

29 January 2007

# Dialin' Q4 2006

## In need of positive vibes

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### Focus on cost cutting and yield

After the Q4 rally the sector is likely to pause for breath and the onus is now on the operators to deliver both earnings and cash flow encouragement. Although the medium term outlook for the sector remains difficult we believe that expectations for 2007 are relatively benign for most operators and as such there may be opportunity for a small increase in expectations for the next six months, especially as operators focus on cost cutting.

### Starting with KPIs

Following DT's pre-announcement we expect the large caps to continue to dominate the near term news flow with Vodafone announcing 4Q06 KPIs on 31 Jan and France Telecom announcing revenue and headline KPIs on 1 Feb. These three operators offer insights into the development of the UK, and German mobile and broadband markets, which are two of the most aggressive and troublesome areas of the European telecom space.

### Highlights for the quarter: dividends and guidance

As ever the Q4 news flow is likely to be dominated as much by the year end results, but also any outlook comment and the announced dividends. Whilst management teams may err on the cautious side with their guidance, we believe most operators' estimates for both 2006 and 2007 are safe. As such, there will be a focus towards yield, as a measure of both management's confidence and the potential share price support. Whilst medium term dividend growth expectations may be challenging, we believe the outlook for 2006 dividends is more controlled.

So far only Cosmote, Deutsche Telekom, France Telecom and Swisscom have offered group guidance for 2007, but we expect most operators to offer greater granularity for their targets with the release of full year results. We expect the details of any cost cutting programmes to be the key news, especially in non-headcount related areas.

The large capitalized operators will be the key drivers of the yield story in the sector as expectations for most are equivalent to yields over 5%, especially at France Telecom (Euro 1.2) and Deutsche Telekom (Euro 0.8).

### Total return 2.6%; sanguine on 2007

On our current estimates, the sector offers a total return of c2.6% with a c5.0% dividend yield (2006E payable in 2007) compensating for c2.4% weighted average downside to our target prices. Our strategists remain 100bp overweight. The telecom sector trades at a 2007E EV/EBITDA of 6.7x, 2007E P/E of 16.0x, 2007E dividend yield of 4.9% and a 2007E FCF yield of 8.4%. This compares with the utilities sector which trades at a 2007E EV/EBITDA of 8.2x, 2007E P/E of 17.6x, 2007E dividend yield of 3.8% and a 2007E FCF yield of 3.1%.

### Deutsche Bank AG/London

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

### Results Preview

#### Top picks

Cable & Wireless (CW.L),GBP166.75	Buy
Iliad Group (ILD.PA),EUR72.50	Buy
OTE (OTEr.AT),EUR22.96	Buy
Vodafone Group Plc (VOD.L),GBP149.00	Buy

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**Table of Contents**

<b>Key recommendations .....</b>	<b>4</b>
<b>View on valuation.....</b>	<b>5</b>
<b>FY consensus vs DB estimates .....</b>	<b>12</b>
<b>Sector drivers: review .....</b>	<b>15</b>
<b>Cash: how much/what for? .....</b>	<b>17</b>
<b>M&amp;A monitor .....</b>	<b>19</b>
<b>Earnings momentum .....</b>	<b>20</b>
<b>Government influence.....</b>	<b>21</b>
<b>Operator specifics .....</b>	<b>22</b>
<b>3Q 2006 results reactions.....</b>	<b>33</b>
<b>3Q 2006 results calendar.....</b>	<b>39</b>
<b>Belgacom.....</b>	<b>40</b>
<b>BT Group PLC.....</b>	<b>42</b>
<b>Cosmote .....</b>	<b>44</b>
<b>Deutsche Telekom .....</b>	<b>52</b>
<b>Elisa Corporation .....</b>	<b>67</b>
<b>France Telecom.....</b>	<b>72</b>
<b>Fastweb .....</b>	<b>74</b>
<b>Iliad Group .....</b>	<b>79</b>
<b>KPN .....</b>	<b>81</b>
<b>Mobistar .....</b>	<b>83</b>
<b>OTE .....</b>	<b>85</b>
<b>Portugal Telecom.....</b>	<b>93</b>
<b>Telecom Italia.....</b>	<b>102</b>
<b>Telefónica.....</b>	<b>108</b>
<b>Telekom Austria.....</b>	<b>131</b>
<b>Telenet Group Holding NV .....</b>	<b>136</b>
<b>Telenor ASA .....</b>	<b>138</b>
<b>TeliaSonera .....</b>	<b>148</b>
<b>Vodafone Group Plc .....</b>	<b>156</b>

# Key recommendations

**Figure 1: Stocks in focus**

Top picks		Caution warranted	
<b>C&amp;W</b>	<b>Target GBP 190; Buy</b>	<b>Telefónica</b>	<b>Target Euro 14.4; Hold</b>
	<p>C&amp;W is in the early stages of turning around the fortunes of the UK business. New management appear to have cleared the decks and are aiming to deliver significant improvements in profitability through a clearer focus on a subset of the UK market – large corporates. Our 190p target price is contingent on management's ability to hit medium term targets of £2bn of revenues and 20% EBITDA margins. The international businesses appear to be stabilising after a number of years of decline through regulatory and competitive pressure. Greater accountability under the new management team is even offering the prospect of some growth and the potential to increase leverage to support M&amp;A and/or improved returns.</p>		<p>Due to a combination of footprint M&amp;A, retaliatory pricing, regulatory convergence and our view that, based on experiences in the US, we are only three years into a five-year downgrade cycle of European large cap operator profitability, we believe there are risks to medium term Telefónica expectations. Our estimates assume Telefónica delivers a consistent 23.5% operating cash flow margin for 2008 to 2010. Consensus and management targets (note TEM España margin targets have been regularly cut) assume margins reach at least 2pp higher (difference worth &gt;Euro 2 share to our valuation and Euro 1.1bn FCF). Our 2006 estimates are in line with consensus and management, but we are significantly below both for 2007E and 2008E (&gt;7% at EBITDA level).</p>
<b>Iliad</b>	<b>Target Euro 80; Buy</b>	<b>Swisscom</b>	<b>Target CHF 420; Hold</b>
	<p>Iliad is a pure play broadband operator in the French market. It has built a strong position as the number 2 operator by market share and enjoys a reputation for innovation. An efficient but effective distribution strategy is helping drive sustained strong subscriber growth and first mover advantage on fibre-to-the-home investment continues to attract new business and should provide some form of defence against competitor investments in this area. Our target price assumes that Iliad can reach its target of 4mn broadband subs by 2010 (from c2m today).</p>		<p>Swisscom has bounced strongly on the back of the CHF 2.25bn buy back and the acquisition of Swisscom Mobile minorities. However, the outlook remains difficult as shown by the fact that 2007 headline guidance implies a 4% EBITDA cut to around CHF 3.8bn. While there are cost opportunities with the integration of Swisscom Mobile, the company has previously successfully reduced headcount in the wireline division which reduces longer term opportunities. Additionally with the potential launch of ULL services and ongoing regulatory cuts, there are likely to be continued drivers for return contraction.</p>
<b>OTE</b>	<b>Target Euro 27.4; Buy</b>		
	<p>OTE offers a combination of cost cutting and a continued wireline revenue out-performance as the pace of ULL remains controlled. Capex continues to undershoot targets and this is supporting short term FCF. We also believe that despite interest from other operators, expectations for a privatization are controlled and we do not fear a placing given the quality of the investment case. Finally, we continue to have enthusiasm for Cosmote (Buy, target Euro 25.2), where each Euro 1.0 of incremental share price appreciation equates to Euro 0.46 increase in OTE</p>		
<b>Vodafone</b>	<b>Target GBP 155; Buy</b>		
	<p>Vodafone continues to benefit from a stabilisation in its KPIs helped by strong growth in its EMAPA regions as well as outperformance versus its peers in several of its core European markets (Spain, Italy and Germany). The company's aggressive cost saving program continues to proceed according to plan and has involved various progressive measures including network sharing in Spain, tying the equipment vendors into the performance of the network as in Turkey, and managing to rationalise its data centres ahead of schedule. While acquisition related risks remain, not least as we believe management is intent on acquiring Hutchison-Essar in India, the company maintains its strict investment criteria for owning new assets (meet CoC in 3-5 years and provide IRR at least 200bp over its CoC) as evidenced by its recent stronger than expected performance in Turkey.</p>		

Source: Deutsche Bank estimates

# View on valuation

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## Index

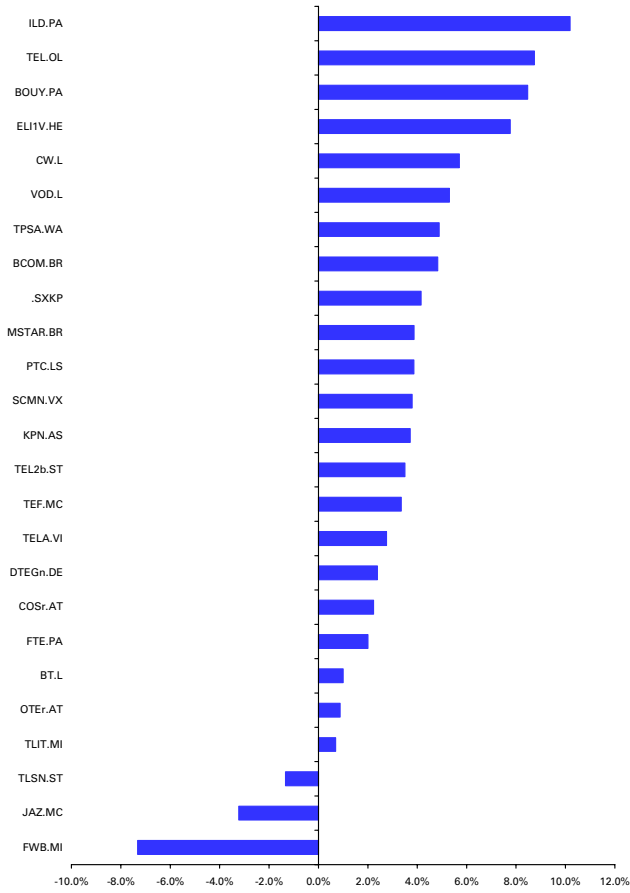
- Figure 2: Price performance YTD 2007
- Figure 3: Price performance 2006
- Figure 4: European Telecom Sector CROCI ex g/w
- Figure 5: European Telecom Economic Profit/Implied EP
- Figure 6: Global telecom sector CROCI ex g/w
- Figure 7: Global telecom economic profit/implied EP
- Figure 8: Selected telecom economic P/E's and CROCI
- Figure 9: 2006E P/E (y-axis) vs market cap (Euro m; x-axis)
- Figure 10: 2007E P/E (y-axis) vs market cap (Euro m; x-axis)
- Figure 11: Deutsche Telekom EP/IP
- Figure 12: Telefónica EP/IP
- Figure 13: Telecom Italia EP/IP
- Figure 14: Vodafone EP/IP
- Figure 15: European Telecom Operators - Upside/Downside
- Figure 16: European Telecom Operators - Key Ratios (as at 25 January 2007)
- Figure 17: European Telecom Operators - Enterprise Metrics (as at 25 January 2007)

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## Strategists Overweight

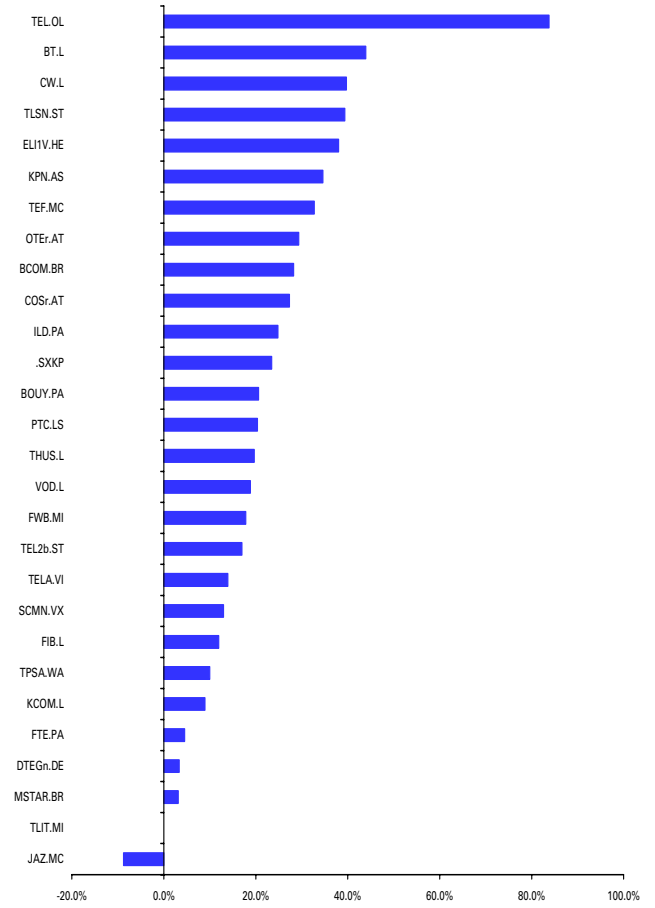
Deutsche Bank's strategists recently moved to an overweight position from neutral (as detailed in our last edition of Dialin). On our bottom up DCF modelling we estimate the sector offers a total return potential of 2.6% (0.3% in October, 16% in July, 9.0% in April) with 10 out of the 25 stocks we cover now rated Hold (10/25 in October, 13/24 in July and 8/25 in April). The stocks within our strategist's portfolio are: Vodafone (2.5%), Deutsche Telekom (0.8%), KPN (1.4%), Telenor (1.3%), Cosmote Mobile (0.6%) and OTE (0.6%).

**Figure 2: Price performance YTD 2007**



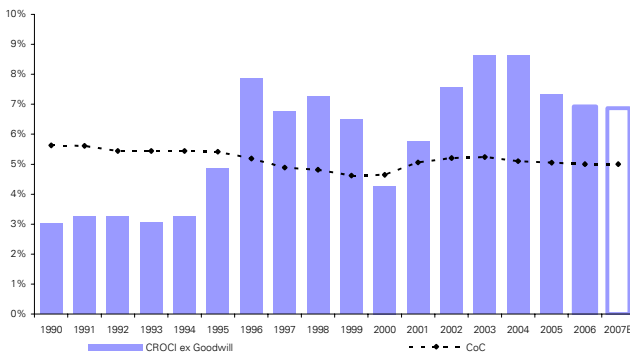
Source: Deutsche Bank, Reuters

**Figure 3: Price performance 2006 (total return)**



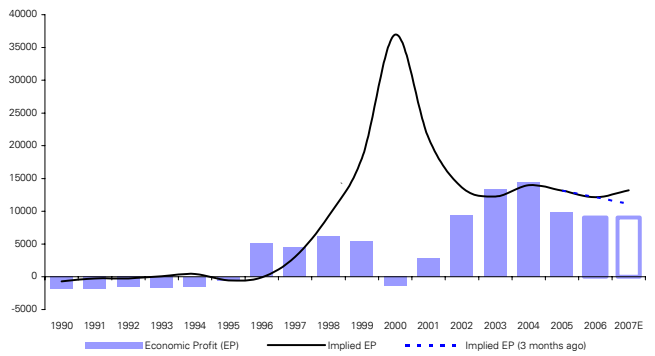
Source: Deutsche Bank, Reuters

**Figure 4: European Telecom Sector CROCI ex g/w**



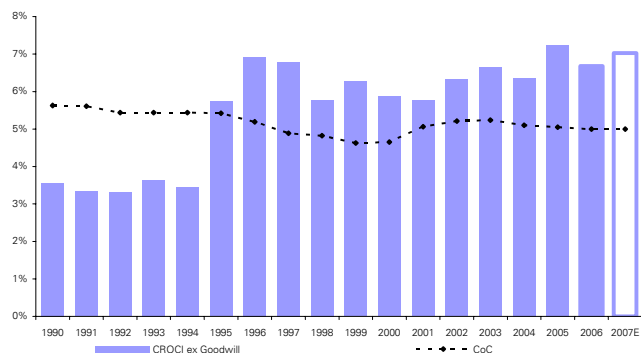
Source: Deutsche Bank

**Figure 5: European Telecom Economic Profit/Implied EP**



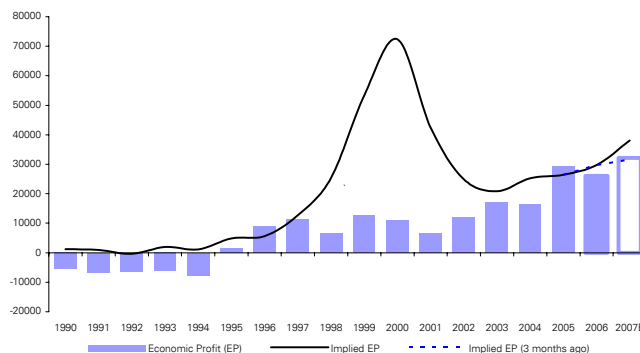
Source: Deutsche Bank

**Figure 6: Global telecom sector CROCI ex g/w**



Source: Deutsche Bank

**Figure 7: Global telecom economic profit/implied EP**



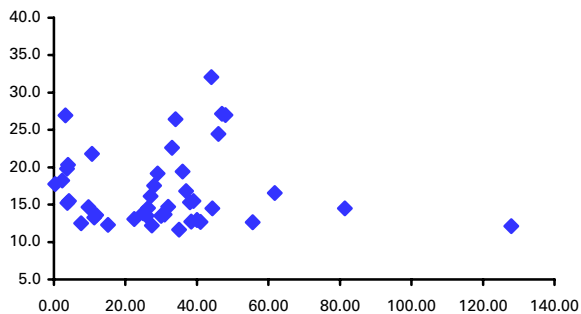
Source: Deutsche Bank

**Figure 8: Selected telecom economic P/E's and CROCI**

Company	EV/NCI			CROCI			Economic P/E		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
BT GROUP PLC	1.17	1.42	1.39	4.04%	4.51%	4.68%	28.91	31.50	29.59
DEUTSCHE TELEKOM AG-REG	1.12	1.03	1.05	5.58%	4.62%	4.16%	20.02	22.37	25.12
FRANCE TELECOM SA	2.06	1.69	1.69	9.90%	8.84%	8.02%	20.85	19.16	21.12
KPN	1.46	1.59	1.71	7.54%	7.98%	8.19%	19.29	19.89	20.89
TELECOM ITALIA SPA	1.75	1.58	1.53	5.00%	5.74%	5.83%	34.99	27.61	26.27
VERIZON	0.96	0.96	1.01	4.56%	4.63%	5.13%	21.06	20.79	19.80
TELEFONICA S.A.	1.35	1.37	1.48	5.09%	6.09%	6.60%	26.56	22.57	22.39
TELIASONERA AB	1.71	1.98	2.32	11.12%	11.88%	11.02%	15.35	16.64	21.05
VODAFONE GROUP PLC	2.70	2.40	2.21	14.67%	12.41%	11.22%	18.37	19.35	19.66
<b>Median</b>	<b>1.46</b>	<b>1.58</b>	<b>1.53</b>	<b>5.58%</b>	<b>6.09%</b>	<b>6.60%</b>	<b>20.85</b>	<b>20.79</b>	<b>21.12</b>
<b>Europe Telecommunication Services</b>	<b>1.60</b>	<b>1.52</b>	<b>1.55</b>	<b>7.34%</b>	<b>6.93%</b>	<b>6.87%</b>	<b>21.81</b>	<b>21.90</b>	<b>22.53</b>

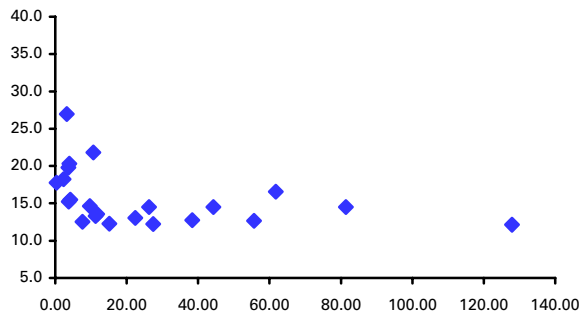
Source: Deutsche Bank estimates and company data

**Figure 9: 2006E P/E (y-axis) vs market cap (Euro m; x-axis)**



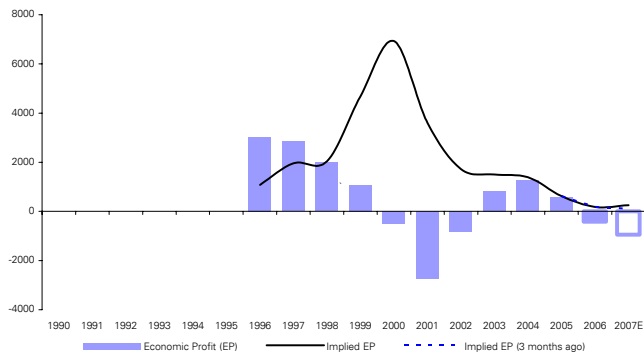
Source: Deutsche Bank estimates

**Figure 10: 2007E P/E (y-axis) vs market cap (Euro m; x-axis)**



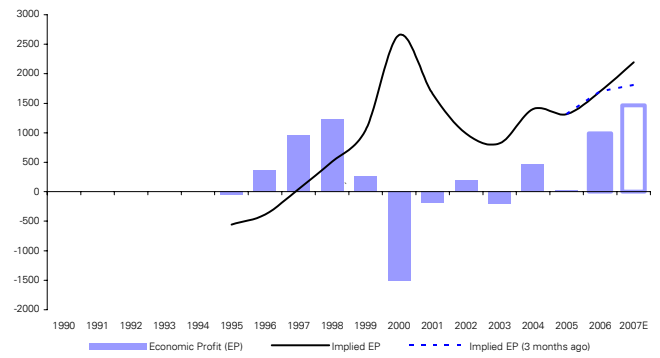
Source: Deutsche Bank estimates

**Figure 11: Deutsche Telekom EP/IP**



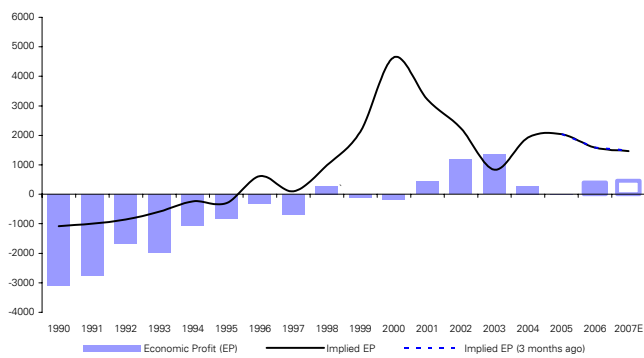
Source: Company Data, Deutsche Bank estimates

**Figure 12: Telefónica EP/IP**



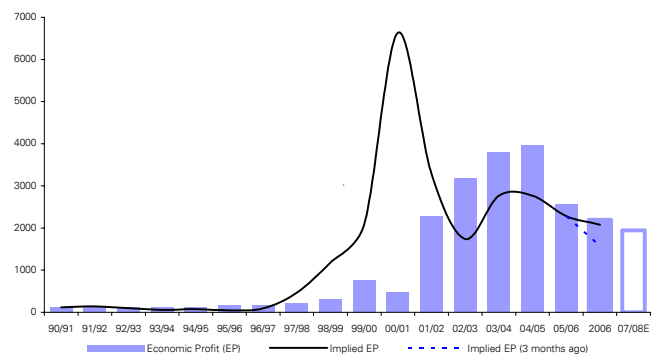
Source: Company Data, Deutsche Bank estimates

**Figure 13: Telecom Italia EP/IP**



Source: Company Data, Deutsche Bank estimates

**Figure 14: Vodafone EP/IP**



Source: Company Data, Deutsche Bank estimates



**Figure 15: European Telecom Operators - Upside/Downside**

Company	Primary analyst	Reporting Currency	Current Price	Target Price	Rec.	Upside (%)	Yield (%) 2006	Total Return (%)
Belgacom	Matthew Bloxham, CFA	EUR	35.5	31.0	Hold	-13	4	-8
BT Group PLC	Matthew Bloxham, CFA	GBP	308.0	285.0	Hold	-7	5	-3
Cosmote	Guy Peddy	EUR	23.2	25.2	Buy	9	3	12
Deutsche Telekom	Guy Peddy	EUR	14.3	15.5	Buy	8	6	14
Elisa Corporation	Pontus Gronlund	EUR	22.3	25.0	Buy	12	3	15
France Telecom	Matthew Bloxham, CFA	EUR	21.6	19.5	Hold	-10	6	-4
KPN	Matthew Bloxham, CFA	EUR	11.4	11.5	Buy	1	4	5
Mobistar	Matthew Bloxham, CFA	EUR	67.2	65.0	Hold	-3	6	3
OTE	Guy Peddy	EUR	23.1	27.4	Buy	19	2	21
Portugal Telecom	Guy Peddy	EUR	10.2	8.2	Hold	-20	23	3
Swisscom	Vivek Khanna	CHF	479.0	420.0	Hold	-12	3	-9
Telefonica	Guy Peddy	EUR	16.8	14.4	Hold	-14	4	-11
Telenor ASA	Vivek Khanna	NOK	129.0	136.0	Buy	5	2	7
Telekom Austria	Vivek Khanna	EUR	21.0	22.0	Hold	5	4	9
Telecom Italia	Carola Bardelli	EUR	2.3	2.3	Hold	-4	6	2
TeliaSonera	Vivek Khanna	SEK	55.3	50.6	Hold	-8	11	3
Vodafone Group Plc	Gareth Jenkins	GBP	150.0	155.0	Buy	3	4	8
Colt Telecom Group S.A.	Matthew Bloxham, CFA	EUR	162.3	55.0	Hold	-66	0	-66
Cable & Wireless	Matthew Bloxham, CFA	GBP	166.0	190.0	Buy	14	3	18
Eutelia	Carola Bardelli	EUR	6.0	8.0	Buy	34	0	34
Fastweb	Carola Bardelli	EUR	40.8	55.0	Buy	35	11	46
Iliad Group	Matthew Bloxham, CFA	EUR	72.9	80.0	Buy	10	0	10
Telenet Group Holding NV	Matthew Bloxham, CFA	EUR	23.4	20.0	Hold	-14	0	-14
United Internet	Benjamin Kohnke	EUR	14.4	16.5	Buy	15	1	15

**Sector weighted upside****-2.4****2.6**

Source: Deutsche Bank estimates and company data

**Figure 16: European Telecom Operators - Key Ratios (as at 25 January 2007)**

Company	Reporting Currency	Current Price	Target Price	Rec	Mkt Cap (EURbn)	EV (EURbn)	EV/EBITDA (x)			Adjusted P/E (x)			FCF Yield (%)			Dividend Yield (%)										
							2006E	2007E	2008E	2009E	2006E	2007E	2008E	2009E	2006E	2007E	2008E	2009E	2006E	2007E	2008E	2009E				
Belgacom	EUR	35.5	31.0	Hold	11.96	14.46	6.7	6.9	6.9	6.8	14.2	14.0	13.8	13.1	7.9	7.9	7.9	7.0	4.4	4.6	4.6	4.8				
BT Group PLC	GBP	308.0	285.0	Hold	38.82	51.33	6.0	5.9	5.8	5.6	14.1	13.7	12.9	11.9	4.0	5.2	7.1	7.2	4.5	5.0	5.3	5.7				
Cosmote	EUR	23.2	25.2	Buy	7.74	10.47	12.0	10.0	8.2	7.3	21.3	16.3	12.7	11.0	5.0	4.5	6.4	8.5	3.2	3.6	3.9	4.3				
Deutsche Telekom	EUR	14.3	15.5	Buy	62.45	114.41	5.8	5.7	5.5	5.2	17.2	17.7	16.7	14.2	2.7	9.5	10.0	11.3	5.6	5.6	5.6	5.6				
Elisa Corporation	EUR	22.3	25.0	Buy	3.71	4.07	9.2	8.2	7.1	6.4	23.5	19.1	15.2	13.5	3.8	5.2	7.5	8.3	2.7	3.3	4.4	5.0				
France Telecom	EUR	21.6	19.5	Hold	56.10	111.83	6.0	5.9	5.6	5.4	12.6	13.6	12.8	11.8	13.5	12.4	13.2	11.9	5.6	5.8	6.2	6.8				
KPN	EUR	11.4	11.5	Buy	22.99	33.24	6.8	6.8	6.7	6.7	15.4	14.0	13.4	13.3	10.9	10.4	8.8	8.4	4.4	4.6	4.8	4.8				
Mobistar	EUR	67.2	65.0	Hold	4.25	4.15	6.8	6.9	7.2	7.0	14.7	14.7	15.5	14.9	7.1	6.7	6.7	7.2	6.5	6.5	6.1	6.4				
OTE	EUR	23.1	27.4	Buy	11.32	17.03	7.5	7.5	5.8	5.3	13.2	22.8	13.4	11.9	9.6	8.6	12.8	11.6	1.9	2.6	3.5	3.9				
Portugal Telecom	EUR	10.2	8.2	Hold	10.62	18.56	8.8	10.3	10.0	9.3	16.5	26.4	21.8	17.8	7.0	6.9	7.0	10.3	22.5	5.9	5.9	5.9				
Swisscom	CHF	479.0	420.0	Hold	15.14	16.79	7.2	7.3	7.2	7.6	15.1	11.7	12.3	12.0	7.7	9.3	9.0	9.3	3.3	3.8	4.2	4.4				
Telefonica	EUR	16.8	14.4	Hold	81.86	133.70	7.0	6.6	6.1	5.9	13.4	19.5	14.6	13.1	8.7	9.4	11.4	12.6	3.6	3.6	3.9	4.2				
Telenor ASA	NOK	129.0	136.0	Buy	26.60	32.42	7.8	6.7	6.0	5.5	17.6	17.0	14.7	13.5	5.0	5.2	7.3	8.8	2.0	2.3	2.5	2.6				
Telekom Austria	EUR	21.0	22.0	Hold	9.70	12.79	6.6	6.9	6.8	6.3	16.0	15.4	14.7	11.9	6.8	9.5	8.2	9.0	3.6	3.8	4.0	5.1				
Telecom Italia	EUR	2.3	2.3	Hold	44.82	79.55	6.1	5.9	5.8	5.7	16.1	15.7	14.7	14.1	6.0	10.2	8.2	9.3	6.0	6.0	6.0	6.0				
TeliaSonera	SEK	55.3	50.6	Hold	27.36	25.05	7.2	7.7	7.5	7.7	14.0	12.9	12.2	11.8	5.1	4.4	4.3	4.5	11.2	7.5	8.1	8.3				
Vodafone Group Plc	GBP	150.0	155.0	Buy	128.78	125.90	6.9	6.9	6.9	6.6	13.7	12.8	12.2	11.7	5.8	5.9	2.8	6.6	4.4	5.5	5.7	6.0				
Colt Telecom Group	EUR	162.3	55.0	Hold	3.73	4.03	20.6	19.2	18.1	17.5	NM	NM	NM	199.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Cable & Wireless	GBP	166.0	190.0	Buy	5.82	5.89	8.7	6.9	5.0	4.3	40.6	18.5	10.1	8.4	-5.1	0.3	6.4	10.6	3.3	3.8	4.0	4.1				
Eutelia	EUR	6.0	8.0	Buy	0.39	0.41	7.5	6.0	4.5	4.1	71.6	31.8	17.6	16.4	1.6	10.3	12.2	14.3	0.0	1.3	3.7	4.1				
Fastweb	EUR	40.8	55.0	Buy	3.24	4.01	9.3	6.9	5.8	5.5	NM	69.6	27.4	21.1	-10.3	2.5	12.0	17.5	10.8	15.4	15.4	15.4				
Iliad Group	EUR	72.9	80.0	Buy	3.94	4.00	12.2	10.0	8.3	7.0	31.8	24.6	20.4	16.3	-1.1	-4.2	-1.1	2.1	0.5	0.8	1.1	1.6				
Telenet Group Holding	EUR	23.4	20.0	Hold	2.34	3.51	9.5	8.2	7.0	6.2	270.6	27.3	18.3	14.7	4.4	6.3	7.3	8.2	0.0	0.0	0.0	0.0				
United Internet	EUR	14.4	16.5	Buy	3.56	3.61	15.2	11.6	9.0	NA	34.1	26.3	19.3	NA	5.1	5.2	6.1	0.0	0.8	1.1	1.5	NA				
<b>Sector weighted average</b>											<b>6.8</b>	<b>6.7</b>	<b>6.4</b>	<b>6.1</b>	<b>16.1</b>	<b>15.9</b>	<b>13.9</b>	<b>13.9</b>	<b>6.9</b>	<b>8.4</b>	<b>8.5</b>	<b>9.6</b>	<b>5.0</b>	<b>4.9</b>	<b>5.2</b>	<b>5.4</b>
European utilities											9.1	8.4	8.2	7.4	17.8	15.5	17.6	23.1	2.1	3.4	3.1	8.3	3.3	3.6	3.8	6.5

Source: Deutsche Bank estimates and company data

**Figure 17: European Telecom Operators - Enterprise Metrics (as at 25 January 2007)**

Company	EV/EBITDA (x)			EV/OCF (x)			Unlevered FCF/EV (%)					
	2006E	2007E	2008E	2009E	2008E	2007E	2006E	2009E	2008E	2009E		
Belgacom	6.7	6.9	6.9	6.8	9.7	10.0	9.7	9.4	6.1	6.2	7.4	6.8
BT Group PLC	6.0	5.9	5.8	5.6	13.9	12.8	11.5	10.2	4.4	4.6	6.0	6.0
Cosmote	12.0	10.0	8.2	7.3	24.9	16.9	12.4	9.9	3.9	3.9	5.9	7.7
Deutsche Telekom	5.8	5.7	5.5	5.2	14.0	9.7	9.4	8.9	3.6	7.6	8.1	9.1
Elisa Corporation	9.2	8.2	7.1	6.4	17.7	13.5	10.4	9.3	4.0	5.2	7.5	8.5
France Telecom	6.0	5.9	5.6	5.4	9.3	9.1	8.7	8.6	9.8	8.9	9.6	9.0
KPN	6.8	6.8	6.7	6.7	10.6	11.4	11.0	10.8	9.2	8.0	7.3	7.1
Mobistar	6.8	6.9	7.2	7.0	9.4	10.0	10.4	9.8	7.4	6.9	6.6	7.2
OTE	7.5	7.5	5.8	5.3	12.3	12.8	8.6	7.4	7.0	6.7	10.6	9.9
Portugal Telecom	8.8	10.3	10.0	9.3	16.4	17.0	16.9	12.6	5.5	5.0	5.1	6.8
Swisscom	7.2	7.3	7.2	7.6	10.9	10.7	10.5	11.0	6.6	7.5	7.8	7.7
Telefonica	7.0	6.6	6.1	5.9	12.0	10.9	9.6	9.1	6.6	7.9	9.5	10.0
Telenor ASA	7.8	6.7	6.0	5.5	18.6	13.1	9.7	8.1	4.2	4.4	7.3	9.1
Telekom Austria	6.6	6.9	6.8	6.3	13.6	11.4	11.4	10.1	6.1	8.0	7.2	8.0
Telecom Italia	6.1	5.9	5.8	5.7	9.7	9.4	9.3	8.8	5.5	8.2	7.1	7.8
TeliaSonera	7.2	7.7	7.5	7.7	11.1	13.2	12.4	12.2	5.8	4.6	4.6	5.2
Vodafone Group Plc	6.9	6.9	6.9	6.6	10.2	9.9	9.8	9.5	6.8	6.7	3.7	7.4
Colt Telecom Group S.A.	20.6	19.2	18.1	17.5	72.2	74.1	63.4	54.8	2.2	2.0	1.9	2.2
Cable & Wireless	8.7	6.9	5.0	4.3	319.3	25.5	10.0	7.6	-5.4	1.0	7.0	11.7
Eutelia	7.5	6.0	4.5	4.1	14.5	9.7	6.4	5.8	2.2	10.3	13.3	16.4
Fastweb	9.3	6.9	5.8	5.5	-33.2	26.8	9.5	7.8	-7.1	2.9	9.8	13.6
Iliad Group	12.2	10.0	8.3	7.0	402.1	-55.2	60.3	18.7	-1.0	-3.9	-0.8	2.3
Telenet Group Holding NV	9.5	8.2	7.0	6.2	22.1	16.3	12.6	10.0	7.5	7.4	8.4	9.7
United Internet	15.2	11.6	9.0	NA	18.3	13.8	10.6	5.0	5.0	5.6	6.9	
<b>Sector weighted average</b>	<b>6.8</b>	<b>6.7</b>	<b>6.4</b>	<b>6.1</b>	<b>16.1</b>	<b>10.9</b>	<b>10.4</b>	<b>9.6</b>	<b>6.1</b>	<b>7.0</b>	<b>7.3</b>	<b>8.2</b>

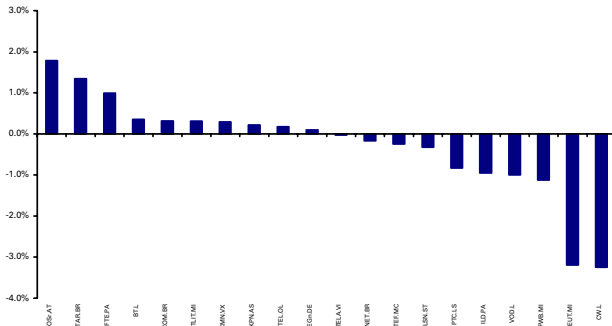
Source: Deutsche Bank estimates and company data

# FY consensus vs DB estimates

## Index

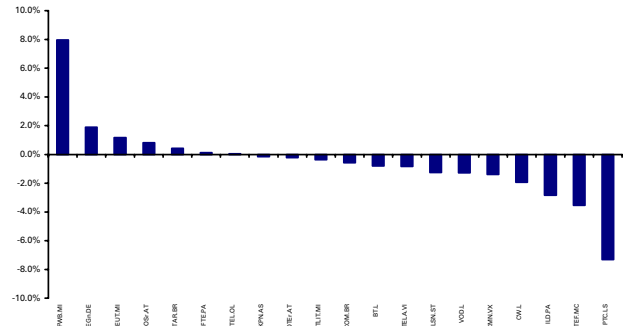
- Figure 18: DB revenue estimates relative to consensus (2006E)
- Figure 19: DB EBITDA estimates relative to consensus (2006E)
- Figure 20: DB EPS estimates relative to consensus (2006E)
- Figure 21: DB DPS estimates relative to consensus (2006E)
- Figure 22: Reuters consensus estimates (m except per share data)
- Figure 23: DB estimates (m except per share data)
- Figure 24: DB relative to consensus estimates

**Figure 18: DB revenue estimates relative to consensus (2006E)**



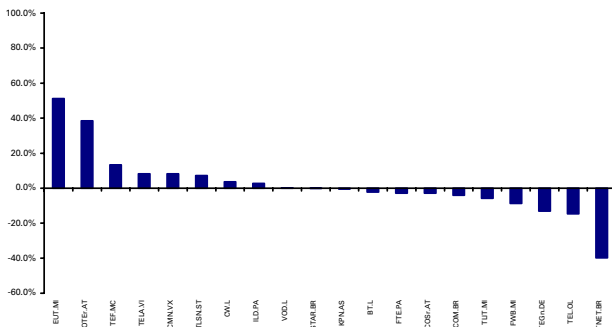
Source: Deutsche Bank and Reuters

**Figure 19: DB EBITDA estimates relative to consensus (2006E)**



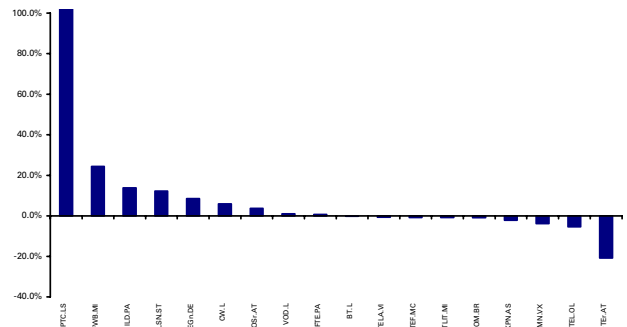
Source: Deutsche Bank and Reuters

**Figure 20: DB EPS estimates relative to consensus (2006E)**



Source: Deutsche Bank and Reuters

**Figure 21: DB DPS estimates relative to consensus (2006E)**



Source: Deutsche Bank and Reuters

**Figure 22: Reuters consensus estimates (m except per share data)**

	Revenue			EBITDA			EBIT			EPS Consensus Estimate			DPS			Recommendations		
	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	Buy/Outperform	Hold	Underperform/Sell
BT.L	20,036	20,238	20,305	5,646	5,711	5,782	2,692	2,726	2,780	22,28	22,81	23,56	14,02	15,18	16,14	17%	50%	33%
BCOM.BR	6,044	5,965	5,911	2,156	2,080	2,020	1,373	1,324	1,285	2,60	2,55	2,50	1,57	1,61	1,64	23%	50%	27%
COSI.AT	2,354	3,074	3,399	865	1,017	1,156	565	689	804	1,12	1,36	1,64	0,72	0,85	1,00	70%	30%	0%
DTEGn.DE	61,388	62,970	63,608	19,491	19,773	20,135	8,858	9,157	9,505	0,96	0,96	1,02	0,74	0,77	0,81	30%	43%	27%
EUT.MI	463	487	485	53	66	82	-1	11	29	0,06	0,24	0,55	0,00	0,05	0,00	50%	0%	50%
FNB.MI	1,264	1,644	1,921	398	585	718	-58	128	258	-0,99	0,52	1,74	3,54	3,38	3,19	68%	27%	5%
FTE.PA	51,971	52,236	52,652	18,524	18,502	18,649	10,864	10,883	10,776	1,76	1,75	1,84	1,19	1,25	1,31	43%	40%	17%
ILD.PA	952	1,198	1,403	338	440	524	189	239	292	2,23	2,82	3,46	0,31	0,48	0,70	69%	31%	0%
KPN.Nu.L	12,069	12,281	12,317	4,861	4,895	4,907	2,423	2,500	2,523	0,75	0,79	0,84	0,51	0,54	0,57	49%	41%	11%
MSTAR.BR	1,550	1,568	1,568	606	607	599	423	422	415	4,58	4,59	4,52	3,55	3,68	3,70	43%	43%	13%
OTE.AT	5,866	6,405	6,685	2,267	2,429	2,584	1,148	1,308	1,477	1,27	1,36	1,60	0,57	0,67	0,86	82%	18%	0%
PTCL.S	6,370	6,351	6,400	2,246	2,280	2,345	1,084	1,154	1,254	0,56	0,52	0,58	0,48	0,50	0,57	32%	53%	16%
SCMN.VX	9,620	9,503	9,390	3,811	3,917	3,860	2,423	2,536	2,489	29,32	33,92	33,76	16,63	18,11	18,30	17%	43%	39%
TEF.MC	52,549	55,760	57,394	19,802	20,781	22,163	10,238	11,083	12,718	1,11	1,18	1,47	0,60	0,70	0,81	66%	29%	5%
TLIT.MI	31,147	31,808	32,256	13,090	13,420	13,531	7,484	7,785	8,041	0,15	0,17	0,18	0,14	0,15	0,15	32%	38%	29%
TLNS.ST	91,186	93,324	95,641	32,068	32,185	33,246	23,134	22,699	23,839	3,70	3,56	3,75	5,53	3,87	3,66	23%	48%	29%
TNET.BR	814	903	967	363	396	422	144	170	199	0,14	0,63	0,96	0,00	0,00	0,00	33%	53%	13%
TEL.OL	92,776	100,916	106,163	33,843	37,653	39,793	19,107	22,304	23,528	8,58	7,91	8,44	2,75	3,31	3,79	60%	33%	7%
TELA.VI	4,746	4,767	4,803	1,940	1,921	1,918	816	834	880	1,21	1,27	1,38	0,77	0,82	0,89	40%	60%	0%
VOD.L	31,406	32,547	33,561	12,181	12,324	12,493	9,162	9,325	9,741	10,97	11,59	12,18	6,51	6,92	7,25	72%	22%	6%

Source: Reuters

**Figure 23: DB estimates (m except per share data)**

	Revenue			EBITDA			EBIT			EPS Consensus Estimate			DPS			Recommendations		
	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	Buy/Outperform	Hold	Underperform/Sell
BT.L	20,107	20,398	20,768	5,601	5,711	5,782	2,680	2,759	2,858	21,79	22,56	23,93	14,00	15,34	16,28	16.28	16.28	Hold
BCOM.BR	6,063	5,960	5,863	2,143	2,041	1,959	1,345	1,316	1,320	2,49	2,53	2,58	1,56	1,62	1,64	1.64	1.64	Hold
COSI.AT	2,396	3,208	3,570	872	1,041	1,244	562	712	906	1,09	1,42	1,83	0,75	0,84	0,90	0.84	0.90	Buy
DTEGn.DE	61,449	63,184	63,518	19,862	19,494	19,860	8,018	7,624	9,036	0,83	0,81	0,86	0,80	0,80	0,80	0.80	0.80	Buy
EUT.MI	448	484	506	54	65	82	0	11	27	0,08	0,19	0,34	0,00	0,08	0,22	0.08	0.22	Buy
FWB.MI	1,250	1,690	1,923	429	646	818	-61	152	286	-0,91	0,59	1,49	4,41	6,30	6,30	6.30	6.30	Buy
FTE.PA	52,489	52,049	51,556	18,547	18,344	18,583	10,883	10,802	11,148	1,71	1,58	1,69	1,20	1,25	1,34	1.25	1.34	Hold
ILD.PA	942	1,213	1,441	329	420	512	195	256	313	2,29	2,96	3,57	0,35	0,55	0,55	0.55	0.55	Buy
KPN.AS	12,095	12,210	12,058	4,853	4,976	4,907	2,453	2,582	2,625	0,74	0,82	0,86	0,50	0,53	0,53	0.53	0.53	Buy
MSTAR.BR	1,571	1,583	1,590	609	598	576	425	415	392	4,57	4,56	4,34	4,34	4,33	4,12	4.33	4.12	Hold
OTE.AT	5,929	6,482	6,749	2,262	2,184	2,646	1,133	1,087	1,580	1,75	1,01	1,73	0,45	0,60	0,60	0.60	0.60	Buy
PTCL.S	6,317	6,287	6,321	2,082	2,026	2,124	1,043	1,043	1,283	0,72	0,40	0,49	0,49	0,49	0,49	0.49	0.49	Hold
SCMN.VX	9,648	9,267	8,937	3,758	3,865	3,736	2,358	2,468	2,366	31,71	41,02	38,96	16,00	18,00	20,00	18.00	20.00	Hold
TEF.MC	52,420	54,255	55,374	19,101	19,822	20,914	9,414	9,484	10,971	1,25	0,86	1,15	0,60	0,60	0,65	0.60	0.65	Hold
TLIT.MI	31,244	31,929	31,929	13,042	13,255	13,339	7,482	7,668	7,768	0,15	0,15	0,16	0,14	0,14	0,14	0.14	0.14	Hold
TLNS.ST	90,892	91,591	93,274	31,661	31,784	33,381	20,220	20,806	22,196	3,96	4,29	4,54	6,20	6,20	6,20	4.13	4.45	Hold
TNET.BR	812	927	987	368	424	459	144	202	241	0,09	0,86	1,28	0,00	0,00	0,00	0.00	0.00	Hold
TEL.OL	92,941	99,348	104,417	33,863	38,268	40,683	18,404	22,820	24,209	7,32	7,58	8,78	2,60	3,00	3,20	3.00	3.20	Buy
TELA.VI	4,745	4,674	4,699	1,924	1,830	1,807	797	817	844	1,31	1,36	1,42	0,76	0,80	0,85	0.80	0.85	Buy
VOD.L	31,092	32,517	33,290	12,026	12,010	12,248	6,826	6,794	6,939	10,98	11,76	12,27	6,58	8,23	8,59	8.23	8.59	Buy

Source: Deutsche Bank

Figure 24: DB relative to consensus estimates

	Revenue			EBITDA			EBIT			EPS Consensus Estimate			DPS		
	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3
BT.L	0.4%	0.8%	2.3%	-0.8%	0.0%	0.8%	-0.4%	1.2%	2.8%	-2.2%	-1.1%	1.6%	-0.1%	1.1%	0.9%
BCOM.BR	0.3%	-0.1%	-0.8%	-0.6%	-1.9%	-3.0%	-2.1%	-0.7%	2.7%	-4.1%	-0.7%	3.3%	-0.9%	0.8%	-0.1%
COSr.AT	1.8%	4.4%	5.0%	0.8%	2.4%	7.6%	-0.6%	3.3%	12.6%	-2.9%	4.2%	11.7%	3.7%	-0.4%	-9.8%
DTEGn.DE	0.1%	0.3%	-0.1%	1.9%	-1.4%	-1.4%	-9.5%	-16.7%	-4.9%	-13.1%	-15.7%	-15.9%	8.5%	4.1%	-1.1%
EUT.MI	-3.2%	-0.6%	4.2%	1.2%	-0.2%	-0.1%	-106.3%	2.2%	-5.4%	51.1%	-23.1%	-38.6%		61.0%	
FWB.MI	-1.1%	2.8%	0.1%	8.0%	10.4%	14.0%	4.3%	18.7%	10.7%	-8.7%	11.9%	-14.3%	24.4%	86.1%	97.3%
FTE.PA	1.0%	-0.4%	-2.1%	0.1%	-0.9%	-0.4%	0.2%	2.1%	3.5%	-2.8%	-9.9%	-8.0%	0.7%	0.2%	2.2%
ILD.PA	-1.0%	1.3%	2.7%	-2.8%	-4.5%	-2.3%	3.3%	6.9%	7.3%	2.6%	5.2%	3.1%	13.8%	13.9%	12.2%
KPN.AS	0.2%	-0.6%	-2.1%	-0.2%	1.7%	0.0%	1.2%	3.3%	4.0%	-0.5%	3.7%	1.8%	-2.1%	-2.6%	-3.3%
MSTAR.BR	1.3%	0.9%	1.4%	0.4%	-1.4%	-3.9%	0.3%	-1.7%	-5.6%	-0.2%	-0.6%	-4.0%	22.1%	17.7%	11.3%
OTEr.AT	1.1%	1.2%	1.0%	-0.2%	-10.1%	2.4%	-1.3%	-16.9%	7.0%	38.4%	-25.1%	8.0%	-20.7%	-10.7%	-7.0%
PTC.LS	-0.8%	-1.0%	-1.2%	-7.3%	-11.2%	-9.4%	-3.8%	2.9%	2.3%	29.4%	-23.5%	-16.0%	383.9%	20.5%	4.5%
SCMN.VX	0.3%	-2.5%	-4.8%	-1.4%	-1.3%	-3.2%	-2.7%	-2.7%	-4.9%	8.2%	21.0%	15.4%	-3.8%	-0.6%	9.3%
TEF.MC	-0.2%	-2.7%	-3.5%	-3.5%	-4.6%	-5.6%	-8.0%	-14.4%	-13.7%	13.4%	-27.4%	-21.7%	-0.7%	-13.7%	-19.9%
TLIT.MI	0.3%	-0.7%	-1.0%	-0.4%	-1.2%	-1.4%	0.0%	-1.5%	-3.4%	-5.8%	-10.3%	-12.7%	-0.8%	-4.0%	-7.9%
TLSN.ST	-0.3%	-1.9%	-2.5%	-1.3%	-1.2%	0.4%	-12.6%	-8.3%	-6.9%	7.1%	20.4%	20.8%	12.2%	6.7%	21.5%
TNET.BR	-0.2%	2.6%	2.1%	1.3%	7.2%	8.8%	-0.3%	18.6%	21.1%	-39.8%	36.0%	33.5%			
TEL.OL	0.2%	-1.6%	-1.6%	0.1%	1.6%	2.2%	-3.7%	2.3%	2.9%	-14.7%	-4.2%	4.0%	-5.4%	-9.3%	-15.5%
TELA.VI	0.0%	-2.0%	-2.2%	-0.8%	-4.7%	-5.8%	-2.3%	-2.0%	-4.1%	8.2%	7.5%	3.1%	-0.7%	-2.7%	-4.5%
VOD.L	-1.0%	-0.1%	-0.8%	-1.3%	-2.5%	-2.0%	-25.5%	-27.1%	-28.8%	0.1%	1.5%	0.8%	1.1%	19.0%	18.6%

Source: Deutsche Bank and Reuters

# Sector drivers: review

## Index

- Figure 25: Sector drivers – As at 24 January 2007
- Figure 26: Sector drivers – Changes in trends

**Figure 25: Sector drivers – As at 24 January 2007**

Key Issue	Revised momentum	Change	Comment
Economy	Negative	=	Interest rates remain a “will they/wont they” debate. The US interest rate cycle has paused, Europe continues upwards and uncertainty remains in the UK. All eyes are on inflation and the declining oil price. Overall the outlook is uncertain.
Top line growth	Neutral	+	Q3 offered a modicum of hope after Q2 led to another dramatic rethink of expectations but revenue pressure remains (tariff cuts and special promotions are announced near daily). With the regulatory threat continuing and a wave of mobile termination cuts on the way, the outlook continues to be challenging, especially as the substitution of technology is depressing network advantages and driving retail pricing towards wholesale costs.
Regulatory issues	Neutral	+	Mobile termination rates have been set for most markets for at least 2007. Although they encompass continual declines, the market should benefit from certainty. International roaming regulation maybe delayed due to the proposed amendments from the UK and French NRA. The debate over the regulation of fibre is at the fore as the German government encapsulated its proposal (which the EU believes favours DT) into law. In France, there appears to be a willingness to accept/promote co-operation among operators for fibre builds. The debate is also fundamental to the long-term investment in wireline businesses and whether the EU regulation along technological lines remains valid. Proposals to regulate wholesale SMS termination rates will also add to medium term pressure.
Funding Issues	Neutral	=	FCF expectations have stabilised over the last quarter (as capex had been cut), but in the long-term risks remain. Operators continue to increase leverage (either through M&A or expanding indebtedness to return cash to shareholders), and so the financial risk, although not yet significant, is increasing (and will increase further if interest rates rise). Although dividend yields are not yet under stress, dividend growth rate expectations could be from 2007.
Competition	Neutral	+	Unbundling pressures are rising in many European markets (Germany, Spain and the UK). MVNOs continue to threaten, with launches in Spain (Q4) and possibly Italy (2007). Xfera's decision in Spain to build out a network places additional risk on the existing operators, as does the French regulators plan to auction a 4th 3G licence. In the mobile space market share battles are intensifying as incumbents fight back, and in some markets, such as Germany, new contract tariffs have been launched (but don't cut tariffs enough in our view) and E-Plus continues to roll-out new brands (and is now thinking more internationally). Elasticity evidence remains negative.
Consolidation/restructuring	Neutral	=	Q3 again suffered an M&A lull as deal expectations subsided. Competition issues have become more apparent, and the valuation of takeover targets has run, excessively in some cases. Sonaecom's offer for Portugal Telecom remains outstanding and there is the ongoing discussion of BT's Openreach, as UK water companies have been changing hands at 1.3x regulated asset base.
Capital spending	Neutral	+	Capex budgets have been cut in the short term by DT and FT in order to hit FY 2006 and 2007 cash flow targets. TEF has increased NGN roll-out remains the key to future trends as shown by the proposals among French operators. Again there has been little change in mobile capex news flow, except in specific markets where operators are picking up the pace of 3G investment, such a TMO US, but even here the cost of the network roll-out is expected to be lower than originally thought.
Earnings momentum +/-	Positive	+	In the short term we expect upgrades to 2007 numbers for many operators as cost cutting is the new mantra. Eyes will be on our 2007 guidance in the coming weeks, with market expectations of a further cut by DT (we do not expect another cut).
Management change	Positive	+	There have been notable changes at DT in Q4, but limited changes elsewhere.
Valuation	Neutral	+	The valuation opportunity within the sector has stabilised. On our estimates there is around -2.4% upside in the sector and a total return opportunity of 2.6% and our stock recommendations exhibit considerable diversity. We also believe there is a modicum of earnings upgrade risk in the next 6-9 months.
Technological change	Neutral	=	There has been little new in Q4. Competition in devices has however increased in recent weeks, especially at the low end which has put pressures on ASPs. Microsoft's IPTV software, which had teething problems, appears to be finally in-situ.

Source: Deutsche Bank estimates and company data

**Figure 26: Sector drivers – Changes in trends**

	Apr 2004	Jul 2004	Oct 2004	Feb 2005	Apr 2005	Jul 2005	Oct 2005	Feb 2006	Apr 2006	Jul 2006	Oct 2006	Jan 2007	
Economy	+	-	-	-			-		+		-		
Top line growth	-	+				-	-	+	-	+		-	+
Regulatory issues	-		-							-			+
Funding Issues	+		+	-						-		+	
Competition	-			+			-	-	-				+
Consolidation/restructuring						-	+	+		-			
Capital Spending			-	+	-			+	+			-	+
Earnings momentum +/-	-			+	-			+	-				+
Management change	-	-							-	+			+
Valuation		+	-	-	+			+		-	+	-	+
Technological change				+			-	-		+			

Source: Deutsche Bank

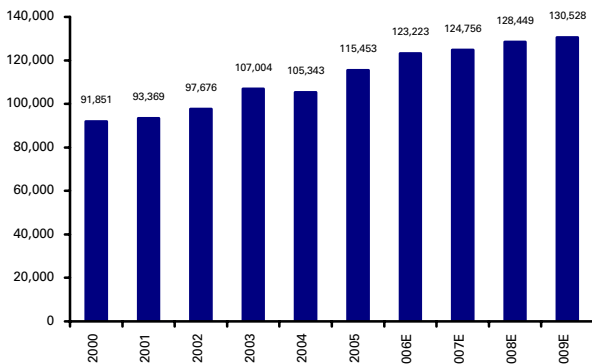


# Cash: how much/what for?

## Index

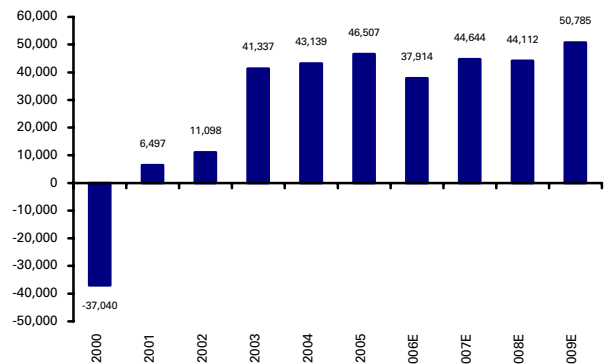
- Figure 27: Annual sector EBITDA (Euro m)
- Figure 28: Annual sector FCF (Euro m)
- Figure 29: Annual sector capex (Euro m)
- Figure 29: Annual sector capex (Euro m)
- Figure 30: Annual sector cash return (Euro m)
- Figure 31: Sector dividend payout/FCF

**Figure 27: Annual sector EBITDA (Euro m)**



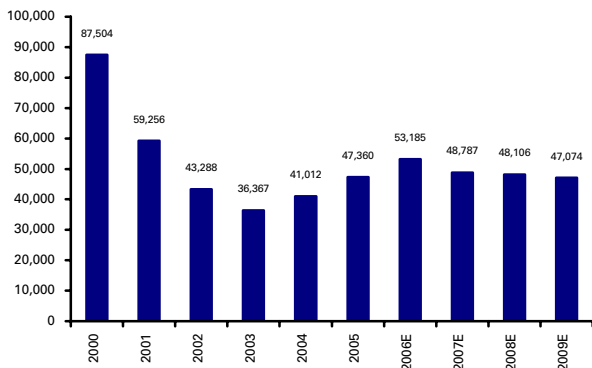
Source: Deutsche Bank estimates

**Figure 28: Annual sector FCF (Euro m)**



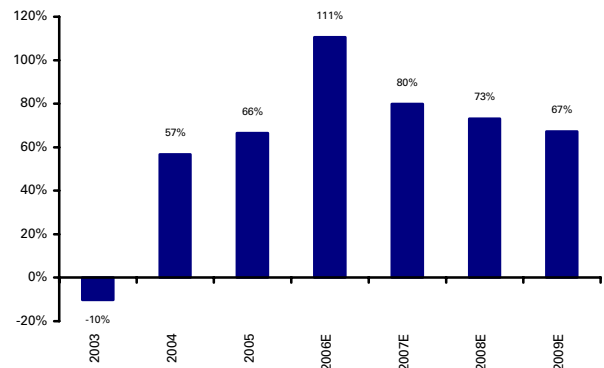
Source: Deutsche Bank estimates

**Figure 29: Annual sector capex (Euro m)**



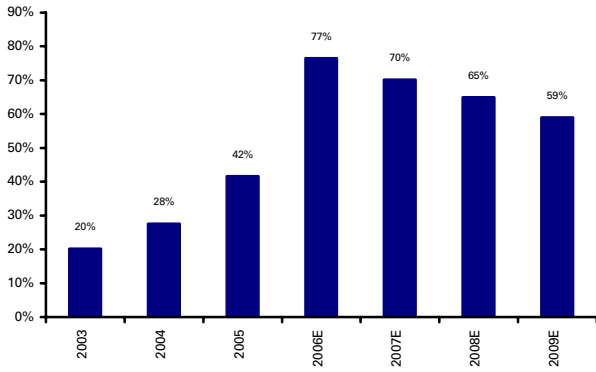
Source: Deutsche Bank estimates

**Figure 30: Annual sector cash return (Euro m)**



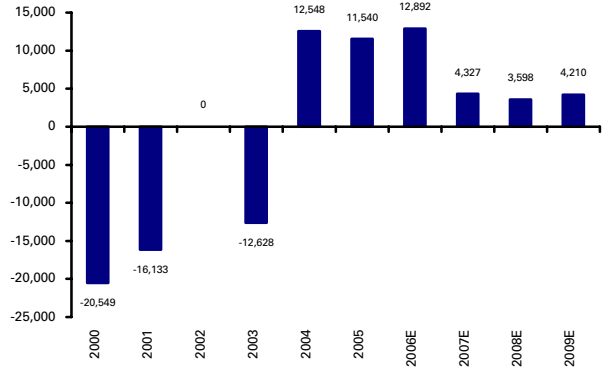
Source: Deutsche Bank estimates

**Figure 31: Sector dividend payout/FCF**



Source: Deutsche Bank estimates

**Figure 32 Sector share buy backs (equity issuance) (Euro m)**



Source: Deutsche Bank estimates

# M&A monitor

**Figure 33: Summary of recent M&A deals**

Date	Operator	Acquired asset	Yr +1	Yr +2	Yr +3	Comment
10/12/2003	Telenor	Sonofon-Bell South	8.8x			Assuming control, inter-country
14/10/2004	Telefónica Móviles	10 Latam assets	6.1x	5.8x	5.5x	Footprint expansion & inter-country consolidation
29/10/2004	TDC	Song Networks	10.2x			Enhance profile of corporate data services
20/12/2004	UGC	Chorus (Ireland)	6.9x			Footprint expansion & inter-country consolidation
26/04/2005	Orascom Telecom	Wind	9.2x	7.6x	6.7x	Inter-country consolidation
10/05/2005	UGC	NTL Ireland	8.3x			Footprint expansion & inter-country consolidation Stake increase (Mobifon) and footprint expansion
31/05/2005	Vodafone	MobiFon/Oskar	7.0x	5.9x	5.9x	(Oskar) Intra-country consolidation. 5th operator with market
28/06/2005	KPN	Telfort	8.0x	7.1x	6.5x	contracting to 4 network players
29/06/2005	Telecom Italia	Turk telecom	3.8x	3.9x	4.1x	Strengthening existing position
05/07/2005	Telenor	Cybercity	9.4x	7.9x	6.8x	Inter-country footprint (broadband in Denmark)
06/07/2005	TeliaSonera	Chess/Sense	13.9x	12.8x	11.8x	Intra-country scale
08/07/2005	Telenor	B2	20.1x	15.2x	12.7x	Inter-country footprint (broadband in Sweden)
18/07/2005	Tele2	Versatel	11.7x			Inter-country consolidation Intra-country consolidation. Re-entering mobile market
25/07/2005	Eircom	Meteor	42.0x	14.0x	7.6x	to offer integrated services
28/07/2005	France Telecom	Amena - gross EV Amena - EV adjusted for tax asset	9.5x 8.0x	8.6x 7.2x	7.8x 6.6x	Inter-country consolidation adding to existing broadband business, allowing proliferation of integrated services
29/07/2005	Ono	Auna Cable	10.8x			Intra-country consolidation
10/08/2005	Deutsche Telekom	tele.ring - Gross EV tele.ring - EV adjusted for tax asset	8.3x 7.5x	7.0x 6.3x	6.0x 5.6x	Inter-country consolidation. 3rd operator with market contracting to 4 network players
17/08/2005	Cable & Wireless	Energis - pre synergies Energis - post synergies	6.1x 6.1x	6.3x 6.6x	6.5x 4.7x	Intra-country consolidation in the UK
20/09/2005	Elisa	Saunalahti - pre synergies Saunalahti - post synergies	69.6x 4.3x			Intra-country consolidation in Finland
30/09/2005	Liberty Global	Cablecom	10.4x			Intra-country consolidation
17/10/2005	TIM Hellas	Q-Telecom	14.3x			Intra-country consolidation in Greece
28/10/2005	Vodafone	Bharti Televentures	15.4x	11.5x	9.0x	Global footprint expansion
31/10/2005	Telefonica	O2	8.4x	7.5x	7.0x	European footprint expansion
31/10/2005	Telenor	Vodafone Sweden	11.0x	10.1x	8.1x	European footprint expansion
02/11/2005	Vodafone	Vodacom	9.5x	8.0x	6.8x	Global footprint expansion
13/11/2005	Vodafone	Telsim	22.9x	16.2x	11.5x	Global footprint expansion
30/11/2005	TDC	Apax, Blackstone, KKR, Permira, Provide	6.3x	6.1x	6.0x	Private equity acquisition Subject to competition approval. Intra-country
06/02/2006	Sonaecom	Portugal Telecom	7.5x	6.7x	6.5x	consolidation
29/03/2006	Telefonica	Telefonica Moviles	8.9x	7.6x	6.4x	Minority buy-ins
07/04/2006	Telefonica	Colombia Telecom	5.4x			Latam footprint expansion
03/05/2006	MTN	Investcom	11.0x			Global footprint expansion
23/05/2006	eircom	Babcock & Brown	5.6x	5.4x	5.3x	Private equity acquisition
02/08/2006	Proximus	Belgacom	6.9x	7.2x	7.5x	Minority buy-ins
19/12/2006	Swisscom Mobile	Swisscom	9.2x	9.7x	10.1x	Minority buy-ins
<b>Median</b>			<b>8.9x</b>	<b>7.4x</b>	<b>6.7x</b>	

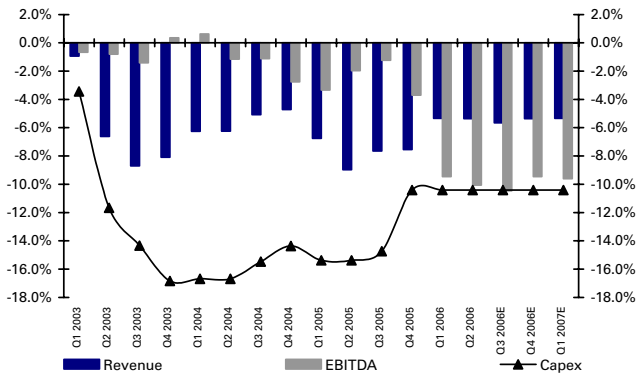
Source: Deutsche Bank estimates and company data

# Earnings momentum

## Index

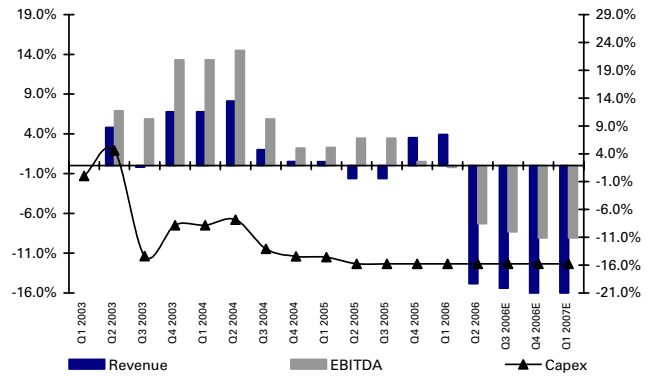
- Figure 34: Changes in large cap 2006 integrated operator estimates
- Figure 35: Changes in 2007 Vodafone estimates
- Figure 36: Changes in smaller cap 2006 integrated operator estimates
- Figure 37: Changes in 2007 BT estimates

**Figure 34: Changes in large cap 2006 integrated operator estimates**



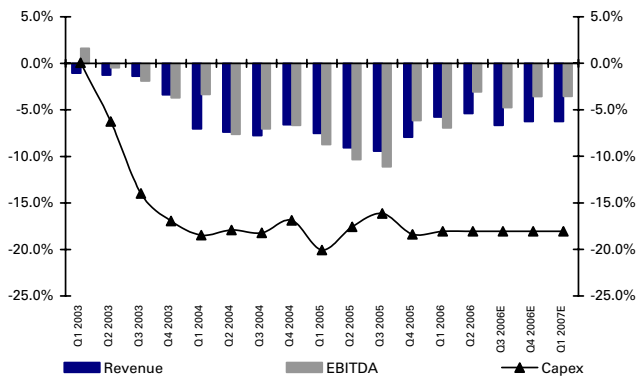
Source: Deutsche Bank

**Figure 35: Changes in 2007 Vodafone estimates**



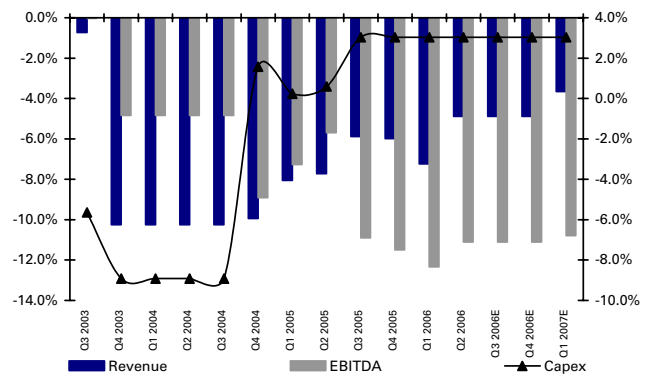
Source: Deutsche Bank

**Figure 36: Changes in smaller cap 2006 integrated operator estimates**



Source: Deutsche Bank

**Figure 37: Changes in 2007 BT estimates**



Source: Deutsche Bank

# Government influence

**Figure 38: Possible overhang (Euro m)**

Company	Government stake	2006E total return	2006E overhang	% of market cap	% of cash return	Total overhang	% of market cap	Lock up expiry
BELGACOM	50.1%	811	0	0.0%	0%	0	0.0%	
DEUTSCHE TELEKOM	32.9%	728	0	0.0%	0%	20,661	32.9%	23 April 2007
FRANCE TELECOM	32.5%	3,087	0	0.0%	0%	18,226	32.5%	
KPN	0.0%	2,505	0	0.0%	0%	0	0.0%	
OTE	38.7%	61	0	0.0%	0%	649	5.7%	
PORTUGAL TELECOM	0.0%	803	0	0.0%	0%	0	0.0%	
SWISSCOM	67.7%	986	0	0.0%	0%	2,685	17.7%	
TELECOM ITALIA	0.0%	2,749	0	0.0%	0%	0	0.0%	
TELEFONICA	0.0%	5,486	0	0.0%	0%	0	0.0%	
TELEKOM AUSTRIA	25.2%	632	0	0.0%	0%	2,355	25.2%	
TELENOR ASA	54.0%	506	0	0.0%	0%	1,038	4.0%	
TELIASONERA	56.7%	1,718	0	0.0%	0%	15,973	56.7%	
Integrated operator total		20,072	0		0%	61,586		
Mobistar	0.0%	162	0	0.0%	0%	178	4.6%	
Sector total		42,026	0		0%			

Notes:

Deutsche Telekom	KfW	17.5% (of which 6.2% related to convertible)	German State	15.4%	TDS	3.1%
TeliaSonera	Swedish State	43.5%	Finnish State	13.2%		

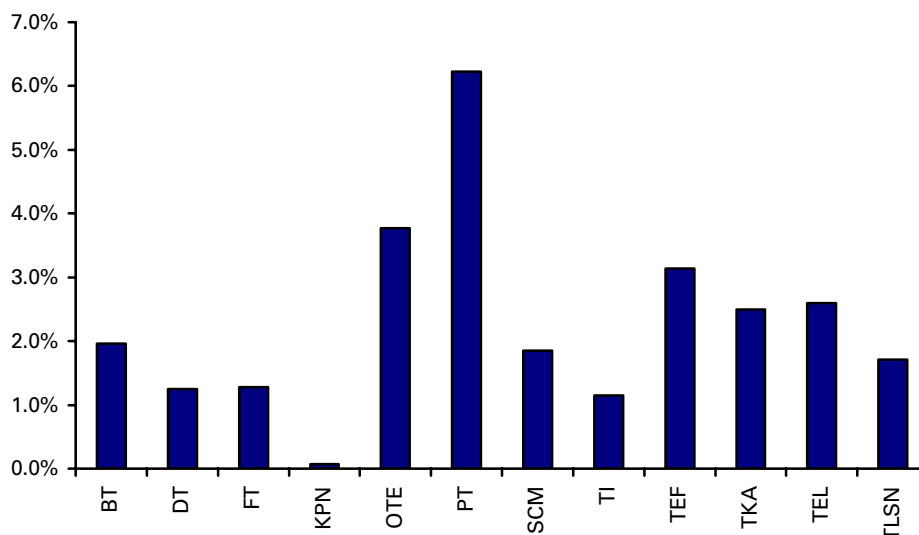
Source: Deutsche Bank estimates and company data

# Operator specifics

## Revenue: "Exceeded" the theme for the sector in 3Q 2006

The sector surprised us at the top line as all the major incumbents exceeded our revenue estimates at least by 1% except for KPN. Surpasses were chiefly driven by better than expected performances in mobile, especially on the domestic front driven by increasing penetration (though marginal) which continued to surprise. The fixed line segments also fared better than we expected due higher than expected broadband penetration and ARPUs driven by bundled offers, which also indirectly helped incumbents to slightly arrest fixed line erosion in a few cases. In Figure 39 we show the actual revenue out-performance relative to our estimates.

