annual report 2005

corporate governance

Mobistar places great emphasis on good governance and confirms its intention to comply with the *Code Belge de Gouvernance d'Entreprise* (Belgian Corporate Governance Code). The Governance Supervisory Committee (an ad hoc committee created by the Board) has continued its work in 2005 and has focused in particular on drafting a Corporate Governance Charter. This Charter was published (in three languages) on the Company's website on 30 December 2005 in accordance with the provisions of the Code.

As last year, Mobistar drafted this Corporate Governance section in accordance with the provisions of the *Code Belge de Gouvernance d'Entreprise*.

The Company considers that its Corporate Governance Charter and this Corporate Governance section reflect both the spirit and the letter of the *Code Belge de Gouvernance d'Entreprise*.

In the Corporate Governance Charter, the Company explains that, for the sake of clarity and consistency with Belgian law, it has decided not to vary the legal definition of independent director set out in article 524 of the Companies Code. The Company has therefore decided not to refer to the definition of "independent director" as set out in the *Code Belge de Gouvernance d'Entreprise* (section 2.3). Apart from this, there is no inconsistency with the Code.

Mobistar hopes to encourage and facilitate the participation of shareholders at the Annual General Meeting. To that end, it has decided to use for the second time the registration date procedure, which releases shareholders from the obligation to have their shares blocked for several days (and this will be combined with the "traditional" deposit procedure). The Company has noted that institutional shareholders attach considerable importance to this eased procedure.

For the same reason, the Company has also taken steps to ensure free access to the General Meeting. At the last General Meeting, individual shareholders pointed out that some banks imposed charges for delivering access cards. The Company has taken the matter up with the relevant banks.

1. Composition of the Board of Directors

The Board of Directors consists of a maximum of 18 directors pursuant to article 13 of the Articles of Association.

As at 31 December 2005, the Board consisted of 12 members, of whom 4 were independent directors. No age limit is imposed for being a member of the Board.

Name	Function	Main function	Age	Nationality	End of mandate
Jan Steyaert	Chairman of the Board	President Telindus Group	60	Belgian	2008
Bernard Moschéni[1][2]	Managing Director	Managing Director Mobistar	53	French	2008
Annemie Neyts[3][6]	Independent Director	Member of Parliament	61	Belgian	2008
Sparaxis[3][4]	Independent Director				
Eric Dekeuleneer[3]	Independent Director	CEO Credibe	53	Belgian	2008
		CEO University Foundation			
Philippe Delaunois[3][7]	Independent Director	Company director	64	Belgian	2008
Bernard Ghillebaert[1]	Director	CEO UK (Orange)	53	French	2008
Sanjiv Ahuja[1]	Director	CEO (Orange)	49	American	2008
Brigitte Bourgoin[1]	Director	International Director (Orange)	52	French	2008
Tim Lowry[1]	Director	VP Western Europe (Orange)	50	English	2008
Michel Poirier[1]	Director	Fin. & Treasury Director (FT)	56	French	2008
Wirefree Services Belgium[1][5]	Director				2008

(1) Directors representing the majority shareholder (Wirefree Services Belgium).
(2) Director responsible for day-to day management.
(3) The independent directors have signed a declaration stating that they will observe the independence criteria set out in article 524 §4 of the Companies Code.
(4) The Company Sparaxis is linked to SRIW (Société Régionale d'Investissement de Wallonie) and is represented by Mr Eric Bauche (Advisor Executive Committee at SRIW).
(5) The Company Wirefree Services Belgium is represented by Mr Aldo Cardoso (independent director of Orange SA).
(6) Ms Annemie Neyts has resigned from her position as (independent) director with effect from 1 January 2006.
(7) Mr Philippe Delaunois was appointed by the General Meeting on 4 May 2005.

The mandates of Mr Alex Brabers and the Company SRIB/GIMB (represented by Mr Serge Vilain) expired at the conclusion of the General Meeting on 4 May 2005 and have not been renewed.

••• Presentation of the directors nominated in 2005

Philippe Delaunois

64 years old, of Belgian nationality, Philippe Delaunois is a qualified metallurgical and commercial engineer and a graduate of Harvard Business School. Philippe Delaunois pursued his career at Hainaut-Sambre and Cockerill-Sambre, where he was managing director and general manager. He is currently on the board of several companies. He was also President of the Union Wallonne des Entreprises (Walloon business association) (1990 to 1993) and is currently Honorary Consul of Austria for Hainaut and Namur.

Mr Delaunois has been co-opted as independent director and meets all the criteria of independence stipulated by the Companies Code.

It is important to note that the Shareholders' Agreement of 17 September 1998 provided that "the parties agree that they will not nominate candidates for functions within the organs and committees of the Company when those individuals also hold mandates conflicting with those they will exercise within the Company". Apart from this principle, there are no other internal rules governing the exercise of the function of director.

For the 2005 financial year, independent directors will receive a fixed fee of EUR 30,000 as well as an additional fee of EUR 2,000 for each Board committee meeting in which they participate. Other directors' mandates will be carried out free of charge.

There are agreements and/or invoicing arrangements between the various companies within the France Télécom/Orange group and the Company, relating to services provided by staff members of companies within the France Télécom/Orange group in favour of the Company. Inversely, the services provided by the Company to the benefit of the group are also invoiced. The Company has also entered into a management contract with the Telindus Group for the services of Mr Jan Steyaert to the Company. This management contract has been cancelled with effect from 1 January 2006.

2. The operation of the Board of Directors

The Board is required to meet at least six times a year. The main subjects discussed by the Board in 2005 were:

- Company strategy;
- Company budget and finance;
- the operational and financial position;
- major projects;
- technical developments;
- strategy in relation to ADSL and MVNO;
- development of the regulatory framework;
- follow-up of major litigation.

Prior to the Board meetings, the Company's management systematically provides Board members with files containing all the detailed information required for discussion and decision-making in relation to the matters listed in the agenda (the main ones of which are itemised here above).

The Company's Articles provide that resolutions of the Board of Directors are in principle passed by a majority of votes taken. However, the Shareholders' Agreement of 17 September 1998 provided that some decisions may only be adopted if no more than one director votes against it; this agreement also includes additional rules governing approval of the budget.

The Board of Directors met 8 times in the course of 2005. Two "technical" meetings also took place on 5 August 2005 and 5 September 2005 (recording an increase in capital following the conversion of warrants); these meetings are not included in the list of attendances below.

••• Attendance by Board members at meetings of the Board of Directors

Directors	7 February	17 March	21 April	25 July	23 September	20 October	17 November	22 December
Jan Steyaert	represented	present	present	present	present	present	present	present
Bernard Moschéni	present	present	present	present	present	present	present	present
Annemie Neyts	present	present	present	present	represented	apologies	represented	represented
Sparaxis	present	represented	present	present	present	present	present	present
Brigitte Bourgoin	present	present	present	present	present	present	present	present
Sanjiv Ahuja	present	represented	represented	represented	present	present	present	represented
Bernard Ghillebaert	present	represented	present	present	present	present	present	present
Tim Lowry	present	present	present	present	present	present	present	present
WSB	present	present	present	present	present	present	present	present
Michel Poirier	present	present	present	present	present	present	present	present
Eric Dekeuleneer	present	present	present	present	present	apologies	present	present
Philippe Delaunois	/	/	/	present	present	apologies	present	present
Alex Brabers	present	present	present	/	/	/	/	/
SRIB/GIMB	present	present	apologies	/	/	/	/	/

3. Committees formed by the Board of Directors

The Board of Directors has set up three statutory committees (the Audit Committee, the Remuneration and Nomination Committee and the Executive Committee), as well as a non-statutory committee (the Governance Supervisory Committee).

••• The Audit Committee

The Audit Committee consisted of 5 Board members during 2005: Messrs Alex Brabers (Chairman), Tim Lowry, Michel Poirier, Eric Dekeuleneer and the Company Sparaxis (represented by Mr Eric Bauche).

Membership was reviewed on 25 July 2005. Since then, the Audit Committee consists of: Messrs Eric Dekeuleneer (Chairman), Philippe Delaunois, Tim Lowry, Michel Poirier and the Company Sparaxis (represented by Mr Eric Bauche).

The mission of this committee is to assist the Board of Directors in carrying out its duties with regard to the integrity of the Company's financial information and, in particular, supervision of financial reports, internal audits, external audits and the financial relationship between the Company and its shareholders. The Audit Committee met 7 times in the course of 2005.

Mr Brabers participated in the meetings held on 3 February, 14 March and 21 April 2005. Messrs Lowry, Poirier and Bauche (representing the Company Sparaxis) participated in the meetings held on 3 February, 14 March, 21 April, 20 July, 11 October, 18 October and 19 December 2005. Mr Dekeuleneer participated in the meetings held on 3 February, 21 April, 20 July, 11 October, 18 October and 19 December 2005. Mr Delaunois participated in the meetings held on 11 October, 18 October and 19 December 2005.

The main topics discussed by the Audit Committee in 2005 were:

- financial reporting;
- the statutory audit;
- internal audit missions;
- relationships with linked parties;
- accounting norms (and the IAS/IFRS transition);
- the Sarbanes Oxley project;
- Company financing;
- taxation.

••• The Remuneration and Nomination Committee

At the end of 2005, the Remuneration and Nomination Committee consisted of 5 directors: Ms Brigitte Bourgoin (President), Ms Annemie Neyts, Messrs Jan Steyaert, Eric Dekeuleneer and Philippe Delaunois.

The mission of this committee is to assist the Board of Directors in setting the remuneration of the Company's senior management (the Chairman, directors, the Managing Director and individuals reporting directly to them) as well as assist the Board of Directors in relation to nominations for, or re-election of, members of the Board of Directors.

The Remuneration and Nomination Committee met 3 times in the course of 2005.

Ms Bourgoin and Mr Steyaert participated in the meetings held on 17 March, 22 September and 20 October 2005. Ms Neyts participated in the meeting held on 17 March 2005. Mr Dekeuleneer participated in the meetings held on 22 September and 20 October 2005. Mr Delaunois participated in the meeting held on 22 September 2005.

In 2005, the Remuneration and Nomination Committee examined the staff bonus schemes, the remuneration of members of the "Management Committee", the discounted stock purchase plan (DSPP 2005), as well as an offer from the French government made within the framework of French privatisation legislation, offering employees the opportunity to purchase shares in France Télécom at a discounted price subject to a two-year freeze.

••• The Executive Committee

The Board of Directors has set up an Executive Committee. The extent of the powers and the operation of the Executive Committee were determined by an internal regulation. Certain important matters expressly listed in this regulation (such as the drawing-up of the annual budget, decisions involving a major amendment to the budget, nomination of directors and other matters of similar magnitude) require prior consultation of the Executive Committee by the "Management Committee".

In the course of 2005, this Committee consisted of 5 directors: Ms Brigitte Bourgoin (President), Messrs Bernard Moschéni, Jan Steyaert, Tim Lowry and the Company SRIB (represented by Mr Serge Vilain).

The composition of the Executive Committee was reviewed on 25 July 2005. Since then, the Committee comprises: Mr Jan Steyaert (Chairman), Ms Brigitte Bourgoin, Messrs Tim Lowry and Philippe Delaunois as well as the Company Sparaxis (represented by Mr Eric Bauche).

The Executive Committee met 4 times in the course of 2005.

Ms Bourgoin and Mr Steyaert participated in the meetings held on 18 January, 29 June, 13 September and 20 October 2005. Mr Bauche (representing the company Sparaxis) participated in the meetings held on 13 September and 20 October 2005. Mr Delaunois participated in the meetings held on 29 June and 13 September 2005. Mr Lowry participated in the meetings held on 18 January and 13 September 2005. Messrs Moschéni and

Vilain (representing SRIB) participated in the meetings held on 18 January 2005.

In 2005, the Executive Committee dealt in particular with the following matters:
- the Company's results;
- the broadband project;
- new investments;
- the replacement of equipment (Nortel Swap);
- progress of the UMTS project.

••• The Governance Supervisory Committee

This committee is an ad hoc committee set up end of December 2004, following the publication of the new *Code de Gouvernance d'Entreprise*, in order to monitor developments in relation to corporate governance and to ensure their implementation at Mobistar.

This committee consisted of 4 directors at the end of 2005: Messrs Eric Dekeuleneer (Chairman), Jan Steyaert, Tim Lowry and the Company Wirefree Services Belgium (represented by Mr Aldo Cardoso).

The Governance Supervisory Committee met 5 times in the course of 2005. All members participated in the meetings held on 2 February, 17 March, 13 April, 22 September and 17 November 2005.

In 2005, the Governance Supervisory Committee has focused mainly on drafting the Corporate Governance Charter and a Code of Conduct concerning dealings in securities.

4. The remuneration of directors

As required by the Belgian *Code de Gouvernance d'Entreprise*, the Company has decided to publish the remuneration of the Managing Director and the (global) remuneration of the Management Committee.

••• Managing director

- basic remuneration (gross annual salary):	324,637 EUR
- variable remuneration (at target):	162,318 EUR
- other elements of remuneration:	
• fees specific to the employer:	6,156 EUR
• insurance:	119,468 EUR
• other:	108,087 EUR

••• Management committee (except for the managing director)

On a global basis:

- basic remuneration (gross annual salary):	1,172,723 EUR
- variable remuneration (at target):	457,293 EUR
- other elements of remuneration:	
• fees specific to the employer:	37,464 EUR
• insurance:	246,482 EUR
• other:	136,961 EUR

Neither the Managing Director nor the members of the Management Committee have received warrants or stock options in the course of 2005. A discounted stock purchase plan (DSPP 2005) has been implemented and launched in September 2005. All staff members, including members of the Management Committee, were entitled to participate. Under the DSPP, employees had the opportunity to purchase shares at a discounted price (in this instance EUR 52.96 per share), subject to a two-year freeze. A total of 82,886 shares has been purchased under this scheme.

5. Day-to-day management

Mr Bernard Moschéni was appointed director on 26 July 2004 and has occupied the position of Managing Director since 1 October 2004.

Following the meeting on 24 July 2003, the Board decided not to take advantage of a possibility under the law and the Articles to delegate certain powers to a management committee.

In order to assist the Managing Director in the exercise of his day-to-day management responsibilities, a "Management Committee" meets in principle on a weekly basis. With the exception of Mr Bernard Moschéni (Managing Director of the Company), each member of the "Management Committee" heads a department within the organisation.

The following are members of the Management Committee:
Bernard Moschéni (Managing Director)
Bernard Buyat (Head of Information Technology and Network)
Erick Cuvelier (Head of Marketing)
Paul-Marie Dessart (Secretary General)
Benoît Scheen (Chief Commercial Officer)
Chris Van Roey (Head of Communication)
Martine Verluyten (Head of Finance, Quality and Supply Operations)
Olivier Ysewijn (Head of Corporate Development and Strategy)

Members of the Management Committee are considered as members of the executive management for the purposes of the Belgian *Code de Gouvernance d'Entreprise*.

6. Surplus allocation policy

The Company confirms that it intends to follow an attractive dividends policy while taking into account financial and legal constraints.

In this context, article 617 of the Companies Code is relevant.

Specifically, it provides that "*no distribution may be made when, at closing of the previous financial year, net assets shown in the annual accounts are, or would become following such a distribution, less than the total paid-up capital or, if higher, called-up capital, plus all reserves that the law or the Articles do not allow to be distributed*". Apart from this provision, the Company is not subject to any restrictions with regard to its distribution policy.

7. Contractual relationships with directors and managers

Conclusion of any contract or transaction between a Board member or a member of the executive management and the Company is subject to the prior approval of the Board after the Audit Committee has been informed and consulted. Such a contract or transaction must be concluded at arm's length under the market conditions prevailing at the time. Prior approval of the Board is required even where article 523 of the Companies Code is not applicable to the foreseen transaction or contract. However, services provided by the Company within the general framework of its activities under normal market conditions (i.e. a normal "customer" relationship) are not subject to such prior approval.

8. Transactions involving Company securities

The Board has drafted a set of rules relating to transactions involving shares or other financial instruments issued by the Company and effected by Board members, members of the executive management and other specified individuals on their own account ("Code of Conduct").

The Board has appointed a *Compliance Officer* who will ensure that the individuals referred to above apply these rules. Currently, Mr Paul-Marie Dessart has the role of *Compliance Officer*.

If a Board member or a member of the executive management intends to acquire or assign financial instruments (whether directly or indirectly), he must inform the *Compliance Officer* in writing at least three working days prior to the foreseen transaction and in any event prior to completing the transaction. The concerned individual must confirm without delay that he or she does not possess any privileged information.

If the transaction proceeds, the Board member or member of the executive management must inform the *Compliance Officer* immediately in writing and provide him with evidence of the transaction, which must include the number of financial instruments involved, the price and, where applicable, other terms applicable to the said transaction.

All transactions completed by Board members and members of the executive management during the financial year will be disclosed in the Corporate Governance section of the annual report relating to that financial year (in force from the 2006 financial year).

9. Relations with and between shareholders

The sponsors of the Company (namely the companies Wirefree Services Belgium and Telindus Group) entered into a contract prior to formation of the Company with the intention of defining the co-operation between them once the Company had been formed (agreement of 26 May 1995 and amendment of 18 December 1995).

There is also a Shareholders' Agreement concluded on 31 July 1996, which was amended and completed by a Shareholders' Agreement dated 17 September 1998. There is also an agreement dated 31 July 1996, under which certain private Company (minority) investors agreed to distribute between themselves the prerogatives granted to them under the first Shareholders' Agreement.

These agreements have lost some of their applicability following sales of Mobistar shares by some signatories. The Shareholders' Agreements will expire in October 2006. The Company has been informed that the last two signatories of the Shareholders' Agreements (i.e. Wirefree Services Belgium and Telindus Group) have cancelled these agreements with effect from 6 February 2006. At the same time, they have also cancelled the co-operation agreement of 26 May 1995 and its amendment of 18 December 1995.

Shareholders' structure as at 31 December 2005

Mobistar' shareholders	Number of shares	Capital Percentage
Wirefree Services Belgium(1)	31,753,100	50.18%
Telindus Group(1)	2,921,182	4.62%
Treasury shares	15,614	0.02%
Others (free float)	28,583,759	45.18%
Total number of shares (2)	**63,273,655**	**100%**

(1) Figures based on the declaration of transparency of 30 December 2003.
(2) At the end of 2005, a total of 18,097 warrants were still in circulation; each warrant entitles the holder to subscribe to a Mobistar share on payment of a price on exercise of that right of EUR 34.15.

management report for the 2005 financial year

(consolidated and non-consolidated)

1. Key events in the activity of the Mobistar group

••• Evolution of the mobile market

According to Mobistar estimates, the mobile telephony market, which had recorded growth of 8.2% during 2004, grew by a further 4.4% in 2005 reaching 85.3%[1] of the Belgian population at the end of the year.

As at 31 December 2005, Mobistar had 2,912,806 active customers, 67,044 more than at the end of 2004. This 2.4% growth in Mobistar's active customer base does not include the 49,996 Machine-to-Machine cards (data communications, telemetry, etc.) active at the end of 2005. This market segment recorded a significant increase in 2005 as the activated Machine-to-Machine cards totalled 26,631 units at the end of 2004.

Following a complaint by Proximus and by Base, the Antwerp Commercial Court delivered, on 23 December 2004, a judgment banning the sale of Tempo packs including handsets and call units and the sale of MMS packs including 100 MMS. These sales have been formally prohibited since 11 January 2005. The appeal lodged by Mobistar against this decision was dismissed. Consequently, Mobistar has no longer been allowed to sell Tempo packs since July 2005.

