

**Belgacom NV/SA van publiek
recht/de droit public**

Regulatory Accounts for
the year ended
December 31, 2011

BELGACOM NV/SA van publiek recht/de droit public

Regulatory Accounts for the year ended December 31, 2011

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1. Belgacom NV/SA van publiek recht/de droit public Separate Accounts for the year ended 31 December, 2011

EURO	Market 1/2007	Market 2/2007	Market 3/2007
Turnover			
<i>From BGC Retail</i>	608.380.188 EUR		
<i>From Other Licensed Operators</i>	208.139 EUR (*)	7.464.690 EUR	18.966.898 EUR
Total Turnover	608.588.327 EUR	7.464.690 EUR	18.966.898 EUR
Operating Costs			
<i>Direct costs</i>	28.203.208 EUR	679.121 EUR	1.500.094 EUR
<i>Indirect Network costs</i>	3.167.594 EUR	202.671 EUR	531.486 EUR
<i>Other Indirect costs (prim&man&ovh)</i>	162.971.113 EUR	71.338 EUR	29.770 EUR
<i>Transferred Network costs</i>	329.791.030 EUR	7.212.279 EUR	19.707.242 EUR
Total Operating Costs	524.132.945 EUR	8.165.410 EUR	21.768.593 EUR
Return	84.455.382 EUR	-700.719 EUR	-2.801.695 EUR
<i>Return on turnover</i>	13,88%	-9,39%	-14,77%

(*) CPS

Direct costs have a direct relationship with a specific market (like cost of sales). Some support activities (from supporting departments) that are directly allocated to markets are also included in the Direct costs¹.

Indirect Network costs are allocated via the Building Block Costing methodology and relate to network components that are not dimensioned and therefore do not allow a unit cost computation.

Other Indirect costs are non-network costs that are classified as "primary" or "management/overhead":

- Primary costs: these are activities costs that mostly have a direct causal relationship to the markets and are allocated based on the variability of the costs.
- Management & overhead costs: these are activities costs that mostly do not have a direct causal relationship to any particular market or that are fix costs related to more than one market; being non causal costs they are allocated based on a fair allocation scheme.

Transferred Network costs are allocated via the Building Block Costing methodology and relate to network components that are dimensioned and therefore do allow a unit cost computation.

¹ The remaining support activities support the other activities of the company (primary, management and network) and are thus allocated to these activities.

EURO	Market 4/2007	Market 5/2007	Market 6/2007
Turnover			
<i>From BGC Retail</i>			
<i>From Other Licensed Operators</i>	15.616.609 EUR	33.098.889 EUR	11.969.524 EUR
Total Turnover	15.616.609 EUR	33.098.889 EUR	11.969.524 EUR
Operating Costs			
<i>Direct costs</i>	1.893.657 EUR	6.712.647 EUR	53.941 EUR
<i>Indirect Network costs</i>	367.896 EUR	524.103 EUR	212.855 EUR
<i>Other Indirect costs (prim&man&ovh)</i>	2.160.659 EUR	3.705.240 EUR	9.007.205 EUR
<i>Transferred Network costs</i>	17.907.471 EUR	33.657.707 EUR	3.819.119 EUR
Total Operating Costs	22.329.683 EUR	44.599.697 EUR	13.093.119 EUR
Return	-6.713.074 EUR	-11.500.808 EUR	-1.123.595 EUR
<i>Return on turnover</i>	-42,99%	-34,75%	-9,39%

Direct costs have a direct relationship with a specific market (like cost of sales). Some support activities (from supporting departments) that are directly allocated to markets are also included in the Direct costs².

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² The remaining support activities support the other activities of the company (primary, management and network) and are thus allocated to these activities.

