



M&A speculation offsets patchy fundamentals

5% out-performance in 10 days

The sector has out-performed the market by 5% in the last ten days but has still under-performed by 3% year to date. The sector has benefited from M&A speculation following the Alltel deal in the US, a surprisingly strong outlook from Vodafone, and arguably some sector rotation.

Q1 fundamentals remained patchy

In fixed, we had the biggest quarter of legacy line loss ever as fierce competition in broadband spilled over into the legacy businesses. In wireless, growth continued to slow and margins dropped. After several years of poor results, we are rarely surprised anymore, but it is no coincidence that our three favoured stocks are not "traditional" telcos.

M&A - all talk and limited action

Superficially, the European telcos look to us ripe for M&A. Experience tells us that market repair is a winner, giving impetus to more deals between the companies. Our 6x EV/EBITDA multiple is only a turn above what PE could raise in debt. And the sector's dividend yield is above its cost of debt. Yet M&A has been very slow off the mark, especially compared to the US.

Political hurdles, regulatory uncertainty

Numerous proposed deals among the Incumbents have collapsed over the last ten years and we think political interference remains a hurdle to Incumbent deals in all but Finland, the UK and the Netherlands. We consider the lack of regulatory clarity on fibre a further issue, resulting in low visibility on exit multiples for potential PE bidders.

Our top picks

INMARSAT (455p) for growth, optionality, yield.

TELE2 (SEK140) for market repair in broadband.

BOUYGUES (EUR71) for hidden value of telecoms.

Other plays on our favoured themes

MARKET REPAIR: Elisa, PT, Iliad, Tele2.

GROWTH: TEF, ISAT, Iliad, Forthnet, TNOR, COSMO.

HIDDEN VALUE: Tele2, BOUY, VOD,

OTHER BUY RATED NAMES: OTE, QSC, SWCM, TI.

For a full rundown of our fundamental views, please refer to our Broadband Matrix (published 31st May 2007) and our Wireless Matrix (also published today).

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The main themes this issue

- **Improved performance** – The sector is up 6.1% year to date, still underperforming the market by 3pp but an improvement compared with the end of Q1. The stocks that the market considers to have hidden value (Bouygues, C&W, Tele2) or to be take-out candidates (KPN) have performed the strongest.
- **Investor sentiment plummeted in May** – the ML Fund Managers' Survey published in May showed a dip to 18% underweight compared with a 9% overweight the previous month. This marked the low of sector performance.
- **US deal caused a European reaction** - on May 21st, the number five wireless operator in the US, Alltel, was bought by private equity at roughly 9x EV/EBITDA. The deal sparked a 4.8% sector out-performance in 10 days.
- **M&A in Europe attractive on paper but hurdles are high** – we would anticipate some political interference in cross border deals with the exception of Finland, the Netherlands, and the UK. We would not be surprised to see opportunistic placements of part of the sector overhang in the next few months.
- **LBOs could be tricky considering low visibility on exit multiples** – EU Telecoms have all the ingredients private equity players are looking for. Cheap valuation multiples (6x EBITDA), higher dividend yields than the marginal cost of debt and low levels of leverage (below 2x). On the other hand, operational uncertainty gives minimal visibility on exit multiples for potential acquirers.
- **Fundamentals are still weak in fixed and wireless** – Most of the Incumbents showed declining domestic legacy revenues in Q1, with many seeing worse trends than 2006. Combined with slowing broadband growth, overall fixed line trends are deteriorating further. Wireless Q1 trends were a continuation of Q4 with modest revenue growth and margins close to flat compared to last year. Accelerating price declines have stimulated volumes, but for most operators elasticity of demand remains less than one.
- **The top down view compared with the market** – In absolute terms, the market is implying a perpetuity growth rate in dividends of 2.4%, above the “capitulation” levels of last summer when it reached 1.7%. In relative terms, the implied perpetuity growth for the EU Telecoms is at a discount of 30% compared with the European market.

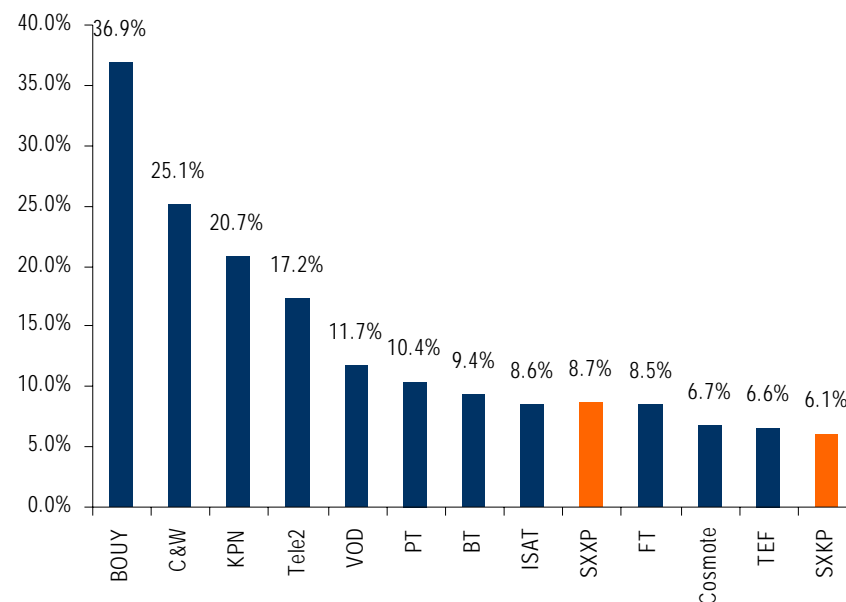
Improved returns, large caps finally perform

Year to date, the European telecoms have delivered an absolute performance of +6.1%, a 3pp underperformance relative to the market.

- In the first few days of the year, the sector rallied strongly, outperforming the market by 5%.
- Between mid January and mid May, the sector underperformed the market by 12% driven by regulatory news flow and poor results.
- Since mid May, the sector has bounced by 5% versus the market.

As Chart 1 shows, the top performers ytd have been the M&A / break-up plays, but VOD and to a lesser extent FT and DT have participated in the recent rebound.

Chart 1: Top 10 TSR performers year to date vs. EU Telecoms sector and EU market

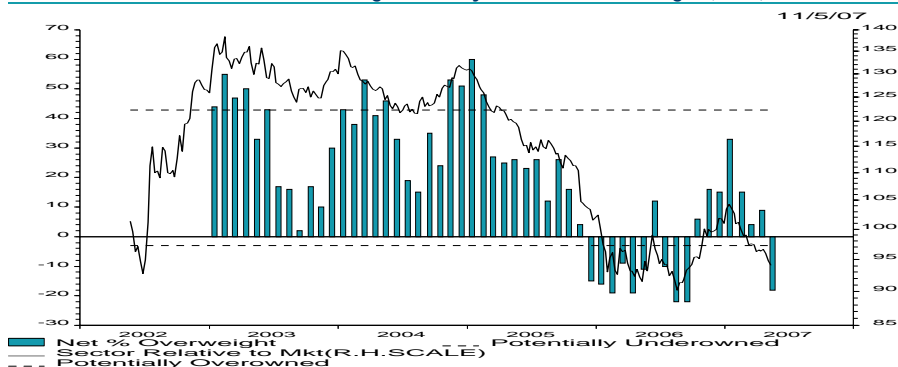


Investor sentiment plummeted in May

Since our last Valuation Monitor in March, investor sentiment regarding EU telcos, tracked monthly in ML's Fund Managers' Survey, has deteriorated significantly.

As Chart 2 below shows, a net overweight of 9% in April reverted to a net 18% underweight in May.

Chart 2: EU Telecoms – ML Fund Managers Survey – now net underweight (-18%)



Source: Merrill Lynch Fund Managers Survey Nov 2006

The change was driven by an increase in the number of underweight positions (see Table 1) and a lower perception of value as fundamentals continued to deteriorate further during the Q1 results.

Table 1: EU Telecoms – ML Fund Managers Survey quarterly change and breakdown

% saying:	May	Apr	Mar
Overweight	21	36	32
Neutral	28	28	32
Underweight	39	26	28
Net % Overweight	-18	9	4

Source: Merrill Lynch

Why are the stocks performing then? M&A noise

Overall, as we describe in our Wireless and Broadband Matrices this month, there were few fundamental reasons to be cheerful in the Q1 results. There were a couple of exceptions, for example the recent positive surprise on Vodafone guidance, but these seemed to have little correlation with the share price moves.

Some of the following is extracted from our May 24th report “How to play telco M&A”.

M&A has been back in the spotlight

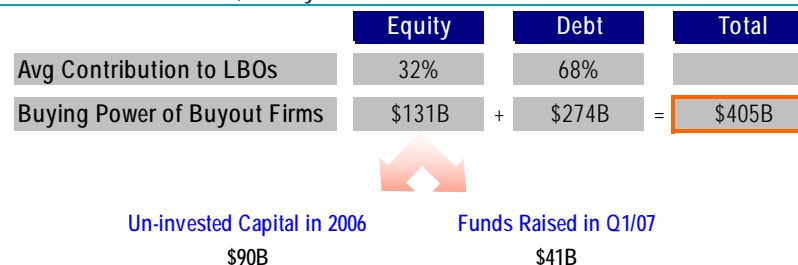
On May 21st, a private equity bid \$27.5bn for Alltel in the US, provided a reminder of the superficial attractions of some of the European names.

The telecoms sector yields more than its cost of debt and trades on 5-6x EV/EBITDA, a level close to which private equity has been willing to take on in leverage in comparable transactions. Despite this, European telco M&A and private equity activity has remained limited, especially in comparison to the US.

Private equity and M&A - facts vs. hype

According to Georgiana Fung, US Small Cap Strategist, US Buyout/Mezzanine funds pulled in USD41bn in committed capital in Q1 2007 (see note titled “More legs to buyouts and fund raising” published on May 21 2007), adding to the USD90bn un-invested capital in 2006. Taking into account that the average equity contribution in LBOs is currently 32%, a total USD405bn worth of deals could be struck.

Figure 1: Combined with debt, US buyout funds can make \$405B worth of deals



Source: Merrill Lynch Small Cap Research, Venture Economics

Political interference remains a key barrier

Political interference may be partly to blame for the lack of deals in Europe. Over the last ten years, we have seen several attempted Incumbent mergers collapse due to a lack of political support (DT/TI, Telia/Telenor, KPN/Belgacom, Swisscom/TA to name a few). Telecoms are still viewed as key national assets, crucial to productivity, employment, and often the local stock market.

Operational deterioration and lack of regulatory certainty

In mobile, growth has slowed to c.3% and margins are contracting, even before renewed regulatory pressure on roaming. In fixed, unbundlers continue to attack, and the lack of regulatory clarity on fibre is delaying the Incumbents' responses. With numbers still dropping, we argue that the sector is cheap for a reason and that selectivity remains key. We are a long way away from utility-type stability. For many Incumbents, the 6.5-9x EBITDA multiples that PE would need to achieve in the exit year to generate a 10-15% IRR no longer looks straightforward.

LBO calculations for BT and for KPN

Table 2 shows the entry and exit multiples required over a 4-year period for the LBOs of BT and KPN, the two large companies in Europe most commonly identified as potential targets, assuming they are taken out at 15% premiums, debt is 5x EBITDA and at exit debt / EBITDA is reduced to 3x.

Table 2: Entry and exit multiples of two most commonly identified large LBO targets

	Entry EV/EBITDA 2008	Exit (EV/EBITDA 2011)	
		15% IRR	20% IRR
BT	6.9x	6.2x	6.9x
KPN	7.6x	7.7x	8.6x

Source: Merrill Lynch

Market repair in wireless and fixed to remain a deal driver

- **Elisa** and **KPN** could benefit from another leg of repair.
- Our positive stance on **PT** is partly related to the potential for consolidation between TMN and Optimus.
- **Tele2** is in a position to sell market repair to other broadband players. Iliad is well placed to benefit from market repair which has already occurred.
- We see the biggest opportunity for market repair outside Europe as being in Brazil, with **PT**, **TEF** and **TI** all in positions to benefit.

Crystallising hidden value

Many of the telcos are effectively conglomerates, with assets within their portfolio contributing little to headline financials, but with clear value. We consider the best examples to be:

- **Tele2** has 2.0mn broadband operations in 11 countries and has recently begun to sell them off. We believe that if we look through this break-up, Tele2 is trading on 5.4x 08E EV/EBITDA with 9% EBITDA growth in the core business (50% Russia and the Baltics).
- **Vodafone** Management claims to remain a "happy shareholder" of a 44% stake in VZW, but with no dividend currently coming from that asset, we regard the status quo as unsustainable long-term.
- We estimate that **Bouygues** Telecom's implied valuation within the Bouygues share price is c.5x 08E EV/EBITDA. We believe that this asset could be sold for almost twice this amount to private equity or a strategic buyer.

C&W (UK business) could fall into this category, but we struggle to justify the share price without a deal occurring. The value of **DT's US business** is also in focus following the Alltel deal in the US, but we consider a sale very unlikely given the deteriorating environment in Germany.

Sector from a top down perspective

ML's EU Strategy team calculates the implied perpetuity growth rate or IPGR for all sectors in Europe. This calculation shows the rate of (dividend) growth required for a sector to provide investors with a required return that compensates investors for the risk in the sector, given its current valuation.

Implied dividend growth bottomed in 06. Still low vs. history

Charts 3 and 4 show the absolute as well as relative IPGR for the EU Telecoms sector. Although the bottom was reached in mid 2006, even after the bounce back of the last six months, we are still at historically low levels in both cases.

In absolute terms, the market is implying a perpetuity growth rate in dividends of 2.4%, above the "capitulation" levels of last summer when it reached 1.7%, but still well below the average of around 4% of the last 17 years and the almost 7.5% of the peak in 2000.

Telecoms have a 30% discount to the sector on this basis

In relative terms, the implied perpetuity growth for the EU Telecoms is at a discount of 30% compared with the IPGR of the EU market. Last summer the sector hit the highest level of bearishness at a 43% discount to the market compared with a 97% premium to the market in 2000.

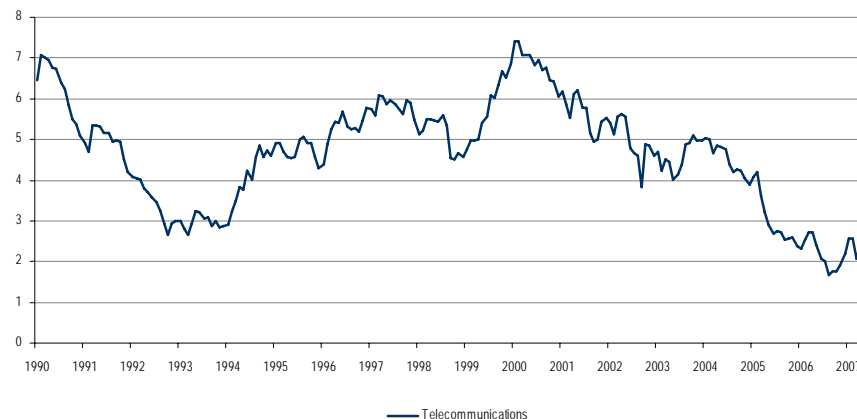
How we calculate the implied growth rates

The IPGR is calculated as the difference between the required return and the current dividend yield. We use dividends in our IPGR (some definitions use earnings) as it bases valuation on the actual cash being returned to shareholders, and as it is management's estimate of sustainable returns: special dividends and buybacks can be transitory.

We calculate the required return for each sector using the CAPM model, by taking into account implied real bond yields, an Equity Risk Premium of 3.5% and a sector Beta. This return is one that compensates investors for the risk of the sector.

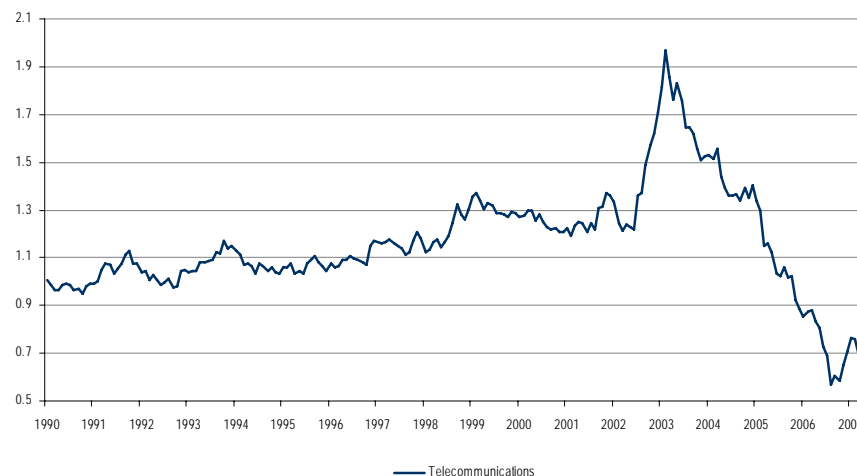
As there is not a large liquid market for inflation linked bonds in Europe, we estimate real bond yields by taking the current nominal yields and subtracting the average inflation rate for the past three years. We blend Sterling and Euro bonds to give a European bond yield.

Chart 3: Absolute implied perpetuity growth rate for EU Telecoms



Source: Merrill Lynch Strategy Team

Chart 4: Relative implied perpetuity growth rate for EU Telecoms



Source: Merrill Lynch EU Strategy Team

Top themes and investment ideas

Equities (see Sections 4 and 5)

The following are extracted from our **European Broadband Matrix (31st May 2007)** and the **European Wireless Matrix (4th June 2007)**.

The broadband matrix

Fixed line disappoints in Q1

Most of the Incumbents showed declining domestic legacy revenues in Q1, with many seeing worse trends than 2006. Combined with slowing broadband growth, overall fixed line trends are deteriorating further. The exceptions were TEF and FT which have found growth in fixed line by pushing bundled offers and IPTV.

Renewed Incumbent urgency for IPTV

The urgency around IPTV and triple play was clear in Q1 with TLSN, SWCM, KPN, and DT sacrificing profitability in fixed line to secure market share. Scalability and reliability problems continue to plague TV rollouts in Europe; but the Incumbents cannot afford to fail. Fibre rollouts continue to await regulatory certainty.

Broadband consolidation will continue

Subscale and undercapitalised broadband operators will find it even more difficult to compete with the increased capex and opex intensity of triple play rollouts. Ten broadband deals have happened in the last nine months. We expect further deals in the near term, with Germany, Spain, and the UK likely to see M&A in the next six months.

The wireless matrix

Mixed Q1 results, generally stable trends

Q1 trends were a continuation of Q4 with modest revenue growth and margins close to flat compared to last year. As with Q4, the smaller “repair” markets outperformed larger markets such as Germany and the UK.

Elasticity of demand stubbornly below 1

Accelerating price declines have stimulated volumes, but for most operators elasticity of demand remains less than one. We are yet to see a step change in the rate of F2M substitution. The mobile operators can drive this through price discrimination (home zones) and stimulating Incumbent line loss through broadband competition.

Data trends positive, more to come

VOD highlighted that 6% of revenues are now from non-messaging data and that this increased by 40% in the last year. Within this, only 2% of revenues come from connectivity, which we see as an opportunity given that 100% of Vodafone’s 3G footprint is now HSDPA ready.

More focus on cost and capex reductions

The wireless players generally surprised positively on costs, in contrast to the fixed players seeing fixed costs and capex rise to support IPTV rollouts. Acquisition and retention costs are an incremental opportunity.

Our favoured stocks

- **Top picks:** Tele2 (target SEK140), Bouygues (target EUR71), Inmarsat (target 455p).

For market repair

- In wireless, our top picks are **Elisa** for existing repair and **Portugal Telecom** for potential market repair.
- In fixed, we favour **Iliad** as a beneficiary of existing market repair. We consider that Tele2 is in a strong position to sell market repair to other players.

For growth

- In fixed, market structure, penetration upside and positioning are critical for the alt net business model. We like Buy-rated **Forthnet** and **Iliad**. **OTE** offers growth, restructuring potential and M&A appeal, all in one.
- In wireless, **Telenor**, **Cosmote** and **Telefonica** are all exposed to “easy” 2G growth. **Inmarsat** offers unique business model and optionality.

For hidden value

- We estimate the value for Bouygues Telecoms of just 5x EV/EBITDA within the **Bouygues** share price. With several interested parties, a sale could raise almost twice this amount in our view. Tele2 is a play on the sale of broadband assets. A sale of VZW, or the reinstatement of the dividend, is an opportunity for **Vodafone**.
- **Also favoured:** QSC (target EUR7), SWCM (target CHF500), TI (target EUR2.35), Telenor (target NOK 140).

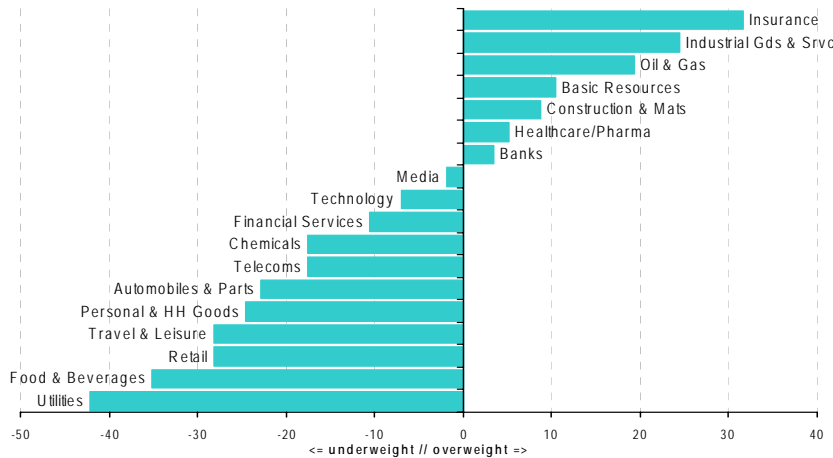
EU Sector Strategy

This section is a summary of the Regional Fund Manager Survey “Inflation sensitivities gain ground”, published 16th May 2007.

European Fund Managers Survey

According to the last ML European Fund Managers Survey, investors have moved from slightly overweight EU Telecoms stocks in March to underweight. Chart 7 below shows the relative position of investors who are overweight vs. underweight across all sectors.

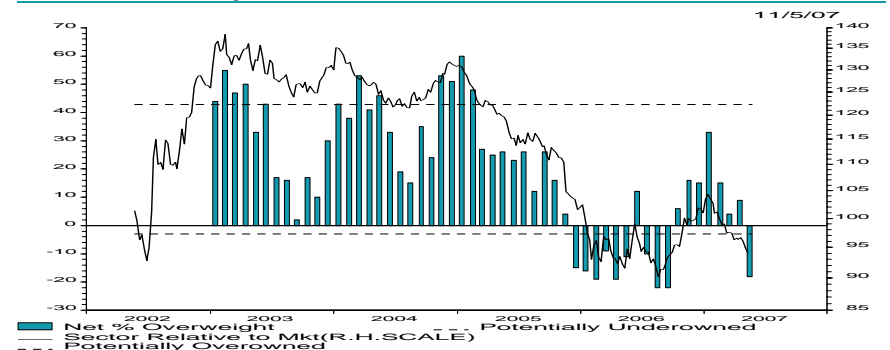
Chart 7: Current European sector snapshot (% overweight-% underweight)



Source: Merrill Lynch Fund Manager Survey

Telecoms had been overweight every month since October 2006. The current -18% overweight is a big shift from the +9% last month, and looks closer to what we saw in period going from December 2005 to September 2006.

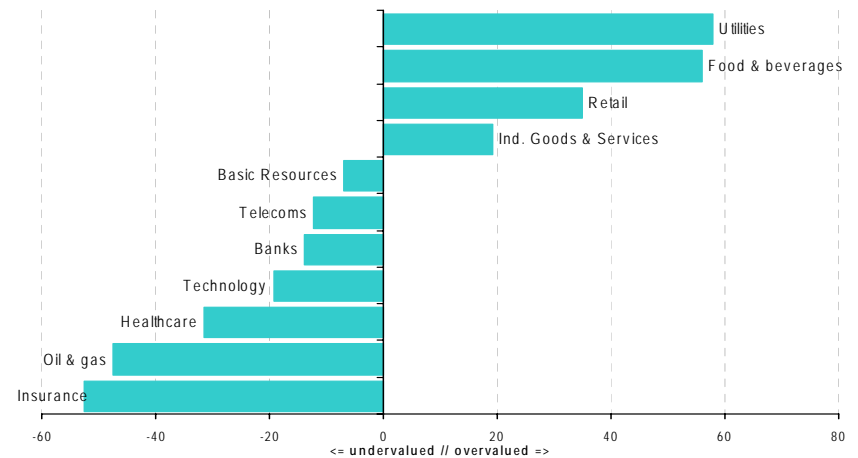
Chart 8: Net % overweight Telecoms



Source: Merrill Lynch Fund Manager Survey

Chart 9 below shows the fund manager’s view on the sector valuation. Since April 2005 Telecoms has been considered undervalued.

Chart 9: European sector valuation (% overvalued-% undervalued)



Source: Merrill Lynch Fund Manager Survey

Monthly and YTD TSR Performance

Table 3: Total Shareholder Return Performance (Ranked from Best to Worst Performer YTD)

	Share Prices			1 - Month			YTD 2007			Relative Performance 1 - Month			Relative Performance YTD 2007		
	29-May-07	52 Wk Max	52 Wk Low	Capital	Dividend	Total	Capital	Dividend	Total	Capital	Dividend	Total	Capital	Dividend	Total
Cesky Telecom	598.80	623.00	468.00	-3.1%	0.0%	-3.1%	25.8%	0.0%	25.8%	-5.2%	-0.9%	-6.1%	17.8%	-2.2%	15.7%
KPN	12.62	12.62	10.35	1.1%	0.0%	1.1%	17.2%	3.3%	20.5%	-1.0%	-0.9%	-1.9%	9.2%	1.1%	10.3%
Tele2	114.75	120.00	107.00	-0.2%	1.7%	1.5%	14.8%	2.0%	16.7%	-2.4%	0.8%	-1.6%	6.8%	-0.2%	6.6%
Elisa	21.37	23.80	21.68	-0.5%	0.0%	-0.5%	3.0%	7.5%	10.5%	-2.6%	-0.9%	-3.5%	-5.0%	5.4%	0.4%
BT	331.88	331.88	283.88	5.1%	0.0%	5.1%	9.6%	0.0%	9.6%	2.9%	-0.9%	2.0%	1.6%	-2.2%	-0.5%
France Telecom	22.50	22.70	18.94	5.8%	0.0%	5.8%	8.4%	0.0%	8.4%	3.6%	-0.9%	2.7%	0.4%	-2.2%	-1.8%
PT	10.17	10.50	9.60	-3.1%	4.6%	1.5%	3.4%	4.9%	8.3%	-5.3%	3.7%	-1.6%	-4.6%	2.8%	-1.9%
Belgacom	34.33	35.82	31.22	4.4%	0.0%	4.4%	2.9%	5.0%	7.9%	2.2%	-0.9%	1.3%	-5.1%	2.9%	-2.2%
Telefonica	16.86	17.22	15.05	1.9%	1.9%	3.7%	4.6%	1.9%	6.5%	-0.3%	1.0%	0.7%	-3.4%	-0.3%	-3.7%
Deutsche Telekom	13.54	14.78	12.28	1.5%	5.7%	7.2%	-2.0%	5.5%	3.5%	-0.7%	4.8%	4.2%	-10.0%	3.4%	-6.6%
Telenor	115.00	129.67	103.50	2.9%	2.3%	5.2%	-1.9%	2.2%	0.3%	0.8%	1.4%	2.1%	-9.9%	0.0%	-9.9%
TeliaSonera	50.50	62.51	47.75	-5.6%	0.0%	-5.6%	-10.2%	10.5%	0.3%	-7.8%	-0.9%	-8.7%	-18.2%	8.3%	-9.9%
Telecom Italia ORDS	2.17	2.42	2.08	-4.2%	0.0%	-4.2%	-6.1%	5.9%	-0.2%	-6.3%	-0.9%	-7.3%	-14.0%	3.7%	-10.3%
Matav	919.00	1072.00	919.00	-13.2%	6.4%	-6.8%	-13.3%	12.7%	-0.6%	-15.4%	5.5%	-9.9%	-21.3%	10.5%	-10.7%
Telekom Austria	20.71	21.51	17.86	-0.9%	0.0%	-0.9%	-0.8%	0.0%	-0.8%	-3.1%	-0.9%	-4.0%	-8.8%	-2.2%	-11.0%
OTE	23.10	24.40	19.92	6.1%	0.0%	6.1%	-1.3%	0.0%	-1.3%	3.9%	-0.9%	3.0%	-9.3%	-2.2%	-11.4%
Telecom Italia SAVERS	1.74	2.03	1.72	-0.9%	0.0%	-0.9%	-9.3%	7.6%	-1.6%	-3.1%	-0.9%	-4.0%	-17.2%	5.5%	-11.8%
Swisscom	432.00	483.25	419.75	2.2%	0.0%	2.2%	-5.9%	3.8%	-2.1%	0.0%	-0.9%	-0.9%	-13.9%	1.6%	-12.3%
TP SA	21.05	26.71	21.05	-4.5%	6.3%	1.8%	-14.3%	5.7%	-8.6%	-6.7%	5.4%	-1.3%	-22.2%	3.5%	-18.7%
Wireless															
Bouygues	64.48	65.21	44.15	10.2%	2.3%	12.4%	33.4%	2.7%	36.2%	8.0%	1.3%	9.4%	25.5%	0.6%	26.0%
Vodafone	158.05	159.65	132.63	11.8%	0.0%	11.8%	12.9%	0.0%	12.9%	9.6%	-0.9%	8.7%	4.9%	-2.2%	2.7%
Cosmote	23.80	24.20	20.66	1.9%	0.0%	1.9%	6.3%	0.0%	6.3%	-0.3%	-0.9%	-1.2%	-1.7%	-2.2%	-3.9%
Mobistar	64.66	69.90	61.90	2.1%	4.4%	6.5%	0.6%	4.3%	4.9%	0.0%	3.4%	3.4%	-7.4%	2.1%	-5.3%
Other															
Cable & Wireless	192.00	193.05	155.00	6.3%	0.0%	6.3%	22.1%	0.0%	22.1%	4.1%	-0.9%	3.2%	14.1%	-2.2%	12.0%
Iliad	75.26	84.00	64.75	1.7%	0.0%	1.7%	15.0%	0.0%	15.0%	-0.4%	-0.9%	-1.3%	7.0%	-2.2%	4.9%
Inmarsat	407.50	427.25	366.38	2.2%	2.2%	4.4%	7.6%	2.4%	10.0%	0.0%	1.3%	1.4%	-0.4%	0.2%	-0.2%
Telenet	23.50	24.47	19.95	-2.8%	0.0%	-2.8%	9.9%	0.0%	9.9%	-4.9%	-0.9%	-5.8%	1.9%	-2.2%	-0.3%
freenet	23.66	24.67	20.40	4.0%	0.0%	4.0%	9.6%	0.0%	9.6%	1.9%	-0.9%	1.0%	1.6%	-2.2%	-0.5%
QSC	4.98	6.16	4.87	-10.9%	0.0%	-10.9%	0.4%	0.0%	0.4%	-13.0%	-0.9%	-13.9%	-7.6%	-2.2%	-9.7%
Tiscali	2.45	2.83	2.42	-9.9%	0.0%	-9.9%	-2.7%	0.0%	-2.7%	-12.0%	-0.9%	-13.0%	-10.6%	-2.2%	-12.8%
Fastweb	41.51	39.37	34.02	-11.0%	0.0%	-11.0%	-3.2%	0.0%	-3.2%	-13.1%	-0.9%	-14.1%	-11.2%	-2.2%	-13.3%
Forthnet	10.32	12.06	9.98	-8.5%	0.0%	-8.5%	-4.4%	0.0%	-4.4%	-10.7%	-0.9%	-11.6%	-12.4%	-2.2%	-14.6%
Jazztel	0.57	0.81	0.43	-5.0%	0.0%	-5.0%	-8.1%	0.0%	-8.1%	-7.2%	-0.9%	-8.1%	-16.0%	-2.2%	-18.2%
DJ STOXX 600	391.94	396.39	349.31	2.2%	0.9%	3.1%	8.0%	2.2%	10.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SECTOR	340.0	342.3	302.7	4.5%	1.1%	5.6%	6.1%	1.9%	8.0%	2.4%	0.2%	2.5%	-1.9%	-0.3%	-2.2%

Bloomberg

Sector Valuation

Table 4: European Incumbents FCF Yield FCF Yields-Base and Equalised Leverage

Closing Prices	29-May-07		ML Base Case Forecasts						Equalised Leverage 3.0x			Shareholder Returns			
	Local	Mkt Cap	FCF Yield			P/E			FCF Yield			Dividend Yield		Cash Yield	
			Price	EUR bn	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E	2007E	2008E
Belgacom	34.33	11.6	9.2%	8.2%	7.9%	12.1	13.4	13.3	8.6%	12.9%	10.8%	4.1%	4.2%	4.7%	4.1%
BT	3.31	41.7	5.8%	6.1%	5.4%	9.9	18.6	13.9	4.1%	5.2%	6.9%	4.6%	4.7%	9.2%	9.5%
Deutsche Tel	13.60	59.3	9.6%	9.7%	9.9%	18.4	27.0	21.3	10.2%	15.4%	17.9%	5.6%	5.7%	5.4%	5.6%
Elisa	21.37	3.5	3.7%	6.1%	8.4%	21.5	15.8	13.4	2.6%	12.3%	23.4%	7.8%	5.2%	12.1%	7.8%
France Tel	22.70	59.1	11.3%	11.1%	10.5%	13.3	12.1	11.5	8.6%	11.9%	12.0%	5.7%	6.2%	5.3%	5.7%
KPN	12.62	25.4	10.2%	8.6%	8.8%	19.1	17.5	15.9	8.0%	9.8%	12.8%	4.2%	4.5%	8.2%	8.6%
OTE	23.10	11.3	7.4%	4.2%	6.4%	19.7	16.2	14.8	6.7%	4.2%	7.8%	3.0%	5.2%	2.4%	3.0%
Portugal Tel	10.17	11.5	8.0%	4.7%	6.2%	14.8	16.4	16.8	5.6%	4.5%	7.0%	6.0%	6.0%	23.0%	6.0%
Swisscom	434.0	15.4	6.7%	7.3%	8.9%	16.0	10.9	8.8	8.1%	7.6%	10.3%	3.9%	4.4%	1.7%	7.2%
Tel Italia	2.17	39.6	11.0%	11.2%	8.2%	14.0	17.4	16.4	10.1%	13.2%	16.1%	4.8%	5.1%	6.4%	4.8%
Telefonica	16.86	83.0	10.4%	10.9%	11.7%	13.3	11.7	12.2	10.9%	13.0%	17.2%	4.4%	5.2%	5.9%	5.7%
Tel Austria	20.71	9.6	6.3%	7.8%	8.8%	17.1	17.1	15.0	6.0%	10.5%	11.7%	3.7%	4.3%	6.8%	7.0%
Telenor	115.00	22.8	6.0%	3.9%	6.1%	11.7	19.2	15.7	5.1%	4.0%	7.2%	2.6%	3.1%	2.2%	2.6%
TeliaSonera	50.50	24.5	7.3%	5.5%	6.5%	13.3	13.7	13.1	8.4%	17.1%	22.9%	8.4%	9.0%	12.5%	8.4%
Sector		418.3	9.1%	8.8%	8.9%	13.9	15.5	14.5	8.4%	10.8%	13.2%	5.0%	5.4%	6.7%	6.1%
Bouygues	64.89	21.9	7.9%	6.4%	7.0%	17.5	17.2	16.0	2.8%	4.6%	2.3%	2.1%	2.2%	1.8%	2.1%
Cosmote	23.80	7.9	5.0%	3.6%	7.1%	22.0	18.9	14.1	5.6%	4.2%	9.4%	3.7%	5.0%	3.1%	3.7%
Mobistar	65.04	4.1	6.4%	8.5%	7.3%	13.7	14.2	15.1	6.5%	17.4%	13.4%	6.7%	6.3%	6.9%	6.7%
Vodafone	1.60	126.7	8.0%	5.2%	4.5%	n/m	15.1	13.7	8.0%	7.3%	8.6%	4.4%	4.8%	4.2%	4.4%
Sector		160.6	7.8%	5.4%	5.0%	n/m	18.8	17.0	7.1%	7.0%	8.0%	4.1%	4.5%	3.9%	4.1%
Cable & Wireless	1.93	6.9	1.3%	2.7%	3.8%	24.5	27.7	22.9	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fastweb	41.90	3.3	-12.4%	2.1%	5.6%	n/m	145.7	27.0	-10.5%	2.6%	9.7%	9.0%	9.5%	9.0%	9.0%
Forthnet	10.32	0.4	-8.7%	-14.7%	-4.2%	n/m	n/m	n/m	-17.7%	-29.0%	-8.3%	0.0%	0.0%	0.0%	0.0%
Iliad	75.68	4.1	-0.6%	4.0%	4.1%	34.3	21.9	24.1	0.0%	0.0%	20.6%	0.6%	0.5%	0.4%	0.6%
Inmarsat	4.11	2.8	5.9%	6.5%	15.0%	53.0	37.4	35.6	2.5%	2.7%	9.6%	3.8%	4.0%	3.5%	3.8%
freenet	21.22	1.3	10.6%	3.4%	6.1%	6.1	20.6	17.9	0.0%	1.6%	7.3%	23.6%	0.0%	0.0%	23.6%
QSC	5.00	0.7	-1.3%	-1.4%	6.4%	n/m	47.7	20.8	8.6%	169.9%	-45.5%	0.0%	0.0%	0.0%	0.0%
Telenet	23.57	2.4	2.6%	3.0%	3.9%	441.0	34.0	25.6	1.7%	3.1%	4.4%	0.0%	0.0%	0.0%	0.0%
Tele2	114.75	5.5	-3.1%	3.0%	3.0%	n/m	21.9	18.4	-4.7%	-0.6%	2.5%	1.7%	2.0%	1.6%	1.7%
Tiscali	2.46	1.0	4.3%	-4.1%	1.4%	n/m	9.3	59.6	8.5%	-7.1%	-0.9%	0.0%	2.8%	0.0%	0.0%

Source: Merrill Lynch estimates

Note 1: These multiples do not use normalised tax and only take into account minorities through dividend leakage.

