13 July 2007 | 100 pages

Telecoms Prospects

2Q07: After The Rerating? Or Just Round One?

- Summer Pleasures — Our quarterly preview of what to expect, including guidance changes and earnings surprises. Two pages per company previewing numbers and trading statements. A strategic analysis of the big themes.
- Will The Rally Continue? — 2Q's rally saw UK names outperform significantly: Vodafone outperformed Telecom Italia by 29%. Vodafone's surge shows how the market is willing to buy into perceived structural change even if the short term has big challenges. We see few triggers to reduce the risk appetite in the sector, but we highlight rising volatility: beta has moved from 0.7 to 1 in a year.
- Two-Way Pull On Margins — Although several names have made positive comments on margin (Telekom Austria, Vodafone), this is hard to reconcile with many of the industry-level developments this quarter (eg, bigger bundles, limited cost pressure, accelerated roaming cuts). Overall we expect 1-2pp of pressure yoy.
- Short-Term View, More Positive than Negative — Stocks with positive potential this quarter are Cosmote, (1M), OTE (1M), Telefonica (1M), Telenor (1H) and Versatel (1H). We are cautious on DT (3M) and Mobistar (2M). Details on page 11
- Risk Ratings Reduced — We reduce risk ratings on ten stocks to reflect dividend cover, lower concern over debt levels and to harmonise with other sectors given similar sector betas: Cable & Wireless (1H from 1S), DT (3M from 3H), Swisscom (2L from 2M), Thus (2H from 2S) and FT, Telecom Italia Savers, Telekom Austria, TeliaSonera, Vodafone (all 2M from 2H). Details on page 20
- Housekeeping – We cut Mobistar to Hold/Medium Risk from Buy/High Risk (page 19 We make a number of changes to our estimates – see page 3. Coverage of Neuf Cegetel transfers to Dimitri Kallianiotis.

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Figure 1. Citi Top Fundamental and Short-Term Ideas in European Telecoms

	2Q07 Short Term	2Q07 Quant	Fundamental Picks
Like	Cosmote (1M)	BT (1M)	C&W (1H)
	OTE (1M)	United Internet (1M)	OTE (1M)
	Telefonica (1M)	Belgacom (2M)	Portugal Telecom (1M)
	Telenor (1H)	Telenor (1H)	Telefonica (1M)
	Versatel (1H)		
Don't Like	Deutsche Telekom (3M)	Vodafone (2M)	Carphone Warehouse (3H)
	Mobistar (2M)	C&W (1H)	COLT (3S)
		Deutsche Telekom (3M)	Deutsche Telekom (3M)
		Fastweb (3M)	Fastweb (3M)
			Tiscali (3S)

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets Ltd

Contents

Summary of changes to telecoms

Figure 2. Summary of changes detailed in this report

		Old	New
Rating, risk code and target price	Mobistar	1H, TP €72.50	2M, TP €68.00
Risk code	Cable & Wireless	1S	1H
	Deutsche Telekom	3H	3M
	France Telecom	2H	2M
	Swisscom	2M	2L
	Telekom Austria	2H	2M
	TI (Savers)	2H	2M
	TeliaSonera	2H	2M
	Thus	2S	2H
	Vodafone	2H	2M
Forecasts	Belgacom	Marginally lowered estimate for mobile subscriber numbers	
	BT	Minor increases in interest payments as a result of the timing of cash outlays associated with recent acquisitions	
	France Telecom	Slightly increased DSL subscriber numbers in France and marginally lowered revenue growth estimate for RoW mobile	
	Neuf Cegetel	To include the acquisition of Club Internet	
	Portugal Telecom	Currency adjustments.	
	Swisscom	New estimates include Fastweb consolidation.	
	Telecom Italia	Minor Brazilian mobile subscriber and margin upgrades. Currency updates.	
	Telenor	Moderately lowered or numbers to reflect increased competition in Norwegian mobile and sustained price competition in Bangladesh	
	TeliaSonera	Minor adjustments to currency assumptions.	
	Virgin Media	Updated estimates to account for a tougher operating environment in both consumer and business segments	
Transfer of coverage	Neuf Cegetel	Terence Sinclair	Dimitri Kallianiotis

Source: Citigroup Investment Research

Results Calendar

Below we show the expected timetable for results. Please note:

- We will get KPIs only from Vodafone.
- We get full results from France Telecom, Mobistar and Neuf Cegetel for the first time in six months.
- Cable and Wireless, Carphone Warehouse and Thus do not report, although we do get trading statements from CPW and Thus.

Capital Markets Days and AGMs

Telenet and Versatel have investor briefings scheduled. There are several UK AGMs, of which the only one to watch will be Vodafone on 24th July given the press attention around resolutions 25-28 (the ECS issues over Verizon Wireless and capital returns). We expect investor days at Telefonica (11th October), Vodafone (December) and Neuf (September).

Figure 3. 2Q07 and YTM07 Results Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
16-Jul	17-Jul	18-Jul	19-Jul	20-Jul
			Colt 2Q07 Vodafone KPIs	Mobistar 2Q07
23-Jul	24-Jul	25-Jul	26-Jul	27-Jul
	Telecom Italia 2Q07 Telenor 2Q07	Tele2 2Q07	BT 1Q08 Carphone Warehouse 1Q07	TeliaSonera 2Q07
30-Jul	31-Jul	01-Aug	02-Aug	03-Aug
Telefonica 2Q07 Verizon 2Q07	Elisa 2Q07 KPN 2Q07		France Telecom 2Q07	
06-Aug	07-Aug	08-Aug	09-Aug	10-Aug
Telenet 2Q07	Portugal Telecom 2Q07 Telenet Capital Markets Day	Swisscom 2Q07 Virgin Media 2Q07 Freenet 2Q07	Deutsche Telekom 2Q07 Bouygues 2Q07 (Sales) Neuf 1H07 (Sales and results)	United Internet 2Q07
13-Aug	14-Aug	15-Aug	16-Aug	17-Aug
20-Aug	21-Aug	22-Aug	23-Aug	24-Aug
		Telekom Austria 2Q07		Belgacom 2Q07
27-Aug	28-Aug	29-Aug	30-Aug	31-Aug
	Versatel 2Q07 Cosmote 2Q07		OTE 2Q07 (tbc)	Bouygues 2Q07 (Earnings)
03-Sep	04-Sep	05-Sep	06-Sep	07-Sep
10-Sep	11-Sep	12-Sep	13-Sep	14-Sep
	Fastweb 2Q07	Tiscali 2Q07		

Source: Company websites

Telecoms Catalyst Tracker

Estimate Revisions

We may see widespread estimate changes as we clock half the year. The first half of the year for December year-end companies typically produces 55-60% of net income. This year guidance has been reduced/constrained deliberately, as at France Telecom.

Pricing

There are usually heavy seasonal promotions in the summer, particularly in Italy and Greece. These have started early in Italy as our recent *Telecom Tariff Tracker* shows, although the discounts have so far not been severe outside Norway[1].

Corporate Events

Figure 4 below identifies the non-results catalysts that we think will move stocks in the months ahead.

Product launches

iPhone best case? 1-2% EPS upgrades

The iPhone exclusive deal is the first time we have seen a single handset move share prices. The economics here will heavily depend on subsidy levels, but we assume 2008 sees c20m units worldwide with c4m in Europe. So an exclusive to a single operator (assuming less than a year) would be worth 2-3m units, probably half in new customers. (This was the initial *new: existing* customer split at iPhone's US partner AT&T). We see downside on this calculation only, if press reports that Vodafone has pulled out of negotiations are to be believed. Note that the ARPU will reflect the fact these are 2G phones – these numbers suggest 1-2% upside to net income numbers.

September usually sees the start of pre-Christmas offers in broadband, this year including TV, and mobile.

Regulation

We expect these regulatory announcements over the next quarter:

- Mid-July: Dutch regulator statements on fibre access under KPN's NGN.
- July 31st: News on applications for 4th French 3G licence. We expect no bidders.
- July 31st: News on French termination for 2008.

There are several recent regulatory changes that have been announced but are only slowly entering consensus numbers. These include:

- Termination cuts in Belgium (May) and Austria (July 1st).
- Roaming cuts – Northern European names including Vodafone will see self-initiated cuts this quarter. Mobistar and Belgacom are most at risk of consensus downgrades here.

[1] Please see *Telecom Tariff Tracker*, Citigroup Investment Research, 28 June 2007.

M&A

Significant M&A is possible over the next few months:

- A Telefonica/Portugal Telecom deal on Brazil would be the most significant deal, but we are less and less convinced Portugal Telecom is willing to sell even at the €3bn that Telefonica has reportedly offered[2], or at €3.5bn which is the level to which we think Telefonica will rise.
- We expect France Telecom (which highlighted its intention to exit on the 1Q07 results) to sell its Dutch mobile business to Deutsche Telekom. We estimate that this unit could sell for between €1.5-2.0bn. This should help sentiment across the board, although it will be KPN, DT and Vodafone that benefit most (in that order). A higher bid from another consortium would be negative for each of these names since there would be no consolidation.

Elsewhere, we would not be surprised to hear announcements from:

- Bouygues (Areva, Bouygues Telecom) — probably early in 2008, as we highlighted in our "*More than an Event Driven Idea"*, published on 15th May 2007.
- Deutsche Telekom —non-core disposals and a potential partner for T-System, as discussed by DT's CEO, Mr. Obermann in the Suddeutsche Zeitung, February 2007.
- KPN – Getronics Netherlands[3]?
- Portugal Telecom — Portugal (Sonae), as we highlighted in our "*Hunted turned Hunter, turning Hunted?"*, published on 17th May 2007.
- Telenor/TeliaSonera – ongoing disputes in Russia, Turkey, Ukraine, see "*Telenor: Time to Buy Again*", published on 4th May 2007.
- Vodafone — South Africa. See our report, "*Vodafone: Evolution not Revolution", published 22 November 2007*.
- OTE – Buyout of Cosmote minorities, as stated by the OTE CEO, Mr Vourloumis at an analyst presentation in London on 22 March 2007.

[2] Source: FT interview with Chairman Alierta, 10 July 2007.

[3] Getronics has announced it is considering an offer from the US, which we assume has a private equity component. KPN has made public its interest in acquiring parts of the company, but not the whole.

Figure 4. European Telecom Sector Potential Catalysts July – September 2007 (CIR Equity Telecom opinions, unless otherwise stated)

Company	Event
Industry	EU Roaming; Elections - Turkey (22 July), India (July), Ukraine (30 Sept), Switzerland (Oct 07), Russia (Dec 07)
Belgacom	Cable Consolidation (2H). Placement risk (Post June elections), Small acquisitions (2H07).
Bouygues	Increase stake in Alstom, Areva capital increase/purchase ('08), MVNO agreements, 4th 3G license (31st July 2008)
BT Group	Impact of Broadband price cuts (1Q08); 1Q08 Results
Cable & Wireless	AGM statement 20 July, Management roadshow
Carphone Warehouse	Trading statement, iPhone launch, US Best Buy progress, ULL migration statistics
Colt Telecom	Seasonal reporting
Cosmote	Buy-in of minorities by OTE (2H07/2008), Restructuring of distribution network (ongoing)
Deutsche Telekom	Extension of fibre build, Fines from the EU (07/08?), Launch of low end mobile brand (2H07)
Elisa	Impact of TLSN's telefinland relaunch (2H07), DNA IPO (early 2008).
France Telecom	4th 3G (July 2007), refarming of 2G spectrum (1H07)
KPN	OPTA Fixed and Mobile positioning conclusion (July), Getronics deal?
Mobistar	Potential Telenet takeover, Small acquisitions (2H07)
Neuf Cegetel	Extension of fibre build (2H07), Agreement with FT and Iliad to commercialise fibre (2H07?)
OTE	Real estate restructuring, Capex revisions. 10% buyback (no timing)
Portugal Telecom	Vivo disposal decision (2H07) and use of proceeds, PTM demerger (Sept-07), naked DSL launch (3Q07)
Swisscom	Fastweb integration (ongoing). Swiss ULL launches + IPTV roll out cost reductions (2H07)
Tele2	Strategic reorganisation (ongoing), Russian regional acquisitions (2H07?)
Telecom Italia	Impact TEF control (Sept-07), Network separation (2H07), Brasil Telecom sale (ongoing)
Telekom Austria	Serbia & Macedonia launch, Bosnia & Herzegovina acquisition (2H07?)
Telefonica	Vivo acquisition (3Q07), Capital Markets Day (Oct 2007)
Telenor	Vietnam licence (mid-2007); Alfa Resolution (2008?), Tele2 NW MVNO loss (1Q08)
TeliaSonera	Swedish Network separation (2H07), Alfa/Cukorova resolution (2008?)
Thus	Seasonal reporting
Verizon	2Q07 Results (30th July)
Virgin Media	Outcome of legal dispute with Sky (2H07), Launch of ULL based offer (2H07), Acquisition of content providers (2H07)
Vodafone	Vodacom (African) acquisition, Vietnam Bid

Source: Company Reports and Citigroup Investment Research

Stocks to Own and Avoid

Stock Performance: will recent rallies be extended?

The major event of the last three months has been the rotation into names that have short-term challenges but where the market can make a case for substantial restructuring: principally Vodafone and Deutsche Telekom, although DT has fallen back recently.

What does Alltel tell us about Break-Up Valuations?

Alltel – regional player with global see through valuations?

Private equity's purchase of Alltel in the US (21 May) had a much broader impact on the sector than we initially expected. Our view was that this was a unique transaction demanding a unique valuation – a regional US player offering a last opportunity for consolidation in an area where capex is expensive.

The market clearly took a different view and marked up both Vodafone and DT, with US exposure, and the rest of the sector followed. Since Alltel, the European sector has outperformed the market by 1.5ppt (+3% vs. market +1.5%).

This effect has been compounded by asset break-ups in the broader market (e.g. Cadbury Schweppes), a higher profile for activist shareholders in several market deals and a higher appetite for risk despite rising bond yields. No wonder that Vodafone, which traded at a c.30% discount to SoTP before the Alltel deal was announced, is up almost 15% since, its sharpest upward move for 18 quarters. At 145p the implied value of its emerging market assets was just c.6x vs. peers trading at 7-8x.

Not all ships have risen with this tide. Here we identify three shares whose SoTP valuations offer significant upside to their current trading price but have underperformed the sector during the rally. All have significant emerging market exposure.

PT, Telenor and TeliaSonera offer SoP upside

Figure 5. Stocks With Significant Break-up Scenario Upside (in percent)

	Discount to CIR SoTP Valuation	Underperformance vs. the sector since 21 May	Exposure to Emerging Markets
Portugal Telecom	20%	8%	22%
Telenor	22%	3%	45%
TeliaSonera	25%	1%	35%

Source: Citigroup Investment Research

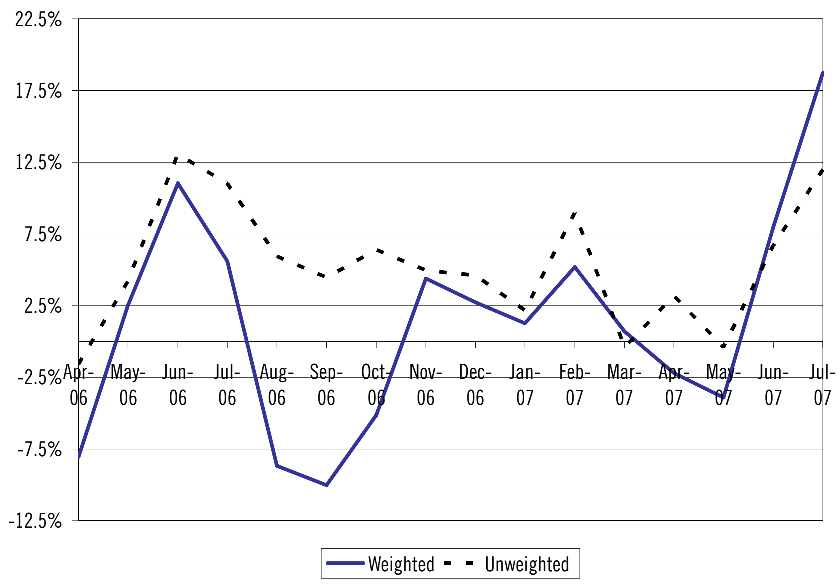
The UK Supremacy

Inside this rally:

- Vodafone stood out – with its best quarter in four and a half years.
- Laggards in 1Q07 have caught up – with the exception of Telecom Italia where there are still governance and dividend issues, and France Telecom where the placing was well trailed in advance.
- It is worth demonstrating how it is not just Vodafone that has driven this. Although they don't show up much on a market cap weighted basis, BT and C&W have also excelled.

Figure 6 shows how the UK names have outperformed. The two lines show how a basket of Vodafone, BT and Cable and Wireless has outperformed France Telecom, Deutsche Telekom, Telefonica and Telecom Italia.

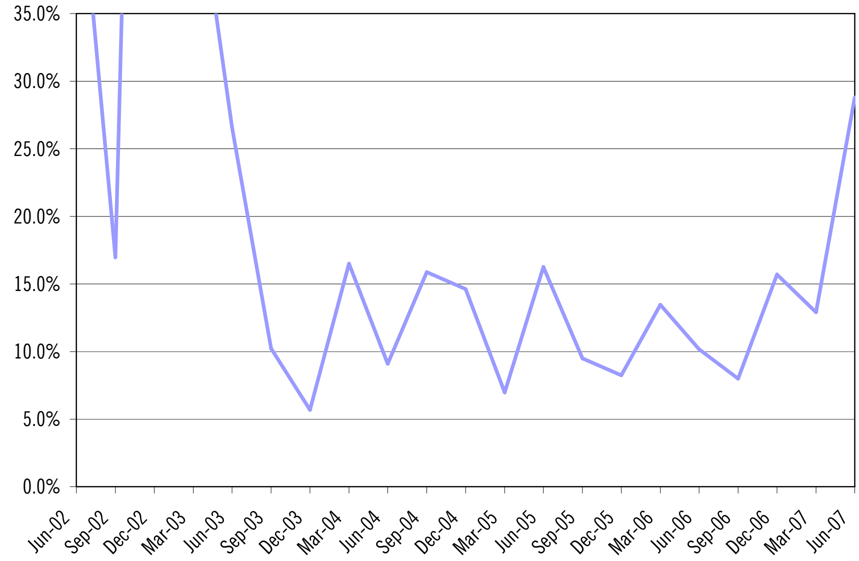
Figure 6. Weighted, Unweighted Performance - Key Names



Source: Citigroup Investment Research

The sector tends to move consistently in one direction or another, but recently the variance between names has picked up. Figure 7 shows how volatility has risen since the start of the year. The measure here is best performer minus worst performer among the big 5 names – so in the recent quarter Vodafone outperformed Telecom Italia by 29%.

Figure 7. Best Minus Worst: Quarterly Moves



Source: Datacentral, Citigroup Investment Research
Note: Sample is Vodafone, Telefonica, Deutsche Telekom, Telecom Italia, France Telecom

This rising volatility also shows up as rising beta to the market.

Figure 8. Sector beta vs Eurostoxx

Source: Citigroup Investment Research

Figure 9 shows the underlying data.

Figure 9. Significant moves: top stocks

Last 21 quarters	Vodafone	Telefonica	DT	FT	TI
<-10%	19.0%	9.5%	23.8%	14.3%	19.0%
<0%	52.4%	52.4%	57.1%	57.1%	76.2%
>0%	47.6%	47.6%	42.9%	42.9%	23.8%
>10%	23.8%	14.3%	19.0%	14.3%	9.5%
last 8 quarters					
<-10%	25.0%	12.5%	37.5%	25.0%	37.5%
<0%	50.0%	75.0%	75.0%	62.5%	100.0%
>0%	50.0%	25.0%	25.0%	37.5%	0.0%
>10%	12.5%	12.5%	0.0%	12.5%	0.0%

Source: Citigroup Investment Research

View For the Quarter

Our short-term views for the quarter given short-term catalysts and current valuations follow. They do not necessarily track our 12-month stance but these ideas marry near and mid term.

Stocks with positive potential

- Cosmote (1M) – performance in Romania, margin resilience in Greece.
- OTE (1M) – broadband growth, Cosmote.
- Telefonica (1M) – uptick in fixed-line guidance, upgrade potential from Latin American mobile.
- Telenor (1H) – likely restoration of buyback. Norwegian mobile price competition well understood.
- Versatel (1H) – share take and ULL performance.

Negative

- DT (3M) – Continued weakness in BBFN and Business Customers, slowdown in German broadband market growth, European mobile (particularly Germany, UK and the Netherlands).
- Mobistar (2M) – Mobistar's current trading is not strong, with a fierce market share fight with Proximus and Base and disappointing results in broadband. The introduction of retail roaming regulation in September could also prompt management to reduce current year guidance.

Who do we like fundamentally?

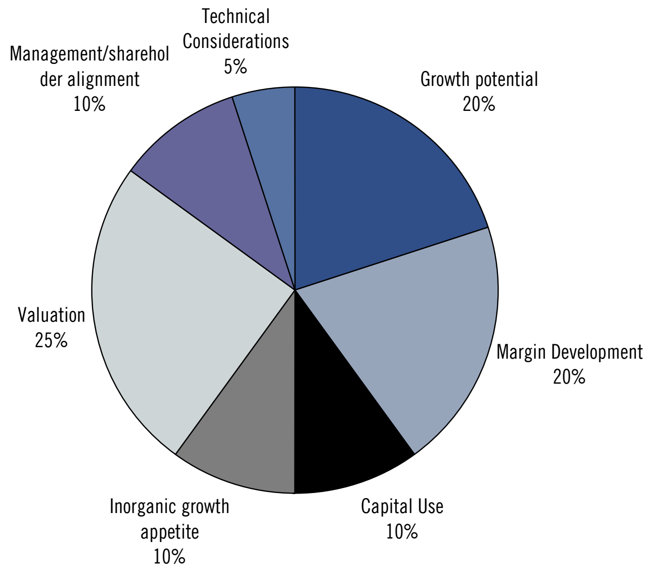
Our fundamental position on favourite names has changed little.

- Our top picks are Cable and Wireless, OTE, Portugal Telecom, Telefonica.
- We also recommend *strongly* Cosmote, Versatel.
- Other long ideas at current levels include Bouygues, BT, KPN, Telenor and United Internet.

The Tennis Ladder

We use our "tennis ladder" to show our structural preferences within the sector. The ladder ranks unusual strength/weakness against key criteria, as shown below.

Figure 10. Criteria and weights



Source: Citigroup Investment Research

Each criteria is built up from drivers. For example top-line growth potential is built up from: 1) overall revenue potential, 2) regulation, 3) ULL threat, 4) threat from smaller mobile operators, 5) demographic influences.

If a company was average for the sector its total score would be 10. In the figure below our range of unweighted scores runs from 13.9 to 8.3. However we can weight some companies for event risk. For example for Telenor, our weighted score is 95% of the unweighted. This reflects additional event risk from the Ukrainian issue – it still screens as quite attractive! For Cosmote we weight 105% since it might be bought in by OTE. We have applied weightings to 11 out of 32 names: six positively.

Figure 11 shows the output. We like Telefonica, KPN; we dislike Colt, DT.

Figure 11. Citi Telecoms Tennis Ladder

Positive

Neutral

Negative

	Weighted Score	Total Score	Growth Potential	Margin Development	Capital Use	Inorganic Growth Appetite	Valuation	Management/ shareholder alignment	Secondary Considerations
1 Telefonica	13.2	13.9	3.0	2.0	1.0	2.0	4.4	1.0	0.8
2 KPN	13.1	13.1	2.4	2.8	1.7	1.0	2.7	2.0	0.8
3 Cosmote	13.0	12.4	2.8	2.0	1.0	1.8	1.8	2.0	0.5
4 OTE	13.0	11.8	2.0	2.5	1.0	1.0	3.3	1.0	0.5
5 BT	12.9	12.9	1.9	3.0	1.0	1.0	3.6	2.0	0.8
6 Portugal Telecom	12.4	11.8	1.9	2.8	1.7	1.0	2.9	1.0	0.5
7 C&W	12.3	11.2	2.0	2.2	1.0	1.0	2.5	2.0	0.5
8 Virgin media	11.9	10.8	2.0	2.2	1.0	1.0	3.1	1.0	0.5
9 TeliaSonera	11.9	11.9	2.0	2.0	1.7	1.0	3.9	1.0	0.8
10 Telenor	11.9	12.5	2.8	3.0	1.0	2.0	2.2	1.0	0.5
11 TKA	11.9	11.9	2.8	2.0	1.0	1.0	3.6	1.0	0.4
12 Bouygues	11.8	10.8	1.9	3.8	0.9	2.0	1.3	0.5	0.5
13 Tele2	11.4	11.4	2.8	2.0	1.0	1.0	3.1	1.0	0.8
14 Mobistar	11.2	10.7	2.0	2.0	1.0	1.0	3.2	1.0	0.5
15 Vodafone	11.2	12.4	2.0	3.0	1.0	1.3	2.6	2.0	0.5
16 Neuf Cegetel	11.0	11.0	2.8	2.0	1.0	1.0	2.7	1.0	0.5
17 Freenet	10.8	10.8	2.8	2.0	1.0	1.0	2.5	1.0	0.5
17 Thus	10.8	10.8	2.8	2.0	1.0	1.0	2.5	1.0	0.5
19 United Internet	10.6	10.6	2.8	2.0	1.0	1.0	2.3	1.0	0.5
20 TI (Savers)	10.5	10.5	1.6	2.0	1.0	1.0	3.4	1.0	0.8
21 Swisscom	10.4	10.4	2.0	2.0	1.0	1.0	2.9	1.0	0.5
22 FT	10.4	10.4	2.2	1.5	1.0	0.9	3.4	1.0	0.5
23 Versatel	10.3	10.3	2.8	2.0	1.0	1.0	2.0	1.0	0.5
24 Belgacom	10.2	10.2	2.0	2.0	1.0	1.0	2.9	1.0	0.5
25 TI (Ords)	10.0	10.0	1.6	2.0	1.0	1.0	2.9	1.0	0.5
26 Elisa	10.0	10.0	2.0	2.0	1.0	1.0	2.5	1.0	0.4
26 Tiscali	10.0	10.0	2.0	2.0	1.0	1.0	2.5	1.0	0.5
28 Carphone Warehouse	9.2	10.3	2.8	1.7	1.0	1.0	1.3	2.0	0.5
29 Colt	8.9	9.9	2.0	2.2	1.0	1.0	2.2	1.0	0.5
30 DT	8.3	8.3	1.3	1.5	1.0	0.9	2.1	1.0	0.5

Source: Citigroup Investment Research

Of course we do not always expect our tennis ladder structural preferences to pull through every quarter for a host of tactical reasons. Telecom stocks are less consistent than Roger Federer. However the ladder shows a consistent view with our fundamental recommendations.

Fundamentals: What Do We Expect To Learn This Quarter?

Overall Shape and Guidance Changes

By the end of this quarter it will be clear whether full-year expectations have to be adjusted, since first-half numbers are typically 55% of full-year profits in Northern Europe, more where exposure to 4Q mobile growth is stronger. In Southern Europe, there is usually more room to make up targets in 2H given seasonal strength from summer visitors.

Key Guidance Changes

We have identified three companies where operational guidance may change:

- Telefonica should increase its Spanish sales guidance. It guides 0.5% for fixed and 2% for wireless. We have 1% and almost 7% – for an average just over 3.5%.
- Capex guidance should be cut at OTE. The company guides €1.24bn and €1.17bn in 2008. We are 10% below for 2007 and over 15% for 2008.
- Telekom Austria recently surprised by raising guidance ahead of results, and clarified the impact of roaming regulation.

We do not expect hints on the direction of capital returns in a quarter when there will be few dividend announcements. However:

- Telenor may resume its buyback.
- France Telecom may raise slightly its flat dividend guidance. We have a €5¢ rise.

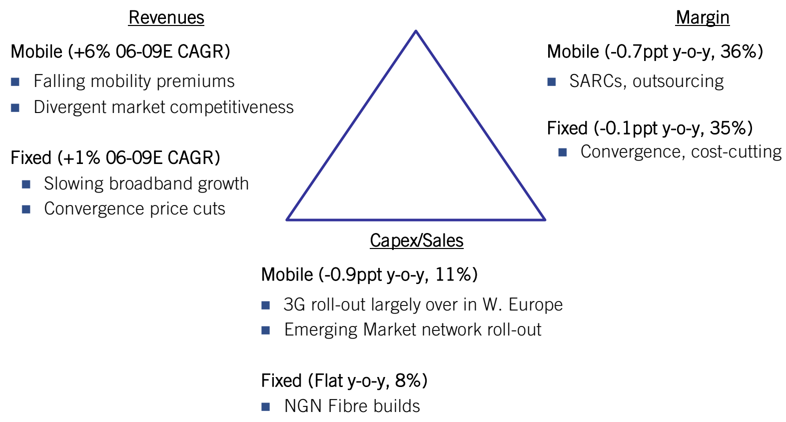
Operating Trends

In many respects this will be a business-as-usual quarter. However we expect to see:

- Evidence of continued strong competition, rather more aggressive in broadband than mobile. This reflects the evidence that 50% of European fixed-line markets saw price cuts above 10% during 1H07.
- Mobile competition is a more mixed picture (for example we have seen much damage in Germany, less in the UK, pressure in Norway but not in Sweden). Consolidation has helped Netherlands far more than Austria.

Here's how the quarter could impact our views across the FCF triangle.

Figure 12. CIR FCF Triangle



Source: Citigroup Investment Research

Revenues: Some positive surprises, but the backdrop is relentless pressure

- Elasticity is improving but remains below 1, i.e. insufficient to compensate for price declines, eg. in Germany (below 1) and in Spain (above 1) and approaching 1 for Telecom Italia (but not Vodafone).
  Results to watch: DT, Telecom Italia, Telefonica, Vodafone.

- Competitive pressure on roaming tariffs ahead of summer season.
  Results to watch: DT, France Telecom, Portugal Telecom, Telefonica, Vodafone.

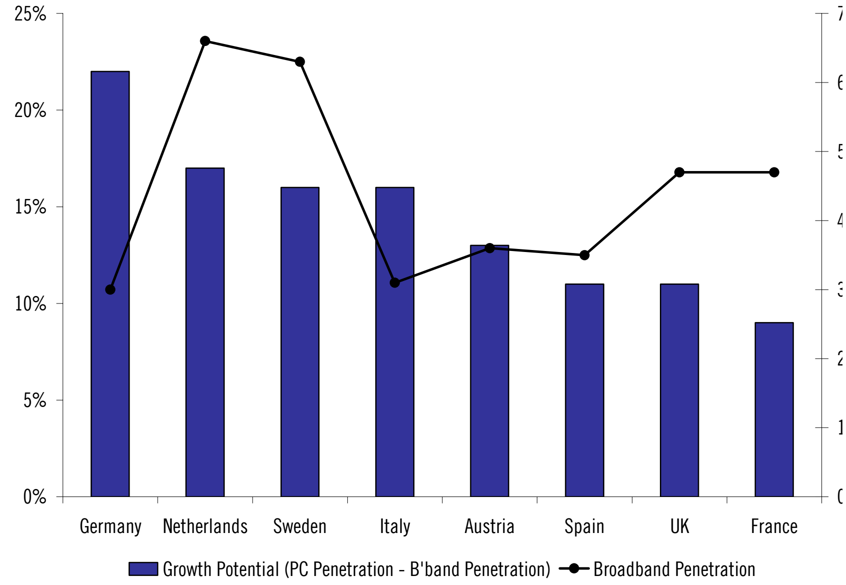
- Faster mobile data growth in data cards and as HSDPA is rolled out. Long-term trends include example mobile advertising. Equipment price points are coming down (see the recent profit warning from Option, the largest listed maker of HSDPA cards).
  Results to watch: Vodafone, Telekom Austria, Elisa.

- In-country consolidation benefits slowing (eg Scandinavia, Netherlands),
  Results to watch: Elisa, Telenor, TeliaSonera, and KPN.

- MVNO launch muted impact:
  Results to watch: Telefonica, France Telecom.

- Broadband growth closing towards PC penetration levels.
  Results to watch: Belgacom, France Telecom, Neuf, KPN, Swisscom, TeliaSonera.

Figure 13. European Broadband Penetration Today and Growth Potential (as % of Households)



Source: Citigroup Investment Research, Company Data

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Margin: Inconsistent but generally down

Limited evidence of margin improvements

We believe that it will be hard for the 2Q07 results to justify some of the recent positive company colour we have had on margin. Recent good news includes Telekom Austria's guidance increase on roaming, the margins implied in Vodafone's YTM 2008 guidance.

We noted several pressure points in our recent *Telecom Tariff Tracker*, although costs are scarcely moving (a few exceptions e.g. Greece):

- Mobile: margins will be down 1-2pp y-o-y in Northern Europe given industry maturity, penetration and deterioration in Germany and the UK. In Spain and Italy there have been step-ups in SARC levels, but nothing dramatic.
- Several companies – including Vodafone – have made adjustments to roaming prices in the quarter, ahead of the summer season, and to position themselves for regulation. This could cost 1-3pp.
- To be fully compliant with company bullishness on margins, we would have to argue that cost savings are being retained in the income statement, rather than handed to customers: we cannot. We could see churn falling, showing up in lower SARC spend. None of our company round-ups have yielded any signals here. Churn remains persistently close to 20%.
- Data growth, stretching more revenue per subscriber over the same cost base, is accelerating – but we will have had enough voice pressure to compensate. On average we need 3% voice pressure to wipe out 50% data growth. This is close to the current trend.
- We see fixed-line pressure from larger off-net bundles, convergence pricing and excess labour costs continue to rise. KPN has addressed its issues well, but this quarter will not show that improvement.

- We've no change to longer-term trends such as mobile data growth, broadband maturing in 2008, NGN spend from 2009, pressure on capex.

In summary: this should be

- *Positive for: Bouygues, BT, Portugal Telecom, Telefonica.*
- *Negative for: Belgacom, KPN, Mobistar, Tele2, Telecom Italia.*

Capex Trends: Down

Capex trends appear inconsistent during the second quarter. In general we argue that spend on recurring technology (ADSL, 3G) is falling while NGN spend has yet to take off outside the UK.

- 3G/HSDPA falling.
  Results to watch: France Telecom, Deutsche Telekom, Telecom Italia, Vodafone.
- Increased 3G network sharing.
  Results to watch: France Telecom.
- ADSL capex falling:
  Results to watch: France Telecom, Deutsche Telekom, Telecom Italia, BT.
- NGN spend still ahead:
  Results to watch: BT, KPN, and Deutsche Telekom.

Quantitative View

Of our favoured stocks, our Quant team's earning surprise model picks BT and United Internet as most likely to outperform expectations in the quarter. Telenor scores high as well – although we are not sure that 2Q07 expectations will beat. The general tone is positive across the board.

The team's earnings surprise model analyses over 200 companies in the broad market that will report in the coming weeks. The main features that the model examines are earnings revisions, ROE, price momentum and past surprises. The model has a good record of predicting earnings surprises.

A stock with a score above 50% is a likely candidate to beat consensus expectations, one below 50% is likely to miss consensus expectations.

The expected results for the European Telecom sector are shown in the table below.

Figure 14. High Probability of Earnings Surprise

Company Name	Expected Earnings Surprise Score
BT GROUP	86%
UNITED INTERNET AG	86%
BELGACOM SA	84%
TELENOR ASA	84%
BOUYGUES	83%
MOBISTAR	81%
TELEFONICA SA	77%
KON KPN NV	72%
SWISSCOM AG	70%
COLT TELECOM GP SA	64%
COSMOTE MOBILE TEL	64%
FRANCE TELECOM	59%
TELIASONERA AB	58%
OTE(HELLENIC TLCM)	58%
TELECOM ITALIA SPA	57%
ELISA CORPORATION	56%
TELE2 AB	55%
TELEKOM AUSTRIA(TA	54%
VODAFONE GROUP	53%
DEUTSCHE TELEKOM	45%
FASTWEB SPA	39%
TISCALI SPA	28%

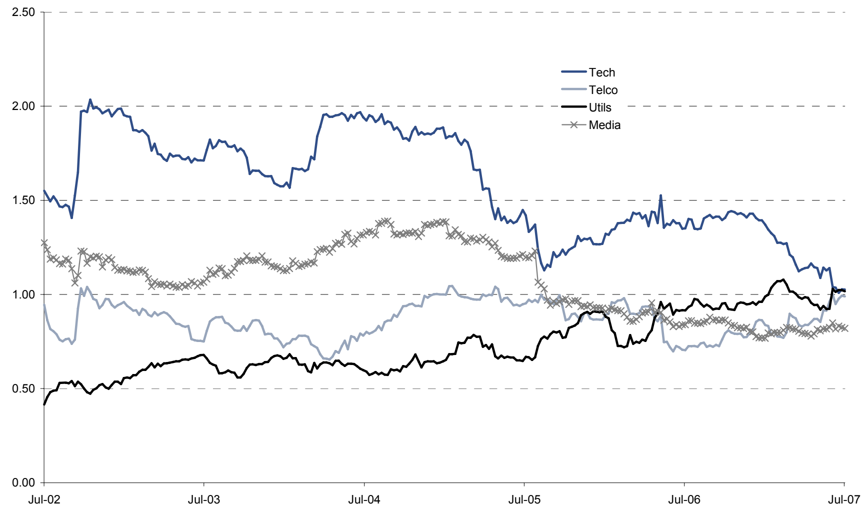
Source: Citigroup Investment Research

Risk Ratings Reduced

We are changing several risk ratings. Earnings visibility is not improving. However:

- The sector's dividend and buyback performance looks good in the context of the broad market.
- Higher debt companies like FT and DT no longer stand out against the broad market. Management commitment to prudent debt metrics (whether this means looser credit like Vodafone, or tighter like Telefonica) is a sign that risks are more aligned with equity market appetite.
- Other sectors, particularly utilities, with which this sector is often compared, have seen rising volatility. Media and tech volatility have fallen but all four sectors now have roughly the same observed beta. It does not make sense to differentiate now.