EURO	Market 7/2007	Auxiliary service BRIO - POI	Auxiliary service BRxx - Colocation
Turnover			
<i>From BGC Retail</i>			
<i>From Other Licensed Operators</i>	79.025.679 EUR	5.087.537 EUR	2.441.693 EUR
Total Turnover	79.025.679 EUR	5.087.537 EUR	2.441.693 EUR
Operating Costs			
<i>Direct costs</i>	243.794 EUR	0 EUR	3.390.525 EUR
<i>Indirect Network costs</i>	3.329.444 EUR	135.754 EUR	4.860.591 EUR
<i>Other Indirect costs (prim&man&overhead)</i>	5.990.437 EUR	1.138.710 EUR	4.269 EUR
<i>Transferred Network costs</i>	76.880.244 EUR	4.290.648 EUR	0 EUR
Total Operating Costs	86.443.919 EUR	5.565.111 EUR	8.255.384 EUR
Return	-7.418.241 EUR	-477.573 EUR	-5.813.691 EUR
<i>Return on turnover</i>	-9,39%	-9,39%	-238,10%

Direct costs have a direct relationship with a specific market (like cost of sales). Some support activities (from supporting departments) that are directly allocated to markets are also included in the Direct costs³.

Indirect Network costs are allocated via the Building Block Costing methodology and relate to network components that are not dimensioned and therefore do not allow a unit cost computation.

Other Indirect costs are non-network costs that are classified as "primary" or "management/overhead":

- Primary costs: these are activities costs that mostly have a direct causal relationship to the markets and are allocated based on the variability of the costs.
- Management & overhead costs: these are costs that mostly do not have a direct causal relationship to any particular market or that are fix costs related to more than one market; being non causal costs they are allocated based on a fair allocation scheme.

Transferred Network costs are allocated via the Building Block Costing methodology and relate to network components that are dimensioned and therefore do allow a unit cost computation.

³ The remaining support activities support the other activities of the company (primary, management and network) and are thus allocated to these activities.

2. Introduction

Belgacom's regulatory obligations with respect to Accounting Separation are stipulated in the following texts:

- Article 60 of the Belgian law for electronic communication networks and services (June 13, 2005).
- BIPT's decision with regard to the modalities of the accounting separation obligation imposed on Belgacom (April 15, 2010).

Separate accounts allow to present financial information in order to verify (i) whether the obligation with regard to non-discrimination is applied and (ii) the absence of anti-competitive cross-subsidies if relevant.

The separate accounts of Belgacom NV/SA van publiek recht/de droit public as per December 31, 2011 are based on the top down cost accounting model which is founded on the Belgian GAAP SAP based annual accounts of December 31, 2011 of Belgacom NV/SA van publiek recht/de droit public. These annual accounts have been audited by Deloitte Bedrijfsrevisoren / Réviseurs d'entreprises, who issued an unqualified opinion thereon.

Present report does not and cannot be considered as a complement or modification of the official annual accounts of Belgacom.

The BIPT found that there is sufficient public interest in the information contained in the separate accounts to justify their publication.

3. Format of Belgacom Separate Accounts

The regulatory financial reporting for 2011 has been prepared under the requirements as set out in the article 60 of the Law of 13th June 2005 and in the BIPT's decision of 15 April 2010.

These requirements allow the BIPT to monitor that there is no undue discrimination from a financial point of view.

The BIPT's decision of 15 April 2010 still refers to the markets listed in the Recommendation 2003/311/EC. However, this Recommendation was substituted by a new Recommendation (2007/879/EC) in December 2007 which, following the evolution observed in electronic communication markets over recent years, revised the list of relevant markets of the previous one and reduced the number of markets susceptible to *ex ante* regulation. Seven markets are now identified, one at the retail level⁴ and the other six at the wholesale level⁵.

Table 1 below lists the markets of the new EC Recommendation (first column) and the corresponding markets in the old one (second column).

⁴ Market 1: "Access to the public telephone network at a fixed location for residential and non-residential customers".

⁵ Market 2: "Call origination on the public telephone network provided at a fixed location"; Market 3: "Call termination on individual public telephone networks provided at a fixed location"; Market 4: "Wholesale network infrastructure access at a fixed location"; Market 5: "Wholesale broadband access"; Market 6: "Wholesale terminating segments of leased lines" and Market 7: "Voice call termination on individual mobile networks".