**Figure 39: Revenue variances (actual versus estimates Q3 2006)**

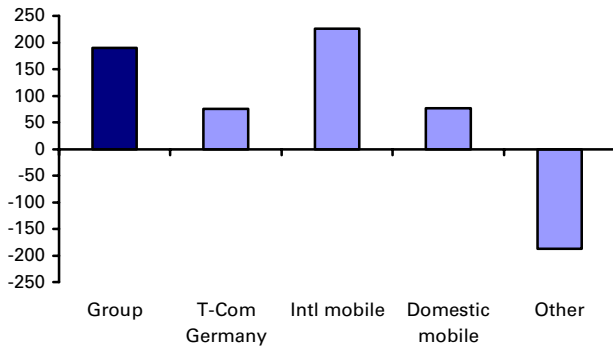


Source: Company data and Deutsche Bank estimates

- **BT revenues exceeded our estimate by 2.0%.**
- **Deutsche Telekom revenues exceeded our estimate by 1.2%** driven up by International mobile, BB/Fixnet and T-Mobile Germany which reported revenues that were respectively 3.9%, 2.5% and 3.7% higher than our estimates. However, compared with our estimates, revenues were driven down by T-Systems which fell short of our revenue estimate by 2.9%. In percentage terms, T-Other reported the highest revenue variance of 22.9% followed by International mobile and T-Mobile Germany.
- **France Telecom revenues exceeded our estimate by 1.3%** driven up by Personal ROW, Home ROW and Personal Spain which reported revenues that were respectively 6.7%, 17.4% and 4.5% higher than our estimates. However, compared with our estimates, revenues were driven down by Personal France and Home France which fell short of our revenue estimates by 1.2% and 0.5% respectively.
- **KPN revenues were spot on our estimate.** Group revenues were driven up by domestic mobile and Wireline Consumer segment which reported revenues that were respectively 4.3% and 1.5% higher than our estimates. Revenues were however driven down by Wireline Business and Wholesale segments which fell short of our revenue estimates by 2.7% and 1.1% respectively.

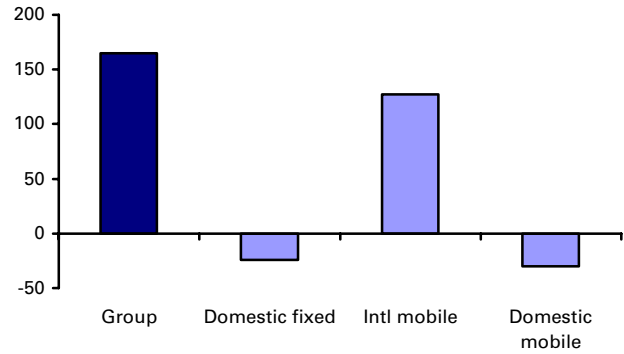
- **OTE revenues exceeded our estimate by 3.8%** driven up by domestic fixed, Cosmote and other revenues that were respectively 4.9%, 2.2% and 5.8% higher than our estimates. However, compared with our estimates, revenues were driven down by Inter-company and adjustments which fell short of our revenue estimate by 1.3%. In percentage terms, Romanian revenue variance ranked third with a 2.3% variance behind other and domestic fixed revenues behind other and fixed revenues.
- **Portugal Telecom surpassed our revenue estimate by 6.2%** driven up by Vivo, TMN and PT Wireline which reported revenues that were respectively 16.6%, 2.1% and 0.6% higher than our estimates.
- **Swisscom revenues exceeded our estimate by 1.8%**. Group revenues were driven up by Mobile Com, Other and Enterprise Solutions which reported revenues that were respectively 4.7%, 5.5% and 4.3% higher than our estimates. Revenues were however driven down by Fixnet which fell short of our revenue estimate by 1.9%. In percentage terms, Other reported the highest revenue variance of 5.5% followed by Mobile Com (4.7%) and Enterprise Solutions (4.3%).
- **Telecom Italia exceeded our revenue estimate by 1.1%** driven up by International mobile and domestic wire line which reported revenues that were respectively 10.5% and 1.2% higher than our estimates. However, compared with our estimates, revenues were driven down by other revenues, Olivetti, European BB and Media which fell short of our revenue estimates by 22.4%, 23.2%, 6.0% and 20.8% respectively.
- **Telefónica revenues surpassed our estimate by 3.1%**. Group revenues were driven up by O2, Telefónica Móviles Group and Telefónica de España Group which reported revenues that were respectively 23.4%, 4.7% and 1.4% higher than our estimates. However, compared with our estimates, revenues were driven down by CTC which fell short of our revenue estimate by 1.0%. In percentage terms, Telefónica de Argentina's 12.5% revenue variance compared with our estimate ranked second.
- **Telekom Austria revenues exceeded our estimate by 2.5 %** driven up by Fixed and Mobile - Croatia which reported revenues that were respectively 5.2% and 7.4% higher than our estimates. However, compared with our estimates, revenues were driven down by Mobile - Austria which fell short of our revenue estimate by 2.7%. In percentage terms, Mobile - Slovenia reported the highest revenue variance of 8.8% followed by Mobile - Croatia (7.4%) and Fixed (5.2%).
- **Telenor exceeded our revenue estimate by 2.6%** driven up by Telenor mobile, TAC and Kyivstar which reported revenues that were respectively 8.0%, 10.8% and 5.0% higher than our estimates. However, compared with our estimates, revenues were driven down by EDB which fell short of our revenue estimate by 10.0%. In percentage terms, the revenue variance of the Pakistani asset was also significant at 8.8%.
- **TeliaSonera revenue exceeded our estimate by 1.7%**. Group revenues were driven up by domestic fixed, Finish mobile and International mobile which reported revenues that were respectively 3.8%, 7.0% and 4.0% higher than our estimates. Revenues were driven down by Danish fixed, Danish mobile and Lithuanian mobile which fell short of our revenue estimates by 12.6%, 4.4% and 7.7% respectively. In percentage terms, Norwegian fixed reported the highest revenue variance of 34.2% followed by Danish fixed and Lithuanian mobile.

**Figure 40: Deutsche Telekom revenue variances (Euro m)**



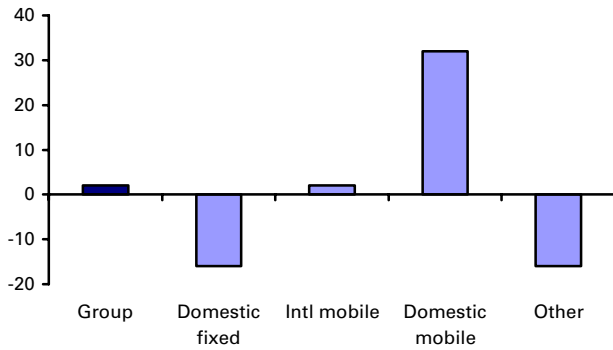
Source: Company data and Deutsche Bank estimates

**Figure 41: France Telecom revenue variances (Euro m)**



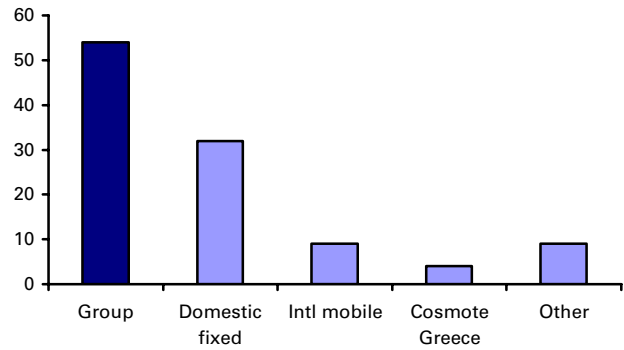
Source: Company data and Deutsche Bank estimates

**Figure 42: KPN revenue variances (Euro m)**



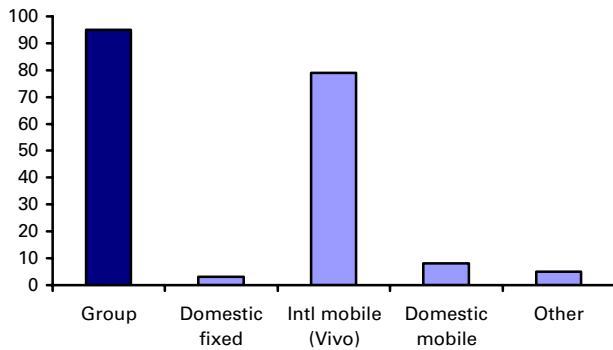
Source: Company data and Deutsche Bank estimates

**Figure 43: OTE revenue variances (Euro m)**



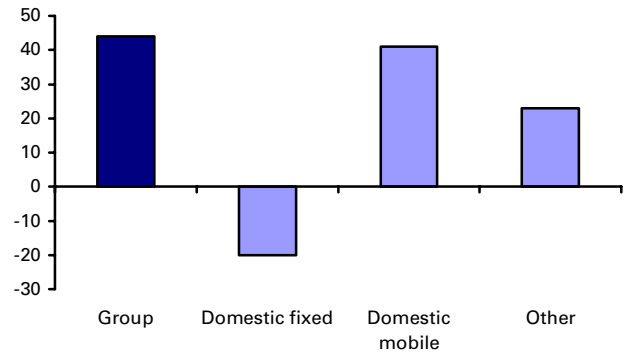
Source: Company data and Deutsche Bank estimates

**Figure 44: Portugal Telecom revenue variances (Euro m)**



Source: Company data and Deutsche Bank estimates

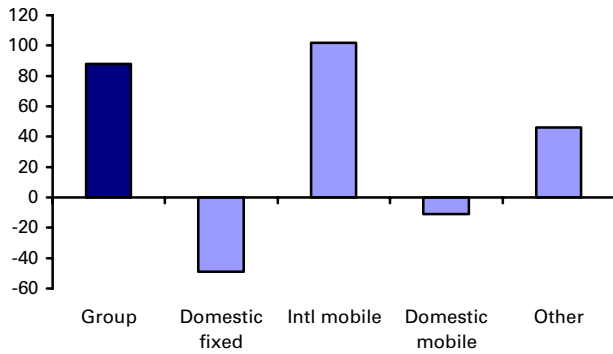
**Figure 45: Swisscom revenue variances (CHF m)**



Source: Company data and Deutsche Bank estimates

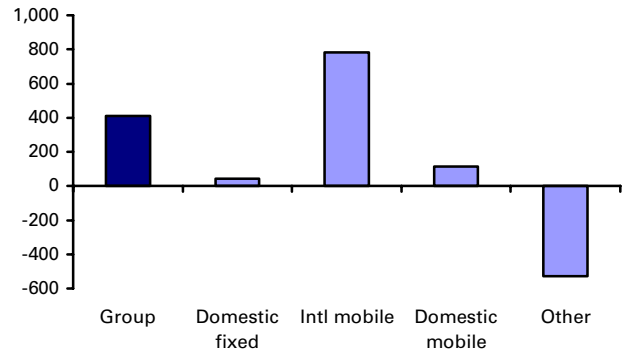


**Figure 46: Telecom Italia revenue variances (Euro m)**



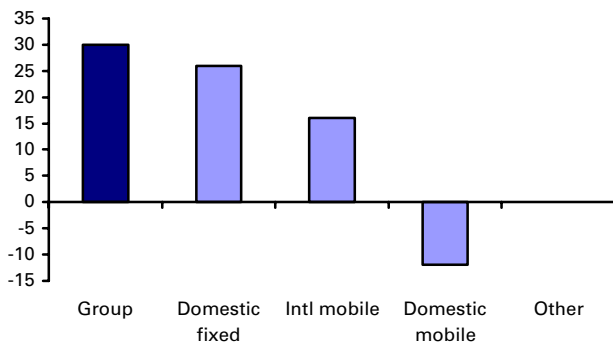
Source: Company data and Deutsche Bank estimates

**Figure 47: Telefónica revenue variances (Euro m)**



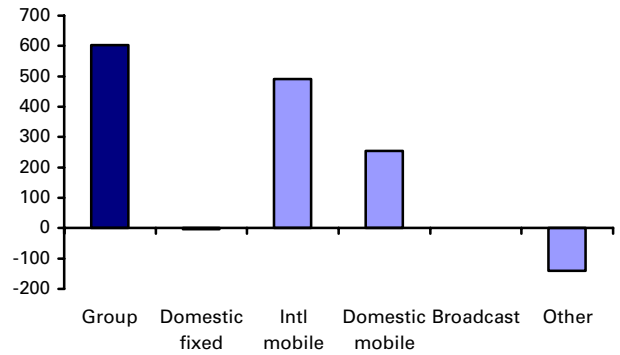
Source: Company data and Deutsche Bank estimates

**Figure 48: Telekom Austria revenue variances (Euro m)**



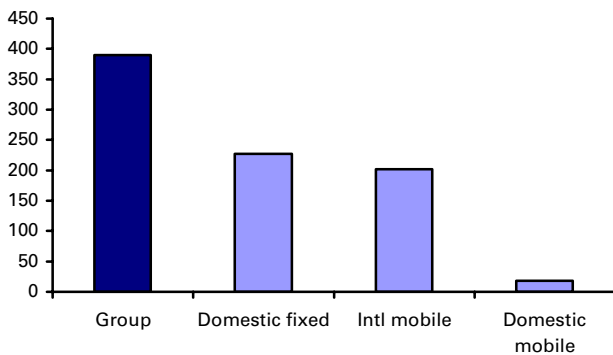
Source: Company data and Deutsche Bank estimates

**Figure 49: Telenor revenue variances (NOK m)**



Source: Company data and Deutsche Bank estimates

**Figure 50: TeliaSonera revenue variances (SEK m)**

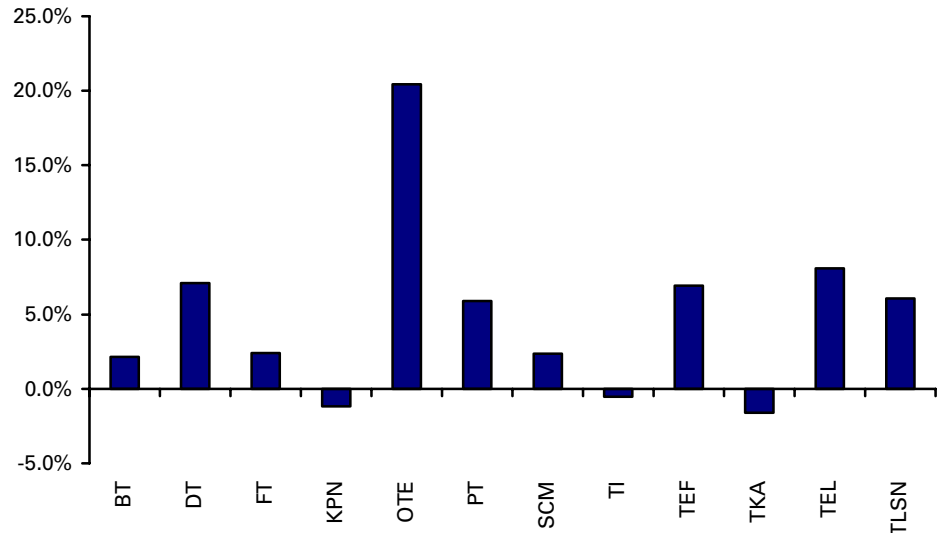


Source: Company data and Deutsche Bank estimates

## EBITDA: mobile assets lead the drive

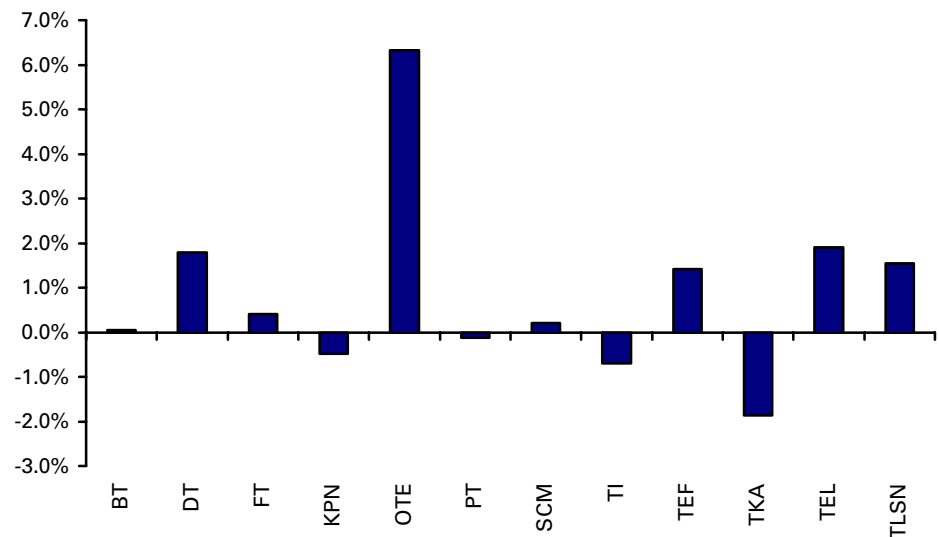
In Figure 51 we show the actual EBITDA out-performance relative to our estimates and the margin out-performance in Figure 52.

**Figure 51: EBITDA variances (actual versus estimates Q3 2006)**



Source: Company data and Deutsche Bank estimates

**Figure 52: EBITDA margin: actual out-performance in Q3 2006**



Source: Company data and Deutsche Bank estimates

- **BT exceeded our EBITDA estimate by 2.1%.** The EBITDA margin of 28.0% was spot on our target.
- **Deutsche Telekom exceeded our EBITDA estimate by 7.1%** driven up by International mobile, BB/Fixnet and T-Mobile Germany which reported EBITDA that were respectively 6.9%, 5.4% and 13.5% higher than our estimates. In percentage terms, the EBITDA variance of T-Systems was the third highest at 6.1% behind domestic and international mobile EBITDA variances. Group EBITDA margin of 32.9% was 1.8 percentage points above our estimate. T-Mobile Germany's EBITDA margin of 42.1% was up by 3.6

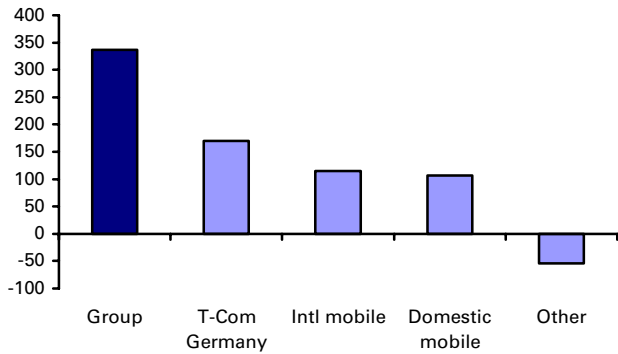
percentage points compared with our 38.5% estimate while the EBITDA margins of T-Systems (14.0%) and BB/Fixnet (43.1%) were both 1.2 percentage points higher than our estimates.

- **France Telecom surpassed our EBITDA estimate by 2.4%.** Group EBITDA was driven up by Personal ROW, Home France and Personal Spain which reported EBITDA that were respectively 8.0%, 1.9% and 2.5% higher than our estimates. However, compared with our estimates, EBITDA was driven down by Personal France and Personal UK which fell short of our EBITDA estimates by 7.8% and 18.8% respectively. Group EBITDA margin of 37.4% was 0.4 percentage points above our estimate. Personal UK's EBITDA margin of 21.4% was down by 5.0 percentage points compared with our 26.4% estimate while the EBITDA margins of Personal France (40.9%) and Home ROW (12.0%) were 2.9 percentage points lower and 2.8 percentage points higher than our estimates respectively.
- **KPN EBITDA missed our estimate by 1.2%** driven down by Wholesale, domestic mobile and Wireline Business segment which reported EBITDA that were respectively 5.4%, 6.3% and 17.6% lower than our estimates. However, compared with our estimates, EBITDA was driven up by E-Plus, BASE and Wireline consumer segment which surpassed our EBITDA estimates by 5.5%, 20.3% and 3.1% respectively.
- **OTE exceeded our EBITDA estimate by 20.4%** chiefly driven up by a one-off Voluntary Retirement Scheme (VRS) charge reversal. EBITDA would have exceeded our estimate only by 11.6% if not for the reversal. EBITDA was driven by other and adjustments, domestic fixed and Cosmote which reported EBITDA that were respectively 133.1%, 14.1% and 7.7% higher than our estimates. Romania's EBITDA variance was high at 14.9% and was the second highest in percentage terms behind other and adjustments. Group EBITDA margin of 45.7% was 6.3 percentage points above (42.3% if not for the VRS, down by 3.4 percentage points below) our estimate. Romania's EBITDA margin of 41.4% was up by 4.6 percentage points compared with our 36.8% estimate while the EBITDA margins of Fixed (35.1%) and Cosmote (41.9%) were 2.8 and 2.1 percentage points higher than our estimates respectively.
- **Portugal Telecom EBITDA exceeded our estimate by 5.9%** driven up by Vivo, other revenues and PT Wireline which reported EBITDA that were respectively 16.9%, 70.0% and 1.3% higher than our estimates. In percentage terms PT Multimedia revenue variance ranked third at 4.0%. Group EBITDA margin of 36.7% was spot on our estimate just 0.1 percentage points lower. Total other's EBITDA margin of 33.3% was down by 50.0 percentage points compared with our 83.3% estimate while the EBITDA margins of PT Multimedia (31.5%) and Domestic wireless (43.9%) were 0.8 percentage points higher and 0.6 percentage points lower than our estimates respectively.
- **Swisscom EBITDA exceeded our estimate by 2.4%** driven up by Mobile Com and Enterprise Solutions which reported EBITDA that were respectively 8.1% and 68.2% higher than our estimates. EBITDA was however driven down compared with our estimates by Other EBITDA and Fixnet which fell short of our EBITDA estimates by 32.0% and 2.2% respectively. Group EBITDA margin of 43.0% was 0.2 percentage points above our estimate. Other's EBITDA margin of 14.8% was down by 8.2 percentage points compared with our 23.0% estimate while the EBITDA margins of Enterprise Solutions (14.0%) and Mobile Com (52.7%) were 5.3 and 1.7 percentage points higher than our estimates respectively.
- **Telecom Italia missed our EBITDA estimate by 0.5%.** Group EBITDA was driven down by other EBITDA, domestic wire line and International mobile which reported EBITDA that were respectively 32.1%, 0.5% and 2.4% lower than our estimates. EBITDA was also driven down by 0.9% compared with our estimate by a one-off Euro 30m extraordinary charge. However, compared with our estimates, EBITDA was driven up by domestic mobile, European BB and Olivetti which surpassed our EBITDA estimates by 1.7%, 8.3

and 9.1% respectively. Group EBITDA margin of 42.1% was 0.7 percentage points below our estimate (42.5%, up by 0.4 percentage points compared with our estimate if not for the one-off charge). Media's EBITDA margin of -50.0% was down by 14.6 percentage points compared with our -35.4% estimate while the EBITDA margin of international mobile (18.9%) was 2.8 percentage points lower than our estimate.

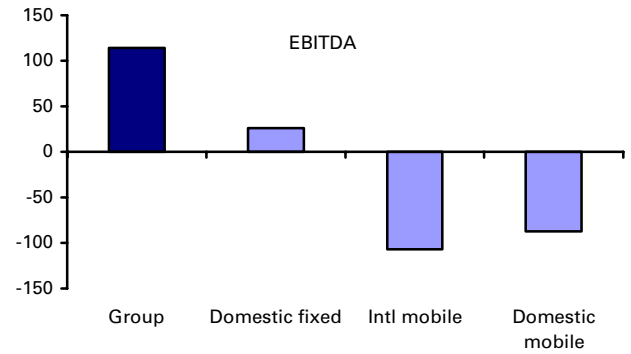
- **Telefónica exceeded our EBITDA estimate by 6.9%** driven up by O2, Telefónica Móviles Group and Telefónica de España Group which reported EBITDA that were respectively 32.7%, 12.0% and 10.0% higher than our estimates. Group EBITDA margin of 40.0% was 1.4 percentage points above our estimate. Telefónica de Argentina's EBITDA margin of 47.6% was down by 4.8 percentage points compared with our 52.4% estimate while the EBITDA margins of CTC (47.0%) and Telesp (52.0%) were 4.7 and 4.0 percentage points higher than our estimates respectively.
- **Telekom Austria missed our EBITDA estimate by 1.6%.** Group EBITDA was driven down by domestic mobile, Fixed and Mobile - Bulgaria which reported EBITDA that were respectively 7.4%, 3.9% and 1.0% lower than our estimates. However, compared with our estimates, EBITDA was driven up by Mobile - Croatia and Mobile - Slovenia which surpassed our EBITDA estimates by 20.0% and 33.3% respectively. Group EBITDA margin of 44.6% was 1.9 percentage points below our estimate. EBITDA margins of Mobile - Slovenia (32.4%) and Mobile - Croatia (53.8%) were 5.9 and 5.7 percentage points higher than our estimates respectively.
- **Telenor exceeded our EBITDA estimate by 8.1%.** Group adjusted EBITDA was driven up most by Telenor mobile, Kyivstar and Norway fixed which reported EBITDA that were respectively 18.0%, 12.6% and 16.1% higher than our estimates. EBITDA was however driven down by EDB which fell short of our EBITDA estimate by 14.1%. In percentage terms, Promonte reported the highest EBITDA variance of 58.6% followed by TAC with a 58.4% variance and Pakistan with a 42.0% variance. Group EBITDA margin of 37.7% was 1.9 percentage points above our estimate. Pakistan's EBITDA margin of -26.1% was up by 22.9 percentage points compared with our -49.0% estimate while the EBITDA margins of Promonte (57.9%) and Norway fixed (38.5%) were 7.2 and 5.4 percentage points higher than our estimates respectively.
- **TeliaSonera EBITDA surpassed our estimate by 6.0%,** driven up by domestic fixed, International mobile and Finnish mobile which reported EBITDA that were respectively 11.0%, 9.1% and 11.6% higher than our estimates. However, compared with our estimates, EBITDA was driven down by Norwegian mobile which fell short of our EBITDA estimate by 18.4%. Group underlying EBITDA margin of 37.8% (was 1.5 percentage points above our estimate but would have been 37.3% if not for a SEK 130m (net) nonrecurring income. Domestic fixed EBITDA margin of 43.0% was up by 2.8 percentage points compared with our 40.3% estimate while the EBITDA margins of International mobile (59.6%) and domestic mobile (42.1%) were 2.8 and 0.2 percentage points higher than our estimates respectively.

**Figure 53: Deutsche Telekom EBITDA variances (Euro m)**



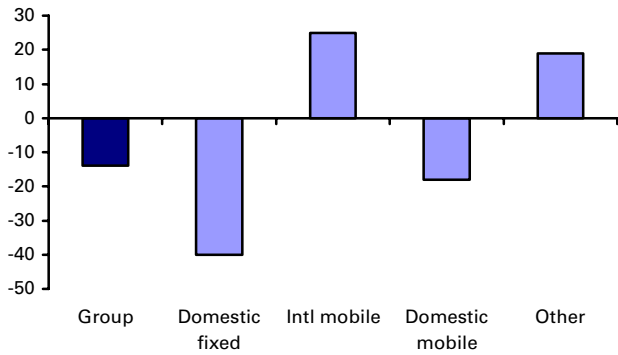
Source: Company data and Deutsche Bank estimates

**Figure 54: France Telecom EBITDA variances (Euro m)**



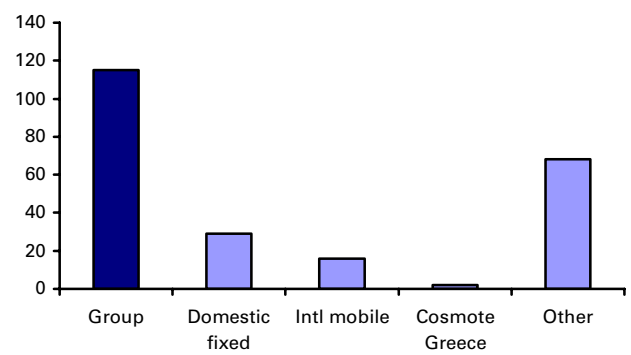
Source: Company data and Deutsche Bank estimates

**Figure 55: KPN EBITDA variances (Euro m)**



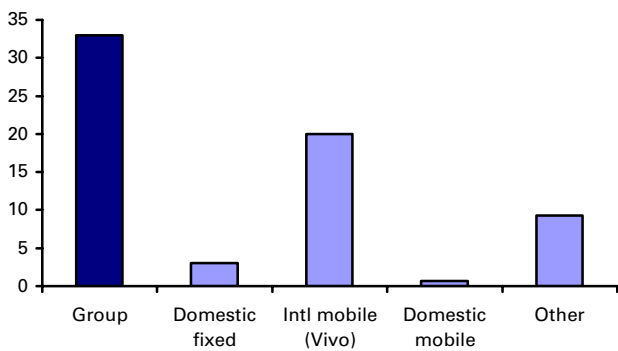
Source: Company data and Deutsche Bank estimates

**Figure 56: OTE EBITDA variances (Euro m)**



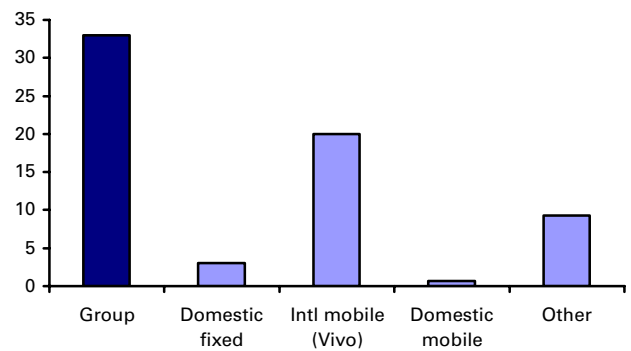
Source: Company data and Deutsche Bank estimates

**Figure 57: Portugal Telecom EBITDA variances (Euro m)**



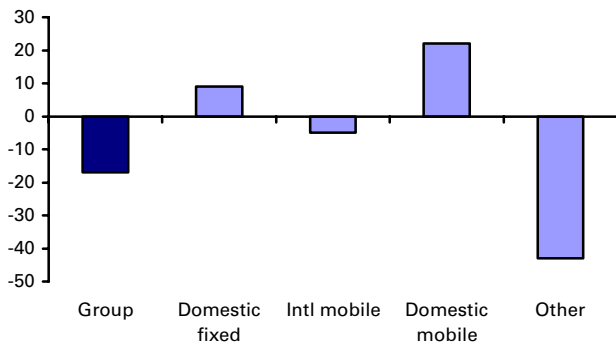
Source: Company data and Deutsche Bank estimates

**Figure 58: Swisscom EBITDA variances (CHF m)**



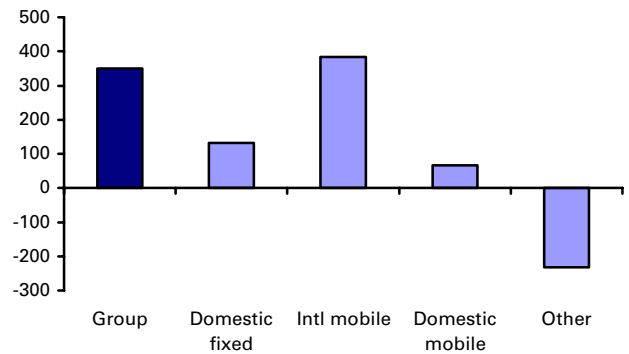
Source: Company data and Deutsche Bank estimates

**Figure 59: Telecom Italia EBITDA variances (Euro m)**



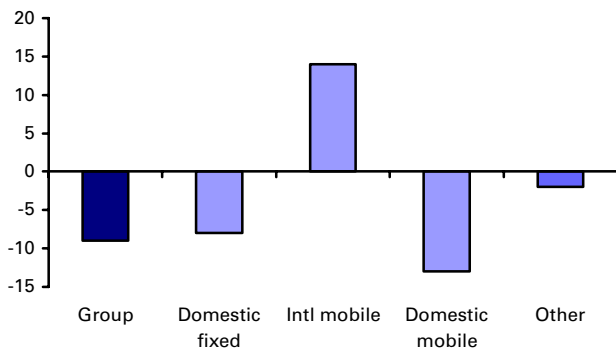
Source: Company data and Deutsche Bank estimates

**Figure 60: Telefónica EBITDA variances (Euro m)**



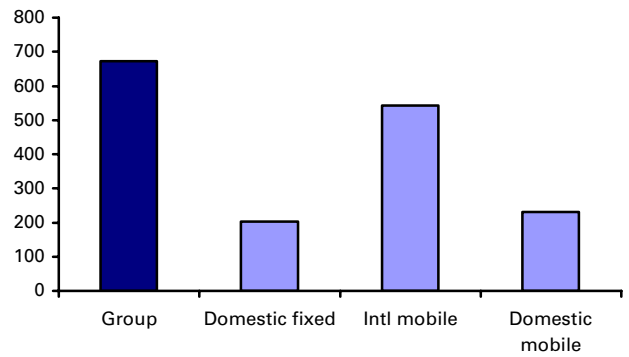
Source: Company data and Deutsche Bank estimates

**Figure 61: Telekom Austria EBITDA variances (Euro m)**



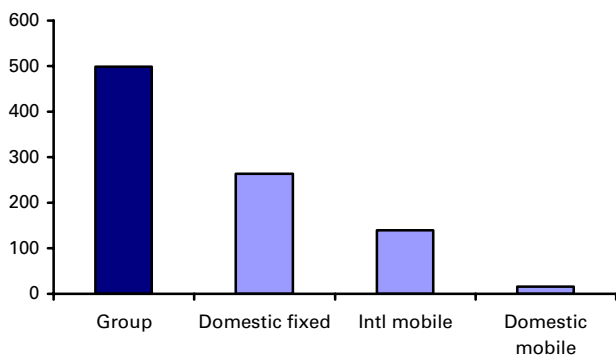
Source: Company data and Deutsche Bank estimates

**Figure 62: Telenor EBITDA variances (NOK m)**



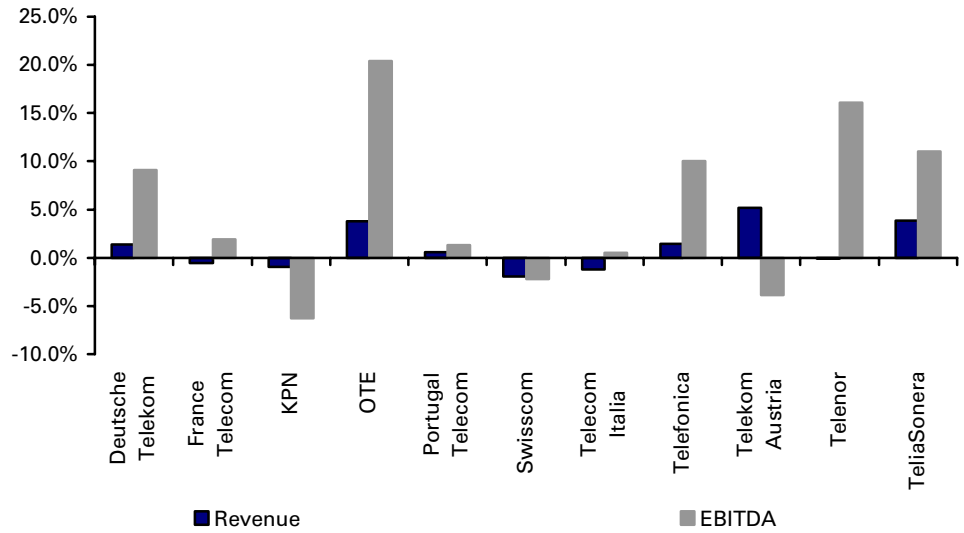
Source: Company data and Deutsche Bank estimates

**Figure 63: TeliaSonera EBITDA variances (SEK m)**



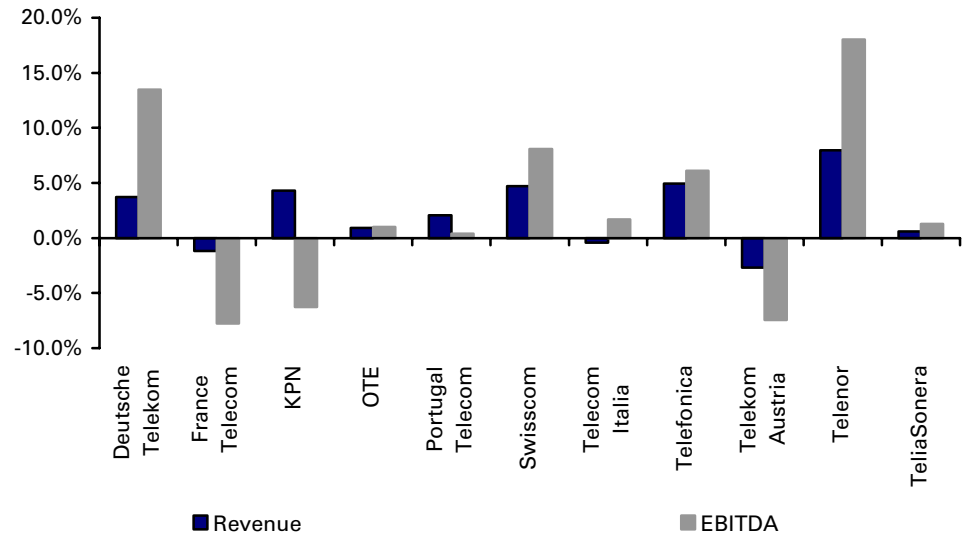
Source: Deutsche Bank

**Figure 64: Domestic fixed line revenue and EBITDA variances**



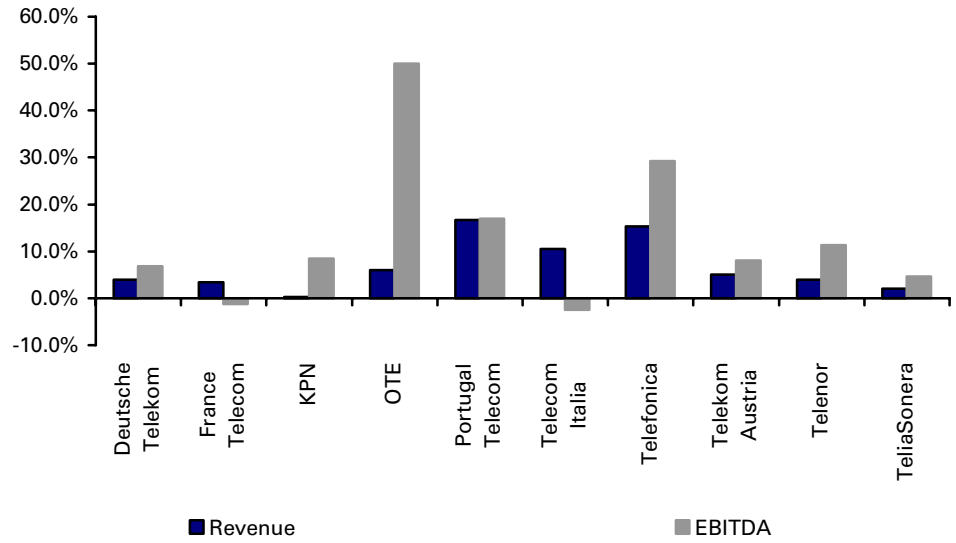
Source: Company data and Deutsche Bank estimates

**Figure 65: Domestic mobile revenue and EBITDA variances**



Source: Company data and Deutsche Bank estimates

**Figure 66: International mobile revenue and EBITDA variances**



Source: Company data and Deutsche Bank estimates



# 3Q 2006 results reactions

- Figure 67: Cumulative share price reactions 3Q06 (calendar) in chronological order
- Figure 68: Share price reactions of early reporters
- Figure 69: Share price reactions on day of results (chronological order)
- Figure 70: Share price reactions in two weeks pre and post results (chronological order)
- Figure 71: 3Q 2006 (calendar) pre and post results reactions
- Figure 72: 2Q 2006 (calendar) pre and post results reactions
- Figure 73: 1Q 2006 (calendar) pre and post results reactions
- Figure 74: 4Q 2005 (calendar) pre and post results reactions
- Figure 75: 3Q 2005 (calendar) pre and post results reactions
- Figure 76: 2Q 2005 (calendar) pre and post results reactions
- Figure 77: 1Q 2005 (calendar) pre and post results reactions
- Figure 78: 4Q 2004 (calendar) pre and post results reactions
- Figure 79: 3Q 2004 (calendar) pre and post results reactions
- Figure 80: 2Q 2004 (calendar) pre and post results reactions
- Figure 81: Q4 (calendar) results release analysis – Local currency

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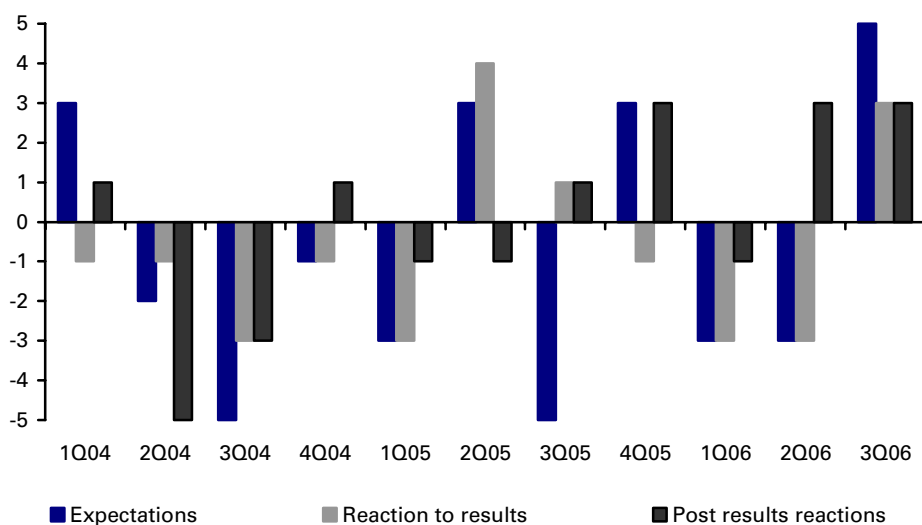
## 3Q06 (Calendar) results

Overall, the sector responded positively to 3Q 2006 results. The early reporters (first five to report) moved positively during the 2 week run-up to results, moved up on results release and gained further during the 2 week period post results clearly setting the trend for the season.

**Figure 67: Cumulative share price reactions 3Q06 (calendar) in chronological order**

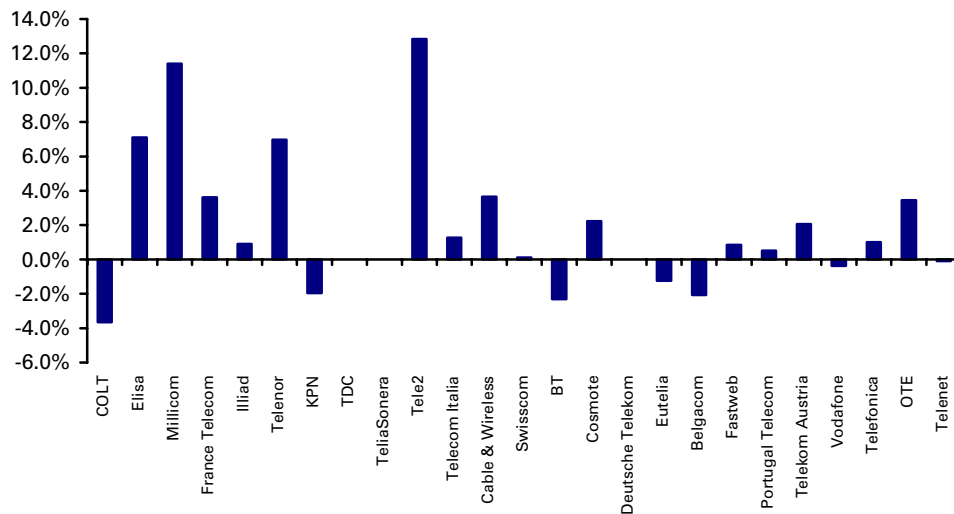
	2 weeks before	Day of release	2 weeks after
COLT	8.3%	4.6%	6.8%
Elisa	1.1%	8.2%	12.5%
Millicom	2.4%	13.8%	17.6%
France Telecom	2.6%	6.3%	5.4%
Illiad	9.8%	10.7%	11.2%
Telenor	-0.7%	6.3%	13.7%
KPN	3.1%	1.1%	2.9%
TDC	-0.5%	-0.5%	-1.0%
TeliaSonera	5.6%	5.6%	9.4%
Tele2	0.0%	12.8%	18.4%
Telecom Italia	4.4%	5.7%	4.4%
Cable & Wireless	3.2%	6.9%	8.8%
Swisscom	1.1%	1.2%	2.1%
BT	5.0%	2.7%	1.5%
Cosmote	4.1%	6.3%	10.8%
Deutsche Telekom	1.7%	1.7%	4.3%
Eutelia	-2.9%	-4.1%	-2.4%
Belgacom	3.2%	1.1%	2.6%
Fastweb	-5.4%	-4.5%	-1.7%
Portugal Telecom	-0.3%	0.2%	-0.7%
Telekom Austria	-0.5%	1.5%	2.7%
Vodafone	0.7%	0.4%	-1.7%
Telefónica	3.2%	4.2%	0.6%
OTE	-3.3%	0.1%	9.6%
Telenet	-2.7%	-2.8%	4.4%

Source: Bloomberg

**Figure 68: Share price reactions of early reporters**

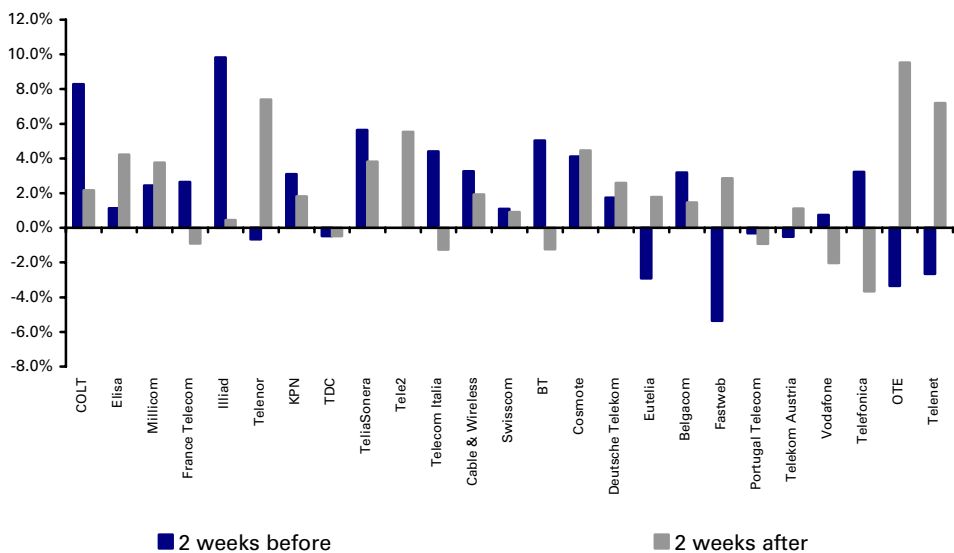
Source: Bloomberg

**Figure 69: Share price reactions on day of results (chronological order)**



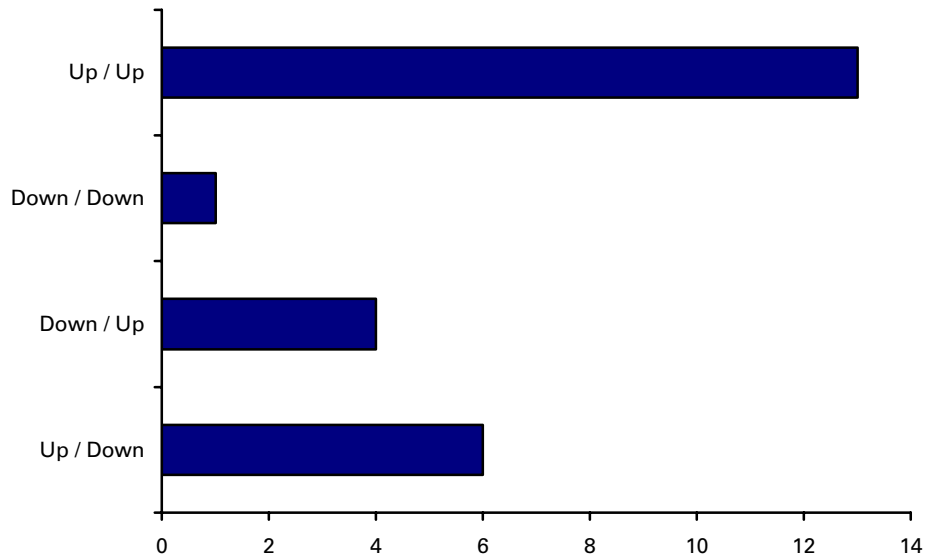
Source: Bloomberg

**Figure 70: Share price reactions in two weeks pre and post results (chronological order)**



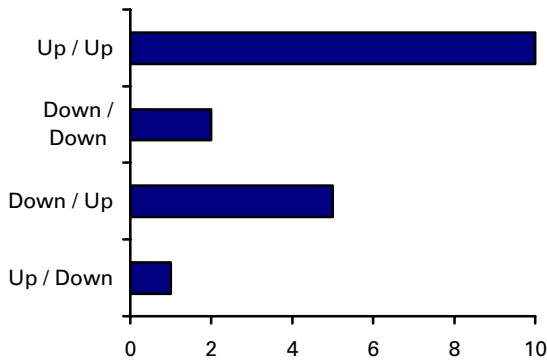
Source: Bloomberg

**Figure 71: 3Q 2006 (calendar) pre and post results reactions**



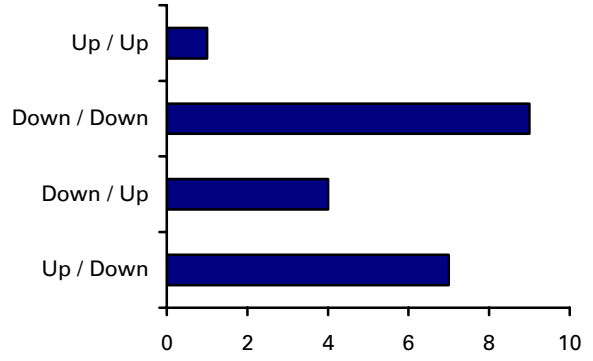
Source: Deutsche Bank

**Figure 72: 2Q 2006 (calendar) pre and post results reactions**



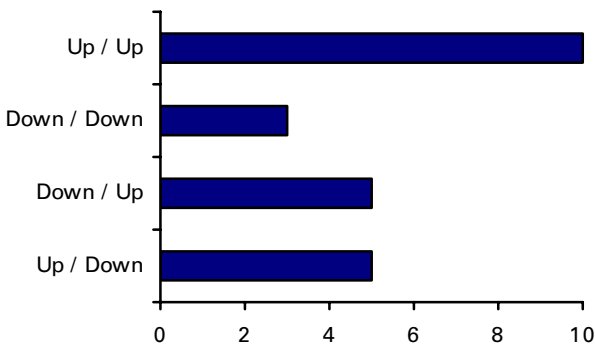
Source: Bloomberg

**Figure 73: 1Q 2006 (calendar) pre and post results reactions**



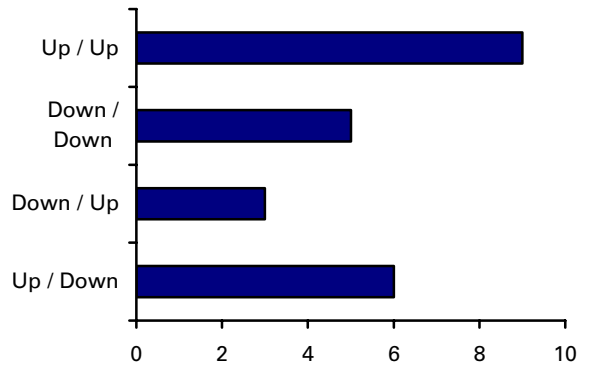
Source: Bloomberg

**Figure 74: 4Q 2005 (calendar) pre and post results reactions**



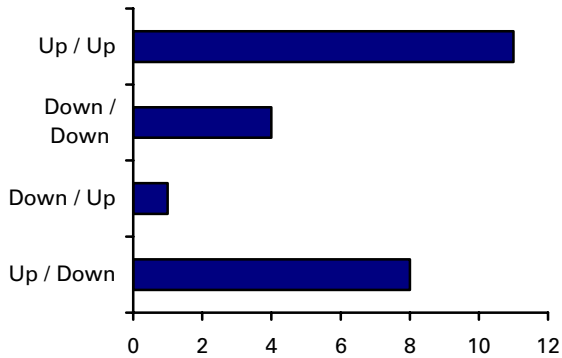
Source: Bloomberg

**Figure 75: 3Q 2005 (calendar) pre and post results reactions**



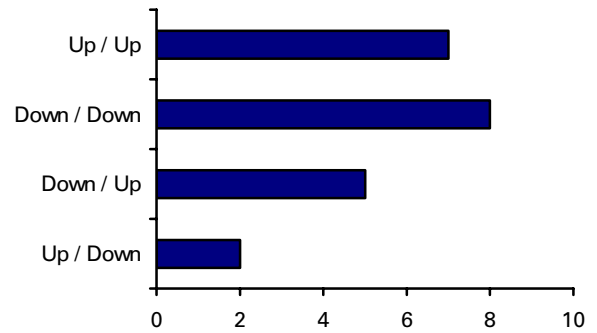
Source: Bloomberg

**Figure 76: 2Q 2005 (calendar) pre and post results reactions**



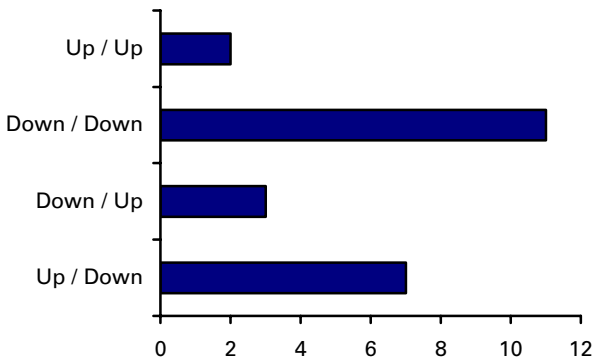
Source: Bloomberg

**Figure 77: 1Q 2005 (calendar) pre and post results reactions**



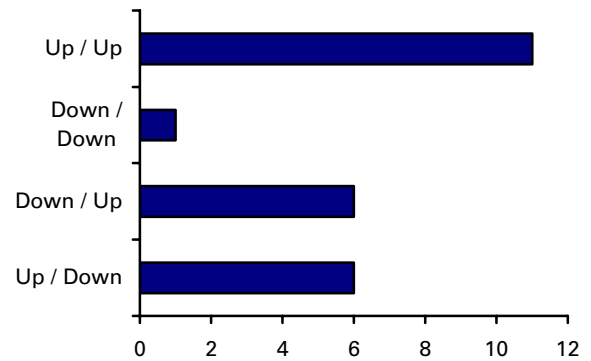
Source: Bloomberg

**Figure 78: 4Q 2004 (calendar) pre and post results reactions**



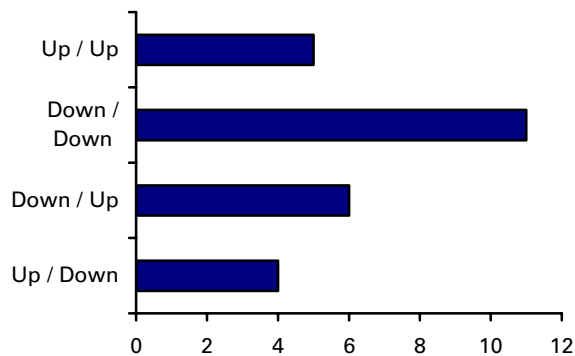
Source: Bloomberg

**Figure 79: 3Q 2004 (calendar) pre and post results reactions**



Source: Bloomberg

**Figure 80: 2Q 2004 (calendar) pre and post results reactions**



Source: Bloomberg

**Figure 81: Q4 (calendar) results release analysis – Local currency**

Release date	Type of release	Share price		Share price change														
		2 weeks before	2 weeks after	Pre release	Post release	2 weeks after	2 weeks before	2 weeks to day	2 weeks after									
Belgacom	10-Nov	Q3 2006	31.74	32.75	32.07	32.54	-2.1%	3.2%	3.2%	1.0%	1.5%							
BT	09-Nov	Q2 and H1	277.75	291.75	285	281.5	-2.3%	5.0%	5.0%	2.6%	-1.2%							
Cable & Wireless	08-Nov	Interim Results 2006/07	146.25	151	156.5	159.5	3.6%	3.2%	3.2%	7.0%	1.9%							
COLT	19-Oct	Q3 2006	132.75	143.75	138.5	141.5	-3.7%	8.3%	8.3%	4.3%	2.2%							
Cosmote	09-Nov	Q3 2006	18.98	19.76	20.20	21.10	2.2%	4.1%	4.1%	6.4%	4.5%							
Deutsche Telekom	09-Nov	9M 2006	13.23	13.46	13.46	13.81	0.0%	1.7%	1.7%	2.6%	2.6%							
Elisa	20-Oct	Q3 2006	17.54	17.74	19	19.8	7.1%	1.1%	1.1%	8.3%	4.2%							
Eutelia	09-Nov		5.84	5.67	5.6	5.7	-1.2%	-2.9%	-2.9%	-4.1%	1.8%							
Fastweb	13-Nov	Q3 2006	39.01	36.92	37.23	38.29	0.8%	-5.4%	-5.4%	-4.6%	2.8%							
France Telecom	26-Oct	Q3 2006	18.9	19.4	20.1	19.92	3.6%	2.6%	2.6%	6.3%	-0.9%							
Iliad	26-Oct		61.1	67.1	67.7	68	0.9%	9.8%	9.8%	10.8%	0.4%							
KPN	31-Oct	Q3 2006	10.36	10.68	10.47	10.66	-2.0%	3.1%	3.1%	1.1%	1.8%							
Millicom	25-Oct	Q3 2006	309.05	316.61	352.67	365.9	11.4%	2.4%	2.4%	14.1%	3.8%							
OTE	29-Nov	Q3 2006	21	20.3	21	23	3.4%	-3.3%	-3.3%	0.0%	9.5%							
Portugal Telecom	14-Nov	9M 2006	9.76	9.73	9.78	9.69	0.5%	-0.3%	-0.3%	0.2%	-0.9%							
Swisscom	08-Nov	Q3 2006	434	438.75	439.25	443.25	0.1%	1.1%	1.1%	1.2%	0.9%							
TDC	31-Oct	Q3 2006	211	210	210	209	0.0%	-0.5%	-0.5%	4.3%	-0.5%							
Telefonica	16-Nov	9M 2006	15.22	15.71	15.87	15.29	1.0%	3.2%	3.2%	4.3%	-3.7%							
Telecom Italia	06-Nov	Q3 2006	2.27	2.37	2.4	2.37	1.3%	4.4%	4.4%	5.7%	-1.3%							
Telekom Austria	14-Nov	9M 2006	19.5	19.4	19.8	20.02	2.1%	-0.5%	-0.5%	1.5%	1.1%							
Telenor	26-Oct	Q3 2006	90.9	90.3	96.6	103.75	7.0%	-0.7%	-0.7%	6.3%	7.4%							
Tele2	01-Nov	Q3 2006	76	76	85.75	90.5	12.8%	0.0%	0.0%	12.8%	5.5%							
Telenet	29-Nov		20.72	20.17	20.15	21.6	-0.1%	-2.7%	-2.7%	-2.8%	7.2%							
TeliaSonera	31-Oct	9M 2006	49.7	52.5	52.5	54.5	0.0%	5.6%	5.6%	3.8%	3.8%							
Vodafone	14-Nov	1H 2006	135	136	135.5	132.75	-0.4%	0.7%	0.7%	0.4%	-2.0%							
							<b>Median</b>	0.8%	1.7%	2.6%	1.8%							
							<b>Average</b>	1.8%	1.7%	3.6%	2.1%							
							<b>Min</b>	-3.7%	-5.4%	-4.6%	-3.7%							
							<b>Max</b>	12.8%	9.8%	14.1%	9.5%							
							<b>Total</b>	15	16	20	18							
							<b>Up</b>	7	8	4	7							
							<b>Down</b>											

Source: Bloomberg

# 3Q 2006 results calendar

**Figure 82: Pan European telecoms events calendar**

29 Jan	30 Jan	31 Jan	01 Feb	02 Feb
		Vodafone - KPIs for quarter ending 31 December 2006	France Telecom - Full year 2006 consolidated revenues	Vodafone - Ordinary dividend payment
05 Feb	06 Feb	07 Feb	08 Feb	09 Feb
	KPN - Q4 and full year 2006	Iliad - Full year 2007 revenues	BT - Q3 and 9M 2006/07	Portugal Telecom – Full year 2006
		Mobistar - Full year 2006	Elisa - Full year 2006	
12 Feb	13 Feb	14 Feb	15 Feb	16 Feb
BT - 2007 Interim dividend payment date	TeliaSonera – Full year 2006	Swisscom - Closed period until 12 March	Telenor - Q4 2006	
Bouygues - 2006 sales			Telenet - Full year 2006	
3GSM World Congress, Barcelona, Spain	3GSM World Congress, Barcelona, Spain	3GSM World Congress, Barcelona, Spain	3GSM World Congress, Barcelona, Spain	
19 Feb	20 Feb	21 Feb	22 Feb	23 Feb
			Colt - Full Year 2006	Belgacom – Full year 2006
			Cosmote – Full year 2006	
26 Feb	27 Feb	28 Feb	01 Mar	02 Mar
	OTE – Full year 2006 (TBC)	Bouygues - 2006 Annual earnings	Deutsche Telekom - Full year 2006	
			Telefónica - Full year 2007	
			TPSA - Q4 2006	
05 Mar	06 Mar	07 Mar	08 Mar	09 Mar
	France Telecom - Full year 2006 consolidated results	NeufCegetel - Full year 2006		
	Telekom Austria – Full year 2006			
12 Mar	13 Mar	14 Mar	15 Mar	16 Mar
	Swisscom - Full year 2006 (publication 07.30)	Iliad - Full year 2007 results	CeBIT, Hanover, Germany	CeBIT, Hanover, Germany
19 Mar	20 Mar	21 Mar	22 Mar	23 Mar
Elisa - Annual General Meeting				
CeBIT, Hanover, Germany	CeBIT, Hanover, Germany	CeBIT, Hanover, Germany		
26 Mar	27 Mar	28 Mar	29 Mar	30 Mar
				Vodafone - UK / Germany Investor Day, London
02 Apr	03 Apr	04 Apr	05 Apr	06 Apr
				GOOD FRIDAY - UK HOLIDAY
09 Apr	10 Apr	11 Apr	12 Apr	13 Apr
EASTER MONDAY - UK HOLIDAY	Elisa - Closed period until 23 April			
16 Apr	17 Apr	18 Apr	19 Apr	20 Apr
	KPN - Annual General Meeting			
	Pipex - Full Year 2006			
23 Apr	24 Apr	25 Apr	26 Apr	27 Apr
	Elisa - Interim Report 1-3/2007		Colt - 1Q 2007	
	Swisscom - Closed period until 8 May		France Telecom - Q1 2007 Revenues	Swisscom - Dividend payment (ex-dividend)
	Swisscom - General Meeting of Shareholders, Zurich		Bouygues - Annual general meeting	

Source: Company websites

Europe Belgium  
Telecommunications Wireline Services

# Belgacom

Reuters: **BCOM.BR** Bloomberg: **BELG BB**

## Planning for a convergent future

### 4Q 06 results on 2 March 2007

We expect Belgacom to report a solid set of 4Q results following the modest upgrade to FY guidance provided with the 3Q results. Margin pressure on the mobile business is likely to have been relatively modest and we expect management to confirm encouraging demand for the Belgacom TV product (y/e target of 100k subs exceeded at 3Q). Looking forward to the outlook for 2007 it's possible that Belgacom could provide some greater clarity on the synergy potential that might flow from the integration of the fixed and mobile businesses. This could help to offset anticipated pressure from further reductions to mobile termination rates. Whilst Belgacom has significant exposure to roaming, management have indicated that they do not expect any negative EBITDA impact in 2007 from the proposed cuts to wholesale charges.

### Valuation - TP Euro 31;

We value Belgacom using long-term DCF models for each of the three key operating units (fixed line, mobile, international carrier). WACCs range from 7.5% for fixed to 8.0% for mobile and 8.5% for International. The WACCs reference a risk free rate of 4.0% and an ERP of 4.5%. Perpetuity growth rates are -1% for fixed, 0% for mobile and -1% for international. Consistent with assumptions used across the sector.

### Key risks

Belgacom is exposed to sustained competitive pressure across both the fixed and mobile markets in Belgium. Increased competitor activity could lead to greater than expected pressure on financial performance. We also see about 5% stock overhang once Belgacom has cancelled outstanding treasury shares. On the upside, the forthcoming elections could be a catalyst for the Belgian government to review its controlling stake in the business creating fresh interest in Belgacom as a potential LBO candidate.

