H1 2019 Results

Thursday, 1st August 2019

Operator: Ladies and gentlemen, welcome to the Telenet conference call. Let me introduce John Porter, CEO; Erik Van den Enden, CFO; and Rob Goyens, VP Treasury, Investor Relations and Structured Finance. Sir, please go ahead.

Rob Goyens: Good afternoon everyone. My name is Rob Goyens, Head of Treasury and Investor Relations at Telenet. I would like to welcome all of you to our Q2 2019 earnings webcast and conference call. I hope you've been able to have a look at this morning's earnings release. The release and the presentation for this call can be found in the results section of our investor website.

We'll start today as usual with a presentation of the main strategic and operational highlights by John Porter, our CEO. Next, our CFO Erik van Den Enden will guide you through our quarterly financial results. Afterwards we will be taking questions from the audience.

As a reminder, certain statements in this earnings presentation are forward-looking statements. These may include statements regarding the intent, belief or current expectations associated with the evolution of a number of variables that may influence the future growth of our business. For more details on these factors, we refer to the safe harbour disclaimer at the beginning of our presentation. So, John the floor is yours.

John Porter: Thanks Rob. Hi everybody, it's John here. Let's first go through the key highlights of the second quarter of 2019. Similar to first quarter of this year, we maintained our strong commercial momentum. We expanded our WIGO portfolio in order to cater more effectively to all different types of families, large or small. In that way, we are blurring the lines between different products and move to an ecosystem-oriented approach, which is besides the commercial upside also creating more value. The ARPU of a WIGO customer is €98 and much more loyal with annualised churn of 3%, significantly lower compared to a standalone Internet subscriber with around 10% churn.

On top of that, we continued our commercial push in the city of Brussels with good results. We saw particularly strong sales in the SOHO segment. This underpins the potential of Brussels to increase our market share and capture more B2B and residential customers. Finally, we launched strong, tactical promotions on both Telenet and BASE standalone mobile brands, including bigger data bundles and handset discounts. Our standalone mobile net adds improved significantly with the best performance for BASE since two years.

As I already previously mentioned during the Capital Markets Day in December last year, B2B is an important growth driver for us as segment and I am very pleased to see we gained over the past months several new large customers. Our post-Nextel integration strategy and the expansion of our footprint in Brussels is paying off and is fostering strong growth in both the SOHO and MLE segment. And thanks the newly launched 4G backup services, our medium-enterprise Internet customers can now rely on permanent access support.

We are very pleased that our strategy of distinct ecosystems and focus on customer experience is delivering again. The inauguration of our operational KPIs exceeded our expectations. This is underpinned by the highest WIGO net adds since almost two years which also resulted in more than double mobile postpaid net adds, compared to the previous quarter. More importantly, I also want to emphasise that our Telenet and BASE standalone mobile business significantly improved in terms of net adds, thanks to the upgrade of the portfolio with higher data bundles and tactical promotions.

Another milestone in the quarter was the regulatory approval for the acquisition of the remaining 50% stake in the local media company, De Vijver Media. This acquisition further underpins our connected entertainment strategy and will enable us to respond even more and even faster to innovations in the field of viewing experience or advertising.

In early July, the national telecoms regulator, BIPT, and the local media regulators published their draft decision, proposing new monthly wholesale rates for access to the cable operators' networks. We are very disappointed with the current outcome. Telenet has had the highest capex to sales ratio compared to its main European peers, underpinning the investments done to build a future-proof next generation HFC network. However, the current pricing for wholesale cable access is not mirroring these efforts at all and does not encourage investment in the future. We will therefore challenge this proposal during the consultation period.

As the timeline looks today, we expect to have a final decision on cable wholesale pricing by the end of this year, and the effective implementation in the beginning of next year. With that, let me now hand over to Erik for the financial highlights of the second quarter.

Erik Van den Enden: Thanks John, and welcome everyone to our Q2 2019 earnings call. With 2019 being a transition year I am pleased to see that after a strong start of the year in Q1, we continued to deliver solid financial performance in the second quarter. As you can see on the next slide, we achieved revenue of €1.26 billion for the first six months of the year, which was up 1% compared the same period of last year. Our reported revenue growth in the period was mainly inorganic, impacted by a full six-month contribution from Nextel (as opposed to a one-month contribution in H1 last year) and a one-month contribution from De Vijver Media, which has been fully consolidated in our accounts as of 3rd June, 2019.

Excluding the aforementioned inorganic effects, our top line decreased modestly by 1% in the first half on a rebased basis. Higher cable subscription revenue was more than offset by lower wholesale revenue following the loss of the MEDIALAAN MVNO contract and lower usage-related revenue. Relative to Q1 2019, the trend in our rebased revenue worsened as anticipated due to the loss of the MEDIALAAN MVNO contract, which started to adversely impact our business as April. However, it is fair to say that excluding the lower wholesale revenues we would have been very close to achieving flat revenue for the first six months. In Q2, we generated revenue of €636 million, representing a decrease of just over 1% as you can see on the bottom right chart.

Looking on our cost BASE on the next slide, our operating expenses for the first six months of the year modestly decreased by 1% year-on-year on both a reported and a rebased basis. The reduction in our cost BASE on a rebased basis was predominantly driven by a 6% reduction in staff-related expenses, which reflected the transfer of our network field services to Unit-T as of Q3 2018, partly offset by higher costs related to outsourced labour and professional services and higher network related expenses. In addition, our direct costs decreased 2% year-on-year as higher programming costs at De Vijver Media and higher costs related to the sale of handsets were more than offset by significantly lower interconnection costs. And finally, we achieved a healthy 5% decline in our other indirect expenses, reflecting our continued focus on operating leverage and tight cost control.