List of Markets susceptible to ex ante regulation according to Recommendation 2007/879/EC	List of Markets susceptible to ex ante regulation according to Recommendation 2003/311/EC
Market 1 : Fixed Call Access Residential and non Residential	Market 1 : Fixed Call Access Residential Market 2 : Fixed Call Access Non-Residential
Market 2 : Fixed Call Origination Wholesale	Market 8 : Fixed Call Origination Wholesale
Market 3 : Fixed Call Termination Wholesale	Market 9 : Fixed Call Termination Wholesale
Market 4 : Unbundled Access Wholesale	Market 11 : Unbundled Access Wholesale
Market 5 : Broadband Access Wholesale	Market 12 : Broadband Access Wholesale
Market 6 : Terminating Segments Wholesale	Market 13 : Terminating Segments Wholesale
Market 7 : Mobile Call Termination Wholesale	Market 16 : Mobile Call Termination Wholesale

Table 1 – Markets identified by Rec. 2007/879/EC and correspondent markets in the 2003 Rec.

The BIPT's decision of 15th April 2010 refers to the markets as set out in Table 1 but also to the Fixed Transit Services Wholesale Market, which corresponds to the market 10 in the Recommendation 2003/311/EC. However, on 15 March 2011, the BIPT adopted a final decision on the second round analysis of the transit market. The BIPT determined that Belgacom no longer has Significant Market Power ("SMP") in this market, and as such, it has been de-regulated. As a result, the 2011 accounting separation model does no longer foresee a separate account for this market.

In order to address the requirements as set out in the article 60 of the Law of 13th June 2005 and in the BIPT's decision of 15th April 2010, the Regulatory Financial Statements for the year ended 31

December 2011 have been prepared for the following Markets and Auxiliary Services ("Market Statements"):

Market 1/2007: Fixed Call Access Residential and non Residential

This market refers to the PSTN, ISDN-2 (ISDN BA) and ISDN-30 (ISDN PRA) access products sold to residential and business customers.

The BIPT has imposed on Belgacom a CS (Carrier Selection) / CPS (Carrier Pre-Selection) wholesale obligation in the frame of this retail market. CPS is the pre-programmed selection of an Operator allowing the access to basic telephony services provided by that Operator without the need for the end-user to dial the Carrier Selection Code as opposed to CS which requires this dialling.

Market 2/2007: Fixed Call Origination Wholesale

This market refers to Interconnect Services by which Belgacom conveys, based on a Communication Access Code, calls generated by Belgacom end-users to a Belgacom Access Point in order to allow the access to a range of services provided by the interconnected operator. The latter is responsible for the direct invoicing of the Belgacom end-user for the establishment of the calls through a Collecting Access Service.

Market 3/2007: Fixed Call Termination Wholesale

This market refers to Interconnect Services offered at a Belgacom Access Point, at which Belgacom conveys the calls handed over by a fixed or mobile operator and directed to Belgacom fixed numbers, from that Belgacom Access Point to the destinations concerned.

Market 4/2007: Unbundled Access Wholesale

This market refers to the wholesale (physical) network infrastructure access (including shared and fully unbundled access) at a fixed location. Unbundling allows OLOs to obtain access to the end-user via the SMP operator's local loop in order to compete with the latter in providing broadband and voice services.

Market 5/2007: Broadband Access Wholesale

This market refers to non-physical or virtual network access including 'bitstream' access at a fixed location. This market is situated downstream from the physical access covered by market 4 listed above, in that wholesale broadband access can be constructed using this input combined with other elements.

Market 6/2007: Terminating Segments Wholesale

This market refers to wholesale Terminating Segments of Leased Lines, namely Partial Circuits and Backhaul Connections. To be eligible, a Terminating Segment of Leased Line must connect two "sites" being in the same Access Area. A link between two different Access Areas is not concerned by this market.

Market 7/2007: Mobile Call Termination Wholesale

This market refers to wholesale mobile voice call termination which is the service necessary for a network operator to connect a caller with the intended recipient of a call on a different mobile network. When fixed and mobile operators offer their customers the ability to call Belgian mobile numbers, they pay mobile network operators a wholesale charge to complete those calls. The rates that operators pay are called 'mobile termination rates' (MTRs).

Auxiliary service BRIO - POI

The POI (Point Of Interconnection) is a physical interface within Belgacom's network to which IC links can be connected and allowing to provide Interconnect Traffic (a similar physical interface is defined in the OLO's network). An access to such Access Point (ATAP) can be requested by the OLO through the BRIO Reference Offer.