Figure 15. Sector betas July 2002- now



Source: Citigroup Investment Research

Accordingly we take this opportunity to reduce some risk ratings towards Medium Risk. This puts us more in line with the spread of risk ratings in these sectors. Figure 16 shows the details our changes. If you would like more details please ask any member of the team.

Mobistar downgraded to 2M

Mobistar moves from 1H to 2M. The dividends are paid, releveraging opportunities are receding and DSL growth is being scaled back. We have lowered our target price to €68.00 from €72.50. This reflects the lower probability of a releveraging of the balance sheet through acquisition. Our target price is based on our FADE DCF but does not reflect a buy-in premium by France Telecom. We use a WACC of 9% and terminal growth rates of 2.5% in line with nominal GDP or final year growth whichever is the lower. Our expected total return over the next 12 months is 13.0%, not enough for us to remain buyer of the stock.

:Figure 16. Rating Changes

	Old	New
Belgacom	2M	2M
Bouygues	1M	1M
BT Group	1M	1M
Cable & Wireless	**1S**	**1H**
Carphone Warehouse	3H	3H
Colt Telecom	3S	3S
Cosmote	1M	1M
Deutsche Telekom	**3H**	**3M**
Elisa	2M	2M
Fastweb	3M	3M
France Telecom	**2H**	**2M**
Freenet	2H	2H
KPN	1M	1M
Mobistar	**1H**	**2M**
Neuf Cegetel	2H	2H
OTE	1M	1M
Portugal Telecom	1M	1M
Swisscom	**2M**	**2L**
Tele2	2H	2H
Telekom Austria	**2H**	**2M**
TI (Ords)	2M	2M
TI (Savers)	**2H**	**2M**
Tiscali	3S	3S
Telefonica	1M	1M
Telenor	1H	1H
TeliaSonera	**2H**	**2M**
Thus	**2S**	**2H**
United Internet[4]	1M	1M
Versatel	1H	1H
Virgin Media	2H	2H
Vodafone	**2H**	**2M**

Source: Citigroup Investment Research

[4] Please note that United Internet's reference market for the risk rating is German mid-cap.

Figure 17. European Telecom Comparative Valuation (Prices at Market Close 12/07/07)

	Rating	Price	Price Target	Expected Total Return (%)	MV (€,m)	Minos (Assoc) (€,m)	Enterprise Value (€m)	EV/EBITDA 2006A	EV/EBITDA 2007E	EV/EBITDA 2008E	Reported P/E 2006A	Reported P/E 2007E	Reported P/E 2008E
Vodafone	2M	1.62	1.53	-2.0%	126,692	-58,625	90,364	5.1x	4.9x	4.6x	n.m	17.3x	15.0x
Central Western European Operators													
Belgacom	2M	32.11	36.00	16.8%	10,918		12,669	5.9x	6.2x	6.4x	11.2x	12.6x	12.2x
Bouygues	1M	63.24	70.00	12.4%	21,722	-1,007	24,885	7.7x	7.1x	6.6x	16.3x	17.2x	14.3x
Deutsche Telekom	3M	13.56	12.50	-2.4%	57,777	3,785	105,279	5.4x	5.6x	5.5x	18.7x	18.2x	16.4x
France Telecom	2M	20.58	22.00	12.7%	53,645	6,119	101,914	5.3x	5.4x	5.3x	12.9x	12.6x	11.4x
Mobistar	2M	63.40	68.00	13.0%	4,013		3,948	6.4x	6.6x	6.8x	13.4x	13.9x	14.5x
Neuf Cegetel	2H	29.70	30.00	1.9%	6,182		6,737	12.4x	9.2x	7.7x	27.3x	17.3x	11.6x
KPN	1M	11.98	13.00	11.1%	23,104		32,226	6.7x	6.4x	6.2x	14.6x	13.7x	12.6x
Swisscom	2L	427.75	480.00	14.8%	14,627		17,578	7.3x	7.3x	7.3x	14.0x	12.0x	11.6x
Telekom Austria	2H	18.61	19.80	10.0%	8,561		11,733	6.2x	6.3x	6.2x	15.7x	15.4x	13.8x
Freenet	2H	25.04	26.00	5.0%	2,405		1,895	12.6x	10.2x	9.2x	33.7x	22.4x	19.9x
United Internet	1M	15.30	19.00	23.7%	3,811		3,898	16.5x	13.3x	9.9x	33.8x	18.4x	16.5x
Versatel	1H	23.00	29.00	26.1%	1,012		1,402	6.6x	6.0x	5.5x	n.m	n.m	25.4x
Iberian Operators													
Portugal Telecom	1M	10.37	12.50	25.3%	11,224	454	15,435	6.4x	7.4x	7.4x	13.1x	20.1x	16.8x
Telefonica	1M	16.96	19.00	15.1%	83,462	551	139,279	7.3x	6.7x	6.4x	13.0x	14.2x	10.9x
Italian Operators													
TI (Ords)	2M	2.06	2.30	17.3%	36,699	270	75,393	6.0x	6.1x	6.1x	13.2x	16.2x	15.8x
TI (Savers)	2M	1.65	2.30	18.3%	36,699	270	75,393	6.0x	6.1x	6.1x	10.6x	13.0x	12.7x
Fastweb	3M	39.32	37.30	4.4%	3,126		4,207	9.9x	7.0x	5.4x	n.m	n.m	20.9x
Tiscali	3S	2.25	1.85	-17.7%	954		1,106	11.0x	8.1x	5.9x	n.m	n.m	n.m
Nordic Operators													
Elisa	2M	20.76	22.00	13.2%	3,448	-48	3,776	8.5x	7.7x	7.3x	21.2x	16.2x	15.0x
Tele2	2H	116.50	105.00	-9.3%	5,172		7,252	11.3x	10.1x	7.9x	n.m	44.0x	18.8x
Telenor	1H	110.75	145.00	31.3%	23,539	-3,342	25,516	6.3x	6.8x	6.1x	12.0x	16.8x	13.1x
TeliaSonera	2M	54.50	60.00	21.7%	26,734	-4,951	23,565	6.8x	6.7x	6.4x	14.6x	15.1x	13.9x
UK/Irish Operators													
BT Group	1M	3.30	3.35	6.9%	39,590	-398	50,697	6.1x	5.9x	5.7x	9.6x	14.2x	13.2x
Cable & Wireless	1S	1.92	2.40	26.0%	6,931	545	6,995	9.6x	7.5x	6.1x	25.7x	48.4x	18.1x
Carphone Warehouse	3H	3.48	2.90	-15.9%	4,601		5,677	13.1x	8.2x	6.9x	30.9x	17.3x	14.4x
Colt Telecom	3S	1.49	1.23	-18.5%	1,494		1,560	5.8x	5.1x	4.8x	n.m	32.6x	20.7x
Thus	2M	1.85	2.00	7.2%	499		538	8.5x	6.0x	4.8x	4.0x	n.m	22.9x
Virgin Media	2H	28.81	26.00	-9.8%	6,841		15,587	8.3x	7.6x	6.9x	n.m	n.m	n.m
Greek Operators													
Cosmote	1M	23.10	26.00	15.6%	7,733	13	10,179	11.6x	9.9x	8.5x	21.4x	17.2x	14.2x
OTE	1M	22.90	27.00	19.4%	11,224	2,834	16,607	7.7x	7.4x	6.6x	19.5x	18.6x	18.7x
European Market Average								**9.2x**	**8.1x**	**7.5x**	**16.8x**	**14.4x**	**13.1x**
Sector Averages													
EU Integrated				**12.8%**	**389,880**	**4,868**	**612,456**	**6.7x**	**6.7x**	**6.5x**	**13.3x**	**14.7x**	**13.0x**
EU Mobile				**1.1%**	**168,780**	**-59,666**	**140,404**	**6.0x**	**5.7x**	**5.3x**	**n.m**	**17.6x**	**15.0x**
EU Altnet				**3.8%**	**30,663**	**545**	**41,464**	**22.8x**	**17.6x**	**14.1x**	**n.m**	**n.m**	**38.3x**
Sector Average				**9.1%**	**569,165**	**-54,266**	**770,623**	**6.7x**	**6.6x**	**6.3x**	**25.2x**	**16.0x**	**13.9x**
Selected Global Players													
America Movil	1M	65.28	74.00	13.8%	54,342		59,080	8.6x	6.7x	5.4x	26.6x	19.2x	14.7x
Orascom	1H	76.61	100.00	48.9%	10,736		12,044	7.5x	6.5x	5.7x	17.6x	12.3x	11.5x
VIVO	3S	5.20	3.00	-42.3%	944		2,205	1.0x	0.9x	0.9x	916.5x	-74.4x	-22.8x
Verizon	1M	41.43	48.00	19.8%	87,205		110,471	4.6x	5.0x	4.7x	17.9x	18.5x	15.5x
VimpelCom	1M	112.73	106.00	-6.0%	16,632		18,169	8.6x	7.2x	6.1x	24.8x	20.7x	15.9x
Global Integrated								**8.4x**	**6.9x**	**6.4x**	**20.1x**	**7.7x**	**17.1x**
Global Mobile								**12.9x**	**10.2x**	**8.1x**	**12.9x**	**18.0x**	**14.8x**

	Underlying P/E 2006A	Underlying P/E 2007E	Underlying P/E 2008E	FCF Yield to Equity 2006A	FCF Yield to Equity 2007E	FCF Yield to Equity 2008E	FCF Yield to Firm 2006A	FCF Yield to Firm 2007E	FCF Yield to Firm 2008E
Vodafone	14.4x	15.3x	14.5x	9.5%	7.8%	0.3%	5.1%	4.7%	1.3%
Central Western European Operators									
Belgacom	11.2x	12.6x	12.2x	11.9%	8.5%	8.4%	9.4%	7.6%	7.4%
Bouygues	21.7x	17.2x	14.3x	5.1%	5.1%	7.1%	4.8%	4.9%	6.2%
Deutsche Telekom	15.4x	17.6x	16.4x	5.7%	10.9%	9.4%	6.0%	9.3%	8.3%
France Telecom	12.4x	11.9x	10.8x	14.0%	15.1%	16.3%	12.1%	11.9%	12.4%
Mobistar	13.4x	13.9x	14.5x	7.9%	7.3%	7.3%	8.0%	7.4%	7.3%
Neuf Cegetel	n.m	17.3x	11.6x	3.1%	6.2%	8.9%	3.2%	5.8%	8.0%
KPN	14.6x	13.7x	12.6x	12.2%	11.2%	10.5%	10.3%	9.4%	8.8%
Swisscom	14.3x	12.0x	11.6x	8.3%	8.0%	8.9%	7.1%	7.1%	7.8%
Telekom Austria	15.7x	15.4x	13.8x	8.2%	11.0%	12.0%	6.9%	8.9%	9.4%
Freenet	33.7x	22.4x	19.9x	4.3%	4.0%	5.8%	4.9%	4.5%	6.6%
United Internet	33.8x	27.5x	16.5x	0.3%	4.1%	6.5%	0.4%	4.1%	6.4%
Versatel	n.m	331.0x	25.4x	-3.3%	1.4%	6.9%	2.3%	3.9%	6.6%
Iberian Operators									
Portugal Telecom	15.2x	16.6x	13.3x	9.4%	6.8%	6.1%	11.8%	9.6%	9.5%
Telefonica	17.5x	14.2x	10.9x	10.1%	10.1%	11.6%	8.1%	8.2%	8.6%
Italian Operators									
TI (Ords)	12.9x	15.6x	15.2x	13.1%	9.6%	7.4%	9.1%	7.9%	6.7%
TI (Savers)	10.4x	12.5x	12.2x	13.1%	9.6%	7.4%	9.1%	7.9%	6.7%
Fastweb	20.9x	20.9x	20.9x	-5.1%	4.2%	10.3%	-1.9%	4.7%	9.6%
Tiscali	n.m	n.m	n.m	-2.5%	-2.1%	3.1%	-2.1%	-1.8%	2.7%
Nordic Operators									
Elisa	19.7x	n.m.	15.0x	6.6%	6.3%	7.0%	6.2%	6.0%	6.6%
Tele2	n.m	40.9x	18.8x	-0.9%	0.8%	4.1%	0.1%	1.8%	3.9%
Telenor	16.5x	17.8x	13.1x	7.8%	3.1%	4.5%	4.8%	3.0%	3.7%
TeliaSonera	15.0x	13.7x	13.9x	7.5%	7.0%	7.3%	5.8%	5.6%	6.1%
UK/Irish Operators									
BT Group	14.7x	14.2x	13.2x	7.6%	9.8%	8.0%	6.5%	8.3%	7.3%
Cable & Wireless	48.6x	31.4x	16.5x	1.7%	4.0%	7.3%	2.6%	5.3%	9.0%
Carphone Warehouse	48.7x	40.6x	27.4x	4.5%	16.3%	24.4%	6.8%	19.1%	26.1%
Colt Telecom	n.m	32.6x	20.7x	0.6%	4.7%	6.0%	2.7%	5.4%	6.6%
Thus	6.2x	n.m.	22.9x	13.8%	0.8%	2.8%	13.9%	1.6%	3.2%
Virgin Media	n.m	n.m	n.m	3.5%	7.9%	12.5%	7.0%	7.5%	9.2%
Greek Operators									
Cosmote	21.4x	17.2x	14.2x	2.9%	4.4%	7.4%	2.7%	4.2%	6.4%
OTE	26.6x	19.0x	11.7x	4.6%	5.5%	8.7%	6.2%	6.4%	9.3%
European Market Average	**17.6x**	**12.3x**	**11.5x**	**0.4%**	**5.1%**	**7.8%**	**5.2%**	**5.8%**	**7.0%**
Sector Averages									
EU Integrated	**14.9x**	**14.4x**	**12.8x**	**8.9%**	**9.2%**	**9.5%**	**8.2%**	**8.6%**	**8.5%**
EU Mobile	**15.4x**	**15.9x**	**14.6x**	**7.5%**	**6.7%**	**2.7%**	**4.9%**	**4.7%**	**2.5%**
EU Altnet	**n.m**	**n.m**	**36.6x**	**0.2%**	**3.2%**	**6.3%**	**1.0%**	**3.9%**	**7.0%**
Sector Average	**15.6x**	**15.3x**	**13.6x**	**8.4%**	**8.6%**	**8.0%**	**7.3%**	**7.6%**	**7.0%**
Selected Global Players									
America Movil	26.6x	19.2x	14.7x	4.0%	7.0%	8.9%	4.7%	7.8%	9.7%
Orascom	17.6x	12.3x	11.5x	0.4%	5.1%	7.8%	3.1%	5.9%	8.5%
VIVO	916.5x	-74.4x	-22.8x	4.1%	1.1%	-1.5%	5.3%	2.1%	-0.2%
Verizon	15.5x	17.4x	15.2x	0.7%	0.1%	0.7%	2.8%	1.6%	2.0%
VimpelCom	24.8x	20.7x	15.9x	1.8%	3.5%	5.4%	2.7%	4.3%	6.2%
Global Integrated	**21.6x**	**17.1x**	**15.5x**	**8.1%**	**7.8%**	**9.4%**			
Global Mobile	**55.1x**	**23.6x**	**14.5x**	**4.0%**	**4.4%**	**5.3%**			

	Dividend Yield 2006A	Dividend Yield 2007E	Dividend Yield 2008E	Performance 1W	Performance 1M	Performance 3M	Performance YTD	Performance -12 M
Vodafone	4.2%	4.4%	4.5%	0.2%	3.4%	17.4%	14.8%	43.2%
Central Western European Operators								
Belgacom	5.9%	4.8%	5.0%	-2.8%	-4.1%	-5.2%	-3.1%	20.6%
Bouygues	1.9%	2.0%	2.4%	1.0%	-0.1%	6.0%	30.0%	67.1%
Deutsche Telekom	5.3%	5.5%	5.7%	-0.5%	-0.4%	5.4%	-2.0%	10.2%
France Telecom	5.8%	6.0%	6.6%	1.1%	-2.7%	0.1%	-1.8%	25.0%
Mobistar	7.1%	5.8%	5.5%	0.8%	1.8%	-1.0%	-1.9%	1.4%
Neuf Cegetel	1.3%	2.3%	3.5%	5.1%	6.2%		5.9%	na
KPN	4.2%	4.6%	5.1%	-1.7%	-2.0%	-2.4%	11.2%	36.8%
Swisscom	4.0%	4.5%	4.7%	1.4%	2.4%	-3.4%	-7.3%	7.1%
Telekom Austria	4.0%	4.2%	4.7%	1.6%	-2.8%	-1.8%	-8.3%	5.4%
Freenet	1.4%	24.3%	2.4%	2.8%	5.2%	na	na	na
United Internet	1.2%	2.2%	2.4%	-2.3%	5.4%	11.4%	22.1%	
Versatel				-2.1%	-3.7%	na	na	na
Iberian Operators								
Portugal Telecom	4.6%	4.6%	5.5%	2.1%	0.7%	2.7%	5.4%	8.8%
Telefonica	3.5%	3.9%	4.9%	2.4%	5.0%	0.7%	5.2%	31.9%
Italian Operators								
TI (Ords)	6.1%	6.4%	6.7%	0.4%	1.0%	-12.6%	-10.3%	-4.2%
TI (Savers)	8.2%	8.6%	9.0%	-1.4%	1.7%	-13.9%	-14.2%	-16.4%
Fastweb	9.6%	9.6%	9.6%	-1.6%	-0.6%	-16.6%	-9.2%	21.7%
Tiscali	n.m	n.m	n.m	0.4%	10.0%	-18.3%	-11.0%	-6.8%
Nordic Operators								
Elisa	7.2%	3.7%	4.0%	1.7%	0.9%	-8.1%	0.0%	36.9%
Tele2	1.6%	1.6%	1.6%	3.3%	0.6%	-1.7%	16.5%	70.1%
Telenor	2.3%	2.4%	3.8%	-1.1%	0.5%	3.7%	-5.5%	43.8%
TeliaSonera	11.6%	7.4%	7.7%	3.3%	6.3%	-15.5%	-3.1%	33.3%
UK/Irish Operators								
BT Group	4.4%	5.2%	5.9%	0.2%	2.3%	6.8%	9.3%	40.7%
Cable & Wireless	3.0%	3.6%	4.2%	-1.1%	-4.5%	10.0%	22.0%	78.6%
Carphone Warehouse	0.9%	1.5%	1.8%	3.7%	3.6%	23.8%	10.7%	21.3%
Colt Telecom	n.m	n.m	n.m	0.2%	-3.1%	-17.1%	11.4%	-9.4%
Thus				-1.5%	-5.2%	8.7%	5.0%	36.5%
Virgin Media	n.m	n.m	n.m	-2.0%	19.3%	15.2%	14.1%	25.3%
Greek Operators								
Cosmote	3.2%	4.1%	4.9%	-0.4%	2.7%	-1.3%	3.1%	33.1%
OTE	2.4%	3.2%	3.4%	1.4%	1.8%	7.9%	0.6%	36.6%
European Market Average	**2.5%**	**3.0%**	**3.2%**	**1.0%**	**0.7%**	**8.4%**	**11.5%**	**37.3%**
Sector Averages								
EU Integrated	**4.9%**	**4.9%**	**5.4%**	**0.3%**	**1.3%**	**-0.2%**	**0.5%**	**23.2%**
EU Mobile	**4.0%**	**4.0%**	**4.2%**	**-0.4%**	**2.7%**	**13.4%**	**15.3%**	**41.9%**
EU Altnet	**1.8%**	**2.0%**	**2.2%**	**-0.2%**	**-1.4%**	**6.3%**	**11.5%**	**11.5%**
Sector Average	**4.5%**	**4.5%**	**4.9%**	**0.1%**	**1.6%**	**4.0%**	**5.2%**	**29.1%**
Selected Global Players								
America Movil	0.3%	0.5%	0.9%	-1.0%	8.2%	29.6%	44.4%	104.0%
Orascom	0.3%	0.4%	0.6%	0.1%	7.6%	-6.3%	1.5%	50.9%
VIVO				2.0%	11.1%	27.1%	26.8%	123.2%
Verizon	3.9%	3.9%	3.9%	-1.3%	-3.8%	10.9%	11.3%	35.8%
VimpelCom			0.9%	1.9%	14.9%	17.2%	42.8%	151.3%
Global Integrated	**3.6%**	**3.8%**	**4.2%**					
Global Mobile	**1.8%**	**2.2%**	**2.7%**					

Definitions:
Investment ratings are based upon Citigroup's expectation of 12-month total return (share price return + dividend yield). Investment ratings are Buy (1), Hold (2), and Sell (3).
Risk ratings take into account both price volatility and fundamental criteria. They are: Low (L), Medium (M), High (H), and Speculative (S).
FCF to Firm = (EBITDA - Capex - Cash Flow Tax) / (Market Value + Net Debt)
FCF to Equity = (EBITDA - Capex - Cash Flow Tax - Interest) / (Market Value + Minorities - Associates)
Underlying EPS = Reported Net Income + Goodwill Amortization
Local Market Average

	1W	1M	3M	YTD	-12M
STOXX 50	+0.0%	+2.3%	+3.7%	+8.8%	+27.5%
FTSE Allshare	+0.1%	+2.1%	+3.6%	+7.7%	+17.3%
MSCI Europe	+0.0%	+2.8%	+4.9%	+11.1%	+31.9%
MSCI Telecom				-1.9%	+23.1%

Source: Powered by dataCentral. DataCentral is Citigroup Investment Research's proprietary database which includes Citigroup estimates, data from company reports and feeds from Reuters and Datastream

Figure 18. European Telecom Comparative Valuation (Prices at Market Close 12/07/07) (cont)

	06A/E-'09E CAGR				Revenues (€ mns)			EBITDA Margin			Capex / Sales			Net Debt (€ mns)			Net Debt / EBITDA			FY05A IC	CROIC*			EV/IC	WACC
	Revs	EBITDA	EPS	FCF	2006A	2007E	2008E	2006A	2007E	2008E	2006A	2007E	2008E	2006A	2007E	2008E	2006A	2007E	2008E	(€m)	2006A	2007E	2008E	2006A	(%)
Vodafone	8.6%	6.7%	3.6%	-69.3%	45,890	50,040	54,459	38.5%	36.6%	36.2%	14.6%	14.2%	15.4%	22,297	31,739	36,104	1.3x	1.7x	1.8x	147,336	5.6%	4.9%	1.4%	0.6x	9.4%
Central Western European Operators																									
Belgacom	-1.1%	-3.0%	-3.1%	-11.2%	6,100	5,939	5,925	35.2%	34.3%	33.6%	11.1%	10.9%	10.4%	1,751	1,460	1,054	0.8x	0.7x	0.5x	2,202	29.2%	24.0%	23.5%	5.8x	8.1%
Bouygues	6.1%	7.1%	9.9%	-4.2%	26,408	28,983	30,527	12.3%	12.1%	12.3%	5.4%	5.5%	4.6%	4,169	3,287	1,958	1.3x	0.9x	0.5x	7,378	11.6%	11.8%	15.2%	3.4x	7.5%
Deutsche Telekom	1.2%	0.2%	6.1%	-9.5%	61,347	62,048	62,711	31.6%	30.5%	30.6%	11.7%	13.1%	13.7%	43,717	43,130	40,302	2.3x	2.3x	2.1x	91,328	6.4%	10.4%	9.4%	1.2x	9.0%
France Telecom	0.7%	0.9%	7.3%	5.7%	51,702	52,544	52,528	36.9%	36.0%	36.6%	13.2%	13.0%	12.2%	42,150	39,245	34,616	2.2x	2.1x	1.8x	76,170	16.0%	16.3%	17.7%	1.3x	8.7%
Mobistar	-0.4%	-2.9%	-4.2%	12.2%	1,575	1,537	1,546	39.1%	38.9%	37.7%	10.5%	11.1%	10.5%	-65	-72	-132	-0.1x	-0.1x	-0.2x	664	45.6%	43.2%	44.1%	5.9x	9.0%
Neuf Cegetel	9.1%	23.5%	44.2%	n.m	2,897	3,260	3,511	18.8%	22.5%	24.8%	11.4%	10.5%	9.5%	555	160	-319	1.0x	0.2x	-0.4x	1,666	11.3%	21.6%	30.8%	4.0x	9.0%
KPN	1.9%	3.5%	9.8%	-4.2%	12,057	12,521	12,576	40.1%	40.1%	41.2%	13.7%	13.5%	13.0%	9,122	8,991	8,769	1.9x	1.8x	1.7x	14,004	24.2%	21.4%	20.3%	2.3x	8.0%
Swisscom	-1.2%	-0.3%	7.1%	-8.5%	6,136	5,926	5,873	39.2%	40.7%	40.8%	13.7%	14.3%	12.0%	2,951	2,675	2,529	1.2x	1.1x	1.1x	3,251	22.6%	23.1%	25.7%	5.4x	8.0%
Telekom Austria	1.1%	0.2%	11.7%	4.0%	4,760	4,800	4,886	40.1%	39.0%	38.7%	20.9%	14.5%	14.5%	3,173	3,223	2,551	1.7x	1.7x	1.3x	6,088	13.0%	17.8%	20.3%	1.9x	7.2%
Freenet	7.2%	19.7%	30.0%	-6.8%	2,037	2,183	2,353	7.4%	8.5%	8.7%	1.3%	2.5%	1.2%	-510	-573	-226	-3.4x	-3.1x	-1.1x	260	41.7%	42.1%	75.3%	7.3x	10.0%
United Internet	19.6%	25.6%	35.2%	n.m	1,268	1,530	1,875	18.7%	19.2%	21.1%	14.3%	2.7%	2.4%	87	-13	-173	0.4x	0.0x	-0.4x	357	2.8%	32.8%	53.5%	10.9x	9.4%
Versatel	11.2%	12.3%	n.m	n.m	666	735	810	31.8%	31.8%	31.7%	27.0%	25.0%	20.0%	775	379	306	3.7x	1.6x	1.2x	na	3.9%	7.0%	12.4%	na	9.0%
Iberian Operators																									
Portugal Telecom	-1.1%	-3.3%	-4.1%	-15.3%	6,343	5,803	5,894	38.2%	35.9%	35.3%	15.7%	14.1%	12.3%	3,757	5,683	5,642	1.6x	2.7x	2.7x	6,255	19.7%	15.1%	14.0%	2.5x	7.9%
Telefonica	4.0%	6.8%	13.2%	6.7%	52,901	55,271	56,951	36.2%	37.4%	38.0%	12.9%	13.6%	12.7%	55,265	48,714	40,515	2.9x	2.4x	1.9x	46,226	15.9%	17.3%	19.0%	3.0x	8.4%
Italian Operators																									
TI (Ords)	1.2%	0.9%	4.0%	-17.3%	31,275	31,849	32,285	40.3%	38.5%	38.2%	16.4%	15.6%	14.5%	38,425	38,144	37,373	3.0x	3.1x	3.0x	66,843	10.5%	9.2%	7.8%	1.1x	8.0%
TI (Savers)	1.2%	0.9%	4.0%	-17.3%	31,275	31,849	32,285	40.3%	38.5%	38.2%	16.4%	15.6%	14.5%	38,425	38,144	37,373	3.0x	3.1x	3.0x	66,843	10.5%	9.2%	7.8%	1.1x	8.0%
Fastweb	68.5%	36.7%	n.m	n.m	1,260	1,640	1,938	33.7%	36.6%	40.3%	43.4%	26.6%	17.2%	1,081	1,344	1,409	2.5x	2.2x	1.8x	2,211	-3.3%	8.5%	18.1%	1.9x	9.4%
Tiscali	17.4%	34.2%	n.m	n.m	678	800	967	14.8%	17.0%	19.5%	19.1%	17.0%	-15.0%	152	253	300	1.5x	1.9x	1.6x	601	-5.5%	-4.5%	7.3%	1.8x	10.3%
Nordic Operators																									
Elisa	0.6%	6.5%	15.4%	23.5%	1,518	1,525	1,540	29.3%	32.0%	33.6%	13.5%	12.6%	12.1%	377	507	398	0.8x	1.0x	0.8x	1,643	14.1%	13.7%	15.0%	2.3x	8.2%
Tele2	0.7%	19.2%	n.m	5.9%	5,905	5,657	5,854	10.8%	12.7%	15.6%	10.1%	9.7%	8.8%	2,080	2,035	1,905	3.2x	2.8x	2.1x	5,019	0.2%	2.5%	5.4%	1.4x	8.0%
Telenor	4.6%	4.0%	0.9%	2.8%	11,322	11,562	12,305	35.7%	32.5%	34.2%	20.8%	20.9%	19.5%	5,320	5,140	4,783	1.3x	1.4x	1.1x	10,565	9.6%	5.6%	6.4%	2.4x	8.2%
TeliaSonera	3.9%	2.4%	3.4%	1.5%	9,842	10,306	10,606	35.4%	34.1%	34.5%	12.0%	12.7%	11.5%	1,782	4,163	5,039	0.5x	1.2x	1.4x	15,314	10.6%	10.2%	11.1%	1.5x	8.3%
UK/Irish Operators																									
BT Group	2.8%	3.8%	-6.4%	6.5%	29,937	30,732	31,556	27.8%	27.9%	28.2%	15.5%	14.5%	13.0%	11,505	11,161	10,716	1.4x	1.3x	1.2x	13,737	19.8%	24.8%	21.4%	3.7x	8.4%
Cable & Wireless	0.0%	22.2%	31.8%	n.m	4,925	4,918	4,902	14.7%	19.0%	23.3%	11.3%	12.0%	11.4%	-482	-403	-452	n.m	-0.4x	-0.4x	2,301	7.4%	15.0%	27.3%	3.0x	8.8%
Carphone Warehouse	11.5%	26.2%	40.6%	23.0%	5,889	7,070	7,715	7.4%	9.8%	10.7%	5.4%	5.2%	4.7%	1,076	834	587	2.5x	1.2x	0.7x	1,288	5.6%	16.9%	25.1%	4.4x	8.5%
Colt Telecom	0.9%	8.9%	n.m	65.3%	1,801	1,798	1,807	15.0%	16.9%	17.9%	12.7%	12.2%	12.2%	66	7	-76	0.2x	0.0x	-0.2x	66,843	4.3%	8.8%	10.9%	0.0x	9.7%
Thus	6.2%	30.4%	-30.2%	n.m	513	786	841	8.0%	10.7%	12.5%	9.8%	9.7%	9.0%	39	27	45	0.6x	0.3x	0.4x	592	10.1%	1.2%	2.3%	0.9x	10.3%
Virgin Media	4.7%	7.8%	n.m	59.9%	5,691	6,185	6,339	33.1%	33.3%	35.5%	14.3%	14.3%	12.8%	8,746	8,437	7,688	4.6x	4.1x	3.4x	4,998	8.4%	9.6%	12.3%	3.1x	9.0%
Greek Operators																									
Cosmote	16.9%	15.4%	20.4%	22.9%	2,382	3,104	3,487	36.8%	33.1%	34.3%	18.3%	14.3%	10.4%	2,432	1,907	1,652	2.8x	1.9x	1.4x	1,752	9.9%	15.4%	23.6%	5.8x	8.0%
OTE	5.9%	7.5%	47.7%	0.4%	5,891	6,443	6,718	36.8%	35.0%	37.4%	16.3%	17.4%	14.3%	2,548	2,153	729	1.2x	1.0x	0.3x	6,169	11.6%	14.4%	26.2%	2.7x	8.0%
European Market Averages								**15.3%**	**21.9%**	**12.6%**	**11.9%**	**8.9%**	**12.9%**								**19.4%**	**20.2%**	**21.7%**		
Sector Averages																									
EU Integrated	**2.0%**	**2.4%**	**6.9%**	**4.4%**	**283,270**	**289,939**	**294,918**	**36.0%**	**35.4%**	**35.8%**	**15.5%**	**15.7%**	**14.9%**	**217,708**	**208,200**	**188,976**	**2.4x**	**2.3x**	**2.0x**	**351,897**	**12.8%**	**13.9%**	**14.0%**	**1.7x**	**8.4%**
EU Mobile	**7.3%**	**7.2%**	**12.8%**	**7.3%**	**83,678**	**90,845**	**97,414**	**28.0%**	**27.1%**	**27.4%**	**11.4%**	**11.1%**	**11.3%**	**31,291**	**39,403**	**41,886**	**1.3x**	**1.6x**	**1.6x**	**163,793**	**6.2%**	**5.7%**	**3.0%**	**0.9x**	**9.0%**
EU Altnet	**6.7%**	**22.8%**	**1.0%**	**270.4%**	**16,425**	**18,395**	**19,555**	**17.0%**	**20.4%**	**23.7%**	**16.1%**	**13.1%**	**11.2%**	**1,270**	**1,235**	**1,287**	**0.7x**	**0.5x**	**0.4x**	**73,495**	**2.7%**	**10.7%**	**20.0%**	**0.6x**	**5.6%**
Sector Average	**3.3%**	**3.7%**	**13.4%**	**5.7%**	**373,527**	**387,469**	**399,139**	**33.5%**	**32.8%**	**33.2%**	**14.5%**	**14.5%**	**13.9%**	**246,826**	**246,169**	**230,041**	**2.2x**	**2.1x**	**1.9x**	**585,480**	**10.8%**	**11.3%**	**10.6%**	**1.3x**	**8.5%**
Selected Global Players																									
America Movil	18.1%	34.7%	35.0%	85.3%	17,259	19,657	22,556	36.7%	41.5%	44.9%	14.8%	12.0%	12.8%	4,738	5,431	5,089	0.7x	0.7x	0.5x	12,421	18.1%	28.8%	33.7%	4.8x	nd
Orascom	21.2%	27.3%	20.8%	n.m.	3,498	4,067	4,624	45.2%	45.1%	45.1%	27.2%	19.2%	13.6%	1,308	836	631	0.9x	0.5x	0.3x	3,214	9.1%	15.1%	nd	3.7x	13.5%
VIVO	20.3%	15.6%	n.m.	n.m.	3,986	4,135	4,311	23.7%	25.4%	24.2%	19.4%	19.3%	23.0%	1,261	1,110	1,360	1.3x	1.1x	1.3x	4,231	11.9%	4.8%	-0.6%	0.5x	nd
Verizon	4.9%	0.1%	-2.9%	-23.2%	72,170	68,152	69,653	33.1%	34.0%	35.7%	18.9%	19.1%	18.7%	23,265	21,764	19,835	1.2x	1.2x	1.1x	81,102	3.0%	1.7%	1.9%	1.4x	nd
VimpelCom	27.7%	29.1%	29.1%	n.m.	3,801	4,607	5,377	51.1%	50.3%	50.5%	32.0%	27.6%	23.4%	1,537	931	493	0.8x	0.4x	0.2x	4,670	9.3%	13.5%	18.7%	3.9x	11.4%
Global Integrated	**9.8%**	**9.1%**	**9.9%**	**7.6%**	**849,295**	**962,892**	**997,752**	**36.6%**	**37.1%**	**37.9%**	**19.0%**	**18.1%**	**15.9%**	**558,529**	**554,719**	**513,520**	**1.7x**	**1.3x**	**1.0x**	**14,074**	**8.1%**	**7.8%**	**9.4%**		
Global Mobile	**14.9%**	**16.0%**	**19.0%**	**9.5%**	**259,636**	**308,717**	**352,387**	**40.4%**	**41.3%**	**41.9%**	**23.3%**	**26.0%**	**21.0%**	**68,229**	**61,817**	**64,346**	**2.8x**	**1.6x**	**1.1x**	**8,234**	**4.0%**	**4.4%**	**5.3%**		

Definitions:

Investment ratings are based upon Citigroup's expectation of 12-month total return (share price return + dividend yield). Investment ratings are Buy (1), Hold (2), and Sell (3).

Risk ratings take into account both price volatility and fundamental criteria. They are: Low (L), Medium (M), High (H), and Speculative (S).

FCF to Firm = (EBITDA - Capex - Cash Flow Tax) / (Market Value + Net Debt)

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Underlying EPS = Reported Net Income + Goodwill Amortization

Local Market Average

Source: Powered by dataCentral. DataCentral is Citigroup Investment Research's proprietary database which includes Citigroup estimates, data from company reports and feeds from Reuters and Datastream

Company Previews

Belgacom (BCOM.BR); Hold/Medium Risk (2M); target price €36.0

Analyst:
Michael Williams
(44-20) 7986 4140

(BCOM.BR - €32.11; 2M)

Belgacom will report 2Q07 results on 24 Aug

- Placing risk with Government likely to sell down its 53.5% stake.
- Mobile revenues under pressure following mobile termination cut (20% last November and 20% in May) and impact on ARPU of market leadership programme.
- Update on IPTV business plan should provide more comfort on Belgacom's ability to generate new revenues to compensate traditional fixed line decline.

Divisional forecasts

- Fixed line (2Q07E revenues -0.7% y-o-y, EBITDA margin -0.7ppt). Decline in voice and access revenues will only be partially offset by the contribution of Telindus. EBITDA margin is expected to be flat at 31.6% in Q2. Recent tariff increase in broadband (c.4% compared to prices in December) should help ARPU accretion and overall fixed revenue stabilisation.
- Mobile (2Q07 revenues -3.6% y-o-y, EBITDA margin -2.7ppt). Competitive pressure on Belgacom to remain intense. Mobile termination cut (20% last November and 20% in May) will impact both revenue and margin. Introduction of retail roaming regulation will impact revenues and margin later during the year and could prompt Belgacom to revise its guidance.
- International Carrier: Revenues are expected to be up 0.9% with relatively stable pricing and traffic volumes. EBITDA is expected to be up to €8m.

