# Quarterly Report

## 2019 Q2

proximus

# Table of contents

- **Continued growth of Domestic customer base in a highly competitive setting: +6,000 Fixed Internet, +5,000 TV, + 25,000 Postpaid cards, supported by multi-play offers and segmentation strategy.**
- **Effect of Domestic revenue pressure (-1.8% excl. terminals) remains contained on Direct Margin.**
- **Underlying Domestic EBITDA of EUR 446 million, -0.8% on high comparable base of 2018. With BICS included, the Group underlying EBITDA ended 0.9% lower.**
- **Solid year-to-date June 2019 FCF of EUR 278 million, acquisition impact excluded.**
- **Full-year 2019 outlook reiterated.**

# 1 Highlights Q2 2019

- For its **Domestic operations**, Proximus posted **underlying revenue of EUR 1,084 million**, 2.6% below that of the same period of 2018, in part driven by lower Mobile terminal sales, and including a further erosion of mobile inbound revenue, both having no meaningful effect on margin. **Terminal revenue aside, the second quarter underlying Domestic revenue closed 1.8% below that of the prior year,** of which -0.7p.p. was driven by regulatory measures.

- **Proximus' Domestic underlying Direct Margin of EUR 844 million for the second quarter 2019 was -0.6% lower on a high comparable base** of 2018. The 2018 one-off tailwinds excluded, the Domestic Direct margin progressed year-on-year, with part of the revenue pressure being on low-margin products. The implied margin improvement resulted from a growing customer base, upselling, residential price indexations and the acquired ICT companies, compensating for the impact from regulatory measures and the Fixed Voice erosion.

- Proximus' **Domestic operations posted EUR 446 million underlying EBITDA, down by 0.8% from a high comparable base in 2018.** This includes flattish expenses of EUR 398 million (-0.3%) compared to a low second quarter 2018, in spite of acquisition-related personnel expenses in the ICT domain.

- Proximus' carrier services**, BICS**, posted **second-quarter revenue of EUR 329 million, -3.1% from the prior year**. The **EBITDA of BICS was down by 1.8%** to EUR 38 million, with the increase in direct margin (+0.8%) offset by higher expenses.

- In aggregate the **underlying EBITDA of the Proximus Group for the second quarter 2019 totaled EUR 484 million,** a decrease of 0.9% on a high comparable base**.**

- **Proximus Group invested EUR 466 million in the first half of 2019**, spectrum capex excluded. Proximus continued its investments among other things in its Fiber for Belgium project, with the roll-out now ongoing in 11 cities; in its mobile network to provide a high-quality mobile service while coping with a persisting increase in data usage; in new digital platforms and in the multi-year modernization of Proximus' transport network.

- The **FCF over the first six months of 2019 totaled EUR 241 million, or EUR 278 million when excluding the cash-out for acquisitions**. This compares to EUR 180 million for 2018 (adjusted for EUR 22 million acquisition cash-out). The year-on-year increase in FCF was mainly the result of a lower amount of tax prepayments, lower cash needed for business working capital (partly timing), lower interest payments, the year-to-date progress in underlying EBITDA and less cash paid for CAPEX.

**+13,000 Convergent** HH, total of 1,097,000

**+6,000 Fixed Internet** lines, total of 2,071,000

**+5,000 TV-customers**, total of 1,631,000

**-36,000 Fixed Voice** lines, total of 2,477,000

**+25,000 Mobile Postpaid** cards, total of 4,066,000

**-29,000 Mobile Prepaid** cards, total of 753,000

**+134,000 M2M** cards, total of 1,566,000

In a highly competitive setting, Proximus maintained a positive Internet and TV momentum for both the Proximus and Scarlet brands; and grew its Mobile Postpaid customer base.

**Dominique Leroy**
CEO Proximus Group

We managed to further grow our customer base in a highly competitive setting, through our dual brand strategy and segmented approach. For our Consumer segment we attracted new Internet and TV customers and achieved back-to-normal growth in mobile postpaid customers. More and more households are convergent, with over 59% of the multi-play households taking fixed and mobile services from Proximus. The number of subscribers to our all-in offers Tuttimus/Bizz all-in increased to 552,000 by the end of June, and we also saw a good uptake of the convergent 3-Play offers Minimus and Epic combo.

We continued to grow our Enterprise Mobile base, despite mounting competition putting pressure on customer growth and Mobile pricing, and hence on the profitability of customer contracts. On the Fixed front, however, we see reassuring support from our growing P2P Fiber park for Business customers, which is softening the ongoing erosion in legacy services, and we continued to post growth in Advanced Business Services and ICT.

Progressing further on our digital journey, we are realizing cost benefits in our Domestic operations, enabling stable costs, in spite of acquisition-related personnel expenses in the ICT domain. As a result, our Domestic EBITDA decline was limited to -0.8%, on a high comparable base.

Based on our achievements so far, we reiterate our full-year 2019 outlook and will focus for the remainder of the year on the execution of our #shifttodigital strategy. In this regard, and almost five years after the launch of the current Proximus brand, we announced our new brand promise "Think Possible", making advanced digital experiences accessible to all our customers. We simultaneously launched 5 innovative, personalized applications and services that will make our customers' everyday lives easier; among other things with Proximus Pickx, a new TV interface and content platform.

Furthermore, our #shifttodigital strategy will accelerate our transformation to remain relevant on the Belgian market and to secure our company's future. On the 10th of January 2019, we started the information and consultation phase with the unions, as part of the social dialogue, and entered the negotiation phase on June the 10th. We are continuously looking how to adapt our plan and minimise the number of dismissals, without compromising the necessary transformation and the cost efficiency objective that should give our company a sustainable future. We will continue to consult with the trade unions and it is our firm intention to be able to reach an agreement on the different measures after the summer.

We will also further develop the outlined mobile access network sharing agreement with Orange Belgium, for which we announced the term sheet signature on 11 July. This will enable us to meet the increasing customer demand for mobile network quality and deeper indoor coverage and will allow a faster and more comprehensive 5G roll-out in Belgium, covering also the 2G, 3G and 4G technologies. At the same time, we will continue to have full control over our spectrum assets and core networks, ensuring strong customer experience differentiation. We expect a very good return from the agreement, which will help us to achieve additional operational cost efficiencies.

As a final point, we were surprised by the low cable wholesale pricing in the regulator's consultation on its cable wholesale draft pricing decisions, published on the 5th of July. We are awaiting the consultation on the Fiber pricing, expected in the course of September. In line with our earlier statements, we regard fair regulation, maintaining appropriate conditions to invest, as key for any future decision on our Fiber deployment.

# 2 Proximus Group financial review

## 2.1 Group financials

Table 1: Underlying Group P&L

| (EUR million) | 2nd Quarter 2018 | 2nd Quarter 2019 | 2nd Quarter % Change | Year-to-date 2018 | Year-to-date 2019 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Revenue[1] | 1,452 | 1,413 | -2.7% | 2,892 | 2,828 | -2.2% |
| Net Revenue | 1,442 | 1,400 | -2.9% | 2,871 | 2,802 | -2.4% |
| Other Operating Income | 10 | 13 | 34.8% | 22 | 26 | 20.5% |
| Cost of Sales[2] | -524 | -489 | -6.6% | -1,049 | -979 | -6.7% |
| Direct Margin | 928 | 924 | -0.5% | 1,844 | 1,849 | 0.3% |
| *Direct Margin %* | *63.9%* | *65.4%* | *1.5 p.p.* | *63.7%* | *65.4%* | *1.7 p.p.* |
| Expenses | -439 | -440 | 0.0% | -902 | -902 | 0.1% |
| EBITDA | 489 | 484 | -0.9% | 942 | 947 | 0.5% |
| *EBITDA Margin %* | *33.6%* | *34.3%* | *0.6 p.p.* | *32.6%* | *33.5%* | *0.9 p.p.* |

[1] Corresponds to "Total Income" excluding Incidentals (see section 7 for the reported figures)
[2] Corresponds to "Cost of materials and charges to revenues" excluding Incidentals (see section 7 for the reported figures)

### 2.1.1 Underlying Group revenue

**Q2** 2019

For the **second quarter of 2019**, Proximus posted **Domestic underlying revenue of EUR 1,084 million** (tables 2 and 3). This is 2.6% or EUR 28 million below that of the same period of 2018, of which EUR 10 million was due to lower Mobile terminal sales, with no meaningful effect on margin. Continuing the trend seen in the first quarter, there was a further erosion of revenue from reselling standalone mobile terminals to indirect sales channels. The terminal revenue aside, the second-quarter Domestic underlying revenue totaled EUR 1,020 million, 1.8% below that of the prior year.

Revenue from **Telecom services** totaled EUR 789 million, down by 1.4%, including EUR -7 million through regulatory[1] effects. Revenue from **Fixed Services** ended 1.5% lower year-on-year, driven by the eroding Fixed Voice park and accompanying traffic. In contrast, Proximus managed to further grow its customer base for Internet (+1.9%) and TV (+ 2.4%), in spite of intense competition. This was supported by Proximus' multi-play offers gaining further traction, with converged multi-Play HH/SO[2] increasing over the quarter by +13,000.

For **Mobile Services**, Proximus posted EUR 304 million of revenue, i.e. a 1.3% year-on-year decline. In mid-May 2019, tariffs for international calling and texting were lowered in line with European regulation. This mainly affected Consumer Postpaid revenues. Combined with the ongoing reduction in low-margin inbound revenue, Proximus' second quarter mobile Postpaid revenue was 0.6% below that of the prior year. The 2.9% year-on-year growth in Proximus' mobile Postpaid customer base could not fully compensate for a lower mobile Postpaid ARPU in both the Consumer and Enterprise segments. Revenue from mobile Prepaid was 11.2% down, on a small revenue base, driven by a lower Prepaid base.

[1] Decrease in Fixed Termination rates and International calling/SMS. See section 2.2 Regulation

[2] Multi-play refers to Households/small offices subscribing to at least 2 'Plays'. A converged multi-play customer subscribes to Fixed and Mobile. See table 15 in section 3. Consumer.

The **ICT revenue for the Group** totaled EUR 135 million in the second quarter 2019, up by 1.2%, benefiting from the expanded ICT portfolio in the Enterprise segment, of which 2 acquisitions annualized in the course of the second quarter, however there were lower proceeds from low-margin ICT products and one-shot services.

Proximus' **Wholesale segment** reported revenue of EUR 45 million for the second quarter 2019, a 9.6% or EUR 5 million decrease from one year ago. This was chiefly the result of lowered Fixed Termination Rates, with the new regulated tariffs taking effect on 1 January 2019.

**Tango**, the Telecom brand of Proximus Luxembourg SA, posted EUR 32 million in revenue for the second quarter, about EUR 3 million down from the prior year. The decrease was mainly the consequence of a reporting change[3] within the Enterprise segment and did not impact its total revenue line. This aside, Tango continued to steadily grow in its mobile postpaid base and successfully execute its Fiber strategy, increasing its broadband base. This was offset by less mobile device revenue.

With Proximus' carrier services, **BICS**, posting second-quarter revenue of EUR 329 million, i.e. -3.1% in relation to the comparable period in 2018, the **Proximus Group** ended the second quarter of 2019 with underlying revenue of EUR 1,413 million, -2.7% from the prior year.

Table 2: Underlying Group Revenue by Segment

| (EUR million) | 2nd Quarter 2018 | 2nd Quarter 2019 | 2nd Quarter % Change | Year-to-date 2018 | Year-to-date 2019 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Group Underlying by Segment | 1,452 | 1,413 | -2.7% | 2,892 | 2,828 | -2.2% |
| Domestic | 1,112 | 1,084 | -2.6% | 2,233 | 2,180 | -2.4% |
| Consumer | 724 | 706 | -2.5% | 1,454 | 1,413 | -2.8% |
| Enterprise | 351 | 348 | -0.8% | 702 | 705 | 0.4% |
| Wholesale | 50 | 45 | -9.6% | 97 | 88 | -10.2% |
| Other (incl. eliminations) | -13 | -15 | -21.3% | -21 | -26 | -26.3% |
| International Carrier Services (BICS) | 340 | 329 | -3.1% | 659 | 648 | -1.7% |

**H1** 2019

Over the **first six months of 2019, the Proximus Group** posted revenue of **EUR 2,828 million**, 2.2% down from the same period of 2018. Within the mix, the revenue from Proximus' Domestic operations totaled EUR 2,180 million, a year-on-year decrease of 2.4% or EUR -53 million. About half of the decline is related to lower revenue from low-margin Mobile devices. This excluded, the revenue ended 1.4% below that of the prior year. Furthermore, regulatory impacts on Fixed Termination and International calling/texting rates, have negatively affected the revenue by about EUR 12 million, excluding the legislation on customer reminder fees. The remaining revenue pressure largely resulted from an eroding Prepaid and Fixed Voice base, and lower Mobile inbound revenue, which was not fully compensated for by growth in Internet, TV and ICT.

**BICS posted first-half 2019 revenue of EUR 648 million**, 1.7% or EUR 11 million down from one year ago. In line with the ongoing market trend, BICS' revenue mix moved further from Voice to Data. Revenue from non-Voice products was up by 13.0%, driven by a solid growth in messaging revenue, with especially TeleSign realizing a strong increase in A2P[4] volumes. Revenue from Voice services continued its eroding trend, down year-on-year by 7.8%, with a positive volume effect more than offset by a lower unit revenue as a consequence of lower termination rates, competition and a less favorable revenue destination mix. The renewed agreement with MTN, entailing a gradual insourcing by MTN, has not had a noticeable impact on BICS' financials over the first half of 2018 as yet.

[3] Following the merger of Tango and Telindus Luxemburg, intercompany eliminations regarding connectivity services are now done within Tango. The second quarter covers the year-to-date eliminations. This has no impact on the total Enterprise revenue.