The ban on the sale of Tempo packs combined with aggressive competition on the prepaid market and Mobistar's active policy of migrating its customers from a prepaid formula to a contract resulted in a decrease in the prepaid segment and a significant increase in the number of contracts taken out. These rose from 201,412 in 2004 to 263,454 in 2005. At the end of 2005, the postpaid segment (contracts) represented 43.6% of the active customer base compared with 35.4% at the end of the previous year.

Competitive pressure throughout 2005 caused mobile telephony prices to fall in all market segments. This decrease came in the form of reductions in the basic tariff, higher call credits and even unlimited calls for a fixed price.

••• Development of offers and services

My Life/My Family/My Start

In May 2005, Mobistar updated its portfolio of postpaid offers. With the introduction of My Life, customers can now call for € 15 per month. One of the benefits of the formula is its flexibility and simplicity. Thanks to a series of options, customers can match their basic formula to their personal profile in an optimum manner. The price plan can be changed up to twelve times a year as customers wish.

In the fourth quarter, the My Family and My Start formulas were added to Mobistar's range. My Family is principally aimed at families and offers unlimited calls between two cards. My Start is the postpaid offer that has the lowest commitment (€ 10 per month).

Tempo Contact, Tempo Essential and Simply by Mobistar

The Tempo offer underwent further developments in 2005. To compensate for the ban on sales of Tempo Packs, Mobistar launched Tempo Contact. This prepaid offer was accompanied by promotional and recurrent actions (Promo of the Month) to encourage customer loyalty.

Always keen to improve its competitivity, Mobistar introduced an unlimited offer, Tempo Essential, during the fourth quarter. This formula offers not only economical prices but also the possibility of receiving a free call credit for life by making regular top-ups.

Given the rapid development of the market, Mobistar also launched a limited prepaid mobile telephony offer under its own brand name, only available on Internet. Simply by Mobistar is a very simple formula that targets users who wish to access only the basic mobile telephony services (calling and sending SMS) at rock bottom prices without compromising on the quality criteria on which the operator has built its name.

EDGE & Mobile TV

Mobistar has deployed EDGE (Enhanced Data for Global Evolution) technology on the whole of its network. This solution increases the GPRS transmission speed by up to four times.

Thanks to the capacity and rate levels offered by EDGE, Mobistar users can access the Internet, exchange extended SMS, MMS and emails, and download files via their mobile phone, wherever they are, in extremely quick times, close to those of 3G (UMTS) technology.

Using EDGE technology, Mobistar launched a GSM TV pilot project, in partnership with the company Belgian Business Television, producer of the Canal Z and Kanaal Z programmes. Users can also download video flashes on national and international news, sport, culture and offbeat items.

Non-mobile activities

Mobistar continued its strategy of developing Mobile Data activities, focussing more on the development of convergence solutions rather than on the provision of new services linked exclusively to fixed-line data transmission.

[1] This figure is calculating by adding together the number of active customers published by the 3 Belgian mobile operators divided by the population of Belgium.

After launching ADSL offers through one of its fixed voice resellers, Mobistar introduced its own ADSL offers on the residential market at the end of 2005. Mobistar ADSL enables customers to surf the net via their landline. By choosing Mobistar ADSL Connect, customers let Mobistar take charge of everything. With Mobistar Talk, they can surf wirelessly thanks to the Mobistar Livebox and make unlimited calls to national fixed numbers.

In the area of fixed telephony, Mobistar recorded a 10.6% decrease in turnover through voice resellers, Internet Service Providers and in the Corporate segment, which is sensitive to Mobistar's convergent offers combining fixed, mobile and SDSL technologies. This decrease in turnover resulted in particular from a reduction in prices following the launch of unlimited offers by certain major fixed telephony market operators.

••• Distribution

The major event in 2005 was the launch of a new range of Mobistar points of sales owned exclusively. These stores, genuine showcases for the brand name, have a more sophisticated aesthetic concept, larger sales areas, privileged locations and a very wide choice of phones, whilst also offering excellent customer service. These stores are managed directly by Mobistar, unlike the Mobistar Centers which operate under a franchise system. Five Mobistar stores opened in 2005 and the aim is to reach 20 by the end of 2006.

The network of Mobistar Centers was rationalised during 2005. One point of sale was closed down whilst four new ones were opened. The operator currently has 128 Mobistar Centers.

The distribution strategy is based on four main principles:
- redimensioning of the distribution landscape,
- segmentation of each point of sale according to its sales potential,
- increased weight of exclusive distribution,
- increased proportion of sales in open distribution.

••• Network development

In 2004, Mobistar's Board of Directors had selected the company Nortel Networks as its exclusive partner in the development of the radio infrastructure for its network. This decision represented an important step in the implementation of EDGE and 3G technologies, enabling Mobistar to develop new high added-value services. The move from a multi-supplier network to a single supplier network also had an impact on the operator's operating costs.

By the end of 2005, the renovation programme involving the whole of the network had been successfully completed. This provides better "deep indoor" coverage and improved "voice" quality for all Mobistar customers.

At the same time, Mobistar continued to develop UMTS, the third generation (3G) network, which is twice as quick as EDGE. Mobistar customers can now enjoy the benefits of UMTS coverage in Brussels and Antwerp. By the end of 2005, UMTS coverage was available for 32% of the population.

In 2005, 372 new sites were commissioned. At the end of 2005, Mobistar's network had 3,052 sites, of which 1,068 are shared with other operators.

Efforts to increase the density of the network involved the installation of 623 additional cells during the year, making a total of 8,426 units by 31 December 2005.

••• Significant market power

Since 21 January 2003, the Belgian Institute for Postal Services and Telecommunications (BIPT) has considered Mobistar to be a "significant market power operator" on the mobile public networks market and on the national interconnection market. This status has direct consequences in terms of wholesale tariffs being oriented towards production costs, non-discrimination and transparency of retail tariffs.

The BIPT Council concluded, on 23 September 2003, in its decision on Mobistar's mobile terminating rates (MTR), that the cost model presented by the operator satisfied the principles of causality of costs, transparency and objectivity. The Institute also concluded that Mobistar's terminating rates were cost-oriented.

In 2005, the BIPT took the initiative to create a cost model relating to the orientation of the terminating rates of the three mobile operators active on the Belgian market. Mobistar offered its full cooperation to the project by providing the BIPT with all the information requested and by clarifying the company's point of view so that this model best reflects the situation on the Belgian market.

Analysts are currently preparing their conclusions and a decision from the BIPT on terminating costs is expected in 2006.

••• Subsequent events

The BIPT is finalising its market analyses including that relating to call termination. Telecoms operators are currently referred to a draft decision by the BIPT on this matter.

2. Comments on the consolidated accounts prepared according to IFRS standards

Pursuant to Regulation EC 1606/2002 and to the Royal Decree of 4 December 2003, and in accordance with IFRS 1 "First-time adoption of IFRS", the Mobistar group's 2005 consolidated financial statements were prepared in accordance with IFRS together with the comparative figures for 2004.

••• Income statement

For the year 2005, the group recorded a consolidated net profit of € 270.3 million, an increase of 11.2% on the figure of € 243 million recorded in the previous year. The cash flow generated after a tax expense of € 124.5 million and a distributed dividend of € 126.8 million, was € 199.1 million compared with € 274.3 million in 2004, a year in which no dividend had been paid. This favourable situation enabled the group to prepay the long-term loan of € 250 million granted by the France Télécom group.

Consolidated turnover increased by 8.2% from € 1,341.1 million in 2004, including € 4.4 million of non-recurring revenue associated with mobile activity, to € 1,451.1 million in 2005. Service revenue increased by 10%, rising from € 1,276.3 million to € 1,404.3 million. Revenue from the sale of equipment, in particular GSM terminals, dropped from € 64.8 million to € 46.8 million (-27.8%) following the decision of the Antwerp Court of Appeal to ban the joint sale of GSM terminals with call credits or SIM cards with call credits.

Turnover from mobile activity[2] increased by 9.3% from € 1,245.3 million to € 1,360.9 million. As for turnover from fixed voice and data activity, this decreased by 10.3%, from € 100.6 million to € 90.2 million. This decrease is due to the decline in fixed voice activity (voice resellers in particular) which the launch of ADSL did not compensate for.

The 2.4% increase in the number of active customers contributed significantly to the increase in turnover achieved in mobile telephony. This rise is principally attributable to postpaid activity (+26%) in both the business and residential segments. This was sustained by number portability amongst mobile telephony operators, by the effectiveness of the various distribution channels and by the operator's efforts to encourage customers using the prepaid formula to migrate towards a contract. These migrations, combined with the ban on the sale of packs and increasing competition particularly in the lower segment of the market, resulted in a decrease in the prepaid segment (-11%).

In line with the conclusions of the decision of the BIPT Council, Mobistar reduced its mobile terminating rates (MTR), in November 2004, by 7% for the calls of other operators to its network. In 2005, Mobistar did not decrease its MTR because the BIPT was finalising an analytical cost model that covers the entire mobile telecommunications sector in Belgium. The results for this financial year, to which Mobistar offered its full cooperation, should be published during the first quarter of 2006.

Essentially thanks to the efforts to increase its "contract" customer base, the ARPU (Average Revenue Per User) continued to rise reaching € 38.02 per month per active customer, a year-on-year increase of 3.8%.

With regard to Mobile Data activities, total net revenues from mobile data transmission, after deducting payments due to partners, amounted to 15.1% of mobile telephony turnover, i.e. € 197.8 million.

Added-value SMS applications, such as downloads of logos or ringtones, voting by SMS and games, increased by 47% in 2005 to a volume of 103 million SMS. These generated a net turnover of € 13.4 million after payments due to partners, compared with € 11.4 million in 2004. Growth was boosted by the diversification of applications and the growing penetration of the market by multimedia phones. Mobistar has taken an active part in the distribution of this type of terminal. At the same time, the development of the Orange World portal, the launch of Mobile TV and the promotional campaigns organised over the summer and towards the end of the year, sustained the growth in multimedia mobile. At the end of 2005, Mobistar has 69,366 active MMS users (68,139 in 2004) and 170,648 active and regular users of Orange World (21,057 in 2004).

Other operating revenue totalled € 28.8 million in 2005, compared with € 26.6 million in 2004. This revenue comes predominantly from the cross-charging of services provided to the Orange group and from information supplied to the judicial authorities. During the year, a capital gain of € 2 million was recorded on the disposal of tangible assets as part of the project to update radio equipment on the mobile network.

The cost control programme implemented by Mobistar continued in 2005 and focussed in particular on reducing the number of external resources and on cutting certain overheads. This meant that the increase in operating costs, excluding interconnection costs, could be reduced to a level below that of revenues.

Operating expenses increased from € 985.1 million in 2004 to € 1,076.9 million in 2005. This increase of 9.3% is essentially due to the rise in interconnection costs (€ +44.6 million), itself correlated to the increase in turnover.

Costs of equipment and goods sold recorded a moderate increase of € 6.5 million as a result of the growth in the number of leased lines and in the operating expenses connected to the increased number of sites on the network. This was offset by a decrease in the cost of handsets in line with the reduction in sales.

On the other hand, the cost of services and other goods sold increased by € 14.3 million due to the combined effect of changes in the remuneration of the distribution channels (associated with increased sales of contracts), Mobistar's share in the costs of the universal service and lesser use of external consultancy services.

Employee benefits expenses recorded an increase of € 14.5 million owing to an increase of 1.2% in the average number of

[2] All financial data by activity mentioned in this report are presented before elimination of inter-segment transactions.

employees, annual wage increases and indexation, a higher amount of terminal pay, the cancellation in 2004 of provisions for premiums set aside in 2003 and lower capitalised production costs than in the previous year.

Depreciation, amortisation and impairments on intangible and tangible assets remained stable at a total of € 172 million at the end of 2005, compared with € 172.9 million in 2004. The useful lives of intangible and tangible assets were revalued prospectively during the year and their impact on the amortisation and depreciation recorded proved to be negligible.

The change in other operating charges is essentially due to the writeback in 2004 of an allowance of € 9.4 million for doubtful debts in the fix activity and to an increase over the year of the write-off of trade receivables for which provision had been previously made.

The group's result of operating activities rose from € 382.6 million in 2004 to € 403.1 million for the year in question, a rise of 5.4%.

The performance for the year was reflected in a rise of 14.6% in the operating income from mobile segment, which rose from € 354.7 million in 2004 to € 406.4 million in 2005.

The contribution of the fix voice and data segment to the Mobistar group's result of operating activities was € -3.3 million in 2005, compared with € 27.9 million in the previous year, during which result had been significantly affected by the non-recurrent writebacks of allowances for doubtful debts. Aside from these, result of operating activities was adversely affected by a decrease in prices on the fix voice market, by the costs of launching ADSL and by a greater prominence of transit activity with a smaller gross margin.

In 2005, finance income increased by € 2 million in comparison to the previous year thanks to the increase in short-term deposits with the France Télécom group.

Finance costs developed favourably thanks to the prepayment of the long-term loan of € 250 million granted by the France Télécom group and to the adverse impact produced by the close out of financial instruments during the previous year.

For the year 2005, the operator posted a net profit of € 270.3 million, up by 11.2% after a tax expense of € 124.5 million. The basic earnings per share rose by 10.6% to reach € 4.28 whereas the diluted earnings per share grew by 10.9% to reach € 4.28.

The General Shareholders' Meeting held on 4 May 2005 endorsed the proposal made by the Board of Directors to distribute a gross dividend of € 2 per ordinary share for the 2004 financial year, representing a total of € 126.5 million.

As regards the 2005 financial year, the Board of Directors will propose, at the next General Shareholders' Meeting to be held on 3 May 2006, to distribute a dividend of € 2.40 per ordinary share, i.e. a total of € 151.9 million, and to carry out a capital reduction of € 1.60 per ordinary share, i.e. a total of € 101.2 million.

••• Balance sheet

The consolidated balance sheet total was € 1,120 million at the end of 2005.

Non-current assets were € 841.5 million at the end of 2005 compared with € 815.5 million at the end of 2004 and consisted of the following elements:

- Goodwill of € 10.6 million resulting from the acquisition of Mobistar Affiliate S.A. in 2001. This goodwill is entirely allocated to the mobile segment and, because its recoverable value exceeds its carrying amount at the end of the year, no impairment loss was recorded.
- Intangible assets posting a net value of € 358.7 million at the end of 2005 compared with € 377.4 million at the end of 2004. The useful lives of intangible assets were reviewed prospectively during the year, producing an adverse effect on amortisation for the year in the amount of € 9.5 million. Furthermore, as the 3G network was declared ready to operate in the Antwerp region in April 2005, the amortisation of the 3G licence started from that date.
- Tangible assets totalling € 465 million at the end of the 2005 financial year compared with € 418.1 million recorded at the end of the 2004 financial year. The useful lives of tangible assets were reviewed prospectively during the year, resulting in a reduction in depreciation for the year in the amount of € 9.6 million. Furthermore, a total impairment loss of € 6.4 million was recorded on network site infrastructures and on equipment that became obsolete during the year under review.
- Deferred tax assets relating essentially to tax credits related to investments and to the temporary differences resulting from the consideration of loan costs and the costs of developing intranet sites. They amounted to € 7.1 million at the end of 2005 and € 9.3 million at the end of the previous year.

Current assets decreased from one year to the next, falling from a total of € 310.1 million at the end of 2004 to € 278.5 million at the end of 2005. They consist of the following elements:

- Inventories of goods amounting to € 5.8 million, in other words a decrease of € 18 million compared with the end of 2004, in line with the reduction in sales of handsets following the judgment of the Antwerp Court of Appeal that confirmed the ban on joint offers of handsets and SIM cards with call credits.
- Trade receivables (€ 169.4 million at the end of 2005 compared with € 148.9 million at the end of 2004) and accrued revenue (€ 23.3 million at the end of 2005 compared with € 20.1 million at the end of 2004) showing an increase in line with the

trend in turnover.

- The increase recorded by the item "other current assets", rising from € 16.4 million at the end of 2004 to € 25.3 million at the end of 2005, comes from the VAT advance paid on transactions for the month of December 2005.
- Cash and cash equivalents amounting to € 54.6 million at the end of 2005, in other words a decrease of € 52.1 million since the end of the 2004 financial year. The cash flow statement gives details of the flows that gave rise to this trend.

Equity increased by € 153.3 million during the 2005 financial year, rising from € 562.9 million to € 716.2 million:

- In total, the share capital and share premium increased by € 8.1 million during 2005 following the exercise of 237,866 share options by staff members.
- The legal reserve increased by € 13.1 million following the enforcement of the law requiring that 5% of the profit for the year be allocated to this heading of equity, after deduction of any losses carried forward.
- The hedging reserve which totalled € 2.7 million at the end of 2004 no longer appears in the balance sheet at the end of 2005 following the close out of all interest rate swaps during the year.
- In relation to the discounted share purchase plan scheme that Mobistar offered to staff members in September 2005, a balance of 15,614 treasury shares valued at € 1 million remains at the end of the 2005 financial year.
- The change in retained earnings, which increased from € 108.1 million to € 238.4 million, is shown in the statement of changes in equity.

Non-current liabilities decreased significantly from € 258.8 million at the end of 2004 to € 11 million at the end of 2005 due to the prepayment of the € 250 million long-term loan to the France Télécom group and to its replacement with a revolving credit facility for an equivalent amount granted by the latter for a period of 5 years and from which no drawdown was made during the year under review. On the other hand, the long-term provisions intended to cover litigations and the costs of dismantling network sites globally increased by € 1.6 million.

Current liabilities increased by € 88.9 million, rising from € 303.9 million at the end of 2004 to € 392.8 million at the end of 2005:

- Short-term borrowings and interest rate swaps decreased from € 7 million to € 2.4 million as a result of the close out of all derivative instruments as part of the repayment of the long-term loan reported above.
- Outstanding trade payables recorded a temporary increase of € 76.9 million at the end of the year due mainly to the capital expenditure incurred in the programme to update radio equipment on the network and the implementation of EDGE technology.
- The liabilities resulting from employee benefits increased by € 4.5 million, rising from € 33.7 million at the end of 2004 to € 38.2 million at the end of 2005, due to group insurance premiums not invoiced on the balance sheet date.
- Current taxes payable are about the same as those for the previous year: € 1.6 million in 2005 compared with € 1.2 million in 2004.
- Deferred income increased by € 12.3 million to reach € 76.3 million at the end of the year, as a result of the development of traffic revenues and significant deliveries of prepaid cards into distribution during the month of December 2005.
- Other payables decreased by € 0.5 million to stand at € 0.4 million at the end of the year.

••• Financial instruments, financial risk management objectives and policies

Mobistar's principal financial instruments, other than derivatives, comprise bank and inter-company loans, overdrafts, cash at bank and short-term bank and inter-company deposits. The main purpose of these financial instruments is to raise finance for Mobistar's operations. In the past, Mobistar entered into derivatives instruments such as Interest Rate Swaps in order to manage the interest rate risk arising from its long-term financing. Mobistar has also various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Since the introduction of the euro, Mobistar's exposure to the foreign currency risk being minor, no forward currency contract or any other currency risk related financial instrument has been implemented.

Moreover, since the early repayment of Mobistar's long-term debt, end of 2005, there is no cash flow interest rate risk outstanding anymore and the Interest Rate Swaps covering this risk have been closed out end of 2005.

It is to be noted that Mobistar's policy does not allow trading in financial instruments.

As a consequence of the above, the main risks arising from Mobistar's financial instruments are the credit risk and liquidity risk:

> **Credit risk:** Mobistar trades only with recognised, creditworthy third-parties. It is Mobistar's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis.

> **Liquidity risk:** Mobistar's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and inter-company loans.