Turning to EBITDA. On a reported basis, our Adjusted EBITDA for the first half of 2019 increased 3% year-on-year to €665 million euro, reflecting the aforementioned inorganic impacts and the application of the new IFRS 16 lease accounting standard as of 1st January, 2019. The latter had a favourable impact of €20 million on our Adjusted EBITDA over the first half of 2019. On a rebased basis, so excluding the inorganic effects and the impact of IFRS 16, our adjusted EBITDA modestly contracted year-on-year by 1%, reflecting the loss of the MEDIALAAN MVNO contract and certain regulatory headwinds. Again, if you were to eliminate the impact of the lower wholesale revenues, we would have been very close to achieving flat EBITDA.

In Q2 2019, we delivered Adjusted EBITDA of €345 million, representing a 1.7% decrease year-on-year on a rebased basis and reflecting the aforementioned wholesale contract loss and regulatory headwinds such as the decrease of fixed termination rates and the caps on intra-EU calling rates. On a rebased basis, we succeeded in maintaining our underlying Adjusted EBITDA margin in H1 at 52.7%, driven by continued tight cost control.

Then looking at CAPEX, we succeeded in substantially reducing our investment intensity as compared to last year. Our accrued capital expenditures reached 308 million euro in H1 2019 and reflected the recognition of the UK Premier League broadcasting rights, which we successfully renewed for another three seasons in the first quarter. Excluding this impact, our accrued capital expenditures decreased 12% year-on-year, equivalent to 21.1% of revenue in the period. As you can see in the right-hand pie chart, around 64% of our accrued capital expenditures in H1 2019 were scalable and subscriber growth related. Obviously, we will continue to closely monitor our capital expenditures in order to make sure that they drive incremental returns.

The substantial decline in our accrued capital expenditures drove a 16% year-on-year increase in our H1 Operating Free Cash Flow to nearly €400 million, of which €210 million in Q2. Our Adjusted Free Cash Flow reached €207 million over the first six months of 2019, representing a 23% decrease versus the prior year period. However, our Free Cash Flow in H1 2019 included a significantly higher contribution from our vendor financing program versus H1 of this year. Excluding this impact in both periods, our Adjusted Free Cash Flow was actually up 3% year-on-year despite substantially higher cash taxes paid and higher cash interest expenses versus the same period of last year.

In Q2 this year, our Adjusted Free Cash Flow was €187 million, representing a robust increase versus the preceding quarter and up 1% year-on-year. Our Adjusted Free Cash Flow in the quarter did not include any contribution from our vendor financing program versus a nearly €31 million benefit in Q2 of last year. Excluding the impact of vendor financing our Q2 Adjusted Free Cash Flow increased by 20% year-on-year. With that, we remain well on track to deliver on our Adjusted Free Cash Flow target for the full year.

We continue to enjoy a solid and healthy financial profile, characterised by a strong liquidity and a well-spread debt maturity profile. Excluding the short-term debt commitments under our vendor financing program, we face no debt amortisations prior to August 2026 with a weighted average maturity of eight years at the end June and a weighted average cost of debt of around 3.6% currently. At the end of the second quarter, we had full access to €505 million of undrawn commitments under our revolving credit facilities, which included the issuance of a new short-dated €60 million RCF in June, which can be used for general corporate purposes, and is a further add-on to our liquidity profile.

On top of that, our cash balance reached almost €140 million at the end June, providing for a very robust liquidity profile. In June, we successfully acquired the remaining 50% stake in De Vijver Media and redeemed €62 million of their third-party debt at closing. Both transactions were settled in cash. And finally, we redeemed 20% of our Facility AB Senior Secured Fixed Rate Notes due 2027 in July for a total amount of €109 million, which included a €3 million make-whole premium. Through this transaction, we will reduce our 2027 debt maturity while adding an additional €45 million to our Adjusted Free Cash Flow over the 2020-2027 period.

Turning to the next slide, our net total leverage improved from 4.4x at March 31, 2019 to 4.3x at June 30, 2019, thanks to the strong cash flow generation of our underlying business and despite the share repurchases, the cash-paid acquisition of De Vijver Media and the refinancing thereof. Before opening up for Q&A, I would like to come back on our medium term and 2019 financial outlook, just as a refresh.

At our Capital Markets Day in December last year, we presented our ambition to deliver sustainable profitable growth over the next three years. Over the 2018 to 2021 period, we target a rebased Operating Free Cash Flow CAGR of 6.5% to 8.0%. This excludes the recognition of football broadcasting rights and mobile spectrum licenses, and it also excludes the impact of IFRS 16 on our accrued capital expenditures.

Based on our first quarter 2019 performance, we reaffirm our outlook for the full year 2019. Due to the loss of the MEDIALAAN MVNO contract and certain regulatory headwinds, we do expect a more outspoken impact on both our rebased revenue and Adjusted EBITDA as of Q2 2019, in line with our FY 2019 outlook as presented mid-February.

Turning to the next slide, in 2018, we consistently delivered on our anticipated shareholder remuneration timeline. You will remember that at the end June last year, we started a €300 million share buy-back programme. At the end of the first quarter of this year, we had repurchased just over 5.7 million shares under this program for just about €249 million. On 24th April of this year, the Extraordinary General Shareholders' Meeting granted another five-year authorisation to the Company to acquire its outstanding shares up to the maximum number as set forth in the applicable legislation.

As a result, we were able to fully complete the €300 million Share Repurchase Programme 2018 bis by the end June of this year. At the same time, the EGM also approved the cancellation of nearly 1.9 million treasury shares, lowering our total share count by the same amount. Subject to compliance with our objective to remain around the 4.0x mid-point of our net total leverage framework and excluding any material acquisitions and/or significant changes in our business or regulatory environment, we consider to pay an intermediate dividend in Q4 this year subject to both board and shareholder' approval.

And with that, let me know hand over to the operator for our Q&A session.

Operator: Thank you. We now start the question and answer session. Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. The first question –

John Porter: Operator I'd like –

Operator: – comes from Michael Bishop from Goldman Sachs. Sir, please go ahead.