[4] Application-to-Person

Table 3:

**Underlying Group Revenue by Product nature**

*Note: In line with Proximus' strategy, most products are sold through multi-play Packs. The Packs are sales arrangements with multiple deliverables. The revenue is allocated to the different services (fixed and mobile), based on their relative standalone selling prices, being the amount for which the services could be sold separately. The revenue allocation per nature as reported in this report might be impacted by changes in the composition of multi-play offers.*

*The resulting ARPUs as reported in this document, and the variances compared to preceding periods, are therefore partly the mere mathematical consequence of the application of this accounting policy to a changed Pack composition.*

| | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| (EUR million) | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| REVENUES | 1,452 | 1,413 | -2.7% | 2,892 | 2,828 | -2.2% |
| Domestic | 1,112 | 1,084 | -2.6% | 2,233 | 2,180 | -2.4% |
| Other Operating Income | 10 | 13 | 23.3% | 22 | 25 | 16.0% |
| Net Revenues | 1,102 | 1,071 | -2.8% | 2,212 | 2,155 | -2.6% |
| Telecom | 909 | 885 | -2.6% | 1,826 | 1,777 | -2.7% |
| Services | 801 | 789 | -1.4% | 1,598 | 1,578 | -1.2% |
| From Fixed | 493 | 486 | -1.5% | 990 | 978 | -1.2% |
| From Mobile | 308 | 304 | -1.3% | 608 | 600 | -1.3% |
| Postpaid | 287 | 285 | -0.6% | 567 | 566 | -0.1% |
| Prepaid | 21 | 19 | -11.2% | 41 | 34 | -17.2% |
| Terminals | 73 | 63 | -13.2% | 156 | 131 | -16.0% |
| Tango | 35 | 32 | -8.6% | 72 | 67 | -5.8% |
| ICT | 134 | 135 | 1.2% | 265 | 275 | 3.8% |
| Advanced Business Services | 7 | 10 | 36.7% | 14 | 20 | 43.1% |
| Other Products | 19 | 14 | -22.1% | 39 | 30 | -22.9% |
| Wholesale | 50 | 45 | -9.6% | 97 | 87 | -10.2% |
| Other segment (incl. elim) | -16 | -19 | -13.5% | -29 | -34 | -17.8% |
| BICS Total Income | 340 | 329 | -3.1% | 659 | 648 | -1.7% |
| Costs of Sales | -524 | -489 | -6.6% | -1,049 | -979 | -6.7% |
| Segment Direct Margin | 928 | 924 | -0.5% | 1,844 | 1,849 | 0.3% |
| *Direct Margin %* | *63.9%* | *65.4%* | *1.5 p.p.* | *63.7%* | *65.4%* | *1.7 p.p.* |

Table 4:

**Group operationals per product**

| | Park | | | Net adds | |
|---|---|---|---|---|---|
| (in 000's) | Q2 '18 | Q2 '19 | % Change | Q2 '18 | Q2 '19 |
| Fixed Voice | 2,601 | 2,477 | -4.8% | -25 | -36 |
| Internet | 2,032 | 2,071 | 1.9% | 7 | 6 |
| TV | 1,592 | 1,631 | 2.4% | 9 | 5 |
| Mobile postpaid excl. M2M | 3,952 | 4,066 | 2.9% | 45 | 25 |
| M2M | 1,244 | 1,566 | 25.8% | 18 | 134 |
| Mobile prepaid | 886 | 753 | -14.9% | -39 | -29 |

*Group operationals include Proximus (Consumer and Enterprise), Scarlet and Tango. Mobile Prepaid includes both Consumer Prepaid cards and Wholesale MVNO mobile cards.*

## 2.1.2 Underlying Group direct margin

Table 5: Underlying Group direct margin by Segment

| | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| (EUR million) | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| Group Underlying by Segment | 928 | 924 | -0.5% | 1,844 | 1,849 | 0.3% |
| Domestic | 849 | 844 | -0.6% | 1,688 | 1,691 | 0.2% |
| Consumer | 563 | 555 | -1.4% | 1,118 | 1,113 | -0.5% |
| Enterprise | 238 | 246 | 3.2% | 475 | 492 | 3.7% |
| Wholesale | 41 | 36 | -11.3% | 82 | 71 | -13.1% |
| Other (incl. eliminations) | 7 | 6 | -3.8% | 13 | 15 | 15.6% |
| International Carrier Services (BICS) | 79 | 80 | 0.8% | 156 | 159 | 1.8% |

**Q2** 2019 The **second-quarter 2019** underlying Direct margin of the **Proximus Group totaled EUR 924 million,** i.e. 65.4% of revenue. **For its Domestic operations, Proximus posted second-quarter 2019 direct margin of EUR 844 million,** 0.6% or EUR 5 million down on a high comparable base of 2018, which benefitted from one-off tailwinds[5] totalling about EUR 8 million. These one-offs excluded, the Domestic Direct margin progressed slightly year-on-year (c.+0.4%), with part of the revenue pressure being on low-margin products.

Moreover, the second quarter 2019 Direct Margin includes a negative impact of EUR -4 million from regulatory measures. This includes lowered Fixed Termination Rates, with the negative impact posted in the Wholesale segment partially offset in the Consumer and Enterprise segments; and regulated international calling/texting rates applicable since 15 May 2019.

For the second quarter of 2019, **BICS posted a direct margin of EUR 80 million, up by 0.8% in spite of the revenue pressure,** driven by a positive variance in non-Voice direct margin, while limiting the direct margin impact of the Voice revenue decline.

**H1** 2019 Over the **first six months of 2019** the **Proximus Group Direct margin totaled EUR 1,849 million**, 0.3% above that of the comparable period of 2018. **Proximus' Domestic direct margin ended 0.2% above a high comparable base of 2018**, in spite of the revenue pressure and regulatory capping of pricing which reduced the direct margin by about EUR -6 million, excluding the loss following the reminder fee legislation. This was offset by the positive effect from Proximus' customer growth and higher ICT margin, including the benefit from acquired ICT companies.

The direct margin of **BICS increased by 1.8%** year-on-year over the first semester. This was mainly driven by BICS' non-Voice direct margin which benefitted from the BICS-TeleSign combination, with growing SMS A2P volumes and the realization of direct cost synergies.

[5] This included a significant benefit following the renegotiation of several supplier contracts, as was disclosed in the Q2 2018 results release.

## 2.1.3 Underlying Group expenses[6]

Table 6: Underlying Group expenses

| | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| (EUR million) | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| Group Underlying | 439 | 440 | 0.0% | 902 | 902 | 0.1% |
| Workforce expenses | 295 | 294 | 0.0% | 591 | 595 | 0.7% |
| Non Workforce expenses | 145 | 145 | 0.1% | 311 | 307 | -1.1% |
| Domestic Underlying | 399 | 398 | -0.3% | 819 | 817 | -0.3% |
| Workforce expenses | 271 | 270 | -0.7% | 545 | 545 | 0.1% |
| Non Workforce expenses | 127 | 128 | 0.4% | 274 | 271 | -1.1% |
| BICS Underlying | 41 | 42 | 3.2% | 83 | 86 | 3.6% |
| Workforce expenses | 23 | 25 | 7.3% | 46 | 50 | 7.9% |
| Non Workforce expenses | 18 | 17 | -2.2% | 37 | 36 | -1.7% |

**Q2** 2019

**Proximus' Group underlying operating expenses for the second quarter 2019 remained stable year-on-year** at EUR 440 million. This included slightly higher operating expenses for BICS, +3.2%, driven by TeleSign workforce expenses to support its growth and HR-related provisions, offset by lower Domestic expenses.

For its **Domestic operations, Proximus' expenses totaled EUR 398 million**, 0.3% lower on an already low comparable base in 2018. Within the mix, the Domestic non-workforce expenses totaled EUR 128 million, +0.4% year-on-year, while the workforce expenses totaled EUR 270 million, i.e.-0.7%. Workforce costs were down in spite of higher personnel expenses in the ICT domain related to acquisitions. The improvement results from a decrease in Proximus' organic headcount, driving lower workforce costs in spite of the wage indexation impact (October 2018). Proximus also continues to achieve some structural cost efficiencies, especially within customer contact centers, benefitting from digitalization.

**H1** 2019

Over the **first half of 2019** the **Proximus Group's expenses remained stable at EUR 902 million. Domestic expenses were slightly down (-0.3%),** with acquisition related expenses and wage indexation being offset by cost reduction efforts.

End-June 2019, the Proximus Group counted an internal workforce of 12,996 FTEs, of which 12,208 FTEs are Domestic headcount, including acquired companies. Over the first-half of 2019, the Domestic headcount decreased by 451 FTEs, mainly driven by the ongoing "voluntary early leave before retirement"-program, retirement and other natural outflow, partly offset by hiring. Over the same time period, BICS increased its internal headcount, including some additional hiring in TeleSign to support its growth. **BICS' expenses for the first half year totaled EUR 86 million, an increase of 3.6%.**

[6] Before D&A; excluding Cost of Sales; excluding incidentals.

## 2.1.4 Group EBITDA- reported and underlying

Table 7: From reported to underlying EBITDA

| (EUR million) | 2nd Quarter 2018 | 2nd Quarter 2019 | 2nd Quarter % Change | Year-to-date 2018 | Year-to-date 2019 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Group reported EBITDA | 456 | 498 | 9.4% | 898 | 975 | 8.6% |
| Lease depreciations | nr | -22 | nr | nr | -43 | nr |
| Lease interest | nr | -1 | nr | nr | -1 | nr |
| Incidentals | 33 | 8 | nr | 44 | 15 | -64.7% |
| Group Underlying EBITDA | 489 | 484 | -0.9% | 942 | 947 | 0.5% |
| Domestic | 450 | 446 | -0.8% | 868 | 874 | 0.6% |
| BICS | 39 | 38 | -1.8% | 74 | 73 | -0.3% |

### Underlying Group EBITDA

**Q2** 2019

As a result of the lower Domestic direct margin in the second quarter 2019, and flattish operating expenses, **Proximus posted a Domestic EBITDA of EUR 446 million**, year-on-year down by 0.8% on a high comparable base. **BICS posted a second-quarter 2019 EBITDA of EUR 38 million**, a year-on-year decrease of 1.8%. Therefore, in aggregate, the **Proximus Group**'s second-quarter underlying EBITDA totaled EUR 484 million, a 0.9% decrease compared with the same period of 2018.

**H1** 2019

Year-to-date June 2019, the **Proximus Group underlying EBITDA increased by 0.5%** to a total of EUR 947 million. For its Domestic operations, Proximus posted a 0.6% increase to EUR 874 million, while the EBITDA of BICS totaled EUR 73 million (-0.3%).

### Total Reported Group EBITDA

In the second quarter of 2019, the Proximus Group recorded EUR 8 million negative EBITDA incidentals, mainly related to the ongoing early leave plan ahead of retirement. See section 8.2 for more information on the incidentals. Moreover, following the application of IFRS 16, the reported EBITDA of the second quarter 2019 no longer includes operating lease expenses for a total amount of EUR 22 million. With incidentals included and operating lease expenses excluded, the Proximus Group's reported EBITDA totaled EUR 498 million for the second quarter 2019. This was EUR 456 million for 2018.

## 2.1.5 Net income

**H1** 2019

### Depreciation and amortization

The depreciation and amortization over the first six months of 2019 totaled EUR 520 million (EUR 563 million including lease depreciation) compared to EUR 511 million excluding lease depreciation for the same period of 2018. This was mainly due to an increasing asset base following the higher investment level over the past years and from acquired companies.

### Net finance cost

The year-to-date June 2019 net finance cost totaled EUR 25 million, down 19% from a high comparable base in 2018, which included an additional interest expense on the reassessed tax on pylons liability.

### Tax expenses

The tax expenses over the first half of 2019 were EUR 106 million, i.e. an **effective tax rate of 27.39%**. This is below the Belgian statutory tax rate of 29.58%, due to the application of Belgian general principles of tax law such as the patent income deduction and other R&D incentives, partly offset by non-deductible expenses for income tax purposes.

### Net income (Group share)

The net income over the first six months totaled EUR 273 million, i.e. a 9% increase from prior year. This results mainly from a higher underlying Group EBITDA, lower impact from incidentals and less net finance costs, partially off-set by higher resulting income taxes and depreciation and amortization.

Table 8:

From Group EBITDA to net income

| (EUR million) | 2nd Quarter 2018 IAS 17 | 2nd Quarter 2019 IFRS 16 | 2nd Quarter % Change | Year-to-date 2018 IAS 17 | Year-to-date 2019 IFRS 16 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Group reported EBITDA | 456 | 498 | 9.4% | 898 | 975 | 8.6% |
| Depreciation and amortization | -261 | -265 | 1.7% | -511 | -520 | 1.8% |
| Lease depreciation | n.a. | -22 | n.a. | n.a. | -43 | n.a. |
| Operating income (EBIT) | 195 | 212 | 8.6% | 387 | 412 | 6.6% |
| Net finance costs (including lease interest) | -19 | -14 | -26.8% | -31 | -25 | -19.3% |
| Share of loss on associates | 0 | 0 | 7.6% | -1 | -1 | -27.9% |
| Income before taxes | 176 | 197 | 12.4% | 355 | 387 | 8.9% |
| Tax expense | -44 | -54 | 23.9% | -94 | -106 | 12.1% |
| Net income | 132 | 143 | 8.6% | 260 | 281 | 7.8% |
| Non-controlling interests | 6 | 5 | -10.3% | 11 | 8 | -21.8% |
| Net income (Group share) | 126 | 138 | 9.4% | 250 | 273 | 9.0% |

## 2.1.6 Investments

**By end-June 2019, the Proximus Group invested EUR 466 million**, excluding EUR 8 million of spectrum-related capex for Proximus Luxembourg[7], slightly above the EUR 459 million invested over the same period of 2018.

Overall, Proximus continued its investments in, among other things, new digital platforms, the ongoing multi-year modernization of its transport network and its Fiber for Belgium project. So far, Proximus is deploying Fiber in 11 cities, with Aalst and Vilvoorde announced in the first half of 2019. Furthermore, Proximus continued to invest in its mobile network to provide a high-quality mobile service while coping with a persisting increase in data usage. End-June 2019, the average data usage was above 2.7 GB/month, a year-on-year increase of nearly 50%.

## 2.1.7 Cash flows

Table 9:

Cash flows

| (EUR million) | 2nd Quarter 2018 IAS 17 | 2nd Quarter 2019 IFRS 16 | 2nd Quarter % Change | Year-to-date 2018 IAS 17 | Year-to-date 2019 IFRS 16 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Cash flows from operating activities | 327 | 387 | 18.4% | 714 | 852 | 19.4% |
| Cash paid for Capex (*) | -238 | -236 | -0.7% | -540 | -535 | -0.9% |
| Cash flows used and provided in other investing activities | -9 | -4 | -57.3% | -15 | -34 | >100% |
| Cash flow before financing activities | 80 | 147 | 83.4% | 159 | 283 | 78.3% |
| Lease payments | n.a. | -18 | n.a. | n.a. | -42 | n.a. |
| Free cash flow | 80 | 129 | 60.8% | 159 | 241 | 52.1% |
| Cash flows used and provided in financing activities other than lease payments | -318 | -156 | -51.0% | -282 | -287 | 1.7% |
| Net increase/(decrease) of cash and cash equivalents | -237 | -27 | -88.8% | -123 | -46 | -63.1% |

*Cash paid for acquisitions of intangible assets and property, plant and equipment.

