

## Equities

6 January 2012 | 212 pages

# The Phone Book

## No 1s txtN Ny mor, nt gr8

- Best Ideas
- Industry Overview

- **Macro and industry drags remain** — Initially, in 2012 European macro and sovereign risks will probably remain the most significant driver for the telecoms sector. For now, we prefer the relative safety of Northern Europe, the US and emerging markets over Southern Europe, although we hedge our bets with a Buy on Telecom Italia as we believe the risk of Italy leaving the Euro is over discounted in the stock. Sector growth remains poor, although it is now improving from a low base in fixed, and, in mobile 2012 sees the risk of a significant discontinuity in text usage hitting revenues.
- **Text messaging risk still to fully materialise** — While some operators are better placed than others, we believe that changes in customer behaviour are yet to fully be felt. The iPhone 4S automatically takes over the routing of texts and customers are becoming accustomed to alternatives such as Facebook. Forbes reported that countries where SMS took off first are the first ones to see a steep decline in SMS, saying that, in Finland, Sonera saw Christmas Eve texts fall 22% yoy while Hong Kong saw Christmas Day texts fall 14%. We see similar pressures across Europe.
- **Our bias remains safety first for now** — For now, we continue to prefer Northern Europe, including the UK and Germany, as well as the US and emerging markets and continue to be cautious about Southern Europe. The Northern European markets are also the ones which are showing better pricing resilience albeit their growth advantage vs. the South is continuing to narrow. Pricing generally should continue to improve as data loading rises for all players and the text price rebasing is absorbed.
- **Leading Buy names** — We remain buyers of BT, Deutsche Telekom, Vodafone and Telenor. For TI, the attractive multiples and dividend yield, and potential for a dividend increase at the 4Q11 results, make it worth owning in our view. 2012 could see progress in the Italian national budget reducing the sovereign risk.
- **Leading Sell names** — We remain sellers of KPN, Belgacom and Bouygues. We are Neutral on Telefónica but below consensus. We do not expect major dividend cuts to be announced this year although we expect France Telecom to cut its dividend in 2013.

### Simon Weeden

+44-20-7986-4204  
simon.weeden@citi.com

### Laurie Fitzjohn-Sykes, CFA

+44-20-7986-4114  
laurie.fitzjohnsykes@citi.com

### Georgios Ierodionou

+44-20-7986-4086  
georgios.ierodionou@citi.com

### Dimitri Y Kallianiotis, CFA

+44-20-7986-4253  
dimitri.kallianiotis@citi.com

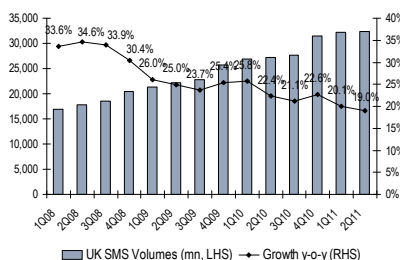
### Tania Valiente

+44-20-7986-4140  
tania.valiente@citi.com

### Josh Lipman

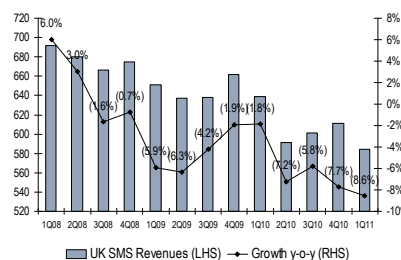
+44-20-7986-2529  
josh.lipman@citi.com

Figure 1. UK: slower growth in SMS volumes



Source: Ofcom

Figure 2. UK SMS revenue (£m) declining



Source: Ofcom

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Sector themes from previous Phone Books

Figure 3. Index to Previous Phone Books and Their Sector Thematic Sections, with Links