Note 2: Total cash yield, including share buy-backs for BT, KPN, PT, SWCM, TDC, TEF, TA, TNOR, TLSN, and VOD. Calculated as sharebuyback plus dividend actually paid in calendar year.

Valuation by Business Unit

Table 5: Enterprise Value and Equity Value

EURbn	Estimated Market Value						Others	EV	Liabilities	NAV	Estimated Market Value						Others	EV	Liabilities	NAV
	Wireline			Wireless							Wireline			Wireless						
	Domestic	Int'l	Total	Domestic	Int'l	Total					Domestic	Int'l	Total	Domestic	Int'l	Total				
Belgacom	5.38	-	5.38	4.90	-	4.90	0.19	10.46	-1.04	9.42	51%	0%	51%	47%	0%	47%	2%	100%	-10%	90%
BT	45.01	-	45.01	-	-	-		45.01	-14.01	30.99	100%	0%	100%	0%	0%	0%	0%	100%	-31%	69%
Deutsche Tel	28.45	5.53	33.98	16.52	49.04	65.56	0.35	99.89	-44.70	55.19	28%	6%	34%	17%	49%	66%	0%	100%	-45%	55%
Elisa	1.09	-	1.09	2.50	0.32	2.82	0.10	4.01	-0.58	3.43	27%	0%	27%	62%	8%	70%	2%	100%	-14%	86%
France Tel	33.18	5.11	38.29	21.33	28.71	50.04	7.04	95.37	-42.02	53.35	35%	5%	40%	22%	30%	52%	7%	100%	-44%	56%
KPN	11.61	-	11.61	8.61	8.81	17.42	0.20	29.23	-8.00	21.24	40%	0%	40%	29%	30%	60%	1%	100%	-27%	73%
OTE	5.68	1.27	6.95	7.09	0.28	7.36	0.34	14.65	-2.64	12.01	39%	9%	47%	48%	2%	50%	2%	100%	-18%	82%
Portugal Tel	5.12	-	5.12	4.34	3.32	7.66	3.75	16.53	-7.16	9.37	31%	0%	31%	26%	20%	46%	23%	100%	-43%	57%
Swisscom	6.81	4.88	11.69	8.66	-	8.66	0.63	20.98	-5.19	15.79	32%	23%	56%	41%	0%	41%	3%	100%	-25%	75%
Tel Italia	34.02	3.37	37.39	31.84	7.10	38.94	3.53	79.85	-36.32	43.54	43%	4%	47%	40%	9%	49%	4%	100%	-45%	55%
Telefonica	29.26	16.64	45.90	31.42	50.68	82.10	9.07	137.07	-46.99	90.08	21%	12%	33%	23%	37%	60%	7%	100%	-34%	66%
Tel Austria	3.98	-	3.98	4.30	4.00	8.30	-0.03	12.24	-3.11	9.14	32%	0%	32%	35%	33%	68%	0%	100%	-25%	75%
Telenor	2.70	1.09	3.79	4.95	18.79	23.74	7.70	35.23	-4.75	30.48	8%	3%	11%	14%	53%	67%	22%	100%	-13%	87%
Tele2	0.34	2.77	3.11	1.44	3.20	4.64	-0.12	7.63	-1.40	6.45	5%	36%	41%	19%	42%	61%	-2%	100%	-18%	82%
TeliaSonera	5.40	0.80	6.20	6.41	8.09	14.49	6.33	27.03	-1.83	23.80	20%	3%	23%	24%	30%	54%	23%	100%	-7%	93%
Incumbent Sector (EURbn)	218.03	41.47	259.50	154.30	182.33	336.63	39.06	635.19	-219.74	414.28	34%	7%	41%	24%	29%	53%	6%	100%	-35%	65%
Bouygues	-	-	-	8.06	0	8.06	22.88	30.94	-2.75	28.18	0%	0%	0%	26%	0%	26%	74%	100%	-9%	91%
Cosmote	-	-	-	6.52	3.13	9.65	0.93	10.58	-2.39	8.19	0%	0%	0%	62%	30%	91%	9%	100%	-23%	77%
Mobistar	-	-	-	3.74	0.00	3.74	0.00	3.74	0.24	3.99	0%	0%	0%	100%	0%	100%	0%	100%	6%	106%
Vodafone	0.00	0.10	0.10	15.18	101.57	116.75	55.32	172.17	-34.85	137.32	0%	0%	0%	9%	59%	68%	32%	100%	-20%	80%
Wireless Sector (EURbn)	0.00	0.10	0.10	33.50	104.70	138.20	79.12	217.42	-39.74	177.68	0%	0%	0%	15%	48%	64%	36%	100%	-18%	82%

Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Table 6: EV and 2007 Multiples

2006E Multiples	Domestic Wireline			Domestic Wireless			International Wireline			International Wireless		
	EV	EBITDA	OpFCF	EV	EBITDA	OpFCF	EV	EBITDA	OpFCF	EV	EBITDA	OpFCF
Belgacom	5.38	5.0x	7.4x	4.90	6.7x	8.6x						
BT	30.41	5.4x	12.5x									
Deutsche Tel	28.45	3.6x	6.2x	16.52	5.0x	6.1x	5.53	11.6x	17.4x	49.04	7.6x	n/m
Elisa	1.09	6.1x	20.6x	2.52	11.2x	16.7x				0.32	9.8x	11.0x
France Tel	33.18	5.9x	8.9x	21.33	5.6x	7.6x	5.11	6.6x	8.1x	28.71	4.9x	8.7x
KPN	11.61	5.3x	9.0x	8.61	7.9x	9.9x				8.81	7.7x	13.4x
OTE	5.68	6.8x	9.6x	7.09	15.4x	19.5x	1.27	n/m	n/m	0.28	n/m	n/m
Portugal Tel	5.12	4.8x	6.1x	4.34	6.6x	9.2x				3.32	6.7x	30.3x
Swisscom	11.18	6.2x	9.3x	14.23	10.5x	12.8x	7.87					
Tel Italia	34.02	4.6x	7.0x	31.84	6.3x	8.2x	3.37	41.6x	n/m	7.10	10.7x	n/m
Telefonica	29.26	6.4x	9.7x	31.42	8.2x	10.0x	16.64	n/m	n/m	50.68	n/m	n/m
Tel Austria	3.98	5.3x	8.1x	4.30	7.1x	9.0x				4.00	7.1x	8.2x
Telenor	21.77	4.0x	5.9x	39.98	7.3x	8.5x	8.83	13.6x	n/m	151.60	10.6x	n/m
Tele2	3.21	9.8x	n/m	25.76	8.9x	12.1x	13.4	10.7x	n/m	29.78	n/m	n/m
TeliaSonera	50.18	4.2x	6.2x	59.45	8.1x	9.7x	7.46	21.7x	n/m	75.03	n/m	n/m
Incumbent Sector (EURbn)	218.03	5.6x	9.0x	154.30	8.2x	10.6x	41.47	17.6x	12.8x	182.33	8.1x	14.3x
Bouygues				8.06	7.3x	17.9x						
Cosmote				6.52	9.3x	11.5x				3.13	n/m	n/m
Mobistar				4.04	6.6x	9.0x						
Vodafone				10.33	7.1x	12.2x				69.10	6.6x	0.6x
Wireless Sector (EURbn)				33.50	7.6x	12.7x				104.70		

Source: Merrill Lynch estimates

Table 7: Telecoms IRR Valuation Methodology (2007E-2010E)

Company	IRR DPS	IRR CAP	IRR Base	Equalised Leverage	Opportunity Cost	Unl FCF/EV 2009E
Belgacom	4.3%	0.2%	4.5%	-22.9%	-27.4%	6.2%
BT	4.8%	0.8%	5.6%	4.1%	-1.5%	8.2%
DT	5.7%	4.5%	10.1%	11.7%	1.6%	10.2%
FT	5.9%	3.5%	9.4%	10.4%	1.0%	6.7%
KPN	4.3%	5.5%	9.8%	9.1%	-0.6%	7.2%
OTE	4.1%	1.7%	5.8%	8.6%	2.8%	8.5%
PT	5.7%	1.1%	6.7%	6.3%	-0.4%	5.2%
SWCM	4.2%	0.7%	4.9%	3.7%	-1.2%	7.8%
TI	6.0%	2.9%	8.9%	8.9%	0.0%	9.1%
TEF	4.8%	6.4%	11.2%	11.7%	0.5%	8.7%
TA	4.1%	4.7%	8.8%	8.2%	-0.6%	8.2%
TNOR	3.0%	3.8%	6.8%	6.9%	0.1%	8.1%
Elisa	6.5%	2.2%	8.7%	8.4%	-0.3%	8.4%
TLSN	9.9%	-3.6%	6.3%	6.4%	0.1%	6.4%
VOD	4.6%	-0.8%	3.8%	3.5%	-0.3%	6.9%
Cosmote	4.6%	2.9%	7.5%	7.6%	0.1%	9.7%
Bouygues	2.1%	3.4%	5.5%	2.1%	-3.4%	7.0%
Mobistar	6.6%	0.7%	7.3%	7.9%	0.6%	7.4%

Source: Merrill Lynch estimates

Table 8: Valuation Ranking with IRR Methodology

Weights Company	10% IRR DPS	40% IRR	0% Opp cost	50% Valuation	100% Total
DT	7	2	2	1	2.0
TEF	8	1	5	4	3.2
TI	4	5	9	3	3.9
Cosmote	11	8	7	2	5.3
Elisa	3	7	11	6	6.1
TA	15	6	13	7	7.4
KPN	12	3	14	12	8.4
OTE	16	13	1	5	9.3
Mobistar	2	9	4	11	9.3
FT	5	4	3	15	9.6
TNOR	17	10	8	9	10.2
BT	9	14	16	8	10.5
SWCM	14	16	15	10	12.8
TLSN	1	12	6	16	12.9
PT	6	11	12	18	14.0
Bouygues	18	15	17	13	14.3
VOD	10	18	10	14	15.2
Belgacom	13	17	18	17	16.6

Source: Merrill Lynch estimates

Table 9: P&L and Cash Flow Forecasts

EURbn	Revenues				EBITDA				CAPEX				Operating FCF				FCF			
	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E
Belgacom	5.46	6.10	6.10	6.05	2.21	2.15	2.11	2.03	-0.71	-0.68	-0.60	-0.58	1.51	1.47	1.51	1.45	1.03	1.07	0.95	0.91
BT	28.93	29.98	30.30	30.50	8.16	8.35	8.50	8.50	-4.60	-4.74	-4.60	-4.60	3.57	3.61	3.90	3.90	0.54	2.40	2.45	2.06
Deutsche Tel	59.60	61.35	62.63	62.86	20.73	19.43	19.01	19.24	-7.40	-8.51	-7.96	-8.00	13.33	10.93	11.05	11.24	8.71	5.70	5.73	5.85
Elisa	1.34	1.52	1.60	1.66	0.35	0.45	0.51	0.56	-0.21	-0.21	-0.19	-0.18	0.14	0.24	0.32	0.38	0.10	0.13	0.21	0.27
France Tel	49.08	52.19	52.49	52.79	18.42	18.75	18.82	18.93	-6.05	-6.73	-6.91	-7.02	12.37	12.02	11.91	11.91	7.17	6.70	6.55	6.19
KPN	11.81	11.94	12.42	12.32	4.72	4.84	4.80	4.91	-1.19	-1.60	-1.80	-1.53	3.54	3.24	3.01	3.37	2.64	2.60	2.05	1.97
OTE	5.47	5.89	6.44	6.89	1.06	2.22	2.42	2.64	-0.68	-0.96	-1.16	-1.06	0.38	1.25	1.26	1.58	0.92	0.83	0.48	0.73
Portugal Tel	6.39	5.76	5.67	5.66	2.50	2.24	2.16	2.17	-0.94	-1.00	-0.81	-0.78	1.55	1.24	1.35	1.39	0.68	0.92	0.42	0.56
Swisscom	6.44	6.41	7.37	8.45	2.69	2.44	2.74	3.03	-0.67	-0.85	-1.06	-1.11	2.02	1.59	1.69	1.92	1.30	1.06	1.06	1.32
Tel Italia	29.92	31.28	31.32	31.67	12.52	12.85	12.45	12.56	-5.17	-5.11	-5.09	-4.80	7.34	7.74	7.35	7.75	4.76	4.36	4.44	3.25
Telefonica	37.38	52.90	55.70	57.04	15.06	19.13	20.92	21.99	-5.36	-8.00	-7.68	-7.80	9.70	11.12	13.24	14.19	6.54	8.60	8.68	9.26
Tel Austria	4.38	4.76	4.77	4.72	1.76	1.91	1.85	1.83	-0.63	-1.00	-0.79	-0.72	1.13	0.91	1.06	1.11	0.89	0.60	0.72	0.79
Telenor	8.83	11.90	11.98	13.10	3.06	4.24	3.89	4.34	-1.82	-2.45	-2.27	-1.98	1.23	1.79	1.62	2.37	1.04	1.47	0.95	1.49
TeliaSonera	9.38	9.74	10.09	10.32	3.15	3.45	3.60	3.67	-1.24	-1.19	-1.36	-1.37	1.91	2.26	2.24	2.30	1.67	1.78	1.43	1.45
Incumbent Sector (EURbn)	264.41	291.72	298.89	304.03	96.36	102.43	103.79	106.38	-36.65	-43.03	-42.27	-41.53	59.71	59.40	61.52	64.85	37.99	38.23	36.12	36.09
Bouygues	24.38	26.41	28.52	29.85	3.27	3.28	3.81	3.97	-1.23	-1.43	-1.42	-1.40	2.04	1.85	2.39	2.57	1.67	1.73	1.40	1.54
Cosmote	1.80	2.38	3.14	3.69	0.75	0.88	1.03	1.25	-0.26	-0.44	-0.44	-0.40	0.50	0.44	0.59	0.85	0.36	0.39	0.29	0.56
Mobistar	1.48	1.57	1.52	1.53	0.58	0.61	0.60	0.58	-0.24	-0.17	-0.16	-0.16	0.34	0.45	0.44	0.42	0.32	0.26	0.35	0.30
Vodafone	43.51	46.11	50.62	53.16	17.44	17.73	18.26	19.14	-7.67	-6.72	-7.20	-7.01	9.78	11.01	11.06	12.14	10.52	10.19	6.64	5.70
Wireless Sector (EURbn)	71.17	76.48	83.80	88.23	22.04	22.50	23.70	24.94	-9.39	-8.75	-9.21	-8.96	12.65	13.75	14.48	15.97	12.87	12.57	8.68	8.10
Cable & Wireless	4.96	5.05	5.07	5.09	0.73	0.89	0.99	1.09	-0.48	-0.53	-0.53	-0.53	0.25	0.36	0.46	0.56	0.09	0.19	0.26	0.42
Fastweb	1.00	1.31	1.64	2.01	0.31	0.42	0.59	0.74	-0.68	-0.53	-0.40	-0.35	-0.38	-0.11	0.19	0.39	-0.56	-0.41	0.07	0.19
Forthnet	0.09	0.10	0.12	0.16	0.01	-0.01	-0.02	0.01	-0.16	-0.21	-0.16	-0.11	-0.14	-0.22	-0.18	-0.10	-0.01	-0.03	-0.06	-0.02
Iliad	0.72	0.95	1.25	1.34	0.22	0.33	0.48	0.47	-0.22	-0.28	-0.22	-0.21	0.01	0.05	0.26	0.25	0.01	-0.02	0.16	0.17
Inmarsat	0.40	0.41	0.45	0.48	0.26	0.27	0.37	0.32	-0.21	-0.14	-0.17	-0.03	0.04	0.13	0.20	0.29	-0.01	0.09	0.10	0.23
freenet	2.12	2.13	2.06	2.13	0.17	0.15	0.25	0.28	-0.03	-0.04	-0.16	-0.14	0.14	0.10	0.09	0.13	0.16	0.14	0.07	0.12
QSC	0.16	0.21	0.29	0.35	0.00	0.02	0.04	0.07	-0.01	-0.02	-0.05	-0.02	-0.00	0.00	-0.01	0.05	-0.01	-0.01	-0.01	0.04
Telenet	0.74	0.82	0.93	0.99	0.33	0.37	0.42	0.45	-0.18	-0.21	-0.23	-0.22	0.15	0.16	0.19	0.22	0.03	0.06	0.07	0.09
Tele2	5.34	5.84	5.70	5.89	0.70	0.64	0.75	0.89	-0.39	-0.58	-0.56	-0.57	0.31	0.06	0.19	0.32	0.20	-0.17	0.16	0.16
Tiscali	0.75	0.68	0.76	0.86	0.12	0.10	0.15	0.19	-0.16	-0.18	-0.16	-0.12	-0.04	-0.08	-0.01	0.06	-0.12	0.05	-0.04	0.01

Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Table 10: Margin and Gearing Assumptions

EURbn	EBITDA Margin				CAPEX Intensity				Operating FCF Margin				FCF Margin				Net Debt				Net Debt/EBITDA			
	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E
Belgacom	40.6%	35.2%	34.6%	33.5%	12.9%	11.1%	9.8%	9.5%	27.6%	24.1%	24.8%	24.0%	18.8%	17.5%	15.5%	15.1%	0.41	1.99	1.99	1.99	0.2x	0.9x	0.9x	1.0x
BT	28.2%	27.9%	28.0%	27.9%	15.9%	15.8%	15.2%	15.1%	12.3%	12.0%	12.9%	12.8%	1.9%	8.0%	8.1%	6.7%	11.82	11.14	14.04	15.60	1.4x	1.3x	1.7x	1.8x
Deutsche Tel	34.8%	31.7%	30.3%	30.6%	12.4%	13.9%	12.7%	12.7%	22.4%	17.8%	17.6%	17.9%	14.6%	9.3%	9.1%	9.3%	41.75	42.90	40.70	38.38	2.0x	2.2x	2.1x	2.0x
Elisa	26.0%	29.3%	32.0%	33.6%	15.4%	13.6%	12.0%	10.9%	10.5%	15.7%	20.0%	22.8%	7.8%	8.4%	13.0%	16.5%	0.29	0.38	0.58	0.55	0.8x	0.8x	1.1x	1.0x
France Tel	37.5%	35.9%	35.9%	35.9%	12.3%	12.9%	13.2%	13.3%	25.2%	23.0%	22.7%	22.6%	14.6%	12.8%	12.5%	11.7%	47.85	42.02	38.47	35.67	2.6x	2.2x	2.0x	1.9x
KPN	40.0%	40.5%	38.7%	39.8%	10.0%	13.4%	14.5%	12.4%	29.9%	27.1%	24.2%	27.4%	22.4%	21.8%	16.5%	16.0%	8.23	8.09	8.00	7.99	1.7x	1.7x	1.7x	1.6x
OTE	19.3%	37.6%	37.6%	38.3%	12.4%	16.3%	18.0%	15.3%	6.9%	21.3%	19.6%	23.0%	16.8%	14.2%	7.4%	10.5%	1.94	2.55	2.52	2.34	1.8x	1.1x	1.0x	0.9x
Portugal Tel	39.1%	38.8%	38.0%	38.3%	14.8%	17.4%	14.2%	13.8%	24.3%	21.4%	23.8%	24.5%	10.7%	16.0%	7.5%	9.9%	1.94	2.55	2.52	2.34	0.8x	1.1x	1.2x	1.1x
Swisscom	41.7%	38.1%	37.3%	35.9%	10.3%	13.3%	14.4%	13.1%	31.4%	24.8%	22.9%	22.8%	20.2%	16.5%	14.4%	15.6%	-1.14	2.82	5.49	5.25	-0.4x	1.2x	2.0x	1.7x
Tel Italia	41.8%	41.1%	39.7%	39.6%	17.3%	16.4%	16.3%	15.2%	24.5%	24.7%	23.5%	24.5%	15.9%	13.9%	14.2%	10.3%	39.86	37.30	36.32	35.15	3.2x	2.9x	2.9x	2.8x
Telefonica	40.3%	36.2%	37.6%	38.6%	14.3%	15.1%	13.8%	13.7%	25.9%	21.0%	23.8%	24.9%	17.5%	16.3%	15.6%	16.2%	30.07	52.15	46.89	42.57	2.0x	2.7x	2.2x	1.9x
Tel Austria	40.2%	40.1%	38.8%	38.7%	14.3%	20.9%	16.6%	15.3%	25.8%	19.1%	22.2%	23.5%	20.2%	12.7%	15.1%	16.6%	3.22	3.19	3.13	3.00	1.8x	1.7x	1.7x	1.6x
Telenor	34.6%	35.6%	32.4%	33.2%	20.6%	20.6%	18.9%	15.1%	14.0%	15.0%	13.5%	18.1%	11.8%	12.4%	7.9%	11.3%	3.96	5.54	4.92	4.08	1.3x	1.3x	1.3x	0.9x
TeliaSonera	33.6%	35.4%	35.7%	35.5%	13.2%	12.2%	13.5%	13.3%	20.3%	23.2%	22.2%	22.3%	17.8%	18.2%	14.2%	14.1%	0.90	1.60	3.33	3.93	0.3x	0.5x	0.9x	1.1x
Incumbent Sector (EURbn)	36.4%	35.1%	34.7%	35.0%	13.9%	14.8%	14.1%	13.7%	22.6%	20.4%	20.6%	21.3%	14.4%	13.1%	12.1%	11.9%	191.06	214.20	208.90	198.84	2.0x	2.1x	2.0x	1.9x
Bouygues	13.4%	12.4%	13.3%	13.3%	5.0%	5.4%	5.0%	4.7%	8.4%	7.0%	8.4%	8.6%	6.9%	6.5%	4.9%	5.1%	-0.02	1.66	-1.42	-1.49	0.0x	0.5x	-0.4x	-0.4x
Cosmote	42.0%	36.8%	32.9%	33.8%	14.4%	18.4%	14.1%	10.9%	27.6%	18.4%	18.8%	22.9%	20.1%	16.5%	9.1%	15.3%	1.00	2.43	2.39	2.12	1.3x	2.8x	2.3x	1.7x
Mobistar	38.9%	39.0%	39.4%	37.9%	15.9%	10.5%	10.5%	10.4%	23.0%	28.5%	28.9%	27.5%	21.8%	16.8%	23.2%	19.9%	-0.05	-0.07	-0.13	-0.16	-0.1x	-0.1x	-0.2x	-0.3x
Vodafone	40.1%	38.5%	36.1%	36.0%	17.6%	14.6%	14.2%	13.2%	22.5%	23.9%	21.9%	22.8%	24.2%	22.1%	13.1%	10.7%	25.67	22.31	29.73	29.66	1.5x	1.3x	1.6x	1.5x
Wireless Sector (EURbn)	31.0%	29.4%	28.3%	28.3%	13.2%	11.4%	11.0%	10.2%	17.8%	18.0%	17.3%	18.1%	18.1%	16.4%	10.4%	9.2%	26.60	26.34	30.56	30.13	1.2x	1.2x	1.3x	1.2x
Cable & Wireless	14.7%	17.7%	19.6%	21.4%	9.7%	10.5%	10.5%	10.4%	5.1%	7.2%	9.1%	11.0%	1.8%	3.7%	5.2%	8.2%	0.47	1.08	1.31	1.43	0.6x	1.2x	1.3x	1.3x
Fastweb	30.5%	32.3%	36.0%	37.0%	68.2%	40.5%	24.4%	17.5%	-37.7%	-8.2%	11.6%	19.5%	-55.7%	-31.5%	4.3%	9.3%	0.47	1.08	1.31	1.43	1.5x	2.5x	2.2x	1.9x
Forthnet	14.5%	-5.5%	-16.5%	6.6%	167.3%	213.6%	138.0%	69.8%	-152.8%	-219.1%	-154.5%	-63.2%	-15.4%	-34.9%	-49.1%	-10.4%	0.03	-0.05	0.00	0.02	2.3x	10.0x	-0.2x	2.0x
Iliad	31.0%	34.9%	38.7%	34.9%	30.1%	29.9%	18.0%	16.0%	0.9%	5.0%	20.7%	18.9%	1.1%	-2.5%	13.2%	12.7%	0.04	0.03	0.00	-0.14	0.2x	0.1x	0.0x	-0.3x
Inmarsat	64.1%	65.0%	81.5%	67.1%	53.3%	33.3%	36.7%	6.5%	10.8%	31.7%	44.8%	60.6%	-1.7%	21.9%	22.3%	47.8%	0.73	0.74	0.77	0.67	2.8x	2.8x	2.1x	2.1x
freenet	8.0%	6.9%	12.3%	13.0%	1.5%	2.0%	7.7%	6.7%	6.5%	4.9%	4.6%	6.3%	7.6%	6.6%	3.3%	5.8%	-0.34	-0.44	-0.07	-0.15	-2.0x	-3.0x	-0.3x	-0.6x
QSC	3.0%	7.8%	15.3%	18.6%	5.1%	7.3%	18.8%	5.5%	-2.2%	0.5%	-3.6%	13.1%	-3.7%	-3.3%	-2.6%	10.1%	-0.01	0.03	-0.01	-0.04	-1.9x	1.6x	-0.2x	-0.6x
Telenet	44.8%	44.7%	45.0%	45.0%	24.8%	25.0%	24.5%	22.5%	20.0%	19.7%	20.5%	22.5%	4.0%	7.4%	7.7%	9.4%	1.26	1.35	1.28	1.18	3.8x	3.7x	3.1x	2.7x
Tele2	13.2%	11.0%	13.2%	15.2%	7.3%	10.0%	9.8%	9.7%	5.9%	1.1%	3.4%	5.5%	3.7%	-2.9%	2.9%	2.7%	1.27	1.64	1.19	1.13	1.8x	2.5x	1.6x	1.3x
Tiscali	15.7%	14.8%	19.7%	21.6%	21.0%	26.3%	21.5%	14.1%	-5.3%	-11.5%	-1.8%	7.5%	-16.0%	6.6%	-5.6%	1.7%	0.29	0.40	0.16	0.15	2.5x	4.0x	1.1x	0.8x

Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Wireline Exposure

Table 11: P&L and Cash Flow Forecasts - Domestic Fixed Line

EURbn	Revenues				EBITDA				Operating FCF				Operating FCF weight out of Total Group			
	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E
Belgacom	3.63	3.56	3.51	3.47	1.12	1.08	1.07	1.04	0.67	0.73	0.72	0.69	45%	48%	50%	50%
BT	28.93	29.98	30.30	30.50	8.16	8.35	8.50	8.50	3.57	3.61	3.90	3.90	100%	100%	100%	100%
Deutsche Tel	23.25	21.84	20.48	19.53	8.93	7.90	7.06	6.64	6.45	4.62	4.27	3.96	48%	42%	39%	36%
Elisa	0.67	0.66	0.64	0.64	0.16	0.18	0.20	0.20	0.05	0.05	0.11	0.12	34%	22%	35%	32%
France Tel	17.72	17.66	17.50	17.22	5.72	5.65	5.34	5.25	3.92	3.72	3.24	3.01	32%	31%	27%	25%
KPN	6.87	6.61	6.66	6.42	2.42	2.20	2.11	2.01	1.81	1.30	1.16	1.06	51%	40%	39%	31%
OTE	2.71	2.71	2.68	2.60	-0.22	0.84	0.86	0.88	-0.43	0.59	0.41	0.48	-113%	47%	33%	31%
Portugal Tel	2.21	2.07	1.98	1.89	1.13	1.07	0.90	0.85	0.90	0.83	0.70	0.66	58%	61%	52%	47%
Swisscom	2.71	2.58	2.49	2.43	1.35	1.16	1.13	1.09	1.03	0.77	0.73	0.72	51%	49%	52%	58%
Tel Italia	17.37	16.88	16.29	15.76	7.65	7.39	7.00	6.78	5.29	4.86	4.56	4.49	72%	63%	62%	58%
Telefonica	11.76	11.96	12.17	12.25	4.78	4.57	5.02	5.48	3.38	3.02	3.38	3.64	35%	27%	25%	26%
Tel Austria	2.14	2.12	2.12	2.10	0.79	0.75	0.74	0.72	0.47	0.49	0.48	0.45	42%	54%	46%	41%
Telenor	2.16	2.03	1.87	1.73	0.73	0.69	0.64	0.59	0.45	0.47	0.41	0.40	48%	26%	24%	17%
Tele2	0.40	0.39	0.40	0.39	0.05	0.03	0.04	0.05	0.04	0.01	0.02	0.04	12%	15%	12%	11%
TeliaSonera	3.60	3.46	3.29	3.09	1.26	1.27	1.19	1.10	0.78	0.86	0.81	0.74	41%	38%	36%	32%
Incumbent Sector (EURbn)	126.11	124.50	122.39	120.01	44.03	43.15	41.81	41.20	28.36	25.93	24.91	24.39	47%	44%	40%	38%

Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Table 12: P&L and Cash Flow Forecasts - International Fixed Line

EURbn	Revenues				EBITDA				Operating FCF				Operating FCF weight out of Total Group			
	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E
Belgacom	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
BT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Deutsche Tel	2.79	2.85	2.83	2.81	0.93	0.85	0.82	0.81	0.63	0.57	0.55	0.54	5%	5%	5%	5%
France Tel	4.82	4.83	4.72	4.78	1.62	1.62	1.54	1.53	1.17	1.31	1.04	1.03	9%	11%	9%	9%
KPN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
OTE	0.93	0.89	0.87	0.81	0.36	0.34	0.33	0.31	0.27	0.24	0.18	0.16	72%	19%	14%	10%
Portugal Tel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Swisscom	0.00	0.00	1.00	2.09	0.00	0.00	0.29	0.67	0.00	0.00	0.29	0.67	0%	0%	21%	53%
Tel Italia	0.57	0.92	1.56	2.02	0.00	0.08	0.28	0.36	-0.31	-0.39	-0.22	-0.04	-4%	-5%	-3%	0%
Telefonica	8.35	9.54	9.98	9.98	3.77	4.21	4.47	4.48	2.71	2.92	3.37	3.37	28%	26%	25%	24%
Tel Austria	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Telenor	0.31	0.52	0.65	0.75	0.02	0.08	0.12	0.15	-0.05	-0.02	0.01	0.06	-6%	-1%	0%	3%
Tele2	3.27	2.97	2.64	2.62	0.22	0.13	0.08	0.11	0.04	-0.08	-0.09	-0.06	14%	-130%	-46%	-17%
TeliaSonera	0.24	0.24	0.23	0.23	0.05	0.05	0.05	0.05	0.03	0.03	0.02	0.02	2%	1%	1%	1%
Incumbent Sector (EURbn)	21.27	22.75	24.48	26.09	6.96	7.36	7.97	8.46	4.49	4.59	5.14	5.77	8%	8%	8%	9%

Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Table 13: P&L and Cash Flow Forecasts - Domestic Wireless

EURbn	Revenues				EBITDA				Operating FCF				Operating FCF weight out of Total Group			
	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E
Belgacom	2.14	2.15	2.02	2.00	1.00	0.98	0.92	0.89	0.79	0.76	0.71	0.69	53%	50%	49%	49%
BT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Deutsche Tel	8.62	8.22	7.65	7.46	3.60	3.30	2.86	2.82	3.15	2.72	2.17	2.22	24%	25%	20%	20%
Elisa	0.65	0.83	0.90	0.96	0.19	0.23	0.27	0.32	0.19	0.15	0.18	0.23	137%	63%	57%	61%
France Tel	9.77	9.88	9.82	9.79	3.89	3.83	3.68	3.67	2.92	2.82	2.70	2.69	24%	23%	23%	23%
KPN	2.48	2.98	3.19	3.26	0.93	1.09	1.18	1.27	0.81	0.87	0.92	1.01	23%	27%	31%	30%
OTE	1.52	1.61	1.68	1.73	0.64	0.69	0.73	0.76	0.53	0.54	0.58	0.60	140%	43%	46%	38%
Portugal Tel	1.56	1.50	1.51	1.50	0.67	0.66	0.65	0.64	0.50	0.47	0.46	0.46	32%	34%	34%	33%
Swisscom	2.43	2.36	2.41	2.45	1.19	1.16	1.17	1.12	0.98	0.95	0.96	0.91	48%	60%	69%	72%
Tel Italia	10.08	10.21	9.97	10.14	5.09	5.04	4.74	4.76	3.81	3.90	3.52	3.55	52%	50%	48%	46%
Telefonica	8.83	9.20	9.42	9.48	4.13	4.13	4.12	4.08	3.40	3.38	3.28	3.22	35%	30%	25%	23%
Tel Austria	1.72	1.73	1.67	1.60	0.61	0.61	0.58	0.57	0.43	0.48	0.39	0.39	38%	52%	37%	35%
Telenor	1.57	1.67	1.72	1.78	0.57	0.70	0.69	0.71	0.42	0.61	0.52	0.55	44%	34%	30%	23%
Tele2	0.72	0.73	0.77	0.74	0.32	0.31	0.30	0.26	0.29	0.23	0.25	0.21	91%	368%	129%	66%
TeliaSonera	2.36	2.29	2.31	2.31	0.76	0.78	0.80	0.81	0.59	0.66	0.62	0.63	31%	29%	28%	27%
Incumbent Sector (EURbn)	54.45	55.36	55.05	55.19	23.60	23.52	22.69	22.67	18.80	18.53	17.26	17.36	31%	31%	28%	27%
Bouygues	4.44	4.53	4.62	4.76	1.32	1.23	1.33	1.40	0.74	0.50	0.72	0.83	100%	100%	100%	100%
Cosmote	1.52	1.63	1.74	1.80	0.64	0.70	0.76	0.79	0.53	0.57	0.60	0.63	107%	129%	101%	75%
Mobistar	1.48	1.57	1.52	1.53	0.58	0.61	0.60	0.58	0.34	0.45	0.44	0.42	100%	100%	100%	100%
Vodafone	7.48	7.60	7.96	8.03	2.41	2.16	2.12	2.14	1.40	1.25	1.32	1.38	14%	11%	12%	11%
Wireless Sector (EURbn)	14.92	15.33	15.84	16.11	4.94	4.71	4.81	4.91	3.01	2.77	3.08	3.26	26%	22%	24%	23%

Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Table 14: P&L and Cash Flow Forecasts - International Wireless

EURbn	Revenues				EBITDA				Operating FCF				Operating FCF weight out of Total Group			
	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E	2005A	2006A	2007E	2008E
Belgacom	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
BT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Deutsche Tel	20.83	23.83	26.82	28.24	6.17	6.60	7.44	8.22	1.02	-0.07	3.82	4.58	8%	-1%	35%	41%
Elisa	0.09	0.10	0.11	0.12	0.03	0.03	0.04	0.04	-0.06	0.03	0.03	0.03	-44%	12%	8%	7%
France Tel	13.81	17.87	18.94	19.45	4.58	5.85	6.60	6.82	2.42	3.28	3.70	3.94	20%	27%	31%	33%
KPN	3.29	3.47	3.75	3.87	0.91	1.14	1.19	1.31	0.44	0.66	0.60	0.79	13%	20%	20%	23%
OTE	0.28	0.77	1.46	1.97	0.12	0.19	0.30	0.49	-0.04	-0.10	0.02	0.26	-10%	-8%	2%	16%
Portugal Tel	2.04	2.10	2.06	2.16	0.51	0.50	0.55	0.61	0.15	0.11	0.18	0.26	9%	8%	13%	19%
Swisscom	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Tel Italia	2.90	3.96	4.41	4.68	0.47	0.95	1.11	1.28	-0.38	0.25	0.47	0.68	-5%	3%	6%	9%
Telefonica	8.71	22.36	24.79	25.93	2.15	6.02	7.13	7.76	0.54	1.95	3.60	4.32	6%	17%	27%	30%
Tel Austria	0.77	1.18	1.24	1.29	0.36	0.57	0.54	0.54	0.28	0.49	0.46	0.46	24%	54%	43%	42%
Telenor	3.67	6.41	6.55	7.67	1.38	2.56	2.18	2.60	-0.06	0.73	0.85	1.27	-7%	41%	50%	54%
Tele2	0.84	1.31	1.72	1.98	0.06	0.10	0.29	0.44	-0.09	-0.13	0.04	0.16	-29%	-215%	21%	51%
TeliaSonera	3.01	3.54	3.98	4.30	1.15	1.46	1.65	1.80	0.61	0.90	1.05	1.23	32%	40%	47%	54%
Incumbent Sector (EURbn)	60.24	86.89	95.83	101.64	17.87	25.97	29.00	31.90	4.83	8.10	14.81	17.97	8%	14%	24%	28%
Bouygues	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Cosmote	0.28	0.75	1.40	1.89	0.12	0.17	0.28	0.45	-0.03	-0.13	-0.01	0.22	-7%	-29%	-1%	25%
Mobistar	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
Vodafone	36.03	38.51	42.66	45.14	15.04	15.57	16.14	17.00	8.49	10.17	9.74	10.76	86%	89%	88%	89%
Wireless Sector (EURbn)	36.31	39.27	44.06	47.03	15.15	15.74	16.42	17.46	8.46	10.04	9.73	10.97	74%	78%	76%	77%

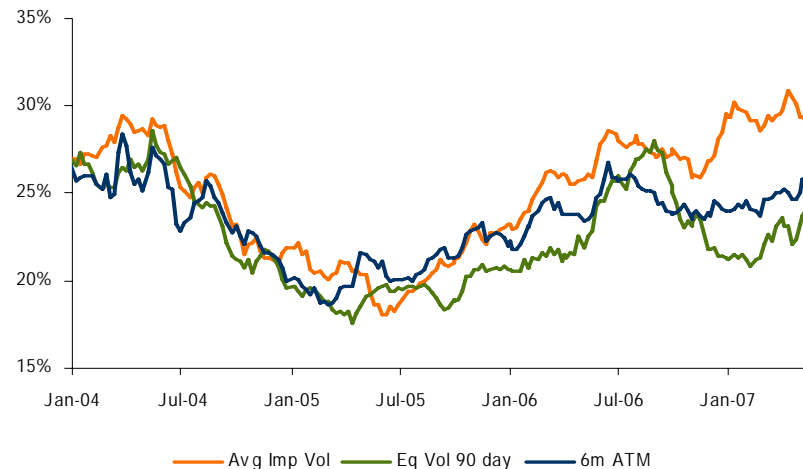
Source: Merrill Lynch estimates. Exchange rates: GBP/EUR= 1.46, CHF/EUR= 0.62, DKK/EUR= 0.123, NOK/EUR = 0.123, SEK/EUR = 0.107, CZK/EUR= 0.0354, HUF/EUR= 0.00376, PLN/EUR= 0.257, USD/EUR=0.757.