Guidance

- 2007 fixed revenues down between 1% to 2% with fairly stable margin (*CIR:* revenues down 1.7%, flat margin).
- 2007 mobile revenues down between 5% to 7%, EBITDA margin of 45% (*CIR:* revenues -4.4%, EBITDA margin at 45.4%).

Next events

- Placing by government to bring down its 53.5% stake to 50%.
- Formation of new government coalition (end of July).
- Consolidation amongst Walloon cable operators.
- Conclusion of bid for mobile licence in Qatar (Oct 07).
- Cut in Retail Roaming Tariffs (Sep 07).
- Launch of wholesale line rental offer (2H07).

Outlook

The fundamentals of Belgacom fixed and mobile businesses remain very challenging. Cable competition is amplifying the fixed line loss trend and other mobile operators are eroding Proximus dominant market share (currently at c.45%). Nascent IPTV is not yet enough to compensate the decline in traditional fixed revenues. Regulatory intervention (cut in mobile termination and introduction of wholesale line rental) continues to have a negative impact. A potential special dividend is still possible if and when fundamentals stabilise.

Figure 19. Belgacom – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Fixed Line	900	906	-0.7%	25.2%	25.0%	910	-1.1%	3,630	3,567	3,510
Mobile	523	542	-3.6%	25.5%	25.4%	512	+2.1%	2,136	2,050	2,096
International Carrier	179	177	+0.9%	23.9%	24.0%	183	-2.4%	736	746	758
Eliminations	-106	-100	+5.5%	25.0%	24.9%	-96	+9.9%	-402	-422	-443
Revenues	**1,496**	**1,525**	**-1.9%**	**25.2%**	**25.0%**	**1,509**	**-0.9%**	**6,100**	**5,941**	**5,921**
Fixed Line	284	292	-2.7%	26.5%	26.2%	284	+0.0%	1,116	1,074	1,014
margin (%)	31.6%	32.2%	-0.7ppt			+31.2%	+0.4ppt	30.7%	30.1%	28.9%
Mobile	242	266	-8.9%	26.0%	26.6%	241	+0.6%	1,000	932	942
margin (%)	46.4%	49.1%	-2.7ppt			+47.1%	-0.7ppt	46.8%	45.4%	45.0%
International Carrier	8	7	+14.8%	23.9%	21.2%	11	-26.9%	33	34	34
margin (%)	4.5%	4.0%	+0.5ppt			+6.0%	-1.5ppt	4.5%	4.5%	4.5%
Intersegment eliminations	-	-				-	n.m.	-	-	-
Reported EBITDA	**535**	**565**	**-5.4%**	**26.2%**	**26.3%**	**536**	**-0.3%**	**2,149**	**2,039**	**1,990**
margin (%)	35.7%	37.0%	-1.3ppt			35.5%	+0.2ppt	35.2%	34.3%	33.6%
Underlying EBITDA	**535**	**565**	**-5.4%**	**26.2%**	**26.3%**	**542**	**-1.4%**	**2,149**	**2,039**	**1,990**
margin (%)	35.7%	37.0%	-131.1%			35.9%	-0.2ppt	35.2%	34.3%	33.6%
Depreciation	-187	-203	-7.7%			-189	-0.9%	-802	-723	-653
Goodwill amortization							n.m.			
Intangible amortization							n.m.			
Reported EBIT	**347**	**362**	**-4.1%**	**26.4%**	**26.9%**	**347**	**+0.1%**	**1,347**	**1,316**	**1,337**
margin (%)	23.2%	23.7%	-0.5ppt			23.0%	+0.2ppt	22.1%	22.2%	22.6%
Underlying EBIT	**347**	**362**	**-4.1%**	**26.4%**	**26.9%**	**353**	**-1.6%**	**1,347**	**1,316**	**1,337**
margin (%)	23.2%	23.7%	-0.5ppt			23.4%	-0.2ppt	22.1%	22.2%	22.6%
Non-operating items							n.m.			
Associates							n.m.			
Net interest	-25	-1	+2370.0%			54	n.m.	104	-37	-22
Exceptional items							n.m.			
Pretax profit	**323**	**361**	**-10.7%**	**25.2%**	**24.9%**	**401**	**-19.6%**	**1,451**	**1,279**	**1,315**
Taxation	-106	-104	+2.3%			-83	+29.0%	-357	-422	-434
Tax rate	33%	29%	+4.2ppt			21%	+0.1pts	25%	33%	33%
Net extraordinary items							n.m.			
Minority interest		-37					n.m.	-121		
Reported net income	**216**	**220**	**-1.8%**	**25.2%**	**22.6%**	**319**	**-32.2%**	**973**	**857**	**881**
Underlying net income	**216**	**220**	**-1.8%**	**25.2%**	**22.6%**	**244**	**-11.3%**	**973**	**857**	**881**
Reported EPS	**0.65**	**0.65**	**+0.4%**	**25.2%**	**22.5%**	**0.95**	**-31.9%**	**2.87**	**2.57**	**2.65**
Underlying EPS	**0.65**	**0.65**	**+0.4%**	**25.2%**	**22.5%**	**0.73**	**-11.0%**	**2.87**	**2.57**	**2.65**
DPS								1.89	1.54	1.59
Reported Net Debt	**1,786**	**191**	**+835.1%**			**1,281**	**+39.4%**	**1,751**	**1,460**	**1,054**
Net debt to EBITDA	0.9x					0.6x		0.8x	0.7x	0.5x
Capital expenditure	**154**	**145**	**+6.5%**	**23.8%**	**21.4%**	**122**	**+26.6%**	**676**	**649**	**615**
As a % of net sales	10.3%	9.5%	+0.8ppt			8.1%	+2.2ppt	11.1%	10.9%	10.4%

Source: Company Reports and Citigroup Investment Research

Analyst:
Terence Sinclair
(44-20) 7986 4204

(BOUY.PA - €61.48; 1M)

Bouygues will report 2Q07 sales on 9 Aug at 5.45pm Paris time

Bouygues (BOUY.PA); Buy/Medium Risk (1M), target price €70

- Mixed weather conditions in 2Q could prevent a repeat of the stellar performance seen in construction and road building during Q1.
- Growth in Telecoms should slow but remain strong in postpaid.
- Market speculation (Source: Reuters 12 April 2007) that Bouygues will sell its telecoms appears overdone.

Divisional forecasts

- Construction (Q2 revenues up by 15.4% y-o-y): Construction sector remains buoyant thanks to secular growth in PFI spending. Difficult weather conduction might impact negatively y-o-y comparison in Q2.
- Road building (Q2 revenues up 4.4% y-o-y): Current trend in road building remains positive. Bouygues continues to enjoy good momentum in road building (+17% growth in Q1) and has made some small acquisitions: Spie Rail and in Croatia. Tougher weather conditions might impact this Q.
- Immobilier (Q2 revenues up 20.2% y-o-y): Real estate sector in France is still strong but delays in deliveries as in 1Q might impact the booking of revenues.
- Telecoms (Q2 revenues up 1.5% y-o-y): Market share in postpaid should continue to grow thanks to Neo and Exprima. New 24h/24 Exprima offer should also help boost market share. In prepaid, impact of MVNOs is likely to lead to disappointing number of net adds. Bouygues changed the accounting treatment of written-off receivables but with no impact on total reported sales.

Guidance

- Bouygues expects 2007 revenues of €28.8bn (+9% y-o-y growth) with €7.7bn for construction (+16%), €2bn for Immobilier (+24%), €11.4bn for Road Building (+6%), €2.8bn for TF1 (+7%), €4.6bn for Telecoms (+2%).

Next events

- Competitors results: SFR Q2 earnings (25th July), FT Q2 sales (2nd Aug), Vinci Q2 sales (1st Aug), Eiffage Q2 sales (3rd Aug).
- Bids for the fourth French 3G licence (deadline 31st July).
- Announcement of future termination rates (by end of July).
- ARCEP 2Q mobile subscriber numbers and stats (6th Aug).
- First-half 2007 full results (31 Aug 07). Citi: 11% EBITDA margin in 2Q07E.

Outlook

Bouygues together with Alstom is one of the frontrunners to acquire Areva (positive), financed by either the sale of the telecoms (positive) or a rights issue (neutral) in our view. We expect Bouygues to deliver exceptional results in 2007, as we see upside risk to consensus estimates in construction and road building given market conditions and Bouygues's natural share take position. We see most risk in telecoms, given MVNO-led pricing changes, but there is no sign that Neo needs to be "refreshed". The current valuation discount looks undeserved when ascribed to any individual business given Bouygues superior growth momentum (9.9% 06A-09E EPS CAGR vs. 7.0% for the telecom sector).

Figure 20. Bouygues – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	y-o-y
Bouygues Construction	1,920	1,664	+15.4%	24.9%	24.9%	1,771	+8.4%	6,680	7,715	+15.5%
Bouygues Immobilier	470	391	+20.2%	23.6%	24.3%	360	+30.6%	1,608	1,994	+24.0%
Colas	3,000	2,874	+4.4%	26.0%	26.9%	1,903	+57.6%	10,682	11,537	+8.0%
TF1	780	728	+7.1%	28.2%	27.6%	698	+11.7%	2,639	2,763	+4.7%
Bouygues Telecom	1,123	1,106	+1.5%	23.9%	24.4%	1,121	+0.2%	4,525	4,700	+3.9%
Holding and Other	70	63	+11.1%	25.5%	23.0%	68	+2.9%	274	274	
Revenues	**7,363**	**6,826**	**+7.9%**	**25.4%**	**25.8%**	**5,921**	**+24.4%**	**26,408**	**28,983**	**+9.8%**

Source: Citigroup Investment Research

BT Group (BT.L); Buy/Medium Risk (1M), target price 335p

Analyst:
Michael Williams
(44-20) 7986 4140

(BT.L - £3.23; 1M)

BT will report 1Q08 results on 26 July (7am UK time)

- While catalysts over the next few months are scarce, our confidence in quarterly number visibility remains strong.
- IP Stream price cuts (c.10%) on 1 May to impact Wholesale revenue to the tune of c.£40m in a full year.
- Global Services margin expansion to continue.
- Key test for line loss argument. Ofcom stats show BT lost 510k lines in Q108.

Divisional forecasts

- We forecast group revenues +2.9% to £5.00bn in Q108E, EBITDA (pre-leavers) +2.6% to £1.42bn. £450m charge announced at Q407 for Project Precision (BT Design and BT Operate) expected this quarter.
- Retail: Should benefit from lower IP Stream prices from May. But this will be offset by reductions in the BT Together Option 2 and Option 3 package pricing from 1 June. We have BT Retail share of broadband net adds at 28% for the quarter (vs. 32% in Q407). We forecast revenues -0.2% y-o-y with EBITDA margin +3ppt to 11.3% helped by Wholesale price cuts.
- Wholesale: c.10% price cuts implemented in May pressure EBITDA margin -80bps y-o-y to 25.8%. ULL lines published 6 July were 2.42m (+510k in Q1 as the backlog continues to unwind). Wholesale Line Rental (WLR) volumes also watched closely — we expect them to rise 166k to 4,393k in Q407. CPS fell for the second consecutive quarter in Q407, the only two negative quarters in living memory. We are looking for +150k this quarter.
- Global Services: We forecast 30bps y-o-y margin expansion to 10.7% in Q108, down 1.3ppt q-o-q vs. seasonally strong Q407. Given the extra £3.4bn of new orders in Q407, any outperformance vs. margin expectations would be taken positively. BT targets 15% margin in the medium term.

Guidance

- Our numbers are broadly in line with consensus up and down the income statement: consensus 1Q08E revenue £5.00bn (CIR: £5.00bn), EBITDA pre leavers £1.42bn (CIR: £1.42bn), EPS 5.5p (CIR: 5.5p).

Next events

- Stock trades ex-dividend (August 2007).

Outlook

The remainder of calendar 2007 is about solid execution which should support the share price despite a lack of near-term catalysts. Into calendar 2008 we expect significant positive catalysts to emerge. In Global Services, continued margin expansion through YTM08 should drive investor confidence that BT can meet its 15% YTM09 target. In Openreach, we see upside potential from the regulatory review of allowable returns due to complete in April '08. In addition, management has not closed the door on the opportunities to use Openreach to optimise the capital structure, reduce the cost of capital and enhance shareholder returns. At the group level, the rollout and completion of 21CN will see capex start to fall from YTM09 and significant room for material headcount reduction from mid-2008.

Figure 21. BT – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	1Q08E	1Q07A	y-o-y	1Q08 of FYE	1Q07 of FYA	4Q07A	q-o-q	2007A	2008E	2009E
Retail	2,065	2,068	-0.2%	24.6%	24.6%	2,138	n.m.	8,414	8,392	8,319
Wholesale	1,884	1,847	+2.0%	24.4%	24.4%	1,930	n.m.	7,584	7,736	7,813
Global Services	2,241	2,155	+4.0%	23.5%	23.7%	2,503	n.m.	9,106	9,529	10,005
Open Reach	1,272	1,259	+1.0%	24.3%	24.3%	1,325	n.m.	5,177	5,229	5,281
Other	6	6		25.0%	35.3%	5	n.m.	17	24	24
Eliminations	-2,464	-2,471	-0.3%	24.5%	24.5%	-2,609	n.m.	-10,075	-10,054	-9,941
Revenues	**5,003**	**4,864**	**+2.9%**	**24.0%**	**24.1%**	**5,292**	**-5.5%**	**20,223**	**20,855**	**21,501**
Retail	230	180	+27.6%	26.1%	21.3%	218	+5.3%	845	881	882
margin (%)	11.1%	8.7%	+2.4ppt			+10.2%	+0.9ppt	10.0%	10.5%	10.6%
Wholesale	472	477	-1.1%	24.4%	24.8%	479	-1.5%	1,922	1,932	1,948
margin (%)	25.0%	25.8%	-0.8ppt			+24.8%	+0.2ppt	25.3%	25.0%	24.9%
Global Services	240	211	+13.9%	21.2%	21.8%	301	-20.2%	968	1,132	1,288
margin (%)	10.7%	9.8%	+0.9ppt			+12.0%	-1.3ppt	10.6%	11.9%	12.9%
Open Reach	464	470	-1.3%	25.0%	24.9%	486	-4.5%	1,884	1,855	1,873
margin (%)	36.5%	37.3%	-0.8ppt			+36.7%	-0.2ppt	36.4%	35.5%	35.5%
Other	-18	22		875.1%	183.3%	-10	+83.0%	12	-2	41
Reported EBITDA	**1,387**	**1,362**	**+1.9%**	**23.9%**	**24.2%**	**1,474**	**-5.9%**	**5,633**	**5,799**	**6,032**
margin (%)	27.7%	28.0%	-0.3ppt			27.8%	-0.1ppt	27.9%	27.8%	28.1%
Underlying EBITDA	**1,387**	**1,362**	**+1.9%**	**23.9%**	**24.2%**	**1,474**	**-5.9%**	**5,633**	**5,799**	**6,032**
margin (%)	27.7%	28.0%	-0.3ppt			27.8%	-0.1ppt	27.9%	27.8%	28.1%
Depreciation	-718	-700	+2.5%			-770	-6.8%	-2,907	-2,964	-2,987
Goodwill amortization							n.m.			
Intangible amortization	-3	-3				-3		-13	-12	-12
Reported EBIT	**667**	**659**	**+1.2%**	**23.6%**	**24.3%**	**701**	**-4.9%**	**2,713**	**2,823**	**3,033**
margin (%)	13.3%	13.5%	-0.2ppt			13.2%	+0.1ppt	13.4%	13.5%	14.1%
Underlying EBIT	**667**	**659**	**+1.2%**	**23.6%**	**24.3%**	**701**	**-4.9%**	**2,713**	**2,823**	**3,033**
margin (%)	13.3%	13.5%	-0.2ppt			13.2%	+0.1ppt	13.4%	13.5%	14.1%
Non-operating items							n.m.			
Associates	5	2	+233.3%			1	+400.0%	15	20	24
Net interest	-70	-46	+52.2%			-70		-233	-309	-408
Exceptional items	-450					2	n.m.	22	-450	
Pretax profit	**152**	**615**	**-75.3%**	**7.3%**	**24.4%**	**634**	**-76.1%**	**2,516**	**2,083**	**2,649**
Taxation	-150	-151	-0.1%			-146	+3.0%	369	-643	-681
Tax rate	99%	25%	+74.6ppt			23%	+0.8pts	-15%	31%	26%
Net extraordinary items							n.m.			
Minority interest						-1	n.m.	-2		
Reported net income	**1**	**464**	**-99.7%**	**0.1%**	**16.1%**	**487**	**-99.7%**	**2,883**	**1,440**	**1,968**
Underlying net income	**451**	**464**	**-2.7%**	**23.9%**	**24.2%**	**509**	**-11.3%**	**1,915**	**1,890**	**1,968**
Reported EPS (Undiluted)	**5.48**	**5.58**	**-1.8%**	**22.8%**	**24.2%**	**6.16**	**-11.0%**	**23.09**	**24.08**	**26.31**
Underlying EPS (Undiluted)	**5.48**	**5.58**	**-1.8%**	**22.8%**	**24.2%**	**6.16**	**-11.0%**	**23.09**	**24.08**	**26.31**
DPS	-	-				-		14.36	17.39	19.93
Reported Net Debt	**7,870**	**7,730**	**+1.8%**			**7,914**	**-0.6%**	**7,914**	**9,029**	**9,761**
Net debt to Ebitda	1.4x	1.4x	+0.0x			1.4x		1.4x	1.6x	1.6x
Capital expenditure	**760**	**715**	**+6.3%**	**24.1%**	**22.3%**	**923**	**-17.7%**	**3,209**	**3,155**	**2,993**
As a % of net sales	15.2%	14.7%	+0.5ppt			17.4%	-2.3ppt	15.9%	15.1%	13.9%

Source: Company Reports and Citigroup Investment Research

Colt Telecom (COLT.L); Sell/Speculative (3S); target price £1.23

Analyst:
Michael Williams (44-20) 7986 4140

- Operating environment remains tough — Q2 likely to see a continuation of recent trends.
- New CEO's strategic review offered little comfort.
- Strategic Markets continues to be the growth leader.

Divisional forecasts

Colt will report 2Q07 results on 19 July

- Group (2Q07E revenue €425.8m, EBITDA €69.4m). The voice markets in the UK and Germany in particular remain rough. A negative impact on group revenues (-5.3% y-o-y) translates into improved revenue mix (49% vs. 41% non-switched revenue in Q2 last year). Gross margins should also benefit (37.3%, +2.8ppts y-o-y).
- Germany (2Q07E revenue €129m, -21% y-o-y). Continued structural decline of CPS activity and downward price pressures will bring another quarter of disappointing numbers from the German unit. Regulatory uncertainty surrounding mobile termination also continues to impact performance. Revenue mix should improve, with non-switched up 10% on 2Q last year.
- UK (2Q07E revenue €81.8m, +1.1% y-o-y). We predict modest top-line improvement this quarter largely due to the weakness in Q2 last year resulting in undemanding like-for-like comparison.
- France (2Q07E revenue €62.2m, +3.9% y-o-y). We look for some top-line acceleration, driven by growth in VGE's (+31% y-o-y) and switched minutes (+5% q-o-q). Revenue mix improves with non-switched income up 3% y-o-y.
- Strategic Markets (2Q07E revenue €152.2m, +4.7% y-o-y). We expect continued strong annual growth, albeit 3.8ppts down on performance last quarter. This should be driven mostly by non-switched revenues (50% vs. 46% in Q2 last year) and VGE's growth (almost 40% y-o-y).

Guidance

- Lack of details: COLT expects flat EBITDA in 2007 on 2006A (CIR: +3.3% y-o-y). Continued uncertainty expected from mobile termination issues.

Consensus

- Our estimates (other than Profit before Tax) are broadly in line with consensus (+/- 5%): Revenues €433m (CIR: €426), EBITDA €66.2m (CIR: €69.4m), Capex €62m (CIR: 63.9), Profit before Tax €6.6m (CIR: €2.7m).

Outlook

There are no rabbits in Bhasin's hat – the new CEO's recent strategic review focused on customer needs rather than value creation from the existing asset base (no discussion of M&A, selective market exit etc). Cash flow concerns arise from planned NGN and Data Centre capex investments. We maintain our Sell rating based on our belief that that the company will struggle to achieve economic scale, and hence to create economic value, in the current market environment (particularly in UK and Germany). The recent rally was driven by a combination of M&A speculation and a hope that bandwidth hungry applications (eg video) are finally removing the oversupply problems that have dogged the industry for the last 6-7 years. We remain sceptical on both of these fronts.

Figure 22. COLT Telecom 2Q07 Results Check Sheet (€ in millions, except per share data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Switched	219	263	-17.0%	25.7%	25.5%	225	-3.0%	1,034	852	767
Non-switched	207	186	+11.1%	24.2%	24.3%	200	+3.2%	766	855	940
Other	0	0	+16.7%	33.3%	25.0%		n.m.	1	1	1
Revenues	**426**	**450**	**-5.3%**	**24.9%**	**25.0%**	**426**	**+0.0%**	**1,801**	**1,708**	**1,708**
Reported EBITDA	**69**	**64**	**+7.7%**	**24.8%**	**23.8%**	**68**	**+2.4%**	**271**	**280**	**301**
margin (%)	16.3%	14.3%	+2.0ppt			15.9%	+0.4ppt	15.0%	16.4%	17.7%
Underlying EBITDA	**69**	**64**	**+7.7%**	**24.8%**	**23.8%**	**68**	**+2.4%**	**271**	**280**	**301**
margin (%)	16.3%	14.3%	+2.0ppt			15.9%	+0.4ppt	15.0%	16.4%	17.7%
Depreciation	-61	-61				-54	+12.8%	-237	-229	-236
Goodwill amortization							n.m.			
Intangible amortization	-2	-2				-2	+9.6%	-9	-10	-10
Reported EBIT	**6**	**1**	**+347.5%**	**15.5%**	**5.8%**	**12**	**-46.2%**	**25**	**41**	**56**
margin (%)	1.5%	0.3%	+1.2ppt			2.8%	-1.3ppt	1.4%	2.4%	3.3%
Underlying EBIT	**6**	**1**	**+347.5%**	**15.5%**	**5.8%**	**12**	**-46.2%**	**25**	**41**	**56**
margin (%)	1.5%	0.3%	+1.2ppt			2.8%	-1.3ppt	1.4%	2.4%	3.3%
Non-operating items						0	n.m.	-1		
Associates							n.m.			
Net interest	-4	-10	-64.5%			-4	-12.1%	-33	-14	-13
Exceptional items							n.m.			
Pretax profit	**3**	**-9**		**9.9%**	**94.7%**	**8**	**-66.6%**	**-9**	**27**	**43**
Taxation	-1						n.m.			
Tax rate	30%		+30.0ppt				+0.3pts			
Net extraordinary items							n.m.			
Minority interest							n.m.			
Reported net income	**2**	**-9**		**6.9%**	**94.7%**	**8**	**-76.6%**	**-9**	**27**	**43**
Underlying net income	**2**	**-9**		**6.9%**	**94.7%**	**8**	**-76.6%**	**-9**	**27**	**43**
Reported EPS	**0.00**	**-0.02**		**6.9%**	**126.9%**	**0.01**	**-76.6%**	**-0.01**	**0.04**	**0.06**
Underlying EPS	**0.00**	**-0.02**		**6.9%**	**126.9%**	**0.01**	**-76.6%**	**-0.01**	**0.04**	**0.06**
DPS										
Reported Net Debt	**75**	**284**	**-73.6%**			**75**	**+0.4%**	**66**	**56**	**12**
Net debt to Ebitda	0.3x	1.0x				0.3x		0.2x	0.2x	0.0x
Capital expenditure	**64**	**52**	**+23.1%**	**25.1%**	**22.6%**	**63**	**+2.0%**	**229**	**255**	**238**
As a % of net sales	15.0%	11.5%	+3.5ppt			14.7%	+0.3ppt	12.7%	14.9%	13.9%

Source: Company Reports and Citigroup Investment Research

Analyst:
Terence Sinclair
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(COSr.AT - €22.98; 1M)

Cosmote will report 2Q07 results on 28 Aug at 3pm London time

Cosmote (COSr.AT); Buy/Medium Risk (1M), target price €26.0

- Cosmote is expected to grow its market share of postpaid net adds in Greece.
- Momentum in Romania is set to continue. We expect 540k net adds in Q2.
- Steady performance expected in Bulgaria with growing postpaid subscribers.
- Speculation over minority buyout should increase following OTE's placement.

Divisional forecasts

- Greece (2Q07E revenue +5.3% y-o-y, EBITDA margin -0.1ppt) – Greek revenues should grow thanks to increased mobile penetration, higher percentage of postpaid with higher ARPU and market share gain due to superior distribution network (Germanos). Margin is likely to remain stable due to impact of termination cut (10% cut in June).
- Bulgaria (2Q07E revenue +21.3%, EBITDA margin +1.7ppt) – Globul is expected to increase its revenues in a growing market by taking postpaid market share on Mobitel. Margin should expand to 39%. A large gap still remains vs. Mobitel and its c.58% margin.
- Romania (2Q07E revenue of €37m, EBITDA margin at -27%) – Cosmote should continue to gain market share in the rapidly growing prepaid market thanks to aggressive flat rate pricing and good quality distribution network.

Guidance

- Revenue growth for 2007E >30% and CAGR 2007E – 2009E >15%.
- EBITDA growth for 2007E > 15% and CAGR 2007E – 2009E >15%.
- Capex €450m for 2007E and CAGR 2007E – 2009E c-10%.
- Net debt/EBITDA <1x for 09E.

Next events

- Possible minority buyout (end 2H07/early 2008).
- Rebranding of TIM Hellas into Wind Hellas (3Q07).
- Cuts in roaming rates (by 1st Sep for wholesale, retail by 30th Sep for retail).

Outlook

The successful integration of Germanos is a potential catalyst that could shift Cosmote market share of net adds in Greece from 37% to 45% over the next three years. Cosmote continues to benefit from the merger between TIM & Q Telcom and the long-run effects of Vodafone's phone-tapping scandal. Cosmote's presence in the neighbouring Balkan countries is now well established and expected to continue delivering growth and increased margins. We remain confident that Cosmote management can deliver in Romania, based on its established track record in other Balkan countries.

Figure 23. Cosmote – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Greek Revenues	428	407	+5.3%	24.7%	24.9%	390	+9.8%	1,631	1,732	1,881
Bulgarian Revenues	100	82	+21.3%	23.6%	24.0%	91	+9.2%	342	422	437
Romanian Revenues	37	8	+369.0%	22.0%	18.0%	27	+35.2%	44	169	329
FYROM/Albania Revenues	56	48	+16.5%	24.5%	23.3%	55	+1.9%	205	227	249
Germanos Revenues	213			25.0%		205	+3.9%	252	850	910
Intersegment eliminations	-90			30.3%		-80	+12.2%	-91	-298	-318
Revenues	**743**	**545**	**+36.4%**	**24.0%**	**22.9%**	**688**	**+8.1%**	**2,382**	**3,102**	**3,487**
Greek EBITDA	179	171	+5.0%	23.8%	24.3%	158	+13.2%	702	753	837
margin (%)	41.8%	41.9%	-0.1ppt			+40.5%	+1.3ppt	43.1%	43.5%	44.5%
Bulgarian EBITDA	39	31	+27.0%	23.5%	24.1%	35	+9.4%	126	165	175
margin (%)	38.8%	37.1%	+1.7ppt			+38.7%	+0.1ppt	36.9%	39.0%	40.0%
Romanian EBITDA	-10	-18	-45.1%	23.7%	27.7%	-11	-5.1%	-66	-42	16
margin (%)	-27.0%	-230.4%	+203.4ppt			-38.5%	+11.5ppt	-150.0%	-25.0%	5.0%
FYROM/Albania EBITDA	28	22	+26.9%	23.8%	21.9%	29	-2.4%	100	117	130
margin (%)	50.2%	46.1%	+4.1ppt			+52.5%	-2.2ppt	49.0%	51.8%	52.2%
Germanos EBITDA	10			18.8%		8	+16.6%	19	51	59
margin (%)	4.5%	N/A	N/A			+4.0%	+0.5ppt	7.5%	6.0%	6.5%
Intersegment eliminations	-3			18.8%		-5	-26.6%	-6	-18	-21
Reported EBITDA	**242**	**205**	**+18.1%**	**23.6%**	**23.4%**	**215**	**+12.4%**	**876**	**1,027**	**1,197**
margin (%)	32.5%	37.6%	-5.1ppt			31.3%	+1.2ppt	36.8%	33.1%	34.3%
Underlying EBITDA	**242**	**205**	**+18.1%**	**23.6%**	**23.4%**	**215**	**+12.4%**	**876**	**1,027**	**1,197**
margin (%)	32.5%	37.6%	-5.1ppt			31.3%	+1.2ppt	36.8%	33.1%	34.3%
Depreciation	-90	-75	+19.1%			-85	+5.7%	-319	-347	-385
Goodwill amortization							n.m.			
Intangible amortization							n.m.			
Reported EBIT	**152**	**129**	**+17.5%**	**22.4%**	**23.2%**	**130**	**+16.8%**	**558**	**680**	**812**
margin (%)	20.5%	23.8%	-3.3ppt			18.9%	+1.5ppt	23.4%	21.9%	23.3%
Underlying EBIT	**152**	**129**	**+17.5%**	**22.4%**	**23.2%**	**130**	**+16.8%**	**558**	**680**	**812**
margin (%)	20.5%	23.8%	-3.3ppt			18.9%	+1.5ppt	23.4%	21.9%	23.3%
Non-operating items							n.m.			
Associates							n.m.			
Net interest	-24	-13	+89.9%			-26	-10.2%	-57	-87	-80
Exceptional items							n.m.	1		
Pretax profit	**128**	**117**	**+9.8%**	**21.7%**	**23.3%**	**104**	**+23.6%**	**502**	**593**	**732**
Taxation	-33	-40	-16.7%			-32	+4.5%	-160	-154	-184
Tax rate	26%	34%	-8.3ppt			31%	-0.0pts	32%	26%	25%
Net extraordinary items							n.m.			
Minority interest	3	6	-50.8%			3	+2.7%	18	11	1
Reported net income	**98**	**83**	**+18.5%**	**21.7%**	**22.9%**	**75**	**+31.1%**	**361**	**450**	**548**
Underlying net income	**98**	**83**	**+18.5%**	**21.7%**	**22.9%**	**75**	**+31.1%**	**361**	**450**	**548**
Reported EPS	**0.29**	**0.25**	**+18.0%**	**21.8%**	**22.9%**	**0.22**	**+30.9%**	**1.08**	**1.34**	**1.63**
Underlying EPS	**0.29**	**0.25**	**+18.0%**	**21.8%**	**22.9%**	**0.22**	**+30.9%**	**1.08**	**1.34**	**1.63**
DPS	-	-				-		0.73	0.94	1.14
Reported Net Debt	**2,410**	**1,300**	**+85.4%**			**2,212**	**+8.9%**	**2,432**	**1,907**	**1,652**
Net debt to Ebitda	2.6x	1.6x	+1.0x			2.5x		2.8x	1.9x	1.4x
Capital expenditure	**111**	**38**	**+190.3%**	**25.0%**	**8.7%**	**106**	**+4.4%**	**437**	**443**	**362**
As a % of net sales	14.9%	7.0%	+7.9ppt			15.4%	-0.5ppt	18.3%	14.3%	10.4%

Source: Company Reports and Citigroup Investment Research

Deutsche Telekom (DTEGn.DE); Sell/Medium Risk (3M), TP €12.50

Analyst:
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(DTEGn.DE - €13.43; 3M)

- Domestic picture to remain dire — both fixed and mobile are expected to remain under pressure.
- T-Mobile Intl and in particular T-Mobile US should have a strong quarter.
- Price deflation to continue in fixed but lower line loss expected.
- Positive impact of salary savings from strike to be offset by incremental costs to keep the business running.

Divisional forecasts

DT will report 2Q07 results on 9 August at 6am London time

- Broadband and fixed: our 2Q revenues of €5.715bn assume 500k broadband net additions for Germany. DT should keep its retail market share of net adds above its stated objective of 40%. However we expect the growth in the German broadband market to slow this quarter. We forecast a 20% decline in domestic call revenues and 535k line loss this time around. The net effect is a decline in revenue of 7.0% for the division with an EBITDA margin of 34.2%.
- T-Mobile: Germany will be a key focus. T-Mobile Germany experienced a 3.0% decline in service revenues in Q1 as the impact of big bundles stimulated spin-down and the termination rate cut of 23rd November began to bite. While we forecast the decline will moderate to 1.8% in Q2, there is downside risk to this number. We expect T-Mobile US to continue to show strong growth thanks to increased subscriber numbers (upside risk to our 650k net adds in Q2). Overall we expect a 7.8% increase in T-Mobile revenues, to €8.466bn, with EBITDA of €2.672bn (margin slightly increasing to 31.6% from 30.1% in 2Q07).

Guidance

It was too early for the company to guide on the quarter. Our FY07 numbers are broadly in line with company guidance:

- Moderate revenue growth, EBITDA of €19bn, FCF of €5.5bn.

Next events

- Potential acquisition of Orange Netherlands (3Q07).
- Sale of Tower Businesses in the US and Germany.
- Legal challenge from the EU to VDSL regulatory holiday.

Outlook

The outlook for DT's domestic business dominates the investment case over the next 12 months. With competition from Altnets and Cable set to intensify further in fixed line and the mobile business still grappling with the problem of price elasticity of below 1x, things are likely to remain tough. With the US growth business at risk of structural margin pressure we continue to recommend DT as a Sell.

Figure 24. Deutsche Telekom– Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Broadband/fixed	5,715	6,146	-7.0%	25.0%	24.9%	5,832	-2.0%	24,685	22,881	21,849
Mobile	8,466	7,856	+7.8%	24.6%	24.5%	8,400	+0.8%	32,040	34,348	35,998
Business Customers	3,191	3,146	+1.4%	25.0%	24.9%	2,906	+9.8%	12,621	12,774	12,959
Group HQ	921	894	+3.0%	24.0%	24.3%	952	-3.3%	3,674	3,839	3,874
Eliminations	-2,974	-2,912	+2.1%	25.2%	24.9%	-2,637	+12.8%	-11,673	-11,794	-11,984
Revenues	**15,318**	**15,130**	**+1.2%**	**24.7%**	**24.7%**	**15,453**	**-0.9%**	**61,347**	**62,048**	**62,697**
Broadband/fixed	1,953	2,239	-12.8%	25.7%	25.6%	1,870	+4.4%	8,752	7,583	7,060
margin (%)	34.2%	36.4%	-2.3ppt			+32.1%	+2.1ppt	35.5%	33.1%	32.3%
Mobile Comms	2,672	2,363	+13.1%	24.9%	23.9%	2,539	+5.2%	9,902	10,716	11,334
margin (%)	31.6%	30.1%	+1.5ppt			+30.2%	+1.3ppt	30.9%	31.2%	31.5%
Business Customers	291	326	-10.6%	25.9%	26.5%	261	+11.6%	1,230	1,124	1,183
margin (%)	9.1%	10.4%	-1.2ppt			+9.0%	+0.1ppt	9.7%	8.8%	9.1%
Group HQ	-72	-82	-12.2%	23.8%	20.3%	67	n.m.	-403	-303	-263
margin (%)	-7.8%	-9.2%	+1.4ppt			+7.0%	-14.9ppt	-11.0%	-7.9%	-6.8%
Eliminations	-30	-29	+3.4%	20.7%	61.7%	-55	-45.5%	-47	-145	-120
margin (%)	1.0%	1.0%	+0.0ppt			+2.1%	-1.1ppt	0.4%	1.2%	1.0%
Reported EBITDA	**4,814**	**4,749**	**+1.4%**	**25.6%**	**29.2%**	**4,496**	**+7.1%**	**16,278**	**18,790**	**19,194**
margin (%)	31.4%	31.4%	+0.0ppt			29.1%	+2.3ppt	26.5%	30.3%	30.6%
Underlying EBITDA	**4,814**	**4,817**	**-0.1%**	**25.4%**	**24.8%**	**4,635**	**+3.9%**	**19,391**	**18,929**	**19,194**
margin (%)	31.4%	31.8%	-0.4ppt			30.0%	+1.4ppt	31.6%	30.5%	30.6%
Depreciation	-2,067	-1,964	+5.2%			-2,077	-0.5%	-8,109	-8,281	-8,302
Goodwill amortization							n.m.			
Intangible amortization	-619	-700	-11.5%			-624	-0.8%	-2,882	-2,470	-2,378
Reported EBIT	**2,128**	**2,085**	**+2.1%**	**26.5%**	**39.4%**	**1,795**	**+18.5%**	**5,287**	**8,038**	**8,515**
margin (%)	13.9%	13.8%	+0.1ppt			11.6%	+2.3ppt	8.6%	13.0%	13.6%
Underlying EBIT	**2,128**	**2,153**	**-1.2%**	**26.0%**	**25.5%**	**1,934**	**+10.0%**	**8,443**	**8,177**	**8,515**
margin (%)	13.9%	14.2%	-0.3ppt			12.5%	+1.4ppt	13.8%	13.2%	13.6%
Non-operating items		-121				-94	n.m.	-167	-94	
Associates	41	-49				3	+1266.7%	24	136	169
Net interest	-738	-602	+22.6%			-658	+12.1%	-2,540	-2,752	-2,637
Exceptional items							n.m.			
Pretax profit	**1,431**	**1,313**	**+9.0%**	**26.9%**	**50.4%**	**1,046**	**+36.8%**	**2,604**	**5,328**	**6,046**
Taxation	-472	-207	+128.1%			-471	+0.3%	970	-1,758	-2,116
Tax rate	33%	16%	+17.2ppt			45%	-0.1pts	-37%	33%	35%
Net extraordinary items							n.m.			
Minority interest	-80	-108	-25.9%			-116	-31.0%	-409	-320	-320
Reported net income	**879**	**998**	**-11.9%**	**27.0%**	**31.5%**	**459**	**+91.5%**	**3,165**	**3,250**	**3,610**
Underlying net income	**879**	**1,042**	**-15.7%**	**26.2%**	**27.1%**	**563**	**+56.1%**	**3,850**	**3,354**	**3,610**
Reported EPS	**0.20**	**0.24**	**-17.4%**	**26.2%**	**27.6%**	**0.13**	**+56.1%**	**0.88**	**0.77**	**0.83**
Underlying EPS	**0.20**	**0.24**	**-15.7%**	**26.2%**	**27.1%**	**0.13**	**+56.1%**	**0.88**	**0.77**	**0.83**
DPS								0.72	0.75	0.77
Reported Net Debt	**43,851**	**40,739**	**+7.6%**			**38,819**	**+13.0%**	**38,639**	**43,851**	**43,355**
Net debt to Ebitda	2.3x	2.2x	+0.1x			2.0x		2.0x	2.3x	2.3x
Capital expenditure	**2,100**	**1,686**	**+24.6%**	**25.8%**	**18.2%**	**1,824**	**+15.1%**	**9,269**	**8,124**	**8,600**
As a % of net sales	13.7%	11.1%	+2.6ppt			11.8%	+1.9ppt	15.1%	13.1%	13.7%

Source: Company Reports and Citigroup Investment Research

Elisa (ELI1V.HE); Hold/Medium Risk (2M); target price €22

Analyst:
James Rivett
(44-20) 7986 4140

(ELI1V.HE - €23.08)

Elisa will report 2Q07 results on 31 July (6am UK time)

- Finnish Mobile: market stable in 2Q07, in spite of low-end tariff relaunches.
- Billing system integration and the lower impact from excess inventory sales should begin to help margins this quarter.

