last year, compared to the first quarter, which explains the reason why this growth was slightly lower. However, this was expected and in line with our forecasts.

Ulrich Rathe: That's very clear, thank you very much.

Operator: We will now take our next question from Luis Prota from Morgan Stanley. Please go ahead.

Luis Prota: Yes, thank you. Sorry to come back again to BICS. I don't know whether you could give us some indication on what percentage of the improvement this quarter is currency-related, I guess that is very much dependent on the dollar, US dollar as you said, and I don't know, what are your expectations in this regard in the second half and next year? And secondly on the resolution from the Wallonia tax, pylon tax, is there any reversal in provisions that we should expect in the third quarter or fourth quarter this year? Thank you.

Daniel Kurgan: So for BICS, on the voice side we have, if you will, kind of a natural hedging because if half of our revenue is in dollar and half in euro, but we have of course massive cost of goods sold, so when the dollar goes up, it's impacting positively the revenue but not so much the margin. On the data side, there we have some contracts in dollar and so then when the dollar goes up, it helps on the margin side as well. So at the end is a few millions, we cannot give the details. Now, I mean our expectations, we cannot predict the dollar evolution so I cannot comment much on that.

Dirk Lybaert: So on the tax on pylons, there are two new elements. First of all, we have the annulment by the Constitutional Court of the decree imposing the tax for 2014. What is special of the decision of the Constitutional Court is that they only examined one argument, which has to do with the competence of the regional authority to levy such tax. The other arguments, which have to do with objectivity, proportionality, non-discrimination, were not examined. The Constitutional Court has annulled the decree but has kept the effects of the decree. So that is one element. The second element is in a case where Proximus is not involved but is a case between the City of Mons and Base, where we have at the level of the European Courts of Justice, an advice of the Advocate-General and that advice is clearly stating that a tax such as imposed by the Walloon government is contrary to the European Authorisation Act. So those are two elements. With respect the provision, I refer to our CFO.

Sandrine Dufour: Thank you, Dirk. So we have now and we do not intend so far to reverse the provision which is in our book. The only comment I would like to make is that remember there is a seasonal impact because we booked the entire provision on the tax on pylons in the last quarter of last year, whereas we're spreading it over the 2015. But considering the fact that by the annulment of the Constitutional Court, the effects of tax, we are keeping these provisions in our books.

Luis Prota: Thank you. Can I follow up on the BICS question? Just I think you said something like 70% of revenues were in US dollars. Is that still about right or…?

Daniel Kurgan: No, no, it's about 50/50.

Luis Prota: Oh, 50/50 dollars/euros?

Daniel Kurgan: Yes, yes, yes, it's about 50/50.

Luis Prota: Ah okay, thank you very much.

Operator: We will now take our next question from Marc Hessenlinck from ABN Amro. Please go ahead.

Marc Hessenlinck: Yes, thanks. My first question is on, now for the last few quarters you've been doing well with your customer additions, winning back some market share on the fixed side and also continuing to win market share on mobile. You are doing well on the corporate products. But is that the main reason why you are outperforming now the competition, your corporate products? Or is there something else that has really changed in your view, let's say the last few quarters versus more than a year ago when you were still losing market share? And then secondly, your thoughts on the network simplification process that you're working on, how is that continuing and if you can give any updates on that. And then finally, last year you had quite a big campaign in the fourth quarter on launching the Proximus brand. Is there anything that you expect for this year that will be less of a commercial push in the end of the year? Also maybe in relation to that, what's going to happen with maybe a launch of Mobistar on the fixed side? Just what's you're expectation there?

Dominique Leroy: So I will take your first question on the reasons why we are performing better. I think it's several elements. The whole Fit for Growth strategy is really starting to get traction. It's also a lot of focus on customer experience, so we have really geared the whole company, which probably was in the past very much technically driven to bring technical solution to customer, not to start from the customer, and to see what's the customer needs and how can we serve the customer the best way, and to that extent we are really doing a lot of improvements in the solutions we bring to the markets. To take the example of EBU, we really come with solutions where we integrate connectivity, datacentre, collaborative solutions, security solution and we sell that as a package. The same is true on the CBU side where we sell more and more triple/quad play where we have invested much more in content, where today I think we have a very strong offer in sports content, in film content. We have just announced this morning that we will come with a new TV interface and next to that, we have continued to invest a lot in networks, in 4G coverage, in vectoring, improving the experience of our customers both in mobile and in fixed, together with the FON where we now have EAP-SIM rolled out for all our customers whereby you can also offload easily. And on the customer operations side, we have really worked a lot to improve the processes for customers to connect with us, for installation, for usage and the last element which I think is a strong one is about our brand, where today, as all our products are on one new brand with a very different look and feel and communication, these, all work we are doing on network, on quality, on servicing is being much more visible to the market because it's under one umbrella. So my understanding of our good results is really a lot of work from the teams in improving all elements of the product mix, answering much better the customer needs, and making sure that we bring also the customer to the best experience – swapping decoders, swapping modems so that the customers can benefit from all those improved elements.