John Porter: Mike, before you ask your question, can I just make another comment that due to significant interest in commercial momentum and competitive intensity and De Vijver. I've asked Jeroen Bronselaer[?], who leads our consumer group, to attend the report and to make some comments in those areas. A little bit more granularity, I thought, would be helpful. Similarly a lot of interest in regulatory and wholesale, and so I've asked Anne Caluwaerts to also attend the update. She's been leading that area for us for five years now. And I think in the future I may for the half and full year bring in the subject matter experts, the people who are at the coal face every day on certain issues that are getting heightened amount of interest.

These guys are also available, in addition to Erik and Rob and myself. Sorry to interrupt you, Mike. But I thought I'd let people know that. Okay?

Michael Bishop: Yeah, sorry. It's Mike. Can you hear me?

John Porter: Yeah.

Michael Bishop: Yeah great. Just two questions from me. Firstly kicking off with the regulation. I was just keen to get your major pushback on the regulation. I mean at least from my perspective, it's quite hard to see at least how a fair margin has been applied given the limited incremental charges for higher speeds. And then also, Proximus raised the point around the sunk costs of the network in part being ignored where they were fully amortised. But I was keen to see if you have any other things to add on top that you'll potentially be pushing back on.

And then secondly, just in light of the Proximus/Orange/Belgium network sharing agreement, really two questions. Firstly is just getting your broader view on network differentiation; because it feels like they're deciding there's not really any differentiation and therefore it's better to save cost in the future. And to follow up, could you potentially join their negotiations and effectively pull your network into that one and a bit grids that they're going to end up with after their network sharing agreement? Thanks very much.

John Porter: Yeah, let me answer the second one and then ill hand over to Anne Caluwaerts to address the regulation issue which I'm sure is in a lot of people's mind including my own in a little bit more granularity. So on the network sharing deal, certainly in a more challenging regulatory and competitive environment. I think we all need to find ways to optimise our capital investments going forward. We are certainly philosophically not against the idea of network sharing. We think to your point, Michael, that there's diminishing returns on network differentiation, certainly in Belgium where all three networks are providing 90-95% of their coverage in 4G. We already have networks that are providing download speeds of 50-100 Mbps, with Telenet having the most performant network in that area.

So we've let the parties know that we would certainly be interested in participating in some way in the network optimisation of both passive and active network. And that we would like to talk to them about that in the future. So I think there's certainly – this is certainly something which I think you may see more of down the road. Once again, the capital intensity associated with, particularly the deployment costs of, 5G, without really solid business case, particularly in a consumer environment, makes it imperative that we try to find ways to reduce our capital profile as we move forward. So we're definitely – we're positive on it. We don't think that given the architecture of the networks today that – you know, if we were on the outside looking in, that we would have a substantial competitive disadvantage, we think it would be more or less status quo. But the real opportunity is to not build three 5G networks side by side when there's probably little likelihood that we'll be able to amortise them at this point anyway. So we'll see where it goes. But there's a lot of twists and turns to play out in this, and you know, we'd like to get under the tent, but we'll see what happens.

So Anne, you want to take the regulation question?

Anne Caluwaerts: Yeah. On the wholesale tariff and on the proposed regulation, these have indeed pushed back on a number of the arguments used and on the model itself. In particular on the fact that the model the regulator has used the last month very different than what was in the initial proposal end of 2018. It's a model which looks at our network and assumes that large parts of it have been depreciated and amortised. It's a methodology which is used for DSL networks, which has not been used for NGA networks or cable networks yet anywhere. And it does not take into account the number of the costs that it has – significant costs, and we will give significant pushback on that element.

In terms of your remark on the margin – the fair margin, in the proposal of the regulator there is no margin foreseen for speeds between zero and 200 Mbps. Between 200 and 600, they foresee a fair margin of 5%; and above 600, of 10%. And also there we think we have a number of arguments to say that specifically for the lower and the medium speeds, that those margins do not allow us to continue to make the investments needed, which is the goal of a margin. It's to be able to fuel and allow the operators to continue to be able to invest.

So on those two points we will submit our inputs to the consultation. And we are preparing that right now. The deadline for the consultation is 6th September and we absolutely hope that these points will be taken into account because we think they are very strong arguments and very valuable points to address.

Erik Van den Enden: And Michael, it's Erik here. I think one of the things we find particularly concerning is that you know with the way that the BIPT proposed to set the tariffs, that will[?] take away any incentive for future investments, in the sense that we spend €0.5 million to upgrade our fixed network under the Grote Netwerf programme to upgrade the nodes and to bring fibre closer to the end consumer. We spent €250 million to bring the BASE nexus[?] from the laggard[?] towards as John mentioned, the leader in terms of speed. And you know the proposal now does two things: first of all, it's just like you know, some of these costs, very tangible things like digging costs for instance, are just not included. So I think that's very difficult because of course we don't recover the costs, but also going forward, if you do these investments and then, you know, couple of months down the line you were confronted with a proposal for tariffs, that does not allow to kind of monetise these investments, then we think that's very concerning, not only for ourselves but basically for the whole industry in Belgium. So that's why we will be bringing these arguments to the table. I think we will fight hard. The good thing is we are bringing[?] our arguments later in the year also the European Commission will take a look at the draft decision of the BIPT, and will be able to voice its opinion as well. And we'll take it from there. But I think, you know, it's a slightly broader point that I think these tariffs are just not what we need as a society, even.

Michael Bishop: Great. Thanks. That's all very clear.

Operator: Thank you. Next question, from Nicolas Cote Colisson from HSBC. Sir, please go ahead.