Auxiliary service BRxx – Colocation

Different types of co-location offers are included in this auxiliary service:

- Physical co-location: Belgacom offers the possibility to an OLO to install its transmission equipments in a dedicated co-location room shared by a number of OLOs inside the technical building, for the purpose of connecting Belgacom and OLO infrastructures.
- Co-mingling: it is a kind of physical co-location where the OLO places its racks next to Belgacom's equipment. The OLO continues to manage its equipment. Unlike the "pure" physical co-location, the OLO technicians cannot access Belgacom's buildings without being escorted by a security agent. This type of co-location is cheaper than the "pure" physical co-location.
- Distant co-location: it is the service according to which Belgacom offers an extension of the tie cabling from the MDF in a Belgacom technical building to the public domain for the purpose of connecting Belgacom and OLO infrastructures.

The co-location is thus implemented outside the Belgacom building. Technically the hand over point is located in the cross connection cabinet installed on Belgacom's property. Distant collocation will only be provided when the other types of collocation are not possible.

Residual Market

A Market Statement is also prepared for Wholesale and Retail residual activities ("Residual Market") in order to allow reconciliation to the Belgacom NV/SA van publiek recht/de droit public Statutory Financial Statements.

* * * *

The regulatory financial reporting provided to BIPT comprises separate statements of costs and revenues for the above-mentioned Markets.

4. Principles and methodologies used for setting up the Separate Accounts

While in 2009 the Belgacom's Fixed Line and Mobile activities were still operated under two separate legal entities (hence the elaboration of an accounting separation model for each legal entity), Belgacom has moved to one converged organisation – fix, mobile and ICT business – since 2010.

The separate accounts of Belgacom NV/SA van publiek recht/de droit public as per December 31, 2011 include therefore all markets as listed above and are based on the 2011 regulatory cost model, the methodology of which has been documented in a separate document ("Belgacom Regulatory Cost Model 2011 – General Description").

The total revenue and cost bases relevant for the accounting separation model come from the general and analytical accounting (SAP).

The cost base includes, in addition to collective bonus costs, all operational costs booked under accounts 60 (materials out of stock), 61 (services and other goods), 62 (remunerations, social security and pensions), 63 (depreciations, write offs and accruals), 64 (other operating charges) and 72 (produced fixed assets). This last account is subtracted from the cost base in order to avoid double counting with depreciations.

The Net Book Value (NBV), which represents the not yet depreciated part of the assets, is also extracted from the accounting.

Current Cost Accounting methodology (CCA) is used for the preparation of the separate accounts. BIPT required from Belgacom to use the Current Cost Accounting methodology as from the regulatory accounts 2002.

The calculation method for the assets and investment costs ("CAPEX Base") as used in the regulatory cost model depends on the functionality of the related asset:

- Non network related assets are revaluated as follows: $CCA = \text{"HCA depreciation"} + (\text{average NBV 2011-2010} * WACC)$.
- Costs of account 63 other than depreciation costs are included in the cost accounting models at Historical Cost (HCA), since the Current Cost equals the Historical Cost.
- Network related assets are revaluated at their current value. Regulated assets are revaluated using BIPT tariffs (reflecting the regulator's value price) whereas non regulated assets are revaluated as usual, by calculating a Gross Replacement Cost. The annual capital charge combining a capital cost and economic depreciation is determined via the Tilted Annuity Method (TAM)⁶.

There are five methods to evaluate the current value of the network:

- Reassessment of the current inventory.
- Price indexation. The historical series of indexes for mobile assets has been derived from the yearly percentage price change determined in the BIPT model 2008.
- "Keep everything as it is".

⁶ The TAM formula is applied for all fixed and mobile network assets except for some mobile assets related to the radio access network, the assumption of a constant price trend over the lifetime period being inadequate for the latter. In this case, the economic depreciation series must be computed step by step because it cannot be expressed analytically in the TAM formula as such.