Convertible

This section includes the views of Jeremy Wyatt (44 20 7995 4670), ML's Head of European Convertibles Research.

- Over the period 21 March 2007 to 29 May 2007 the best performing liquid telecom convertible was Cable & Wireless 4% '10 which rose 6.8% to 132.1%. The main reason for the rise was a gain in the share price of 13.6%.
- Chart 5 shows how average convertible implied volatility rose to a recent peak in April this year of 30.9% before easing back to 29.2% as of 23 May. Implied volatility on the three liquid telecom convertibles in Table 19 are all slightly lower compared to the close of 21 March. Chart 6 shows the implied volatility history for France Telecom 1.6% '09.
- Chart 5 shows average implied volatility for our liquid universe of European convertibles compared with average near term, at the money, equity call option implied volatility and 90-day equity historic volatility. We are only including issues with credit default swap or corporate straight debt. In order to decrease distortions we are excluding those issues with a percentage delta of less than 10% or more than 90%, credit spreads greater than 500bps, conversion premium of less than 1% and those hard callable in the next month. Our figures exclude stock borrow costs and all averages are simple averages i.e. not market value weighted.

Chart 5: Liquid Universe Implied Volatility



Source: Merrill Lynch Convertibles Research

Chart 6: France Telecom 1.6% '09



Source: Merrill Lynch Convertibles Research

Table 15: Liquid Telecom Convertibles

Issue	Bond CCY	MV (mn)	Convert Price	Parity	Conv Prem	Perc Delta	*Imp Vol	90-Day Eq Vol	6M Option Imp ATM	Equity Price	Yield MP	Prem to Bond Floor	Credit Spread Over Swap	S&P/ Moody's	**Return +/-25%
France Telecom 1.6% '09	EUR	1168	EUR2620.4	2276.7	14.4%	24.9%	26.2%	17.1%	22.9%	22.7	1.0M	5.6%	5	A-/A3	10.3% / -1.1%
Deutsche Telekom (KfW) 0.75% '08	EUR	5028	100.6%	89.6	12.2%	31.5%	23.0%	20.9%	22.4%	13.7	0.3M	5.1%	0	AAA/Aaa	12.7% / -0.5%
Cable & Wireless 4% '10	GBP	340	132.1%	132.8	-0.6%	94.7%	26.4%	21.1%	25.4%	1.9	-5.3M	44.1%	90	B/B1	27.6% / -15.7%

Valuations as of close 29 May 2007

*Excludes stock borrow costs

**Return in response to a +/-25% move in the underlying shares, over a one year horizon, assuming either current cheapness is maintained or if rich return to fair value

Source: Merrill Lynch Convertibles Research



Company Forecasts

Summary Views on the European Incumbents

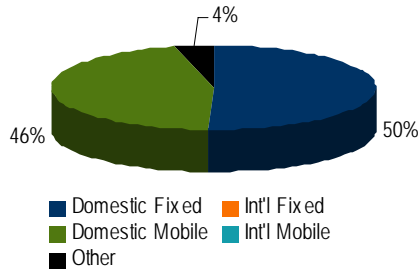
Price Objectives and Justification for Buy-rated stocks

Summary P+L, Cash Flow and Financial Ratios

Valuation Summaries

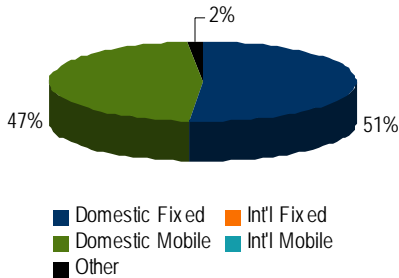
(Following tables based on Merrill Lynch estimates)

Chart 9: 2006 EBITDA



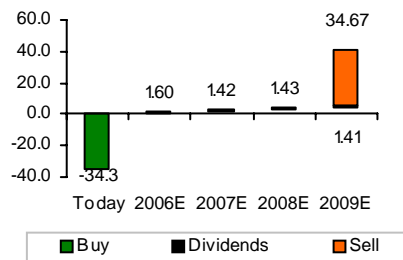
Source: Merrill Lynch estimates

Chart 7: Enterprise Value



Source: Merrill Lynch estimates

Chart 8: IRR of 4.5% / Dividends 4.3%



Merrill Lynch estimates

Belgacom (Fair Value Estimate EUR28)

Sell B-3-7

Investment Case

(-) Tough regulation and risk of price deflation make the consensus 0.7% revenue decline in 2007 look challenging – remember Mobistar's 2007 market outlook (down 8%)

(-) The re-rating of Belgacom has been fuelled by bid speculation rather than earnings upgrades, in our view. Opposition from the Unions, recent privatisation attempts, and the current balance of power between political forces do not support a privatisation scenario after the June elections.

Catalysts

(-) General elections (10 June)

(-) 21-22 June (at the latest) European Council decision on roaming. Belgian operators should be the hardest hit.

(-) Initial guidance on 2008 mobile revenues. Will trigger a downgrade to forecasts.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	2.96	3.63	3.56	3.51	3.47	3.44	3.0%
Revenue: International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Domestic Mobile	2.18	2.14	2.15	2.02	2.00	1.95	-2.2%
Revenue: International Mobile	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Other	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Eliminations	0.32	0.34	0.40	0.51	0.32	0.34	0.0%
Total Revenue	5.46	6.10	6.10	6.05	5.79	5.73	1.0%
EBITDA: Domestic Wireline	1.15	1.12	1.08	1.07	1.04	1.03	-2.1%
EBITDA: International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
EBITDA: Domestic Mobile	1.04	1.00	0.98	0.92	0.89	0.86	-3.6%
EBITDA: International Mobile	0.00	0.00	0.00	0.00	0.00	0.00	n/a
EBITDA: Other	0.03	0.03	0.05	0.04	0.04	0.04	10.0%
Total EBITDA	2.21	2.15	2.11	2.03	1.97	1.94	-2.6%
Domestic Wireline	0.66	0.67	0.73	0.72	0.69	0.70	1.3%
International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Domestic Mobile	0.85	0.79	0.76	0.71	0.69	0.67	-4.6%
International Mobile	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Other	0.00	0.02	0.02	0.02	0.02	0.02	39.2%
Total EBITDA - Capex	1.51	1.47	1.51	1.45	1.40	1.39	-1.6%
Domestic Wireline	38.7%	30.7%	30.5%	30.5%	30.0%	30.0%	
International Wireline	n/a	n/a	n/a	n/a	n/a	n/a	
Domestic Mobile	47.7%	46.8%	45.5%	45.3%	44.5%	44.3%	
International Mobile	n/a	n/a	n/a	n/a	n/a	n/a	
Total EBITDA margin %	40.6%	35.2%	34.6%	33.5%	34.0%	33.8%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	5.46	6.10	6.10	6.05	5.79	5.73	1.0%
Group EBITDA Margin	40.6%	35.2%	34.6%	33.5%	34.0%	33.8%	
Group EBITDA	2.21	2.15	2.11	2.03	1.97	1.94	-2.6%
Depreciation	-0.73	-0.80	-0.77	-0.73	-0.69	-0.58	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	1.49	1.35	1.34	1.30	1.28	1.36	-1.8%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	0.06	0.10	0.11	0.13	0.14	0.16	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	1.55	1.45	1.45	1.43	1.42	1.52	-0.5%
Tax Charge	-0.34	-0.36	-0.45	-0.44	-0.44	-0.47	
Minorities Charge	-0.14	-0.12	-0.13	-0.12	-0.12	-0.12	
Reported Net Income	1.07	0.97	0.87	0.87	0.86	0.93	-2.8%
Underlying Net Income	0.96	0.97	0.84	0.87	0.86	0.93	-0.6%
Cashflow bn							
Group EBITDA	2.21	2.15	2.11	2.03	1.97	1.94	-2.6%
Capital Expenditure	-0.71	-0.68	-0.60	-0.58	-0.57	-0.54	
Net Interest charge from CF	-0.03	-0.05	-0.10	-0.10	-0.10	-0.10	
Tax Charge from CF	-0.34	-0.36	-0.45	-0.44	-0.44	-0.47	
Other (Pensions / Working Capital Etc)	0.00	0.00	0.00	0.00	0.00	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	1.03	1.07	0.95	0.91	0.86	0.83	-4.3%
Dividends	-1.16	-0.81	-0.55	-0.48	-0.48	-0.47	
CF after Dividends	-1.15	-0.81	-0.55	-0.48	-0.48	-0.47	
Net Debt	0.41	1.99	1.99	1.99	1.99	1.99	
Per Share Data							
FCF per Share	2.92	3.11	2.80	2.72	2.57	2.46	-3.3%
Reported EPS	3.05	2.84	2.57	2.59	2.57	2.77	-1.9%
Underlying EPS (ex Goodwill)	2.72	2.84	2.50	2.59	2.57	2.77	0.4%
Dividend	1.71	1.60	1.42	1.43	1.41	1.53	-2.2%
Share Buyback	1.30	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	0.2x	0.9x	0.9x	1.0x	1.0x	1.0x	
Capex / Sales	12.9%	11.1%	9.8%	9.5%	9.8%	9.5%	
Capex / Depreciation	1.0x	0.8x	0.8x	0.8x	0.8x	0.9x	
(EBITDA - Capex) / Sales	27.6%	24.1%	24.8%	24.0%	24.2%	24.3%	
FCF / Sales	18.8%	17.5%	15.5%	15.1%	14.9%	14.4%	
ROCE	16.5%	12.2%	10.0%	8.9%	8.1%	8.0%	
ROCE ex goodwill	17.8%	14.8%	13.1%	11.3%	10.1%	9.8%	
Valuation							
EV / Proportionate Revenues	2.2x	2.2x	2.2x	2.2x	2.3x	2.4x	
EV / Proportionate EBITDA	5.5x	6.3x	6.4x	6.7x	6.9x	7.0x	
EV / ACE	1.7x	1.6x	1.4x	1.2x	1.1x	1.0x	
FCF Yield	8.5%	9.1%	8.2%	7.9%	7.5%	7.2%	
Underlying P/E	12.6x	12.1x	13.7x	13.3x	13.4x	12.4x	
Dividend Yield	5.0%	4.7%	4.1%	4.2%	4.1%	4.4%	

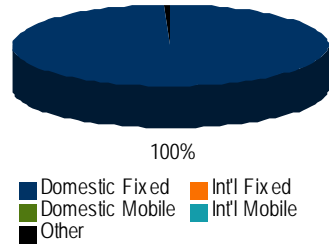
Source: Merrill Lynch estimates

Table 16: Sum-of-the-Parts: Belgacom EUR 28

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Fixed Line	DCF	8.5%	-1.3%	30%	9%	100%	5,387	5,387	16	5.0x	7.4x	
Mobile Service	DCF	8.5%	-1.0%	43.0%	9%	100%	4,904	4,904	15	5.0x	6.4x	
Domestic Business								10,290	31			
International Carrier	DCF	10.0%	2.0%	8.0%	3%	72%	245	176	1	5.4x	10.7x	
Other Businesses								176	1			
Pension liability								-	-			
Other Assets/(Liabilities)								-	-			
Enterprise Value								10,467	31			
Year End 2007E Cash/(Net Debt)								(847)	(3)			
NPV of Tax Credit								(200)	(1)			
Equity Value								9,420	28			

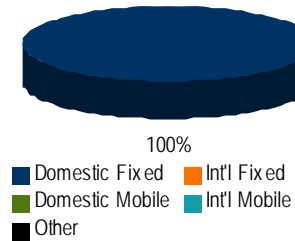
Source: Merrill Lynch estimate

Chart 10: 2006 EBITDA



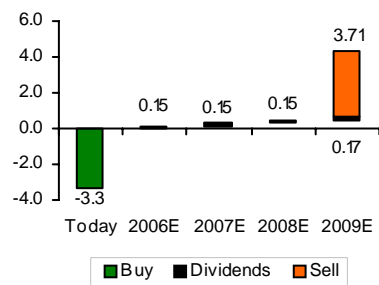
Source: Merrill Lynch estimates

Chart 11: Enterprise Value



Source: Merrill Lynch estimates

Chart 12: IRR of 7.4% / Dividends 4.7%



Merrill Lynch estimates

BT (Fair Value Estimate 270p) Sell B-3-7

Investment case

- (+) Strong Management team with a track record of delivery
- (-) Lowest market share of broadband of any European Incumbent
- (-) Risk of greater ULL impact in 2007
- (-) Lack of a fibre strategy
- (+) Continued good progress moving into ICT
- (+) Leader in next generation core networks should bring cost savings, especially from FY 09 onwards
- (+) Announcement of GBP2.5bn buyback recently over two years

Catalysts

- (-) Continued news on the progress of broadband strategies from Sky and others
- (+) Continued private equity rumours

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	2011E	06-11E
Group Revenue	18.35	19.51	20.22	20.44	20.58	20.74	20.90	1.4%
Group EBITDA Margin	31.7%	28.2%	27.9%	28.0%	27.9%	28.3%	27.7%	
Group EBITDA	5.82	5.51	5.63	5.73	5.73	5.87	5.79	1.0%
Depreciation	-2.92	-2.88	-2.92	-2.95	-2.92	-2.86	-2.80	
Amortisation of Goodwill and Licenses	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	2.89	2.62	2.71	2.78	2.81	3.01	2.99	2.6%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.89	-0.50	-0.23	-0.27	-0.37	-0.39	-0.37	
Associates ex Goodwill	-0.01	0.02	0.02	0.03	0.03	0.03	0.03	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	-0.01	-0.08	0.96	-0.45	0.00	0.00	0.00	
Pre-Tax Profit	1.98	2.06	3.45	2.09	2.47	2.65	2.65	5.2%
Tax Charge	-0.57	-0.51	-0.60	-0.64	-0.62	-0.66	-0.69	
Minorities Charge	0.01	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	1.42	1.55	2.85	1.46	1.85	1.99	1.96	4.8%
Underlying Net Income	1.44	1.59	1.89	1.91	1.85	1.99	1.96	4.3%
Cashflow bn								
Group EBITDA	5.82	5.51	5.63	5.73	5.73	5.87	5.79	1.0%
Capital Expenditure	-2.48	-3.10	-3.20	-3.10	-3.10	-3.20	-2.40	
Net Interest charge from CF	-0.53	-0.88	-0.73	-0.69	-0.79	-0.81	-0.79	
Tax Charge from CF	-0.32	-0.53	-0.14	-0.05	-0.64	-0.62	-0.66	
Other (Pensions / Working Capital Etc)	-0.42	-0.64	0.05	-0.25	0.18	0.18	0.18	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	2.07	0.37	1.62	1.65	1.39	1.42	2.12	42.2%
Dividends	-0.79	-1.26	-1.41	-2.56	-2.44	-1.55	-1.61	
CF after Dividends	1.28	-0.90	0.22	-0.91	-1.06	-0.13	0.51	
Net Debt	8.43	7.97	7.52	9.47	10.52	10.66	10.14	
Per Share Data								
FCF per Share	0.24	0.04	0.19	0.20	0.18	0.19	0.28	46.1%
Reported EPS	0.16	0.18	0.34	0.18	0.24	0.26	0.26	7.7%
Underlying EPS (ex Goodwill)	0.17	0.19	0.22	0.23	0.24	0.26	0.26	7.2%
Dividend	0.09	0.12	0.15	0.15	0.16	0.17	0.17	7.8%
Share Buyback	0.02	0.04	0.04	0.15	0.16	0.05	0.05	
Ratios								
Net Debt / EBITDA	1.4x	1.4x	1.3x	1.7x	1.8x	1.8x	1.8x	
Capex / Sales	13.5%	15.9%	15.8%	15.2%	15.1%	15.4%	11.5%	
Capex / Depreciation	0.8x	1.1x	1.1x	1.1x	1.1x	1.1x	0.9x	
(EBITDA - Capex) / Sales	18.2%	12.3%	12.0%	12.9%	12.8%	12.9%	16.2%	
FCF / Sales	11.3%	1.9%	8.0%	8.1%	6.7%	6.9%	10.1%	
ROCE	11.0%	11.2%	12.3%	13.3%	14.0%	14.8%	14.4%	
ROCE ex goodwill	11.1%	12.1%	14.2%	14.8%	14.6%	15.5%	15.0%	
Valuation								
EV / Proportionate Revenues	2.0x	1.9x	1.8x	1.8x	1.8x	1.7x	1.7x	
EV / Proportionate EBITDA	6.4x	6.6x	6.3x	6.4x	6.3x	6.1x	6.0x	
EV / ACE	1.8x	2.0x	2.1x	2.3x	2.4x	2.4x	2.3x	
FCF Yield	7.2%	1.3%	5.8%	6.1%	5.4%	5.7%	8.6%	
Underlying P/E	19.9x	17.8x	14.9x	14.2x	13.9x	12.6x	12.6x	
Dividend Yield	2.6%	3.6%	4.6%	4.6%	4.7%	5.2%	5.2%	

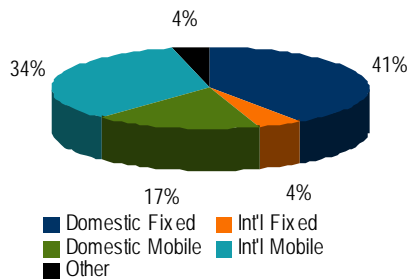
Source: Merrill Lynch Research estimate

Table 17: Sum-of-the-Parts: BT GBP2.70

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	Stake (EURmn)	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
BT	DCF	8.0%	0.0%	26%	12%	100%	30,411	30,411	3.90	44,460	5.3x	10.9x
Domestic Fixed Line								30,411	3.90	44,460		
Enterprise Value								30,411	3.90	44,460		
Year End 2007E Cash/(Net Debt)								(9,469)	(1.2)	(13,844)		
Equity Value								20,942	2.70	30,616		

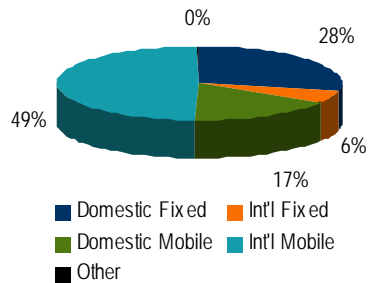
Source: Merrill Lynch estimates

Chart 15: 2006 EBITDA



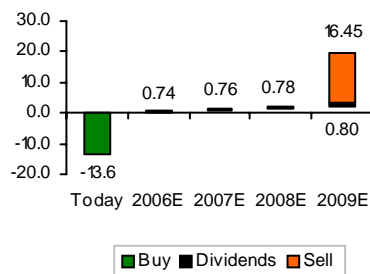
Source: Merrill Lynch estimates

Chart 13: Enterprise Value



Source: Merrill Lynch estimates

Chart 14: IRR of 10.1% / Dividends 5.7%



Merrill Lynch estimates

DT (Fair Value Estimate EUR12.7)

Sell B-3-7

Investment Case

(-) Domestic mobile showing worrying deterioration. Longer-term we expect results to improve given the favourable structure of the market.
 (-) To date, there has been limited broadband competition in the German market. This has increased in the 2006 and recent shares of net additions are now the lowest in Europe.
 (-) Cost-cutting remains very difficult due to strong union presence.
 (+) Blackstone has a 4% stake and may provide more influence post the management change.
 (+ / -) The US remains operationally strong and should benefit from the disarray at Sprint. However things are getting incrementally tougher, and capital requirements may increase next year.
Catalysts
 (+) Management change may see issues in core business addressed.
 (-) Potential for further numbers downgrade.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	23.25	21.84	20.48	19.53	18.65	17.88	-5.1%
Revenue: International							
Wireline	2.79	2.85	2.83	2.81	2.79	2.77	-0.1%
Revenue: Domestic Mobile	8.62	8.22	7.65	7.46	7.38	7.29	-3.3%
Revenue: International Mobile	20.83	23.83	26.82	28.24	29.56	30.77	8.1%
Revenue: Other	16.36	16.30	16.14	16.02	15.92	15.84	-0.6%
Revenue: Eliminations	-12.24	-11.67	-11.44	-11.21	-10.99	-10.77	-2.5%
Total Revenue	59.60	61.35	62.48	62.85	63.31	63.79	1.4%
EBITDA: Domestic Wireline	8.93	7.90	7.06	6.64	6.25	6.61	-5.8%
EBITDA: International							
Wireline	0.93	0.85	0.82	0.81	0.80	0.79	-3.1%
EBITDA: Domestic Mobile	3.60	3.30	2.86	2.82	2.79	2.77	-5.1%
EBITDA: International Mobile	6.17	6.60	7.44	8.22	8.96	9.79	9.7%
EBITDA: Other	1.10	0.78	0.79	0.77	0.75	0.74	-7.6%
Total EBITDA	20.73	19.43	18.98	19.26	19.55	20.70	0.0%
Domestic Wireline	6.45	4.62	4.27	3.96	3.89	3.93	-9.4%
International Wireline	0.63	0.57	0.55	0.54	0.54	0.53	-3.4%
Domestic Mobile	3.15	2.72	2.17	2.22	2.20	2.19	-7.0%
International Mobile	1.02	-0.07	3.82	4.58	5.30	6.12	43.0%
Other	2.07	3.09	0.01	-0.22	-0.24	-0.26	-166.0%
Total EBITDA - Capex	13.33	10.93	10.82	11.08	11.69	12.51	-1.3%
Domestic Wireline	38.4%	36.2%	34.5%	34.0%	33.5%	37.0%	
International Wireline	33.2%	29.8%	29.0%	28.6%	28.6%	28.5%	
Domestic Mobile	41.8%	40.2%	37.4%	37.7%	37.9%	38.0%	
International Mobile	29.6%	27.7%	27.7%	29.1%	30.3%	31.8%	
Total EBITDA margin %	34.8%	31.7%	30.4%	30.6%	30.9%	32.5%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	59.60	61.35	62.63	62.86	63.28	63.71	1.3%
Group EBITDA Margin	34.8%	31.7%	30.3%	30.6%	31.0%	31.8%	
Group EBITDA	20.73	19.43	19.01	19.24	19.62	20.25	-0.5%
Depreciation	-8.11	-8.47	-8.62	-8.40	-7.87	-8.15	
Amortisation of Goodwill and Licenses	-2.45	-2.52	-2.49	-2.49	-2.49	-2.49	
Operating Profit	10.17	8.44	7.90	8.34	9.26	9.60	-1.1%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-2.40	-2.54	-2.42	-2.29	-2.10	-1.87	
Associates ex Goodwill	0.21	-0.01	-0.01	-0.01	-0.01	-0.01	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	-1.77	-3.29	-1.00	-1.00	-0.80	-0.40	
Pre-Tax Profit	6.21	2.60	4.46	5.05	6.35	7.32	3.3%
Tax Charge	-0.20	0.97	-1.80	-1.77	-2.36	-2.56	
Minorities Charge	-0.43	-0.41	-0.46	-0.50	-0.54	-0.58	
Reported Net Income	5.59	3.17	2.20	2.78	3.45	4.17	-5.7%
Underlying Net Income	5.85	5.30	4.00	4.59	5.06	5.39	-1.6%
Cashflow bn							
Group EBITDA	20.73	19.43	19.01	19.24	19.62	20.25	-0.5%
Capital Expenditure	-7.40	-8.51	-7.96	-8.00	-7.71	-8.07	
Net Interest charge from CF	-2.93	-2.76	-2.82	-2.69	-2.50	-2.27	
Tax Charge from CF	-1.20	-1.25	-1.00	-1.20	-1.40	-1.60	
Other (Pensions / Working Capital Etc)	-0.49	-1.22	-1.50	-1.50	-1.00	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	8.71	5.70	5.73	5.85	7.01	8.31	-0.9%
Dividends	-2.93	-3.42	-3.54	-3.54	-3.54	-3.89	
CF after Dividends	5.78	2.28	2.19	2.31	3.47	4.42	
Net Debt	41.75	42.90	40.70	38.38	34.90	30.47	
Per Share Data							
FCF per Share	2.07	1.31	1.31	1.34	1.61	1.90	-1.7%
Reported EPS	1.33	0.74	0.50	0.64	0.79	0.96	-6.4%
Underlying EPS (ex Goodwill)	1.39	1.24	0.92	1.05	1.16	1.23	-2.4%
Dividend	0.72	0.74	0.76	0.78	0.80	0.82	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	2.0x	2.2x	2.1x	2.0x	1.8x	1.5x	
Capex / Sales	12.4%	13.9%	12.7%	12.7%	12.2%	12.7%	
Capex / Depreciation	0.9x	1.0x	0.9x	1.0x	1.0x	1.0x	
(EBITDA - Capex) / Sales	22.4%	17.8%	17.6%	17.9%	18.8%	19.1%	
FCF / Sales	14.6%	9.3%	9.1%	9.3%	11.1%	13.0%	
ROCE	12.5%	11.6%	8.3%	9.1%	9.8%	10.5%	
ROCE ex goodwill	27.0%	27.4%	20.8%	22.0%	23.3%	24.5%	
Valuation							
EV / Proportionate Revenues	1.6x	1.5x	1.5x	1.5x	1.4x	1.4x	1.3x
EV / Proportionate EBITDA	4.7x	4.4x	4.9x	4.9x	4.7x	4.4x	4.1x
EV / ACE	0.9x	0.9x	1.0x	1.0x	1.0x	1.0x	1.0x
FCF Yield	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	15.1%
Underlying P/E	7.2x	9.0x	10.2x	13.7x	12.0x	10.9x	10.2x
Dividend Yield	4.9%	5.7%	5.9%	6.0%	6.2%	6.3%	6.5%

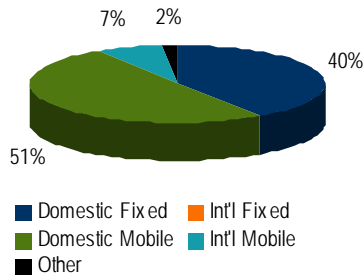
Source: Merrill Lynch Research estimate

Table 18: Sum-of-the-Parts: DT EUR 12.7

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Domestic Fixed Line Business	DCF	8.0%	-2.0%	35.0%	12.0%	100%	28,451	28,451	6.5	4.4x	5.8x
Domestic Fixed Line								28,451	6.5		
Matav	Market Price					59%	6,065	4,142	0.9	5.2x	
Hrvatski Telecom (Croatia)	EV/EBITDA					51%	1,633	833	0.2	3.0x	
Slovenske Telekomunikacije	EV/EBITDA					51%	1,094	558	0.1	2.5x	
Other fixed Line								5,532	1.3		
Germany	DCF	8.0%	-0.5%	36.0%	10.0%	100%	16,516	16,516	3.8	5.5x	7.1x
Domestic Mobile								16,516	3.8		
UK	DCF	8.0%	1.0%	25.0%	11.0%	100%	6,610	6,610	1.5	6.0x	10.2x
Austria	EV/EBITDA					100%	2,286	2,286	0.5	5.0x	
Netherlands	EV/EBITDA					100%	1,489	1,489	0.3	6.0x	
Czech Republic	EV/EBITDA					61%	3,149	1,911	0.4	6.7x	
Croatia	EV/EBITDA					100%	1,471	1,471	0.3	6.7x	
Poland	EV/EBITDA					97%	4,054	3,932	0.9	5.8x	
Slovakia	EV/EBITDA					51%	1,444	736	0.2	6.7x	
Macedonia	EV/EBITDA					100%	543	543	0.1	6.6x	
US	DCF	8.0%	1.0%	30.0%	13.0%	100%	30,064	30,064	6.9	7.6x	n/m
International Mobile								49,044	11.2		
Directories	ML Forecast					100%	500	500	0.1		
Business customers	DCF					100%	3,497	3,497	0.8		
T-Other	DCF	8.0%	-4.0%	-4.0%	2.0%			(3,649)	(0.8)		
Other Assets/Liabilities								348	0.1		
Enterprise Value								99,892	22.9		
Year End 2007E Cash/(Net Debt)								(40,699)	(9.3)		
PV of Early Retirement Obligation	ML Forecast							(4,000)	(0.9)		
Equity Value								55,193	12.7		

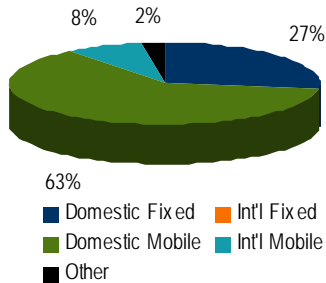
Source: Merrill Lynch estimates

Chart 16: 2006 EBITDA



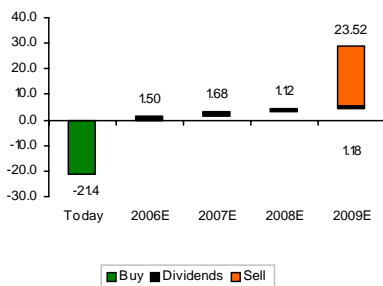
Source: Merrill Lynch estimates

Chart 17: Enterprise Value



Source: Merrill Lynch estimates

Chart 18: IRR of 8.7% / Dividends 6.5%



Merrill Lynch estimates

Elisa (Price Target EUR25) Buy B-1-7

Investment Case
 (-+) Finnish mobile KPIs turned in 2006 and should continue to improve in 2007.
 (+) Fixed line restructuring upside remains which should allow for stable fixed line cash flows. Broadband price increases, lower ULL costs, and the impact of outsourcing should help profitability in 2007.
 (+) Cash return of at least 6% in 2007 and less than 1.5x net debt to EBITDA.

Catalysts
 (+) LBO of TDC a positive read-across to Elisa's valuation. Remains a possible target. Balance sheet remains underleveraged.
 (+) Mobile market repair should provide support for medium term financials. Possible acquisition of DNA could lead to two player mobile market.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	0.67	0.66	0.64	0.64	0.63	0.61	-1.9%
Revenue: International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Domestic Mobile	0.65	0.83	0.90	0.96	1.00	1.01	9.2%
Revenue: International Mobile	0.09	0.10	0.11	0.12	0.13	0.13	8.8%
Revenue: Other	0.04	0.00	0.00	0.00	0.00	0.00	
Revenue: Eliminations	-0.11	-0.08	-0.06	-0.06	-0.06	-0.06	
Total Revenue	1.34	1.52	1.60	1.66	1.70	1.69	4.8%
EBITDA: Domestic Wireline	0.16	0.18	0.20	0.20	0.20	0.20	4.7%
EBITDA: International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
EBITDA: Domestic Mobile	0.19	0.23	0.27	0.32	0.33	0.34	12.2%
EBITDA: International Mobile	0.03	0.03	0.04	0.04	0.04	0.04	8.9%
EBITDA: Other	-0.03	0.01	0.00	0.00	0.00	0.00	
Total EBITDA	0.35	0.45	0.51	0.56	0.57	0.59	11.1%
Domestic Wireline	0.05	0.05	0.11	0.12	0.13	0.13	22.8%
International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Domestic Mobile	0.19	0.15	0.18	0.23	0.24	0.25	5.5%
International Mobile	-0.06	0.03	0.03	0.03	0.03	0.03	
Other	-0.04	0.01	0.00	0.00	0.00	0.00	
Total EBITDA - Capex	0.14	0.24	0.32	0.38	0.40	0.42	24.2%
Domestic Wireline	23.9%	27.1%	31.5%	32.0%	32.0%	33.0%	
International Wireline	n/a	n/a	n/a	n/a	n/a	n/a	
Domestic Mobile	29.6%	27.3%	30.2%	32.9%	33.3%	34.0%	
International Mobile	31.8%	31.7%	33.0%	32.0%	32.0%	32.0%	
Total EBITDA margin %	26.0%	29.3%	32.0%	33.6%	33.9%	34.7%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	1.34	1.52	1.60	1.66	1.70	1.69	4.8%
Group EBITDA Margin	26.0%	29.3%	32.0%	33.6%	33.9%	34.7%	
Group EBITDA	0.35	0.45	0.51	0.56	0.57	0.59	11.1%
Depreciation	-0.20	-0.19	-0.18	-0.19	-0.19	-0.18	
Amortisation of Goodwill and Licenses	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	
Operating Profit	0.13	0.24	0.31	0.35	0.37	0.39	23.6%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.03	-0.01	-0.02	-0.03	-0.03	-0.02	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.10	-0.01	0.00	0.00	0.00	0.00	
Pre-Tax Profit	0.21	0.21	0.29	0.33	0.35	0.37	11.8%
Tax Charge	-0.03	-0.05	-0.08	-0.08	-0.09	-0.10	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	0.17	0.16	0.22	0.24	0.26	0.27	9.3%
Underlying Net Income	0.10	0.18	0.23	0.26	0.27	0.29	24.4%
Cashflow bn							
Group EBITDA	0.35	0.45	0.51	0.56	0.57	0.59	11.1%
Capital Expenditure	-0.21	-0.21	-0.19	-0.18	-0.18	-0.17	
Net Interest charge from CF	-0.03	-0.01	-0.02	-0.03	-0.03	-0.02	
Tax Charge from CF	-0.01	0.00	-0.05	-0.08	-0.08	-0.09	
Other (Pensions / Working Capital Etc)	-0.01	-0.10	-0.04	0.00	0.00	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	0.10	0.13	0.21	0.27	0.29	0.31	24.3%
Dividends	-0.12	-0.20	-0.42	-0.24	-0.17	-0.18	
CF after Dividends	-0.02	-0.07	-0.21	0.03	0.12	0.13	
Net Debt	0.29	0.38	0.58	0.55	0.43	0.31	
Per Share Data							
FCF per Share	0.72	0.78	1.30	1.80	1.89	2.03	23.1%
Reported EPS	1.21	0.99	1.35	1.59	1.68	1.79	8.2%
Underlying EPS (ex Goodwill)	0.67	1.10	1.45	1.70	1.79	1.89	23.2%
Dividend	1.10	1.50	1.68	1.12	1.18	1.33	3.8%
Share Buyback	0.00	0.48	1.08	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	0.8x	0.8x	1.1x	1.0x	0.8x	0.5x	
Capex / Sales	15.4%	13.6%	12.0%	10.9%	10.4%	10.0%	
Capex / Depreciation	1.0x	1.1x	1.1x	1.0x	0.9x	0.9x	
(EBITDA - Capex) / Sales	10.5%	15.7%	20.0%	22.8%	23.4%	24.6%	
FCF / Sales	7.8%	8.4%	13.0%	16.5%	16.9%	18.2%	
ROCE	6.5%	11.0%	14.1%	15.7%	16.5%	17.5%	
ROCE ex goodwill	8.9%	16.3%	20.9%	22.9%	23.8%	25.1%	
Valuation							
EV / Proportionate Revenues	2.4x	2.4x	2.3x	2.2x	2.0x	2.0x	
EV / Proportionate EBITDA	9.1x	8.2x	7.4x	6.4x	6.0x	5.7x	
EV / ACE	1.8x	2.0x	2.1x	2.0x	1.9x	1.9x	
FCF Yield	3.5%	3.8%	6.4%	8.8%	9.3%	10.0%	
Underlying P/E	30.6x	18.5x	14.0x	12.0x	11.4x	10.8x	
Dividend Yield	5.4%	7.4%	8.2%	5.5%	5.8%	6.5%	

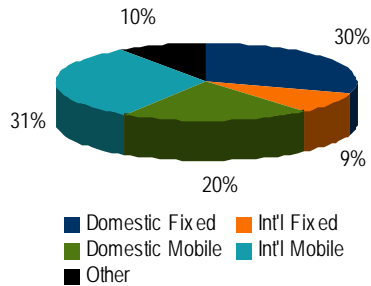
Source: Merrill Lynch Research estimate

Table 19: Sum of the Parts: Our price target is EUR25, with EUR3 from releverage and restructuring potential.