3. Comments on Mobistar S.A.'s 2005 annual accounts prepared according to Belgian accounting standards

••• Income statement

Turnover for the year 2005 reached € 1,474.4 million, an increase of 9.4% on the figure of € 1,347.4 million recorded in the previous year. This growth should be put into perspective with the factors cited above.

Produced fixed assets, including IT development costs and research and design costs for the new sites required for network deployment, totalled € 9.2 million for the 2005 financial year, compared with € 12.5 million for the 2004 financial year.

Other operating income increased to € 33.5 million and was therefore comparable with the € 35.3 million posted in 2004. This income comes principally from the revenues from the cross-charging of services provided to the Orange group, from the revenues from the cross-charging of sites shared with other operators and from the revenues generated from information supplied to the judicial authorities.

During the year, a capital gain of € 2 million was recorded on the disposal of tangible assets as part of the project to update radio equipment on the telephony network.

Operating charges, whose rate of growth matched the rate of turnover, remain well under control. These rose to € 1,121.8 million, an increase of 9.5% compared with the figure of € 1,024 million recorded in 2004, and can be broken down as follows:

- Purchases and supplies totalled € 497.3 million, mainly consisting of interconnection costs (66.8% of the total, compared with 64.9% in 2004). The balance consists in particular of the costs associated with the operation of the technical network, leased lines and the cost of GSM and SIM card sales.
- Services and other goods achieved a total of € 291.4 million compared with € 270 million in the previous year. This increase is due essentially to the increase in the commissions due to distribution channels, associated with the favourable development of the customer base, Mobistar's share in the costs of the universal service and lesser use of external consultancy services.
- Remuneration, social security costs and pensions collectively totalled € 137.3 million compared with € 126.9 million in the previous year. This increase in costs is essentially due to a 1.2% increase in the average number of employees, remuneration increases and indexation, a higher amount of terminal pay, and the cancellation in 2004 of provisions for premiums set aside in 2003.
- Depreciation of and amounts written off formation expenses, on intangible and tangible fixed assets, amounted to € 184.2 million for the 2005 year compared with € 186.1 million in 2004. The useful lives of intangible and tangible assets were revalued prospectively during the year with a negligible impact on overall amortisation and depreciation.
- Amounts written off of stocks and trade receivables increased to € 1.7 million whereas a writeback of € 9.4 million in relation to allowances for doubtful debts in the fix activity had been recorded in the previous year. Furthermore, the allowances to cover the debt in respect of municipal and provincial taxes charged and disputed (see paragraph on disputes) increased to € 14.9 million at the end of 2005 compared with € 11.8 million at the end of the previous year.
- Provisions for liabilities and charges in relation to various disputes totalled € 0.9 million whereas these had been € 1.6 million during the previous year.
- Other operating charges totalled € 9.1 million in 2005, compared with € 6.1 million in 2004, an increase arising from the write-off in respect of trade receivables for which allowances for doubtful debts had been made in previous financial years.

EBITDA (operating result before depreciation) increased by 4% on the previous year to reach a total of € 579.5 million (€ 557.3 million in 2004).

Operating profit for the financial year was € 395.3 million, an increase of 6.5% on the figure of € 371.2 million recorded in 2004.

Financial charges generated during the year rose to € 4.2 million, a significant increase on 2004 (€ 1.9 million) thanks to increased financial deposits with France Télécom.

Financial expenses for the year amounted to € 12.3 million after capitalisation of borrowing costs of € 2 million and a loss on treasury shares of € 1 million. In 2004, financial charges totalled € 26.7 million after deduction of € 1.3 million in borrowing costs. The significant reduction in financial charges originates from the prepayment of the long-term loan during the year and from the adverse impact produced by the close out of the interest rate swaps that had generated expenses of € 10.9 million in the previous year.

As regards extraordinary income and charges, Mobistar S.A. recorded, on the one hand, a loss of € 1 million to cover the permanent loss of its claim over its subsidiary Mobistar Corporate Solution S.A., the liquidation of which was completed on 15 December 2005. On the other hand, the continued write-off of Mobistar S.A.'s shareholding in its other subsidiary, Mobistar Affiliate S.A., which totalled € 1.4 million in 2004, was brought to an end following the merger by absorption of the latter within Mobistar S.A. on 4 May 2005, with retroactive effect from 1 January 2005.

At the end of the year, Mobistar declared a profit for the period before taxes of € 386.2 million, an increase of 11.9% compared with the figure of € 345 million recorded in 2004. The estimated income tax liability for the year 2005 was € 123.7 million, of which € 122.5 million had been paid through advance payments of tax.

Mobistar posted a profit for the period after taxes of € 262.5 million for the 2005 financial year compared with € 239.5 million for the previous year, an increase of 9.6%.

The Board of Directors will recommend to the General Shareholders' Meeting that the profit be appropriated as follows:

• Profit for the period available for appropriation	€ 262.5 million
• Prior year profit carried forward	€ 24.0 million
• Profit to be appropriated	€ 286.5 million
• Transfer to the legal reserve	€ 13.1 million
• Allocation to the unavailable reserve in respect of own shares held	€ 1.0 million
• 2004 dividend allocated to share options converted into shares in 2005	€ 0.5 million
• 2005 dividend - € 2.40 per share	€ 151.9 million
• Profit to be carried forward	€ 120.0 million

Besides the distribution of a dividend, the Board of Directors will also recommend to the General Shareholders' Meeting that a share capital reduction be carried equivalent to € 1.60 per ordinary share, i.e. a total of € 101.2 million.

••• Balance sheet

The company's balance sheet total was € 1,148.9 million compared with € 1,166.7 million recorded in the 2004 financial year.

Excluding goodwill, the increase in the net value of intangible and tangible assets was due to the net capital expenditure made during the year totalling € 201.1 million after deduction of the residual value of the radio equipment replaced and sold off (€ 36.5 million) as well as depreciation of € 171.9 million. Besides the investments made to maintain existing capacity, a sizeable budget was allocated, during the year, to the construction and outfitting of new sites and to the updating of radio equipment and the implementation of EDGE technology.

Intangible and tangible assets are broken down as follows:

- Intangible assets represented a total of € 398.8 million. These relate essentially to GSM and UMTS licences and the related IT developments, and to the net value of goodwill of € 37.2 million which is broken down as follows:
    - o Goodwill of € 60.1 million resulting from the acquisition, in 2003, of all of the assets of Mobistar Corporate Solutions S.A., amortised over 5 years. The net value of goodwill was € 36.1 million at the end of the year.
    - o Merger goodwill of € 1.4 million accounted for in accordance with Article 78, § 7, a of the Royal Decree of 30 January 2001 following the merger by absorption into Mobistar S.A. of its subsidiary Mobistar Affiliate S.A. on 4 May 2005, with retroactive effect from 1 January 2005. The net value of merger goodwill, amortised over 5 years, was € 1.1 million at the end of the year.
- Tangible assets represented a total of € 463.5 million. These relate to network infrastructures, telephony equipment and added-value services.

The residual value of Mobistar S.A.'s shareholding in its subsidiary Mobistar Affiliate S.A., which totalled € 7.3 million in the 2004 balance sheet, was eliminated from the balance sheet prepared for the year ended 31 December 2005, following the merger by absorption reported above.

The claim that Mobistar S.A. held over its wholly-owned subsidiary Mobistar Corporate Solutions S.A., which amounted to € 1 million, was totally written off during the last year following the liquidation of the subsidiary, which was completed on 15 December 2005.

Current assets decreased by € 27.8 million to stand at € 286.4 million at the end of the 2005 financial year. This result is essentially due to a significant decrease in the level of stocks of goods (€ -12.1 million), the increase in trade receivables (€ +23.3 million), resulting from the increase in turnover and the selling-off of radio equipment as part of the investment programme reported above, the increase in other receivables (€ +8.5 million) stemming principally from the VAT advance paid on transactions in the month of December 2005, the decrease in cash deposits and liquid assets (€ -51.1 million) and, finally, the increase in deferred charges and accrued income (€ +3.6 million).

In accordance with the decision taken by the General Shareholders' Meeting of 4 May 2004, Mobistar bought back on the market a total of 98,500 own shares at the average unit price of € 65 with a view to selling these on at a discount at the unit price of € 52.96 to staff members. The subscription offer was open to all Mobistar employees from the 1st to 14 September 2005 and 82,886 shares were subscribed. The capital loss of € 1 million on the securities sold was recorded under financial expenses for the year.
The book value of the own shares remaining in the portfolio, namely € 1 million, gave rise to the creation of an unavailable reserve for the same amount.

As part of the warrants scheme offered to staff members in 2001, 237,866 warrants were converted into an equivalent number of ordinary shares during the 2005 year at the exercise price of € 34.15, producing a € 1.6 million increase in share capital and share premium of € 6.5 million. The number of warrants remaining at the end of the year was 18,097.

As far as equity is concerned, the legal reserve was increased to 5% of the profit for the year, in other words € 13.1 million. An unavailable reserve for own shares was created at their book value, i.e. € 1 million. The balance of the profit to be appropriated, after the 2005 dividend has been allocated (€ 151.9 million or € 2.40 per share) and the 2004 dividend has been paid to the shares arising from the exercise of the warrants during the year (€ 0.5 million), was € 120 million.

At the end of 2005, equity totalled € 600.2 million and was made up of:

- share capital of € 437.2 million,
- share premium of € 20.7 million,
- legal reserve of € 21 million,
- unavailable reserve in respect of own shares held of € 1 million,
- profit carried forward of € 120 million,
- investment grants of € 0.3 million.

The long-term loan of € 250 million granted, in 2004, by the France Télécom group, was prepaid and replaced with a revolving credit facility opened by France Télécom for a period of 5 years and from which no drawdown was made during 2005.

The other short-term loans that appeared in the balance sheet for the year 2004, totalling € 5.6 million, are no longer in the 2005 balance sheet following the merger by absorption of the subsidiary Mobistar Affiliate S.A. as reported above.

Trade payables recorded a significant temporary increase of € 77.1 million which is due mainly to the capital expenditure associated with the updating of radio equipment on the network and the implementation of EDGE technology.

Estimated tax liabilities at the end of 2005 were about the same as those shown in the balance sheet for the previous year whereas the increase of € 4.5 million in remuneration and social security contributions resulted from group insurance premiums not invoiced on the balance sheet date.

Other liabilities included dividends distributed to shareholders for the years 2005 (€ 151.9 million) and 2004 (€ 126 million) respectively.

Provisions and liabilities at the end of 2005 amounted to € 548.8 million and are broken down as follows:

- provisions for liabilities and charges totalling € 6.9 million compared with € 6 million at the end of the previous year,
- short-term liabilities amounting to € 466.5 million compared with € 364.9 million in 2004, broken down as follows:
  - o trade payables: € 274.3 million compared with € 197.3 million in 2004,
  - o taxes, remuneration and social security contributions: € 39.8 million compared with € 34.9 million in 2004,
  - o other liabilities: € 152.4 million compared with € 126.4 million in 2004,
- accrued charges and deferred income totalling € 75.4 million, compared with € 64 million in 2004.

••• Disputes

Masts: Since 1997 several Belgian municipalities and two provinces have imposed annual taxes on pylons, masts and antennae erected within their boundaries. These taxes are being challenged before the Council of State and the Courts of First Instance (Tax Chamber).

Mobile operators had referred this matter to the European Court of Justice by means of a preliminary question in order to determine whether these taxes are compatible with European regulations. The Court delivered a judgment dismissing the arguments raised by the operators in relation to European law. In the light of this judgment, the Council of State must rule on its specific application in this dispute and on the merits of the other arguments raised by the operators in relation to national law.

Given the uncertainty surrounding the forthcoming decision, the claims corresponding to the taxes charged plus legal interest were written down by € 11.8 million at the end of 2004. In the absence of new developments in this case, the total amount of taxes charged, plus default interest, amounted, at the end of 2005, to € 14.9 million, of which € 3.1 million corresponded to that financial year.

Packs: The Court of Appeal confirmed the judgment of the Antwerp Commercial Court that held Mobistar in breach of the law on commercial practices in respect of its joint offer of terminals with SIM cards and call credits or terminals with call credits and ordered it to stop such sales.

Terminating rates: A competitor challenged a decision of the BIPT which set Mobistar's terminating rates for a period of two years starting from 2003. This dispute is still pending before the Court of Appeal, which has jurisdiction to hear disputes relating to the decisions of the BIPT. Mobistar has taken part in the proceedings brought against the BIPT in order to protect its interests.

Mobistar has also taken part in the action brought by Base against Proximus. Base is seeking damages for **abuse of dominant position** in certain business segments. Mobistar supports this claim and is also requesting that an expert be appointed to determine the extent of the losses incurred. The dispute is pending before the courts.

The three operators active in Belgium have decided to challenge the BIPT's decision relating to the **portability cost** in the case of mobile number portability. Mobistar maintains that the price asked for the transfer of several numbers is too high and that paying this price is tantamount to subsidising the business activities of the dominant player. The case has been brought before the European

Court of Justice in Luxembourg by means of a preliminary question in order to establish whether the setting of this price by the regulator is compatible with European regulations.

KPN Netherlands has sued Mobistar for the use of the **colour green as a brand**. KPN is asking Mobistar to stop using the colour green as the main (brand) color in all its correspondence. The dates of the pleadings are not yet known.

Mobistar has also brought several actions before the Court of Appeal in order to support or challenge certain decisions made by the BIPT against Belgacom S.A. in relation to **local loop and bitstream unbundling**.

4. Trends

Following the commercial strategy initiated in 2005, Mobistar intends to develop products and services which meet customer needs in every respect. Customers have shown an interest in simple, clear and attractive offers.

Mobistar has just launched a commercial operation on a grand scale, which involves the renewal of its entire product portfolio both for postpaid customers and for users of pre-paid cards. The operator has decided to reconsider the whole concept of subscription and has developed a series of innovative offers which are particularly competitive (BestDeal, Tempo Music, …).

This development in Mobistar's positioning, as well as the development of convergent products and activities, supported by ADSL products, are expected to enable it to progress further, despite the slow-down in the growth of the market and the increased competition within it.

The strategic choices made in relation to infrastructure, in terms of both '2G' (EDGE) and '3G' (UMTS), will also enable Mobistar to be the first operator to offer high speed mobile data transmission throughout the country, thereby increasing the capacity and quality of its network, the resulting data traffic and the revenue associated with it.

Given the expected pressure on prices in a more competitive Belgian telecom market and because of the uncertainty in the timing and the size of the reduction of the mobile termination rate, Mobistar keeps a prudent approach and expects to realize a service revenue growth and a net profit increase in the low single digit range.

5. Justification of the application of the going concern accounting principles

In view of Mobistar's financial results in the course of the financial year which closed on 31/12/2005, the company is not subject to the application of article 96 (6°) of the Company Code relating to provision of evidence of the application of the going concern accounting rules.

6. Application of article 524 of the Company Code during the 2005 financial year

The procedure foreseen in article 524 of the Company Code has not been applied during the 2005 financial year.

Nevertheless, the Board of Directors entrusted the independent directors asking them to follow the inter-group transactions wherein Mobistar is involved.

7. Information concerning the supplementary tasks entrusted to the auditors

In the course of the 2005 financial year, the statutory auditor and linked companies provided supplementary services at a total cost of € 138,722.21.

annual accounts mobistar S.A. 2005

page

balance sheet

after appropriation

Assets

	2005 in thousand €	2004 in thousand €
FIXED ASSETS	**862 562**	**852 521**
I. Formation expenses (Note I)		26
II. Intangible assets (Note II)	398 843	427 667
III. Tangible assets (Note III)	463 530	416 345
A. Land and buildings	200 588	170 456
B. Plant, machinery and equipment	238 500	220 793
C. Furniture and vehicles	17 678	16 704
E. Other tangible assets	6 764	8 392
IV. Financial assets (Notes IV and V)	189	8 483
A. Affiliated enterprises		8 318
1. Participating interests		7 343
2. Amounts receivable		975
C. Other financial assets	189	165
2. Amounts receivable and cash guarantees	189	165
CURRENT ASSETS	**286 379**	**314 215**
VI. Stocks and contracts in progress	5 843	17 997
A. Stocks	5 843	17 997
4. Goods purchased for resale	5 843	17 997
VII. Amounts receivable within one year	187 089	155 274
A. Trade debtors	176 744	153 471
B. Other amounts receivable	10 345	1 803
VIII. Investments (Notes V and VI)	54 345	105 504
A. Own shares	1 045	
B. Other investments and deposits	53 300	105 504
IX. Cash at bank and in hand	1 224	1 148
X. Deferred charges and accrued income (Note VII)	37 878	34 292
TOTAL ASSETS	**1 148 941**	**1 166 736**

Liabilities

		2005 in thousand €	2004 in thousand €
EQUITY		**600 178**	**481 882**
I.	Capital (Note VIII)	437 158	435 514
	A. Issued capital	437 158	435 514
II.	Share premium account	20 671	14 191
IV.	Reserves	22 069	7 897
	A. Legal reserve	21 024	7 897
	B. Unavailable reserves	1 045	
	1. In respect of own shares held	1 045	
V.	Accumulated profits	120 001	23 975
VI.	Investment grants	279	305
PROVISIONS AND DEFERRED TAXES		**6 904**	**5 985**
VII.	A. Provisions for liabilities and charges	6 904	5 985
	4. Other liabilities and charges (Note IX)	6 904	5 985
AMOUNTS PAYABLE		**541 859**	**678 869**
VIII.	Amounts payable after more than one year (Note X)		250 000
	A. Financial debts		250 000
	5. Other loans		250 000
IX.	Amounts payable within one year (Note X)	466 502	364 853
	B. Financial debts		6 332
	1. Credit institutions		767
	2. Other loans		5 565
	C. Trade debts	274 349	197 290
	1. Suppliers	274 349	197 290
	E. Taxes, remuneration and social security	39 747	34 881
	1. Taxes	1 598	1 217
	2. Remuneration and social security	38 149	33 664
	F. Other amounts payable	152 406	126 350
X.	Accrued charges and deferred income (Note XI)	75 357	64 016
TOTAL LIABILITIES		**1 148 941**	**1 166 736**

income statement

presentation in vertical form

		2005 in thousand €	2004 in thousand €
I.	Operating income	1 517 111	1 395 195
	A. Turnover (Note XII, A)	1 474 437	1 347 382
	C. Produced fixed assets	9 185	12 504
	D. Other operating income (Note XII, B)	33 489	35 309
II.	Operating charges (-)	-1 121 772	-1 024 016
	A. Raw material, consumables	497 265	442 636
	1. Purchases	485 140	450 628
	2. Increase (-), decrease (+) in stocks	12 125	-7 992
	B. Services and other goods	291 394	270 022
	C. Remuneration, social security costs and pensions (Note XII, C2)	137 305	126 922
	D. Depreciation of and amounts written off formation expenses, intangible and tangible fixed assets	184 192	186 072
	E. Increase (+), decrease (-) in amounts written off stocks, contracts in progress and trade debtors (Note XII, D)	1 666	-9 422
	F. Increase (+), decrease (-) in provisions for liabilities and charges (Note XII, C3 and E)	872	1 646
	G. Other operating charges (Note XII, F)	9 078	6 140
III.	Operating profit (+)	395 339	371 179
IV.	Financial income	4 171	1 935
	B. Income from current assets	3 121	1 003
	C. Other financial income (Note XIII, A)	1 050	932
V.	Financial charges (-)	-12 338	-26 662
	A. Debt charges (Note XIII, B and C)	8 370	24 328
	B. Increase (+), decrease (-) in amounts written off current assets other than mentioned under II. E. (Note XIII, D)	998	
	C. Other financial charges (Note XIII, E)	2 970	2 334
VI.	Current profit before taxes (+)	387 172	346 452
VIII.	Extraordinary charges (-)	-975	-1 422
	B. Amounts written off financial fixed assets	975	1 422
IX.	Profit for the period before taxes (+)	386 197	345 030
X.	Income taxes (-) (+)	-123 667	-105 514
	A. Income taxes (Note XV) (-)	-123 667	-105 514
XI.	Profit for the period (+)	262 530	239 516
XIII.	Profit to be appropriated (+)	262 530	239 516