Nicolas Cote Colisson: Hi. Thank you. Two questions please. First, in mobile. Your prospect performance was very strong in Q2. Could you just tell us if it is driven by retail or B2B, in case you signed a big corporate contract? Same question by the way in broadband. Can you explain why you had a big surge in B2B connections and a drop in B2C. And the second question is, can you actually give us your view of the pricing environment in Belgium and are you confident that your almost 2% increase in prices starting almost now will not increase churn. Thank you.

John Porter: Jeroen?

Jeroen Bronselaer: Yeah, I'm just looking. I'll take the first question maybe just on the postpaid mobile performance. It's actually – the performance is strong across the board. It's not a big B2B contract. It is performance in the postpaid and both on the B2B level, on the tenant level and on the BASE level. I will give a little bit more flavour on that. On talent we see that our WIGO ecosystem – so the FMC ecosystem that we have launched – still performs very well. We had a spec increase on this one end December but we have launched an expansion of the WIGO ecosystem, so we would call it a WIGO mid-end line up, at €83 and €93, aimed at bringing also in smaller families into this ecosystem. That is absolutely part of this performance, because of course there again we are taking part – or a large part or a larger part than the market share of the mobile SIM movements in the market. there's also a strong – or there is an improved performance at the BASE level. At BASE as well we have done some adjustments to the line-up. We have done a spec increase beginning of the year; we have launched an unlimited product line of – in February. But both across Telenet and BASE we have also let's say worked with renewed focus on bringing the right promos. They're not always the most aggressive promos in the market, but we've had a lot of them, both on handsets and on subscriptions. And we also see that staying off with as John says the best mobile performance for BASE, retail or residential, in the last two years.

And actually, we see these same elements also coming back in the B2B or in the SOHO atmosphere. So it's actually a strong – a relatively strong performance across the board due to line up changes, FMC ecosystem thinking, and the right promos at the right place. So that's for the first part of the question on the specific move between residential and I think Rob has the explanation.

Rob Goyens: Yeah, so Nicolas, Rob here. So your point on the split between, you know, the business broadband and the residential broadband, what you actually see in Q2 2019 is the mechanical impact of internal transfer of around 20,000 RGUs that have been moved out of residential into business. So that actually skews the underlying trend. If you look at the broadband net adds that we achieved in the quarter to the earliest point, you saw an improvement compared to Q1. We did 3,000 net adds[?] in total, and that is roughly evenly split between residential and B2B.

Jeroen Bronselaer: So just to be very clear, Nicolas, that translates to SOHO customers. So it was small office and home office customers with a residential product. And that's the – so if you – the pure mechanical [inaudible] you can think of the 3,000 as being 50% in the residential side of the business and 50% in the B2B side.

John Porter: By the way, we don't normally report bulk SIM sales into MLE and LE in postpaid BASE. So they're handled in a different way. We don't have that problem.

Nicolas Cote Colisson: A question on pricing. So I think you know, you'll probably have seen that in terms of pricing, we now have a pricing increase that was substantially very close in line with inflation, right, so it was

[BREAK IN AUDIO]

Operator: – the presentation you can dial 01 on your telephone keypad to enter the queue for the question and answer session. After this message, please pronounce your first name, last name, and company name.

Operator: The conference is now being recorded.

Rob Goyens: In the first quarter we were just flat on broadband net adds[?] but actually I think as we said in the previous call there was the combination of two effects. So first of all, we're still completing that last part of the SFR migration which of course was a drag on the numbers as we lost customers there as we converted them, but at the same time we already saw that the underling business outside of the SFR region was basically very positive. So we had already substantial momentum in Q1. So what you see now in Q2 as we completed that migration by the end March if I recall correctly, the drag of SFR completely fell away, and so now you see the underlying trends being very positive. And that is really across the region, so there's no particular kind of segment or region that is doing say, you know, materially better or worse than the other ones. Of course you know you've seen it in our numbers, that momentum is fuelled by a very strong pick up of our FMC bundles – 38,000, which is the best in a long time. And as Jeroen already explained, one thing that we see very clearly is that the broadening of the WIGO ecosystem to also smaller families is something that gets traction in the market then where people see clearly a lot of value. I think it's fair to say that in the old climate people became very attractive if you had a larger household. So if you could put say the SIMs of your children there, it's very attractive. With the extended line that is now also the case if you just have one or two SIMs and we just see that that makes all the sense for people. The comfort of having convergent[?] services integrated between voice, broadband and video. That is just something that works very well, and we hope it will continue to do.

On the second question of the De Vijver Media. So, indeed there[?] was a very strong increase. If you look at this second quarter versus last year. But this is really driven by seasonality: it's a purely seasonal effect in the sense that we had a [inaudible] very big and promising format in this quarter called *Love Island* that attracted quite a bit of advertising attention. I mean we won't dwell on the quality of the programme; that's a different question. But I can definitely tell you from an advertising perspective this thing has raised high hopes because it did – all jokes apart, we didn't have such a big format in the second quarter that was the case now. And that is just why you see a big difference quarter on quarter. But that is really seasonal so it's not something structural.

John Porter: I think it's fair to say that De Vijver – the revenue in broadcast is a little lumpy Based on the format performances. I mean the underlying of course acquired and normal cycle of original programming is there. But the big formats that we have at De Vijver we've had this [inaudible] the smartest person in the world. It's just an evergreen, year in, year out, it's one of the best shows in Belgium, in Flanders. And then we have *The Mole* which has been revitalised, and in a digital – in a digital – with the amount of digital bolt ons that we do with that show, that also performs extremely well.

But those are the things that are going to make the revenue a bit lumpy going forward. Now we have *Love Island* which – we'll see how that goes going forward.

Rob Goyens: Listen, I must confess that two years ago I never imagined that I would talk about *Love Island* in an analyst call. But then life is full of surprises, so here we are.

Speaker: That's great. Thanks a lot guys.

John Porter: Thank you.

Operator: Thank you. Next question from David Vagman from ING. Sir, please go ahead.