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Finnish Fixed	DCF	8.0%	-1.0%	32.0%	10%	100%	1,089	1,089	6.8	5.4x	9.7x
Domestic Fixed Line								1,089	6.8		
Finnish Mobile	DCF	8.0%	1.0%	33.0%	9%	100%	2,524	2,524	15.8	9.2x	13.8x
Domestic Mobile								2,524	15.8		
Estonian Mobile	EV / 07E EBITDA	8.5%	2.0%	31.0%	10%	100%	321	321	2.0	8.7x	12.5x
International Mobile								321	2.0		
Comptel	Market Value					20%	187	37	0.2		
Real Estate								40	0.3		
Other Assets/(Liabilities)								77	0.5		
Enterprise Value								4,011	25.1		
Year End 2007E Cash/(Net Debt)								(582)	(3.6)		
Equity Value								3,429	21.5		

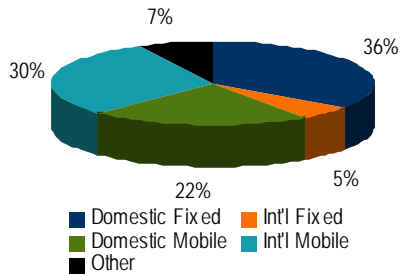
Source: Merrill Lynch estimates

Chart 19: 2006 EBITDA



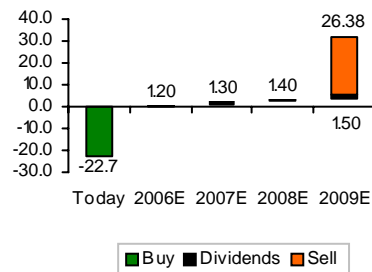
Source: Merrill Lynch estimates

Chart 20: Enterprise Value



Source: Merrill Lynch estimates

Chart 21: IRR of 9.4% / Dividends 5.9%



Merrill Lynch estimates

FT (Fair value estimate EUR22.4)
Investment Case
 (+) ADSL competition getting easier thanks to consolidation
 (+) The French mobile market remains attractive in terms of subscriber growth. Low pricing limits the risk from MVNOs.
 (+/-) VOIP cannibalisation accelerated in 2006, but is now well flagged.
 (-) Watch line loss in H2 2007 (naked DSL, altnets push on full unbundling)
 (-) UK and Spain struggling operationally.
Catalysts
 (-) UK and Spanish markets getting more competition.
 (+) Acquisition in Spanish broadband, disposal in Dutch mobile

NEUTRAL B-2-7

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	17.72	17.66	17.50	17.22	16.82	16.57	-1.3%
Revenue: International Wireline	4.82	4.83	4.72	4.78	4.93	5.04	0.9%
Revenue: Domestic Mobile	9.77	9.88	9.82	9.79	9.79	9.79	0.0%
Revenue: International Mobile	13.81	17.87	18.94	19.45	19.79	20.05	7.7%
Revenue: Other	54.96	58.40	58.58	58.76	58.83	59.01	1.4%
Revenue: Eliminations	-5.88	-6.21	-6.08	-5.96	-5.84	-5.73	0.0%
Total Revenue	49.08	52.19	52.49	52.79	52.98	53.28	1.7%
EBITDA: Domestic Wireline	5.72	5.65	5.34	5.25	5.13	5.05	-2.5%
EBITDA: International Wireline	1.62	1.62	1.54	1.53	1.58	1.59	-0.3%
EBITDA: Domestic Mobile	3.89	3.83	3.68	3.67	3.67	3.67	-1.2%
EBITDA: International Mobile	4.58	5.85	6.60	6.82	6.99	7.11	9.2%
EBITDA: Other	2.61	1.80	1.67	1.65	1.65	1.66	-8.6%
Total EBITDA	18.42	18.75	18.82	18.93	19.02	19.09	0.7%
Domestic Wireline	3.92	3.72	3.24	3.01	2.94	2.90	-5.8%
International Wireline	1.17	1.31	1.04	1.03	1.08	1.09	-1.3%
Domestic Mobile	2.92	2.82	2.70	2.69	2.69	2.69	-1.6%
International Mobile	2.42	3.28	3.70	3.94	4.16	4.24	11.9%
Other	1.94	0.88	1.24	1.23	1.23	1.24	-8.6%
Total EBITDA - Capex	12.37	12.02	11.91	11.91	12.10	12.17	-0.3%
Domestic Wireline	32.3%	32.0%	30.5%	30.5%	30.5%	30.5%	
International Wireline	33.6%	33.5%	32.5%	32.0%	32.0%	31.6%	
Domestic Mobile	39.8%	38.8%	37.5%	37.5%	37.5%	37.5%	
International Mobile	33.2%	32.8%	34.8%	35.1%	35.3%	35.4%	
Total EBITDA margin %	37.5%	35.9%	35.9%	35.9%	35.9%	35.8%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	49.08	52.19	52.49	52.79	52.98	53.28	1.7%
Group EBITDA Margin	37.5%	35.9%	35.9%	35.9%	35.9%	35.8%	
Group EBITDA	18.42	18.75	18.82	18.93	19.02	19.09	0.7%
Depreciation	-7.03	-7.82	-7.60	-7.73	-6.92	-6.92	
Amortisation of Goodwill and Licenses	-0.01	-2.80	0.00	0.00	0.00	0.00	
Operating Profit	11.37	8.12	11.22	11.20	12.10	12.17	1.4%
Redundancy Charges	-0.45	-0.57	-0.57	-0.50	0.00	0.00	
Net Interest	-3.05	-3.16	-2.17	-2.00	-1.89	-1.89	
Associates ex Goodwill	0.02	0.02	0.02	0.03	0.03	0.03	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.35	2.83	-0.38	-0.38	-0.38	-0.38	
Pre-Tax Profit	8.24	7.25	8.13	8.36	9.87	9.92	3.8%
Tax Charge	-1.57	-2.18	-2.60	-2.67	-3.26	-3.28	
Minorities Charge	-0.65	-0.63	-0.63	-0.55	-0.55	-0.55	
Reported Net Income	6.02	4.44	4.90	5.13	6.06	6.10	0.3%
Underlying Net Income	5.27	4.30	5.37	5.53	5.96	6.00	2.6%
Cashflow bn							
Group EBITDA	18.42	18.75	18.82	18.93	19.02	19.09	0.7%
Capital Expenditure	-6.05	-6.73	-6.91	-7.02	-6.92	-6.92	
Net Interest charge from CF	-3.07	-2.68	-2.17	-2.00	-1.89	-1.89	
Tax Charge from CF	-0.81	-0.61	-1.20	-1.50	-4.00	-4.00	
Other (Pensions / Working Capital Etc)	-1.16	-1.60	-1.55	-1.75	-0.35	-0.35	
Dividend Leakage	-0.16	-0.43	-0.45	-0.47	-0.50	-0.52	
FCF before Dividends, Acqns & Disp.	7.17	6.70	6.55	6.19	5.37	5.40	-5.5%
Dividends	-1.18	-2.60	-3.12	-3.38	-3.64	-3.90	
CF after Dividends	5.99	4.10	3.42	2.80	1.73	1.50	
Net Debt	47.85	42.02	38.47	35.67	33.94	32.44	
Per Share Data							
FCF per Share	2.76	2.58	2.52	2.38	2.06	2.08	-5.5%
Reported EPS	2.31	1.71	1.88	1.97	2.33	2.34	0.3%
Underlying EPS (ex Goodwill)	2.02	1.65	2.06	2.13	2.29	2.31	2.6%
Dividend	1.00	1.20	1.30	1.40	1.50	1.50	8.4%
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	2.6x	2.2x	2.0x	1.9x	1.8x	1.7x	
Capex / Sales	12.3%	12.9%	13.2%	13.3%	13.1%	13.0%	
Capex / Depreciation	0.9x	0.9x	0.9x	0.9x	1.0x	1.0x	
(EBITDA - Capex) / Sales	25.2%	23.0%	22.7%	22.6%	22.8%	22.8%	
FCF / Sales	14.6%	12.8%	12.5%	11.7%	10.1%	10.1%	
ROCE	9.9%	8.2%	8.9%	9.2%	10.4%	10.5%	
ROCE ex goodwill	12.4%	10.5%	11.4%	11.9%	13.6%	13.7%	
Valuation							
EV / Proportionate Revenues	2.2x	2.0x	1.9x	1.8x	1.8x	1.8x	
EV / Proportionate EBITDA	6.1x	5.6x	5.4x	5.2x	5.1x	5.0x	
EV / ACE	1.2x	1.1x	1.1x	1.1x	1.1x	1.1x	
FCF Yield	14.0%	13.1%	12.8%	12.1%	10.5%	10.5%	
Underlying P/E	9.7x	11.9x	9.6x	9.3x	8.6x	8.6x	
Dividend Yield	5.1%	6.1%	6.6%	7.1%	7.6%	7.6%	

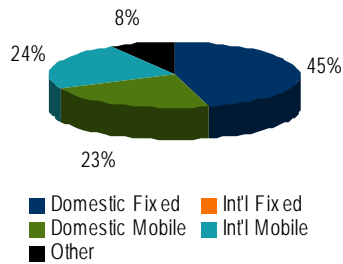
Source: Merrill Lynch Research estimate

Table 20: Sum-of-the-Parts: FT EUR 22

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Domestic Fixed Line	DCF	8.5%	-2.0%	28%	9.0%	100%	37,299	37,299	14.1	5.3x	8.3x
Domestic Fixed Line								37,299	14.1		
TPSA	Market Price					48%	7,864	5,492	2.1		
Other Fixed Line								5,492	2.1		
Personal France	DCF	8.5%	-0.5%	38.0%	12.0%	100%	24,031	24,031	9.1	6.5x	8.9x
Domestic Mobile								24,031	9.1		
Personal Spain	DCF	8.5%	2.5%	27.4%	12.0%	80%	4,858	3,886	1.5	5.6x	14.1x
Personal UK	DCF	8.5%	1.0%	33.0%	12.0%	100%	11,080	11,080	4.2	6.2x	11.1x
Mobistar	Market Price					50%	4,295	2,017	0.8	6.2x	9.6x
Mobinil	Market Price					71%	2,794	3,219	1.2	15.1x	22.1x
Romania	ML Forecast					97%	4,410	4,260	1.6	7.8x	10.0x
Switzerland	ML Forecast					100%	1,807	1,807	0.7	5.3x	7.0x
Other Personal								4,107	1.5		
International Mobile								30,376	11.5		
Other	ML Forecast					100%	1,446	1,446	0.5		
Other Businesses								1,446	0.5		
Consolidated EV								98,642	37.2		
Total Associates	ML Forecast							600	0.2		
Group Enterprise value								99,243	37.4		
Net debt (at year-end 2007E)								(38,473)	(14.5)		
Other adjustments								(1,385)	(0.5)		
Equity Value								59,385	22.4		

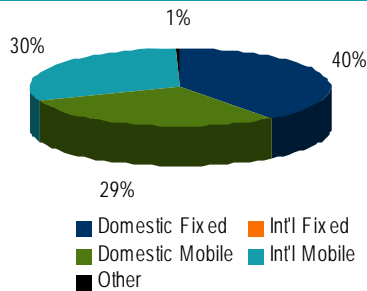
Source: Merrill Lynch estimates

Chart 22: 2006 EBITDA



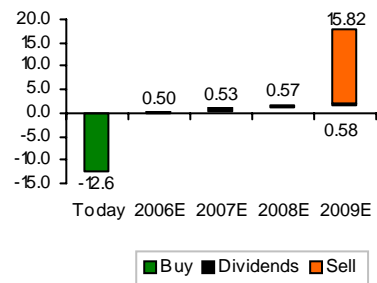
Source: Merrill Lynch estimates

Chart 23: Enterprise Value



Source: Merrill Lynch estimates

Chart 24: IRR of 9.8% / Dividends 4.3%



Merrill Lynch estimates

KPN (Fair Value Estimate EUR11.3)

Neutral B-2-7

Investment Case

- (-) The fixed line is under pressure from cable and the launch of VoIP. This is likely to continue in 2007.
- (+) Fibre rollout a positive.
- (+) Recent E-plus results show the strategy of cheap minutes and low subsidies is very effective.
- (+) Domestic mobile still showing market repair.
- (+) KPN remains committed to returning excess cash to shareholders.

Catalysts

- (+) Could be a take out candidate, although recent newsflow could mean chance has diminished.
- (+/-) Could see an acquisition in Austria, France, Switzerland.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	6.87	6.61	6.66	6.42	6.22	6.04	-2.5%
Revenue: International							
Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Domestic Mobile	2.48	2.98	3.19	3.26	3.26	3.26	5.6%
Revenue: International Mobile	3.29	3.47	3.75	3.87	3.96	4.05	4.3%
Revenue: Other	0.23	0.07	0.07	0.07	0.07	0.07	-20.3%
Revenue: Eliminations	-1.06	-1.19	-1.25	-1.31	-1.38	-1.45	0.0%
Total Revenue	11.81	11.94	12.42	12.32	12.15	11.98	0.3%
EBITDA: Domestic Wireline	2.42	2.20	2.11	2.01	1.94	1.85	-5.3%
EBITDA: International							
Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
EBITDA: Domestic Mobile	0.93	1.09	1.18	1.27	1.27	1.27	6.5%
EBITDA: International Mobile	0.91	1.14	1.19	1.31	1.36	1.40	9.0%
EBITDA: Other	0.47	0.41	0.32	0.32	0.30	0.29	-9.3%
Total EBITDA	4.72	4.84	4.80	4.91	4.87	4.80	0.3%
Domestic Wireline	1.81	1.30	1.16	1.06	0.99	1.05	-10.3%
International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Domestic Mobile	0.81	0.87	0.92	1.01	1.01	1.01	4.5%
International Mobile	0.44	0.66	0.60	0.79	0.86	0.86	14.1%
Other	0.48	0.42	0.32	0.52	0.50	0.49	0.3%
Total EBITDA - Capex	3.54	3.24	3.01	3.37	3.35	3.40	-0.8%
Domestic Wireline	35.2%	33.3%	31.8%	31.3%	31.1%	30.6%	
International Wireline	n/a	n/a	n/a	n/a	n/a	n/a	
Domestic Mobile	37.3%	36.6%	36.8%	38.9%	38.9%	38.9%	
International Mobile	27.6%	33.0%	31.7%	33.8%	34.3%	34.4%	
Total EBITDA margin %	40.0%	40.5%	38.7%	39.8%	40.1%	40.0%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	11.81	11.94	12.42	12.32	12.15	11.98	0.3%
Group EBITDA Margin	40.0%	40.5%	38.7%	39.8%	40.1%	40.0%	
Group EBITDA	4.72	4.84	4.80	4.91	4.87	4.80	0.3%
Depreciation	-1.88	-1.83	-1.90	-1.92	-1.89	-1.75	
Amortisation of Goodwill and Licenses	-0.49	-0.78	-0.61	-0.61	-0.61	-0.61	
Operating Profit	2.35	2.22	2.29	2.38	2.37	2.45	0.8%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.55	-0.52	-0.46	-0.48	-0.48	-0.46	
Associates ex Goodwill	0.01	0.01	0.01	0.01	0.01	0.01	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	1.81	1.71	1.84	1.91	1.90	1.99	1.9%
Tax Charge	-0.36	-0.38	-0.48	-0.50	-0.49	-0.52	
Minorities Charge	-0.02	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	1.44	1.33	1.36	1.42	1.40	1.47	0.5%
Underlying Net Income	1.93	2.11	1.97	2.02	2.01	2.08	1.5%
Cashflow bn							
Group EBITDA	4.72	4.84	4.80	4.91	4.87	4.80	0.3%
Capital Expenditure	-1.19	-1.60	-1.80	-1.53	-1.51	-1.40	
Net Interest charge from CF	-0.48	-0.44	-0.46	-0.48	-0.48	-0.46	
Tax Charge from CF	-0.02	0.00	-0.30	-0.72	-0.77	-0.78	
Other (Pensions / Working Capital Etc)	-0.39	-0.20	-0.20	-0.20	-0.20	-0.20	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	2.64	2.60	2.05	1.97	1.90	1.96	-5.8%
Dividends	-2.59	-2.54	-1.98	-1.97	-0.99	-1.00	
CF after Dividends	0.05	0.06	0.07	0.00	0.92	0.96	
Net Debt	8.23	8.09	8.00	7.99	7.06	6.10	
Per Share Data							
FCF per Share	1.19	1.29	1.09	1.11	1.10	1.13	-1.1%
Reported EPS	0.65	0.66	0.72	0.79	0.81	0.85	5.5%
Underlying EPS (ex Goodwill)	0.87	1.05	1.04	1.13	1.16	1.20	6.6%
Dividend	0.45	0.50	0.53	0.57	0.58	0.58	5.1%
Share Buyback	0.77	0.77	0.53	0.56	0.00	0.00	
Ratios							
Net Debt / EBITDA	1.7x	1.7x	1.7x	1.6x	1.5x	1.3x	
Capex / Sales	10.0%	13.4%	14.5%	12.4%	12.5%	11.7%	
Capex / Depreciation	0.6x	0.9x	0.9x	0.8x	0.8x	0.8x	
(EBITDA - Capex) / Sales	29.9%	27.1%	24.2%	27.4%	27.6%	28.4%	
FCF / Sales	22.4%	21.8%	16.5%	16.0%	15.7%	16.3%	
ROCE	11.6%	13.1%	12.4%	13.2%	13.7%	14.3%	
ROCE ex goodwill	21.1%	24.6%	22.1%	22.6%	22.7%	22.4%	
Valuation							
EV / Proportionate Revenues	2.8x	2.6x	2.4x	2.3x	2.2x	2.2x	
EV / Proportionate EBITDA	7.1x	6.4x	6.2x	5.8x	5.5x	5.4x	
EV / ACE	1.7x	1.6x	1.6x	1.5x	1.5x	1.5x	
FCF Yield	10.4%	11.3%	9.5%	9.7%	9.6%	9.9%	
Underlying P/E	13.1x	10.9x	11.0x	10.1x	9.9x	9.6x	
Dividend Yield	3.9%	4.4%	4.6%	4.9%	5.0%	5.0%	

Source: Merrill Lynch Research estimate

Table 21: Sum-of-the-Parts: KPN EUR11.3

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Fixed Business	DCF	8.0%	-1.0%	38.0%	11.0%	100%	11,613	11,613	6.2	5.8x	8.6x
Domestic Fixed Line							11,613	11,613	6.2		
KPN Mobile NL	DCF	8.0%	0.0%	38.0%	9.0%	100%	8,611	8,611	4.6	6.8x	9.4x
Domestic Mobile							8,611	8,611	4.6		
E-Plus	DCF	8.0%	1.5%	32.0%	12.0%	100%	7,172	7,172	3.8	7.5x	14.7x
BASE	DCF	8.0%	1.5%	38.0%	14.0%	100%	1,636	1,636	0.9	6.3x	11.9x
International Mobile							8,809	8,809	4.7		
Business Solutions	DCF	8.0%	-1.0%	13.0%	5.0%	100%	1,147	1,147	0.6	3.7x	9.6x
Other Businesses							1,147	1,147	0.6		
Other Consolidated Cash Flows (mainly Tax Credits)								353	0.2		
PV of Pension Deficit								(1,300)	(0.7)		
Other Assets/(Liabilities)								(947)	(0.5)		
Enterprise Value								29,233	15.5		
Year End 2007E Cash/(Net Debt)								(7,997)	(4.2)		
Equity Value								21,235	11.3		

Source: Merrill Lynch estimates

Table 22: Sum of the Parts: OTE EUR26

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Greece	DCF	7.5%	-0.5%	37%	9%	100%	5,675	5,675	11.6	6.6x	13.8x
Domestic Fixed Line								5,675	11.6		
RomTelecom	DCF	10.0%	-0.5%	39%	9%	54%	1,959	1,058	2.2	6.0x	11.0x
Telecom Serbia								171	0.3		
International Fixed Line								1,229	2.5		
Cosmote	DCF					67%	10,706	7,173	14.6		
Romanian Mobile	DCF					16%	2,133	346	0.7		
Domestic and International Mobile								7,519	15.3		
Infonet						100%	250	250	0.5		
Real Estate								400	0.8		
Other Assets/(Liabilities)								650	1.3		
Total Enterprise Value								15,072	30.7		
Group Net Debt								(2,519)	-5.1		
Equity Value								12,553	26		

Source: Merrill Lynch estimates

Table 23: Sum of the Parts: Our price target is EUR11.25 per share or the middle of the price targets of the worst and best case scenarios.

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Domestic Fixed Line	DCF	8.0%	-1.0%	45.0%	10.0%	100%	5,120	5,120	5.7	5.3x	8.3x
Domestic Fixed Line								5,120	5.7		
Domestic Mobile	DCF	8.0%	0.5%	40.0%	11.0%	100%	4,342	4,342	4.8	6.7x	12.6x
Domestic Mobile								4,342	4.8		
Vivo	DCF	10.8%	2.5%	40.0%	11.0%	31%	10,711	3,320	3.7	7.5x	32.1x
International Mobile								3,320	3.7		
PT Multimedia						58%	3,895	2,276	2.5		
Other Assets								1,475	1.6		
Other Assets								3,751	4.2		
Enterprise Value								16,534	18.6		
Pension fund								(1,404)	(1.6)		
Year End 2007E Cash/(Net Debt)								(5,760)	(6.4)		
Equity Value								9,370	10.5		

Source: Merrill Lynch estimates

Table 24: Sum of the Parts: Price target of CHF500

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Fixnet	DCF	8.0%	0%	39.0%	8.0%	100%	11,175	11,175	216	6.3x	9.7x
Domestic Fixed Line								11,175	216		
Domestic Mobile	DCF	8.0%	1%	40.0%	7.5%	100%	14,228	14,228	275	7.8x	9.6x
Domestic Mobile								14,228	275		
Enterprise Solutions	DCF	8.0%	-1%	7.0%	2.0%	100%	654	654	13	10.6x	33.0x
Other	DCF	8.0%	0%	15.0%	10.0%	100%	545	545	11	2.8x	-20.2x
Other Businesses								1,198	23		
Fastweb								7,868	152		
Other Assets/ (Liabilities)								7,868	152		
Enterprise Value								34,470	665		
Year End 2007E Net Debt/ (net cash)								(8,530)	(165)		
Equity Value								25,940	500		

Source: Merrill Lynch estimates

Chart 34: 2006 EBITDA

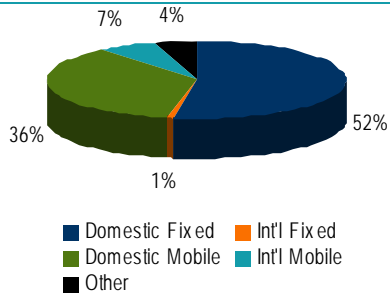
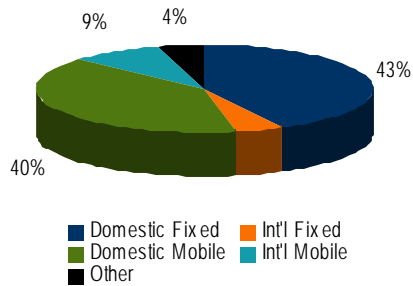
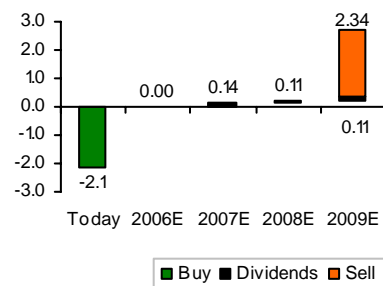


Chart 35: Enterprise Value



Source: Merrill Lynch estimates

Chart 36: IRR of 10.1% / Dividends 5.2%



Merrill Lynch estimates

Telecom Italia (Price Objective EUR2.35) Buy B-1-8

Investment Case

- (-) Impact of Bersani decree in wireless will hit Q2 and 2007
- (+) Strategic and absolute value of TIM Brazil continues to rise (#1 operator in revenue terms)
- (+) Telefonica is now the leading shareholder of TI with 10% of votes after paying EUR2.85 per share
- (+) Well run company operationally and domestic market share above EU average

Catalysts

- (-) Further negative regulation and uncertainty regarding network separation
- (+) Details of synergies between TEF / TI once deal is completed
- (+) Hutch exits Europe and Italian market moves to 3 from 4 players

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	17.37	16.88	16.29	15.76	15.45	15.21	-2.6%
Revenue: International Wireline	0.57	0.92	1.56	2.02	2.33	2.56	35.2%
Revenue: Domestic Mobile	10.08	10.21	9.97	10.14	10.30	10.54	0.9%
Revenue: International Mobile	2.90	3.96	4.41	4.68	4.87	5.03	11.7%
Revenue: Other	2.14	2.02	2.01	2.01	2.00	1.99	-1.4%
Revenue: Eliminations	-3.30	-2.90	-2.92	-2.93	-2.95	-2.96	0.0%
Total Revenue	29.92	31.28	31.32	31.67	32.00	32.37	1.6%
EBITDA: Domestic Wireline	7.65	7.39	7.00	6.78	6.64	6.54	-3.1%
EBITDA: International Wireline	0.00	0.08	0.28	0.36	0.47	0.56	-408.9%
EBITDA: Domestic Mobile	5.09	5.04	4.74	4.76	4.74	4.80	-1.2%
EBITDA: International Mobile	0.47	0.95	1.11	1.28	1.40	1.53	26.8%
EBITDA: Other	-0.68	-0.62	-0.68	-0.63	-0.60	-0.56	-3.9%
Total EBITDA	12.52	12.85	12.45	12.56	12.65	12.86	0.5%
Domestic Wireline	5.29	4.86	4.56	4.49	4.48	4.49	-3.2%
International Wireline	-0.31	-0.39	-0.22	-0.04	0.17	0.31	-200.1%
Domestic Mobile	3.81	3.90	3.52	3.55	3.71	3.74	-0.4%
International Mobile	-0.38	0.25	0.47	0.68	0.84	0.95	-220.3%
Other	-1.07	-0.88	-0.97	-0.93	-0.90	-0.87	-4.2%
Total EBITDA - Capex	7.34	7.74	7.35	7.75	8.30	8.62	3.2%
Domestic Wireline	44.1%	43.8%	43.0%	43.0%	43.0%	43.0%	
International Wireline	-0.4%	8.9%	18.0%	18.0%	20.0%	22.0%	
Domestic Mobile	50.5%	49.4%	47.5%	47.0%	46.0%	45.5%	
International Mobile	16.1%	24.0%	25.1%	27.5%	28.8%	30.3%	
Total EBITDA margin %	41.8%	41.1%	39.7%	39.6%	39.5%	39.7%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	29.92	31.28	31.32	31.67	32.00	32.37	1.6%
Group EBITDA Margin	41.8%	41.1%	39.7%	39.6%	39.5%	39.7%	
Group EBITDA	12.52	12.85	12.45	12.56	12.65	12.86	0.5%
Depreciation	-5.02	-5.41	-5.80	-5.62	-5.52	-5.20	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	7.50	7.44	6.65	6.94	7.13	7.67	0.4%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-1.96	-1.92	-2.12	-2.06	-1.97	-1.86	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.55	0.01	-0.15	-0.15	-0.15	-0.15	
Pre-Tax Profit	6.09	5.52	4.38	4.73	5.01	5.65	
Tax Charge	-2.40	-2.52	-1.91	-2.04	-2.14	-2.38	
Minorities Charge	-0.47	0.01	-0.04	-0.12	-0.19	-0.27	
Reported Net Income	3.22	3.01	2.43	2.57	2.68	3.00	-1.4%
Underlying Net Income	3.22	3.01	2.58	2.72	2.83	3.15	-0.4%
Cashflow bn							
Group EBITDA	12.52	12.85	12.45	12.56	12.65	12.86	0.5%
Capital Expenditure	-5.17	-5.11	-5.09	-4.80	-4.35	-4.25	
Net Interest charge from CF	-1.67	-1.89	-2.12	-2.06	-1.97	-1.86	
Tax Charge from CF	-0.71	-0.57	-0.70	-2.34	-2.14	-2.38	
Other (Pensions / Working Capital Etc)	-0.21	-0.92	-0.10	-0.10	-0.11	-0.16	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	4.76	4.36	4.44	3.25	4.08	4.21	-2.4%
Dividends	-2.39	-3.00	-2.78	-2.09	-2.21	-2.31	
CF after Dividends	2.38	1.37	1.66	1.17	1.87	1.91	
Net Debt	39.86	37.30	36.32	35.15	33.28	31.37	
Per Share Data							
FCF per Share	0.25	0.22	0.23	0.17	0.21	0.22	-2.4%
Reported EPS	0.18	0.16	0.13	0.13	0.14	0.15	-3.1%
Underlying EPS (ex Goodwill)	0.18	0.15	0.13	0.14	0.15	0.16	-2.2%
Dividend	0.14	0.14	0.11	0.11	0.12	0.13	-1.5%
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	3.2x	2.9x	2.9x	2.8x	2.6x	2.4x	
Capex / Sales	17.3%	16.4%	16.3%	15.2%	13.6%	13.1%	
Capex / Depreciation	1.0x	0.9x	0.9x	0.9x	0.8x	0.8x	
(EBITDA - Capex) / Sales	24.5%	24.7%	23.5%	24.5%	25.9%	26.6%	
FCF / Sales	15.9%	13.9%	14.2%	10.3%	12.8%	13.0%	
ROCE	6.5%	5.7%	5.6%	5.9%	6.1%	6.6%	
ROCE ex goodwill	14.7%	15.4%	16.1%	16.7%	17.0%	17.8%	
Valuation							
EV / Proportionate Revenues	2.7x	2.5x	2.5x	2.4x	2.3x	2.2x	
EV / Proportionate EBITDA	6.5x	6.1x	6.2x	6.1x	5.9x	5.7x	
EV / ACE	1.1x	1.0x	1.0x	1.0x	1.0x	0.9x	
FCF Yield	10.5%	9.6%	9.8%	7.2%	9.0%	9.3%	
Underlying P/E	12.9x	15.1x	17.6x	16.7x	16.0x	14.4x	
Dividend Yield	6.0%	6.0%	4.5%	4.8%	5.0%	5.5%	

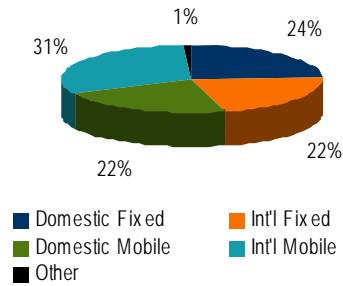
Source: Merrill Lynch Research estimate

Table 25: Sum-of-the-Parts: Telecom Italia PO EUR 2.35

Company/Division	Valuation Method	DCF Assumptions				% Stake	100% Value	Stake Value	Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
TI Wireline	DCF	8.0%	-0.5%	43%	13.0%	100%	34,018	34,018	1.84	4.9x	7.5x
Domestic Fixed Line								34,018	1.84		
Italy	DCF	8.0%	1.0%	45%	10.0%	100%	31,842	31,842	1.72	6.7x	9.1x
Domestic Mobile								31,842	1.72		
Brazil	DCF	10.5%	3.0%	35%	11.0%	70%	10,137	7,096	0.38	9.2x	n/m
International Mobile								7,096	0.38		
EU Broadband	DCF	8.0%	1.5%	26%	10.0%	100.0%	3,369	3,369	0.18	12.0x	n/m
TI Media	Market Value					69.2%	1,266	876	0.05		
Associates								4,245	0.23		
Other Assets								2,651	0.14		
Other Assets/(Liabilities)								2,651	0.14		
Enterprise Value								79,852	4.32		
Year End 2007E Cash/(Net Debt)								(36,315)	-1.96		
Equity Value								43,537	2.35		

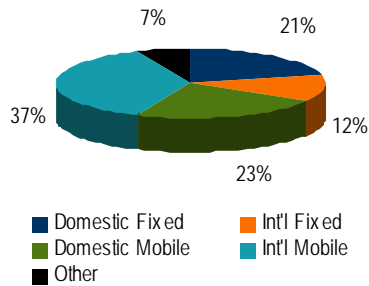
Source: Merrill Lynch estimates

Chart 37: 2006 EBITDA



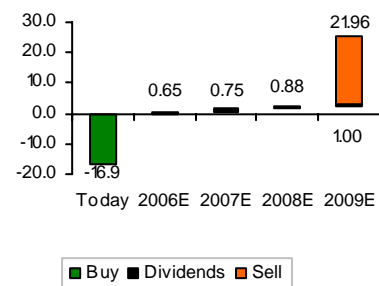
Source: Merrill Lynch estimates

Chart 38: Enterprise Value



Source: Merrill Lynch estimates

Chart 39: IRR of 11.2% / Dividends 4.8%



Merrill Lynch estimates

Telefonica (Price Objective EUR19)

BUY A-1-7

Investment Case

- (+) TEF offers the best asset quality portfolio in Europe and above average EPS growth rate
- (+) Revenue growth and margin upside in Latam wireless is massively undervalued
- (+) Cumulative FCF over the next three years could exceed EUR28% or over 30% of market cap
- (+) Management team has acquired shares and call options in March, reducing M&A risk and sending a bullish signal

Catalysts

- (+) Purchase of Vivo from PT to later merge it with TSP
- (+) Higher domestic guidance post Q2 results after very strong Q1
- (-) Stronger competition in Spain mainly in ADSL after Orange bought ya.com
- (-) FX trends could deteriorate further, yoy comps will be difficult