Date	Report	Format	Thematic Sections
22 August 2011	<a href="#">The Phone Book – Post 2Q11: A Few Rubies among the rubble</a>	Short format including Country sections.	
14 June 2011	<a href="#">The Phone Book: A Few Diamonds among the Debris</a>	Long Format including both Company and Country sections	Interest rate sensitivity Wage inflation exposure Welcome to the future pricing model India's New Telecoms Policy Mobile phones and health
18 March 2011	<a href="#">The Phone Book &amp; 11th Conference Guide: The Winners from the Android Invasion</a>	Conference Guide format including Country sections	Smartphone take-over, Android overtakes Merger and acquisition potential Regulation: roaming and fibre deployment De-equitisation and distribution capacity Raising revenue on wholesale Internet traffic Spectrum spend to fall in 2011
9 December 2010	<a href="#">The Phone Book: Telecoms in 2011 – Delivering the Dividend Promise</a>	Long Format including both Company and Country sections	Rerating - a job only half done Earnings outlook justifies higher rating Austerity to drag for some time A new price model for Internet peering? Smartphones and data growth Spectrum auctions set to moderate Regulatory focus broadband & MTRs
6 August 2010	<a href="#">The Phone Book - post 2Q10 – The Good, the Bad and the Ugly</a>	Short format including Country sections	
1 July 2010	<a href="#">The Phone Book – A Two Speed Europe</a>	Long Format including both Company and Country sections	A Two Speed Europe Dividends
19 March 2010	<a href="#">10 Themes For Our 10th Annual Conference – Popular Services but Unloved Stocks</a>	Conference Guide format including Country sections	10 Trends for 2010
22 January 2010	<a href="#">Fighting deflation – Telecoms Services in 2010</a>	Long Format including both Company and Country sections	Fighting deflation

Source: Citi Investment Research and Analysis

## No 1s txtN Ny mor, nt gr8

### Better to play it safe in 2012

### Buy: BT, DT, Vod and Telenor

For 2012 the hangover of sovereign risk in Europe, and its consequences for FX, probably remains the single most important factor behind stock selection in telecoms. However, should the Euro start to correct its imbalances sufficiently to see sentiment and bond market conditions improve, then at some point during the year it may be appropriate to look for recovery stories, notably Portugal Telecom and possibly OTE. For the moment, we are biased to the safety of Northern Europe as well as the relatively better economic potential of the US and emerging markets (hence we stick with Vodafone, Deutsche Telekom and Telenor). For our Southern European hedge, we choose to be buyers of Telecom Italia; with a PE of 5.9x and dividend yield of 9.3%, the savers are one of our Most Preferred names. We see dividend upside or at least stability, continued improvements in domestic mobile in Italy, and deleveraging. Italy has one of the smaller budget deficits, relative to GDP of the Euro states and a swing in sentiment back to something closer to normality for the government debt could have a dramatic positive impact on the domestically exposed stocks. For the telcos, rising interest rates are likely to impact those with higher leverage or significant refinancing needs and we still have a number of stocks where we expect downgrades to consensus earnings, notably Telefónica, KPN and OTE.

### For Southern exposure: Buy TI not TEF

Regarding Telefónica, we still consider the stock to be fairly expensive despite its tough domestic market conditions and a high consensus earnings risk, as we expect pressure on Spanish pricing, particularly in mobile, and note risk to Latam currencies, notably Venezuela and Argentina. Its move to cut its over-ambitious dividend commitment was timely and removes that as a negative news overhang, in our view. For Telefónica, as well as KPN, our analysis shows them both out-earning industry norms due in part to preparedness to lose market share in both fixed and mobile. This is likely to result in a downward rebasing of domestic margins at some point for both; we see downside risk for consensus earnings for both in 2012.

### Domestic EBITDA trend improved in 3Q11, more to come in 4Q

### North South divide still valid but gap narrowing

European mobile service revenue declined by -3.3% in 3Q11 in-line with 2Q11, though this benefited from a slightly lower MTR drag. The underlying growth declined to 0.0% 3Q11 from 0.3% 2Q11. Within Europe the North continues to grow at a slowing pace, while the South is seeing a moderating decline. Fixed revenue decline improved to -3.9% 3Q11 from -4.7% 2Q11. This was matched by an improvement in the domestic EBITDA trend to -2.7% from -4.2% 2Q11, an improvement we expect to continue in 4Q11.