### Forecasts and ratios

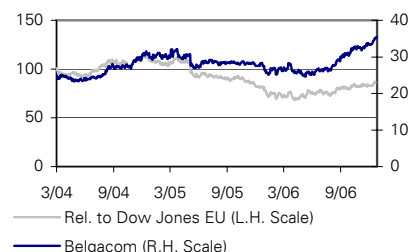
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	5,540	5,696	<b>6,063</b>	5,960	5,863
EBITDA (EURm)	2,353	2,098	<b>2,143</b>	2,041	1,959
DB EPS (EUR)	2.65	3.03	<b>2.49</b>	2.53	2.58
DB EPS growth (%)	47.1	14.4	<b>-17.7</b>	1.4	1.9
P/E (DB EPS) (x)	9.8	9.6	<b>14.2</b>	14.0	13.7
EV/EBITDA (x)	4.4	5.1	<b>6.7</b>	6.9	6.9
DPS (EUR)	1.93	1.52	<b>1.56</b>	1.62	1.64
Yield (%)	7.4	5.2	<b>4.4</b>	4.6	4.6

Source: Deutsche Bank estimates, company data

### Hold

Price Target (EUR) **31.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	7.0	14.1	28.3
Dow Jones EURO			
STOXX Price	1.5	6.1	19.1

### Stock data

Market cap (EUR)(m)	<b>11,918.5</b>
Shares outstanding (m)	<b>337</b>
Free float (%)	<b>50</b>
Dow Jones EURO STOXX Price	<b>401.3</b>
Market Cap (US\$)	<b>15,411</b>

### Key indicators

ROE (%)	<b>43.2</b>
ROC	<b>14.5</b>
Net debt/equity	<b>91.4</b>
Book value/share (EUR)	<b>5.9</b>
Price/book	<b>6.0</b>
Net interest cover	-
EBITDA margin	<b>35.3</b>
EBIT margin	<b>22.2</b>

### 4Q 2006 results

Results date	2 March,
Time of release	07:00 (GMT)
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no (available for 7 days)	TBA
Pin code	TBA

### Recent research

Business re-org underpins fundamental outlook	8 January
Proximus potential	2 November



## DB expectations for Belgacom 4Q06E and 2007E

Figure 83: Belgacom (EUR millions, 31 Dec year end)

	4Q05A	3Q06A	4Q06E	2006E	2007E
Fixed Line Services (FLS)	739	890	878	3,582	3,584
Mobile Communications Services (MCS)	543	547	518	2,134	2,003
International Carrier Services (ICS)	180	199	199	748	767
Inter-segment eliminations	-101	-101	-99	-401	-394
<b>Total recurring revenues</b>	<b>1,361</b>	<b>1,535</b>	<b>1,497</b>	<b>6,063</b>	<b>5,960</b>
Non-recurring revenues	0	0	0	0	0
<b>Total Revenues</b>	<b>1,361</b>	<b>1,535</b>	<b>1,497</b>	<b>6,063</b>	<b>5,960</b>
Fixed Line Services (FLS)	256	267	265	1,102	1,091
Mobile Communications Services (MCS)	244	257	219	1,006	918
International Carrier Services (ICS)	3	12	12	36	32
<b>Total recurring EBITDA</b>	<b>503</b>	<b>536</b>	<b>496</b>	<b>2,143</b>	<b>2,041</b>
Non-recurring	-355	0	0	0	0
<b>Total EBITDA</b>	<b>149</b>	<b>536</b>	<b>496</b>	<b>2,143</b>	<b>2,041</b>
% sales (ex non-recurring)	37.0%	34.9%	33.2%	35.3%	34.3%
Depreciation	-153	-160	-160	-636	-568
Amortisation	-42	-40	-39	-162	-158
Total D&A	-195	-200	-199	-798	-726
<b>Operating income</b>	<b>-47</b>	<b>336</b>	<b>297</b>	<b>1,345</b>	<b>1,316</b>
Net finance costs	9	60	-9	54	-85
Associates/JVs	0	0	0	0	0
Income before taxes and minorities	-37	396	288	1,399	1,231
Tax expense	23	-91	-83	-381	-394
Minority interests	-32	-37	0	-110	0
Net Income	-45	268	204	907	837
<b>Basic EPS</b>	<b>-0.13</b>	<b>0.79</b>	<b>0.61</b>	<b>2.69</b>	<b>2.53</b>
<b>DPS</b>				<b>1.56</b>	<b>1.62</b>
<b>Net Debt/(cash)</b>		<b>-63</b>	<b>1,808</b>	<b>1,808</b>	<b>1,599</b>
Net cash flow provided by operations	1,041	379	433	1,600	1,562
<b>Total Capex</b>	<b>-470</b>	<b>-158</b>	<b>-206</b>	<b>-650</b>	<b>-634</b>

Source: Deutsche Bank estimates and company data

Europe United Kingdom  
Telecommunications Wireline Services

# BT Group PLC

Reuters: **BT.L** Bloomberg: **BT/A LN**

## Gearing and Global Services in focus

### 3Q FY06/07 results on 8 February 2007

Following recent clarification on the pension deficit we expect the market to focus on a number of key issues with these results: BT's share of broadband net adds, margin expansion at Global Services and the potential to take a more relaxed position on gearing. On broadband market share, recent data from BT indicates that 4Q was another strong quarter for broadband growth in the UK (c840k net adds) and this will have helped BT's financial performance. Indications are that BT's share of net adds has remained relatively stable (20-22% of total net adds inc cable) despite competitive pressure from Sky and CPW. The market remains sceptical on BT's ability to hit its medium term 15% EBITDA margin target for Global Services (vs c10.4% today) – any significant improvement in 3Q could drive upside to consensus estimates. Stated gearing is relatively low at c1.5x net debt to EBITDA (closer to 2.5x post pension and lease adjustments). We will be watching for any further clarification from management about their willingness to push leverage higher to support M&A and/or improved shareholder returns.

### Valuation - TP 285p

We use a long-term DCF valuation model to derive out BT target price using a WACC of 8.0% and g of -0.5%. Consistent with our sector-wide assumptions. Our multiples based SOTP analysis suggests upside to c350p if the market prices Global Services like an IT Services company and Openreach like a water utility.

### Key risks

Key upside risks include better than expected evolution of EBITDA margins at Global Services where consensus expectations remain c250bps below BT's 15% target. A clear decision to increase gearing to support M&A (UK broadband and networked IT services capabilities) could also reinforce positive sentiment. On the downside, a faster than expected ramp up in LLU-based voice/broadband connections could create an unexpectedly high level of pressure on BT's financials. In addition, we see the stock underpinned by the potential valuation recognition of a spin-out of the Openreach asset.

### Forecasts and ratios

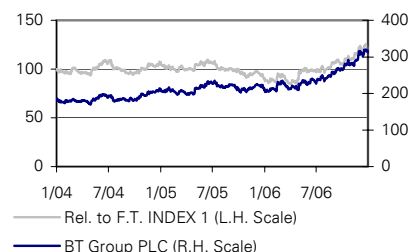
Year End Mar 31	2005A	2006A	2007E	2008E	2009E
Revenue (GBPm)	18,429	19,514	<b>20,107</b>	20,398	20,768
EBITDA (GBPm)	5,537	5,517	<b>5,601</b>	5,711	5,828
DB EPS (GBP)	17.94	19.25	<b>21.79</b>	22.56	23.93
DB EPS growth (%)	9.2	7.3	<b>13.2</b>	3.5	6.1
P/E (DB EPS) (x)	10.7	11.2	<b>14.3</b>	13.8	13.0
EV/EBITDA (x)	4.3	4.9	<b>6.1</b>	6.0	5.8
DPS (GBP)	10.40	11.90	<b>14.00</b>	15.34	16.28
Yield (%)	5.4	5.5	<b>4.5</b>	4.9	5.2

Source: Deutsche Bank estimates, company data

### Hold

Price Target (GBP) **285.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.0	16.0	44.5
F.T. INDEX 100	-0.7	0.7	8.3

### Stock data

Market cap (GBP)(m)	<b>25,873.2</b>
Shares outstanding (m)	<b>8,466</b>
Free float (%)	<b>100</b>
F.T. INDEX 100	<b>6,215.7</b>
Market Cap (US\$)	<b>50,736</b>

### Key indicators

ROE (%)	<b>120.4</b>
ROC	<b>9.0</b>
Net debt/equity	<b>516.7</b>
Book value/share (GBP)	<b>18.2</b>
Price/book	<b>17.1</b>
Net interest cover	<b>10.8</b>
EBITDA margin	<b>27.9</b>
EBIT margin	<b>13.3</b>

### 3Q 2006/07 results

Results date	8 February
Time of release	07:00 (GMT)
Company conference call time	10:00 (GMT)
Dial in	01296 317500/0800 032 9687
Pin code	n/a
Webcast	www.btplac.com/results
Replay no	+44 20 7136 9233
Pin code	31268449

### Recent research

Life in the old dog yet	8 January
Out in the open(reach)	2 November

## DB expectations for BT Group 3Q06/07E and 2006/07E

**Figure 84: BT Group, £ millions**

	3Q05/06A	2Q06/07A	3Q06/07E	2007E	2008E
BT Retail	2,116	2,077			
BT Wholesale	1,848	1,885			
BT Global Services	2,197	2,157			
BT Openreach	1,278	1,279			
Other	3	4			
Eliminations	-2,559	-2,461			
<b>Group Revenues</b>	<b>4,882</b>	<b>4,941</b>	<b>5,022</b>	<b>20,107</b>	<b>20,398</b>
BT Retail	175	228			
BT Wholesale	481	469			
BT Global Services	223	224			
BT Openreach	487	460			
Other	15	4			
<b>Group EBITDA</b>	<b>1,381</b>	<b>1,385</b>	<b>1,403</b>	<b>5,601</b>	<b>5,711</b>
post leaver EBITDA margin	28.3%	28.0%	27.9%	27.9%	28.0%
Leaver costs	23	33	30		
<b>EBITDA pre leaver costs</b>	<b>1,404</b>	<b>1,418</b>	<b>1,433</b>	<b>5,761</b>	<b>5,871</b>
pre leaver EBITDA margin	28.8%	28.7%	28.5%	28.7%	28.8%
D&A	-710	-703	-728	-2,921	-2,952
Interest	-129	-55	-71	-248	-263
Associates and jv's	3	5	3	12	10
Specific items	0	-3	0	-3	0
Reported PBT	545	629	606	2,441	2,506
Tax	-134	-154	-148	-598	-614
Minorities	0	0	0	0	0
Net Income	411	475	458	1,843	1,892
<b>EPS (before specific items)</b>	<b>4.9</b>	<b>5.7</b>	<b>5.5</b>	<b>22.2</b>	<b>23.0</b>
EPS (reported)	4.9	5.7	5.5	22.2	23.0
<b>DPS</b>		<b>5.1</b>		<b>14.0</b>	<b>15.3</b>
Capex	759	812	775	3,100	3,050
<b>Net Debt</b>	<b>8,113</b>	<b>8,079</b>	<b>8,589</b>	<b>8,024</b>	<b>8,188</b>

Source: Deutsche Bank estimates and company data

Europe Greece  
Telecommunications Wireless Services

# Cosmote

Reuters: **COSr.AT** Bloomberg: **COSMO GA**

## Domestic strength and guidance

### 4Q 206 results on 22 February 2007

We expect domestic revenues to have continued its robust upward trend in 4Q'06 driven by Cosmote's expanding customer base despite domestic penetration inching towards 120%. We have modelled a 7.8% YoY growth in total revenues compared with 6.6% in 3Q'06 (service revenue growth at 6.8% up from 6.1% in 3Q'06). Consolidation of Germanos for the first time in the quarter and should add Euro 228m in 4Q 2006 and Euro 845m annually (net of incremental inter segment revenues) to consolidated revenues in 2007.

We have modelled a Euro 0.75 dividend per share, to be announced after the FY 2006 results. We also look for greater detail on divisional guidance at the forthcoming earnings call following group targets the management disclosed last November.

### Investment case – Excellent growth

Our Cosmote valuation offers potential upside of 16% and total return of 18%. Accordingly, we maintain our 'Buy' rating. We believe Cosmote offers the benefits of sustainable growth in all its markets strengthened by the enhanced retail presence through Germanos. Moreover, Germanos would provide Cosmote greater control of a sizeable element of the cost base (distribution was 35% of the Greek cost base in 2005 which we expect would come down to 24% in 2008).

### Valuation and risks: Target Euro 25.20; Expectations full

Our sotp target employs WACCs between 7.5% and 12% and perpetuity growth. The key risks are a failure of our profitability assumption to materialise in the medium term when the strong customer growth slows and greater competition in the domestic market where Cosmote continues to outperform. We would also highlight that the failure to accrue market share and cost cutting benefits from Germanos could negatively impact future growth.

### Forecasts and ratios

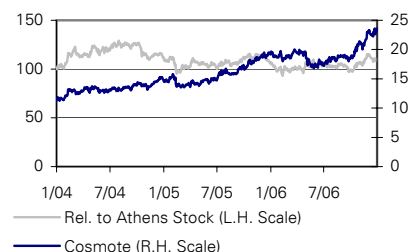
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	1,588	1,798	<b>2,423</b>	3,308	3,654
EBITDA (EURm)	675	755	<b>874</b>	1,040	1,229
EBITA (EURm)	487	525	<b>564</b>	711	891
PBT DB (EURm)	482	506	<b>508</b>	605	790
PBT stated (EURm)	482	506	<b>508</b>	605	790
DB EPS (EUR)	0.93	1.02	<b>1.09</b>	1.42	1.80
DB EPS growth (%)	–	9.5	<b>6.4</b>	30.5	26.8
P/E (DB EPS) (x)	14.1	15.3	<b>21.7</b>	16.6	13.1
EV/EBITDA (x)	6.6	8.9	<b>12.2</b>	10.2	8.4
EV/EBITA (x)	9.2	12.8	<b>18.8</b>	14.9	11.6
DPS (EUR)	0.00	1.55	<b>0.75</b>	0.84	0.90
Yield (%)	0.0	9.9	<b>3.2</b>	3.6	3.8

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **25.20**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.7	27.0	21.4
Athens Stock Exchange General Index	5.3	13.5	17.0

### Stock data

Market cap (EUR)(m)	<b>7,881.7</b>
Shares outstanding (m)	<b>334</b>
Free float (%)	–
Athens Stock Exchange General Index	<b>4,612.6</b>

### Key indicators

ROE (%)	–
ROA (%)	<b>19.6</b>
Net debt/equity (x)	–
Book value/share (EUR)	<b>-3.6</b>
Price/book (x)	–
Net interest cover (x)	<b>10.0</b>
EBIT margin (%)	<b>23.3</b>

### 4Q 2006 results

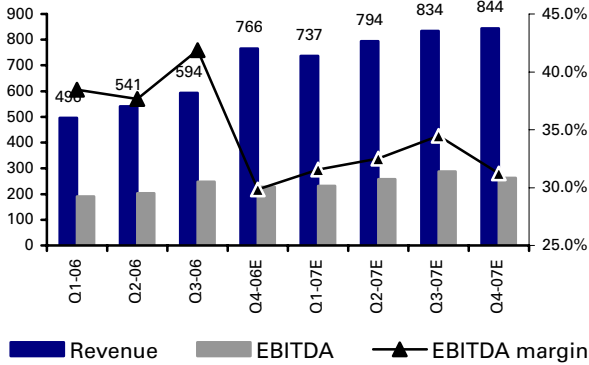
Results date	22 February
Time of release	TBA
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Webcast	TBA
Presentation lunch	TBA
Lunch location	TBA
Replay no (available for 7 days)	TBA
Pin code	TBA

### Recent research

All about retail; reiterate as a Top Pick	13 November
Awaiting guidance and the outlook for "new" Cosmote	2 November

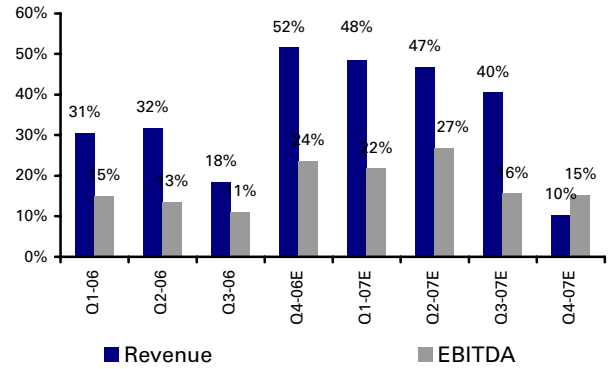
### Results outlook

**Figure 85: Group revenue, EBITDA (Euro m) and EBITDA margin (%)**



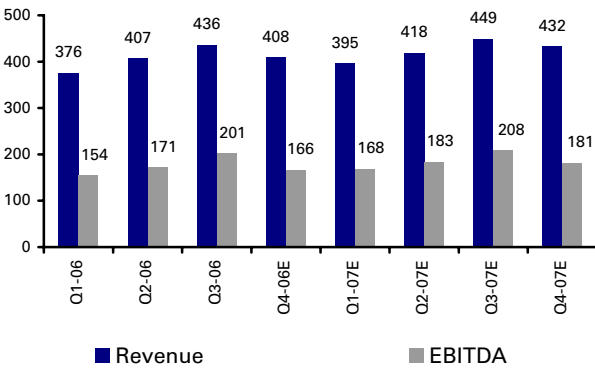
Source: Deutsche Bank and company data

**Figure 86: Group revenue and EBITDA growth (%)**



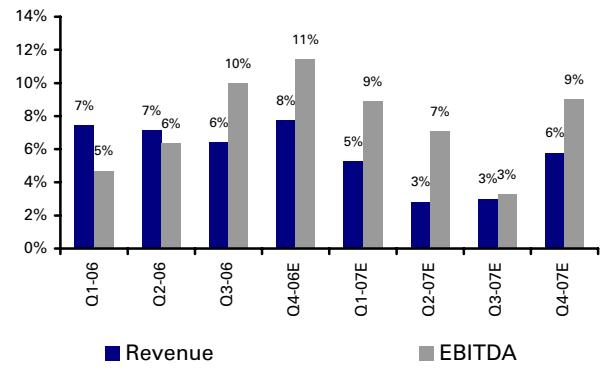
Source: Deutsche Bank and company data

**Figure 87: Domestic wireless revenue, EBITDA (Euro m)**



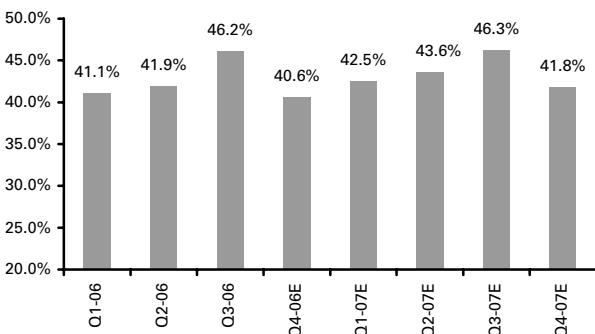
Source: Deutsche Bank and company data

**Figure 88: Domestic wireless revenue and EBITDA Growth (%)**



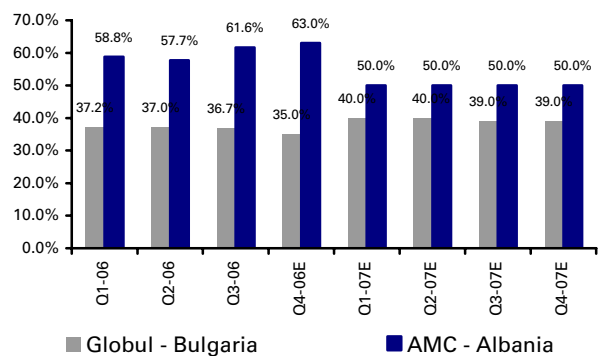
Source: Deutsche Bank and company data

**Figure 89: Domestic wireless EBITDA margins (%)**



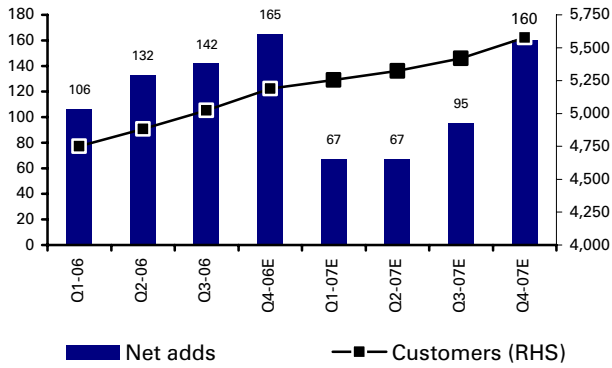
Source: Deutsche Bank and company data

**Figure 90: Bulgaria and Albania EBITDA growth (%)**



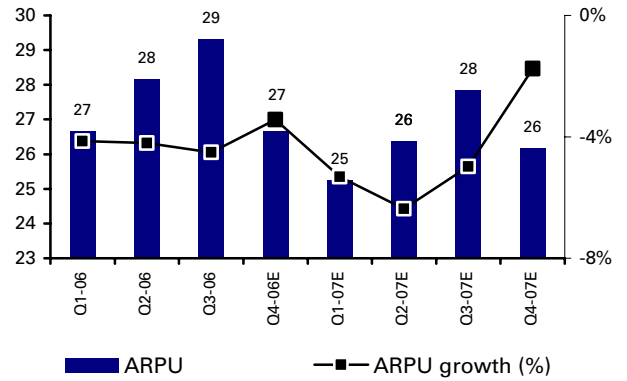
Source: Deutsche Bank and company data

**Figure 91: Domestic customers and net adds ('000)**



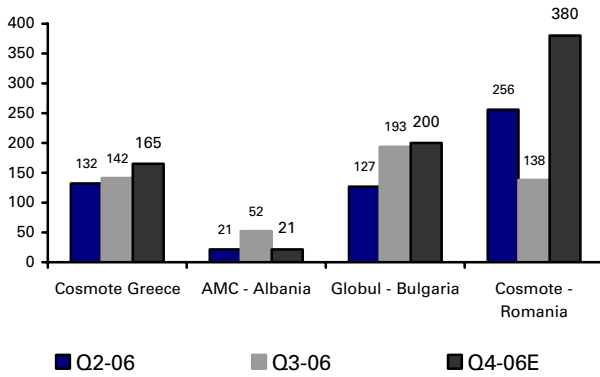
Source: Deutsche Bank and company data

**Figure 92: Domestic ARPU (Euro), ARPU growth (%)**



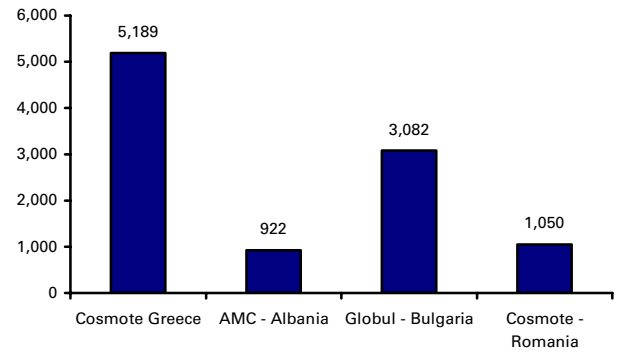
Source: Deutsche Bank and company data

**Figure 93: Net additions ('000)**



Source: Deutsche Bank and company data

**Figure 94: Q4 2006E Cosmote customers ('000)**



Source: Deutsche Bank and company data

**Figure 95: Cosmote summary results outlook (Euro m)**

	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	2007E	2008E
Total revenues	496	541	594	766	2,396	737	794	834	844	3,208	3,570
EBITDA	191	204	249	229	872	232	258	287	263	1,041	1,244
EBITDA margin (%)	38.5%	37.7%	41.9%	29.9%	36.4%	31.6%	32.5%	34.5%	31.2%	32.5%	34.8%
Operating income (EBIT)	117	128	172	144	562	154	177	204	177	712	906
Net interest expense	-11	-12	-9	-24	-56	-25	-28	-27	-26	-107	-102
CAPEX	65	136	92	159	475	97	98	100	130	424	417
CAPEX / Sales	13%	25%	15%	21%	20%	13%	12%	12%	15%	13%	12%
Net income	75	82	119	88	363	101	117	138	118	474	611
Net debt	935	1,333	1,397	2,264	2,264	2,500	2,415	2,317	2,222	2,222	2,009

**Divisional Breakdown****Revenues**

Cosmote Greece	376	407	436	408	1,626	395	418	449	432	1,694	1,845
AMC - Albania	34	35	41	38	148	37	38	44	40	159	170
Globul - Bulgaria	74	82	93	89	338	94	104	103	106	407	470
Cosmote - Romania	6	8	13	15	42	25	36	36	36	133	226
Germanos	0	0	0	253	253	218	233	230	263	944	982
Other and intersegment	6	9	12	-37	-10	-34	-34	-28	-34	-130	-123
Total revenues	496	541	594	766	2,396	737	794	834	844	3,208	3,570

**EBITDA**

Cosmote Greece	154	171	201	166	692	168	183	208	181	739	812
AMC - Albania	20	20	25	24	89	19	19	22	20	80	77
Globul - Bulgaria	28	30	34	31	123	38	41	40	42	161	188
Cosmote - Romania	-12	-18	-16	-18	-65	-19	-14	-14	-14	-62	18
Germanos	0	0	0	24	24	24	26	25	29	104	118
Other	1	1	4	2	8	3	4	6	7	20	31
EBITDA	191	204	249	229	872	232	258	287	263	1,041	1,244

**EBITDA margins**

Cosmote Greece	41%	42%	46%	41%	43%	43%	44%	46%	42%	44%	44%
AMC - Albania	59%	58%	62%	63%	60%	50%	50%	50%	50%	50%	45%
Globul - Bulgaria	37%	37%	37%	35%	36%	40%	40%	39%	39%	39%	40%
Cosmote - Romania	-202%	-230%	-126%	-120%	-155%	-75%	-40%	-40%	-40%	-47%	8%

**Domestic operating data**

Customers ('000)	4,750	4,882	5,024	5,189	5,189	5,256	5,323	5,418	5,578	5,578	5,838
Net adds	106	132	142	165	545	67	67	95	160	389	260
ARPU	27	28	29	27	28	25	26	28	26	26	27

**International customers ('000)**

AMC - Albania	828	849	901	922	922	953	983	1,013	1,043	1,043	1,139
Globul - Bulgaria	2,561	2,688	2,882	3,082	3,081	3,181	3,281	3,381	3,481	3,481	3,641
Cosmote - Romania	276	532	670	1,050	1,050	1,250	1,400	1,600	1,800	1,800	2,600
Net adds ('000)											
AMC - Albania	46	21	52	21	141	30	30	30	30	121	96
Globul - Bulgaria	167	127	193	200	688	100	100	100	100	400	160
Cosmote - Romania	227	256	138	380	1,001	200	150	200	200	750	800

Source: Deutsche Bank estimates and company data

**Figure 96: Cosmote YoY growth rates**

	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	2007E	2008E
Total revenues	31%	32%	18%	52%	33%	48%	47%	40%	10%	34%	11%
EBITDA	15%	13%	11%	24%	16%	22%	27%	16%	15%	19%	19%
EBITDA margin (%)											
Operating income (EBIT)	2%	0%	11%	13%	7%	31%	38%	19%	23%	27%	27%
Net interest expense	458%	389%	-21%	487%	185%	139%	126%	211%	7%	90%	-4%
CAPEX	328%	544%	62%	-7%	81%	49%	-28%	9%	-18%	-11%	-2%
CAPEX / Sales											
Net income	1%	-3%	23%	4%	7%	35%	43%	16%	35%	30%	29%
Net debt	301%	772%	39%	124%	124%	167%	81%	66%	-2%	-2%	-10%

**Divisional Breakdown**

## Revenues

Cosmote Greece	7%	7%	6%	8%	7%	5%	3%	3%	6%	4%	9%
AMC - Albania	8%	9%	7%	6%	7%	9%	8%	8%	7%	8%	7%
Globul - Bulgaria	-	-	28%	16%	23%	27%	26%	11%	20%	21%	15%
Cosmote - Romania	-	-	-	331%	421%	320%	348%	185%	136%	218%	71%
Germanos	-	-	-	-	-	-	-	-	4%	273%	4%
Other and intersegment	-637%	-1029%	-163%	-444%	-92%	-627%	-492%	-335%	-10%	1138%	-5%
Total revenues	31%	32%	18%	52%	33%	48%	47%	40%	10%	34%	11%

**EBITDA**

Cosmote Greece	5%	6%	10%	11%	8%	9%	7%	3%	9%	7%	10%
AMC - Albania	7%	4%	7%	13%	8%	-7%	-6%	-13%	-15%	-11%	-4%
Globul - Bulgaria	-	-	44%	41%	31%	37%	36%	18%	33%	31%	17%
Cosmote - Romania	-	-	-	48%	223%	56%	-22%	-10%	-21%	-4%	-130%
Germanos	-	-	-	-	-	-	-	-	19%	327%	13%
Other	-2868%	-442%	-167%	-62%	-119%	162%	379%	60%	222%	147%	56%
EBITDA	15%	13%	11%	24%	16%	22%	27%	16%	15%	19%	19%

**Domestic operating data**

Customers ('000)	12%	11%	11%	12%	12%	11%	9%	8%	7%	7%	5%
Net adds	33%	-11%	10%	22%	11%	-37%	-49%	-33%	-3%	-29%	-33%
ARPU	-4%	-4%	-5%	-3%	-4%	-5%	-6%	-5%	-2%	-5%	3%

**International customers ('000)**

AMC - Albania	18%	16%	18%	18%	18%	15%	16%	12%	13%	13%	9%
Globul - Bulgaria	44%	39%	34%	29%	29%	24%	22%	17%	13%	13%	5%
Cosmote - Romania	290%	738%	1091%	2043%	2043%	353%	163%	139%	71%	71%	44%

## Net adds ('000)

AMC - Albania	-25%	-30%	66%	10%	-1%	-35%	40%	-42%	41%	-14%	-20%
Globul - Bulgaria	11%	-21%	-12%	-16%	-11%	-40%	-21%	-48%	-50%	-42%	-60%
Cosmote - Romania	-3231%	-3632%	-2003%	-5341%	-3552%	-12%	-41%	45%	-47%	-25%	7%

Source: Deutsche Bank estimates and company data



## Cosmote: guidance gauge for 2006 – 2008

In Figure 97 we compare Cosmote's current guidance with our targets. This has been update for the purchase of Germanos and we hope for more divisional granularity.

**Figure 97: Cosmote guidance gauge (Euro m)**

	2006E		2007E		2008E		2009E		2006-2009	
	Guidance	DB est	Guidance	DB est	Guidance	DB est	Guidance	DB est	Guidance	DB est
Revenue growth	c.30%	33.3%	>30%	33.9%		11.3%		8.8%	>15%	17.5%
EBITDA margin			>15%	19.4%		19.5%		8.4%	>15%	15.6%
EBITDA margin	40.0%	36.4%		32.5%		34.8%		34.7%		
Net income growth		7%		30%		29%				
Net debt / EBITDA	2.7	2.6					<1.0	1.2		
Capex	<500	475	450	424	-10%	-2%	-10%	-16%		
Customers (000)							15,069	15,000		

Source: Deutsche Bank estimates and company data

## Cosmote Valuation – target Euro 25.2

Cosmote trades at a 2007E EV/EBITDA of 8.2x (sector 6.3x), 2007E P/E of 12.7x (sector 13.9x), 2007E dividend yield of 3.9% (sector 5.2%) and a 2007E FCF yield of 6.4% (sector 6.9%).

**Figure 98: Cosmote 2007 sotp computation (Euro m)**

Asset	Method	Asset EV	Shareholding	Valuation
Cosmote - Greece	DCF	6,627	100.0%	6,627
AMC - Albania	DCF	464	82.5%	383
Globul - Bulgaria	DCF	1,460	100.0%	1,460
Cosmofon - Macedonia	DCF	213	100.0%	213
Cosmote - Romania	DCF	1,392	70.0%	975
Cosmo-one	EBITDA x	3	30.0%	1
Germanos	12 x EBIT	1020	90.0%	918
Total EV				10,576
Less net debt				-2,222
Add: minorities net debt				
AMC - Albania				0
Cosmote - Romania				30
Germanos				0
Equity valuation				8,384
Shares in issue (2007E)				333.7
Value per share				25.1

Source: Deutsche Bank estimates

**Figure 99: Implied valuation multiples**

	2007E	2008E	2009E	WACC	g
Cosmote - Greece	9.0	8.2	8.1	8.0%	0.0%
AMC - Albania	5.8	6.1	5.8	12.0%	1.0%
Globul - Bulgaria	9.1	7.8	7.2	9.0%	1.0%
Cosmofon - Macedonia	9.0	6.1	5.5	12.0%	1.0%
Cosmote - Romania	-22.5	75.4	15.6	9.0%	1.0%

Source: Deutsche Bank estimate

### Investment case: customer growth to drive up value

Our Cosmote valuation offers potential upside of 16% and total return of 18%. Accordingly, we maintain our 'Buy' rating and continue to highlight Cosmote as a one of our 'Top Picks'. We believe Cosmote offers the benefits of sustainable growth in all its markets strengthened by the enhanced retail presence through Germanos.

We expect domestic revenues to have continued its robust upward trend in 4Q'06 driven by Cosmote's expanding customer base despite domestic penetration inching towards 120%. We have modeled a 7.8% YoY growth in total revenues compared with 6.6% in 3Q'06 (service revenue growth at 6.8% up from 6.1% in 3Q'06). We have a more conservative outlook on growth in 2007 with customer growth slowing down as the mobile market saturates and have modeled a moderate growth rate of only 4.2%. The proportion of contract net adds was down at 22% in 3Q from 28% in 1Q but we expect this trend to gradually reverse over 2007 with the shift in customer mix adding further impetus to ARPU growth. In Romania, better customer reach through Germanos should spur greater penetration and market share growth. Cosmote added its millionth customer in December and we now target a FY06 base of 1.05m and this flows through to 2007 and 2008 where we now target 1.8m and 2.6m. We have accordingly modeled a further 2pp gain in market share in 4Q'06 up from over 4.5% in 3Q'06 and expect this to increase to 15% by end 2008.

Consolidation of Germanos for the first time in 4Q'06 should add Euro 228m in 4Q'06 and Euro 845m annually (net of incremental inter segment revenues) to consolidated revenues. Moreover, Germanos would provide Cosmote greater control of a sizeable element of the cost base (distribution was 35% of the Greek cost base in 2005 which we expect would come down to 24% in 2008). Strategically, Germanos would greatly help Cosmote to gain a higher proportion of net adds in growth markets such as Romania and FYRoM and thereby drive market share growth. We expect an extension of the model to Albania to naturally follow. It would also enable Cosmote to better manage customer churn, especially contract churn, and thereby improve its customer mix. We have modeled annual churn in Greece to be c.6% by 2008 down from the mid teen in 2005.

We have modeled a Euro 0.75 dividend per share in 4Q'06 and a Euro 250m cash outflow for the same in 1Q'07. We look for greater detail on divisional guidance at the forthcoming earnings call following group targets the management disclosed last November.

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## Risks - Failure to accrue Germanos benefits

We see several key risks to Cosmote:

- Mobile termination rates are currently expected to be around Euro 0.1067 at 1 June 2007 but there is limited certainty over what happens post June 2007. We model a trend towards Euro 0.07 by the end of 2009.
- Cosmote Romania represents both a growth opportunity (we believe EBITDA will jump from Euro -65m in 2006 to Euro 89m in 2009), but the execution risk is significant given penetration is already well over 50% and the existing operators (Vodafone and Orange) are dominant.
- M&A: with OTE now owning over 2/3rds we see a risk that OTE uses Cosmote as an instrument for consolidation, potentially abusing minorities and even going as far as completing a nil premium merger. We do not believe this will happen in the short term and OTE has to firstly execute on its restructuring and secondly wishes to avoid compromising Cosmote's independent culture.
- Our model assumes there are discernable benefits from the acquisition of Germanos and these may be harder to realise than we perceive and could be cancelled if a more aggressive owners takes control of TIM Hellas, which is currently controlled by private equity.
- On the positive side, SIM penetration has consistently exceeded expectations in Western Europe and could continue to outperform in the groups' Eastern European properties. Q3 results yet again showed the strength of the company's customer growth in all regions.

Europe Germany  
Telecommunications Wireline Services

# Deutsche Telekom

Reuters: **DTEGn.DE** Bloomberg: **DTE GY**

## Strategy and dividend

### Full Year 2006 results on 1 March 2007

Rene Obermann is expected to announce his strategy for Deutsche Telekom, which we expect to focus on costs cutting and asset rationalisation. We expect a Euro 1.0bn provision in Q4 for headcount cuts, which would represent a positive sign that the company is confident in its ability to cut personnel.

### Investment case – Positive risk/reward on low expectations

Following the downward revision to 2007 guidance we believe management's outlook for 2007 EBITDA is cautious. Our current estimates embody a c8.5% decline in domestic bb/fixnet EBITDA, 11% decline at TMO Germany and only 0.6% growth at TMO USA. We believe that cost cutting potential continues to be underplayed but with new management there is likely to be reinforced effort on this issue. We could also see asset disposals back on the agenda over the next 12 months, strengthening the balance sheet and providing management with flexibility to improve shareholder returns and/or invest in growth opportunities. With positive earnings drivers (even if many are technical such as tax) and already low expectations for Deutsche Telekom and our view that our dividend target of Euro 0.8 for the next three years is sustainable (2x FCF coverage from 2008 from 1.4x in 2006E), the risk/reward outlook for the next six months in again more positive we believe.

### Valuation and risks: Target Euro 15.50; Total return 13%

Our EUR15.5 target price is derived using a DCF-based SOTP valuations model. Key assumptions include WACCs of 7.5% to 8.5% and g's of -1% to 1%. Although our estimates are conservative there are risks to German mobile tariffs, and we already imply significant benefits from tax changes in Germany.

### Forecasts and ratios

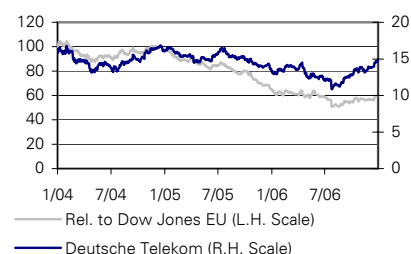
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	57,360	59,604	<b>61,416</b>	63,184	63,518
EBITDA (EURm)	19,617	19,529	<b>18,806</b>	18,394	19,860
EBITA (EURm)	10,198	10,168	<b>8,011</b>	7,625	9,036
PBT DB (EURm)	4,995	7,840	<b>6,044</b>	5,989	6,385
PBT stated (EURm)	6,225	7,699	<b>4,995</b>	4,889	6,385
DB EPS (EUR)	-0.07	0.50	<b>0.83</b>	0.81	0.86
DB EPS growth (%)	-	-	<b>65.0</b>	-3.0	6.0
P/E (DB EPS) (x)	-	30.3	<b>17.7</b>	18.3	17.2
EV/EBITDA (x)	5.8	5.8	<b>6.2</b>	6.2	5.6
EV/EBITA (x)	11.1	11.2	<b>14.5</b>	14.9	12.3
DPS (EUR)	0.62	0.72	<b>0.80</b>	0.80	0.80
Yield (%)	4.2	4.7	<b>5.4</b>	5.4	5.4

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **15.50**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.7	14.5	8.0
Dow Jones EURO			
STOXX Price	1.5	6.1	19.1

### Stock data

Market cap (EUR)(m)	<b>64,326.1</b>
Shares outstanding (m)	<b>4,361</b>
Free float (%)	<b>63</b>
Dow Jones EURO STOXX Price	<b>401.3</b>
Market Cap (US\$)	<b>83,176</b>

### Key indicators

ROE (%)	<b>8.4</b>
ROC	<b>4.6</b>
Net debt/equity	<b>85.4</b>
Book value/share (EUR)	<b>11.1</b>
Price/book	<b>1.3</b>
Net interest cover	<b>3.1</b>
EBITDA margin	<b>30.6</b>
EBIT margin	<b>13.0</b>

### FY 2006 results

Results date	1 March 2007
Time of release	TBA
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

### Recent research

DT - adjusting profit guidance	29 January
KPIs - Focus on broadband	26 January
2007: Outlook and opportunity	
Upgrade to Buy	19 December
Management takeover by T-Mobile	
is complete	5 December

## KPI outlook – 31 January 2007 (TBC)

Figure 100: Summary wireless customer statistics (000)

Customers	2004	1Q-05	2Q-05	3Q-05	4Q-05	2005	1Q-06	2Q-06	3Q-06	4Q-06E	Cons.	2006E	2007E	2008E	2009E	2010E
Germany	27,471	27,560	28,183	28,713	29,523	29,523	30,246	30,415	30,651	31,051		31,051	31,901	32,601	32,881	33,121
UK	10,699	10,851	10,589	10,657	11,139	11,139	10,222	10,471	10,280	10,910		10,910	11,510	11,704	11,760	11,910
Austria	2,045	2,043	2,049	2,050	2,090	2,090	2,095	3,112	3,157	3,182		3,182	3,232	3,252	3,262	3,272
Czech Republic	4,360	4,390	4,463	4,553	4,631	4,631	4,648	4,734	4,822	4,882		4,882	5,042	5,202	5,362	5,522
Netherlands	2,261	2,222	2,222	2,295	2,317	2,317	2,329	2,381	2,409	2,459		2,459	2,639	2,819	2,999	3,179
Poland										11,000		11,000	11,600	12,200	12,800	13,400
USA	17,315	18,272	19,244	20,302	21,689	21,689	22,724	23,337	24,139	25,139		25,139	27,623	29,164	30,160	31,070
Other	13,435	13,705	14,128	14,517	15,226	15,226	15,411	15,717	16,113	16,963		16,963	17,513	18,063	18,613	19,163
<b>Total</b>	<b>77,586</b>	<b>79,043</b>	<b>80,878</b>	<b>83,087</b>	<b>86,615</b>	<b>86,615</b>	<b>87,675</b>	<b>90,166</b>	<b>91,571</b>	<b>105,586</b>		<b>105,586</b>	<b>111,060</b>	<b>115,005</b>	<b>117,837</b>	<b>120,637</b>

## Net additions

Germany	1,139	89	623	530	810	2,052	723	169	236	400	450	1,528	850	700	280	240
UK (T-Mobile brand)	1,026	152	-262	68	482	440	-917	249	-190	630	400	-229	600	194	56	150
Austria	13	-2	6	1	40	45	5	1,017	45	25		1,092	50	20	10	10
Czech Republic	412	30	73	73	78	254	17	86	88	60		251	160	160	160	160
Netherlands	274	-39	28	28	22	39	12	52	28	50		142	180	180	180	180
Poland										300		300	600	600	600	600
USA	4,186	957	972	1,058	1,387	4,374	1,035	613	802	1,000	900	3,450	2,484	1,541	996	910
Other		270	423	389	709	1,791	185	305	396	850		1,737	550	550	550	550
<b>Total</b>	<b>7,049</b>	<b>1,457</b>	<b>1,863</b>	<b>2,147</b>	<b>3,528</b>	<b>8,995</b>	<b>1,060</b>	<b>2,491</b>	<b>1,405</b>	<b>3,315</b>		<b>8,271</b>	<b>5,474</b>	<b>3,945</b>	<b>2,832</b>	<b>2,800</b>

Source: Deutsche Bank estimates and company data

Please note we assume a Virgin Mobile customer base (included in other) of 6.600m at the end of 2006.

Figure 101: Domestic broadband and Fixnet customer statistics (000)

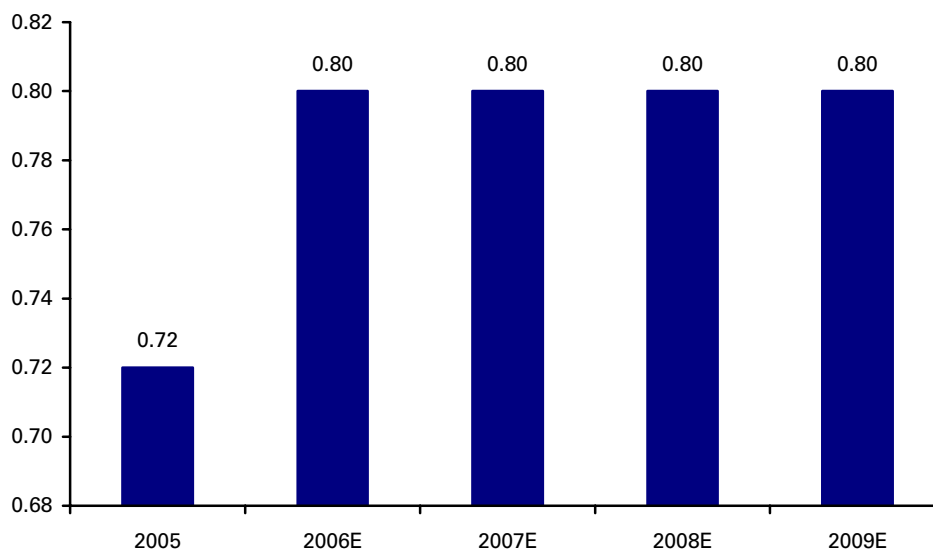
	1Q-05	2Q-05	3Q-05	4Q-05	2005	1Q-06	2Q-06	3Q-06	4Q-06E	2006E	2007E	2008E
Access lines excl ISDN channels	26.100	25.857	25.680	25.470	25.470	25.177	24.858	24.514	24.146	24.146	22.729	21.833
ISDN channels	20.600	20.224	19.870	19.542	19.542	19.120	18.750	18.362	17.995	17.995	16.598	15.309
Total access lines	46.700	46.081	45.550	45.012	45.012	44.297	43.608	42.876	42.141	42.141	39.326	37.142
Percent of lines that are ISDN channels	44%	44%	44%	43%	43%	43%	43%	43%	43%	43%	42%	41%
DT access calculation	36.400	35.969	35.615	35.241	35.241	34.737	34.233	33.695	33.144	33.144	31.028	29.488
DSL contracts	6.400	6.732	7.257	7.918	7.918	8.561	8.963	9.402	10.154	10.154	11.765	12.608
Of which resale	0.465	0.735	1.114	1.592	1.592	2.151	2.538	2.897	3.361	3.361		
Total other operator access channels	3.743	3.893	4.049	4.211	4.211	4.379	4.642	4.920	5.215	5.215	6.339	7.705
Total lines in market	50.443	49.974	49.599	49.223	49.223	48.676	48.250	47.796	47.356	47.356	45.666	44.848
T-Com market share of accesses	92.6%	92.2%	91.8%	91.4%	91.4%	91.0%	90.4%	89.7%	89.0%	89.0%	86.1%	82.8%
DB change in access line (sequential)	-0.500	-0.619	-0.531	-0.538	-2.188	-0.715	-0.689	-0.732	-0.735	-2.871	-2.815	-2.184
DT change in access line (sequential)	-0.400	-0.431	-0.354	-0.374	-1.559	-0.504	-0.504	-0.538	-0.551	-2.097	-2.116	-1.540
Change in DSL lines (sequential)	0.600	0.332	0.525	0.661	2.118	0.643	0.402	0.439	0.752	2.236	1.611	0.844
Change in resale DSL lines (sequential)		0.270	0.379	0.478	1.592	0.559	0.387	0.359	0.464	1.769		
DT market share		19%	28%	28%	25%	13%	4%	18%	38%	21%		

Source: Deutsche Bank estimates and company data

## Results Outlook – 1 March 2007

- **Dividends:** We are looking for a Euro 0.8 dividend, which represents 10% growth on last years Euro 0.72 (which has been set as the minimum). We believe consensus is around Euro 0.74.

**Figure 102: Dividend targets (Euro )**



Source: Deutsche Bank estimates

### Other items of note

- **Strategy announcement:** Rene Obermann is expected to detail his strategy for Deutsche Telekom and the focus areas is likely to be "cost cutting". The company has completed a series of management changes and in particular the company has appointed a head of the Euro 5bn cost cutting plan (Georg Poelzl). Focus areas of the presentation will be:
  - Closer working relationship of T-Com and TMO Germany and we would highlight the appointment of Philipp Humm to run the sales function of both T-Com and T-Mobile Germany (including T-Punkt) and Thomas Berlemann to run the customer service elements (including call centres).
  - Offering multiples services in each market.
  - Focus on expanding its wireless footprint.
  - Reasserting DT's position as Europe's largest operators.
  - Manage the headcount reduction strategy and the decision to form the T-Service business area.
  - Establishing a German network business, with plans for an IP platform.
  - Opportunities for mobile network sharing.
  - Regulation and the long-term VDSL strategy and when does DT assess the demand?
  - Asset rationalisation and the future of TMOU UK and TMO USA.
  - End the PTC debacle.
- For a more comprehensive review please see our report *Deutsche Telekom – 2007: Outlook and opportunity – Upgrade to Buy* issued on 18 December 2006.

- **Union negotiations:** Update on union negotiations regarding headcount cuts and salary negotiations.

**Figure 103: Headcount and salary assumptions at domestic BB/FN (Euro)**

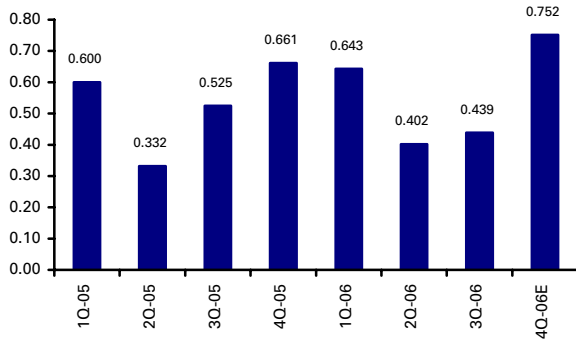
	2005	Change	2006E	Change	2007E	Change	2008E	Change	2009E	Change	2010E	Change
Personnel	88,614	-6,323	83,825	-4,789	77,825	-6,000	70,825	-7,000	68,825	-2,000	66,825	-2,000
Average employee cost	49,876		51,099	2.5%	53,102	3.9%	54,876	3.3%	56,343	2.7%	58,033	3.0%
Total employee costs (m)	4,577	31.7%	4,406	32.2%	4,292	31.8%	4,079	31.7%	3,934	31.7%	3,936	32.2%

Source: Deutsche Bank estimates

#### Index of figures

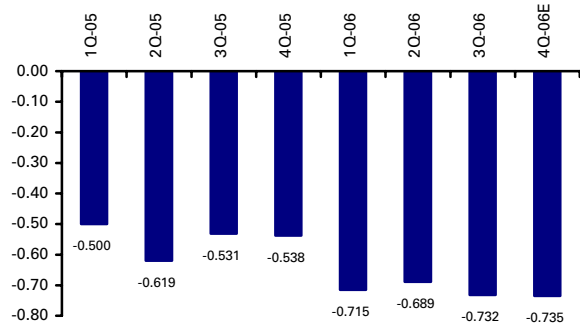
- Figure 104: T-Com domestic DSL subscriber additions (m)
- Figure 105: T-Com domestic access line trends (m)
- Figure 106: T-Com gross revenue breakdown (Euro m)
- Figure 107: T-Com revenue growth rates
- Figure 108: T-Com EBITDA breakdown (Euro m)
- Figure 109: T-Com EBITDA growth rates
- Figure 110: Business customers gross revenue and EBITDA (Euro m)
- Figure 111: Business customers gross revenue and EBITDA growth
- Figure 112: T-Mobile USA revenue and EBITDA growth (\$)
- Figure 113: T-Mobile USA customers (000) and ARPU (\$)
- Figure 114: T-Mobile Germany and UK EBITDA growth
- Figure 115: T-Mobile Germany and UK EBITDA margins
- Figure 116: DT quarterly revenue growth
- Figure 117: DT quarterly EBITDA growth
- Figure 118: Summary of Broadband/Fixnet business division (Euro m)
- Figure 119: Deutsche Telekom summary results outlook (Euro m)
- Figure 120: Deutsche Telekom summary historical (based on reported results and prospective growth rates)
- Figure 121: T-Mobile International consolidated income statement (Euro m)
- Figure 122: Summary T-Mobile USA estimates (\$m)

**Figure 104: T-Com domestic DSL subscriber additions (m)**



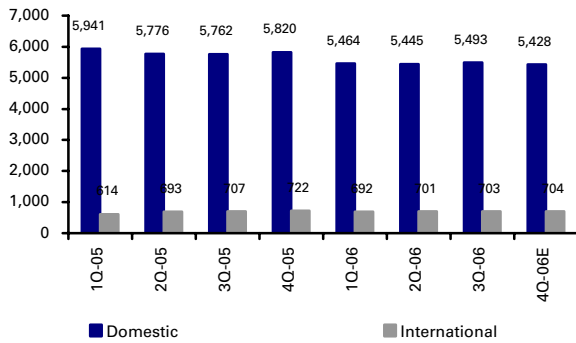
Source: Company data and Deutsche Bank estimates

**Figure 105: T-Com domestic access line trends (m)**



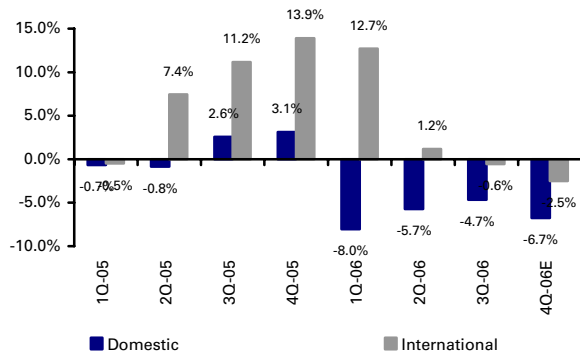
Source: Company data and Deutsche Bank estimates

**Figure 106: T-Com gross revenue breakdown (Euro m)**



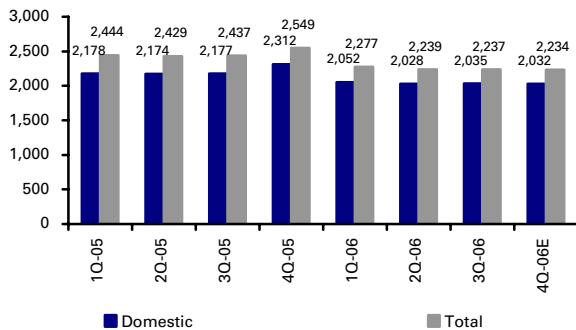
Source: Company data and Deutsche Bank estimates

**Figure 107: T-Com revenue growth rates**



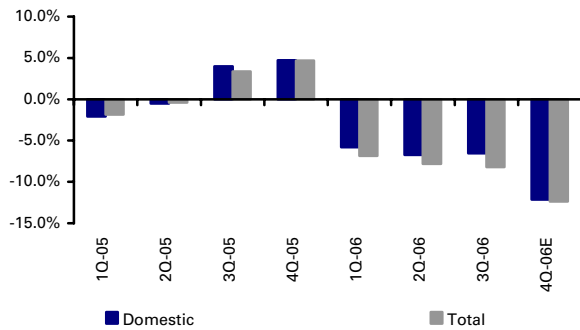
Source: Company data and Deutsche Bank estimates

**Figure 108: T-Com EBITDA breakdown (Euro m)**



Source: Company data and Deutsche Bank estimates

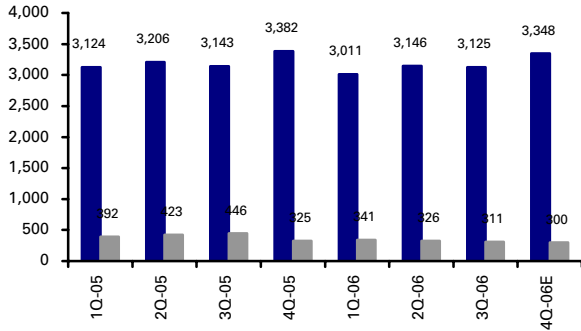
**Figure 109: T-Com EBITDA growth rates**



Source: Company data and Deutsche Bank estimates

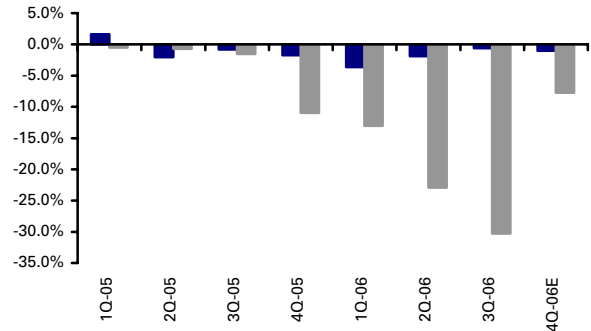


**Figure 110: Business customers gross revenue and EBITDA (Euro m)**



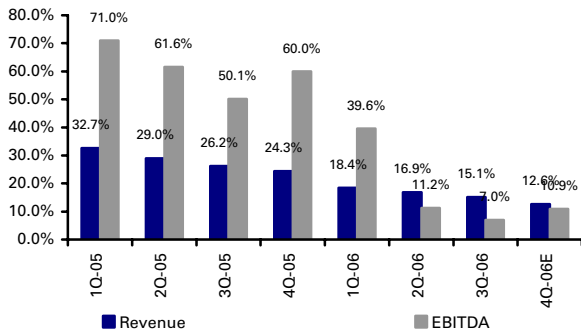
Source: Company data and Deutsche Bank estimates

**Figure 111: Business customers gross revenue and EBITDA growth**



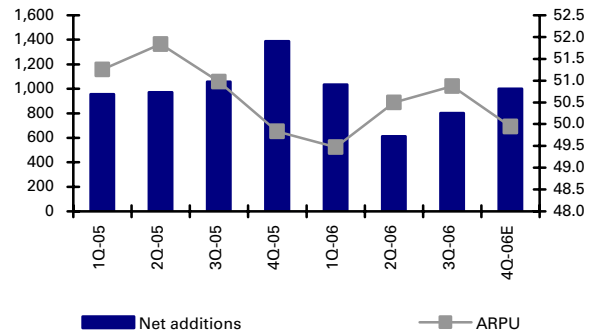
Source: Company data and Deutsche Bank estimates

**Figure 112: T-Mobile USA revenue and EBITDA growth (\$)**



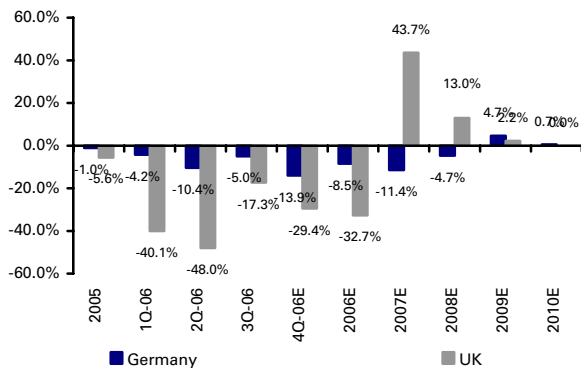
Source: Company data and Deutsche Bank estimates

**Figure 113: T-Mobile USA customers (000) and ARPU (\$)**



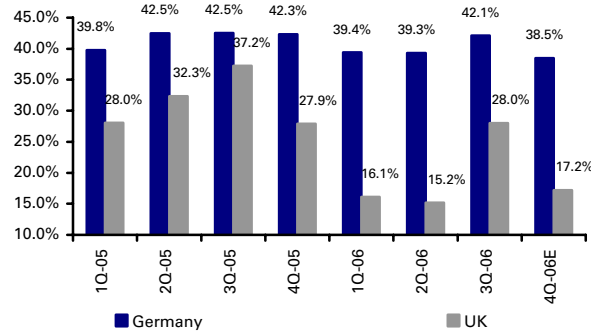
Source: Company data and Deutsche Bank estimates

**Figure 114: T-Mobile Germany and UK EBITDA growth**



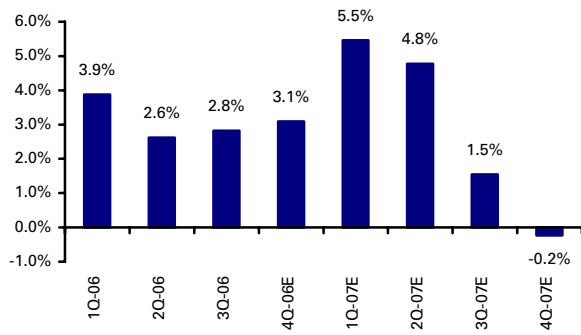
Source: Company data and Deutsche Bank estimates

**Figure 115: T-Mobile Germany and UK EBITDA margins**



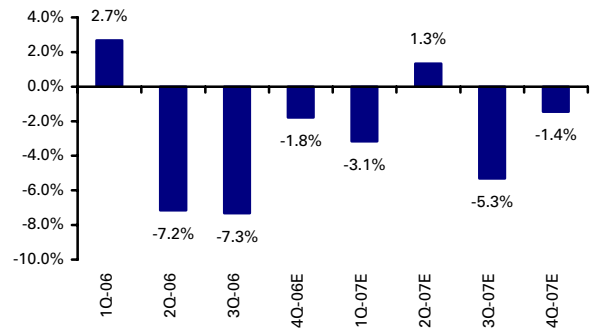
Source: Company data and Deutsche Bank estimates

**Figure 116: DT quarterly revenue growth**



Source: Company data and Deutsche Bank estimates

**Figure 117: DT quarterly EBITDA growth**



Source: Company data and Deutsche Bank estimates

**Figure 118: Summary of Broadband/Fixnet business division (Euro m)**

	1Q-05	Rev. 2Q-05	Rev. 3Q-05	Rev. 4Q-05	Rev. 2005	Rev. 1Q-06	Rev. 2Q-06	Rev. 3Q-06	Rev. 4Q-06E	Rev. 2006E	Rev.									
Network communications	3,473	53%	3,856	60%	3,789	59%	3,781	58%	14,899	57%	3,625	58%	3,531	58%	14,344	58%				
Data communications	344	5%	281	4%	309	5%	297	5%	1,231	5%	318	5%	324	5%	297	5%	1,246	5%		
Wholesale	1,199	18%	1,066	16%	1,096	17%	1,118	17%	4,479	17%	1,028	17%	1,089	18%	1,077	17%	1,118	18%	4,312	18%
Terminal equipment	99	2%	94	1%	116	2%	124	2%	433	2%	74	1%	82	1%	76	1%	81	1%	313	1%
Value-added services	273	4%	264	4%	271	4%	261	4%	1,069	4%	233	4%	224	4%	227	4%	222	4%	906	4%
Other	553	8%	215	3%	181	3%	239	4%	1,188	5%	186	3%	174	3%	170	3%	179	3%	709	3%
<b>Total</b>	<b>5,941</b>	<b>91%</b>	<b>5,776</b>	<b>89%</b>	<b>5,762</b>	<b>89%</b>	<b>5,820</b>	<b>89%</b>	<b>23,299</b>	<b>89%</b>	<b>5,464</b>	<b>89%</b>	<b>5,445</b>	<b>89%</b>	<b>5,493</b>	<b>89%</b>	<b>5,428</b>	<b>89%</b>	<b>21,830</b>	<b>89%</b>
International	614	9%	693	11%	707	11%	722	11%	2,736	11%	692	11%	701	11%	703	11%	704	11%	2,800	11%
Total	6,555	100%	6,469	100%	6,469	100%	6,542	100%	26,035	100%	6,156	100%	6,146	100%	6,196	100%	6,132	100%	24,630	100%
Intersegment revenue	1,097	17%	1,049	16%	1,069	17%	1,089	17%	4,304	17%	949	15%	1,061	17%	1,000	16%	990	16%	4,000	16%
<b>Net revenue</b>	<b>5,458</b>	<b>83%</b>	<b>5,420</b>	<b>84%</b>	<b>5,400</b>	<b>83%</b>	<b>5,453</b>	<b>83%</b>	<b>21,731</b>	<b>83%</b>	<b>5,207</b>	<b>85%</b>	<b>5,085</b>	<b>83%</b>	<b>5,196</b>	<b>84%</b>	<b>5,142</b>	<b>84%</b>	<b>20,630</b>	<b>84%</b>
<b>EBITDA</b>																				
<b>Domestic</b>	<b>2,178</b>	<b>33%</b>	<b>2,174</b>	<b>34%</b>	<b>2,177</b>	<b>34%</b>	<b>2,312</b>	<b>35%</b>	<b>8,841</b>	<b>34%</b>	<b>2,052</b>	<b>33%</b>	<b>2,028</b>	<b>33%</b>	<b>2,035</b>	<b>33%</b>	<b>2,032</b>	<b>33%</b>	<b>8,147</b>	<b>33%</b>
International (exc Matav)	140	2%	123	2%	133	2%	113	2%	509	2%	105	2%	94	2%	97	2%	94	2%	390	2%
Matav	126	2%	132	2%	127	2%	124	2%	509	2%	120	2%	117	2%	105	2%	108	2%	450	2%
<b>EBITDA</b>	<b>2,444</b>	<b>37%</b>	<b>2,429</b>	<b>38%</b>	<b>2,437</b>	<b>38%</b>	<b>2,549</b>	<b>39%</b>	<b>9,859</b>	<b>38%</b>	<b>2,277</b>	<b>37%</b>	<b>2,239</b>	<b>36%</b>	<b>2,237</b>	<b>36%</b>	<b>2,234</b>	<b>36%</b>	<b>8,987</b>	<b>36%</b>
<b>EBIT</b>																				
Domestic	1,337		1,339		1,347		1,477		5,501		1,260		1,234		1,239		1,234		4,967	
Total	1,434		1,417		1,449		1,535		5,835		1,315		1,267		1,307		1,215		5,104	
<b>Growth rates</b>																				
Domestic revenue	-0.7%		-0.8%		2.6%		3.1%		1.0%		-8.0%		-5.7%		-4.7%		-6.7%		-6.3%	
International revenue	-0.5%		7.4%		11.2%		13.9%		8.1%		12.7%		1.2%		-0.6%		-2.5%		2.3%	
Gross revenue	-0.7%		0.0%		3.4%		4.2%		1.7%		-6.1%		-5.0%		-4.2%		-6.3%		-5.4%	
Net revenue	4.9%		5.2%		8.2%		4.2%		5.6%		-4.6%		-6.2%		-3.8%		-5.7%		-5.1%	
Domestic EBITDA	-2.1%		-0.5%		4.0%		4.7%		1.5%		-5.8%		-6.7%		-6.5%		-12.1%		-7.9%	
International EBITDA	0.0%		0.4%		-1.5%		4.4%		0.7%		-15.4%		-17.3%		-22.3%		-14.7%		-17.5%	
Total EBITDA	-1.8%		-0.4%		3.4%		4.7%		1.4%		-6.8%		-7.8%		-8.2%		-12.4%		-8.8%	
<b>Margins</b>																				
EBITDA	44.8%		44.8%		45.1%		46.7%		45.4%		43.7%		44.0%		43.1%		43.4%		43.6%	
Domestic EBITDA	36.7%		37.6%		37.8%		39.7%		37.9%		37.6%		37.2%		37.0%		37.4%		37.3%	

Source: Deutsche Bank estimates and company data

**Figure 119: Deutsche Telekom summary results outlook (Euro m)**

	1Q-05	2Q-05	3Q-05	4Q-05	2005	1Q-06	2Q-06	3Q-06	4Q-06E	2006E	2007E	2008E
Revenue	14,288	14,743	15,056	15,517	59,604	14,842	15,130	15,480	15,997	61,449	63,184	63,518
EBITDA	4,841	5,188	5,501	3,999	19,529	4,970	4,817	5,099	3,927	18,813	18,394	19,860
EBITDA margin	33.9%	35.2%	36.5%	25.8%	32.8%	33.5%	31.8%	32.9%	24.6%	30.6%	29.1%	31.3%
EBIT	2,307	2,578	2,911	2,372	10,168	2,410	2,153	2,347	1,108	8,018	7,624	9,036
Interest expense	-707	-464	-674	-556	-2,401	-658	-602	-651	-662	-2,573	-2,604	-2,519
Net income	976	1,175	1,490	1,022	4,663	963	1,049	980	112	3,104	2,421	3,734
EPS (underlying)	0.23	0.28	0.36	0.24	1.11	0.23	0.24	0.22	0.03	0.72	0.56	0.86
DPS					0.72	0.00	0.00	0.00	0.80	0.80	0.80	0.80
Capex	1,213	1,824	1,686	2,668	7,391	2,044	1,925	1,950	2,562	8,481	7,931	8,260
Capex / Sales	8.5%	12.4%	11.2%	17.2%	12.4%	13.8%	12.7%	12.6%	16.0%	13.8%	12.6%	13.0%
Net debt (DB)	47,400	48,152	43,832	41,746	41,746	41,381	42,016	42,232	43,884	43,884	41,338	38,658
Net debt (DT)	42,635	44,533	40,798	38,639	38,639	37,789	38,819	38,269	39,921	39,921	37,375	34,695
<b>Revenue</b>												
BB/Fixnet	5,458	5,420	5,400	5,453	21,731	5,207	5,085	5,196	5,142	20,630	19,931	19,272
T-Systems	2,234	2,295	2,178	2,351	9,058	2,152	2,287	2,219	2,377	9,035	8,789	8,789
T-Mobile International	6,531	6,962	7,408	7,629	28,530	7,405	7,677	7,979	8,393	31,454	34,135	35,127
T-Other	65	66	70	84	285	78	81	86	84	329	329	329
<b>Total</b>	<b>14,288</b>	<b>14,743</b>	<b>15,056</b>	<b>15,517</b>	<b>59,604</b>	<b>14,842</b>	<b>15,130</b>	<b>15,480</b>	<b>15,997</b>	<b>61,449</b>	<b>63,184</b>	<b>63,518</b>
<b>EBITDA</b>												
BB/Fixnet	2,444	2,429	2,437	2,549	9,859	2,277	2,239	2,237	2,234	8,987	8,254	8,127
T-Systems	392	423	446	325	1,586	341	326	311	300	1,278	1,066	1,113
T-Mobile International	2,111	2,443	2,730	2,488	9,772	2,280	2,363	2,682	2,514	9,839	10,568	10,869
T-Other	-72	-66	-95	-102	-335	87	-82	-126	-120	-241	-395	-249
Reconciliation	-34	-41	-17	-1,261	-1,353	-15	-29	-5	-1,000	-1,049	-1,100	0
<b>Total</b>	<b>4,841</b>	<b>5,188</b>	<b>5,501</b>	<b>3,999</b>	<b>19,529</b>	<b>4,970</b>	<b>4,817</b>	<b>5,099</b>	<b>3,927</b>	<b>18,813</b>	<b>18,394</b>	<b>19,860</b>

Source: Deutsche Bank estimates and company data

**Figure 120: Deutsche Telekom summary historical (based on reported results and prospective growth rates)**

	10-05	20-05	30-05	4Q-05	2005	10-06	2Q-06	3Q-06	4Q-06E	2006E	10-07E	2Q-07E	3Q-07E	4Q-07E	2007E
Revenue	2.9%	2.5%	4.9%	5.3%	3.9%	3.9%	2.6%	2.8%	3.1%	3.1%	5.5%	4.8%	1.5%	-0.2%	2.8%
EBITDA	3.6%	5.4%	3.9%	-15.4%	-0.4%	2.7%	-7.2%	-7.3%	-1.8%	-3.7%	-3.1%	1.3%	-5.3%	-1.4%	-2.2%
EBITDA margin															
EBIT	-7.2%	0.6%	1.4%	4.0%	-0.3%	4.5%	-16.5%	-19.4%	-53.3%	-21.1%	-11.7%	1.7%	-9.1%	5.8%	-4.9%
Interest expense	-36.0%	-51.0%	1.7%	-27.0%	-30.9%	-6.9%	29.7%	-3.4%	19.1%	7.2%	-1.1%	7.4%	1.3%	-2.3%	1.2%
Net income	41.2%	-3.8%	29.3%	72.6%	27.5%	-1.3%	-10.7%	-34.2%	-89.0%	-33.4%	-13.5%	-16.4%	-15.2%	-207.2%	-22.0%
EPS (underlying)	41.2%	-3.8%	29.3%	72.6%	27.5%	-1.3%	-14.1%	-36.7%	-89.5%	-35.2%	-16.8%	-16.4%	-15.2%	-207.2%	-22.9%
DPS															
Capex	-10.3%	15.7%	13.9%	33.3%	15.3%	68.5%	5.5%	15.7%	-4.0%	14.7%	-4.8%	3.7%	2.3%	-22.1%	-6.5%
Capex / Sales															
Net debt	-11.6%	-7.2%	-9.4%	-2.0%	-2.0%	-12.7%	-12.7%	-3.7%	5.1%	5.1%	4.8%	7.3%	2.8%	-5.8%	-5.8%
<b>Revenue</b>															
BE/Fixnet	-3.4%	-3.4%	-0.6%	-4.6%	-3.0%	-4.6%	-6.2%	-3.8%	-5.7%	-5.1%	-4.5%	-1.6%	-4.5%	-2.9%	-3.4%
T-Systems	1.1%	-1.4%	-1.0%	-6.1%	-2.0%	-3.7%	-0.3%	1.9%	1.1%	-0.2%	-2.6%	-4.3%	-2.0%	-2.0%	-2.7%
T-Mobile International	9.5%	9.3%	11.2%	18.3%	12.1%	13.4%	10.3%	7.7%	10.0%	10.3%	14.9%	11.7%	6.5%	1.9%	8.5%
T-Other	4.8%	-4.3%	22.8%	16.7%	9.6%	20.0%	22.7%	22.9%	0.0%	15.4%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>2.9%</b>	<b>2.5%</b>	<b>4.9%</b>	<b>5.3%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>2.6%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>5.5%</b>	<b>4.8%</b>	<b>1.5%</b>	<b>-0.2%</b>	<b>2.8%</b>
<b>EBITDA</b>															
BE/Fixnet	-6.3%	-5.4%	-2.2%	1.3%	-3.2%	-6.8%	-7.8%	-8.2%	-12.4%	-8.8%	-7.9%	-8.0%	-9.3%	-7.4%	-8.2%
T-Systems	-0.5%	-0.7%	-1.5%	-11.0%	-3.2%	-13.0%	-22.9%	-30.3%	-7.7%	-19.4%	-22.5%	-19.5%	-16.2%	-6.9%	-16.5%
T-Mobile International	15.6%	14.9%	15.0%	20.3%	16.4%	8.0%	-3.3%	-1.8%	1.0%	0.7%	12.4%	12.8%	-1.9%	7.7%	7.4%
T-Other	-17.2%	-60.0%	331.8%	-62.8%	-38.9%	-220.8%	24.2%	32.6%	17.7%	-28.1%	-227.9%	31.0%	-28.1%	-29.0%	63.7%
Reconciliation	-48.5%	24.2%	240.0%	-2572.5%	2452.8%	-55.9%	-29.3%	-70.6%	-20.7%	-22.5%	-100.0%	-100.0%	-100.0%	10.0%	4.9%
<b>Total</b>	<b>3.6%</b>	<b>5.4%</b>	<b>3.9%</b>	<b>-15.4%</b>	<b>-0.4%</b>	<b>2.7%</b>	<b>-7.2%</b>	<b>-7.3%</b>	<b>-1.8%</b>	<b>-3.7%</b>	<b>-3.1%</b>	<b>1.3%</b>	<b>-5.3%</b>	<b>-1.4%</b>	<b>-2.2%</b>