	2005 in thousand €	2004 in thousand €

APPROPRIATIONS AND WITHDRAWINGS

	2005	2004
A. Profit to be appropriated	**286 505**	**157 944**
1. Profit for the period available for appropriation	262 530	239 516
2. Profit to be carried forward	23 975	
Loss to be carried forward (-)		-81 572
C. Transfers to capital and reserves (-)	**-14 172**	**-7 897**
2. to legal reserve	13 127	7 897
3. to other reserves	1 045	
D. Result to be carried forward		
1. Profit to be carried forward (-)	-120 001	-23 975
F. Profit to be distributed (-)	**-152 332**	**-126 072**
1. Dividends	152 332	126 072

2005

in thousand €

I.	Statement of formation expenses (heading 20 of assets)	
	Net book value at the end of the preceding period	26
	Movements of the period:	
	• Depreciation (-)	-26
	Net book value at the end of the period	**0**

		Concessions, patents, licences, a.o.	Goodwill
II.	Statement of intangible assets (heading 21 of assets)		
a.	Acquisition value		
	At the end of the previous period	715 026	62 590
	Movements during the period:		
	• Acquisitions, including produced fixed assets	66 126	1 419
	• Sales and disposals (-)	-11 616	
	At the end of the period	769 536	64 009
c.	Depreciation and amounts written down		
	At the end of the previous period	335 439	14 510
	Movements during the period:		
	• Recorded	83 881	12 304
	• Cancelled owing to sales and disposals (-)	-11 432	
	At the end of the period	407 888	26 814
d.	**Net book value at the end of the period**	**361 648**	**37 195**

		Land and buildings (heading 22)	Plant, machinery and equipment heading 23)	Furniture and vehicles (heading 24)	Other tangible assets (heading 26)
III.	Statement of tangible fixed assets (headings 22/27 of assets)				
a.	Acquisition value				
	At the end of the previous period	341 758	536 892	100 044	19 729
	Movements during the period:				
	• Acquisitions, including produced fixed assets	44 962	118 440	7 883	199
	• Sales and disposals (-)	-1 964	-152 838	-654	-925
	At the end of the period	384 756	502 494	107 273	19 003
c.	Depreciation and amounts written down				
	At the end of the previous period	171 302	316 099	83 340	11 337
	Movements during the period:				
	• Recorded	14 826	64 431	6 897	1 827
	• Cancelled owing to sales and disposals (-)	-1 960	-116 536	-642	-925
	At the end of the period	184 168	263 994	89 595	12 239
d.	**Net book value at the end of the period**	**200 588**	**238 500**	**17 678**	**6 764**

IV. Statement of financial fixed assets	2005 in thousand € Affiliated enterprises	Other enterprises
(heading 28 of assets)	(heading 280)	(heading 284)
1. Participating interests and shares		
a. Acquisition value		
At the end of the previous period	34 750	
Movements during the period:		
• Sales and disposals (-)	-34 750	
At the end of the period	0	
c. Depreciation and amounts written down		
At the end of the previous period	27 407	
Movements during the period:		
• Cancelled owing to sales and disposals (-)	-27 407	
At the end of the period	0	
Net book value at the end of the period	**0**	
	(heading 281)	(heading 285/8)
2. Amounts receivable		
Net book value at the end of the preceding period	975	165
Movements during the period:		
• Additions		24
• Amounts written down (-)	-975	
Net book value at the end of the period	**0**	**189**
Accumulated amounts written off on amounts receivable at the end of the period	**975**	

VI. Investments: other investments and deposits	2005 in thousand €	2004 in thousand €
(headings 51/53 of assets)		
Other investments	53 300	105 504

VII. Deferred charges and accrued income	2005 in thousand €
Allocation of heading 490/1 of assets if the amount is significant	
• Accrued income	23 315
• Deferred charges	14 460
• Financial income	102

2005

VIII. Statement of capital	in thousand €	Number of shares
A. Capital		
1. Issued capital (heading 100 of liabilities)		
At the end of the preceding period	435 514	
Changes during the period:		
• Capital increase	1 644	237 866
At the end of the period	437 158	
2. Structure of the capital		
2.1. Different categories of shares		
• Ordinary shares	437 158	63 273 655
2.2. Registered shares or bearer shares		
• Registered		34 676 595
• Bearer		28 597 060
C. Own shares held by		
- the company itself	1 045	15 614
D. Commitments to issue shares		
2. Following the exercising of subscription rights		
• Number of outstanding subscription rights		18 097
• Amount of capital to be subscribed	618	
• Corresponding maximum number of shares to be issued		18 097
E. Authorized capital, not issued	125	
G. Shareholder' structure of the company as at 31.12.2005		
Wirefree Services Belgium		31 753 100
Telindus Group		2 921 182
Own shares		15 614
Others (free float)		28 583 759
Total shares		63 273 655

	2005 in thousand €
IX. Provisions for other liabilities and charges	
Allocation of heading 163/5 of liabilities if the amount is considerable	
• Repayment guarantee to the amount of 50% for a bank credit line granted to the temporary association 'IRISNET'	2 475
• Provisions for litigations	4 429
X. Statement of amounts payable	
C. Amounts payable for taxes, remuneration and social security	
1. Taxes (heading 450/3 of the liabilities)	
c. Estimated taxes payable	1 598
2. Remuneration and social security (heading 454/9 of the liabilities)	
b. Other amounts payable relating to remuneration and social security	38 149

	2005
	in thousand €
XI. Accrued charges and deferred income	
Allocation of heading 492/3 of liabilities if the amount is considerable	
• Deferred income	75 271
• Accrued charges	86

	2005	2004
XII. Operating results		
A. Net turnover (heading 70)	in thousand €	in thousand €
Broken down by categories of activity and into geographical markets and given as annexes to the standard form insofar as, taking account of the manner in which the sale of products and the provision of services falling within the enterprise's ordinary acivities are organised, these categories and markets differ substantially one from another.		
• Mobile activity	1 384 119	1 248 381
• Fix voice and data	90 318	99 001
• Turnover	1 474 437	1 347 382
C1. Employees recorded in the personnel register	in units	in units
a. Total number at the closing date	1 682	1 643
b. Average number of employees calculated in full-time equivalents	1 638.7	1 619.4
c. Number of actual worked hours	2 793 929	2 793 275
C2. Personnel costs (heading 62)	in thousand €	in thousand €
a. Remuneration and direct social benefits	97 263	87 502
b. Employers' social security contributions	28 744	27 115
c. Employers' premiums for extra statutory insurance	4 795	4 683
d. Other personnel costs	6 492	7 424
e. Pensions	11	198
D. Amounts written off (heading 631/4)		
1. Stocks and contracts in progress		
• Recorded	28	
• Written back (-)		-260
2. Trade debtors		
• Recorded	1 638	
• Written back (-)		-9 162
E. Provisions for risks and charges (heading 635/7)		
Additions	1 276	3 026
Uses and write-back (-)	-404	-1 380
F. Other operating charges (heading 640/8)		
Taxes related to operation	2 104	2 053
Other charges	6 974	4 087
G. Hired temporary staff and persons placed at the enterprise's disposal		
1. Total number at the closing date (in units)	59	87
2. Average number calculated as full-time equivalents (in units)	56.0	104.0
Number of actual worked hours (in units)	110 404	206 009
Charges to the enterprise (in thousand €)	4 109	9 820

	2005 in thousand €	2004 in thousand €
XIII. Financial results		
A. Other financial income (heading 752/9)		
Amount of subsidies granted by public authorities,		
credited to income for the period:		
• Capital subsidies	26	69
Allocation of other financial income classified under this		
heading, if considerable		
• Other financial income	934	716
• Exchange gains	90	147
C. Interests recorded as assets	2 002	
D. Value adjustments to current assets (heading 651)		
Appropriations	998	
E. Other financial charges (heading 652/9)		
Amount of the discount borne by the enterprise,		
as a result of negotiating amounts receivable	1 701	1 530
Allocation of other charges included under this		
heading, if considerable		
• Bank charges	1 035	772
• Exchange losses	174	27
• Other financial charges	60	5

	2005 in thousand €
XV. Income taxes	
A. Analysis of heading 670/3	
1. Income taxes of the current period	123 567
a. Taxes and withholding taxes due or paid	122 526
c. Estimated additional taxes	
(included in heading 450/3 of liabilities)	1 041
2. Income taxes on previous periods	100
b. Estimated additional taxes (included in heading 450/3 of liabilities)	
estimated or provided for (included in heading 161 of liabilities)	100
B. In so far as income taxes of the current period are materially	
affected by differences between the profit before taxes	
and the estimated taxable profit	
• Disallowed expenses	5 644
• Amounts written off participation in Mobistar Corporate	
Solutions SA in liquidation during the period	-22 310
D. Status of deferred taxes	
1. Deferred taxes representing assets	15 894
• Accumulated tax losses deductible from future taxable profits	
- Deductions for investments	15 894

	2005 in thousand €	2004 in thousand €
XVI. Total amount of value added tax and taxes borne by third parties		
A. The total amount of value added tax charged:		
1. to the enterprise (deductible)	218 232	191 236
2. by the enterprise	375 681	331 522
B. Amounts retained on behalf of third parties for:		
1. payroll withholding taxes	32 943	35 670
2. withholding taxes on investment income	12 080	

XVII. Rights and commitments not accrued in the balance sheet

Information concerning important litigation and other commitments

1. Bank guarantees issued on behalf of the company: 7.129 million euros.
2. Since 1997, certain municipalities and two provinces in Belgium have introduced fiscal measures enabling them to levy taxes on GSM pylons, masts and antennas located in their area. The legality of these taxes is being contested before the Council of State and the Courts of First Instance (Tax Chamber).

Following an interlocutory question brought by the Council of State to the Court of Justice of the European Communities, the latter ruled in a decision dated 8 September 2005 that such taxes are not incompatible with European law, insofar as they do not alter the conditions of competition between the historical operator and the new market operators. It is up to the Council of State to take a final decision on the matter.

Due to the uncertainty concerning legal decisions to come, the receivable representing the disputed amount of enrolled taxes, increased by the interests on arrears at legal rate, gives rise to a provision recorded in the P&L account for an amount of 14.922 million euros of which 3.154 million arose in 2005.

Brief description of the supplementary retirement or survivors' pension plan in favour of the personnel or the executives of the enterprise and of the measures taken by the enterprise to cover the resulting charges.

The company runs a retirement pension scheme based on a set contribution that provides a supplement to the statutory pension for employees. This pension scheme is covered and financed by an insurance company as required by the Belgian law.

	2005 in thousand €	2004 in thousand €
XVIII. Relationships with affiliated enterprises and enterprises linked by participating interests	Affiliated enterprises	Affiliated enterprises
1. Financial fixed assets		8 318
Investments		7 343
Amounts receivable: others		975
2. Amounts receivable	30 506	17 010
Within one year	30 506	17 010
3. Current investments	53 300	
Amounts receivable	53 300	
4. Amounts payable	17 559	264 575
After one year		250 000
Within one year	17 559	14 575
7. Financial results		
From current assets	2 921	519
From interest and debts	10 361	13 424

	2005 in thousand €
XIX. Financial relationships with	
A. Directors and managers	
4. Amount of remuneration and pensions, included in the income statement, as long as this disclosure does not concern exlusively or mainly the situation of a single identifiable person:	
- to the directors and managers	1 010

Information relating to consolidated accounts

A. Information that must be provided by each company, that is subject to the provision of Company Law on the consolidated annual accounts of enterprises:

The enterprise has drawn up and published a consolidated annual statement of accounts and a management report.

B. Information to disclose by the reporting enterprise being a subsidiary or a joint subsidiary:

Parent company:
France Télécom
6, place d'Alleray
75505 Paris Cedex 15 - France
Draws up consolidated annual account for the major part of the enterprise.
The consolidated accounts can be obtained at the following address:
France Télécom
6, place d'Alleray
75505 Paris Cedex 15 - France

social report

	2005			2004
I. Statement of the persons employed	Full-time	Part-time	Total (T) or total in full-time equivalents (FTE)	Total (T) or total in full-time equivalents (FTE)
A. Employees recorded in the personnel register				
1. During the period and the previous period				
Average number of employees	1 548.8	123.6	1 638.7 (FTE)	1 619.4 (FTE)
Number of hours actually worked	2 646 810	147 119	2 793 929 (T)	2 793 275 (T)
Personnel costs (in thousand €)	130 440	6 865	137 305 (T)	126 922 (T)
Advantages in addition to wages (in thousand €)			1 668 (T)	1 662 (T)
2. At the closing date of the period				
a. Number of employees recorded in the personnel register	1 545	137	1 644.6 (FTE)	
b. By nature of the employment contract				
Contract for an indefinite period	1 545	137	1 644.6 (FTE)	
c. According to gender				
Male	1 078	21	1 094.2 (FTE)	
Female	467	116	550.4 (FTE)	
d. By professional category				
Employees	1 544	137	1 643.6 (FTE)	
Other	1		1.0 (FTE)	

B. Hired temporary staff and personnel placed at the enterprise's disposal	Temporary staff	Persons placed at the enterprise's disposal
During the period		
Average number of employees	59.0	12.0
Number of hours actually worked	86 296	24 108
Charges of the enterprise (in thousand €)	2 466	1 643

2005

II. Table of personnel changes during the period	Full-time	Part-time	Total in full-time equivalents
A. Entries			
a. Number of employees recorded on the personnel register during the financial year	151	2	152.3
b. By nature of the employment contract			
Contract for an indefinite period	151	2	152.3
c. According to the gender and by level of education			
Male:			
secondary education	38		38.0
higher non-university education	35		35.0
university education	38		38.0
Female:			
secondary education	19	1	19.5
higher non-university education	8	1	8.8
university education	13		13.0
B. Departures			
a. Number of employees with a in the staff register listed date of termination of the contract during the period	108	10	116.7
b. By nature of the employment contract			
Contract for an indefinite period	107	10	115.7
Contract for a definite period	1		1.0
c. According to the gender and by level of education			
Male:			
secondary education	15	2	16.8
higher non-university education	35	1	35.8
university education	30		30.0
Female:			
secondary education	8	2	9.7
higher non-university education	13	3	15.6
university education	7	2	8.8
d. According to the reason for termination of the employment contract			
Early retirement	1		1.0
Dismissal	52	2	53.8
Other reason	55	8	61.9

2005

III. Statement concerning the use of employment promotion measures during the financial year	Number of employees involved		Amount of the financial advantage in thousand €
	Number	In full-time equivalents	
Employment promotion measures			
1. Measures comprising a financial profit[1]			
1.6. Structural reduction of the social security contributions	1 785	1 745.3	3 817
1.11. First job agreement	1	1.0	4
2. Other measures			
2.4. Reduction of personal social security contributions to poorly paid employees	3	2.6	
Number of employees involved in one or more employment promotion measures			
Total for current financial year	1 785	1 745.3	
Total for the preceding period	1 721	1 690.5	

[1] Financial advantage for the employer with regard to the entitled employee or his replacement.

IV. Information on training provided to employees during the financial year	Male	Female
Total of initiatives of employees training at the expense of the employer		
1. Number of employees involved	1 104	575
2. Number of actual training hours	45 447	18 885
3. Costs for the enterprise (in thousand €)	1 888	806

accounting principles

••• Formation costs

The first formation costs and the costs related to increases in the issued capital are capitalised on the balance sheet at cost and amortised over five years, starting from the date of payment, on a linear basis. Exceptionally, 100% of the costs of the capital increase in the context of the stock market flotation in 1998 are borne in the 1998 financial year.

••• Intangible assets

The intangible assets are booked at cost value and are essentially comprised of the following capitalised costs and expenditures, including, if applicable, the fixed assets produced for use by the company: acquisition of the GSM network licence, acquisition of the UMTS licence, cost of the design and development of the network in execution of the GSM and UMTS licences, permits, software licences and related development cost and goodwill.

The GSM network licence has been granted for a duration of 15 years, and is amortised on a linear basis.

The UMTS licence has a duration of 20 years and is amortised on a linear basis over 16 years as from April 2005, when the first geographical area has been technically declared able to work.

The goodwill generated during the acquisition of all of the assets of Mobistar Corporate Solutions S.A. are amortised over 5 years.

The other intangible assets are amortised on a linear basis over a period of four to five years.

••• Tangible assets

The tangible assets are entered at cost value and are amortised on a linear basis pro rata temporis using the rates defined in the current Belgian tax law, which correspond to the life span of the assets concerned, as follows:

Buildings and constructions on sites	20 years
Optical fiber	15 years
Mobile telephone equipment	8 years
Messaging equipment	5 years
Computer hardware	4 and 5 years
Other tangible equipment	5 to 10 years

The costs of regular maintenance and repairs are booked as expenses during the period in which they are incurred. Improvements to property are capitalised. The loan costs relating to the purchase of fixed assets are activated and amortised according to the same pattern as the fixed assets in question.

••• Financial assets

Shareholdings, stocks and shares are recorded at their acquisition value. Receivables are valued at their nominal value. Reductions in value on shareholdings, stocks and shares are booked in the case of long-term losses in value or depreciations. Receivables are reduced in value if their payment when due is wholly or partly uncertain or compromised.

••• Receivables

Receivables are recorded at their nominal value. Reductions in value on doubtful receivables are assessed taking into account the potential risk of non-recovery.

••• Stocks

Stocks include goods purchased for resale. Stock movements are recorded using the FIFO (First In – First Out) method. Inventories are recorded at the "lower of cost or market" value.

••• Cash (and cash equivalents)

Liquid assets and equivalents include cash deposits and fixed deposits of less than three months. They are booked at their nominal value. Foreign currencies are converted at the closing rate and profits and losses are recorded as operating income and expenses.

••• Deferred charges and accrued income

The deferred charges for assets include the expenses to be carried forward and the accrued income. The deferred charges for liabilities include accrued expenses and income to be carried forward.

••• Pensions

The group runs a retirement pension scheme based on a set contribution that provides a supplement to the statutory pension for employees. This pension scheme is covered and financed by an insurance company as required by Belgian law.

••• Financial instruments

The company concludes contracts with a view to protecting itself against the risk associated with fluctuations in interest rates on its loans. The premiums paid or received and the fair value of the derivatives are booked over the contract period and are registered as interest income and expenses.

••• Acknowledgement of income and expenses

Income and expenses are registered at the moment they are generated, regardless of their payment or collection.

Income derived from services is declared when it is acquired. Invoices for these services are issued on a monthly basis throughout the entire month. Revenues not invoiced at the end of the month are estimated on the basis of traffic and recorded at the end of the month. Payments received in advance are carried forward and included on the balance sheet under deferred income.

••• Taxes on income

The company is subject to corporation tax in accordance with Belgian legislation governing income tax. Beneficial deferred taxes, which are the result of temporary differences in the declaration of income and expenses, are not acknowledged.

••• Foreign currency transactions

Foreign currency transactions are converted into euros at the rates in force at the time of the transaction. Receivables and debts booked in foreign currencies on the date of the balance sheet are adjusted in order to reflect the exchange rates effective at this time. These adjustments are acknowledged in the profit and loss account to the extent that Belgian accounting laws permit.

statutory auditor's report

to the General Meeting of shareholders of Mobistar S.A. on the financial statements for the year ended 31 December 2005

In accordance with the legal and statutory requirements, we report to you on the performance of the audit mandate which has been entrusted to us.