### Telco pricing power is more hope than reality

**Pricing remains the key gauge of competitive behaviour** and of future profit trends for telecoms operations in Europe. There were a few more encouraging signs of better price direction in our last Tariff Tracker (14 October 2011) but we think broader price discipline remains a hope not a reality. The UK is probably the mobile market where repair is most established now, albeit off a low base. Inconclusive so far, we will again be monitoring multiple markets for signs of improved pricing trends in 2012.

### We expect text messaging to remain under significant pressure

### Change in consumer behaviour hurting messaging revenues

The true impact of changes in behaviour around Facebook, Twitter and Apple's latest move to provide automatic text rerouting through iMessenger have not yet been felt. Some operators (notably Vodafone) have been more proactive about moving to tariff bundles early to defend their pricing models against the loss of text traffic but significant exposure remains in the industry as a whole. Apple's move to syphon text messaging off into its own system will have its biggest impact in 2012 as the iPhone 4S only made it to market in 4Q11.

#### Xmas nt gr8

During the heavy text messaging Christmas Eve and New Year period, markets like Finland and the Netherlands (early SMS adopters) showed sharp volume declines due to cannibalisation from social media, email and instant messaging. In France, Orange saw only a 21% yoy growth of SMS volumes on Jan 1, 2012 vs. +88% in 2011 and +43% in 2010. Most operators have already anticipated the risk of SMS cannibalisation by offering integrated voice and data bundles containing unlimited SMS.

**Given the propensity of internet based applications to spread virally**, there is still a chance of a negative shock from rapid loss of high margin traffic where tariff reform has not been quick enough. For those more advanced with tariff reform we expect, in time, a broadening of the recent modest pricing discipline in mobile which could be a distinct positive for the sector. We expect fixed incumbent revenue declines to moderate and their loss of voice market share and purging of wholesale revenue start to run their courses.

#### Transition from per SMS billing to integrated bundles can be done

We expect SMS usage and revenue to decline but progressively rather than dramatically as observed with KPN. Vodafone leads the way on how to manage the transition from billing per SMS to integrated bundles with low but positive messaging revenue growth. Operators we see as being more at risk over the next 12 months include Belgacom, KPN and Telefónica.

#### Balance sheets and risk from credit events

#### Watch out for weak balance sheets

We expect interest rates to rise for corporate borrowing, putting pressure on earnings and FCF, particularly for the more highly levered names and for those that have significant near term refinancing needs. We see the risk of credit events (ie downgrades or adverse outlook changes) forcing managements to moderate leverage and threatening dividend/buyback policies, even beyond the dividend cuts that we have already seen from Telefónica and Telekom Austria. KPN's buyback may be at greater risk than the market anticipates, for example.

#### Capital intensity risk

#### Capex set to rise

European operators have shown considerable capex discipline over the last few years and this may start to give in 2012, with wider deployment of local network fibre under pressure from regulators as well as preparations for LTE and backhaul upgrades in mobile.

#### New technologies on near horizon: TD-LTE and NFC

#### TD-LTE and NFC: 2 new investment opportunities

We expect 2012 to be the year that brings to commercial life two new technologies which present interesting opportunities for the industry. TD-LTE is an internationally accepted 4G variant that is on trial in China and Japan, and is likely to be deployed by Reliance Industries in India and Clearwire in the US. It makes use of unpaired spectrum, historically disregarded. We also expect near field communications to start to reach wider mass market acceptance, following the characteristically beta-like launch of Google Wallet in October 2011. Apple may include NFC in the next version of the iPhone and the Olympics might help raise its profile in Europe.