David Vagman: Thanks. Good afternoon everyone. First question on regulation, so on the [inaudible] rate. Could you explain us what are at this stage your legal option, and also in the coming month what you hear as being kind of the important milestones? I mean, particularly concerning this challenge and the consultation – the ongoing consultation. My understanding was that the ongoing consultation was not about the cost model but rather about simply the pricing. So that's my first question.

Maybe as a quick follow up on that one, is also – do you also have the ability to – in the consultation to challenge the distinction of the cost and pricing models between the three Belgian regions that we see now?

And then let's say a second question more on the commercial momentum. Did you see any inflow of customer from Mobile Viking, given they had a bit of a collapse in recent months of their customer BASE? Thank you.

Anne Caluwaerts: Okay.

John Porter: [Inaudible]Anne?

Anne Caluwaerts: Yeah, yeah. On the regulation point, so the timeline and our options. So by 6th September, everyone has to submit their feedback to the regulator. They then have to seek advice from the competition authorities and the European Commission. And then we expect by the end of the year based on the feedback from the market, based on the feedback from the commission, from the competition authority, for them to finalise pricing by end of the year, early next year.

In terms of legal options, our legal options start of course after that. Until there's a final decision the effort will go into challenging some assumptions in the model, ensuring that people understand why all costs need to be included. Once the price has been set, because currently this is a draft proposal – once it's final, we have the options through the normal court cases to challenge the decision to channel the way the decision has been done. And we will of course look into that if needed. But these decisions – this procedure is not – not – in the meantime the price will be applied. So it comes after the facts of course, which is why our focus currently goes into the consultation.

We can give comments on the model that has been proposed in 5th July, so both on the model and the pricing. Because the model changed: initially you are absolutely right, it was our assumption as well that the model that was initially proposed end December, we gave our input to that and now the pricing would be set. But the underlying model completely changed, so we absolutely have the opportunity to also comment on that. And we will absolutely also as part of the challenge and as part of the consultation challenge the fact that Telenet, Nethys and

BruTele have very, very different cost models and have different outcomes in terms of model. Because we also have a network – a small network in the south of Belgium. We also have network assets in Brussels. And for example if you think about south Belgium where we have network, even though the fact that the geography is different, our costs are still the Telenet costs, and not the Nethys costs. So they are linked to the cable operator, they are not linked to the region. And there are some elements that we will look into as well.

Rob Goyens: So very practically, you will have a situation where, you know, in Brussels but also in Wallonia where, you know, one house has basically the Nethys price, you know, we're going to be next to it at our price. There's going to be a delta of 22-25%. That's obviously very, very bizarre. And the second thing is, as Anne already mentioned, just a couple of months ago the BIPT did this interim update where they came with a €70 split of fair margin. Once pointed underlying methodology was completely different and you know the cost BASE was taken into account at that time. So somehow, they made a U-turn on that front and came now up with this new model so that it's definitely something that we find very surprising and we will definitely comment.

John Porter: The major underlying issues with the new model is that the more efficient and the more performant and the more investment you make in your network, the lower the cost for the access seeker. It's completely upside down. So it makes no sense at all and if this model goes forward it will definitely have significant downward impact on capital deployment.

Rob Goyens: And then maybe for your question on mobile Vikings, of course without knowing the exact details of their commercial performance, I think we can say that Mobile Vikings has suffered probably from two elements: continued technical problems that they had over the recent months – I'm sure that has had an impact on their consumer BASE. Secondly from a positioning point of view they were a bit of a challenger and with high data specs, if you look at where the market has gone, with our proposal both a mobile only and on FMC but also with the other main competitors in the market, I think data differentiation has probably gone. That has probably also – I'm sure that has also impacted their performance. If I look at what we have seen coming in based on the port ins, given the numbers we have done on mobile postpaid net adds in Q1 and Q2, yes, there is of course a portion of Mobile Vikings coming in, but they are not overly represented. I think that with the combination of our mobile standalone line-ups and the FMC, we are taking quite fair shares from all the operators in the market. But yes, there is a part of mobile Vikings in there. But as I said, not overly focused or present in these numbers.

David Vagman: Thanks very much; that's very helpful. Maybe just a very quick follow up on this. Did you see them winning back customer after they, you know, announced their, let's say, their counter-attack on that aspect on pricing?

Rob Goyens: It's early days but we see very little movement on that.

David Vagman: Okay. Thank you. Thanks very much.

Operator: Thank you. Next question from [inaudible] from Kempen. Please go ahead.

Speaker: Yes, hi, good afternoon. Three questions? First of all, could you provide some colour on how you expect your free cash flow items below operating free cash flow to evolve year over year into 2020? So cash interest, cash tax, working capital and vendor[?] financing?

Secondly, more and more telecom operators are selling mobile and fibre infrastructure. How do you look at this and would you potentially – yeah, do you consider to do something similar? And final question, the mobile ARPU was down quite a lot in Q2, more than in Q1. Could you explain what happened there? Thank you.

John Porter: Let me address the infrastructure question, and then I'll hand it over to Erik for the free cash flow and mobile ARPU. You know it certainly hasn't escaped us that certain companies are pursuing an infrastructure deals for their – particularly their mobile towers, but also extending into their even elements of their fixed network. You know, when we see the multiples that are being paid. So we're fully aware of what's happening there. We – we also are quite aware – are quite up to date of what assets we actually own and control in relation to our mobile network and our fixed network. I think in summary our view on this is – so it is an interesting opportunity. The assets that we actually own and control and are not in a joint operating environment with Proximus and Orange are to some extent sub-scale. Certainly under 1,000 of our tower sites would be available for this type of transaction.

In addition I think it's important that there is a catalyst for a transaction of this type. We certainly are not feeling that right now in terms of the need for cash, the need to satisfy an M&A transaction or our dividend policy or anything else. It remains a point of optionality but it's not something that we're feeling, you know, we need to pursue aggressively right now given the scale of what we control.

