



## **Proximus NV van publiek recht / SA de droit public**

Statutory auditor's report to the shareholders' meeting for the year ended  
31 December 2017

The original text of this report is in Dutch and French

## Statutory auditor's report to the shareholders' meeting of Proximus NV van publiek recht / SA de droit public for the year ended 31 December 2017

In the context of the statutory audit of the consolidated financial statements of Proximus NV van publiek recht / SA de droit public (the "company") and its subsidiaries (jointly the "group"), we hereby submit our statutory audit report to you. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 20 April 2016 in accordance with the proposal of the board of directors issued upon recommendation of the audit and compliance committee. Our mandate will expire on the date of the shareholders' meeting approving the consolidated financial statements for the year ending 31 December 2018. We have performed the statutory audit of the consolidated financial statements of Proximus NV van publiek recht / SA de droit public for 8 subsequent years.

### Report on the audit of the consolidated financial statements

#### Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 8 527 million EUR and the consolidated income statement shows a consolidated profit for the year then ended of 552 million EUR.

In our opinion, the consolidated financial statements of the group give a true and fair view of the group's net equity and financial position as of 31 December 2017 and of its consolidated results and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

#### Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the group's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.



**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters?
<p><b>Acquisition Accounting for TeleSign Holdings Inc. ("TeleSign")</b></p> <p>TeleSign was acquired on 31 October 2017 for a total consideration of 225 million EUR. IFRS 3 – <i>Business combinations</i> requires a so-called purchase price allocation exercise, whereby the total consideration is allocated to identifiable assets, liabilities and contingent liabilities, with the remaining amount being presented as goodwill. We focused on this because the acquisition is material to the group and requires use of significant management judgement regarding the identification of (intangible) assets acquired and the valuation of the assets and liabilities acquired. The valuation of certain of the assets involves the use of estimates regarding future cash flows.</p> <p>A purchase price allocation exercise has been performed by management assisted by an external expert. The main estimate was the fair value determination of identifiable intangible assets for 80 million EUR in the form of customer relationships, trade names and patents. The allocation also considered the fair values of property, plant and equipment, current assets and current and non-current liabilities.</p> <p>The details on the acquisition accounting and the disclosure requirements under IFRS 3 – Business combinations are included in note 6.5 'Acquisitions and disposal of subsidiaries, joint ventures and associates'.</p>	<p>We read the relevant position papers, contracts and board minutes supporting the accounting applied by management.</p> <p>We performed an on-site visit to TeleSign premises to assist us in auditing the opening balance sheet per 31 October 2017.</p> <p>In testing the valuation of the identified intangible assets acquired we:</p> <ul style="list-style-type: none"> <li>• Assessed the methodology adopted by management and its appointed expert for calculating the fair values;</li> <li>• Assessed the discount rates applicable to the transaction;</li> <li>• Validated and challenged key inputs and data used in valuation models by reference to historical data.</li> </ul> <p>We agreed the amount of consideration paid to contracts, deposits and bank statements.</p>

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**Goodwill impairment test International Carrier Services**

In 2017, goodwill relating to the International Carrier Services CGU ('ICS') increased, as a result of the acquisition of Telesign, by 146 million EUR to 398 million EUR out of a total goodwill balance of 2 431 million EUR per 31 December 2017.

The annual impairment testing was important for our audit because it relies on a number of critical judgements like determination of the (group of) CGU as well as estimates and assumptions used in a discounted free cash flow model. The group uses a business plan reflecting the group's strategy and using external sources for macro-economic assumptions such as inflation and long-term industry growth rate, as well as group specific assumptions on tax rates, capital spending and discount rates.

We focused our audit efforts on the impairment assessment for ICS as this CGU was impacted by the recent transaction with Telesign and because the headroom (defined as the difference between segment's recoverable amount and the carrying amount) is proportionally lower than the headroom on the group's other cash generating units. Both the determination of the level at which to test for impairment and estimating the underlying future operating cash flows of this CGU requires more judgement as a result of the recent acquisition. The assessment for ICS is sensitive to changes in assumptions (in particular the underlying future operating cash flows and the long-term growth rate).

The details on the accounting for goodwill and the disclosure requirements under IAS 36 - *Impairment of assets* are included in note 2 'Significant accounting policies' and 3 'Goodwill' of the consolidated financial statements.

We tested relevant internal controls in place for goodwill impairment

We challenged the key assumptions, methodologies and data used by the group, for example by comparing them to external data such as external market growth expectations and by analysing sensitivities in the group's discounted cash flow model.