Geert Standaert: Yes, then on the network simplification program, so that I can say that first of all with respect to ATM outphasing that there we have migrated all our ATM customers to IP-based alternatives. Secondly with respect to the legacy voice switches, we are completely on track to have, by the end of this year, 40% of all switches phased out, and so we will continue in the years after. Also with respect to our building consolidation, so that's freeing up floor space where we said okay, that by 2020 we would free up about one-fourth of our floor space, we are fully on track. So to give you an idea, at this moment we outphase per day about three legacy telephone switches.

Philip Vandervoort: And to be a little bit more concrete and put some colour and flavour to what Dominique just said on the comparison of the communication efforts compared to the inception *(rebranding)* last year, of course we just announced, I mean prior to this meeting, we just announced our new Proximus TV experience, which is really a step change over the last ten years, which will be entirely and seamlessly connected to a mobile app, the Proximus TV app that we'll be putting in the market. We also, in the same momentum, announced a swipe box that will allow a consumer or several consumers around a TV screen to share their content seamlessly from any Android or Apple or Windows device towards that screen. Last month, we announced that we will join Eleven Sports Network and Eleven Sports Network 2 where we will enrich our sports content quite dramatically, and we are communicating around that. And this morning, we announced that we will have the Spanish football La Liga on top of – in that same package with Eleven Sports Network. Then of course we have the regular campaigns going that we think are very strong, and we have the person-to-person. So we think – and we've of course improved the commercial drive in our direct and indirect channels. So we think that our sales and communication efforts are different in message but are an impact and presence with last year inception.

Marc Hessenlinck: Okay, that's clear, thanks.

Operator: We will now take our next question from Joshua Mills from Goldman Sachs. Please go ahead.

Joshua Mills: Hi there, thank you for taking the question. Just a couple from me, the first on working capital. It's quite a negative outflow in the first half of this year. I just wanted to hear your views on how that will develop going into Q3 and Q4. Secondly if you could just maybe give us an update on your fibre rollout, what we're looking at there in terms of number of permits passed. I think previously you'd focused on enterprise parks and the like before moving aggressively into the consumer segment. Is there any change that'd be interesting? And then thirdly, on the presentation, you're highlighting that you've increased the speeds – the number of people getting access to the 70 Mbps speeds. I wondered what the average speed is today for those customers who haven't got access to the vectoring technology, i.e. the two-thirds of the VDSL network which aren't carried with that presence. Thank you very much.

Sandrine Dufour: Okay, so your first question regarding working capital – maybe I should start to say that we generated €250 million of free cash flow for the first half of the year. Remember how we ended the first quarter, so that's a significant improvement on this quarter. It's true that our working capital on the quarter is still a drain. I think you should have in mind that we ended 2014 with an exceptionally low level of cash flow. That has to do with the seasonality of our capex, which was very high at the end of last year, and it takes time for us to rebalance this seasonality. And the other items of course that we do not have this year, that will not repeat compared to last year, is the proceeds of disposal. So we're still aiming to generate a sustainable level of cash flow for the year end and working on this seasonality of the working cap.

Geert Standaert: Okay, maybe let me first start with your last question on VDSL and vectoring. So first of all, what we did on our VDSL network was two things: we improved the speed due to the introduction of vectoring but also a capability that we introduced which we call dynamic line management. Our average speed on VDSL has increased this quarter to about 44 Mbps. We have seen as well that there where we roll out vectoring but also there where the customer has then the modem which is vectoring-capable, that we are capable to moving our speeds up to 70 Mbps and we gave some figures that now we have more than about 440,000 customers receiving that 70 Mbps performance. Something we did in addition and that is at this stage technically that we introduced that is another profile, a profile of 100 Mbps. We've activated that now on a customer base of about 50,000 customers to see what is the real-life experience, but those samples, they are clearly positive. So we expect that at this stage, testings we're doing is for customers that are within a reach of 400 metres of our optical nodes and that's where we have the biggest part of our customers, and we see that we have a close to 100% probability to introduce a 100 Mb profile for that 50,000 sample that we've deployed right now. So if the customers' feedback, kind of operational feedback, will be positive, it's clear that we will take there steps to further roll out the 100 Mb profile. With respect to fibres, as you know, there's all greenfield rollouts we do now in fibre, plus we're keeping to put high attention and focus on fibre rollout for our enterprise customers. So that means that we are going beyond industry or zonings where we cover enterprise customers for in 80% of the cases. We're looking at other clusters where we have a high enterprise density and there we take further steps.