We have audited the financial statements for the year ended 31 December 2005, prepared in accordance with the legal and regulatory requirements applicable in Belgium, which show a balance sheet total of € 1.148.941 thousand and a profit for the year of € 262.530 thousand. We have also carried out the specific additional audit procedures required by law.

The preparation of the financial statements, the assessment of the information to be included in the directors' report, as well as the compliance by the company with the Company Code and the company's bylaws, are the responsibility of the Board of Directors.

Our audit of the financial statements was carried out in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institut des Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren.

••• Unqualified audit opinion on the financial statements

The above mentioned auditing standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In accordance with those standards, we considered the company's administrative and accounting organisation, as well as its internal control procedures. Company officials have responded clearly to our requests for explanations and information. We have examined, on a test basis, the evidence supporting the amounts included in the financial statements. We have assessed the accounting policies, the significant accounting estimates made by the company and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the legal and regulatory requirements applicable in Belgium, the financial statements for the year ended 31 December 2005 give a true and fair view of the company's assets, liabilities, financial position and results of operations.

••• Additional certifications and information

We supplement our report with the following certifications and information which do not modify our audit opinion on the financial statements:

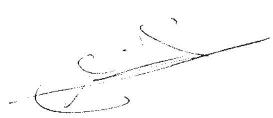
- The directors' report includes the information required by law and is consistent with the financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and of its situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious contradictions with the information of which we became aware during our audit.

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.

- Otherwise, we do not have to report to you any transactions undertaken or decisions made in violation of the bylaws or the Company Code. The appropriation of results proposed to the General Meeting complies with the legal and statutory provisions.

Brussels, 23 March 2006

Ernst & Young Reviseurs d'Entreprises SCC / Bedrijfsrevisoren BCV
(B 160)
Statutory auditor
represented by



Herman Van den Abeele
Partner

IFRS consolidated financial statements 2005

consolidated income statement

Note		2005 in thousand €	2004 in thousand €
	Revenue		
	Total service revenue	1 404 271	1 276 316
	Handsets sales	46 814	64 816
15	**Total turnover**	**1 451 085**	**1 341 132**
15	Other operating revenue	28 847	26 586
	Total revenue	1 479 932	1 367 718
	Operating expenses		
	Interconnection costs	331 965	287 425
15	Costs of equipment and goods sold	142 713	136 222
15	Services and other goods	289 614	275 287
15	Employee benefits expenses	130 926	116 414
	Depreciation, amortisation and impairment	172 041	172 854
15	Other operating charges	9 603	-3 092
	Total operating expenses	1 076 862	985 110
	Result of operating activities	**403 070**	**382 608**
15	Finance income	3 325	1 268
15	Finance costs	11 608	16 711
	Result of operating activities after net finance costs	**394 787**	**367 165**
4	Tax expense	124 499	124 195
	Net profit or loss *	**270 288**	**242 970**
	Profit or loss attributable to equity holders of the parent	270 288	242 970
9	Basic earnings per share (in €)	4.28	3.87
	Weighted average number of ordinary shares	63 112 103	62 826 119
9	Diluted earnings per share (in €)	4.28	3.86
	Diluted weighted average number of ordinary shares	63 120 982	62 923 158

* Since there are no discontinued operations, the profit or loss of the period corresponds to the result of continued operations.

consolidated balance sheet

Note		2005 in thousand €	2004 in thousand €
	ASSETS		
	Non-current assets		
1	Goodwill	10 558	10 594
1	Intangible assets	358 696	377 370
2	Tangible assets	464 966	418 060
3	Other non-current assets	197	173
4	Deferred taxes	7 086	9 281
	Total non-current assets	841 503	815 478
	Current assets		
5	Inventories	5 843	17 997
6	Trade receivables	169 439	148 881
	Accrued revenue	23 315	20 107
7	Other current assets	25 318	16 350
8	Cash and cash equivalents	54 574	106 762
	Total current assets	278 489	310 097
	Total assets	**1 119 992**	**1 125 575**
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	437 158	435 514
10	Share premium	20 670	14 191
10	Legal reserve	21 024	7 897
10	Hedging reserve	0	-2 731
10	Treasury shares	-1 045	0
10	Retained earnings	238 397	108 074
	Total equity	716 204	562 945
	Non-current liabilities		
13	Long-term interest-bearing loans and borrowings	0	249 379
12	Long-term provisions	10 996	9 371
	Total non-current liabilities	10 996	258 750
	Current liabilities		
13	Short-term borrowings and interest rate swaps	2 383	7 011
	Trade payables	274 016	197 113
14	Employee benefits related liability	38 149	33 684
14	Current taxes payable	1 598	1 217
	Deferred income	76 259	63 985
14	Other payables	387	870
	Total current liabilities	392 792	303 880
	Total liabilities	403 788	562 630
	Total equity and liabilities	**1 119 992**	**1 125 575**

consolidated cash flow statement

	2005 in thousand €	2004 in thousand €
Cash flows from operating activities		
Result of operating activities after net finance costs	394 787	367 165
Adjustments for:		
Depreciation, amortisation and impairment of fixed assets	172 041	172 854
Fair value financial derivatives	2 731	1 968
Share-based payment - DSP Plan	998	0
Adjusted result of operating activities after net finance costs	570 557	541 987
Inventories (increase - , decrease +)	12 154	-7 935
Trade receivables (increase - , decrease +)	-20 558	-35 724
Deferred tax assets (increase -, decrease +)	2 195	19 694
Accrued revenue (increase -, decrease +)	-3 208	-10 902
Other current assets (increase - , decrease +)	-8 968	-357
Trade payables (increase +, decrease -)	76 903	50 191
Employee benefits related liability (increase +, decrease -)	4 465	-12 915
Current taxes payable (increase +, decrease -)	381	-2 854
Deferred income (increase +, decrease -)	12 274	11 106
Other payables (increase +, decrease -)	-235	77
Long-term provisions (increase +, decrease -)	-230	1 646
Net changes in working capital	75 173	12 027
Tax expense	-123 667	-105 514
Deferred taxes	-832	-18 681
Net cash from operating activities *	**521 231**	**429 819**
Cash flows from investing activities		
Purchase of intangible and tangible assets	-235 135	-171 247
Proceeds from sale of equipment	36 502	
Net cash used in investing activities	**-198 633**	**-171 247**
Cash flows from financing activities		
Cash guarantees paid	-24	0
Repayment long-term interest-bearing loans and borrowings	-249 379	-364 468
Proceeds from new long-term interest-bearing loans and borrowings	0	249 379
Close-out and decrease of long-term interest rate swaps	-4 129	-6 225
Repayment long-term interest-bearing loans and borrowing		
payable within one year	0	-60 000
Short-term borrowings	-499	459
Close-out short-term interest rate swaps	0	-6 435
Share capital - share options exercise	1 644	3 575
Share premium - share options exercise	6 480	14 098
Net purchase of treasury shares	-2 043	0
Dividend paid	-126 836	0
Net cash used in financing activities	**-374 786**	**-169 617**

	2005 in thousand €	2004 in thousand €
Net increase (+), decrease (-) in cash and cash equivalents	**-52 188**	**88 955**
Cash and cash equivalents at beginning of period	**106 762**	**17 807**
Cash and cash equivalent at end of period	**54 574**	**106 762**
* Net cash from operating activities includes:		
- paid interests	9 836	15 916
- received interests	3 159	891
- paid income taxes	122 500	105 000

statement of change in equity

Note		Share Capital	Share Premium	Legal Reserve	Hedging Reserve	Treasury Shares	Retained Earnings	Total Equity
	Balance at 1 January 2004	**431 939**	**93**	**0**	**-4 699**	**0**	**-127 000**	**300 333**
	Cash flow hedge transferred to profit and loss for the period				1 968			1 968
	Net income recognised directly in equity				**1 968**			**1 968**
	Profit for the period			7 897			235 074	242 971
	Total recognised income and expense for the period			**7 897**	**1 968**		**235 074**	**244 939**
	Exercise of share options	3 575	14 098					17 673
	Balance at 31 December 2004	**435 514**	**14 191**	**7 897**	**-2 731**	**0**	**108 074**	**562 945**
10	Close-out cash flow hedge				2 731			2 731
11	Share-based payment - DSP Plan						998	998
	Net income recognised directly in equity				**2 731**		**998**	**3 729**
10	Profit for the period			13 127			257 161	270 288
	Total recognised income and expense for the period			**13 127**	**2 731**		**258 159**	**274 017**
	Dividends						-126 838	-126 838
10	Exercice of share options	1 644	6 479					8 123
10	Purchase of treasury shares					-6 403		-6 403
10, 11	Sale of treasury shares					5 358	-998	4 360
	Balance at 31 December 2005	**437 158**	**20 670**	**21 024**	**0**	**-1 045**	**238 397**	**716 204**

corporate information

The following parent company, subsidiaries and joint venture are included in the perimeter of consolidation:

Mobistar S.A.
Parent company, incorporated under Belgian law
Limited company with publicly traded shares on the Euronext
stock exchange in Brussels
Rue Colonel Bourg, 149
B - 1140 Brussels
Belgium
Company identification number: BE 0456 810 810

Mobistar Corporate Solutions S.A.
Fully owned subsidiary, incorporated under Belgian law
Rue Colonel Bourg, 149
B - 1140 Brussels
Belgium
Company identification number: BE 0465 098 568
Liquidated on 15 December 2005

Mobistar Affiliate S.A.
Fully owned subsidiary, incorporated under Belgian law
Rue Colonel Bourg, 149
B - 1140 Brussels
Belgium
Company identification number: BE 0420 959 016
Liquidated on 1 January 2005

Joint venture France Télécom - Telindus, denominated 'Irisnet'
Consolidated at 50%, incorporated under Belgian law
Rue Colonel Bourg, 149
B - 1140 Brussels
Belgium
Company identification number: BE 0545.698.541

basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€ 000) except when otherwise indicated.

1. Statement of compliance

The consolidated financial statements of Mobistar S.A. and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Interpretations of those standards.

2. Basis for consolidation

The consolidated financial statements include the financial statements of Mobistar S.A. and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same closing date (December 31) as the parent company, using consistent accounting policies.

During 2005, the fully owned subsidiary Mobistar Affiliate S.A. has merged with Mobistar S.A. with effective date January 1, 2005. As a result of the merger, the subsidiary Mobistar Affiliate S.A. has been liquidated.

As at December 15, 2005, the fully owned subsidiary Mobistar Corporate Solutions S.A. has been liquidated.

The following entities are consolidated as at December 31, 2005 by using the proportionate consolidation method:

Mobistar S.A.: 100%
Temporary association 'Irisnet': 50%

The temporary association 'Irisnet' is a joint venture between Telindus and France Télécom. As such, Mobistar does not own directly or indirectly any voting power in 'Irisnet'. However, in application of SIC 12, Mobistar concluded that 'Irisnet' is actually controlled by Mobistar and its partner Telindus. In addition, it is concluded that the risks and rewards are not born by France Télécom but by Mobistar.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Mobistar obtains control, and continue to be consolidated until the date that such control ceases.

3. Date of authorisation for issue of the financial statements

On February 6, 2006, the board of directors of Mobistar S.A. reviewed the 2005 consolidated financial statements and authorised them for issue.

The 2005 consolidated financial statements will be approved on May 3, 2006 by the General Assembly of shareholders which has still the power to amend the financial statements after issue.

4. Use of estimates

The preparation of financial statements in conformity with IFRS requires that management makes certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

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

accounting policies

1. Transition to IFRS accounting principles

The following statements of reconciliation from Belgian GAAP to IFRSs were disclosed in the 2004 annual report:

- Reconciliation of Equity as at 1 January 2004
- Reconciliation of Equity as at 31 December 2004
- Reconciliation of Profit for 2004

These statements of reconciliation have not been modified since the date of publication, and the new IFRS standards enforced since then have no incidence on this reconciliation.

In preparing the IFRS financial statements, the following exemptions provided for by the standard IFRS 1 have been applied:

••• Business combinations

Mobistar elects not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRSs, i.e. 1 January 2004. In particular, valuation of assets and liabilities under Belgian GAAP as at the date of a business combination is deemed to represent, under IFRS, the cost of those assets and liabilities at that date. The carrying amount of goodwill in the opening IFRS balance sheet is its carrying amount under Belgian GAAP at the date of transition to IFRSs.

••• Share-based payment

IFRS 2 is not applied to equity instruments granted on or before 7 November 2002.

2. Transactions in foreign currencies

On initial recognition in the functional currency, a foreign currency transaction is recorded by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At each balance sheet date, foreign monetary assets and liabilities are translated using the closing rate.

Exchange gains and losses are recognised as operational income and expenses when they are related to the operational activities. Exchange gains and losses are recognised as financial income and expenses only when they are related to the financing activities.

3. Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Goodwill resulting from the acquisition of Mobistar Affiliate S.A. is pertaining to the mobile activity cash-generating unit. This goodwill is tested for impairment at the end of each financial year, or more frequently if events or change in circumstances indicate that its carrying amount may be impaired, by comparing the carrying amount of the mobile activity cash-generating unit with its fair value less costs to sell or with its value in use.

Estimating the fair value less cost to sell requires to take into account the Mobistar share price as quoted on the stock exchange. Alternatively, an estimation of the value in use of the mobile activity cash-generating unit could be made. This method requires to make an estimate of the future cash flows from the mobile cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

4. Intangible assets

Are included under this asset category, the intangible assets with a finite useful life such as the cost of the GSM and UMTS licences, the cost of network design and development, the cost of purchased and internally generated software.

Intangible assets are measured on initial recognition at cost. The cost includes the purchase price, import duties, non-refundable purchase taxes, after deduction of trade discounts and rebates, and any directly attributable costs of preparing the asset for its intended use, i.e. costs of employee benefits, professional fees and testing costs.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The residual value of intangible assets is assumed to be zero unless the conditions provided for by IAS 38 are met.

The depreciable amount of an intangible asset with a finite useful life is allocated on a linear basis over its useful life. The depreciation of the mobile licences starts when they are ready to operate. The GSM and UMTS licences have been granted for a period of 15 years and 20 years respectively. However, the depreciation period is limited to 14 and 16 years, representing the remaining licence terms at the date of availability for use.

The useful life of acquired and internally generated software is 5 years (network software) or 4 years (non-network software) and their depreciation starts when the software has been put into production.

The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Any change in the useful life or in the expected pattern of consumption of the future economic benefits embodied in the asset, is accounted for prospectively as a change in an accounting estimate.

Amortisation and impairment losses are recorded in the income statement under the heading 'Depreciation, amortisation and impairment'.

5. Tangible assets

The following items of property, plant and equipment are classified under the tangible assets category: building, network infrastructure and equipment, IT servers and personal computers, office furniture, leasehold improvements, equipment leased to customers.

Upon recognition, tangible assets are measured at cost. The cost includes the purchase price, import duties and non-refundable purchase taxes, after deduction of trade discounts and rebates, and any costs directly attributable to bringing the asset to the location and condition for it to be capable of operating in the expected manner. The cost of replacing part of an item of property, plant and equipment is recognised as an asset when incurred and if the recognition criteria are met. The cost includes also the estimated cost to dismantle the network sites and to refurbish the rented premises when such obligation exists.

After initial recognition, tangible assets are measured at cost less any accumulated depreciation and impairment losses.

The depreciable amount of a tangible asset is allocated on a systematic and linear basis over its useful life. The depreciation of a tangible asset starts when it is ready to operate as intended.

The useful life of each category of tangible assets has been determined as follows:

Building	20 years
Pylons and network constructions	20 years
Optical fiber	15 years
Network equipment	8 years
Messaging equipment	5 years
IT servers	5 years
Personal computers	4 years
Office furniture	5 - 10 years
Leasehold improvements	9 years or rental period if shorter
Rented communication equipment	5 years

The residual value and the useful life of a tangible asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate.

Depreciation and impairment losses are recorded in the income statement under the heading 'Depreciation, amortization and impairment'.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

The asset retirement obligation relating to the network sites is measured based on the known term of sites rental contracts, assuming a high probability of renewal upon each renewal date, and considering that the entire sites park will be dismantled in the future. The dismantling asset is measured by using appropriate inflation and discount rates.

6. Impairment of assets

Mobistar assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Mobistar makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the operating expenses under the heading 'Depreciation, amortisation and impairment'.

7. Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

8. Government grants

A government grant is recognised when there is a reasonable assurance that the grant will be received and the conditions attached to them are complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to the carrying amount of the asset and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

9. Inventories

Inventories are assets held for sale in the ordinary course of business, i.e. handsets and SIM cards.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of inventories are assigned by using the first-in, first-out (FIFO) cost formula.

10. Deferred taxes

Deferred tax assets and liabilities are recognised when there is a temporary difference between the carrying amount and the tax base of assets and liabilities.

A deferred tax asset is also recognised for the carryforward of unused tax losses and for unused tax credits to the extent that it is probable that future taxable profit will be available to utilise the unused tax losses and tax credits.

Deferred tax is recognised as income or expense in the profit and loss statement but in equity if the tax relates to a transaction directly charged or credited to equity.

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

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset and the net amount is presented on the face of the balance sheet when those assets and liabilities can be legally offset and are related to income taxes levied by the same taxation authority.

11. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity.

No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

12. Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash deposits with a maximum term of 3 months. Cash and cash equivalents held with financial institutions are measured at nominal value. Banks and inter-company cash pooling overdrafts are classified as short-term financial liabilities.

13. Financial instruments

••• Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet when Mobistar becomes a party to the contractual provisions of the financial instrument.

Financial assets and liabilities are recognised at settlement date.
A financial asset will be derecognised when the contractual rights to the cash flows from the financial asset expire.

A financial liability will be derecognised when the contractual obligation is discharged or cancelled or expires.

••• Financial asset

Financial assets are classified as either financial assets at fair value through profit or loss, or loans and receivables.

Upon initial recognition, financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Designation and classification of financial assets are reviewed at each financial year-end, where allowed and appropriate.

Mobistar assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

> Financial assets at fair value through profit and loss

Financial assets classified as held for trading are classified under this category. 'Held-for-trading' financial assets are those acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains and losses on investments held for trading are recognised in income.

> Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade and other short-term receivables with no stated interest rate are measured at the original invoice or nominal amount when the effect of discounting is immaterial. An impairment loss on trade and other short term receivables is recognised in the profit and loss statement when their carrying amount is lower than the present value of estimated future cash flows. Impairment is valuated on an individual basis or on a segmented category basis when individual impairment cannot be evaluated. Trade and other short-term receivables are presented on the face of the balance sheet net of any accumulated impairment losses.

••• Financial liabilities

> Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in income when the liabilities are derecognised as well as through the amortisation process.

> Cash flow hedges

At the inception of a hedge relationship, Mobistar formally designates and documents the hedge relationship to which Mobistar wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedge and how Mobistar will assess the instrument's effectiveness in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability.

A hedging relationship qualifies for hedge accounting when all the conditions relating to its formal designation and documentation and its effectiveness are met.

Cash flow hedge derivatives are measured at fair value.

If the conditions are met during the period, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in equity, net of the related deferred taxes, and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

> Trade and other short-term payables

Trade and other short-term payables with no stated interest rate are measured at the original invoice or nominal amount when the effect of discounting is immaterial.

> Offsetting a financial asset and a financial liability

Trade receivables and payables are offset and the net amount is presented on the face of the balance sheet when such amounts may legally be offset and a clear intention to settle them on a net basis exists.

14. Share-based payment

Employees of Mobistar receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

As first-time adopter, Mobistar takes the option to use the exemption provided for by IFRS 1, i.e. not applying IFRS 2 to equity instruments that were granted on or before 7 November 2002.