- Index based on a fixed PPC (Percentage Price Change).
- Regulated cost price based. Regulated fixed assets are revaluated by applying the direct CAPEX component of the relevant BRxx tariff to the appropriate volumes extracted from the Belgacom inventories. This method was already used in the 2009 separate accounts but has henceforth been extended to all the assets, except optical fiber infrastructure, concerned by the technologies covered by the Belgacom Reference Offer models, namely BRUO, Block & Tie cables, BROBA, BROTSOLL, BROTSOLL Ethernet and WBA.

These revaluation methods are described in detail in the "Belgacom Regulatory Cost Model 2011 - General Description" document.

The Weighted Average Capital Cost (WACC) is set at 9,61% for the fix business and at 10,05% for the mobile business, in line with the BIPT guidelines. Note that for the non-network assets applying to both fix and mobile business, the lowest WACC has been used (9,61%).

As far as possible, revenues, costs and assets in the regulatory cost model are directly associated with markets using information held within Belgacom's accounting records and are directly attributed to these markets ("Direct Allocation"). Where no such direct association is possible, the remaining costs and assets are attributed to markets using intermediary steps and allocation keys ("drivers") that reflect as far as possible the causality of the cost or asset.

The amounts of costs and assets attributed to markets depend on the following methods of attribution adopted:

- the "Building Block Costing" (BBC) methodology for IT and network infrastructure;
- the VAR_TYPE (fixed/variable) methodology for wholesale and retail activities as well as some OPEX costs of the network division.

The detailed processes by which costs and assets are attributed to markets are set out in the "Belgacom Regulatory Cost Model 2011 - General Description" document.

The separate accounts are created based on the aggregation of all these costs and assets allocations to Markets and Auxiliary Services.

Figure 1 below presents the high-level methodologies used for setting up the separate accounts:

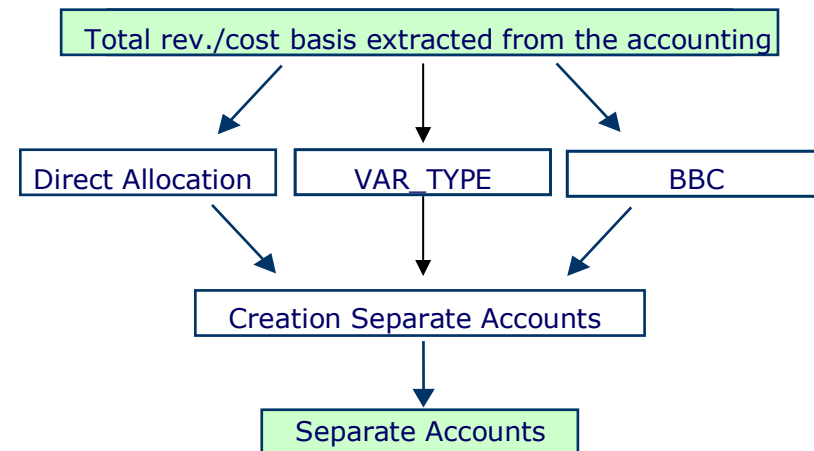


Figure 1- Use of VAR_TYPE, BBC and direct allocation methodology for setting up the separate accounts

Moreover the separate accounts have to highlight the “transferred network costs” based on unit costs. The transfer of network unit costs (multiplied by the volumes) to the Market Statements allows to show the respect by Belgacom of its non-discrimination obligation. As a matter of fact, the network unit costs incurred by Belgacom internally (for the services provided to the Retail divisions) and externally (for the services provided to the other operators) are identical.

Costs and assets related to subsidiaries of Belgacom SA or specific items such as goodwill are excluded from the Accounting Separation model.

The Regulatory Financial Statements are reconciled to the Annual Statutory Accounts and that reconciliation is demonstrated in the regulatory financial reporting provided to BIPT.

The accounting principles used for the preparation of the regulatory accounts are based on Belgacom’s fair and most recent understanding of those principles at the time of the finalisation of the regulatory accounts. Belgacom disagrees with some of the principles but applied them since they were imposed by the regulator. However, the application by Belgacom of those principles cannot be seen as a Belgacom agreement.