Source: Deutsche Bank estimates and company data

**Figure 121: T-Mobile International consolidated income statement (Euro m)**

Revenue	2004	2005	1Q-06	2Q-06	3Q-06	4Q-06E	2006E	2007E	2008E	2009E	2010E
Germany	8,744	8,622	2,004	2,060	2,122	2,090	8,276	7,923	7,834	8,042	8,230
UK	4,344	4,152	1,032	1,122	1,165	1,255	4,574	5,088	5,313	5,383	5,468
Austria	882	885	217	285	335	338	1,175	1,407	1,459	1,508	1,556
Total	13,970	13,659	3,253	3,467	3,622	3,682	14,024	14,418	14,607	14,932	15,254
Czech	827	938	240	259	262	262	1,023	1,040	1,080	1,080	1,080
Netherlands	1,046	1,065	271	282	286	286	1,125	1,200	1,260	1,320	1,380
Poland						350	350	2,000	2,100	2,200	2,200
Other	1,406	1,905	457	508	574	574	2,113	2,296	2,296	2,296	2,296
Europe Total	17,249	17,567	4,221	4,516	4,744	5,154	18,635	20,954	21,343	21,828	22,210
USA	9,278	11,885	3,354	3,340	3,425	3,439	13,558	13,994	14,621	15,152	15,606
<b>Total group net revenues</b>	<b>26,527</b>	<b>29,452</b>	<b>7,575</b>	<b>7,856</b>	<b>8,169</b>	<b>8,593</b>	<b>32,193</b>	<b>34,948</b>	<b>35,964</b>	<b>36,980</b>	<b>37,816</b>
<b>EBITDA</b>											
Germany	3,640	3,603	790	810	893	804	3,297	2,919	2,782	2,912	2,931
UK	1,380	1,303	166	170	326	215	877	1,260	1,424	1,456	1,455
Austria	240	226	59	78	110	113	360	496	535	566	591
Total	5,260	5,132	1,015	1,058	1,329	1,132	4,534	4,676	4,741	4,933	4,978
Czech Republic	364	411	108	115	116	116	455	480	500	520	540
Netherlands	144	176	21	26	71	50	168	150	160	160	160
Poland						100	100	640	680	720	720
Other	571	725	219	212	203	210	844	910	1,000	1,080	1,160
Europe Total	6,339	6,444	1,363	1,411	1,719	1,608	6,101	6,856	7,081	7,413	7,558
USA	2,056	3,328	917	952	963	905	3,737	3,712	3,788	3,864	3,939
<b>Total group EBITDA</b>	<b>8,395</b>	<b>9,772</b>	<b>2,280</b>	<b>2,363</b>	<b>2,682</b>	<b>2,514</b>	<b>9,839</b>	<b>10,568</b>	<b>10,869</b>	<b>11,277</b>	<b>11,497</b>
<b>Capital expenditures</b>											
Germany	481	457	169	109	109	175	562	550	700	700	700
UK	335	459	98	113	118	296	625	739	739	886	886
Austria	131	138	23	31	48	48	150	200	200	180	160
Poland						25	25	260	300	300	300
Other Europe	511	663	172	126	124	150	572	500	500	500	500
European capital expenditures	1,458	1,717	462	379	399	694	1,934	2,249	2,439	2,566	2,546
USA	1,620	2,008	630	461	441	738	2,270	2,483	2,621	2,083	2,045
<b>Total group capex</b>	<b>3,078</b>	<b>3,725</b>	<b>1,092</b>	<b>840</b>	<b>840</b>	<b>1,432</b>	<b>4,204</b>	<b>4,731</b>	<b>5,060</b>	<b>4,650</b>	<b>4,592</b>
Capital expenditures / revenues	11.6%	12.6%	14.4%	10.7%	10.3%	16.7%	13.1%	13.5%	14.1%	12.6%	12.1%
<b>EBITDA margins</b>											
Germany	41.6%	41.8%	39.4%	39.3%	42.1%	38.5%	39.8%	36.8%	35.5%	36.2%	35.6%
UK	31.8%	31.4%	16.1%	15.2%	28.0%	17.2%	19.2%	24.8%	26.8%	27.0%	26.6%
Austria	27.2%	25.5%	27.2%	27.4%	32.8%	33.5%	30.7%	35.2%	36.7%	37.6%	38.0%
Czech	44.0%	43.8%	45.0%	44.4%	44.3%	44.3%	44.5%	46.2%	46.3%	48.1%	50.0%
Netherlands	13.8%	16.5%	7.7%	9.2%	24.8%	17.5%	14.9%	12.5%	12.7%	12.1%	11.6%
Poland						28.6%	28.6%	32.0%	32.4%	32.7%	32.7%
USA	22.2%	28.0%	27.3%	28.5%	28.1%	26.3%	27.6%	26.5%	25.9%	25.5%	25.2%
<b>Consolidated EBITDA margin</b>	<b>31.6%</b>	<b>33.2%</b>	<b>30.1%</b>	<b>30.1%</b>	<b>32.8%</b>	<b>29.3%</b>	<b>30.6%</b>	<b>30.2%</b>	<b>30.2%</b>	<b>30.5%</b>	<b>30.4%</b>
<b>Growth Rates</b>											
EBITDA	16.6%	16.4%	8.0%	-3.3%	-1.8%	1.0%	0.7%	7.4%	2.9%	3.8%	2.0%

Source: Deutsche Bank estimates and company data

**Figure 122: Summary T-Mobile USA estimates (\$m)**

	2004	2005	1Q-06	2Q-06	3Q-06	4Q-06E	2006E	2007E	2008E	2009E	2010E
Subscriber revenues	10,067	11,816	3,296	3,489	3,623	3,692	14,100	15,472	16,300	17,000	17,600
Equipment sales	1,502	2,929	737	716	741	756	2,950	3,000	3,000	3,000	3,000
Total revenue	11,538	14,745	4,033	4,205	4,364	4,448	17,050	18,472	19,300	20,000	20,600
Operating expenses											
Other operating costs	6,839	8,400	2,332	2,332	2,332	2,332	9,327	10,008	8,474	10,836	11,182
Cost of equipment sales	2,146	2,274	598	674	805	945	3,023	3,564	5,826	4,064	4,218
Stock based compensation	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	8,985	10,674	2,930	3,006	3,137	3,277	12,350	13,572	14,300	14,900	15,400
EBITDA reported	2,553	4,071	1,103	1,199	1,227	1,171	4,700	4,900	5,000	5,100	5,200
EBITDA margin	22.1%	27.6%	27.3%	28.5%	28.1%	26.3%	27.6%	26.5%	25.9%	25.5%	25.2%
Service revenue margin	25.4%	34.5%	33.5%	34.4%	33.9%	31.7%	33.3%	31.7%	30.7%	30.0%	29.5%
Capital expenditures / revenues	17.5%	15.2%	18.8%	13.8%	12.9%	21.4%	16.7%	17.7%	17.9%	13.8%	13.1%
Revenue growth	37.8%	27.8%	18.4%	16.9%	15.1%	12.6%	15.6%	8.3%	4.5%	3.6%	3.0%
EBITD growth	59.2%	59.5%	39.6%	11.2%	7.0%	10.9%	15.5%	4.3%	2.0%	2.0%	2.0%

**Wireless Market Assumptions**

Total population (millions)	281.6	290.1	293.0	296.0	298.9	301.9	301.9	308.0	311.7	315.5	319.3
T-Mobile USA period-end total customers (000)	17,315	21,689	22,724	23,337	24,139	25,139	25,139	27,623	29,164	30,160	31,070
T-Mobile USA customers added (000)	4,186	4,374	1,035	613	802	1,000	3,450	2,484	1,541	996	910
Customer growth	32%	25%	24%	21%	19%	16%	16%	10%	6%	3%	3%
Average customers (000)	15,304	19,330	22,207	23,031	23,738	24,639	23,404	26,381	28,394	29,662	30,615
Monthly service revenue per customer	55	51	49.5	50.5	50.9	49.9	50	49	48	48	48
Change in service revenue per customer	4%	-7%	-3%	-3%	0%	0%	-1%	-3%	-2%	0%	0%
Capital expenditures	2,014	2,243	757	581	562	954	2,854	3,277	3,460	2,750	2,700
Revenue Factors											
Pop	281.6	290.1	293.0	296.0	298.9	301.9	301.9	308.0	311.7	315.5	319.3
Population growth	2.02%	3.03%	1.00%	1.00%	1.00%	1.00%	4.06%	2.02%	1.21%	1.21%	1.21%

**Customer Statistics (000)**

Big six customers	155,323	178,808	184,057	188,622	192,829	198,706	198,706	213,859	226,145	235,658	244,246
Total market share	90%	90%					90%	90%	90%	90%	90%
Total market customers	172,581	198,676					220,784	237,621	251,272	261,843	271,385
Penetration	61%	68%					73%	77%	81%	83%	85%
Total customers	17,315	21,689	22,724	23,337	24,139	25,139	25,139	27,623	29,164	30,160	31,070
TMO market share	10%	11%					11%	12%	12%	12%	11%
Net additions	4,186	4,374	1,035	613	802	1,000	3,450	2,484	1,541	996	910
Churn	3.0%	2.9%	2.7%	2.9%	3.0%	2.8%	2.8%	2.8%	2.7%	2.5%	2.5%
MOU	879	964	1,000	1,025	1,025	1,025	1,025	1,040	1,044	1,049	1,053
SAC	226	165	150	158	159	180	180	200	200	200	200

Source: Deutsche Bank estimates and company data

## Key dates in the DT diary

In Figure 123 below we detail the key events for DT in the coming months.

**Figure 123: Important dates in the DT diary**

Date	Event
31 Jan (TBC)	Announcement of Q4 customer data
01-Mar 2007	FY 2006 results and conference call
03-May	AGM
10-May	Q1 2007 results
09-Aug	Q2 results
08-Nov	Q3 results

Source: Company data

## Risks – conservative assumptions vs implied tax benefits

Our estimates are on the conservative side we believe as we assume further significant domestic EBITDA declines and a slowdown in the US business. As shown in 2006 the US business has continued to grow strongly but we assume this ends in 2007 as competition increases. We also have low expectations for the success of the management to turn around DT's operating performance and therefore there is the possibility that a more aggressive strategy with greater headcount reductions could transform the business.

On the downside we embody considerable incremental value from the cuts in Germany tax rates, which are not yet definitive, and the benefits of selling excess real estate. There is also the risk the company embarks on a major M&A strategy, in order to enhance its pan-European footprint rather than systematically restructuring its international portfolio, selling underperforming businesses.

## Valuation – Target Euro 15.5

Our valuation assumes a \$1.32 exchange rate; around Euro 1.9 per share of incremental value from the reduction in German corporate tax rates; and our assumption of Euro 5.0bn of excess real estate sales over the next five years which is worth Euro 0.8 per share. Our sum-of-the parts assume a series of DCF fades with WACCs ranging from 7.5% to 8.5% and perpetuity growth rates of -1% to 0%.

DT trades at a 2007E EV/EBITDA of 5.5x (sector 6.3x), 2007E P/E of 16.9x (sector 13.7x), 2007E dividend yield of 5.5% (sector 5.0%) and a 2007E FCF yield of 9.8% (sector 7.0%).

## DT investment case

2007 estimates have previously declined by around 15% at the EBITDA level in 2006 and the outlook embodied in our estimates is cautious (8.5% domestic bb/fixnet EBITDA decline in 2007, 11% decline at TMO Germany and only 0.6% growth at TMO USA) and we believe there is limited risk to H1 2007 estimates.

We also believe the costs cutting potential in Deutsche Telekom has been ignored (rightly because of the lack of deliverability in the past) but with new management there is likely to be reinforced effort. Additionally, the company will benefit from an element of management goodwill in the coming months as the changes in the composition of the management board have been significant and it will take six to 12 months to even initiate an assessment of Rene Obermann (CEO) and his team's success or failure.



As such, with positive earnings drivers (even if many are technical such as tax) and already low expectations for Deutsche Telekom and our view that our dividend target of Euro 0.8 for the next three years is sustainable (2x FCF coverage from 2008 from 1.4x in 2006E), the risk/reward outlook for the next six months is again more positive we believe.

**Figure 124: Summarized sotp computation for DT (Euro m)**

Country of asset	EV	Economic shareholding	Economic value	Economic Proportion	Per share	EV/EBITDA					EV/OCF								
						2004	2005E	2006E	2007E	2004	2005E	2006E	2007E						
<b>2007E SOTP analysis</b>																			
Domestic mobile	21,834	100.0%	21,834	19.7%	5.01	6.0	6.1	6.6	7.5	6.9	6.9	7.5	6.9	6.9	8.0	8.0	9.2	9.2	
International mobile	6,189	100.0%	6,189	5.6%	1.42	4.5	4.8	7.1	4.9	6.1	7.3	4.9	6.1	7.3	24.4	24.4	11.9	11.9	
Austria	4,395	100.0%	4,395	4.0%	1.01	18.3	19.4	12.2	8.9	40.3	49.9	8.9	40.3	49.9	20.9	20.9	14.9	14.9	
US	18,900	100.0%	18,900	17.0%	4.33														
Netherlands	750	100.0%	750	0.7%	0.17	5.2	4.3	4.5	5.0										
Total from major mobile assets			52,068	46.9%	11.94	9.6	9.8	11.1	10.8	18.5	21.2	10.8	18.5	21.2	47.9	47.9	60.9	60.9	
Domestic fixed	37,160	100.0%	37,160	33.4%	8.52	4.3	4.2	4.6	5.0	5.3	5.5	5.0	5.3	5.5	7.1	7.1	6.8	6.8	
International fixed line assets	4,170	59.5%	2,481	2.2%	0.57	8.6	8.2	9.3	9.3										
Europe	1,751	51.0%	893	0.8%	0.20	3.3	3.4	4.5	5.1	13.5	5.2	5.1	13.5	5.2	9.2	9.2	12.0	12.0	
Total fixed			40,534	36.5%	9.29	4.2	4.1	4.5	4.9	6.8	6.9	4.9	6.8	6.9	8.8	8.8	8.6	8.6	
Other			12,565	11.3%	2.88														
Associates			5,923	5.3%	1.36														
<b>EV</b>			<b>111,090</b>	100.0%	25.47														
Pensions			-2,696		-0.62														
Contingents/other			541		0.12														
Net debt			-41,338		-9.48														
<b>Equity value</b>			<b>67,597</b>		15.50														
Shares in issue at YE			4,361.1																
Price target			15.5																

Source: Deutsche Bank estimates

**Figure 125: Summary valuation assumptions**

Asset	EV	EV/EBITDA				WACC	Tax	Revenue CAGR			EBITDA margin			Capex:Sales			EBITDA/Capes		
		2006E	2007E	2006E	2007E			2006-2013	2013	2023	2006	2013	Terminal	2006	2013	Terminal	2006	2013	Terminal
Broadband/Fixnet (Domestic; Euro)	37,160	4.6x	5.0x	7.1x	6.8x	7.5%	29.6%	-2.9%	-1.6%	-1.0%	37.3%	35.8%	36.0%	13.3%	12.7%	13.0%	2.8	2.8	2.8
T-Mobile Germany (Euro)	21,834	6.6x	7.5x	8.0x	9.2x	8.0%	29.6%	0.8%	0.9%	0.0%	39.8%	35.5%	35.0%	6.8%	8.6%	9.0%	5.9	4.1	3.9
T-Mobile UK (GBP)	4,190	7.0x	4.9x	24.0x	11.9x	8.5%	30.0%	3.0%	0.6%	0.0%	19.2%	26.5%	26.0%	13.6%	15.3%	12.0%	1.4	1.7	2.2
T-Mobile Austria (Euro)	4,395	12.2x	8.9x	14.9x	13.1x	8.0%	25.0%	5.3%	1.3%	0.0%	30.7%	37.6%	36.0%	12.8%	10.2%	10.0%	2.4	3.7	3.6
T-Mobile USA (US\$)	24,948	5.3x	5.1x	15.4x	16.2x	8.0%	35.0%	3.9%	1.8%	1.0%	27.6%	25.2%	25.0%	16.7%	13.1%	13.0%	1.6	1.9	1.9

Source: Deutsche Bank estimates and company data

Europe Finland  
Telecommunications Wireline Services

# Elisa Corporation

Reuters: **ELI1V.HE** Bloomberg: **ELI1V.FH**

## Q4 preview - targets in focus

### Full Year 06 results on 8 February 2007: Upgrade cycle to continue

Elisa's Q4 numbers are due 8 February at 8.30 Finnish time. A conference call will be held at 12 Finnish time (dial-in details at [www.elisa.com](http://www.elisa.com)). Elisa is further hosting a CMD in London the following day in London. We feel quite comfortable with our estimates ahead of Q4. Furthermore, cash distribution could surprise on the upside, given current gearing targets. Reiterate Buy and our target of Euro 25.

### Mobile subscriber base, ARPU and dividend in focus

We are currently forecasting zero subscriber growth (mobile) and ARPU of Euro 30.6 vs 30.5 in Q3. We expect Mobile EBITDA of Euro 68m, slightly below Euro 72m in Q3 due to a seasonal up-tick in costs. Given the recent price hike announcement, subscriber growth could exceed our forecast. In Fixed we expect an EBITDA of Euro 49m vs 52m in Q3, down due to seasonal costs. Our dividend expectation of Euro 60c is based on the EPS (40-60% payout policy, we have 67% or 60c). Based on current gearing targets, the dividend could be clearly higher.

### CMD – opportunity to update dividend and margin targets

We believe management will provide an update on its financial targets as the clear EBITDA margin improvement target is now within reach (2008). This could be a positive trigger.

### Target Euro 25, Buy

Our target of EURO 25 is DCF based (WACC 7.6%, terminal growth 2% and terminal EBITDA margin 36%). Main risks relate to competition heating up again, ARPU not improving, regulation becoming tighter or Fixed line revenues declining faster than expected.

### Forecasts and ratios

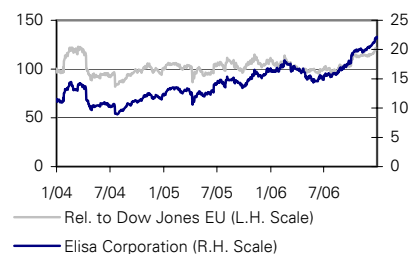
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	1,356	1,337	<b>1,506</b>	1,558	1,582
EBITDA (EURm)	441	346	<b>441</b>	486	543
EBITA (EURm)	228	133	<b>228</b>	275	334
PBT DB (EURm)	199	112	<b>211</b>	259	322
PBT stated (EURm)	213	212	<b>202</b>	244	322
DB EPS (EUR)	0.97	0.49	<b>0.95</b>	1.17	1.47
DB EPS growth (%)	7.8	-49.3	<b>92.6</b>	22.7	25.8
P/E (DB EPS) (x)	11.7	27.7	<b>23.3</b>	19.0	15.1
EV/EBITDA (x)	4.9	7.5	<b>9.2</b>	8.2	7.0
EV/EBITA (x)	9.4	19.4	<b>17.8</b>	14.4	11.4
DPS (EUR)	0.80	0.70	<b>0.60</b>	0.73	0.98
Yield (%)	7.0	5.1	<b>2.7</b>	3.3	4.4

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **25.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	9.3	24.1	33.8
Dow Jones EURO			
STOXX Price	1.5	6.1	19.1

### Stock data

Market cap (EUR)(m)	<b>3,694.5</b>
Shares outstanding (m)	<b>166</b>
Free float (%)	<b>0</b>
Dow Jones EURO STOXX Price	<b>401.3</b>
Market Cap (US\$)	<b>4,777</b>

### Key indicators

ROE (%)	<b>12.4</b>
ROC	<b>8.1</b>
Net debt/equity	<b>28.9</b>
Book value/share (EUR)	<b>7.2</b>
Price/book	<b>3.1</b>
Net interest cover	<b>13.5</b>
EBITDA margin	<b>29.3</b>
EBIT margin	<b>15.1</b>

### FY 2006 results

Results date	8 February
Time of release	TBA
Company conference call time	12:00 (EET)
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA
Capital Markets Day In London	9 February

### Recent research

Elisa introduces opening charge!	23 January
Upside potential remains - target raised	8 January
Q3 review - significant EBITDA upgrade, target raised	22 October

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## Subs and ARPU in focus

### Zero subscriber growth could be too conservative

Elisa added some 103k subscribers in Q3, or 5% on the Q2 subscriber base. The combination of subscriber growth and ARPU improvement have been big drivers of recent estimate upgrades. Given Elisa is focusing its marketing on upgrading its existing subscriber base to 3G, we have expected a flat subscriber base for several quarters and going into Q4 our assumption remains zero growth. However, Elisa's introduction of opening charges was to us a signal that subscriber growth has remained strong in Q4 with TeliaSonera a likely loser. Every 1% of subscriber growth should translate into 1% EBITDA growth for the group, meaning a possible positive surprise could well come from here. Note that we have not changed our estimates post the opening charge news as it is possible that the hike in price will increase churn leading to a net positive effect that is only single digit millions. Nevertheless, both subscriber growth and ARPU in Q4 could surprise on the upside, which combined with the price hike makes us feel that earnings risks remain tilted to the upside.

### Opening charge – a clear positive

Elisa's announcement to introduce an opening charge (Euro 4.9c) to normal outgoing calls was a positive move that we have expected since Sonera introduced them in March 2006. While we do not have exact data on the impact, it only affects subscribers with Elisa branded subscriptions, and part of the subscribers will not be affected until October 2007. The company is signaling that the impact will be a few million Euros positive in 2007. Our calculations point at a clearly more positive effect, but in those calculations we have not taken into account churn.

We believe that the opening charge will affect some 400k subscribers in March and 600k in total from the beginning of October. We further assume that the average number of calls in a month are 50-70 meaning that the average bill will increase by Euro 2.5-3.5 or 2-3 excluding 22% VAT. For 2007 this should hence mean an increase in revenues of Euro 9-13m and for 2008 the full annual effect should be Euro 15-20m. However, the price hike has partly been designed to push 2G subscribers to 3G bundles as this should raise ARPU even more. Consequently the positive effect could be larger. Simultaneously the hike will likely have a negative effect on churn meaning part of the revenue improvement will be offset by a smaller subscriber base.

Another positive effect from the initiative is that it puts DNA in a position whereby it could also introduce an opening charge which would lead Elisa into introducing the opening charge on a bigger part of its subscriber base. Hence the full effect of the price hike is very difficult to forecast, but the news is nevertheless very positive.

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## CMD – a possible trigger

While it is possible that management will not set new targets in the CMD, we expect to hear more detail on how the existing target to reach a clear improvement in EBITDA margins will be met. The most interesting presentation on top of the CEO presentation will be Matti Vikkula's since we believe he will address ARPU potential, the competitive situation and potential for further price hikes. We also expect to get an update on regulation.

### CMD program

09:00-09:45 Group Overview, Mr Veli-Matti Mattila, CEO

09:45:10:30 Elisa Consumer Customers, Mr Matti Vikkula

11:00-11:45 Elisa Business Customers, Mr Asko Känsälä

11:45-12:30 Financial Overview, Mr Jari Kinnunen, CFO

## Financials

**Figure 126: Interim net sales and EBIT by business area**

Euro m	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06	Q2/06	Q3/06	Q4/06E
Divisional sales								
Mobile	179	180	183	198	192	239	246	249
Fixed	162	170	166	173	180	166	156	160
Other	21	10	5	1	0	0	0	0
Intra sales	-29	-25	-29	-29	-24	-23	-15	-20
Total	333	336	325	343	348	382	387	389
Divisional EBITDA								
Mobile	49	43	46	52	54	59	72	68
Fixed	40	39	40	37	49	42	52	49
Other	0	2	-1	-1	-1	-2	-1	-2
Total	89	84	85	88	103	100	123	115
EBITDA margins								
Mobile	27	24	25	26	28	25	29	27
Fixed	25	23	24	22	27	25	33	31
Total	27	25	26	26	29	26	32	30

Source: Deutsche Bank

**Figure 127: Interim group P&L**

Euro m	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06	Q2/06	Q3/06	Q4/06E
Net sales	333	336	326	343	348	382	387	389
Total costs	-244	-252	-241	-255	-246	-282	-264	-273
EBITDA	89	84	85	88	103	100	123	115
Depreciation of TFA	-52	-52	-52	-57	-55	-56	-50	-52
EBITA	37	32	33	32	48	44	73	64
Goodwill amortisation	0	0	0	0	0	0	0	0
EBIT	37	32	33	32	48	44	73	64
Net financial items	-7	-6	-5	-5	-4	-4	-4	-5
Associates	1	0	1	0	0	0	0	0
Extraordinary items	8	86	0	6	-4	-5	0	0
EBT	39	112	28	32	39	35	69	59
Taxes	-6	-18	-6	-5	-9	-7	-16	-20
Net income	33	94	23	28	30	28	53	39

Source: Deutsche Bank

**Figure 128: Group P&L**

<b>Euro m</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Net sales	1,563.0	1,538.0	1,356.0	1,337.3	1,505.9	1,557.9	1,582.5
Expenses	1,230.0	1,153.0	915.0	991.2	1,065.3	1,071.8	1,039.4
EBDIT	333.0	385.0	441.0	346.1	440.6	486.1	543.0
Depreciation	381.0	418.5	213.0	213.2	212.5	211.3	208.6
Operating profit (EBIT)	-48.0	-33.5	228.0	132.9	228.1	274.8	334.4
Associated companies	-5.0	0.0	1.0	1.2	0.0	0.0	0.0
Financial items, net	-50.0	-40.5	-30.0	-22.2	-16.9	-15.3	-12.1
Pre-tax profit	-103.0	-74.0	199.0	111.9	211.2	259.5	322.4
Taxes	-3.0	-60.0	53.0	34.1	52.8	67.5	83.8
Minority interest	-26.0	3.0	8.0	1.6	0.0	0.0	0.0
Net profit	-74.0	-17.0	138.0	76.2	158.4	192.0	238.5
Extraordinary profit/losses	3.0	0.0	14.0	100.0	-9.0	-15.0	0.0
Net profit after extraordinary items	-71.0	-17.0	152.0	176.2	149.4	177.0	238.5
Net sales growth	8.6%	-1.6%	-11.8%	-1.4%	12.6%	3.5%	1.6%
Pre-tax profit growth	n/a	n/a	n/a	-43.8%	88.7%	22.9%	24.2%
EBDIT margin	21.3%	25.0%	32.5%	25.9%	29.3%	31.2%	34.3%
EBIT margin	-3.1%	-2.2%	16.8%	9.9%	15.1%	17.6%	21.1%
Tax rate	2.9%	81.1%	26.6%	30.5%	25.0%	26.0%	26.0%

Source: Deutsche Bank

**Figure 129: Free cash flow**

<b>Euro m</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
Pre-tax profit	-103.0	-74.0	199.0	111.9	211.2	259.5	322.4
Depreciation and write downs	381.0	418.5	213.0	213.2	212.5	211.3	208.6
Change in net working capital	-17.2	18.0	50.5	-53.9	34.8	11.1	0.7
Associated companies	5.0	0.0	-1.0	-1.2	0.0	0.0	0.0
Non cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes paid	-3.0	0.0	0.0	34.1	29.0	65.4	81.3
Extraordinary items	3.0	0.0	14.0	100.0	-9.0	-15.0	0.0
Cash flow from operations	306.2	326.5	374.5	443.7	350.9	379.2	449.0
Net capital expenditure	352.5	256.5	95.5	542.1	210.5	190.8	175.4
Free cash flow	-46.2	70.0	279.0	-98.4	140.4	188.4	273.6

Source: Deutsche Bank

**Figure 130: Divisional break-down of net sales and EBITDA**

Euro m	2002	2003	2004	2005	2006E	2007E	2008E
<b>Net sales</b>							
Mobile	739.0	762.8	712.8	739.9	925.7	1,000.4	1,045.7
Fixed	735.0	677.0	653.6	670.9	662.7	642.8	623.5
Other	248.3	236.0	110.8	38.0	0.0	0.0	0.0
Intra sales	-159.0	-137.8	-121.2	-112.0	-82.5	-85.3	-86.7
Total	1,563.3	1,538.0	1,356.0	1,336.8	1,505.9	1,557.9	1,582.5
<b>EBITDA</b>							
Mobile	194.0	215.0	227.0	190.0	253.3	291.1	348.0
Fixed	213.0	191.0	201.0	156.0	192.3	200.0	200.0
Other	-65.9	5.0	6.0	0.0	-5.0	-5.0	-5.0
Total	341.1	411.0	434.0	346.0	440.6	486.1	543.0
<b>EBITDA margin</b>							
Mobile	26.3%	28.2%	31.8%	25.7%	27.4%	29.1%	33.3%
Fixed	29.0%	28.2%	30.8%	23.3%	29.0%	31.1%	32.1%
Total	21.8%	26.7%	32.0%	25.9%	29.3%	31.2%	34.3%

Source: Deutsche Bank

**Figure 131: Balance sheet**

Euro m	2002	2003	2004	2005	2006E	2007E	2008E
<b>Assets</b>							
Goodwill and intangible assets	660.0	524.0	542.3	949.3	949.3	949.3	949.3
Property, plant & equipment	962.0	856.0	724.3	660.6	658.6	638.1	607.4
Financial assets	34.0	114.0	111.0	97.7	97.7	97.7	95.2
Total non-current assets	1,656.0	1,494.0	1,377.5	1,707.6	1,705.6	1,685.1	1,651.8
Inventories	21.0	16.0	15.3	20.3	22.9	23.6	24.0
Receivables	348.0	328.0	308.3	261.8	294.8	305.0	309.8
Investments	2.0	31.0	96.0	0.0	0.0	0.0	0.0
Cash	71.0	61.0	67.0	212.7	27.8	35.4	146.1
Total current assets	442.0	436.0	486.5	494.8	345.4	364.0	479.9
Total assets	2,098.0	1,930.0	1,864.0	2,202.4	2,051.0	2,049.0	2,131.7
<b>Liabilities and equity</b>							
Shareholders' equity	716.0	699.0	884.0	1,337.3	1,291.5	1,368.4	1,488.3
Minorities	83.0	77.0	31.0	12.4	12.4	12.4	12.4
Provisions	71.0	52.0	40.0	50.0	73.8	75.8	78.3
<b>Debt</b>							
Interest bearing debt	830.0	746.5	625.0	506.1	376.0	295.3	251.0
Trade creditors	291.0	355.0	0.0	0.0	0.0	0.0	0.0
Other non-interest bearing debt	107.0	0.0	284.0	296.5	297.3	297.1	301.6
Total debt	1,228.0	1,101.5	909.0	802.6	673.3	592.4	552.6
Total liabilities and equity	2,098.0	1,929.5	1,864.0	2,202.3	2,050.9	2,048.9	2,131.6
<b>Net interest bearing debt</b>							
Net interest bearing debt	757.0	654.5	462.0	293.4	348.2	259.9	104.9
<b>Net working capital</b>							
Net working capital	-29.0	-11.0	39.5	-14.4	20.4	31.5	32.2
<b>Invested capital</b>							
Invested capital	1,627.0	1,483.0	1,417.0	1,693.2	1,726.0	1,716.6	1,684.1

Source: Deutsche Bank

Europe France  
Telecommunications Wireline Services

# France Telecom

Reuters: **FTE.PA** Bloomberg: **FTE FP**

## Devil or delight in the detail?

### Revenues on 1 February 2007, Full Year 06 results on 6 March 2007

France Telecom reports headline results (revenues, GOM, CF, plus KPIs) on 1<sup>st</sup> February. We expect very few surprises in the headline numbers following the recent confirmation from management that they remained comfortable with FY guidance for EBITDA margin compression (up to 200bps) and organic cash flow (EUR6.8bn excluding Pages Jaunes). So the focus will inevitably turn to the detail of operational performance at key business units. Competitive pressure on the domestic fixed business remains high but we expect FT to have maintained its share of broadband net adds at c50% in 4Q. Domestic mobile performance will, we believe, primarily be driven by MVNO growth where FT is also strong. Recent market commentary suggests that momentum in both the UK and Spanish markets is also improving.

### Valuation - TP EUR 19.50

We use a DCF-based SOTP valuation model to derive our FT target price. WACCs range from 7.5% for domestic fixed to 8.0% - 9.3% for mobile assets. We use a perpetuity growth rate of 0% for mobile assets and -1% for the domestic fixed unit. We also currently apply a cEUR1.1/share discount to our fair value to reflect the potential downside risk of a fourth mobile operator entering the French market.

### Key risks

Key upside risks for France Telecom include strong execution against what we perceive to be a more aggressive cost reduction programme. Given FT's high exposure to mobile, delays/changes to the implementation of proposed roaming regulation could also ease pressure on 2007/08 financial performance. On the downside, sustained pressure in the domestic fixed market and a new entrant mobile operator (due to be resolved by mid 07) could create negative sentiment around the stock.

### Forecasts and ratios

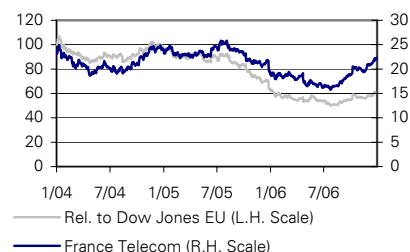
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	46,158	49,038	<b>52,489</b>	52,049	51,556
EBITDA (EURm)	17,244	17,856	<b>18,547</b>	18,344	18,583
DB EPS (EUR)	1.20	2.13	<b>1.71</b>	1.58	1.69
DB EPS growth (%)	-56.4	77.1	<b>-19.5</b>	-7.6	6.9
P/E (DB EPS) (x)	17.8	11.0	<b>12.9</b>	13.9	13.0
EV/EBITDA (x)	6.5	6.8	<b>6.1</b>	6.0	5.7
DPS (EUR)	0.00	1.00	<b>1.20</b>	1.25	1.34
Yield (%)	0.0	4.3	<b>5.4</b>	5.7	6.1

Source: Deutsche Bank estimates, company data

### Hold

Price Target (EUR) **19.50**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.0	17.9	15.6
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>57,345.4</b>
Shares outstanding (m)	<b>2,786</b>
Free float (%)	<b>68</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>74,253</b>

### Key indicators

ROE (%)	<b>17.8</b>
ROC	<b>7.1</b>
Net debt/equity	<b>140.7</b>
Book value/share (EUR)	<b>10.1</b>
Price/book	<b>2.2</b>
Net interest cover	<b>4.0</b>
EBITDA margin	<b>35.3</b>
EBIT margin	<b>20.7</b>

### 4Q 2006 results

Results date	1 February / 6 March 2007
Time of release	07:30 (CET)
Conference call	14.30 (CET)
Dial in	TBC
Pin code	TBC
Web cast:	n/a
Replay	TBC

### Recent research

Room for optimism	8 January
Deadline for 4th 3G licence in France looms large	17 November
Back on track?	27 October



## DB expectations for France Telecom 4Q06E and 2006E

Figure 132: France Telecom, EUR millions

	4Q05	3Q06	4Q06E	2006E	2007E
Personal France	2,531	2,529	2,556	9,908	9,903
Personal UK	1,528	1,491	1,577	5,938	6,248
Personal Spain	536	882	917	3,432	3,420
Personal Poland	441	510	500	1,931	2,122
Personal ROW	1,628	1,804	1,793	6,881	7,331
Eliminations	-50	-70	-66	-236	-244
<b>Total Personal Revenues</b>	<b>6,614</b>	<b>7,146</b>	<b>7,277</b>	<b>27,853</b>	<b>28,779</b>
% growth yoy		20.4%		18.3%	3.3%
Home France	4,492	4,403	4,416	17,533	17,388
Home Poland	804	742	692	2,977	2,789
Home ROW	525	526	524	2,009	1,987
Eliminations	-52	-51	-45	-186	-183
<b>Total Home Revenues</b>	<b>5,769</b>	<b>5,620</b>	<b>5,586</b>	<b>22,333</b>	<b>21,981</b>
% growth yoy		0.2%		-0.9%	-1.6%
<b>Enterprise</b>	<b>1,984</b>	<b>1,852</b>	<b>1,943</b>	<b>7,614</b>	<b>7,372</b>
% growth yoy		1.4%		-2.2%	-3.2%
<b>Directories</b>	<b>286</b>	<b>312</b>	<b>0</b>	<b>824</b>	<b>0</b>
% growth yoy				0	0
Eliminations	-1,544	-1,548	-1,555	-6,135	-6,084
<b>Total Consolidated Revenues</b>	<b>13,109</b>	<b>13,382</b>	<b>13,252</b>	<b>52,489</b>	<b>52,049</b>
% growth yoy				7.0%	0.7%
<b>Total Consolidated GOM</b>	<b>4,510</b>	<b>5,021</b>	<b>4,459</b>	<b>18,947</b>	<b>18,744</b>
% margin	34.4%	37.5%	33.6%	36.1%	36.0%
<b>Capex</b>	<b>1,681</b>	<b>1,520</b>	<b>1,889</b>	<b>-6,464</b>	<b>-6,443</b>
% sales	12.8%	11.4%	14.3%	-12.3%	-12.4%
Mobile net adds					
France	757	153	290	403	582
UK	379	189	426	708	285
Spain	500	173	205	741	733
Poland	785	611	605	2,424	982
Domestic fixed lines					
Retail PSTN	26,929	25,946	25,313	25,313	22,210
Full LLU	598	1,585	1,927	1,927	3,106
Shared LLU	2,229	1,928	1,971	1,971	1,736
Total LLU	2,827	3,513	3,898	3,898	4,841

Source: Deutsche Bank estimates and company data

Europe Italy  
Telecommunications Wireline Services

# Fastweb

Reuters: **FWB.MI** Bloomberg: **FWB IM**

## 2006 FY Bottom line results preview

### FY 2006 bottom line results on 19-2-2007, preliminaries were out on 13-1

Euro 1260m sales were reported for FY 2006, +30% YoY in line with targeted 30% growth. Implied Q4 is Euro 362m, +26% YoY, + 13.6% QoQ. EBITDA was >Euro 424m (+38.5% in line with targeted +40%). Implied Q4 is Euro 127.4m (+31.1% YoY and +12.6% QoQ). 105k net adds in Q4 imply a market share of c. 21% on our estimates. We remind that the agreement with Vodafone has not kicked in yet (the one with Sky was always meant to start in 2007). Free cash flow was positive in Q4 thanks to lower than expected CAPEX: Euro 530m for FY 2006 vs. Euro 550m in our estimates.

### EBIT loss of Euro 62m and bottom line loss of Euro 72m in our model but ...

... this is assuming that the decision on reverse interconnection is taken before the numbers are closed. In case the Regulator delayed the decision further, the EBIT loss could be Euro 77m and the bottom line loss Euro 88m because a further Euro 15m provision would need to be made for the litigation with T.I..

### We expect dividend announced on 19-2 and maintained at Euro 3.78/share

### Valuation and risks: TP EUR 55.00; DCF-based tp. (9% WACC, 1% g), Buy rec.

The stock trades on 6.5x 2007E EBITDA (7.3x adjusted for bad debt) in spite of 2007-2010E EBITDA CAGR of 11%. The European sector average is 6.7x, United Internet trades on 19.4x, Iliad on 9.8x and Colt on 19.4x. After La Repubblica reported that FWB has been under investigation since 2004, the stock is unlikely to recover until full clarity is revealed on the size of the wholesale business under investigation in 2004 and after (see our DB 23-1 alert for details). Mr Scaglia's recent placement of 6.3% out of 25%, although understandable in the context of his portfolio management (see DB's 16-1 alert), is not helping sentiment on the stock. Support should be provided by dividend yield estimated at 9.4%. The main risk is increasing aggressiveness of Wind in 2007.

### Forecasts and ratios

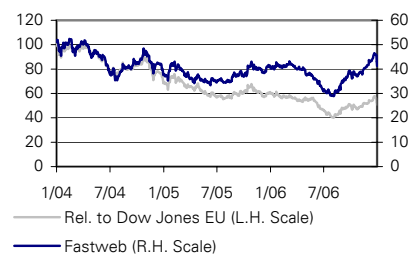
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	720	968	<b>1,250</b>	1,690	1,923
EBITDA (EURm)	217	305	<b>429</b>	646	818
EBITA (EURm)	-83	-108	<b>-61</b>	152	286
PBT DB (EURm)	-148	-156	<b>-108</b>	72	188
PBT stated (EURm)	-148	-156	<b>-108</b>	72	188
DB EPS (EUR)	-1.82	-1.84	<b>-0.91</b>	0.59	1.49
DB EPS growth (%)	68.6	-1.3	<b>50.7</b>	-	154.2
P/E (DB EPS) (x)	-	-	-	70.4	27.7
EV/EBITDA (x)	14.9	10.6	<b>9.4</b>	7.0	5.9
EV/EBITA (x)	-	-	-	29.7	16.8
DPS (EUR)	0.00	3.78	<b>4.41</b>	6.30	6.30
Yield (%)	0.0	10.0	<b>10.7</b>	15.3	15.3

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **55.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.4	8.0	0.9
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>3,276.9</b>
Shares outstanding (m)	<b>79</b>
Free float (%)	<b>75</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>4,243</b>

### Key indicators

ROE (%)	<b>-4.6</b>
ROC	<b>-0.8</b>
Net debt/equity	<b>78.1</b>
Book value/share (EUR)	<b>17.2</b>
Price/book	<b>2.4</b>
Net interest cover	-
EBITDA margin	<b>34.3</b>
EBIT margin	<b>-4.8</b>

### FY 2006 results

Results date	8 February 2007
Time of release	TBA
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

### Recent research

The industry seems to be backing	
Fastweb	23 January
Fastweb denies investigation for creating false tax credits	
	23 January
Disappointing news	
	16 January

## FY 2006 preliminary results preview

**Figure 133: Quarterly results**

	2004 Actual	Q1-05 Actual	Q2-05 Actual	Q3-05 Actual	Q4-05 Actual	2005 Actual	Q1-06 Actual	Q2-06 Actual	Q3-06 Actual	Q4-06 Estimate	2006 Estimate	2006E Targets
<b>Sales</b>												Above
Consolidated Sales	719.6	194.2	227.7	258.5	287.5	968	289.0	289.4	319.1	352.5	1250	1258
<b>QoQ growth</b>		-1.6%	17.3%	13.5%	11.4%		0.5%	0.2%	10.2%	10.5%		
<b>YoY growth</b>	57.6%	23.2%	27.2%	39.3%	45.7%	34.5%	48.8%	27.1%	23.4%	22.6%	29.1%	30.0%
<b>EBITDA</b>												
Consolidated EBITDA	218.9	60.4	67.6	80.9	97.2	306	90.3	93.2	113.1	131.4	428	428
as % of sales	30.4%	31.1%	29.7%	31.3%	33.8%	31.6%	31.2%	32.2%	35.4%	37.3%	34.2%	
<b>QoQ growth</b>		-2.7%	11.9%	19.7%	21.4%		-7.1%	3.2%	21.3%	16.2%		
<b>YoY growth</b>	119.5%	29.4%	28.0%	41.2%	56.5%	39.8%	49.5%	37.9%	39.8%	35.2%	39.8%	40.0%
<b>n° of clients</b>												
Residential-soho	484,191	528,626	580,692	625,000	692,924	692,924	768,674	845,304	926,784	1,036,709	1,036,709	
Business	11,809	13,374	17,308	19,000	21,302	21,302	25,032	29,002	30,622	34,188	34,188	
<b>Total</b>	<b>496,000</b>	<b>542,000</b>	<b>598,000</b>	<b>644,000</b>	<b>714,226</b>	<b>714,226</b>	<b>793,706</b>	<b>874,306</b>	<b>957,406</b>	<b>1,070,897</b>	<b>1,070,897</b>	
Net Adds	165,399	46,000	56,000	46,000	70,426	218,226	79,480	80,600	83,100	113,491	356,671	
Fastweb daily average subscribers	636	708	862	708	1,083	839	1,223	1,240	1,278	1,746	1,372	
<b>QoQ growth (total clients)</b>		9.3%	10.3%	7.7%	10.9%		11.1%	10.2%	9.5%	11.9%		
<b>YoY growth (total clients)</b>	50.0%	44.0%	43.2%	41.0%	44.0%	44.0%	32.7%	35.8%	48.7%	49.9%	49.9%	
<b>ARPU Residential* (1)</b>												
Telecom services	829	828	831	817	806	806	786	743	735	710	710	
Video services	359	342	311	315	314	314	304	281	297	277	277	
Blended Residential o.w. Video	<b>925</b>	<b>910</b>	<b>900</b>	<b>887</b>	<b>871</b>	<b>889</b>	<b>845</b>	<b>793</b>	<b>785</b>	<b>749</b>	<b>758</b>	
	96	82	69	70	65	82	59	50	50	40	48	
<b>QoQ growth</b>		-1.6%	-1.1%	-1.4%	-1.8%		-4.9%	-6.1%	-1.0%	-4.6%		
<b>YoY growth</b>	6.1%					-3.9%					-14.7%	

Source: Deutsche Bank estimates, Company data

## Financials

Figure 134: Fastweb consolidated P&amp;L - Euro m

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
<b>Net sales</b>	<b>56</b>	<b>156</b>	<b>320</b>	<b>529</b>	<b>720</b>	<b>968</b>	<b>1,250</b>	<b>1,690</b>	<b>1,923</b>	<b>2,037</b>	<b>2,065</b>
<i>YoY change</i>	<i>n.m.</i>	<i>178%</i>	<i>106%</i>	<i>65%</i>	<i>36%</i>	<i>34%</i>	<i>29%</i>	<i>35%</i>	<i>14%</i>	<i>6%</i>	<i>1%</i>
Materials and other external costs	60	179	247	310	383	522	648	859	906	935	957
<b>Added value</b>	<b>-5</b>	<b>-23</b>	<b>73</b>	<b>219</b>	<b>337</b>	<b>446</b>	<b>602</b>	<b>831</b>	<b>1,017</b>	<b>1,103</b>	<b>1,107</b>
Personnel costs	34	87	108	109	120	140	173	185	199	209	215
<b>EBITDA</b>	<b>-39</b>	<b>-110</b>	<b>-35</b>	<b>111</b>	<b>217</b>	<b>305</b>	<b>429</b>	<b>646</b>	<b>818</b>	<b>893</b>	<b>892</b>
<i>YoY change</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>96%</i>	<i>41%</i>	<i>41%</i>	<i>50%</i>	<i>27%</i>	<i>9%</i>	<i>0%</i>
Depreciation and amortisation	0	109	217	283	246	312	390	427	456	459	453
Provisions	0	14	17	32	50	101	100	67	77	82	83
<b>EBIT</b>	<b>-39</b>	<b>-233</b>	<b>-269</b>	<b>-205</b>	<b>-79</b>	<b>-108</b>	<b>-61</b>	<b>152</b>	<b>286</b>	<b>352</b>	<b>357</b>
<i>YoY change</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>88%</i>	<i>23%</i>	<i>1%</i>
Net financial income/charges	47	27	-25	-55	-65	-48	-47	-80	-98	-108	-111
Others	-10	-22	-37	-5	0	0	0	0	0	0	0
<b>Current pre-tax profit</b>	<b>-2</b>	<b>-228</b>	<b>-331</b>	<b>-264</b>	<b>-144</b>	<b>-156</b>	<b>-108</b>	<b>72</b>	<b>188</b>	<b>244</b>	<b>245</b>
<i>YoY change</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>162%</i>	<i>30%</i>	<i>1%</i>
Extraordinaries	-85	-3	-11	-128	0	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>-90</b>	<b>-231</b>	<b>-343</b>	<b>-393</b>	<b>-144</b>	<b>-156</b>	<b>-108</b>	<b>72</b>	<b>188</b>	<b>244</b>	<b>245</b>
Taxes	-6	-74	-103	-61	-45	-31	-35	25	69	91	91
<i>Tax rate</i>	<i>7%</i>	<i>32%</i>	<i>30%</i>	<i>16%</i>	<i>32%</i>	<i>20%</i>	<i>33%</i>	<i>35%</i>	<i>37%</i>	<i>37%</i>	<i>37%</i>
Minorities	-14	-21	-44	0	0	0	0	0	0	0	0
<b>Net Profit</b>	<b>-70</b>	<b>-136</b>	<b>-195</b>	<b>-332</b>	<b>-99</b>	<b>-125</b>	<b>-72</b>	<b>47</b>	<b>118</b>	<b>153</b>	<b>154</b>
<i>YoY change</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>154%</i>	<i>30%</i>	<i>1%</i>
<b>Cash flow*</b>	<b>-84</b>	<b>-47</b>	<b>-23</b>	<b>-49</b>	<b>147</b>	<b>187</b>	<b>318</b>	<b>474</b>	<b>574</b>	<b>613</b>	<b>607</b>
<i>YoY change</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>27%</i>	<i>70%</i>	<i>49%</i>	<i>21%</i>	<i>7%</i>	<i>-1%</i>
<b>Adjusted net profit</b>	<b>-30</b>	<b>-134</b>	<b>-190</b>	<b>-304</b>	<b>-99</b>	<b>-125</b>	<b>-72</b>	<b>47</b>	<b>118</b>	<b>153</b>	<b>154</b>
<i>YoY change</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>n.s.</i>	<i>154%</i>	<i>30%</i>	<i>1%</i>

\* Cash flow including positive taxes

## PROFIT AND LOSS ACCOUNT (AS A % OF SALES)

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
<b>Net sales</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Materials and other external costs	108.1%	114.9%	77.1%	58.6%	53.2%	54.0%	51.9%	50.8%	47.1%	45.9%	46.4%
<b>Added value</b>	<b>-8.1%</b>	<b>-14.9%</b>	<b>22.9%</b>	<b>41.4%</b>	<b>46.8%</b>	<b>46.0%</b>	<b>48.1%</b>	<b>49.2%</b>	<b>52.9%</b>	<b>54.1%</b>	<b>53.6%</b>
Personnel costs	61.1%	55.7%	33.9%	20.5%	16.6%	14.5%	13.8%	11.0%	10.4%	10.3%	10.4%
<b>EBITDA</b>	<b>-69.2%</b>	<b>-70.6%</b>	<b>-11.0%</b>	<b>20.9%</b>	<b>30.1%</b>	<b>31.5%</b>	<b>34.3%</b>	<b>38.2%</b>	<b>42.6%</b>	<b>43.8%</b>	<b>43.2%</b>
Depreciation and amortisation	0.0%	70.1%	67.7%	53.5%	34.1%	32.2%	31.2%	25.3%	23.7%	22.5%	21.9%
Provisions	0.0%	9.3%	5.4%	6.1%	7.0%	10.5%	8.0%	4.0%	4.0%	4.0%	4.0%
<b>EBIT</b>	<b>-69.2%</b>	<b>-150.0%</b>	<b>-84.2%</b>	<b>-38.7%</b>	<b>-11.0%</b>	<b>-11.1%</b>	<b>-4.8%</b>	<b>9.0%</b>	<b>14.9%</b>	<b>17.3%</b>	<b>17.3%</b>
Net financial income/charges	83.1%	17.6%	-7.9%	-10.3%	-9.1%	-5.0%	-3.8%	-4.7%	-5.1%	-5.3%	-5.4%
Others	-17.2%	-14.0%	-11.5%	-1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Current pre-tax profit</b>	<b>-3.3%</b>	<b>-146.4%</b>	<b>-103.6%</b>	<b>-50.0%</b>	<b>-20.0%</b>	<b>-16.1%</b>	<b>-8.6%</b>	<b>4.2%</b>	<b>9.8%</b>	<b>12.0%</b>	<b>11.9%</b>
Extraordinaries	-152.1%	-1.9%	-3.6%	-24.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Pre-tax profit</b>	<b>-161.3%</b>	<b>-148.3%</b>	<b>-107.2%</b>	<b>-74.2%</b>	<b>-20.0%</b>	<b>-16.1%</b>	<b>-8.6%</b>	<b>4.2%</b>	<b>9.8%</b>	<b>12.0%</b>	<b>11.9%</b>
Taxes	-11.1%	-47.8%	-32.3%	-11.5%	-6.3%	-3.2%	-2.8%	1.5%	3.6%	4.4%	4.4%
Minorities	-24.3%	-13.2%	-13.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Profit</b>	<b>-125.9%</b>	<b>-87.2%</b>	<b>-61.0%</b>	<b>-62.7%</b>	<b>-13.7%</b>	<b>-12.9%</b>	<b>-5.8%</b>	<b>2.8%</b>	<b>6.2%</b>	<b>7.5%</b>	<b>7.5%</b>

Source: Deutsche Bank

**Figure 135: Fastweb consolidated balance sheet - Euro m**

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Trade accounts receivable	29	77	122	199	294	355	459	558	572	588	590
Inventories	6	9	7	12	13	5	4	3	3	3	2
Other current assets	58	197	481	471	451	586	621	596	527	436	345
- Trade accounts payable	109	317	395	304	325	511	554	638	585	574	556
- Other current liabilities	45	76	57	86	118	193	197	207	217	228	239
<b>Net working capital</b>	<b>-61</b>	<b>-111</b>	<b>157</b>	<b>292</b>	<b>314</b>	<b>242</b>	<b>333</b>	<b>313</b>	<b>299</b>	<b>224</b>	<b>142</b>
Prop. plants equipment	163	575	1,012	1,065	1,253	1,590	1,707	1,748	1,622	1,442	1,211
Intangibles	341	416	416	392	394	392	417	427	419	407	393
Financial assets	47	40	26	9	11	3	3	3	3	3	3
<b>Total assets</b>	<b>550</b>	<b>1,031</b>	<b>1,454</b>	<b>1,466</b>	<b>1,658</b>	<b>1,985</b>	<b>2,127</b>	<b>2,179</b>	<b>2,044</b>	<b>1,852</b>	<b>1,607</b>
- Allowance for severance indemn	1	4	6	9	11	16	22	26	30	34	38
- Other long-term liabilities	1	13	23	18	13	0	0	0	0	0	0
<b>Total invested capital</b>	<b>487</b>	<b>903</b>	<b>1,582</b>	<b>1,731</b>	<b>1,947</b>	<b>2,211</b>	<b>2,438</b>	<b>2,466</b>	<b>2,313</b>	<b>2,042</b>	<b>1,711</b>
Minorities	36	119	75	0	0	0	0	0	0	0	0
Shareholder's equity	1,588	1,452	1,257	1,193	1,084	1,742	1,369	1,066	684	337	-8
<b>Equity</b>	<b>1,623</b>	<b>1,571</b>	<b>1,331</b>	<b>1,193</b>	<b>1,084</b>	<b>1,742</b>	<b>1,369</b>	<b>1,066</b>	<b>684</b>	<b>337</b>	<b>-8</b>
As a % of total invested capital	333%	174%	84%	69%	56%	79%	56%	43%	30%	17%	0%
Long term debt	21	183	670	829	943	589	1,089	1,389	1,489	1,540	1,540
Due to banks	65	45	24	6	7	0	0	0	0	0	0
- Cash and cash equivalent	1,222	896	444	296	87	120	20	-11	-140	-165	-178
<b>Net financial debt</b>	<b>-1,136</b>	<b>-668</b>	<b>251</b>	<b>538</b>	<b>863</b>	<b>469</b>	<b>1,069</b>	<b>1,400</b>	<b>1,629</b>	<b>1,705</b>	<b>1,719</b>
As a % of total invested capital	-233%	-74%	16%	31%	44%	21%	44%	57%	70%	83%	100%

**CASH FLOW**

Year end 31 Dec	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
EBIT	-39	-233	-269	-205	-79	-108	-61	152	286	352	357
Taxes paid	19	-75	-76	0	0	0	0	0	0	0	0
Depreciation and amortisation	0	109	217	283	246	312	390	427	456	459	453
<b>Cash flow</b>	<b>-58</b>	<b>-49</b>	<b>23</b>	<b>79</b>	<b>167</b>	<b>204</b>	<b>329</b>	<b>579</b>	<b>742</b>	<b>812</b>	<b>810</b>
Capex	227	603	657	458	435	682	550	479	320	268	208
Other investments	0	80	0	0	0	0	0	0	0	0	0
Increase/(decrease) in working capi	n.m	-50	268	135	22	-72	56	4	56	16	8
<b>Free cash flow</b>	<b>n.m</b>	<b>-682</b>	<b>-902</b>	<b>-515</b>	<b>-290</b>	<b>-406</b>	<b>-277</b>	<b>96</b>	<b>365</b>	<b>528</b>	<b>593</b>
- Dividends	0	0	0	0	0	0	300	350	500	500	500
Issue of shares	1,667	0	0	270	2	800	0	0	0	0	0
Other	n.m	214	-17	-42	-36	0	-23	-76	-94	-104	-107
<b>Year-end net financial debt</b>	<b>-1,136</b>	<b>-668</b>	<b>251</b>	<b>538</b>	<b>863</b>	<b>469</b>	<b>1,069</b>	<b>1,400</b>	<b>1,629</b>	<b>1,705</b>	<b>1,719</b>

**KEY RATIOS**

Net Working Capital/Sales	-109%	-71%	49%	55%	44%	25%	27%	18%	16%	11%	7%
Net Capital Employed/Sales	787%	555%	486%	325%	269%	228%	195%	146%	120%	100%	83%
Capex/Sales	407%	388%	206%	87%	60%	70%	44%	28%	17%	13%	10%
ROCE	n.m.	-36%	-22%	-12%	-4%	-5%	-3%	6%	12%	16%	19%
ROE	-6%	-9%	-14%	-27%	-9%	-9%	-5%	4%	14%	30%	94%
Net Debt/Equity	-70%	-43%	19%	45%	80%	27%	78%	131%	238%	505%	-20868%

Source: Deutsche Bank

## Valuation and risks

### Stock trading in line with the European incumbents'

The stock trades on 6.8x 2007E EV/EBITDA (if dividend we expect to be paid in 2007 is stripped out of the market cap in order to avoid double counting as dividend is already impacting debt - this is shown in Figure 136).

This compares with the European incumbents' average of 6.5x. We estimate 2007-10 EBITDA CAGR of 11% for FWB vs. growth close to zero for European incumbents.

Our target price is based on a DCF valuation. WACC is 9% (72% equity at 10.3% and 28% debt at 6.5% pre-tax) and perpetuity growth rate is 1%. We chose a 1% perpetuity growth rate – below expected inflation rate - in order to be conservative.

Implied 2010 EV/EBITDA would be 4.4x, as shown in Figure 136.

**Figure 136: Fastweb Multiples – Market cap ex yearly dividend**

*Valuation methodology: DCF valuation - WACC = 9% - g = 1%*

**Current price** 41.7  
**Target Price Cum div.** 55.0

Current price market multiples	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
EV/sales	4.2	4.5	3.9	3.5	2.6	2.1	1.8	1.5
EV/EBITDA	20.1	14.8	12.4	10.2	6.8	5.0	4.1	3.6
EV/EBIT	-10.9	-40.8	-35.1	-72.4	28.7	14.3	10.4	8.9
EV/OpFCF	-4.3	-11.1	-9.3	1095.7	36.2	9.4	5.9	4.7
FCF yield	-23.8%	-12.1%	-12.8%	-5.1%	2.9%	16.2%	26.3%	39.1%
P/E	-5.1	-23.8	-26.5	-46.0	63.7	20.8	12.8	9.5
Dividend yield	0.0%	0.0%	9.1%	10.6%	16.9%	20.3%	25.4%	10.0%
Unlevered FCF yield	-18.9%	-6.1%	-7.2%	-4.0%	3.7%	10.8%	16.6%	21.2%

Market multiples at TP	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
EV/sales	6.9	5.5	5.0	4.1	3.0	2.5	2.2	1.9
EV/EBITDA	32.8	18.3	15.8	12.0	7.9	5.9	5.0	4.4
EV/EBIT	-17.8	-50.2	-44.9	-84.9	33.7	16.9	12.6	11.0
EV/OpFCF	-10.5	-18.1	-12.8	-42.6	30.7	9.7	7.1	5.8
FCF yield	-13.0%	-9.2%	-9.7%	-4.1%	2.3%	12.4%	19.0%	25.8%
P/E	-9.5	-31.4	-29.9	-60.6	93.8	36.9	28.5	28.3
Dividend yield	0.0%	0.0%	6.9%	8.6%	13.4%	15.5%	18.4%	6.6%

Source: Deutsche Bank estimates, Company data

## Risks

The main risk is Wind potentially becoming more aggressive in broadband. The litigation with Telecom Italia on reverse interconnection poses a risk limited to Euro 30-60m in the worst case scenario, in our view.

Europe France  
Telecommunications Wireline Services

# Iliad Group

Reuters: **ILD.PA** Bloomberg: **ILD FP**

## All about net adds

### Revenues/KPIs on 7 February 2007, Full Year 06 results on 14 March

Iliad surprised the market in 3Q reporting a very strong share of French broadband net adds (>30% versus a historic run rate of c20%). 4Q net adds – both absolute and share of net adds – will in our view be the most price sensitive data point for the stock. We expect Iliad's share of net adds to drop back to around 20% in 4Q but, subject to overall market growth, absolute net adds could still be strong at around 200k with a blended ARPU of around EUR34/mth. We will also be looking out for any update on FTTH implementation as well as the latest thinking on the 4<sup>th</sup> UMTS licence opportunity. But its possible that management may decide not to comment on either or both of these issues.

### Valuation - TP EUR 80.0

We use a DCF-valuation model to derive our Iliad target price. Key assumptions include a WACC of 9% and g of 1% - consistent with our assumptions for similar European stocks. We assume that Iliad can grow its broadband customer base to c4mn subs by year-end 2010 (from c2m today) – consistent with management's own expectations.

### Key risks

Our valuation and positive outlook for Iliad are based on an assumption that the French broadband market continues to grow at a strong rate (current penetration is 45% of households, up c12-13 penetration points in 12 months) and that Iliad can maintain a share of net adds in the 20-25% range. A slow down in broadband penetration growth and/or deterioration in Iliad's market position would negatively impact our medium term estimates. In addition, if Iliad were to successfully bid for the remaining UMTS licence we believe the company is likely to require some additional external funding to pay for the licence (EUR619m) and roll-out the network.

### Forecasts and ratios

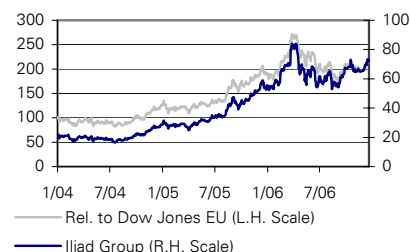
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	491	724	<b>942</b>	1,213	1,441
EBITDA (EURm)	113	224	<b>329</b>	420	512
DB EPS (EUR)	0.71	1.25	<b>2.29</b>	2.96	3.57
DB EPS growth (%)	-6.8	76.1	<b>82.6</b>	29.3	20.4
P/E (DB EPS) (x)	28.2	27.8	<b>31.4</b>	24.3	20.2
EV/EBITDA (x)	9.5	8.6	<b>12.0</b>	9.8	8.2
DPS (EUR)	0.12	0.20	<b>0.35</b>	0.55	0.78
Yield (%)	0.6	0.6	<b>0.5</b>	0.8	1.1

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **80.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	10.3	18.1	33.2
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>3,896.2</b>
Shares outstanding (m)	<b>55</b>
Free float (%)	<b>27</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>5,045</b>

### Key indicators

ROE (%)	<b>40.7</b>
ROC	<b>20.1</b>
Net debt/equity	<b>14.7</b>
Book value/share (EUR)	<b>6.8</b>
Price/book	<b>10.6</b>
Net interest cover	<b>71.0</b>
EBITDA margin	<b>34.9</b>
EBIT margin	<b>20.7</b>

### FY 2006 results

Results date	7 February 2007
Time of release	06:00 (GMT)
Company conference call time	n/a
Dial in	n/a
Pin code	n/a
Replay no	n/a
Pin code	n/a

### Recent research

Implications of 4th licence	20 November
Improving conviction in outlook	16 November

## DB expectations for Iliad 4Q06E and 2006E

Figure 137: Iliad Group, EUR millions

	2H05A	1H06A	2H06E	2006E	2007E
Internet	346	411	465	876	1,192
Telephony	78	78	74	152	130
Other	10	0	0	0	0
Eliminations	-48	-41	-44	-85	-109
<b>Total Consolidated Revenues</b>	<b>386</b>	<b>448</b>	<b>494</b>	<b>942</b>	<b>1,213</b>
Internet	116	140	163	304	399
Telephony	13	13	12	25	21
Other	0	0	0	0	0
Eliminations				329	420
<b>Total EBITDA</b>	<b>129</b>	<b>153</b>	<b>176</b>	<b>329</b>	<b>420</b>
Depreciation & amortisation	-61	-63	-70	-134	-164
Other operating income	0			0	0
Total EBIT	68	90	106	195	256
Net Finance costs	-1	0	-3	-3	-7
Income tax	-24	-31	-36	-67	-87
Consolidated net income after tax	44	59	67	125	162
Profit from discontinued operations	0	0	0		
Reported Net Income	44	59	67	125	162
Dividends payable	-11	0	-19	-19	-30
Retained profit	34	59	48	106	132
<b>Basic EPS</b>	<b>0.8</b>	<b>1.1</b>	<b>1.2</b>	<b>2.3</b>	<b>3.0</b>
Diluted EPS	0.8	1.1	1.2	2.3	3.0
DPS	0.2	0.0	0.4	0.4	0.6
<b>Capex</b>	<b>-86</b>	<b>-125</b>	<b>-193</b>	<b>-319</b>	<b>-496</b>
Net Debt	39	5	54	54	243

Source: Deutsche Bank



Europe Netherlands  
Telecommunications Wireline Services

# KPN

Reuters: **KPN.AS** Bloomberg: **KPN NA**

## Time to calm market nerves

### Full Year 2006 results on 6 February 2007

Following a year or more of strong financial and operational performance we see limited scope for surprise in 4Q06 results as market expectations are pretty well aligned with guidance. Current market focus appears to be on the 4Q performance of E-Plus in Germany following the unexpected departure of the CEO (for personal reasons) and a perception that the market remains very competitive. In addition, following a surprisingly weak 3Q06 for the domestic fixed business we will be looking to see whether, as management have implied, performance has improved in 4Q06 – particularly on the growth in “IP-based” connections where we are looking for net adds of c125k. We had already been anticipating that KPN would provide an update on the financial parameters of its “all IP” network upgrade with the results. The recent update from regulator OPTA (which has raised some new concerns/issues about the plans) has brought this subject into sharper focus. Finally, KPN has indicated a desire to extend the mobile footprint into new territories. We will be looking for an update on plans in this area.

### Valuation TP EUR 11.50

We use a DCF-based SOTP valuation model to derive our KPN target price. We use WACCs of 7.5% for domestic fixed and 8.0% for the mobile assets. Perpetuity growth rates are -1% for domestic fixed and 0% for the mobile assets.

### Key risks

KPN is trading close to our current fair value estimate. Significant upside from here is, in our view, contingent on management’s ability to convince the market that downward pressure on the domestic fixed asset can be stabilised and/or reversed and that E-Plus can sustain the current combination of double-digit service revenue growth and >30% EBITDA margins. Failure to maintain either or both of these dynamics could lead to an un-wind in the current positive sentiment surrounding the stock.

### Forecasts and ratios

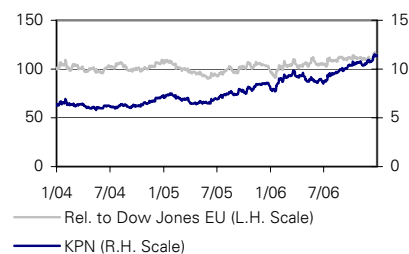
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	11,731	11,936	<b>12,095</b>	12,210	12,058
EBITDA (EURm)	4,854	4,724	<b>4,903</b>	4,976	4,907
DB EPS (EUR)	0.74	0.65	<b>0.74</b>	0.82	0.86
DB EPS growth (%)	–	-12.2	<b>14.5</b>	9.7	4.8
P/E (DB EPS) (x)	8.5	11.2	<b>15.3</b>	13.9	13.3
EV/EBITDA (x)	5.0	5.4	<b>6.7</b>	6.8	6.7
DPS (EUR)	0.35	0.45	<b>0.50</b>	0.52	0.55
Yield (%)	5.6	6.2	<b>4.4</b>	4.6	4.8

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **11.50**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.9	9.7	39.2
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>22,833.1</b>
Shares outstanding (m)	<b>2,010</b>
Free float (%)	<b>100</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>29,565</b>

### FY 2006 results

Results date	6 February 2007
Time of release	08:00 (CET)
Company conference call time	15:00 (CET)
Dial in	Europe/US: +31 20 531 5846
Webcast	www.kpn.com/kpn/show/id=981578
Pin code	N/A
Replay no	+31 70 315 4300
Pin code	123779#

### Recent research

Fixing fixed remains the priority 31 October

**DB expectations for KPN 4Q06E and 2006E****Figure 138: KPN, EUR millions**

	4Q05A	3Q06A	4Q06E	2006E	2007E
E-Plus	755	760	745	2,892	3,168
Mobile NL	736	778	803	3,018	3,040
BASE	149	162	176	638	702
Other	40	-11	-10	-45	-40
Total mobile revenues	1,680	1,689	1,713	6,502	6,870
Fixed revenues	1,734	1,630	1,633	6,600	6,397
Other	52	13	30	156	125
Intercompany sales	-300	-295	-299	-1,163	-1,181
<b>Operating Revenues</b>	<b>3,166</b>	<b>3,037</b>	<b>3,077</b>	<b>12,095</b>	<b>12,210</b>
E-Plus	214	248	245	930	1,066
Mobile NL	266	269	288	1,086	1,125
BASE	53	71	75	275	292
Other	50	-5	-4	-18	-16
Total mobile EBITDA	583	583	604	2,273	2,468
Fixed EBTIDA	654	623	614	2,582	2,508
Other	82	-8	0	48	0
<b>Stated Operating EBITDA</b>	<b>1,319</b>	<b>1,198</b>	<b>1,218</b>	<b>4,903</b>	<b>4,976</b>
Stated EBITDA margin, %	41.7%	39.4%	39.6%	40.5%	40.8%
Total Depreciation	-483	-473	-474	-1,867	-1,831
Total Amortisation	-141	-151	-147	-583	-563
Total D&A	-624	-624	-621	-2,450	-2,394
Operating Profit	695	574	597	2,453	2,582
Net Interest	-160	-115	-127	-434	-498
Associates and JVs	4	2	2	9	9
Profit before tax	539	461	472	2,028	2,093
Income tax	69	-112	-118	-480	-534
Minority interests	-4	-3	-1	-2	-4
Net Income	604	346	353	1,546	1,555
<b>Stated EPS</b>	<b>0.29</b>	<b>0.18</b>	<b>0.18</b>	<b>0.77</b>	<b>0.82</b>
DPS	0.32	0.00	0.34	0.50	0.53
<b>Net Debt</b>	<b>8,928</b>	<b>9,401</b>	<b>9,285</b>	<b>9,285</b>	<b>8,998</b>
Net Debt:EBITDA	1.7x	2.0x	1.9x	1.9x	1.8x
<b>Tangible capex</b>	<b>-469</b>	<b>-425</b>	<b>-588</b>	<b>-1,705</b>	<b>-2,002</b>
KPN FCF (Op FCF less capex)	500	728	376	2,515	2,272

Source: Deutsche Bank

Europe Belgium  
Telecommunications Wireless Services

# Mobistar

Reuters: **MSTAR.BR** Bloomberg: **MOBB BB**

## Use of cash and independence still in focus

### Full Year 2006 results on 7 February 2007

We will be looking to see if Mobistar has been able to maintain strong subscriber growth for the first 9 months into 4Q (DB est. net adds of c44k and ARPU of EUR39/mth). Beyond current operational/financial performance a number of key issues will be in focus. Its possible that management will be in a position to confirm whether it is awarding a network outsourcing contract to Ericsson or Alcatel and if so possibly provide some updated guidance on potential cost savings (we currently anticipate total cash cost savings of cEUR10-15m pa). We will also be looking at how management factor the potential impacts of roaming and mobile termination regulation into FY07 guidance. Comments from Belgacom suggest roaming could be profit neutral in 2007, in which case there could be some upside to market estimates for Mobistar. Confirmation that management intends to pursue a policy of distributing close to 100% of earnings as dividends will, in our view, also be key to maintaining current support for the stock. And we will be looking for a further update on management's strategy for fixed broadband and whether M&A in this area remains a possibility.