[7] Following a law change and Proximus Luxembourg spectrum meeting the conditions, this spectrum was recognized in the first quarter as an intangible asset for which the minimum amount is eligible for capitalization.

Proximus' **second-quarter 2019 FCF totaled EUR 129 million**, leading to a **year-to-date FCF of EUR 241 million**. **Cash-out for acquisitions[8] excluded, this was EUR 278 million** and compares to EUR 180 million for 2018 (adjusted for EUR 22 million acquisition cash-out).

The year-on-year increase in FCF was mainly the result of a lower amount of tax prepayments, lower cash needed for business working capital (partly timing), lower interest payments, the progress in underlying EBITDA and less cash paid for CAPEX.

### 2.1.8 Balance sheet and shareholders' equity

Compared to year-end 2018, the goodwill increased with EUR 6 million mainly as a consequence of the provisional purchase price allocation of Mediamobile. The purchase price allocation for the companies acquired in 2018 is still provisional, except for ION-IP, and will be completed within 12 months after the respective acquisition dates.

Tangible and intangible fixed assets decreased with EUR 40 million to EUR 4,168 million, with the amount of Capex being lower than the depreciation and amortization.

The shareholders' equity decreased from EUR 3,005 million end-December 2018 to EUR 2,955 million end-June 2019 due to the payment of dividends (EUR 323 million), partially offset by EUR 273 million net income (Group Share) over the period.

The initial application of IFRS 16 does not impact the equity as the Group selected to apply the simplified transition approach (see Section 7).

End-June 2019, Proximus' outstanding long-term debt (excluding lease liabilities) amounted to EUR 2,360 million, and its adjusted net financial position to EUR 2,248 million.

Table 10: Net financial position

| (EUR million) | As of 31 December 2018 IAS 17 | As per 1 January 2019 IFRS 16 | As of 30 June 2019 |
|---|---|---|---|
| Investments, Cash and cash equivalents | 344 | 344 | 298 |
| Derivatives | 5 | 5 | 6 |
| Assets | 349 | 349 | 304 |
| Non-current liabilities (*) | -2,263 | -2,475 | -2,616 |
| Current liabilities (*) | -234 | -307 | -267 |
| Liabilities | -2,497 | -2,782 | -2,884 |
| Net financial position (*) | -2,148 | -2,433 | -2,580 |
| of which Leasing liabilities | -5 | -290 | -331 |
| Adjusted financial position (**) | -2,143 | -2,143 | -2,248 |

(*) Including derivatives and leasing liabilities
(**) The adjusted financial position exlcudes leasing liabilities

[8] Mainly related to the acquisition of non-controlling interests in Be Mobile

## 2.2 Regulation

Table 11: Regulation impact

| (YoY variance in EUR million) | 2nd Quarter 2019 | Year-to-date 2019 |
|---|---|---|
| Revenue | -7 | -12 |
| Fixed termination Rate | -5 | -10 |
| International calling | -2 | -2 |
| Direct Margin | -4 | -6 |
| Fixed termination Rate | -2 | -3 |
| International calling | -2 | -2 |

### Fixed Termination Rates (FTR)

On 23 November 2018, the BIPT defined new Fixed Termination Rates (FTR) at 0.116 eurocent/min (from 0.709 eurocent for regional and 0.909 eurocent for national previously) based on a pure LRIC "Long Run Incremental cost" model. The FTR have been applicable since 1 January 2019.

For the full-year 2019, Proximus estimates the new FTR will reduce the revenue by about EUR 20 million and the margin by EUR 6 million.

### Review of the EU Telecom framework – new caps on intra-EU calls and SMS

In the context of the EU Telecom review adopted end 2018 that entered into force on 20 December 2018, the European legislators adopted a Regulation inserting caps on intra-EU call and SMS prices (calls and texts to another EU country). The new caps took effect from 15 May 2019 for Consumers at 19 eurocents/minute for calls and 6 eurocents/texts. Proximus estimates the 2019 impact of the new caps on intra-EU calls and SMS to be about EUR 13 million on revenue and on margin.

### Cable and broadband regulation – cost models

The Belgian regulators' decisions of 29 June 2018 on the review of the broadband and TV market analysis have outlined the regulation of Proximus' fibre network and the cable networks. In terms of pricing, the regulators have imposed a "fair pricing". In this context, the BIPT issued, on 5 July 2019, a consultation on future prices for wholesale cable access based on their cost modelling exercise. BIPT proposes a price structure that allows for tiering and a small margin of 5%-10% on the prices for internet services over 200Mbps in order to encourage investment. The new rates cover broadband access only, access to television and a combination of both services. The consultation runs until 6 September. We will use this period to provide the BIPT with our remarks on their pricing proposal, as in our view, not all cost elements have been taken into account and hence we consider the currently proposed wholesale cable prices as being too low. A final decision is expected end-2019. If approved, the new prices would apply from 2020 to 2023. In terms of Proximus' access to the cable networks, the decision of June 2018 allows a limited wholesale access for Proximus in geographical areas without own next-generation broadband access network. A consultation on the FTTH fair pricing is expected in Autumn 2019.

### Upcoming spectrum auction – timing and final conditions remain uncertain

The draft legislations defining the conditions for the renewal of the existing 2G/3G spectrum licenses (900MHz, 1800MHz and 2100MHz) as well as for the granting of new 5G spectrum (700MHz, 1400MHz and 3500MHz) and unsold spectrum in the 2100MHz and 2600MHz bands, have not been approved yet. The whole process is postponed until a new government is formed. Therefore, the timing and the final conditions of the auctions remain uncertain.

### Consumer protection – reminder fees

On 1 July 2018 a modification of the e-com law introduced new obligations in case of non-payment of invoices. The new law provides that the first reminder must be for free and a ceiling of EUR 10 is set for the subsequent reminders. The fee for the reactivation of the services after a full cut is capped at EUR 30 for all services.

## 2.3 Outlook and shareholder return

Proximus reiterates its full-year 2019 nearly stable 'Domestic revenue excluding terminals' outlook, in spite of the competitive pressure, with a second half-year in line or slightly better than the first-half revenue evolution, depending on a more volatile ICT revenue. Proximus also reiterates its outlook for a stable underlying Group EBITDA, including a slight underlying Domestic EBITDA growth. It's expected this will be offset by an unfavorable EBITDA variance for BICS. Following a renewed agreement with MTN, the insourcing of the transport and management of MTN's traffic within the Middle East and African regions is expected to start showing in BICS' results as of the third quarter.

For the entire year 2019, Proximus estimates regulatory measures to negatively impact the Domestic underlying margin by an estimated EUR 20 million.

The Group capex, spectrum excluded, for 2019 is expected to be stable compared to the level of 2018, including increasing investments in the Fiber for Belgium project, for which the roll out has started in 11 cities.

Table 12: Outlook

| Guidance metric | FY18 Actuals | FY19 Guidance | FY19 Q1 Revised Guidance | YTD Actuals |
|---|---|---|---|---|
| **Domestic** underlying **revenue** | €4,460m | nearly stable | | |
| **Domestic** underlying **revenue excluding terminals** | €4,153m | | nearly stable | -1.4% |
| **Group** underlying **EBITDA** | €1,865m | stable | stable | 0.5% |
| Capex (excluding Spectrum) | €1,019m | stable | stable | €466m |

In line with the three-year commitment announced on 16 December 2016, Proximus expects to return over the result of 2019 a stable gross dividend per share of €1.50.

# 3 Consumer

- Keeping positive momentum in Fixed customer base with both Internet and TV subscribers growing, backed by convergent and segmented offers from Proximus and Scarlet.
- Postpaid customer base up by 19,000 in Q2, with promotional activity back to a normal, and sequentially improving churn rate, despite stiff competition.
- Further upselling to convergent offers: 59.2% of all multi-play HH/SO convergent, +1.9pp YoY.
- Better YoY customer mix: growing 4-Play, RGU +1.7% and ARPH +1.0% to EUR 66.8.
- Decrease in standalone device and inbound revenues, without meaningful margin impact.
- Direct margin stable excluding 2018 one-off tailwinds, despite regulation impact.

## 3.1 Consumer revenue

Lower mobile device sales and decreasing inbound weighing on revenue, without Direct Margin impact.

For the second quarter 2019, Proximus posted for its **Consumer segment a total revenue of EUR 706 million. This compares to EUR 724 million for 2018, a decrease of 2.5% or EUR 18 million** (see tables 13-14). In line with the first quarter, the declining business of reselling standalone mobile devices at low-margin explained about half of the year-on-year revenue decline.

The remaining half of the Consumer revenue decline includes the impact from the EU regulation on international calling and texting, in addition to the further erosion in (low-margin) inbound revenue, both reflected in Mobile services. The year-on-year variance was also impacted by lower customer reminder fees[9] posted in "Other Products" following a law change mid-2018.

+19,000 Postpaid net adds in Q2, Prepaid further eroded.

For the second quarter 2019, Proximus' Consumer segment posted **EUR 223 million Mobile Services revenue**, 2.1% below that of the prior year. If it wasn't for the above-mentioned regulatory effect, the Mobile services revenue variance would have shown some sequential improvement from the prior quarter. The headwinds primarily impacted the Mobile postpaid revenue, driving the 1.2% year-on-year revenue decrease for the second quarter, with the Postpaid ARPU down by 3.6%. This was in part compensated for by the year-on-year enlarged Mobile postpaid customer base, up by 2.3%, to reach 2,757,000 SIM cards. Proximus lifted its net acquisitions to +19,000 in the Consumer market, while lowering churn to 14.5%, a 2.2pp improvement from the prior quarter and remaining only slightly above last year's level during which the mobile operationals benefitted from the World-Cup campaign. End-June 2019, the Prepaid base for the Consumer segment totaled 721,000 cards, eroding by 14,000 Prepaid cards in the second quarter. The annual cleaning of expired Prepaid cards positively impacted the Prepaid ARPU, up by 4% to EUR 8.5.

TV and Internet nearly compensating for Fixed Voice erosion.

**Revenue from Fixed Services** totaled EUR 377 million for the second quarter 2019, -0.7% from the prior year. The ongoing erosion from Fixed Voice lines was nearly compensated for by growing Internet and TV revenue and was supported by the 1 January 2019 price indexation. In a competitive setting, Proximus gained further customers over the past three months for its Internet (+7,000) and TV offers (+4,000), supported by its dual-brand strategy. By end-June 2019, Proximus' Consumer segment counted a total of 1,908,000 Internet subscribers and 1,622,000 TV subscribers.

Multi-play upselling drives +1% ARPH increase.

Of the EUR 706 million Consumer revenue in the second quarter 2019, EUR 591 million[10] was X-Play service revenue generated by Proximus' Households/Small Offices (HH/SO) base. The **X-Play revenue showed a steady slight positive trend, up by 0.3% from the prior year**. Revenue from convergent HH/SO[11] increased by 3.0% compared with the prior year and Mobile-only revenue was up slightly (+0.7%); more than offsetting the 5.2% decrease in Fixed-only revenue. The convergence

[9] Proximus' collection process was adapted in view of improving the customer experience, reducing the number of reminders on open invoices. Reminder fees were lowered following a new legislation (see section 2.2 ).

[10] See table 14. Service revenue from HH/SO excludes Mobile prepaid, but includes ICT revenue.

[11] A convergent HH/SO subscribes to at least one Fixed and Mobile Proximus offer.

revenue benefitted from the continued traction of the 4-Play offers, and an increase in 3-Play convergent offers driven by the uptake of EPIC Combo and Minimus. End-June 2019, Proximus counted 1,097,000 convergent HH/ SO, i.e. a convergence rate of 59.2% on the total multi-play HH/SO, an annual improvement of 1.9pp.

The successful upselling strategy led to further improvement in RGU, up 1.7% to 2.78, and further growth in the ARPH, up by 1.0% to EUR 66.8.

## 3.2 Consumer direct margin

For the second quarter 2019, the Consumer segment posted a **direct margin of EUR 555 million, 1.4% or EUR 8 million below that of the comparable period of 2018**. The second quarter 2018 benefitted from about EUR 8 million of one-off tailwinds[12]. These aside, the Consumer direct margin would have been fairly stable, with part of the revenue loss having no meaningful margin impact. The direct margin benefited from cost improvement following digital adoption, notably on commissions, and from the larger subscriber base for TV and Internet, offsetting the pressure in Fixed Voice and Prepaid.

Table 13:

Consumer revenue by nature and direct margin

| (EUR million) | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| Revenue | 724 | 706 | -2.5% | 1,454 | 1,413 | -2.8% |
| Other Operating Income | 5 | 7 | 35.8% | 11 | 14 | 23.6% |
| Net Revenue | 718 | 698 | -2.8% | 1,443 | 1,400 | -3.0% |
| *Of Which X-Play Revenue** | *589* | *591* | *0.3%* | *1,177* | *1,181* | *0.3%* |
| Service Revenue | 608 | 601 | -1.2% | 1,213 | 1,200 | -1.1% |
| From Fixed | 380 | 377 | -0.7% | 762 | 759 | -0.4% |
| From Mobile | 228 | 223 | -2.1% | 451 | 441 | -2.2% |
| Postpaid | 207 | 205 | -1.2% | 410 | 407 | -0.7% |
| Prepaid | 21 | 19 | -11.2% | 41 | 34 | -17.2% |
| Terminals (fixed and mobile) | 59 | 50 | -14.7% | 125 | 104 | -16.6% |
| *Of which revenue from joint offer devices (IFRS15 impact) ** | *15* | *18* | *18.0%* | *31* | *35* | *13.4%* |
| Tango | 28 | 28 | -0.4% | 56 | 56 | -0.3% |
| ICT | 7 | 7 | -0.6% | 15 | 15 | 1.6% |
| Other Products | 16 | 12 | -25.3% | 34 | 24 | -28.2% |
| Costs of sales | -161 | -151 | -6.5% | -336 | -301 | -10.3% |
| Segment Direct Margin | 563 | 555 | -1.4% | 1,118 | 1,113 | -0.5% |
| *Direct Margin %* | *77.7%* | *78.6%* | *0.9 p.p.* | *76.9%* | *78.7%* | *1.8 p.p.* |

Estimated revenue from joint offer devices, previously recognized as service revenue.