Figure 4. European Telecom Comparative Valuation (Prices at 5<sup>th</sup> January 2012)

Company Name	RIC Code	Rating	Share Price	Target			MV (Eur bn)	Minos/ (Assoc)	EV (Eur bn)	EV/Sales			EV/EBITDA			Underlying P/E			FCF Yield to Equity			FCF Yield to Firm			Dividend Yield		
				Price	Upside	ETR				2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Incumbents/Wireless																											
Belgacom	BCOM.BR	Sell	24.19	20.00	(17.3%)	(8.3%)	8.2	0.0	10.5	1.6	1.6	1.6	5.4	5.5	5.6	10.9	11.4	11.8	8.9%	8.7%	8.5%	7.6%	7.5%	7.4%	9.0%	9.0%	8.7%
Bouygues	BOUY.PA	Sell	24.64	22.50	(8.7%)	(2.2%)	7.8	(1.3)	10.8	0.3	0.3	0.3	3.3	3.3	3.4	7.1	7.1	7.0	10.1%	15.7%	16.9%	9.5%	13.3%	14.6%	6.5%	6.3%	6.4%
BT Group	BT.L	Buy	1.98	2.05	3.5%	9.1%	18.6	(0.4)	28.5	1.2	1.1	1.1	3.8	3.6	3.4	8.2	7.8	7.4	11.5%	11.2%	11.9%	10.0%	10.1%	10.9%	7.0%	8.7%	9.7%
C&W Comms	CWC.L	Buy	0.38	0.45	18.0%	31.4%	1.2	1.1	3.5	1.6	1.6	1.6	5.0	4.9	4.8	9.2	9.1	8.8	7.3%	9.5%	10.2%	8.0%	8.8%	9.2%	8.4%	6.7%	6.8%
Deutsche Telekom	DTEGn.DE	Buy	9.02	10.00	10.9%	18.7%	39.0	2.3	84.7	1.4	1.4	1.3	4.5	4.4	4.3	9.6	9.0	8.5	13.4%	13.5%	14.3%	7.3%	7.6%	8.2%	7.8%	8.2%	8.7%
Elisa	ELI1V.HE	Sell	16.26	12.50	(23.1%)	(15.6%)	2.7	0.0	3.5	2.2	2.2	2.1	6.5	6.5	6.4	12.9	12.6	12.3	8.7%	8.8%	8.9%	6.7%	6.8%	7.0%	7.8%	8.1%	8.1%
France Telecom	FTE.PA	Neutral	12.05	12.00	(0.4%)	11.2%	31.9	1.7	63.0	1.4	1.4	1.4	4.4	4.4	4.4	7.6	7.6	7.5	16.1%	16.2%	14.4%	8.7%	8.9%	9.0%	11.6%	11.9%	12.3%
KPN	KPN.AS	Sell	8.89	8.10	(8.8%)	0.7%	13.1	0.0	25.8	1.9	1.9	1.9	4.9	4.9	4.8	7.0	7.1	7.6	15.6%	15.2%	13.5%	10.5%	10.6%	9.9%	10.1%	10.8%	11.0%
Mobistar	MSTAR.BR	Sell	40.46	37.10	(8.3%)	1.6%	2.4	0.0	2.9	1.8	1.8	1.8	5.6	5.6	5.7	11.0	11.1	11.1	9.3%	9.1%	9.0%	8.0%	7.9%	7.9%	9.6%	9.5%	9.0%
OTE	OTEr.AT	Neutral	2.81	3.04	8.2%	13.5%	1.4	(0.0)	4.8	1.0	0.9	0.9	3.0	2.9	2.7	5.9	5.0	4.6	35.4%	35.8%	33.9%	13.6%	15.0%	15.7%	5.3%	6.7%	7.5%
Portugal Telecom	PTC.LS	Neutral	4.43	5.00	12.8%	27.4%	3.9	(0.5)	10.9	1.7	1.6	1.6	4.7	4.6	4.4	7.7	6.8	5.8	18.4%	21.3%	25.4%	7.5%	8.5%	9.7%	15.2%	16.9%	19.1%