Divisional forecasts

- Finnish Mobile: (2Q07E revenue flat y-o-y, EBITDA +23%). In 2Q07, we expect the market to continue to benefit from in-country consolidation; although the headline revenue growth comparisons will look less favourable (Saunalahti was acquired in 2Q06). Churn should fall as indicated in the portability statistics from Numpac[5] fell 16% y-o-y in 2Q07, which should continue to raise margins (+5.6ppt y-o-y, +1.6ppt q-o-q on our estimates).
- Finnish fixed line: (2Q07E revenue -5% y-o-y, EBITDA margin 31%). The focus will be on the improvement in EBITDA margins as a result of the billing and network integration this period. We forecast margins +7ppts y-o-y. PSTN and ISDN disconnections appear stable (at -10k per Q) in 2Q07. In broadband we are looking for ARPUs to rise c.7% on the back of Elisa's low-end price increases of 25% during the period.

Consensus

- We forecast revenue growth below the company's 2009 guidance but we are in line with EBITDA and Capex guidance.
- 2009 company financial targets: "mid-single-digit revenue growth" (CIR: 1% 06A-09E CAGR), "EBITDA margin above 35%" (CIR: 35% in FY09E), "Capex to Sales 10-12%" (CIR: 12.1% in FY09E)

Next events

- Management decision on the €165m (c.5% of the MV) capital return as a dividend or buyback (during 2H07).
- The impact of both Sonera and Elisa re-launching low-end brands priced c.25% below the market average (during 2H07).

Outlook

Consensus estimates at Elisa should rise over the next 12 months. In our view, pricing stability and falling churn in mobile, and the margin upside from fixed-line outsourcing are still not fully encapsulated in consensus estimates. We expect the 4m buyback approved at 1Q07 results to accelerate during 2008. On the current plan net debt/EBITDA will only rise to 1.4x on our estimates, at the low end of Elisa's targets.

[5] The Numpac is a provider of number portability functionality for telecommunications companies and other possible parties in Finland.

Figure 25. Elisa – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Mobile (Finland & Estonia)	244	239	+1.9%	25.3%	25.7%	229	+6.5%	930	965	995
Fixed Network	158	166	-5.0%	25.5%	25.0%	163	-2.8%	665	619	606
Eliminations	-13	-23	-44.2%	21.7%	30.5%	-13	-0.8%	-77	-60	-61
Revenues	**389**	**382**	**+1.7%**	**25.5%**	**25.2%**	**378**	**+2.8%**	**1,518**	**1,525**	**1,540**
Mobile (Finland & Estonia)	72	57	+26.2%	23.8%	22.0%	67	+7.0%	259	302	320
margin (%)	29.5%	23.8%	+5.7ppt			+29.4%	+0.1ppt	27.9%	31.3%	32.2%
Fixed Network	49	39	+24.6%	25.5%	21.7%	49	-0.5%	181	192	203
margin (%)	31.0%	23.6%	+7.4ppt			+30.3%	+0.7ppt	27.2%	31.0%	33.5%
Eliminations	-2	-2		26.8%	26.8%	-2	-11.8%	-6	-6	-6
Reported EBITDA	**119**	**95**	**+25.9%**	**24.4%**	**21.8%**	**115**	**+4.1%**	**435**	**489**	**518**
margin (%)	30.7%	24.8%	+5.9ppt			30.3%	+0.4ppt	28.6%	32.0%	33.6%
Underlying EBITDA	**119**	**100**	**+19.6%**	**24.4%**	**22.5%**	**115**	**+4.1%**	**445**	**489**	**518**
margin (%)	30.7%	26.1%	+4.6ppt			30.3%	+0.4ppt	29.3%	32.0%	33.6%
Depreciation	-51	-56	-9.0%			-46	+10.7%	-209	-195	-194
Goodwill amortization							n.m.			
Intangible amortization							n.m.			
Reported EBIT	**68**	**39**	**+76.9%**	**23.3%**	**17.1%**	**69**	**-0.3%**	**225**	**294**	**324**
margin (%)	17.6%	10.1%	+7.5ppt			18.1%	-0.5ppt	14.8%	19.3%	21.0%
Underlying EBIT	**68**	**44**	**+56.6%**	**23.3%**	**18.5%**	**69**	**-0.3%**	**235**	**294**	**324**
margin (%)	17.6%	11.4%	+6.2ppt			18.1%	-0.5ppt	15.5%	19.3%	21.0%
Non-operating items							n.m.			
Associates		0					n.m.	0		
Net interest	-5	-4	+22.0%			-5	+8.7%	-14	-16	-15
Exceptional items							n.m.			
Pretax profit	**63**	**35**	**+82.9%**	**22.8%**	**16.3%**	**64**	**-1.0%**	**212**	**277**	**309**
Taxation	-15	-7	+116.9%			-15	+2.6%	-50	-67	-79
Tax rate	24%	20%	+3.8ppt			23%	+0.0pts	24%	24%	26%
Net extraordinary items							n.m.			
Minority interest		0				0	n.m.	1		
Reported net income	**48**	**27**	**+76.1%**	**22.8%**	**16.8%**	**49**	**-2.7%**	**163**	**211**	**230**
Underlying net income	**48**	**32**	**+51.7%**	**22.8%**	**18.1%**	**49**	**-2.7%**	**175**	**211**	**230**
Reported EPS	**0.30**	**0.16**	**+80.5%**	**23.1%**	**16.8%**	**0.31**	**-2.7%**	**0.98**	**1.28**	**1.38**
Underlying EPS	**0.30**	**0.19**	**+55.4%**	**23.1%**	**18.2%**	**0.31**	**-2.7%**	**1.05**	**1.28**	**1.38**
DPS	-					-		1.50	0.77	0.83
Reported Net Debt	**533**	**381**	**+40.0%**			**54**	**+881.9%**	**377**	**507**	**398**
Net debt to Ebitda	1.2x	1.1x				0.1x		0.8x	1.0x	0.8x
Capital expenditure	**58**	**54**	**+6.9%**	**30.0%**	**26.3%**	**44**	**+30.0%**	**206**	**193**	**187**
As a % of net sales	14.8%	14.1%	+0.7ppt			11.7%	+3.1ppt	13.5%	12.6%	12.1%

Source: Company Reports and Citigroup Investment Research

France Telecom (FTE.PA); Hold/Medium Risk (2M), TP €22.0

Analyst:
Terence Sinclair
(44-20) 7986 4204

(FTE.PA - €20.36; 2M)

- Resilient performance expected in a consolidated French fixed market.
- French Mobile should be stable with limited competition in ex-growth market.
- Margin to reflect higher gross adds in the UK and Spain.
- Spanish growth could improve following disappointing recent run.

Divisional forecasts

France Telecom will report 2Q07 sales and group EBITDA on 2 Aug

- Personal/Mobile (1H07 revenues €14.05bn, up 4.6% y-o-y). Net adds were disappointing last quarter (-42k in France, -237k in the UK, -56k in Spain). Orange has been more aggressive this quarter in marketing and promotional activity. Our analysis of tariffs in Europe shows that Orange did not launch any major price reduction and therefore we do not expect ARPU dilution.
- Home/Fixed (1H07 revenues €11.11bn, -0.1% y-o-y). We expect roughly flat revenues helped by growing DSL revenues (+221k DSL adds in 2Q07E) offsetting lower revenues from voice calls (-14.7% y-o-y). Negative trend in line losses should decelerate after a worrying Q1 with the loss of 696k lines following the introduction of naked DSL.

Guidance

- “Near Stable” margin in 2007 (Citi: -80bps).
- Capex maintained at 13% of sales in FY07E (Citi: in line).
- Organic cash flow of €6.8bn (Citi: €7.1bn).

Next events

- Potential disposal of Orange Netherlands (3Q07).
- Bids for the fourth French 3G licence (deadline 31st July).
- Launch of IPTV offer in the UK (4Q07).
- Competitors results: SFR Q2 earnings (25 July), Bouygues Q2 sales (9 Aug).
- Announcement of future French mobile termination rates (by end of July).
- Decision on legal dispute with Iliad worth €500m (likely 2008).

Outlook

France Telecom has clearly made substantial strides in three areas: 1) providing an interesting French home product suite that competes decently with Neuf’s offer; 2) arresting the deterioration in UK customer movements; and 3) strengthening financial controls.

Despite a new government, cost improvements will be difficult especially reducing labour costs with 67% of French workers being civil servants. There are also several quarters more of bundle uptake lifting interconnect costs. We are still fundamentally concerned about the margin impact of mobile share loss to MVNOs and to Bouygues in mobile post-paid. Fixed business revenues should come under increased pressure from Neuf Cegetel.

Figure 26. France Telecom – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	1H07E	1H06A	y-o-y	1H07 of FYE	1H06 of FYA	2H06A	q-o-q	2006A	2007E	2008E
Personal	14,047	13,429	+4.6%	48.4%	48.4%	14,307	-1.8%	27,745	29,047	29,948
Home	11,113	11,126	-0.1%	50.1%	49.5%	11,361	-2.2%	22,487	22,168	21,709
Enterprise	3,720	3,820	-2.6%	50.1%	49.9%	3,831	-2.9%	7,651	7,430	7,260
Eliminations	-3,121	-3,008	+3.8%	49.9%	48.7%	-3,176	-1.7%	-6,181	-6,252	-6,291
Revenues	**25,759**	**25,367**	**+1.5%**	**49.2%**	**49.1%**	**26,323**	**-2.1%**	**51,702**	**52,393**	**52,625**
Personal	4,790	4,884	-1.9%	48.3%	50.4%	4,803	-0.3%	9,686	9,906	10,278
margin (%)	34.1%	36.4%	-2.3ppt			33.6%	+0.5ppt	34.9%	34.1%	34.3%
Home	3,584	3,542	+1.2%	50.9%	48.8%	3,723	-3.7%	7,265	7,038	7,108
margin (%)	32.3%	31.8%	+0.4ppt			32.8%	-0.5ppt	32.3%	31.7%	32.7%
Enterprise	725	833	-12.9%	51.4%	52.4%	757	-4.2%	1,590	1,412	1,307
margin (%)	19.5%	21.8%	-2.3ppt			19.8%	-0.3ppt	20.8%	19.0%	18.0%
Eliminations	-			na	na	-3	n.m.			
Reported EBITDA	**9,097**	**9,259**	**-1.7%**	**49.6%**	**49.9%**	**9,090**	**+0.1%**	**18,539**	**18,356**	**18,693**
margin (%)	35.3%	36.5%	-1.2ppt			34.5%	+0.8ppt	35.9%	35.0%	35.5%
Underlying EBITDA	**9,347**	**9,345**	**+0.0%**	**49.6%**	**49.0%**	**9,520**	**-1.8%**	**19,055**	**18,856**	**19,193**
margin (%)	36.3%	36.8%	-0.6ppt			36.2%	+0.1ppt	36.9%	36.0%	36.5%
Depreciation	-2,962	-2,670	+10.9%			-2,782	+6.5%	-5,452	-6,025	-5,789
Goodwill amortization	-1,168	-1,168				-1,204	-3.0%	-2,372	-2,336	-2,336
Intangible amortization	-250	-87	+188.8%			-429	-41.8%	-516	-500	-500
Reported EBIT	**4,717**	**5,334**	**-11.6%**	**49.7%**	**52.3%**	**4,675**	**+0.9%**	**10,199**	**9,495**	**10,068**
margin (%)	18.3%	21.0%	-2.7ppt			17.8%	+0.6ppt	19.7%	18.1%	19.1%
Underlying EBIT	**4,717**	**5,334**	**-11.6%**	**49.7%**	**52.3%**	**4,675**	**+0.9%**	**10,199**	**9,495**	**10,068**
margin (%)	18.3%	21.0%	-2.7ppt			17.8%	+0.6ppt	19.7%	18.1%	19.1%
Non-operating items	-						n.m.			
Associates	-						n.m.			
Net interest	-1,212	-1,290	-6.0%			-1,961	-38.2%	-3,251	-2,325	-2,164
Exceptional items	-						n.m.			
Pretax profit	**3,504**	**4,044**	**-13.3%**	**48.9%**	**58.2%**	**2,714**	**+29.1%**	**6,948**	**7,170**	**7,903**
Taxation	-1,122	-1,285	-12.7%			-895	+25.4%	-2,180	-2,294	-2,529
Tax rate	32%	32%	+0.2ppt			33%	-0.0pts	31%	32%	32%
Net extraordinary items	-						n.m.			
Minority interest	-390	-413	-5.6%			-216	+80.6%	-629	-643	-709
Reported net income	**1,992**	**2,346**	**-15.1%**	**47.1%**	**56.7%**	**1,603**	**+24.3%**	**4,139**	**4,232**	**4,665**
Underlying net income	**2,118**	**2,491**	**-15.0%**	**47.2%**	**57.9%**	**1,622**	**+30.5%**	**4,304**	**4,483**	**4,916**
Reported EPS	**0.77**	**0.90**	**-15.2%**	**47.1%**	**56.7%**	**0.62**	**+24.2%**	**1.59**	**1.63**	**1.79**
Underlying EPS	**0.81**	**0.96**	**-15.1%**	**47.2%**	**57.9%**	**0.62**	**+30.4%**	**1.65**	**1.72**	**1.89**
DPS		1.20						1.20	1.25	1.35
Reported Net Debt	**41,532**	**47,234**	**-12.1%**			**42,017**	**-1.2%**	**42,017**	**38,178**	**33,601**
Net debt to Ebitda	1.1x	1.3x	-0.2x			1.1x		2.2x	2.0x	1.8x
Capital expenditure	**3,060**	**3,055**	**+0.2%**	**44.7%**	**44.9%**	**3,685**	**-17.0%**	**6,811**	**6,845**	**6,446**
As a % of net sales	11.9%	12.0%	-0.2ppt			14.0%	-2.1ppt	13.2%	13.1%	12.2%

Source: Company Reports and Citigroup Investment Research

Freenet AG (FNTG.DE); Hold/High Risk (2H); target €26.0

Analyst:
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- We expect to see only moderate q-o-q top-line growth, flat EBITDA and declining EBIT in 2Q07. DSL net additions should remain around 65k since the company is still experiencing problems with DT to get customers connected to their fully unbundled product. A y-o-y comparison cannot be done since Freenet is now capitalising most of its subscriber acquisition costs, which is driving up margins until the D&A balances the positive effect. We estimate that also in 2Q the positive impact should amount to c€28m.

(FNTG.DE - €24.80; 2H)

- Freenet is still having to compensate a rapidly declining narrowband and voice telephony base by trying to accelerate its DSL and portal growth. In addition, the mobile segment is relatively stagnant since penetration levels are high and ARPU is coming under pressure. New DSL offers which include mobile SIMs add to the pressure.

Freenet AG will report 2Q07 results on 8th August (morning)

Divisional forecasts

We expect 2Q07 group sales of €462m, EBITDA of €66.3m and EBT of €51.7m. Since the merger went through, Freenet has stopped reporting a detailed breakdown of its fixed line business. It continues to report the mobile segment and fixed/internet segment separately though but has a large non-assigned cost segment. We only estimate revenues and gross profit on a divisional basis.

- Mobile Segment. Sales: €268m; Gross Profit: €61.3m.
- Fixed/Internet Segment. Sales: €176m; Gross Profit: €82.9m.

Guidance

Freenet is currently providing the following guidance: EBITDA >€250m and EBT > €160m. At the year-end it targets to have >1.4m DSL subscribers (including Tiscali's c100k). However, these numbers are not comparable to 2006 numbers since the company is not providing any insight on its assumptions for the capitalisation of subscriber acquisition and retention costs

Next events

- AGM on 20 June and 2Q07 numbers on 8 August.
- Payment of special dividend (probably €6/share) in September.

Outlook

Freenet AG had been negatively affected by the much longer than expected merger process. This is now a matter of the past and the company can focus again fully on its operations. There are some formidable challenges ahead for Freenet, given its strong exposure to fast eroding legacy businesses in narrowband internet access and voice telephony, and a saturated mobile market which is also now targeted by the DSL operators. Its main growth driver, the German DSL market, is highly competitive and might face another onslaught from cable operators in the coming years. However, with the merger being finally implemented, the company can focus now on the tasks ahead, reap some merger synergy effects and tackle the DSL market with its fully unbundled Freenet komplett product. There is an increasing amount of shareholder pressure to increase the special dividend, seek sale of the company to a larger competitor, or even to reverse the merger and sell the company in parts.

Figure 27. Freenet – Yearly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2001 FY	2002 FY	2003 FY	2004 FY	2005 FY	2006 FY	2007 FY	2008 FY	2009 FY	2010 FY
Product Business	134	211	293	357	607	957	1259	1528	1738	1900
Outsourcing Business	72	70	77	84	89	103	108	114	120	125
Online Marketing	25	37	45	69	106	180	202	218	235	254
HQ overheads			0	0	0					
Revenues	**231**	**318**	**415**	**510**	**802**	**1,240**	**1,569**	**1,860**	**2,093**	**2,280**
Reported EBITDA	**0**	**69**	**85**	**109**	**129**	**235**	**318**	**396**	**485**	**538**
margin (%)	0.1%	21.6%	20.4%	21.4%	16.1%	19.0%	20.3%	21.3%	23.2%	23.6%
Underlying EBITDA	**18**	**77**	**98**	**122**	**129**	**235**	**318**	**396**	**485**	**538**
margin (%)	7.7%	24.3%	23.7%	24.0%	16.1%	19.0%	20.3%	21.3%	23.2%	23.6%
Depreciation	-12	-15	-17	-21	-18	-25	-25	-25	-25	-24
Goodwill amortization	-18	-2	-14	-13	-2					
Intangible amortization	-8	-8	-5	-4	-10	-30	-31	-32	-34	-35
Reported EBIT	-37	44	49	71	100	181	262	338	426	479
margin (%)	-16.1%	13.7%	11.7%	14.0%	12.5%	14.6%	16.7%	18.2%	20.4%	21.0%
Underlying EBIT	-20	52	63	84	100	181	262	338	426	479
margin (%)	-8.5%	16.4%	15.1%	16.5%	12.5%	14.6%	16.7%	18.2%	20.4%	21.0%
Non-operating items										
Associates	-4	0	0	-2	1	1	1	1	1	1
Net interest	-29	-1	0	1	0	-2	-1	0	0	1
Exceptional items		-1	0							
Pretax profit	**-70**	**41**	**49**	**70**	**101**	**180**	**262**	**339**	**428**	**482**
Taxation	1	-9	-25	-37	-42	-71	-102	-125	-150	-169
Tax rate	2%	21%	52%	52%	41%	39%	39%	37%	35%	35%
Net extraordinary items										
Minority interest	6	5	3	0	-2	-7	-11	-14	-16	-18
Reported net income	**-63**	**37**	**26**	**34**	**57**	**102**	**149**	**200**	**262**	**295**
Underlying net income	**-52**	**40**	**35**	**42**	**58**	**102**	**149**	**200**	**262**	**295**
Reported EPS	**-0.28**	**0.16**	**0.11**	**0.15**	**0.23**	**0.41**	**0.60**	**0.80**	**1.05**	**1.18**
Underlying EPS	**-0.23**	**0.18**	**0.15**	**0.18**	**0.23**	**0.41**	**0.60**	**0.80**	**1.05**	**1.18**
DPS		0.13	0.04	0.05	0.06	0.12	0.18	0.24	0.32	0.36
Reported Net Debt	-	-	-	-	-	-	-	-	-	-
Net debt to Ebitda										
Capital expenditure	**20**	**33**	**27**	**28**	**417**	**137**	**51**	**53**	**54**	**56**
As a % of net sales	8.5%	10.3%	6.5%	5.4%	52.0%	11.1%	3.3%	2.8%	2.6%	2.5%

Source: Citigroup Investment Research

KPN (KPN.AS); Buy/Medium Risk (1M), target price €13.00

Analyst:
Terence Sinclair
(44-20) 7986 4204

(KPN.AS - €11.92; 1M)

KPN will report 2Q07 results on 31 July (7am UK time)

- Fixed – VoIP turnaround will not help to offset significant KPN and Tele2 broadband price cuts until 3Q07.
- Mobile – T-Mobile and Vodafone tariff pressure in Germany. Expect continued domestic margin expansion.
- Expect update on roaming impact following EU announcement in June.

Divisional forecasts

- Both the VoIP connection problems that drove 1Q07 to disappoint and the competitive challenges in German mobile have been well flagged for 2Q07. Though we are still at the top end of consensus, we are not making an aggressive stance on this quarter's forecasts.
- Mobile (48% of EBITDA): In Germany, T-Mobile and Vodafone tariffs announced at CeBIT will impact this quarter. Modest tariff cuts at KPN's Simyo and Aldi brands help support German revenue growth (4% y-o-y) but dampen margin expansion (-2ppt y-o-y). In the Netherlands, market consolidation benefits continue. No changes to pre-paid tariffs in six months and only moderate (c.5%) tariff cuts by Telfort and KPN in post-paid on our analysis. We forecast 2.2% revenue growth with c140bps margin expansion. November 2006 and May 2007 MTA cuts hurt Base revenue (7% vs. 13% in 2Q06) and margin (-4ppt y-o-y).
- Fixed (52% of EBITDA): We have seen significant price cuts across KPN's broadband brands (c.30%) and aggressive new offers from Tele2 over the last six months. Problems connecting new VoIP customers mean the net adds run rate is currently c.65-80k (vs.100k in 1Q07). This will not pick up until 3Q07 hurting KPN's ability to pull back traditional line losses this quarter. We have 5% revenue falls y-o-y and 130bps of margin loss.

Guidance

- Our numbers are broadly in line with consensus: 2Q07E revenue €3.0bn (CIR: €3.0bn), EBITDA €1.2bn (CIR: €1.3bn), EPS €0.19 (CIR: €0.19).
- FY07E Company Guidance: Revenue growth "flat" (CIR: +0.5% excl. Tiscali and iBasis), EBITDA growth "flat" (CIR: +2.6% excl. Tiscali and iBasis). FCF greater than €2bn (CIR: €2.2bn).

Next events

- Clarification of regulatory position on All-IP (3Q07).
- Dutch termination rate cuts (3Q07).

Outlook

In fixed, market consolidation, a declining cable threat and the fixed-price (stable) revenue benefits of All-IP should all stabilise revenues from 2008 in our view. The new network build should expand capex from 2007 but deliver over €1bn in asset sales. In mobile, the consolidation of Telfort in the Netherlands has reduced price aggression and is driving margin expansion (+6ppt to 41% FY10). In Germany, while progressive T-Mobile and Vodafone tariff cuts hurt E-Plus, we argue our numbers capture much of the downside. We see revenue growth slowing by 1ppt (to 2.7%) in 2007 and flat growth from 2010.

Figure 28. KPN – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Mobile	1,659	1,601	+3.6%	24.9%	24.8%	1,609	+3.1%	6,450	6,668	6,862
Fixed	1,577	1,653	-4.6%	23.1%	24.9%	1,315	+20.0%	6,647	6,831	6,697
Other	20	16	+25.0%	13.4%	10.7%		n.m.	149	149	149
Eliminations	-280	-291	-3.8%	24.8%	24.5%		n.m.	-1,189	-1,127	-1,132
Revenues	**2,976**	**2,979**	**-0.1%**	**23.8%**	**24.7%**	**2,924**	**+1.8%**	**12,057**	**12,521**	**12,576**
Mobile	634	622	+1.9%	26.4%	27.8%	615	+3.0%	2,235	2,398	2,532
margin (%)	38.2%	38.9%	-0.7ppt			38.2%	-0.0ppt	34.7%	36.0%	36.9%
Fixed	612	663	-7.7%	23.6%	25.8%	574	+6.6%	2,574	2,593	2,618
margin (%)	38.8%	40.1%	-1.3ppt			43.7%	-4.9ppt	38.7%	38.0%	39.1%
Other	7	-4		25.0%	-14.3%		n.m.	28	28	28
Eliminations							n.m.			
Reported EBITDA	**1,252**	**1,281**	**-2.2%**	**25.0%**	**26.5%**	**1,189**	**+5.3%**	**4,837**	**5,019**	**5,178**
margin (%)	42.1%	43.0%	-0.9ppt			40.7%	+1.4ppt	40.1%	40.1%	41.2%
Underlying EBITDA	**1,252**	**1,281**	**-2.2%**	**25.0%**	**26.5%**	**1,189**	**+5.3%**	**4,837**	**5,019**	**5,178**
margin (%)	42.1%	43.0%	-0.9ppt			40.7%	+1.4ppt	40.1%	40.1%	41.2%
Depreciation	-482	-469	+2.7%			-439	+9.7%	-1,832	-1,907	-1,983
Goodwill amortization							n.m.			
Intangible amortization	-143	-142	+0.7%			-213	-32.9%	-782	-524	-527
Reported EBIT	**628**	**670**	**-6.3%**	**24.2%**	**30.1%**	**537**	**+16.9%**	**2,223**	**2,588**	**2,668**
margin (%)	21.1%	22.5%	-1.4ppt			18.4%	+2.7ppt	18.4%	20.7%	21.2%
Underlying EBIT	**628**	**670**	**-6.3%**	**24.2%**	**30.1%**	**537**	**+16.9%**	**2,223**	**2,588**	**2,668**
margin (%)	21.1%	22.5%	-1.4ppt			18.4%	+2.7ppt	18.4%	20.7%	21.2%
Non-operating items							n.m.			
Associates	3	3				1	+200.0%	7	12	12
Net interest	-140	-119	+17.2%			-132	+5.7%	-520	-427	-418
Exceptional items							n.m.			
Pretax profit	**491**	**554**	**-11.3%**	**22.6%**	**32.4%**	**406**	**+21.0%**	**1,710**	**2,173**	**2,263**
Taxation	-127	-123	+2.9%			-93	+36.1%	-127	-560	-582
Tax rate	26%	22%	+3.6ppt			23%	+0.0pts	7%	26%	26%
Net extraordinary items							n.m.			
Minority interest	-2	3					n.m.		-9	-9
Reported net income	**363**	**434**	**-16.4%**	**22.6%**	**27.4%**	**313**	**+15.9%**	**1,583**	**1,604**	**1,671**
Underlying net income	**363**	**434**	**-16.4%**	**22.6%**	**27.4%**	**313**	**+15.9%**	**1,583**	**1,604**	**1,671**
Reported EPS	**0.19**	**0.21**	**-10.0%**	**22.0%**	**26.0%**	**0.16**	**+17.4%**	**0.82**	**0.87**	**0.95**
Underlying EPS	**0.19**	**0.21**	**-10.0%**	**22.0%**	**26.0%**	**0.16**	**+17.4%**	**0.82**	**0.87**	**0.95**
DPS	0.17	0.16	+6.3%					0.50	0.55	0.61
Reported Net Debt	**9,049**	**8,760**	**+3.3%**			**8,790**	**+2.9%**	**9,180**	**8,994**	**8,772**
Net debt to Ebitda	1.9x	1.8x	+0.1x			1.8x		1.9x	1.8x	1.7x
Capital expenditure	**394**	**379**	**+3.9%**	**23.2%**	**23.0%**	**276**	**+42.6%**	**1,650**	**1,695**	**1,634**
As a % of net sales	13.2%	12.7%	+0.5ppt			9.4%	+3.8ppt	13.7%	13.5%	13.0%

Source: Company Reports and Citigroup Investment Research

Mobistar (MSTAR.BR); Hold/Medium Risk (2M); target price €68.0

Analyst:
Terence Sinclair
(44-20) 7986 4204

(MSTAR.BR - €62.28; 2M)

Mobistar will report 2Q07 results on 20 July at 6am London Time

- We expect revenues to show little growth following termination cuts.
- Broadband still not getting any momentum (25k subs at the end of Q1).
- We expect Mobistar to make further small acquisitions following the successful bid on VOXmobile (mobile operator in the Luxembourg).

Divisional forecasts

- **Mobile (1H07E revenue flat y-o-y, EBITDA margin -0.4ppt).** Mobistar has launched some aggressive new offers both in prepaid "Simply Mobistar" (second cheapest tariff on the market) and in postpaid "Relax" (priced at a 15% discount to the market). These new tariffs should help Mobistar gain market share and increase its subscriber numbers by c.25k in 2Q. Significant termination cut (20% in November last year and 20% in May this year) will put downward pressure on ARPU and margin.
- **Fixed line (1H07E revenue +2.8% y-o-y, EBITDA -€2m).** Mobistar has ceased its most aggressive promotion (monthly subscription was charged at half price over the first year) but still offers the first month for free. Despite an offer competitively priced against the incumbent, Mobistar has still not gained momentum in fixed. The launch of fixed and mobile offers targetting SMEs might help reverse this trend. EBITDA contribution from fixed is likely to be negative or at best negligible.

Guidance

- FY07 Revenue to decline y-o-y by 2 to 4% (Citi: -2.5%).
- FY07 Net Income to decline y-o-y by 2 to 4% (Citi: -3.9%).

Next events

- Further small acquisitions in mobile distribution or DSL (2H07).
- Roaming rate cuts (September 2007).

Outlook

Mobistar is showing resilience in the face of tough competition in the Belgian mobile and its strategy to lift ARPU by up-selling subscribers from pre-paid to post-paid is proving successful. Mobistar should continue to gain market share over Belgacom in an ex-growth market and grow data revenues. The negative impact of termination and roaming cuts are likely to bring revenue and margin down this year.

In fixed, we expect Mobistar to continue struggling in gaining ADSL subscribers given its late entry in the market. However we believe that pricing might stabilise in fixed and acknowledge that sentiment over DSL is probably at its worst.

Figure 29. Mobistar – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	1H07E	1H06A	y-o-y	1H07 of FYE	1H06 of FYA	2H06A	q-o-q	2006A	2007E	2008E
Mobile	694	694	-0.1%	50.6%	49.2%	718	-3.4%	1,412	1,370	1,377
Fixed voice & data	44	43	+2.8%	48.9%	50.7%	42	+5.5%	85	90	92
Handsets	23	21	+8.5%	47.0%	42.0%	29	-21.4%	51	49	49
Other revenues	13	13	-0.8%	46.8%	47.1%	15	-11.6%	28	28	28
Revenues	**774**	**771**	**+0.3%**	**50.3%**	**49.0%**	**803**	**-3.7%**	**1,575**	**1,537**	**1,546**
Mobile	305	308	-0.9%	50.6%	49.6%	313	-2.6%	621	603	578
margin (%)	44.0%	44.4%	-0.4ppt			43.6%	+0.4ppt	44.0%	44.0%	42.0%
Fixed voice & data	-2	1		50.0%	-15.9%	-7	-69.2%	-6	-5	5
margin (%)	-5.1%	2.3%	-7.5ppt			-17.5%	+12.4ppt	-7.5%	-5.0%	5.0%
Reported EBITDA	**303**	**309**	**-2.0%**	**50.6%**	**50.1%**	**306**	**-1.0%**	**616**	**598**	**583**
margin (%)	39.1%	40.1%	-0.9ppt			38.1%	+1.1ppt	39.1%	38.9%	37.7%
Underlying EBITDA	**303**	**309**	**-2.0%**	**50.6%**	**50.1%**	**306**	**-1.0%**	**616**	**598**	**583**
margin (%)	39.1%	40.1%	-0.9ppt			38.1%	+1.1ppt	39.1%	38.9%	37.7%
Depreciation	-89	-91	-3.1%			-84	+5.1%	-176	-177	-179
Goodwill amortization							n.m.			
Intangible amortization							n.m.			
Reported EBIT	**214**	**218**	**-1.5%**	**50.9%**	**49.4%**	**222**	**-3.3%**	**441**	**421**	**404**
margin (%)	27.7%	28.2%	-0.5ppt			27.6%	+0.1ppt	28.0%	27.4%	26.1%
Underlying EBIT	**303**	**309**	**-2.0%**	**50.6%**	**50.1%**	**306**	**-1.0%**	**616**	**598**	**583**
margin (%)	39.1%	40.1%	-0.9ppt			38.1%	+1.1ppt	39.1%	38.9%	37.7%
Non-operating items							n.m.			
Net interest	1	0	+233.3%			1	+100.0%	1	2	4
Exceptional items							n.m.			
Pretax profit	**215**	**218**	**-1.2%**	**50.9%**	**49.3%**	**222**	**-3.0%**	**442**	**423**	**407**
Taxation	-69	-70	-1.7%			-72	-4.3%	-142	-135	-130
Tax rate	32%	32%	-0.2ppt			32%	-0.0pts	32%	32%	32%
Net extraordinary items							n.m.			
Reported net income	**146**	**148**	**-1.0%**	**50.9%**	**49.3%**	**150**	**-2.4%**	**300**	**288**	**277**
Underlying net income	**146**	**148**	**-1.0%**	**50.9%**	**49.3%**	**150**	**-2.4%**	**300**	**288**	**277**
Reported EPS	**2.32**	**2.34**	**-0.8%**	**50.9%**	**49.3%**	**2.37**	**-2.2%**	**4.73**	**4.56**	**4.39**
Underlying EPS	**2.32**	**2.34**	**-0.8%**	**50.9%**	**49.3%**	**2.37**	**-2.2%**	**4.73**	**4.56**	**4.39**
DPS								4.50	3.65	3.51
Reported Net Debt	**46**	**-53**				**-65**	**n.m.**	**-65**	**-72**	**-132**
Net debt to Ebitda	0.1x	-0.1x				-0.2x		-0.1x	-0.1x	-0.2x
Capital expenditure	**60**	**69**	**-13.3%**	**35.2%**	**41.9%**	**96**	**-37.5%**	**165**	**170**	**162**
As a % of net sales	7.8%	9.0%	-1.2ppt			11.9%	-4.2ppt	10.5%	11.1%	10.5%

Source: Company Reports and Citigroup Investment Research

Neuf Cegetel (Neuf.PA); Hold/High Risk (2H), target price €30.0

Analyst:
Terence Sinclair
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(NEUF.PA - €29.63; 2H)

Neuf Cegetel will report 2Q07 results on 9 Aug

- We expect strong revenue growth (+10.3% y-o-y) thanks to DSL growth with 130k net adds in Q2 and increased ARPU at €32.5.
- Neuf is increasing its market share in the business segment with IP solutions.
- Update on the Club Internet acquisition.

Divisional forecasts

- Residential (1H07 revenues €613m, +49.8% y-o-y, +6.9ppt in margin). Net adds (+130k) have already been announced following the acquisition of CI. Our analysis of DSL tariffs shows that prices remain stable in France. Positive trend in ARPU should continue thanks to incremental revenues from mobile and VOD. Margin should ramp up to 23% (pre unallocated G&A) thanks to higher operational leverage from the acquisition of AOL.
- Business (1H07 revenues €519m, +6.6% y-o-y, +1.9ppt in margin). Neuf innovative products such as 9pass and 9office position Neuf as the main alternative to FT, which still owns c.75% of the business segment. Neuf is targetting the subscription segment with FULL offers. Margin should increase by 1.9ppt y-o-y thanks to higher revenues and stable SG&A.
- Wholesale (1H07 revenues €437m, -17% y-o-y, -2.6ppt in margin) Underlying trend of price deflation and declining traffic is set to continue impacting both margin and revenues. Y-o-Y comparison is also affected by the reclassification of AOL wholesale revenues as residential.

Guidance for 2007 (including Club Internet)

- Residential revenue growth close to 60% in 2007 (Citi: 59.9%).
- Business revenue growth to be between 5% and 10% for 2007 (Citi: 8.1%).
- Operating cash flow to double between beginning 2006 and end of 2007 on a run-rate basis (Citi: in line).

Next events

- Competitor results: FT 2Q sales (2 Aug), Iliad 2Q sales (3 Aug).
- ARCEP Q2 subscriber numbers for French broadband (31 Aug provisional).
- Further contract wins announcements for SMEs (2H07).

Outlook

Neuf is now the leading altnet in all three segments of the fixed market including the residential broadband market following the acquisition of Club Internet. Neuf is a natural share taker in both the residential broadband and SMEs markets. We expect Neuf to meet its 2007 guidance and to continue showing good momentum. The stock has been performing remarkably well since its IPO in October. With limited catalysts and consensus estimates towards the top end of the company guidance, we believe that there is now limited upside in the share price.