*In order to reconcile the X-play revenues with the Product net revenues, terminal sales, Tango, Prepaid, Fixed & Mobile other revenues and some smaller items need to be added

[12] This included a significant benefit following the renegotiation of several supplier contracts, as was disclosed in the Q2 2018 results release.

Table 14:

Consumer operationals by nature

| | 2nd Quarter 2018 | 2nd Quarter 2019 | 2nd Quarter % Change | Year-to-date 2018 | Year-to-date 2019 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Park (000's) | | | | | | |
| Fixed voice lines | 2,002 | 1,915 | -4.4% | 2,002 | 1,915 | -4.4% |
| Broadband lines | 1,868 | 1,908 | 2.1% | 1,868 | 1,908 | 2.1% |
| TV unique customers | 1,584 | 1,622 | 2.4% | 1,584 | 1,622 | 2.4% |
| Postpaid cards | 2,695 | 2,757 | 2.3% | 2,695 | 2,757 | 2.3% |
| Of which M2M | 3 | 5 | 60.1% | 3 | 5 | 60.1% |
| Prepaid cards | 832 | 721 | -13.3% | 832 | 721 | -13.3% |
| Net adds (000's) | | | | | | |
| Fixed voice lines | -17 | -25 | | -34 | -53 | |
| Broadband lines | 7 | 7 | | 21 | 14 | |
| TV unique customers | 9 | 4 | | 24 | 11 | |
| Postpaid cards | 32 | 19 | | 45 | 20 | |
| Of which M2M | 0 | 1 | | 1 | 1 | |
| Prepaid cards | -38 | -14 | | -69 | -51 | |
| ARPH - all Plays (EUR) | 66.2 | 66.8 | 1.0% | 66.0 | 66.7 | 1.1% |
| ARPU (EUR) | | | | | | |
| Mobile blended | 21.5 | 21.4 | -0.5% | 21.3 | 21.2 | -0.6% |
| Postpaid | 25.8 | 24.9 | -3.6% | 25.7 | 24.8 | -3.4% |
| Prepaid | 8.2 | 8.5 | 4.0% | 7.9 | 7.7 | -2.4% |
| Annualized churn rate (blended) | 19.5% | 19.2% | -0.4pp | 20.0% | 20.0% | 0.0pp |
| Postpaid | 14.2% | 14.5% | 0.4pp | 15.7% | 15.6% | -0.1pp |
| Prepaid | 34.7% | 34.2% | -0.4pp | 31.8% | 34.4% | 2.6pp |
| Average Mobile data usage user/month (Mb) | 1,922 | 3,018 | 57.0% | na | na | na |

Table 15:

Consumer X-Play view

| | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| Revenues x - play (EUR million) | 589 | 591 | 0.3% | 1,177 | 1,181 | 0.3% |
| Fixed-only | 172 | 163 | -5.2% | 348 | 330 | -5.2% |
| Mobile-only | 79 | 80 | 0.7% | 158 | 157 | -0.8% |
| Convergent | 338 | 348 | 3.0% | 672 | 695 | 3.5% |
| 4-Play | 236 | 247 | 4.5% | 467 | 493 | 5.6% |
| 3-Play | 166 | 162 | -2.6% | 334 | 324 | -2.9% |
| Convergent | 82 | 82 | -0.2% | 164 | 162 | -1.2% |
| Fixed | 84 | 80 | -4.9% | 170 | 162 | -4.5% |
| 2-Play | 70 | 68 | -4.1% | 143 | 136 | -4.8% |
| Convergent | 20 | 20 | -0.8% | 40 | 39 | -2.2% |
| Fixed | 50 | 48 | -5.3% | 102 | 96 | -5.9% |
| 1-Play | 116 | 115 | -1.3% | 233 | 228 | -2.5% |
| 1P Fixed Voice | 24 | 20 | -14.3% | 49 | 42 | -14.7% |
| 1P internet | 13 | 15 | 10.0% | 27 | 29 | 10.4% |
| 1P Mobile | 79 | 80 | 0.7% | 158 | 157 | -0.8% |
| HH/SO per Play - Total (000's) | 2,979 | 2,949 | -1.0% | 2,979 | 2,949 | -1.0% |
| 4-Play | 711 | 740 | 4.2% | 711 | 740 | 4.2% |
| 3-Play | 742 | 733 | -1.2% | 742 | 733 | -1.2% |
| Convergent | 256 | 264 | 3.2% | 256 | 264 | 3.2% |
| Fixed | 486 | 469 | -3.5% | 486 | 469 | -3.5% |
| 2-Play | 397 | 381 | -4.0% | 397 | 381 | -4.0% |
| Convergent | 92 | 93 | 1.1% | 92 | 93 | 1.1% |
| Fixed | 305 | 288 | -5.5% | 305 | 288 | -5.5% |
| 1-Play | 1,130 | 1,095 | -3.1% | 1,130 | 1,095 | -3.1% |
| 1P Fixed Voice | 288 | 248 | -13.9% | 288 | 248 | -13.9% |
| 1P internet | 145 | 156 | 7.7% | 145 | 156 | 7.7% |
| 1P Mobile | 697 | 691 | -0.9% | 697 | 691 | -0.9% |
| ARPH x - play (in EUR) | 66.2 | 66.8 | 1.0% | 66.0 | 66.7 | 1.1% |
| 4-Play | 111.7 | 111.3 | -0.4% | 111.6 | 111.5 | -0.1% |
| 3-Play | 74.6 | 73.7 | -1.1% | 74.7 | 73.9 | -1.1% |
| Convergent | 106.1 | 104.5 | -1.5% | 106.3 | 104.7 | -1.5% |
| Fixed | 57.8 | 56.7 | -1.9% | 58.1 | 57.2 | -1.6% |
| 2-Play | 58.7 | 58.9 | 0.3% | 59.0 | 59.0 | 0.0% |
| Convergent | 71.8 | 71.9 | 0.1% | 72.3 | 71.9 | -0.5% |
| Fixed | 54.8 | 54.8 | 0.0% | 55.0 | 55.0 | -0.1% |
| 1-Play | 34.6 | 35.0 | 1.0% | 34.5 | 34.6 | 0.1% |
| 1P Fixed Voice | 27.0 | 26.8 | -0.5% | 27.4 | 27.1 | -1.0% |
| 1P internet | 31.1 | 31.5 | 1.4% | 31.0 | 31.6 | 1.7% |
| 1P Mobile | 38.6 | 38.7 | 0.3% | 38.4 | 38.1 | -0.9% |
| Average #RGUs per HH/SO - Total | 2.73 | 2.78 | 1.7% | 2.73 | 2.78 | 1.7% |
| 4-Play | 4.85 | 4.87 | 0.6% | 4.85 | 4.87 | 0.6% |
| 3-Play | 3.30 | 3.31 | 0.0% | 3.30 | 3.31 | 0.0% |
| Convergent | 3.79 | 3.76 | -0.8% | 3.79 | 3.76 | -0.8% |
| Fixed | 3.05 | 3.05 | 0.0% | 3.05 | 3.05 | 0.0% |
| 2-Play | 2.18 | 2.18 | -0.2% | 2.18 | 2.18 | -0.2% |
| Convergent | 2.52 | 2.49 | -1.2% | 2.52 | 2.49 | -1.2% |
| Fixed | 2.08 | 2.08 | -0.1% | 2.08 | 2.08 | -0.1% |
| 1-Play | 1.22 | 1.22 | -0.1% | 1.22 | 1.22 | -0.1% |
| 1P Fixed Voice | 1.06 | 1.06 | -0.2% | 1.06 | 1.06 | -0.2% |
| 1P internet | 1.00 | 1.00 | 0.0% | 1.00 | 1.00 | 0.0% |
| 1P Mobile | 1.33 | 1.32 | -0.4% | 1.33 | 1.32 | -0.4% |
| Annualized full churn rate (HH/SO) - Total | 11.9% | 13.1% | 1.2 p.p. | 13.2% | 14.2% | 1.0 p.p. |
| 4-Play | 2.9% | 3.8% | 0.9 p.p. | 3.3% | 4.0% | 0.7 p.p. |
| 3-Play | 9.3% | 10.4% | 1.1 p.p. | 10.3% | 11.5% | 1.2 p.p. |
| 2-Play | 11.8% | 12.4% | 0.6 p.p. | 12.6% | 14.0% | 1.4 p.p. |
| 1-Play | 19.4% | 21.4% | 2.0 p.p. | 21.5% | 23.0% | 1.4 p.p. |
| % Convergent HH/SO - Total * | 57.2% | 59.2% | 1.9 p.p. | 57.2% | 59.2% | 1.9 p.p. |
| 4-Play | 100.0% | 100.0% | 0.0 p.p. | 100.0% | 100.0% | 0.0 p.p. |
| 3-Play | 34.5% | 36.0% | 1.5 p.p. | 34.5% | 36.0% | 1.5 p.p. |
| 2-Play | 23.1% | 24.3% | 1.2 p.p. | 23.1% | 24.3% | 1.2 p.p. |

* (i.e. % of HH/SO having Mobile + Fixed component)

# 4 Enterprise

- Q2 2019 revenue -0.8%, with higher revenue from ICT, Advanced Business Services and Mobile Services not fully offsetting the erosion in legacy services.
- ICT revenue +1.4%, including the benefit from acquired ICT companies.
- In a competitive mobile market, net growth of +5,000 Postpaid cards (ex-M2M).
- Mobile Services revenue +0.8%, customer growth more than compensated the ARPU pressure.
- Direct margin up by 3.2%, with higher margin from ICT, Mobile Services and Advanced Business Services more than offsetting the legacy margin erosion.

## 4.1 Enterprise revenue

Second quarter Enterprise revenue -0.8%.

For the second quarter of 2019, **Proximus' Enterprise segment posted total revenue of EUR 348 million, a 0.8% or EUR 3 million decline** compared to the prior year.

ICT revenue up by 1.4%, with better portfolio mix.

**ICT revenue grew by 1.4%** to a total of EUR 128 million for the second quarter of 2019, in spite of lower proceeds from low-margin ICT products and one-shot services. The revenue includes the contribution from specialized companies acquired in 2018[13], enlarging Proximus' ICT portfolio, improving its ICT margin profile and moving the company from pure connectivity towards digital transformation solutions for its professional customers. Part of these acquisitions have annualized over the second quarter.

Strong increase in Advanced Business Services following acquisition of Mediamobile.

Revenue from **Advanced Business Services was up by 36.7% year-on-year to total EUR 10 million.** In particular, Proximus' subsidiary Be-Mobile, the Benelux market leader in the field of "smart mobility", posted higher revenue. This was mainly driven by the acquisition of Mediamobile in November 2018, strengthening the position of Be-Mobile in the automotive industry and increasing the coverage of its traffic management services in France, Germany, the Nordic countries and Poland, where Mediamobile is active today.

Over the second quarter of 2019, **Proximus posted EUR 206 million in Telecom revenue**, including somewhat lower revenue from Terminals.

Fixed Telecom Services revenue lower due to Fixed Voice erosion.

**Fixed Telecom Services revenue of EUR 108 million was 4.2% lower** year-on-year, driven by the continued erosion of Fixed Voice revenue. The Fixed Voice park continued its declining trend, eroding by 12,000 lines in the second quarter 2019. This brought the Fixed Voice base to 519,000, i.e. a year-on-year line loss of 7.1%. The Fixed Voice ARPU eroded by 1.5% to EUR 29.8, with the decrease in traffic per line and a higher penetration of unlimited call options only partly compensated for by the limited price indexation on 1 January 2019.

Revenue growth P2P Fiber-based Data Connectivity offset by legacy data erosion.

The Enterprise revenue from **Fixed Data services totaled EUR 61 million, down by 0.8%** from the prior year. The revenue from the largest portion of this product category, Data Connectivity services, was a touch below that of the prior year, due a slightly negative balance between legacy and new data connectivity services. The higher revenue from "Explore", Proximus flagship VPN-solution, supported by the growing P2P Fiber park for Business customers could not entirely offset the ongoing outphasing

[13] Codit, a Belgium-headquartered market leader in business application integration, API Management and Cloud services, was acquired on 11 July 2018; Umbrio, a Dutch enterprise specialised in IT operations & Business Analytics systems, was acquired by Proximus on 31 May 2018; ION-IP, a Dutch company specialized in Managed Security services, was acquired on 27 March 2018.

and migration of legacy products in the context of simplification programs, which offer customers new solutions at attractive pricing.

Higher Internet ARPU following improved tiering offset slightly lower base.

**Revenue from Internet was stable** for the second quarter of 2019. In a competitive setting, Proximus' Enterprise Internet park declined by 2,000 lines over the second quarter 2019. This brought the total internet park to 129,000 lines, 3% less compared to end-June 2018. The revenue impact, however, was offset by a 1.9% increase in Internet ARPU to EUR 44.4, mainly driven by the increased share of high-end internet lines.

Mobile Services revenue +0.8%. +5,000 Mobile net adds in Q2'19 in increasingly competitive market.

For the second quarter 2019, the Enterprise segment posted **EUR 81 million in Mobile Services revenue, up by 0.8%.** This was driven by a growth in revenue from subscriptions, which slightly compensated for the competitive price pressure and lower out-of-bundle revenue resulting from the continued move to mobile price bundles. Compared to a year ago, Proximus increased its Enterprise Mobile base by 4.2% to reach 1,053,000 Mobile postpaid cards, M2M excluded. For the second quarter 2019, these cards generated a Mobile ARPU of EUR 24.5, a year-on-year decrease of 3.9%. In a competitive market, the second-quarter Mobile churn increased to 11.9%, i.e. 1.1p.p. above last quarter, and up 3.1pp from the prior year. Nonetheless, over the second quarter of the year, the Enterprise segment added 5,000 Mobile cards.

+133,000 M2M cards activated, maintaining pole position.

The Enterprise segment posted a **strong increase in M2M** for the second quarter of 2019 with an additional 133,000 M2M cards activated. In addition to an ongoing growth in regular M2M cards, about half of the added M2M cards were related to the Smart metering[14] project with Fluvius. Furthermore, additional Road User Charging cards were activated in the second quarter. This brought the total number of M2M cards to 1,561,000 at end-June 2019, or a 25.7% increase from the prior year.

**Tango,** branded as "Telindus powered by Tango" for the enterprise market, reported **lower year-on-year revenue as a consequence of intercompany eliminations** regarding connectivity services which are now done within Tango. The second quarter covers the year-to-date eliminations. This has no impact on the total Enterprise revenue.