As far as possible, the revaluation of assets in the separate accounts is aligned with the revaluation that is applied in the BIPT cost models used for wholesale pricing. However, the methodology used for drawing up the regulatory accounts differs from the methodology used by the BIPT for the assessment of Belgacom’s regulated prices for the reporting year. Differences might result from the following (not exhaustive): the BIPT uses certain service specific methodologies that are not incorporated in the regulatory accounts, the BIPT uses forward-looking information for their

models, the regulatory accounts are based on principles known in the year following the reporting year whereby prices of certain regulated services are set based on methodologies developed in the year prior to their application, the BIPT methodology has not been fully disclosed by the regulator and Belgacom doesn’t systematically receive an access to the final version of the BIPT models.

5. Note regarding the respect of the non-discrimination obligation

Network unit costs are determined based on total costs attributed to network units divided by the total usage of the network units. Referring to the "Belgacom Regulatory Cost Model 2011 – General Description" document, the network units have been chosen as objects at different levels of the network allocation stream (starting from Network Stage Function through the different Network layers NLS1.0 to NLS4.0) so as to be as close as possible with the regulated network units.

Table 2 below ("Transfer Matrix") provides the list of network units:

Model allocation Layer	Network Resource Name	Comment	Unit
	Other resources		Not specified
Layer 2_PACKETBASED	Access to Virtual Path (ATM)		per Gbps
	ADSL_SDSL lines aggregation	DSLAM aggregation	per broadband (ADSL,SDSL) line
	Backbone_UnicastVLAN_Transport_IntraRegion	Regional Ethernet transport	per Mbps
	Backbone_VirtualPath_IntraArea	ATM resources for VP nonlocal	per Gbps
	Backbone_VirtualPath_Local	ATM resources for VP local	per Gbps
	LocalTailCapacity_Ethernet>=10M	Ethernet based customer equipment	per Mbps
	VDSL end-user connectivity	VDSL CPE, ISAM aggregation and fibre to the curb	per VDSL line
	BackboneCapacity_Ethernet>=10M	Ethernet backbone transport	per Mbps
Layer 2_TDM	IntraAreaBackboneCapacity<2M	Brotssoll segments except local tail	per Mbps
	IntraAreaBackboneCapacity=2M		per Mbps
	IntraAreaBackboneCapacity>2M		per Mbps
	IntrazonalBackboneCapacity<2M		per Mbps
	IntrazonalBackboneCapacity=2M		per Mbps
	IntrazonalBackboneCapacity>2M		per Mbps
	LocalBackboneCapacity<2M		per Mbps
	LocalBackboneCapacity=2M		per Mbps

	LocalBackboneCapacity>2M		per Mbps
	LocalTailCapacity<2M	Brotsoil segment Local tail	per customer site
	LocalTailCapacity=2M		per customer site
	LocalTailCapacity>2M		per customer site
Layer 1_PASSIVE	Copper_Localloop_testing		Copper cabling required for line testing
	Copper_Splitter		per shared copper pair
	Internal copper pair cabling (Low band)	Internal Copper pairs to transport low band signal to narrowband equipment	per copper pair
	Raw_Copper		per copper pair
	Copper_Subloop		per VDSL line
	Copper_Subloop_testing	Copper required for remote line testing	per copper pair
	One Time Fee	Bringing broadband to the customer site	per New Broadband line
Layer 4_VOICE	ISDN_NetworkTermination	Voice : ISDN access termination	per access
	ISDN_Primary_Access		per line
	ISDN_Voice_concentrator	Voice : ISDN access boards and concentration	per line
	PSTN_Voice_concentrator	Voice : PSTN access boards and concentration	per line
	Public_NumberPortability		per ported number
	Voice_call_CAE_charging	Voice : Coverage Exchange Area charging resources	per routed minute
	Voice_call_CAE_Processing	Voice : Coverage Exchange Area call switching and call handling resources	per routed minute
	Voice_call_CAE_Trunks	Voice : Coverage Exchange Area calls concentration	per 64kbps timeslot
	Voice_call_Local_charging	Voice : Local Exchange charging resources	per routed minute

	Voice_call_Local_Processing	Voice : Local Exchange call switching and call handling resources	per routed minute
	Voice_call_Local_Trunks	Voice : Local Exchange calls concentration	per 64kbps timeslot
	PairGainSystem		per line
	Radio Access Network	Radio equipment and radio controller equipment	per routed minute
	Mobile Call&Data Processing	Mobile switching voice and data	per routed minute

Table 2 – Transfer Matrix

The network allocation stream in the 2011 Belgacom regulatory cost model organises the contributions of each Network element to Network Stage Function objects, to the network layer services, and subsequently the contributions of the network layer services to network layer services of higher layers. The contributions of network layer services in the cost model are systematically driven by operational volumes extracted from intensive data mining in a variety of network inventories and network traffic reporting; these volumes represent the produced units of the modelled objects (see the table 2).