So with that I'll hand it over to Erik.

Erik Van den Enden: Yeah. So on the question on going from OCF to Free Cash flow, I think we actually addressed some of it in the previous call, I remember well. But let me just take you through the different elements. So starting with vendor finance, as we have set for 2019, we're going to be keeping the programme broadly flat, and I think, you know, we demonstrated in this quarter that we're well on the way to do that in the sense we still had a slight increase in Q1, but then for this quarter it was already completely flat. So there was no increase any more. Of course, you know, if we're saying that for the full year we plan to be broadly flat, it also implies that in the second half of the year, we're going to go down a little bit. So that's the starting point and the end point will be broadly in line.

Cash taxes, I think as we mentioned before, we had a very large corporate tax payment in January actually in the first quarter of this year which was the reason that our free cash flow for Q1 was seasonably down. It was less than € 10 million actually. But of course you know, I mean the bulk of the taxes are paid then so there is not going to be any material tax payments any more in the rest of the year.

And then –

Speaker: Sorry to interrupt. The question is on 2020; for 2019 I think you have given the guidance already. It's more if some of these elements might turn more positive next year, like working capital for example.

Erik Van den Enden: Yeah indeed. So I think again we started in Q1. So taxes will come down. So next year we expect it to be lower than this year. Working capital I think is going to be broadly flat. I mean obviously it's going to have some variations but it's not something where we see huge movements. And then the interest payments, as you know, our coupon is fixed so it's fully hedged, and then it will really depend on the leverage. You know, leverage is coming down. You know, we started the year at – well, we ended last year at 4.5, we're now at 4.3. The plan is very much to be at 4.0 by the end of the year which is also related to the payment of the interim dividend. So again, as the quantum of the debt comes down also there you can see a modest improvement. So I think all in all, the direction of CF, the bridge from OCF to free cash flow is positive for 2020, again based on these elements.

Okay? And then I guess there was also a question on the mobile ARPU. So mobile ARPU I think there are two elements. Of course you know the revenue splits between subscription revenue and then out of bundle revenue. So on the subscription revenue side we did have some promos, especially on the BASE rent. So that definitely there was a bit of a promotional impact, specifically in Q2. Again, seasonal: I think the way we look at these promos is we try to do the right promos at the right time. Very tactical. So that is one element. And then the second one that has been more structural one. For a couple of years now, it is of course the out of bundle. It is something that's going down. But at the same time it's also important to know that last year we had the one off in terms of revenue recognition on the BASE – on use[?], so that particularly in the second quarter was hitting us. So the ARPU decline in Q2 was quite outspoken; it's not something that we think we should extrapolate for the rest of the year. Probably it's again – you know, Q1 is probably a more representative number.

Speaker: Thanks a lot.

Operator: Thank you. Next question from Paul Sidney from Credit Suisse. Please go ahead.

Paul Sidney: Yeah, thank you very much. Good afternoon everyone. Just have three quick questions please. Firstly on BASE, you obviously saw a better performance on postpaid ads, the standalone BASE network. You mentioned promotions; the unlimited offer is helping. But I was just wondering, do you think that BASE is starting to benefit from all the investments you've made in the past few years? You mention sort of network quality – similar network quality among the operators. But do you think there's now a perception among Belgian consumers that the BASE network quality has caught up?

And then second question, just following on the cable wholesale rates. If these rates are implemented, do you think that will change your future investment plans? Again, I think there's been a few comments around that but just wanted to touch on that again.

And then just lastly, John, I was wondering if you could maybe give us an update on M&A opportunities both in and outside Belgium, especially in light of those recent cable wholesale rates that have been proposed? Thank you.

John Porter: Okay, Jeroen, you want to talk about BASE and quality perception?

Jeroen Bronselaer: I'll first talk about BASE. I think indeed what you see is the element of a better line-up, a better promotional focus and actions but indeed also a general perception in the market about the BASE brand. Specifically on network, I think it does help. We are starting to see first signs. But the perception of network quality just like, how do you call it, trust, is something that it comes on foot and it goes by horse. So yes, it takes a while. We've done the investments, we're seeing the first green shoots of people saying and starting to indeed experience this improved quality, so that helps. I think it's taking away a barrier for entry and it's for sure helping with the loyal customers. But I would not exaggerate the effect. It is there but today if we have the better performance it is this perceived better network quality but also, I think brand quality. We invested a lot in the positioning of BASE. We invested a lot also in the above the line campaigning and also the perception that with our line-ups, with the BASE on new[?] line up, with the unlimited line-up, with the spec increases that we've done and with the promos and the specific partner promos and subscriptions that we're closer to the consumer, closer to the market. It is a combined effect of all of them.

I do think that with the network investment that we've done and with the quality that we have, that element will probably continue to feed into that confidence over the coming months and years, but it is a slower process than what you typically see as a marketing, branding or promo tactic.

John Porter: Okay. And on the wholesale and its impact on investment plans. I mean, I think we've certainly made it clear to the government and to the regulator that it's impossible that these prices which we find to be based on, you know, poor assumptions won't affect investment plans. We are singularly committed to managing to the operating free cashflow profile that we've communicated to the market. Obviously, we would love to outperform it. And that's OCF minus CAPEX. And if there are things that are outside of our control – things inside our control we're very comfortable with. But things outside of our control like these wholesale pricing, it's clearly going to impact our investment plans. Now do we – where will it affect our investment plans and how? You see it's affecting the whole industry, the overregulation and hypercompetitive environment that we all find ourselves in. Hence the Proximus/Orange potential joint venture. Hence our interest in optimising the capital profile of 5G going forward. So you know, we do have a lot of levers to pull, particularly in capital expenditure, and we'll be looking for ways to mitigate the impact of this wholesale pricing which hopefully we will be able to influence between now and the time it's implemented. But we will be able to mitigate it to some extent on OCF and to the extent that we can't we'll mitigate it in our CAPEX profile. There's no two ways about it.