Proximus' Enterprise segment continues to develop innovative solutions to maintain its leadership position and stay relevant as the preferred partner for its customers' digital transformation. Examples are its smart mobility solutions, provided through Be-mobile like the Flux app allowing optimized traffic management for truckers. It also invests in analytics value propositions and state-of-the-art managed security & threat intelligence solutions, helping to secure some of the largest organizations in Belgium.

## 4.2 Enterprise direct margin

**For the second quarter of 2019,** Proximus' Enterprise segment posted **EUR 246 million in direct margin, a year-on-year increase of 3.2%**. The direct margin of acquired companies, further supported by a higher margin from Mobile Services, more than offset the ongoing margin erosion for Fixed voice.
The direct margin as a percentage of revenue improved for the second quarter 2019 by 2.7 p.p. to 70.6%. This resulted from a changing services mix, with an increasing share of revenue coming from labor-intensive (operational expenses) ICT and Advanced Business services.

[14] As announced on 8 May 2018, Proximus launched its NB-IoT network for the connection of the digital meters of Fluvius. Commissioned by IBM and Sagemcom, Proximus will connect 1.3 million digital meters for gas and electricity, which Fluvius intends to roll out in Flanders by the end of 2022.

### Table 16: Enterprise revenue by nature and direct margin

| (EUR million) | 2nd Quarter 2018 | 2nd Quarter 2019 | % Change | Year-to-date 2018 | Year-to-date 2019 | % Change |
|---|---|---|---|---|---|---|
| **Revenue** | **351** | **348** | **-0.8%** | **702** | **705** | **0.4%** |
| **Other Operating Income** | **1** | **2** | **nr** | **2** | **3** | **nr** |
| **Net Revenue** | **350** | **347** | **-1.0%** | **700** | **702** | **0.2%** |
| Telecom Revenue | 214 | 206 | -3.7% | 431 | 416 | -3.4% |
| Service Revenue | 193 | 189 | -2.2% | 384 | 378 | -1.7% |
| Fixed Services | 113 | 108 | -4.2% | 228 | 219 | -4.0% |
| Voice | 51 | 47 | -8.4% | 105 | 95 | -8.8% |
| Data | 62 | 61 | -0.8% | 123 | 123 | 0.1% |
| Mobile Services | 80 | 81 | 0.8% | 157 | 159 | 1.6% |
| Terminals (fixed and mobile) | 14 | 13 | -6.8% | 31 | 27 | -13.4% |
| Tango | 7 | 4 | -39.8% | 16 | 12 | -25.5% |
| ICT | 126 | 128 | 1.4% | 250 | 260 | 4.0% |
| Advanced Business Services | 7 | 10 | 36.7% | 14 | 20 | 43.1% |
| Other Products | 2 | 2 | -1.2% | 5 | 6 | 11.5% |
| **Costs of Sales** | **-113** | **-102** | **-9.2%** | **-228** | **-213** | **-6.5%** |
| **Segment Direct Margin** | **238** | **246** | **3.2%** | **475** | **492** | **3.7%** |
| *Direct Margin %* | *67.9%* | *70.6%* | *2.7 p.p.* | *67.6%* | *69.8%* | *2.2 p.p.* |

### Table 17: Enterprise operationals

| | 2nd Quarter 2018 | 2nd Quarter 2019 | % Change | Year-to-date 2018 | Year-to-date 2019 | % Change |
|---|---|---|---|---|---|---|
| **Park (000's)** | | | | | | |
| Fixed voice lines | 559 | 519 | -7.1% | 559 | 519 | -7.1% |
| Broadband lines | 133 | 129 | -3.0% | 133 | 129 | -3.0% |
| Postpaid cards excl. M2M | 1,010 | 1,053 | 4.2% | 1,010 | 1,053 | 4.2% |
| M2M cards | 1,241 | 1,561 | 25.7% | 1,241 | 1,561 | 25.7% |
| **Net adds (000's)** | | | | | | |
| Fixed voice lines | -8 | -12 | | -21 | -21 | |
| Broadband lines | -1 | -2 | | -2 | -2 | |
| Postpaid cards excl. M2M | 11 | 5 | | 22 | 24 | |
| M2M cards | 18 | 133 | | 32 | 234 | |
| **ARPU (EUR)** | | | | | | |
| Fixed voice | 30.3 | 29.8 | -1.5% | 30.7 | 30.0 | -2.1% |
| Boadband | 43.5 | 44.4 | 1.9% | 43.4 | 44.3 | 2.0% |
| Postpaid | 25.5 | 24.5 | -3.9% | 25.1 | 24.4 | -3.0% |
| **Annualized mobile churn rate** | 8.9% | 11.9% | 3.1 p.p. | 9.3% | 11.4% | 2.1 p.p. |
| **Average Mobile data usage user/month (Mb)** | 1,745 | 2,093 | 19.9% | na | na | na |

# 5 Wholesale

Table 18: Wholesale revenue and direct margin

| | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| (EUR million) | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| Segment Revenue | 50 | 45 | -9.6% | 97 | 88 | -10.2% |
| Net Revenue | 50 | 45 | -9.6% | 97 | 87 | -10.2% |
| Other Operating Income | 0 | 0 | nr | 0 | 0 | nr |
| Costs of Sales | -9 | -9 | -1.3% | -16 | -16 | 4.9% |
| Segment Direct Margin | 41 | 36 | -11.3% | 82 | 71 | -13.1% |
| *Direct Margin %* | *82.5%* | *80.9%* | *-1.6 p.p.* | *83.9%* | *81.2%* | *-2.7 p.p.* |

Lowered regulated FTR rates impacting revenue and direct margin.

For the second quarter of 2019, Proximus' Wholesale segment reported **revenue of EUR 45 million, 9.6% lower than in 2018**. This reflects the impact of regulation, with reduced Fixed Termination Rates since 1 January 2019.

Furthermore, within the mix, wholesale roaming revenue was up on higher traffic volumes, offsetting the impact from lowered roaming wholesale rates, negotiated in the Group's interest. The increase in wholesale roaming traffic revenue was however offset by lower revenue from traditional wholesale services. This was partly the consequence of the termination of various contracts with two of Proximus' Wholesale customers due to continued failure to comply with their contractual payment obligations. Amongst others, the MVNO contract was terminated which drove a reduction of -14,000 MVNO mobile cards, reported in the Group mobile base as Prepaid.

The **direct margin for the second quarter 2019 totaled EUR 36 million, a 11.3% decline compared with the prior year.** This mainly reflects a direct margin impact from the regulated lower Fixed Termination Rates, partially offset on Group level through a positive impact on the Consumer and Enterprise segments. Furthermore, the margin was impacted by the erosion of traditional wholesale services, including the termination of the above-mentioned contracts.

# 6 BICS (International Carrier Services)

- **Continuing revenue mix shift from Voice to Data**
- **Solid increase in SMS A2P volumes, supported by TeleSign's growing business.**
- **Direct margin pressure on legacy Voice services for large part offset by TeleSign Voice-related services.**
- **Direct margin +0.8% YoY, driven by growth in non-Voice Direct Margin.**
- **Segment result down 1.8% YoY on higher expenses. Segment margin of 11.6%; +0.2 p.p. YoY.**

## 6.1 BICS revenue

**For the second quarter of 2019, BICS posted a 3.1% decline in its revenue, totaling EUR 329 million.** In line with the ongoing market trend, BICS' revenue mix moved further from Voice to Data. Revenue from non-Voice products was up by 13.6% reaching EUR 114 million, driven by increasing messaging revenue. The overall volume of messages went up by 12.7%, with especially TeleSign realizing a strong increase in A2P volumes within the mix.

Revenue from Voice services continued its eroding trend, with revenue down year-on-year by 10.1%. In the second quarter of 2019, BICS carried 6.4 billion minutes, 6.7% more than in the comparable period of 2018 with volumes going up for most of BICS' covered regions. The positive volume effect was however offset by a lower unit revenue as a consequence of lower termination rates, competition and a less favorable destination mix.

## 6.2 BICS direct margin

For the second quarter of 2019, **BICS posted a direct margin of EUR 80 million, up 0.8%** compared to the prior year. The unfavorable effect of the renewed agreement with MTN was very limited in the second quarter 2019, with a more pronounced impact expected as of next quarter following the foreseen progressive insourcing by MTN of the transport and management of its traffic within the Middle East and African regions.

With the development of cloud numbers and TeleSign Mobile Identity services partly compensating for the decrease in BICS' legacy Voice, the Voice direct margin pressure was mitigated to a 1.1% decline in the second quarter.

BICS' non-Voice direct margin benefitted from the BICS-TeleSign combination, with growth in SMS A2P volumes and the realization of direct cost synergies, as well as from the development of BICS' mobile data and roaming services, resulting in an overall non-Voice margin growth of 2.1% for the second quarter, totaling EUR 46 million.

The Direct margin as percent of revenue improved by 0.9 p.p. from the prior year to reach 24.3% in the second quarter of 2019.

## 6.3 BICS segment result

**BICS' segment result for the second quarter of 2019 totaled EUR 38 million, down 1.8% compared to the prior year**. Additional hiring by TeleSign to support its growth and HR-related provisions, resulted in higher workforce expenses, offsetting the increase in Direct Margin. The segment margin as percentage of revenue further progressed to 11.6%, +0.2 p.p.

Table 19: BICS P&L

| (EUR million) | 2nd Quarter 2018 | 2nd Quarter 2019 | 2nd Quarter % Change | Year-to-date 2018 | Year-to-date 2019 | Year-to-date % Change |
|---|---|---|---|---|---|---|
| Segment Revenue | 340 | 329 | -3.1% | 659 | 648 | -1.7% |
| Net Revenue | 341 | 329 | -3.4% | 659 | 647 | -1.8% |
| Other Operating Income | 0 | 1 | nr | 0 | 1 | nr |
| Costs of Sales | -261 | -249 | -4.3% | -503 | -489 | -2.8% |
| Segment Direct Margin | 79 | 80 | 0.8% | 156 | 159 | 1.8% |
| *Direct Margin %* | *23.4%* | *24.3%* | *0.9 p.p.* | *23.7%* | *24.5%* | *0.8 p.p.* |
| Expenses | -41 | -42 | 3.2% | -83 | -86 | 3.6% |
| Workforce Expenses | -23 | -25 | 7.3% | -46 | -50 | 7.9% |
| Non Workforce Expenses | -18 | -17 | -2.2% | -37 | -36 | -1.7% |
| Segment Result | 39 | 38 | -1.8% | 74 | 73 | -0.3% |
| *Segment Contribution Margin* | *11.4%* | *11.6%* | *0.2 p.p.* | *11.2%* | *11.3%* | *0.2 p.p.* |

Table 20: BICS revenue by nature

| **(EUR million)** | **2nd Quarter 2018** | **2nd Quarter 2019** | **2nd Quarter % Change** | **Year-to-date 2018** | **Year-to-date 2019** | **Year-to-date % Change** |
|---|---|---|---|---|---|---|
| Total revenue | 340 | 329 | -3.1% | 659 | 648 | -1.7% |
| Voice | 240 | 216 | -10.1% | 466 | 430 | -7.8% |
| Non-Voice | 100 | 114 | 13.6% | 193 | 218 | 13.0% |

Table 21: BICS direct margin by nature

| **(EUR million)** | **2nd Quarter 2018** | **2nd Quarter 2019** | **2nd Quarter % Change** | **Year-to-date 2018** | **Year-to-date 2019** | **Year-to-date % Change** |
|---|---|---|---|---|---|---|
| Total direct margin | 79 | 80 | 0.8% | 156 | 159 | 1.8% |
| Voice | 34 | 34 | -1.1% | 68 | 68 | 0.9% |
| Non-Voice | 45 | 46 | 2.1% | 88 | 90 | 2.4% |

Table 22: BICS volume by nature

| **Volumes (in million)** | **2nd Quarter 2018** | **2nd Quarter 2019** | **2nd Quarter % Change** | **Year-to-date 2018** | **Year-to-date 2019** | **Year-to-date % Change** |
|---|---|---|---|---|---|---|
| Voice | 6,001 | 6,400 | 6.7% | 11,998 | 12,753 | 6.3% |
| Non-Voice | 2,453 | 2,764 | 12.7% | 4,910 | 5,328 | 8.5% |

# 7 Consolidated Financial Statements

## 7.1 Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. They do not include all of the information required for full annual financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018. Cumulative half-year figures have been subject to a limited review by the independent auditors.

## 7.2 Accounting policies

The accounting policies and methods of the Group used as of 2019 are consistent with those applied in the 31 December 2018 consolidated financial statements, with the exception that the Group applied the new standards, interpretations and revisions that became mandatory for the Group on 1 January 2019.

As from 1 January 2019 the Group adopted IFRS 16 which resulted in the changes in accounting policies described below.

### Changes following the adoption of IFRS 16 – Leases

IFRS 16 was issued in 2016 and replaces IAS17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27- Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. Under IAS 17, the Group was required to classify its leases as either finance or operating leases. Under the new standard, lessees are required to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. A right-of use-asset and a lease liability is to be recognized for all leases conveying the right to control the use of an identified asset for a period of time. Accordingly, the expenses relating to the use of the leased asset previously presented in operating expenses are now capitalized and depreciated. The discounting of lease liability will be periodically unwound into finance cost. The distinction between operating and finance leases remains when the Group acts as lessor.

The Group applies the standard from its mandatory application date of 1 January 2019.

The Group elected to adopt the simplified transition approach with the cumulative effect of initially applying IFRS 16 recognized in retained earnings (if any) at the date of initial application being 1 January 2019 without restatement of year before adoption. Right-of-use assets are measured at the amount of the lease liabilities at adoption.

At transition, initial recognition of lease liabilities under IFRS 16 (and consequently right-of-use assets) amounts to EUR 285 million and are measured at the present value of the remaining lease payments with the Group's incremental borrowing rate at a discount rate ranging from 0.2% to 2.5%. There is no impact on equity as a result of the adoption of IFRS 16.

The Group elected not to apply exemptions for short-term leases or leases for which the underlying is of low value and to exclude the initial direct costs from the right-of-use. No grandfathering was applied. The non-lease components are not included to determine the right-of-use and lease liabilities.

The Group's activities as a lessor are not significant and the Group did not identify other impacts than reclassifications to lease receivable and lease liabilities in the financial statements at adoption date as the previous classification into operating or finance lease remains applicable under IFRS 16.