Swisscom	SCMN.VX	Buy	358.90	420.0	17.0%	23.2%	15.3	0.0	22.0	2.3	2.3	2.3	5.8	5.8	5.7	9.7	9.9	9.9	11.2%	11.2%	11.3%	8.5%	8.7%	9.0%	6.4%	6.8%	7.2%
TDC	TDC.CO	Neutral	46.01	43.5	(5.5%)	4.0%	5.1	0.0	7.9	2.2	2.2	2.2	5.4	5.4	5.4	11.4	11.4	11.2	10.3%	11.1%	11.7%	8.6%	9.0%	9.3%	10.1%	10.2%	10.4%
Tele2	TEL2b.ST	Buy	133.30	148.00	11.0%	21.3%	6.8	0.0	8.1	1.6	1.6	1.5	6.0	5.5	5.1	11.0	9.7	8.7	9.1%	9.1%	10.6%	7.4%	8.3%	9.5%	9.3%	9.9%	10.7%
Telecom Italia	TLIT.MI	Buy	0.85	1.20	42.0%	49.9%	15.6	6.2	52.9	1.8	1.7	1.6	4.2	4.0	3.8	6.1	6.0	5.6	21.7%	24.1%	25.8%	9.4%	10.6%	11.6%	9.1%	10.3%	11.6%
Telecom Italia Savers	TLITn.MI	Buy	0.71	1.05	47.5%	58.4%	15.6	6.2	52.9	1.8	1.7	1.6	4.2	4.0	3.8	5.1	4.9	4.4	25.8%	29.5%	33.0%	9.4%	10.6%	11.6%	12.3%	14.2%	16.5%
Telefonica	TEF.MC	Neutral	13.42	13.00	(3.1%)	5.3%	61.2	0.7	119.4	1.9	1.9	1.8	5.4	5.2	4.9	9.0	8.6	7.9	11.9%	12.9%	13.9%	7.7%	8.1%	8.9%	9.7%	9.8%	9.8%
Telekom Austria	TELA.VI	Neutral	9.02	9.35	3.7%	7.9%	4.0	0.0	7.0	1.6	1.5	1.5	4.8	4.7	4.5	14.6	11.8	10.1	11.0%	11.9%	11.2%	8.2%	9.1%	8.8%	4.2%	6.5%	6.2%
Telenor	TEL.OL	Buy	97.00	112.00	15.5%	19.8%	20.3	2.0	25.3	1.9	1.8	1.7	5.7	5.2	4.8	11.6	9.7	9.0	7.3%	10.7%	12.1%	7.8%	9.0%	10.9%	5.3%	6.2%	6.6%
TeliaSonera	TLSN.ST	Neutral	45.96	44.50	(3.2%)	2.9%	22.5	(5.4)	25.3	2.1	2.1	2.1	5.9	5.9	5.9	9.9	9.8	9.7	6.7%	6.9%	7.2%	6.9%	7.4%	7.8%	6.2%	6.1%	6.2%
Vodafone	VOD.L	Buy	1.80	2.05	13.9%	21.4%	109.0	(48.4)	90.7	1.6	1.5	1.5	4.7	4.8	4.6	10.8	10.6	10.2	10.5%	11.4%	12.5%	8.2%	8.2%	8.5%	8.0%	8.6%	9.1%
Weighted average										1.7	1.6	1.6	4.9	4.8	4.6	9.4	9.1	8.7	12.4%	13.4%	14.1%	8.3%	8.7%	9.2%	8.5%	9.1%	9.6%
Cable & Satellite																											
Eutelsat	ETL.PA	Neutral	29.94	32.00	6.9%	10.2%	6.6	0.0	9.1	7.0	6.7	6.4	8.9	8.5	8.2	17.7	17.2	17.2	1.9%	2.7%	4.6%	2.1%	2.9%	4.3%	3.6%	3.9%	4.2%
Inmarsat	ISAL	Neutral	4.22	4.80	13.9%	19.9%	2.3	0.0	3.6	3.1	3.3	3.5	5.8	6.3	6.2	9.9	14.7	14.6	(6.5%)	2.5%	10.4%	(2.5%)	3.9%	8.9%	6.7%	7.3%	7.8%