Joshua Mills: That's very clear. Just to follow up on one point, the 44 Mbps average speed which you mentioned, is that across the entire VDSL network, as in that's been dragged up somewhat by the 70 Mb available to those where the vectoring has taken place, or is the 44 Mbps the speed available to the two-thirds of customers who haven't got access to the vectoring technology as well?

Geert Standaert: Okay, no, to make that clear, that is the overall VDSL base at this stage.

Joshua Mills: Very clear, yes.

Geert Standaert: I don't have the figure exactly where we do not have the vectoring customers but okay. We have given you figures about the 440,000 at 70 Mb so that can give you a kind of idea there.

Joshua Mills: Great, thank you very much.

Operator: We will now take our next question from Ruben Devos from KBC Securities. Please go ahead.

Ruben Devos: Yes, good afternoon, two questions please, the first one on mobile. You've been making quite some headway in mobile, partly from higher 4G and smartphone penetration levels. We've noticed that in the first half, operators have still been quite aggressive in terms of handset subsidisation, particularly in the first quarter. But going forward, will handset subsidisation remain a pivotal part of your mobile proposition? And related to this, how do you currently compare versus other operators in terms of smartphone penetration? I assume

Belgium is still far off from the 82% level we see in the Netherlands. Then another question still related to network. Okay, I've heard about your commented related to vectoring but I was just thinking in the long term, I heard some comments two days ago with the results of KPN and they were saying that they were experimenting with super-vectoring and vector+ technology which would be much more cost-efficient and they were even saying that for instance that they will prioritise fibre to the curb above fibre to the home as it will be four times as much cost-efficiently. So I was just wondering, you have already a very extensive coverage in terms of fibre to the curb and I was wondering how you assess the balance between these two technologies going forward. Thank you.

Phillip Vandervoort: So first of all, we will continue our tactical approach and our strategic approach on joint offers. We will not have systematic joint offers in the market. Today we have less than one-third of our gross gains in joint offers. We've not changed so far our approach on joint offers, which is partly paid back by either the consumer in a tiering-up approach or the vendor in subsidising, and our contribution to the joint offer. Our joint offers are positive, as we've disclosed several times within the year. The smartphone penetration that we see on our network – I mean if you talk Belgium in general, the 4G penetration – smartphone penetration – remains relatively low but it is growing significantly. We are, in the smartphones that we are selling, that we are pushing on the market, we've grown from approximately 70% to now 80% of the phones that we put in the market being smartphones. The smartphones that are on our network are slightly higher than the average on the Belgian market and that increases. So I think that roughly covers your question. We're not planning to change that approach at this point in time. We will continue to drive up-tiering and data consumption through high-value joint offers.

Geert Standaert: With respect to your question first on the super-vectoring, so first focus for us is making that 100 Mb profile operationally deployed. That is one. We are of course looking at the next versions, so there is a new version coming at the level of vectoring. There are several flavours there. One is there you could further increase the speeds, and that is [base form] vectoring at 35 MHz and otherwise there is as well the technology which is referred to as G.fast. So of course both those evolutions on vectoring, we are testing those solutions and we are assessing what is the furthest potential. So that is one.

With respect to the fibre to the curb and fibre to the home, I think with our 100 Mb it is clear that there for a number of years, we can live up to the expectations of our customers, and that longer term, there will be a kind of balance that will be a balance between bringing fibre closer to our customers and using at maximum our corporate assets.

Ruben Devos: All right, that's clear, thank you.

Operator: We will now take our next question from Usman Ghazi from Berenberg. Please go ahead.

Usman Ghazi: Good afternoon, all, thank you for taking my question. I've got two questions please, first on the EC proposal for the end of roaming. I was just wondering if you could discuss with us what your initial thoughts are on the impact potentially in 2017 and then the next question was just on the repricing in the B2B segment for mobile. I can see that the ARPU declines are lessening but the ARPU is still declining in B2B excluding machine-to-machine cards. I was just wondering when you expect the repricing headwind in the business segment to wind out of the base. Thank you.