The cost of any subsequent equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of such equity-settled transactions will be measured based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, appropriate valuation technique will be used. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares, if applicable.

The cost of equity-settled transactions occurring after 7 November 2002 is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which employees become fully entitled to the award.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of equity instruments that will ultimately vest.

15. Long-term provisions

Provisions are recognised when Mobistar has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where Mobistar expects some or all of the provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

The estimate of the dismantling costs regarding the network sites and of the refurbishment costs related to the rented premises is recognised as an item of tangible asset. This estimate is also recognized as a provision that is measured by using appropriate inflation and discount rates.

16. Employee benefits

Short-term employee benefits, such as wages, salaries, social security contributions, paid annual leave, profit-sharing and bonuses, medical care, company cars and others are recognised during the period in which the service has been rendered by the employee.

Short term employee benefits are shown as liabilities as a result of a legal or constructive present obligation and when a reliable estimate of such liabilities can be made.

Post-employment benefit plan is classified as defined contribution plan since the minimum return imposed by law is guaranteed by the current terms and conditions of the group insurance contract without additional cost for Mobistar.

17. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Mobistar and the revenue can be measured reliably.

Sale of goods is recognised as revenue when most of the risks and rewards of ownership of the goods and the control on them have been transferred to the buyer.

Revenue arising from rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date. Revenue is measured at the fair value of the consideration received or receivable. Specific revenue streams and related recognition criteria are as follows:

••• Sales of equipment

Sales of equipment to the distribution channels and to the final customers are recognised in revenue upon delivery. Consignment sales are recognised in revenue upon sale to the final customer.

••• Revenue from subscription contracts

Traffic revenue is recognised upon usage and non-used traffic rights are deferred when such right of deferral exists. Prepaid subscription amount is recognised within the subscription period.

••• Revenue from the sale of prepaid cards

Sales of prepaid cards are recognised at facial value as deferred income at the time of sale and released in the profit and loss statement as revenue upon usage.

••• Revenue sharing

Revenue arising from contracts with third-party content providers is recognised after deduction of the fees paid to them in remuneration of the product or service delivered.

••• Revenue deferred until payment

Revenue of which the collectability is not reasonably assured at the point of sale is deferred until the payment has been received.

••• Site sharing rental income

Regarding the agreements whereas Mobistar has the entire responsibility to respect the terms and conditions of sites rental contracts, the rental costs are shown in expenses. Revenue arising from sites sub-letting agreements entered with other operators is shown as revenue.

18. Leases

A lease whereby all the risks and rewards incidental to ownership are not substantially transferred to the lessee is an operating lease and lease payments are recognised as an expense on a straight-line basis over the lease term.

19. Loyalty commissions

Loyalty commissions earned by the distribution channels on post-paid contracts are recognised upfront upon contract subscription.

20. Financial discounts

Financial discounts granted to customers or received from suppliers for early payments are deducted from revenue and costs of sales as incurred.

21. Dividend

A dividend declared by the General Assembly of the shareholders after the balance sheet date is not recognised as a liability at that date.

1. Intangible assets and goodwill (in 000 euros)

	Goodwill	GSM and UMTS licences	Internally generated software development costs	Other intangible assets	Total intangible assets
Acquisition value					
As at 31 December 2004	**10 594**	**373 441**	**20 468**	**316 631**	**710 540**
Movements during the period:					
Acquisitions	-36		6 775	57 865	64 640
Sales and disposals				-11 677	-11 677
As at 31 December 2005	**10 558**	**373 441**	**27 243**	**362 819**	**763 503**
Amortisation and impairment					
As at 31 December 2004	**0**	**130 832**	**6 919**	**195 419**	**333 170**
Movements during the period:					
Additions		22 563	4 167	56 400	83 130
Reversal - sales and disposals				-11 493	-11 493
As at 31 December 2005	**0**	**153 395**	**11 086**	**240 326**	**404 807**
Net carrying amount as at 31 December 2005	10 558	220 046	16 157	122 493	358 696

••• Goodwill

The acquisition of Mobistar Affiliate S.A. was achieved in two phases: initial purchase of 20% of the shares in April 1999 and purchase of the remaining 80% of the shares in May 2001.

In accordance with the selected exemption provided for by IFRS 1, no retrospective application of the standard IFRS 3 is applied to business combinations preceding the transition date to IFRSs. As a result, at the transition date, the carrying amount of the goodwill resulting from the acquisition of Mobistar Affiliate S.A. is identical to the value previously reported under Belgian GAAP.

The reported goodwill is to be fully allocated to the mobile activity cash-generating unit. Impairment test on goodwill is performed at least at the end of each financial year to assess as to whether its carrying amount does not exceed its recoverable amount.

The carrying amount of the mobile cash-generating unit can be derived from the balance sheet reported by segment of activity (see note 18. Segment reporting) as at 31 December 2005:

Mobile segment assets	1 057 506
Mobile segment liabilities, deferred income excluded	-306 819
Mobile segment carrying amount	750 687

The fair value of the mobile activity cash-generating unit can be estimated to be very close to the Mobistar market capitalisation value considering the level of performance of the non-mobile activity so far.

Number of ordinary shares as at 31 December 2005	63 273 655
Share price as at 31 December 2005	67.00

The recoverable amount of the mobile cash-generating unit, including goodwill, exceeding its carrying value, no impairment loss has to be recognised.

••• Intangible assets

Internally generated intangible assets and other intangible assets include software development and software licence costs.

The useful live of some of those assets has been reassessed from 5 years to 4 years prospectively from 1 January 2005 onwards, with a net unfavorable effect of 9,540 thousand euros on the 2005 depreciation cost.

The UMTS licence has been depreciated from April 2005 onwards when the 3G network has been technically declared ready to operate in the region of Anvers. The UMTS licence is depreciated over 16 years on a linear basis and the depreciation cost amounts to 9.4 million euros on a full year basis.

2. Tangible assets (in 000 euros)

	Land and buildings	Plant, machinery , equipment	Furniture and vehicles	Other tangible assets	Total tangible assets
Acquisition value					
As at 31 December 2004	**343 752**	**534 490**	**100 256**	**20 401**	**998 899**
Movements during the period:					
Acquisitions, including self-constructed					
fixed assets	44 963	117 448	7 884	200	170 495
Dismantling asset	1 855				1 855
Sales and disposals	-2 613	-154 413	-726	-925	-158 677
As at 31 December 2005	**387 957**	**497 525**	**107 414**	**19 676**	**1 012 572**
Depreciation and impairment					
As at 31 December 2004	**169 116**	**316 939**	**83 552**	**11 472**	**581 079**
Movements during the period:					
Additions	13 198	60 594	6 123	1 827	81 742
Impairment	1 628	3 963	775		6 366
Dismantling asset	677			126	803
Reversal - sales and disposals	-2 634	-118 111	-714	-925	-122 384
As at 31 December 2005	**181 985**	**263 385**	**89 736**	**12 500**	**547 606**
Net carrying amount as at 31 December 2005	205 972	234 140	17 678	7 176	464 966

••• Capital expenditure

The majority of Mobistar's investments in 2005 are related to the renewal, extension and optimisation of its radio infrastructure in both '2G' and '3G' network and to the deployment of the EDGE technology.

The total gross amount invested in 2005 in tangible assets amounts to 170,495 thousand euros and the carrying amount of the obsolete network equipment replaced and sold amounts to 36,293 thousand euros, generating a capital gain of 1,954 thousand euros.

••• Change in useful life

The useful live of the tangible assets has been reassessed prospectively from 1 January 2005 onwards with a favorable impact of 9,631 thousand euros on the 2005 depreciation cost.

Category of tangible assets	Change in useful life from	to	Effect on depreciation cost
Civil works, shelters, pylons	8	20	14 325
Messaging equipment	8	5	-9 260
Personal computers	3	4	435
IT servers	3	5	1 602
Optical fiber and fix network infrastructure	8	15	2 529
Total			**9 631**

••• Impairment on assets

In addition to the reassessment of the assets useful life, impairment on assets has been recognized for an amount of 6,366 thousand euros in 2005 and shown as expense on the line 'Depreciation, amortisation and impairment' in the income statement.

The impairment loss of 6,366 thousand euros recognised during the year has been determined on individual asset basis and can be detailed as follows:

Sites construction costs	1 628
Obsolete network equipment	3 963
Shops close - furniture and fixture	775
Total	**6 366**

Fair value less cost to sell of the obsolete network equipment is nil and the useful lives of the sites construction costs to be dismantled and of the shops to be closed have been adjusted taking into account the expected dismantling or closing date.

••• Government grant

A capital grant amounting to 3,148 thousand euros was received in 1997 from the Government of the Walloon Region in order to contribute to the investment in an office building and its equipment.

All the conditions and contingencies attached to the capital grant received are met.

	2005	2004
Net carrying amount as at 1 January	305	374
Released to the income statement	-26	-69
Net carrying amount as at 31 December	279	305

3. Other non-current assets (in 000 euros)

Cash guarantees	
Net carrying amount as at 31 December 2004	173
Additions	24
Net carrying amount as at 31 December 2005	197

4. Current and deferred taxes (in 000 euros)

••• Deferred Tax Assets

	31.12.2005	31.12.2004
Investment deduction	5 402	7 203
Derivatives	0	1 399
Borrowing costs expensed as incurred	1 034	826
Web site development costs expensed as incurred	780	475
Reversal goodwill amortisation	0	-482
Other items	-130	-140
Total net deferred tax assets	**7 086**	**9 281**

••• Major components of tax expense

	31.12.2005	31.12.2004
Current income tax	123 567	105 514
Current income tax of prior periods	100	0
Deferred tax expense relating to the origination		
and reversal of temporary differences	832	18 681
Tax expense	**124 499**	**124 195**

••• Current and deferred tax related to equity items

	31.12.2005	31.12.2004
Deferred tax asset related to the efficient portion		
of the interest rate swap derivatives qualifying for		
hedge accounting (Cash Flow Hedge)	-	1 399

••• Relationship between tax expense and accounting profit

	31.12.2005	31.12.2004
Consolidated accounting profit	394 787	367 165
Tax at the applicable rate of 33.99%	**134 188**	**124 799**
Tax effect of permanent differences:		
• Expenses that are not deductible in		
determining taxable profit	1 919	2 303
• Write-off investment Mobistar Corporate		
Solutions S.A. - tax deductible	-7 584	-
• Mobistar Affiliate S.A. goodwill	-482	482
• Amortisation of goodwill Mobistar Corporate		
Solutions S.A.	-4 086	-4 086
• Irisnet pre-tax loss not deductible	1 018	1 753
Tax credit on investment	-574	-1 056
Adjustment on prior years	100	-
Current year tax expense	**124 499**	**124 195**
Effective tax rate	**31.54%**	**33.83%**

5. Inventories (in 000 euros)

Finished goods	31.12.2005	31.12.2004
Inventories - Gross amount	8 393	20 519
Reserve for obsolete and slow moving items	-2 550	-2 522
Inventories - Net carrying amount	5 843	17 997
Inventories - Cost recognised as an expense during the period	**62 666**	**79 453**

Inventories comprise mainly handsets and SIM cards.

Inventories have decreased significantly over the year, mainly as a result of a Court decision prohibiting the sales of bundled packages including a handset and a SIM card with call credit as from 11 January 2005.

6. Trade receivables (in 000 euros)

	31.12.2005	31.12.2004
Trade receivables - Gross value	204 720	182 638
Allowance for doubtful debtors	-35 281	-33 757
Trade receivables - Net carrying amount	**169 439**	**148 881**

7. Other current assets (in 000 euros)

	31.12.2005	31.12.2004
Local and regional taxes on pylons	14 922	11 768
Bad debt provision on dito	-14 922	-11 768
Prepayments	15 029	15 476
VAT to be recovered	9 197	284
Other current assets	1 092	590
Total	**25 318**	**16 350**

••• Local and regional taxes on GSM pylons, masts and antennas

Since 1997, certain municipalities and two provinces in Belgium have introduced fiscal measures enabling them to levy taxes on GSM pylons, masts and antennas located in their area. The legality of these taxes is being contested before the Council of State and the Courts of First Instance (Tax Chamber). Following an interlocutory question asked by the Council of State to the Court of Justice of the European Community, this latter has decided on 8 September 2005 that such taxes are not incompatible with the European law, to the extent that they do not alterate the market conditions between the historical and the other operators. The Council of State has still to take a final position on this matter. Due to the uncertainty concerning the final legal decision to come, the receivable representing the disputed amount of enrolled taxes, increased by the interests on arrears at legal rate, gives rise to a provision recorded in profit and loss for an amount of 14,922 thousand euros of which 3,154 thousand euros were recognised in the 2005 income statement. The corresponding liability of 14,922 thousand euros has been recognised under the heading 'Trade payables' and is still outstanding at the balance sheet date.

8. Cash and cash equivalents (in 000 euros)

	31.12.2005	31.12.2004
Short term cash-pool deposit with France Télécom	53 300	105 505
Current bank accounts	1 274	1 257
Total cash and cash equivalents	**54 574**	**106 762**

Short term deposits with France Télécom have a maturity of 1 month and bear interests according to the market conditions.

9. Earnings per share (in 000 euros)

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	31.12.2005	31.12.2004
Net profit attributable to ordinary equity holders of the parent	270 288	242 970
Weighted average number of ordinary shares for basic earnings per share	63 112 103	62 826 119
Effect of dilution - Share options	8 879	97 039
Weighted average number of ordinary shares adjusted for the effect of dilution	**63 120 982**	**62 923 158**

No other transaction involving ordinary shares or potential ordinary shares has occurred after the balance sheet date which would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the financial year if those transactions had occurred before the end of the financial year.

10. Equity (in 000 euros)

••• Share capital and share premium

In the frame of the share options plan granted in 2001 to the employees of Mobistar, a total of 237,866 share options have been exercised in 2005 at the price of 34.15 euros.

	Share Capital	Share Premium	Number of ordinary shares
As at 31 December 2004	435 514	14 191	63 035 789
Exercise of 237,866 share options at 34.15 euros each	1 644	6 479	237 866
As at 31 December 2005	437 158	20 670	63 273 655

All ordinary shares are fully paid and have a par value of 6.909 euros.

A reconciliation statement on share options has been disclosed in the note '11. Share-based payment'.

••• Legal reserve

In accordance with the Belgian accounting law, 5% of the annual net after tax profit of Mobistar S.A. must be allocated to the legal reserve until it represents 10% of the share capital.

	Legal Reserve
As at 31 December 2004	7 897
Allocation of 5% of Mobistar S.A. net after tax current year profit	13 127
As at 31 December 2005	21 024

Hedging reserve

The interest rate swap derivatives (IRS) with a total notional amount of 200 million euros, which qualified as cash flow hedges, have been closed out anticipatively at the end of September 2005 as a result of the reimbursement of the long-term intra-group loan of 250 million euros with France Télécom.

No interest rate swaps are outstanding as at 31 December 2005.

	Hedging Reserve
As at 31 December 2004	-2 731
IRS derivative closed out	2 731
As at 31 December 2005	0

The gross amount of the interest rate swaps as at 31 December 2004 amounted to 4,129 thousand euros. Taking into account the impact of the related deferred tax asset, the net amount recorded as 'Hedging Reserve' amounted to 2,731 thousand euros.

The close-out of the interest rate swap resulted in the recognition of 4,129 thousand euros finance costs in the income statement.

Treasury shares

	Number of treasury shares	Treasury shares
As at 31 December 2004	0	0
As at 31 December 2005	15 614	1 045

The remaining 15,614 shares at year-end have been sold on the stock exchange market during the first quarter of 2006.

Retained earnings

	Retained earnings
As at 31 December 2004	108 074
Current year profit after taxes	270 288
Transfer to legal reserve	-13 127
Dividend 2004 paid in 2005	-126 836
As at 31 December 2005	238 397

Shareholders remuneration

At the Annual General Assembly of shareholders to take place on 3 May 2006, the Board of Directors will propose to approve the following shareholders remuneration scheme:

> Dividend 2005

Number of ordinary shares as at 31 December 2005	63 273 655
Gross dividend per ordinary share in euros	2.40
Total dividend 2005	151 857

The dividend over the financial year 2005 has not been recognised as a liability at the balance sheet date as the approval of the Annual General Assembly of shareholders will take place after the balance sheet date.

> Share capital reduction

Number of ordinary shares as at 31 December 2005	63 273 655
Share capital reduction per ordinary share, in euros	1.60
Total share capital reduction	101 238

Share capital reduction pay-out will take place in 2006 after approval from the Annual General Assembly of shareholders and after publication in the official Belgian Gazette.

> Dividend 2004

Following the decision taken by the General Assembly of shareholders held on 4 May 2005, a gross dividend of 2 euros has been granted to the ordinary shares, including those shares issued from the exercise of the share options in 2005.

Number of ordinary shares as at 31 December 2004	63 035 789
Number of share options exercised in 2005	237 866
Number of ordinary shares as at 31 December 2005	63 273 655
Gross dividend per ordinary share, in euros	2.00
Total dividend 2004	126 547
Total dividend payment cost incurred in the year	289
Total dividend in equity	126 836

11. Share-based payment

••• Stock Option Plan 2001

On 20 November 2000, the remuneration committee authorised the issuance of a total of 1,977,608 share options to its employees, convertible to an equivalent number of shares upon exercise of the share options. The subscription period was from 1 December 2000 to 31 December 2000. The exercise price of the share options amounts to € 34.15 each. There is no restriction associated to the shared options offered in subscription. A total of 849,883 share options were eventually granted, the remaining 1,127,725 share options being cancelled. Initially, the share options were exercisable during the following periods:

January 2004	maximum 50 % of the total share options granted
September 2004	maximum 75 % of the total share options granted
July 2005	100% of the total share options granted

The exercise period was further extended as follows: January 2006, September 2006, January 2007, September 2007 and July 2008. The other terms and conditions of the share options were not modified.

	31.12.2005	31.12.2004
Outstanding share options at the beginning of the period	255 826	778 770
Share options granted during the period	412	0
Forfeited share options during the period	-275	-5 424
Exercised share options during the period	-237 866	-517 520
Outstanding share options at the end of the period	**18 097**	**255 826**
Exercisable share options at the end of the period	**18 097**	**255 826**

••• Discounted Share Purchase Plan 2005

The remuneration committee of Mobistar has approved in 2005 a discounted share purchase plan (DSPP) whereby the personnel of Mobistar has the right to buy Mobistar shares at a discounted purchase price representing 100/120 of the market price. The subscription period was open from 1 September 2005 to 14 September 2005 included. According to the provisions of the plan, the shares are immediately vested at the grant date but cannot be sold for 2 years after the date of purchase. The shares issued under the DSP Plan will have the right to receive dividends as from the date of issuance. Mobistar has purchased treasury shares that were reserved for the shares to issue under the DSPP. The fair value of the shares issued under the DSPP has been determined as the difference between the share market price at the grant date and the subscription price. The impact of the 2-year restriction period has been considered to have a little effect as the shares are traded in a deep and liquid market and as such has not been considered. The fair value per share amounted to € 12.04. The total expense recognised amounts to 998 thousand euros.

12. Long-term provisions (in 000 euros)

	31.12.2004	Additions	Used	Reversal	Unwinding effect	31.12.2005
Outstanding litigations	3 557	1 276	0	-404	0	4 429
Network sites dismantling costs	5 142	1 855	-1 306	0	204	5 895
Office refurbishment costs	672	0	0	0	0	672
Total	**9 371**	**3 131**	**-1 306**	**-404**	**204**	**10 996**

••• Outstanding litigations

Mobistar is engaged in various judicial procedures whereby third-party individuals or entities are claiming repair of damages they pretend to have incurred. Each litigation is evaluated on an individual basis in order to assess as to whether it is more likely than not that an outflow of resources will be necessary to settle the litigation and to ensure that the assumptions taken to measure the provisions are valid.