Divisional Breakdowns	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	11.96	12.17	12.25	12.28	12.20	0.7%
Revenue: International Wireline	9.54	9.98	9.98	9.90	9.81	3.3%
Revenue: Domestic Mobile	9.20	9.42	9.48	9.62	9.72	1.9%
Revenue: International Mobile	22.36	24.79	25.93	26.81	27.46	25.8%
Revenue: Other	3.46	-0.66	-0.61	-0.58	-0.54	-171.0%
Revenue: Eliminations	-3.62	0.00	0.00	0.00	0.00	0.0%
Total Revenue	52.90	55.70	57.04	58.03	58.65	9.4%
EBITDA: Domestic Wireline	4.57	5.02	5.48	5.43	5.35	2.3%
EBITDA: International Wireline	4.21	4.47	4.48	4.44	4.40	3.2%
EBITDA: Domestic Mobile	4.13	4.12	4.08	4.09	4.08	-0.2%
EBITDA: International Mobile	6.02	7.13	7.76	8.47	8.96	33.1%
EBITDA: Other	0.19	0.18	0.19	0.21	0.23	-0.6%
Total EBITDA	19.13	20.92	21.99	22.65	23.01	8.9%
Domestic Wireline	3.02	3.38	3.64	3.59	3.67	1.7%
International Wireline	2.92	3.37	3.37	3.34	3.30	4.0%
Domestic Mobile	3.38	3.28	3.22	3.22	3.21	-1.2%
International Mobile	1.95	3.60	4.32	5.21	5.75	60.3%
Other	-0.14	-0.38	-0.38	-0.37	-0.36	2.2%
Total EBITDA - Capex	11.12	13.24	14.19	14.99	15.56	9.9%
Domestic Wireline	38.2%	41.2%	44.7%	44.3%	43.9%	
International Wireline	44.1%	44.8%	44.9%	44.9%	44.8%	
Domestic Mobile	44.9%	43.8%	43.0%	42.5%	42.0%	
International Mobile	26.9%	28.8%	29.9%	31.6%	32.6%	
Total EBITDA margin %	36.2%	37.6%	38.6%	39.0%	39.2%	

P&L bn	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	52.90	55.70	57.04	58.03	58.65	9.4%
Group EBITDA Margin	36.2%	37.6%	38.6%	39.0%	39.2%	
Group EBITDA	19.13	20.92	21.99	22.65	23.01	8.9%
Depreciation	-9.71	-10.11	-9.95	-9.81	-9.64	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	
Operating Profit	9.42	10.82	12.03	12.84	13.37	9.8%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	
Net Interest	-2.73	-2.82	-2.46	-2.23	-2.01	
Associates ex Goodwill	0.08	0.18	0.32	0.36	0.41	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	1.60	1.40	0.00	0.00	0.00	
Pre-Tax Profit	8.36	9.58	9.90	10.97	11.77	12.0%
Tax Charge	-1.78	-2.29	-2.87	-3.29	-3.53	
Minorities Charge	-0.35	-0.43	-0.53	-0.61	-0.63	
Reported Net Income	6.23	6.86	6.49	7.06	7.60	11.3%
Underlying Net Income	4.64	5.46	6.49	7.06	7.60	11.7%
Cashflow bn						
Group EBITDA	19.13	20.92	21.99	22.65	23.01	8.9%
Capital Expenditure	-8.00	-7.68	-7.80	-7.65	-7.46	
Net Interest charge from CF	-2.30	-2.82	-2.46	-2.23	-2.01	
Tax Charge from CF	-1.10	-0.69	-1.37	-2.29	-2.78	
Other (Pensions / Working Capital Etc)	0.87	-1.05	-1.10	-0.95	-0.78	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	8.60	8.68	9.26	9.53	9.99	8.8%
Dividends	-5.03	-4.90	-4.56	-5.13	-5.63	
CF after Dividends	3.57	3.79	4.70	4.40	4.36	
Net Debt	52.15	46.89	42.57	38.54	34.56	
Per Share Data						
FCF per Share	1.75	1.83	1.97	2.06	2.18	10.4%
Reported EPS	1.27	1.44	1.39	1.53	1.66	13.0%
Underlying EPS (ex Goodwill)	0.94	1.15	1.39	1.53	1.66	13.3%
Dividend	0.65	0.75	0.88	1.00	1.10	14.9%
Share Buyback	0.47	0.35	0.21	0.21	0.22	
Ratios						
Net Debt / EBITDA	2.7x	2.2x	1.9x	1.7x	1.5x	
Capex / Sales	15.1%	13.8%	13.7%	13.2%	12.7%	
Capex / Depreciation	0.8x	0.8x	0.8x	0.8x	0.8x	
(EBITDA - Capex) / Sales	21.0%	23.8%	24.9%	25.8%	26.5%	
FCF / Sales	16.3%	15.6%	16.2%	16.4%	17.0%	
ROCE	10.4%	10.0%	11.7%	12.9%	14.0%	
ROCE ex goodwill	18.7%	21.3%	27.0%	31.3%	35.7%	
Valuation						
EV / Proportionate Revenues	2.6x	2.3x	2.2x	2.0x	1.9x	
EV / Proportionate EBITDA	7.2x	6.2x	5.6x	5.2x	4.9x	
EV / ACE	2.0x	1.6x	1.6x	1.6x	1.6x	
FCF Yield	10.4%	10.9%	11.7%	12.2%	12.9%	
Underlying P/E	17.9x	14.7x	12.2x	11.1x	10.2x	
Dividend Yield	3.9%	4.4%	5.2%	5.9%	6.5%	

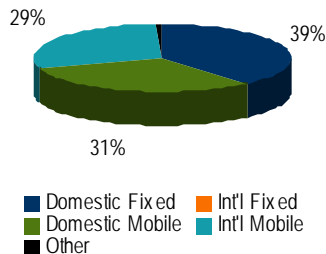
Source: Merrill Lynch estimates

Table 26: Sum-of-the-Parts: Telefonica PO EUR19

Company/Division	Valuation Method	DCF Assumptions				% Stake	100% Value	Stake Value	Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Wireless (TME)	DCF	8.0%	1.0%	42.0%	9.0%	100%	31,424	31,424	6.6	7.6x	14.0x
Wireline (TdE)	DCF	8.0%	-1.0%	43.0%	11.0%	100%	29,260	29,260	6.2	5.2x	11.2x
TEF Spain								60,684	12.8		
Telesp (TSP)	DCF	11.0%	1.0%	45.5%	11.0%	87%	11,843	10,350	2.2	4.6x	8.1x
Latam wireline (ex TSP)	DCF	11.0%	1.0%	42.5%	11.0%		9,652	6,290	1.3	5.1x	8.7x
TEM Latam	DCF						22,675	22,455	4.7		
Northern Region	DCF	10.8%	2.5%	40.0%	11.0%	100%	5,450	5,450	1.1	14.0x	66.2x
Andean Region	DCF	10.8%	2.5%	40.0%	10.0%	100%	8,802	8,802	1.9	6.4x	15.5x
Southern Region	DCF	10.8%	2.5%	40.0%	10.0%	100%	5,634	5,634	1.2	6.7x	16.6x
Brazil	DCF	10.8%	2.5%	40.0%	11.0%	31%	8,239	2,570	0.5	7.1x	30.2x
TEF Latam								39,096	8.2		
O2							23,148	23,148	4.9		
UK	DCF	8.0%	1.0%	31.0%	10.0%	100%	14,348	14,348	3.0	7.4x	21.0x
Germany	DCF	8.0%	1.0%	31.0%	10.0%	100%	6,452	6,452	1.4	9.3x	112.3x
Ireland	DCF	8.0%	1.0%	35.0%	10.0%	100%	2,348	2,348	0.5	10.4x	34.7x
Cesky Telecom (CT)	DCF	8.5%	1.0%	45.0%	12.0%	69%	7,299	5,066	1.1	7.4x	14.0x
Telefonica O2 Europe								28,215	5.9		
Telecom Italia (Ords)	Cost					10%	38,133	3,813	0.8		
Medi Telecom	ML Forecast					32%	1,708	550	0.1		
Portugal Telecom	ML Forecast					10%	11,335	1,111	0.2		
BBVA	ML Forecast					1%	65,967	726	0.2		
Sogecable	ML Forecast					17%	4,137	695	0.1		
China Netcom	ML Forecast					5%	13,820	691	0.1		
Others	ML Forecast							1,495	0.3		
Others								9,081	1.9		
Enterprise Value								137,075	28.9		
Year End 2007E Cash/(Net Debt)								(46,895)	(9.9)		
Others								(100)	(0.0)		
Equity Value								90,080	19.0		

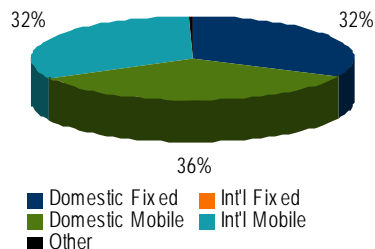
Source: Merrill Lynch estimates

Chart 40: 2006 EBITDA



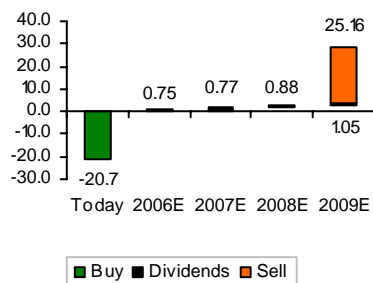
Source: Merrill Lynch estimates

Chart 41: Enterprise Value



Source: Merrill Lynch estimates

Chart 42: IRR of 8.8% / Dividends 4.1%



Merrill Lynch estimates

Telekom Austria (Fair Value Estimate EUR20.2) Neutral B-2-7

Investment Case

- (+) Prospects of Market repair in Domestic Wireless.
- (+) Bolt-on M&A in the Balkans.
- (+) Acquisition of eTel and fiber agreement will continue to improve fixed line.
- (+) Agreement with municipal authorities on fiber could improve competitive advantage.
- (-) Impacted negatively from the proposed roaming regulations.
- (+) We estimate EUR300mn of buybacks in 2007.

Potential Catalysts

- (+/-) Potential Hutch exit could lead to mobile market repair.
- (+) Details of further acquisitions.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	2.14	2.12	2.12	2.10	2.07	2.04	-0.9%
Revenue: International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Domestic Mobile	1.72	1.73	1.67	1.60	1.60	1.62	-1.2%
Revenue: International Mobile	0.77	1.18	1.24	1.29	1.36	1.44	13.3%
Revenue: Other	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Revenue: Eliminations	-0.25	-0.26	-0.26	-0.26	-0.26	-0.26	0.0%
Total Revenue	4.38	4.76	4.77	4.72	4.76	4.82	2.0%
EBITDA: Domestic Wireline	0.79	0.75	0.74	0.72	0.71	0.70	-2.3%
EBITDA: International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
EBITDA: Domestic Mobile	0.61	0.61	0.58	0.57	0.56	0.57	-1.5%
EBITDA: International Mobile	0.36	0.57	0.54	0.54	0.58	0.60	11.0%
EBITDA: Other	0.00	-0.02	0.00	0.00	0.00	0.00	-100.0%
Total EBITDA	1.76	1.91	1.85	1.83	1.85	1.87	1.2%
Domestic Wireline	0.47	0.49	0.48	0.45	0.47	0.48	0.4%
International Wireline	0.00	0.00	0.00	0.00	0.00	0.00	n/a
Domestic Mobile	0.43	0.48	0.39	0.39	0.38	0.38	-2.2%
International Mobile	0.28	0.49	0.46	0.46	0.50	0.52	13.5%
Other	-0.06	-0.55	-0.31	-0.23	-0.19	-0.15	20.8%
Total EBITDA - Capex	1.13	0.91	1.06	1.11	1.19	1.27	2.3%
Domestic Wireline	36.8%	35.3%	34.9%	34.5%	34.5%	34.4%	
International Wireline	n/a	n/a	n/a	n/a	n/a	n/a	
Domestic Mobile	35.7%	35.3%	34.5%	35.6%	35.1%	35.1%	
International Mobile	46.3%	48.2%	43.3%	41.8%	42.3%	41.8%	
Total EBITDA margin %	40.2%	40.1%	38.8%	38.7%	38.8%	38.7%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	4.38	4.76	4.77	4.72	4.76	4.82	2.0%
Group EBITDA Margin	40.2%	40.1%	38.8%	38.7%	38.8%	38.7%	
Group EBITDA	1.76	1.91	1.85	1.83	1.85	1.87	1.2%
Depreciation	-1.08	-1.08	-0.99	-0.90	-0.80	-0.74	
Amortisation of Goodwill and Licenses	-0.04	-0.04	-0.03	-0.03	-0.03	-0.03	
Operating Profit	0.64	0.78	0.83	0.90	1.02	1.10	11.5%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.11	-0.11	-0.14	-0.14	-0.13	-0.14	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.01	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	0.54	0.67	0.69	0.76	0.88	0.96	12.2%
Tax Charge	-0.11	-0.10	-0.15	-0.16	-0.18	-0.20	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	0.43	0.57	0.55	0.60	0.70	0.76	11.8%
Underlying Net Income	0.46	0.60	0.59	0.63	0.73	0.79	11.6%
Cashflow bn							
Group EBITDA	1.76	1.91	1.85	1.83	1.85	1.87	1.2%
Capital Expenditure	-0.63	-1.00	-0.79	-0.72	-0.66	-0.60	
Net Interest charge from CF	-0.11	-0.11	-0.14	-0.14	-0.13	-0.14	
Tax Charge from CF	-0.08	-0.11	-0.15	-0.16	-0.18	-0.20	
Other (Pensions / Working Capital Etc)	-0.06	-0.08	-0.05	-0.03	-0.03	-0.03	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	0.89	0.60	0.72	0.79	0.84	0.90	0.4%
Dividends	-0.30	-0.67	-0.66	-0.66	-0.89	-0.95	
CF after Dividends	0.58	-0.07	0.06	0.13	-0.05	-0.05	
Net Debt	3.22	3.19	3.13	3.00	3.05	3.10	
Per Share Data							
FCF per Share	1.82	1.28	1.59	1.79	2.01	2.28	4.7%
Reported EPS	0.89	1.21	1.21	1.38	1.66	1.92	16.7%
Underlying EPS (ex Goodwill)	0.94	1.28	1.30	1.45	1.73	2.00	16.4%
Dividend	0.55	0.75	0.77	0.88	1.05	1.21	17.2%
Share Buyback	0.37	0.84	0.65	0.67	1.16	1.23	
Ratios							
Net Debt / EBITDA	1.8x	1.7x	1.7x	1.6x	1.6x	1.7x	
Capex / Sales	14.3%	20.9%	16.6%	15.3%	13.8%	12.4%	
Capex / Depreciation	0.6x	0.9x	0.8x	0.8x	0.8x	0.8x	
(EBITDA - Capex) / Sales	25.8%	19.1%	22.2%	23.5%	25.0%	26.3%	
FCF / Sales	20.2%	12.7%	15.1%	16.6%	17.7%	18.7%	
ROCE	8.0%	10.1%	10.6%	10.0%	10.0%	11.0%	
ROCE ex goodwill	11.3%	17.1%	20.3%	17.2%	15.8%	17.7%	
Valuation							
EV / Proportionate Revenues	3.0x	2.7x	2.6x	2.5x	2.4x	2.3x	
EV / Proportionate EBITDA	7.5x	6.7x	6.7x	6.5x	6.2x	5.9x	
EV / ACE	2.0x	1.9x	1.9x	1.6x	1.4x	1.4x	
FCF Yield	8.8%	6.2%	7.7%	8.7%	9.7%	11.0%	
Underlying P/E	22.1x	16.2x	16.0x	14.3x	12.0x	10.4x	
Dividend Yield	2.7%	3.6%	3.7%	4.3%	5.1%	5.9%	

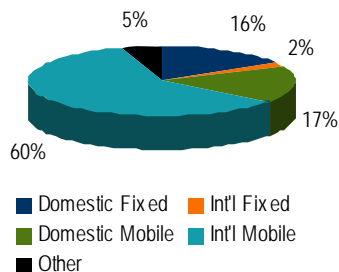
Source: Merrill Lynch estimates

Table 27: Sum-of-the-Parts: Telekom Austria EUR20.2

Company/Division	Valuation Method	DCF Assumptions				% Stake	100% Value	Stake Value	Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Wireline Business	DCF	8.5%	-1.0%	36.0%	11.0%	100%	3,961	3,961	8.88	5.4x	8.3x
Domestic Fixed Line								3,961	8.88		
Mobile-Austria	DCF	8.5%	1.5%	37.5%	12.0%	100%	4,198	4,198	9.41	7.3x	10.7x
Domestic Mobile								4,198	9.41		
Mobile-Croatia	DCF	11.0%	2.0%	39.5%	12.0%	100%	1,211	1,211	2.72	6.2x	9.2x
Mobile-Slovenia	DCF	11.0%	2.0%	34.5%	12.0%	100%	316	316	0.71	7.6x	11.9x
Mobile-Bulgaria	DCF	11.0%	2.0%	47.6%	12.0%	100%	2,078	2,078	4.66	6.0x	8.4x
Mobile-Liechestein	EV/EBITDA							29	0.07		
Mobile - Serbia	DCF	11.0%	4.0%	35.0%	8.0%	100%	328	328	0.7		
Mobile - Macedonia	DCF	11.0%	4.0%	35.0%	8.0%	100%	37	37	0.1		
International Mobile								3,999	8.97		
NPV of Tax Credit								(45)	(0.10)		
Other Assets/(Liabilities)								(45)	(0.10)		
Enterprise Value								12,113	27.17		
Year End 2006E Cash/(Net Debt)								(3,127)	(7.01)		
Equity Value								8,987	20.2		

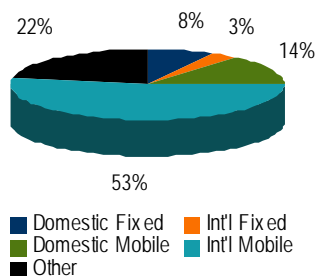
Source: Merrill Lynch Estimates

Chart 44: 2006 EBITDA



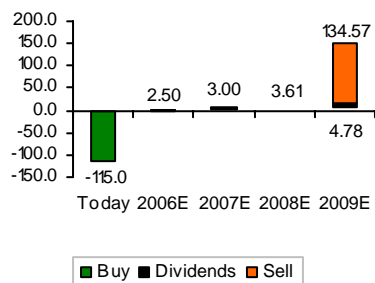
Source: Merrill Lynch estimates

Chart 45: Enterprise Value



Source: Merrill Lynch estimates

Chart 43: IRR of 6.8% / Dividends 3.0%



Merrill Lynch estimates

Telenor (Price Objective NOK140) Buy B-1-7
Investment Case
 (+) Growth CAGR of 10% compared to Incumbents on 2% driven by diversified exposure to wireless which makes up 83% of EV.
 (+/-) Domestic markets remain stable with fixed line cost cutting and a mobile duopoly.
Catalysts
 (+) Shareholder dispute in Russia and the Ukraine now a major focus with the deconsolidation of Kyivstar.
 (+) Operations in Bangladesh and Pakistan should be able to beat expectations as growth in the Ukraine and Malaysia slows.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	16.87	15.82	14.60	13.50	12.71	12.05	-6.5%
Revenue: International Wireline	2.45	4.06	5.11	5.83	6.36	6.64	22.1%
Revenue: Domestic Mobile	12.24	13.06	13.42	13.86	14.13	14.31	3.2%
Revenue: International Mobile	28.65	49.98	51.08	59.81	65.17	68.55	19.1%
Revenue: Other	15.62	16.36	15.74	16.25	16.78	17.34	2.1%
Revenue: Eliminations	-6.89	-6.42	-6.47	-7.07	-7.45	-7.69	0.0%
Total Revenue	68.93	92.86	93.49	102.18	107.70	111.19	10.0%
EBITDA: Domestic Wireline	5.70	5.42	4.96	4.59	4.32	4.10	-6.4%
EBITDA: International Wireline	0.18	0.65	0.91	1.17	1.38	1.55	53.1%
EBITDA: Domestic Mobile	4.47	5.49	5.37	5.54	5.51	5.44	4.0%
EBITDA: International Mobile	10.77	19.93	17.02	20.25	22.77	24.75	18.1%
EBITDA: Other	2.71	1.58	2.07	2.32	2.43	2.53	-1.4%
Total EBITDA	23.84	33.08	30.33	33.88	36.40	38.36	10.0%
Domestic Wireline	3.53	3.69	3.21	3.10	2.92	2.77	-4.7%
International Wireline	-0.42	-0.14	0.05	0.49	0.74	0.88	-215.9%
Domestic Mobile	3.25	4.73	4.03	4.30	4.24	4.15	5.0%
International Mobile	-0.50	5.70	6.60	9.88	13.67	16.32	-300.9%
Other	1.53	0.07	-0.60	0.68	1.32	1.39	-2.0%
Total EBITDA - Capex	7.40	14.04	13.29	18.45	22.89	25.52	28.1%
Domestic Wireline	33.8%	34.2%	34.0%	34.0%	34.0%	34.0%	
International Wireline	7.5%	16.0%	17.7%	20.1%	21.7%	23.3%	
Domestic Mobile	36.5%	42.1%	40.0%	40.0%	39.0%	38.0%	
International Mobile	37.6%	39.9%	33.3%	33.9%	34.9%	36.1%	
Total EBITDA margin %	34.6%	35.6%	32.4%	33.2%	33.8%	34.5%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	68.93	92.86	93.49	102.18	107.70	111.19	10.0%
Group EBITDA Margin	34.6%	35.6%	32.4%	33.2%	33.8%	34.5%	
Group EBITDA	23.84	33.08	30.33	33.88	36.40	38.36	10.0%
Depreciation	-11.48	-14.46	-14.76	-13.43	-14.52	-15.70	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	12.36	18.61	15.57	20.44	21.88	22.66	12.9%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.30	1.47	-1.99	-2.01	-1.55	-0.98	
Associates ex Goodwill	1.45	1.85	1.68	1.83	2.00	2.22	
Goodwill on Associates	-0.22	0.15	0.15	0.15	0.15	0.15	
Exceptionals and Other	-0.58	0.10	1.39	0.00	0.00	0.00	
Pre-Tax Profit	12.71	22.18	16.81	20.41	22.49	24.06	13.6%
Tax Charge	-3.44	-3.15	-5.04	-6.12	-6.75	-7.22	
Minorities Charge	-1.49	-2.62	-1.83	-2.19	-2.40	-2.52	
Reported Net Income	7.78	16.42	9.94	12.10	13.34	14.32	13.0%
Underlying Net Income	8.46	13.07	8.82	11.94	13.19	14.16	10.8%
Cashflow bn							
Group EBITDA	23.84	33.08	30.33	33.88	36.40	38.36	10.0%
Capital Expenditure	-14.21	-19.13	-17.70	-15.43	-13.51	-12.85	
Net Interest charge from CF	-1.19	-1.40	-2.49	-2.11	-1.65	-1.08	
Tax Charge from CF	-1.37	-3.87	-3.15	-5.04	-6.12	-6.75	
Other (Pensions / Working Capital Etc)	1.07	2.83	0.39	0.30	0.30	0.30	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	8.13	11.51	7.38	11.59	15.42	17.99	17.2%
Dividends	-4.74	-4.25	-4.18	-4.97	-5.97	-7.91	
CF after Dividends	3.39	7.25	3.21	6.62	9.45	10.08	
Net Debt	30.86	43.21	38.35	31.82	22.46	12.47	
Per Share Data							
FCF per Share	4.80	6.89	4.46	7.00	9.31	10.86	17.7%
Reported EPS	4.60	9.83	6.00	7.30	8.05	8.64	13.5%
Underlying EPS (ex Goodwill)	5.00	7.82	5.32	7.21	7.96	8.55	11.3%
Dividend	2.00	2.50	3.00	3.61	4.78	5.99	24.5%
Share Buyback	1.34	0.52	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	1.3x	1.3x	1.3x	0.9x	0.6x	0.3x	
Capex / Sales	20.6%	20.6%	18.9%	15.1%	12.5%	11.6%	
Capex / Depreciation	1.2x	1.3x	1.2x	1.1x	0.9x	0.8x	
(EBITDA - Capex) / Sales	14.0%	15.0%	13.5%	18.1%	21.3%	22.9%	
FCF / Sales	11.8%	12.4%	7.9%	11.3%	14.3%	16.2%	
ROCE	12.1%	16.4%	9.6%	12.8%	13.6%	14.0%	
ROCE ex goodwill	12.3%	16.6%	9.9%	13.2%	14.0%	14.4%	
Valuation							
EV / Proportionate Revenues	3.3x	2.1x	2.0x	1.8x	1.6x	1.4x	
EV / Proportionate EBITDA	9.7x	6.2x	6.1x	5.3x	4.6x	4.1x	
EV / ACE	2.2x	1.5x	1.3x	1.3x	1.2x	1.1x	
FCF Yield	4.0%	5.7%	3.7%	5.8%	7.7%	9.0%	
Underlying P/E	24.1x	15.4x	22.6x	16.7x	15.1x	14.1x	
Dividend Yield	1.7%	2.1%	2.5%	3.0%	4.0%	5.0%	

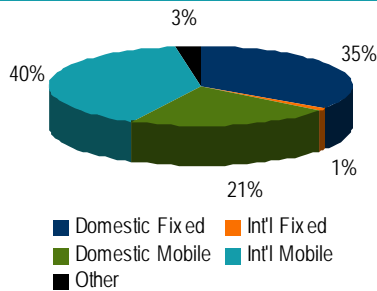
Source: Merrill Lynch Research estimate

Table 28: Telenor - Sum of the Parts Analysis PO NOK140

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100 % Value	Stake Value	Value Per Share	Stake (EURmn)	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX (%)							
Norway Fixed	DCF	8.0%	-1.0%	33.0%	10.0%	100.0%	21,770	21,770	13.1	2,697.6	4.4x	6.8x
Domestic Fixed Line								21,770	13.1	2,697.6		
Sweden (inc. B2 & Glocalnet)	DCF	8.0%	1.0%	22.0%	10.0%	100.0%	6,821	6,821	4.1	845.2	10.9x	
Denmark (Cybercity)	DCF	8.0%	1.0%	28.0%	10.0%	100.0%	2,012	2,012	1.2	249.3	7.2x	43.4x
Other International Fixed	DCF	8.0%	0.0%	5.0%	15.0%	100.0%	-	-	-	0.0	0.0x	0.0x
Other Fixed Line								8,833	5.3	1,094.5		
Norway Mobile	DCF	8.0%	1.0%	36.0%	9.0%	100.0%	39,981	39,981	24.1	4,954.2	7.4x	9.9x
Domestic Mobile								39,981	24.1	4,954.2		
Pannon - Hungary	DCF	9.0%	1.0%	34.0%	10.0%	100.0%	14,344	14,344	8.7	1,777.4	6.3x	9.2x
Sonofon - Denmark	DCF	8.0%	0.0%	27.0%	9.0%	100.0%	9,476	9,476	5.7	1,174.2	6.4x	11.2x
Digi.com - Malaysia	DCF	10.0%	3.5%	41.0%	10.0%	61.0%	28,771	17,550	10.6	2,174.8	8.5x	15.1x
Kyivstar - Ukraine	DCF	11.0%	3.0%	49.0%	10.0%	56.5%	50,475	28,523	17.2	3,534.5	6.6x	6.6x
GrameenPhone - Bangladesh	DCF	11.8%	4.0%	50.0%	10.0%	62.0%	21,321	13,219	8.0	1,638.0	7.2x	43.1x
Pakistan	DCF	10.0%	4.0%	40.0%	11.0%	100.0%	26,142	26,142	15.8	3,239.4	n/m	
Pro Monte	EV / 07E EBITDA					100.0%	1,856	1,856	1.1	230.0	5.7x	
VOD Sweden / djuice	DCF	8.0%	1.0%	25.0%	8.0%	100.0%	11,716	11,716	7.1	1,451.7	7.7x	13.8x
DTAC - Thailand	DCF	12.0%	3.0%	35.0%	10.0%	70.2%	27,006	18,958	11.4	2,349.2	7.2x	19.1x
Serbia	DCF					100.0%	9,824	9,824	5.9	1,217.3		
International Mobile								151,607	91.5	18,786.5		
Broadcast	DCF	8.0%	1.0%	26.0%	6.0%	100.0%	15,712	15,712	9.5	1,947.0	9.5x	
EDB Business Partner	MV + Net Debt					51.8%	5,959	3,087	1.9	382.6		
Other Business Units	DCF	8.0%	0.0%	1.0%	0.0%	100.0%	(136)	(136)	(0.1)	-16.8	4.5x	2.3x
Other Businesses								18,664	11.3	2,312.8		
VimpelCom	DCF: Fair Value					29.9%	146,418	43,779	26.4	5,424.9		
Wireless Matrix	Market Value					29.6%	287	85	0.1	10.5		
Connect - Austria	EV / 07E EBITDA					17.5%	9,866	1,722	1.0	213.3	6.0x	
Golden Telecom	Market Value					20.4%	11,550	2,356	1.4	292.0		
Associates								47,941	28.9	5,940.7		
Corporate and Group Activities	DCF	9.0%	1.0%	-3.0%	8.0%	100.0%	(3,013)	(3,013)	(1.8)	-373.3	7.4x	4.8x
Pension Liability								(1,447)	(0.9)	-179.3		
Other Assets / (Liabilities)								(4,460)	(2.7)	-552.6		
Total Enterprise Value								284,336	171.6	35,233.7		
Year End 2007E Cash / (Net Debt)								(38,354)	(23.2)	-4,752.7		
Equity Value								245,982	148.5	30,481.0		
Kyivstar ownership limitations	25% discount							(7,131)	(4.3)	-883.6		
Equity Value, after Discount								238,851	144.2	29,597.4		

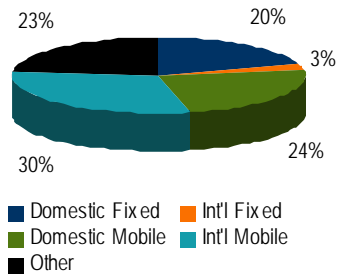
Source: Merrill Lynch Estimates

Chart 47: 2006 EBITDA



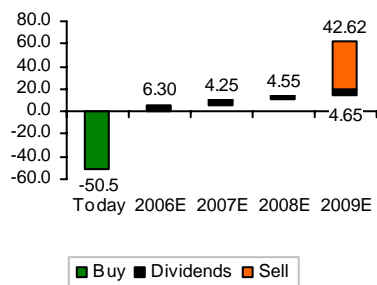
Source: Merrill Lynch estimates

Chart 46: Enterprise Value



Source: Merrill Lynch estimates

Chart 48: IRR of 6.3% / Dividends 9.9%



Merrill Lynch estimates

TeliaSonera (Fair Value Estimate SEK50)

Neutral B-2-7

Investment Case

(-/+ Swedish fixed continues to see low broadband market share and steep revenue declines. Cost cutting momentum has slowed.
 (-/+ Finnish mobile has inflicted with cost cutting and market repair.
 (+) Swedish mobile has moved back to higher subsidies with postpaid subscriber growth, favouring TLSN and TNOR at the end of 2006.
 (+) Dividend yield of 10% (6% special) and balance sheet remains around 1x net debt to EBITDA.
Catalysts
 (+) Activist shareholder Cevian now with some Board influence.
 (+/-) Just over 50% of shares still held by Swedish and Finnish Governments, thus providing either a substantial share overhang or an opportunity for private equity.
 (-/+ Releverage catalysts. Turkcell or Megafon deal with Alfa may be possible in the medium term.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	33.62	32.35	24.83	23.09	21.71	20.52	-9.4%
Revenue: International Wireline	2.21	2.21	16.23	16.24	16.21	16.16	48.8%
Revenue: Domestic Mobile	22.10	21.40	21.73	21.78	21.89	21.92	0.5%
Revenue: International Mobile	28.11	33.09	32.32	35.56	38.30	40.93	-0.2%
Revenue: Other	4.93	4.84	13.42	13.44	13.44	13.44	7.8%
Revenue: Eliminations	-3.30	-2.83	-15.00	-15.00	-15.00	-15.00	4.6%
Total Revenue	87.66	91.06	93.53	95.11	96.55	97.97	2.2%
EBITDA: Domestic Wireline	11.76	11.84	7.76	7.31	6.85	6.44	-11.3%
EBITDA: International Wireline	0.43	0.44	4.42	4.42	4.39	4.37	59.3%
EBITDA: Domestic Mobile	7.07	7.32	8.05	7.81	7.73	7.74	-2.4%
EBITDA: International Mobile	10.78	13.62	12.39	13.49	14.13	15.25	1.8%
EBITDA: Other	-0.62	-0.95	-0.05	-0.04	-0.04	-0.04	7.2%
Total EBITDA	29.41	32.27	32.56	33.00	33.05	33.76	2.8%
Domestic Wireline	7.33	8.06	4.45	4.12	3.85	3.59	-13.3%
International Wireline	0.28	0.26	4.20	4.21	4.17	4.15	72.1%
Domestic Mobile	5.52	6.13	6.38	6.16	6.08	6.08	0.3%
International Mobile	5.69	8.43	7.30	8.40	9.43	10.54	2.0%
Other	-0.98	-1.71	-1.43	-0.15	-0.32	0.15	13.1%
Total EBITDA - Capex	17.83	21.17	20.91	22.73	23.21	24.50	6.6%
Domestic Wireline	35.0%	36.6%	31.2%	31.7%	31.5%	31.4%	
International Wireline	19.2%	19.9%	27.2%	27.2%	27.1%	27.0%	
Domestic Mobile	32.0%	34.2%	37.0%	35.9%	35.3%	35.3%	
International Mobile	38.4%	41.2%	38.3%	37.9%	36.9%	37.3%	
Total EBITDA margin %	33.6%	35.4%	34.8%	34.7%	34.2%	34.5%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	87.66	91.06	94.35	96.44	98.52	100.22	2.7%
Group EBITDA Margin	33.6%	35.4%	35.7%	35.5%	35.3%	35.6%	
Group EBITDA	29.41	32.27	33.69	34.27	34.74	35.68	3.9%
Depreciation	-11.14	-9.65	-10.28	-10.07	-11.26	-11.77	
Amortisation of Goodwill and Licenses	-1.41	-1.54	-1.52	-1.52	-1.52	-1.52	
Operating Profit	16.86	21.08	21.89	22.67	21.96	22.39	5.8%
Redundancy Charges	-1.96	-1.15	-1.50	0.00	0.00	0.00	
Net Interest	-0.53	-0.26	-1.38	-1.84	-2.15	-2.42	
Associates ex Goodwill	3.49	4.90	7.33	7.63	7.79	7.76	
Goodwill on Associates	-0.12	0.02	-0.02	-0.02	-0.02	-0.02	
Exceptionals and Other	-0.72	0.65	0.00	0.00	0.00	0.00	
Pre-Tax Profit	17.02	25.23	26.32	28.44	27.58	27.70	10.2%
Tax Charge	-3.33	-5.94	-7.37	-7.96	-7.72	-7.76	
Minorities Charge	-2.00	-2.30	-2.47	-2.82	-3.15	-3.41	
Reported Net Income	11.70	16.99	16.48	17.65	16.71	16.54	7.2%
Underlying Net Income	15.32	20.05	21.57	22.02	21.40	21.49	7.0%
Cashflow bn							
Group EBITDA	29.41	32.27	33.69	34.27	34.74	35.68	3.9%
Capital Expenditure	-11.58	-11.10	-12.76	-12.80	-12.06	-11.55	
Net Interest charge from CF	-0.53	-0.26	-1.38	-1.84	-2.15	-2.42	
Tax Charge from CF	-2.00	-1.50	-4.94	-6.37	-7.96	-7.72	
Other (Pensions / Working Capital Etc)	1.30	-1.81	-1.20	0.30	0.30	0.30	
Dividend Leakage	-1.00	-1.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	15.59	16.60	13.42	13.55	12.87	14.29	-1.7%
Dividends	-15.77	-15.72	-28.29	-19.08	-20.43	-20.88	
CF after Dividends	-0.18	0.88	-14.87	-5.53	-7.56	-6.59	
Net Debt	8.37	14.96	31.18	36.78	44.42	51.08	
Per Share Data							
FCF per Share	3.41	3.70	2.99	3.02	2.87	3.18	-1.4%
Reported EPS	2.56	3.78	3.67	3.93	3.72	3.68	7.6%
Underlying EPS (ex Goodwill)	3.35	4.46	4.80	4.90	4.77	4.79	7.4%
Dividend	3.50	6.30	4.25	4.55	4.65	2.42	-7.1%
Share Buyback	2.22	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	0.3x	0.5x	0.9x	1.1x	1.3x	1.4x	
Capex / Sales	13.2%	12.2%	13.5%	13.3%	12.2%	11.5%	
Capex / Depreciation	1.0x	1.2x	1.2x	1.3x	1.1x	1.0x	
(EBITDA - Capex) / Sales	20.3%	23.2%	22.2%	22.3%	23.0%	24.1%	
FCF / Sales	17.8%	18.2%	14.2%	14.1%	13.1%	14.3%	
ROCE	9.8%	11.8%	12.5%	13.2%	12.5%	12.3%	
ROCE ex goodwill	14.2%	17.4%	18.4%	18.9%	17.5%	16.8%	
Valuation							
EV / Proportionate Revenues	2.7x	2.7x	2.8x	2.8x	2.9x	2.9x	
EV / Proportionate EBITDA	8.4x	7.7x	8.0x	8.1x	8.3x	8.5x	
EV / ACE	1.3x	1.3x	1.4x	1.4x	1.4x	1.4x	
FCF Yield	5.6%	6.1%	4.9%	4.9%	4.7%	5.2%	
Underlying P/E	18.2x	13.7x	12.7x	12.4x	12.8x	12.7x	
Dividend Yield	5.7%	10.3%	7.0%	7.5%	7.6%	4.0%	