SES	SESFd.PA	Sell	18.60	16.50	(11.3%)	(6.6%)	8.8	0.0	12.8	6.5	6.2	5.9	8.9	8.4	8.1	16.5	16.1	21.7	3.7%	6.6%	8.6%	3.3%	5.3%	6.9%	5.3%	5.7%	6.0%
Kabel Deutschland	KD8Gn.DE	Neutral	40.21	40.00	(0.5%)	(0.5%)	3.6	0.0	6.3	3.5	3.3	3.1	7.3	6.8	6.4	17.0	13.1	11.3	6.8%	8.7%	10.3%	6.0%	7.0%	8.0%	4.8%	5.2%	6.8%
Telenet	TNET.BR	Buy	29.08	30.00	3.2%	18.7%	3.3	0.0	6.2	4.2	4.1	3.9	8.3	8.0	7.5	24.3	20.9	17.6	7.3%	8.6%	9.6%	5.0%	5.5%	5.8%	15.5%	16.5%	11.9%
Virgin Media	VMED.O	Buy	21.50	32.00	48.8%	49.5%	5.0	(0.4)	11.2	2.1	2.0	1.9	5.3	5.0	4.6	10.7	8.0	6.3	14.7%	16.9%	21.0%	9.6%	10.6%	12.5%	0.7%	0.7%	0.6%
Zon	ZON.LS	Neutral	2.45	2.40	(1.8%)	4.7%	0.8	0.0	1.5	1.7	1.7	1.6	4.7	4.5	4.5	13.5	10.4	9.0	10.4%	9.7%	9.5%	6.6%	6.3%	6.2%	6.5%	7.0%	7.6%
Weighted average (satellite)										6.2	6.0	5.8	8.5	8.2	7.9	16.1	16.3	19.1	1.7%	4.6%	7.3%	2.1%	4.2%	6.2%	4.9%	5.2%	5.6%
Weighted average (cable)										3.0	2.9	2.8	6.6	6.3	5.9	16.2	12.9	10.8	10.3%	12.0%	14.3%	7.2%	8.0%	9.1%	6.1%	6.5%	5.8%
Alternative carriers																											
C&W Worldwide	CWP.L	Neutral	0.18				0.6	0.0	1.0	0.4	0.5	0.5	2.6	2.7	2.7	30.9	28.4	20.9	(2.9%)	2.3%	5.3%	0.4%	3.5%	5.7%	1.0%	1.9%	4.1%
Freenet	FNTGn.DE	Buy	10.06	11.50	14.3%	23.3%	1.3	0.0	1.7	0.6	0.5	0.5	5.2	4.8	4.6	5.7	5.5	5.2	16.0%	16.7%	17.4%	15.4%	14.5%	15.3%	9.8%	10.9%	12.2%
Jazztel	JAZ.MC	Neutral	3.87	4.50	16.2%	16.2%	0.9	0.0	1.1	1.3	1.3	1.3	6.3	5.8	5.6	16.0	10.2	8.6	5.6%	(1.2%)	(0.3%)	5.4%	1.4%	1.4%	0.0%	0.0%	0.0%
Sonaecom	SNC.LS	Neutral	1.23				0.5	0.0	0.7	0.8	0.7	0.7	3.3	3.1	3.0	8.9	8.5	8.1	18.0%	12.4%	13.4%	10.2%	7.3%	11.4%	4.1%	3.9%	3.7%
TalkTalk	TALK.L	Neutral	1.37				1.5	0.0	1.9	0.9	0.8	0.8	4.9	4.2	3.6	8.5	7.8	7.2	13.7%	16.1%	14.9%	8.9%	11.9%	14.0%	6.2%	7.3%	8.6%
United Internet	UTDI.DE	Neutral	14.15	13.00	(8.1%)	(5.7%)	3.0	(0.2)	3.0	1.3	1.2	1.2	7.0	6.4	6.2	13.7	12.8	12.7	7.9%	8.3%	8.4%	8.3%	9.1%	9.6%	2.6%	3.1%	5.1%
Weighted average										1.0	1.0	0.9	5.7	5.2	4.9	12.2	11.2	10.2	9.8%	9.8%	10.1%	8.8%	9.1%	10.2%	4.1%	4.8%	6.2%