A full cost breakdown from Network elements through network stage functions and all network layer services was calculated in order to eliminate from higher layer network resources listed in the table the costs coming from contributing lower layer network resources listed in the table. In this way, it is guaranteed that the defined network resources are not overlapping each other although they belong to different allocation levels. The unit costs are simply obtained by dividing the resource costs with the total volumes produced by these resources.

The transfer of network unit costs (multiplied by the volumes) to the Market Statements allows to show the respect by Belgacom of its non-discrimination obligation. As a matter of fact, the network unit costs incurred by Belgacom internally (for the services provided to the Retail divisions) and externally (for the services provided to the other operators) are identical.

6. Process used to develop the Separate Accounts

In this section the allocation of revenues and costs, coming from the SRW (“Support, Retail & Wholesale”) and IT/N (“IT & Network”) streams in the cost accounting model, towards the Markets is presented in more detail.

As described in the “Belgacom Regulatory Cost Model 2011 – General Description” document, the IT/N stream treats all network and IT related costs while the SRW stream takes into account all commercial costs and all direct and indirect costs which are not included in the IT/N stream.

I. Allocation of the revenue to the separate accounts

The revenues used in the Accounting Separation model come from the analytical accounting and are classified according to ABC products, which are subsequently grouped into Markets.

Figure 2 presents the revenue mapping process used to map the revenues to the Markets.

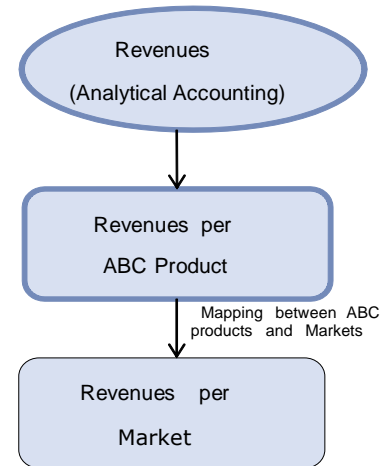


Figure 2 – Revenue mapping

II. Allocation of the cost base (common costs excluded) to the separate accounts

The costs used in the Accounting Separation model are inputs from the SRW and IT/N streams and are downloaded from the software tool INCA to an Excel file.

The costs coming from these streams are reported per Market.

Figure 3 presents the cost inputs from the SRW and IT/N streams as used in the accounting separation model:

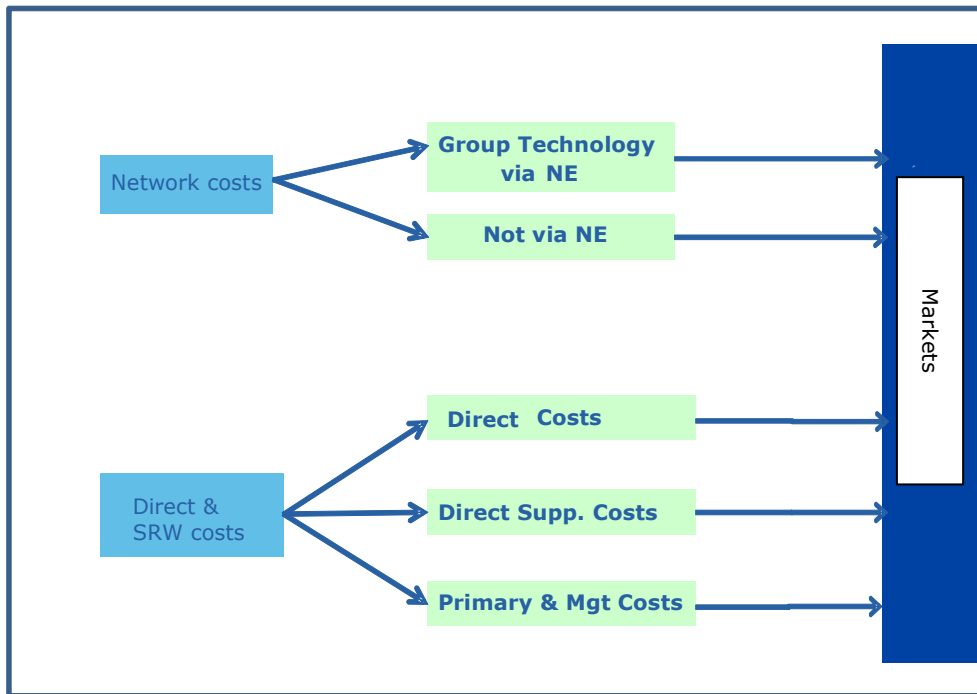


Figure 3 – Input of the cost accounting system for the Accounting Separation model

The allocation of direct and SRW costs to Markets depends on the following cost flows:

- Direct costs and direct support costs which are directly allocated to Markets
- Primary and management costs which are allocated to Markets after support cost allocation

The grouping of network costs in Markets depends on the following cost flows:

- Costs which are allocated to end-user services via Network Elements (NE) and are aggregated per technology group.
- Costs which are allocated to end-user services without passing through specific Network Elements.

Both cost flows include a share of support costs.

Table 3 below details the network structure per technology group:

VIA NE (D)WDM
 VIA NE ALL
 VIA NE APPLICATIONS
 VIA NE ATM
 VIA NE ATMÐERNET
 VIA NE BROADBAND
 VIA NE COMMUNICATION_MEDIUM_PASSIVE
 VIA NE COPPERPLANT
 VIA NE ETHERNET
 VIA NE FIBREPLANT
 VIA NE IDTV
 VIA NE IP
 VIA NE MOBILE
 VIA NE PACKETBASED_TRANSPORT
 VIA NE PDH SDH MWE
 VIA NE TMN
 VIA NE VAS
 VIA NE VOICE
 VIA NE VOIP
 VIA NE X25
 VIA NE OVERHEAD

Table 3 – Network structure per technology group

III. Allocation of the common costs to the separate accounts

As exposed earlier, the cost model methodology for non-network indirect costs introduces a separation of fix costs, variable costs and common costs. Only variable costs are causal and they are therefore further allocated to markets using volume drivers. By contrast, fix and common costs are non-causal costs: there are no volume drivers to allocate these costs to the markets.

In the absence of "natural" drivers, a fair allocation of common and fix costs is applied respecting some sharing principles:

Costs common to all markets:

Markets are separated in two groups: Profit markets (market1 and the residual market) and non-profit markets (regulated Markets 2->7). Non-profit markets bear a portion of the common costs (in line with the regulatory price setting in the costing models of the BIPT) as well as profit markets. The common costs are apportioned to the two groups according to the causal costs of each group except the costs of goods sold (COGS) in order to have a comparable (fair) basis (indeed regulated markets 2->7 have no COGS costs by definition).

Costs common to profit markets (Market 1 and residual market):

For profit making markets (also called "commercial markets"), causal costs are securely recovered by the revenues and it is fair to let these markets contribute to these common costs according to the company effort each market causes. This effort is determined as the causal cost except the costs of goods sold (COGS).

Costs common to non-profit markets (regulated market 2->7):

Ideally non-profit markets tend to have no margin. Common costs should then be distributed to achieve equal margin (ideally zero

margin). In practice, the margins of non-profit markets before common cost distribution are already mostly negative and diverging due to a discrepancy between real costs and regulated prices. Therefore costs common to non-profit markets are apportioned to achieve closest margins across the non-profit markets.

The accounting separation results are communicated to BIPT through an Excel report.

7. Independent Audit

Belgacom requested an independent auditor to review both the cost accounting model and the separate accounts for the year 2011. The independent audit firm Ernst & Young conducted both audits.

Ernst & Young's opinion with respect to the Belgacom's separate accounts 2011 is attached to the present document.