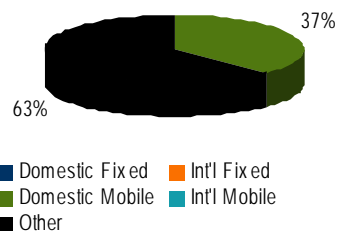
Source: Merrill Lynch Research estimate

Table 29: Sum-of-the-Parts: TLSN SEK50 includes SEK4 leverage upside

Company/Division	Valuation Method	DCF Assumptions				% Stake	100% Value	Stake Value	Per Share	Stake		
		WACC	Terminal growth	Terminal margin	Terminal capex					EURmn	07E EBITDA	07E OpFCF
Swedish Fixed	DCF	8.0%	-1.0%	34.0%	8.0%	100%	26,245	26,245	5.8	2,828	4.1x	6.7x
Finnish Fixed	DCF	8.0%	-1.0%	25.0%	8.0%	100%	7,525	7,525	1.7	811	5.3x	14.5x
Domestic Core Fixed Line								33,769	7.5	3,639		
	Market Value + Net											
Lithuanian Fixed - Lietuvos Telekomas	Debt					60%	5,608	3,365	0.7	363		
Danish Fixed	DCF	8.0%	0.0%	20.0%	8.0%	100%	1,799	1,799	0.4	194	5.4x	14.9x
Norway Fixed (Nextgentel)	Acquisition in Q2 06					100%	2,200	2,200	0.5	237		
Other Fixed Line								7,363	1.6	793		
Swedish Mobile	DCF	8.0%	1.0%	37.0%	7.0%	100%	36,256	36,256	8.1	3,907	7.3x	8.7x
Finnish Mobile	DCF	8.0%	1.0%	35.0%	8.0%	100%	26,668	26,668	5.9	2,874	8.7x	12.1x
Domestic Core Mobile								62,923	14.0	6,781		
Norway Mobile - Netcom	DCF	8.0%	1.5%	36.0%	9.0%	100%	27,710	27,710	6.2	2,986	8.0x	10.8x
Lithuanian Mobile - Omnitel	EV / 07E EBITDA					100%	5,995	5,995	1.3	646	6.0x	
Latvia Mobile - LMT	EV / 07E EBITDA					49.0%	7,468	3,659	0.8	394	6.0x	
Fintur	EV / 07E EBITDA					59%	35,729	20,919	4.7	2,254	6.7x	
Estonia - Eesti Telekom	Market Value					51.6%	9,485	4,890	1.1	527		
Danish Mobile	DCF	8.0%	1.0%	24.0%	9.0%	100%	8,890	8,890	2.0	958	7.9x	13.9x
Spain - Xfera	DCF	10.0%	3.0%	20.0%	8.0%	77%	1,447	1,108	0.2	119		
International Mobile								73,171	16.3	7,885		
Turkey - Turkcell	\$14.3 per ADR					37.3%	71,523	26,678	5.9	2,875		
Russia - MegaFon	EV / 07E EBITDA					43.8%	82,900	36,310	8.1	3,913	6.5x	
Latvia Fixed - Lattelekom	EV / 07E EBITDA					49.0%	4,190	2,053	0.5	221	4.5x	
Metro One	Market Value					25.0%	270	67	0.0	7		
Netia	Market Value					4.4%	329	14	0.0	2		
Associates								65,123	14.5	7,018		
International Carrier	DCF	8.0%	1.0%	2.0%	1.0%	100%	1,126	1,126	0.3	121	4.4x	12.7x
	Book Value - Sold											
Financial Leases (Telia Finans)	Q1 04					0%		0	0.0	0		
Finnish Tax Credit (Sonera)							4,419	4,419	1.0	476		
Corporate / Overhead							-1,269	-1,269	-0.3	-137		
Other Assets								4,277	1.0	461		
Swedish 3G								-2,650	-0.6	-286		
Other Contingent Liabilities / Remaining												
Xfera Put								-501	-0.1	-54		
Pension Liability								-3,556	-0.8	-383		
Other Liabilities								-6,707	-1.5	-723		
Total Enterprise Value								239,920	53.4	25,853		
2007E Net Debt								-33,082	-7.4	-3,565		
Group Equity Value, pre Discount								206,838	46.1	22,289		
SOTP Discount							0.0%	0	0.0	0		
Group Equity Value, after Discount								206,838	46.06	22,289		

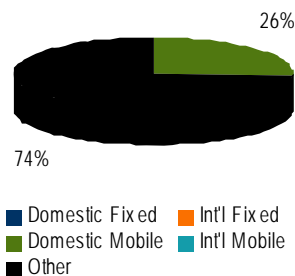
Source: Merrill Lynch estimates

Chart 49: 2006 EBITDA



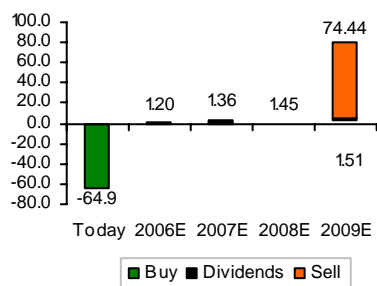
Source: Merrill Lynch estimates

Chart 50: Enterprise Value



Source: Merrill Lynch estimates

Chart 51: IRR of 5.5% / Dividends 2.1%



Merrill Lynch estimates

Bouygues (Price Objective EUR71)

BUY B-1-7

Investment Case

(+) Bouygues' move to a new sector (energy) and potential exit from telecoms will be centre stage in 2007. We see both as positive.

(+) Supportive fundamentals. The business outlook has never been better in all divisions apart from Telecom. Sub-GDP growth and declining margins in Telecom should produce unexciting 2007E results, but rising competition is now well flagged.

(+) Bouygues' 27% conglomerate discount is 3pps off an all-time high. The non-listed businesses' implied sector discount ranges from 14% (Construction) to 18% (Telecoms), assuming a 15% conglomerate discount. For instance, the current share price implies 5.0x EV/2007E EBITDA for Telecom.

Catalysts

(+) Delivery on quarterly results thanks to construction and road building

(+) Amendment to the budget law (this Summer) could provide clarity on the Government's plan to privatise Areva.

YE March	2005E	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Telecom	4.44	4.53	4.62	4.76	4.93	5.04	2.6%
Revenue: Media	2.86	2.64	2.86	3.03	3.20	3.39	3.5%
Revenue: Construction	16.80	18.97	20.77	21.80	22.62	23.40	6.9%
Revenue: Other	0.29	0.27	0.27	0.27	0.27	0.27	-1.1%
Total Revenue	24.38	26.41	28.52	29.85	31.02	32.10	5.7%
EBITDA: Telecom	1.32	1.23	1.33	1.40	1.46	1.50	2.5%
EBITDA: Media	0.46	0.41	0.53	0.61	0.73	0.70	9.0%
EBITDA: Construction	1.45	1.57	1.87	1.89	1.84	1.90	5.6%
EBITDA: Other	0.04	0.07	0.07	0.07	0.07	0.07	12.7%
Total EBITDA	3.27	3.28	3.81	3.97	4.10	4.17	5.0%
EBITDA - Capex: Telecom	0.74	0.50	0.72	0.83	0.87	0.89	3.8%
EBITDA - Capex: Media	0.30	0.34	0.47	0.55	0.67	0.64	16.1%
EBITDA - Capex: Construction	0.98	0.92	1.16	1.15	1.08	1.11	2.6%
EBITDA - Capex: Other	0.02	0.04	0.04	0.04	0.04	0.04	15.4%
Total EBITDA - Capex	2.04	1.80	2.39	2.57	2.65	2.68	5.6%
EBITDA Margin %: Telecom	29.8%	27.2%	28.8%	29.5%	29.6%	29.7%	
EBITDA Margin %: Media	16.0%	15.6%	18.5%	20.1%	22.9%	20.6%	
EBITDA Margin %: Construction	8.6%	8.3%	9.0%	8.7%	8.1%	8.1%	
EBITDA Margin %: Other	13.7%	25.9%	26.3%	26.3%	26.3%	26.3%	
EBITDA Margin %	13.4%	12.4%	13.3%	13.3%	13.2%	13.0%	

Source: Merrill Lynch Research estimate

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	24.38	26.41	28.52	29.85	31.02	32.10	5.7%
Group EBITDA Margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Group EBITDA	3.27	3.28	3.81	3.97	4.10	4.17	5.0%
Depreciation	-1.41	-1.40	-1.63	-1.68	-1.68	-1.68	
Amortisation of Goodwill and Licenses	31.00	38.00	39.00	40.00	41.00	42.00	
Operating Profit	1.85	1.88	2.21	2.39	2.48	2.49	6.1%
Redundancy Charges	31.00	38.00	39.00	40.00	41.00	42.00	
Net Interest	-0.22	-0.22	-0.38	-0.36	-0.34	-0.32	
Associates ex Goodwill	0.06	0.12	0.24	0.29	0.32	0.35	
Goodwill on Associates	31.00	38.00	39.00	40.00	41.00	42.00	
Exceptionals and Other	-0.10	0.36	0.05	0.00	0.00	0.00	
Pre-Tax Profit	1.63	1.66	1.83	2.03	2.14	2.17	5.8%
Tax Charge	-0.57	-0.56	-0.61	-0.67	-0.71	-0.72	
Minorities Charge	-0.19	-0.34	-0.24	-0.28	-0.33	-0.32	
Reported Net Income	0.83	1.25	1.27	1.36	1.42	1.47	12.2%
Underlying Net Income	0.93	1.04	1.22	1.36	1.42	1.47	9.6%
Cashflow bn							
Group EBITDA	3.27	3.28	3.81	3.97	4.10	4.17	5.0%
Capital Expenditure	-1.23	-1.43	-1.42	-1.40	-1.45	-1.49	
Net Interest charge from CF	-0.22	-0.20	-0.38	-0.36	-0.34	-0.32	
Tax Charge from CF	0.21	0.63	0.00	0.00	0.00	0.00	
Other (Pensions / Working Capital Etc)	-0.35	-0.56	-0.61	-0.67	-0.71	-0.72	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	1.67	1.73	1.40	1.54	1.60	1.64	-0.4%
Dividends	-1.82	-0.30	-0.02	-0.05	-0.08	-0.09	
CF after Dividends	-0.15	1.43	1.38	1.49	1.52	1.55	
Net Debt	-0.02	1.66	-1.42	-1.49	-1.52	-1.55	
Per Share Data							
FCF per Share	3.34	5.13	4.15	4.57	4.76	4.87	7.8%
Reported EPS	1.65	3.70	3.78	4.05	4.20	4.38	21.5%
Underlying EPS (ex Goodwill)	1.86	3.08	3.63	4.05	4.20	4.38	18.6%
Dividend	0.90	1.20	1.36	1.45	1.51	1.57	11.8%
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	0.0x	0.5x	-0.4x	-0.4x	-0.4x	-0.4x	
Capex / Sales	5.0%	5.4%	5.0%	4.7%	4.7%	4.6%	
Capex / Depreciation	0.9x	1.0x	0.9x	0.8x	0.9x	0.9x	
(EBITDA - Capex) / Sales	8.4%	7.0%	8.4%	8.6%	8.6%	8.3%	
FCF / Sales	6.9%	6.5%	4.9%	5.1%	5.2%	5.1%	
ROCE	6.6%	4.5%	5.1%	5.4%	5.6%	5.5%	
ROCE ex goodwill	14.7%	10.1%	10.7%	10.9%	10.7%	10.2%	
Valuation							
EV / Proportionate Revenues	0.7x	0.7x	0.6x	0.5x	0.5x	0.5x	
EV / Proportionate EBITDA	5.5x	6.0x	4.3x	4.1x	4.0x	3.9x	
EV / ACE	0.8x	0.6x	0.4x	0.4x	0.4x	0.4x	
FCF Yield	6.3%	9.7%	7.8%	8.6%	9.0%	9.2%	
Underlying P/E	28.5x	17.2x	14.6x	13.1x	12.6x	12.1x	
Dividend Yield	1.7%	2.3%	2.6%	2.7%	2.8%	3.0%	

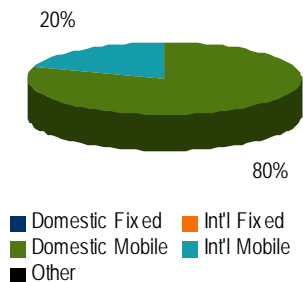
Source: Merrill Lynch Research estimate

Table 30: Sum of the Parts: Bouygues EUR71

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Bouygues Telecom	DCF	8.5%	2.0%	31.0%	12.5%	89.5%	9,007	8,061	23.9	6.8x	12.5x	
Domestic Mobile								8,061	23.9			
TF1	Market Value					42.4%	6,211	2,634	7.8	12.1x	12.1x	
Bouygues Construction	EV/EBITDA					100.0%	3,847	3,847	11.4	6.5x	10.8x	
Colas	Market Value					95.9%	8,390	8,046	23.9	7.9x	14.0x	
Bouygues Immobilier	EV/EBITDA					100.0%	1,861	1,861	5.5	8.8x	8.8x	
Alstom	Market Value					25.5%	16,343	4,168	12.4			
Holding Company & Other	ML Estimate					100.0%	347	347	1.0			
Other Businesses								20,903	62			
Total Enterprise Value								28,964	85.9			
Year End 2007E Cash / (Net Debt)								(2,753)	(8.2)			
Other Adjustments								1,971	5.8			
Equity Value, pre Discount								28,183	83.6			
SOTP Discount							15.0%	(4,227)	(12.5)			
Equity Value, after Discount								23,955	71.0			

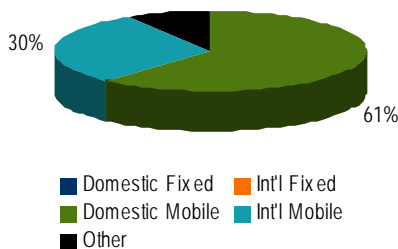
Source: Merrill Lynch estimates

Chart 52: 2006 EBITDA



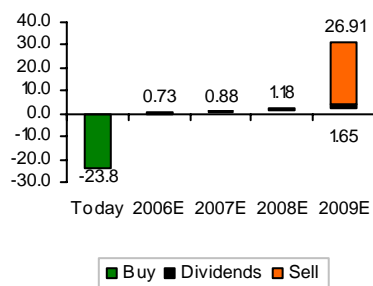
Source: Merrill Lynch estimates

Chart 53: Enterprise Value



Source: Merrill Lynch estimates

Chart 54: IRR of 7.5% / Dividends 4.6%



Merrill Lynch estimates

Cosmote (Price Objective EUR25.5)

Buy B-1-8

Investment Case

- (+) Stable and profitable domestic market.
- (+) Growth in the Balkan transformed the company into a growth engine.
- (+) Romania is Cosmote's biggest opportunity with a population of 20 million and 70% penetration.
- (-) Regulators at home and in the Balkans could have a negative impact.
- (+) We see OTE potentially buying out the minorities.
- (+) Strong management team that has delivered in the past.
- (+) Germanos acquisition expected to improve competitive position.

Catalysts

- (+) Growth in the Balkans and in particular Romania will continue to positively surprise the market.
- (+) Update on Q2 results in August after an excellent Q107.

	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Greece	1.52	1.63	1.74	1.80	1.86	1.87	
Revenue: Albania	0.14	0.15	0.18	0.19	0.19	0.20	
Revenue: Bulgaria	0.13	0.34	0.39	0.40	0.41	0.42	3.8%
Revenue: FYROM	0.02	0.05	0.06	0.07	0.07	0.08	36.8%
Revenue: Romania	0.01	0.04	0.17	0.57	0.83	0.93	
Total Revenue	1.80	2.38	3.14	3.69	4.09	4.30	
EBITDA: Greece	0.64	0.70	0.76	0.79	0.83	0.84	18.4%
EBITDA: Albania	0.08	0.09	0.10	0.11	0.11	0.11	
EBITDA: Bulgaria	0.05	0.13	0.15	0.16	0.16	0.17	
EBITDA: FYROM	0.00	0.01	0.02	0.03	0.03	0.03	5.1%
EBITDA: Romania	-0.01	-0.07	-0.03	0.11	0.25	0.37	38.6%
Total EBITDA	0.75	0.88	1.03	1.25	1.44	1.60	
EBITDA - Capex: Greece	0.53	0.57	0.60	0.63	0.68	0.69	15.4%
EBITDA - Capex: Albania	0.07	0.07	0.09	0.09	0.10	0.10	
EBITDA - Capex: Bulgaria	-0.02	0.03	0.07	0.08	0.10	0.13	
EBITDA - Capex: FYROM	-0.01	-0.01	0.01	0.02	0.02	0.02	
EBITDA - Capex: Romania	-0.09	-0.23	-0.21	-0.02	0.12	0.28	
Total EBITDA - Capex	0.50	0.44	0.59	0.85	1.08	1.29	
EBITDA Margin %: Greece	42.1%	43.1%	43.5%	44.0%	44.5%	45.0%	20.2%
EBITDA Margin %: Albania	60.0%	60.3%	58.0%	58.0%	58.0%	56.0%	
EBITDA Margin %: Bulgaria	35.0%	36.9%	39.0%	39.0%	39.0%	40.0%	
EBITDA Margin %: FYROM	6.8%	17.3%	25.0%	40.0%	40.0%	40.0%	
EBITDA Margin %: Romania	-270.6%	-150.2%	-17.7%	20.0%	30.0%	40.0%	
EBITDA Margin %	42.0%	36.8%	32.9%	33.8%	35.1%	37.2%	

Source: Merrill Lynch Research estimate

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	1.80	2.38	3.14	3.69	4.09	4.30	19.1%
Group EBITDA Margin	42.0%	36.8%	32.9%	33.8%	35.1%	37.2%	
Group EBITDA	0.75	0.88	1.03	1.25	1.44	1.60	16.2%
Depreciation	-0.21	-0.30	-0.32	-0.32	-0.33	-0.33	
Amortisation of Goodwill and Licenses	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	
Operating Profit	0.53	0.56	0.69	0.90	1.08	1.25	18.9%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.02	-0.06	-0.15	-0.14	-0.12	-0.10	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	0.51	0.50	0.54	0.76	0.97	1.15	17.9%
Tax Charge	-0.16	-0.16	-0.15	-0.20	-0.25	-0.30	
Minorities Charge	0.00	0.02	0.03	0.00	-0.02	-0.05	
Reported Net Income	0.34	0.36	0.42	0.57	0.69	0.80	18.6%
Underlying Net Income	0.34	0.36	0.42	0.57	0.69	0.80	18.6%
Cashflow bn							
Group EBITDA	0.75	0.88	1.03	1.25	1.44	1.60	16.2%
Capital Expenditure	-0.26	-0.44	-0.44	-0.40	-0.36	-0.31	
Net Interest charge from CF	-0.02	-0.06	-0.15	-0.14	-0.12	-0.10	
Tax Charge from CF	-0.16	-0.16	-0.15	-0.20	-0.25	-0.30	
Other (Pensions / Working Capital Etc)	0.05	0.17	-0.01	0.05	0.05	0.05	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	0.36	0.39	0.29	0.56	0.76	0.94	21.1%
Dividends	-0.49	-0.22	-0.24	-0.30	-0.40	-0.55	
CF after Dividends	-0.13	0.18	0.04	0.27	0.37	0.39	
Net Debt	1.00	2.43	2.39	2.12	1.76	1.37	
Per Share Data							
FCF per Share	1.09	1.18	0.86	1.68	2.27	2.81	20.9%
Reported EPS	1.02	1.08	1.26	1.69	2.06	2.38	18.5%
Underlying EPS (ex Goodwill)	1.02	1.08	1.26	1.69	2.06	2.38	18.5%
Dividend	0.65	0.73	0.88	1.18	1.65	1.91	24.0%
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	1.3x	2.8x	2.3x	1.7x	1.2x	0.9x	
Capex / Sales	14.4%	18.4%	14.1%	10.9%	8.7%	7.2%	
Capex / Depreciation	1.3x	1.5x	1.4x	1.2x	1.1x	0.9x	
(EBITDA - Capex) / Sales	27.6%	18.4%	18.8%	22.9%	26.4%	30.0%	
FCF / Sales	20.1%	16.5%	9.1%	15.3%	18.6%	21.9%	
ROCE	22.2%	14.0%	13.3%	17.6%	22.1%	26.9%	
ROCE ex goodwill	28.3%	17.9%	17.1%	22.7%	28.8%	35.5%	
Valuation							
EV / Proportionate Revenues	4.9x	4.3x	3.3x	2.8x	2.5x	2.3x	
EV / Proportionate EBITDA	11.7x	11.5x	9.9x	8.2x	7.1x	6.2x	
EV / ACE	4.9x	3.3x	2.5x	2.4x	2.4x	2.4x	
FCF Yield	4.7%	5.1%	3.7%	7.3%	9.8%	12.2%	
Underlying P/E	22.6x	21.4x	18.3x	13.7x	11.2x	9.7x	
Dividend Yield	2.8%	3.2%	3.8%	5.1%	7.1%	8.3%	

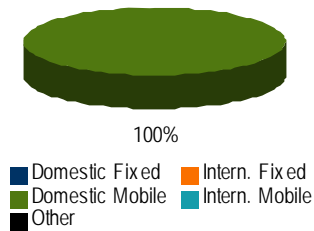
Source: Merrill Lynch Research estimate

Table 31: Sum of the Parts: Cosmote PO EUR25.5

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Greece	DCF	8.0%	1.0%	42%	8%	100%	6,674	6,674	19.9	8.8x	11.1x	
Domestic Mobile								6,674	19.9			
Albania	DCF	10.0%	0.0%	40%	8%	82%	702	578	1.7	6.7x	8.1x	
Bulgaria	DCF	10.0%	1.5%	42%	8%	100%	1,245	1,245	3.7	8.3x	n/m	
FYROM	DCF	10.0%	0.0%	40%	8%	100%	199	199	0.6	n/m	n/m	
Romania	DCF	10.0%	1.5%	42%	10%	70%	2,133	1,493	4.5	n/m	n/m	
International Mobile								3,515	10.5			
Germanos								753	2.3			
Total Enterprise Value								10,943	32.7			
Group Net Debt								(2,389)	(7.14)			
Equity Value								8,553	25.5			

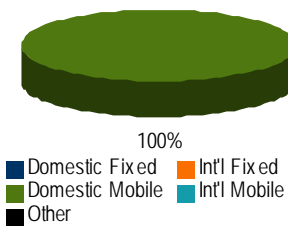
Source: Merrill Lynch estimates

Chart 55: 2006 EBITDA



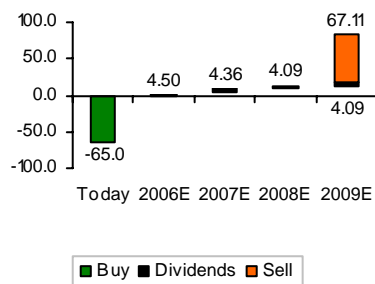
Source: Merrill Lynch estimates

Chart 56: Enterprise Value



Source: Merrill Lynch estimates

Chart 57: IRR of 7.3% / Dividends 6.6%



Merrill Lynch estimates

Mobistar (Fair Value Estimate EUR66) **NEUTRAL B-2-7**
Investment Case
 (-) We have compared Belgian mobile to 2004 Finland, a year before price declined, churn reached a peak, (and margins bottomed). Belgium looks definitely a step closer to Finland after Mobistar's 2006 results.
 (+) However, the gap between Belgacom and Mobistar's market shares reduces the risk of a price war in the short to medium term.
Catalysts
 (-) 21-22 June (at the latest) European council decision on roaming. Belgian operators should be the hardest hit.
 (+) Completion of the acquisition of VoxMobile (in Luxemburg). No cheap on any metric (e.g.€80m for 11k subs equates to €7,3k/subs, but help re-lever Mobistar balance sheet.
 (+) Mobistar could bridge the gap to its 1.0x ND/EBITDA maximum leverage by announcing a special dividend (at the half year results?)

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	1.48	1.57	1.52	1.53	1.55	1.58	1.3%
Group EBITDA Margin	41.0%	41.1%	41.4%	39.8%	39.5%	39.2%	
Group EBITDA	0.58	0.61	0.60	0.58	0.58	0.59	0.5%
Depreciation	-0.17	-0.17	-0.18	-0.17	-0.17	-0.17	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	0.40	0.44	0.42	0.40	0.41	0.42	0.9%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.01	0.00	0.00	0.00	0.00	0.00	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	0.40	0.44	0.42	0.41	0.41	0.42	1.2%
Tax Charge	-0.12	-0.14	-0.13	-0.13	-0.14	-0.14	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	0.27	0.30	0.29	0.27	0.27	0.28	0.4%
Underlying Net Income	0.27	0.30	0.29	0.27	0.27	0.28	0.4%
Cashflow bn							
Group EBITDA	0.58	0.61	0.60	0.58	0.58	0.59	0.5%
Capital Expenditure	-0.24	-0.17	-0.16	-0.16	-0.16	-0.16	
Net Interest charge from CF	-0.01	-0.01	0.00	0.00	0.00	0.00	
Tax Charge from CF	-0.12	-0.14	-0.13	-0.13	-0.14	-0.14	
Other (Pensions / Working Capital Etc)	0.11	-0.04	0.04	0.01	-0.03	0.02	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	0.32	0.26	0.35	0.30	0.26	0.30	-1.6%
Dividends	-0.13	-0.15	-0.29	-0.28	-0.26	-0.26	
CF after Dividends	0.20	0.11	0.07	0.03	0.00	0.04	
Net Debt	-0.05	-0.07	-0.13	-0.16	-0.16	-0.20	
Per Share Data							
FCF per Share	5.11	4.18	5.54	4.77	4.07	4.69	-1.7%
Reported EPS	4.29	4.73	4.59	4.30	4.30	4.35	0.3%
Underlying EPS (ex Goodwill)	4.29	4.73	4.59	4.30	4.30	4.35	0.3%
Dividend	4.00	4.50	4.36	4.09	4.09	4.13	n.a.
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	-0.1x	-0.1x	-0.2x	-0.3x	-0.3x	-0.3x	
Capex / Sales	15.9%	10.5%	10.5%	10.4%	10.3%	10.3%	
Capex / Depreciation	1.4x	1.0x	0.9x	0.9x	0.9x	1.0x	
(EBITDA - Capex) / Sales	23.0%	28.5%	28.9%	27.5%	27.3%	27.1%	
FCF / Sales	21.8%	16.8%	23.2%	19.9%	16.6%	18.8%	
ROCE	35.9%	39.9%	36.9%	34.5%	34.5%	34.6%	
ROCE ex goodwill	70.7%	75.4%	65.8%	61.8%	60.5%	59.1%	
Valuation							
EV / Proportionate Revenues	2.7x	2.5x	2.5x	2.5x	2.5x	2.4x	
EV / Proportionate EBITDA	6.8x	6.4x	6.5x	6.6x	6.6x	6.4x	
EV / ACE	5.1x	5.2x	4.9x	4.9x	4.9x	4.7x	
FCF Yield	8.1%	6.6%	8.8%	7.6%	6.5%	7.5%	
Underlying P/E	14.7x	13.3x	13.7x	14.6x	14.6x	14.4x	
Dividend Yield	6.4%	7.2%	6.9%	6.5%	6.5%	6.6%	

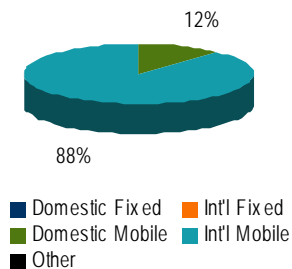
Source: Merrill Lynch Research estimate

Table 32: Sum of the Parts: Mobistar EUR 66

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Bouygues Telecom	DCF	8.5%	1.5%	37.6%	10.0%	100%	4,323	4,323	68.1	7.2x	13.2x	
Domestic Mobile								4,323	68.1			
Total Enterprise Value								4,323	68.1			
Year End 2007E Cash / (Net Debt)								(137)	(2.2)			
Equity Value, pre Discount								4,186	65.9			

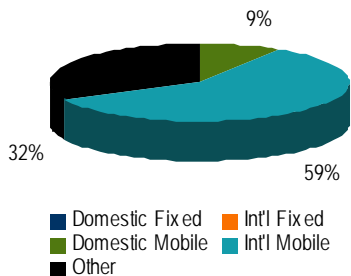
Source: Merrill Lynch estimates

Chart 58: 2006 EBITDA



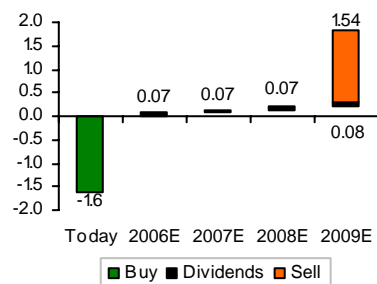
Source: Merrill Lynch estimates

Chart 59: Enterprise Value



Source: Merrill Lynch estimates

Chart 60: IRR of 3.6% / Dividends 4.4%



Merrill Lynch estimates

VOD (Price Objective 175p) Buy B-1-7
Investment Case
 (+) Diversified portfolio of assets limits single market exposure
 (-) European assets continue to struggle given maturity and competition.
 (+/-) Regulatory outlook relatively clear, but always a risk given supernormal returns.
 (+) Increasing exposure to emerging markets given the recent acquisition of Hutchison Essar (India)
 (+) Room for capex to decline to offset some EBITDA pressure.
 (+) Strong balance sheet allows payment of an above market yield.
 (+) Hidden value within portfolio, especially the stake in Verizon Wireless
Catalysts
 (+) Eventual sale of VZW stake, timing is unclear.
 (+) More news on cost-cutting following the appointment of Colao as COO of Europe.

YE March	2006A	2007E	2008E	2009E	2010E	2011E	06-11E
Revenue: UK	5.05	5.12	5.37	5.41	5.40	5.37	1.3%
Revenue: Germany	5.75	5.44	5.12	5.24	5.31	5.34	-1.5%
Revenue: Italy	4.36	4.25	4.08	4.11	4.14	4.17	-0.9%
Revenue: India			1.45	2.31	2.87	3.43	
Revenue: Other	14.19	16.29	18.12	18.79	19.36	19.89	7.0%
Total Consolidated Revenue	29.35	31.10	34.14	35.86	37.08	38.21	5.4%
EBITDA: UK	1.62	1.46	1.43	1.44	1.49	1.58	-0.5%
EBITDA: Germany	2.70	2.43	2.19	2.20	2.17	2.19	-4.1%
EBITDA: Italy	2.27	2.15	1.96	1.94	1.92	1.89	-3.6%
EBITDA: India			0.50	0.79	0.97	1.16	
EBITDA: Other	5.17	5.92	6.23	6.54	6.75	6.94	6.1%
Total Consolidated EBITDA	11.77	11.96	12.32	12.91	13.30	13.75	3.2%
EBITDA - Capex: UK	0.95	0.84	0.89	0.93	0.98	1.07	2.5%
EBITDA - Capex: Germany	1.95	1.78	1.68	1.70	1.67	1.68	-3.0%
EBITDA - Capex: Italy	1.51	1.49	1.43	1.43	1.40	1.37	-1.9%
EBITDA - Capex: India	-0.96	0.00	-0.33	-0.30	-0.08	0.27	-177.8%
EBITDA - Capex: Other	3.22	3.60	3.79	4.43	4.72	4.88	8.6%
Total EBITDA - Capex	6.68	7.70	7.46	8.19	8.69	9.28	6.8%
EBITDA Margin %: UK	32.2%	28.5%	26.6%	26.6%	27.6%	29.4%	
EBITDA Margin %: Germany	47.0%	44.6%	42.8%	41.9%	41.0%	41.0%	
EBITDA Margin %: Italy	52.0%	50.6%	48.1%	47.2%	46.2%	45.3%	
EBITDA Margin %: India			34.4%	34.2%	33.9%	33.7%	
EBITDA Margin %: Other	36.4%	36.4%	34.4%	34.8%	34.9%	34.9%	
Total EBITDA Margin	40.1%	38.5%	36.1%	36.0%	35.9%	36.0%	

Source: Merrill Lynch estimates

P&L bn	2006A	2007E	2008E	2009E	2010E	2011E	06-11E
Group Revenue	29.35	31.10	34.14	35.86	37.08	38.21	5.4%
Group EBITDA Margin	40.1%	38.5%	36.1%	36.0%	35.9%	36.0%	
Group EBITDA	11.77	11.96	12.32	12.91	13.30	13.75	3.2%
Depreciation	-3.69	-3.85	-4.40	-4.52	-4.65	-4.57	
Amortisation of Goodwill and Licenses	-0.95	-0.89	-1.39	-1.39	-1.29	-1.19	
Operating Profit	7.13	7.22	6.52	7.00	7.36	7.99	2.3%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.77	-0.82	-1.21	-1.11	-1.11	-0.98	
Associates ex Goodwill	2.40	2.73	2.90	3.25	3.53	3.60	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	-23.67	-11.51	0.00	0.00	0.00	0.01	
Pre-Tax Profit	-14.91	-2.38	8.22	9.15	9.79	10.62	-193.4%
Tax Charge	-2.38	-2.42	-2.41	-2.73	-3.03	-3.39	
Minorities Charge	-0.10	-0.13	-0.15	-0.17	-0.17	-0.22	
Reported Net Income	-17.39	-4.94	5.66	6.25	6.59	7.02	-183.4%
Underlying Net Income	7.14	7.05	7.05	7.64	7.88	8.20	2.8%
Cashflow bn							
Group EBITDA	11.77	11.96	12.32	12.91	13.30	13.75	3.2%
Capital Expenditure	-5.17	-4.53	-4.85	-4.73	-4.61	-4.48	
Net Interest charge from CF	-0.40	-0.53	-1.21	-1.11	-1.11	-0.98	
Tax Charge from CF	-1.68	-2.24	-2.77	-4.46	-4.73	-3.05	
Other (Pensions / Working Capital Etc)	2.63	2.26	1.04	1.27	1.31	1.34	
Dividend Leakage	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	
FCF before Dividends, Acqns & Disp.	7.09	6.87	4.48	3.84	4.12	6.54	-1.6%
Dividends	-9.21	-12.56	-3.65	-3.87	-4.20	-4.45	
CF after Dividends	-2.11	-5.68	0.83	-0.02	-0.08	2.09	
Net Debt	17.32	15.05	20.05	20.01	20.02	17.86	
Per Share Data							
FCF per Share	0.11	0.12	0.08	0.07	0.08	0.12	1.5%
Reported EPS	-0.35	-0.10	0.11	0.12	0.12	0.13	-182.1%
Underlying EPS (ex Goodwill)	0.11	0.13	0.13	0.14	0.15	0.15	6.1%
Dividend	0.06	0.07	0.07	0.08	0.08	0.09	7.3%
Share Buyback	0.10	0.16	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	1.5x	1.3x	1.6x	1.5x	1.5x	1.3x	
Capex / Sales	17.6%	14.6%	14.2%	13.2%	12.4%	11.7%	
Capex / Depreciation	1.4x	1.2x	1.1x	1.0x	1.0x	1.0x	
(EBITDA - Capex) / Sales	22.5%	23.9%	21.9%	22.8%	23.4%	24.3%	
FCF / Sales	24.2%	22.1%	13.1%	10.7%	11.1%	17.1%	
ROCE	5.4%	6.5%	6.4%	6.7%	6.8%	6.9%	
ROCE ex goodwill	12.2%	12.5%	12.2%	12.9%	12.6%	12.4%	
Valuation							
EV / Proportionate Revenues	2.7x	2.4x	2.4x	2.3x	2.3x	2.2x	
EV / Proportionate EBITDA	6.9x	6.1x	6.3x	6.0x	5.8x	5.6x	
EV / ACE	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x	
FCF Yield	7.1%	7.8%	5.2%	4.5%	4.8%	7.6%	
Underlying P/E	14.0x	12.5x	12.1x	11.2x	10.9x	10.4x	
Dividend Yield	3.8%	4.2%	4.4%	4.8%	5.1%	5.4%	

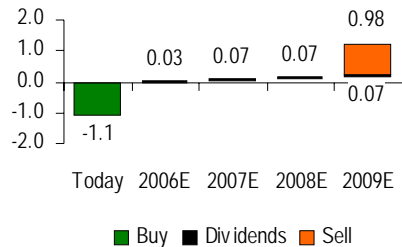
Source: Merrill Lynch Research estimate

Table 33: Sum-of-the-Parts: Vodafone – Price Target 175p

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Cegetel	EV/EBITDA					29.9%		100	0.2		
Other Fixed Line								100	0.2		
UK Mobile	DCF	8.0%	0.8%	32.0%	9.0%	100.0%	10,327	10,327	19.3	7.2x	11.6x
Domestic Mobile								10,327	19.3		
Germany	DCF	8.0%	0.5%	43.0%	9.0%	100.0%	15,535	15,535	29.0	7.1x	9.3x
Italy	DCF	8.0%	0.5%	45.0%	9.0%	76.8%	16,150	12,401	23.2	6.3x	8.0x
Spain	DCF	8.0%	1.0%	39.0%	9.0%	100.0%	12,093	12,093	22.6	7.3x	11.0x
Albania	DCF					99.9%	284	284	0.5	5.7x	
Australia	DCF					100.0%	1,184	1,184	2.2	5.2x	
Czech	DCF					99.9%	1,172	1,171	2.2	6.7x	
Egypt	DCF					54.9%	3,949	2,168	4.0	7.8x	
Greece	DCF					99.8%	3,124	3,118	5.8	6.8x	
India	DCF					67.0%	9,247	6,195	11.6		
Hungary	DCF					100.0%	961	961	1.8	8.6x	
Ireland	DCF					100.0%	2,865	2,865	5.4	7.3x	
Malta	DCF					100.0%	175	175	0.3	6.7x	
Netherlands	DCF					99.9%	1,766	1,764	3.3	5.2x	
New Zealand	DCF					99.9%	880	879	1.6	5.5x	
Portugal	DCF					100.0%	2,545	2,545	4.8	7.6x	
Romania	DCF					99.1%	2,918	2,892	5.4	8.6x	
Turkey	DCF					99.3%	1,740	1,729	3.2	10.4x	
Other Operations							1,140	1,140	2.1		
International Mobile								69,098	129.0		
France (SFR)						43.9%	19,925	8,751	16.3		
US (Verizon Wireless)						44.4%	67,224	22,381	41.8		
China (China Mobile)	Market Value					3.3%	106,316	3,477	6.5		
Bharti						4.4%	18,105	797	1.5		
Poland						19.6%	4,082	800	1.5		
Fiji						49.0%	82	40	0.1		
Kenya						33.8%	741	250	0.5		
Japan								1,100	2.1		
Associates								37,595	70.2		
Enterprise Value								117,120	218.7		
Year End 2007E Cash/(Net Debt)								-22,205	-41.5		
Tax								-1,500	-2.8		
Equity Value								93,415	175		

Source: Merrill Lynch estimates

Chart 61: IRR of 4.1% / Dividends 5.8%



Merrill Lynch estimates

Cable & Wireless (Fair Value Estimate GBP153p) Neutral C-2-7
Investment Case
 (+) The International Telcos provide solid cash generation and diversified exposure. The relatively stable cash flows provide liquidity for the less profitable UK operations. We value these operations at 82p or 56% of C&W's fair value. Mobile and broadband growth has been offsetting fixed line declines and pricing pressure.
 (+) Private equity is looking at UK assets. C&W's size and hidden value from tax credits and underleveraged International business make it an attractive target.
 (-) The UK business is a key valuation driver but could face erosion of voice revenues in the switch from legacy to IP-VPN.
 (-) We are sceptical on the business model of Access. We do not have sustainable FCFs, even in the long run.
 (-) C&W's pension could make C&W a difficult takeover and necessitates the turnaround of the UK business.
 (-) Valuation is stretched on a P/E basis.
Catalysts
 (+) In the short run shares will be driven by positive news of contract wins, signalling continued improvement in revenue mix shifting away exposure to legacy revenues to higher margin IP based services.
 (+) Although H1-07/08 numbers are not out for another six months, any sign of continued progress in the UK side of the business could bring forward a break-up of the businesses. Although we believe this is already reflected in the share price.