Figure 30. Neuf Cegetel – Quarterly Summary Financial Forecasts (Euros in Millions)

	1H07E	1H06A	y-o-y	1H07 of FYE	1H06 of FYA	2H06A	q-o-q	2006A	2007E	2008E
Residential	613	409	+49.8%	43.9%	46.9%	463	+32.3%	872	1,394	1,776
Business	519	487	+6.6%	49.4%	50.2%	484	+7.2%	971	1,050	1,146
Wholesale	437	527	-17.0%	48.7%	50.0%	527	-17.0%	1,054	898	875
Revenues	**1,569**	**1,423**	**+10.3%**	**47.0%**	**49.1%**	**1,474**	**+6.4%**	**2,897**	**3,342**	**3,797**
Residential	141	66	+113.5%	42.3%	45.2%	80	+76.1%	146	333	475
margin (%)	23.0%	16.1%	+6.9ppt			17.3%	+5.7ppt	16.7%	23.9%	26.7%
Business	174	154	+13.0%	47.9%	48.9%	161	+8.1%	315	363	412
margin (%)	33.5%	31.6%	+1.9ppt			33.3%	+0.3ppt	32.4%	34.6%	36.0%
Wholesale	104	131	-20.3%	49.4%	50.6%	128	-18.5%	259	211	206
margin (%)	6.7%	9.2%	-2.6ppt			8.7%	-2.0ppt	8.9%	6.3%	5.4%
Unallocated G&A	-89	-97	-8.2%	48.2%	55.1%	-79	+12.7%	-176	-185	-192
margin (%)	-63.2%	-147.0%	+83.8ppt			-98.8%	+35.6ppt	-120.5%	-55.4%	-40.5%
Reported EBITDA	**330**	**244**	**+35.3%**	**45.7%**	**46.7%**	**278**	**+18.8%**	**522**	**723**	**901**
margin (%)	21.0%	17.1%	+3.9ppt			18.9%	+2.2ppt	18.0%	21.6%	23.7%
Underlying EBITDA	**330**	**254**	**+30.0%**	**45.7%**	**46.7%**	**290**	**+13.9%**	**544**	**723**	**901**
margin (%)	21.0%	17.8%	+3.2ppt			19.7%	+1.4ppt	18.8%	21.6%	23.7%
Depreciation	-220	-188	+17.0%			-198	+11.1%	-386	-390	-400
Goodwill amortization	-40	-32	+25.0%			-36	+11.1%	-68	-80	-80
Intangible amortization							n.m.			
Reported EBIT	**70**	**24**	**+192.6%**	**27.8%**	**35.3%**	**44**	**+59.6%**	**68**	**253**	**421**
margin (%)	4.5%	1.7%	+2.8ppt			3.0%	+1.5ppt	2.3%	7.6%	11.1%
Underlying EBIT	**330**	**254**	**+30.0%**	**45.7%**	**46.7%**	**290**	**+13.9%**	**544**	**723**	**901**
margin (%)	21.0%	17.8%	+3.2ppt			19.7%	+1.4ppt	18.8%	21.6%	23.7%
Non-operating items		3				-3	n.m.			
Net interest	-8	-15	-46.7%			-10	-20.0%	-25	-15	-15
Exceptional items							n.m.			
Pretax profit	**62**	**12**	**+418.5%**	**26.2%**	**27.9%**	**31**	**+100.7%**	**43**	**238**	**406**
Taxation	21	95	-78.1%			75	-72.2%	170	80	80
Tax rate	-34%	-792%	+758.2ppt			-242%	+2.1pts	-395%	-34%	-20%
Net extraordinary items							n.m.			
Reported net income	**83**	**105**	**-20.9%**	**26.1%**	**50.2%**	**104**	**-20.1%**	**209**	**318**	**486**
Underlying net income	**62**	**10**	**+522.1%**	**19.6%**	**25.6%**	**29**	**+114.5%**	**39**	**318**	**486**
Reported EPS	**0.41**	**0.55**	**-26.2%**	**26.1%**	**50.9%**	**0.52**	**-20.9%**	**1.09**	**1.56**	**2.39**
Underlying EPS	**0.31**	**0.05**	**+480.0%**	**19.6%**	**26.0%**	**0.14**	**+112.5%**	**0.20**	**1.56**	**2.39**
DPS						0.40	.	0.40	0.63	0.95
Reported Net Debt	**510**	**672**	**-24.2%**			**555**	**-8.2%**	**555**	**770**	**391**
Net debt to Ebitda	0.7x	1.2x				1.9x		1.0x	1.1x	0.4x
Capital expenditure	**180**	**153**	**+17.6%**	**43.1%**	**46.2%**	**178**	**+1.0%**	**331**	**418**	**475**
As a % of net sales	11.5%	10.8%	+0.7ppt			12.1%	-0.6ppt	11.4%	12.5%	12.5%

Source: Citigroup Investment Research

Analyst:
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(OTEr.AT - €22.76; 1M)

OTE will report 2Q07 results on 30 Aug (provisional)

OTE (OTEr.AT); Buy/Medium Risk (1M), target price €27.00

- Improvement in Greek Fixed (+5.1ppt y-o-y) following headcount reduction.
- Price cut and speed upgrade should boost ADSL take up (+110k subs in Q2).
- Churn in Romania is expected to decline thanks to new tariff plans.

Divisional forecasts

- Greek fixed (2Q07E revenue –4.8% y-o-y, EBITDA margin +5.1ppt). Fixed voice call revenues should continue their decline (-10% for F2M and -10% for F2I y-o-y). ADSL revenues are expected to double y-o-y to €31m and partially offset decline in traditional revenues. Margin could be up by 3.9ppt vs. last year thanks to lower payroll costs. The company has reduced the number of its employees by 2,974 between 1Q06 and 1Q07.
- RomTelecom (2Q07E revenue -1.4% y-o-y, EBITDA margin +6.3ppt). Fundamentals remain under pressure with the well known effect of line losses (16% churn in Q1) and falling call rates. Top line and churn should improve thanks to new tariff plans including unlimited calls to fixed lines and bundles with DSL products. Margin expected to be slightly down q-o-q at 40.0% versus Q1 (42.0%) due to higher commercial activity and rollout costs of digital TV and DSL.
- Mobile (31% EBITDA) — Another positive surprise? Please see *Cosmote*.

Guidance

- Revenues : 2006-09 CAGR 6-7% (Citi: +5.9%).
- EBITDA : 2006-09 CAGR 8-9% (Citi: +7.5%).
- Capex 2007 : €1.24bn (Citi : 1.119bn).
- Divisional guidance: includes -4% to -5% in fixed (Citi: flat) with RomTelecom down 1% to 2% CAGR (Citi: -2.7%).

Next events

- Possible buyout of Cosmote minority? (end 2H07/early 2008).
- State's contribution to the VRP for up to €390m (4% of share capital) (2H07).
- Sale of Infote (Directory enquiries) for c.€200m (2H07).
- Further staff reduction in Greece c.1,200 people (2008).
- Sale of Real Estate for c.€1bn over 2008-09.

Outlook

Following a successful placement, the path towards a buyout of Cosmote minorities (33%) is getting clearer. We expect the Greek elections to happen in October. These elections might constitute the last hurdle delaying a buyout of Cosmote minorities. The OTE story contains many catalysts (staff reduction, real estate sale, turnaround in Romania, capex cuts) which should unfold over the next 12 months. OTE's cost base should continue to fall while revenues driven by mobile and broadband could surprise on the upside.

Figure 31. OTE – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Greek Fixed	611	641	-4.8%	24.8%	25.8%	602	+1.4%	2,489	2,465	2,460
RomTelecom	210	213	-1.4%	25.2%	24.3%	216	-2.8%	877	834	812
Cosmote	705	494	+42.8%	23.9%	22.3%	647	+9.0%	2,213	2,952	3,239
Otenet	30	64	-53.1%	24.8%	26.1%	28	+7.9%	245	121	133
Other	14	19	-27.8%	19.9%	29.0%	15	-9.1%	67	70	74
Revenues	**1,570**	**1,432**	**+9.7%**	**24.4%**	**24.3%**	**1,509**	**+4.1%**	**5,891**	**6,442**	**6,718**
Greek Fixed	221	200	+10.7%	25.5%	23.8%	206	+7.3%	840	869	458
margin (%)	36.2%	31.2%	+5.1ppt			34.2%	+2.0ppt	33.8%	35.3%	18.6%
RomTelecom	84	72	+17.2%	26.6%	21.2%	91	-7.4%	338	316	300
margin (%)	40.0%	33.7%	+6.3ppt			42.0%	-2.0ppt	38.6%	37.8%	36.9%
Cosmote	242	205	+18.1%	23.6%	23.4%	215	+12.4%	876	1,027	1,197
margin (%)	34.3%	41.5%	-7.2ppt			33.3%	+1.0ppt	39.6%	34.8%	37.0%
Other	4	24	-85.4%			21	-82.9%	69	14	15
Reported EBITDA	**558**	**518**	**+7.8%**	**24.7%**	**23.4%**	**540**	**+3.4%**	**2,217**	**2,255**	**2,009**
margin (%)	35.6%	36.2%	-0.6ppt			35.8%	-0.2ppt	37.6%	35.0%	29.9%
Underlying EBITDA	**558**	**518**	**+7.8%**	**24.7%**	**23.9%**	**562**	**-0.6%**	**2,167**	**2,255**	**2,509**
margin (%)	35.6%	36.2%	-0.6ppt			37.2%	-1.7ppt	36.8%	35.0%	37.4%
Depreciation	-283	-280	+1.0%			-279	+1.2%	-1,128	-1,130	-1,133
Goodwill amortization							n.m.			
Intangible amortization							n.m.			
Reported EBIT	**276**	**238**	**+15.7%**	**24.5%**	**21.9%**	**260**	**+5.9%**	**1,088**	**1,126**	**876**
margin (%)	17.6%	16.6%	+0.9ppt			17.3%	+0.3ppt	18.5%	17.5%	13.0%
Underlying EBIT	**276**	**238**	**+15.7%**	**24.5%**	**22.9%**	**282**	**-2.4%**	**1,039**	**1,126**	**1,376**
margin (%)	17.6%	16.6%	+0.9ppt			18.7%	-1.2ppt	17.6%	17.5%	20.5%
Non-operating items		21					n.m.	200		250
Associates	2					13	-84.3%		17	18
Net interest	-35	-28	+22.7%			-32	+9.6%	-204	-108	-57
Exceptional items							n.m.			
Pretax profit	**243**	**231**	**+5.0%**	**23.4%**	**21.3%**	**241**	**+0.6%**	**1,084**	**1,036**	**1,086**
Taxation	-61	-85	-28.4%			-64	-4.4%	-353	-259	-272
Tax rate	25%	37%	-11.7ppt			26%	-0.0pts	33%	25%	25%
Net extraordinary items							n.m.			
Minority interest	-45	-34	+33.9%			-37	+22.3%	-156	-175	-213
Reported net income	**137**	**113**	**+21.5%**	**22.8%**	**19.6%**	**141**	**-2.7%**	**575**	**602**	**602**
Underlying net income	**136**	**115**	**+17.9%**	**23.0%**	**27.2%**	**148**	**-8.3%**	**422**	**589**	**963**
Reported EPS	**0.28**	**0.23**	**+21.5%**	**22.8%**	**19.6%**	**0.29**	**-2.7%**	**1.17**	**1.23**	**1.23**
Underlying EPS	**0.28**	**0.24**	**+15.2%**	**23.0%**	**27.9%**	**0.30**	**-8.3%**	**0.86**	**1.20**	**1.97**
DPS								0.55	0.74	0.77
Reported Net Debt	**2,406**	**1,996**	**+20.5%**			**2,347**	**+2.5%**	**2,548**	**2,153**	**729**
Net debt to Ebitda	1.1x	0.9x	+0.1x			4.2x		1.2x	1.0x	0.3x
Capital expenditure	**256**	**172**	**+48.9%**	**22.9%**	**17.8%**	**223**	**+14.5%**	**962**	**1,119**	**963**
As a % of net sales	16.3%	12.0%	+4.3ppt			14.8%	+1.5ppt	16.3%	17.4%	14.3%

Source: Company Reports and Citigroup Investment Research

Portugal Telecom (PTC.LS), Buy/Medium Risk (1M), target price €12.50

Analyst:
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- Newsflow at the 2Q07 results on the Vivo sale unlikely, but we do expect an update on the cable demerger
- Domestic operating environment currently stable in fixed and mobile – too early for new offers unlikely to impact
- Vivo – tentative signs of market share and margin stabilisation, despite promotional activity

(PTC.LS - €10.35; 1M)

Portugal Telecom will report 1H07 results on 7th August, around 7:30am (London/Lisbon time)

Divisional forecasts

- Domestic Fixed (2Q07E revenue -7% y-o-y, EBITDA -9%). Our forecasts assume pricing was relatively stable in 2Q07, with Vodafone's triple play launch unlikely to have impact until 2H07. It is also too early to see the benefits of Sonaecom acquiring Tele2 and Oni. We expect wireline restructuring to keep on offsetting some of the revenue declines with opex falling 5% y-o-y. Curtailment costs will be seasonally low (€35mn vs. €50mn in 1Q07).
- Domestic Mobile (2Q07E revenue +1% y-o-y, EBITDA -2%). Minute pricing was relatively stable in 2Q07 in our view, and with ongoing data usage increase (2Q07E data ARPUs €2.8) helping customer ARPUs rise 5% q-o-q to €16.5 per month. Overall revenues will be impacted by the 5% cut to termination rates during 2Q07. We forecast EBITDA margins stable y-o-y at 43.5%.
- Brazilian Mobile (2Q07E revenue +17% y-o-y, underlying EBITDA +62%). In line with our Latin American team (see *Vivo: Weak EBITDA on Strong Subs for 2Q07*, published on 12 July 2007) we forecast the GSM operations will be the major driver behind the group's c.1.04m net adds in 2Q07, which should also benefit low-margin handset sales. Margins should be negatively impacted (-4ppts q-o-q to 21.8%) on the higher net additions following the Mother's Day promotions.

Guidance

We believe that our estimates are broadly in line with consensus for the next few years. This document will be published before PT collects 2Q07 consensus.

Next events

- PTM management appointments (Summer 2007) and demerger (end-3Q07).
- Vivo sale update: we do not expect a conclusion soon.
- c.€1.5bn of the planned €2.1bn (18% of the post-demerger MV) buyback by the 2007 AGM in May 2008.

Outlook

The PT stock should be supported by the speculation in the press over a sale of the Vivo stake (CIR view: only if the price is well above €3bn) with the proceeds potentially used to buy Sonaecom (CIR view: €2bn synergies available). Fundamentally, whilst pricing competition must accelerate from the recent low levels, Portugal remains one of Europe's most benign markets. The benefits of in-country consolidation (Sonaecom acquired Tele2 and Oni during 2Q07) should also show through from late 2007. In Brazil, we are not convinced Vivo can execute on its GSM migration strategy.

Figure 32. Portugal Telecom – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Wireline	486	523	-6.9%	25.0%	25.2%	499	-2.6%	2,072	1,948	1,877
Domestic Mobile	366	364	+0.8%	24.3%	24.2%	363	+0.8%	1,502	1,507	1,498
Brazilian Mobile (Vivo)	575	491	+17.0%	25.1%	23.3%	547	+5.2%	2,105	2,290	2,535
Cable & Media (PTM)		164			24.6%	n.m	n.m.	667		
Other	40	-18		26.7%	754.2%	52	-22.6%	-2	150	150
Revenues	**1,468**	**1,523**	**-3.6%**	**24.9%**	**24.0%**	**1,461**	**+0.5%**	**6,343**	**5,895**	**6,059**
Wireline	219	240	-8.8%	24.7%	22.4%	240	-8.8%	1,073	886	854
margin (%)	45.0%	45.9%	-0.9ppt			48.1%	-3.1ppt	51.8%	45.5%	45.5%
Domestic Mobile	159	163	-2.3%	24.4%	24.8%	161	-1.0%	659	654	643
margin (%)	43.5%	44.9%	-1.4ppt			44.3%	-0.8ppt	43.8%	43.4%	42.9%
Brazilian Mobile (Vivo)	115	58	+98.5%	22.8%	11.7%	151	-23.8%	496	504	558
margin (%)	20.0%	11.8%	+8.2ppt			27.6%	-7.6ppt	23.6%	22.0%	22.0%
Cable & Media (PTM)	n.m	56	n.m	n.m	26.5%	n.m	n.m.	211	n.m	n.m
margin (%)	n.m	34.1%	n.m			n.m	n.m.	31.7%	n.m	n.m
Other	15	-14	n.m	25.0%	91.6%	19	-21.1%	-15	60	60
margin (%)	37.5%	77.9%	-40.4ppt			36.8%	+0.7ppt	641.7%	0	0
Reported EBITDA	**508**	**536**	**-5.1%**	**24.2%**	**22.1%**	**571**	**-11.0%**	**2,419**	**2,104**	**2,114**
margin (%)	34.6%	35.2%	-0.5ppt			39.1%	-4.4ppt	38.1%	35.7%	34.9%
Underlying EBITDA	**508**	**536**	**-5.1%**	**24.2%**	**22.1%**	**571**	**-11.0%**	**2,419**	**2,104**	**2,114**
margin (%)	34.6%	35.2%	-0.5ppt			39.1%	-4.4ppt	38.1%	35.7%	34.9%
Depreciation	-269	-300	-10.3%			-266	+1.2%	-1,210	-1,084	-848
Goodwill amortization	-25	-33	-23.5%			-64	-60.9%	-127	-161	-150
Intangible amortization							n.m.			
Reported EBIT	**214**	**203**	**+5.4%**	**24.9%**	**18.8%**	**241**	**-11.1%**	**1,082**	**859**	**1,116**
margin (%)	14.6%	13.3%	+1.3ppt			16.5%	-1.9ppt	17.1%	14.6%	18.4%
Underlying EBIT	**239**	**236**	**+1.4%**	**23.5%**	**19.5%**	**305**	**-21.5%**	**1,209**	**1,020**	**1,266**
margin (%)	16.3%	15.5%	+0.8ppt			20.9%	-4.6ppt	19.1%	17.3%	20.9%
Non-operating items		-					n.m.			
Associates	30	-17				19	+58.7%	131	117	123
Net interest	-60	-64	-5.5%			-49	+21.7%	-227	-250	-294
Exceptional items		-7				48	n.m.			
Pretax profit	**184**	**116**	**+58.8%**	**25.4%**	**11.8%**	**258**	**-28.6%**	**986**	**726**	**945**
Taxation	-55	92				-76	-27.4%	-8	-233	-269
Tax rate	30%	-80%	+109.6ppt			30%	+0.0pts	1%	32%	28%
Net extraordinary items	20					19	+3.1%		60	
Minority interest	-10	15				-25	-59.8%	-87	-40	-42
Reported net income	**139**	**223**	**-37.8%**	**27.1%**	**25.1%**	**177**	**-21.3%**	**891**	**514**	**634**
Underlying net income	**144**	**115**	**+25.3%**	**23.4%**	**15.0%**	**221**	**-34.9%**	**768**	**615**	**784**
Reported EPS	**0.12**	**0.20**	**-37.8%**	**22.3%**	**25.1%**	**0.16**	**-21.3%**	**0.79**	**0.55**	**0.68**
Underlying EPS	**0.13**	**0.24**	**-46.8%**	**19.3%**	**35.3%**	**0.20**	**-34.9%**	**0.68**	**0.66**	**0.84**
DPS								0.48	0.48	0.58
Reported Net Debt	**4,506**	**4,380**	**+2.9%**			**3,646**	**+23.6%**	**3,757**	**5,694**	**5,427**
Net debt to Ebitda	2.1x	1.8x	+0.3x			6.4x		1.6x	2.7x	2.6x
Capital expenditure	**172**	**194**	**-11.0%**	**20.7%**	**18.9%**	**129**	**+33.9%**	**1,023**	**834**	**747**
As a % of net sales	11.7%	12.7%	-1.0ppt			8.8%	+2.9ppt	16.1%	14.1%	12.3%

Source: Company Reports and Citigroup Investment Research

Swisscom (SCMn.VX); Hold/Low Risk (2L), target price SFr480

Analyst:
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Swisscom will report 2Q07 results on 8 August (6.30am UK time)

- Focus remains on closing of Fastweb acquisition and new guidance.
- Limited changes in the Swiss competitive environment this period.

Divisional forecasts

- Fastweb (2Q07E revenues SFr196mn, EBITDA SFr6mn): We consolidate Fastweb from June 2007. Our new estimates extrapolate from our previous published Fastweb estimates, although we believe Swisscom may take this opportunity to change accounting practises (moving bad debt charges above the EBITDA line, which could take c.€50m from group EBITDA) and lower fundamental guidance (from €600m FY07E EBITDA to €550m).
- Swiss Fixed (2Q07E revenues –7% y-o-y, underlying EBITDA -5%): Cablecom is focused on gaining telephony market share (Swisscom -21k lines in 2Q07, with PSTN & ISDN revenues -4% y-o-y). Broadband should have seen less competition, with Swisscom keeping a relatively stable market share at 66% on broadly stable ARPUs. The need for an engineer visit continues to hamper the IPTV rollout (with c.30k customers on the service). Reported EBITDA (+47% y-o-y on our estimates) will be flattered by the SFr180m Commission fine booked in 2Q06 for overcharging on interconnection.
- Swiss Mobile (2Q07E revenues +5.6% y-o-y, EBITDA +5.2%): Swisscom is still taking market share (+c1.2%ppt y-o-y to 64.5%) driven by its Liberty tariffs (which now account for over 35% of the customer base on our estimates). Given the lack of promotional activity from the other players, we expect Swisscom to be able to offset the c.10% termination rate cuts in 1Q07 with EBITDA margins broadly stable y-o-y at 48.8%). Capex is also likely to increase (up c3ppts y-o-y to 9% of sales at SFr91m), driven by UMTS/HSDPA infrastructure investment.

Guidance

Our 2007 FY estimates are broadly in line with Swisscom's guidance.

- Revenues of SFr9.7bn, EBITDA SFr3.9bn (CIR: SFr9.7bn and SFr3.7bn), Capex of SFr1.4bn (CIR: in-line).

Next events

- Antenna Hungaria asset sale for SFr0.5bn (expected to close in 3Q07).
- New organisational structure from 1 August, with three new divisions - Private Clients, SMEs and Corporate.
- Update on the Competition Commission for abuse of market dominance in the Mobile Termination Market (up to SFr500m, c.13% of Swiss 2007E EBITDA).

Outlook

The closure of the Fastweb deal will continue to dominate the Swisscom investment story in our view. Few other catalysts remain, and Swisscom is still a well-managed business, seeing slowly declining revenues and erosion of its high margins and industry-leading ROIC.

Figure 33. Swisscom – Quarterly Summary Financial Forecasts (SFr in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Fixnet	972	1,046	-7.1%	24.9%	25.3%	971	+0.1%	4,130	3,906	3,859
Mobile	931	881	+5.6%	24.8%	24.9%	911	+2.2%	3,540	3,750	3,742
Solutions	261	256	+2.0%	23.7%	23.9%	245	+6.6%	1,072	1,104	1,151
Other	218	202	+8.0%	25.0%	24.0%	230	-5.2%	841	872	879
Corporate	17	13	+34.0%	25.0%	18.7%	19	-8.3%	70	70	70
Fastweb	196			11.4%	#DIV/0!		n.m.		1,723	3,203
Revenues	**2,595**	**2,398**	**+8.2%**	**22.7%**	**24.8%**	**2,376**	**+9.2%**	**9,652**	**11,425**	**12,903**
Fixnet	473	322	+47.0%	25.0%	17.8%	477	-0.7%	1,806	1,894	1,884
margin (%)	48.7%	30.8%	+17.9ppt			49.1%	-0.4ppt	43.7%	48.5%	48.8%
Mobile	455	432	+5.2%	24.2%	24.0%	452	+0.6%	1,802	1,875	1,834
margin (%)	48.8%	49.0%	-0.2ppt			49.6%	-0.8ppt	50.9%	50.0%	49.0%
Solutions	18	19	-3.8%	23.7%	28.9%	18	+1.6%	66	77	81
margin (%)	7.0%	7.4%	-0.4ppt			7.3%	-0.3ppt	6.1%	7.0%	7.0%
Other		-		25.0%	-11.1%		+0.6ppt			
	17	13				11		118	70	176
margin (%)	8.0%	-6.4%	+14.4ppt			4.8%	+3.2ppt	14.0%	8.0%	20.0%
Corporate	6	20	-70.9%	25.0%	-333.3%	10	-41.9%	-6	23	23
margin (%)	33%	153.8%	-12047.8%			53%	-19.3ppt	0	33%	33%
Fastweb	68			10.5%			n.m.		654	1,291
margin (%)	35%								37.9%	40.3%
Reported EBITDA	**1,038**	**780**	**+33.1%**	**22.6%**	**20.6%**	**968**	**+7.2%**	**3,787**	**4,593**	**5,289**
margin (%)	40.0%	32.5%	+7.5ppt			40.7%	-0.7ppt	39.2%	40.2%	41.0%
Underlying EBITDA	**1,038**	**780**	**+33.1%**	**22.6%**	**20.6%**	**968**	**+7.2%**	**3,787**	**4,593**	**5,289**
margin (%)	40.0%	32.5%	+7.5ppt			40.7%	-0.7ppt	39.2%	40.2%	41.0%
Depreciation	-399	-355	+12.3%			-349	+14.2%	-1,435	-1,716	-1,806
Goodwill amortization	-					-	n.m.			
Intangible amortization	-					-	n.m.			
Reported EBIT	**640**	**425**	**+50.5%**	**22.2%**	**18.1%**	**619**	**+3.3%**	**2,352**	**2,877**	**3,482**
margin (%)	24.6%	17.7%	+6.9ppt			26.1%	-1.4ppt	24.4%	25.2%	27.0%
Underlying EBIT	**640**	**425**	**+50.5%**	**22.2%**	**18.1%**	**619**	**+3.3%**	**2,352**	**2,877**	**3,482**
margin (%)	24.6%	17.7%	+6.9ppt			26.1%	-1.4ppt	24.4%	25.2%	27.0%
Non-operating items	-					-	n.m.			
Associates		14				4	n.m.	30		
Net interest	-79	-12	+555.2%			-41	+91.8%	-50	-315	-265
Exceptional items	-					-	n.m.			
Pretax profit	**561**	**427**	**+31.4%**	**21.9%**	**18.3%**	**582**	**-3.6%**	**2,331**	**2,562**	**3,217**
Taxation	-134	-82	+63.8%			-115	+16.8%	-462	-604	-731
Tax rate	24%	19%	+4.7ppt			20%	+0.0pts	20%	24%	23%
Net extraordinary items		32					n.m.	36		
Minority interest	-8	-78	-90.0%			-6	+29.4%	-306	-31	-69
Reported net income	**419**	**299**	**+40.1%**	**21.7%**	**18.7%**	**461**	**-9.1%**	**1,599**	**1,927**	**2,417**
Underlying net income	**419**	**299**	**+40.1%**	**21.7%**	**19.1%**	**461**	**-9.1%**	**1,563**	**1,927**	**2,417**
Reported EPS	**8.09**	**5.27**	**+53.4%**	**21.7%**	**18.2%**	**8.90**	**-9.1%**	**28.92**	**37.20**	**46.65**
Underlying EPS	**8.09**	**5.27**	**+53.4%**	**21.7%**	**18.6%**	**8.90**	**-9.1%**	**28.27**	**37.20**	**46.65**
DPS		-						17.00	20.46	25.66
Reported Net Debt	**10,996**	**-1,202**				**4,081**	**+169.5%**	**4,379**	**9,829**	**8,287**
Net debt to Ebitda	2.9x	-0.3x	+3.2x			1.1x		1.2x	2.1x	1.6x
Capital expenditure	**400**	**291**	**+37.6%**	**22.4%**	**22.0%**	**315**	**+27.1%**	**1,324**	**1,787**	**1,691**
As a % of net sales	15.4%	12.1%	+3.3ppt			13.3%	+2.2ppt	13.7%	15.6%	13.1%

Source: Company Reports and Citigroup Investment Research

Tele2 (TEL2b.ST); Hold/High Risk (2H), target price SKr105

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(TEL2b.ST - SKr115.25; 2H)

Tele2 will report 2Q07 results on 25 July

- Expect limited updates on new asset disposals at results.
- Russian net additions remain strong while acquisition synergies and price rises help margin; accelerating German ARPU declines.

Divisional forecasts

- Swedish mobile. The reintroduction of handset subsidies in 2006 continues to drive revenue growth (+4% y-o-y vs. +0.5% in 2Q06) as Tele2 takes incremental market share excluding the -800k subs adjustment in the quarter. This growth comes at the expense of EBITDA margin (-6ppt to 38%).
- European businesses. We forecast Central Europe revenues -13% y-o-y. Heavy German mobile price cuts should further accelerate fixed-to-mobile substitution and CPS line loss (-150k q-o-q in Central Europe in total). In Southern Europe, ULL and MVNO subscriber growth (+100k and +70k q-o-q respectively) is sufficient to offset fixed line loss (revenues +11% y-o-y). Benelux revenues are expected to decline 4% y-o-y due to decline in CPS revenues (-40% y-o-y).
- Russian & Baltic mobile. In Russia we forecast 109% revenue growth. Russian subscriber growth is slowing but remains strong(457k 2Q07 vs. 644k in 1Q07) price rises and increased data usage drive ARPU +22% y-o-y to $5.4/month. Synergy benefits from integrating the regions acquired in 2007 drive continued Russian mobile margin expansion to 29.5% (+15ppt y-o-y).

Guidance

Our estimates are broadly in line with consensus vague company guidance.

- 2Q07 consensus: Revenues SKr13.0bn (CIR SKr13.2bn), EBITDA SKr1.65bn (CIR SKr1.66bn), Capex SKr1.3bn (CIR1.2bn), Net debt SKr16.7bn (CIR16.7bn)
- 2007 Revenues: Company guidance: increased y-o-y organic growth with significantly higher EBITDA (CIR: ex-disposal revenues +4.7%, EBITDA +13%).

Next events

- Ongoing disposals of assets that do not meet Tele2's long-term margin targets: 20% EBITDA for networks, 10% EBIT for resellers.

Outlook

We expect Tele2 to make a series of disposals through 2H07 including the majority of its MVNO units and either the Italian or German Fixed business. However much of the upside is already discounted in the share price (+c.55% in 12 months) in our view. The majority of the proceeds will likely be re-invested into Russian mobile, either through new licence purchases (scheduled for 2007) or through inorganic expansion. Geographic expansion should continue to drive Russian revenue growth though organic subscriber growth looks to have peaked in our view. Swedish mobile price stability set to continue through 2008.

Figure 34. Tele2 (continuing operations excl. French Fixed)– Quarterly Summary Financial Forecasts (SKr in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Nordic	3,946	3,862	+2.2%	25.5%	25.1%	3,874	+1.9%	15,402	15,479	15,591
Baltic & Russia	2,309	1,545	+49.5%	24.7%	22.8%	2,072	+11.4%	6,769	9,357	10,790
Central Europe	1,752	2,005	-12.6%	24.9%	24.7%	1,803	-2.8%	8,121	7,041	7,224
Southern Europe	2,853	3,694	-22.8%	24.8%	25.2%	2,727	+4.6%	14,677	11,482	12,374
Benelux	2,128	2,218	-4.1%	26.5%	24.5%	2,170	-1.9%	9,055	8,039	7,015
Services	170	158	+7.6%	29.4%	26.0%	191	-11.0%	607	577	595
Revenues	**13,158**	**13,482**	**-2.4%**	**25.3%**	**24.7%**	**12,837**	**+2.5%**	**54,631**	**51,974**	**53,589**
Nordic	870	904	-3.8%	25.5%	26.0%	798	+9.0%	3,480	3,407	3,736
Baltic & Russia	656	322	+103.7%	25.0%	21.4%	567	+15.7%	1,506	2,628	3,263
Central Europe	86	211	-59.1%	16.8%	27.7%	91	-5.2%	761	514	314
Southern Europe	-199	-150	+32.5%	24.2%	25.6%	-232	-14.3%	-585	-823	42
UK + Benelux	234	107	+118.6%	28.8%	13.1%	249	-6.1%	816	811	963
Internal + Other	11	3	+258.3%	25.0%	7.0%	15	-28.3%	43	43	43
Reported EBITDA	**1,658**	**1,397**	**+18.7%**	**25.2%**	**23.2%**	**1,488**	**+11.4%**	**6,021**	**6,580**	**8,361**
margin (%)	12.6%	10.4%	+2.2ppt			11.6%	+1.0ppt	11.0%	12.7%	15.6%
Underlying EBITDA	**1,658**	**1,345**	**+23.3%**	**25.2%**	**22.7%**	**1,488**	**+11.4%**	**5,925**	**6,580**	**8,361**
margin (%)	12.6%	10.0%	+2.6ppt			11.6%	+1.0ppt	10.8%	12.7%	15.6%
Depreciation	-1,117	-958	+16.6%			-1,069	+4.5%	-4,068	-4,139	-3,832
Goodwill amortization							n.m.			
Intangible amortization	-39	-19	+104.1%			-39		-3,345	-155	-163
Reported EBIT	**502**	**420**	**+19.6%**	**22.0%**	**-30.2%**	**380**	**+32.2%**	**-1,392**	**2,286**	**4,366**
margin (%)	3.8%	3.1%	+0.7ppt			3.0%	+0.9ppt	-2.5%	4.4%	8.1%
Underlying EBIT	**502**	**368**	**+36.5%**	**22.0%**	**20.3%**	**380**	**+32.2%**	**1,812**	**2,286**	**4,366**
margin (%)	3.8%	2.7%	+1.1ppt			3.0%	+0.9ppt	3.3%	4.4%	8.1%
Non-operating items							n.m.			
Associates							n.m.			
Net interest	-194	-106	+83.4%			-276	-29.6%	-524	-853	-679
Exceptional items							n.m.			
Pretax profit	**308**	**314**	**-2.0%**	**21.5%**	**-16.4%**	**104**	**+196.0%**	**-1,916**	**1,433**	**3,687**
Taxation	-77	-68	+13.2%			-22	+249.8%	-324	-301	-1,032
Tax rate	25%	22%	+3.3ppt			21%	+0.0pts	-17%	21%	28%
Net extraordinary items	-600					-88	+581.8%	-1,500	-88	
Minority interest	34	46	-25.3%			43	-20.1%	125	138	100
Reported net income	**-335**	**292**		**-28.3%**	**-8.1%**	**37**	**n.m.**	**-3,615**	**1,182**	**2,755**
Underlying net income	**265**	**256**	**+3.8%**	**20.9%**	**200.0%**	**125**	**+112.2%**	**128**	**1,270**	**2,755**
Reported EPS	**-0.75**	**0.66**		**-28.3%**	**-8.1%**	**0.08**	**n.m.**	**-8.14**	**2.66**	**6.20**
Underlying EPS	**0.60**	**0.58**	**+3.8%**	**20.9%**	**200.0%**	**0.28**	**+112.2%**	**0.29**	**2.86**	**6.20**
DPS	1.92							1.83	1.92	1.86
Reported Net Debt	**16,676**	**13,581**	**+22.8%**			**16,087**	**+3.7%**	**15,350**	**15,130**	**13,941**
Net debt to Ebitda	2.7x	2.1x	+0.6x			2.7x		2.6x	2.3x	1.7x
Capital expenditure	**1,212**	**1,374**	**-11.8%**	**24.0%**	**24.9%**	**1,173**	**+3.3%**	**5,520**	**5,058**	**4,706**
As a % of net sales	9.2%	10.2%	-1.0ppt			9.1%	+0.1ppt	10.1%	9.7%	8.8%

Source: Citigroup Investment Research

Telecom Italia (TLIT.MI); Hold/Medium Risk (2M); target €2.30

Analyst:
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Telecom Italia will report 2Q07 results on 24 July (after BoD meeting, typically post-4pm London time)

(TLIT.MI - €2.04; 2M)

- Limited news on strategic developments until the official change of control.
- Italian operations remain stable. TIM Brasil continues to take revenue share.

Divisional forecasts

- Italian Wireline (2Q07 revenues -6.6% y-o-y, EBITDA -11%). The exclusion of c€120m of non-geographic wholesale revenues from 1Q07 will still impact divisional revenues this period. Underlying DSL pricing remains stable, with Swisscom focusing on integrating Fastweb rather than market share gains in our view. We anticipate a 3% y-o-y fall in retail broadband market share although PSTN line loss should remain stable (at c.150k in 2Q). The corporate contracts wins seen this quarter are unlikely to impact until 2H07.
- TIM Italy (2Q07 revenue -2.5% y-o-y, EBITDA -10%). The negative impact of the Bersani decree (removing pre-paid recharge admin fees) seen in Q107 should soften this period as consumers continue to raise usage (volumes +9% in May according to the company). TIM should also be negatively impacted by the December 2006 changes to wholesale EU roaming charges, although these will not filter through to retail until 3Q07. All operators did initiate summer promotions earlier than in 2006, but these look less severe than in previous years. We expect EBITDA margins to fall 4% y-o-y to 46% (although TI no longer discloses this information).
- TIM Brasil (2Q07 revenue +32% y-o-y, EBITDA +55% y-o-y in Euro terms). TIM focused more on airtime prices, allowing Vivo attempting to win subscriber share in our view. In spite of the Mother's Day promotions, TIM's margins should continue to improve y-o-y to 23%.
- European Broadband (2Q07 revenues €397m, EBITDA €60m). Continued revenue uplift expected from consolidation of AOL Germany in March 2007, (30% q-o-q) growth. Margins should also grow by +c5ppts on Q107.
- Other issues. TI should use €300mn of its tax assets in 2Q07.