In note 33 of the 2018 consolidated financial statements, future minimum rentals payable under the non-cancellable operating leases at 31 December 2018 were disclosed and amounted to EUR 295 million. The table below provides the reconciliation between these non-cancellable lease commitments and the lease liability of EUR 290 million recognized in the opening balance sheet at IFRS 16 adoption:

| (EUR million) | |
|---|---|
| Operating lease commitments at 31 December 2018 (in note 33) | 295 |
| Operating lease commitments at 31 December 2018 but starting after 1 January 2019* | -60 |
| Non-cancellable lease commitments excluding leases starting after 1 January 2019 | 235 |
| Impact of expected end date** | 58 |
| Impact of discounting | -8 |
| Existing finance lease liabilities at 31 December 2018 | 5 |
| Lease liability at 1 January 2019 | 290 |

* The operating lease commitments as reported at 31 December 2018 include commitments for contracts for which the asset will only be available for use in the course of 2019. IFRS 16 requires leases to be recognized when they are available for use. The lease liabilities for those commitments are therefore not recognized in the opening balance but will be recognized as they will become available for use.

** The lease term under IAS 17 represents the minimum non-cancellable period. Under IFRS 16, the lease term corresponds to the period including all extension options deemed reasonably certain to be activated and until both lessee and lessor can terminate the contract.

Opening balance of leases

| (EUR million) | As of 31 December 2018 | Initial recognition IFRS 16 | As per 1 January 2019 |
|---|---|---|---|
| Assets | 8 | 285 | 293 |
| Right-of-use asset | 0 | 285 | 285 |
| Leasing receivables – non-current | 4 | 0 | 4 |
| Leasing receivables – current | 4 | 0 | 4 |
| | | | |
| Liabilities | 5 | 285 | 290 |
| Lease liabilities – non-current | 4 | 212 | 216 |
| Lease liabilities – current | 2 | 73 | 75 |

## Judgments and estimates

The Group does not make any significant judgments and estimates other than those mentioned under note 2 in the 31 December 2018 consolidated financial statements, and other than those mentioned below in this report.

The application of IFRS 16 judgment is required in determining the lease term.

## Significant events or transactions in 2019

### Transactions with non-controlling interests

The Group acquired all of the remaining Be-Mobile non-controlling interests through the exercise of the put option that had been granted on these shares.

In a second step the Group sold 7.26% of the shares to non-controlling interests on which it granted a put option (together with a new shareholder's agreement) resulting in a negative impact on equity of EUR 6 million.

Net cash paid for these transactions amounted to EUR 30 million.

The Group was granted call options on these 7.26% non-controlling shares. These options can be exercised under the same conditions and for the same price.

### Accelerated transformation

Proximus launched its #shifttodigital strategy, accelerating its transformation to remain relevant on the Belgian market and to secure the company's future. On January 10th 2019, Proximus started the information and consultation phase with the unions, as part of the social dialogue, and entered the negotiation phase on June 10th 2019. Proximus continuously looks how to adapt its plan and minimise the number of dismissals, without compromising the necessary transformation and the cost efficiency objective that should give the company a sustainable future. Proximus will continue to consult with the trade unions and it is its firm intention to be able to reach an agreement on the different measures after the summer.

### Income taxes

On 11 January 2016, the European Commission announced its decision to consider Belgian tax rulings granted to multinationals with regard to "Excess Profit" as illegal state aid. BICS has applied such tax ruling for the period 2010-2014. BICS has paid the deemed aid recovery assessments. Furthermore, both BICS and the Belgian State filed an appeal against the decision of the European Commission before the European Court. The EU General Court ruled in its decision of 14 February, 2019 in favor of the Belgian State against the European Commission based on the argument that there is no "state aid scheme". The European Commission filed an appeal against the aforementioned decision with the European Court of Justice (ECJ) on 24 April 2019.

Management assesses that the position as recognized in the 2018 financial statements still reflects the best estimate of the probable outcome.

### Private bond

On 27 February 2019, Proximus entered into an agreement with an institutional investor to issue a new EUR 100 million private bond note starting 8 March 2019 and maturing in September 2031, with an annual fixed coupon of 1.75%.

## 7.3 Consolidated income statement

| | 2nd Quarter | | | Year-to-date | | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | % Change | 2018 | 2019 | % Change |
| ( EUR million) | IAS 17 | IFRS 16 | | IAS 17 | IFRS 16 | |
| Net revenue | 1,442 | 1,400 | -2.9% | 2,871 | 2,802 | -2.4% |
| Other operating income | 10 | 15 | 54.3% | 23 | 30 | 33.1% |
| Total income | 1,452 | 1,415 | -2.6% | 2,893 | 2,832 | -2.1% |
| Costs of materials and services related to revenue | -524 | -488 | -6.9% | -1,049 | -976 | -6.9% |
| Workforce expenses | -306 | -303 | -1.0% | -614 | -613 | -0.2% |
| Non workforce expenses | -166 | -125 | -24.5% | -332 | -267 | -19.5% |
| Total operating expenses before depreciation & amortization | -997 | -917 | -8.0% | -1,995 | -1,857 | -6.9% |
| Operating income before depreciation & amortization | 456 | 498 | 9.4% | 898 | 975 | 8.6% |
| Depreciation and amortization (excluding lease depreciation) | -261 | -265 | 1.7% | -511 | -520 | 1.8% |
| Lease depreciation | n.a. | -22 | n.a. | n.a. | -43 | n.a. |
| Operating income | 195 | 212 | 8.6% | 387 | 412 | 6.6% |
| Finance income | 3 | 1 | -58.6% | 5 | 4 | -10.3% |
| Finance costs | -22 | -15 | -34.2% | -36 | -28 | -21.0% |
| Lease interest | 0 | -1 | - | 0 | -1 | - |
| Net finance costs | -19 | -14 | -26.8% | -31 | -25 | -19.3% |
| Share of loss on associates | 0 | 0 | 7.6% | -1 | -1 | -27.9% |
| Income before taxes | 176 | 197 | 12.4% | 355 | 387 | 8.9% |
| Tax expense | -44 | -54 | 23.9% | -94 | -106 | 12.1% |
| Net Income | 132 | 143 | 8.6% | 260 | 281 | 7.8% |
| Attributable to: | | | | | | |
| Equity holders of the parent (Group share) | 126 | 138 | 9.4% | 250 | 273 | 9.0% |
| Non-controlling interests | 6 | 5 | -10.3% | 11 | 8 | -21.8% |
| Basic earnings per share | 0.39 | 0.43 | 9.3% | 0.77 | 0.84 | 8.9% |
| Diluted earnings per share | 0.39 | 0.43 | 9.3% | 0.77 | 0.84 | 9.0% |
| Weighted average number of outstanding shares | 322,593,357 | 322,967,142 | 0.1% | 322,594,351 | 322,818,657 | 0.1% |
| Weighted average number of outstanding shares for diluted earnings per share | 322,676,796 | 322,997,341 | 0.1% | 322,691,018 | 322,871,706 | 0.1% |

## 7.4 Consolidated statements of other comprehensive income

| | Year-to-date | |
|---|---|---|
| | 2018 | 2019 |
| (EUR million) | IAS 17 | IFRS 16 |
| Net income | 260 | 281 |
| Other comprehensive income: | | |
| Items that may be reclassified to profit and loss: | | |
| Exchange differences on translation of foreign operations | 6 | 1 |
| Cash flow hedges: | | |
| Gain/(Loss) taken to equity | 6 | 0 |
| Transfer to profit or loss for the period | 0 | -1 |
| Total before related tax effects | 12 | 0 |
| Related tax effects | | |
| Cash flow hedges: | | |
| Gain/(Loss) taken to equity | -2 | 0 |
| Income tax relating to items that may be reclassified | -2 | 0 |
| Total of items that may be reclassified to profit and loss, net of related tax effects | 10 | 1 |
| Items that will not be reclassified to profit and loss: | | |
| Change in the fair value of equity instruments | -5 | 0 |
| Change in shareholders' agreements | 0 | 0 |
| Total before related tax effects | -5 | 0 |
| Related tax effects | | |
| Change in the fair value of equity instruments | -1 | 0 |
| Income tax relating to items that will not be reclassified | -1 | 0 |
| Total of items that will not be reclassified to profit and loss, net of related tax effects | -6 | 0 |
| Total comprehensive income | 265 | 281 |
| Attributable to: | | |
| Equity holders of the parent | 253 | 273 |
| Non-controlling interests | 11 | 9 |

## 7.5 Consolidated balance sheet

| ( EUR million) | As of 31 December 2018 IAS 17 | As of 1 January 2019 IFRS 16 | As of 30 June 2019 IFRS 16 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | 6,850 | 7,135 | 7,137 |
| Goodwill | 2,470 | 2,470 | 2,476 |
| Intangible assets with finite useful life | 1,154 | 1,154 | 1,118 |
| Property, plant and equipment | 3,054 | 3,054 | 3,050 |
| Right-of-use asset | 0 | 285 | 324 |
| Lease receivable | 4 | 4 | 6 |
| Contract costs | 116 | 116 | 112 |
| Investments in associates | 3 | 3 | 3 |
| Equity investments | 0 | 0 | 1 |
| Deferred income tax assets | 12 | 12 | 12 |
| Other non-current assets | 35 | 35 | 36 |
| Current assets | 1,822 | 1,822 | 1,709 |
| Inventories | 129 | 129 | 132 |
| Trade receivables | 1,042 | 1,042 | 1,016 |
| Lease receivable | 4 | 4 | 3 |
| Contract assets | 83 | 83 | 83 |
| Current tax assets | 68 | 68 | 16 |
| Other current assets | 152 | 152 | 161 |
| Investments | 4 | 4 | 4 |
| Cash and cash equivalents | 340 | 340 | 294 |
| TOTAL ASSETS | 8,671 | 8,956 | 8,846 |

| | | | |
|---|---|---|---|
| LIABILITIES AND EQUITY | | | |
| Equity | 3,153 | 3,153 | 3,084 |
| Shareholders' equity | 3,005 | 3,005 | 2,955 |
| Issued capital | 1,000 | 1,000 | 1,000 |
| Reserves | -469 | -469 | -462 |
| Retained earnings | 2,474 | 2,474 | 2,417 |
| Non-Controlling interests | 148 | 148 | 129 |
| Non-Current liabilities | 3,181 | 3,393 | 3,498 |
| Interest-bearing liabilities | 2,259 | 2,259 | 2,360 |
| Lease liabilities | 4 | 216 | 256 |
| Liability for pensions, other post-employment benefits and termination benefits | 553 | 553 | 515 |
| Provisions | 142 | 142 | 140 |
| Deferred income tax liabilities | 91 | 91 | 87 |
| Other non-current payables | 132 | 132 | 140 |
| Current liabilities | 2,338 | 2,411 | 2,264 |
| Interest-bearing liabilities | 232 | 232 | 192 |
| Lease liabilities | 2 | 75 | 75 |
| Liability for pensions, other post-employment benefits and termination benefits | 52 | 52 | 70 |
| Trade payables | 1,361 | 1,361 | 1,260 |
| Contract liabilities | 109 | 109 | 125 |
| Tax payables | 56 | 56 | 45 |
| Other current payables | 526 | 526 | 497 |
| TOTAL LIABILITIES AND EQUITY | 8,671 | 8,956 | 8,846 |

# 7.6 Consolidated cash flow statement

| (EUR million) | 2nd Quarter 2018 IAS 17 | 2nd Quarter 2019 IFRS 16 | Change | Year-to-date 2018 IAS 17 | Year-to-date 2019 IFRS 16 | Change |
|---|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | | |
| Net income | 132 | 143 | 8.6% | 260 | 281 | 7.8% |
| Adjustments for: | | | | | | |
| Depreciation and amortization on intangible assets and property, plant and equipment | 261 | 265 | 1.7% | 511 | 520 | 1.8% |
| Lease depreciation | n.a. | 22 | n.a. | n.a. | 43 | n.a. |
| Increase/(decrease) of provisions | -2 | -5 | >100% | 1 | -3 | <-100% |
| Deferred tax income | -9 | -1 | -93.4% | -18 | -1 | -95.0% |
| Loss from investments accounted for using the equity method | 0 | 0 | 7.6% | 1 | 1 | -27.9% |
| Loans amortization | 0 | 0 | 3.7% | 1 | 1 | -4.8% |
| Gain on disposal of consolidated companies and remeasurement of previously held interest | 0 | -4 | <-100% | 0 | -4 | - |
| Gain on disposal of property, plant and equipment | 0 | 0 | <-100% | -1 | -1 | -37.6% |
| **Operating cash flow before working capital changes** | 382 | 422 | 10.4% | 755 | 837 | 10.9% |
| Decrease/(increase) in inventories | 9 | 11 | 28.9% | -18 | -3 | -80.5% |
| Decrease in trade receivables | 47 | 46 | -2.8% | 63 | 20 | -68.5% |
| Decrease in contract costs | 3 | 3 | 8.6% | 3 | 4 | 28.1% |
| Decrease in contract asset | 1 | 0 | <-100% | 2 | 0 | -97.3% |
| Decrease/(increase) in current income tax assets | -3 | 53 | >100% | -3 | 53 | >100% |
| Decrease/(increase) in other current assets | 3 | 14 | >100% | -20 | -21 | 6.8% |
| Decrease in trade payables | -33 | -30 | -9.0% | -86 | -26 | -69.1% |
| (Decrease)/increase in contract liability | -3 | -17 | >100% | 6 | 3 | -50.6% |
| Decrease in income tax payables | -61 | -57 | -6.7% | 0 | -10 | <-100% |
| (Decrease)/increase in other current payables | -16 | -44 | >100% | 11 | 14 | 34.1% |
| Decrease in net liability for pensions, other post-employment benefits and termination benefits | -3 | -11 | >100% | 0 | -19 | <-100% |
| (Decrease)/increase in other non-current payables and provisions | 1 | -2 | <-100% | 1 | 2 | >100% |
| **(Decrease)/increase in working capital, net of acquisitions and disposals of subsidiaries** | -55 | -34 | -37.6% | -41 | 15 | >100% |
| **Net cash flow provided by operating activities (1)** | 327 | 387 | 18.4% | 714 | 852 | 19.4% |
| **Cash flow from investing activities** | | | | | | |
| Cash paid for acquisitions of intangible assets and property, plant and equipment | -238 | -236 | -0.7% | -540 | -535 | -0.9% |
| Cash paid for acquisitions of other participating interests | -1 | -1 | -18.0% | -3 | -1 | -67.0% |
| Cash paid for acquisition of consolidated companies, net of cash acquired | -16 | -3 | -80.1% | -22 | -41 | 85.8% |
| Cash received for sales of consolidated companies, net of cash disposed of | 0 | 0 | <-100% | 0 | 7 | - |
| Cash received from sales of intangible assets and property, plant and equipment | 4 | 0 | -89.7% | 5 | 1 | -83.5% |
| Net cash received from other non-current assets | 4 | 0 | <-100% | 5 | 0 | <-100% |
| **Net cash used in investing activities** | -247 | -240 | -2.7% | -555 | -569 | 2.5% |
| **Cash flow before financing activities** | 80 | 147 | 83.4% | 159 | 283 | 78.3% |
| Lease payments | n.a. | -18 | n.a. | n.a. | -42 | n.a. |
| **Free cash flow (2)** | *80* | *129* | *60.8%* | *159* | *241* | *52.1%* |
| **Cash flow from financing activities other than lease payments** | | | | | | |
| Dividends paid to shareholders | -323 | -324 | 0.2% | -323 | -325 | 0.4% |
| Dividends paid to non-controlling interests | -28 | -29 | 3.7% | -28 | -29 | 3.7% |
| Net sale of treasury shares | 0 | 7 | >100% | 0 | 9 | >100% |
| Decrease of shareholders' equity | -2 | 0 | >100% | -2 | 0 | -95.9% |
| Cash received from cash flow hedge instrument related to long term debt | 0 | -1 | - | 8 | -1 | <-100% |
| Issuance of long term debt | 0 | 0 | -93.8% | 400 | 100 | -75.1% |
| Repayment of long term debt | -1 | 0 | -59.5% | -406 | 0 | -99.9% |
| Issuance/(repayment) of short term debt | 38 | 192 | >100% | 70 | -40 | <-100% |
| **Cash flows used in financing activities other than lease payments** | -318 | -156 | -51.0% | -282 | -287 | 1.7% |
| Exchange rate impact | 0 | 0 | <-100% | 0 | 0 | -58.3% |
| **Net decrease of cash and cash equivalents** | -237 | -27 | -88.8% | -123 | -46 | -63.1% |
| Cash and cash equivalents at 1 January | | | - | 333 | 340 | 2.1% |
| Cash and cash equivalents at the end of the period | | | - | 210 | 294 | 40.4% |
| (1) Net cash flow from operating activities includes the following cash movements : | | | | | | |
| Interest paid | | | | -39 | -29 | |
| Interest received | | | | 0 | 0 | |
| Income taxes paid | | | | -115 | -65 | |
| (2) Free cash flow: cash flow before financing activities and after lease payments | | | | | | |