The majority of the claims are outstanding since 2004 and it can be reasonably assumed that they will be subject to a Court decision within two years after the balance sheet date.

••• Network sites dismantling provision

The key assumptions used to measure the network sites dismantling provision are as follows:

	31.12.2005	31.12.2004
Number of network sites	3 349	2 680
Average dismantling cost per network site	11	12
Inflation rate	2.0%	2.0%
Discount rate	4.0%	4.5%

It is rather not practical to estimate the timing of the cash outflows since, although it is assumed that all the network sites will be dismantled in the future, the provision is measured based on the known term of the existing rental contracts but with a high probability of renewal upon each renewal date.

Network sites dismantling provision will be also adjusted when there is sufficient objective evidence that future change in technology or in legislation will have an impact on the amount of the provision.

••• Office dismantling costs

Office refurbishment provision arises from office rental contracts and is measured at the level of costs incurred in the past on similar transactions. It is not expected that such costs will be incurred before 2007 at the earliest.

13. Financial instruments (in 000 euros)

••• Financial risk management objectives and policies

Mobistar's principal financial instruments, other than derivatives, comprise bank and inter-company loans, overdrafts, cash at bank and short-term bank and inter-company deposits. The main purpose of these financial instruments is to raise finance for Mobistar's operations. In the past, Mobistar entered into derivatives instruments such as Interest Rate Swaps in order to manage the interest rate risk arising from its long-term financing. Mobistar has also various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Since the introduction of the euro, Mobistar's exposure to the foreign currency risk being minor, no forward currency contract or any other currency risk related financial instrument has been implemented.

Moreover, since the early repayment of Mobistar's long-term debt, end of 2005, there is no cash flow interest rate risk outstanding anymore and the Interest Rate Swaps covering this risk have been closed out end of 2005.

It is to be noted that Mobistar's policy does not allow trading in financial instruments.

As a consequence of the above, the main risks arising from Mobistar's financial instruments are the credit risk and liquidity risk:

> Credit risk

Mobistar trades only with recognised, creditworthy third-parties. It is Mobistar's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis.

> Liquidity risk

Mobistar's objective is to maintain a balance between continuity of funding and flexibility through the use bank overdrafts, bank loans and inter-company loans.

••• Interest-bearing loans and borrowings

	Nominal amount	Interest rate	Maturity	31.12.2005	31.12.2004
Credit facility agreement with France Télécom Group *	250 000	Euribor + 0.45	31.12.2008	0	250 000
Revolving credit facility agreement with France Télécom Group *	250 000	Euribor + 0.30	31.12.2010	0	0
Total long-term loans and borrowings				**0**	**250 000**
Share of a joint venture loan ('Irisnet')	2 727 maximum	determined upon withdrawal	On demand	2 383	2 115
Bank overdraft	-	2,92%	On demand	0	767
Total short-term loans and borrowings				**2 383**	**2 882**

* The credit facility was reimbursed anticipatively in 2005 and replaced by the revolving credit facility described here above. As at 31 December 2005, no amount has been withdrawn from the revolving credit facility. Both the credit facility and the revolving credit facility are unsecured.

The credit facility was subject to interest rate swaps as described under the headline 'Cash flow hedges' hereafter.

Concerning Mobistar S.A., the following additional credit facilities are available:

1. 250 million euros short-term cash-pool related credit facility with France Télécom;
2. A total of 57.3 million euros short-term uncommitted credit lines with various banks.

••• Fair values

	Carrying amount		Fair value	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Financial assets				
Cash	1 274	1 257	1 274	1 257
Short term deposit	53 300	105 505	53 300	105 505
Other financial assets (non-current)	197	173	197	173
Financial liabilities				
Floating rate loan € 250 million *	0	249 379	0	249 379
Interest rate swap	0	4 129	0	4 129
Share of a joint venture loan ('Irisnet')	2 383	2 115	2 383	2 115
Bank overdraft	0	767	0	767

* Amortised upfront transaction costs deducted.

The carrying amount of cash and short-term deposit is deemed to represent their fair value considering the associated short-term maturity. Other non-current financial assets are measured at amortised cost which is deemed to represent their fair value.

The long-term credit facility is bearing interest at a variable interest rate and its amortised cost is deemed to represent its fair value. The fair value of the interest rate swaps is measured based on the future interest cash outflows. The carrying amount of the joint venture loan and of the bank overdraft is deemed to represent their fair value taking into account the associated short-term maturity.

••• Maturity

Year ended December 2005	Amount	Within 1 year	Within 2-5 years	More than 5 years
Financial assets				
Cash	1 274	1 274		
Short term deposit	53 300	53 300		
Other financial assets (non-current)	197			197
Financial liabilities				
Share of a joint venture loan ('Irisnet')	2 383	2 383		

Year ended December 2004	Amount	Within 1 year	Within 2-5 years	More than 5 years
Financial assets				
Cash	1 257	1 257		
Short term deposit	105 505	105 505		
Other financial assets (non-current)	173			173
Financial liabilities				
Floating rate loan € 250 million	249 379			249 379
Interest rate swap	4 129	4 129		
Share of a joint venture loan ('Irisnet')	2 115	2 115		
Bank overdraft	767	767		

••• Cash flow hedges

As at 31 December 2004, two interest rate swap derivatives, with a notional amount of 100 million euros each, bearing a fix interest rate of 4.445% and 4.54% respectively and maturing on 30 December 2005, were still outstanding with the aim to cover the interest risk associated with the long-term variable interest-bearing loan of 250 million euros.

Both cash flow hedge swap derivatives were assessed to be highly effective as at 31 December 2004 and the unrealised loss of 4,129 thousand euros, net of the related deferred tax asset calculated at a rate of 33.99%, was included in equity.

The 250 million euros long-term loan was fully reimbursed anticipatively during 2005. As a consequence, the outstanding cash flow hedge derivatives were closed out during the year as well.

14. Other current liabilities (in 000 euros)

	31.12.2005	31.12.2004
Employee benefits related liability		
Salaries and termination pay	2 785	658
Social security contributions	7 457	7 591
Holiday pay	17 110	16 346
Performance bonus	5 455	8 895
Pension and health insurance	5 342	194
Total	**38 149**	**33 684**
Current taxes payable		
Corporate taxes - 2004	557	457
Corporate taxes - 2005	1 041	
Value added tax		760
Total	**1 598**	**1 217**
Other payables		
Dividend 2004	239	0
Other liabilities	148	870
Total	**387**	**870**

15. Income statement (in 000 euros)

••• Turnover

	31.12.2005	31.12.2004
Services revenue	1 404 271	1 271 932
Services revenue - non recurring		4 384
Equipment revenue	46 814	64 816
Total	**1 451 085**	**1 341 132**

••• Other operating revenue

	31.12.2005	31.12.2004
Expenses recharged to France Télécom subsidiaries	13 793	10 694
Administrative costs recharged	7 333	10 200
Services rendered to judicial authorities	3 517	3 448
Non-recurring capital gain on network equipment sold	1 954	0
Other operating revenue	2 250	2 244
Total	**28 847**	**26 586**

••• Costs of equipment and goods sold

	31.12.2005	31.12.2004
Purchase of goods	62 666	79 453
Purchase of services	80 047	56 769
Total	**142 713**	**136 222**

The decrease in the cost of purchased goods mainly resulted from the Court decision prohibiting the sales of bundled packages including a handset and a SIM card with call credit as from 11 January 2005.

Cost of purchased services increased with the effect of the start-up costs incurred in the ADSL activities and with the increase of the number of network sites.

Services and other goods

	31.12.2005	31.12.2004
Rental costs	22 380	20 507
Maintenance	29 148	28 914
Professional fees	46 704	57 740
Administration costs	16 996	15 770
Commissions	112 851	95 978
Advertising and promotions	57 317	55 393
Other	4 218	985
Total	**289 614**	**275 287**

Services and other goods are presented net of internal capitalised intangible and tangible assets of 1,837 thousand euros in 2005 and 1,844 thousand euros in 2004.

Employee benefits expenses

	31.12.2005	31.12.2004
Short-term employee benefits	95 876	83 070
Social Security contributions	28 745	27 115
Group insurance and medical care	5 979	5 864
Other personnel costs	326	365
Total	**130 926**	**116 414**

Short-term employee benefits are presented net of employee benefits expenses internally capitalised as intangible and tangible assets totaling 7,348 thousand euros in 2005 and 10,660 thousand euros in 2004.

The average full time equivalent number of employees increased from 1,619.4 in 2004 to 1,638.7 in 2005 mainly because of the internalisation of functions previously performed by external consultants.

Other operating charges

	31.12.2005	31.12.2004
Inventories - obsolete and slow moving items	28	-260
Trade receivables - allowance for doubtful debtors	4 092	-10 004
Local taxes on GSM antennas and pylons	3 154	2 742
Property taxes	2 007	1 873
Long-term provisions	223	1 646
Other operating charges	99	911
Total	**9 603**	**-3 092**

In 2004, the allowance for doubtful debtors was positively impacted by the reversal of a 9.5 million euros allowance in the fix voice & data activity segment.

Local taxes on GSM masts and antennas are accrued as described in the note '7. Other current assets'.

••• Net finance costs

	31.12.2005	31.12.2004
Finance income		
Interest on deposits and current bank accounts	3 088	1 004
Other financial income	237	264
Total	**3 325**	**1 268**
Finance costs		
Interest on financial debts, including interest rate swap derivatives	10 427	15 873
Other financial charges	1 181	838
Total	**11 608**	**16 711**
Total net finance costs	**-8 283**	**-15 443**

16. Relationships with affiliated enterprises, Board of Directors members and senior management (in 000 euros)

••• Relationships with affiliated enterprises

> Balance sheet and income statement

	31.12.2005	31.12.2004
Assets and liabilities		
Short-term trade receivables	21 211	17 010
Short-term deposit	53 300	105 505
Liabilities		
Long-term interest-bearing loan		249 379
Short-term trade payables	17 559	14 575
Income and charges		
Sales	74 974	75 086
Purchases	65 884	57 578

The consolidated financial statements include the financial statements of Mobistar S.A. and of the following Belgian subsidiaries and joint venture:

	% equity interest	
	2005	2004
Mobistar Corporate Solutions S.A.	Liquidated	100
Mobistar Affiliate S.A.	Liquidated	100
Joint venture 'Irisnet'	50	50

The ultimate parent entity of Mobistar S.A. is France Télécom, place d'Alleray 6, 75505 Paris Cedex 15, France.

> Related party - 2005 transactions

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Ultimate parent company				
France Télécom - Traffic and services	37 161	34 031	12 536	11 273
France Télécom - Cash pooling and derivatives	2 921	4 733	53 401	0
France Télécom subsidiaries				
Interest-bearing loans		5 628		
Airtime traffic	34 601	20 863	8 573	6 232
Consulting fees		563		40
Miscellaneous	291	66	1	14
Total	**74 974**	**65 884**	**74 511**	**17 559**

> Terms and conditions of transactions with related parties

The terms and conditions applied to sales and purchases of traffic and services, to the centralised treasury management agreement, to the revolving credit facility agreement as well as to the interest-bearing loans and borrowings are determined on an arm's length basis according to the normal market prices and conditions.

There is no outstanding guarantee provided to or received from any related parties at the balance sheet date. No allowance for doubtful debtors on amounts owed by related parties is outstanding at the balance sheet date.

••• Relationships with Board of Directors members and senior management

The total employee benefits and compensation, including employer social security contributions, attributed to the members of the Management Committee of Mobistar are as follows:

	31.12.2005	31.12.2004
Short-term employee benefits	3 193	3 643
Post-employment pension and medical benefits	397	419
Termination benefits	0	0
Share-based payments	452	0
Total employee benefits	**4 042**	**4 062**

The total remuneration attributed to the Board of Directors is as follows:

	31.12.2005	31.12.2004
Total remuneration	295	0

> Senior management interests in an employee share incentive plan

> 2001 Stock Option Plan

In 2005, members and former members of the Management Committee of Mobistar exercised a total of 56,246 share options at the exercise price of 34.15 euros each, giving a total amount of 1,921 thousand euros increase in equity, split between share capital and share premium. As at 31 December 2005, a total of 3,440 exercisable share options are outstanding.

> 2005 Discounted Share Purchase Plan

Members and former members of the Management Committee of Mobistar have purchased a total 37,500 shares as per the terms and conditions described in the note '11. Share-based payment'. The fair value of the purchased shares amounts to 452 thousand euros.

17. Commitments and contingencies (in 000 euros)

••• Capital expenditure

	Commitments end of 2004	Commitments end of 2005	< 1 year	1-3 years	3-5 years	> 5 years
Intangible and tangible assets	106 117	43 227	43 227	0	0	0

Operational Leases Costs

	Commitments end of 2004	2005	< 1 year	1-3 years	3-5 years	> 5 years
Offices	25 385	33 180	10 316	15 497	6 972	395
Network sites	83 666	134 605	16 592	33 718	33 718	50 577
Cars	11 112	13 325	773	6 858	5 694	-
Total	**120 163**	**181 110**	**27 681**	**56 073**	**46 384**	**50 972**

Guarantees granted

	Commitments end of 2004	2005	< 1 year	1-3 years	3-5 years	> 5 years
Total amount	8 156	7 044	128	1 452	572	4 892

Guarantees granted are related to various lease agreements and to performance commitment granted to some corporate customers. No other security (mortgage, pledge or other) has been granted on Mobistar assets as at 31 December 2005.

Events after the balance sheet date

No adjusting or non-adjusting events arose between the balance sheet date and the date at which the financial statements have been authorised for issue.

18. Segment reporting

Mobistar's internal management reporting to the Board of Directors and to the Chief Executive Officer is structured on a business segment basis.

The following primary business segments are identified:

- Mobile segment: delivers mobile phone equipment and services to residential and corporate customers.
- Fix voice and data segment: provides fix voice, data and internet services to residential and corporate customers.

No secondary geographical segment has been selected as no criteria determining this reportable segment is met.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third-parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

2005

in thousand €

	Mobile	Fix voice & data	Unallocated	Total
Segment assets	1 057 506	55 101	7 385	1 119 992
Segment liabilities	379 999	19 570	4 220	403 789
Capital expenditure	229 332	5 803	0	235 135
Depreciation and amortisation	158 568	7 107	0	165 675
Impairment losses recognised in profit or loss	5 854	512	0	6 366
Non-cash expenses other than depreciation	998	0	0	0

	Mobile	Fix voice & data	Inter-segment eliminations	Total consolidated
Revenue				
Total service revenue	1 314 091	90 180		1 404 271
Total inter-segment service revenue	0	0		0
Handsets sales	46 814	0		46 814
Total turnover	1 360 905	90 180	0	1 451 085
Other operating revenue	28 712	135		28 847
Total revenue	1 389 617	90 315	0	1 479 932
Operating expenses				
Interconnection costs	283 662	48 303		331 965
Costs of equipment and goods sold	123 771	18 942		142 713
Services and other goods	278 803	10 811		289 614
Employee benefits expenses	123 004	7 922		130 926
Depreciation, amortisation and impairment	164 422	7 619		172 041
Other operating charges	9 562	41		9 603
Total operating expenses	983 224	93 638	0	1 076 862
Result of operating activities	406 393	-3 323	0	403 070
Net finance costs				8 283
Result of operating activities after net finance costs				394 787
Tax expense				124 499
Net profit or loss				270 288

2004

in thousand €

	Mobile	Fix voice & data	Unallocated	Total
Segment assets	1 072 445	43 506	9 624	1 125 575
Segment liabilities	284 733	21 020	256 878	562 631
Capital expenditure	167 588	3 659	0	171 247
Depreciation and amortisation	153 574	8 068	0	161 642
Impairment losses recognised in profit or loss	11 212	0	0	11 212
Non-cash expenses other than depreciation	0	0	0	0

	Mobile	Fix voice & data	Inter-segment eliminations	Total consolidated
Revenue				
Total service revenue	1 180 475	95 841		1 276 316
Total inter-segment service revenue		4 800	-4 800	0
Handsets sales	64 816	0		64 816
Total turnover	1 245 291	100 641	-4 800	1 341 132
Other operating revenue	26 586	0		26 586
Total revenue	1 271 877	100 641	-4 800	1 367 718
Operating expenses				
Interconnection costs	235 576	51 849		287 425
Costs of equipment and goods sold	132 871	6 551	-3 200	136 222
Services and other goods	267 695	9 192	-1 600	275 287
Employee benefits expenses	110 321	6 093		116 414
Depreciation, amortisation and impairment	164 786	8 068		172 854
Other operating charges	5 978	-9 070		-3 092
Total operating expenses	917 227	72 683	-4 800	985 110
Result of operating activities	354 650	27 958	0	382 608
Net finance costs				15 443
Result of operating activities after net finance costs				367 165
Tax expense				124 195
Net profit or loss				242 970

19. Reconciliation of equity at 1 January 2004

2004

in thousand €

Note	ASSETS	Belgian GAAP	IFRSs Movements	Consolidation Joint Venture 'Irisnet'	Effect of transition to IFRSs	IFRSs
	Non-current assets					
1	Incorporation costs	780	-780		-780	0
	Goodwill	10 594			0	10 594
3	Intangible assets	384 763	-2 129		-2 129	382 634
2.a, b, c, d	Tangible assets	411 124	3 279		3 279	414 403
	Other non-current assets	165		8	8	173
5	Deferred taxes		28 975		28 975	28 975
	Total non-current assets	**807 426**	**29 345**	**8**	**29 353**	**836 779**
	Current assets					
4	Inventories	9 745	317		317	10 062
	Trade receivables	113 156				113 156
	Other current assets	24 535		663	663	25 198
	Cash and cash equivalents	17 807				17 807
	Total current assets	**165 243**	**317**	**663**	**980**	**166 223**
	TOTAL ASSETS	**972 669**	**29 662**	**671**	**30 333**	**1 003 002**

2004

in thousand €

Note	EQUITY AND LIABILITIES	Belgian GAAP	IFRSs Movements	Consolidation Joint Venture 'Irisnet'	Effect of transition to IFRSs	IFRSs
	Equity					
	Share capital	431 939				431 939
	Share premium	93				93
6	Hedging reserve		-4 699		-4 699	-4 699
10	Retained earnings	-136 179	8 835	344	9 179	-127 000
2.a	Capital grants	374	-374		-374	0
	Total equity	**296 227**	**3 762**	**344**	**4 106**	**300 333**
	Non-current liabilities					
7	Long-term interest-bearing loans and borrowings and interest rate swaps	364 468	10 353		10 353	374 821
2.d	Long-term provisions	4 386	5 814	-2 475	3 339	7 725
	Total non-current liabilities	**368 854**	**16 167**	**-2 475**	**13 692**	**382 546**
	Current liabilities					
7	Short-term borrowings and interest rate swaps		6 435	2 424	8 859	8 859
	Current portion of long-term borrowings	60 000				60 000
8	Trade payables	142 999	3 546	377	3 923	146 922
	Employee benefits related liability	46 599				46 599
	Current taxes payable	4 071				4 071
	Deferred income	52 879				52 879
9	Other payables	1 040	-248	1	-247	793
	Total current liabilities	**307 588**	**9 733**	**2 802**	**12 535**	**320 123**
	Total liabilities	**676 442**	**25 900**	**327**	**26 227**	**702 669**
	TOTAL EQUITY AND LIABILITIES	**972 669**	**29 662**	**671**	**30 333**	**1 003 002**

••• Notes on the reconciliation of equity as at 1 January 2004

1. Incorporation costs do not fall within the definition of an asset : **- 780**.

2. a. The net book value of capital grants is deducted from the value of the fixed assets to which they relate and is not shown as an equity item as defined by Belgian accounting standards: **- 374**.
   b. Reversal of depreciation shown on land: **58**.
   c. Borrowing costs are shown as expenses as incurred and are no longer capitalised as allowed under Belgian accounting standards: **- 2,219**.
   d. The initial valuation of an item of plant, property and equipment includes the initial estimate of the costs of dismantling and removing it and restoring the site on which it is located, as well as the refurbishment costs related to rented premises, where such obligations exist . The initial discounted value of these costs is estimated at **5,142** thousand euros for sites where the network has been deployed. Costs of refurbishment of rented premises have been estimated at **672** thousand euros.