Guidance

Our estimates are at the low end of guidance for 2007 as well as for 2007-09.

- Company 2007 guidance - revenues +1-2% (CIR: +0.9%), "EBITDA margins -2-2.5ppts" (CIR: -2.4ppt), "EBIT margins -2.5-3ppts" (CIR:-3.5ppts).

Next events

- Controlling shareholders to appoint new directors (Summer 2007) and implement the new strategy (4Q07).
- F2M termination to €0.1 from €0.112 in 3Q07. Retail roaming cuts (2H07).

Outlook

Corporate issues will continue to dominate fundamentals in driving the TI share price in our view. We believe that Telefonica's consortium is likely to focus on capital returns to shareholders, given the lack of competitive pressure for a more aggressive VDSL network build. In Brazil, the threats from the local regulator to force a mandatory offer for the business should limit the risks of value transfer away from TI towards the controlling group in the near term.

Figure 35. Telecom Italia 2Q07 Results Check Sheet (Euros in millions, except per share data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Italian Fixed-line	4,029	4,313	-6.6%	25.4%	26.8%	3,989	+1.0%	16,073	15,846	15,619
Italian Mobile	2,547	2,612	-2.5%	24.9%	25.6%	2,365	+7.7%	10,210	10,210	9,892
Brazilian Mobile	397	223	+78.1%	26.7%	24.4%	304	+30.6%	915	1,486	1,799
European Broadband	1,168	885	+32.0%	23.7%	22.3%	1,100	+6.2%	3,964	4,926	5,263
International Mobile	63	54	+17.5%	26.1%	26.1%	58	+9.4%	207	243	292
Other	120	118	+2.0%	27.4%	26.8%	83	+45.0%	440	440	447
Revenues	**7,988**	**7,853**	**+1.7%**	**25.1%**	**25.1%**	**7,540**	**+5.9%**	**31,275**	**31,801**	**31,961**
Italian Fixed-line	1,733	1,944	-10.9%	26.1%	26.3%	1,718	+0.9%	7,393	6,639	6,447
margin (%)	43.0%	45.1%	-2.1ppt			43.1%	-0.1ppt	46.0%	41.9%	41.3%
Italian Mobile	1,171	1,301	-10.0%	24.7%	25.8%	1,135	+3.2%	5,042	4,748	4,501
margin (%)	46.0%	49.8%	-3.8ppt			48.0%	-2.0ppt	49.4%	46.5%	45.5%
Brazilian Mobile	60	12	+396.4%	23.6%	14.8%	30	+98.6%	81	253	405
margin (%)	15.0%	5.4%	+9.6ppt			9.9%	+5.1ppt	8.9%	17.0%	22.5%
European Broadband	292	173	+68.9%	24.7%	18.2%	269	+8.6%	950	1,182	1,368
margin (%)	25.0%	19.5%	+5.5ppt			24.5%	+0.5ppt	24.0%	24.0%	26.0%
International Mobile	-10	-21	-52.4%	100.0%	25.3%	-11	-9.1%	-83	-10	25
margin (%)	-15.8%	-38.9%	+23.1ppt			-19.0%	+3.2ppt	-40.1%	-4.1%	8.6%
Other	5	-8		25.0%	24.2%	-10	n.m.	-33	20	50
Reported EBITDA	**3,126**	**3,282**	**-4.8%**	**25.3%**	**25.5%**	**3,154**	**-0.9%**	**12,850**	**12,363**	**12,328**
margin (%)	39.1%	41.8%	-2.7ppt			41.8%	-2.7ppt	41.1%	38.9%	38.6%
Underlying EBITDA	**3,126**	**3,341**	**-6.4%**	**24.9%**	**26.5%**	**3,117**	**+0.3%**	**12,618**	**12,563**	**12,528**
margin (%)	39.1%	42.5%	-3.4ppt			41.3%	-2.2ppt	40.3%	39.5%	39.2%
Depreciation	-1,376	-1,397	-1.5%			-1,419	-3.0%	-5,339	-5,199	-5,206
Goodwill amortization							n.m.			
Intangible amortization		-9				-9	n.m.	-74	-100	-100
Reported EBIT	**1,750**	**1,876**	**-6.7%**	**24.8%**	**25.2%**	**1,726**	**+1.4%**	**7,437**	**7,064**	**7,021**
margin (%)	21.9%	23.9%	-2.0ppt			22.9%	-1.0ppt	23.8%	22.2%	22.0%
Underlying EBIT	**0**	**1,921**		**0.0%**	**26.5%**	**1,716**	**n.m.**	**7,245**	**7,164**	**7,121**
margin (%)	0.0%	24.5%	-24.5ppt			22.8%	-22.8ppt	23.2%	22.5%	22.3%
Non-operating items							n.m.			
Associates	14	13	+7.9%			29	-51.6%	51	56	62
Net interest	-550	-515	+6.8%			-456	+20.6%	-1,973	-2,415	-2,290
Exceptional items							n.m.			
Pretax profit	**1,214**	**1,374**	**-11.6%**	**25.8%**	**24.9%**	**1,299**	**-6.5%**	**5,515**	**4,705**	**4,793**
Taxation	-555	-649	-14.5%			-561	-1.1%	-2,519	-2,150	-2,205
Tax rate	46%	47%	-1.5ppt			43%	+0.0pts	46%	46%	46%
Net extraordinary items		35					n.m.	7		
Minority interest	3	5	-39.5%				n.m.	11	12	13
Reported net income	**662**	**765**	**-13.4%**	**25.8%**	**25.4%**	**738**	**-10.3%**	**3,014**	**2,567**	**2,602**
Underlying net income	**662**	**774**	**-14.4%**	**24.8%**	**25.1%**	**747**	**-11.3%**	**3,088**	**2,667**	**2,702**
Reported EPS	**0.03**	**0.04**	**-13.4%**	**25.8%**	**25.4%**	**0.04**	**-10.3%**	**0.16**	**0.13**	**0.13**
Underlying EPS	**0.03**	**0.04**	**-14.4%**	**24.8%**	**25.1%**	**0.04**	**-11.3%**	**0.16**	**0.14**	**0.14**
DPS		-						0.14	0.11	0.11
Reported Net Debt	**39,006**	**43,502**	**-10.3%**			**37,398**	**+4.3%**	**37,301**	**37,496**	**37,336**
Net debt to Ebitda	2.9x	3.3x				2.9x		3.0x	3.0x	3.0x
Capital expenditure	**1,315**	**1,624**	**-19.0%**	**25.0%**	**31.8%**	**1,160**	**+13.4%**	**5,114**	**5,260**	**4,924**
As a % of net sales	16.5%	20.7%	-4.2ppt			15.4%	+1.1ppt	16.4%	16.5%	15.4%

Source: Company Reports and Citigroup Investment Research

Telefonica (TEF.MC); Buy/Medium Risk (1M); target price €19.0

Analyst:
Terence Sinclair
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- Spain continues to perform well in both fixed and mobile.
- Continued margin pressure at O2 in both UK and Germany.
- Low probability of resolution to the Vivo shareholder dispute near term.

(TEF.MC - €17.07; 1M)

Telefonica will report 2Q07 results on 30th July (before market opens)

Divisional forecasts

- Spain (2Q07 revenue + 4% y-o-y, underlying EBITDA +15% y-o-y). In line with the regulatory statistics for May 2007, TEF will continue to take DSL market share in 2Q07. In our view, this is driven by the strong seasonal promotions (e.g. 8Mb/s DSL for €39/month). In mobile, the market remains relatively benign with Yoigo pulling back its marketing spend and Orange still not having an impact. Raised prices should drive mobile revenues up 3.4% vs. 1Q07. In fixed line underlying EBITDA margins should continue to slowly erode (-2ppts y-o-y to 45%) although headline numbers will be flattered by the lower restructuring charges (-c€300mn in 2Q06).

- Telefonica O2 (2Q07 revenue of €3.4bn -1% y-o-y, EBITDA -6.5%). Despite strong mobile subscriber growth in the UK and Germany (+8%, +9% y-o-y), we expect margins to remain under pressure (-1.9% y-o-y, no change y-o-y) as DT and Vodafone tariff cuts continue to erode O2's price leadership. German DSL is also likely to be amiss of subscriber targets for the same reasons.

- Latin America (2Q07 revenue 11.4% y-o-y, EBITDA +19.6%). Increased penetration (e.g. Brazil and Mexico have ca. 55% penetration) rather than incremental market share will drive top line growth (+23.4% y-o-y vs. 18.5% 2Q06). Another quarter of strong DSL growth (e.g. Argentina: 9% on 1Q07, Chile: 6% on 1Q07) is expected. Colombia and Ecuador will continue to struggle with market share loss.

Guidance

Our estimates are at the top end compared to company guidance.

- 2007 sales: 6-9% (CIR 8.3%), EBITDA 8-11% (CIR 10.5%), operating income 14% to 20% (CIR 17.2%), Capex c€7.8bn (CIR €7.6bn).

Next events

- Investor Day, 11th October in London.
- Spanish F2M termination rate cuts in October (8-9%).

Outlook

Telefonica continues to offer a combination of strong domestic cash generation and growth in Latam. The level of overall cash generation is threatened by competitive issues in fixed line (ONO) and mobile (Orange, Yoigo, MVNOs) but some of these risks may take a long time to damage Telefonica's generally high returns. These are likely to increase in both domestic and Latin America mobile operations, and to remain strong in the two fixed-line operations.

Figure 36. Telefonica Group Quarterly Summary Financial Forecasts (Euros in millions, except per share data)

	2Q07E	2Q06A	y-o-y	2Q07 of FYE	2Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Spain	5,080	4,893	+3.8%	24.8%	24.8%	5,033	+0.9%	19,750	20,476	20,705
Latin America	4,889	4,390	+11.4%	24.9%	24.3%	4,685	+4.4%	18,088	19,618	21,697
o2	3,398	3,418	-0.6%	24.3%	26.0%	3,534	-3.8%	13,159	13,962	14,149
Other	499	516	-3.2%	41.1%	27.1%	495	+0.9%	1,904	1,214	400
Revenues	**13,866**	**13,217**	**+4.9%**	**25.1%**	**25.0%**	**13,747**	**+0.9%**	**52,901**	**55,271**	**56,951**
Spain	2,395	2,074	+15.5%	25.8%	24.0%	2,439	-1.8%	8,647	9,295	9,572
margin (%)	47.1%	42.4%	+4.8ppt			48.5%	-1.3ppt	43.8%	45.4%	46.2%
Latin America	1,762	1,474	+19.6%	23.9%	22.4%	1,713	+2.9%	6,572	7,363	8,036
margin (%)	36.0%	33.6%	+2.5ppt			36.6%	-0.5ppt	36.3%	37.5%	37.0%
o2	935	1,001	-6.5%	24.2%	27.0%	933	+0.3%	3,708	3,866	4,250
margin (%)	27.5%	29.3%	-1.8ppt			26.4%	+1.1ppt	28.2%	27.7%	30.0%
Other	40	36	+11.1%	23.6%	18.1%	21	+90.5%	199	169	-200
margin (%)	8.0%	7.0%	+1.0ppt			4.2%	+3.8ppt	10.5%	14.0%	-50.0%
Reported EBITDA	**5,133**	**4,585**	**+11.9%**	**24.8%**	**24.0%**	**5,106**	**+0.5%**	**19,126**	**20,693**	**21,659**
margin (%)	37.0%	34.7%	+2.3ppt			37.1%	-0.1ppt	36.2%	37.4%	38.0%
Underlying EBITDA	**5,133**	**4,585**	**+11.9%**	**24.8%**	**24.0%**	**5,106**	**+0.5%**	**19,126**	**20,693**	**21,659**
margin (%)	37.0%	34.7%	+2.3ppt			37.1%	-0.1ppt	36.2%	37.4%	38.0%
Depreciation	-2,345	-2,220	+5.6%			-2,396	-2.1%	-8,852	-8,678	-8,555
Goodwill amortization		-213					n.m.	-852	-882	-882
Intangible amortization							n.m.			
Reported EBIT	**2,788**	**2,152**	**+29.6%**	**25.0%**	**22.8%**	**2,710**	**+2.9%**	**9,422**	**11,133**	**12,221**
margin (%)	20.1%	16.3%	+3.8ppt			19.7%	+0.4ppt	17.8%	20.1%	21.5%
Underlying EBIT	**2,788**	**2,152**	**+29.6%**	**25.0%**	**22.8%**	**2,710**	**+2.9%**	**9,422**	**11,133**	**12,221**
margin (%)	20.1%	16.3%	+3.8ppt			19.7%	+0.4ppt	17.8%	20.1%	21.5%
Non-operating items							n.m.			
Associates	35	18	+98.9%			35		77	140	275
Net interest	-719	-669	+7.5%			-768	-6.4%	-2,734	-2,872	-2,259
Exceptional items							n.m.			
Pretax profit	**2,104**	**1,501**	**+40.2%**	**25.0%**	**22.2%**	**1,977**	**+6.4%**	**6,765**	**8,401**	**10,237**
Taxation	-586	-272	+115.5%			-656	-10.6%	-1,781	-2,320	-2,452
Tax rate	28%	18%	+9.7ppt			33%	-0.1pts	26%	28%	24%
Net extraordinary items		9					n.m.	1,595		
Minority interest	-70	-103	-31.8%			-65	+7.7%	-346	-250	-275
Reported net income	**1,448**	**1,135**	**+27.6%**	**24.8%**	**18.2%**	**1,256**	**+15.3%**	**6,233**	**5,831**	**7,510**
Underlying net income	**1,448**	**1,126**	**+28.6%**	**24.8%**	**24.3%**	**1,256**	**+15.3%**	**4,638**	**5,831**	**7,510**
Reported EPS	**0.29**	**0.24**	**+22.5%**	**24.6%**	**18.5%**	**0.26**	**+13.3%**	**1.30**	**1.20**	**1.55**
Underlying EPS	**0.29**	**0.24**	**+23.5%**	**24.6%**	**24.6%**	**0.26**	**+13.3%**	**0.97**	**1.20**	**1.55**
DPS								0.60	0.67	0.84
Reported Net Debt	**48,438**	**23,992**	**+101.9%**			**30,067**	**+61.1%**	**52,145**	**46,630**	**40,515**
Net debt to Ebitda	2.3x	1.3x				1.5x		1.6x	2.3x	1.9x
Capital expenditure	**1,735**	**1,689**	**+2.7%**	**23.1%**	**24.7%**	**1,942**	**-10.6%**	**6,828**	**7,505**	**7,227**
As a % of net sales	12.5%	12.8%	-0.3ppt			14.1%	-1.6ppt	12.9%	13.6%	12.7%

Source: Company Reports and Citigroup Investment Research

Telekom Austria (TELA.VI); Hold/Medium Risk (2M), target €19.80

Analyst:
James Rivett
(44-20) 7986 4236

(TELA.VI - €18.52; 2M)

Telekom Austria will report 2Q07 results on 22 August (6.30 am UK time)

- Still no benefits from consolidation in Austrian mobile. In Bulgaria, expect continued market share erosion from Cosmote.
- FY07-10 EBITDA CAGR guidance raised c.15% in July to 1.7-2.2% despite EU roaming regulation impact.

Divisional forecasts

- Wireline (2Q07E revenues –4% y-o-y, EBITDA –8%): Traditional line loss looks stable in our view (-60k in 2Q07). Telekom Austria continues to win customers (+15k q-o-q) with its low-end DSL offerings (€20/month for 512kbps). The negative mix effect should hurt 2Q07 margins (-1.6ppt y-o-y to 39%).
- Austrian Mobile (2Q07E revenues -0.5% y-o-y, EBITDA -1.5%): Price pressure most acute in post-paid (CIR est blended ARPU –13% y-o-y) as ONE and T-Mobile cut prices. (CIR margin 34.5%, -50ppt y-o-y). Pre-paid pricing remains relatively stable.
- International mobile (2Q07E revenues +9.1% y-o-y, EBITDA +8.0% excl. Serbian start-up losses): In Bulgaria, low-end aggression from Cosmote continues to hurt market share (-30bps q-o-q to 50.8% 2Q07E) and ARPU (-6% y-o-y). However, penetration growth (150bps q-o-q) drives revenues +11% y-o-y. We forecast margins -1.8ppt y-o-y (57%). We forecast €15m of Serbian losses.

Guidance

FY07 estimates slightly ahead of company guidance from FY06 results (neither include EU Roaming Regulation impact):

- FY07 “stable development” in revenues (flat) (CIR: +0.9%).
- EBITDA company guides margin -1.5ppt (CIR: -1.1ppt).
- Net Income “stable development” (flat) (CIR: -1%).

Next events

- Austrian mobile termination rate cuts (July 2007) impact 3Q07.
- New government coalition’s decision on the sale of its 25% stake in the group (earliest 1H08).
- Bosnia & Herzegovina acquisition (2H07?).

Outlook

April’s capital returns announcement removes a big positive catalyst. However, Bulgarian and domestic mobile margin resilience as well as domestic fixed share gains offer minor forecast upgrade potential through the year in our view. New long-term guidance announced in July reassures on two key areas of investor concern, Bulgarian margin sustainability (TKA guides “low 50’s%, CIR 51% 2010E) and roaming regulatory impact. The sale of the Austrian Government’s 25% stake is very unlikely over the next 12 months in our view.

Figure 37. Telekom Austria Quarterly Summary Financial Forecasts (Euros in millions, except per share data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Wireline	499	519	-4.0%	24.5%	24.5%	511	-2.4%	2,120	2,039	2,011
Domestic Mobile	420	422	-0.5%	24.2%	24.4%	418	+0.5%	1,727	1,735	1,735
Croatian Mobile	119	117	+2.2%	24.0%	24.6%	102	+16.6%	475	497	502
Bulgarian Mobile	160	144	+11.3%	25.6%	24.7%	142	+13.1%	584	625	634
Other	38	28	+36.0%	24.7%	23.9%	32	+18.6%	117	154	224
Eliminations	-60	-61	-1.3%	24.0%	23.2%	-59	+1.5%	-263	-250	-220
Revenues	**1,176**	**1,169**	**+0.6%**	**24.5%**	**24.6%**	**1,146**	**+2.7%**	**4,760**	**4,800**	**4,886**
Wireline	180	195	-8.0%	24.8%	26.1%	193	-7.1%	748	724	724
margin (%)	36.0%	37.6%	-1.6ppt			37.8%	-1.8ppt	35.3%	35.5%	36.0%
Domestic Mobile	145	147	-1.5%	23.9%	24.2%	161	-10.1%	609	607	607
margin (%)	34.5%	34.9%	-0.4ppt			38.6%	-4.1ppt	35.3%	35.0%	35.0%
Croatian Mobile	47	47	-0.1%	24.0%	24.5%	38	+22.9%	191	194	196
margin (%)	39.0%	39.9%	-0.9ppt			37.0%	+2.0ppt	40.1%	39.0%	39.0%
Bulgarian Mobile	91	85	+7.9%	25.6%	24.9%	82	+11.8%	340	356	352
margin (%)	57.0%					57.7%	-0.7ppt	58.3%	57.0%	55.5%
Other	-3	8		46.1%	20.8%	6	n.m.	37	-7	14
Eliminations	-3	-4	-16.7%	n/s	20.1%	-5	-43.4%	-18		
Reported EBITDA	**456**	**478**	**-4.5%**	**24.3%**	**25.0%**	**461**	**-1.1%**	**1,907**	**1,874**	**1,893**
margin (%)	38.8%	40.8%	-2.1ppt			40.2%	-1.5ppt	40.1%	39.0%	38.7%
Underlying EBITDA	**456**	**478**	**-4.5%**	**24.3%**	**25.0%**	**461**	**-1.1%**	**1,907**	**1,874**	**1,893**
margin (%)	38.8%	40.8%	-2.1ppt			40.2%	-1.5ppt	40.1%	39.0%	38.7%
Depreciation	-268	-285	-6.1%			-264	+1.3%	-1,034	-984	-954
Goodwill amortization							n.m.			
Intangible amortization							n.m.	-100	-100	-91
Reported EBIT	**188**	**193**	**-2.1%**	**23.9%**	**24.9%**	**197**	**-4.3%**	**772**	**790**	**848**
margin (%)	16.0%	16.5%	-0.4ppt			17.2%	-1.2ppt	16.2%	16.5%	17.4%
Underlying EBIT	**188**	**193**	**-2.1%**	**23.9%**	**24.9%**	**197**	**-4.3%**	**772**	**790**	**848**
margin (%)	16.0%	16.5%	-0.4ppt			17.2%	-1.2ppt	16.2%	16.5%	17.4%
Non-operating items	1					0	+150.0%	0	3	3
Associates		0					n.m.	-1		
Net interest	-31	-28	+9.8%			-29	+7.1%	-114	-99	-75
Exceptional items							n.m.			
Pretax profit	**159**	**164**	**-3.5%**	**22.8%**	**25.0%**	**169**	**-5.9%**	**658**	**694**	**776**
Taxation	-32	-34	-5.3%			-35	-9.6%	-96	-139	-155
Tax rate	20%	20%	-0.4ppt			21%	-0.0pts	15%	20%	20%
Net extraordinary items							n.m.			
Minority interest							n.m.			
Reported net income	**127**	**131**	**-3.0%**	**22.8%**	**23.3%**	**133**	**-4.9%**	**562**	**555**	**621**
Underlying net income	**127**	**131**	**-3.0%**	**22.8%**	**23.3%**	**133**	**-4.9%**	**562**	**555**	**621**
Reported EPS	**0.28**	**0.28**	**+1.7%**	**23.2%**	**23.2%**	**0.29**	**-3.2%**	**1.19**	**1.21**	**1.35**
Underlying EPS	**0.28**	**0.28**	**+1.7%**	**23.2%**	**23.2%**	**0.29**	**-3.2%**	**1.19**	**1.21**	**1.35**
DPS	-	-				-		0.75	0.78	0.88
Reported Net Debt	**3,272**	**3,096**	**+5.7%**			**3,004**	**+8.9%**	**3,169**	**3,223**	**2,551**
Net debt to Ebitda	**1.8x**	**1.7x**	**+0.0x**			**1.5x**		**1.7x**	**1.7x**	**1.3x**
Capital expenditure	**148**	**151**	**-2.2%**	**21.3%**	**15.2%**	**167**	**-11.7%**	**997**	**695**	**633**
As a % of net sales	12.6%	12.9%	-0.4ppt			14.6%	-2.0ppt	20.9%	14.5%	12.9%

Source: Company Reports and Citigroup Investment Research

Telenor (TEL.OL); Buy/High Risk (1H), target price NKr145.00

Analyst:
James Rivett
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(TEL.OL - NKr111.50; 1H)

Telenor will report 2Q07 results on 24 July (6 am UK time)

- Nordic: Norwegian mobile tariff cuts; cost-cutting holding 2Q07 Norwegian fixed margins stable.
- International mobile: Pakistan EBITDA positive helps offset intensifying Bangladeshi price competition.
- Buyback to restart.

Divisional forecasts

- Norwegian fixed (1Q07 revenues -4.6% y-o-y, EBITDA -2.8%) Broadband pricing stability is not enough to offset traditional voice revenue declines of 13% y-o-y. Our forecasts assume Telenor has resolved the customer service problems from 1Q07. Our forecasts assume the restructuring benefits keep margins broadly flat y-o-y at 35.5%.
- Nordic mobile (revenues +2.7%, EBITDA +2.1%). In Norway, a wave of tariff reductions since 4Q06 dampens top-line growth (+0.1% y-o-y vs. +2.2% 1Q07). In the short term, higher SACs but seasonally lower gross additions should drive further margin compression(CIR 37.5%, -4.2ppt y-o-y vs. -3.7ppt 1Q07). Our forecasts assume stability in the other Nordic markets.
- International mobile: In Pakistan, the benefits of adding c.1m more customers than the market expected in 4Q06 should come through in 2Q07, as new customer usage moves in line with the existing base. The unit should also turn EBITDA positive for the first time. In Bangladesh, continued aggressive price competition ahead of Warid's market entry dampens revenue growth to 21% (vs. 34% in 1Q07).

Guidance

Our FY07E estimates are moderately lower than Telenor's guidance given in March 2007. Our forecasts for 2Q07 are broadly inline with consensus collated by the company on 12 July.

- FY07E Company Guidance ex-Kyivstar: Revenue growth 3-5% (CIR: 1.6%), EBITDA margins c32% (CIR: 32.5%), capex to sales c20% (CIR: 21%).
- 2Q07 company provided consensus: Revenues NKr23.0bn (CIR: NKr22.7bn), EBITDA NKr7.1bn (CIR: 7.1bn), EBIT NKr3.8bn (CIR: 4.0bn).

Next events

- Resumption of the buyback of up to 10% of equity (3Q07).
- Vietnam licence sale (2007).

Outlook

Given that resolution of the Alfa dispute seems unlikely, the onus will be on the other international assets to deliver in 2H07. Longer term, we see a potential further 10-15% FY09 upgrades for international EBITDA as margins remain stronger for longer. In the Nordic markets, the fixed-line restructuring plan offers significant upside – Telenor's NKr10bn Nordic FCF target for FY10 represents an 8% group upgrade to consensus. Unfortunately price competition in Bangladeshi and Norwegian mobile is unlikely to slow. In addition, the launch of China Mobile in Pakistan could also disrupt the market.

Figure 38. Telenor Quarterly Summary Financial Forecasts (NKr in millions, except per share data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Telenor Mobil - Norway	3,276	3,273	+0.1%	24.8%	25.1%	3,172	+3.3%	13,062	13,225	13,161
Sonofon - Denmark	1,422	1,347	+5.6%	24.0%	24.0%	1,451	-2.0%	5,601	5,923	6,449
Telenor Sweden	1,516	1,430	+6.0%	24.5%	n/a	1,540	-1.6%	5,898	6,187	6,337
Kyivstar - Ukraine		2,580			23.5%		n.m.	10,956		
Pannon - Hungary	1,429	1,427	+0.2%	23.6%	24.0%	1,503	-4.9%	5,951	6,056	6,225
DiGi.Com - Malaysia	1,722	1,544	+11.5%	24.5%	24.2%	1,798	-4.2%	6,373	7,021	7,708
Other Mobile	5,766	3,294	+75.1%	23.9%	21.9%	5,613	+2.7%	15,075	24,095	28,747
Fixed	5,047	4,999	+1.0%	25.1%	25.2%	5,023	+0.5%	19,874	20,136	20,021
Broadcast	1,718	1,564	+9.9%	25.0%	24.8%	1,700	+1.1%	6,309	6,865	7,448
Other & Eliminations	766	1,122	-31.7%	25.2%	56.7%	646	+18.6%	1,978	3,043	1,180
Revenues	**22,664**	**22,580**	**+0.4%**	**24.5%**	**24.8%**	**22,446**	**+1.0%**	**91,077**	**92,550**	**97,276**
Telenor Mobil - Norway	1,229	1,365	-10.0%	24.1%	24.8%	1,233	-0.4%	5,494	5,092	5,067
margin (%)	+37.5%	+41.7%	-4.2ppt			+38.9%	-1.4ppt	+42.1%	+38.5%	+38.5%
Sonofon - Denmark	377	307	+22.8%	25.0%	22.2%	380	-0.8%	1,380	1,510	1,677
margin (%)	+26.5%	+22.8%	+3.7ppt			+26.2%	+0.3ppt	+24.6%	+25.5%	+26.0%
Telenor Sweden	349	241	+44.7%	24.5%	n/a	334	+4.4%	1,108	1,423	1,584
margin (%)	+23.0%	n/a	n/a			+21.7%	+1.3ppt	n/a	+23.0%	+25.0%
Kyivstar - Ukraine		1,596			24.5%		n.m.	6,516		
margin (%)	n.m.	+61.9%	n.m.				n.m.	+59.5%	n.m.	n.m.
Pannon - Hungary	565	567	-0.4%	24.5%	25.7%	613	-7.9%	2,205	2,301	2,303
margin (%)	+39.5%	+39.7%	-0.2ppt			+40.8%	-1.3ppt	+37.1%	+38.0%	+37.0%
DiGi.Com - Malaysia	741	700	+5.8%	22.7%	23.8%	876	-15.5%	2,945	3,266	3,674
margin (%)	43.0%	45.3%	-2.3ppt			48.7%	-5.7ppt	46.2%	46.5%	47.7%
Other Mobile	1,585	1,134	+39.7%	19.6%	19.7%	1,552	+2.1%	5,748	8,095	9,981
Fixed	1,601	1,567	+2.2%	26.1%	25.8%	1,587	+0.9%	6,066	6,134	6,309
margin (%)	31.7%	31.3%	+0.4ppt			31.6%	+0.1ppt	30.5%	30.5%	31.5%
Broadcast	438	437	+0.3%	24.9%	27.5%	375	+16.8%	1,590	1,760	2,268
Other & Eliminations	116	-99		25.3%	27.1%	85	+36.3%	-365	457	397
Reported EBITDA	**6,999**	**7,815**	**-10.4%**	**23.3%**	**24.2%**	**6,925**	**+1.1%**	**32,353**	**30,039**	**33,260**
margin (%)	30.9%	34.6%	-3.7ppt			30.9%	+0.0ppt	35.5%	32.5%	34.2%
Underlying EBITDA	**6,999**	**7,815**	**-10.4%**	**23.3%**	**24.0%**	**7,043**	**-0.6%**	**32,535**	**30,039**	**33,260**
margin (%)	30.9%	34.6%	-3.7ppt			31.4%	-0.5ppt	35.7%	32.5%	34.2%
Depreciation	-1,834	-2,074	-11.6%			-1,986	-7.6%	-8,938	-8,291	-8,240
Goodwill amortization		-88					n.m.			
Intangible amortization	-1,350	-1,354	-0.3%			-1,464	-7.8%	-5,783	-5,783	-5,783
Reported EBIT	**3,815**	**4,299**	**-11.3%**	**23.9%**	**24.4%**	**3,475**	**+9.8%**	**17,632**	**15,964**	**19,237**
margin (%)	16.8%	19.0%	-2.2ppt			15.5%	+1.4ppt	19.4%	17.2%	19.8%
Underlying EBIT	**3,815**	**4,299**	**-11.3%**	**23.9%**	**24.4%**	**3,475**	**+9.8%**	**17,632**	**15,964**	**19,237**
margin (%)	16.8%	19.0%	-2.2ppt			15.5%	+1.4ppt	19.4%	17.2%	19.8%
Non-operating items		-					n.m.			
Associates	745	362	+105.8%			386	+93.0%	2,353	2,922	3,217
Net interest	-200	-724	-72.4%			223	n.m.	1,467	-2,270	-1,802
Exceptional items							n.m.			
Pretax profit	**4,360**	**3,937**	**+10.7%**	**26.2%**	**18.4%**	**4,084**	**+6.8%**	**21,452**	**16,616**	**20,652**
Taxation	-1,177	-1,063	+10.7%			-1,258	-6.4%	-3,206	-4,486	-5,576
Tax rate	27%	27%	-0.0ppt			31%	-0.0pts	15%	27%	27%
Net extraordinary items						38	n.m.	155		
Minority interest	-290	-590	-50.8%			-298	-2.7%	-2,578	-1,165	-1,339
Reported net income	**2,893**	**2,284**	**+26.7%**	**26.4%**	**14.4%**	**2,566**	**+12.7%**	**15,823**	**10,965**	**13,736**
Underlying net income	**2,893**	**2,387**	**+21.2%**	**27.9%**	**20.7%**	**2,575**	**+12.3%**	**11,509**	**10,382**	**13,751**
Reported EPS	**1.72**	**1.35**	**+27.9%**	**26.4%**	**14.3%**	**1.53**	**+12.7%**	**9.41**	**6.52**	**8.17**
Underlying EPS	**1.72**	**1.41**	**+22.4%**	**27.9%**	**20.5%**	**1.53**	**+12.3%**	**6.85**	**6.18**	**8.18**
DPS	-	-				-		2.50	2.61	4.09
Reported Net Debt	**48,411**	**38,210**	**+26.7%**			**42,320**	**+14.4%**	**43,210**	**44,865**	**42,417**
Net debt to Ebitda	1.5x	1.4x	+0.0x			1.3x		1.3x	1.5x	1.3x
Capital expenditure	**4,273**	**4,426**	**-3.5%**	**21.9%**	**23.4%**	**4,114**	**+3.9%**	**18,934**	**19,471**	**19,048**
As a % of net sales	18.9%	19.6%	-0.7ppt			18.3%	+0.5ppt	20.8%	21.0%	19.6%

Source: Company Reports and Citigroup Investment Research

TeliaSonera (TLSN.ST); Hold/Medium Risk (2M), target price SKr60.0

Analyst:
James Rivett
(44-20) 7986 4236

(TLSN.ST - SKr53.50; 2M)

TeliaSonera will report 2Q07results on 27 July (6.30am London time)

- Limited strategic changes expected given search for new CEO.
- Aggressive competition in Norwegian mobile and Swedish fixed offsets benefits of continued stability in Swedish mobile this quarter.

Divisional forecasts

- Swedish Mobile (2Q07 Revenues +2.5% y-o-y, Underlying EBITDA +20%). There have been very few consumer tariff changes since January. Our analysis suggests that handset subsidies are also falling, helping margins rise 0.5ppt q-o-q to 55.5%.
- Swedish Fixed (2Q07 Revenues -2.5% y-o-y, Underlying EBITDA +5%). We believe broadband competition has intensified in 2Q07 with Comhem and TDC cutting prices by c.30%. Margins (+2.5ppts y-o-y) should be supported by lower IPTV launch costs (SKr100m) and benefits from the "lumpy" restructuring programme.
- Other Nordic (2Q07 revenues 5% y-o-y, EBITDA 17%). In Finland, the re-launch of Sonera's low-end mobile brands should help stem the market share loss in recent quarters. We forecast mobile revenues +2.6% y-o-y with continued EBITDA margin expansion (to 42.5% vs. 37% in 1Q07). In Norwegian mobile, aggressive tariff cuts from most operators (both pre-paid and post-paid) hurt top line growth (we forecast -2% y-o-y vs. flat in 1Q07).
- International. Fintur continues to see strong subscriber growth at 600k net adds (versus 596k in 1Q07, 480k in 4Q06), driving revenues +9% y-o-y. Margins (-150bps y-o-y) should still be negatively impacted by the new entrant launch in Kazakhstan. In Spain, yoigo reached 175k subscribers as at 2Q07 (+90k q-o-q) with c.€25 ARPU on our estimates. EBITDA losses should be limited to SKr-200m as the company cut marketing spend towards the end of the quarter.

Guidance

We are moderately below consensus for the 2Q07 results.

- Revenues SKr23.6bn (CIR: SKr23.5bn).
- Underlying EBITDA SKr7.8bn (CIR SKr7.6bn).

Next events

- CEO appointment (Sept 2007).
- Clarity on Finnish Government's intentions on its 13.7% holding (2H07).
- Russian and Turkish shareholder disputes (4Q07 at the earliest).

Outlook

We are unlikely to see any material change in strategy until a new CEO is in place (six to twelve months away). In Sweden, the Fixed margin underperformance in 1Q07 was seasonal in our view and will likely reverse in 2H07. Mobile pricing stability should remain. Internationally, resolution to the disputes with TeliaSonera's partners in Russia and Turkey (c25% of our SoP) is more likely with a new CEO, but still a 2008 event in our view. We would rather TeliaSonera took control in Russia (followed by an IPO) rather than in Turkey.