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	2011E
Group Revenue	2.95	3.23	3.35	3.41	3.42	3.44	3.46
Group EBITDA Margin	14.4%	12.7%	14.7%	17.7%	19.6%	21.4%	22.9%
Group EBITDA	0.42	0.41	0.49	0.60	0.67	0.74	0.79
Depreciation	-0.19	-0.26	-0.26	-0.26	-0.27	-0.28	-0.30
Amortisation of Goodwill and Licenses	-0.01	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
Operating Profit	0.23	0.13	0.22	0.33	0.38	0.44	0.48
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Interest	0.04	0.02	-0.03	0.00	-0.01	-0.01	-0.01
Associates ex Goodwill	0.05	0.05	0.02	0.02	0.02	0.02	0.02
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Exceptionals and Other	-0.15	-0.09	0.08	-0.05	-0.05	0.00	0.00
Pre-Tax Profit	0.17	0.11	0.29	0.29	0.34	0.45	0.49
Tax Charge	0.03	-0.03	-0.04	-0.06	-0.07	-0.08	-0.10
Minorities Charge	0.10	-0.01	-0.06	-0.06	-0.07	-0.07	-0.07
Reported Net Income	0.29	0.08	0.19	0.17	0.20	0.29	0.32
Underlying Net Income	0.45	0.17	0.11	0.22	0.25	0.29	0.32
Cashflow bn							
Group EBITDA	0.42	0.41	0.49	0.60	0.67	0.74	0.79
Capital Expenditure	-0.27	-0.31	-0.32	-0.36	-0.36	-0.36	-0.36
Net Interest charge from CF	0.02	0.05	-0.01	0.00	-0.01	-0.01	-0.01
Tax Charge from CF	-0.06	-0.05	-0.05	-0.06	-0.07	-0.08	-0.10
Other (Pensions / Working Capital Etc)	0.00	-0.22	-0.05	-0.05	-0.05	0.00	0.00
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF before Dividends, Acqns & Disp.	0.11	-0.11	0.06	0.13	0.18	0.28	0.32
Dividends	-0.10	-0.08	-0.08	-0.16	-0.17	-0.18	-0.19
CF after Dividends	0.02	-0.19	-0.02	-0.04	0.01	0.10	0.13
Net Debt	-1.20	-0.34	-0.33	-0.17	-0.05	-0.08	-0.15
Per Share Data							
FCF per Share	0.05	-0.05	0.03	0.05	0.07	0.12	0.13
Reported EPS	0.13	0.03	0.08	0.07	0.08	0.12	0.13
Underlying EPS (ex Goodwill)	0.19	0.07	0.04	0.09	0.10	0.12	0.13
Dividend	0.04	0.03	0.03	0.07	0.07	0.07	0.08
Share Buyback	0.03	0.01	0.00	0.00	0.00	0.00	0.00
Ratios							
Net Debt / EBITDA	-2.8x	-0.8x	-0.7x	-0.3x	-0.1x	-0.1x	-0.2x
Capex / Sales	9.1%	9.5%	9.7%	10.5%	10.5%	10.4%	10.4%
Capex / Depreciation	1.4x	1.2x	1.3x	1.4x	1.3x	1.3x	1.2x
(EBITDA - Capex) / Sales	5.3%	3.2%	5.1%	7.2%	9.1%	11.0%	12.5%
FCF / Sales	3.8%	-3.5%	1.8%	3.7%	5.2%	8.2%	9.3%
ROCE	19.9%	8.5%	8.1%	11.8%	13.0%	14.2%	14.9%
ROCE ex goodwill	19.9%	8.5%	8.1%	11.8%	13.0%	14.2%	14.9%
Valuation							
EV / Proportionate Revenues	0.4x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x
EV / Proportionate EBITDA	2.9x	5.4x	4.5x	3.9x	3.7x	3.3x	3.0x
EV / ACE	0.8x	1.0x	0.9x	0.9x	0.9x	0.9x	0.9x
FCF Yield	4.6%	-4.6%	2.4%	5.0%	7.0%	11.1%	12.7%
Underlying P/E	5.4x	15.4x	23.9x	12.0x	10.3x	9.0x	8.2x
Dividend Yield	4.0%	3.1%	3.3%	6.4%	6.7%	7.0%	7.4%

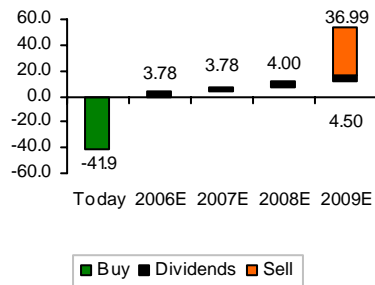
Source: Merrill Lynch estimates

Table 34: Sum of the Parts: C&W – Fair Value 153p

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100% Value	Stake Value	Value per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
UK	DCF	8.5%	0.0%	20.0%	10.0%	0%	1,497	1,497	62	9.4x	NM
Domestic Fixed Line								1,497	62		
Caribbean	DCF	10.0%	1.0%	35.0%	14.0%	85%	1,133	963	40	6.1x	9.5x
Panama	DCF	10.0%	1.0%	35.0%	11.0%	49%	705	346	14	6.1x	8.5x
Macau	DCF	10.0%	1.0%	35.0%	9.0%	51%	675	344	14	12.2x	15.9x
Monaco	DCF	10.0%	1.0%	25.0%	9.0%	55%	165	91	4	4.9x	7.9x
Islands	DCF	10.0%	1.0%	35.0%	13.0%	100%	244	244	10	6.1x	8.8x
Other Fixed Line								1,988	82		
JVS and Associates								147	6		
Associates								147	6		
Corporate Charges	DCF							-58	-2		
Other Assets/(Liabilities)								-58	-2		
EnterprisE value								3,574	148		
LTIP								-89	-4		
Year End 2008E Cash/(Net Debt)								168	7		
Pension Deficit, (Sept 2007)								28	1		
Restructuring Post 2007								-91	-4		
Energis Deferred Acquisition Costs								-74	-3		
Tax credit								200	8		
Equity Value								3,715	153		

Source: Merrill Lynch estimates

Chart 62: IRR of 6.9% / Dividends 9.5%



Merrill Lynch estimates

Fastweb (Fair value estimate EUR45)

NEUTRAL B-2-7

Investment Case

- (+) Swisscom now owns 82% of Fastweb. Swisscom aims to keep the minorities listed.
- (+) 100% exposure to Italian broadband growth and is expanding its product offering with a pay as you go plan to diversify from its current premium contract.
- (+) Potential upside from the contract business especially after the two most recent Public Administration wins and Unicredit contract.
- (+) Positive agreements with Sky and Vodafone that triple the distribution network.
- (+) Despite not being FCF positive, company is paying 7-9% dividend yield well above sector average.
- (+/-) Short term multiples look expensive, but revenue CAGR of 16.9% over 2005-10E. EBITDA CAGR of 23% over 2005-10E assisted by operational leverage (margin improvement from 31% to 39%). In addition, valuation is supported by a 7% dividend yield.

Catalysts

- (+) 100% exposure to one of the fastest growing broadband markets in Europe.

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	1.00	1.31	1.64	2.01	2.14	2.19	16.9%
Group EBITDA Margin	30.5%	32.3%	36.0%	37.0%	38.0%	39.0%	
Group EBITDA	0.31	0.42	0.59	0.74	0.81	0.85	22.8%
Depreciation	-0.23	-0.29	-0.32	-0.32	-0.33	-0.33	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	-0.11	-0.09	0.11	0.28	0.34	0.38	-228.5%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.05	-0.08	-0.07	-0.09	-0.09	-0.10	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	-0.16	-0.17	0.04	0.19	0.24	0.28	-212.0%
Tax Charge	0.03	0.04	-0.01	-0.07	-0.09	-0.10	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	-0.13	-0.12	0.02	0.12	0.16	0.18	-207.3%
Underlying Net Income	0.00	0.05	0.13	0.20	0.24	0.27	190.0%
Cashflow bn							
Group EBITDA	0.31	0.42	0.59	0.74	0.81	0.85	22.8%
Capital Expenditure	-0.68	-0.53	-0.40	-0.35	-0.30	-0.30	
Net Interest charge from CF	-0.05	-0.08	-0.07	-0.09	-0.09	-0.10	
Tax Charge from CF	-0.03	-0.04	-0.01	-0.07	-0.09	-0.10	
Other (Pensions / Working Capital Etc)	-0.10	-0.18	-0.03	-0.05	-0.07	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	-0.56	-0.41	0.07	0.19	0.27	0.36	-191.7%
Dividends	0.00	-0.30	-0.30	-0.30	-0.32	-0.36	
CF after Dividends	-0.56	-0.71	-0.23	-0.11	-0.05	0.00	
Net Debt	0.47	1.08	1.31	1.43	1.48	1.47	
Per Share Data							
FCF per Share	-7.02	-5.20	0.88	2.34	3.36	4.55	-191.7%
Reported EPS	-1.60	-1.56	0.29	1.55	2.00	2.27	-207.3%
Underlying EPS (ex Goodwill)	0.02	0.67	1.66	2.57	3.07	3.36	190.0%
Dividend	3.78	3.78	3.78	4.00	4.50	5.00	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	1.5x	2.5x	2.2x	1.9x	1.8x	1.7x	
Capex / Sales	68.2%	40.5%	24.4%	17.5%	14.0%	13.7%	
Capex / Depreciation	2.9x	1.8x	1.2x	1.1x	0.9x	0.9x	
(EBITDA - Capex) / Sales	-37.7%	-8.2%	11.6%	19.5%	24.0%	25.3%	
FCF / Sales	-55.7%	-31.5%	4.3%	9.3%	12.5%	16.5%	
ROCE	-4.4%	-3.1%	3.0%	7.6%	9.5%	11.2%	
ROCE ex goodwill	-5.6%	-4.3%	4.2%	10.7%	13.4%	16.0%	
Valuation							
EV / Proportionate Revenues	3.8x	3.4x	2.8x	2.4x	2.2x	2.2x	
EV / Proportionate EBITDA	12.4x	10.4x	7.9x	6.4x	5.9x	5.6x	
EV / ACE	1.8x	1.9x	2.0x	2.0x	2.1x	2.2x	
FCF Yield	-16.7%	-12.4%	2.1%	5.6%	8.0%	10.9%	
Underlying P/E	2558.7x	62.1x	25.2x	16.3x	13.7x	12.5x	
Dividend Yield	9.0%	9.0%	9.0%	9.5%	10.7%	11.9%	

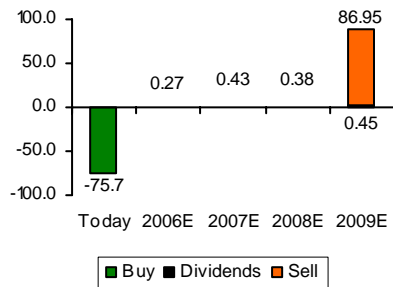
Source: Merrill Lynch estimates

Table 35: Sum of the Parts: Fastweb EUR 45

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Fastweb	DCF	8.5%	1.5%	33.0%	11.0%	100%	4,891	4,891	62	9.6x	45.0x	
Domestic fixed								4,891	62			
Total Enterprise Value								4,891	62			
Year End 2007E Cash / (Net Debt)								(1,349)	-17			
Equity Value								3,542	45			

Source: Merrill Lynch estimates

Chart 63: IRR of 5.1% / Dividends 0.7%



Merrill Lynch estimates

Iliad (Price Objective EUR82) Buy C-1-7

Investment Case

(+) French broadband the first market repair story in fixed line and continues to produce earnings surprises like for Iliad and France Telecom in Q1 2007A. We believe that the resulting revenues opportunity is not fully discounted in consensus forecasts.

(+) Fibre built is in our view a smart way to exploit a largely overlooked revenue opportunity. 'Real' service penetration is lower than subscriber data suggest and the market believes. 2 Parisian households out of 5 cannot access triple play service with stable quality of service because they are too far away from FT's local exchange. Fibre will allow Iliad to bring triple play service and unmatched broadband speed to 40% of the addressable base.

(+) Consensus' current assumption of 22% revenue growth next year implies 1/ either a 47% drop in country net additions next year (from 12.3k to 6.5k) – unlikely as average prices are down yoy and PC sales are accelerating 2/ or a 13ppts fall in Iliad's market share (from 31% to 18%). Again very unlikely given the quasi duopoly we have seen in Q3. We are running ahead of consensus with an assumed 26% revenue growth.

Catalysts

(+) Delivery on quarterly earnings. Watch subscriber share after in-country consolidation.

(+) Further market repair. We don't see Completel or NoosNumericable stay independent in the short to medium term.

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E
Group Revenue	0.72	0.95	1.25	1.34	1.42	1.49
Group EBITDA Margin	31.0%	34.9%	38.7%	34.9%	35.9%	36.3%
Group EBITDA	0.22	0.33	0.48	0.47	0.51	0.54
Depreciation	-0.12	-0.15	-0.20	-0.21	-0.21	-0.13
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00
Operating Profit	0.11	0.19	0.28	0.25	0.30	0.41
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00
Net Interest	0.00	0.00	0.00	0.00	0.01	0.01
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00
Pre-Tax Profit	0.11	0.19	0.28	0.25	0.31	0.42
Tax Charge	-0.04	-0.06	-0.09	-0.08	-0.10	-0.14
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00
Reported Net Income	0.07	0.12	0.19	0.17	0.20	0.28
Underlying Net Income	0.07	0.12	0.19	0.17	0.20	0.28
Cashflow bn						
Group EBITDA	0.22	0.33	0.48	0.47	0.51	0.54
Capital Expenditure	-0.22	-0.28	-0.22	-0.21	-0.21	-0.13
Net Interest charge from CF	0.00	0.00	0.00	0.00	0.01	0.01
Tax Charge from CF	-0.02	-0.05	-0.09	-0.08	-0.10	-0.14
Other (Pensions / Working Capital Etc)	0.02	-0.02	0.00	0.00	0.00	0.00
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00
FCF before Dividends, Acqns & Disp.	0.01	-0.02	0.16	0.17	0.20	0.28
Dividends	0.06	0.23	-0.01	-0.02	-0.02	-0.02
CF after Dividends	0.07	0.21	0.15	0.15	0.18	0.25
Net Debt	0.04	0.03	0.00	-0.14	-0.32	-0.58
Per Share Data						
FCF per Share	0.15	-0.43	3.03	3.14	3.77	5.14
Reported EPS	1.31	2.29	3.45	3.14	3.77	5.14
Underlying EPS (ex Goodwill)	1.30	2.21	3.45	3.14	3.77	5.14
Dividend	0.20	0.27	0.43	0.38	0.45	0.62
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00
Ratios						
Net Debt / EBITDA	0.2x	0.1x	0.0x	-0.3x	-0.6x	-1.1x
Capex / Sales	30.1%	29.9%	18.0%	16.0%	14.7%	9.0%
Capex / Depreciation	1.9x	1.9x	1.1x	1.0x	1.0x	1.0x
(EBITDA - Capex) / Sales	0.9%	5.0%	20.7%	18.9%	21.2%	27.3%
FCF / Sales	1.1%	-2.5%	13.2%	12.7%	14.4%	18.7%
ROCE	9.5%	11.2%	13.8%	11.7%	12.5%	14.9%
ROCE ex goodwill	9.9%	11.9%	14.5%	12.3%	13.0%	15.4%
Valuation						
EV / Proportionate Revenues	5.7x	4.3x	3.3x	3.0x	2.7x	2.4x
EV / Proportionate EBITDA	18.4x	12.5x	8.5x	8.5x	7.4x	6.5x
EV / ACE	5.5x	3.8x	3.0x	2.7x	2.3x	1.9x
FCF Yield	0.2%	-0.6%	4.0%	4.1%	5.0%	6.8%
Underlying P/E	58.3x	34.3x	21.9x	24.1x	20.1x	14.7x
Dividend Yield	0.3%	0.4%	0.6%	0.5%	0.6%	0.8%

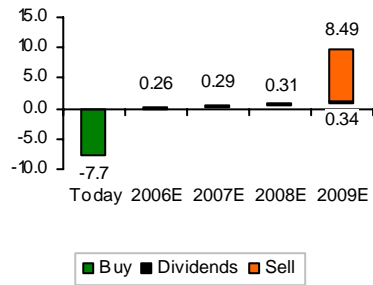
Source: Merrill Lynch estimates

Table 36: Sum of the Parts: Iliad EUR82

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Iliad	DCF	8.2%	1.9%	38.0%	8.0%	100%	4,391	4,391	81	8.7x	15.1x	
Domestic fixed								4,391	81			
Total Enterprise Value								4,391	81			
Year End 2007E Cash / (Net Debt)								11	0			
Equity Value								4,402	82			

Source: Merrill Lynch estimates

Chart 64: IRR of 6.4% / Dividends 3.9%



Merrill Lynch estimates

Inmarsat (Price Objective EUR455p) Buy B-1-7

Investment Case

- (+) Core business continues to perform strongly, with revenues and EBITDA growing double digits in Q1.
- (+) Launch of BGAN products should stimulate revenue growth further.
- (+) Launch of handheld on the Inmarsat satellites in H2 provides an additional growth opportunity.
- (+) Opportunities exist to enhance revenue and EBITDA through additional sources such as in-flight connectivity.
- (+) Operational leverage of new revenue streams is very high.
- (-) Possibility of competition in low speed data from Iridium next year.
- (+) Balance sheet remains strong and allows payment of an above market yield.

Catalysts

- (+) Q2 results likely to be solid and could result in guidance upgrades.
- (+) Additional newsflow on Aero opportunity in H2.
- (+/-) Launch of final satellite in H1 08 (probably).
- (-) Exposed to weakness in the USD.
- (-) Possibility of further Management share sales.

P&L bn	2005E	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	0.49	0.50	0.55	0.59	0.63	0.67	6.2%
Group EBITDA Margin	64.1%	65.0%	66.7%	67.1%	69.7%	70.5%	
Group EBITDA	0.32	0.33	0.37	0.40	0.44	0.47	8.3%
Depreciation	-0.13	-0.17	-0.17	-0.20	-0.19	-0.18	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	0.19	0.16	0.20	0.20	0.25	0.29	9.1%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.10	-0.08	-0.07	-0.06	-0.05	-0.04	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	-0.04	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	0.05	0.08	0.13	0.14	0.20	0.25	36.3%
Tax Charge	-0.04	-0.03	-0.04	-0.04	-0.06	-0.07	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	0.01	0.06	0.09	0.10	0.14	0.17	75.1%
Underlying Net Income	0.05	0.07	0.09	0.10	0.14	0.17	28.6%
Cashflow bn							
Group EBITDA	0.32	0.33	0.37	0.40	0.44	0.47	8.3%
Capital Expenditure	-0.26	-0.17	-0.20	-0.04	-0.04	-0.04	
Net Interest charge from CF	-0.06	-0.04	-0.04	-0.04	-0.07	-0.07	
Tax Charge from CF	0.00	0.00	-0.01	-0.04	-0.06	-0.07	
Other (Pensions / Working Capital Etc)	0.00	-0.01	0.01	0.00	-0.01	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	-0.01	0.11	0.12	0.28	0.26	0.29	-302.6%
Dividends	-0.03	-0.09	-0.13	-0.14	-0.15	-0.16	
CF after Dividends	-0.03	0.02	0.00	0.15	0.11	0.13	
Net Debt	0.89	0.91	0.94	0.82	0.69	0.53	
Per Share Data							
FCF per Share	-0.02	0.24	0.27	0.62	0.56	0.63	-302.6%
Reported EPS	0.02	0.13	0.20	0.21	0.31	0.38	75.1%
Underlying EPS (ex Goodwill)	0.11	0.14	0.20	0.21	0.31	0.38	28.6%
Dividend	0.16	0.26	0.29	0.31	0.34	0.35	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	2.8x	2.8x	2.6x	2.1x	1.6x	1.1x	
Capex / Sales	53.3%	33.3%	36.7%	6.5%	6.1%	5.7%	
Capex / Depreciation	2.1x	1.0x	1.2x	0.2x	0.2x	0.2x	
(EBITDA - Capex) / Sales	10.8%	31.7%	29.9%	60.6%	63.6%	64.8%	
FCF / Sales	-1.7%	21.9%	22.3%	47.8%	41.0%	43.3%	
ROCE	7.7%	8.2%	10.0%	10.0%	12.8%	15.5%	
ROCE ex goodwill	10.2%	11.0%	13.3%	13.4%	17.5%	21.6%	
Valuation							
EV / Proportionate Revenues	8.5x	8.3x	7.7x	7.0x	6.3x	5.7x	
EV / Proportionate EBITDA	13.2x	12.8x	11.5x	10.4x	9.1x	8.1x	
EV / ACE	2.2x	2.4x	2.4x	2.4x	2.6x	2.7x	
FCF Yield	-0.3%	3.4%	3.7%	8.6%	7.9%	8.8%	
Underlying P/E	66.0x	49.7x	35.0x	33.3x	23.5x	18.8x	
Dividend Yield	2.3%	3.7%	4.1%	4.3%	4.7%	4.9%	

Source: Merrill Lynch Research estimate

Forthnet (Price Objective EUR16)	BUY C-1-9
Investment Case	
(+) Largest alternative operator in terms of broadband market share (21% of broadband market).	
(+) Well positioned to take advantage of broadband growth in Greece. Broadband penetration in Greece is 16% versus the EU average of 47%.	
(+) Concentration of population in large cities make ULL attractive. With 163 exchanges Forthnet can reach 70% of the lines in Greece.	
(-) Acquisition of TIM Hellas by Sawiris could increase competition among alternative operators.	
(+) ULL picking up pace Forthnet had 8.5k ULL customers by the end of May.	
Catalysts	
(+) Q2 should continue to show the positive trend in terms of net adds and ULL.	
(+) By end of 2007 Forthnet should unbundle 163 exchanges which will give it access to 70% of the total lines in Greece.	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	0.09	0.10	0.12	0.16	0.21	0.27	24.0%
Group EBITDA Margin	14.5%	-5.5%	-16.5%	6.6%	23.3%	32.0%	
Group EBITDA	0.01	-0.01	-0.02	0.01	0.05	0.09	45.3%
Depreciation	-0.01	-0.01	-0.02	-0.02	-0.03	-0.03	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	0.00	-0.02	-0.04	-0.02	0.02	0.05	93.7%
Redundancy Charges	0.00	0.00	0.00	0.00	-0.01	-0.01	
Net Interest	0.00	0.00	0.00	0.00	0.00	0.00	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.01	0.01	
Pre-Tax Profit	0.00	-0.02	-0.04	-0.02	0.02	0.06	180.8%
Tax Charge	0.00	0.00	0.01	0.00	0.00	-0.01	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	0.00	-0.02	-0.03	-0.01	0.01	0.04	-306.8%
Underlying Net Income	0.00	-0.02	-0.03	-0.01	0.01	0.04	-306.8%
Cashflow bn							
Group EBITDA	0.01	-0.01	-0.02	0.01	0.05	0.09	45.3%
Capital Expenditure	-0.16	-0.21	-0.16	-0.11	-0.08	-0.09	
Net Interest charge from CF	0.00	0.00	0.00	0.00	0.00	0.00	
Tax Charge from CF	0.00	0.00	0.01	0.00	0.00	-0.01	
Other (Pensions / Working Capital Etc)	0.13	0.18	0.12	0.08	0.06	0.08	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	-0.01	-0.03	-0.06	-0.02	0.03	0.07	-236.7%
Dividends	0.00	0.00	0.00	0.00	0.00	0.00	
CF after Dividends	-0.01	-0.03	-0.06	-0.02	0.03	0.07	
Net Debt	0.03	-0.05	0.00	0.02	0.00	-0.07	
Per Share Data							
FCF per Share	-0.84	-0.90	-1.51	-0.44	0.65	1.79	-216.2%
Reported EPS	-0.07	-0.45	-0.88	-0.37	0.36	1.09	-275.8%
Underlying EPS (ex Goodwill)	-0.07	-0.45	-0.88	-0.37	0.36	1.09	-275.8%
Dividend	0.00	0.00	0.00	0.00	0.00	0.00	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	2.7x	7.3x	-0.2x	2.8x	-0.1x	-0.9x	
Capex / Sales	167.3%	213.6%	138.0%	69.8%	38.5%	31.6%	
Capex / Depreciation	16.4x	19.0x	9.4x	4.8x	2.9x	2.7x	
(EBITDA - Capex) / Sales	-152.8%	-219.1%	-154.5%	-63.2%	-15.2%	0.4%	
FCF / Sales	-15.4%	-34.9%	-49.1%	-10.4%	12.0%	25.1%	
ROCE	2.3%	-9.1%	-14.2%	-4.6%	7.4%	20.6%	
ROCE ex goodwill	2.6%	-9.9%	-15.0%	-4.9%	7.7%	21.4%	
Valuation							
EV / Proportionate Revenues	2.3x	3.6x	3.5x	2.7x	1.9x	1.2x	
EV / Proportionate EBITDA	15.8x	-65.9x	-21.1x	40.2x	8.3x	3.8x	
EV / ACE	2.4x	2.4x	1.9x	1.9x	1.8x	1.6x	
FCF Yield	-7.9%	-8.4%	-14.2%	-4.1%	6.1%	16.8%	
Underlying P/E	-163.9x	-23.7x	-12.2x	-28.9x	29.5x	9.8x	
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

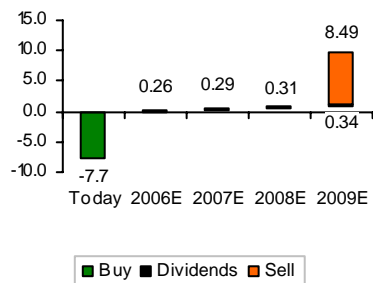
Source: Merrill Lynch estimates

Table 37: Sum of the Parts: Forthnet EUR16

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Forthnet	DCF	8.0%	1.0%	33.0%	10.0%	100%	606	606	16	N/M	N/M	
Enterprise value								606	16			
Year End 2007E Cash / (Net Debt)								(4)	0			
Equity Value								602	16			

Source: Merrill Lynch estimates

Chart 65: IRR of 6.4% / Dividends 3.9%



Merrill Lynch estimates

freenet (Fair Value Estimate EUR22) Neutral C-2-8

Investment Case
 (+) Synergies from freenet's merger.
 (+) Exposed to growing DSL market.
 (-) Legacy narrowband and voice revenues.

Catalysts
 (+) Acquisitions that allow it to use the tax credit in a shorter period of time.
 (-) Risk of overpaying for acquisitions.

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	2.12	2.13	2.06	2.13	2.19	2.24	1.1%
Group EBITDA Margin	8.0%	6.9%	12.3%	13.0%	13.4%	13.1%	
Group EBITDA	0.17	0.15	0.25	0.28	0.29	0.29	11.6%
Depreciation	-0.06	-0.04	-0.10	-0.12	-0.12	-0.14	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	0.11	0.10	0.16	0.16	0.15	0.16	
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	0.01	0.01	0.00	0.01	0.01	0.01	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptional and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	0.12	0.12	0.16	0.16	0.16	0.17	
Tax Charge	-0.02	0.14	-0.06	-0.05	-0.05	-0.05	
Minorities Charge	-0.03	-0.04	0.00	0.00	0.00	0.00	
Reported Net Income	0.07	0.22	0.10	0.11	0.11	0.12	
Underlying Net Income	0.07	0.22	0.10	0.11	0.11	0.12	
Cashflow bn							
Group EBITDA	0.17	0.15	0.25	0.28	0.29	0.29	11.6%
Capital Expenditure	-0.03	-0.04	-0.16	-0.14	-0.14	-0.13	32.5%
Net Interest charge from CF	0.01	0.01	0.00	0.01	0.01	0.01	
Tax Charge from CF	-0.02	-0.02	-0.02	-0.02	-0.02	-0.03	
Other (Pensions / Working Capital Etc)	0.03	0.04	0.00	0.01	-0.01	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	0.16	0.14	0.07	0.12	0.14	0.14	
Dividends	-0.02	0.00	-0.48	0.00	0.00	0.00	
CF after Dividends	0.15	0.14	-0.41	0.12	0.14	0.14	
Net Debt	-0.42	-0.53	-0.09	-0.19	-0.30	-0.42	
Per Share Data							
FCF per Share	2.57	2.26	0.71	1.29	1.42	1.51	
Reported EPS	1.06	3.50	1.03	1.19	1.20	1.22	
Underlying EPS (ex Goodwill)	1.06	3.50	1.03	1.19	1.20	1.22	
Dividend	0.25	0.00	5.00	0.00	0.00	0.00	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	-2.5x	-3.7x	-0.3x	-0.7x	-1.0x	-1.4x	
Capex / Sales	1.5%	2.0%	7.7%	6.7%	6.2%	5.9%	
Capex / Depreciation	0.5x	0.9x	1.6x	1.2x	1.0x	1.0x	
(EBITDA - Capex) / Sales	6.5%	4.9%	4.6%	6.3%	7.2%	7.2%	
FCF / Sales	7.6%	6.6%	3.3%	5.8%	6.2%	6.5%	
ROCE	13.3%	30.0%	13.0%	17.9%	14.9%	12.9%	
ROCE ex goodwill	14.9%	34.6%	15.3%	21.8%	17.5%	14.8%	
Valuation							
EV / Proportionate Revenues	0.4x	0.4x	0.9x	0.9x	0.8x	0.7x	
EV / Proportionate EBITDA	5.4x	5.4x	7.7x	6.7x	5.9x	5.5x	
EV / ACE	1.4x	1.0x	2.6x	3.0x	2.4x	1.9x	
FCF Yield	12.1%	10.6%	3.4%	6.1%	6.7%	7.1%	
Underlying P/E	19.9x	6.1x	20.6x	17.9x	17.8x	17.3x	
Dividend Yield	1.2%	0.0%	23.6%	0.0%	0.0%	0.0%	

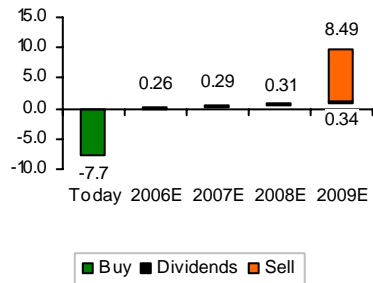
Source: Merrill Lynch estimates

Table 38: Sum of the Parts: freenet EUR22 fair value estimate is EUR22 and includes a EUR5 per share special dividend

Company/Division	Valuation Method	DCF Assumptions				Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)						
Mobilcom	DCF	8.5%	1.0%	12.0%	6.3%	100%	1,179	1,179	12	4.7x	12.5x
Enterprise value								1,179	12		
Tax credit								388	4		
Year End 2007E Cash / (Net Debt)								88	1		
Equity Value								1,655	17		

Source: Merrill Lynch estimates

Chart 66: IRR of 6.4% / Dividends 3.9%



Merrill Lynch estimates

QSC (Price Objective EUR7) Buy C-1-9

Investment Case
 (+) Focused on high-margin growing businesses.
 (+) Low exposure to the residential segment.
 (+) Incentivised management team.

Catalysts
 (+) New shareholder into Plusnet, improving network efficiency and EBITDA margins.
 (+) New wholesale partner.
 (+) A possible takeover.
 (-) Loss of wholesale partner.