Dominique Leroy: Okay, so on your question regarding the EC decision on the roaming, I think it's a bit premature to give any estimated impacts. What I can say is that the scope of what is at stake, so the European roaming as a percentage of our mobile service revenues, is 6%. That's to give you the area which is affected by this new EC decision.

Bart Van Den Meersche: And then on your question for the repricing in the B2B market, you should take into account that in B2B, a contract is on average two years. So on average, there is every year about 50% of the contracts that is renegotiated, and so that is a continuing effect. Now we had an effect especially when we had, what would I say, the mobile disruption but that's repricing that is now more or less done.

Usman Ghazi: Right, can I just follow up just on the percentage of mobile service revenues from – that was from EU roaming, 6%? Just wanted to clarify that.

Dominique Leroy: Yes, correct.

Usman Ghazi: Okay, thank you. Thank you.

Operator: We will now take our next question from Bart Jooris from Bank Degroof. Please go ahead.

Bart Jooris: Good afternoon. Several of my questions have been answered. I have one left. That is, if we look at slide 22, we see that mobile data usage of 4G customers in CBU seems to be stabilising for around three quarters. Is this a mix effect? Is this new customers coming into 4G where you have lower usage and therefore keeping the average stable, or could you give us an idea more on how data usage is at 4G clients who have…?

Philip Vandervoort: So if we combine 3G and 4G, we double the data consumption year over year. That is driven by two components. One is by of course a growing number of users, as we briefly discussed on the smartphone penetration in Belgium that is moving up above the 50% now, 52%, 53%. And as we just stated, we are moving slightly faster. Our smartphone penetration is faster than the Belgian average. 100% of the devices that we push in the market have 4G capability and as we said, one-third of the gross gains that we have are driven by joint offers and our smartphones. So the volume of 4G consumers is something that we systematically push. Then if you look at the blended 3G/4G consumption of data, that is growing with a factor of 1.6 approximately I think across – per user – across the CBU entity. And if you then look at also the growth of our Wi-Fi offload, we have a large percentage with our improved FON capabilities, on the set-top boxes, we increased form bandwidth and we implemented EAP-SIM, which makes it substantially ore easy for a consumer to switch over to Wi-Fi. So we see substantial data consumption growth, as I said, double on 3G and 4G mixed over the year, but we think we have, with our convergence approach, a very balanced approach where we have also the Wi-Fi offload. So we're very confident that data consumption will increase and that our approach with pushing joint offers and pushing smartphones in the market will yield larger data consumption.

Usman Ghazi: Okay, but if I can continue on that, I mean that's indeed a lot of growth potential still there in the client base but your data offloading on Wi-Fi is probably not monetised a lot.

Philip Vandervoort: Yes…

Usman Ghazi: So I would try to get an idea on 4G clients already having the service, are they keep on using more data on your mobile network?

Philip Vandervoort: Yes indeed, and claiming that we're not monetising the data on convergent – on our Wi-Fi customers, that's not entirely true because those are convergence and we know that converging customers have a lot lower churn. So a lot of opportunity and I think a very balanced approach between Wi-Fi and mobile data.

Usman Ghazi: Okay, that's very clear, thank you.

Operator: We will now take our next question from Guy Peddy from Macquarie. Please go ahead.

Guy Peddy: Yes, good afternoon, everyone. I just wanted to get a bit more of a feel for the potential drivers of sort of your growth margin within your consumer business. We're seeing. We're obviously seeing a lot more investment in devices, which you would normally have thought would be a negative driver, and you signal that as a potential issue. But in your growth margin trends and indirect contribution you call it is growing quite strongly. Is that because of things happening in the fixed line business, the change in revenue mix and things like that? Is it because more of the data revenues are more capex-driven rather than opex-driven? Can you just talk about some of the moving parts that are underlying that? That would be helpful, thank you.

Phillip Vandervoort: Well, I mean the devices, I think the devices that we push in the market is clearly aiming at smartphone penetration, one, and up-tiering, two. And of course up-tiering gives us more mobile services consumption of course. Mobile services consumption has a solid margin. If you look at the other fixed components of our gross margin, we know that there's some very solid gross margin contributors. If we look at the fixed line losses that we have, we've really stopped that bleeding. So really just improving dramatically – not changing the product that much but improving dramatically the way we sell it. So I would call that retail execution.