Figure 39. TeliaSonera Quarterly Summary Financial Forecasts (SKr in millions, except per share data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Swedish Mobile	2,417	2,358	+2.5%	25.3%	25.4%	2,276	+6.2%	9,295	9,541	9,575
Finland Mobile	2,086	2,033	+2.6%	25.3%	25.2%	1,964	+6.2%	8,083	8,250	8,614
Total Mobile Services	9,814	9,554	+2.7%	25.0%	25.6%	9,199	+6.7%	37,275	39,225	40,545
Swedish Fixed Line	3,795	3,892	-2.5%	25.9%	25.6%	3,725	+1.9%	15,203	14,630	14,388
Finland Fixed Line	1,003	941	+6.5%	25.4%	24.4%	1,017	-1.4%	3,857	3,948	3,724
Total Fixed Line	8,416	8,222	+2.4%	24.7%	24.4%	8,577	-1.9%	33,725	34,090	33,413
Enterprise Solutions	2,976	2,834	+5.0%	25.7%	25.4%	2,778	+7.1%	11,178	11,569	11,743
Eurasia	2,230	2,046	+9.0%	23.7%	24.1%	2,064	+8.0%	8,505	9,391	11,073
Other	80	81	-1.2%	20.0%	21.5%	106	-24.5%	377	400	313
Revenues	**23,516**	**22,737**	**+3.4%**	**24.8%**	**25.0%**	**22,724**	**+3.5%**	**91,060**	**94,674**	**97,087**
Swedish Mobile	1,366	1,122	+21.7%	28.6%	26.7%	1,251	+9.2%	4,195	4,771	4,309
margin (%)	56.5%	47.6%	891.7%			55.0%	+1.5ppt	45.1%	50.0%	45.0%
Finland Mobile	887	586	+51.3%	26.9%	24.5%	803	+10.4%	2,389	3,300	3,618
margin (%)	42.5%	28.8%	1367.6%			+40.9%	+1.6ppt	29.6%	40.0%	42.0%
Total Mobile Services	4,033	3,664	+10.1%	28.0%	27.3%	3,479	+15.9%	13,427	14,379	15,651
margin (%)	41.1%	38.4%	274.4%			+37.8%	+3.3ppt	36.0%	36.7%	38.6%
Swedish Fixed Line	1,499	1,736	-13.7%	31.0%	25.0%	1,380	+8.6%	6,945	4,828	5,036
margin (%)	39.5%	44.6%	-510.4%			+37.0%	+2.5ppt	45.7%	33.0%	35.0%
Finland Fixed Line	381	356	+7.0%	24.1%	23.9%	298	+27.8%	1,492	1,579	1,453
margin (%)	38.0%	37.8%	16.8%			+29.3%	+8.7ppt	38.7%	40.0%	39.0%
Total Fixed Line	3,231	3,029	+6.7%	28.0%	23.7%	2,863	+12.8%	12,783	11,530	11,669
Enterprise Solutions	45	62	-28.0%	25.7%	75.6%	34	+31.3%	82	174	587
Eurasia	1,204	1,118	+7.7%	24.2%	23.5%	1,146	+5.1%	4,759	4,969	5,805
Other	-63	-72	-13.2%	25.0%	-116.1%	-69	-9.4%	62	-250	-229
Reported EBITDA	**7,246**	**7,801**	**-7.1%**	**23.5%**	**25.1%**	**7,453**	**-2.8%**	**31,113**	**30,801**	**33,484**
margin (%)	30.8%	34.3%	-3.5ppt			32.8%	-2.0ppt	34.2%	32.5%	34.5%
Underlying EBITDA	**7,616**	**7,928**	**-3.9%**	**23.4%**	**24.6%**	**7,583**	**+0.4%**	**32,266**	**32,551**	**33,484**
margin (%)	32.4%	34.9%	-2.5ppt			33.4%	-1.0ppt	35.4%	34.4%	34.5%
Depreciation	-2,414	-2,477	-2.5%			-2,473	-2.4%	-9,666	-9,800	-10,101
Goodwill amortization							n.m.			
Intangible amortization	-387	-387				-380	+1.8%	-1,537	-1,537	-1,537
Reported EBIT	**4,445**	**4,937**	**-10.0%**	**22.8%**	**24.8%**	**4,600**	**-3.4%**	**19,910**	**19,464**	**21,846**
margin (%)	18.9%	21.7%	-2.8ppt			20.2%	-1.3ppt	21.9%	20.6%	22.5%
Underlying EBIT	**4,445**	**4,937**	**-10.0%**	**22.8%**	**24.8%**	**4,600**	**-3.4%**	**19,910**	**19,464**	**21,846**
margin (%)	18.9%	21.7%	-2.8ppt			20.2%	-1.3ppt	21.9%	20.6%	22.5%
Non-operating items							n.m.			
Associates	1,415	1,242	+13.9%			1,461	-3.2%	5,579	5,800	6,300
Net interest	-187	-150	+24.9%			-129	+45.2%	-263	-749	-1,323
Exceptional items							n.m.			
Pretax profit	**5,672**	**6,029**	**-5.9%**	**23.1%**	**23.9%**	**5,932**	**-4.4%**	**25,226**	**24,515**	**26,823**
Taxation	-1,300	-1,210	+7.4%			-1,350	-3.7%	-5,943	-5,585	-6,375
Tax rate	23%	20%	+2.9ppt			23%	+0.0pts	24%	23%	24%
Net extraordinary items							n.m.			
Minority interest	-650	-505	+28.8%			-606	+7.3%	-2,296	-2,526	-2,778
Reported net income	**3,722**	**4,314**	**-13.7%**	**22.7%**	**25.4%**	**3,976**	**-6.4%**	**16,987**	**16,404**	**17,670**
Underlying net income	**4,092**	**4,441**	**-7.9%**	**22.5%**	**27.0%**	**4,106**	**-0.3%**	**16,440**	**18,154**	**17,670**
Reported EPS	**0.83**	**0.96**	**-13.7%**	**22.7%**	**25.4%**	**0.89**	**-6.4%**	**3.78**	**3.65**	**3.93**
Underlying EPS	**0.91**	**0.99**	**-7.9%**	**22.5%**	**27.0%**	**0.91**	**-0.3%**	**3.66**	**4.04**	**3.93**
DPS	-	-				-		6.30	4.05	4.19
Reported Net Debt	**37,330**	**23,621**	**+58.0%**			**12,899**	**+189.4%**	**14,957**	**37,249**	**45,364**
Net debt to Ebitda	1.2x	0.8x				0.4x		0.5x	1.1x	1.4x
Capital expenditure	**2,805**	**2,395**	**+17.1%**	**23.4%**	**22.0%**	**2,367**	**+18.5%**	**10,905**	**11,998**	**11,171**
As a % of net sales	11.9%	10.5%	+1.4ppt			10.4%	+1.5ppt	12.0%	12.7%	11.5%

Source: Company Reports and Citigroup Investment Research

United Internet (UTDI.DE); Buy/Medium Risk (1M); target €19.0

Analyst:
Benjamin Kluftinger
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- We expect to see another quarter of strong profitability since United Internet kept a lid on marketing spent ahead of its launch of its "Komplett" product (including the telephony line) in early July. As a result, DSL net adds will also be weak – we only expect 90k. However, we are confident that management will reiterate its 500k net add target for 2007 at the analyst meeting on the results day.

(UTDI.DE - €15.01; 1M)

- Top-line should continue to show good y-o-y growth. Importantly, the DSL net additions of 3Q06 which had received a €10 discount for six months are now also largely fully contributing, which will support top line and profits. Other business lines such as web-hosting and portal are continuing their steady growth. Adlink, however, will remain below management expectations in 2Q with only c20% y-o-y growth, but we do expect a reiteration of its 30% FY growth targets since the issues at Affilinet have been tackled by now.

United Internet will report 2Q07 results on 10th August (morning)

Divisional forecasts

We expect 2Q07 group sales of €359m, EBITDA of €73m and EBT of €59.4m. These break down into only two divisions after the sale of the TwentyFour-Help (former Outsourcing segment). Headquarter costs are shown separately.

- Product Segment. Sales: €306m; EBITDA: €67.0m; EBT: €53.1m.
- Online Marketing Segment. Sales: €53.3m; EBITDA: €7.1m; EBT: €6.4m.

Guidance

United Internet provided the following 2007 guidance at its FY06 analyst meetings. The 2006 numbers are corrected for the Twenty4Help sale. The 2007 guidance includes a €25m cost set aside to for new business ideas implying underlying operational growth of 35-40%. We do not expect an increase of guidance at the half-year analyst meeting.

- Revenues: c€1.5bn (up from €1.17bn) implying 28% y-o-y growth.
- EBITDA: c€275m (up from €221m) implying 24% y-o-y growth.
- EBT: c€215m (up from €150m) implying 26% y-o-y growth.

Next events

- 2Q07 numbers on 10 August with analyst meeting in Frankfurt, Germany.
- Launch of "unbundled" product also with DT within the coming months

Outlook

We expect United Internet to continue to deliver strong organic top-line growth with good profitability and cash flow. All segments are developing strongly, not only DSL. The high margin web-hosting and the portal business could become even more significant, driven by healthy organic growth, new market entry to Spain and potentially some smaller acquisitions. United Internet has launched a fully bundled DSL/telephony product in July which we consider as an important future growth driver. Finally, United Internet is a key beneficiary from the German tax reform which should reduce its 39% high tax rate to around 30% from 2008 onwards.

Figure 40. United Internet – Yearly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2001 FY	2002 FY	2003 FY	2004 FY	2005 FY	2006 FY	2007 FY	2008 FY	2009 FY	2010 FY
Product Business	134	211	293	357	607	957	1259	1528	1738	1900
Outsourcing Business	72	70	77	84	89	103	108	114	120	125
Online Marketing	25	37	45	69	106	180	202	218	235	254
HQ overheads			0	0	0					
Revenues	**231**	**318**	**415**	**510**	**802**	**1,240**	**1,569**	**1,860**	**2,093**	**2,280**
Reported EBITDA	**0**	**69**	**85**	**109**	**129**	**235**	**318**	**396**	**485**	**538**
margin (%)	0.1%	21.6%	20.4%	21.4%	16.1%	19.0%	20.3%	21.3%	23.2%	23.6%
Underlying EBITDA	**18**	**77**	**98**	**122**	**129**	**235**	**318**	**396**	**485**	**538**
margin (%)	7.7%	24.3%	23.7%	24.0%	16.1%	19.0%	20.3%	21.3%	23.2%	23.6%
Depreciation	-12	-15	-17	-21	-18	-25	-25	-25	-25	-24
Goodwill amortization	-18	-2	-14	-13	-2					
Intangible amortization	-8	-8	-5	-4	-10	-30	-31	-32	-34	-35
Reported EBIT	-37	44	49	71	100	181	262	338	426	479
margin (%)	-16.1%	13.7%	11.7%	14.0%	12.5%	14.6%	16.7%	18.2%	20.4%	21.0%
Underlying EBIT	-20	52	63	84	100	181	262	338	426	479
margin (%)	-8.5%	16.4%	15.1%	16.5%	12.5%	14.6%	16.7%	18.2%	20.4%	21.0%
Non-operating items										
Associates	-4	0	0	-2	1	1	1	1	1	1
Net interest	-29	-1	0	1	0	-2	-1	0	0	1
Exceptional items		-1	0							
Pretax profit	**-70**	**41**	**49**	**70**	**101**	**180**	**262**	**339**	**428**	**482**
Taxation	1	-9	-25	-37	-42	-71	-102	-125	-150	-169
Tax rate	2%	21%	52%	52%	41%	39%	39%	37%	35%	35%
Net extraordinary items										
Minority interest	6	5	3	0	-2	-7	-11	-14	-16	-18
Reported net income	**-63**	**37**	**26**	**34**	**57**	**102**	**149**	**200**	**262**	**295**
Underlying net income	**-52**	**40**	**35**	**42**	**58**	**102**	**149**	**200**	**262**	**295**
Reported EPS	**-0.28**	**0.16**	**0.11**	**0.15**	**0.23**	**0.41**	**0.60**	**0.80**	**1.05**	**1.18**
Underlying EPS	**-0.23**	**0.18**	**0.15**	**0.18**	**0.23**	**0.41**	**0.60**	**0.80**	**1.05**	**1.18**
DPS		0.13	0.04	0.05	0.06	0.12	0.18	0.24	0.32	0.36
Reported Net Debt	-	-	-	-	-	-	-	-	-	-
Net debt to Ebitda										
Capital expenditure	**20**	**33**	**27**	**28**	**417**	**137**	**51**	**53**	**54**	**56**
As a % of net sales	8.5%	10.3%	6.5%	5.4%	52.0%	11.1%	3.3%	2.8%	2.6%	2.5%

Source: Citigroup Investment Research

Versatel; Buy/High Risk (1H), target price €29

Analyst:
Mike Williams
(44-20) 7986 4140

(VTWGn.DE - €23.00; 1H)

- Lack of audited quarterly numbers for 2006 continues to hinder Q forecasts.
- Strong revenue growth expected (+9.8% y-o-y) with 50k DSL net adds.
- Hangover from billing system migration is likely to weight on ARPU.
- Following an exceptional Q1, wholesale should continue to grow strongly.

Divisional forecasts

Versatel will report 2Q07 results on 28 August

- Residential (2Q07 revenues €91m, +3.8% q-o-q, +16.7% y-o-y). Versatel is a natural share taker in Germany and is well positioned to benefit from DSL growth in an underpenetrated German market (c.38% penetration). DSL tariffs have been coming down significantly in Germany with DT and altnets cutting prices aggressively. Versatel followed the trend cutting its tariffs in July (-14% on its 2Mbit/s offer) but impact will only be felt in Q3.
- Business (2Q07 revenues €53m, +1.6% q-o-q, -2.9% y-o-y). Y-o-Y comparison should get easier following a tougher Q1 in which revenues were down 4%. We expect Versatel to continue to gain market share in the SME segment thanks to its broadband and VPN offers.
- Wholesale (2Q07 revenues €35m, +2.9% q-o-q, +13% y-o-y). Trend in wholesale remains very positive with Versatel leveraging the granularity of its access network to grow wholesale revenues.

Guidance

Our estimates are broadly in line with company guidance for 2007:

- Group revenues between €740m and €760m (Citi: €735m).
- EBITDA margin between 30% and 31.8% (Citi: 31.8%).
- Mid teens ARPU decline in 2007 (Citi: 14%).
- Mid 20s ratio of capex/sales in 2007 (Citi: 25%).

Next events

- Launch of mobile offer (July 2007) and VOD (4Q07).
- Small acquisitions of other city carriers (2H07/08).
- Further cut in DSL tariffs for the high end offers (2H07).

Outlook

Versatel is well positioned to benefit from the growth and the forthcoming consolidation of the German broadband market. The granularity of its access network and presence in the three segment of the fixed market (residential, business and wholesale) provides Versatel with economies of scale. Short-term pressure to perform is currently high following a disappointing Q1 with unexpected IT billing issue and ARPU dilution. Next quarters of results should highlight the superior growth profile of Versatel (11.2% 06A-09E Revenue CAGR vs. 3.3% for the sector) and the profitability of its business model (OFCF to grow from €32m in 2006A to €219m in 2010E).

Figure 41. Versatel – Quarterly Summary Financial Forecasts (Euros in Millions, Except Per Share Data)

	2Q07E	2Q07 of FYE	1Q07A	q-o-q	2006A	2007E	2008E
Residential	91	24.2%	88	+3.8%	327	376	434
Business	53	24.8%	53	+1.6%	211	215	226
Wholesale	35	24.2%	34	+2.9%	128	144	150
Revenues	**179**	**24.4%**	**174**	**+3.0%**	**666**	**735**	**810**
Residential	25	23.1%	25	+2.1%	100	110	133
margin (%)	28.0%		28.5%	-0.5ppt	30.5%	29.4%	30.6%
Business	11	24.6%	11	-0.9%	50	46	46
margin (%)	21.1%		21.6%	-0.5ppt	23.8%	21.3%	20.3%
Wholesale	19	23.9%	18	+4.7%	62	78	78
margin (%)	53.0%		52.9%	+0.2ppt	48.2%	53.7%	51.8%
Reported EBITDA	**55**	**23.7%**	**54**	**+2.3%**	**212**	**234**	**256**
margin (%)	30.8%		31.0%	-0.2ppt	31.8%	31.8%	31.7%
Underlying EBITDA	**55**	**23.7%**	**54**	**+2.3%**	**212**	**234**	**256**
margin (%)	30.8%		31.0%	-0.2ppt	31.8%	31.8%	31.7%
Depreciation	-48		-47	+1.5%	-195	-195	-192
Goodwill amortization				n.m.			
Intangible amortization				n.m.			
Reported EBIT	**7**	**18.9%**	**7**	**+7.7%**	**17**	**39**	**64**
margin (%)	4.1%		3.9%	+0.2ppt	2.5%	5.3%	7.9%
Underlying EBIT	**55**	**23.7%**	**54**	**+2.3%**	**212**	**234**	**256**
margin (%)	30.8%		31.0%	-0.2ppt	31.8%	31.8%	31.7%
Non-operating items				n.m.			
Net interest	-11		-17	-34.3%	-65	-41	-23
Exceptional items			-3	n.m.	-30	-3	
Pretax profit	**-4**	**73.7%**	**-13**	**-70.8%**	**-78**	**-5**	**41**
Taxation			5	n.m.	26	5	-1
Tax rate			38%	-0.4pts	34%	95%	3%
Net extraordinary items				n.m.			
Reported net income	**-4**	**843.2%**	**-8**	**-54.1%**	**-52**	**0**	**40**
Underlying net income	**-4**	**-165.2%**	**-5**	**-31.4%**	**-22**	**2**	**40**
Reported EPS	**-0.08**	**709.1%**	**-0.27**	**-68.7%**	**-1.73**	**-0.01**	**0.90**
Underlying EPS	**-0.08**	**-138.9%**	**-0.18**	**-53.2%**	**-0.73**	**0.06**	**0.90**
DPS							
Reported Net Debt	**418**		**802**	**-47.9%**	**775**	**379**	**306**
Net debt to Ebitda	1.8x		14.8x		3.7x	1.6x	1.2x
Capital expenditure	**45**	**24.4%**	**43**	**+3.7%**	**180**	**184**	**162**
As a % of net sales	25.0%		24.8%	+0.2ppt	27.0%	25.0%	20.0%

Source: Company Reports and Citigroup Investment Research

Virgin Media (VMED.O); Hold/High Risk (2H), target price $26

Analyst:
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(44-20) 7986 4140

(VMED.O - US$28.51; 2H)

Virgin Media will report 2Q07 results on 8 August (Provisional)

- Numbers take second stage in the context of renewed private equity interest.
- Ongoing row and legal dispute with Sky continues to impact subscriber growth.
- Competitive environment remains challenging with Sky's value proposition for triple play appearing more attractive than that of Virgin Media.

Divisional forecasts

- Consumer: (2Q07E revenue £644m, -0.1% y-o-y). Triple play growth is expected to drive modest revenues rise. Market will focus on size of the customer base following the removal of Sky basic channels in late Feb. We have TV customers flat at 3.4m, Telephony customers -53k and Broadband customers +60k. Overall we expect Virgin Media to lose c.50k in the quarter. We note that an £8m provision release boosted Content revenues in 1Q07.
- Business: (2Q07E revenue £152m, -4.9% y-o-y). Intense price competition in the corporate segment and the continued roll-off of wholesale revenues drive revenues lower.
- Mobile: (2Q07E revenues £148m). The decision to restrict active promotion of pre-pay offers supported margins in 1Q07 at 16.3%. Since Virgin is unlikely to push pre-pay offers again before 2H07 we expect margins to remain broadly stable at 16% in 1Q08.

Next events

- Outcome of legal dispute with Sky and regulatory review of pay TV. Ofcom review of Pay TV market should aid resolution (4Q07 earliest).
- Update on off-net strategy (ongoing).
- Competition Commission ruling on ITV stake (November 2007).

Outlook

Private equity interest announced at the start of July appears firmer than previous flirtations. This could drive the share price higher in the short term. On fundamentals, we continue to argue that risk is on the downside. Virgin Media has acquired both Telewest and Virgin Mobile in quick succession. The challenge is now to integrate these businesses, realise the targeted synergies and develop a viable quad-play strategy. With TV and Telephony going ex-growth, the outlook for broadband is critical to Virgin Media's economic model. With competition intensifying in the UK broadband market, Virgin Media looks increasingly threatened.

Figure 42. Virgin Media – Quarterly Summary Financial Forecasts (Pounds in Millions, Except Per Share Data)

	2Q07E	2Q06A	y-o-y	1Q07 of FYE	1Q06 of FYA	1Q07A	q-o-q	2006A	2007E	2008E
Consumer	644	645	-0.1%	25.1%	25.1%	643	+0.2%	2,569	2,567	2,626
Business	152	160	-4.9%	24.4%	24.4%	162	-6.2%	657	623	604
Total Cable Revenue	796	805	-1.1%	25.0%	25.0%	805	-1.1%	3,225	3,189	3,230
Content	30	34	-12.9%	25.1%		32	-6.1%	136	119	116
Sit-up	51	45	+13.7%	22.6%		48	+7.9%	226	227	256
Virgin	148					140	+5.7%	292	616	665
Revenues	**1,026**	**884**	**+16.0%**	**24.7%**	**22.8%**	**1,022**	**+0.4%**	**3,880**	**4,152**	**4,267**
Reported EBITDA	313	293	+6.6%	24.1%	24.4%	306	+2.3%	1,201	1,300	1,502
margin (%)	30.5%	33.2%	-2.7ppt			29.9%	+0.6ppt	31.0%	31.3%	35.2%
Underlying EBITDA	333	307	+8.4%	24.3%	23.9%	331	+0.6%	1,283	1,370	1,502
margin (%)	32.4%	34.7%	-2.3ppt			32.4%	+0.1ppt	33.1%	33.0%	35.2%
Depreciation	-201	-219	-8.5%			-232	-13.5%	-860	-800	-773
Goodwill amortization	-65	-56	+16.9%			-77	-15.9%	-268	-285	-309
Intangible amortization	-5	-12	-58.7%			-12	-56.9%	-67	-27	
Reported EBIT	**42**	**6**	**+565.9%**	**22.2%**	**127.3%**	**-15**	**n.m.**	**5**	**189**	**420**
margin (%)	4.1%	0.7%	+3.4ppt			-1.5%	+5.6ppt	0.1%	4.6%	9.8%
Underlying EBIT	**42**	**6**	**+565.9%**	**22.2%**	**127.3%**	**-15**	**n.m.**	**5**	**189**	**420**
margin (%)	4.1%	0.7%	+3.4ppt			-1.5%	+5.6ppt	0.1%	4.6%	9.8%
Non-operating items							n.m.			
Associates	8	3	+159.6%			7	+11.8%	16	31	34
Net interest	-111	-221	-49.8%			-109	+2.1%	-578	-428	-397
Exceptional items		6					n.m.	7		
Pretax profit	**-61**	**-206**	**-70.5%**	**29.3%**	**37.4%**	**-117**	**-47.9%**	**-550**	**-208**	**57**
Taxation		10				-4	n.m.	12	-4	
Tax rate		5%	-4.8ppt			-3%	+0.0pts	2%	-2%	
Net extraordinary items							n.m.	2		
Minority interest		0					n.m.	1		
Reported net income	**-61**	**-196**	**-68.9%**	**28.8%**	**36.6%**	**-120**	**-49.4%**	**-536**	**-211**	**57**
Underlying net income	**-61**	**-196**	**-68.9%**	**28.8%**	**36.6%**	**-120**	**-49.4%**	**-536**	**-211**	**57**
Reported EPS (Undiluted)	**-0.19**	**-0.68**	**-72.4%**	**28.8%**	**41.4%**	**-0.37**	**-49.4%**	**-1.64**	**-0.65**	**0.18**
Underlying EPS (Undiluted)	**-0.19**	**-0.68**	**-72.4%**	**28.8%**	**41.4%**	**-0.37**	**-49.4%**	**-1.64**	**-0.65**	**0.18**
DPS										
Reported Net Debt								**5,893**	**5,753**	**5,270**
Net debt to Ebitda								4.6x	4.2x	3.5x
Capital expenditure								**555**	**600**	**550**
As a % of net sales								14.3%	14.5%	12.9%

Source: Company Reports and Citigroup Investment Research

Vodafone (VOD.L; Hold/Medium Risk (2M), target price £1.53

Analyst:
Terence Sinclair
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(VOD.L - £1.61; 2M)

Vodafone will report 1Q08 KPIs on 19 July

- KPIs and AGM (24 July) should be supportive but Vodafone is too close to fair value to offer significant upside.
- Western European elasticity argument weakened by roaming ARPU pressure in UK/Germany this quarter. KPIs do not show the extent the top line is boosted by margin management.
- Emerging market growth will again be in focus. In particular, first data set on India and its c.50% top-line growth.

KPI Summary

We forecast 10% headline top-line growth fueled by the India acquisition and a full quarter of Turkey. Divisional headline revenue growth disclosure is limited to the big four European markets.

- Germany: revenue growth -2.5% y-o-y as heavy price competition from T-Mobile and Vodafone Tariff cuts drive ARPU -14% y-o-y on subscribers +5%.
- Italy: revenues -3.0% as the Bersani effect impacts for a full quarter (-6ppt revenue hit) and a 20% ARPU decline offsets 16% subscriber growth.
- Spain: revenue growth outperformance remains (+16.9% vs. +15.1% 1Q07).
- UK: revenues grow 5.3% as 10% subscriber growth offsets 5% ARPU declines.

Guidance

- Our forecasts are in line with YTM08 guidance introduced at YTM07 results. Revenues £33.3-34.1bn (CIR: £33.98), Operating Profit £9.3-9.8bn (CIR £9.45), Cash Flow £4.0-4.5bn (CIR£4.34), Capex £4.7-5.1bn (CIR £4.8).

Next events

- AGM (24 July).
- VZ Results end July.

Outlook

Vodafone is running dual strategies to slow the decline in Western Europe while driving growth in emerging markets (c45% of total growth). Fundamentally, positive elasticity arguments in Western Europe are fragile in our view. While elasticity could exceed 1 in two quarters, we argue the volume increase is being bought with SARCs. Emerging markets remain strong and represent >40% of top-line growth (27% of value). Group capex reduction (sub-10% by 2008) is aided by the end of 3G rollout. A US sale is at least a year away in our view given there is now way to avoid capital gains tax. We argue Verizon is unlikely to pay the £30bn+ valuation Vodafone would require ahead of the US spectrum sales in 2008.

Figure 43. Vodafone - Revenue Growth Expectations

.	Headline 1Q07	Headline 1Q08E	Adjusted 1Q07	Adjusted 4Q07	Adjusted 1Q08E	FY08E HEADLINE
Germany	-2.90%	-5.5%	-0.60%	-2.10%	-2.5%	-3.6%
Italy	-3.40%	2.5%	2.30%	2.80%	-3.0%	-1.7%
Spain	15.10%	12.0%	17.90%	17.20%	16.9%	5.7%
UK	1.40%	5.0%	1.40%	5.70%	5.3%	2.7%
Statutory growth group	**9.20%**	**10.0%**	**9.20%**	**4.50%**	**10.0%**	**9.3%**
Organic service revenue growth	**5.10%**	**5.1%**	**5.10%**	**4.80%**	**5.1%**	**4.1%**

Source: Citigroup Investment Research

Figure 44. Vodafone - Termination Adjusted Growth Rates

	Termination adjusted 1Q07A	Termination adjusted 2Q07A	Termination adjusted 3Q07A	Termination adjusted 4Q07A	Termination adjusted 1Q08E
Germany	-0.60%	0.80%	-0.50%	-2.10%	-2.50%
Italy	2.30%	4.30%	4.90%	2.80%	-3.00%
Spain	1.40%	1.80%	3.30%	5.70%	5.25%
UK	17.90%	19.90%	18.10%	17.20%	10.00%
Statutory growth group	**9.2%**	**5.3%**	**5.1%**	**4.5%**	**10.0%**
Organic service revenue growth	**5.1%**	**3.8%**	**4.8%**	**4.8%**	**5.1%**

Source: Citigroup Investment Research

Figure 45. Vodafone - Subscriber additions (thousands)

	31st Mar07A (000's)	Net adds (000's)	30 Jun07E (000's)	y-o-y
Germany	30,818	225	31,043	5.43%
Italy	21,034	500	21,534	16.03%
Spain	14,893	475	15,368	10.17%
UK	17,411	350	17,761	9.74%
Other subsidiaries listed out	54,402	2,500	56,902	20.91%
Other not listed	21,927	1,000	22,927	21.95%
Other Joint Venture	18,586	2,000	20,586	16.29%
USA	27,322	630	27,952	14.85%
India		20,750	20,750	
Inorganic non-India		-	-	
Total	**206,393**	**24,550**	**234,943**	**26.3%**

Source: Company, Citigroup Investment Research

Forecast Changes

Belgacom

We have marginally lowered our estimate for mobile subscriber numbers

Figure 46. Belgacom – Summary Income Statement (Euros in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	5,458	6,100	5,941	5,921	5,900
growth (%)		11.8%	-2.6%	-0.3%	-0.3%
Reported EBITDA	2,098	2,149	2,039	1,990	1,961
margin (%)	38.4%	35.2%	34.3%	33.6%	33.2%
Reported EBIT	1,372	1,347	1,316	1,337	1,309
margin (%)	25.1%	22.1%	22.2%	22.6%	22.2%
Net Income	958	973	857	881	869
Old EPS	2.777	2.873	2.573	2.651	2.612
New EPS	2.777	2.873	2.574	2.647	2.609
DPS	1.5	1.9	1.5	1.6	1.6

Source: Company Reports and Citigroup Investment Research

BT

Minor increases in interest payments as a result of the timing of cash outlays associated with recent acquisitions.

Figure 47. BT – Summary Income Statement (Pounds in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	18,429	19,514	20,223	20,855	21,501
growth (%)	-0.5%	5.9%	3.6%	3.1%	3.1%
Reported EBITDA	5,537	5,517	5,633	5,799	6,032
margin (%)	30.0%	28.3%	27.9%	27.8%	28.1%
Reported EBIT	2,693	2,634	2,713	2,823	3,033
margin (%)	14.6%	13.5%	13.4%	13.5%	14.1%
Net Income	1,830	1,547	2,883	1,440	1,968
Old EPS	21.326	18.126	34.075	23.199	24.872
New EPS	21.326	18.126	34.000	17.434	24.566
DPS	10.4	11.9	14.4	17.4	19.9

Source: Company Reports and Citigroup Investment Research

Colt Telecom

Reflects regulatory change to German termination rates and the fundamental deterioration to both the UK and German operations.

Figure 48. Colt Telecom – Summary Income Statement (Pounds in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	1,822	1,801	1,708	1,708	1,739
growth (%)	-81.9%	-1.1%	-5.2%	0.0%	1.9%
Reported EBITDA	254	271	280	301	329
margin (%)	13.9%	15.0%	16.4%	17.7%	18.9%
Reported EBIT	-79	25	41	56	85
margin (%)	-4.3%	1.4%	2.4%	3.3%	4.9%
Net Income	-130	-9	27	43	75
Old EPS	-0.086	-0.014	0.067	0.106	0.154
New EPS	-0.086	-0.014	0.040	0.063	0.110
DPS					

Source: Company Reports and Citigroup Investment Research

France Telecom

We have slightly increased our DSL subscriber numbers in France and marginally lowered our revenue growth estimate for RoW mobile.

Figure 49. France Telecom – Summary Income Statement (Euros in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	49,038	51,702	52,393	52,625	52,945
growth (%)	6.2%	5.4%	1.3%	0.4%	0.6%
Reported EBITDA	18,416	18,539	18,356	18,693	19,145
margin (%)	37.6%	35.9%	35.0%	35.5%	36.2%
Reported EBIT	11,284	10,199	9,495	10,068	10,668
margin (%)	23.0%	19.7%	18.1%	19.1%	20.1%
Net Income	5,709	4,139	4,232	4,665	5,128
Old EPS	2.283	1.591	1.632	1.801	1.963
New EPS	2.283	1.591	1.625	1.791	1.969
DPS	1.0	1.2	1.2	1.4	1.4

Source: Company Reports and Citigroup Investment Research

Neuf Cegetel

We have included the acquisition of Club Internet in our numbers. We assume that Club Internet will be consolidated from 1st July 2007 and have a negative impact on EBITDA in 2007. We have also increased our depreciation estimates.

Transfer of Coverage — Primary coverage of Neuf Cegetel (Neuf.PA - €29.61; 2H) is transferred from Terry Sinclair to Dimitri Kallianiotis. Target price (€30) and Hold/Medium Risk (2H) rating remain unchanged.

Figure 50. Neuf Cegetel – Summary Income Statement (Euros in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	2,752	2,897	3,342	3,797	4,050
growth (%)		5.3%	15.4%	13.6%	6.7%
Reported EBITDA	230	522	723	901	1,077
margin (%)	8.4%	18.0%	21.6%	23.7%	26.6%
Reported EBIT	-167	68	253	421	597
margin (%)	-6.1%	2.3%	7.6%	11.1%	14.7%
Net Income	-194	209	318	486	668
Old EPS	-1.247	1.087	1.716	2.564	3.256
New EPS	-1.247	1.087	1.560	2.386	3.280
DPS		0.4	0.6	1.0	1.3

Source: Company Reports and Citigroup Investment Research

Portugal Telecom

Our forecast changes are based solely on currency changes. We have not changed any operational assumptions.

Figure 51. Portugal Telecom – Summary Income Statement (Euros in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	6,385	6,343	5,895	6,059	6,314
growth (%)		-0.7%	-7.1%	2.8%	4.2%
Reported EBITDA	2,496	2,419	2,104	2,114	2,240
margin (%)	39.1%	38.1%	35.7%	34.9%	35.5%
Reported EBIT	1,103	1,082	859	1,116	1,412
margin (%)	17.3%	17.1%	14.6%	18.4%	22.4%
Net Income	697	891	514	634	851
Old EPS	0.597	0.794	0.517	0.616	0.835
New EPS	0.597	0.789	0.553	0.682	0.916
DPS	0.4	0.5	0.5	0.6	0.6

Source: Company Reports and Citigroup Investment Research

Swisscom

Our new estimates consolidate Fastweb for the first time. In the underlying Swiss operations, our forecasts are unchanged.

Figure 52. Swisscom – Summary Income Statement (Euros in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	9,732	9,652	11,425	12,903	13,142
growth (%)	-3.2%	-0.8%	18.4%	12.9%	1.8%
Reported EBITDA	4,171	3,787	4,593	5,289	5,363
margin (%)	42.9%	39.2%	40.2%	41.0%	40.8%
Reported EBIT	2,777	2,352	2,877	3,482	3,642
margin (%)	28.5%	24.4%	25.2%	27.0%	27.7%
Net Income	2,022	1,599	1,927	2,417	2,572
Old EPS	33.792	28.921	35.246	36.839	37.473
New EPS	33.792	28.921	37.203	46.653	49.645
DPS	16.0	17.0	20.5	25.7	27.3

Source: Company Reports and Citigroup Investment Research

Telecom Italia

We have marginally raised our subscriber and EBITDA margin in TIM Brazil. Our Italian estimates are unchanged.

Figure 53. Telecom Italia – Summary Income Statement (Euros in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	29,919	31,275	31,801	31,961	32,324
growth (%)	197.5%	4.5%	1.7%	0.5%	1.1%
Reported EBITDA	12,517	12,850	12,363	12,328	13,059
margin (%)	41.8%	41.1%	38.9%	38.6%	40.4%
Reported EBIT	7,499	7,437	7,064	7,021	8,290
margin (%)	25.1%	23.8%	22.2%	22.0%	25.6%
Net Income	3,216	3,014	2,567	2,602	3,491
Old EPS	0.166	0.155	0.127	0.130	0.175
New EPS	0.166	0.155	0.132	0.134	0.180
DPS	0.1	0.1	0.1	0.1	0.2

Source: Company Reports and Citigroup Investment Research

Telenor

We have moderately lowered our numbers to reflect increased competition in Norwegian mobile and sustained price competition in Bangladesh.

Figure 54. Telenor– Summary Income Statement (NKr in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	68,926	91,077	92,550	97,276	102,452
growth (%)	13.6%	32.1%	1.6%	5.1%	5.3%
Reported EBITDA	23,836	32,353	30,039	33,260	35,981
margin (%)	34.6%	35.5%	32.5%	34.2%	35.1%
Reported EBIT	11,705	17,632	15,964	19,237	21,431
margin (%)	17.0%	19.4%	17.2%	19.8%	20.9%
Net Income	7,646	15,823	10,965	13,736	15,402
Old EPS	4.506	9.414	6.673	8.426	9.513
New EPS	4.506	9.414	6.524	8.173	9.164
DPS	2.0	2.5	2.6	4.1	4.6

Source: Company Reports and Citigroup Investment Research

TeliaSonera

We have made minor adjustments to our numbers to reflect forex changes.

Figure 55. TeliaSonera– Summary Income Statement (SKr in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	87,661	91,060	94,674	97,087	100,920
growth (%)	7.0%	3.9%	4.0%	2.5%	3.9%
Reported EBITDA	27,508	31,113	30,801	33,484	34,326
margin (%)	31.4%	34.2%	32.5%	34.5%	34.0%
Reported EBIT	14,320	19,910	19,464	21,846	22,763
margin (%)	16.3%	21.9%	20.6%	22.5%	22.6%
Net Income	11,697	16,987	16,404	17,670	18,602
Old EPS	2.605	3.783	3.613	3.935	4.140
New EPS	2.605	3.783	3.653	3.935	4.143
DPS	1.3	6.3	4.1	4.2	4.3

Source: Company Reports and Citigroup Investment Research

Virgin Media

We have updated our estimates to account for a tougher operating environment in both the consumer the business segments.

Figure 56. Virgin Media– Summary Income Statement (Pounds in Millions, Except Per Share Data)

	2005A	2006A	2007E	2008E	2009E
Revenues	1,948	3,880	4,152	4,267	4,397
growth (%)		99.2%	7.0%	2.8%	3.1%
Reported EBITDA	631	1,201	1,300	1,502	1,576
margin (%)	32.4%	31.0%	31.3%	35.2%	35.8%
Reported EBIT	-20	5	189	420	524
margin (%)	-1.0%	0.1%	4.6%	9.8%	11.9%
Net Income	-236	-536	-211	57	201
Old EPS	-2.761	-1.643	-0.587	0.256	0.700
New EPS	-2.761	-1.643	-0.652	0.175	0.619
DPS					

Source: Company Reports and Citigroup Investment Research

Cable and Wireless PLC

Company description

C&W encompasses three main assets classes – a UK altnet that is number 2 to BT but struggling in a tough market environment; an International business with cash-generative incumbent-type operations across markets such as the Caribbean, Panama, Monaco and Macau; and £343m of net cash at the end of the last financial year. The new management is at the beginning of a three- to five-year restructuring programme which aims to create value from this disparate asset base.

Investment thesis

Our rating is Buy/High Risk (1H) and our target price is 240p. The outlook for the UK business dominates the investment case – our analysis concludes that the company's new restructuring plan appears viable. By repositioning the customer base and simultaneously cutting cost we can see a route to achieving the £2bn of revenue, £400m of EBITDA and double-digit EBIT targeted for the UK. In parallel the International Business should benefit from increased disclosure and in-country consolidation. The interests of senior management and shareholders are directly aligned through the LTIP compensation plan. We argue that a break-up of the group is inevitable in the pursuit of value on a 2-year view, and see this opening up a raft of incremental value-accretive opportunities. C&W is likely to be of interest to Special Situation Funds as well as UK institutions that have been long-term underweight.

Valuation

We value the three main constituent businesses – UK, Caribbean and Panama – using a DCF model incorporating a ROCI-based fade. The key assumption is that ROCI converges to cost of capital in the terminal year. We value the cash pile at its trough level - i.e. the point at which the Group as a whole becomes free cash flow positive. The resultant values feed into the Group sum-of-the-parts valuation. This produces a 203p per share valuation for the group to which we apply a 5% holding company discount, producing a core valuation of 193p per share. Valuation assumes a turnaround in the UK business and improvement in the International assets. We see a further 142p per share of option value associated with a break-up of the group on a 2-year view. Our target price is set at a 30% discount to our high-end option value resulting in a target price of 240p per share.