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	0.19	0.26	0.36	0.43	0.50	0.56	23.6%
Group EBITDA Margin	3.0%	7.8%	15.3%	18.6%	20.4%	21.7%	
Group EBITDA	0.01	0.02	0.05	0.08	0.10	0.12	84.2%
Depreciation	-0.02	-0.03	-0.03	-0.03	-0.03	-0.03	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	-0.02	-0.01	0.02	0.05	0.07	0.09	
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	0.00	0.00	0.00	0.00	-0.01	-0.01	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.00	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	-0.02	-0.01	0.02	0.05	0.06	0.08	
Tax Charge	0.00	0.00	-0.01	-0.01	-0.02	-0.02	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	-0.02	-0.01	0.01	0.03	0.04	0.05	
Underlying Net Income	-0.02	-0.01	0.01	0.03	0.04	0.05	
Cashflow bn							
Group EBITDA	0.01	0.02	0.05	0.08	0.10	0.12	84.2%
Capital Expenditure	-0.01	-0.02	-0.07	-0.02	-0.02	-0.02	18.8%
Net Interest charge from CF	0.00	0.00	0.00	0.00	-0.01	-0.01	
Tax Charge from CF	0.00	0.00	0.00	0.00	-0.01	-0.01	
Other (Pensions / Working Capital Etc)	0.00	-0.01	0.00	-0.01	0.00	-0.01	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	-0.01	-0.01	-0.01	0.04	0.06	0.07	
Dividends	0.00	0.00	0.00	0.00	0.00	0.00	
CF after Dividends	-0.01	-0.01	-0.01	0.04	0.06	0.07	
Net Debt	-0.01	0.03	-0.01	-0.04	-0.10	-0.15	
Per Share Data							
FCF per Share	-0.06	-0.06	-0.07	0.32	0.47	0.53	
Reported EPS	-0.16	-0.04	0.10	0.24	0.31	0.40	
Underlying EPS (ex Goodwill)	-0.16	-0.04	0.10	0.24	0.31	0.40	
Dividend	0.00	0.00	0.00	0.00	0.00	0.00	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	-1.9x	1.6x	-0.2x	-0.6x	-0.9x	-1.2x	
Capex / Sales	5.1%	7.3%	18.8%	5.5%	4.8%	4.2%	
Capex / Depreciation	0.4x	0.7x	2.3x	0.8x	0.8x	0.7x	
(EBITDA - Capex) / Sales	-2.2%	0.5%	-3.6%	13.1%	15.6%	17.5%	
FCF / Sales	-3.7%	-3.3%	-2.6%	10.1%	12.8%	12.8%	
ROCE	-10.4%	-1.8%	4.3%	8.0%	8.3%	9.1%	
ROCE ex goodwill	-11.3%	-2.1%	5.3%	9.6%	9.5%	10.1%	
Valuation							
EV / Proportionate Revenues	2.9x	2.7x	1.9x	1.5x	1.2x	0.9x	
EV / Proportionate EBITDA	99.0x	34.6x	12.3x	7.9x	5.7x	4.4x	
EV / ACE	3.3x	2.6x	1.8x	1.4x	1.0x	0.8x	
FCF Yield	-1.3%	-1.3%	-1.3%	6.4%	9.4%	10.6%	
Underlying P/E	-32.3x	-124.6x	48.0x	21.0x	16.0x	12.5x	
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

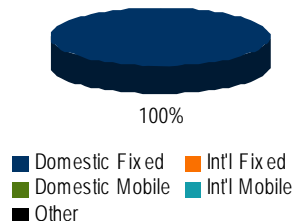
Source: Merrill Lynch Research estimate

Table 39: Sum of the Parts: QSC PO EUR7

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
QSC	DCF	8.5%	-1.0%	22.6%	3.9%	100%	809	809	6.0	14.8x	n/m	
Total Enterprise Value								809	6.0			
Tax credit								78	0.6			
Year End 2007E Cash / (Net Debt)								61	0.5			
Equity Value								947	7.0			

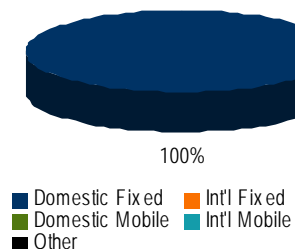
Source: Merrill Lynch estimates

Chart 67: 2006 EBITDA



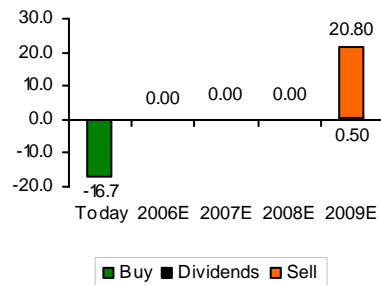
Merrill Lynch estimates

Chart 68: Enterprise Value



Source: Merrill Lynch estimates

Chart 69: IRR of 6.3% / Dividends 0.7%



Merrill Lynch estimates

Telenet (Fair Value Estimate EUR20) NEUTRAL B-2-9
Investment Case
 (-) Telenet keeps delivering operationally, but the stock's 55% rally has widened the gap with our €20 fair value. The DCF assumptions underlying the current share price (2.5% terminal growth, or 3.4% risk premium, or 0.76 Beta) assume that Telenet's risk profile is getting easier. We argue that it should remain stable.
 (-) Telenet's bid premium looks hard to justify. Liberty Global is more likely buyer than seller of Telenet shares. Mobistar could prefer a subscale DSL play to grow its broadband base rather than buy Telenet as some press reports have suggested. This is a balancing act between Telenet's ability to deliver and a relatively rich valuation, in our opinion.
Catalysts
 (+) No catalyst outside quarterly earnings releases (Q2 6 August, Q3 11 November), positive.

P&L bn	2005A	2006E	2007A	2008E	2009E	2010E	05-10E
Group	0.74	0.82	0.93	0.99	1.04	1.08	8.0%
Group EBITDA Margin	44.8%	44.7%	45.0%	45.0%	44.0%	43.0%	
Group EBITDA	0.33	0.37	0.42	0.45	0.46	0.47	7.1%
Depreciation	-0.16	-0.17	-0.18	-0.17	-0.15	-0.13	
Amortisation of Goodwill and Licenses	-0.04	-0.05	-0.05	-0.05	-0.05	-0.05	
Operating Profit	0.13	0.14	0.19	0.22	0.26	0.28	16.3%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.16	-0.10	-0.09	-0.09	-0.09	-0.09	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	-0.03	0.00	0.00	0.00	0.00	0.00	
Pre-Tax Profit	-0.06	0.04	0.10	0.13	0.17	0.19	-226.1%
Tax Charge	-0.01	-0.03	-0.03	-0.04	-0.05	-0.06	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	-0.07	0.01	0.07	0.09	0.12	0.13	-212.7%
Underlying Net Income	-0.07	0.01	0.07	0.09	0.12	0.13	-212.7%
Cashflow bn							
Group EBITDA	0.33	0.37	0.42	0.45	0.46	0.47	7.1%
Capital Expenditure	-0.18	-0.21	-0.23	-0.22	-0.20	-0.18	
Net Interest charge from CF	-0.12	-0.10	-0.09	-0.09	-0.09	-0.09	
Tax Charge from CF	0.00	0.00	-0.03	-0.04	-0.05	-0.06	
Other (Pensions / Working Capital Etc)	0.01	0.00	0.00	0.00	0.00	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	0.03	0.06	0.07	0.09	0.12	0.13	34.9%
Dividends	0.00	0.00	0.00	0.00	0.00	0.00	
CF after Dividends	0.03	0.06	0.07	0.09	0.12	0.13	
Net Debt	1.26	1.35	1.28	1.18	1.07	0.93	
Per Share Data							
FCF per Share	0.32	0.60	0.71	0.92	1.16	1.32	32.9%
Reported EPS	-0.78	0.05	0.69	0.92	1.16	1.32	-211.1%
Underlying EPS (ex Goodwill)	-0.78	0.05	0.69	0.92	1.16	1.32	-211.1%
Dividend	0.00	0.00	0.00	0.00	0.50	0.73	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	3.8x	3.7x	3.1x	2.7x	2.3x	2.0x	
Capex / Sales	24.8%	25.0%	24.5%	22.5%	19.0%	17.0%	
Capex / Depreciation	1.2x	1.2x	1.2x	1.3x	1.4x	1.4x	
(EBITDA - Capex) / Sales	20.0%	19.7%	20.5%	22.5%	25.0%	26.0%	
FCF / Sales	4.0%	7.4%	7.7%	9.4%	11.3%	12.2%	
ROCE	3.3%	4.1%	4.9%	5.5%	6.2%	6.7%	
ROCE ex goodwill	7.5%	9.1%	11.6%	12.9%	14.3%	15.1%	
Valuation							
EV / Proportionate Revenues	4.0x	3.7x	3.2x	2.9x	2.6x	2.4x	
EV / Proportionate EBITDA	8.9x	8.3x	7.1x	6.4x	6.0x	5.6x	
EV / ACE	0.9x	0.8x	0.8x	0.7x	0.7x	0.6x	
FCF Yield	1.9%	3.6%	4.3%	5.5%	7.0%	7.9%	
Underlying P/E	-21.4x	312.2x	24.1x	18.1x	14.4x	12.7x	
Dividend Yield	0.0%	0.0%	0.0%	0.0%	3.0%	4.3%	

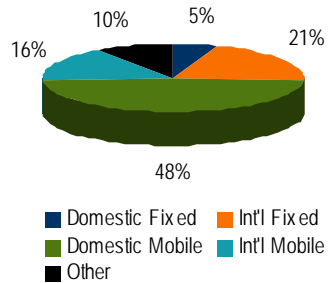
Source: Merrill Lynch estimates

Table 40: Sum of the Parts: Telenet EUR 20

Company/Division	Valuation Method	DCF Assumptions					Stake (%)	100 % Value	Stake Value	Value Per Share	07E EBITDA	07E OpFCF
		WACC %	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
Telenet	DCF	8.0%	1.5%	41.0%	12.0%	100%	3,309	3,309	32.9	7.9x	17.4x	
Domestic Mobile								3,309	32.9			
Total Enterprise Value								3,309	32.9			
Year End 2006E Cash / (Net Debt)								(1,276)	(12.7)			
Equity Value, pre Discount								2,033	20.2			

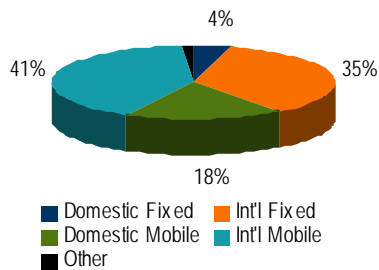
Source: Merrill Lynch estimates

Chart 70: 2006 EBITDA



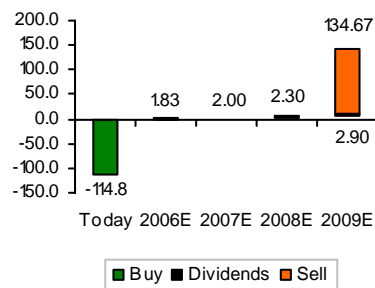
Source: Merrill Lynch estimates

Chart 71: Enterprise Value



Source: Merrill Lynch estimates

Chart 72: IRR of 5.9% / Dividends 2.0%



Merrill Lynch estimates

Tele2 (Price Objective SEK140)

BUY B-1-7

Investment Case

(-+) Diversified and broad portfolio of fixed, internet, and mobile products in 21 European countries.

(-+) Strong brand presence across Europe for cost-conscious telecoms consumers.

(+/-) Swedish mobile continues to generate over 40% of Tele2's EBITDA. We expect Q2 margins to hit 40% again after price increases in Swedish mobile.

Catalysts

(+) Tele2 is now the number four player in Russian wireless, with 5% market share and the fastest growth rate.

(+) Further break-up of portfolio could occur at a premium and would improve the profile of the Group.

Divisional Breakdowns	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Domestic Wireline	3.71	3.62	3.72	3.62	3.46	3.25	-2.6%
Revenue: International Wireline	30.56	27.77	24.71	24.45	25.50	26.23	-3.0%
Revenue: Domestic Mobile	6.78	6.84	7.17	6.88	6.92	6.95	0.5%
Revenue: International Mobile	7.90	12.21	16.04	18.54	20.89	22.50	23.3%
Revenue: Other	4.10	5.84	5.48	5.48	5.48	5.48	6.0%
Revenue: Eliminations	-3.10	-1.65	-3.80	-3.91	-4.08	-4.20	0.0%
Total Revenue	49.94	54.63	53.31	55.06	58.17	60.21	3.8%
EBITDA: Domestic Wireline	0.50	0.33	0.37	0.47	0.45	0.41	-3.6%
EBITDA: International Wireline	2.04	1.25	0.75	1.02	1.80	2.05	0.1%
EBITDA: Domestic Mobile	3.03	2.90	2.81	2.42	2.44	2.45	-4.2%
EBITDA: International Mobile	0.60	0.96	2.69	4.07	4.75	5.31	54.9%
EBITDA: Other	0.42	0.59	0.39	0.37	0.37	0.37	-2.3%
Total EBITDA	6.58	6.02	7.02	8.36	9.81	10.59	10.0%
Domestic Wireline	0.35	0.09	0.22	0.34	0.31	0.27	-4.8%
International Wireline	0.40	-0.75	-0.83	-0.52	0.24	0.49	4.2%
Domestic Mobile	2.68	2.13	2.33	1.99	1.99	2.00	-5.7%
International Mobile	-0.85	-1.24	0.39	1.53	2.28	2.76	-226.4%
Other	0.37	0.36	-0.30	-0.33	-0.22	-0.16	-184.8%
Total EBITDA - Capex	2.94	0.58	1.81	3.02	4.61	5.35	12.7%
Domestic Wireline	13.3%	9.0%	10.1%	13.1%	12.9%	12.7%	
International Wireline	6.7%	4.5%	3.0%	4.2%	7.1%	7.8%	
Domestic Mobile	44.8%	42.4%	39.2%	35.2%	35.2%	35.2%	
International Mobile	7.5%	7.8%	16.8%	22.0%	22.8%	23.6%	
Total EBITDA margin %	13.2%	11.0%	13.2%	15.2%	16.9%	17.6%	

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	49.94	54.63	53.31	55.06	58.17	60.21	3.8%
Group EBITDA Margin	13.2%	11.0%	13.2%	15.2%	16.9%	17.6%	
Group EBITDA	6.58	6.02	7.02	8.36	9.81	10.59	10.0%
Depreciation	-2.97	-3.98	-3.54	-3.77	-4.15	-4.40	
Amortisation of Goodwill and Licenses	0.00	-3.30	0.00	0.00	0.00	0.00	
Operating Profit	3.61	-1.26	3.48	4.59	5.66	6.19	11.4%
Redundancy Charges	0.00	0.00	0.00	0.00	0.00	0.00	
Net Interest	-0.39	-0.57	-0.60	-0.51	-0.49	-0.43	
Associates ex Goodwill	-0.10	-0.14	-0.16	-0.13	-0.13	-0.13	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	-0.23	-1.69	0.60	0.00	0.00	0.00	
Pre-Tax Profit	2.89	-3.65	3.33	3.95	5.05	5.64	14.3%
Tax Charge	-0.55	-0.23	-1.00	-1.19	-1.51	-1.69	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	2.34	-3.87	2.33	2.77	3.53	3.95	11.1%
Underlying Net Income	2.07	2.06	2.06	2.92	3.68	4.10	14.6%
Cashflow bn							
Group EBITDA	6.58	6.02	7.02	8.36	9.81	10.59	10.0%
Capital Expenditure	-3.64	-5.44	-5.21	-5.35	-5.20	-5.24	
Net Interest charge from CF	-0.38	-0.57	-0.60	-0.51	-0.49	-0.43	
Tax Charge from CF	-0.33	0.15	0.68	-1.00	-1.19	-1.51	
Other (Pensions / Working Capital Etc)	-0.38	-1.76	-0.36	0.00	0.00	0.00	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	1.85	-1.60	1.53	1.51	2.93	3.41	13.0%
Dividends	-2.21	-0.77	-0.81	-0.89	-1.02	-1.29	
CF after Dividends	-0.37	-2.37	0.72	0.62	1.91	2.12	
Net Debt	11.86	15.35	11.15	10.54	8.62	6.50	
Per Share Data							
FCF per Share	4.17	-3.59	3.45	3.39	6.60	7.68	13.0%
Reported EPS	5.27	-8.73	5.24	6.23	7.96	8.88	11.0%
Underlying EPS (ex Goodwill)	4.68	4.63	4.64	6.57	8.30	9.22	14.5%
Dividend	1.75	1.83	2.00	2.30	2.90	3.23	13.0%
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	1.8x	2.5x	1.6x	1.3x	0.9x	0.6x	
Capex / Sales	7.3%	10.0%	9.8%	9.7%	8.9%	8.7%	
Capex / Depreciation	1.2x	1.4x	1.5x	1.4x	1.3x	1.2x	
(EBITDA - Capex) / Sales	5.9%	1.1%	3.4%	5.5%	7.9%	8.9%	
FCF / Sales	3.7%	-2.9%	2.9%	2.7%	5.0%	5.7%	
ROCE	6.5%	3.2%	4.5%	6.6%	8.0%	8.4%	
ROCE ex goodwill	15.4%	6.7%	9.1%	13.6%	15.6%	15.8%	
Valuation							
EV / Proportionate Revenues	1.3x	1.3x	1.2x	1.1x	1.0x	1.0x	
EV / Proportionate EBITDA	9.5x	11.2x	8.8x	7.4x	6.1x	5.4x	
EV / ACE	1.4x	1.3x	1.2x	1.2x	1.2x	1.1x	
FCF Yield	3.6%	-3.1%	3.0%	3.0%	5.8%	6.7%	
Underlying P/E	24.5x	24.8x	24.8x	17.5x	13.8x	12.4x	
Dividend Yield	1.5%	1.6%	1.7%	2.0%	2.5%	2.8%	

Source: Merrill Lynch estimates

Table 41: Sum-of-the-Parts: Tele2 SEK140

	EV (SEKmn)	Per Share	EV/07E EBITDA	SEK/sub '07	€/sub '07	% of EV
Swedish Fixed	3,269	7.4	7.3x			4.5%
Swedish Mobile (Comviq)	23,892	53.8	8.5x	8600	925	32.6%
Baltic & Russia Mobile	18,839	42.4	7.0x	1343	144	25.7%
Nordic ex-Sweden Fixed Telephony	80	0.2	0.4x	730	80	0.1%
Nordic ex-Sweden Broadband	655	1.5	(-) EBITDA	3,500	383	0.9%
Nordic ex-Sweden MVNOs	2,740	6.2	Breakeven	5,000	546	3.7%
Central Europe Fixed Telephony	3,565	8.0	3.5x	730	80	4.9%
Central Europe Broadband	1,155	2.6	(-) EBITDA	3,500	383	1.6%
Central Europe MVNOs	822	1.8	(-) EBITDA	3,000	328	1.1%
Southern Europe Fixed Telephony	2,194	4.9	2.5x	730	80	3.0%
Southern Europe Broadband	5,404	12.2	(-) EBITDA	4,000	437	7.4%
Southern Europe MVNOs	2,370	5.3	(-) EBITDA	5,000	546	3.2%
Benelux Fixed Telephony	557	1.3	1.7x	730	80	0.8%
Benelux Broadband	2,893	6.5	(-) EBITDA	5,500	601	4.0%
Benelux MVNOs / Mobile	4,635	10.4	14.0x	5,000	546	6.3%
Services	1,834	4.1				2.5%
Swedish 3G Liability	-1,685	-3.8				-2.3%
Enterprise Value	73,216	164.8	10.4x			100.0%
2007E Net Debt	-11,154	-25.1				
Equity Value	62,062	139.7				

Source: Merrill Lynch Estimates

Tiscali (Fair Value EUR2.5)	Neutral B-2-7
Investment Case	
(+ Exposure to Italian broadband growth.	
(+ 11% market share in the UK and 0.9mn dial up customers that could be potentially migrated.	
(-) Operating cash flow negative until 2007.	
(+ In our view, possibility of M&A increased given that new share option scheme vests on change in control.	
(+ Substantial tax assets in the UK and Italy make the stock an attractive target.	
Catalysts	
(+ We expect improvement in cash position after cash receipts in 2007 from the sale of Netherlands and Germany.	
(+ First options for the CEO allocated in May and for staff at an undisclosed time in 2007.	
(+ Tiscali has an attractive footprint and could be a target in the European Telco consolidation.	
(-) The Sandoz Family Foundation shareholding of 9% is an overhang on the stock	

Divisional Revenue	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Revenue: Italy	0.20	0.22	0.23	0.26	0.29	0.32	
Revenue: UK	0.32	0.45	0.52	0.58	0.62	0.66	
Revenue: Netherlands	0.11	0.00	0.00	0.00	0.00	0.00	
Revenue: Germany	0.09	0.00	0.00	0.00	0.00	0.00	
Revenue: Other	0.03	0.02	0.02	0.02	0.02	0.02	
Total Revenue	0.75	0.68	0.76	0.86	0.93	1.00	6.0%
EBITDA: Italy	0.03	0.03	0.04	0.05	0.06	0.07	
EBITDA: UK	0.07	0.07	0.11	0.13	0.16	0.18	
EBITDA: Netherlands	0.04	0.00	0.00	0.00	0.00	0.00	
EBITDA: Germany	0.00	0.00	0.00	0.00	0.00	0.00	
EBITDA: Other	-0.02	0.01	0.00	0.00	0.00	0.00	
Total EBITDA	0.12	0.10	0.15	0.19	0.23	0.26	17.4%
EBITDA - Capex: Italy	-0.01	-0.01	0.00	0.02	0.03	0.04	
EBITDA - Capex: UK	-0.01	-0.07	-0.02	0.05	0.10	0.13	
EBITDA - Capex: Netherlands	0.01	0.00	0.00	0.00	0.00	0.00	
EBITDA - Capex: Germany	-0.01	0.00	0.00	0.00	0.00	0.00	
EBITDA - Capex: Other	-0.02	0.01	0.00	0.00	0.00	0.00	
Total EBITDA - Capex	-0.04	-0.08	-0.01	0.06	0.13	0.17	
EBITDA margin %: Italy	13.6%	13.8%	17.0%	19.0%	21.0%	23.0%	
EBITDA margin %: UK	21.1%	14.6%	21.0%	23.0%	26.0%	28.0%	
EBITDA margin %: Netherlands	35.8%						
EBITDA margin %: Germany	5.0%						
EBITDA margin %: Other	-86.5%						
Total EBITDA margin %	15.7%	14.8%	19.7%	21.6%	24.2%	26.2%	

Source: Merrill Lynch estimates

P&L bn	2005A	2006A	2007E	2008E	2009E	2010E	05-10E
Group Revenue	0.75	0.68	0.76	0.86	0.93	1.00	6.0%
Group EBITDA Margin	15.7%	14.8%	19.7%	21.6%	24.2%	26.2%	
Group EBITDA	0.12	0.10	0.15	0.19	0.23	0.26	17.4%
Depreciation	-0.14	-0.13	-0.13	-0.12	-0.12	-0.11	
Amortisation of Goodwill and Licenses	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Profit	-0.02	-0.03	0.02	0.06	0.11	0.15	-251.6%
Redundancy Charges	-0.06	-0.06	-0.02	-0.02	-0.02	-0.02	
Net Interest	-0.03	-0.03	-0.02	-0.02	-0.02	-0.01	
Associates ex Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	
Goodwill on Associates	0.00	0.00	0.00	0.00	0.00	0.00	
Exceptionals and Other	0.11	-0.08	0.13	0.00	0.00	0.00	
Pre-Tax Profit	0.01	-0.20	0.11	0.02	0.07	0.11	56.8%
Tax Charge	-0.02	0.01	0.00	-0.01	-0.02	-0.02	
Minorities Charge	0.00	0.00	0.00	0.00	0.00	0.00	
Reported Net Income	-0.01	-0.19	0.11	0.02	0.06	0.09	-246.5%
Underlying Net Income	-0.13	-0.11	-0.01	0.02	0.06	0.09	-192.5%
Cashflow bn							
Group EBITDA	0.12	0.10	0.15	0.19	0.23	0.26	17.4%
Capital Expenditure	-0.16	-0.18	-0.16	-0.12	-0.09	-0.09	
Net Interest charge from CF	-0.03	-0.03	-0.02	-0.02	-0.02	-0.01	
Tax Charge from CF	-0.02	0.01	0.00	-0.01	-0.02	-0.03	
Other (Pensions / Working Capital Etc)	-0.03	0.15	-0.01	-0.02	-0.04	-0.05	
Dividend Leakage	0.00	0.00	0.00	0.00	0.00	0.00	
FCF before Dividends, Acqns & Disp.	-0.12	0.05	-0.04	0.01	0.06	0.08	-193.2%
Dividends	0.00	0.00	0.00	0.03	0.03	0.03	
CF after Dividends	-0.12	0.05	-0.04	0.04	0.10	0.12	
Net Debt	0.29	0.40	0.16	0.15	0.14	0.13	
Per Share Data							
FCF per Share	-0.30	0.11	-0.10	0.03	0.15	0.20	-191.9%
Reported EPS	-0.03	-0.45	0.27	0.04	0.13	0.20	-244.5%
Underlying EPS (ex Goodwill)	-0.32	-0.27	-0.03	0.04	0.13	0.20	-191.3%
Dividend	0.00	0.00	0.00	0.07	0.08	0.08	
Share Buyback	0.00	0.00	0.00	0.00	0.00	0.00	
Ratios							
Net Debt / EBITDA	2.8x	4.6x	1.2x	0.9x	0.7x	0.5x	
Capex / Sales	21.0%	26.3%	21.5%	14.1%	9.8%	8.9%	
Capex / Depreciation	1.2x	1.4x	1.3x	1.0x	0.8x	0.8x	
(EBITDA - Capex) / Sales	-5.3%	-11.5%	-1.8%	7.5%	14.4%	17.3%	
FCF / Sales	-16.0%	6.6%	-5.6%	1.7%	6.8%	8.4%	
ROCE	-11.1%	-11.2%	0.2%	3.9%	8.0%	10.9%	
ROCE ex goodwill	-21.3%	-27.6%	0.5%	9.5%	19.1%	24.0%	
Valuation							
EV / Proportionate Revenues	1.7x	2.1x	1.6x	1.4x	1.3x	1.2x	
EV / Proportionate EBITDA	10.8x	14.4x	8.0x	6.4x	5.3x	4.5x	
EV / ACE	1.3x	1.7x	1.4x	1.4x	1.4x	1.3x	
FCF Yield	-12.2%	4.3%	-4.1%	1.4%	6.1%	8.0%	
Underlying P/E	-7.6x	-9.1x	-79.3x	59.6x	18.9x	12.1x	
Dividend Yield	0.0%	0.0%	0.0%	2.8%	3.3%	3.3%	

Source: Merrill Lynch Estimates

Table 42: Sum-of-the-Parts: Tiscali EUR2.5

Company/Division	Valuation Method	DCF Assumptions					% Stake	100% Value	Stake Value	Per Share	07E EBITDA	07E OpFCF
		WACC (%)	Terminal Growth Rate (%)	EBITDA Margin (%)	CAPEX to Sales (%)							
UK	DCF	9.0%	1.0%	26%	10%	89%	890	788	1.9	9.1x	n/m	
Italy	DCF	9.0%	2.0%	21%	9%	100%	337	337	0.8	9.7x	n/m	
Netherlands	DCF	9.0%	0.0%	33%	10%	0%	236	0	0.0	5.8x	5.8x	
Germany	DCF	9.0%	0.0%	2%	10%	100%	50	50	0.0			
Fixed line								1,175	2.7			
Bad debts not allocated								-	0.0			
Deferred tax assets								145	0.3			
Other Assets/(Liabilities)								145	0.3			
Total Enterprise Value								1,320	3.0			
Year End 2007E Cash / (Net Debt)								(162)	-0.4			
Equity Value								1,157	2.5			

Source: Merrill Lynch Estimates

Table 43: Companies Mentioned as at 30 May 2007

Name	Ticker	Curr.	Price	Q-R-Q	ADR
Belgacom	BGAOF	EUR	33.8	B-3-7	
Bouygues	BOUYF	EUR	65.6	A-1-7	
BT	BTGOF	GBP	329.5	A-3-7	BT
Cable & Wireless	CWPUF	GBP	197.1	C-2-7	
Cosmote Mobile	CZMTF	EUR	23.9	A-1-8	
Deutsche Telekom	DTLSF	EUR	13.7	B-3-7	DT
Elisa	ELMUF	EUR	21.5	B-1-7	
FASTWEB	FSWBF	EUR	40.7	B-2-7	
Forthnet SA	XFSAF	EUR	10.5	C-1-9	
France Telecom	FNCTF	EUR	22.8	B-2-7	FTE
Freenet AG	FRAGF	EUR	24.4	C-2-8	
Iliad SA	ILIAF	EUR	75.0	C-1-7	
Inmarsat PLC	IMASF	GBP	406.3	B-1-7	
KPN	KKPNF	EUR	12.6	A-2-7	KPN
Mobistar	MBSRF	EUR	64.8	B-2-7	
OTE	OTEFF	EUR	23.7	B-1-9	OTE
Portugal Telecom	PTGXF	EUR	10.4	A-1-7	PT
QSC AG	QSCGF	EUR	5.2	C-1-9	
Swisscom	SWZCF	CHF	431.3	A-1-7	SCM
Telefonica	TEFOF	EUR	16.9	A-1-7	TEF
Telenor	TELNF	NOK	117.3	B-1-7	TELN
Telecom Italia	TIAOF	EUR	2.2	A-1-8	TI
Telekom Austria	TKMAF	EUR	20.3	B-2-7	TKA
Telenet Grp Hld	TLGHF	EUR	23.7	B-2-9	
TeliaSonera	TLSNF	SEK	51.3	B-2-7	
Tele2 AB	TLTZF	SEK	115.5	B-1-7	
Tiscali Spa	TSCXF	EUR	2.4	B-2-9	
Vodafone Group	VODPF	GBP	158.0	B-1-7	VOD

Source: Merrill Lynch estimates

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Price Objective Basis & Risk

Bouygues: Price Objective €71

We derive our EUR71 price objective from a group sum of the parts using: 1/ a DCF for Telecom (8.5% WACC, 1% terminal growth rate) 2/ Market values for TF1 and Alstom (at 23 May 07 close) 3/ Market multiples for Colas and Construction

Risks to our Buy case and price objective are: 1/ A disappointing performance in Telecoms 2/ No exit from Telecoms 3/ A tougher environment in property development 4/ A quicker than expected turnaround in construction.

Cosmote: Price Objective €25.5

We have valued Cosmote using a DCF-based sum of the parts to arrive at a price objective of €24. We use a WACC of 8% for Greece and 8.5% for the Balkan assets.

The risks to our price objective are:

- The Greek market becoming more competitive with an impact on profitability.
- Non execution of the growth plans in Romania and Bulgaria.
- More strict regulation at home and in the Balkans.

Elisa: Price Objective €25

Our price objective is derived from the combination of a standalone valuation as well as a further premium for likely releverage and restructuring upside. Our DCF-based SOTP is using a WACC of 8% for Elisa's Finnish businesses, and terminal margins of 30% in fixed and 32% in mobile. The risks to our price objective are delays in the execution of fixed line restructuring, and no relief from the current mobile price war in Finland.

Iliad: Price Objective €82

We calculate our EUR82 price target using a simple group DCF, with 8.2% WACC and a long term growth rate of 1.9%.

Risks

The following risks could prevent the Iliad share price from reaching our price objective:

- Regulatory decisions could erode Iliad's return on investment in its fibre network;
- Tier two players aggressively going for market share could end the broadband market repair period sooner than we think.

Inmarsat: Price Objective 455p

Our price objective of 455p is based on:

- the DCF of the core business which we value at 350p and
- an option value of 105p from the various additional revenue streams that are not included in our base case forecasts including the opportunity for in-flight telephony use and ATC.

We see the risks to our price objective as being:

- A weakening USD.
- The possibility that the newly consolidated distributors gain leverage over Inmarsat.
- The current near-monopoly situation in Maritime coming under regulatory pressure.

Forthnet: Price Objective EUR16

We base our valuation on the discounted cash flow methodology (DCF) where we use a 8% discount rate. For the terminal year we use an EBITDA margin of 33%, a growth rate of 1% and a capex to sales of 10%. The risks to our recommendation are:

- OTE delays the unbundling of the rest of the exchanges
- OTE delays the commissioning of the lines to Forthnet's network
- Competition intensifies among the alternative operators.

OTE: Price Objective EUR26

We have valued OTE using a DCF based sum of the parts to arrive at a price objective of EUR26 per share. Given the different business segments of OTE, we have been able to vary the WACC, and terminal value drivers by region. We use a WACC of 8% for the domestic fixed line and 10% for Romania. We also use a terminal revenue growth of -0.5% for the domestic fixed line and for RomTelecom. For Cosmote, we use the valuation from our Cosmote model which uses a WACC of 8% for the domestic market and 10% for the Balkans and a terminal growth rate ranging from 0.5% for the domestic market to 1.5% for Romania. The risks to our recommendation and valuation are:

- EETT has more aggressive regulation that increases the power of the alternative operators leading to OTE's faster decline in the fixed line revenue.
- OTE's management does not execute effectively the fixed line restructuring plans.
- Political risk means that the Government is unable to support further restructuring.
- The Government places a part of its stake in the market.

PT: Price Objective EUR11.25

Our price target of EUR11.25 per share is the mid point of our worst and best case price targets for PT. We use a DCF based sum of the parts to calculate our price target in each scenario using WACCs of 8% for domestic assets with terminal growth rates of -1% and 0.5% for wireline and wireless respectively. The risks to our buy case and price objective are changes in the competitive environment for fixed line in Portugal, regulatory hurdles for domestic wireless consolidation and deal execution risk with international assets.

QSC: Price Objective EUR7

Using an 8.5% WACC and applying an 10.4x exit multiple to the terminal value, our price objective is €7 per share. The risks to our valuation are stronger than expected competition and execution issues relating to the efficient handling of a high number of customer.

Swisscom: Price Objective CHF500

Our Price Objective of CHF500 is based on our DCF based SOTP (WACC: 8%; Terminal growth rate: -1.0% / +1.5% depending on the business division), with assumptions in-line with the other European incumbents in our coverage universe. See Table 5 for more detail on our assumptions.

The risks to our price objective are: cuts to broadband pricing, more regulation and overpriced M&A.

Telecom Italia: Price Objective €2.35

We use a DCF based sum of the parts to calculate our price target of EUR2.35 per ordinary share. We use a WACC of 8% for domestic assets with terminal growth rates of 1% for wireless and -0.5% for wireline. For TIM Brazil we use a WACC of 10.5% and a terminal growth rate of 2.5%. The risks to our buy case and price objective are changes in the regulatory environment in Italy, stronger competition and a change in the macro outlook in Brazil.

Telefonica: Price Objective 19

Our price target of EUR19 per share is calculated using a DCF based sum of the parts, with 8% WACCs for European operations and 10.75% to 11% for Latam operations. The risks are unexpected changes in the competitive, regulatory and macro environment in the regions where TEF operates

Tele2: Price Objective SEK140

We value Tele2 using a SOTP assuming the reselling, broadband, and MVNO businesses are divested. Our valuation assumes exit multiples for broadband similar to Tele2 France, for fixed line similar to Tele2 UK, and for MVNOs similar to other Nordic deals. We have a price objective of SEK140. We value Swedish mobile at 8.5x EBITDA given its above-EBITDA 3G costs. The risks to our price objective would be a delay to the Group's break-up plans, or a further deterioration of Swedish mobile.

Telenor: Price Objective NOK140

Our NOK140 price target is derived from a DCF-based SOTP. We use discount rates varying from 8.0% in Norway to 12% in Thailand and Bangladesh to account for differing levels of country risk. We estimate that Telenor's enterprise value comprises of 29% from Norwegian assets and 61% from emerging market assets. The remaining 10% of value is from other European mobile assets. The risks to our price objective are a deteriorating view of emerging market assets and increased competition in Norwegian fixed or mobile

Vodafone: Price Objective 175p

As we show in some detail on the previous page, our 175p 12 month priceobjective is predicated on a DCF based sum of the parts analysis. We use WACCs of 8% for the majority of the assets, and up to 12% for the emerging markets assets. We use perpetual growth rates of between 0 and 1%. In our view, the risks to our recommendation and price objective are:

- That Vodafone is perceived to overpay in an M&A transaction;
- The threat of disruptive technologies such as WiFi impacting voice volumes, or IM impacting SMS.
- Detrimental regulatory rulings, particularly relating to termination rates, roaming, and the terms under which MVNOs are allowed to access the network.

Analyst Certification

We, Laura Janssens, Jesús Romero, Graham Ruck, Naomi O'Brien, Argiro Papadopoulou, Marc Batlle, CFA and Jean-Christophe Labbe, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Buy	89	44.50%	Buy	18	24.32%
Neutral	85	42.50%	Neutral	16	22.22%
Sell	26	13.00%	Sell	8	40.00%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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