### Valuation and risks: TP EUR65

We use a DCF-based valuation model to derive our Mobistar target price. We use a WACC of 8% and a perpetuity growth rate of 0% - consistent with our sector-wide assumptions.

### Key risks

Key upside risks include sustained outperformance versus market expectations (something which Mobistar has been able to do over the last few years) and/or a minority buy-in by France Telecom (which on our estimates could be justified at EUR75/share when benchmarked against the elimination of dividend leakage). On the downside, aggressive regulation (particularly on roaming and the elimination of asymmetry for mobile termination rates) combined with tough competition and slowing penetration growth could put pressure on the financials.

### Forecasts and ratios

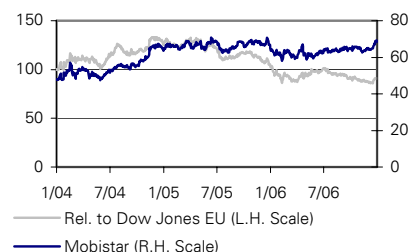
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	1,368	1,480	<b>1,571</b>	1,583	1,590
EBITDA (EURm)	555	575	<b>609</b>	598	576
DB EPS (EUR)	3.86	4.28	<b>4.57</b>	4.56	4.34
DB EPS growth (%)	6.3	10.9	<b>6.7</b>	-0.2	-4.9
P/E (DB EPS) (x)	13.9	15.5	<b>15.0</b>	15.0	15.8
EV/EBITDA (x)	6.4	7.2	<b>7.0</b>	7.1	7.3
DPS (EUR)	2.00	4.00	<b>4.34</b>	4.33	4.12
Yield (%)	3.7	6.0	<b>6.3</b>	6.3	6.0

Source: Deutsche Bank estimates, company data

### Hold

Price at 17 Jan 2007 (EUR)	<b>68.55</b>
Price Target (EUR)	<b>65.00</b>
52-week range (EUR)	<b>69.15 - 58.15</b>

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.3	5.5	4.3
Dow Jones EURO STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>4,337.7</b>
Shares outstanding (m)	<b>63</b>
Free float (%)	<b>50</b>
Dow Jones EURO STOXX Price	<b>399.9</b>

### Key indicators

ROE (%)	<b>44.6</b>
ROA (%)	<b>27.6</b>
Net debt/equity (x)	<b>-17.0</b>
Book value/share (EUR)	<b>9.2</b>
Price/book (x)	<b>7.5</b>
Net interest cover (x)	-
EBIT margin (%)	<b>27.0</b>

### FY 2006 results

Results date	7 February 2007
Time of release	06:00 (GMT)
Analyst presentation:	Diamant Center Boulevard A. Reyers 80 1030 Brussels
Presentation begins:	13:00 (GMT)
Web-cast	www.mobistar.be
Replay no	TBA
Pin code	TBA

**DB expectations for Mobistar 2H06E and 2006E****Figure 139: Mobistar, EUR millions**

	2H05A	1H06A	2H06E	2006E	2007E
Mobile service revenues	681	694	717	1,411	1,421
Fixed service revenues	40	43	37	79	81
<b>Total service revenues</b>	<b>720</b>	<b>737</b>	<b>754</b>	<b>1,491</b>	<b>1,502</b>
Handset sales	27	21	29	50	51
Other operating revenues	16	14	16	30	30
<b>Total revenues</b>	<b>763</b>	<b>772</b>	<b>799</b>	<b>1,571</b>	<b>1,583</b>
Mobile EBITDA	294	308	299	606	589
Fixed EBITDA	-2	1	2	3	10
<b>Total EBITDA</b>	<b>291</b>	<b>309</b>	<b>300</b>	<b>609</b>	<b>598</b>
% margin	38.2%	40.0%	37.6%	38.8%	37.8%
Mobile subs					
Post-paid	1,270	1,449	1,595	1,595	1,795
Pre-paid	1,643	1,570	1,530	1,530	1,455
<b>Total active subs</b>	<b>2,913</b>	<b>3,019</b>	<b>3,125</b>	<b>3,120</b>	<b>3,250</b>
Reported Blended ARPU (12 month rolling)	36.9	39.1	39.0	39.0	
Broadband subs	3	10	25	25	74

Source: Deutsche Bank

Europe Greece  
Telecommunications Wireline Services

# OTE

Reuters: **OTEr.AT** Bloomberg: **HTO GA**

## Awaiting guidance!

### Full Year 2006 results on 27 February 2007 (TBC)

We expect OTE to deliver solid 4Q'06 top line performance in the domestic market continuing its run of four quarters of growth, especially robust growth in mobile revenues. Stable performance of the fixed line division over the last two quarters give us reason to be more up beat on the outlook. We maintain conservative revenue growth estimates despite 1) solid growth in domestic broadband penetration of which OTE grabs a bulk share and 2) line count erosion (PSTN + ISDN) moderating to just under 0.3% in the last two quarters reported. We expect Cosmote Greece revenues to have grown 7.8% YoY and fixed revenues to be flat YoY (down just -0.1%) vs 0.4% growth in 3Q'06.

### Awaiting greater clarity on further cost cuts and targets

We are optimistic of potential cost cuts from further headcount rationalisations in the fixed line unit. We have modelled greater headcount cuts: 200 reductions in 2011 and 2012 which should help prop up EBITDA margins above 35% between 2010 and 2015. We look for greater detail on further cost cutting measures and divisional guidance (esp. for Germanos) at the forthcoming earnings.

### Investment case – Top Pick

Our OTE valuation offers potential upside of 17% and total return of 19%. Accordingly, we maintain our Buy rating and include OTE amongst our 'Top Picks'. We believe OTE's valuation to be driven by strength of domestic revenues, resilience of Cosmote and cost reductions especially through further headcount rationalisations. We are optimistic of potential cost cuts from further headcount rationalisations in the fixed line unit. We have modelled greater headcount cuts: 200 reductions in 2011 and 2012 which should help prop up EBITDA margins above 35% between 2010 and 2015.

### Valuation and risks: Target Euro 27.40; Sale of government stake

Our sotp target employs WACCs between 7.5% and 12% and perpetuity growth rates of 1% to 1%. We assume a Euro 0.45 dividend (announced later after the FY 2006 results) and risk include the failure of further cost cutting and government interference given plan to sell/place a 20% stake this year.

### Forecasts and ratios

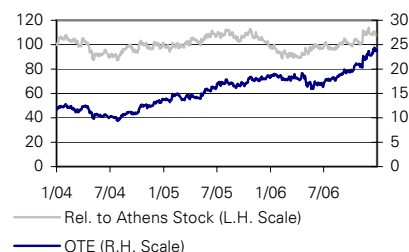
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	5,219	5,471	<b>5,953</b>	6,573	6,825
EBITDA (EURm)	1,673	1,127	<b>2,264</b>	2,183	2,631
EBITA (EURm)	605	20	<b>1,136</b>	1,086	1,566
PBT DB (EURm)	508	-1	<b>1,049</b>	937	1,457
PBT stated (EURm)	508	-1	<b>1,049</b>	937	1,457
DB EPS (EUR)	0.22	-0.45	<b>1.76</b>	1.01	1.71
DB EPS growth (%)	-73.7	-	-	-42.3	69.1
P/E (DB EPS) (x)	51.9	-	<b>13.5</b>	23.4	13.8
EV/EBITDA (x)	6.7	11.5	<b>7.6</b>	7.6	5.9
EV/EBITA (x)	18.5	650.2	<b>15.2</b>	15.3	9.9
DPS (EUR)	0.00	0.00	<b>0.45</b>	0.60	0.80
Yield (%)	0.0	0.0	<b>1.9</b>	2.5	3.4

Source: Deutsche Bank estimates, company data

### Buy

Price Target (EUR) **27.40**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.0	22.8	28.8
Athens Stock Exchange			
General Index	5.4	14.3	16.9

### Stock data

Market cap (EUR)(m)	<b>11,616.6</b>
Shares outstanding (m)	<b>490</b>
Free float (%)	<b>62</b>
Athens Stock Exchange General Index	<b>4,615.5</b>
Market Cap (US\$)	<b>15,042</b>

### Key indicators

ROE (%)	<b>24.1</b>
ROC	<b>9.2</b>
Net debt/equity	<b>47.8</b>
Book value/share (EUR)	<b>7.8</b>
Price/book	<b>3.0</b>
Net interest cover	<b>9.4</b>
EBITDA margin	<b>38.0</b>
EBIT margin	<b>19.1</b>

### FY 2006 results

Results date	27 February
Time of release	TBA
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

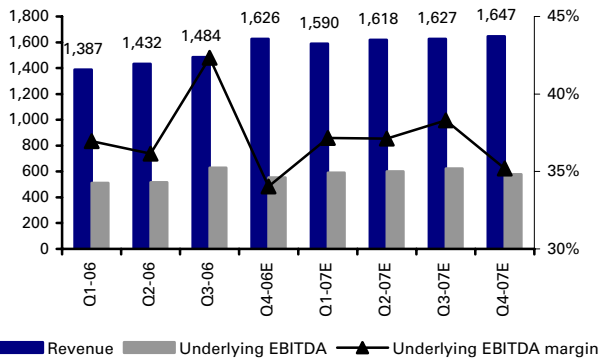
### Recent research

Focus on cost cutting; OTE a Top Pick	8 January
The Odyssey continues; upgrade to Buy	8 November

## Results outlook

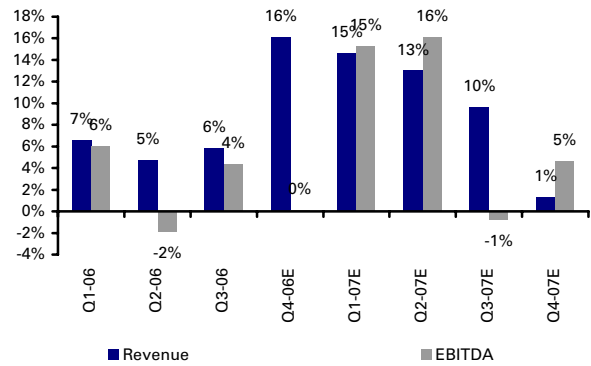
- Figure 140: Group revenue, EBITDA (Euro m) and EBITDA margin (%)
- Figure 141: Group revenue and EBITDA growth (%)
- Figure 142: Domestic fixed revenue, EBITDA (Euro m)
- Figure 143: Domestic fixed revenue and EBITDA
- Figure 144: Domestic traffic growth (%)
- Figure 145: Domestic DSL growth ('000)

**Figure 140: Group revenue, EBITDA (Euro m) and EBITDA margin (%)**



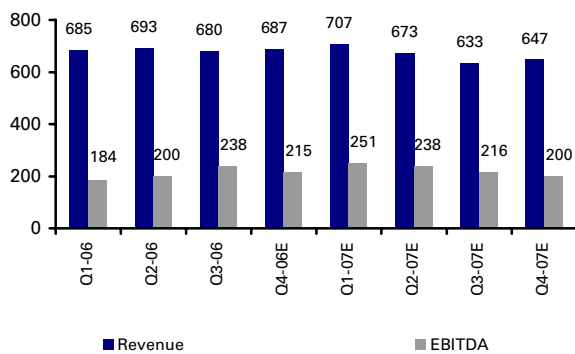
Source: Deutsche Bank estimates and company data

**Figure 141: Group revenue and EBITDA growth (%)**



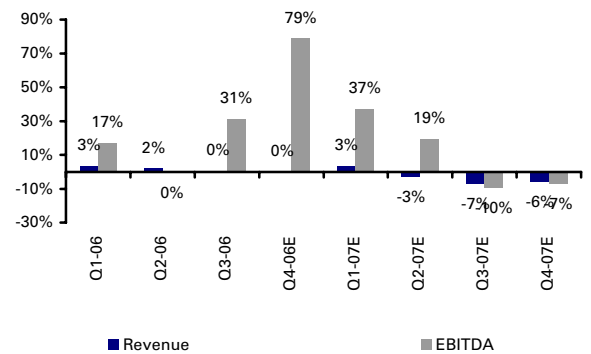
Source: Deutsche Bank estimates and company data

**Figure 142: Domestic fixed revenue, EBITDA (Euro m)**



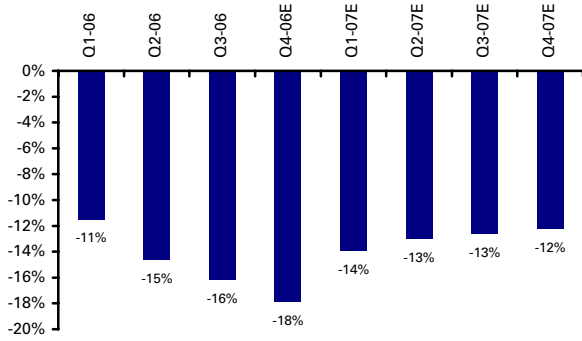
Source: Deutsche Bank estimates and company data

**Figure 143: Domestic fixed revenue and EBITDA Growth (%)**



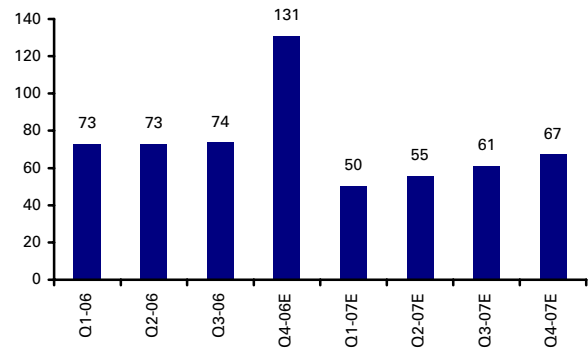
Source: Deutsche Bank estimates and company data

**Figure 144: Domestic traffic growth (%)**



Source: Deutsche Bank estimates and company data

**Figure 145: Domestic DSL growth ('000)**



Source: Deutsche Bank estimates and company data

**Figure 146: OTE summary results outlook (Euro m)**

	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	2007E	2008E
Total revenues	1,387	1,432	1,484	1,626	5,929	1,590	1,618	1,627	1,647	6,482	6,749
Underlying EBITDA	513	518	628	554	2,212	591	601	623	579	2,394	2,646
EBITDA	513	518	678	554	2,262	591	391	623	579	2,184	2,646
Underlying EBITDA margin (%)	37%	36%	42%	34%	37%	37%	37%	38%	35%	37%	39%
Operating income (EBIT)	228	238	404	264	1,133	318	119	349	302	1,087	1,580
Interest expense	-42	-47	-49	-57	-195	-66	-66	-64	-62	-258	-233
Interest income	10	18	20	25	74	23	25	24	25	97	113
Net interest expense	-32	-28	-29	-32	-121	-43	-41	-41	-37	-162	-121
CAPEX	169	231	186	294	880	222	220	218	250	910	865
CAPEX / Sales	12%	16%	13%	18%	15%	14%	14%	13%	15%	14%	13%
Net income	110	112	224	413	859	162	12	174	149	497	848
Net debt	1,703	1,996	1,900	2,429	2,429	2,173	2,346	1,988	1,756	1,756	688

**Divisional Breakdown****Revenues**

Fixed	685	693	680	687	2,743	707	673	633	647	2,660	2,571
Cosmote	496	541	594	766	2,396	737	794	834	844	3,208	3,570
Romania	223	217	225	227	892	228	229	230	231	917	938
Other	117	129	133	127	506	76	84	93	89	342	342
Gross revenues	1,521	1,579	1,632	1,807	6,538	1,748	1,779	1,789	1,811	7,127	7,420
Intercompany and adjustments	-134	-147	-148	-180	-610	-158	-161	-162	-164	-645	-671
Total revenues	1,387	1,432	1,484	1,626	5,929	1,590	1,618	1,627	1,647	6,482	6,749

**EBITDA**

Fixed	184	200	238	215	837	251	238	216	200	905	920
Romania	95	72	93	85	345	85	84	96	91	356	390
Cosmote	191	204	249	229	872	232	258	287	263	1,041	1,244
Other and adjustments	43	42	98	25	208	21	-189	24	25	-118	92
Total EBITDA	513	518	678	554	2,262	591	391	623	579	2,184	2,646

**Domestic operating data**

Total fixed volumes (MOU m)	6,662	6,123	5,356	5,640	23,781	5,734	5,327	4,682	4,951	20,694	19,358
Change in total fixed volumes	-11%	-15%	-16%	-18%	-15%	-14%	-13%	-13%	-12%	-13%	-6%
Subscribers ('000)	6,436	6,496	6,551	6,663	6,663	6,628	6,599	6,540	6,490	6,490	6,399
Of which DSL	227	300	374	504	504	555	610	671	738	738	985
Change	73	73	74	131	350	50	55	61	67	234	247

Source: Deutsche Bank estimates and company data



**Figure 147: OTE YoY growth rates**

	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	2007E	2008E
Total revenues	7%	5%	6%	16%	8%	15%	13%	10%	1%	9%	4%
Underlying EBITDA	6%	-2%	4%	0%	2%	15%	16%	-1%	5%	8%	11%
EBITDA	14%	3%	-300%	7%	101%	15%	-25%	-8%	5%	-3%	21%
Operating income (EBIT)	24%	-2%	-167%	32%	5595%	39%	-50%	-14%	14%	-4%	45%
Interest expense	8%	15%	30%	26%	20%	55%	41%	32%	8%	32%	-10%
Interest income	-13%	9%	105%	64%	37%	120%	37%	17%	0%	30%	17%
Net interest expense	16%	19%	4%	6%	11%	35%	43%	42%	15%	33%	-25%
CAPEX	36%	103%	11%	7%	29%	32%	-5%	17%	-15%	3%	-5%
CAPEX / Sales											
Net income	16%	-7%	-142%	316%	-489%	48%	-89%	-22%	-64%	-42%	70%
Net debt	-24%	-11%	-12%	26%	26%	28%	18%	5%	-28%	-28%	-61%

**Divisional Breakdown****Revenues**

Fixed	3%	2%	0%	0%	1%	3%	-3%	-7%	-6%	-3%	-3%
Cosmote	31%	32%	18%	52%	33%	48%	47%	40%	10%	34%	11%
Romania	-2%	-9%	-1%	-4%	-4%	2%	5%	2%	2%	3%	2%
Other	-27%	-23%	-5%	30%	-11%	-35%	-35%	-30%	-30%	-32%	0%
Gross revenues	6%	5%	6%	18%	9%	15%	13%	10%	0%	9%	4%
Intercompany and adjustments	3%	12%	4%	43%	15%	18%	9%	10%	-9%	6%	4%
Total revenues	7%	5%	6%	16%	8%	15%	13%	10%	1%	9%	4%

**EBITDA**

Fixed	17%	0%	31%	79%	27%	37%	19%	-10%	-7%	8%	2%
Romania	-11%	-31%	-14%	-30%	-22%	-10%	16%	3%	7%	3%	10%
Cosmote	15%	13%	11%	24%	16%	22%	27%	16%	15%	19%	19%
Other and adjustments	131%	141%	-111%	-72%	-129%	-50%	-549%	-75%	0%	-157%	-178%
Total EBITDA	14%	3%	-300%	7%	101%	15%	-25%	-8%	5%	-3%	21%

**Domestic operating data**

Total fixed volumes (MOU m)	-11%	-15%	-16%	-18%	-15%	-14%	-13%	-13%	-12%	-13%	-6%
Change in total fixed volumes											
Subscribers ('000)	2%	3%	3%	3%	3%	3%	2%	0%	-3%	-3%	-1%
Of which DSL	237%	240%	251%	226%	226%	144%	103%	80%	46%	46%	33%

Source: Deutsche Bank estimates and company data

**OTE: guidance gauge for 2006 – 2008**

Below we detail the company's current guidance, which is pre the purchase of Germanos and so of limited use. We expect an update with Q4 results.

**Figure 148: OTE guidance and DB estimates (Euro m)**

OTE Group	2006E		2007E		2008E		2009E		2005 ~2008	
	Guidance	DB est	Guidance	DB est	Guidance	DB est	Guidance	DB est	Guidance	DB est
Revenue growth										7.2%
Payroll									-4% ~ -5%	-4.4%
EBITDA margin					>40%	39%				
CAPEX	1,200	880	1,000	910	850	865				
<b>Wireline</b>										
Revenue growth	Slightly negative	1.3%							-1.5% ~ -2.5%	-1.7%
Avg price per mt.									-11%	2.9%
PSTN lines (m)					4.1	4.2				
ISDN lines (m)					1.2	1.2				
ADSL (m)	0.500	0.504			1.100	0.985				
Salaries / Revenues					26%	26%			-7% ~ -8%	-7.4%
ADSL tariff growth									-15%	-10.4%
CAPEX	14%	9%	11%	10%	9%	10%				
OPEX									-5% ~ -7%	14%
EBITDA margin	28.5%	30.5%	33.0%	34.0%	33.0%	35.8%				
<b>Cosmote</b>										
Revenue growth	c.30%	33.3%	>30%	33.9%		11.3%		8.8%	>15%	17.5%
EBITDA margin			>15%	19.4%		19.5%		8.4%	>15%	15.6%
EBITDA margin	40.0%	36.4%		32.5%		34.8%		34.7%		
Net income growth		7%		30%		29%				
Net debt / EBITDA	2.7	2.6					<1.0	1.2		
Capex	<500	475	450	424	-10%	-2%	-10%	-16%		
Customers (000)							15,069	15,000		
<b>RomTelcom</b>										
Revenue growth	Better than -5.7%	-4.0%							0%	0%
EBITDA margin	c 38%	38.7%			40%	42%			40% by 2008	42%
Payroll									-5% ~ -6%	-9.3%
OPEX									-1.5% ~ -2.5%	-2.3%

Source: Deutsche Bank estimates and company data

## OTE Valuation – target Euro 24.7

OTE trades at a 2007E EV/EBITDA of 5.8x (sector 6.3x), 2007E P/E of 13.4x (sector 13.9x), 2007E dividend yield of 3.5% (sector 5.2%) and a 2007E FCF yield of 12.8% (sector 6.9%)

**Figure 149: OTE 2007 sotp computation (Euro m)**

Asset	Method	Asset EV	Shareholding	Valuation	Split
Greece - Fixed	DCF	5,175	100.0%	5,175	35.0%
RomTelecom - Fixed	DCF	2,103	54.0%	1,136	7.7%
Cosmote	DCF	10,576	67.0%	7,086	48.0%
Other assets					
Telecom Srbija	Purchase cost	1,560	20.0%	312	2.1%
Cosmo-one	EBITDA x	3	19.3%	1	0.0%
Cosmote - Romania (30% held by Romtelecom)	DCF - equity	1,292	16.2%	209	1.4%
Other	DCF		Various	503	3.4%
Benefits from kickback from Greek government from pension fund changes		350	2.4%		
Total EV				14,772	
Less net debt				-1,756	
Less: NPV of VRP				-323	
Add: minorities net debt					
RomTelecom				0	
Cosmote				733	
Cosmote minorities				20	
Equity valuation				13,446	
Shares in issue (2007E)				490	
Value per share				27.4	

Source: Deutsche Bank estimates

**Figure 150: Implied valuation multiples**

	2007E	2008E	2009E	WACC	g
Greece - Fixed	5.7	5.6	5.7	7.5%	-1.0%
RomTelecom - Fixed	5.9	5.4	5.3	9.0%	-1.0%

Source: Deutsche Bank estimates

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## Investment case: Top Pick

Our OTE valuation offers potential upside of 17% and total return of 19%. Accordingly, we maintain our Buy rating and include OTE amongst our 'Top Picks'. We believe OTE's valuation to be driven by strength of domestic revenues, resilience of Cosmote and cost reductions especially through further headcount rationalisation.

Performance of the fixed division over last two quarters give us reason to be more upbeat on the outlook than we were this time last year. We maintain conservative revenue growth estimates despite 1) strong broadband penetration in Greece of which OTE grabs a bulk share and 2) line count erosion (PSTN + ISDN) moderating to just under 0.3% both in Q3'06 and Q2'06 compared with 1.4% in 1Q'06. We expect fixed revenues to be flat (down just -0.1%) vs 0.4% growth in 3Q'06 driven down declining MOUs down 18% YoY but up 5.3% QoQ (cf. 7.4% QoQ in 4Q'05).

We are optimistic of potential cost cuts from further headcount rationalisations in the fixed line unit. We have modeled greater headcount cuts: 200 reductions in 2011 and 2012 which should help prop up EBITDA margins above 35% between 2010 and 2015.

OTE's value is further driven up by increasing Cosmote valuation (48% of OTE's EV). Our Cosmote revenue growth estimates are slightly bullish compared with management targets disclosed last November. We maintain 2007E revenue growth at 33.9% vs >30% guidance while modelling relatively bullish 2007E EBITDA margin of 19.4% vs >15% management guidance.

We expect OTE to declare a Euro 0.45 dividend per share in 4Q'06 and a Euro 221m cash outflow for the same in 2Q'07. We look for greater detail on divisional guidance at the forthcoming earnings call following Cosmote group targets announced by its management last November.

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## Risks

- Line count erosion in Greece continues to be a key risk. The risk of more aggressive ULL competition in 2007 adds a further element to this risk which is likely to escalate line count erosion. We have been on par with management guidance in modelling line count but have been conservative with respect to wireline revenues – we assume declines in wireline revenue of -3.0% and -3.4% in 2007 and 2008. Thus if management fails to control line count erosion there is a risk of downside to wireline valuation. Conversely there is upside if management deliver their revenue targets.
- Political interference in the sale of the government stake could negatively impact OTE's valuation. Additionally with the number of potential strategic buyers diminishing there is the possibility the government places a sizeable stake in OTE into the market.
- Much of our enthusiasm for OTE is dependent upon continued strong growth in Cosmote. The potential change in ownership of TIM Hellas could lead to a rekindling of domestic competitive intensity.
- Further upside is possible if management rolls out further headcount reduction programmes in its wireline business. Our estimates in this regard are conservative as we feel these are more likely in the longer term given that OTE already has one of the highest line count per employee amongst its European peers.

Europe Portugal  
Telecommunications Wireline Services

# Portugal Telecom

Reuters: **PTC.LS** Bloomberg: **PTC PL**

## Awaiting Sonaecom's next move

### Full Year 2006 results on 9 February 2007

As detailed in our recent estimate changes note (*Vivo is key* published on 25 Jan) we believe Vivo's profitability will lift group results in Q4 as the asset remains in hibernation ahead of the launch of GSM services in H1 2007. We target stand-alone revenue of R\$2,932m and EBITDA of R\$755m implying a margin around 25.7%. Domestically we expect a 1.2% TMN revenue declines but 2.4% EBITDA growth in Q4 and in the wireline business we target 3.7% revenue and 3.9% EBITDA declines. Our TMN EBITDA target is Euro 165m for Q4 and Euro 219m in the wireline asset, which is equivalent to a 2.4% decline at TMN in 2006 and 16.7% in the wireline asset (reflecting the exceptional one off in Q4 2005 relating to healthcare/pension accounting).

### Investment case – Offer needs to rise up to Euro 11

We believe Sonaecom will have to offer closer to Euro 11 for its offer in Portugal Telecom to succeed – this is equivalent to foregoing between 50% and 70% of its targeted synergies (Euro 2bn) from merging the domestic assets.

### Valuation and risks: TP Euro 8.20; at fair value

Our target of Euro 8.2 reflects the total dividend payments of ordinary (Euro 0.55, consensus Euro 0.475) and special dividend (Euro 1.75) by the end of 2007. Cum-dividend our target is Euro 10.5. Our valuation reflects our belief that due to a combination of opportunity costs, fiscal advantages and integrated product benefits, Telefónica will pay PT close to Euro 2.7bn for its equity stake in Vivo (this is PT's book value). But clearly, the risk to our valuation is the failure of Telefónica to acquire PT's stake in Vivo at a material (100%) premium. On the upside the domestic assets, which have performed poorly in the past three years, could show a recovery and report revenue growth.

### Forecasts and ratios

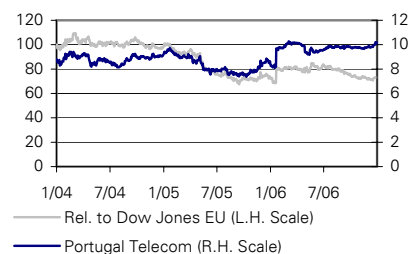
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	5,967	6,385	<b>6,317</b>	6,287	6,321
EBITDA (EURm)	2,363	2,491	<b>2,235</b>	2,288	2,335
EBITA (EURm)	1,428	1,432	<b>1,043</b>	1,188	1,283
PBT DB (EURm)	1,030	1,066	<b>711</b>	730	882
PBT stated (EURm)	937	1,047	<b>711</b>	730	882
DB EPS (EUR)	0.60	0.60	<b>0.72</b>	0.40	0.49
DB EPS growth (%)	94.0	0.3	<b>20.3</b>	-44.5	22.2
P/E (DB EPS) (x)	14.7	13.9	<b>14.1</b>	25.4	20.8
EV/EBITDA (x)	7.4	7.0	<b>8.8</b>	9.4	9.0
EV/EBITA (x)	12.2	12.2	<b>18.8</b>	18.1	16.3
DPS (EUR)	0.35	0.48	<b>2.30</b>	0.60	0.60
Yield (%)	4.0	5.7	<b>22.6</b>	5.9	5.9

Source: Deutsche Bank estimates, company data

### Hold

Price Target (EUR) **8.20**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.8	3.2	19.6
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>10,590.3</b>
Shares outstanding (m)	<b>1,041</b>
Free float (%)	<b>100</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>13,713</b>

### Key indicators

ROE (%)	<b>32.6</b>
ROC	<b>8.5</b>
Net debt/equity	<b>117.5</b>
Book value/share (EUR)	<b>2.7</b>
Price/book	<b>3.8</b>
Net interest cover	<b>3.5</b>
EBITDA margin	<b>35.4</b>
EBIT margin	<b>16.5</b>

### 9M 2006 results

Results date	9 February 2007
Time of release	by 08:00 (GMT)
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

### Recent research

Vivo is key	25 January
Vivo upgrades and stronger domestic mobile SIM growth	28 November
In limbo!	3 November

## The Sonaecom offer

Sonaecom has launched its offer at a price of Euro 9.5, but we expect the price to eventually be raised to between Euro 10.5 to Euro 11.0. The current targeted timetable is shown in Figure 151.

**Figure 151: Sonaecom offer timetable**

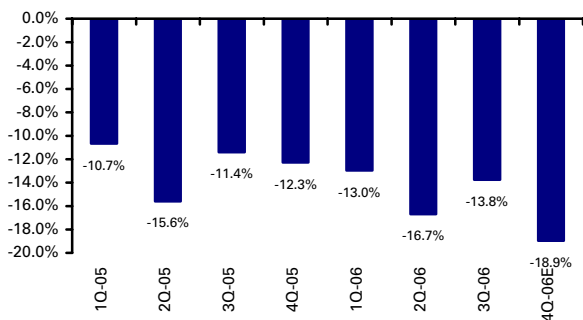
Start of offer period	16-Jan
Last date for Sonaecom to revise offer without extending the offer period	27-Feb
PT AGM	02-Mar
End of offer period	09-Mar

Source: Company data

## Results outlook

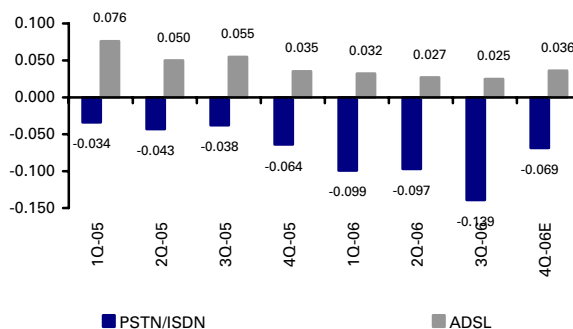
- Figure 152: Wireline F2F traffic growth
- Figure 153: PSTN/ISDN and DSL access line growth (m)
- Figure 154: Wireline revenue and EBITDA (Euro m)
- Figure 155: Wireline revenue and EBITDA growth
- Figure 156: TMN net additions (000)
- Figure 157: TMN ARPU (Euro) and growth (%)
- Figure 158: TMN MOU (per month)
- Figure 159: TMN revenue and EBITDA (Euro m)
- Figure 160: TMN revenue and EBITDA growth
- Figure 161: TMN EBITDA and OCF margins
- Figure 162: PT quarterly revenue growth
- Figure 163: PT quarterly EBITDA growth

**Figure 152: Wireline F2F traffic growth**



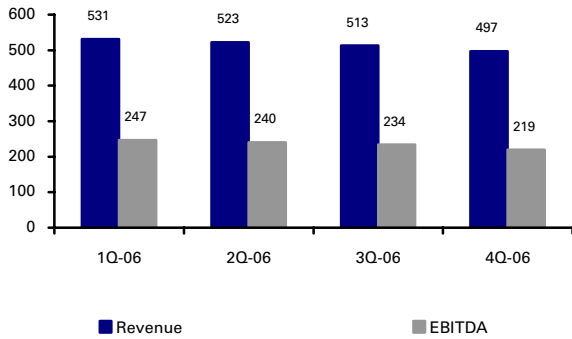
Source: Deutsche Bank estimates and company data

**Figure 153: PSTN/ISDN and DSL access line growth (m)**



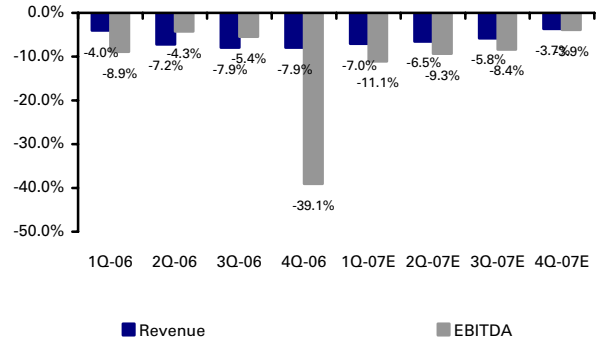
Source: Deutsche Bank estimates and company data

**Figure 154: Wireline revenue and EBITDA (Euro m)**



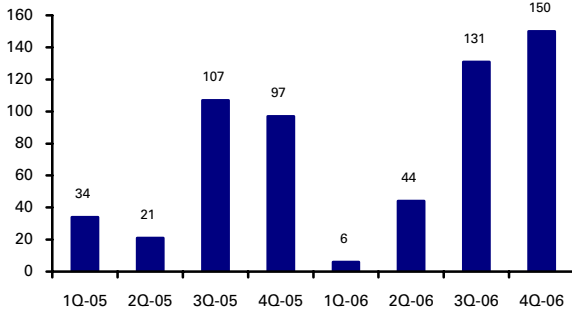
Source: Deutsche Bank estimate s and company data

**Figure 155: Wireline revenue and EBITDA growth**



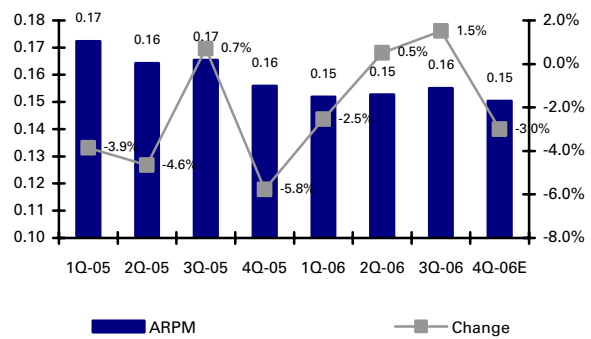
Source: Deutsche Bank estimate s and company data

**Figure 156: TMN net additions (000)**



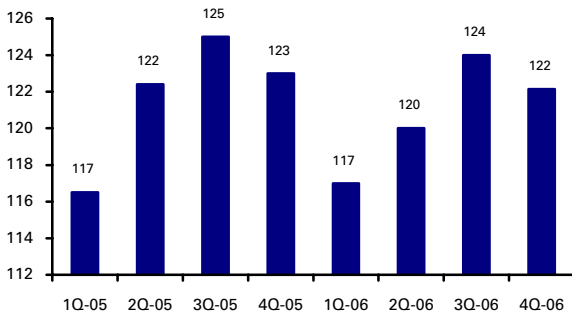
Source: Deutsche Bank estimate s and company data

**Figure 157: TMN ARPU (Euro) and growth (%)**



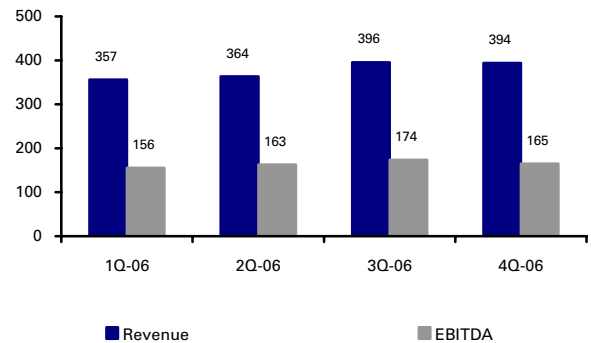
Source: Deutsche Bank estimate s and company data

**Figure 158: TMN MOU (per month)**



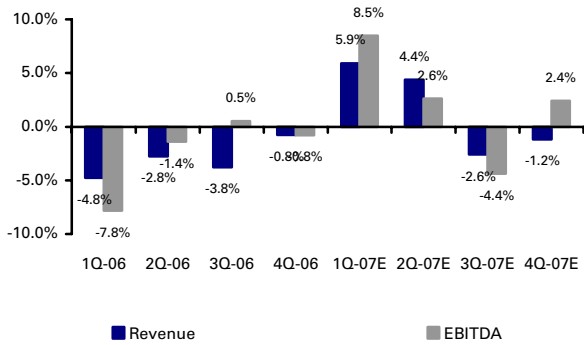
Source: Deutsche Bank estimate s and company data

**Figure 159: TMN revenue and EBITDA (Euro m)**



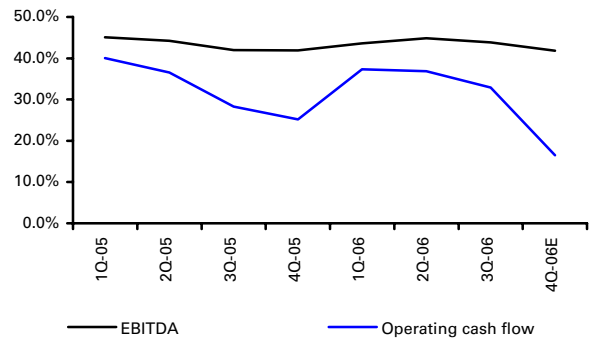
Source: Deutsche Bank estimate s and company data

**Figure 160: TMN revenue and EBITDA growth**



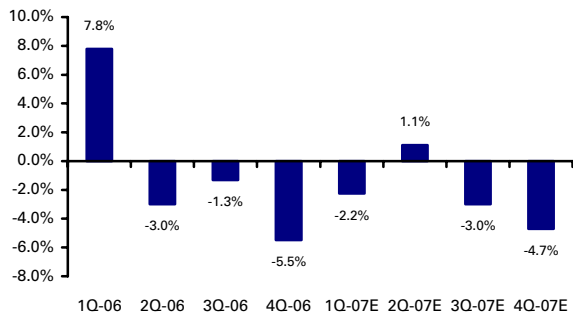
Source: Deutsche Bank estimate s and company data

**Figure 161: TMN EBITDA and OCF margins**



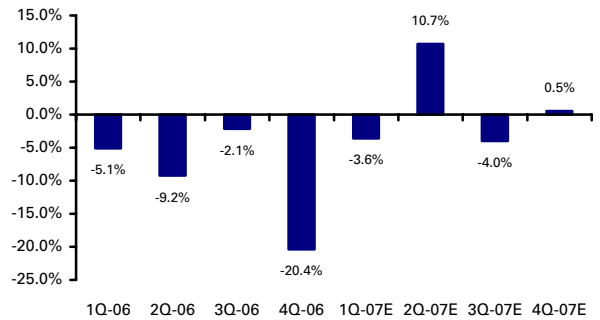
Source: Deutsche Bank estimate s and company data

**Figure 162: PT quarterly revenue growth**



Source: Deutsche Bank estimate s and company data

**Figure 163: PT quarterly EBITDA growth**



Source: Deutsche Bank estimate s and company data



## Guidance monitor

■ In Figure 164 we detail management's latest targets compared with our estimates.

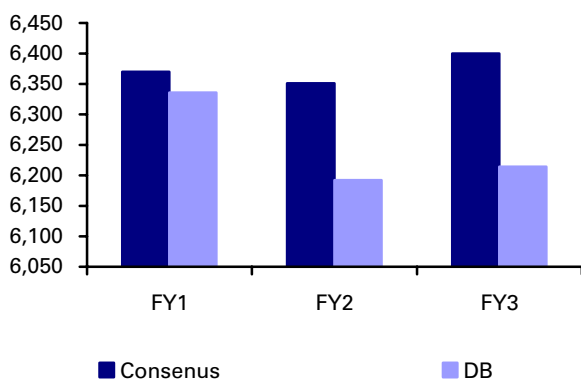
**Figure 164: Comparison of PT guidance and DB estimates (Euro m)**

	2005 - 2008 CAGR	DBe
EBITDA	3% to 5%	-2.6%
OFCF	Euro 5.0bn to Euro 5.5bn	4,197
Divisional Breakdown		
PT Wireline	-7% to -8%	-6.8%
TMN	-3% to -5%	-3.0%
PT Multimedia	5% to 10%	5.6%
Vivo		-5.6%
EBITDA		
PT Wireline	c.Euro 940m	941
TMN	-2% to -3%	-2.4%
Multimedia	c.10%	6.8%
Vivo	10%	-16.4%
Vivo margins	25% to 27%	22.1%
Capex		
PT Wireline	Euro 200m to Euro 220m	226
TMN	< Euro 200m	195
Vivo	R\$2.3bn to R\$2.4bn	2,012

Source: Deutsche Bank estimates and company data

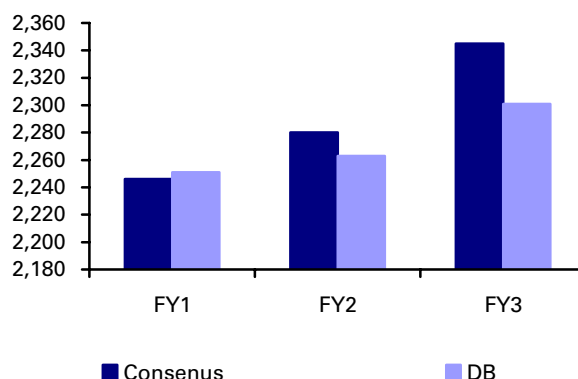
## Comparison with consensus

**Figure 165: Comparison with consensus – Revenue (Euro m)**



Source: Deutsche Bank estimates and Reuters

**Figure 166: Comparison with consensus – EBITDA (Euro m)**



Source: Deutsche Bank estimates and Reuters

## Valuation – Ex-dividend target Euro 8.2

We believe the 2007E fair value of Portugal Telecom is Euro 8.2 per share, ex-dividends of Euro 0.55 (ordinary) and Euro 1.75 (special). Cum-dividend our fair value is Euro 10.5 per share. Our valuation is summarized in Figure 167 and in Figure 168 we detail the implied multiples in our valuations.

This valuation implies PT Multimedia at a 20% premium to market valuation, reflecting a possible uplift in value from de-merger/sale by PT. We also embody Vivo at our target price of \$4.0, with an assumed take-out premium of 100% when Telefónica acquires control. This implies a value on Portugal Telecom's 31.25% equity stake of Euro 2.99bn. It is worth noting that Portugal Telecom's book value of Vivo is Euro 2.7bn and Telefónica's is closer to Euro 2.4bn

However, we expect Sonaecom to lift its offer price for PT from around Euro 9.5 to between Euro 10.5 to Euro 11.0 - our target price (cum-dividend) is Euro 10.5. The total return opportunity is 3%, warranting a Hold rating.

Portugal Telecom trades at a 2007E EV/EBITDA of 9.9x (sector 6.4x), 2007E P/E of 20.9x (sector 14.0x), 2007E dividend yield of 5.9% (sector 5.1%) and a 2007E FCF yield of 7.2% (sector 6.9%).

**Figure 167: Portugal Telecom 2007E sum-of the parts (Euro m)**

Enterprise Valuation	Method	Population	Shareholding	Euro	% of total	Previous	Changes
TMN	DCF	9.9	100.0%	4,263	27.8%	4,296	-0.0
Vivo	DCF	186.0	31.25%	3,391	22.1%	2,072	1.3
Medi Telecom	DCF	29.2	30.5%	473	3.1%	276	0.2
Total wireless				8,127	52.9%	6,643	
Wireline				4,060	26.5%	4,182	
Other businesses		Shares outstanding					
PT Multimedia	Market valuation +20%	309.1	58.46%	2,236	14.6%	2,110	0.1
Banco Espirito Santo	Market valuation	200	1.40%	40	0.3%	36	0.0
NTC	6x EBITDA		34.00%	122	0.8%	122	0.0
Unitel - Angola	6x EBITDA		25.00%	450	2.9%	450	0.0
CTM (Macau)	6x EBITDA		28.00%	143	0.9%	143	0.0
CVT	6x EBITDA		40.00%	96	0.6%	96	0.0
UOL	Market valuation	60.1	29.00%	74	0.5%	80	-0.0
<b>Enterprise valuation</b>				<b>15,349</b>	<b>100.0%</b>	<b>13,862</b>	<b>1.4</b>
Less: Year end 2007E net debt				-6,220	-40.5%	-6,136	-0.1
Add: PT Multimedia minorities net debt				-90	-0.6%	-90	0.0
Add: Vivo minorities net debt				641	4.2%	624	0.0
Pension top up costs				-1,149	-7.5%	-1,149	0.0
Equity valuation				8,530	55.6%	7,111	1.4
Total Ordinary Shares Issued (mm)				1,041		1,041	
Value per share				8.19		6.83	

Source: Deutsche Bank estimates and company data

**Figure 168: Implied valuation multiple for key assets**

Asset	EV	EV/EBITDA		EV/(EBITDA - capex)		WACC	Tax	Revenue CAGR			EBITDA margin			Capex:Sales		
		2006E	2007E	2006E	2007E			2006-2013	2013-2023	Terminal	2006	2013	Terminal	2006	2013	Terminal
Wireline	4,060	4.3x	4.7x	5.7x	5.7x	7.5%	27.5%	-2.7%	-0.2%	-1.0%	45.6%	39.1%	38.0%	10.9%	14.1%	14.0%
TMN	4,263	6.5x	6.4x	9.2x	9.1x	8.0%	27.5%	1.4%	-0.5%	0.0%	43.5%	40.7%	40.0%	12.9%	12.0%	12.0%

Source: Deutsche Bank estimates

## Risks

The risk to both our valuation and recommendation is the possible failure of Telefónica to acquire PT's stake in Vivo at a material (100%) premium. On the upside the domestic assets, which have performed poorly in the past three years show a recovery and report revenue growth.

## Investment case: awaiting surety

We believe that due to a combination of opportunity costs, fiscal advantages and integrated product benefits Telefónica will pay PT close to Euro 2.7bn for its equity stake in the asset (this is PT's book value). We believe Sonaecom will have to offer closer to Euro 11 for its offer for Portugal Telecom to succeed – this is equivalent to foregoing between 50% and 70% of its targeted synergies (Euro 2bn) from merging the domestic assets. Maintain Hold.

**Figure 169: Portugal Telecom summary results outlook (Euro m)**

Portugal Telecom	10-05	20-05	30-05	4Q-05	2005	10-06	20-06	3Q-06	4Q-06	2006E	2007E	2008E	2009E
Revenues	1,452	1,570	1,641	1,722	6,385	1,566	1,523	1,620	1,627	6,336	6,192	6,214	6,191
EBITDA	619	554	608	710	2,491	587	503	595	565	2,251	2,263	2,301	2,273
EBITDA margin	42.6%	35.3%	37.0%	41.3%	39.0%	37.5%	33.0%	36.7%	34.7%	35.5%	36.5%	37.0%	36.7%
EBIT	386	293	343	410	1,432	290	203	292	269	1,055	1,168	1,253	1,271
Interest expense	-66	-68	-87	-70	-289	-45	-110	-62	-79	-296	-316	-310	-296
Capex / Sales	167	202	214	361	943	163	194	221	392	969	790	858	586
Capex / Sales	11.5%	12.8%	13.0%	21.0%	14.8%	10.4%	12.7%	13.6%	24.1%	15.3%	12.8%	13.8%	9.5%
Net income	182	99	77	294	653	211	191	125	167	694	402	488	598
Net debt	3,600	4,256	3,888	3,672	3,672	3,679	4,380	4,108	4,248	4,248	6,220	6,522	6,225
<b>Revenues</b>													
PT Wireline	553	563	558	540	2,214	531	523	513	497	2,064	1,945	1,864	1,807
Domestic wireless (TMN)	374	374	411	398	1,557	357	364	396	394	1,510	1,532	1,537	1,548
PT Multimedia	153	151	160	158	622	161	164	165	168	657	666	685	712
Vivo	397	499	521	620	2,037	523	491	555	568	2,137	2,049	2,127	2,124
Total other	-25	-17	-9	6	-51	-6	-18	-9	0	-33	0	0	0
<b>Total</b>	<b>1,452</b>	<b>1,570</b>	<b>1,641</b>	<b>1,722</b>	<b>6,379</b>	<b>1,566</b>	<b>1,523</b>	<b>1,620</b>	<b>1,627</b>	<b>6,336</b>	<b>6,192</b>	<b>6,214</b>	<b>6,191</b>
<b>EBITDA</b>													
PT Wireline	271	251	248	360	1,129	247	240	234	219	941	863	833	790
TMN	169	165	173	167	674	156	163	174	165	658	671	664	646
Vivo	142	99	142	124	507	140	58	138	136	471	522	584	604
Multimedia	45	51	48	52	195	50	56	52	50	209	218	232	245
Other, consolidation effects, management fees	-8	-12	-2	8	-14	-5	-14	-3	-5	-27	-12	-12	-12
<b>Total</b>	<b>619</b>	<b>554</b>	<b>608</b>	<b>710</b>	<b>2,491</b>	<b>587</b>	<b>503</b>	<b>595</b>	<b>565</b>	<b>2,251</b>	<b>2,262</b>	<b>2,301</b>	<b>2,273</b>
<b>Domestic operating data</b>													
Total fixed volumes	3,809	3,778	3,589	3,641	14,817	3,491	3,393	3,244	2,866	12,994	11,116	10,521	10,047
Change in total fixed volumes	-12.1%	-11.8%	-8.0%	-8.1%	-10.1%	-8.3%	-10.2%	-9.6%	-21.3%	-12.3%	-14.5%	-5.4%	-4.5%
TMN customers: total	5,087	5,108	5,215	5,312	5,312	5,318	5,362	5,493	5,643	5,643	5,868	5,968	6,008
ARPU: blended	22.6	22.6	23.7	22.0	22.7	20.4	21.0	21.8	21.1	21.1	20.1	19.8	19.7

Source: Deutsche Bank estimates and company data

**Figure 170: Portugal Telecom reported and prospective growth rates**

	10-02	20-02	30-02	40-02	10-03	20-03	40-03	10-04	20-04	30-04	40-04	10-05	20-05	30-05	40-05	10-06	20-06	30-06	40-06	10-07E	20-07E	30-07E	40-07E	
Revenues	3.8%	-0.9%	-5.5%	-7.1%	-8.4%	-0.7%	12.5%	7.8%	4.1%	1.6%	0.9%	2.9%	6.9%	7.5%	10.6%	7.8%	-3.0%	-1.3%	-5.5%	-2.2%	1.1%	-3.0%	-4.7%	
EBITDA	6.7%	5.5%	5.5%	2.1%	-7.5%	-0.9%	5.7%	15.9%	5.7%	-0.3%	-1.9%	3.2%	-5.9%	-1.5%	27.5%	-5.1%	-9.2%	-2.1%	-20.4%	-3.6%	10.7%	-4.0%	0.5%	
EBITDA margin																								
EBIT	25.8%	64.9%	-19.1%	-3.5%	-7.4%	0.0%	13.4%	28.3%	11.6%	2.2%	-8.4%	3.5%	-17.2%	-10.5%	29.0%	-24.8%	-30.7%	-14.8%	-34.2%	-0.1%	38.5%	1.5%	11.4%	
Interest expense	-47.0%	-100.1%	211.6%	-74.1%	-115.9%	3043.7	142.2%	-352.8%	-604.5%	20.6%	-1.3%	62.1%	108.9%	29.7%	-39.0%	61.3%	-28.6%	14.2%	73.7%	-27.8%	30.1%	-0.4%	-0.4%	
Capex	-17.4%	-38.9%	-49.0%	-49.7%	-30.4%	-52.5%	22.6%	-29.9%	50.4%	50.9%	11.6%	94.2%	36.5%	23.7%	1.8%	-2.6%	-3.8%	3.3%	8.5%	15.1%	1.4%	-2.5%	-51.3%	
Capex / Sales																								
Net income	-23.7%	290.7%	-13.6%	146.8%	-9.3%	-45.0%	-134.5%	131.8%	239.4%	21.6%	-309.6%	-5.7%	-52.8%	-53.5%	449.0%	15.7%	92.1%	62.6%	-43.1%	-49.5%	-53.1%	-19.7%	-36.7%	
Net debt	11.1%	4.1%	-21.2%	-24.4%	-24.1%	-15.4%	-19.0%	-11.5%	-17.8%	-14.6%	-5.9%	-2.7%	19.8%	16.5%	9.9%	2.2%	2.9%	5.7%	15.7%	-100.0%	-100.0%	-100.0%	-100.0%	
Divisional Breakdown																								
Revenues																								
Total wireline revenues	-4.5%	-9.7%	-6.1%	-5.7%	-5.9%	-4.3%	-3.9%	5.4%	8.5%	8.7%	10.2%	-2.7%	-2.3%	-4.8%	-6.1%	-4.0%	-7.2%	-7.9%	-7.9%	-7.0%	-6.5%	-5.8%	-3.7%	
Domestic wireless (TMN)	18.3%	9.5%	5.9%	1.1%	2.3%	4.2%	7.4%	21.2%	24.1%	16.5%	16.7%	0.5%	-5.0%	-3.3%	-4.3%	-4.8%	-2.8%	-3.8%	-0.8%	5.9%	4.4%	-2.6%	-1.2%	
PT Multimedia	21.1%	5.0%	4.6%	3.4%	4.1%	9.7%	8.3%	-11.2%	-12.3%	-8.5%	-16.8%	5.1%	6.2%	7.2%	-2.4%	5.3%	8.4%	2.6%	6.2%	2.0%	2.1%	1.8%	-0.1%	
TCP/Vivo from 2003	-0.9%	5.1%	-21.1%	-35.1%	-32.8%	-7.6%	72.5%	53.7%	12.7%	5.9%	9.5%	6.8%	28.0%	31.1%	41.9%	31.7%	-1.6%	6.6%	-8.4%	-5.4%	2.7%	-3.7%	-9.4%	
Total other	30.0%	-11.1%	4.9%	97.7%	48.7%	38.0%	-16.7%	-179.7%	-159.8%	-151.3%	-143.6%	-45.7%	-48.2%	-72.7%	-120.6%	-76.9%	5.8%	4.7%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	
Total	3.8%	-0.9%	-5.5%	-7.1%	-8.4%	-0.7%	12.5%	7.8%	4.1%	1.6%	0.9%	2.9%	6.9%	7.5%	10.6%	7.8%	-3.0%	-1.3%	-5.5%	-2.2%	1.1%	-3.0%	-4.7%	
EBITDA																								
PT Comunicações	-8.9%	-8.7%	-8.7%	-7.5%	-9.6%	-9.8%	-9.4%	8.5%	13.6%	10.2%	13.2%	11.4%	2.0%	1.0%	53.4%	-8.9%	-4.3%	-5.4%	-39.1%	-11.1%	-9.3%	-8.4%	-3.9%	
TMN	29.6%	10.8%	12.3%	12.7%	4.6%	17.4%	9.6%	15.5%	11.8%	8.9%	-1.0%	-5.1%	-8.3%	-16.0%	-9.0%	-7.8%	-1.4%	0.5%	-0.8%	8.5%	2.6%	-4.4%	2.4%	
TCP/Vivo from 2003	12.8%	34.0%	8.8%	-8.2%	-28.6%	-17.7%	24.3%	42.0%	-5.6%	-22.1%	-10.7%	0.1%	-17.7%	18.6%	8.9%	-1.8%	-4.1%	-2.9%	9.2%	-8.7%	106.8%	0.4%	0.6%	
Multimedia	76.0%	77.4%	82.0%	72.5%	72.7%	73.9%	91.2%	50.8%	46.6%	40.8%	7.4%	9.3%	19.6%	-0.4%	9.3%	12.3%	9.0%	9.4%	-2.4%	6.5%	-1.8%	5.2%	9.3%	
Other, consolidation effects, management fees	-125.0%	-14.5%	160.0%	500.0%	200.0%	42.4%	-119.8%	-243.3%	-103.7%	-113.3%	1714.2%	81.4%	NM	53.8%	-138.1%	-34.6%	13.8%	34.1%	-161.0%	-41.2%	-78.6%	-9.1%	-40.0%	
Total	7.2%	6.7%	4.2%	1.1%	-7.9%	-1.9%	6.3%	18.0%	7.5%	1.0%	-0.9%	3.2%	-5.9%	-1.5%	27.5%	-5.1%	-9.2%	-2.1%	-20.4%	-3.6%	10.7%	-4.0%	0.5%	
Total fixed volumes	-2.0%	-5.1%	-2.3%	-1.9%	-5.6%	-7.7%	-12.4%	-9.1%	-7.8%	-10.4%	-11.9%	-12.1%	-11.8%	-8.0%	-8.1%	-8.3%	-10.2%	-9.6%	-21.3%	-18.2%	-17.4%	-15.1%	-5.6%	
ARPU: blended	-6.6%	-11.6%	-9.8%	-11.2%	-11.2%	-6.3%	-6.3%	-3.2%	-1.9%	-4.5%	-1.0%	-2.9%	-8.5%	-7.7%	-9.2%	-9.7%	-7.2%	-7.8%	-4.2%	-0.2%	-3.6%	-8.3%	-5.7%	

Source: Deutsche Bank estimates and company data

Europe Italy  
Telecommunications Wireline Services

# Telecom Italia

Reuters: **TLIT.MI** Bloomberg: **TIT IM**

## Looking for signs of stability

### Full Year 2006 results on 3 March 2007: Expect weak numbers

Guidance on the 3-year business plan – to be presented in March – should be brought down from 3-4% EBITDA CAGR to c.1% in line with our EBITDA recent cuts (1% in 2006, 2.4% in 2007 and 3.5% in 2008) with an increasing capex cycle (we also increased our capex targets by 3.6% in 2007, 7% in 2008 and 2009 and 9% in 2010. Maintain Hold.

### Q4 2006 unlikely to provide good news

We expect organic EBITDA to fall by 1.1% in Q4 vs. growth of 2.7% in Q1, 2.6% in Q2 and 3.8% in Q4. Domestic wireline should fall by c. 8% YoY with revenues down by 6-7%. Line loss should be 250k to 300k, broadband net additions of 270k in retail vs. 778k in Q4 2005 with market share of 56%. Mobile should be up by 10.9% YoY, benefiting from very strong Brazilian performance (+40% YoY) and decent domestic performance (+3.3%, 45% margin vs. 45.7% in Q4 2005). Net profit should be around -25% YoY mainly due to higher financial charges and taxes.

### Target price Euro 2.25 for ordinary and Euro 2 for savers

WACC is 8% in mobile and 7% wireline; g is +0.5% and 0% respectively. We changed wireline g from -1% to 0% in order to reflect benefits coming from the NGN CAPEX plan that should come post-2010. In spite of its substantial underperformance the stock trades at a premium to the European sector based on 2008 free cash flow yield and P/E of the ordinary shares. Key downside risk is competition increasing beyond our estimates. Upside should come from a potential change in control (although we believe it will happen at the Olimpia level) and from the outcome of the Regulator's decision on potential network separation.

### Forecasts and ratios

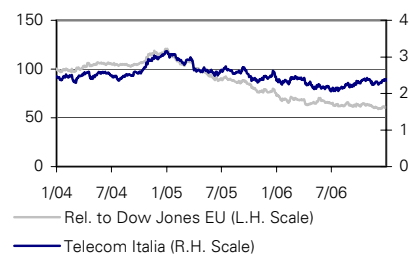
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	28,295	29,945	<b>31,201</b>	31,902	32,540
EBITDA (EURm)	12,852	12,991	<b>13,178</b>	13,581	13,817
EBITA (EURm)	7,585	7,727	<b>7,578</b>	8,011	8,290
PBT DB (EURm)	5,588	5,717	<b>5,297</b>	5,867	6,275
PBT stated (EURm)	5,471	6,084	<b>5,366</b>	5,730	6,138
DB EPS (EUR)	0.12	0.16	<b>0.15</b>	0.16	0.18
DB EPS growth (%)	-55.7	33.6	<b>-3.2</b>	8.0	12.3
P/E (DB EPS) (x)	22.0	17.3	<b>15.7</b>	14.5	12.9
EV/EBITDA (x)	6.4	6.7	<b>6.1</b>	5.8	5.6
EV/EBITA (x)	10.9	11.2	<b>10.5</b>	9.8	9.3
DPS (EUR)	0.11	0.14	<b>0.14</b>	0.14	0.14
Yield (%)	4.3	5.2	<b>5.9</b>	5.9	5.9

Source: Deutsche Bank estimates, company data

### Hold

Price Target (EUR) **2.25**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	7.6	2.7	-1.1
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>45,205.0</b>
Shares outstanding (m)	<b>19,204</b>
Free float (%)	<b>82</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>58,533</b>

### Key indicators

ROE (%)	<b>11.3</b>
ROC	<b>4.8</b>
Net debt/equity	<b>140.2</b>
Book value/share (EUR)	<b>1.3</b>
Price/book	<b>1.7</b>
Net interest cover	<b>3.8</b>
EBITDA margin	<b>42.2</b>
EBIT margin	<b>24.3</b>

### FY 2006 results

Results date	3 March
Time of release	TBA
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

### Recent research

Is this the last estimates cut?	25 January
Is Blackstone really interested in T.I.?	22 November
Euo 8-9bn N.G.N. CAPEX in next 10 ys? Part 2	26 October
Euro 9bn N.G.N. CAPEX in next 10 ys?	
Who will pay the bill?	25 October

## Results outlook

We expect organic EBITDA to post a decline in Q4 (-1.1%) vs. growth of 2.7% in Q1, 2.6% in Q2 and 3.8% in Q3. We expect the deterioration to come from domestic wireline projected to fall by c. 8% YoY with revenues down by 6-7%.

In particular:

- access should be down by over 2% in line with 9m 2006, with line loss in the region of 250-300k (vs. 145k in Q1, 356k in Q2 and 157k in Q3);
- traffic should be down by c. 10%, slightly better than in 9m 2006, benefiting from volume stabilization;
- equipment and VAS should be down by c. 25% and 10% respectively;
- business data should be down by c. 15% vs. -1.1% in 9m, i.e.. A significant worsening mainly attributable to Fastweb starting to eat in T.I.'s market share of top customers;
- and wholesale should be up by c. 10% in line with +12.7% in the first 9m.

The good performance expected for the European broad band should help mitigate the fall for total wireline EBITDA to 6.4%. Mobile should be up by 10.9% YoY, benefiting from very strong Brazilian performance (+40% YoY) in addition to a very decent domestic performance (+3.3%, 45% margin vs. 45.7% in Q4 2005). We project 1.7% increase in domestic mobile service revenues (vs. +0.4% in Q4) as Q4 is affected by only one interconnect cut (of 7.5%), subscribers should be up 13% YoY (we project 800k net adds) and data revenues should be up by some 15% YoY. We remind that Q3 was affected by two fixed to mobile interconnect cuts - the 20% cut introduced on 1-9-2005 and the 7% cut from 1-7-2006 – Q4 suffered only from the second cut.