Source: Powered by dataCentral. dataCentral is CIRA's proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai.

Figure 5. European Telecom Comparative Valuation (Prices at 15<sup>th</sup> December 2011)

Company Name	RIC Code	11E - 14 CAGR				Sales (local m)			EBITDA Margin (%)			Capex / Sales			Net Debt (local m)			Net Debt / EBITDA			CE (m)	ROCE				EV/CE
		Sales	EBITDA	EPS	FCF	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2012E	2013E	2014E	2012E	
Incumbents/Wireless																										
Belgacom	BCOM.BR	(0.9%)	(2.1%)	(4.8%)	(3.2%)	6,330	6,269	6,241	29.0%	28.8%	28.6%	11.8%	11.8%	11.8%	1,860	1,918	1,941	1.0x	1.1x	1.1x	5,943	12.7%	12.5%	12.4%	1.7x	
Bouygues	BOUY.PA	(0.6%)	(2.4%)	6.7%	28.3%	32,096	31,602	31,647	10.2%	10.1%	9.8%	6.1%	4.6%	4.6%	4,307	3,988	3,498	1.3x	1.2x	1.1x	10,736	9.6%	12.8%	13.5%	1.0x	
BT Group	BT.L	(1.2%)	1.5%	6.8%	22.7%	19,395	19,163	19,357	31.7%	31.8%	31.7%	13.5%	13.5%	13.4%	6,690	6,072	5,566	1.1x	1.0x	0.9x	12,602	18.4%	18.2%	18.5%	1.8x	
C&W Comms	CWC.L	4.8%	4.1%	7.5%	(55.0%)	2,861	2,781	2,810	32.5%	33.0%	33.0%	13.1%	12.7%	12.5%	1,450	1,429	1,373	1.6x	1.5x	1.5x	2,250	16.4%	17.8%	18.5%	2.0x	
Deutsche Telekom	DTEGn.DE	0.4%	(0.0%)	14.3%	1.2%	59,244	59,334	59,750	31.4%	31.6%	31.4%	14.7%	14.5%	13.9%	37,811	35,667	33,363	2.0x	1.9x	1.8x	81,098	7.4%	7.7%	8.2%	1.0x	
Elisa	ELI1V.HE	0.4%	1.0%	3.0%	0.7%	1,523	1,531	1,538	33.1%	33.4%	33.6%	11.9%	11.9%	11.9%	733	703	675	1.5x	1.4x	1.3x	800	27.7%	29.1%	30.4%	4.1x	
France Telecom	FTE.PA	(1.2%)	(2.5%)	(2.7%)	(7.8%)	44,329	43,864	43,574	32.5%	31.9%	31.6%	17.4%	14.4%	14.4%	29,438	28,173	27,646	2.0x	2.0x	2.0x	40,163	10.2%	13.3%	13.1%	1.6x	
KPN	KPN.AS	(0.3%)	(1.1%)	(0.9%)	(9.7%)	13,060	12,917	12,993	39.5%	38.8%	38.5%	17.7%	13.5%	15.3%	12,022	11,680	11,696	2.3x	2.3x	2.3x	12,004	18.0%	22.2%	20.4%	2.1x	