So on the M&A front, clearly the – you know, the files that people are most focused on: Vu has sort of gone quiet and there is to the best of our knowledge no formal process going on right now of significance. You know, there have been mentions in the press about – you know, which I think we could speak of – about Nethys and BruTele trying to get together. But that seems to be the limits of the activity there. Certainly, you know, oppressive wholesale pricing regime isn't going to do anything for the value of that asset. So it remains to be seen where both the Nethys story and the wholesale outcome go, but you know, based on what we can see today it's not helpful to them ultimately deriving value in that – in a potential transaction.

I've said it before that the longer they go, the longer they wait, the more downward pressure there's going to be when it comes to Vu. You know, the discussion about other transactions. I think the – everything else that we can see within Belgium is well within our capacity to manage without any impact on – you know, without significant impact on our leverage or our dividend profile that we've already committed to. So nothing there. And then we've spoken before about the industrial logic associated with the cross-border deal to the north, and that's obviously in the control of the shareholders in Ziggo Vodafone. So from our standpoint, it's quiet.

So yeah, that's kind of where we are on M&A. Everybody seems to be taking the summer off.

Paul Sidney: That's very helpful, thank you very much.

John Porter: Okay?

Paul Sidney: Yeah it was great, thank you.

John Porter: Alrighty.

Operator: Thank you. Next question from Ruben Devos from KBC securities. Please go ahead.

Ruben Devos: Yes, thank you, good afternoon. I got two actually. The first one has to do with the churn levels. They've come down significantly in Q2. I understood that some of it might be explained by the completion of the customer regulation of SFR. But are there other elements that you've seen throughout the quarter that have led to that improvement? And then maybe, you know, related to that, you've been quite active in the first half year with new launches featured and so on. Just wondering where you could share some feedback on how comfortable you are with Telenet's position today in the residential market and maybe specifically on the naked broadband front?

And secondly just a small question as to the finalisation of the wholesale tariffs on the cable networks at the end of this year. What would be the opportunities, basically, to wholesale cables for yourself in south of the country? Thank you.

John Porter: Well, let me just knock the first one over – I'll knock the third one over and then hand it back to Jeroen for the rest. We're against wholesale access and continue to be. We don't think it's conducive to investment in what's critical infrastructure for the country in the decades to come. I mean it's just counterintuitive. If you had these things, had these headwinds when they were trying to build canals and ports and airports and highways, we'd still be just a bunch of farmers. So it doesn't make any sense at all, and for those reasons we're not going to be the first ones to take advantage of any wholesale opportunity. But we do have optionality of course in the south of the country on the wireless side and we'll be exploring our options there if there's no other way that we can participate in the fixed network in the south going forward.

So over to you, Jeroen. Talk about churn and broadband competition.

Jeroen Bronselaer: Yeah, so on the churn, I think you've already mentioned one of the biggest different strategies let's say between Q1 and Q2. It is indeed the fact that we of course have the SFR migration behind us. As we stated already last year and the beginning of this year that the underlying churn trends were actually not that bad, and it is indeed confirmed in Q2. With now SFR gone, you see this. One of the biggest drivers there is the fixed mobile convergence and the ecosystem thinking that we've already talked about a lot with the introduction of WIGO, now also YUGO[?]. It is continuously confirming that people who choose – who make the quadruple play choice for Telenet as an operator churn at very low levels, lower than the triple play world and certainly lower than zero play or the one play world. And of course as we grow our base there, that effect has to – is showing month after month. It's small but it is a continued trend. So I think that's one of the biggest explanations.

On the other hand, I think also in this competitive market we're getting better at targeting and segmenting the customers that are not necessarily going into that FMC world although we do think the bulk of the consumers will go there. But both in retention offers as in proactive promotion offers as in recognition of the customers, we're getting better at identifying these customers that will not go in there, that are a little bit at risk. And we are contacting them more proactive, I think, and with more Telenet offers. And that also shows it's again, I think, small elements. It's hard work, but that's driving this churn level consistently down. For that reason, also, on the broadband only – on the broadband only threat or the broadband only model, it is of course something that we are tracking. As I said, we are absolutely convinced that the FMC – the fixed model converged approach and the ecosystem approach is therefore for the bulk of the customers – that we're on the right track, we will only reinforce it as we will continue to reinforce the ecosystems and expand them as you have done with WIGO. And we still have some potential to go with YUGO for the customers who would be interested in broadband only offers. I think today we are already competitive. We have an offer at €27.8 today, the basic internet offer, which is very, very performant offer. It is the lowest price in the market. We have student offers there, we have settlers' offers there. So even for the groups – and again, it's more of the segmentation approach that I think we are getting better at and more focused at at Telenet. So we also think that we are competitive but it's a competitive market. We'll see what it brings. But we're quite confident that on the combination of these two fronts, with a strong ecosystem FMC approach and line up, and with the right segmented focus and tactical – technical sharpness we can tackle that threat.

Ruben Devos: Right. Thank you very much.

Operator: Thank you. Next question from James Ratzer from New Street Research, sorry. Sir, please go ahead.

James Ratzer: Yes, thank you very much indeed, good afternoon. Had two questions please. The first one was just regarding your overall revenue growth. I mean you've reiterated the guidance minus 2.5% for the full year. That would really imply quite a sharp slowdown into the second half. So just wanted to stress test that a little bit more. I mean you've announced the price rise to come through from August. We've already seen some of the MEDIALAAN drag in Q2. So it was really trying to understand why things would get so much worse in the second half at the top line. It doesn't seem consistent with your commentary about the market structure and churn getting better.