**Figure 171: Telecom Italia's revenues by business area - organic in Q1, Q2 and Q3 reported in Q4 – Euro m**

	Q1-05	Q2-05	Q3-05	Q4-05	Q1-06	Q2-06	Q3-06	Q4-06E	Q1-06	Q2-06	Q3-06	Q4-06E
Domestic wire line	4,269	4,385	4,174	4,451	4,267	4,283	4,083	4,151	0.0%	-2.3%	-2.2%	-6.7%
European BB	144	156	165	101	204	223	235	288	41.7%	42.9%	42.4%	184.5%
Total wire line	4,413	4,541	4,339	4,552	4,471	4,506	4,318	4,440	1.3%	-0.8%	-0.5%	-2.5%
Mobile services	3,110	3,321	3,338	3,194	3,207	3,498	3,653	3,710	3.1%	5.3%	9.4%	16.1%
Media	34	49	38	59	44	54	38	71	29.4%	10.2%	0.0%	21.1%
Olivetti	107	113	87	145	94	118	86	152	-12.1%	4.4%	-1.1%	4.6%
Eliminations	-376	-372	-317	-430	-333	-324	-326	-232	-11.4%	-12.9%	2.7%	-46.0%
<b>Consolidated Sales</b>	<b>7,288</b>	<b>7,652</b>	<b>7,485</b>	<b>7,520</b>	<b>7,483</b>	<b>7,852</b>	<b>7,769</b>	<b>8,140</b>	<b>2.7%</b>	<b>2.6%</b>	<b>3.8%</b>	<b>8.2%</b>

Source: Deutsche Bank

**Figure 172: Telecom Italia's EBITDA by business area - organic in Q1, Q2 and Q3 reported in Q4 – Euro m**

	Q1-05	Q2-05	Q3-05	Q4-05	Q1-06	Q2-06	Q3-06	Q4-06E	Q1-06	Q2-06	Q3-06	Q4-06E
Domestic wire line	2,005	1,997	1,908	1,951	1,998	1,940	1,829	1,792	-0.3%	-2.9%	-4.1%	-8.2%
European BB	-13	-1	6	7	2	12	26	40	nm.	nm.	333.3%	467.0%
Total wire line	1,992	1,996	1,914	1,958	2,000	1,952	1,855	1,832	0.4%	-2.2%	-3.1%	-6.4%
Mobile services	1,394	1,458	1,392	1,324	1,453	1,474	1,555	1,468	4.2%	1.1%	11.7%	10.9%
Media	-27	-23	-20	-20	-28	-24	-19	4	3.7%	4.3%	-5.0%	nm.
Olivetti	4	-1	-11	-6	-12	-14	-10	-10	nm.	nm.	-9.1%	69.5%
Eliminations	-14	-179	-54	-84	-74	-108	-95	-158	428.6%	-39.6%	76.0%	88.0%
<b>Consolidated EBITDA</b>	<b>3,349</b>	<b>3,251</b>	<b>3,221</b>	<b>3,173</b>	<b>3,339</b>	<b>3,280</b>	<b>3,286</b>	<b>3,137</b>	<b>-0.3%</b>	<b>0.9%</b>	<b>2.0%</b>	<b>-1.1%</b>

Source: Deutsche Bank

**Figure 173: Consolidated quarterly figures TIM - Euro m - Organic**

	Q1 2005 Actual	Q2 2005 Actual	Q3 2005 Actual	Q4 2005 Actual	Q1 2006 Actual '(1)	Q2 2006 Actual	Q3 2006 Actual	Q4 2006 DB Estimates	YoY Growth
Total sales	2,905	3,245	3,323	3,500	3,206	3,498	3,653	3,709	6.0%
EBITDA margin	1,393 48.0%	1,416 43.6%	1,407 42.3%	1,357 38.8%	1,453 45.3%	1,474 42.1%	1,555 42.6%	1,468 39.6%	8.2%

Source: Deutsche Bank

**Figure 174: Domestic quarterly figures TIM - Euro m - Organic**

	Q1 2005 Actual	Q2 2005 Actual	Q3 2005 Actual	Q4 2005 Actual	Q1 2006 Actual	Q2 2006 Actual	Q3 2006 Actual	Q4 2006 DB Estimates	YoY Growth
Total sales	2,361	2,569	2,576	2,576	2,370	2,612	2,583	2,700	4.8%
EBITDA margin	1,306 55.3%	1,328 51.7%	1,291 50.1%	1,176 45.7%	1,269 53.5%	1,301 49.8%	1,305 50.5%	1,215 45.0%	3.3%

Source: Deutsche Bank

**Figure 175: International quarterly figures TIM - Euro m - Organic**

	Q1 2005 Actual	Q2 2005 Actual	Q3 2005 Actual	Q4 2005 Actual	Q1 2006 Actual '(1)	Q2 2006 Actual	Q3 2006 Actual	Q4 2006 DB Estimates	YoY Growth
Total sales	544	676	747	924	836	886	1,070	1,010	9.3%
EBITDA margin	87 16.0%	88 13.0%	116 15.5%	181 19.6%	184 22.0%	173 19.5%	250 23.4%	253 25.1%	39.8%

Source: Deutsche Bank

**Figure 176: Wireline KPIs - broadband Net Adds**

	2004	2005	Q1-06	Q2-06	Q3-06	2006E	2007E	2008E	2009E	2010E
TI wholesale	102,000	56,000	134,000	47,000	4,000	40,000	50,000	30,000	20,000	10,000
TI retail	608,000	778,000	141,000	237,000	187,000	270,000	700,000	700,000	700,000	400,000
<b>Total TI</b>	<b>710,000</b>	<b>834,000</b>	<b>275,000</b>	<b>284,000</b>	<b>191,000</b>	<b>310,000</b>	<b>750,000</b>	<b>730,000</b>	<b>720,000</b>	<b>410,000</b>
<b>Fastweb</b>	<b>39,410</b>	<b>70,426</b>	<b>79,274</b>	<b>80,600</b>	<b>83,100</b>	<b>105,002</b>	<b>347,404</b>	<b>282,727</b>	<b>238,299</b>	<b>110,749</b>
Wind ULL	-28,000	24,500	49,000	49,000	11,000	42,000	281,000	247,000	247,000	247,000
Wind wholesale from TI	103,000	13,000	11,000	-8,000	0	-3,000	15,000	10,000	0	0
Wind shared access	18,000	4,000	1,000	1,000	0	1,000	3,000	3,000	3,000	3,000
<b>Total Wind</b>	<b>93,000</b>	<b>49,000</b>	<b>55,000</b>	<b>42,000</b>	<b>11,000</b>	<b>40,000</b>	<b>299,000</b>	<b>260,000</b>	<b>250,000</b>	<b>250,000</b>
Tiscali ULL*	38,562	43,912	39,000	10,000	25,600	20,000	154,600	108,220	81,165	60,874
Tiscali - wholesale from TI	-69,911	1,324	9,000	24,000	-2,000	20,000	60,000	55,000	50,000	45,000
Tiscali shared access	0	0	0	0	0	0	0	0	0	0
<b>Total Tiscali</b>	<b>-31,349</b>	<b>45,236</b>	<b>48,000</b>	<b>34,000</b>	<b>23,600</b>	<b>40,000</b>	<b>214,600</b>	<b>163,220</b>	<b>131,165</b>	<b>105,874</b>
Eutelia ULL	15,008	2,792	0	0	0	0	0	0	0	0
Eutelia - wholesale from TI	12,996	654	4,000	3,700	1,400	2,250	10,000	0	0	0
Eutelia shared access	12,996	654	4,000	3,700	1,300	2,250	11,250	10,688	10,153	9,645
<b>Total Eutelia</b>	<b>41,000</b>	<b>4,100</b>	<b>8,000</b>	<b>7,400</b>	<b>2,700</b>	<b>4,500</b>	<b>21,250</b>	<b>10,688</b>	<b>10,153</b>	<b>9,645</b>
Others ULL	3000	21,000	8,000	0	-10,000	0	20,000	18,000	50,000	30,000
Others wholesale from TI	55,915	41,022	110,000	27,300	4,600	20,750	-35,000	-35,000	-30,000	-35,000
Others shared access	0	0	21,000	15,000	0	0	30,000	25,000	20,000	10,000
<b>Total Others</b>	<b>58,915</b>	<b>62,022</b>	<b>139,000</b>	<b>42,300</b>	<b>-5,400</b>	<b>20,750</b>	<b>15,000</b>	<b>8,000</b>	<b>40,000</b>	<b>5,000</b>
<b>Tot</b>	<b>808,976</b>	<b>1,008,784</b>	<b>470,274</b>	<b>443,300</b>	<b>302,000</b>	<b>480,252</b>	<b>1,597,254</b>	<b>1,424,635</b>	<b>1,369,617</b>	<b>881,268</b>

Source: Deutsche Bank



**Figure 177: Wireline KPIs – Broadband market Share of Net Adds**

	2004	2005	Q1-06	Q2-06	Q3-06	2006E	2007E	2008E	2009E	2010E
TI wholesale	12.6%	5.6%	28.5%	10.6%	1.3%	8.3%	3.1%	2.1%	1.5%	1.1%
TI retail	75.2%	77.1%	30.0%	53.5%	61.9%	56.2%	43.8%	49.1%	51.1%	45.4%
<b>Total TI</b>	<b>87.8%</b>	<b>82.7%</b>	<b>58.5%</b>	<b>64.1%</b>	<b>63.2%</b>	<b>64.5%</b>	<b>47.0%</b>	<b>51.2%</b>	<b>52.6%</b>	<b>46.5%</b>
<b>Fastweb</b>	<b>4.9%</b>	<b>7.0%</b>	<b>16.9%</b>	<b>18.2%</b>	<b>27.5%</b>	<b>21.9%</b>	<b>21.8%</b>	<b>19.8%</b>	<b>17.4%</b>	<b>12.6%</b>
Wind ULL	-3.5%	2.4%	10.4%	11.1%	3.6%	8.7%	17.6%	17.3%	18.0%	28.0%
Wind wholesale from TI	12.7%	1.3%	2.3%	-1.8%	0.0%	-0.6%	0.9%	0.7%	0.0%	0.0%
Wind shared access	2.2%	0.4%	0.2%	0.2%	0.0%	0.2%	0.2%	0.2%	0.2%	0.3%
<b>Total Wind</b>	<b>11.5%</b>	<b>4.9%</b>	<b>11.7%</b>	<b>9.5%</b>	<b>3.6%</b>	<b>8.3%</b>	<b>18.7%</b>	<b>18.3%</b>	<b>18.3%</b>	<b>28.4%</b>
Tiscali ULL	4.8%	4.4%	8.3%	2.3%	8.5%	4.2%	9.7%	7.6%	5.9%	6.9%
Tiscali - wholesale from TI	-8.6%	0.1%	1.9%	5.4%	-0.7%	4.2%	3.8%	3.9%	3.7%	5.1%
Tiscali shared access	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Tiscali</b>	<b>-3.9%</b>	<b>4.5%</b>	<b>10.2%</b>	<b>7.7%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>13.4%</b>	<b>11.5%</b>	<b>9.6%</b>	<b>12.0%</b>
Eutelia ULL	1.9%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Eutelia - wholesale from TI	1.6%	0.1%	0.9%	0.8%	0.5%	0.5%	0.6%	0.0%	0.0%	0.0%
Eutelia shared access	1.6%	0.1%	0.9%	0.8%	0.4%	0.5%	0.7%	0.8%	0.7%	1.1%
<b>Total Eutelia</b>	<b>5.1%</b>	<b>0.4%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>0.8%</b>	<b>0.7%</b>	<b>1.1%</b>
Others ULL	0.4%	2.1%	1.7%	0.0%	-3.3%	0.0%	1.3%	1.3%	3.7%	3.4%
Others wholesale from TI	6.9%	4.1%	23.4%	6.2%	1.5%	4.3%	-2.2%	-2.5%	-2.2%	-4.0%
Others shared access	0.0%	0.0%	4.5%	3.4%	0.0%	0.0%	1.9%	1.8%	1.5%	1.1%
<b>Total Others</b>	<b>7.3%</b>	<b>6.1%</b>	<b>29.6%</b>	<b>9.5%</b>	<b>-1.8%</b>	<b>4.3%</b>	<b>0.9%</b>	<b>0.6%</b>	<b>2.9%</b>	<b>0.6%</b>
<b>Tot</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Deutsche Bank

**Figure 178: Wireline KPIs – Broadband Year end subscribers**

	2004	2005	Q1-06	Q2-06	Q3-06	2006E	2007E	2008E	2009E	2010E
TI wholesale	614,000	890,000	1,024,000	1,071,000	1,075,000	1,115,000	1,165,000	1,195,000	1,215,000	1,225,000
TI retail	3,396,000	4,817,000	4,958,000	5,195,000	5,382,000	5,652,000	6,352,000	7,052,000	7,752,000	8,152,000
<b>Total TI</b>	<b>4,010,000</b>	<b>5,707,000</b>	<b>5,982,000</b>	<b>6,266,000</b>	<b>6,457,000</b>	<b>6,767,000</b>	<b>7,517,000</b>	<b>8,247,000</b>	<b>8,967,000</b>	<b>9,377,000</b>
<b>Total Fastweb</b>	<b>496,000</b>	<b>714,426</b>	<b>793,700</b>	<b>874,300</b>	<b>957,400</b>	<b>1,062,402</b>	<b>1,409,805</b>	<b>1,692,532</b>	<b>1,930,831</b>	<b>2,041,580</b>
Wind ULL	101,000	187,974	236,974	285,974	296,974	338,974	619,974	866,974	1,113,974	1,360,974
Wind wholesale from TI	230,000	365,000	376,000	368,000	368,000	365,000	380,000	390,000	390,000	390,000
Wind shared access	18,000	44,000	45,000	46,000	46,000	47,000	50,000	53,000	56,000	59,000
<b>Total Wind</b>	<b>349,000</b>	<b>602,974</b>	<b>657,974</b>	<b>699,974</b>	<b>710,974</b>	<b>750,974</b>	<b>1,049,974</b>	<b>1,309,974</b>	<b>1,559,974</b>	<b>1,809,974</b>
Tiscali ULL*	38,562	104,248	143,248	153,248	178,848	198,848	353,448	461,668	542,833	603,707
Tiscali - wholesale from TI	132,089	198,308	207,308	231,308	229,308	249,308	309,308	364,308	414,308	459,308
Tiscali shared access	0	0	0	0	0	0	0	0	0	0
<b>Total Tiscali</b>	<b>170,651</b>	<b>302,556</b>	<b>350,556</b>	<b>384,556</b>	<b>408,156</b>	<b>448,156</b>	<b>662,756</b>	<b>825,976</b>	<b>957,141</b>	<b>1,063,015</b>
Eutelia ULL	15,008	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Eutelia - wholesale from TI	12,996	19,050	23,050	26,750	28,150	30,400	40,400	40,400	40,400	40,400
Eutelia shared access	12,996	19,050	23,050	26,750	28,050	30,300	41,550	52,238	62,391	72,036
<b>Total Eutelia</b>	<b>41,000</b>	<b>60,100</b>	<b>68,100</b>	<b>75,500</b>	<b>78,200</b>	<b>82,700</b>	<b>103,950</b>	<b>114,638</b>	<b>124,791</b>	<b>134,436</b>
Others ULL	3,000	37,000	45,000	45,000	35,000	35,000	55,000	73,000	123,000	153,000
Others wholesale from TI	238,915	307,642	417,642	444,942	449,542	470,292	435,292	400,292	370,292	335,292
Others shared access	0	0	21,000	36,000	36,000	36,000	66,000	91,000	111,000	121,000
<b>Total Others</b>	<b>241,915</b>	<b>344,642</b>	<b>483,642</b>	<b>525,942</b>	<b>520,542</b>	<b>541,292</b>	<b>556,292</b>	<b>564,292</b>	<b>604,292</b>	<b>609,292</b>
<b>Total</b>	<b>4,694,566</b>	<b>6,841,698</b>	<b>7,311,972</b>	<b>7,755,272</b>	<b>8,057,272</b>	<b>8,537,524</b>	<b>10,134,777</b>	<b>11,559,412</b>	<b>12,929,029</b>	<b>13,810,297</b>
<b>QoQ Growth</b>	<b>20.8%</b>	<b>17.3%</b>	<b>6.9%</b>	<b>6.1%</b>	<b>3.9%</b>	<b>6.0%</b>	<b>18.7%</b>	<b>14.1%</b>	<b>11.8%</b>	<b>6.8%</b>
<b>Penetration on population</b>	<b>8.0%</b>	<b>11.7%</b>	<b>12.5%</b>	<b>13.2%</b>	<b>13.7%</b>	<b>14.5%</b>	<b>17.2%</b>	<b>19.7%</b>	<b>22.0%</b>	<b>23.4%</b>
<b>Penetration on access line</b>	<b>17.4%</b>	<b>25.9%</b>	<b>27.6%</b>	<b>29.5%</b>	<b>30.7%</b>	<b>32.5%</b>	<b>38.8%</b>	<b>44.5%</b>	<b>50.1%</b>	<b>53.9%</b>

Source: Deutsche Bank

**Figure 179: Wireline KPIs – Broadband - Market Shares retail market**

	2004	2005	Q1-06	Q2-06	Q3-06	2006E	2007E	2008E	2009E	2010E
TI retail	72.3%	70.4%	67.8%	67.0%	66.8%	66.2%	62.7%	61.0%	60.0%	59.0%
Fastweb	10.6%	10.4%	10.9%	11.3%	11.9%	12.4%	13.9%	14.6%	14.9%	14.8%
Total Wind	7.4%	8.8%	9.0%	9.0%	8.8%	8.8%	10.4%	11.3%	12.1%	13.1%
Total Tiscali	3.6%	4.4%	4.8%	5.0%	5.1%	5.2%	6.5%	7.1%	7.4%	7.7%
Total Eutelia	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Others	5.2%	5.0%	6.6%	6.8%	6.5%	6.3%	5.5%	4.9%	4.7%	4.4%

Source: Deutsche Bank

**Figure 180: Wireline KPIs - Year-end ULL**

	2004	2005	Q1-06	Q2-06	Q3-06	2006E	2007E	2008E	2009E	2010E
Fastweb (net of fibre)	296,560	435,966	490,208	541,806	594,283	665,073	1,055,066	1,292,933	1,494,324	1,596,201
Wind broadband	101,000	187,974	236,974	285,974	296,974	338,974	619,974	866,974	1,113,974	1,360,974
Wind narrowband	324,871	408,071	436,071	463,071	476,071	601,071	600,071	613,071	626,071	619,071
Total Tiscali	38,562	26,062	35,812	35,247	35,770	49,712	88,362	115,417	135,708	150,927
Total Eutelia	15,008	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Total Others including narrowband	3,000	37,000	45,000	45,000	74,882	74,882	94,882	112,882	162,882	192,882
<b>Total</b>	<b>779,001</b>	<b>1,117,073</b>	<b>1,266,065</b>	<b>1,393,098</b>	<b>1,499,980</b>	<b>1,751,712</b>	<b>2,480,355</b>	<b>3,023,276</b>	<b>3,554,959</b>	<b>3,942,054</b>
<b>Fastweb Fiber</b>	<b>199,440</b>	<b>278,460</b>	<b>303,492</b>	<b>332,494</b>	<b>363,117</b>	<b>397,329</b>	<b>405,238</b>	<b>410,724</b>	<b>411,489</b>	<b>412,763</b>
<b>Total lines to Altnets</b>	<b>978,441</b>	<b>1,395,533</b>	<b>1,569,557</b>	<b>1,725,592</b>	<b>1,863,097</b>	<b>2,149,041</b>	<b>2,885,594</b>	<b>3,434,001</b>	<b>3,966,448</b>	<b>4,354,817</b>
<b>Additional line loss</b>			<b>200,000</b>	<b>200,000</b>	<b>220,000</b>	<b>242,000</b>	<b>363,000</b>	<b>508,200</b>	<b>660,660</b>	<b>858,858</b>
<b>Lines remaining to T.I.</b>	<b>25,957,000</b>	<b>25,049,000</b>	<b>24,904,000</b>	<b>24,547,965</b>	<b>24,390,460</b>	<b>24,082,516</b>	<b>23,224,963</b>	<b>22,531,356</b>	<b>21,846,449</b>	<b>21,259,882</b>
<b>T.I. market share of access</b>	<b>96%</b>	<b>95%</b>	<b>94%</b>	<b>93%</b>	<b>93%</b>	<b>92%</b>	<b>89%</b>	<b>87%</b>	<b>85%</b>	<b>83%</b>

Source: Deutsche Bank

**Figure 181: T.I. Q4-2006 Consolidated P & L (Euro m) - Reported and Organic**

	Q4 2005 Actual	Q4 2006 Estimate	YoY Growth (%)
Total sales	7,987	8,140	1.9%
<b>EBITDA</b>	<b>2,819</b>	<b>3,098</b>	<b>9.9%</b>
<b>EBITDA margin</b>	<b>35.3%</b>	<b>38.1%</b>	
<b>EBIT</b>	<b>1,614</b>	<b>1,840</b>	<b>14.0%</b>
<b>EBIT margin</b>	<b>20.2%</b>	<b>22.6%</b>	
Financial charges	-591	-750	27.0%
Pre-tax profit	1,023	1,090	6.5%
Taxes	-440	-638	45.0%
Minorities	-43	-51	18.0%
Discontinued operations	54	44	n.m.
<b>Net profit</b>	<b>594</b>	<b>445</b>	<b>-25.0%</b>
<b>Adjusted EBITDA</b>	<b>3,186</b>	<b>3,124</b>	<b>-1.9%</b>
<b>Adjusted EBIT</b>	<b>1,759</b>	<b>1,843</b>	<b>4.8%</b>

Source: Deutsche Bank

**Valuation: Euro 2.25 for the ordinaries and Euro 2 for savers**

We use a WACC is 8% in mobile and 7% wireline in line with what we use for European peers; g is +0.5% and 0% respectively, again in line. We changed wireline g from -1% to 0% in order to reflect expected benefits coming from the NGN CAPEX plan that is expected to come post-2010. We apply a 10% discount of savers vs. ordinaries as we believe the discount should narrow by March when we expect dividend announcement to be made and dividend to be kept in line with 2005. WACC is relatively low in wireline (7%) because of the low cost of debt (5% gross of 33% tax rate) and the high proportion of debt (60%).

**Figure 182: Telecom Italia 2007 sum of the parts**

	Valuation	Implied EV/EBITDA x 2006E
Tim domestic - 100% - WACC 8%, fade model, implied g=0.5%	30,818	6.1
Tim Brazil - market value	5,030	12.7
T.I. Wire line - WACC 7%, g=0%	36,972	5.8
Other (real estate, Cuba, Italtel, Mediobanca, European broadband)	4,597	
Tax credits from Olivetti	0	
Total equity value	77,417	
Conversion of bonds	479	
Net debt 2007E	-35,338	
<b>Total fully diluted equity value / mkt cap</b>	<b>42,559</b>	
<b>Fully diluted value per ordinary share of T.I. - Euro</b>	<b>2.24</b>	
<b>Fully diluted value per saving share - Euro</b>	<b>2.01</b>	
<b>Discount</b>	<b>-10%</b>	
<b>Upside ords.</b>	<b>-5%</b>	
<b>Upside sav.</b>	<b>1%</b>	
<b>Total return ordinaries</b>	<b>1%</b>	
<b>Total return savings</b>	<b>8%</b>	

Source: Deutsche Bank

**Risks**

Key downside risk is competition increasing beyond our estimates especially in the broadband space and the uncertainty over the development of MVNOs. Any upside should come from a potential change in control, although we believe it will happen at the Olimpia level and from the outcome of the Regulator's decision on potential network separation.

**Figure 183: Multiples**

TI ORD price	2.359						
TI SAV price	1.997						
Discount SAV/ORD	-15.3%						
New TI implied market cap - ord	31,566						
New TI implied market cap - sav	12,034						
<b>New TI implied market cap</b>	<b>43,600</b>						
	<b>2004</b>	<b>2005</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net debt	32,862	39,868	37,994	35,338	34,465	33,118	31,585
IFRS adjusted net debt	36,162	39,868	37,994	35,338	34,465	33,118	31,585
IFRS adjusted EV	79,762	83,467	81,594	78,937	78,064	76,718	75,184
<b>Clean EBITDA</b>	<b>12,853</b>	<b>12,994</b>	<b>13,042</b>	<b>13,255</b>	<b>13,339</b>	<b>13,442</b>	<b>13,626</b>
IFRS adjusted debt/EBITDA	2.8	3.1	2.9	2.7	2.6	2.5	2.3
S&P adjusted debt/EBITDA	3.0	3.3	3.1	2.9	2.8	2.6	2.5
Adj Earnings	3,408	3,421	2,792	2,860	3,060	3,162	3,423
EPS (2004 pro-forma)	0.224	0.176	0.144	0.147	0.158	0.163	0.176
EPS growth	-14%	-21%	-18%	2%	7%	3%	8%
IFRS adjusted FCF (EBITDA-CAPEX)	7,525	7,802	8,227	8,385	8,336	8,674	8,686
<b>IFRS adjusted FCF (EBITDA-CAPEX-FIN. CH.-TAX)</b>	<b>4,129</b>	<b>4,492</b>	<b>4,717</b>	<b>5,266</b>	<b>3,702</b>	<b>4,086</b>	<b>4,207</b>
IFRS Adj. FCF - exclud. fiscal sav.	2,875	3,398	3,524	3,653	3,702	4,086	4,207
IFRS adj. FCF yield blended	9.5%	10.3%	10.8%	12.1%	8.5%	9.4%	9.6%
Free cash flow yield excluding fiscal benefits	6.6%	7.8%	8.1%	8.4%	8.5%	9.4%	9.6%
<b>IFRS-adjusted FCF yield ORD</b>	<b>9.0%</b>	<b>9.8%</b>	<b>10.3%</b>	<b>11.5%</b>	<b>8.1%</b>	<b>8.9%</b>	<b>9.2%</b>
Dividend yields ORD	4.6%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
Dividend yields SAV	6.0%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
<b>IFRS-adjusted EV/EBITDA</b>	<b>6.2</b>	<b>6.4</b>	<b>6.3</b>	<b>6.0</b>	<b>5.9</b>	<b>5.7</b>	<b>5.5</b>
<b>P/E blended</b>	<b>12.8</b>	<b>12.7</b>	<b>15.6</b>	<b>15.2</b>	<b>14.2</b>	<b>13.8</b>	<b>12.7</b>
<b>P/E ORD</b>	<b>10.5</b>	<b>13.4</b>	<b>16.4</b>	<b>16.0</b>	<b>15.0</b>	<b>14.5</b>	<b>13.4</b>
<b>EV/FCF (EBITDA-CAPEX)</b>	<b>10.2</b>	<b>10.7</b>	<b>9.9</b>	<b>9.4</b>	<b>9.4</b>	<b>8.8</b>	<b>8.7</b>
<b>Unlevered free cf yield</b>	<b>7.7%</b>	<b>7.8%</b>	<b>8.5%</b>	<b>9.4%</b>	<b>7.3%</b>	<b>7.8%</b>	<b>8.0%</b>
<b>European sector average multiples</b>							
Free cash flow yield	9.8%	9.3%	6.9%	8.4%	8.6%		
EV/EBITDA	5.7	6.4	6.9	6.7	6.3	6.0	
P/E	15.9	15.5	16.0	16.1	13.8	13.4	
Unlevered free cf yield	7.9%	8.3%	6.1%	7.1%	7.4%		
<b>New TI's implied discount to sector's multiples</b>							
Free cash flow yield	3%	-11%	-56%	-44%	1%		
IFRS-adjusted FCF yield ORD	8%	-6%	-48%	-37%	6%		
IFRS-adjusted EV/EBITDA	9%	0%	-9%	-11%	-8%		
P/E	-20%	-18%	-3%	-5%	3%		
P/E ORD	-34%	-14%	2%	0%	8%		
Unlevered free cf yield	3%	6%	-39%	-32%	1%		

Source: Deutsche Bank

Europe Spain  
Telecommunications Wireline Services

# Telefónica

Reuters: **TEF.MC** Bloomberg: **TEF SQ**

## Completing a solid year – all about the outlook

### Full Year 2006 results on 1 March 2007

In addition to the announcement of the 2006 dividend (which could be confirmed at around Euro 0.6) we will be focusing on the guidance outlook, especially in the domestic assets where competition has intensified in both the wireless and wireline division in Q4. Internationally the outlook for the UK and Germany business and the expected cost of developing a broadband strategy will be interesting.

Although Q4 completes a solid year for Telefónica it should be noted that our targets imply 30.9% revenue growth (down from 34.8% for Q3) and only 2.7% EBITDA growth as Telefónica de España accelerated the provision of its 2007 headcount reduction targets – we expect a total Q4 provision of Euro 528m. At O2 we assume 17.6% service revenue growth in Q4 in the UK but only 6.9% in Germany. At TdE we assume only 0.9% growth (the weakest in the year) and at TEM España we target 4.5% growth.

### Investment case – As good as it gets?

Our thesis assumes TEF's domestic businesses face incremental challenges in 2007 (a reinvigorated Orange, launch of MVNOs and Xfera, and increased line losses as unbundling gathers pace). A deferral of these trends leads to positive consequences. We are also concerned about developments in Germany where O2 has struggled in 2006 in the face of E-Plus challenger strategy. Recent capex increase significant a declining return outlook for the company.

### Valuation and risks: Target Euro 14.4; Weak Hold

Our sotp target and dividend assumption of Euro 0.6 offers a total return of -10%. For positive risks we are continually surprised by the pace of emerging market mobile growth, which could drive further upgrades to TEM in Latam. On the downside, Telefónica's M&A framework (Euro 1.5bn net) is potentially restricting the company's long term strategic position and ambitions in Brazil.

### Forecasts and ratios

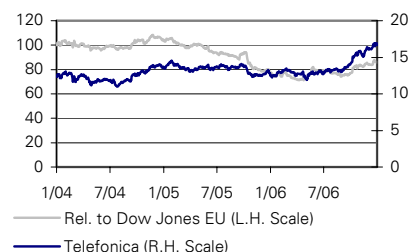
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	30,322	37,882	<b>52,291</b>	54,376	55,504
EBITDA (EURm)	13,240	15,276	<b>19,461</b>	19,396	20,949
EBITA (EURm)	7,260	8,559	<b>9,784</b>	9,297	11,379
PBT DB (EURm)	5,612	6,796	<b>7,082</b>	6,071	8,361
PBT stated (EURm)	5,612	6,796	<b>7,082</b>	6,071	8,361
DB EPS (EUR)	0.69	0.91	<b>1.30</b>	0.83	1.21
DB EPS growth (%)	80.9	31.2	<b>43.0</b>	-36.0	45.6
P/E (DB EPS) (x)	17.7	14.9	<b>12.9</b>	20.1	13.8
EV/EBITDA (x)	7.0	6.2	<b>6.9</b>	6.7	6.1
EV/EBITA (x)	12.7	11.0	<b>13.7</b>	14.0	11.2
DPS (EUR)	0.50	0.25	<b>0.60</b>	0.60	0.65
Yield (%)	4.1	1.9	<b>3.6</b>	3.6	3.9

Source: Deutsche Bank estimates, company data

### Hold

Price at 17 Jan 2007 (EUR)	<b>16.70</b>
Price Target (EUR)	<b>14.40</b>
52-week range (EUR)	<b>16.95 - 11.92</b>

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.5	19.3	31.0
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>81,568.6</b>
Shares outstanding (m)	<b>4,790</b>
Free float (%)	<b>100</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>105,618</b>

### Key indicators

ROE (%)	<b>44.8</b>
ROC	<b>9.4</b>
Net debt/equity	<b>308.4</b>
Book value/share (EUR)	<b>3.1</b>
Price/book	<b>5.4</b>
Net interest cover	<b>3.5</b>
EBITDA margin	<b>37.2</b>
EBIT margin	<b>18.7</b>

### FY 2005 results

Results date	1 March 2007
Time of release	Before market opens
Company conference call time	15:00 (GMT)
Dial in From Europe/outside USA:	+44 (0)207 162 0125
From USA:	+1 334 323 6203
Pin code	Telefónica
Webcast	<a href="http://www.telefonica.es/investors/">http://www.telefonica.es/investors/</a>
Replay no	N/A
Pin code	N/A

### Recent research

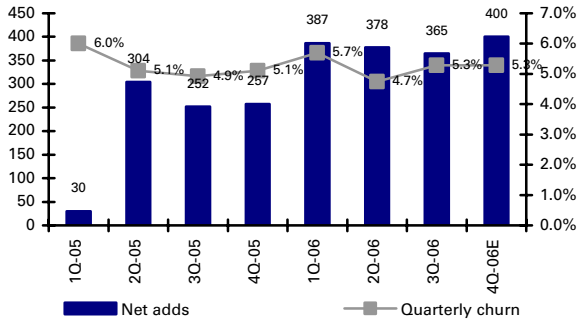
Est. revision reflecting capex increases and other one-offs	25 January
Increasing capex; lowering returns	16 January
Target increased to E14.6; Hold	8 January

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## Results outlook – Index of figures

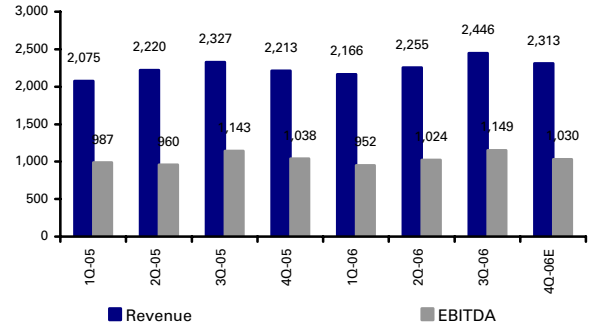
- Figure 184: TEM España customer growth and quarterly churn
- Figure 185: TEM España revenue and EBITDA (Euro m)
- Figure 186: TEM España revenue and EBITDA growth rates
- Figure 187: TEM España EBITDA margins
- Figure 188: Vivo revenue and EBITDA (Euro m)
- Figure 189: Vivo EBITDA margins
- Figure 190: TEM Venezuela revenue and EBITDA (Euro m)
- Figure 191: TEM Mexico revenue and EBITDA (Euro m)
- Figure 192: TEM group revenue growth
- Figure 193: TEM Group EBITDA growth
- Figure 194: TdE access line and DSL net additions (000)
- Figure 195: TdE traffic volume trends
- Figure 196: TdE operating cash flow margins
- Figure 197: TdE employee curtailment costs (Euro m)
- Figure 198: TdE EBITDA margins and change
- Figure 199: TdE revenue and EBITDA growth
- Figure 200: Telesp access line and DSL net additions and churn
- Figure 201: Telesp revenue and EBITDA (Real m)
- Figure 202: O2 Germany and UK customers (000)
- Figure 203: O2 Germany (Euro) and UK ARPU (£)
- Figure 204: O2 Germany and UK revenue trends (Euro m)
- Figure 205: O2 Germany and UK EBITDA trends (Euro m)
- Figure 206: O2 Germany and UK revenue growth (Euro)
- Figure 207: O2 Germany and UK EBITDA growth (Euro)
- Figure 208: O2 Germany and UK EBITDA margins
- Figure 209: Telefónica net debt (Euro m)
- Figure 210: Telefónica revenue mix
- Figure 211: Telefónica EBITDA mix
- Figure 212: Telefónica revenue growth
- Figure 213: Telefónica EBITDA growth

**Figure 184: TEM España customer growth and quarterly churn**



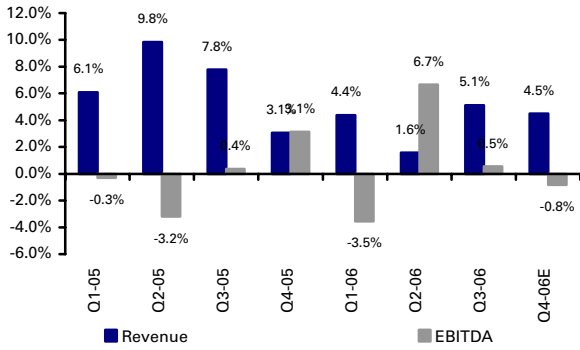
Source: Deutsche Bank estimates and company data

**Figure 185: TEM España revenue and EBITDA (Euro m)**



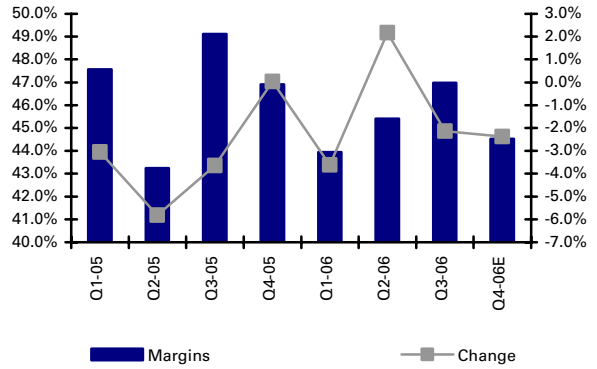
Source: Deutsche Bank estimates and company data

**Figure 186: TEM España revenue and EBITDA growth rates**



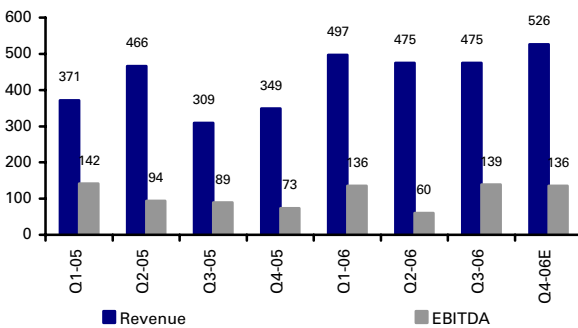
Source: Deutsche Bank estimates and company data

**Figure 187: TEM España EBITDA margins**



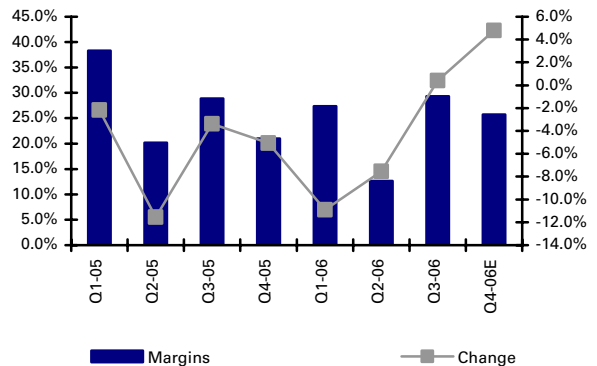
Source: Deutsche Bank estimates and company data

**Figure 188: Vivo revenue and EBITDA (Euro m)**



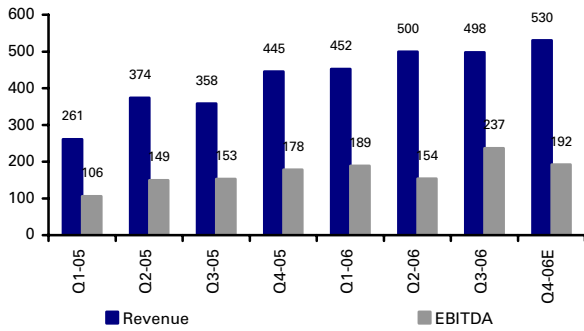
Source: Company data and DB estimates

**Figure 189: Vivo EBITDA margins**



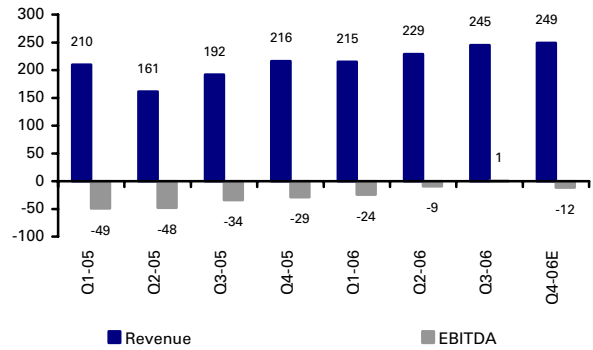
Source: Deutsche Bank estimates and company data

**Figure 190: TEM Venezuela revenue and EBITDA (Euro m)**



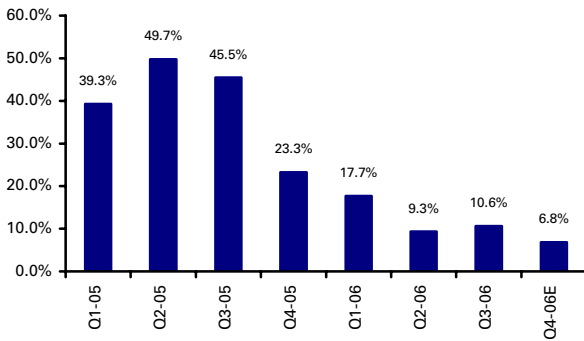
Source: Deutsche Bank estimates and company data

**Figure 191: TEM Mexico revenue and EBITDA (Euro m)**



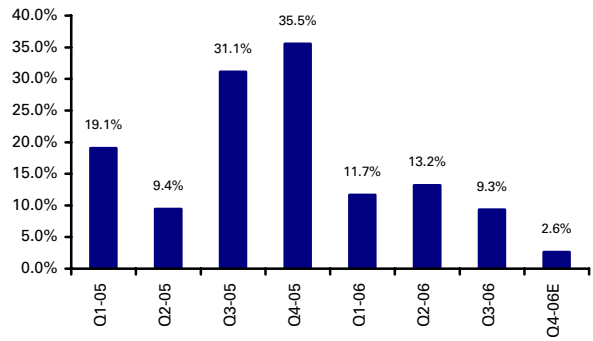
Source: Deutsche Bank estimates and company data

**Figure 192: TEM group revenue growth**



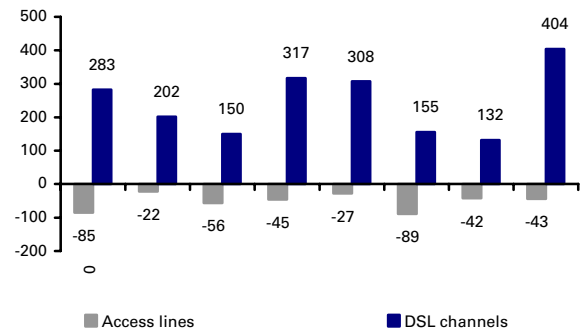
Source: Deutsche Bank estimates and company data

**Figure 193: TEM Group EBITDA growth**



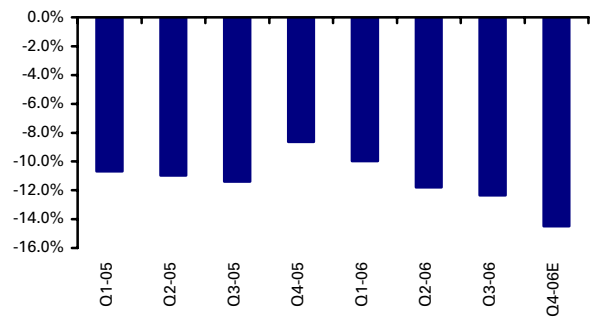
Source: Deutsche Bank estimates and company data

**Figure 194: TdE access line and DSL net additions (000)**



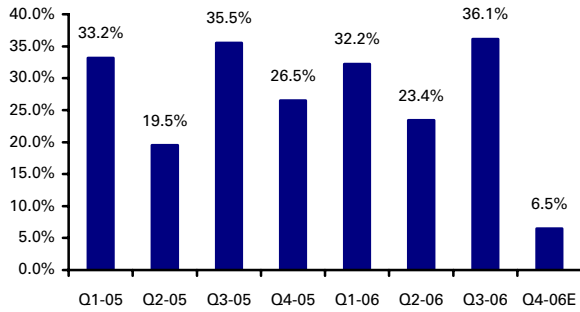
Source: Deutsche Bank estimates and company data

**Figure 195: TdE traffic volume trends**



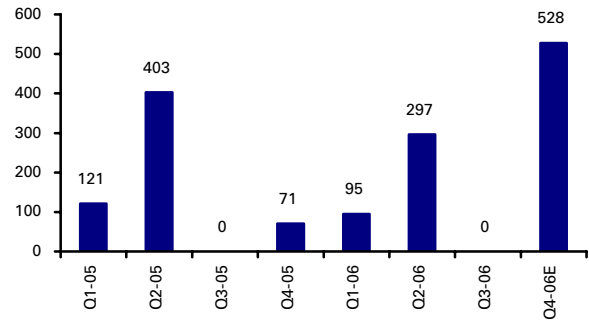
Source: Deutsche Bank estimates and company data

**Figure 196: TdE operating cash flow margins**



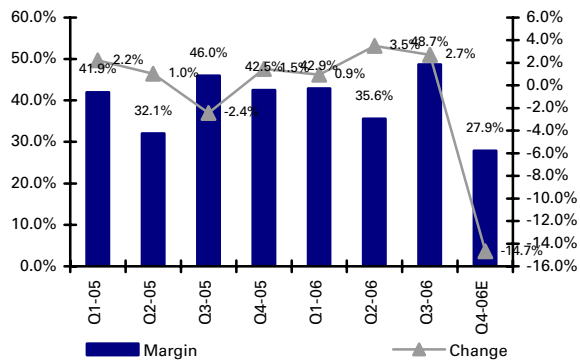
Source: Deutsche Bank estimates and company data

**Figure 197: TdE employee curtailment costs (Euro m)**



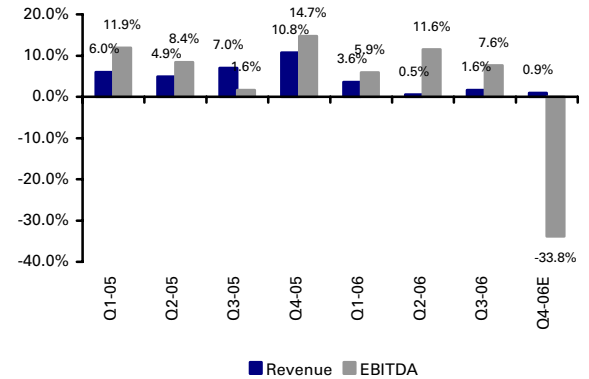
Source: Deutsche Bank estimates and company data

**Figure 198: TdE EBITDA margins and change**



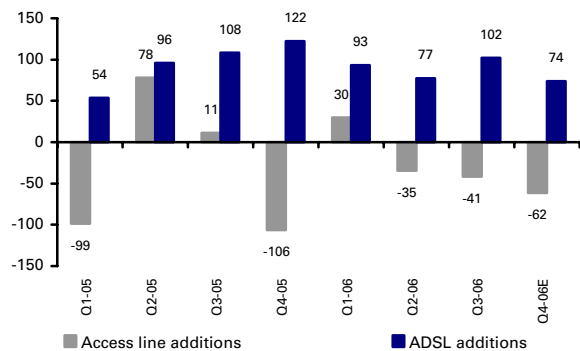
Source: Company data and DB estimates

**Figure 199: TdE revenue and EBITDA growth**



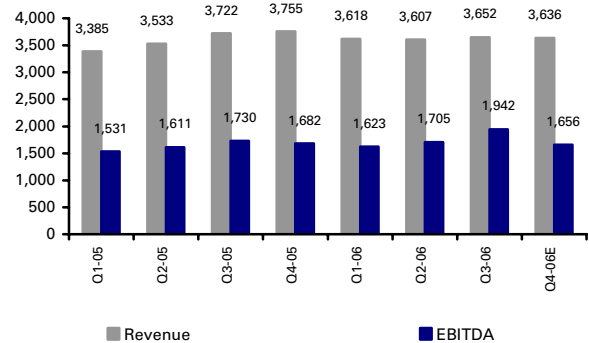
Source: Deutsche Bank estimates and company data

**Figure 200: Telesp access line and DSL net additions and churn**



Source: Deutsche Bank estimates and company data

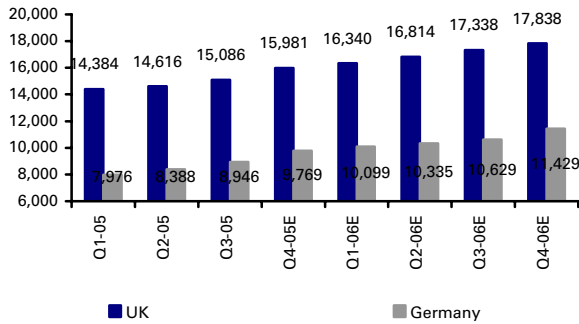
**Figure 201: Telesp revenue and EBITDA (Real m)**



Source: Deutsche Bank estimates and company data

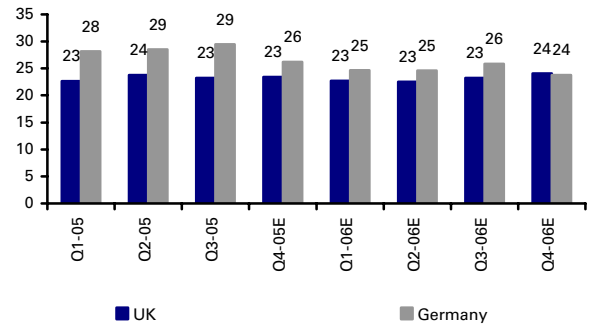


**Figure 202: O2 Germany and UK customers (000)**



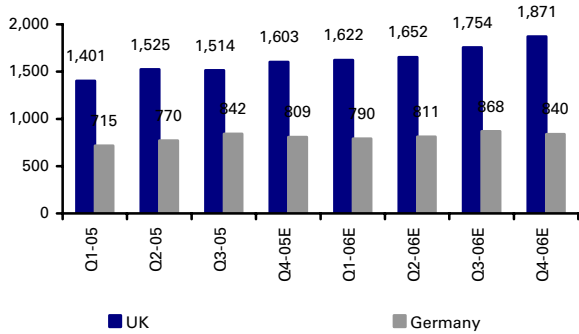
Source: Deutsche Bank estimates and company data

**Figure 203: O2 Germany (Euro) and UK ARPU (£)**



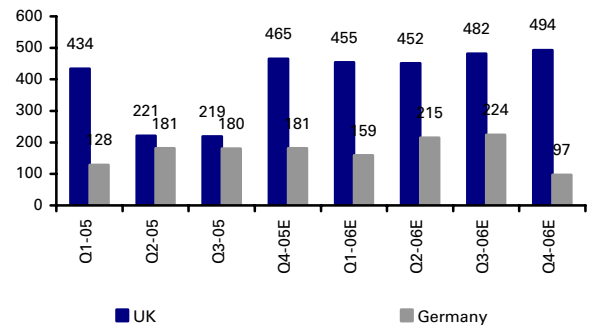
Source: Deutsche Bank estimates and company data

**Figure 204: O2 Germany and UK revenue trends (Euro m)**



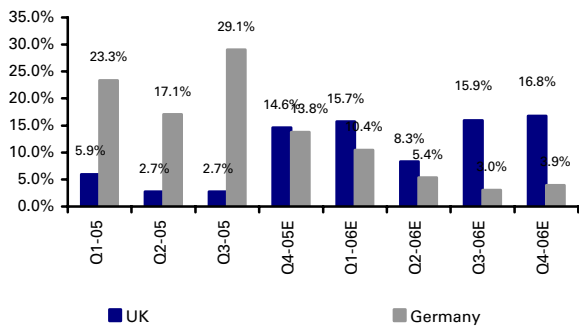
Source: Deutsche Bank estimates and company data

**Figure 205: O2 Germany and UK EBITDA trends (Euro m)**



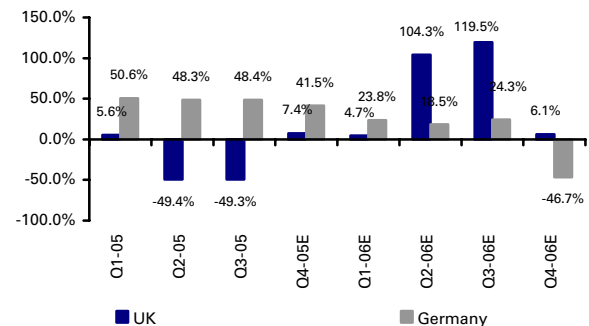
Source: Deutsche Bank estimates and company data

**Figure 206: O2 Germany and UK revenue growth (Euro)**



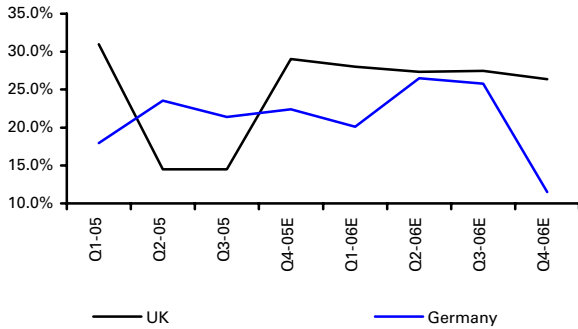
Source: Deutsche Bank estimates and company data

**Figure 207: O2 Germany and UK EBITDA growth (Euro)**



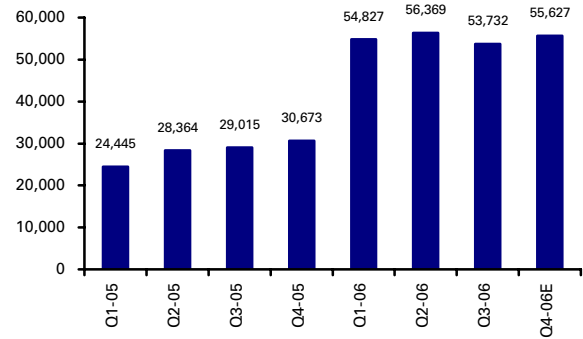
Source: Deutsche Bank estimates and company data

**Figure 208: O2 Germany and UK EBITDA margins**



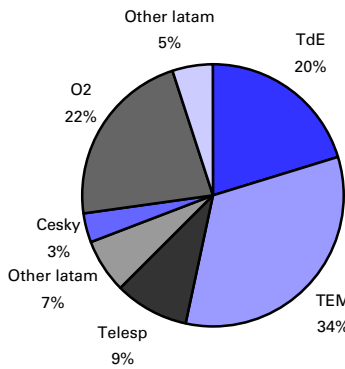
Source: Deutsche Bank estimates and company data

**Figure 209: Telefónica net debt (Euro m)**



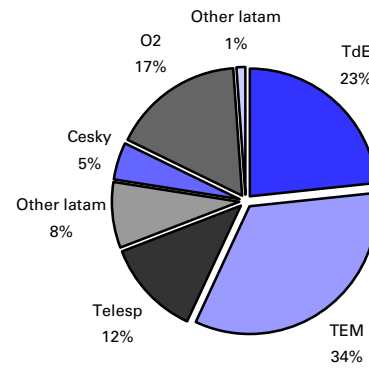
Source: Deutsche Bank estimates and company data

**Figure 210: Telefónica revenue mix (2007E)**



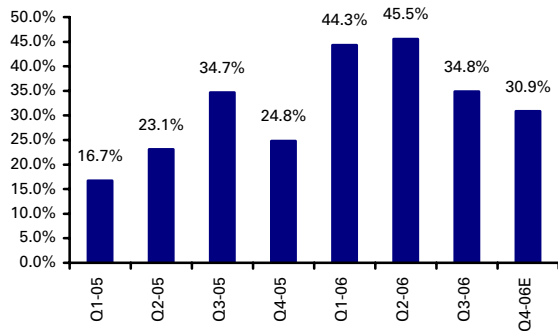
Source: Deutsche Bank estimates and company data

**Figure 211: Telefónica EBITDA mix (2007E)**



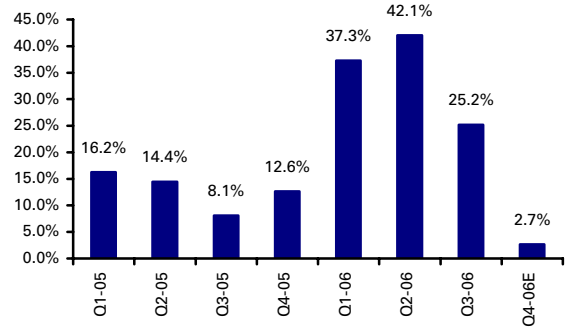
Source: Deutsche Bank estimates and company data

**Figure 212: Telefónica revenue growth**



Source: Deutsche Bank estimates and company data

**Figure 213: Telefónica EBITDA growth**



Source: Deutsche Bank estimates and company data

**Figure 214: Telefónica summary results outlook (Euro m)**

	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
Net revenue	30,322	37,314	11,946	13,217	13,542	13,716	52,420	40.5%	54,255	3.5%	55,374	2.1%
EBITDA	12,130	15,007	4,687	4,556	5,412	4,447	19,116	27.4%	19,822	3.7%	20,914	5.5%
EBITDA margin	40.0%	40.2%	39.2%	34.5%	40.0%	32.4%	36.5%		36.5%		37.8%	
EBIT	6,463	8,559	2,496	2,324	2,625	1,969	9,429	10.2%	9,484	0.6%	10,971	15.7%
Interest expense	-1,184	-1,634	-524	-667	-738	-844	-2,772	69.6%	-3,242	16.9%	-3,078	-5.1%
Net income	3,538	4,446	1,235	1,262	2,689	818	6,018	35.4%	4,118	-31.6%	5,351	29.9%
EPS	0.76	0.91	0.26	0.27	0.56	0.17	1.25	0.38	0.86	-0.32	1.15	0.34
DPS	0.50	0.25	0.00	0.00	0.00	0.30	0.60	1.40	0.60	0.00	0.65	0.08
Share buy backs	2,478	1,549	1,131	138	696	820	2,785	79.8%	1,611	-42.2%	3,134	94.6%
Capex	3,772	5,359	1,307	1,714	2,045	2,912	7,979	48.9%	7,784	-2.4%	7,628	-2.0%
Capex / Sales	12.4%	14.4%	10.9%	13.0%	15.1%	21.2%	15.2%	6.0%	14.3%	-5.7%	13.8%	-4.0%
Net debt - DB	34,387	30,673	54,827	56,369	53,732	55,627	55,627	81.4%	52,602	-5.4%	49,834	-5.3%
Net debt - TEF	23,651	27,990	53,509	53,509	52,239	54,133	54,133	93.4%	51,108	-5.6%	48,340	-5.4%
Workforce provisions						1,500	1,500		1,500	0.0%	1,500	0.0%
Total net indebtedness - TEF						55,633	55,633		52,608	-5.4%	49,840	-5.3%
Net debt/EBITDA - TEF						2.8	2.8		2.6		2.3	
Total net indebtedness/EBITDA - TEF						2.9	2.9		2.7		2.4	
OCF	8,358	9,648	3,380	2,841	3,367	1,535	11,137	15.4%	12,039	8.1%	13,286	10.4%
OCF margin	27.6%	25.9%	28.3%	21.5%	24.9%	11.2%	21.2%		22.2%		24.0%	
FCF	6,906	4,767	1,777	1,779	2,460	669	7,126	49.5%	7,568	6.2%	8,903	17.6%
Investments	11,777	7,434	23,007	27	-2,026	323	21,625	1341.7%	0	-100.0%	0	#DIV/0!

Source: Deutsche Bank estimates and company data

Figure 215: Telefónica summary results outlook (Euro m)

	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
<b>Gross revenue</b>												
Telefónica de España Group	10,956	11,740	2,944	2,977	2,973	3,039	11,933	1.7%	11,754	-1.5%	11,292	-3.9%
Terra Lycos	511	241	0	0	0	0	0					
Admiral Media	1,219	1,269	349	426	350	410	1,535	20.9%	1,612	5.0%	1,692	5.0%
TPI	628	661	0	0	0	0	0					
Telefónica Móviles Group	11,898	16,514	4,327	4,466	4,744	4,772	18,309	10.9%	18,998	3.8%	19,673	3.6%
Telesp	3,708	4,853	1,428	1,368	1,361	1,341	5,498	13.3%	5,281	-4.0%	5,318	0.7%
Telefónica de Argentina	811	891	236	239	255	242	972	9.2%	882	-9.4%	870	-1.3%
CTC	933	890	262	250	246	241	999	12.2%	977	-2.2%	1,032	5.6%
Telefónica del Peru	1,032	1,031	279	268	272	271	1,090	5.7%	1,043	-4.3%	1,056	1.2%
Columbia Telecom		0	0	101	132	148	380		600	57.9%	600	0.0%
Other Latam	557	601	113	117	125	124	478	-20.3%	470	-1.8%	475	1.1%
Total Telefónica Latinamericana	7,040	8,266	2,318	2,342	2,390	2,367	9,418	13.9%	9,253	-1.8%	9,350	1.1%
Cesky Telecom	0	1,035	515	534	544	490	2,082	101.2%	1,970	-5.4%	1,952	-0.9%
O2		0	1,822	2,810	3,004	3,111	10,746		12,819	19.3%	13,553	5.7%
Other subsidiaries	1,443	1,484	529	464	484	484	1,960	32.1%	1,934	-1.3%	2,031	5.0%
Total	33,695	41,208	12,804	13,919	14,356	14,525	55,604	34.9%	57,739	3.8%	58,943	2.1%
<b>EBITDA</b>												
Telefónica de España Group	4,381	4,767	1,263	1,059	1,447	847	4,616	-3.2%	4,599	-0.4%	4,757	3.4%
Terra Lycos	21	46										
Admiral Media	183	269	167	56	48	105	375	39.3%	397	5.8%	419	5.7%
TPI	215	220	0	0	0	0	0					
Telefónica Móviles Group	4,666	5,817	1,472	1,427	1,802	1,634	6,334	8.9%	6,691	5.6%	7,299	9.1%
Telesp	1,698	2,222	630	665	707	597	2,599	17.0%	2,420	-6.9%	2,428	0.3%
Telefónica de Argentina	485	543	122	121	122	120	484	-10.8%	431	-11.1%	417	-3.1%
CTC	418	362	92	108	116	107	436	20.4%	431	-1.2%	455	5.6%
Telefónica del Peru	465	437	126	114	120	119	479	9.5%	455	-4.9%	458	0.5%
Columbia Telecom		0	0	47	72	72	190		270	42.1%	270	0.0%
Other Latam	164	194	24	3	11	10	49	-74.7%	42	-14.0%	45	5.6%
Total Telefónica Latinamericana	3,230	3,758	994	1,057	1,147	1,025	4,238	12.8%	4,049	-4.4%	4,073	0.6%
Cesky Telecom	0	457	252	258	270	196	975	113.5%	933	-4.3%	906	-2.8%
O2		0	509	749	786	678	2,723		3,344		3,654	
Other subsidiaries	1,023	-118	36	-67	-23	-23	-77	-34.4%	-120	55.2%	-120	0.0%
Total EBITDA	13,718	15,216	4,692	4,538	5,477	4,463	19,184	26.1%	19,893	3.7%	20,989	5.5%
Consolidation adjustments, disposals	-76	60	-5	18	-65	-16	-68	-71	-75		-75	
Total	12,130	15,276	4,687	4,556	5,412	4,447	19,116	25.1%	19,822	3.7%	20,914	5.5%

Source: Deutsche Bank estimates and company data

Figure 216: Telefónica summary results outlook (Euro m)

	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
<b>EBITDA margins</b>												
Telefónica de Espana Group	40.0%	40.6%	42.9%	35.6%	48.7%	27.9%	38.7%	39.1%	39.1%	42.1%	42.1%	
Admira Media	15.0%	21.2%	47.8%	13.1%	13.6%	25.6%	24.4%	24.6%	24.6%	24.8%	24.8%	
TPI	34.3%	33.3%										
Telefónica Móviles Group	39.2%	35.2%	34.0%	32.0%	38.0%	34.2%	34.6%	35.2%	35.2%	37.1%	37.1%	
Telesp	45.8%	45.8%	44.1%	48.6%	52.0%	44.5%	47.3%	45.8%	45.8%	45.7%	45.7%	
Telefónica de Argentina	59.8%	60.9%	51.7%	50.5%	47.6%	49.5%	49.8%	48.9%	48.9%	48.0%	48.0%	
CTC	44.8%	40.7%	34.9%	43.1%	47.0%	44.2%	43.7%	44.1%	44.1%	44.1%	44.1%	
Telefónica del Peru	45.1%	42.4%	45.1%	42.5%	44.1%	44.1%	44.0%	43.7%	43.7%	43.4%	43.4%	
Columbia Telecom				46.5%	54.6%	48.3%	50.0%	45.0%	45.0%	45.0%	45.0%	
Other Latam	29.4%	32.3%	21.4%	2.9%	9.1%	8.2%	10.3%	9.0%	9.0%	9.4%	9.4%	
Total Telefónica Latinamericana	45.9%	45.5%	42.9%	45.1%	48.0%	43.3%	45.0%	43.8%	43.8%	43.6%	43.6%	
Cesky Telecom	44.1%	48.9%	48.9%	48.2%	49.6%	40.1%	46.8%	47.4%	47.4%	46.4%	46.4%	
O2	27.9%	27.9%	26.7%	26.7%	26.2%	21.8%	25.3%	26.1%	26.1%	27.0%	27.0%	
Total	36.0%	37.1%	36.6%	32.7%	37.7%	30.6%	34.4%	34.3%	34.3%	35.5%	35.5%	
<b>EBITDA margins change</b>												
Telefónica de Espana Group	-4.4%	0.6%	0.9%	3.5%	2.7%	-14.7%	-1.9%	0.4%	0.4%	3.0%	3.0%	
Admira Media	-0.3%	6.2%	30.7%	-7.4%	-5.5%	-0.6%	3.2%	0.2%	0.2%	0.2%	0.2%	
TPI	3.0%	-1.0%										
Telefónica Móviles Group	-5.1%	-4.0%	-1.8%	1.1%	-0.4%	-1.4%	-0.6%	0.6%	0.6%	1.9%	1.9%	
Telesp	-1.9%	0.0%	-1.0%	3.3%	5.9%	-1.8%	1.5%	-1.4%	-1.4%	-0.2%	-0.2%	
Telefónica de Argentina	0.4%	1.1%	-3.7%	-5.0%	-8.4%	-26.0%	-11.2%	-0.9%	-0.9%	-0.9%	-0.9%	
CTC	1.2%	-4.1%	-9.5%	-0.8%	9.6%	6.1%	3.0%	0.4%	0.4%	0.0%	0.0%	
Telefónica del Peru	0.9%	-2.7%	7.2%	-0.2%	-0.5%	-0.1%	1.6%	-0.3%	-0.3%	-0.3%	-0.3%	
Columbia Telecom								-5.0%	-5.0%	0.0%	0.0%	
Other Latam	-5.2%	2.9%	-86.4%	-13.5%	-9.1%	-4.9%	-22.0%	-1.3%	-1.3%	0.4%	0.4%	
Total Telefónica Latinamericana	-1.4%	-0.4%	-6.2%	1.0%	4.2%	-2.2%	-0.5%	-1.2%	-1.2%	-0.2%	-0.2%	
Cesky Telecom	0.0%	44.1%	48.9%	48.2%	0.0%	1.3%	2.7%	0.5%	0.5%	-0.9%	-0.9%	
O2	0.0%	0.0%	27.9%	26.7%	26.2%	21.8%	25.3%	0.7%	0.7%	0.9%	0.9%	
Total	-5.4%	1.1%	-0.9%	0.7%	-2.7%	-7.4%	-2.7%	0.0%	0.0%	1.2%	1.2%	

Source: Deutsche Bank estimates and company data

Figure 217: Telefónica summary results outlook (Euro m)

	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
<b>Capex</b>												
Telefónica de España Group	1,208	1,407	315	361	373	650	1,699	20.7%	1,850	8.9%	1,950	5.4%
Telefónica Móviles group	1,618	2,330	293	386	622	894	2,194	-5.8%	1,833	-16.5%	1,869	2.0%
Teleosp	370	577	85	126	157	251	619	7.2%	689	11.3%	689	0.0%
Telefónica de Argentina	55	82	20	20	19	19	78	-5.4%	71	-8.8%	71	0.0%
CTC	109	104	30	47	46	46	169	63.0%	189	11.8%	189	0.0%
Telefónica del Peru	102	118	18	31	29	31	109	-7.5%	115	5.0%	115	0.0%
Columbia Telecom	0	0	0	6	33	33	72		132	83.3%	132	0.0%
Other Latam	168	180	21	15	40	30	106	-41.2%	200	89.4%	200	0.0%
Total Latam	804	1,061	174	245	323	410	1,153	8.6%	1,396	21.1%	1,396	0.0%
Cesky Telecom	0	147	34	60	43	106	243	65.6%	261	7.2%	270	3.5%
O2	0	0	372	589	523	778	2,261		2,144	-5.2%	1,844	-14.0%
European broadband	0	0	0	0	0	0	0		300		300	0.0%
Other	233	381	120	73	160	75	428	12.4%	0	-100.0%	0	
Total capital expenditures	3,772	5,359	1,307	1,714	2,045	2,912	7,979	48.9%	7,784	-2.4%	7,628	-2.0%
<b>Capex sales</b>												
Telefónica de España Group	11.0%	12.0%	10.7%	12.1%	12.6%	21.4%	14.2%		15.7%		17.3%	
Telefónica Móviles group	13.6%	14.1%	6.8%	8.6%	13.1%	18.7%	12.0%		9.6%		9.5%	
Teleosp	10.0%	11.9%	5.9%	9.2%	11.5%	18.7%	11.3%		13.0%		13.0%	
Telefónica de Argentina	6.7%	9.2%	8.7%	8.2%	7.5%	7.8%	8.0%		8.1%		8.2%	
CTC	11.7%	11.7%	11.6%	18.7%	18.7%	19.0%	16.9%		19.4%		18.3%	
Telefónica del Peru	9.9%	11.5%	6.3%	11.8%	10.7%	11.5%	10.0%		11.0%		10.9%	
Columbia Telecom				6.0%	25.1%	22.3%	18.9%		22.0%		22.0%	
Cesky Telecom		14.2%	6.6%	11.3%	8.0%	21.6%	11.7%		13.2%		13.8%	
O2			20.4%	21.0%	17.4%	25.0%	21.0%		16.7%		13.6%	

Source: Deutsche Bank estimates and company data

Figure 218: Telefónica summary results outlook (Euro m)

EBITDA/capex	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
Telefónica de España Group	3.6	3.4	4.0	2.9	3.9	1.3	2.7	2.7	2.5	2.5	2.4	2.4
Telefónica Móviles group	2.9	2.5	5.0	3.7	2.9	1.8	2.9	2.9	3.7	3.7	3.9	3.9
Telesp	4.6	3.8	7.4	5.3	4.5	2.4	4.2	4.2	3.5	3.5	3.5	3.5
Telefónica de Argentina	8.9	6.6	6.0	6.2	6.4	6.4	6.2	6.2	6.1	6.1	5.9	5.9
CTC	3.8	3.5	3.0	2.3	2.5	2.3	2.6	2.6	2.3	2.3	2.4	2.4
Telefónica del Peru	4.5	3.7	7.2	3.6	4.1	3.8	4.4	4.4	4.0	4.0	4.0	4.0
Columbia Telecom				7.8	2.2	2.2	2.6	2.6	2.0	2.0	2.0	2.0
Cesky Telecom		3.1	7.4	4.3	6.2	1.9	4.0	4.0	3.6	3.6	3.4	3.4
O2		1.4	1.4	1.3	1.5	0.9	1.2	1.2	1.6	1.6	2.0	2.0
Group	3.2	2.8	3.6	2.7	2.6	1.5	2.4	2.4	2.5	2.5	2.7	2.7
<b>Operating cash flow</b>												
Telefónica de España Group	3,173	3,359	948	698	1,074	197	2,917	2,917	2,749	2,749	2,807	2,807
Telefónica Móviles group	3,048	3,487	1,179	1,041	1,179	740	4,140	4,140	4,858	4,858	5,430	5,430
Telesp	1,328	1,645	545	538	550	346	1,980	1,980	1,731	1,731	1,739	1,739
Telefónica de Argentina	430	460	102	101	102	101	406	406	360	360	346	346
CTC	309	259	61	61	70	61	267	267	242	242	266	266
Telefónica del Peru	363	319	109	82	91	88	370	370	341	341	343	343
Latam (excluding Columbia)	2,425	2,697	820	817	857	648	3,157	3,157	2,785	2,785	2,809	2,809
Columbia Telecom	0	0	0	41	39	39	118	118	138	138	138	138
Cesky Telecom	0	310	218	197	226	91	732	732	672	672	636	636
O2	0	0	138	160	264	-99	462	462	1,200	1,200	1,810	1,810
<b>Operating cash flow margins</b>												
Telefónica de España Group	29.0%	28.6%	32.2%	23.4%	36.1%	6.5%	24.4%	24.4%	23.4%	23.4%	24.9%	24.9%
Telefónica Móviles group	25.6%	21.1%	27.2%	23.3%	24.9%	15.5%	22.6%	22.6%	25.6%	25.6%	27.6%	27.6%
Telesp	35.8%	33.9%	38.2%	39.3%	40.5%	25.8%	36.0%	36.0%	32.8%	32.8%	32.7%	32.7%
Telefónica de Argentina	53.1%	51.7%	43.0%	42.3%	40.1%	41.8%	41.8%	41.8%	40.8%	40.8%	39.8%	39.8%
CTC	33.1%	29.1%	23.3%	24.4%	28.3%	25.1%	26.7%	26.7%	24.7%	24.7%	25.8%	25.8%
Telefónica del Peru	35.1%	30.9%	38.9%	30.7%	33.4%	32.6%	33.9%	33.9%	32.7%	32.7%	32.5%	32.5%
Columbia Telecom	0.0%	0.0%	0.0%	40.5%	29.5%	26.0%	31.1%	31.1%	23.0%	23.0%	23.0%	23.0%
Cesky Telecom	0.0%	29.9%	42.3%	36.9%	41.6%	18.5%	35.1%	35.1%	34.1%	34.1%	32.6%	32.6%
O2	0.0%	0.0%	7.5%	5.7%	8.8%	-3.2%	4.3%	4.3%	9.4%	9.4%	13.4%	13.4%

Source: Deutsche Bank estimates and company data

Figure 219: Telefónica summary results outlook (Euro m)

	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
<b>Revenue mix</b>												
TdE		28%	23%	21%	21%	21%	21%	21%	20%	20%	19%	19%
TEM		40%	34%	32%	33%	33%	33%	33%	33%	33%	33%	33%
Telesp		12%	11%	10%	9%	9%	10%	10%	9%	9%	9%	9%
Other latam		8%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Cesky		3%	4%	4%	4%	3%	4%	4%	3%	3%	3%	3%
O2		0%	14%	20%	21%	21%	19%	19%	22%	22%	23%	23%
Other latam		9%	7%	6%	5%	5%	6%	6%	5%	5%	5%	5%
<b>EBITDA mix</b>												
TdE		31%	27%	23%	27%	19%	24%	24%	23%	23%	23%	23%
TEM		38%	31%	31%	33%	37%	33%	33%	34%	34%	35%	35%
Telesp		15%	13%	15%	13%	13%	14%	14%	12%	12%	12%	12%
Other latam		10%	8%	9%	8%	10%	9%	9%	8%	8%	8%	8%
Cesky		3%	5%	6%	5%	4%	5%	5%	5%	5%	4%	4%
O2		0%	11%	16%	15%	15%	14%	14%	17%	17%	17%	17%
Other latam		3%	4%	0%	-1%	1%	1%	1%	1%	1%	1%	1%
<b>TdE operating data</b>												
Total fixed volumes (m)	123,026	110,207	26,333	24,920	22,115	23,493	96,861		90,265		83,319	
Change in total fixed volumes	-10.9%	-10.4%	-10.0%	-11.8%	-12.3%	-14.5%	-12.1%		-6.8%		-7.7%	
Traditional access lines (000)	17,267	16,136	16,109	16,020	15,978	15,935	15,935		15,618		15,319	
Change (000)		-1,131	-27	-89	-42	-43	-201		-316		-299	
DSL lines (000)	2,490	3,442	3,749	3,905	4,037	4,440	4,440		5,193		5,844	
Change (000)		952	308	155	132	404	999		753		651	
TdE broadband market share	56.0%	57.8%							55.0%		56.3%	
Imagenio		206.6	250.3	275.3	325.3	400.3	400.3		750.0		1,050.0	
DSL ARPU	44	46	44	48	48	47	47		42		37	
Change		4.5%	-0.1%	0.7%	2.8%	2.7%	1.5%		-10.3%		-12.3%	
Employees	35,045	33,279	33,030	32,893	32,837	32,587	32,587		28,862		28,288	
Change (000)		-1,766	-249	-137	-56	-250	-692		-3,725		-574	