3. Costs incurred in development of a web-site may be capitalised as intangible assets to the extent that they meet the requirements of IAS 38, and in particular, that it has been demonstrated that it is probable that the web-site will generate future economic benefits. The costs which do not meet those conditions must be shown as expenses as incurred: **- 2,129**.

4. Stocks of goods are valued using the FIFO method: **317**.

5. Application of IAS 12 requires recognition of deferred tax assets amounting to **28,975** thousand euros, which break down as follows:

Description	Deferred Tax Assets	
	Short term	Long term
Tax loss carried forward	11 077	
Investment deduction	2 401	7 203
Derivatives	3 947	1 759
Loyalty commissions recognised on contract subscription	1 149	107
Borrowing costs shown as expenses	189	566
Incorporation costs shown as expenses	256	
Web-site development costs shown as expenses	289	434
Other items	-128	-274
Total	**19 180**	**9 795**

Deferred tax assets are shown as a separate category of non-current assets.

6. Application of IAS 39 in order to show at its fair value in a separate category of equity the effective element of derivatives (interest rate swaps) qualifying for hedge accounting (Cash Flow Hedge), after deduction of the relevant deferred tax assets: **- 4,699**.

7. Recognition of the fair value of derivatives (interest rate swaps) as financial liabilities:
   - Long-term derivatives: **10,353** thousand euros of which **3,242** thousand euros do not qualify for hedge accounting under IFRS.
   - Short-term derivatives: **6,435** thousand euros which do not qualify for hedge accounting under IFRS.

8. a. Loyalty commissions recognised in provision up-front on contract subscription and no longer accumulated over the loyalty period: **3,695**.
   b. Provision for legal fees which do not qualify as provision under IAS 37: **- 149**.

9. Restructuring costs which do not qualify as provision under IAS 37: **- 248**.

10. The loss carried forward reported in the opening balance sheet is reconciled as follows:

Loss carried forward under Belgian GAAP	**-136 179**
Recognition of deferred tax assets (ref. 5), excepting those recognised in the 'Hedging Reserve'	26 563
Derivatives not qualifying for hedge accounting (ref. 7)	-9 677
Loyalty commissions recognised upon contract subscription (ref. 8.a)	-3 695
Borrowing costs shown as expenses (ref. 2.c)	-2 219
Web-site development costs shown as expenses (ref. 3)	-2 129
Incorporation costs shown as expenses (ref. 1)	-780
Stocks of goods valued using the FIFO method (ref. 4)	317
Provision for restructuring not qualifying under IAS 37 (ref. 9)	248
Provision for legal fees not qualifying under IAS 37 (ref 8.b)	149
Reversal of depreciation charge on land (ref. 2.b)	58
Consolidation of the 'Irisnet' joint venture at 50%	344
Loss carried forward under IFRS standards	**-127 000**

20. Reconciliation of equity at 31 December 2004

2004

in thousand €

Note	ASSETS	Belgian GAAP	IFRSs Movements	Consolidation Joint Venture 'Irisnet'	Effect of transition to IFRSs	IFRSs
	Non-current assets					
1	Incorporation costs	26	-26		-26	0
3	Goodwill	9 172	1 422		1 422	10 594
4	Intangible assets	379 587	-2 217		-2 217	377 370
2.a, b, c	Tangible assets	416 345	1 715		1 715	418 060
	Other non-current assets	165		8	8	173
5	Deferred taxes		9 281		9 281	9 281
	Total non-current assets	**805 295**	**10 175**	**8**	**10 183**	**815 478**
	Current assets					
	Inventories	17 997				17 997
	Trade receivables	154 588	5 218	-10 925	-5 707	148 881
6	Other current assets	36 286	-621	792	171	36 457
	Cash and cash equivalents	106 698		64	64	106 762
	Total current assets	**315 569**	**4 597**	**-10 069**	**-5 472**	**310 097**
	TOTAL ASSETS	**1 120 864**	**14 772**	**-10 061**	**4 711**	**1 125 575**

2004

in thousand €

Note	EQUITY AND LIABILITIES	Belgian GAAP	IFRSs Movements	Consolidation Joint Venture 'Irisnet'	Effect of transition to IFRSs	IFRSs
	Equity					
	Share capital	435 514				435 514
	Share premium	14 191				14 191
	Legal reserve	7 897				7 897
8	Hedging reserve		-2 731		-2 731	-2 731
7, 11	Retained earnings	108 745	4 142	-4 813	-671	108 074
2.a	Capital grants	305	-305		-305	0
	Total equity	**566 652**	**1 106**	**-4 813**	**-3 707**	**562 945**
	Non-current liabilities					
6	Long-term interest-bearing loans and borrowings and interest rate swaps	250 000	-621		-621	249 379
8	Long-term provisions	6 032	5 814	-2 475	3 339	9 371
	Total non-current liabilities	**256 032**	**5 193**	**-2 475**	**2 718**	**258 750**
	Current liabilities					
8	Short-term borrowings and interest rate swaps	767	4 129	2 115	6 244	7 011
9. a,b,c	Trade payables	197 621	-626	118	-508	197 113
	Employee benefits related liability	33 684				33 684
	Current taxes payable	1 217				1 217
	Deferred income	63 985	5 218	-5 218		63 985
10	Other payables	906	-248	212	-36	870
	Total current liabilities	**298 180**	**8 473**	**-2 773**	**5 700**	**303 880**
	Total liabilities	**554 212**	**13 666**	**-5 248**	**8 418**	**562 630**
	TOTAL EQUITY AND LIABILITIES	**1 120 864**	**14 772**	**-10 061**	**4 711**	**1 125 575**

••• Notes on the reconciliation of equity as at 31 December 2004

1. Incorporation costs are not recognised as an asset: **- 26**.

2. a. The net book value of capital grants has been deducted from the value of the items of plant, property and equipment to which they relate and has not been shown as an item of equity as it is defined by Belgian accounting standards : **- 305**.
   b. Borrowing costs are shown as expenses instead of being capitalised as permitted by Belgian accounting standards : **- 3,001**.
   c. The initial valuation of an item of plant, property and equipment includes an estimate of the costs of dismantling and removing the item and restoring the site on which it is located, when such an obligation exists. The net discounted value of those costs related to telephone network sites was calculated on the assumption that all sites will be dismantled in the future: **4,484**. On the other hand, the net book value of refurbishment expenditure related to rented premises was estimated at **537** thousand euros.
   The gross amount of those costs, i.e. **5,814** thousand euros, is shown under the heading 'Long-term provisions'.

3. Goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. By applying the exemption provided for in IFRS 1, the carrying amount of goodwill in the opening IFRS balance sheet is its carrying amount under Belgian GAAP at the date of transition to IFRSs. As a consequence, the depreciation charge recognised in 2004 under Belgian GAAP must be reversed: **1,422**. As at 31 December 2004, the net book value of goodwill did not exceed its recoverable value and no provision for impairment was made.

4. Costs incurred in development of a web-site may be capitalised as intangible assets to the extent that they meet requirements of IAS 38 and, specifically, that it can be demonstrated that it is probable that the web-site will generate economic benefits. The expenditure which does not meet those criteria must be shown as expenses: **- 2,217**.

5. IAS 12 requires recognition of deferred tax assets amounting to **9,281** thousand euros as at the end of 2004, compared with **28,975** thousand euros in the IFRS opening balance sheet. The reduction in the amount of deferred tax assets arises mainly explained from the complete absorption of tax losses carried forward and by the utilisation of a portion of the investment deduction.

The balance of deferred tax assets on closure of the financial year breaks down as follows:

Description	Deferred Tax Assets	
	Short term	Long term
Investment deduction	1 801	5 402
Derivatives	1 399	
Borrowing costs shown as expenses	222	604
Web-site development costs shown as expenses	213	262
Reversed amortisation of goodwill		-482
Other items	107	-247
Total	**3 742**	**5 539**

Deferred tax assets are shown as a separate category of non-current assets.

6. In accordance with IAS 39, transaction costs have been deducted from the financial liabilities to which they relate: **- 621**.

7. The Board of Directors will recommend to the General Assembly of shareholders to be held on 4 May 2005 that a dividend of 2 euros per share be declared amounting to a total of **126,072** thousand euros. Under IFRSs, a dividend declared after the balance sheet date is not recognised as a liability at that date.

8. Application of IAS 39 in order to show at its fair value in a separate category of equity the effective portion of derivatives (interest rate swaps) qualifying for hedge accounting (Cash Flow Hedge), after deduction of the related deferred tax assets: **- 2,731**.

9. a. Provision for legal fees not qualifying as provision under IAS 37: **-149**.
   b. Balance of loyalty commissions recognised in provision up-front upon contract subscription in the IFRS opening balance sheet: **315**.
   c. Reversal of provisions for dismantling network sites and refurbishing rented premises measured under Belgian GAAP and replaced by the provision described under paragraph 2.c above: **- 792**.

10. Provision for restructuring costs not qualifying as provision under IAS 37: **- 248**.

11. Reconciliation of the profit carried forward at year-end is as follows:

Profit carried forward under Belgian GAAP	**108 745**
Recognition of deferred tax assets (ref. 5), excluding those recognised in the ‘Hedging reserve’	7 882
Consolidation of the 'Irisnet' joint venture at 50%	-4 813
Borrowing costs shown as expenses (ref. 2.b)	-3 001
Web-site development costs shown as expenses (ref. 4)	-2 217
Reversal of amortisation of goodwill (ref. 3)	1 422
Balance of the provision for loyalty commissions recognised in the IFRS opening balance sheet (ref. 9.b)	-315
Provision for restructuring not qualifying under IAS 37 (ref 9.b)	248
Provision for legal fees not qualifying under IAS 37 (ref 9.a)	149
Incorporation costs not recognised as an asset (ref. 1)	-26
Profit carried forward under IFRS standards	**108 074**

21. Reconciliation of profit for 2004

2004

in thousand €

Note		Belgian GAAP	IFRSs Movements	Consolidation Joint Venture 'Irisnet'	Effect of transition to IFRSs	IFRSs
	Revenues					
1.a,b,c,d	Total service revenues	1 281 036	-4 343	-377	-4 720	1 276 316
2	Handset sales	66 345	-1 529		-1 529	64 816
	Total turnover	**1 347 381**	**-5 872**	**-377**	**-6 249**	**1 341 132**
3.a,b	Other operating revenue	43 641	-16 192	-863	-17 055	26 586
	Total revenue	**1 391 022**	**-22 064**	**-1 240**	**-23 304**	**1 367 718**
	Operating expenses					
	Interconnection costs	287 425				287 425
1.b, 4, 9	Costs of equipment and goods sold	155 212	-18 545	-445	-18 990	136 222
5	Services and other goods	264 491	10 850	-54	10 796	275 287
3	Employee benefits expenses	127 075	-10 661		-10 661	116 414
6	Depreciation, amortisation and impairment	174 052	-1 823	625	-1 198	172 854
7	Other operating charges	-1 637	-5 218	3 763	-1 455	-3 092
8	Depreciation consolidation difference	1 422	-1 422		-1 422	0
	Total operating expenses	**1 008 040**	**-26 819**	**3 889**	**-22 930**	**985 110**
	Result of operating activities	**382 982**	**4 755**	**-5 129**	**-374**	**382 608**
9	Finance income	1 936	-669		-669	1 267
9	Finance costs	26 583	-9 902	29	-9 873	16 710
	Result of operating activities after net finance costs	**358 335**	**13 988**	**-5 158**	**8 830**	**367 165**
10	Income taxes	105 514	18 681		18 681	124 195
	Profit for the period after taxes attributable to equity holders of the parent	**252 821**	**-4 693**	**-5 158**	**-9 851**	**242 970**
	Earnings per share (previous GAAP)	4.01				
11	Basic earnings per share (in €)					3.87
11	Diluted earnings per share (in €)					3.86

••• Notes on the reconciliation of profit for 2004

1. a. Commissions on sale of pre-paid call cards

   Commissions paid to the distribution channels on sales of pre-paid call cards represent the fair value of the services rendered and must therefore be recorded as expenses under IFRS and not as a reduction in revenue: **15,381**.

   b. Revenue share agreements

   Under such agreements, the role of Mobistar is by its nature limited to transmission, through its network, of products or services developed and marketed by third-party content providers, who appear as such to users and who bear most of the risks and rewards associated with their products and services. In such circumstances, the revenue to be recognised by Mobistar consists of the amount billed to its customers for this type of product after deduction of the fees paid to the third-party content providers for the products and services delivered: **- 18,194**.

   c. Collectability of receivables

   Revenue is recognised to the extent that it is probable that the company will receive economic benefits associated with the transaction. Moreover, in accordance with IAS 31 and SIC 12, Mobistar has consolidated the 'Irisnet' joint venture at 50%. In the light of past experience and estimates of the future cash flows from the joint venture, Mobistar considers that there is no reasonable certainty of the collectability of its receivables as at the date of the balance-sheet and the revenue will not be shown until effective payment: **- 4,428**.

   d. Site-sharing rental income

   It is a common practice in the telecom sector to sub-let network sites to other operators in order to optimise cost-savings and to conserve the environment. In the case of site rental contracts where Mobistar retains sole responsibility under the terms and conditions of the rental agreement, rental costs are shown in their entirety as expenses. The amounts paid to Mobistar by third-party operators under site sub-letting agreements are shown as revenue: **2,898**.

2. Revenue is to be measured at the fair value of the consideration received or receivable. Consequently, financial discounts granted to customers in the event of early payment are deducted from revenue: **- 1,529**.

3. The amount of other operating revenue has decreased by **- 16,192** thousand euros:
   a. Internal capitalised costs are shown as deductions from expenses in the category to which they relate, specifically **10,661** thousand euros deducted from 'Employee benefits expenses' and **1,843** thousand euros from 'Services and other goods'.
   b. Other operating revenue has also decreased by **- 3,688** as a result of the transfer of income from sub-letting network sites into revenue (**- 2,898**, see 1.d) and of the recognition of revenue generated in the 'Irisnet' joint venture at the time of payment (**- 790**, see 1.c).

4. Stocks of goods were valued using the FIFO valuation method in the course of the year, and therefore the FIFO adjustment shown in the IFRS opening balance sheet must be reversed: **317**.

5. The cost of 'Services and other goods' increased by **10,850** thousand euros:
   - Commissions on pre-paid call cards shown as expenses (see 1.a): **15,381**.
   - Use of the provision for loyalty commissions shown in the IFRS opening balance sheet: **- 3,381**.
   - Reclassification of internal capitalised costs (see 3.a): **- 1,843**.
   - Web-site development costs not qualifying for capitalisation: **828**.
   - Reversal of the costs incurred for refurbishment of rented premises: **- 135**.

6. Depreciation, amortisation and impairment on fixed assets was reduced by **- 1,823** thousand euros:
   - Reversal of amortisation of incorporation costs already excluded from the assets shown in the IFRS opening balance sheet: **- 754**.
   - Reversal of amortisation of web-site development costs which do not qualify as an asset (SIC 32): **- 739**.
   - Reversal of the depreciation charge on borrowing costs: **- 523**.
   - Depreciation of the refurbishment costs of rented premises: **135**.
   - Cancellation of the correction of depreciation of land shown in the IFRS opening balance sheet: **58**.

7. Receivables due from the 'Irisnet' joint venture have been deferred until receipt of payment (see 1.c and 3.b). Consequently, provision for bad debts shown under Belgian GAAP had to be reversed: **- 5,218**.

8. In accordance with IFRS 3, the goodwill is no longer amortised: **- 1,422**.

9. The financial result has increased by **9,233** thousand euros:
   Finance income:
   - Deduction of financial discounts earned from the costs category to which they relate, i.e. 'Costs of equipment and goods sold': **- 669**

   Finance costs:
   - Reversal of the costs related to the closing out in 2004 of derivatives already deducted from the equity in the IFRS opening balance sheet: **- 9,678**.
   - Deduction from revenue of financial discounts granted to customers for early payment: **- 1,529**.
   - Borrowing costs reclassified as expenses as incurred: **1,305**.

10. Total deferred tax assets at the end of 2004 amount to **9,281** thousand euros, as against **28,975** thousand euros shown in the IFRS opening balance sheet. This represents a decrease of **19,694** thousand euros, of which **18,681** thousand euros are shown in the statement of income and **1,013** thousand euros relate to 'Cash Flow Hedge' derivatives shown in the separate equity category 'Hedging Reserve'. The decrease in deferred tax assets arises principally from complete absorption of the tax loss carried forward and from application of a portion of the investment deduction.

11. Basic earnings per share under IFRS amount to **3.87** euros as against **4.01** euros under Belgian GAAP, and were calculated taking into account the weighted impact of the 517,520 warrants exercised in 2004. The diluted earnings per share under IFRS amount to **3.86** euros taking into account the fact that 255,826 warrants granted to employees subsist as at the end of 2004.

statutory auditor's report

to the General Meeting of shareholders of Mobistar N.V. on the consolidated financial statements for the year ended 31 December 2005

In accordance with legal and statutory requirements, we report to you on the performance of the audit mandate which you have entrusted to us.

We have audited the consolidated financial statements for the year ended 31 December 2005, prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union and with the legal and regulatory requirements applicable in Belgium, which show a balance sheet total of € 1.119.992 thousands and a net income of consolidated companies for the year of € 270.288 thousands. We have also carried out the specific additional audit procedures required by law.

The preparation of the consolidated financial statements and the assessment of the information to be included in the consolidated directors' report, are the responsibility of the board of directors.

Our audit of the consolidated financial statements was carried out in accordance with the auditing standards applicable in Belgium, as issued by the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren".

••• Unqualified audit opinion on the consolidated financial statements

The above mentioned auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In accordance with those standards, we considered the group's administrative and accounting organisation, as well as its internal control procedures. Company's officials have responded clearly to our requests for explanations and information. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the accounting policies, the consolidation principles, the significant accounting estimates made by the company and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking into account the legal and regulatory requirements applicable in Belgium, the consolidated financial statements for the year ended 31 December 2005 give a true and fair view of the group's assets, liabilities, financial position, the results of operations and its cash flows, in accordance with International Financial Reporting Standards as adopted for use in the European Union and with the legal and regulatory requirements applicable in Belgium.

••• Additional certifications and information

We supplement our report with the following certifications and information which do not modify our audit opinion on the consolidated financial statements:

- The consolidated directors' report includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the group is facing, and of its situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious contradictions with the information of which we became aware during our audit.

- As disclosed in the note "Transition to IFRS accounting principles" in the consolidated financial statements, the Company has presented for the first time the consolidated financial statements in accordance with Financial Reporting Standards as adopted for use in the European Union.

Brussels, 23 March, 2006

Ernst & Young Reviseurs d'Entreprises SCC / Bedrijfsrevisoren BCV
(B 160)
Statutory auditor
represented by

Herman Van den Abeele
Partner