And the second question just to come back to the topic on wholesale please. I mean I understand your frustration and disappointment with the ruling, but am I not right in thinking that going forward quite a bit of the wholesale fee is going to be driven by rising usage, and as a result I would be interested to understand how much impact you actually think that could have on the future wholesale rate. Whether, you know, could we even get scenarios where it leads to a better outcome on the wholesale rate than the initial proposal from BIPT last year? Thank you.

Erik Van den Enden: Yeah, so let me take the first question in terms of the revenue growth profile for the full year. So I think one thing that is quite clear is that we're – I mean we said after the first quarter this is a good start to the year. I think you know, with now six months in, I think we still feel very much on track. So I think we're happy with the numbers that we see so far, especially when you back out the MEDIALAAN loss, it is I think a quite robust performance. So I think we start also for that full year guidance clearly from a strong base. But having said that there are a couple of elements that will make you know the second half you know, tougher for us.

First of all, going back to MEDIALAAN, of course in the first half year, we had MEDIALAAN from January until somewhere in April so there was more than a quarter of revenues of that wholesale contract still in which of course is not going to be the case any more in the second half. So now we're going to have the full six months impact, so just on relative compares, and that is definitely going to be a drag.

Secondly also you look at you know, just a comps[?] basis, of course last year you know our performance in the second half was better than it was in the firs half, so for there, that is going to be a tougher comp. And then thirdly, I mean just in terms of commercial – I mean competitive environment, you're right that at this point in time, you know, we feel – we feel confident, but at the same time the wholesale – sorry, the broadband only offer – or [inaudible] actually, it's not a broadband-only proposition. But that is just hitting the market. I think so far, we feel confident that have the line up there and so that is a potential upside. But again at least between the full effect of MEDIALAAN and tougher comp, you know, the second half will be a little bit more difficult than the first half.

Anne Caluwaerts: Yeah, and on the second question in terms of the volume usage component in the wholesale proposal, you're absolutely right that there is a silver line perhaps, that tin this new proposal both speed tiering and tiering on peak volume has been included. And we think that on itself is a good thing. Unfortunately the whole base has been lowered so that according to our calculations, certainly for the speeds up to 500 Mbps, and the previous consultation did not go higher than 500 Mbps, so we have no reference point there. Still, even with these positive elements, the wholesale price is lower than what was initially proposed end 2018. And remember in this proposal the margin was to be included which was not the case in the proposal end 2018. But the fact that those components are in is a positive evolution. However, we would like all the costs that we have also on the base tariff to be included, of course.

James Ratzer: So thank you for that. I mean how much would volumes need to rise by for the wholesale rate to get back to the proposal from last year?

Anne Caluwaerts: It depends on a number of components. It's very hard to put a figure like that on it because it depends not just on volume but also on speed. There are a number of valuables in the model but if we would take – if we would take a peak volume of 1Mb and a speed of 500 Mbps, at that point our rate would still be over €2 lower than what was proposed end of 2018.

James Ratzer: Great. Thank you very much.

Operator: Thank you. Next question from Stephan Genoe from Degroof Petercam. Sir, please go ahead.

Stephan Genoe: Yes, thank you. First to follow up on BASE, you mentioned you've got optionality with mobile in the south. Could you explain how you see the performance of BASE in the south, and do you believe longer term this is viable mobile only in the south? Or do you believe you need a larger cooperation with other players?

And secondly, on the 5G you state that there is no solid business case in the consumer environment, but with the consumers on things like Internet of Things, automotive driving, consumer end business, I would say convergent or overlapping. How could you clarify a bit more your stance there and your investments in 5G timing longer term?

John Porter: Look, on the 5G front, I would concede that is an evolving topic. But what you've -– the companies that you've seen that have come out and committed spectrum and big spectrum investments and big capital investments to 5G are companies that require, first of all, require more spectrum to run their core business, companies like Kelster and Verizon, who are also looking not only to augment their existing wireless business, but are looking down the road towards wireless fixed substitution.

And that's clearly an opportunity. But we have 98% of homes packed in our territory today with a 1GB fixed network. So that is not an opportunity for us other than in the south of the country. So it kind of goes to your first question. So we obviously keep an eye on it. We're obviously going to be involved in the spectrum auctions. But I said that there are still certainly challenges.

On the more industrial applications, one of the risks, I think, for operators is that, similar to 4G where we invested all the capital and then got disintermediated by the GAFFAs who are the ones that made all the money on 4G and we've gone backwards hundreds of billions across the industry. We have to be very cautious that that doesn't happen to us again.

So I'm just very cautious of how we build an industrial framework where the companies that are making capital investments in new technologies are the ones who are actually able to monetise it and not getting disintermediated by solutions-based, cloud-based providers.

So it's a very complex conversation. And you can certainly have a conversation with companies like Ericsson or Huawei, who will give you 100 different use cases for 5G. But sitting here where we're sitting and having gone through the experience of 4G where the twin pincers of commercial disintermediation and regulation have basically destroyed any return on capital for the operators, it's a bit scary.

And just finishing off on your first question, the opportunity in the south is wireless fixed substitution. We just recently had public drive tests through the BIPT that showed that our 4G platform is delivering average download speeds of 85 Mbps.

Now obviously, there are issues about scalability of broadband to the presence -– or involving video and other broadband applications. It's still an opportunity that we may be interested in pursuing outside of our footprint if we're unable to make progress in other ways. So that's it, in a summary.

Stefaan Genoe: Okay. Thank you.

Operator: Thank you. We don't have any more questions. Back to you for the conclusions.

John Porter: Okay, Rob?

Rob Goyens: Thank you, operator. So I would like to thank everyone for having joined this call. Obviously, the replay and also the transcript will be made available on our Investor Relations website very shortly. But Dennis and I, we're still available in the next few days if you guys want to have some further follow-ups or additional questions. And otherwise, we'll be happy to see you in September during one of our conferences or roadshows, which you will find on our Investor Relations website. So thanks again and bye for now.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.

[END OF TRANSCRIPT]