Source: Deutsche Bank estimates and company data



**Figure 220: Telesp summary operating data**

	2004	2005	Q1-06	Q2-06	Q3-06	Q4-06E	2006E	Y/Y	2007E	Y/Y	2008E	Y/Y
Traditional access lines (000)	12,463	12,347	12,377	12,342	12,301	12,239	12,239		12,117		11,997	
Change (000)		-116	30	-35	-41	-62	-108		-122		-121	
DSL lines (000)	826	1,207	1,300	1,378	1,480	1,554	1,554		1,682		1,785	
Change (000)		380	93	77	102	74	347		128		103	
Employees	7,125	7,770	7,167	7,367	8,206	8,206	8,206		8,206		8,206	
Change (000)		645	-603	200	839	0	436		0		0	

Source: Deutsche Bank estimates and company data

**Figure 22.1: Telefónica Móviles summary results outlook (Euro m)**

Revenue	2005	Q1-06	Q2-06	Q3-06	Q4-06E	6M-06	9M-06	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	6M-07E	9M-07E	2008E	2009E	2010E	
Spain (TME)	8,835	2,166	2,255	2,446	2,313	4,421	6,867	9,180	2,227	2,328	2,286	2,168	4,556	6,842	9,010	8,912	8,739	8,799
Mexico (TMM)	779	215	229	245	249	444	689	938	219	243	265	257	462	727	984	1,043	1,095	1,144
Unifon - Argentina	1,009	295	296	316	345	577	879	1,254	316	317	322	344	633	955	1,299	1,361	1,418	1,474
Peru	367	98	103	118	130	199	317	450	127	135	144	152	262	406	558	655	732	785
Chile	661	194	190	197	206	372	558	787	205	213	213	221	419	632	853	922	964	992
Venezuela	1,438	452	500	498	530	952	1,450	1,980	589	587	593	622	1,175	1,768	2,390	2,700	2,988	3,185
VIVO	1,495	497	475	475	526	972	1,447	1,973	477	486	515	532	962	1,477	2,009	2,048	2,045	2,039
ROW	1,562	421	426	415	470	847	1,262	1,732	461	467	455	513	928	1,382	1,896	2,033	2,154	2,277
Intersegment	367	-10	-8	34	0	-18	16	16	0	0	0	0	0	0	0	0	0	0
Group Revenue	16,514	4,327	4,466	4,744	4,769	8,766	13,484	18,309	4,620	4,776	4,793	4,809	9,397	14,189	18,998	19,673	20,134	20,695
Group operating expense	10,697	2,855	3,039	2,943	3,137	5,874	8,817	11,973	2,999	3,078	3,041	3,188	6,078	9,118	12,307	12,374	12,595	12,794
<b>EBITDA</b>																		
Spain (TME)	4,128	952	1,024	1,149	1,030	1,976	3,125	4,155	947	1,018	1,049	898	1,965	3,014	3,913	3,789	3,613	3,628
Mexico (TMM)	-160	-24	-9	1	-12	-33	-44	14	12	14	12	14	26	39	51	211	277	348
Unifon - Argentina	150	67	65	85	79	129	211	297	88	89	90	95	177	267	362	517	539	561
Peru	118	27	28	37	36	55	91	128	42	46	49	51	88	137	189	258	291	314
Chile	236	59	58	70	73	113	180	261	77	81	80	83	158	238	321	350	367	378
Venezuela	586	189	154	237	192	343	580	772	223	220	221	234	443	664	898	1,050	1,223	1,358
VIVO	399	136	60	139	136	196	335	471	128	120	139	134	247	386	520	590	610	625
ROW	329	67	72	103	118	139	243	360	118	127	126	127	244	370	497	594	678	749
Intersegment	33	-1	-25	-19	-19	-26	-46	-65	-15	-15	-15	-15	-30	-45	-60	-60	-60	-60
Group operating EBITDA	5,817	1,472	1,427	1,802	1,632	2,892	4,687	6,334	1,621	1,698	1,752	1,620	3,319	5,071	6,691	7,299	7,539	7,900
Operating income (EBIT)	3,443	856	825	1,195	980	1,680	2,875	3,855	949	1,019	1,066	925	1,968	3,033	3,958	4,509	4,667	4,940
<b>Growth rates</b>																		
Revenue	38.4%	17.7%	9.3%	10.6%	6.8%	12.4%	10.5%	10.9%	6.8%	7.0%	1.0%	0.8%	7.2%	5.2%	3.8%	3.6%	2.3%	2.8%
IFRS EBITDA	27.4%	11.7%	13.2%	9.3%	2.6%	11.7%	9.7%	8.9%	10.1%	19.0%	-2.8%	-0.7%	14.8%	8.2%	5.6%	9.1%	3.3%	4.8%
IFRS EBIT	12.7%	8.3%	18.8%	12.5%	9.4%	13.2%	12.9%	12.0%	10.9%	23.6%	-10.8%	-5.7%	17.1%	5.5%	2.7%	13.9%	3.5%	5.9%
<b>Margins</b>																		
EBITDA	35.2%	34.0%	32.0%	38.0%	34.2%	33.0%	34.8%	34.6%	35.1%	35.5%	36.6%	33.7%	35.3%	35.7%	35.2%	37.1%	37.4%	38.2%
EBIT	20.8%	19.8%	18.5%	25.2%	20.6%	19.2%	21.3%	21.1%	20.5%	21.3%	22.2%	19.2%	20.9%	21.4%	20.8%	22.9%	23.2%	23.9%
Total capex	2,306	293	386	622	891	675	1,295	2,194	417	439	456	521	856	1,312	1,833	1,869	1,903	1,930
Capex/Sales	14.0%	6.8%	8.6%	13.1%	18.7%	7.7%	9.6%	12.0%	9.0%	9.2%	9.5%	10.8%	9.1%	9.2%	9.6%	9.5%	9.5%	9.3%

Source: Deutsche Bank estimates and company data

**Figure 222: Telefónica Móviles summary results outlook (Euro m)**

Revenue breakdown	2005	Q1-06	Q2-06	Q3-06	Q4-06E	6M-06	9M-06	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	6M-07E	9M-07E	2007E	2008E	2009E	2010E
Spain	8,835	2,166	2,255	2,446	2,313	4,421	6,867	9,180	2,227	2,328	2,286	2,168	4,556	6,842	9,010	8,912	8,739	8,799
Mexico	779	215	229	245	249	444	689	938	219	243	265	257	462	727	984	1,043	1,095	1,144
Unifon - Argentina	1,009	295	296	316	345	577	879	1,254	316	317	322	344	633	955	1,299	1,361	1,418	1,474
Peru	367	98	103	118	130	199	317	450	127	135	144	152	262	406	558	655	732	785
Chile	661	194	190	197	206	372	558	787	205	213	213	221	419	632	853	922	964	992
Venezuela	1,438	452	500	498	530	952	1,450	1,980	589	587	593	622	1,175	1,768	2,390	2,700	2,988	3,185
Brazil	1,495	497	475	475	526	972	1,447	1,973	477	486	515	532	962	1,477	2,009	2,048	2,045	2,039
Guatemala and El Salvador	271	73	74	74	78	148	221	299	82	83	81	85	165	246	330	336	360	380
Columbia	749	197	195	192	213	392	584	797	213	211	207	230	423	631	861	929	976	1,025
Ecuador	284	76	76	68	80	152	221	301	82	82	74	87	164	238	325	351	369	387
Nicaragua	85	26	31	22	37	57	79	116	30	35	25	43	66	90	133	146	158	171
Panama	129	30	33	41	41	63	104	146	35	38	47	47	72	120	167	184	199	215
Uruguay	44	18	17	19	20	35	54	74	19	18	20	22	38	58	79	86	93	100
Intersegment	367	-10	-8	34	0	-18	16	16	0	0	0	0	0	0	0	0	0	0
Total Revenue	16,514	4,327	4,466	4,744	4,769	8,766	13,484	18,309	4,620	4,776	4,793	4,809	9,397	14,189	18,998	19,673	20,134	20,695
<b>Growth rates</b>																		
Spain (TME)	6.7%	4.4%	1.6%	5.1%	4.5%	2.9%	3.7%	3.9%	2.8%	3.3%	-6.5%	-6.3%	3.1%	-0.4%	-1.9%	-1.1%	-1.9%	0.7%
Mexico	6.7%	2.4%	42.2%	27.5%	15.3%	19.7%	22.3%	20.4%	1.8%	5.9%	8.4%	3.3%	4.0%	5.5%	5.0%	6.0%	5.0%	4.4%
Unifon - Argentina	185.3%	43.9%	25.4%	19.2%	13.9%	26.5%	19.0%	24.3%	7.0%	7.2%	1.9%	-0.3%	9.6%	8.7%	3.6%	4.8%	4.2%	4.0%
Peru	37.6%	18.1%	15.7%	28.0%	26.6%	12.5%	15.9%	22.5%	29.2%	31.5%	22.6%	16.5%	31.3%	28.2%	24.2%	17.2%	11.8%	7.2%
Chile	120.1%	40.6%	27.5%	14.2%	1.9%	27.2%	13.7%	19.0%	5.9%	12.3%	8.2%	7.4%	12.6%	13.2%	8.4%	8.2%	4.5%	2.9%
Venezuela	560.8%	73.2%	33.7%	39.1%	19.1%	47.0%	35.7%	37.7%	30.2%	17.3%	19.1%	17.4%	23.5%	21.9%	20.7%	13.0%	10.7%	6.6%
Brazil	36.4%	34.0%	1.9%	53.5%	50.9%	16.1%	26.2%	32.0%	-4.1%	2.2%	8.3%	1.0%	-1.0%	2.1%	1.8%	2.0%	-0.2%	-0.3%
Guatemala and El Salvador	47.7%	38.3%	25.3%	9.8%	4.9%	3.7%	17.0%	12.7%	10.2%	11.9%	11.1%	10.3%	8.6%	11.5%	11.1%	3.3%	7.1%	5.7%
Columbia	689.3%	25.5%	2.1%	2.0%	0.0%	12.6%	8.9%	6.4%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	5.0%	5.0%
Ecuador	548.4%	17.2%	2.7%	-12.4%	20.0%	9.5%	1.6%	6.0%	6.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	5.0%	5.0%
Nicaragua	918.3%	68.7%	44.0%	20.8%	25.0%	54.4%	43.4%	37.0%	37.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	10.0%	8.0%	8.0%
Panama	437.5%	0.0%	0.0%	0.0%	25.0%	25.0%	0.0%	8.6%	12.8%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	10.0%	8.0%	8.0%
Uruguay	685.7%	97.8%	70.0%	88.0%	33.3%	83.2%	84.8%	67.3%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Intersegment	16.5%	385.7%	2.5%	-80.7%	-100.0%	82.2%	-90.5%	-95.6%										
Total Revenue	38.4%	17.7%	9.3%	10.6%	6.8%	12.4%	10.5%	10.9%	6.8%	7.0%	1.0%	0.8%	7.2%	5.2%	3.8%	3.6%	2.3%	2.8%

Source: Deutsche Bank estimates and company data

**Figure 223: Telefónica Móviles summary results outlook (Euro m)**

	2005	Q1-06	Q2-06	Q3-06	Q4-06E	6M-06	9M-06	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	6M-07E	9M-07E	2007E	2008E	2009E	2010E	
<b>EBITDA breakdown</b>																			
Spain	4,128	952	1,024	1,149	1,030	1,976	3,125	4,155	947	1,018	1,049	898	1,965	3,014	3,913	3,789	3,613	3,628	
Mexico	-160	-24	-9	1	-12	-33	-32	-44	14	12	14	12	26	39	51	211	277	348	
Unifon - Argentina	150	67	65	85	79	129	211	297	88	89	90	95	177	267	362	517	539	561	
Peru	118	27	28	37	36	55	91	128	42	46	49	51	88	137	189	258	291	314	
Chile	236	59	58	70	73	113	180	261	77	81	80	83	158	238	321	350	367	378	
Venezuela	586	189	154	237	192	343	580	772	223	220	221	234	443	664	898	1,050	1,223	1,358	
Brazil	399	136	60	139	136	196	335	471	128	120	139	134	247	386	520	590	610	625	
Guatemala and El Salvador	75	22	22	23	22	43	66	89	24	24	23	25	49	72	97	106	115	115	
Columbia	110	37	13	35	50	50	85	135	50	55	55	55	105	160	215	258	301	323	
Ecuador	52	19	18	17	17	37	54	71	17	19	19	19	36	54	73	108	129	172	
Nicaragua	36	-26	5	13	13	-21	-8	4	10	11	11	11	21	32	43	43	43	43	
Panama	48	12	12	12	12	24	36	48	13	15	15	15	28	42	57	62	69	73	
Uruguay	8	4	2	4	4	6	10	14	3	3	3	3	6	10	13	17	22	24	
Shared	33	-1	-25	-19	-19	-26	-46	-65	-15	-15	-15	-15	-30	-45	-60	-60	-60	-60	
Total EBITDA	5,817	1,472	1,427	1,802	1,632	2,892	4,687	6,334	1,621	1,698	1,752	1,620	3,319	5,071	6,691	7,299	7,539	7,900	
<b>EBITDA margins</b>																			
Spain	46.7%	44.0%	45.4%	47.0%	44.5%	44.7%	45.5%	45.3%	42.5%	43.7%	45.9%	41.4%	43.1%	44.1%	43.4%	42.5%	41.3%	41.2%	
Mexico	-20.5%	-11.2%	-3.9%	0.3%	-4.7%	-7.4%	-4.7%	-4.7%	6.4%	4.8%	5.1%	4.5%	5.5%	5.4%	5.2%	20.3%	25.3%	30.4%	
Unifon - Argentina	14.9%	22.7%	22.0%	27.0%	22.9%	22.3%	24.0%	23.7%	27.8%	28.2%	27.9%	27.8%	28.0%	27.9%	27.9%	38.0%	38.0%	38.0%	
Peru	32.2%	27.6%	27.2%	31.1%	27.9%	27.4%	28.7%	28.5%	33.3%	34.0%	34.1%	33.8%	33.7%	33.8%	33.8%	39.4%	39.8%	40.0%	
Chile	35.6%	30.4%	30.5%	35.6%	35.4%	30.5%	32.3%	33.1%	37.4%	38.0%	37.7%	37.4%	37.7%	37.7%	37.6%	37.9%	38.1%	38.1%	
Venezuela	40.8%	41.8%	30.8%	47.5%	36.3%	36.0%	40.0%	39.0%	38.0%	37.5%	37.2%	37.7%	37.7%	37.6%	37.6%	38.9%	40.9%	42.6%	
Brazil	26.7%	27.4%	12.6%	29.3%	25.8%	20.2%	23.2%	23.9%	26.8%	24.7%	27.0%	25.2%	25.7%	26.1%	25.9%	28.8%	29.8%	30.7%	
Guatemala and El Salvador	27.6%	29.7%	29.2%	31.3%	28.2%	29.5%	30.1%	29.6%	29.8%	29.5%	28.4%	29.4%	29.6%	29.2%	29.3%	31.6%	32.0%	30.2%	
Columbia	14.7%	18.8%	6.7%	18.0%	23.5%	12.8%	14.5%	16.9%	23.5%	26.1%	26.6%	23.9%	24.8%	25.4%	25.0%	27.8%	30.8%	31.5%	
Ecuador	18.3%	24.3%	23.7%	25.2%	21.4%	24.0%	24.4%	23.6%	20.7%	22.8%	25.4%	21.5%	21.7%	22.8%	22.5%	30.6%	35.0%	44.5%	
Nicaragua	42.8%	-99.2%	17.2%	58.1%	33.9%	-36.5%	-10.4%	3.8%	33.1%	31.1%	44.2%	25.8%	32.0%	35.4%	32.3%	29.4%	27.2%	25.2%	
Panama	37.2%	40.0%	36.4%	29.1%	29.1%	38.1%	34.5%	33.0%	38.3%	38.3%	30.6%	30.6%	38.3%	35.2%	33.9%	33.9%	34.6%	34.0%	
Uruguay	17.0%	22.5%	11.8%	21.3%	20.0%	17.2%	18.7%	19.0%	15.6%	18.0%	16.3%	15.3%	16.8%	16.6%	16.2%	20.0%	23.2%	23.6%	
Shared	8.8%	12.7%	306.1%	-56.4%	#DIV/0!	143.5%	-286.3%	-407.5%											
Total EBITDA	35.2%	34.0%	32.0%	38.0%	34.2%	33.0%	34.8%	34.6%	35.1%	35.5%	36.6%	33.7%	35.3%	35.7%	35.2%	37.1%	37.4%	38.2%	

Source: Deutsche Bank estimates and company data

**Figure 224: Telefónica Móviles summary results outlook (Euro m)**

EBITDA growth rates	2005	Q1-06	Q2-06	Q3-06	Q4-06E	6M-06	9M-06	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	6M-07E	9M-07E	2007E	2008E	2009E	2010E	
Spain	0.0%	-3.5%	6.7%	0.5%	-0.8%	1.5%	1.1%	0.6%	-0.5%	-0.6%	-8.7%	-12.7%	-0.5%	-3.5%	-5.8%	-3.2%	-4.6%	0.4%	
Mexico	10.4%	-51.0%	-81.3%	-102.1%	-59.5%	-66.0%	-75.3%	-72.5%	-158.0%	-228.8%	1843.9%	-199.1%	-177.3%	-221.1%	-215.3%	316.2%	31.3%	25.2%	
Unifon - Argentina	2281.0%	179.2%	160.0%	49.8%	79.4%	153.7%	92.4%	98.1%	30.7%	37.6%	5.2%	20.9%	37.3%	26.5%	21.9%	42.6%	4.3%	4.1%	
Peru	61.6%	3.8%	-3.4%	22.0%	10.3%	-3.7%	3.5%	8.6%	56.0%	64.6%	34.4%	41.0%	61.6%	50.7%	47.3%	36.8%	12.8%	7.7%	
Chile	192.9%	71.0%	20.8%	4.5%	-15.3%	35.2%	13.7%	10.7%	30.2%	40.0%	14.5%	13.3%	39.4%	32.3%	23.0%	9.1%	4.9%	3.0%	
Venezuela	1035.2%	78.3%	3.4%	54.6%	8.0%	31.8%	32.2%	31.7%	18.2%	42.7%	-6.6%	21.9%	29.2%	14.6%	16.4%	16.9%	16.5%	11.0%	
Brazil	9.5%	-4.2%	-36.2%	55.7%	85.4%	-16.9%	3.0%	18.1%	-6.2%	99.5%	-0.4%	-1.0%	26.2%	15.2%	10.5%	13.5%	3.4%	2.5%	
Guatemala and El Salvador	194.7%	98.2%	21.5%	-5.0%	1.4%	50.6%	25.3%	18.3%	12.2%	12.0%	0.0%	13.0%	12.1%	7.9%	9.2%	9.8%	8.6%	-0.4%	
Columbia	-27600.0%	19.4%	-192.9%	-19.8%	0.0%	194.1%	40.8%	22.3%	35.1%	323.1%	59.4%	10.0%	110.0%	89.3%	59.9%	20.0%	16.7%	7.1%	
Ecuador	-5877.8%	208.3%	200.0%	-9.5%	-18.1%	204.2%	73.2%	36.3%	-8.1%	3.9%	8.7%	8.7%	-2.2%	1.3%	3.1%	47.1%	20.0%	33.3%	
Nicaragua	3515.8%	-532.2%	-47.8%	609.9%	-31.1%	-228.7%	-145.7%	-87.9%	-138.4%	108.5%	-12.5%	-12.5%	-201.1%	-490.6%	880.7%	0.0%	0.0%	0.0%	
Panama	523.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	21.0%	21.0%	21.0%	15.5%	17.3%	18.3%	10.0%	10.0%	6.4%	
Uruguay	733.3%	14.3%	100.0%	300.0%	100.0%	33.3%	81.8%	86.7%	-25.0%	65.0%	-17.5%	-17.5%	5.0%	-4.0%	-7.9%	33.3%	25.0%	10.0%	
Shared	-66.9%	-94.1%	-13.7%	-146.9%	-145.8%	-48.4%	363.8%	-300.6%	1053.8%	-40.2%	-22.7%	-22.7%	13.6%	-1.7%	-8.0%	0.0%	0.0%	0.0%	
Total EBITDA	24.1%	11.7%	13.2%	9.3%	2.6%	11.7%	9.7%	8.9%	10.1%	19.0%	-2.8%	-0.7%	14.8%	8.2%	5.6%	9.1%	3.3%	4.8%	
<b>Customers (000)</b>																			
Spain	19,890	20,277	20,655	21,020	21,420	20,655	21,020	21,420	21,620	21,820	21,920	22,170	21,820	21,920	22,170	22,920	23,220	23,420	
Mexico	6,368	6,558	6,864	7,443	8,043	6,864	7,443	8,043	8,343	8,643	8,943	9,243	8,643	8,943	9,243	10,043	10,843	11,643	
Brazil (100%)	29,805	30,138	28,525	28,726	29,101	0	0	29,101	29,601	30,101	30,601	31,101	0	0	31,101	33,101	35,101	37,101	
Unifon - Argentina	8,605	8,914	9,486	10,150	10,750	9,486	10,150	10,750	11,000	11,250	11,500	11,750	11,250	11,500	11,750	12,250	12,750	13,250	
Peru	3,454	3,611	4,049	4,514	5,114	4,049	4,514	5,114	5,364	5,614	5,864	6,114	5,614	5,864	6,114	6,864	7,364	7,864	
Chile	5,276	5,335	5,515	5,618	5,818	5,515	5,618	5,818	5,968	6,118	6,268	6,418	6,118	6,268	6,418	6,818	7,018	7,218	
Venezuela	6,161	6,684	7,821	8,026	9,026	7,821	8,026	9,026	9,526	10,026	10,526	11,026	10,026	10,526	11,026	12,526	13,526	14,026	
Guatemala and El Salvador	1,579	1,775	1,975	2,129	2,354	1,975	2,129	2,354	2,517	2,679	2,842	3,004	2,679	2,842	3,004	3,404	3,804	4,204	
Columbia	6,033	6,818	7,474	7,687	7,887	7,474	7,687	7,887	8,087	8,287	8,487	8,687	8,287	8,487	8,687	9,487	10,287	11,087	
Ecuador	1,885	2,328	2,555	2,393	2,543	2,555	2,393	2,543	2,693	2,843	2,993	3,143	2,843	2,993	3,143	3,743	4,343	4,943	
Nicaragua	372	415	459	487	507	459	487	507	527	547	567	587	547	567	587	667	747	827	
Panama	849	905	889	949	999	889	949	999	1,049	1,099	1,149	1,199	1,099	1,149	1,199	1,399	1,599	1,799	
Uruguay	419	500	584	655	690	584	655	690	725	760	795	830	760	795	830	970	1,110	1,250	
Total ROW	34,633	37,285	40,807	42,608	45,688	40,807	42,608	45,688	47,456	49,223	50,991	52,758	49,223	50,991	52,758	58,128	62,548	66,468	
Total international customers	70,806	73,981	76,196	78,777	82,832	47,671	50,052	82,832	85,400	87,967	90,535	93,102	87,967	90,535	93,102	101,272	108,492	115,212	
Total customers	90,696	94,258	96,851	99,797	104,252	68,326	71,071	104,252	107,020	109,787	112,455	115,272	109,787	112,455	115,272	124,192	131,712	138,632	
Morocco	4,023	4,186	4,168	4,246	4,471	4,168	4,246	4,471	4,634	4,796	4,959	5,121	4,796	4,959	5,121	5,521	5,921	6,321	

Source: Deutsche Bank estimates and company data

**Figure 225: Telefónica Móviles summary results outlook (Euro m)**

	2005	Q1-06	Q2-06	Q3-06	Q4-06E	6M-06	9M-06	2006E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	6M-07E	9M-07E	2007E	2008E	2009E	2010E
<b>Customer additions (000)</b>																		
Spain	843	387	378	378	365	400		1,530	200	200	100	250			750	750	300	200
Mexico	729	190	306	306	579	600		1,675	300	300	300	300			1,200	800	800	800
Brazil (100%)	3,261	333	-1,613	201	375			-704	500	500	500	500			2,000	2,000	2,000	2,000
Unifon - Argentina	2,869	309	572	664	600			2,145	250	250	250	250			1,000	500	500	500
Peru	649	157	438	465	600			1,660	250	250	250	250			1,000	750	500	500
Chile	524	59	180	103	200			542	150	150	150	150			600	400	200	200
Venezuela	1,835	523	1,137	205	1,000			2,865	500	500	500	500			2,000	1,500	1,000	500
Guatemala and El Salvador	565	196	200	154	225			775	163	163	163	163			650	400	400	400
Columbia	2,736	785	656	213	200			1,854	200	200	200	200			800	800	800	800
Ecuador	763	443	227	-162	150			658	150	150	150	150			600	600	600	600
Nicaragua	86	43	44	28	20			135	20	20	20	20			80	80	80	80
Panama	223	56	-16	60	50			150	50	50	50	50			200	200	200	200
Uruguay	216	81	84	71	35			271	35	35	35	35			140	140	140	140
Total ROW	10,466	2,652	3,522	1,801	3,080			11,055	1,768	1,768	1,768	1,768			7,070	5,370	4,420	3,920
Total international customers	14,456	3,175	2,215	2,581	4,055			12,026	2,568	2,568	2,568	2,568			10,270	8,170	7,220	6,720
Total customers	15,299	3,562	2,593	2,946	4,455			13,556	2,768	2,768	2,668	2,818			11,020	8,920	7,520	6,920
Morocco	1,293	163	-18	78	225			448	163	163	163	163			650	400	400	400

Source: Deutsche Bank estimates and company data

## Guidance for 2006 to 2009

It is worth noting that all of Telefónica's guidance is based on constant exchange rates whereas our model assumes the actual exchanges rates for 2006.

**Figure 226: Summary of guidance for Telefónica and DB estimates (Euro m)**

Group	Base for guidance	DB 2006E	Guidance	DB growth
Revenue	37,314	52,420	Over 37%	40.5%
EBITDA	15,007	19,116	+26% to +29% (top of the range)	27.4%
EBIT	8,289	9,429	+26% to +30%	13.7%
Capex	5,154	7,979	8,000	54.8%
<b>TdE</b>				
Revenue	11,755	11,933	0.5% to 2.0%	1.5%
EBITDA	4,766	4,616	5%	-3.1%
EBITDA pre-headcount reductions	5,361	5,535		3.2%
Capex	1,401	1,699	1,500	
<b>Telefónica Latinamericana</b>				
Revenue	8,352	8,939	4.0% to 6.0% (lower end of the range)	7.0%
EBITDA	3,638	4,048	3.0% to 5.0% (top of the range)	11.3%
Capex	991	1,081	1,200	9.1%
<b>O2 UK</b>				
Service revenue	5,416		14.0% to 15.0%	15.1%
EBITDA	29.3%	27.3%	-1pp	
<b>O2 Germany</b>				
Service revenue	2,870		High single digit	8.3%
EBITDA	21.7%	21.0%	Stable	
<b>O2 Group</b>				
Capex		2,261	Mid of 2,000 to 2,300 (for 11 months)	
<b>Cesky</b>				
Revenue	2,051	2,082	Flat	1.5%
EBITDA	914	975	2.0%	6.7%
Capex	210	243	225	16.1%

Source: Deutsche Bank estimates and company data

**Figure 227: Summary of guidance for TEM and DB estimates (Euro m)**

Group	2006E Guidance	DB	2006 to 2009E Guidance	DB
Revenue	9% to 12%	10.9%	7% to 10%	5.1%
EBITDA	9% to 12%	8.9%	8% to 12%	6.7%
EBIT		21.1%		
Capex	Less than 2,330	2,194	Less than 9,000	7,799

TEM España	2006E Guidance	DB	2006 to 2009E Guidance	DB
Total revenue	3% to 6%	3.9%	3% to 5%	-0.3%
Service revenue		4.6%		
Margins	Down from 46.7%	45.3%	Down from 46.7%	41.3%
Customers	Strong customer growth	7.7%		
Capex	Less than 800	709		

Source: Deutsche Bank estimates and company data

### Risks: Domestic downside; emerging market mobile upside

Our thesis assumes TEF's domestic businesses face incremental challenges in 2007 (a reinvigorated Orange, launch of MVNOs and Xfera, and increased line losses as unbundling gathers pace). A deferral of these trends leads to positive consequences. We also continue to be surprised by the pace of emerging market mobile growth, which could drive further upgrades to Telefónica Móviles in Latam.

On the downside, Telefónica's M&A framework (Euro 1.5bn net) is potentially restricting the company's long term strategic position and ambitions in Brazil. The company faces the prisoners' dilemma of breaking its promises to investors or forgoing a market leading Brazilian wireless position to a competitor. We would also highlight that Telefónica is one of the few operators that has increase capex recently, suggesting that the quality and capacity of its domestic wireline infrastructure is being stressed with the growth and demand for bandwidth.

### Valuation – target Euro 14.5

Our valuation is based on a year end 2007 sotp, where we imply WACCs between 7.5% and 12% on the company's wireline assets with perpetuity growth rates of 0% to -1%. In the wireless properties we imply WACC of 8% to 15% and perpetuity growth rates of 0% to 1%.

Telefónica trades at a 2007E EV/EBITDA of 6.1x (sector 6.4x), 2007E P/E of 14.5x (sector 14.0x), 2007E dividend yield of 3.9% (sector 5.1%) and a 2007E FCF yield of 11.4% (sector 6.9%).



**Figure 228: Telefónica 2007E SOTP**

2007E SOTP analysis	Country of asset	EV	Economic shareholding	Economic Proportion value	Per share	EV/EBITDA				
						2004	2005E	2006E	2007E	
Domestic mobile	Spain	25,755	100.0%	25,755	21.6%	5.42	6.2	6.2	6.2	6.6
International mobile	Brazil	16,307	31.3%	5,096	4.3%	1.07	16.4	16.4	17.3	15.7
	UK	13,373	100.0%	13,373	11.2%	2.81	7.8	7.5	7.1	6.4
	Germany	5,628	100.0%	5,628	4.7%	1.18	12.3	8.4	8.1	6.4
	Mexico	13,373	10000.0%	1,337,338	1121.7%	281.47	-88.4	-83.6	-303.6	263.4
	Total from major mobile assets				1,387,190	1163.5%	291.96	194.3	187.2	181.9
Domestic fixed	Spain	19,344	100.0%	19,344	16.2%	4.07	4.4	4.1	4.2	4.2
International fixed line assets	Brazil	10,803	87.5%	9,452	7.9%	1.99	6.5	4.9	4.3	4.6
	Argentina	1,694	98.0%	1,660	1.4%	0.35	3.9	3.4	3.6	4.0
	Peru	2,474	98.2%	2,429	2.0%	0.51	5.6	5.3	4.7	5.0
	Chile	2,227	44.9%	1,000	0.8%	0.21	6.0	5.3	5.3	5.2
	Total fixed				33,885	28.4%	7.13	4.6	4.1	4.0
Other		-1,305,760		-1,305,760	-1095.2%	-274.82				
Associates				3,908	3.3%	0.82				
<b>EV</b>				<b>119,222</b>	<b>100.0%</b>	<b>25.09</b>				
Pensions				0						
Contingents/other				1,799		0.38				
Net debt				-52,602		-11.07				
<b>Equity value</b>				<b>68,419</b>		<b>14.40</b>				
Shares in issue at YE				4,751.3						
Price target				14.4						

Source: Deutsche Bank estimates

**Figure 229: Summary valuation assumptions**

Asset	EV	EV/EBITDA		EV/(EBITDA - capex)		WACC	Tax	Revenue CAGR			EBITDA margin			Capex:Sales		
		2006E	2007E	2006E	2007E			2006-2013	2013-2023	Terminal	2006	2013	Terminal	2006	2013	Terminal
Telefónica de España (Euro m)	19,337	4.2x	4.2x	6.6x	7.0x	7.5%	30.0%	-3.1%	-1.3%	-1.0%	38.7%	39.1%	39.0%	14.2%	18.8%	15.0%
Telesp (R\$)	31,372	4.5x	4.6x	6.0x	6.5x	10.0%	34.0%	-0.2%	-0.4%	0.0%	47.7%	45.0%	43.0%	11.7%	13.3%	12.5%
Telefónica de Argentina (Peso)	7,154	3.9x	4.0x	4.7x	4.8x	12.0%	35.0%	-1.1%	-0.5%	0.0%	51.7%	46.9%	45.0%	8.5%	9.6%	10.0%
Telefónica del Peru (Soles)	10,777	5.0x	5.0x	6.3x	6.4x	12.0%	30.0%	1.2%	0.5%	0.0%	47.8%	45.4%	45.0%	10.0%	10.9%	11.0%
O2 UK (GBP)	9,094	7.1x	6.4x	14.0x	11.0x	8.5%	30.0%	2.9%	0.3%	0.0%	27.3%	29.2%	29.0%	13.3%	10.7%	11.0%
O2 Germany (Euro)	5,628	8.1x	6.4x	-10.7x	-34.0x	8.0%	29.6%	4.0%	0.6%	0.0%	21.0%	27.9%	27.0%	36.9%	13.9%	12.0%
O2 Ireland (Euro)	2,451	6.4x	6.4x	9.2x	9.4x	8.0%	15.0%	-0.6%	0.0%	0.0%	40.0%	37.6%	36.0%	12.5%	13.0%	13.0%

Source: Deutsche Bank estimates

**Figure 230: TEM Summary valuation assumptions**

Asset	EV/EBITDA		EV/(EBITDA - capex)		WACC	Tax	Revenue CAGR			EBITDA margin			Capex:Sales			
	EV	2006E	2007E	2006E			2007E	2006-2013	2013-2023	Terminal	2006	2013	Terminal	2006	2013	Terminal
Telefónica Móviles España (Euro)	25,755	6.2x	6.6x	7.5x	8.4x	8.0%	30.0%	-0.4%	0.3%	0.0%	45.3%	41.2%	41.0%	7.7%	9.8%	10.0%
Telefónica Móviles Mexico (Mexican Peso)	19,520	-33.1x	25.3x	-5.6x	-8.8x	10.0%	33.0%	6.1%	2.3%	1.0%	-4.6%	30.7%	32.0%	22.2%	17.2%	17.0%
Unifon Argentina (Arg Peso)	13,150	11.5x	8.6x	16.7x	11.6x	12.0%	35.0%	5.3%	2.2%	1.0%	23.7%	38.0%	38.0%	7.4%	6.8%	8.0%
Telefónica Móviles Perú (Soles)	8,411	15.9x	10.2x	29.5x	15.0x	12.0%	30.0%	12.1%	3.4%	1.0%	28.5%	39.8%	39.0%	13.1%	9.0%	10.0%
Telefónica Móviles Chile (CH\$)	1,944,149	11.2x	8.5x	26.5x	13.1x	10.0%	15.0%	5.6%	1.7%	1.0%	33.1%	38.1%	38.0%	19.1%	11.5%	12.0%
Telefónica Móviles Venezuela (VEB)	22,789,254	10.5x	8.9x	14.6x	11.7x	15.0%	15.0%	9.9%	3.2%	1.0%	39.1%	42.5%	42.0%	11.0%	8.2%	10.0%
Guatemala and El Salvador (US\$)	753	6.8x	5.9x	29.1x	12.1x	10.0%	30.0%	6.4%	2.8%	1.0%	29.6%	30.4%	31.0%	22.7%	15.0%	15.0%

Source: Deutsche Bank estimates

### Investment case: Returns starting to decline

The main thrust of our cautious stance on Telefónica is premised on increased domestic competition and our belief that the company's returns are unsustainable high: we model operating cash flow margins of 22.8% for 2006, but with the revised capex numbers this is likely to be closer to 22%. We model a 22.2% for 2007 but there is clearly downside risk to this number. This capex increase represents one possible driver of lower returns for TEF and in 2007 we expect the pressures on revenue and margins to increase (especially domestically), putting further pressure on the group's returns. Please refer to our report Telefónica: A case of heightened expectations issued on 4 September for a comprehensive review).

However, our sanguine view on the performance of O2 UK could be challenged in the coming quarters by further tariffs cuts and a recovering performance by Orange and Vodafone.

In Germany, where we are already more cautious, we would highlight the recent tariff cuts that could dampen market growth into 2007. Indeed in recent months Base has cuts its tariff to Euro 20 and O2's revised Genion range is aggressively priced, with its most expensive bundle at Euro 25 and recently E-Plus launched a Euro 0.1 per minute call tariff to any network (no monthly fee).

Target Euro 14.6, which is at the base of a Hold rating under the DB recommendation structure.

Europe Austria  
Telecommunications Wireline Services

# Telekom Austria

Reuters: **TELA.VI** Bloomberg: **TKA AV**

## Focus on cots cutting update

### Full Year 2006 results on 6 March: Increasingly difficult domestic mobile

Mobilkom Austria's market share declined 0.7% to 38.8% in Q3'06 compared with Q3'05 due to heavy competition in the low price segment of the market, leading TKA to introduce a no frills offer called "Bob" in July 2006. The impact on blended ARPU is still uncertain and there is a risk that our modelled reductions in ARPU (6% in 2007E and 3% in 2008E) might not be sufficient when also considering the 12% mobile termination cut in January 2007 and 7% cut in July 2007.

The company has also expressed an interest in the OTE privatisation and consequently an update on its plans would be useful.

### Headcount reductions necessary for further valuation upside

We have not reflected any material head count reductions in our medium term estimates. Despite the conservatives gaining key ministries in the grand coalition government (ironic considering that the socialists surprisingly won the election), there is little clarity on reforms of the civil service. Telekom Austria employs c. 7,200 civil servants with an average age of c. 40 years, making it very expensive to reduce headcount further. Telekom Austria last reduced headcount materially in 2004 and without further action we expect payroll costs in the fixed division to increase from 36% of operating costs in 2006 to 41% by 2010.

### Valuation and risks: Target price Euro 22 (SoTP based on DCF models)

For our SOTP valuation, our WACC and terminal growth rate assumptions range from 7.5-10% and -1% to +1%, depending on the level of risk and maturity of the business. Risks to the upside include an improved pricing environment, lower capital intensity, workforce reductions and higher pay-out levels to shareholders. The stock trades at 6.7x 2007E EV/EBITDA (in line with the sector) and on a FCF Yield of 9.4% (sector 8.4%).

### Forecasts and ratios

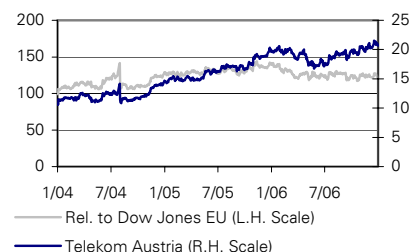
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	4,057	4,365	<b>4,745</b>	4,674	4,699
EBITDA (EURm)	1,571	1,758	<b>1,924</b>	1,830	1,807
EBITA (EURm)	452	603	<b>797</b>	817	844
PBT DB (EURm)	401	574	<b>756</b>	770	798
PBT stated (EURm)	331	496	<b>683</b>	697	725
DB EPS (EUR)	0.56	0.92	<b>1.31</b>	1.36	1.42
DB EPS growth (%)	45.4	65.2	<b>41.7</b>	4.0	4.6
P/E (DB EPS) (x)	21.4	17.5	<b>15.7</b>	15.1	14.5
EV/EBITDA (x)	5.1	6.3	<b>6.6</b>	6.8	6.7
EV/EBITA (x)	17.7	18.3	<b>15.9</b>	15.2	14.4
DPS (EUR)	0.24	0.55	<b>0.76</b>	0.80	0.85
Yield (%)	2.0	3.4	<b>3.7</b>	3.9	4.1

Source: Deutsche Bank estimates, company data

### Hold

Price Target (EUR) **22.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.1	4.6	3.2
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>9,548.8</b>
Shares outstanding (m)	<b>463</b>
Free float (%)	<b>75</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>12,364</b>

### Key indicators

ROE (%)	<b>19.3</b>
ROC	<b>8.2</b>
Net debt/equity	<b>107.2</b>
Book value/share (EUR)	<b>6.2</b>
Price/book	<b>3.3</b>
Net interest cover	<b>7.1</b>
EBITDA margin	<b>40.6</b>
EBIT margin	<b>16.8</b>

### FY 2006 results

Results date	6 March
Time of release	06:00 (GMT)
Company conference call / Webcast	15:00 (GMT)
Dial in	TBA
Pin code	TBA
Press Conference/Live Webcast	09:30 (GMT)
Replay no	TBA
Pin code	TBA

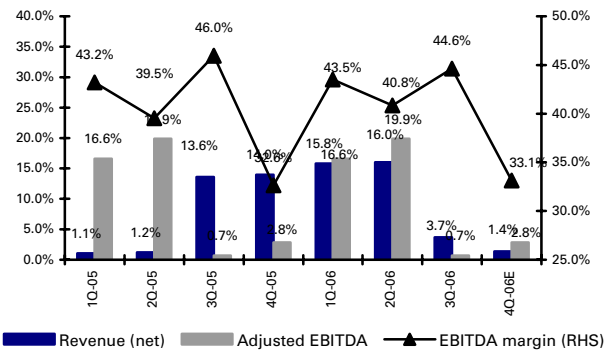
### Recent research

Downgrade to Hold on valuation	10 January
No growth but cheap	14 November
3Q results; we see no risk to our FY estimates	14 November

### Results outlook

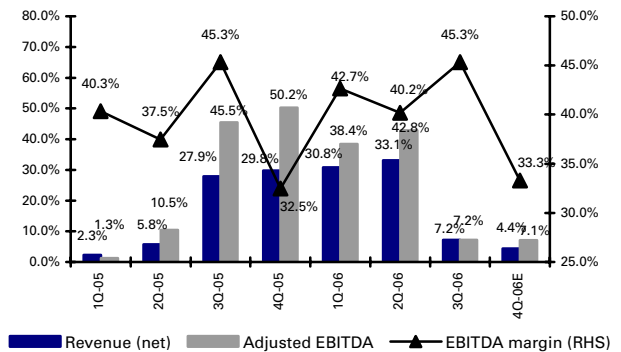
- Figure 231: Group revenue & EBITDA growth and EBITDA margin
- Figure 232: Mobile revenue & EBITDA growth and EBITDA margin
- Figure 233: Fixed revenue & EBITDA growth and EBITDA margin
- Figure 234: Total voice minutes (m)
- Figure 235: ADSL subscriber net additions (000)
- Figure 236: Access lines – Net additions (000)
- Figure 237: Mobilkom Austria (domestic mobile) revenue and EBITDA growth
- Figure 238: Mobilkom Austria customers (000) and ARPU (Euro)
- Figure 239: Mobitel Bulgaria revenue and EBITDA growth
- Figure 240: Mobitel Bulgaria customers (000) and ARPU (Euro)

**Figure 231: Group revenue & EBITDA growth and EBITDA margin**



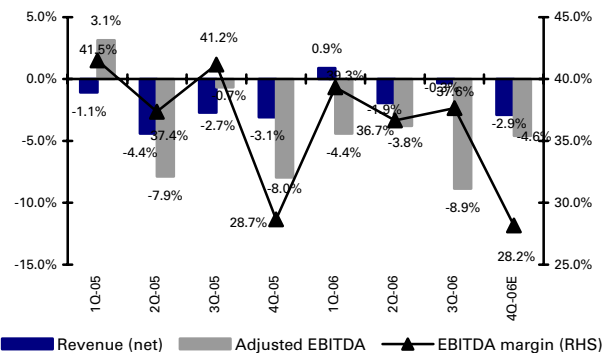
Source: Deutsche Bank estimates and company data

**Figure 232: Mobile revenue & EBITDA growth and EBITDA margin**



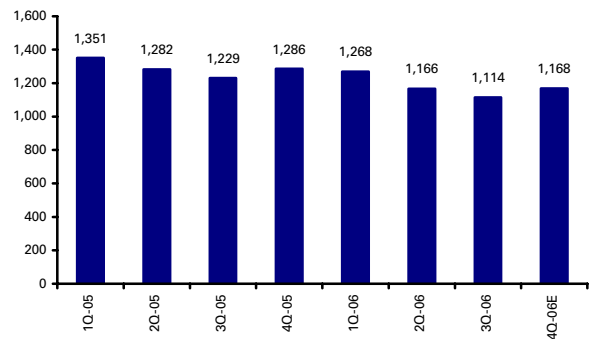
Source: Deutsche Bank estimates and company data

**Figure 233: Fixed revenue & EBITDA growth and EBITDA margin**



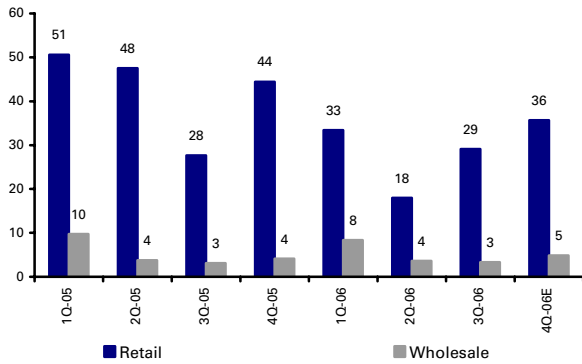
Source: Deutsche Bank estimates and company data

**Figure 234: Total voice minutes (m)**



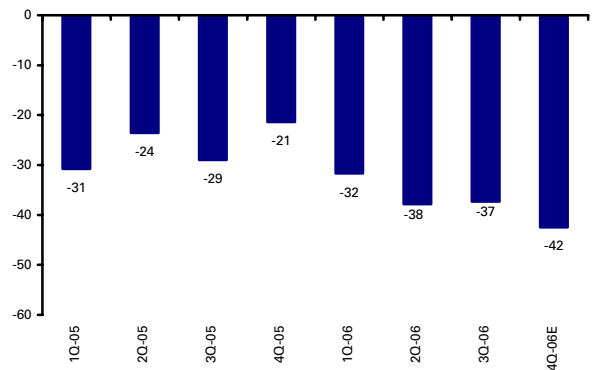
Source: Deutsche Bank estimates and company data

**Figure 235: ADSL subscriber net additions (000)**



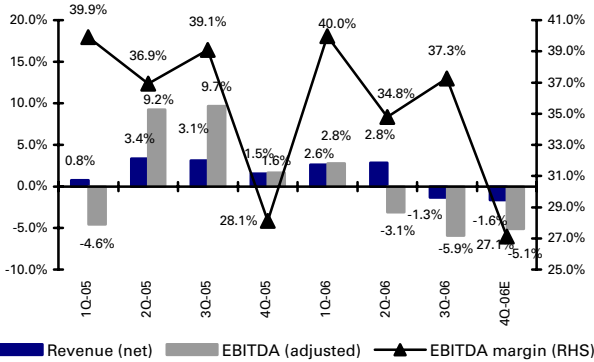
Source: Deutsche Bank estimates and company data

**Figure 236: Access lines – Net additions (000)**



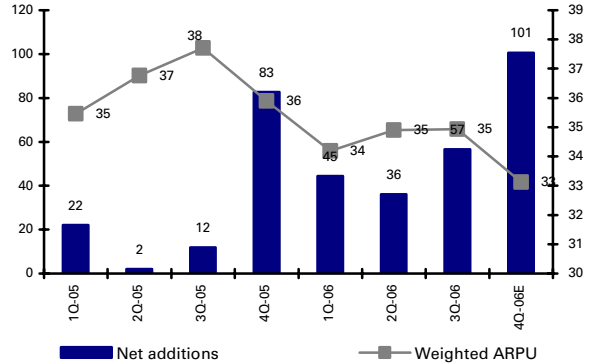
Source Deutsche Bank estimates and company data

**Figure 237: Mobillkom Austria (domestic mobile) revenue and EBITDA growth**



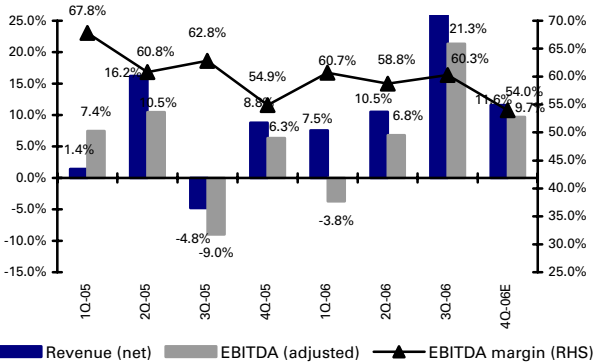
Source: Deutsche Bank estimates and company data

**Figure 238: Mobillkom Austria customers (000) and ARPU (Euro)**



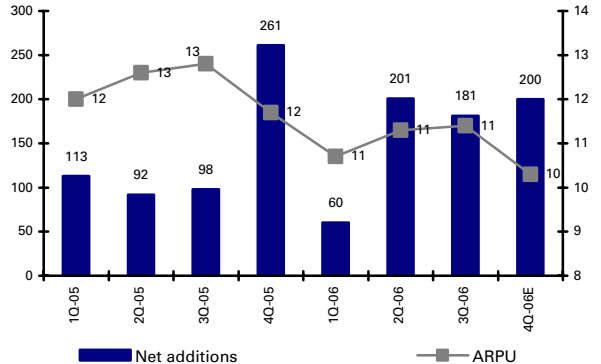
Source: Deutsche Bank estimates and company data

**Figure 239: Mobitel Bulgaria revenue and EBITDA growth**



Source: Deutsche Bank estimates and company data

**Figure 240: Mobitel Bulgaria customers (000) and ARPU (Euro)**



Source: Deutsche Bank estimates and company data

**Figure 241: Telekom Austria Q4 2006 summary results outlook (Euro m)**

Year ended December 31	1Q-05	2Q-05	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06	4Q-06E	YoY% (E)	2005	2006E	YoY%
Revenues	1,001	1,008	1,188	1,169	1,159	1,169	1,232	1,184	1.4%	4,365	4,745	8.7%
EBITDA (reported)	433	398	546	382	504	478	550	392	2.8%	1,759	1,924	9.4%
EBITDA margin	43%	40%	46%	32.6%	44%	41%	45%	33%	0.5%	40%	41%	0.3%
EBIT	170	126	264	60	222	193	282	101	70.2%	620	797	28.6%
Interest expense	(27)	(26)	(30)	(29)	(26)	(28)	(30)	(30)	3.2%	(112)	(113)	0.7%
Capex	119.6	130.3	123.4	255	122	151	149	565	121.5%	629	987	57.0%
Capex / Sales	12%	13%	10%	22%	11%	13%	12%	48%	25.9%	14%	21%	6.4%
Net income	111	75	184	39	154	131	214	57	47.1%	409	555	35.8%
Net debt	2,034	2,001	3,158	3,219	2,991	3,108	2,936	3,090	-4.0%	3,219	3,090	-4.0%

**Revenues**

Fixed	530	530	532	532.5	535	519	530	517	-2.9%	2,124	2,101	-1.1%
Mobile - Austria	423	410	442	439.8	434	422	436	433	-1.6%	1,715	1,725	0.6%
Mobile - Bulgaria	0	0	128	135.1	127	144	161	151	11.6%	263	583	122.0%
Mobile - Croatia	84	103	132	103.3	101	117	145	119	15.6%	422	483	14.4%
Mobile - Slovenia	22	24	28	27.6	27	31	37	37	33.9%	101	132	31.4%
Mobile - Other	(2)	(3)	(8)	(2.1)	(1)	(3)	(7)	(5)	135.7%	(15)	(16)	2.9%
Total Revenues	1,056	1,064	1,253	1,236	1,223	1,230	1,303	1,252	1.3%	4,609	5,008	8.7%
Intercompany	56	56	64	67.7	65	61	70	68	-0.1%	244	263	8.1%
Net revenues	1,001	1,008	1,188	1,169	1,159	1,169	1,232	1,184	1.4%	4,365	4,745	8.7%

**EBITDA**

Fixed	220	198	219	152.6	210	190	199	146	-4.6%	789	746	-5.5%
Mobile - Austria	169	152	173	123.7	174	147	162	117	-5.1%	617	600	-2.7%
Mobile - Bulgaria	0	0	80	74.2	77	85	97	81	9.7%	154	340	120.6%
Mobile - Croatia	34	42	64	28.5	35	47	78	39	36.6%	169	198	17.3%
Mobile - Slovenia	7	7	9	2.4	8	6	12	5	126.3%	25	31	26.3%
Mobile - Other	2	(0)	2	(0.2)	1	2	1	2	-900.0%	3	5	46.9%
Other	0	0	0	0.3	0	1.4	0	2	566.7%	1	4	178.6%
Total EBITDA	433	398	546	381.5	504	478	550	392	2.8%	1,759	1,924	9.4%

**EBITDA Margin**

Fixed	41.5%	37.4%	41.2%	28.7%	39.3%	36.7%	37.6%	28.2%	-0.5%	37.2%	35.5%	-1.7%
Mobile - Austria	39.9%	36.9%	39.1%	28.1%	40.0%	34.8%	37.3%	27.1%	-1.0%	36.0%	34.8%	-1.2%
Mobile - Bulgaria			62.8%	54.9%	60.7%	58.8%	60.3%	54.0%	-0.9%	58.8%	58.4%	-0.4%
Mobile - Croatia	41.1%	40.7%	48.4%	27.6%	34.3%	39.9%	53.4%	32.6%	5.0%	40.0%	41.0%	1.0%
Mobile - Slovenia	31.9%	28.7%	31.2%	8.7%	27.9%	19.5%	33.0%	14.7%	6.0%	24.6%	23.7%	-0.9%
Total EBITDA	40.9%	37.5%	43.6%	30.9%	41.2%	38.8%	42.2%	31.3%	0.5%	38.2%	38.4%	0.3%

Source: Deutsche Bank estimates and company data

**Figure 242: Telekom Austria Q4 2006 summary results outlook (Euro m)**

Year ended December 31	1Q-05	2Q-05	3Q-05	4Q-05	1Q-06	2Q-06	3Q-06	4Q-06E	YoY% (E)	2005	2006E	YoY%
<b>Fixed revenue breakdown</b>												
Switched voice	102	100.9	98	98	100	88	86	88	-10.7%	398	360	-9.5%
Monthly rental	139	138.6	138	133	133	131	130	127	-4.6%	549	521	-5.1%
Payphones and VAS	13	12.1	12	11	11	11	12	11	-6.0%	48	44	-7.8%
Data and IT	103	101.6	104	111	104	103	103	108	-3.0%	420	417	-0.6%
Internet access and Media	58	58.3	60	66	67	65	66	63	-3.9%	242	262	8.2%
Wholesale voice and Internet	88	90.2	90	81	92	94	104	90	12.0%	349	381	9.0%
Other	28	27.9	30	33	28	28	30	31	-6.0%	118	116	-1.6%
Total (gross)	530	529.6	532	533	535	519	530	517	-2.9%	2,124	2,101	-1.1%

**Domestic operating data - fixed**

Total fixed volumes	2,066	1,841.0	1,736	1,791	1,731	1,532	1,424	1,471	-17.9%	7,434	6,158	-17.2%
Total voice volumes	1,351	1,282.0	1,229	1,286	1,268	1,166	1,114	1,168	-9.2%	5,148	4,716	-8.4%
ADSL - retail	349	396.5	424	469	502	520	549	585	24.8%	469	585	24.8%
ADSL - wholesale	95	98.6	102	106	114	118	121	126	18.9%	106	126	18.9%

**Domestic operating data - mobile**

ARPU	35	36.8	37.7	35.9	34.2	34.9	34.9	33.1	-7.7%	37	34	-5.6%
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Source: Deutsche Bank estimates and company data

**Investment case**

- Looks fairly valued – Our target price is only marginally above the current price and the total return opportunity we see of around 7% does not justify a Buy rating.
- Limited growth expectations over the next three years (Proforma 3YR CAGR of revenues and EBITDA of 0.3% and -0.3% respectively on our estimates)
- We do not model material workforce reductions in the wireline business, albeit they look necessary. Following 1,415 reductions in 2002, 1,125 in 2003, 552 in 2004 our current medium term estimates embody annual reductions of only c. 100 employees from natural attrition.

**Valuation – target Euro 22.0**

We have used a sum-of-the-parts analysis to derive our price target because we feel it best reflects the intrinsic value of the group. By valuing the component assets of the group independently, we believe we have better captured the revenue and profitability trends, the different levels of capital intensity and risk profile of the individual businesses. WACC and terminal growth rates range from 7.5-10% and -1% to +1%, depending on the level of risk and maturity of the business.

**Risks**

Negative risks to valuation include: higher than expected competition in the domestic businesses, greater cuts in roaming tariffs and mobile interconnect rates in Bulgaria, and potential value-destructive M&A. Positive risks to valuation include further headcount reductions in the domestic wireline business and positive tariff momentum.

Europe Belgiums  
Telecommunications Wireline Services

# Telenet Group Holding NV

Reuters: **TNET.BR** Bloomberg: **TNET BB**

## M&A still overshadowing fundamentals

### Full Year 2006 results on 15 February 2007

Our primary focus in Telenet's FY06 results will be to see if there has been any pick up in momentum in the iTV service as this is key to medium term growth prospects. Original company expectations were for iTV penetration to reach about 20% by year end but this target was dropped earlier in the year and the outcome is likely to be in the mid teens. Telenet's MVNO business appears to have got off to a solid start, we are looking for y/e mobile subs of c13k. We will also be looking for further disclosure on the UPC Brussels business acquired during the quarter and the scope of potential synergies from integrating this asset with the core business. We also expect the market to probe on the potential for further M&A and Telenet's own potential as a target (e.g. linked with Mobistar, Reuters 19<sup>th</sup> October 2006).

### Valuation - TP EUR20

We use a DCF-based valuation model to derive our Telenet target price. Key assumptions include a WACC of 8.5% and perpetuity growth of 0% - consistent with our assumptions for the European telecoms sector.

### Key risks

Key upside risks include an improvement in the momentum of the iTV service which could drive upside to estimates. In addition, an offer for Telenet could be forthcoming and recent cable sector multiples have been executed at 10-11x prospective EBITDA representing a c30% premium to Telenet's current multiple. On the downside, more aggressive competition from Belgacom in the TV and broadband markets could create additional pressure on financial performance.

### Forecasts and ratios

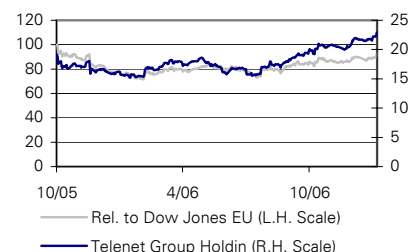
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	681	737	<b>812</b>	927	987
EBITDA (EURm)	309	338	<b>368</b>	424	459
DB EPS (EUR)	-0.56	-0.71	<b>0.09</b>	0.86	1.28
DB EPS growth (%)	65.0	-28.0	-	892.8	49.0
P/E (DB EPS) (x)	-	-	<b>265.0</b>	26.7	17.9
EV/EBITDA (x)	-	8.7	<b>9.4</b>	8.1	6.9
DPS (EUR)	0.00	0.00	<b>0.00</b>	0.00	0.00
Yield (%)	-	0.0	<b>0.0</b>	0.0	0.0

Source: Deutsche Bank estimates, company data

### Hold

Price Target (EUR) **20.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.6	18.7	46.4
Dow Jones EURO			
STOXX Price	1.1	7.1	19.7

### Stock data

Market cap (EUR)(m)	<b>2,294.7</b>
Shares outstanding (m)	<b>110</b>
Free float (%)	<b>44</b>
Dow Jones EURO STOXX Price	<b>399.9</b>
Market Cap (US\$)	<b>2,971</b>

### Key indicators

ROE (%)	<b>1.3</b>
ROC	<b>3.4</b>
Net debt/equity	<b>162.5</b>
Book value/share (EUR)	<b>7.2</b>
Price/book	<b>3.2</b>
Net interest cover	<b>1.4</b>
EBITDA margin	<b>45.3</b>
EBIT margin	<b>17.7</b>

### FY 2006 results

Results date	15 February 2007
Time of release	after market closes
Company conference call time	16 Feb @ 14:00 (GMT)
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

### Recent research

M&A buoyancy	8 January
TP lifted to EUR19.1/share	30 November



**DB expectations for Telenet 4Q6E and 2006E**

<b>Figure 243: Telenet, EUR millions</b>					
<b>Financials</b>	<b>4Q05A</b>	<b>3Q06A</b>	<b>4Q06E</b>	<b>2006E</b>	<b>2007E</b>
Basic cable TV	61.4	58.5	58.2	233.6	254.5
Premium cable TV	8.3	12.0	12.6	47.3	63.0
Residential broadband	61.4	67.4	70.2	267.4	318.9
Residential telephony	44.7	47.1	50.2	190.6	203.8
Business services	17.5	18.0	19.0	73.0	75.2
Other (MVNO etc.)	0.0	0.0	0.6	0.6	11.2
<b>Total revenues</b>	<b>193.3</b>	<b>203.0</b>	<b>210.7</b>	<b>812.4</b>	<b>926.7</b>
<b>EBITDA</b>	<b>81.8</b>	<b>93.6</b>	<b>92.0</b>	<b>367.9</b>	<b>424.4</b>
Margin	42.3%	46.1%	43.7%	45.3%	45.8%
Capex (inc intangibles)	59.7	49.3	61.3	-208.8	-211.3
<b>Net debt</b>	<b>1,234.6</b>	<b>1,208.2</b>	<b>1,170.0</b>	<b>1,170.0</b>	<b>1,136.7</b>
<b>Operating stats</b>					
Analogue TV subs	1,514	1,424	1,385	1,512	1,349
iDTV subs	75	182	224	229	383
Total basic TV subs	1,589	1,606	1,609	1,741	1,732
Residential telephony subs	358	420	450	450	525
ARPU	31.60	30.31	30.81	30.38	28.86
Residential broadband subs	601	672	700	741	861
ARPU	33.20	33.00	32.87	32.96	32.13

Source: Deutsche Bank

Europe Norway  
Telecommunications Wireline Services

# Telenor ASA

Reuters: TEL.OL Bloomberg: TEL NO

## Growth and cost control

### Full Year 2006 results on 15 February 2007

The investment case is based on sustainable medium term growth due to exposure to under-penetrated mobile markets (46% of EV) and cost cutting/restructuring of the Nordic businesses. Thailand represents only 4% of Telenor's EV. Deconsolidation of the asset would not impact 2006-08 revenue CAGR and would only reduce the EBITDA growth rate by c. 20 bps.

### Medium term upgrade to estimates – again

We recently increased our 2006-08 revenue estimates by 0.3%, 1.0% and 1.5% and EBITDA estimates by 0.3%, 2.4% and 3.4% respectively and raised net income estimates for the same period by 1%, 5% and 7%. Ukraine and Thailand are the drivers of the increase due to a more benign pricing environment and less margin pressure than previously expected. In the Ukraine, we have taken a more positive margin outlook on the back of the better than expected results and outlook of the Russian operators as we believe that the Ukrainian market will develop in a similar fashion to the Russian one. The aggressive campaigns for market share ahead of the introduction of new entrants have been abandoned for more metered customer acquisition and loyalty campaigns and it appears that market leaders (Kyivstar and MTS) have learnt from their past mistakes. In Thailand, the introduction of interconnection rates, as opposed to a pure revenue share model, has put a floor to outgoing tariffs which should also support margins in our view.

### Valuation- Target Price NOK 136

Our price target is based on a SOTP valuation with DCF valuations of most assets. We believe such a methodology captures the different risk profiles and maturity levels of the component assets (WACC 7-12%, g-1 to 4%). Negative risks to valuation include valued destructive M&A, greater than expected price erosion in the domestic businesses and loss of implied control premium if Digi (Malaysia) and TAC (Thailand) were to be deconsolidated.