We assessed the facts and circumstances put forward by management with our understanding of Telesign to determine whether determination of the CGU at the level of ICS was in accordance with IAS 36 - Impairment.

Additionally, we assessed the sensitivity in the available headroom of CGU's and whether a reasonable possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of management's estimates.

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### Revenue Recognition on telecommunications activities

The accuracy of revenue is an inherent risk in the telecommunications industry. This is driven by the complexity of billing systems, the magnitude of volumes of data in combination with different products on the market and price changes in the year. The correct application of revenue recognition accounting standards to the separate elements of a customer's contract are complex and require judgement by management, especially with IFRS 15 – *Revenue from contracts with customers* becoming applicable as from 1 January 2018.

The details on revenue recognition are included in notes 2 'Significant accounting policies', 22 'Net Revenue' and 39 'Recent IFRS pronouncements' to the consolidated financial statements.

We addressed this key audit matter by applying the following controls and substantive test procedures to the material revenue streams:

- We tested the design and implementation of the key controls in place in the revenue cycle, as well as in the IT environment in which billing, rating and other relevant support systems reside, including the change control procedures in place around systems that bill material revenue streams;
- Performing tests on the accuracy of customer bill generation by tracing customer invoices for a sample of customers back to the cash receipt; and
- Performing a substantive analytical review.

Additionally we considered the appropriateness of the group's accounting policies with respect to revenue recognition, mainly focusing on the treatment of new products and the impact analysis of IFRS 15 on the existing accounting policies.

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### Capitalization and asset lives

Over the past years, the group annually invested significant amounts in its fixed and mobile networks as well as in IT systems. Given the technological changes in the network and the investments in new IT systems, there are a number of areas where management judgement influences the carrying value of property, plant and equipment and intangible assets and their respective depreciation profiles.

These include:

- the decision to capitalize or expense costs; and
- the annual review of useful life considering the impact of changes in the group's strategy, if any.

The details on capitalization and asset lives are included in notes 2 'Significant accounting policies', 4 'Intangible Assets with finite useful life', 5 'Property, plant and equipment' and 29 'Depreciation and amortization' to the consolidated financial statements.

We tested the design and implementation of the key controls in place over the property, plant and equipment and intangible assets cycle.

We evaluated the appropriateness of capitalization policies and performed tests of details on costs capitalized.

Additionally, we assessed and challenged the judgements made by management including:

- The appropriateness of asset lives applied in the calculation of depreciation/amortization; and
- The potential need for accelerated depreciation/amortization given the IT transformation plan.

### **Responsibilities of the board of directors for the consolidated financial statements**

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

### **Responsibilities of the statutory auditor for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;



- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and compliance committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and compliance committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear our independence, and where applicable, related safeguards.

From the matters communicated to the audit and compliance committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes any public disclosure about the matter.

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## Report on other legal and regulatory requirements

### Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements, the statement of non-financial information attached to the directors' report on the consolidated financial statements.

### Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements the statement of non-financial information attached to the directors' report on the consolidated financial statements and other matters disclosed in this report, as well as to report on these matters.

### Aspects regarding the directors' report on the consolidated financial statements

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, the directors' report on the consolidated financial statements is consistent with the consolidated financial statements for year ended 31 December 2017 and it has been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our statutory audit of the consolidated financial statements we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement. We do not express and will not express any kind of assurance on the directors' report.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in a separate report, attached to the directors' report. This statement on non-financial information includes all the information required by article 119, § 2 of the Companies Code and is in accordance with the consolidated financial statements for the financial year then ended. The non-financial information has been established by the company in accordance with the GRI Standards – Core Option. We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with this GRI Standards – Core Option. Furthermore, we do not express any assurance on individual elements that have been disclosed in this non-financial information.

#### Statements regarding independence

- We did not perform any services that are incompatible with the statutory audit of the consolidated financial statements and remained independent from the group during the performance of our mandate.
- The fees for the non-audit services compatible with the statutory audit of the consolidated financial statements as defined in article 134 of the Companies Code have been properly disclosed and disaggregated in the disclosures to the consolidated financial statements.

#### Other statements

- This report is consistent with our additional report to the audit and compliance committee referred to in article 11 of Regulation (EU) No 537/2014.


Zaventem, 2 March 2018

#### The statutory auditor

##### DELOITTE Bedrijfsrevisoren / Réviseurs d'Entreprises

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Represented by



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## Deloitte.

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