And then I think broadband and digital TV is something that you can combine at least from a go-to-market perspective. As I highlighted a little bit earlier, we've really stepped up step by step our content to make our packages more attractive. I think we've now launched an interface that is very attractive, that is really up there above the best. I think we've now also driven – we have TV everywhere but we're now linking that entirely with the Proximus TV experience. So all those are components that are very important and that drive direct margins.

I think what is impressive to see or important to see is the impact that we're driving on the customer operations side in improving customer contact and customer satisfaction and First Time Right and 360 solutions as well as the improved performance of our network that Geert just talked about. That has quite an important impact on our churn, where we see very positive churn evolutions across the board. I think it's a combination of – it's not just pushing mobile devices. It's a combination of maintaining very strong convergent approach, a very solid approach on how to drive smartphone penetration and there a value-based approach on data consumption linked with customer satisfaction that drives churn down and that through call centre operations and just technical quality and speed and availability of the network. So I think it's a holistic story that probably drives our total growth margin story.

Guy Peddy: Okay, thank you very much.

Operator: As a further reminder, if you would like to ask a question, please press *1. We will now take our next question from Ulrich Rathe from Jefferies. Please go ahead.

Ulrich Rathe: Yes, thanks very much for taking the follow-up. If I can ask two things. One is maybe again on BICS, would you be willing to share how much of your higher expectations for EBITDA in the year actually comes from BICS? Maybe not a number but maybe sort of order of magnitude. The second question is with regards to EBU, you commented that there were temporary contract extensions helping in Q1. Can you confirm that they are completely out in Q2 and maybe also comment on what the relative contribution to the revenue situation in EBU quarter over quarter actually was? Thank you.

Dominique Leroy: So on your first question I think I would refer to my introduction speech where we had said that the revised guidance for the second half of the year will be mainly coming from the further improvement of our core business, and much less by BICS. So I don't give a precise number but you can derive from that statement that for the second part of the year, we count much more on our business to achieve the guidance than on BICS.

Bart Van Den Meersche: And then referring to your question on ICT and the impact of some contracts that came to an end, so indeed, as we announced, there were actually three contracts, important contracts that came to an end, and that has an impact not only in Q1 and Q2, it will have an impact on the full year, and that is also taken into account on our forecast.

Ulrich Rathe: Could I just clarify, have they contributed in the second quarter or not, or are they already out in the second quarter?

Bart Van Den Meersche: They are already out in the second quarter.

Ulrich Rathe: Right, and would you share what the order of magnitude of the contribution in Q1 versus the one that's not in there in Q2 would be, order of magnitude?

Bart Van Den Meersche: No, we're not disclaiming those amounts.

Ulrich Rathe: Thank you.

Bart Van Den Meersche: You're welcome.

Operator: We will now take our next question from Usman Ghazi from Berenberg. Please go ahead.

Usman Ghazi: Hello, thank you again for taking the follow-up. Just a question on EBU again. If I look at the gross margin on service revenues in EBU, right, the dilution of the gross margin has significantly slowed relative to last year and I know that in this business segment in the past we've spoken about how the move to IT services, etc. is margin-dilutive. So I'm just wondering what is helping the gross margin trajectory in the segment which is contrary to trends that we saw in 2014? And then at the same time, I just wanted to understand how much room is there on the opex in EBU because we can see in other opexes when coming down by 8%, 4% as you look at growth EBITDA here – but I was just wondering how much headroom do you have there to continue cutting. Thank you.

Bart Van Den Meersche: So the gross margin, there are different effects. So we have an effect of changing portfolio mix, so what you see is that of course especially fixed voice has a negative impact. Next to that we have then what we just discussed on ICT, so there we have some contracts that came to an end that have an impact, but on the positive end we have especially mobile that is contributing very much, and then you saw also that we have like new areas like road user charging that is starting up in internet of things. So it's a combination of different elements.

Now in terms of opex, we're continuing to optimise that not only in EBU; that's for the full company. So further optimising and lowering our opex. Is there still some room? Yes, there is still some room and we're working on that.

Usman Ghazi: Okay, thank you.

Operator: As there are no further questions in the phone queue at this time, I would like to turn the call back to the speakers for any additional or closing remarks.

Nancy Goossens: All right, thank you very much to you all for dialling in. if anybody would have follow-up questions, you can contact the Investor Relations team. Thank you very much and have a nice weekend.

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