Risks

We rate C&W High Risk. The risk rating on the stock is derived after consideration of a number of factors. These factors include an assessment of industry-specific risk, financial risk and management risk. There are industry-specific risks to achieving our target price for all telecom companies. These include concerns about over-capitalisation, weak demand, regulatory risks and the risk of new technology establishing cost advantages over current technology. In addition, in terms of company-specific risks, C&W's assets can be described as distressed, generally sub-scale and subject to market liberalisation/intense competition. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price.

Deutsche Telekom AG

Company description

Deutsche Telekom is the incumbent telecom operator in Germany. The largest division (T-Com) is made up of the domestic fixed line operations and the acquired incumbent operations in Hungary, Croatia and Slovenia. T-Mobile, the mobile division, has operations in the US, UK, Austria, Netherlands and the Czech Republic – although it is a smaller player in these external markets. The company serves multinational corporate clients through its T Systems operations, which is both a telecom supplier and a supplier of IT services. The group has moved from a four-pillar structure to a three-pillar structure by including T Online with T Com. The German government owns 43% directly and indirectly.

Investment thesis

We rate Deutsche Telekom Sell/Medium Risk (3M). Fundamentally we see 2007 as extremely tough for both domestic fixed and mobile businesses. In fixed the Altnets are moving increasingly towards an unbundled platform and cable is emerging as a new and potentially very significant threat. In mobile the mobility premium of almost 6x on average will continue to undermine the quest for positive elasticity. The fact that DT has little flexibility to reduce cost, and that the cost reductions it does achieve are likely to be reinvested only compounds our concern. Finally the stock's premium rating to the sector leaves little scope for further disappointment.

Valuation

As for all integrated operator we use a combination of DCF, and market-based multiples in a sum of the parts. In both our domestic mobile and fixed-line models we use consistent long-term assumptions on operating data, and use a local market WACC based on a CAPM. For DT we use a WACC of 8%. We use market-based values for all quoted assets and use year-end 2007E net debt. We crosscheck our DCF models with market-based valuation metrics, including free cash flow yield, P/E and EV/EBITDA, to arrive at our target price of E12.5.

Risks

We rate Deutsche Telecom Medium Risk based on our assessment of industry and company-specific risk factors. There are industry-specific risks to achieving our target price for all telecom companies. These include concerns about over-capitalisation, weak demand, regulatory risks and the risk of new technology establishing cost advantages over current technology. For DT, these risks are compounded by the dependence on the domestic cash flow and by the risk of competing against larger operators in the US. The government remains a significant shareholder and will probably look to continue reducing its shareholding. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

France Telecom

Company description

France Telecom (FT) is one of the world's leading telecom operators, with revenues of over €50 billion. Through its Orange brand, FT is the French incumbent provider and owns mobile and ULL assets in the UK, the Netherlands, Switzerland and Spain. FT is one of the largest providers of telecom services to corporate customers.

Investment thesis

We rate France Telecom Hold/Medium Risk (2M) with a target price of €22. FT looks inexpensive on several absolute and relative measures including DCF, FADE, PE, FCF yield and EV/EBITDA. However, there is still downside risk to our and consensus forecasts: a) Migration of wireline traffic to voice over IP and tough regulation could force FT to cut prices further; b) FT's competitors' strong momentum in 3G should force a rise in SACs and marketing spending in mobile to accelerate the migration of its customer base to 3G.

Also, the company has taken a set of steps that decrease our confidence that the share will reach fair value. These include the rights issue in September 2005, which was well flagged but in our view unnecessary, and the sales guidance downgrade on 27 October 2005; then January 2006, related to issues that should have been detailed during that rights issue.

Valuation

We use a combination of DCF and market-based multiples for quoted units in a sum of the parts. In both our domestic mobile and fixed-line models we use consistent long-term assumptions on operating data, and use a local market WACC, based on a CAPM. For FT we use a WACC slightly above 8%. We use market-based values for all quoted assets, and use year-end 2007 net debt. On this basis, we see fair-value above €25 per share. However we see few catalysts to realise fair value, and so we have set our target price at a discount to estimated fair value — €22 per share.

Risks

We rate France Telecom Medium Risk based on our assessment of industry and company-specific risk factors. The following risks could cause the share price to deviate significantly from our target price. On the positive side, we see three reasons why FT's share price could outperform. These include, a better performance from Amena (FT's Spanish asset acquired during 2005), rising French DSL market share and a turnaround of Orange UK.

On the downside, corporate pricing remains under pressure and may deteriorate faster than we anticipate. In addition, there are still concerns about capitalisation, weak demand, and the risk of new technology establishing cost advantages over current technology. Finally, there is still a risk that regulation continues to hit domestic wireline and mobile revenues.

Mobistar SA

Company description

Mobistar is the second-largest mobile operator in Belgium (c32% market share). It made its commercial launch in August 1996 and operates a GSM 900 network. The company had its IPO in November 1998. Alongside its mobile telephony activities, Mobistar has a fixed telephony business. However, it is not actively promoting fixed line activities and sees them more as a complement to the mobile operations. France Telecom (Orange) holds a 50.8% stake in the company.

Investment thesis

We rate Mobistar Hold/Medium Risk (2M) with a target price of €68. Mobistar has delivered and successfully taken share from Belgacom and has reinvigorated its brand under new management. It continues to benefit from mobile number portability, but there are growing risks from the Proximus fight-back. It is now underleveraged and is solidly free cash flow positive. The company could releverage and new acquisitions should add value. Moreover, investor sentiment over DSL performance is probably at its worst. The stock has benefited from a very strong run in the past, driven by earnings upgrades and a broader investor focus due to strongly increased liquidity and trading volume.

Valuation

As for all mobile companies, and at a time of multiple convergence across the market, DCF and Fade DCF is our basic valuation approach. We use a common set of assumptions for subscriber growth, ARPUs, margins and capex for the European mobile companies to build a 10- to 15-year DCF. We use CAPM to drive cost of capital between 8.0% and 10.5% (in Mobistar’s case close to 9%) and terminal growth rates of 2.5% in line with nominal GDP or final year growth whichever is the lower. Our target price is based on our FADE DCF but does not reflect a buy-in premium by France Telecom. We also use relative valuation approaches and ROIC/WACC for reference. We don't believe that the convergence of Mobistar's multiples with the sector averages provides a buying opportunity. We argue that the break-up of the mobile oligopoly, and the deteriorating wireline pricing environment require us to apply a risk premium to our absolute value.

Risks

We rate Mobistar Medium Risk. The following risks may prevent the achievement of our target price.

Upside risks include higher consumer usage, heavier penetration of the SME market or further competitive collapse at Proximus.

Downside risks include the possibility that consumer usage of new services may disappoint, or there may be insufficient handsets to stimulate appetite. Similarly, voice pricing may come under heavy pressure if new competitors fail to win share. The company is struggling to implement DSL.

Neuf Cegetel

Company description

Neuf Cegetel is France's biggest alternative network player using a combination of its own network and unbundled DSL with a clear IP focus. The company was formed by the 2005 merger of Cegetel, France's leading alternative to France

Telecom in voice, and Neuf, a residential, business to business and wholesale operator.

Neuf Cegetel, which bought AOL France last September, is the leading alternative fixed carrier to France Telecom in terms of revenues both for retail and wholesale. The company benefits from the most extensive network in France after France Telecom and carries 25% of total French voice traffic and connects over 50% of all unbundled lines.

Investment thesis

We rate Neuf Cegetel Hold/High Risk (2H) with a target price of €30. Neuf is a natural share winner from France Telecom in fixed voice and DSL, and a potential candidate for take-over by its 41% parent SFR within 18 months. Since its IPO last October (at €22.08 per share), Neuf has been rerated and is now trading in-line compared to other alternative players on relative valuation multiples. The market (we agree) believes Neuf should meet and even marginally exceed its guidance for 2007. We see little potential upside in consensus numbers. Neuf now trades close to our €30.4 absolute valuation target based on a DCF approach.

Valuation

As a mid-cap Neuf Cegetel can trade richer than the telecom sector. We see the current appropriate multiple ranges as 13-17x 2007E earnings, based on comparisons with the European telecom sector, French mid-caps, and the worldwide smaller telecom sector. This suggests €26-34. We set our target price in the middle of this range, at €30. We also look at DCF analysis. We model Neuf Cegetel with a 9% cost of capital. Our base case DCF shows a valuation of €30.4 per share including €2.5 for tax loss carry forwards. We think multiples valuation is a better guide, as the company is young and may trade as a potential take-over candidate. Also, as the market will likely be overly concerned with short-term drivers, not long-term, the company's market position means it may be driven by sentiment around the sector.

Risks

We rate Neuf Cegetel High Risk based on our assessment of industry and company-specific risk factors. We think there are seven key risks that could cause the share price to deviate significantly from our target price:

- Telecoms is a deflationary sector, and Neuf is changing its approach from price-based attack (dating back to CPS in the late 1990s) to product innovation in both residential and business products.
- Triple play should push prices down and increase churn.
- Mobile is a new product for Neuf — one that is highly established and well managed at its three network competitors.
- Iliad's fibre announcement, if it executes, will change industry dynamics.
- Wholesale is 28% of the business by revenues in 2007E. It is in decline: falls could accelerate.
- Capex should fall. Yet this assumes no fibre upgrades: this may be wrong on a 3-year view.

- Regulation. Neuf has benefited from a regulatory regime that has been pro-attack since the early 2000s — and harsh to France Telecom to many observers' surprise.

Swisscom AG

Company description

Swisscom is the incumbent wireline and wireless operator in Switzerland. It is majority owned by the Swiss government, with no expectations of any change. The company has a very strong balance sheet and is committed to returning all excess free cash flow to shareholders.

Investment thesis

We rate Swisscom Hold/Low Risk (2L), balancing the cash return policy and historical management execution with the downside risk in the domestic operating environment. 1) Mobile - we are concerned that TDC and Orange are likely to respond to Swisscom's flat-rate tariff offerings. 2) Fixed-line - the launch of IPTV is unlikely to offset the PSTN declines and slowing DSL growth. In the longer term, we believe that Swisscom is a slowly declining, cash-generative business with a premium valuation and few catalysts to change this.

Valuation

Our Swisscom target price of SFr480 is a simple average of a sum-of-the-parts (SoP) value, 2007E PE and dividend yields. Our SoP valuation is SFr450, based on our 40-year fade DCF models for the fixed-line and mobile units (using a 8% WACC, 5% long-term ROCE/WACC Spread, -1.5% ROCE growth).
On a 2007E PE basis, we believe that the stock should trade at a 10% discount to the Swiss local market, given the slower growth profile, and is in-line with the average discount over the last five years. This suggests a valuation of c.SFr490 per share. Using a European telecom sector average dividend yield of c.4.5% would imply a SFr480 per share target.

Risks

We rate Swisscom Low Risk based on our assessment of industry and company-specific risk factors. There are industry-specific risks to achieving our valuation target for all telecom companies. These include concerns about over-capitalisation, weak demand, regulatory risks, and the risk of new technology establishing cost advantages over current technology. However, we think Swisscom is probably the lowest risk stock among the integrated operators due to its strong balance sheet, a very low exposure to foreign investment risk and an attractive dividend yield with the prospect of another series of share buybacks going forward. However, if the impact of these risk factors is less negative than we currently anticipate, then the share price may rise above our target price.

Telekom Austria

Company description

Telekom Austria is Austria's leading provider of telephony, Internet, data and multimedia communications, accounting for 80% of the group's value. The company also has mobile assets in Bulgaria (MobilTel), Croatia (VIPnet), Slovenia (Si.Mobil) and Liechtenstein and a start-up 3G license in Serbia.

Investment thesis

We rate Telekom Austria Hold/Medium Risk (2M). Following the government change at the October election, we see a lower probability of the Government (OIAG) selling its 25% residual holding in Telekom Austria over the next 12 months than we did previously. Operationally, we see forecasts as stable - a good position relative to the European telecom sector. The potential margin benefits of in-country consolidation in Austria mobile are well understood, but could still produce further positive surprises. In Bulgaria, pricing pressure may be less extreme than many expect if the 3rd operator fails in its latest re-launch attempt.

Valuation

Our €19.8 target price is based on a probability-weighted scenario analysis based on various outcomes of any attempted take-over. At one extreme (no take-over comes), we value the group at €18.3 per share, using a 40-year fade ROCE DCF for the individual business units. In wireline, we assume ROCE falls to our 8% WACC by 2030 and assume 2.5% growth in capital employed per year. For domestic mobile, we assume ROCE/WACC convergence in 2030 on a 7.7% WACC and 11% in Bulgaria. In the event of a full take-over, we believe Telekom Austria should be worth over €23 per share. At our target price, Telekom Austria would trade at 6x EV/EBITDA and 16x PE in FY07E, 30% premia to the European integrated operator average. We believe that this is justified on higher 06-10E FCF growth, stability of forecasts and the potential for a take-out.

Risks

We rate Telekom Austria as Medium Risk, based on a number of factors, including input from the Citigroup quantitative research team. The biggest risk to the stock achieving our target valuation is whether political issues make a take-over of the group impossible. We believe that the presence of a domestic investor that would maintain a local market listing should placate some of these concerns. As for all European telecom operators, slowing market growth, regulation (encouraging new fixed-line and mobile entrants), and strong competitor balance sheets present downside risk to financial forecasts. Telekom Austria also generates over 25% of its value from emerging markets and is therefore more exposed than many European telecom operators to investor changes in risk appetite. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Telecom Italia SpA

Company description

Telecom Italia (TI) is the integrated operator in Italy. Its domestic assets account for 90% of the group's value. TI also controls TIM Brasil (the number 2/3 player in the market) and a small European DSL unit. TI is controlled by Pirelli via a holding company (Olimpia).

Investment thesis

We are neutral on the Telecom Italia Saving shares, which have exposure to the same fundamental cash flows as the ordinary stock, but receive a higher dividend (€1.1 cents more) as compensation for the lack of voting rights. We now prefer the savings shares to the ordinaries for investors who require exposure to the stock. We continue to argue that TI is likely to buy-in the savings shares (at or around the current share price) as a means of to stop the dividend leakage . Our analysis suggests that the controlling shareholders (Olimpia, Generali and Mediobanca) can now do this transaction and keep control of TI.

Valuation

Our €1.8 target for the TI saving shares is based on a 15% discount to our ordinary share target of €2.1. Previously, we have argued that there should be no discount between the two classes. We are however increasingly cautious given our concerns about the dividend risk and our concerns over a stock buy out. A 15% discount is in-line with the average over the last three years.

Risks

We rate the TI Savings shares as Medium Risk. In additional to our concerns about the ordinary shares (which we rate medium risk), we see one additional risk to our negative call on this share class that could cause the share price to rise. This upside could come if the company decided to buy-in the savings shares for cash, although we find it unlikely given that it would take group net debt to FY08E EBITDA to nearly 4x.

TeliaSonera AB

Company description

TeliaSonera was created by the merger of the Swedish and Finnish incumbent operators in 2002. These units now account for less than 50% of group revenues. It has controlled operations in Norway, Denmark and the Baltics and large associates in Russia and Turkey.

Investment thesis

Our Hold/Medium Risk (2M) recommendation is based on four issues. First, we do not like TeliaSonera's decision to invest in the greenfield Spanish 3G mobile operator, Xfera. Previously, we argued that this would destroy up to SKr5 per share, although the group's current execution makes us more willing to give the company the benefit of the doubt and value this unit at 0. Second, the disputes with its partners in Russia and Turkey (c25% of our SoP) are likely to rumble on and add to the uncertainty in the group's strategy. We favour an exit from Turkcell and an IPO of Megafon (Russian mobile). Finally, while the Swedish mobile market today shows stable pricing and margins, we are concerned that the market underestimates how Telenor and Tele2 could seek to gain customer market share. Finally, we believe that the Swedish Government (43% owner) is likely to place a significant proportion of its stake in the near-term. Selling 25% is equivalent to 180 days trading.

Valuation

Our target price is SKr60 per share, based on a simple average of absolute (SoP based on 40-year ROCE fade DCF models for non-quoted units) and relative valuations. Our target now values Xfera at SKr0 (versus SKr-2.6 per share previously). At our SKr60 target price, TeliaSonera would still be trading at 16x 2007E EPS (excluding the Swedish fixed-line restructuring costs), a c.20% premium to the European telecom sector average. We believe that this can be largely justified by the 10% dividend yield.

Risks

We rate TeliaSonera as Medium Risk, based on input from Citigroup Investment Research quantitative research team. For TeliaSonera, we see four reasons why the stock may not fall as we anticipate. First, the recent change in the Swedish Government may lead to a more hands-on approach from its largest shareholder (45% of the equity). Second, TeliaSonera may end up investing less than we anticipate in its new Spanish 3G operation (which we view as pure value destruction). Third, TeliaSonera is aiming to cut 20% of its Swedish fixed-line workforce by 2007. If successful (and revenues remain stable) group EBITDA could rise by over 5% per year on our estimates. Lastly, in Finland, we believe that the new management team is the most credible for many years and this market is seeing the benefit of consolidation of the MVNOs. Successful restructuring in Finland could add a further 3.5% to group FY07E EBITDA forecasts. Should these potential positives have less of an effect than we anticipate, the shares may fail to reach our target price.

THUS Group PLC

Company description

THUS plc is one of the UK's leading integrated solutions providers operating in three main areas of communication: Internet and interactive, data and telecoms. THUS creates solutions tailored to customers' individual requirements, delivering expertise and excellent customer service. THUS plc provides communications solutions to business customers throughout the UK under the THUS and Demon brands. In an industry punctuated by inexperience THUS can draw upon a knowledge base established over more than a decade in the delivery of data, telecoms and Internet services.

Investment thesis

We rate THUS Hold/High Risk (2H) with a price target of 200p following the acquisition of Your and Legend and the 10-for-1 share consolidation. We continue to have concerns about the sustainability of the UK market environment, namely 1) the tough market environment with predatory pricing compounding the industry's structural difficulties, 2) the decision by some corporates to defer purchase decisions in light of the deflationary pricing environment 3) the need to rebuild investor confidence in both the industry and its participants. The challenge for THUS and its peers is to grow its gross margin - the scope to cut SG&A and/or capex from here looks limited.

Valuation

Our target price of 200p combines the output from our DCF with our belief that investor confidence in the ability of the industry to behave rationally will take time to rebuild. Key assumptions within our DCF include a post tax WACC of 10.3% with terminal growth of 2.5% pa. We believe that the DCF valuation is the 'least unsuitable' measure for valuing the alternative carriers given the lack of profits below the EBITDA line. We are however cautious of the long-term nature of DCF models (the terminal value currently accounts for around 65% of our terminal value), and these concerns are probably more justified in the case of THUS which is based mostly on contract wins. Unsurprisingly, our DCF valuation is very sensitive to the longer-term assumptions. We use peer group multiples as a means of sense testing our DCF based valuation. At our target price of 200p/share Thus would be trading on a EV/EBITDA to March 2007 of 7.0x, broadly in line with the alternative carrier sector which is currently trading on 7.5x.

Risks

High Risk rating for THUS is no trivial issue: the company is unprofitable currently below the EBITDA level (we forecast that the company will turn EBIT positive in YTM 2008). However, most of the risk to the company is operational, given the low levels of gearing in the business. Our risk rating on the stock is derived after consideration of a number of factors, which include an assessment of industry-specific risk, financial risk and management risk. Industry-specific risks include concerns about over-capitalisation, weak demand, regulatory uncertainty and the risk of new technology establishing cost advantages over current technology. In addition, for THUS we believe that there are a combination of upside and downside risks to our recommendation: 1) the rate and timing of new contract wins is by definition difficult to predict, 2) the high beta nature of the stock, and 3) THUS could be perceived as a take-over candidate by either an overseas-integrated operator with exposure to the UK Internet market or any of the UK mobile operators, given the quality of its network, single country focus and minimal financing requirements. We would not recommend buying the stock on this basis, but it could act as a 'free option' for investors.

Vodafone Group PLC

Company description

Vodafone Group Plc provides a range of mobile telecommunications services, including voice and data communications. Vodafone has equity interests in 26 countries and partner networks in a further 32 countries with almost all the Group's mobile subsidiaries operating principally under the brand name Vodafone. In the US its associated undertaking operates as Verizon Wireless.

Investment thesis

We rate Vodafone Hold/Medium Risk (2M) with a target price of £1.53. Vodafone is restructuring and pursuing a tougher growth policy in developed and emerging markets. Emerging market growth is key, particularly Turkey and India.
We believe there is upside to a small market premium as this couples cost cuts across Europe. Vodafone positioned itself at the forefront of 3G, but we are less concerned about margin implications than long-term technology threats. However, we believe the recent profit warnings have rebased expectations appropriately. Capex can fall beyond 10% in mature markets and costs should fall; not all sales pressure is structural. Cash flow is good and earnings retention is acceptable at the US associate. We think the biggest risk is old-fashioned 2G competition in Europe. This is getting bigger, with irrational competition in Germany, the largest market, but is decreasing in Italy and the UK.

Valuation

Our 153p target price is set by reference to a SOTP analysis and a market multiple (an 11% premium to the market, a 7% discount to the sector on an EV/EBITDA basis YTM 2008E). Our target price is lower than our single asset EVA Model for this business.

We have a higher valuation under DCF/fade EVA. We use a common set of assumptions for subscriber growth, ARPUs, margins and capex for all the European mobile companies to build a 10- to 15-year DCF.

We use CAPM to drive cost of capital between 8.0% and 10.5% (in Vodafone's case at the middle of the range) and terminal growth rates in line with nominal GDP or final year growth, whichever is the lower.

Risks

We rate Vodafone Medium Risk based on our assessment of industry and company-specific risk factors. Negative risks to the share price achieving our target price include:

Germany is under threat from an incumbent who prices aggressively. Generally, consumer usage of new services may disappoint, and there may be insufficient handsets to stimulate appetite. Similarly voice pricing may come under heavy pressure if new competitors fail to win share.

UMTS is a new technology, and it may take Vodafone longer than expected to deploy.

There are regulatory risks worldwide.

Positive issues include share take in many mature markets where Vodafone is the No2 player and emerging market exposure is increasing.

If the impact on the company from this proves to be greater than we anticipate, the stock could materially outperform our target.
Neutral issues include high currency exposure to the euro, the US dollar and now the rupee.

Appendix A-1

Analyst Certification

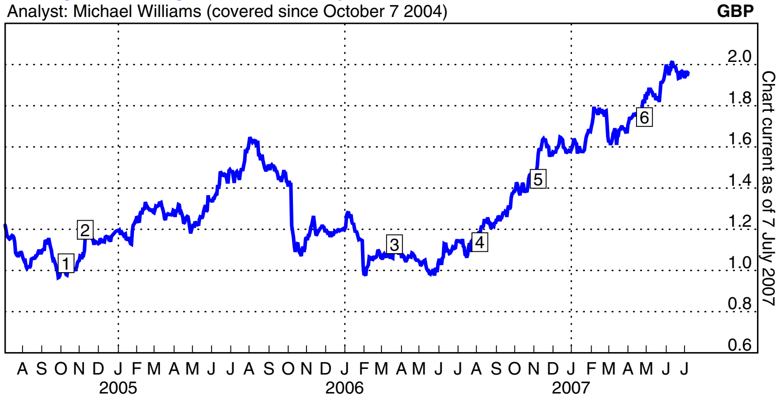
We, Terence Sinclair, James Rivett, Michael J Williams, Andrew Lee and Dimitri Y Kallianiotis, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Cable and Wireless (CW.L)

Ratings and Target Price History - Fundamental Research

Analyst: Michael Williams (covered since October 7 2004)



Covered
Not covered

#	Date	Rating	Target Price	Closing Price
1:	11 Oct 04	*1H	*1.18	0.98
2:	10 Nov 04	*2H	1.18	1.17
3:	22 Mar 06	2H	*1.10	1.10
4:	7 Aug 06	*1S	*1.60	1.17
5:	8 Nov 06	1S	*1.90	1.57
6:	27 Apr 07	1S	*2.40	1.81

*Indicates change.

Deutsche Telekom (DTEGn.DE)

Ratings and Target Price History - Fundamental Research

Analyst: Michael Williams (covered since May 26 2005)

Covered
Not covered

#	Date	Rating	Target Price	Closing Price
1:	11 Nov 04	*1M	17.00	15.67
2:	21 Feb 05	1M	*20.00	15.94
3:	9 Nov 05	*2M	*15.00	14.64
4:	19 Jul 06	2M	*13.00	12.28
5:	10 Aug 06	*2H	*11.50	11.17
6:	14 Nov 06	2H	*13.50	13.57
7:	29 Jan 07	*3H	*12.50	13.60

*Indicates change.

France Telecom (FTE.PA)

Ratings and Target Price History - Fundamental Research

Analyst: Terence Sinclair

Covered
Not covered

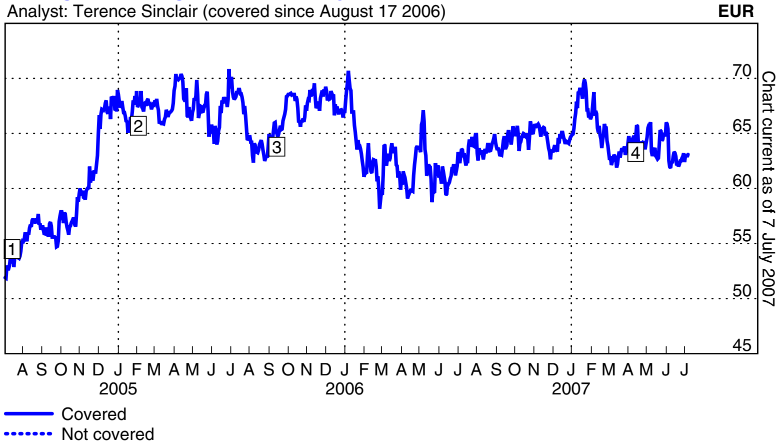
#	Date	Rating	Target Price	Closing Price
1:	24 Jan 05	*2M	*23.50	23.23
2:	29 Jun 05	*1M	*26.50	23.80
3:	27 Oct 05	*2M	*23.00	21.75
4:	15 Feb 06	2M	*21.00	19.01
5:	19 Jul 06	*2H	*18.00	16.63
6:	26 Oct 06	2H	*20.00	20.10
7:	1 Feb 07	2H	*22.00	21.26

*Indicates change.

Mobistar (MSTAR.BR)

Ratings and Target Price History - Fundamental Research

Analyst: Terence Sinclair (covered since August 17 2006)



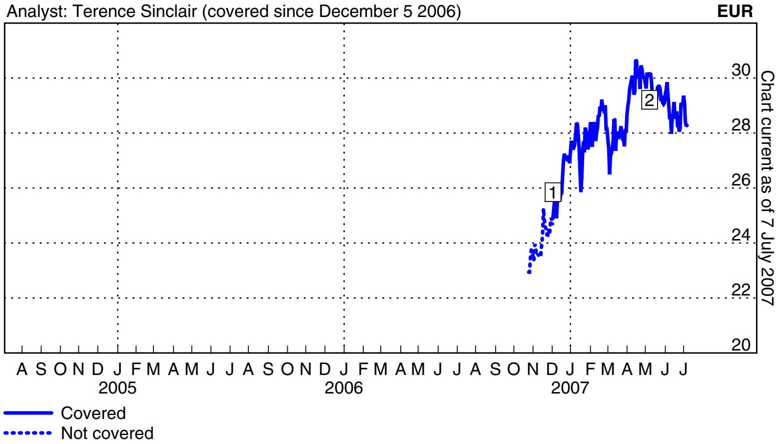
#	Date	Rating	Target Price	Closing Price
1:	15 Jul 04	*1H	*64.00	54.00
2:	3 Feb 05	1H	*80.00	67.55
3:	14 Sep 05	*2H	*70.00	65.00
4:	13 Apr 07	*1H	*72.50	64.61

*Indicates change.

Neuf Cegetel (NEUF.PA)

Ratings and Target Price History - Fundamental Research

Analyst: Terence Sinclair (covered since December 5 2006)



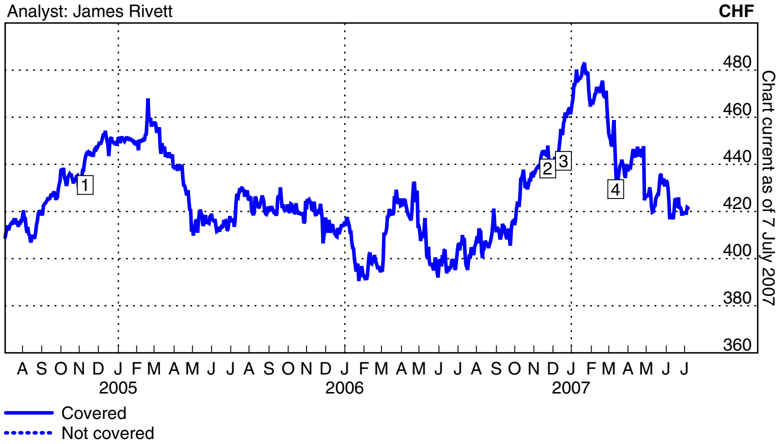
#	Date	Rating	Target Price	Closing Price
1:	4 Dec 06	1H	30.00	24.95
2:	8 May 07	*2H	30.00	30.15

*Indicates change.

Swisscom (SCMN.VX)

Ratings and Target Price History - Fundamental Research

Analyst: James Rivett



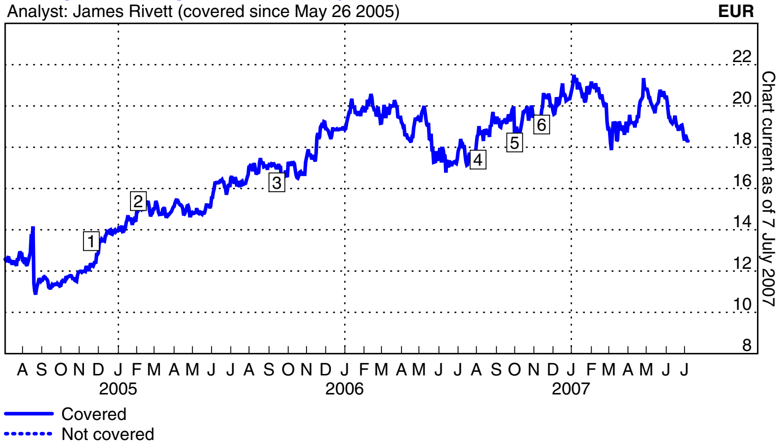
#	Date	Rating	Target Price	Closing Price
1:	10 Nov 04	2M	*430.00	442.75
2:	23 Nov 06	2M	430.00	448.00
3:	19 Dec 06	2M	*460.00	457.25
4:	13 Mar 07	2M	*480.00	438.00

*Indicates change.

Telekom Austria (TELA.VI)

Ratings and Target Price History - Fundamental Research

Analyst: James Rivett (covered since May 26 2005)



#	Date	Rating	Target Price	Closing Price
1:	19 Nov 04	2M	*13.00	12.30
2:	3 Feb 05	2M	*15.00	14.95
3:	14 Sep 05	2M	*17.00	17.00
4:	3 Aug 06	*1H	*22.00	18.61
5:	2 Oct 06	*2H	*19.50	18.35
6:	14 Nov 06	2H	*19.80	19.80

*Indicates change.

TeliaSonera (TLSN.ST)

Ratings and Target Price History - Fundamental Research

Analyst: James Rivett

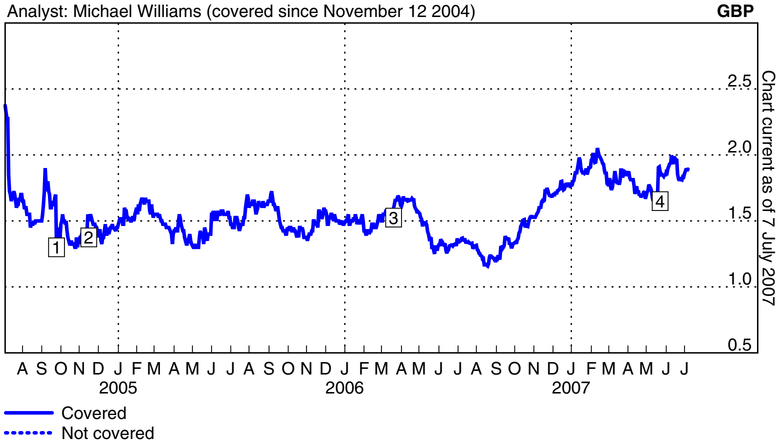
#	Date	Rating	Target Price	Closing Price
1:	14 Jul 04	1M	*36.00	31.90
2:	27 Sep 04	*2M	*37.00	34.80
3:	11 Feb 05	*3M	37.00	42.60
4:	29 Mar 05	*1M	*43.00	41.50
5:	26 Apr 05	*2M	43.00	39.70
6:	3 Aug 05	2M	*42.15	37.50
7:	15 Aug 05	2M	*41.00	37.30
8:	11 Jan 06	2M	*43.50	44.00
9:	16 Jun 06	*3H	*35.00	39.70
10:	18 Sep 06	3H	*40.00	45.70
11:	31 Oct 06	*2H	*49.00	52.50
12:	13 Feb 07	2H	*55.00	56.75
13:	24 Apr 07	2H	*60.00	62.00

*Indicates change.

Thus (THUS.L)

Ratings and Target Price History - Fundamental Research

Analyst: Michael Williams (covered since November 12 2004)



#	Date	Rating	Target Price	Closing Price
1:	24 Sep 04	*2S	*0.15	1.30
2:	16 Nov 04	2S	*0.17	1.50
3:	21 Mar 06	2S	*1.70	1.60
4:	23 May 07	2S	*2.00	1.88

*Indicates change.

Vodafone (VOD.L)

Ratings and Target Price History - Fundamental Research

Analyst: Terence Sinclair

#	Date	Rating	Target Price	Closing Price
1:	14 Sep 04	*3H	*1.20	1.29
2:	14 Sep 04	3H	1.20	1.29
3:	1 Sep 05	*2M	*1.55	1.52
4:	15 Nov 05	2M	*1.35	1.29
5:	13 Dec 05	*2H	1.35	1.25
6:	27 Feb 06	2H	*1.20	1.14
7:	5 Mar 06	*1H	*1.45	1.25
8:	11 Aug 06	*2H	*1.24	1.10
9:	26 Oct 06	2H	*1.43	1.33
10:	22 Nov 06	2H	*1.47	1.34
11:	29 May 07	2H	*1.53	1.60

*Indicates change.

Telecom Italia (Savings) (TLITn.MI)

Ratings and Target Price History - Fundamental Research

Analyst: James Rivett (covered since September 15 2005)

#	Date	Rating	Target Price	Closing Price
1:	14 Sep 05	2H	2.30	2.23
2:	23 Mar 07	2H	*1.80	1.88

*Indicates change.

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A member of Terence Sinclair's team holds a long position in the shares of Vodafone.

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Citigroup Investment Research Ratings Distribution

Data current as of 30 June 2007	Buy	Hold	Sell
Citigroup Investment Research Global Fundamental Coverage (3328)	46%	39%	15%
% of companies in each rating category that are investment banking clients	71%	70%	69%
Emerging Europe/Middle East/Africa (137)	44%	31%	25%
% of companies in each rating category that are investment banking clients	68%	86%	85%
Internet -- Europe (5)	80%	20%	0%
% of companies in each rating category that are investment banking clients	100%	0%	0%
Latin America (115)	43%	35%	23%
% of companies in each rating category that are investment banking clients	84%	90%	73%
Telecommunications Services -- Europe (22)	41%	45%	14%
% of companies in each rating category that are investment banking clients	89%	90%	67%
Telecommunications Services--Wireless -- Europe (6)	50%	50%	0%
% of companies in each rating category that are investment banking clients	100%	67%	0%
Telecommunications Services--Wireline -- Europe (3)	0%	33%	67%
% of companies in each rating category that are investment banking clients	0%	100%	50%
Telecommunications Services--Wireline -- North America (10)	30%	40%	30%
% of companies in each rating category that are investment banking clients	100%	75%	100%
Citigroup Investment Research Quantitative World Radar Screen Model Coverage (7447)	31%	40%	29%
% of companies in each rating category that are investment banking clients	56%	49%	44%
Citigroup Investment Research Quantitative Decision Tree Model Coverage (326)	49%	0%	51%
% of companies in each rating category that are investment banking clients	79%	0%	80%
Citigroup Investment Research Quantitative European Value & Momentum Screen (579)	30%	40%	30%
% of companies in each rating category that are investment banking clients	84%	78%	70%
Citigroup Investment Research Asia Quantitative Radar Screen Model Coverage (1855)	20%	60%	20%
% of companies in each rating category that are investment banking clients	64%	59%	61%
Citigroup Investment Research Quant Multi-Factor Model Coverage (0)	0%	0%	0%
% of companies in each rating category that are investment banking clients	0%	0%	0%
Citigroup Investment Research Australia Quantitative Top 100 Model Coverage (101)	30%	40%	31%
% of companies in each rating category that are investment banking clients	77%	73%	65%
Citigroup Investment Research Australia Quantitative Bottom 200 Model Coverage (171)	30%	40%	30%
% of companies in each rating category that are investment banking clients	16%	22%	15%
Citigroup Investment Research Australia Quantitative Scoring Stocks Model Coverage (84)	50%	0%	50%
% of companies in each rating category that are investment banking clients	55%	0%	26%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).
Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citigroup Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citigroup Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citigroup Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://www.sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

Guide to Quantitative Research Investment Ratings:
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