# 7.7 Consolidated statements of changes in equity

| (EUR million) | Issued capital | Treasury shares | Restricted reserve | Equity instruments and hedge reserve | Other remeasure-ment reserve | Foreign currency translation | Stock Compen-sation | Retained Earnings | Shareholders' Equity | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | 1,000 | -431 | 100 | 5 | -128 | -4 | 4 | 2,450 | 2,997 | 156 | 3,153 |
| Total comprehensive income | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 250 | 253 | 11 | 265 |
| Transfer of loss on disposal of equity instruments at fair value through other comprehensive income to retained earnings | 0 | 0 | 0 | 2 | 0 | 0 | 0 | -2 | 0 | 0 | 0 |
| Dividends to shareholders (relating to 2017) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -323 | -323 | 0 | -323 |
| Dividends of subsidiaries to non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -28 | -28 |
| Business combination | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | -1 | 0 |
| Treasury shares | | | | | | | | | | | |
| Sale of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -1 | -1 | 0 | -1 |
| Total transactions with equity holders | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -323 | -322 | -29 | -352 |
| Balance at 30 June 2018 | 1,000 | -430 | 100 | 7 | -128 | 0 | 4 | 2,376 | 2,928 | 139 | 3,066 |
| | | | | | | | | | | | |
| Balance per 1 January 2019 | 1,000 | -427 | 100 | 6 | -155 | 3 | 4 | 2,474 | 3,005 | 148 | 3,153 |
| Total comprehensive income | 0 | 0 | 0 | -1 | 0 | 1 | 0 | 273 | 273 | 9 | 281 |
| Dividends to shareholders (relating to 2018) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -323 | -323 | 0 | -323 |
| Dividends of subsidiaries to non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -29 | -29 |
| Business combination | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2 | -2 | 2 | 0 |
| Changes in shareholders' agreement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -6 | -6 | 0 | -6 |
| Treasury shares | | | | | | | | | | | |
| Sale of treasury shares | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 2 | 6 | 0 | 6 |
| Stock options | | | | | | | | | | | |
| Stock options granted and accepted | | | | | | | | | | | |
| Deferred stock compensation | | | | | | | | | | | |
| Amortization deferred stock compensation | | | | | | | | | | | |
| Exercise of stock options | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 3 |
| Issue of share capital | | | | | | | | | | | |
| Total transactions with equity holders | 0 | 7 | 0 | 0 | 0 | 0 | 0 | -329 | -322 | -28 | -350 |
| | | | | | | | | | | | |
| Balance at 30 June 2019 | 1,000 | -420 | 100 | 6 | -155 | 3 | 4 | 2,417 | 2,955 | 129 | 3,084 |

## 7.8 Segment reporting

See reconciliation of reported and underlying figures in section 8.2

| | 30 June 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Group Proximus | | | | Underlying by segment | | | | | |
| (EUR million) | Reported (IFRS 16) | Lease depreciation and interest | Incidental | Underlying | BICS | Domestic (Group excl. BICS) | Consumer | Enterprise | Wholesale | Others |
| Net revenue | 2,802 | 0 | 0 | 2,802 | 647 | 2,155 | 1,400 | 702 | 87 | -34 |
| Other revenues | 30 | 0 | -4 | 26 | 1 | 25 | 14 | 3 | 0 | 8 |
| **Total income** | **2,832** | **0** | **-4** | **2,828** | **648** | **2,180** | **1,413** | **705** | **88** | **-26** |
| Costs of materials and services related to revenue | -976 | -2 | 0 | -979 | -489 | -489 | -301 | -213 | -16 | 41 |
| **Direct margin** | **1856** | **-2** | **-4** | **1849** | **159** | **1691** | **1113** | **492** | **71** | **15** |
| Workforce expenses | -613 | 0 | 18 | -595 | -50 | -545 | | | | |
| Non workforce expenses | -267 | -41 | 1 | -307 | -36 | -271 | | | | |
| **Total other operating expenses** | **-880** | **-41** | **19** | **-902** | **-86** | **-817** | | | | |
| **Operating income before depreciation & amortization** | **975** | **-44** | **15** | **947** | **73** | **874** | | | | |
| Depreciation and amortization | -563 | | | | | | | | | |
| **Operating income** | **412** | | | | | | | | | |
| Net finance costs | -25 | | | | | | | | | |
| Share of loss on associates | -1 | | | | | | | | | |
| **Income before taxes** | **387** | | | | | | | | | |
| Tax expense | -106 | | | | | | | | | |
| **Net income** | **281** | | | | | | | | | |
| Attributable to : | | | | | | | | | | |
| Equity holders of the parent (Group share) | 273 | | | | | | | | | |
| Non-controlling interests | 8 | | | | | | | | | |

| | 30 June 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Group Proximus | | | | | | | | |
| (EUR million) | Reported (IAS 17) | Incidental | Underlying | BICS | Domestic (Group excl. BICS) | Consumer | Enterprise | Wholesale | Others |
| Net revenue | 2,871 | 0 | 2,871 | 659 | 2,212 | 1,443 | 700 | 97 | -29 |
| Other revenues | 23 | -1 | 22 | 0 | 22 | 11 | 2 | 0 | 8 |
| **Total income** | **2,893** | **-1** | **2,892** | **659** | **2,233** | **1,454** | **702** | **97** | **-21** |
| Costs of materials and services related to revenue | -1,049 | 0 | -1,049 | -503 | -546 | -336 | -228 | -16 | 33 |
| **Direct margin** | **1845** | **-1** | **1844** | **156** | **1688** | **1118** | **475** | **82** | **13** |
| Workforce expenses | -614 | 23 | -591 | -46 | -545 | | | | |
| Non workforce expenses | -332 | 21 | -311 | -37 | -274 | | | | |
| **Total other operating expenses** | **-946** | **45** | **-902** | **-83** | **-819** | | | | |
| **Operating income before depreciation & amortization** | **898** | **44** | **942** | **74** | **868** | | | | |
| Depreciation and amortization | -511 | | | | | | | | |
| **Operating income** | **387** | | | | | | | | |
| Net finance costs | -31 | | | | | | | | |
| Share of loss on associates | -1 | | | | | | | | |
| **Income before taxes** | **355** | | | | | | | | |
| Tax expense | -94 | | | | | | | | |
| **Net income** | **260** | | | | | | | | |
| Attributable to : | | | | | | | | | |
| Equity holders of the parent (Group share) | 250 | | | | | | | | |
| Non-controlling interests | 11 | | | | | | | | |

## 7.9 Disaggregation of revenue

| (EUR million) | As of 30 June 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Group | BICS | Domestic (Group excl. BICS) | Consumer | Enterprise | Wholesale | Others |
| Net revenue (underlying) | 2,802 | 647 | 2,155 | 1,400 | 702 | 87 | -34 |
| Net revenue (incidentals) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net revenue (reported)** | **2,802** | **647** | **2,155** | **1,400** | **702** | **87** | **-34** |
| Other operating income (underlying) | 26 | 1 | 25 | 14 | 3 | 0 | 8 |
| Other operating income (incidentals) | 4 | 0 | 4 | 0 | 4 | 0 | 0 |
| **Other operating income (reported)** | **30** | **1** | **29** | **14** | **7** | **0** | **8** |
| Total income (underlying) | 2,828 | 648 | 2,180 | 1,413 | 705 | 88 | -26 |
| Total income (incidentals) | 4 | 0 | 4 | 0 | 4 | 0 | 0 |
| **Total income (reported)** | **2,832** | **648** | **2,184** | **1,413** | **709** | **88** | **-26** |

## 7.10 Group financing activities related to interest bearing liabilities

| (EUR million) | As of 31 December 2018 IAS 17 | As of 1 January 2019 IFRS 16 | Cash flows | Non-cash changes | As of 30 June |
|---|---|---|---|---|---|
| Long-term | | | | | |
| Unsubordinated debentures | 1,852 | 1,852 | 100 | 1 | 1,952 |
| Credit institutions | 403 | 403 | 0 | 0 | 403 |
| Other loans | 0 | 0 | 0 | 0 | 0 |
| Derivatives held for trading | 4 | 4 | 0 | 0 | 5 |
| Current portion of amounts payable > one year | | | | | |
| Unsubordinated debentures | 0 | 0 | 0 | 0 | 0 |
| Credit institutions held to maturity | 1 | 1 | 0 | 0 | 0 |
| Other financial debts | | | | | |
| Credit institutions | 0 | 0 | 0 | 0 | 0 |
| Other loans | 232 | 232 | -40 | 0 | 192 |
| Total liabilities from financing activities excluding lease liabilities | 2,492 | 2,492 | 59 | 1 | 2,552 |
| Lease liabilities current and non current | 5 | 290 | -42 | 82 | 331 |
| Total liabilities from financing activities including lease liabilities | 2,497 | 2,782 | 18 | 83 | 2,884 |

## 7.11 Financial instruments

IAS 34 16 A (j) requires the interim reporting to provide specific fair value disclosures and in particular the following information:

- The carrying amounts and fair values of the financial instruments;
- The categorization of the fair valued financial instruments within the fair value hierarchy;
- The fair valuation techniques used.

The Group's main financial instruments comprise unsubordinated debentures, trade receivables and trade payables. The Group has an interest rate and currency swap (IRCS) to manage its exposure to interest rate risk and to foreign currency risk on its remaining non-current interest-bearing liability yielded in foreign currency. The typical financial instruments used to hedge foreign currency risk are forward foreign exchange contracts and currency options.

## Fair Value and Fair Value Hierarchy

The following table shows the measurement categories under IFRS 9 for each class of assets and financial liabilities. It also includes the fair value hierarchy of the financial instruments and the valuation levels.

| (EUR million) | As of June 30, 2018 | | | |
|---|---|---|---|---|
| | Classification under IFRS 9 | Carrying amount under IFRS 9 | Fair value | Level |
| ASSETS | | | | |
| Non-current assets | | | | |
| Other non-current assets | | | | |
| Derivatives held for trading | FVTPL | 5 | 5 | Level 2 |
| Other financial assets | Amortized cost | 11 | 11 | |
| Current assets | | | | |
| Trade receivables | Amortized cost | 1,062 | 1,062 | |
| Interest bearing | | | | |
| Other receivables | Amortized cost | 24 | 24 | |
| Non-interest bearing | | | | |
| Other receivables | Amortized cost | 1 | 1 | |
| Derivatives held for trading | FVTPL | -1 | -1 | Level 1 |
| Investments | Amortized cost | 5 | 5 | |
| Cash and cash equivalents | | | | |
| Short-term deposits | Amortized cost | 26 | 26 | |
| Cash at bank and in hand | Amortized cost | 184 | 184 | |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Interest-bearing liabilities | | | | |
| Unsubordinated debentures not in a hedge relationship | Amortized cost | 1,851 | 1,967 | Level 2 |
| Credit institutions | Amortized cost | 400 | 400 | Level 2 |
| Derivatives held for trading | FVTPL | 4 | 4 | Level 2 |
| Non-interest-bearing liabilities | | | | |
| Other non-current payables | Amortized cost | 175 | 175 | |
| Current liabilities | | | | |
| Interest-bearing liabilities | | | | |
| Other loans | Amortized cost | 234 | 234 | |
| Trade payables | Amortized cost | 1,262 | 1,262 | |
| Other current payables | | | | |
| Other debt | FVTPL | 37 | 37 | Level 3 |
| Other amounts payable | Amortized cost | 250 | 250 | |

FVTPL : fair value through profit and loss
FVTOCI : fair value through other comprehensive income

| (EUR million) | As of June 30, 2019 Classification under IFRS 9 | Carrying amount under IFRS 9 | Fair value | Level |
|---|---|---|---|---|
| ASSETS | | | | |
| Non-current assets | | | | |
| Equity instruments | FVTOCI | 1 | 1 | |
| Other non-current assets | | | | |
| Derivatives held for trading | FVTPL | 6 | 6 | Level 2 |
| Other financial assets | Amortized cost | 11 | 11 | |
| Current assets | | | | |
| Trade receivables | Amortized cost | 1,018 | 1,018 | |
| Interest bearing | | | | |
| Other receivables | Amortized cost | 6 | 6 | |
| Non-interest bearing | | | | |
| Other receivables | Amortized cost | 9 | 9 | |
| Investments | Amortized cost | 4 | 4 | |
| Cash and cash equivalents | | | | |
| Short-term deposits | Amortized cost | 97 | 97 | |
| Cash at bank and in hand | Amortized cost | 197 | 197 | |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Interest-bearing liabilities | | | | |
| Unsubordinated debentures not in a hedge relationship | Amortized cost | 1,952 | 2,113 | Level 2 |
| Credit institutions | Amortized cost | 403 | 416 | Level 2 |
| Derivatives held for trading | FVTPL | 5 | 5 | Level 2 |
| Non-interest-bearing liabilities | | | | |
| Other non-current payables | Amortized cost | 140 | 140 | |
| Current liabilities | | | | |
| Interest-bearing liabilities | | | | |
| Other loans | Amortized cost | 192 | 192 | |
| Trade payables | Amortized cost | 1,261 | 1,261 | |
| Other current payables | | | | |
| Other debt | FVTPL | 14 | 14 | Level 3 |
| Other amounts payable | Amortized cost | 248 | 248 | |

FVTPL : fair value through profit and loss
FVTOCI : fair value through other comprehensive income

## Valuation technique

The Group holds financial instruments classified in Level 1, 2 and 3.