### Forecasts and ratios

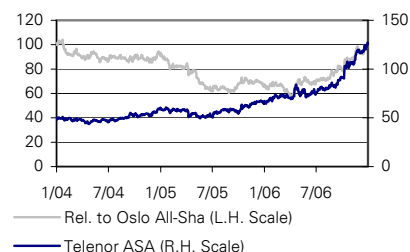
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (NOKm)	60,701	68,927	92,941	99,348	104,417
EBITDA (NOKm)	20,957	23,836	33,550	38,268	40,683
EBITA (NOKm)	9,785	15,169	24,416	29,118	29,813
PBT DB (NOKm)	8,938	12,534	20,150	22,732	24,791
PBT stated (NOKm)	9,296	12,591	20,150	22,732	24,791
DB EPS (NOK)	2.04	4.03	7.32	7.58	8.78
DB EPS growth (%)	-21.8	98.0	81.5	3.5	15.8
P/E (DB EPS) (x)	24.2	14.2	17.2	16.6	14.4
EV/EBITDA (x)	5.1	5.5	7.8	6.6	5.9
EV/EBITA (x)	11.0	8.7	10.7	8.6	8.0
DPS (NOK)	1.50	2.00	2.60	3.00	3.20
Yield (%)	3.0	3.5	2.1	2.4	2.5

Source: Deutsche Bank estimates, company data

### Buy

Price Target (NOK) **136.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.6	38.3	93.8
Oslo All-Share Index	1.7	11.0	27.8

### Stock data

Market cap (NOK)(m)	<b>212,688.0</b>
Shares outstanding (m)	<b>1,688</b>
Free float (%)	<b>46</b>
Oslo All-Share Index	<b>499.0</b>
Market Cap (US\$)	<b>33,009</b>

### Key indicators

ROE (%)	<b>25.0</b>
ROC	<b>9.3</b>
Net debt/equity	<b>73.3</b>
Book value/share (NOK)	<b>31.5</b>
Price/book	<b>4.0</b>
Net interest cover	-
EBITDA margin	<b>36.1</b>
EBIT margin	<b>19.8</b>

### FY 2006 results

Results date	15 February 2007
Time of release	06:00 (GMT)
Company conference call time	09:00 (GMT)
Dial in	from Norway +47 80082119 from abroad +47 22391800
Pin code	N/A
Webcast	www.telenor.com/ir link "Live Broadcast"
Mobile	TBA
Replay no	TBA
Pin code	TBA

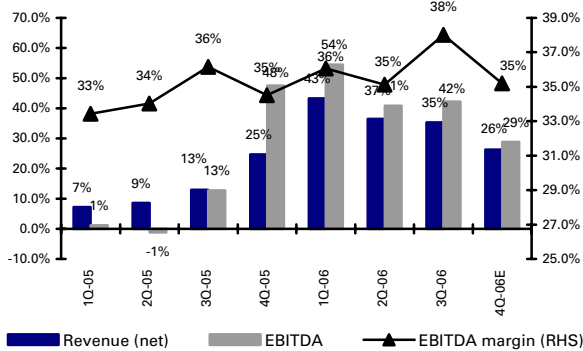
### Recent research

Growth + cost control	10 January
Target raised again	6 November
Delivered! -Ukraine, domestic (ARPU and fixed margins)	26 October

## Results outlook

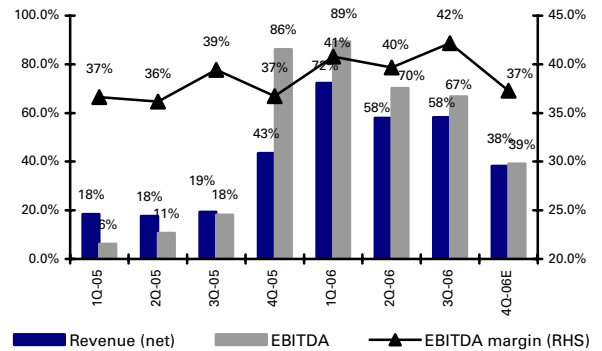
- Figure 244: Group revenue & EBITDA growth rates and EBITDA margin
- Figure 245: Mobile revenue & EBITDA growth rates and EBITDA margin
- Figure 246: Telenor Mobile revenue & EBITDA growth rates and EBITDA margin
- Figure 247: Telenor Mobile customer net additions (000)
- Figure 248: Pannon revenue & EBITDA growth rates and EBITDA margin
- Figure 249: Pannon customers (000) and ARPU (NOK)
- Figure 250: DiGi revenue & EBITDA growth rates and EBITDA margin
- Figure 251: DiGi customers (000) and ARPU (NOK)
- Figure 252: GrameenPhone revenue & EBITDA growth rates and EBITDA margin
- Figure 253: GrameenPhone customers (000) and ARPU (NOK)
- Figure 254: Kyivstar revenue & EBITDA growth rates and EBITDA margin
- Figure 255: Kyivstar customer net additions (000)
- Figure 256: Norway – Fixed revenue & EBITDA growth rates and EBITDA margin
- Figure 257: Norway - Access lines net additions (000)
- Figure 258: DSL subscriber net additions (k)
- Figure 259: Traffic volume trends

**Figure 244: Group revenue & EBITDA growth rates and EBITDA margin**



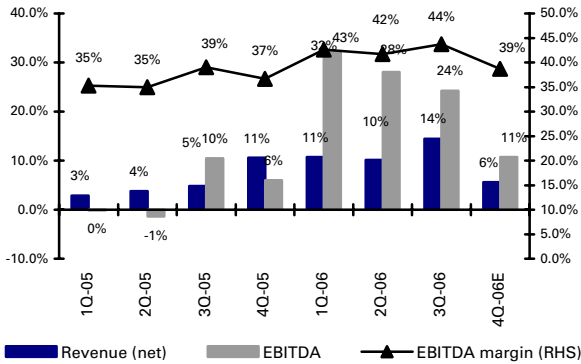
Source: Company data and Deutsche Bank estimates

**Figure 245: Mobile revenue & EBITDA growth rates and EBITDA margin**



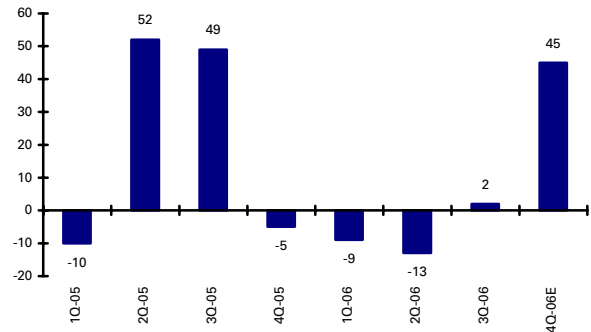
Source: Company data and Deutsche Bank estimates

**Figure 246: Telenor Mobile revenue & EBITDA growth rates and EBITDA margin**



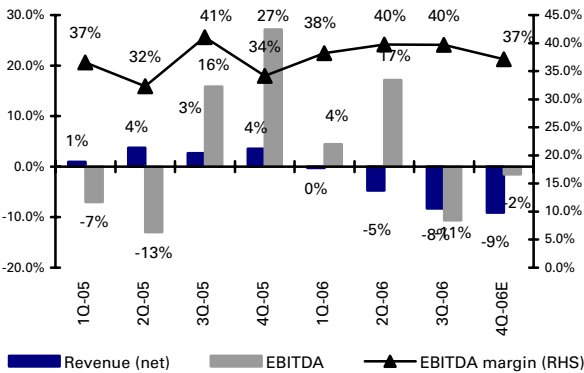
Source: Company data and Deutsche Bank estimates

**Figure 247: Telenor Mobile customer net additions (000)**



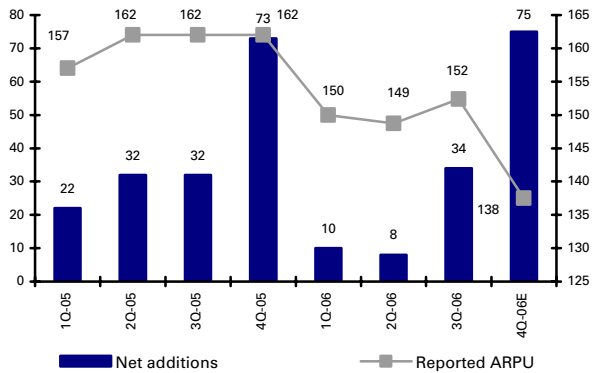
Source: Company data and Deutsche Bank estimates

**Figure 248: Pannon revenue & EBITDA growth rates and EBITDA margin**



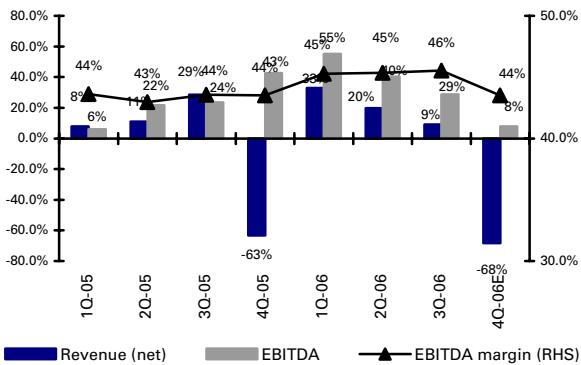
Source: Company data and Deutsche Bank estimates

**Figure 249: Pannon customers (000) and ARPU (NOK)**



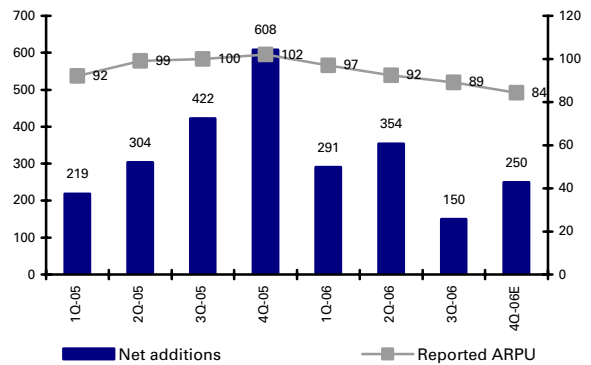
Source: Company data and Deutsche Bank estimates

**Figure 250: DiGi revenue & EBITDA growth rates and EBITDA margin**



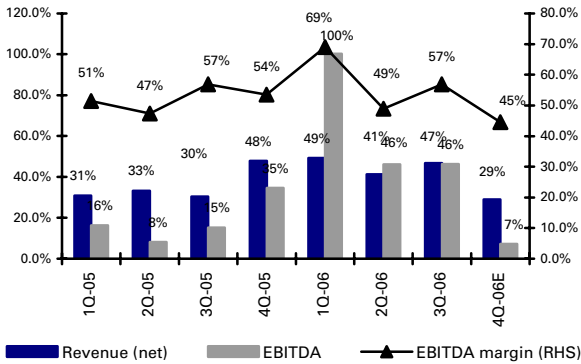
Source: Company data and Deutsche Bank estimates

**Figure 251: DiGi customers (000) and ARPU (NOK)**



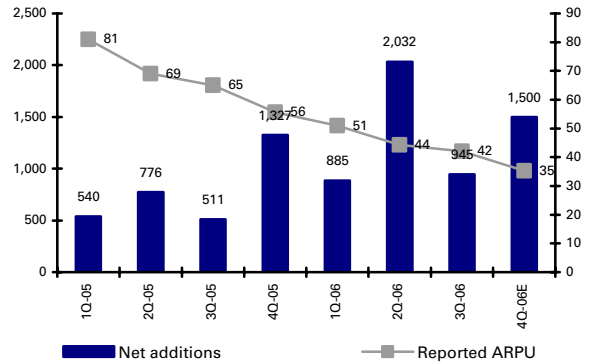
Source: Company data and Deutsche Bank estimates

**Figure 252: GrameenPhone revenue & EBITDA growth rates and EBITDA margin**



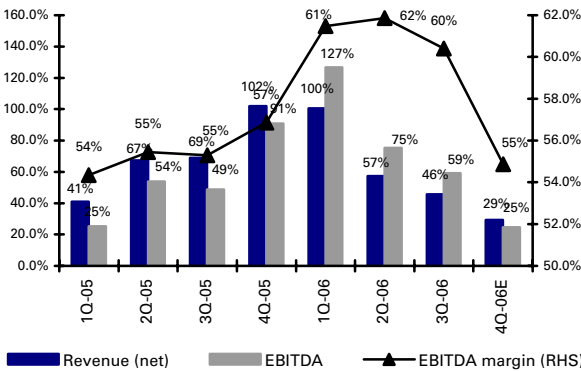
Source: Company data and Deutsche Bank estimates

**Figure 253: GrameenPhone customers (000) and ARPU (NOK)**



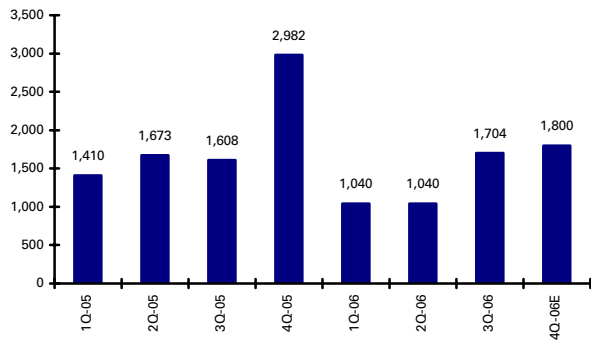
Source: Company data and Deutsche Bank estimates

**Figure 254: Kyivstar revenue & EBITDA growth rates and EBITDA margin**



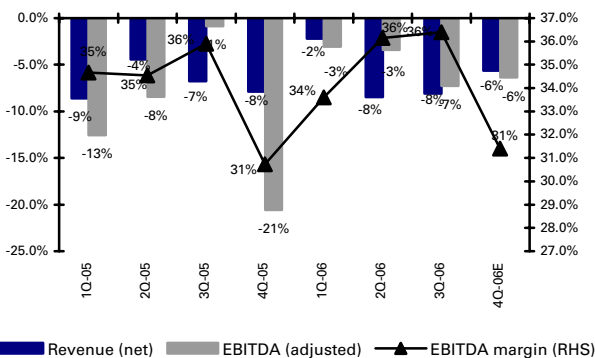
Source: Company data and Deutsche Bank estimates

**Figure 255: Kyivstar customer net additions (000)**



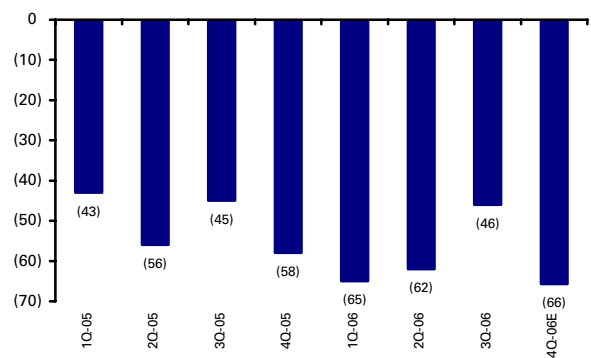
Source: Company data and Deutsche Bank estimates

**Figure 256: Norway – Fixed revenue & EBITDA growth rates and EBITDA margin**



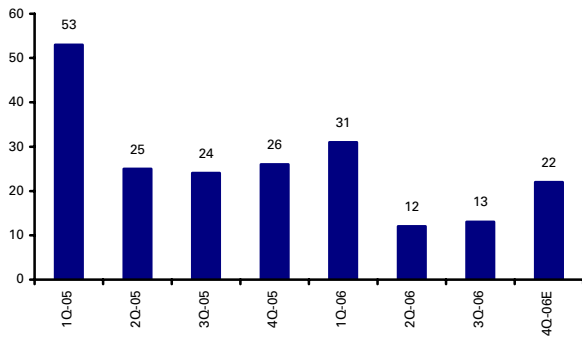
Source: Company data and Deutsche Bank estimates

**Figure 257: Norway - Access lines net additions (000)**



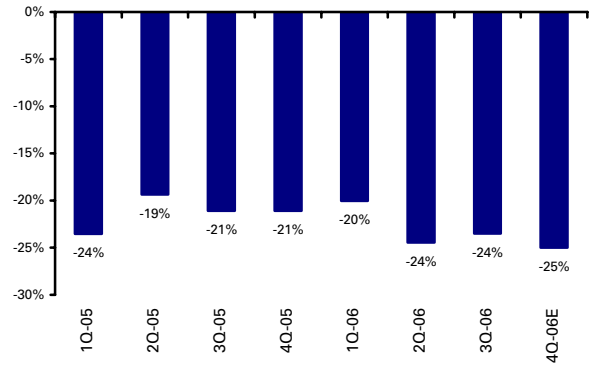
Source: Company data and Deutsche Bank estimates

**Figure 258: DSL subscriber net additions (k)**



Source: Company data and Deutsche Bank estimates

**Figure 259: Traffic volume trends**



Source: Company data and Deutsche Bank estimates

**Figure 260: Telenor summary results outlook (NOK m)**

	1Q 05	2Q 05	3Q 05	4Q 05	1Q 06	2Q 06	3Q 06	4Q Consensus 2006E	YoY E	2006E	2007E	YoY E	
Revenues	15,270	16,542	17,641	19,474	21,874	22,580	23,868	24,599	24,749	26%	92,941	99,348	7%
EBITDA (adjusted)	5,108	5,652	6,598	6,491	7,951	7,957	8,997	8,659	8,767	33%	33,863	38,267	13%
EBITDA margin	33%	34%	37.4%	33.3%	36.3%	35.2%	37.7%	35.2%	35.4%		36%	39%	5.7%
EBIT	2,425	2,859	3,472	2,949	4,364	4,299	5,295	4,446	4,896	51%	18,404	22,820	24%
Net financial	151	-28	-122	-348	1,206	-724	193	-550	214	58%	125	-1,983	-1688%
Pretax profit	2,815	3,325	3,785	2,666	5,882	3,937	6,050	4,281	5,461	61%	20,150	22,732	13%
Net income	1,710	2,041	2,200	1,005	3,714	2,284	3,781	2,577	5,683	156%	12,356	12,793	4%
Capex	3,360	2,923	3,720	5,382	3,703	4,422	4,816	6,620	5,862	23%	19,566	18,749	-4%
Capex / Sales	22%	18%	21%	28%	17%	20%	20%	27%	24%		21%	19%	-10%
Net debt	16,986	18,728	22,554	31,400	35,730	38,740	48,364	45,252	41,975	44%	45,252	35,730	-21%

**Divisional Breakdown**

Revenues													
Mobile	8,451	9,600	10,520	12,317	14,363	14,895	16,402	16,891	17,351	37%	62,551	71,908	15%
Fixed	4,571	4,753	4,964	5,025	5,069	4,999	4,841	5,025	4,913	0%	19,954	19,235	-4%
Broadcast	1,390	1,401	1,392	1,466	1,517	1,564	1,573	1,550	1,597	6%	6,204	6,497	5%
EDB	1,231	1,285	1,217	1,258	1,335	1,449	1,350	1,550		23%	5,684	6,181	9%
Other	654	654	686	716	695	698	748	757	2,659	6%	2,898	473	-84%
Corporate	582	603	517	564	522	568	507	536		-5%	2,133	2,026	-5%
Eliminations	-1,609	-1,754	-1,655	-1,872	-1,627	-1,593	-1,553	-1,710	-1,675	-9%	-6,483	-6,973	8%
Total Revenues	15,270	16,542	17,641	19,474	21,874	22,580	23,868	24,599	24,749	26%	92,941	99,348	7%

**EBITDA reported**

Mobile	3,095	3,472	4,149	4,524	5,858	5,910	6,918	6,296	6,711	39%	24,982	29,561	18%
Fixed	1,408	1,504	1,430	1,543	1,559	1,567	1,671	1,450	1,490	-6%	6,247	6,180	-1%
Broadcast	380	411	394	331	408	437	485	438	396	32%	1,768	1,885	7%
EDB Business	177	187	224	197	191	141	39	429		118%	800	950	19%
Other	74	89	122	106	60	84	126	145	206	37%	415	165	-60%
Corporate and group activities	-9	-44	77	-109	-115	-141	-82	-50		-54%	-388	-173	-55%
Eliminations	-19	11	-18	130	-73	-68	-84	-50	-49	-138%	-275	-300	9%
Media/Gain	0	0	0	0	0	0	0	0			0	0	#DIV/0!
Total EBITDA	5,106	5,630	6,378	6,722	7,888	7,930	9,073	8,659	8,767	29%	33,550	38,267	14%

**Domestic operating data - fixed**

Total fixed volumes	2,848	2,644	2,250	2,502	2,277	1,997	1,721	1,877		-25%	7,872	5,904	-25%
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**Domestic operating data - mobile**

MOU / month	175	191	186	184	186	196	199	197		7%	194	204	5%
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Source: Company data and Deutsche Bank estimates

**Figure 261: Telenor summary results outlook (NOK m) [continued]**

	1Q 05	2Q 05	3Q 05	4Q 05	1Q 06	2Q 06	3Q 06	4Q 2006E	Consensus	YoY E	2006E	2007E	YoY E
<b>Mobile - Revenue gross</b>													
Telenor Mobil	2,838	3,049	3,121	3,235	3,105	3,273	3,458	3,396	3,398	5%	13,232	13,671	3%
Pannon GSM	1,415	1,498	1,583	1,565	1,413	1,427	1,464	1,416	1,483	-9%	5,720	5,457	-5%
DiGi.Com	1,034	1,161	1,285	1,452	1,546	1,544	1,584	1,567	1,684	8%	6,241	7,255	16%
GrameenPhone	640	705	775	850	955	997	1,133	1,095	1,196	29%	4,180	4,897	17%
Kyivstar	1,163	1,643	2,076	2,390	2,329	2,580	3,025	3,087	3,257	29%	11,021	13,765	25%
Sonofon	1,193	1,308	1,356	1,334	1,353	1,347	1,428	1,421	1,433	7%	5,549	5,655	2%
Sweden	63	65	68	48	1,301	1,430	1,550	1,464	1,552	2950%	5,745	6,289	9%
TAC	0	0	0	1,191	2,032	1,893	2,041	2,259	2,189	90%	8225	9301	13%
Promonte	104	123	180	112	114	139	211	139	139	24%	603	542	-10%
Pakistan	1	48	76	140	215	265	333	398	464	185%	1,211	2,333	93%
Mobi 63	0	0	0	0	0	0	175	567	556	!	742	2,471	233%
Reconciliation	0	0	0	0	0	0	0	80			80	270	237%
Gross Mobile Revenue	8,451	9,600	10,520	12,317	14,363	14,895	16,402	16,891	17,351	37%	62,551	71,908	15%
Net Mobile Revenue	8,124	9,211	10,164	11,962	14,003	14,554	16,083	16,539		38%	61,179	70,587	15%
<b>EBITDA Mobile</b>													
Telenor Mobil	1,001	1,066	1,218	1,186	1,323	1,365	1,513	1,313	1,314	11%	5514	5557	1%
Pannon GSM	517	484	650	534	540	567	581	526	529	-2%	2214	2084	-6%
DiGi.Com	451	499	560	632	700	700	721	682	723	8%	2803	3132	12%
GrameenPhone	329	334	441	455	659	488	645	488	616	7%	2280	2494	9%
Kyivstar	632	911	1,148	1,359	1,432	1,596	1,827	1,694	1,858	25%	6549	8061	23%
Sonofon	253	308	307	308	305	307	390	371	350	20%	1373	1514	10%
Sweden	-10	-18	-139	-309	202	241	371	220	332	-171%	1034	1572	52%
TAC	0	0	0	445	719	698	732	800	766	80%	2949	3570	21%
Promonte	55	60	98	47	55	65	122	56	65	19%	298	253	-15%
Pakistan	-133	-172	-134	-133	-77	-117	-87	-135	-98	2%	-416	88	-121%
Mobi 63	0	0	0	0	0	0	103	284	256		387	1236	220%
Other	0	0	0	0	0	0	0	0			0	0	
Total Mobile EBITDA	3,095	3,472	4,149	4,524	5,858	5,910	6,918	6,296	6,711	39%	24982	29561	18%
<b>EBITDA Margins (on gross)</b>													
Telenor Mobil	35.3%	35.0%	39.0%	36.7%	42.6%	41.7%	43.8%	38.7%	38.7%		41.7%	40.6%	-1.0%
Pannon GSM	36.5%	32.3%	41.1%	34.1%	38.2%	39.7%	39.7%	37.1%	35.7%		38.8%	38.2%	-0.6%
DiGi.Com	43.6%	43.0%	43.6%	43.5%	45.3%	45.3%	45.5%	43.5%	42.9%		44.9%	43.2%	-1.8%
GrameenPhone	51.4%	47.4%	56.9%	53.5%	69.0%	48.9%	56.9%	44.5%	51.5%		54.3%	50.9%	-3.4%
Kyivstar	54.3%	55.4%	55.3%	56.9%	61.5%	61.9%	60.4%	54.9%	57.0%		59.4%	58.6%	-0.9%
Sonofon	21.2%	23.5%	22.6%	23.1%	22.5%	22.8%	27.3%	26.1%	24.4%		24.7%	26.8%	2.0%
Sweden	-16%	-28%	-204%	-644%	16%	17%	24%	15%	21.4%		18%	25%	7%
TAC	NA	NA	NA	37%	35%	37%	36%	35%	35.0%		36%	38%	3%
Promonte	53%	49%	54%	42%	48%	47%	58%	40%	46.8%		49%	47%	-3%
Pakistan	-13300%	-358%	-176%	-95%	-36%	-44%	-26%	-34%	-21.1%		-34%	4%	38%
Mobi 63	0%	0%	0%	0%	0%	0%	59%	50%	46.0%		54%	50%	-4%
Total Mobile EBITDA	37%	36%	39%	37%	41%	40%	42%	37%	38.7%		40%	41%	1%

Source: Company data and Deutsche Bank estimates



**Figure 262: Telenor summary results outlook (NOK m) – Mobile capex**

Mobile Capex	1Q 05	2Q 05	3Q 05	4Q 05	1Q 06	2Q 06	3Q 06	4Q 2006E	YoY E	2006E	2007E	YoY E
Telenor Mobil	194	343	220	461	129	143	220	543	18%	1035	1504	45%
Pannon GSM	109	243	150	261	71	235	168	241	-8%	715	655	-8%
DiGi.Com	108	178	310	574	226	199	371	548	-4%	1344	1413	5%
GrameenPhone	496	657	590	1,153	389	516	435	821	-29%	2161	2203	2%
Kyivstar	735	919	1,106	890	830	770	992	1,235	39%	3827	3441	-10%
Sonofon	28	140	137	757	109	170	168	242	-68%	689	566	-18%
Sweden	4	5	-4	-4	135	137	112	293	-8234%	677	755	12%
TAC	0	0	0	146	605	543	565	523	258%	2236	1203	-46%
Promonte	7	9	4	8	4	7	24	13	60%			
Pakistan	1,132	-87	307	496	351	754	701	850	71%	2656	2650	0%
Mobi 63	0	0	0	0	0	0	49	125				
Total mobile capex	2,814	2,406	2,820	4,742	2,849	3,474	3,805	5,433	15%	15561	14981	-4%

Source: Company data and Deutsche Bank estimates

**Figure 263: Telenor summary results outlook (NOK m) – Wire-line division**

Fixed - Revenue gross	1Q 05	2Q 05	3Q 05	4Q 05	1Q 06	2Q 06	3Q 06	4Q 2006E	YoY E	2006E	2007E	YoY E
Norway	4,163	4,367	4,151	4,186	4,178	3,983	3,796	3,802	-9%	15,759	14,327	-9%
Sweden	392	374	654	676	729	866	857	1,040	54%	3,512	3,970	13%
Russia	0	0	0	0	0	0	0	0	#DIV/0!	0	0	#DIV/0!
Denmark	0	0	142	164	174	181	199	213	30%	767	1,036	35%
Other	44	44	44	47	18	0	0	0	-100%	18	19	4%
Eliminations	-28	-32	-27	-48	-30	-31	-11	-30	-37%	-102	-116	13%
Gross Fixed Revenue	4,571	4,753	4,964	5,025	5,069	4,999	4,841	5,025	0%	19,954	19,235	-4%
Net Fixed Revenue	4,107	4,181	4,378	4,451	4,534	4,529	4,375	4,532	2%	18,002	17,348	-4%
EBITDA Fixed												
Norway	1,438	1,532	1,354	1,377	1,390	1,417	1,460	1,194	-13%	5,461	5,109	-6%
Sweden	-29	-27	31	183	109	100	128	192	5%	511	750	47%
Russia	0	0	0	0	0	0	0	0	#DIV/0!	0	0	#DIV/0!
Denmark	0	0	48	49	55	59	61	64	31%	239	321	34%
Other	2	-1	-3	-66	10	0	22	0	-100%	32	0	-100%
Reconciliation												
Total Fixed EBITDA	1,408	1,504	1,430	1,543	1,559	1,567	1,671	1,450	-6%	6,247	6,180	-1%

Source: Company data and Deutsche Bank estimates

## Investment case

### Emerging market growth coupled with domestic cost reductions

We believe that Telenor offers an attractive exposure to the telecom sector due to its asset mix – exposure to under-penetrated mobile markets (46% of EV) which underwrites medium term growth and a Nordic platform capable of offering fixed and wireless services for both residential and business subscribers. The Nordic assets are undergoing a restructuring process which should help stabilize/grow cash flow in the medium term. While the Norwegian fixed line (10% of EV) business continues to face a difficult revenue environment, we believe that the benefit of cost reductions are beginning to positively impact the numbers and provide a hedge against a further deterioration of the revenue outlook. Furthermore, the difficulties of the fixed line are largely driven by a tough regulatory environment which should not deteriorate further.

- Higher growth than the sector with positive risk to medium term estimates.

- **Attractive valuation considering growth profile and risk.** Telenor trades at a 2007E EV/EBITDA of 6.3x (sector 6.7x), 2007E P/E of 15.6x (sector 16.3x) and a 2007E FCF yield of 5.5% (sector 8.4%). We do not believe that FCF yield is an appropriate metric in the short/medium term due to the high capital intensity of the Asian mobile businesses (2007E group capex/sales of 19%).

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### **Valuation, NOK 136 (plus dividend of NOK 2.6)**

We have used a sum-of-the-parts analysis when deriving our price target because we feel it best reflects the intrinsic value of the group. By valuing the component assets of the group independently, we believe we have better captured the revenue and profitability trends, the different levels of capital intensity and risk profile of the individual businesses. Our current valuation assumes that Vimpelcom launches a nationwide operation in the Ukraine which has a negative drag of NOK 2 per share.

We typically use return based DCF models to value assets and use a WACC of 7.3% to 8.2% for the Pan-European assets. Typically our terminal growth rates for the European assets range from -1% to 0%. Where available, we use Deutsche Bank valuations for listed assets. In some cases, where visibility is poor we have used EV/EBITDA multiple valuations, benchmarked on the valuation of similar assets in similar regions. For emerging market assets, where we use return based DCF models, WACC's vary from 8-13% in order to reflect the underlying risk-free rates and the country specific risk profile. Terminal revenue growth rates also range between 1-4% in order to reflect the longer term market opportunity in emerging markets.

**Figure 264: Price target raised to NOK 136 (previously NOK 115)**

	Stake Valuation method	2005E EBITDA	2006E EBITDA	2007E EBITDA	2008E EBITDA	2005E OFCF	2006E OFCF	2007E OFCF	2008E OFCF	EV	P/share	% of EV
<b>Mobile</b>												
Domestic	100% DCF	8.2	6.6	6.6	6.3	11.3	8.2	9.0	8.5	36,646	21.7	13.9%
International (Consolidated)	various Blended									106,640	63.2	40.5%
- Pannon	100% DCF	9.8	9.7	10.3	10.6	15.1	14.3	15.0	15.6	21,424	12.7	8.1%
- DiGiCom	61.0% Market price	8.8	6.8	6.0	5.9	19.5	13.0	11.0	10.2	11,553	6.8	4.4%
- Grameen Phone	62.0% DCF	9.3	6.3	5.8	5.5	(10.8)	122.2	49.7	14.2	8,961	5.3	3.4%
- Kyivstar	56.5% DCF	14.5	9.0	7.3	6.6	147.1	21.6	12.7	8.9	33,243	19.69	12.6%
- Sonofon	100.0% DCF	8.4	7.2	6.5	6.1	86.4	14.4	10.4	9.3	9,850	5.8	3.7%
- Sweden	100.0% DCF	(27.7)	12.8	8.4	7.0	(27.6)	37.0	16.1	10.8	13,202	7.8	5.0%
- Promonte	100.0% DCF	6.9	6.0	7.1	6.5	7.7	7.1	8.8	8.1	1,786	1.1	0.7%
- Pakistan	100%									6,620	3.9	2.5%
- TAC	73.1% Market price	5.9	4.8	4.0	3.8	14.0	19.9	6.0	5.4	10,391	6.2	3.9%
- Mobi 63	100.0% DCF	11.3	9.8	9.2	8.7		53.4	16.4	16.1	11,375	6.7	4.3%
International (associates)												
- Vimpelcom	30% Market price	12.7	8.0	5.9	5.2	50.8	24.2			38,069	22.6	14.5%
- Connect Austria	17.5% EBITDA multiple	8.0	7.3	6.6	6.0					1,966	1.2	0.7%
<b>Total mobile</b>										<b>205,086</b>	<b>121.5</b>	<b>78.0%</b>
												64%
<b>Fixed line</b>												
B2 (Sweden)	100% DCF	12.1	12.6	10.1	8.1	(417.5)	(676.2)	41.8	21.6	4,722	2.8	1.8%
Globalnet (Sweden)	100% Purchase price									838	0.5	0.3%
Cybercity (Denmark)	100% Purchase price	8.5	6.4	4.7	3.9	179.1	67.2	13.3	11.1	1,518	0.9	0.6%
Norway fixed line	100% DCF Fade	4.7	5.0	5.3	5.5	7.5	7.3	7.8	7.8	27,202	16.1	10.3%
Russia (Golden Telecom)	20.4% EBITDA multiple									1,906	1.1	0.7%
<b>Total fixed line</b>		<b>6.3</b>				<b>10.0</b>				<b>36,186</b>	<b>17.2</b>	<b>11.1%</b>
<b>Broadcasting</b>	100% EBITDA multiple	12.4	10.7	10.0	9.7	16.8	15.2	19.6	18.1	18,845	11.2	7.2%
<b>Other</b>												
EDB Business Partner	51.8% Market price	6.9	5.9	5.0	4.8	11.7	9.4	7.4	7.0	2,464	1.5	0.9%
Satellites										793	0.5	0.3%
											0.0	0.0%
Corporate expenses	100.0%	11.8	2.6	5.8	7.6	2.3	2.7			-1,000	-0.6	-0.4%
A-Pressen	39.0% Market price									538	0.3	0.2%
Otrum	33.1% Market price									106	0.1	0.0%
Wireless Matrix	25.3% Market price									51	0.0	0.0%
<b>Total Other</b>										<b>2,951</b>	<b>1.7</b>	<b>1.1%</b>
<b>Total enterprise value</b>										<b>263,069</b>	155.8	
Consolidated Net Debt 2007E										-35,730	-21.2	
Add 100% Digicom.net Net Debt										-1,472	-0.9	
Add Minority (39%) net debt at Grameen Phone										237	0.1	
Add Minority (43.5%) net debt at Kyivstar										93	0.1	
Add 100% EDB Business Partners Net Debt										1,939	1.1	
Less 17.5% of ConnectAustria net debt										-790	-0.5	
Add Minority (30.7%) net debt at TAC										1,523	0.9	
<b>Sub-Total deconsolidated net debt</b>										<b>-34,200</b>	<b>-20.3</b>	
<b>Implied Equity Value</b>										<b>228,869</b>	136	
Fair value per share, NOK										136		
Number of shares (000)										1,688		

Source: Deutsche Bank estimates

## Risks

Risks to valuation include greater than expected price competition in the Nordic broadband and mobile markets, regulatory risk, increasing emerging market risk premium, value destructive M&A and deconsolidation of assets in Malaysian and Thailand.

Europe Sweden  
Telecommunications Wireline Services

# TeliaSonera

Reuters: **TLSN.ST** Bloomberg: **TLSN SS**

## Waiting for the dividend

### Full Year 06 results on 13 February 2007

We are less confident that savings from ongoing cost cuts would off-set the deteriorating revenues especially in the wireline segment. While competition in this market has to date been rationale, we see further pressure on access line erosion through naked DSL, ULL and mobile substitution and further pressure on voice tariffs as mobile operators attempt to increase their share of total voice telephony which is the lowest in the Nordic region.

### Board room shake up

At an extra ordinary general meeting held on 17 January four new board members were elected and five existing members were relieved of their duties. We do not believe that the current instability in the board room will not lead to a leveraged buyout.

### Valuation: Price target SEK 50.6 (plus dividend of SEK 6.2)

Our revised sum-of-the-parts valuation of SEK 50.6 is largely based on return based DCF models (WACC7-12%, g -1 to +3%) as we believe such a methodology best reflects the different dynamics of the European and international fixed and mobile assets. Positive risks to valuation include full delivery of cost reductions. Negative risks to valuation primarily include a greater than expected price pressure in Sweden, value destructive M&A and overhang.

### Forecasts and ratios

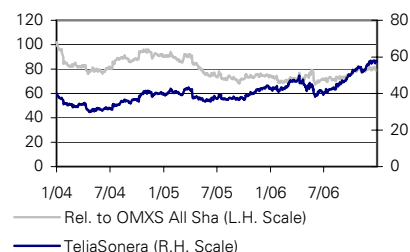
Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (SEKm)	81,937	87,661	<b>90,892</b>	91,591	93,274
EBITA (SEKm)	14,600	16,224	<b>20,220</b>	20,806	22,196
DB EPS (SEK)	3.21	3.17	<b>3.96</b>	4.29	4.54
P/E (DB EPS) (x)	10.9	12.3	<b>14.6</b>	13.5	12.8
EV/EBITDA (x)	4.4	4.9	<b>7.6</b>	8.1	7.9
DPS (SEK)	1.20	3.48	<b>6.20</b>	4.13	4.45
Yield (%)	3.4	8.9	<b>10.7</b>	7.1	7.7

Source: Deutsche Bank estimates, company data

### Hold

Price Target (SEK) **50.60**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.6	16.7	34.6
OMXS All Share	4.1	11.0	26.3

### Stock data

Market cap (SEK)(m)	<b>260,446.5</b>
Shares outstanding (m)	<b>4,490</b>
Free float (%)	<b>41</b>
OMXS All Share	<b>384.0</b>
Market Cap (US\$)	<b>37,098</b>

### Key indicators

ROE (%)	<b>13.0</b>
ROC	<b>8.8</b>
Net debt/equity	<b>14.6</b>
Book value/share (SEK)	<b>27.4</b>
Price/book	<b>2.1</b>
Net interest cover	<b>43.4</b>
EBITDA margin	<b>34.8</b>
EBIT margin	<b>22.2</b>

### FY 2006 results

Results date	13 February
Time of release	TBA
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Replay no	TBA
Pin code	TBA

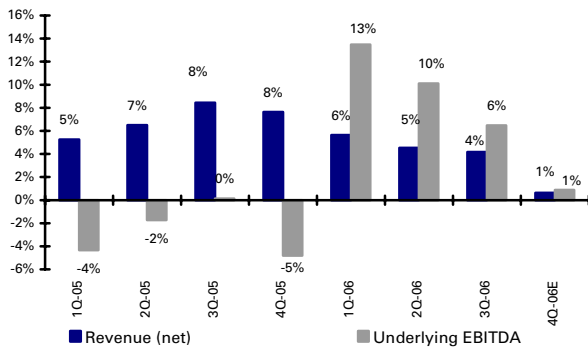
### Recent research

Swedish fixed revenues - key to the investment case	31 October
Swedish fixed and improved shareholder returns the drivers	31 October

## Results outlook – in pictures

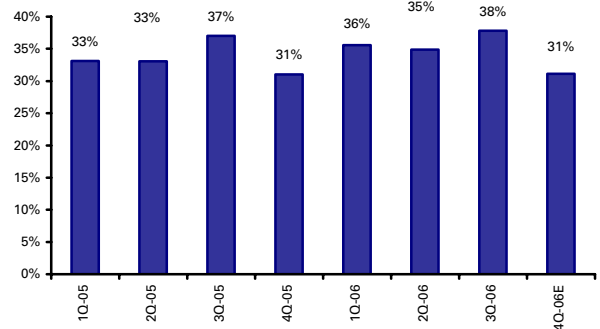
- Figure 265: Group revenue & EBITDA growth
- Figure 266: Group EBITDA margin
- Figure 267: Sweden total revenue & EBITDA growth and EBITDA margin
- Figure 268: Sweden Fixed revenue & EBITDA growth and EBITDA margin
- Figure 269: Sweden mobile revenue & EBITDA growth and EBITDA margin
- Figure 270: Sweden mobile customers (000) and ARPU (SEK)
- Figure 271: Finland mobile revenue & EBITDA growth and EBITDA margin
- Figure 272: Finland mobile customers (000) and ARPU (Euro)
- Figure 273: Norway mobile revenue & EBITDA growth and EBITDA margin
- Figure 274: Norway customers (000) and ARPU (NOK)
- Figure 275: Baltic countries - total revenue & EBITDA growth and EBITDA margin
- Figure 276: International mobile - total revenue & EBITDA growth and EBITDA margin

**Figure 265: Group revenue & EBITDA growth**



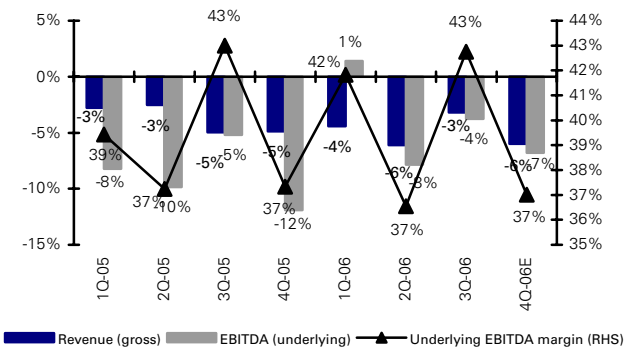
Source: Company data and Deutsche Bank estimates

**Figure 266: Group EBITDA margin**



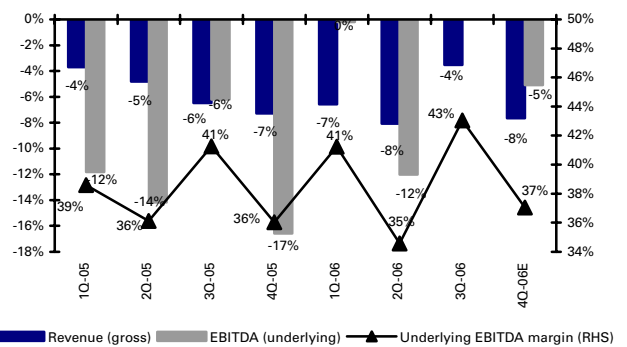
Source: Company data and Deutsche Bank estimates

**Figure 267: Sweden total revenue & EBITDA growth and EBITDA margin**



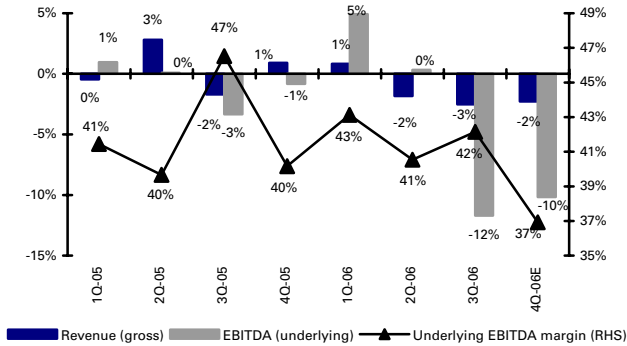
Source: Company data and Deutsche Bank estimates

**Figure 268: Sweden Fixed revenue & EBITDA growth and EBITDA margin**



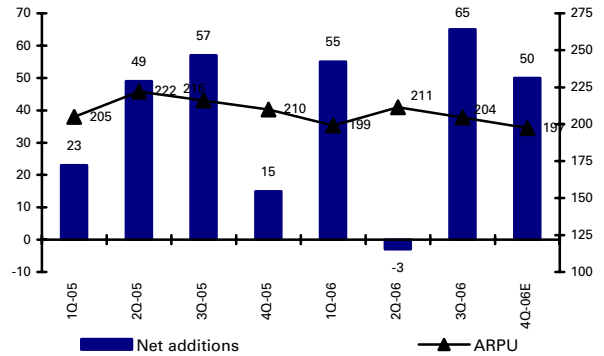
Source: Company data and Deutsche Bank estimates

**Figure 269: Sweden mobile revenue & EBITDA growth and EBITDA margin**



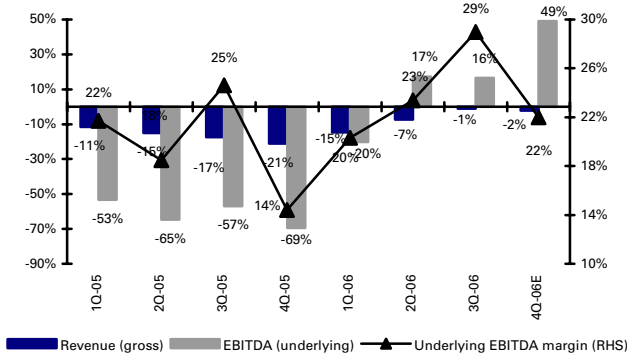
Source: Company data and Deutsche Bank estimates

**Figure 270: Sweden mobile customers (000) and ARPU (SEK)**



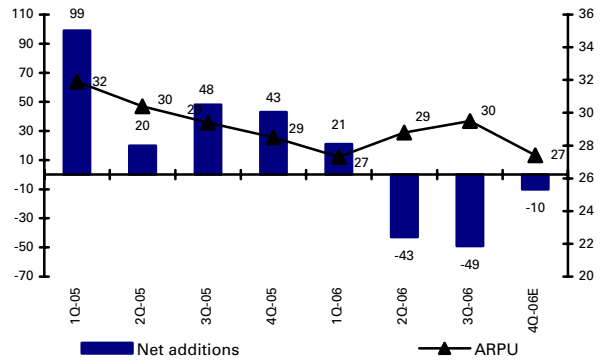
Source: Company data and Deutsche Bank estimates

**Figure 271: Finland mobile revenue & EBITDA growth and EBITDA margin**



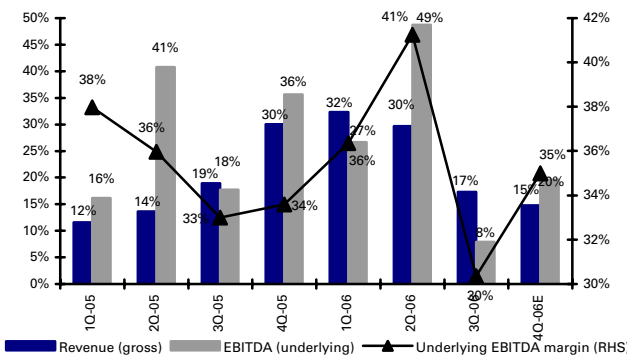
Source: Company data and Deutsche Bank estimates

**Figure 272: Finland mobile customers (000) and ARPU (Euro)**



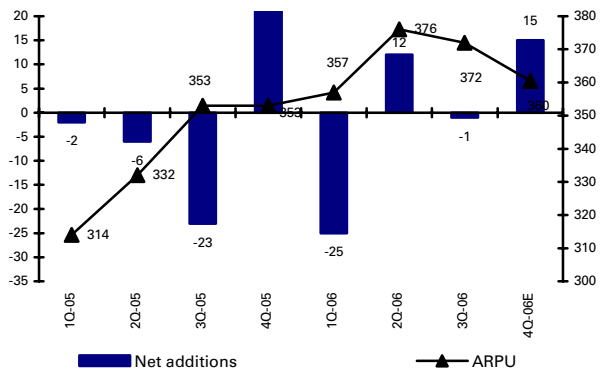
Source: Company data and Deutsche Bank estimates

**Figure 273: Norway mobile revenue & EBITDA growth and EBITDA margin**



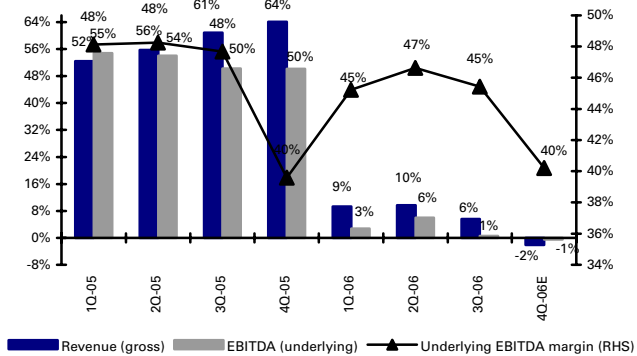
Source: Company data and Deutsche Bank estimates

**Figure 274: Norway customers (000) and ARPU (NOK)**



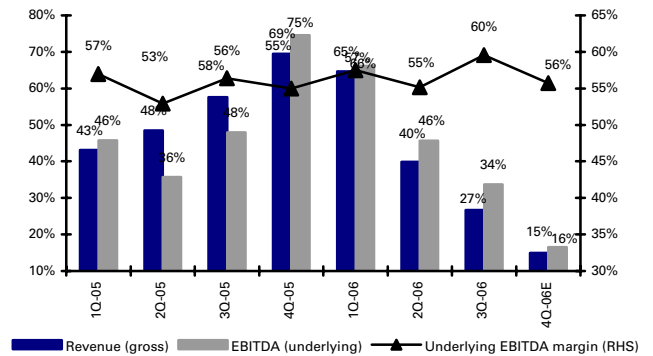
Source: Company data and Deutsche Bank estimates

**Figure 275: Baltic countries - total revenue & EBITDA growth and EBITDA margin**



Source: Company data and Deutsche Bank estimates

**Figure 276: International mobile - total revenue & EBITDA growth and EBITDA margin**



Source: Company data and Deutsche Bank estimates

## Results outlook

**Figure 277: Group P&L and sales by division (SEKm)**

Group P&L	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06E	Consensus	YoY chg	QoQ chg
Net revenues	20,804	21,752	22,229	22,876	21,979	22,737	23,157	23,019	23,521	1%	-1%
Underlying EBITDA	6,889	7,200	8,224	7,098	7,816	7,928	8,756	7,161	7,729	1%	-18%
Reported EBITDA	6,938	6,040	7,786	6,744	7,231	7,801	8,626	7,161		6%	-17%
Associated companies	803	312	1,122	992	952	1,240	1,830	1,230	1,311	24%	-33%
Operating profit	4,670	4,385	6,162	4,890	6,129	6,316	7,802	5,881	6,201	20%	-25%
Reported Operating profit	4,671	3,214	5,642	4,022	5,441	6,179	7,679	5,331		33%	-31%
Net financials	-100	-167	-118	-145	101	-119	-155	-293		102%	89%
Pretax Profit	4,571	3,047	5,524	3,877	5,542	6,060	7,524	5,038		30%	-33%
Taxes	-1,008	-625	-1,157	-535	-1,268	-1,334	-1,779	-1,104		106%	-38%
Net profit	3,563	2,422	4,367	3,342	4,274	4,726	5,745	3,934	4,235	18%	-32%
EPS	0.68	0.45	0.84	0.61	0.82	0.94	1.13	0.74	0.91	22%	-34%
<b>Net sales</b>											
Sweden	9,657	9,805	9,509	9,739	9,231	9,208	9,205	9,157	9,327	-6%	-1%
Mobile Communications	2,845	3,104	3,128	3,027	2,868	3,047	3,049	2,958		-2%	-3%
Fixed Communications	6,812	6,701	6,381	6,712	6,363	6,161	6,156	6,199		-8%	1%
Finland	4,255	4,296	4,218	4,233	4,013	4,171	4,212	4,091	4,161	-3%	-3%
Mobile Communications	2,604	2,544	2,466	2,379	2,220	2,357	2,441	2,325		-2%	-5%
Fixed Communications	1,651	1,752	1,752	1,854	1,793	1,814	1,771	1,766		-5%	0%
Norway	1,609	1,785	1,991	2,096	2,129	2,389	2,548	2,563	2,534	22%	1%
Mobile Communications	1,609	1,785	1,991	2,096	2,129	2,315	2,336	2,405		15%	3%
Fixed Communications	0	0	0	0	0	74	212	158		#DIV/0!	-26%
Denmark	1,671	1,723	1,868	1,916	1,874	1,938	1,889	1,933	1,927	1%	2%
Mobile Communications	1,126	1,220	1,287	1,332	1,326	1,365	1,354	1,314		-1%	-3%
Fixed Communications	545	503	581	584	548	573	535	619		6%	16%
Baltic Countries	2,138	2,286	2,416	2,453	2,337	2,507	2,551	2,402	2,590	-2%	-6%
Lithuania - mobile	511	577	609	605	560	633	615	589		-3%	-4%
Lithuania - fixed	464	492	492	522	497	490	493	521		0%	6%
Latvia - mobile	519	558	615	560	559	613	663	581		4%	-12%
Estonia - mobile	414	443	483	486	451	524	546	491		1%	-10%
Estonia - fixed	362	363	368	437	407	422	424	419		-4%	-1%
Other	-132	-147	-151	-157	-137	-175	-190	-200		27%	5%
Spain	0	0	0	0	0	0	0	0	13	#DIV/0!	
International mobile	1,136	1,464	1,817	1,950	1,870	2,047	2,302	2,240	2,389	15%	-3%
of which Kazakhstan	618	815	975	1,101	1,042	1,192	1,318	1,212		10%	-8%
of which Azerbaijan	338	436	571	557	554	587	624	675		21%	8%
of which Georgia	136	160	204	219	205	196	276	267		22%	-3%
of which Moldova	47	54	67	75	70	76	86	87		16%	1%
Other operations	1,013	1,175	1,171	1,216	1,145	1,159	1,244	1,233	1,212	1%	-1%
Corporate	1	3	3	5	3	4	1	2		-65%	75%
Eliminations	-676	-785	-764	-732	-623	-686	-795	-603		-18%	-24%
The Group	20,804	21,752	22,229	22,876	21,979	22,737	23,157	23,019	23,521	1%	-1%

Source: Company data and Deutsche Bank estimates



**Figure 278: EBITDA contribution (SEK'm) and margins by division**

<b>EBITDA excl non recurring items</b>	<b>1Q05</b>	<b>2Q05</b>	<b>3Q05</b>	<b>4Q05</b>	<b>1Q06</b>	<b>2Q06</b>	<b>3Q06</b>	<b>4Q06E</b>	<b>Consensus</b>	<b>YoY chg</b>	<b>QoQ chg</b>
Sweden	3,808	3,652	4,088	3,635	3,861	3,365	3,935	3,389	3,506	-7%	-14%
Mobile Communications	1,179	1,231	1,455	1,216	1,237	1,235	1,285	1,092		-10%	-15%
Fixed Communications	2,629	2,421	2,633	2,419	2,624	2,130	2,650	2,296		-5%	-13%
Finland	889	866	1,111	775	896	1,056	1,285	988	1,101	28%	-23%
Mobile Communications	565	470	607	343	451	551	707	512		49%	-28%
Fixed Communications	324	396	504	432	445	505	578	477		10%	-18%
Norway	611	642	657	704	774	971	754	887	823	26%	18%
Mobile Communications	611	642	657	704	774	955	709	842		20%	19%
Fixed Communications	0	0	0	0	0	16	45	45		!	0%
Denmark	120	222	293	182	344	365	382	309	339	70%	-19%
Mobile Communications	26	119	169	77	226	250	264	197		156%	-25%
Fixed Communications	94	103	124	105	118	115	118	111		6%	-6%
Baltic Countries	1,029	1,103	1,152	971	1,057	1,169	1,159	966	1,055	-1%	-17%
Lithuania - mobile	227	253	253	189	198	277	261	195		3%	-25%
Lithuania - fixed	234	237	246	234	256	246	228	229		-2%	1%
Latvia - mobile	268	289	314	242	295	304	328	238		-1%	-27%
Estonia - mobile	175	196	216	177	184	197	216	197		11%	-9%
Estonia - fixed	129	131	129	133	128	149	130	117		-12%	-10%
Other	-4	-3	-6	-4	-4	-4	-4	-10		150%	150%
Spain	0	0	0	0	0	-11	-79	-400	-223		406%
International mobile	647	775	1,025	1,072	1,075	1,129	1,371	1,249	1,324	16%	-9%
Other operations	18	115	66	-48	-8	11	67	-3	-13	-95%	-104%
Corporate	-233	-173	-166	-191	-172	-138	-135	-240		26%	78%
Eliminations	0	-2	-2	-2	-11	11	17	17		-950%	0%
<b>The Group</b>	<b>6,889</b>	<b>7,200</b>	<b>8,224</b>	<b>7,098</b>	<b>7,816</b>	<b>7,928</b>	<b>8,756</b>	<b>7,161</b>	<b>7,729</b>	<b>1%</b>	<b>-18%</b>
<b>EBITDA margin (%)</b>											
Sweden	39%	37%	43%	37%	42%	37%	43%	37%		0%	-6%
Mobile Communications	41%	40%	47%	40%	43%	41%	42%	37%		-3%	-5%
Fixed Communications	39%	36%	41%	36%	41%	35%	43%	37%		1%	-6%
Finland	21%	20%	26%	18%	22%	25%	31%	24%		6%	-6%
Mobile Communications	22%	18%	25%	14%	20%	23%	29%	22%		8%	-7%
Fixed Communications	20%	23%	29%	23%	25%	28%	33%	27%		4%	-6%
Norway	38%	36%	33%	34%	36%	41%	30%	35%		1%	5%
Mobile Communications	38%	36%	33%	34%	36%	41%	30%	35%		1%	5%
Fixed Communications						22%	21%	29%		29%	7%
Denmark	7%	13%	16%	9%	18%	19%	20%	16%		6%	-4%
Mobile Communications	2%	10%	13%	6%	17%	18%	19%	15%		9%	-4%
Fixed Communications	17%	20%	21%	18%	22%	20%	22%	18%		0%	-4%
Baltic Countries	48%	48%	48%	40%	45%	47%	45%	40%		1%	-5%
Estonia - mobile	42%	44%	45%	36%	41%	38%	40%	40%		4%	0%
Estonia - fixed	36%	36%	35%	30%	31%	35%	31%	28%		-2%	-3%
Lithuania - mobile	44%	44%	42%	31%	35%	44%	42%	33%		2%	-9%
Lithuania - fixed	50%	48%	50%	45%	52%	50%	46%	44%		-1%	-2%
Latvia - mobile	52%	52%	51%	43%	53%	50%	49%	41%		-2%	-8%
Other	3%	2%	4%	3%	3%	2%	2%	5%		2%	3%
International mobile	57%	53%	56%	55%	57%	55%	60%	56%		1%	-4%
<b>The Group</b>	<b>33%</b>	<b>33%</b>	<b>37%</b>	<b>31%</b>	<b>36%</b>	<b>35%</b>	<b>38%</b>	<b>31%</b>		<b>0%</b>	<b>-7%</b>

Source: Company data and Deutsche Bank estimates

**Figure 279: Sales and EBITDA growth rates by division**

<b>Net sales growth (%)</b>	<b>1Q05</b>	<b>2Q05</b>	<b>3Q05</b>	<b>4Q05</b>	<b>1Q06</b>	<b>2Q06</b>	<b>3Q06</b>	<b>4Q06E</b>
Sweden	-3%	-3%	-5%	-5%	-4%	-6%	-3%	-6%
Mobile Communications	0%	3%	-2%	1%	1%	-2%	-3%	-2%
Fixed Communications	-4%	-5%	-6%	-7%	-7%	-8%	-4%	-8%
Finland	-10%	-9%	-10%	-11%	-6%	-3%	0%	-3%
Mobile Communications	-11%	-15%	-17%	-21%	-15%	-7%	-1%	-2%
Fixed Communications	-7%	0%	4%	6%	9%	4%	1%	-5%
Norway	12%	14%	19%	30%	32%	34%	28%	22%
Mobile Communications	12%	14%	19%	30%	32%	30%	17%	15%
Denmark	79%	75%	88%	21%	12%	12%	1%	1%
Mobile Communications	150%	150%	155%	27%	18%	12%	5%	-1%
Fixed Communications	13%	2%	19%	9%	1%	14%	-8%	6%
Baltic Countries	52%	56%	61%	64%	9%	10%	6%	-2%
Lithuania - mobile	1%	7%	12%	11%	10%	10%	1%	-3%
Lithuania - fixed	-5%	5%	5%	9%	7%	0%	0%	0%
Latvia - mobile	14%	9%	11%	6%	8%	10%	8%	4%
Estonia - mobile	NA	NA	NA	NA	9%	18%	13%	1%
Estonia - fixed	NA	NA	NA	NA	12%	16%	15%	-4%
Other	164%	183%	144%	175%	4%	19%	26%	27%
International mobile	43%	48%	58%	69%	65%	40%	27%	15%
Other operations	-21%	-14%	-11%	4%	13%	-1%	6%	1%
Corporate	0%	NA	200%		200%	33%	-67%	-65%
Eliminations	-8%	4%	-5%	-3%	-8%	-13%	4%	-18%
The Group	5%	7%	8%	8%	6%	5%	4%	1%
<b>EBITDA growth (%)</b>								
Sweden	-8%	-10%	-5%	-12%	1%	-8%	-4%	-7%
Mobile Communications	1%	0%	-3%	-1%	5%	0%	-12%	-10%
Fixed Communications	-12%	-14%	-6%	-17%	0%	-12%	1%	-5%
Finland	-48%	-50%	-41%	-44%	1%	22%	16%	28%
Mobile Communications	-53%	-65%	-57%	-69%	-20%	17%	16%	49%
Fixed Communications	-33%	2%	5%	70%	37%	28%	15%	10%
Norway	16%	41%	18%	36%	27%	51%	15%	26%
Mobile Communications	16%	41%	18%	36%	27%	49%	8%	20%
Denmark	85%	208%	286%	-9%	187%	64%	30%	70%
Mobile Communications	73%	2875%	2013%	235%	769%	110%	56%	156%
Fixed Communications	88%	51%	82%	-41%	26%	12%	-5%	6%
Baltic Countries	55%	54%	50%	50%	3%	6%	1%	-1%
Lithuania - mobile	0%	9%	2%	-9%	-13%	9%	3%	3%
Lithuania - fixed	3%	3%	11%	13%	9%	4%	-7%	-2%
Latvia - mobile	6%	9%	4%	0%	10%	5%	4%	-1%
Estonia - mobile	NA	NA	NA	NA	5%	1%	0%	11%
Estonia - fixed	NA	NA	NA	NA	-1%	14%	1%	-12%
Other	-90%	-73%	50%	-60%	0%	33%	-33%	150%
International mobile	46%	36%	48%	75%	66%	46%	34%	16%
Other operations	-164%	539%	25%	-125%	-144%	-90%	2%	-95%
Corporate	1%	-28%	-9%	-13%	-26%	-20%	-19%	26%
The Group	-4%	-2%	0%	-5%	13%	10%	6%	1%

Source: Company data and Deutsche Bank estimates

**Figure 280: Mobile capex**

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06E	Consensus	YoY chg	QoQ chg
SEK million											
Sweden	1,002	1,111	897	1,037	772	732	744	932		-10%	25%
Finland	452	589	352	527	293	314	302	678		29%	125%
Norway	223	260	132	261	108	191	116	289		11%	149%
Denmark	80	398	169	186	105	77	111	273		47%	146%
Baltic Countries	174	245	279	387	221	318	307	324		-16%	6%
Spain	0	0	0	0	0	6	132	500			279%
International mobile	275	982	629	563	468	845	914	717		27%	-22%
Other operations	49	43	59	96	42	100	82	78		-18%	-4%
Corporate	18	60	14	35	30	37	27	30		-14%	11%
Eliminations	0	1	-1	-1	0	11	8	0		-100%	-100%
The Group	2,273	3,689	2,530	3,091	2,039	2,631	2,743	3,821	3,861	24%	39%

Source: Company data and Deutsche Bank estimates

Europe United Kingdom  
Telecommunications Wireless Services

# Vodafone Group Plc

Reuters: **VOD.L** Bloomberg: **VOD LN**

## Q3 KPI preview

### 3Q 06 KPI's results on 31 January 2007: Expect a robust set of KPIs

Vodafone is due to report KPIs on 31 Jan at 7am GMT. The company reported 6% service revenue growth (proportionate, organic, constant currency) in H1, and we believe that growth has continued towards the top of the company's 5-6.5% range, driven by Italy recovering on a headline basis as well solid growth in EMAPA. Given the revenue centricity of the release, we expect the focus to again be on elasticity in Q3 in light of the recent price moves by competitors (most recently 3 and e-Plus).

### Organic subscriber growth continues

We forecast 7.7m net organic subscriber additions in Q3. Early indications (Germany, China Mobile, Carphone Warehouse) are that strong subscriber growth has continued in the December quarter although we do believe we will see the usual mix towards prepaid.

### ARPU and service revenue growth

Vodafone's headline ARPU and service revenue growth will continue to be afflicted by termination rate cuts while underlying service revenue growth (+5% in H1 '06/07 in Europe) is likely to remain robust and we expect Vodafone to perform strongly in revenue terms given its margin targets (H2 -200bp y-o-y).

### Valuation and risks: TP 155p; Valuation fine on multiples, risks remain

We maintain our 155p price target (145p fair value based on DCFs + 10p for European consolidation). In addition Vodafone offers a dividend yield of 5.5% for the year to March '08E. While we have fractionally less than 10% upside (9.5% including dividend), Vodafone is a volatile stock, trading outside a 15% range in the past three months and we maintain our Buy rating ahead of KPIs next week. Vodafone trades on 6.8x EV/EBITDA and 12.7x P/E against the sector on 6.3x and 13.8x respectively. Risks to the downside include increased competition in key markets such as Germany, acquisition related risks, and increased regulatory risks in areas such as roaming and inbound text messaging.

### Forecasts and ratios

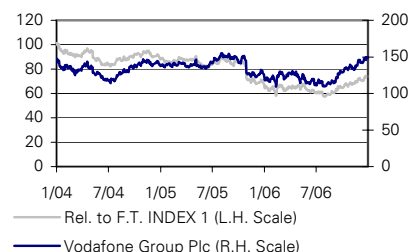
Year End Mar 31	2005A	2006A	2007E	2008E	2009E
Revenue (GBPm)	26,678	29,350	31,031	32,306	33,103
EBITDA (GBPm)	6,373	11,766	11,993	11,922	12,174
PBT DB (GBPm)	3,491	8,791	8,684	8,919	9,309
DB EPS (GBP)	2.42	10.11	10.95	11.67	12.20
EV/EBITDA (x)	12.3	6.6	6.9	6.8	6.8
EV/EBITA (x)	37.1	10.9	12.1	12.1	12.0
DPS (GBP)	4.07	6.07	6.55	7.01	7.32

Source: Deutsche Bank estimates, company data

### Buy

Price Target (GBP) **155.00**

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.2	16.1	20.4
F.T. INDEX 100	-0.9	1.6	8.9

### Stock data

Market cap (GBP)(m)	<b>84,373.3</b>
Shares outstanding (m)	<b>56,370</b>
Free float (%)	—
F.T. INDEX 100	<b>6,204.5</b>

### Key indicators

ROE (%)	<b>7.7</b>
ROA (%)	<b>6.1</b>
Net debt/equity (x)	<b>23.6</b>
Book value/share (GBP)	<b>142.9</b>
Price/book (x)	<b>1.0</b>
Net interest cover (x)	<b>7.6</b>
EBIT margin (%)	<b>21.9</b>

### 3Q KPI's 2006 results

Results date	31 January 2007
Time of release	07:00 (GMT)
Company conference call time	TBA
Dial in	TBA
Pin code	TBA
Slides available on	TBA
Replay no	TBA
Pin code	TBA

### Recent research

Aiming to add spice	2 January
Positive management meeting	13 December
EMAPA Day - comfort provided	7 December

**KPI preview****Figure 281: Subscribers – DB forecasts**

<b>Subscribers ('000s)</b>	<b>end Sept '06</b>	<b>Net adds</b>	<b>Stake changes</b>	<b>end Dec '06</b>
Germany	29,622	850		30,472
Italy	19,337	922		20,259
Spain	14,024	650		14,674
UK	16,287	250		16,537
Albania	868	90		958
Greece	4,755	130		4,885
Ireland	2,119	30		2,149
Malta	184	4		188
Netherlands	3,894	13		3,907
Portugal	4,437	300		4,737
Total Europe	95,527	3,238	0	98,765
Australia	3,190	50		3,240
Czech Republic	2,311	50		2,361
Egypt	3,974	351		4,325
Hungary	2,050	27		2,077
New Zealand	2,111	20		2,131
Romania	7,155	449		7,604
Turkey	12,181	370		12,551
Total other subsidiaries	32,972	1,317	0	34,289
South Africa	11,905	998		12,903
Total other j-vs	18,540	1,579	0	20,119
Associates & Invts.				
US	25,191	1,010		26,201
Total associates/invsts	43,382	1,563	0	44,945
Total EMAPA	94,894	4,459	0	99,353
Group Total	190,421	7,697	0	198,118

Source: Company data and Deutsche Bank estimates

**Figure 282: ARPU forecasts**

ARPU -3M rolling	Q1 '05/06	Q2 '05/06	Q3 '05/06	Q4 '05/06	Q1 '06/07	Q2 '06/07	Q3 '06/07E
Germany (EUR)							
Blended	24.3	24.4	22.9	21.5	22.1	22.4	20.9
Contract	39.8	41	38.8	37.2	38.4	39.0	36.5
Prepaid	9.2	9	8.3	7.5	7.6	7.6	7.1
Italy (EUR)							
Blended	30.4	29.9	27.7	26.4	27.6	27.1	25.5
Contract	79.4	75	73.7	71.0	72.6	68.0	64.0
Prepaid	25.8	25.9	23.5	22.2	23.3	23.2	21.8
Spain (EUR)							
Blended	36.2	37.7	35.3	33.3	35.3	36.4	34.1
Contract	58.5	60.7	56.3	52.8	54.8	55.2	51.6
Prepaid	15.4	16.2	15.0	13.9	15.0	15.4	14.4
UK (GBP)							
Blended	24.6	25.1	23.8	22.7	23.7	24.5	23.1
Contract	46.5	47.9	44.8	43.9	45.2	46.5	43.8
Prepaid	9.5	9.9	9.5	8.8	8.9	9.4	8.9
Albania (ALL)							
Blended	2255	2534	2259	2098	2122	2311	1,971
Australia (AUD)							
Blended	47.8	48.2	51.4	47.9	49.4	52	54
Czech Republic (CZK)							
Blended	680	679	679	644	674	670	662
Egypt (EGP)							
Blended	91.4	89.4	74.1	79.0	79.4	88.1	78
Greece (EUR)							
Blended	32.2	34.2	31.3	29.8	31	31	28
Hungary (HUF)							
Blended	5321	5153	4855.0	4647	5,066	5339	5,080
Ireland (EUR)							
Blended	51.4	53.1	50.2	48.6	49	47	46
Netherlands (EUR)							
Blended	37.1	36.6	34.5	33.6	35.7	37	34
New Zealand (NZD)							
Blended	50.7	51	51.2	51.2	46.6	47	47
Portugal (EUR)							
Blended	26.4	27.1	24.0	23.3	24	24	22
Romania (USD)							
Blended	14.9	15.9	15.4	13.9	15.2	16	16

Source: Company data and Deutsche Bank estimates

**Figure 283: Service revenues – consolidated**

	Jun '05	Sept '05	Dec '05	Mar '06	Jun '06	Sept '06	Dec '06
Germany	2,009	2,049	1,973	1,882	1,952	1,985	1,888
change %	4.1%	1.9%	-0.3%	-0.9%	-2.9%	-3.1%	-4.3%
Italy	1,579	1,582	1,500	1,453	1,526	1,529	1,504
change %	6.5%	5.3%	-1.7%	-2.8%	-3.4%	-3.3%	0.3%
UK	1,146	1,186	1,144	1,109	1,161	1,199	1,143
change %	0.6%	3.7%	2.7%	0.2%	1.3%	1.2%	0.0%
Spain	1,267	1,372	1,342	1,321	1,459	1,531	1,470
change %	26.1%	22.1%	22.6%	18.2%	15.1%	11.6%	9.6%
Albania	4,458	5,257	4,951	4,783	4,975	5,751	5,399
change %	18.2%	19.2%	13.2%	15.2%	11.6%	9.4%	9.1%
Australia	403	427	474	453	468	498	521
change %	5.7%	6.2%	27.7%	10.7%	16.1%	16.5%	9.9%
Czech Republic	3957	4059	4253	4206	4526	4597	4641
change %				126.7%	14.4%	13.3%	9.1%
Egypt	1,184	1,398	1,339	1,510	1,632	1,985	1,933
change %	0.8%	0.8%	-4.0%	20.1%	37.8%	42.0%	44.4%
Greece	396	434	411	400	427	439	407
change %	8.9%	6.8%	12.1%	11.6%	8.1%	1.1%	-0.9%
Hungary	29,265	28,676	28,773	28,586	31,057	32,627	31,452
change %	26.4%	13.4%	10.5%	6.9%	6.1%	13.8%	9.3%
Ireland	303	318	306	300	305	296	292
change %	5.6%	8.8%	5.3%	5.1%	0.5%	-6.9%	-4.3%
Malta	7	8	7	6	8	9	7
change %	-0.6%	1.4%	7.8%	10.6%	9.7%	6.9%	5.3%
Netherlands	426	430	412	397	417	430	398
change %	7.0%	4.4%	1.6%	0.7%	-2.0%	0.0%	-3.3%
New Zealand	291	297	306	314	291	294	298
change %	10.5%	10.0%	7.2%	7.6%	0.3%	-1.0%	-2.6%
Portugal	287	308	289	293	305	322	303
change %	-0.2%	1.6%	1.0%	5.0%	6.1%	4.6%	4.7%
Romania	229	256	269	261	299	331	351
change %	40.2%	40.1%	37.3%	32.7%	30.9%	29.4%	30.2%

Source: Company data and Deutsche Bank estimates

## Valuation

In-line with our sector methodology, we use a three stage sum of the DCFs valuation for Vodafone. Our fair value remains 145p but we add a further 10p for consolidation across Vodafone's assets. Consistent with other stocks we assume 0% nominal growth in perpetuity, capex/sales of 11-13% and WACCs of 8%-11% depending on the local risk free rates, equity risk premia and tax regimes in each of Vodafone's key markets. For reference we show our assumptions in the tables below.

Vodafone trades on 6.8x EV/EBITDA and 12.7x P/E against the sector on 6.3x and 13.8x respectively.

**Figure 284: Terminal assumptions**

	Fade starts	Period	Revenue g			EBITDA mgn			Capex/sales			WACC	Tax rate
			Last	End explicit	Term	Last	End explicit	Term	Last	End explicit	Term		
Germany	Mar-16	10	1%	0.55%	0%	48%	43.4%	45%	11%	10.8%	10%	8%	30.0%
Italy	Mar-16	10	2%	-0.4%	0%	53%	48.5%	45%	12%	10.1%	11%	8%	33.0%
Spain	Mar-16	10	23%	1.1%	0%	35%	36.5%	35%	12%	9.7%	11%	8%	35.0%
UK	Mar-16	10	-0.7%	-0.9%	0%	33%	28.4%	28%	14%	10.1%	11%	9%	37.0%
Turkey	Mar-16	10		4.0%	0%		30%	35%		15%	11%	10%	20%
France	Mar-16	10	14.8%	2.9%	0%	42%	39%	42%	13%	12%	11%	8%	34.3%
USA	Mar-16	10	22%	3.6%	0%	38%	37.1%	32%	19%	12.7%	11%	9%	35.0%

Source: Deutsche Bank

**Figure 285: Summary valuation**

	Ownership	Venture EV	VOD EV
Germany	100%	15,727	15,727
Italy	77%	15,495	11,900
Spain	100%	10,932	10,932
UK	100%	6,521	6,521
Total Europe			54,268
Australia	100%	1,192	1,192
Czech Republic	100%	888	887
Egypt	50%	2,463	1,234
Hungary	100%	194	194
New Zealand	100%	494	494
Romania	100%	2,080	2,078
Turkey	100%	1,683	1,683
Total EMAPA			7,629
Fiji	49%	144	71
India	10%	14,526	1,453
Kenya	35%	869	304
Poland	20%	3,226	632
South Africa	50%	8,077	4,035
Other j-vs			6,494
China	3.3%	97,246	3,180
France	44%	17,532	7,697
Neuf Cegetel	18%	3,230	581
Switzerland	25%	5,929	1,482
USA	44%	60,196	16,321
Total Affiliates			29,262
Group			97,653
Other businesses	100%	1,100	1,100
Tax shield/liability			-2,422
Proportionate debt			19,231
Total Group Market Value			77,100
/share			1.45

Source: Deutsche Bank



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## **Risks**

Risks to the downside include increased competition in key markets such as Germany, acquisition related risks, and increased regulatory risks in areas such as roaming and inbound text messaging

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# Appendix 1

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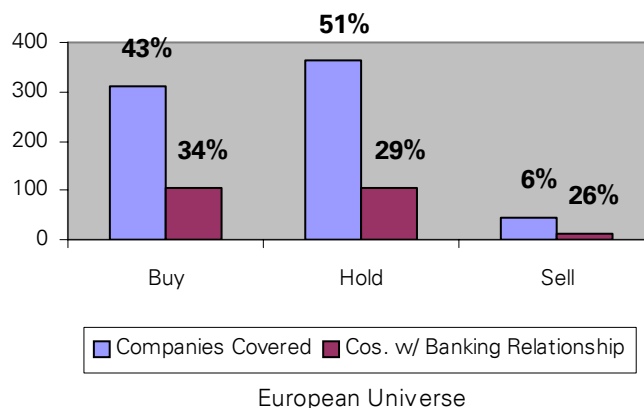
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