The valuation techniques for fair value measuring the Level 2 & 3 financial instruments are:

### Other derivatives in Level 2

Other derivatives include the interest rate swaps (IRS) and interest rate and currency swaps (IRCS) the Group entered into to reduce the interest rate and currency fluctuations on some of its long-term debentures (including their current portion). The fair values of these instruments are determined by discounting the expected contractual cash flows using interest rate curves in the corresponding currencies and currency exchange rates, all observable on active markets.

### Unsubordinated debentures

The unsubordinated debentures are recognized at amortized costs.

In case of anticipated settlement, in the context of the Group portfolio restructuring, those debentures are measured at their transaction price once the transaction is binding for the Group. Their fair values, calculated for each debenture separately, were obtained by discounting the interest rates at which the Group could borrow at period end for similar debentures with the same remaining maturities.

### Other debts in level 3

Level 3 financial instruments valuation is not based on observable market data. Instead, its fair value is derived using financial models and other valuation methods. To the extent possible, the underlying assumptions take into account market pricing information. Valuation changes due to new information could impact the income statement.

## 7.12 Contingent liabilities

Compared to the 2018 annual accounts, no change occurred during the first half year of 2019 in the contingent liabilities other than those mentioned here below.

BICS received withholding tax assessments from the Indian tax authorities in relation to payments made by an Indian tax resident customer to BICS in the period 1 April 2007 to 31 March 2010. BICS filed appeals against the above assessments with the competent Indian Courts opposing the view of the Indian tax authorities that Indian withholding taxes are due on the payments. Furthermore, BICS is opposing the assessments in relation to the periods from 1 April 2008 to 31 March 2010 on procedural grounds. The amount of the contingent liability including late payment interest should not exceed EUR 26.9 million. BICS has not paid the assessed amounts and has not recorded a tax provision. Management assesses that the position as recognized in these financial statements reflects the best estimate of the probable final outcome.

Proximus has been informed that a Brussels investigating judge has decided, in the context of the GIAL case, to indict Proximus and transfer the file to the prosecutor's office based on allegations of corruption and a breach of the freedom to submit offers, in the context of a procedure following a complaint. Proximus formally denies having committed any offense in this case. The final decision whether to prosecute Proximus will rest with the Council chamber which is not expected to take a decision before this autumn.

## 7.13 Post balance sheet events

On 11 July 2019 Proximus and Orange Belgium signed a term sheet to reach a mobile access network sharing agreement by the end of the year. The aim of such an agreement is to enable both companies to meet the increasing customer demand for mobile network quality and deeper indoor coverage. It will also allow a faster and more comprehensive 5G roll-out in Belgium. The objective is to bring relevant benefits for end-users, enterprises and society in general while preserving a sound and effective competitive environment.

No other significant post balance sheet events are identified.

## 7.14 Others

There has been no material change to the information disclosed in the 2018 annual consolidated financial statements in connection with related parties that would require disclosure under the Financial Reporting Framework.

# 8 Additional information

## 8.1 Reporting remarks

### 8.1.1 Rounding

In general, all figures are rounded. Variances are calculated from the source data before rounding, implying that some variances may not add up.

## 8.2 From Reported to Underlying

| | GROUP Revenue | | GROUP EBITDA | | GROUP Revenue | | GROUP EBITDA | |
|---|---|---|---|---|---|---|---|---|
| **(EUR million)** | Q2 '18 | Q2 '19 | Q2 '18 | Q2 '19 | YTD '18 | YTD '19 | YTD '18 | YTD '19 |
| Reported | 1,452 | 1,415 | 456 | 498 | 2,893 | 2,832 | 898 | 975 |
| Lease Depreciations | nr | 0 | nr | -22 | nr | 0 | nr | -43 |
| Lease Interest | nr | 0 | nr | -1 | nr | 0 | nr | -1 |
| Incidentals | 0 | -2 | 33 | 8 | -1 | -4 | 44 | 15 |
| Underlying | 1,452 | 1,413 | 489 | 484 | 2,892 | 2,828 | 942 | 947 |
| Incidentals | 0 | -2 | 33 | 8 | -1 | -4 | 44 | 15 |
| Capital gains on building sales | | | | | -1 | | -1 | |
| change in M&A contingent consideration | | -2 | | -2 | | -4 | | -4 |
| Early Leave Plan and Collective Agreement | | | 11 | 6 | | | 22 | 12 |
| M&A-related transaction costs | | | 1 | 3 | | | 2 | 5 |
| Shift to Digital plan | | | | | | | | 2 |
| Pylon Tax provision update (re. past years) | | | 21 | 1 | | | 21 | 1 |

## 8.3 Definitions

**Adjusted Net Financial Position**: refers to the total interest-bearing debt (short term + long term) minus cash and cash equivalents, excluding lease liabilities.

**Advanced Business Services**: new solutions offered aside from traditional Telecom and ICT, such as Road User Charging, converging solutions, Big Data and smart mobility solutions.

**Annualized full churn rate of X-play**: a cancellation of a household is only taken into account when the household cancels all its plays.

**Annualized Mobile churn rate**: the total annualized number of SIM cards disconnected from the Proximus Mobile network (including the total number of port-outs due to Mobile number portability) during the given period, divided by the average number of customers for that same period.

**ARPH**: Average underlying revenue per household (including Small Offices).

**ARPU**: Average Revenue per Unit.

**Average Mobile data usage**: calculated by dividing the total data usage of the last month of the quarter by the number of data users in the last month of the quarter.

**Blended Mobile ARPU**: total Mobile Voice and Mobile data revenues (inbound and outbound), of both Prepaid and Postpaid customers, divided by the average number of active Prepaid and Postpaid customers for that period, divided by the number of months of that same period. This also includes MVNO's but excludes M2M.

**Broadband access channels**: ADSL, VDSL and Fiber lines. For Consumer this also includes Scarlet.

**Broadband ARPU**: total Internet underlying revenue, excluding activation and installation fees, divided by the average number of Internet lines for the period considered, divided by the number of months in that same period.

**BICS**: international carrier activities, a joint venture of Proximus, Swisscom and MTN in which Proximus owns 57.6%.

**Capex**: this corresponds to the acquisitions of intangible assets and property, plant and equipment, excluding Right of Use assets (leasing).

**Consumer**: addressing the residential and small businesses (< 10 employees) market, including the Customer Operations Unit.

**Cost of Sales**: the costs of materials and charges related to revenues.

**Direct margin:** the result of cost of sales subtracted from the revenues, expressed in absolute value or in % of revenues.

**Domestic**: defined as the Proximus Group excluding BICS.

**EBITDA**: Earnings Before Interest, Taxes, Depreciations and Amortization; corresponds to Revenue minus Cost of sales, workforce and non-workforce expenses.

**EBIT**: Earnings Before Interest & Taxes, corresponds to EBITDA minus depreciations and amortizations.

**Enterprise**: segment addressing the professional market including small businesses with more than 10 employees.

**Fixed Services Revenue**: total underlying revenue from Fixed services (Fixed Voice, Broadband and TV).

**Fixed Voice access channels**: PSTN, ISDN and IP lines. For Enterprise specifically, this also contains the number of Business Trunking lines (solution for the integration of Voice and Data traffic on one single Data network).

**Free Cash Flow:** this is cash flow before financing activities, but after lease payments as from 2019.

**ICT**: Information and Communications Technology (ICT) is an extended term for information technology (IT) which stresses the role of unified communications and the integration of telecommunications (telephone lines and wireless signals), computers as well as necessary enterprise software, middleware, storage, and audio-visual systems, which enable users to access, store, transmit, and manipulate information. Proximus' ICT solutions include, but are not limited to, Security, Cloud, "Network & Unified Communication", "Enterprise Mobility Management" and "Servicing and Sourcing".

**Incidental:** adjustments for material (**) items including gains or losses on the disposal of consolidated companies, fines and penalties imposed by competition authorities or by the regulator, costs of employee restructuring programs, the effect of settlements of post-employment benefit plans with impacts for the beneficiaries and other items that are outside the scope of usual business operations. These other items include divestments of consolidated activities, gains and losses on disposal of buildings, transaction costs related to M&A (acquisitions, mergers, divestments etc.), deferred M&A purchase price, pre-identified one- shot projects (such as rebranding costs), changes of accounting treatments (such as the application of IFRIC 21), financial impacts of litigation files, fines and penalties, financial impact of law changes (one-off impact relative to previous years), recognition of previously unrecognized assets and impairment losses.

(**) The materiality threshold is met when exceeding individually EUR 5 million. No materiality threshold is defined for costs of employee restructuring programs, the effect of settlements of post-employment benefit plans with impacts for the beneficiaries, divestments of consolidated companies, gains and losses on disposal of buildings and M&A-related transaction costs. No threshold is used for adjustments in a subsequent quarter if the threshold was met in a previous quarter.

**Mobile customers**: Voice and Data cards as well as Machine-to-Machine, and excludes all free Data cards. Active Prepaid customers are customers who have made or received at least one call and/or sent or received at least one SMS message in the last three months. An M2M card is considered active if at least one Data connection has been made in the last month. Postpaid customers paying a monthly subscription are per default active.

**Mobile ARPU**: monthly ARPU is equal to total Mobile Voice and Mobile Data revenues (inbound and outbound, visitor roaming excluded), divided by the average number of Active Mobile Voice and Data customers for that period, divided by the number of months of that same period. This also includes MVNO's but excludes M2M.

**Multi-play household (including Small Offices):** two or more Plays, not necessarily in a Pack.

**Net Financial Position**: total interest-bearing debt (short and long term) minus cash and cash equivalents.

**Non-workforce expenses**: all operating expenses excluding workforce expenses and excluding depreciation and amortization and non-recurring expenses.

**Play**: a subscription to either Fixed Voice, Fixed Internet, dTV or Mobile Postpaid (paying Mobile cards). A 4-Play customer subscribes to all four services.

**Revenue-Generating Unit (RGU)**: for example, a household with Fixed Internet and 2 Mobile Postpaid cards is considered as a 2-Play household with 3 RGUs.

**Reported Revenues**: this corresponds to the TOTAL INCOME.

**Terminals**: this corresponds to devices for Fixed voice, Data, Mobile and related accessories. This excludes PABX, ICT products and TV CPE.

**Underlying**: refers to Revenue and EBITDA (Total Income and Operating Income before Depreciation and Amortization) adjusted for lease depreciations and interest as from 2019 and for incidentals in order to properly assess the ongoing business performance.

**Wholesale**: Proximus' unit addressing the telecom wholesale market including other telecom operators (incl. MVNOs) and ISPs.

**Workforce expenses**: Expenses related to own employees (personnel expenses and pensions) as well as to external employees.

**X-Play**: the sum of single play (1-play) and multi-play (2-play + 3-play + 4-play).

## 8.4 Management statement

The Proximus Executive Committee declares that to the best of its knowledge, the interim condensed consolidated financial statements, established in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, give a true and fair view of the assets, financial position and results of Proximus and of the entities included in the consolidation. The financial report gives an accurate overview of the information that needs to be disclosed. The Executive Committee is represented by Dominique Leroy, Chief Executive Officer, Sandrine Dufour, Chief Financial Officer, Bart Van Den Meersche, Chief Enterprise Market Officer, Guillaume Boutin, Chief Consumer Market Officer, Geert Standaert, Chief Technology Officer, Renaud Tilmans, Chief Customer Operations Officer, Jan Van Acoleyen, Chief Human Resources Officer, and Dirk Lybaert, Chief Corporate Affairs Officer.

## 8.5 Financial calendar (dates could be subject to change)

| | |
|---|---|
| 7 October 2019 | Start of quiet period ahead of Q3 2019 results |
| 25 October 2019 | Announcement of Q3 2019 results |
| 13 January 2020 | Start of quiet period ahead of Q4 2019 results |
| 21 February 2020 | Announcement of Q4 2019 results |
| 13 April 2020 | Start of quiet period ahead of Q1 2020 results |
| 15 April 2020 | Annual General Meeting of Shareholders |
| 30 April 2020 | Announcement of Q1 2020 results |
| 13 July 2020 | Start of quiet period ahead of Q2 2020 results |
| 31 July 2020 | Announcement of Q2 2020 results |
| 12 October 2020 | Start of quiet period ahead of Q3 2020 results |
| 30 October 2020 | Announcement of Q3 2020 results |

## 8.6 Contact details

**Investor relations**
+32 2 202 82 41
investor.relations@proximus.com
www.proximus.com/en/investors

## 8.7 Investor & Analyst Conference Call

**Analyst conference call details**

Proximus will host a conference call for investors and analysts on Tuesday 30 July 2019.

Time: 02:00pm Brussels – 01:00pm London – 08:00am New York

| | |
|---|---|
| Dial-in UK | +44 20 7194 3759 |
| Dial-in USA | +1 646 722 4916 |
| Dial-in Europe | +32 2 403 5816 |
| Code | 11583369# |