Mobistar	MSTAR.BR	(0.2%)	(0.8%)	(1.7%)	4.4%	1,658	1,658	1,661	31.6%	31.4%	31.3%	10.5%	10.5%	10.5%	485	514	540	0.9x	1.0x	1.0x	852	27.4%	26.7%	26.3%	3.4x	
OTE	OTEr.AT	(2.4%)	(2.1%)	12.6%	(0.6%)	4,835	4,736	4,695	32.7%	32.8%	33.0%	13.4%	13.1%	12.9%	3,448	3,105	2,701	2.2x	2.0x	1.7x	5,496	11.8%	12.6%	12.6%	0.9x	
Portugal Telecom	PTC.LS	1.6%	0.4%	(3.8%)	3.6%	6,584	6,441	6,364	35.7%	35.9%	36.1%	18.8%	17.3%	16.1%	6,783	6,747	6,665	2.9x	2.9x	2.9x	12,763	6.1%	7.2%	8.1%	0.9x	
Swisscom	SCMN.VX	0.2%	0.5%	0.9%	7.5%	11,537	11,537	11,561	40.1%	40.1%	40.2%	15.4%	15.0%	14.7%	7,823	7,166	6,542	1.7x	1.5x	1.4x	10,911	21.0%	21.7%	22.6%	2.5x	
TDC	TDC.CO	(0.4%)	(1.0%)	(2.4%)	4.6%	26,029	25,844	25,858	41.6%	41.2%	40.9%	13.4%	13.3%	13.3%	20,939	20,609	20,106	1.9x	1.9x	1.9x	34,876	14.5%	15.3%	16.2%	1.7x	
Tele2	TEL2b.ST	4.5%	8.7%	10.7%	14.4%	43,923	45,447	46,712	26.9%	28.5%	29.8%	10.3%	10.4%	10.0%	12,013	12,107	11,751	1.0x	0.9x	0.8x	20,551	25.6%	27.7%	30.7%	3.5x	
Telecom Italia	TLIT.MI	(0.4%)	0.5%	2.4%	29.4%	30,017	29,699	29,662	41.5%	41.7%	41.8%	16.2%	14.9%	14.4%	31,059	28,688	26,277	2.5x	2.3x	2.1x	27,123	17.3%	20.3%	22.0%	1.9x	
Telecom Italia Savers	TLITn.MI	(0.4%)	0.5%	2.4%	29.4%	30,017	29,699	29,662	41.5%	41.7%	41.8%	16.2%	14.9%	14.4%	31,059	28,688	26,277	2.5x	2.3x	2.1x	27,123	17.3%	20.3%	22.0%	1.9x	
Telefonica	TEF.MC	(0.5%)	1.1%	1.6%	5.6%	61,276	60,879	61,751	36.1%	36.9%	37.4%	16.4%	14.4%	13.3%	55,105	54,814	52,400	2.5x	2.4x	2.3x	70,468	10.5%	12.5%	14.5%	1.7x	
Telekom Austria	TELA.VI	0.8%	(0.4%)	12.3%	5.1%	4,424	4,488	4,549	33.0%	33.1%	33.4%	16.6%	16.1%	15.7%	3,049	2,738	2,556	2.1x	1.8x	1.7x	3,990	14.5%	16.4%	15.9%	1.8x	
Telenor	TEL.OL	4.0%	7.8%	11.9%	17.0%	103,064	107,259	110,724	32.7%	34.1%	34.8%	16.1%	12.2%	9.7%	23,560	18,401	8,716	0.7x	0.5x	0.2x	127,326	8.1%	12.8%	16.0%	1.5x	
TeliaSonera	TLSN.ST	1.6%	2.0%	5.6%	24.0%	106,692	108,144	109,291	35.5%	35.7%	35.9%	14.2%	12.6%	11.8%	67,360	65,654	63,088	1.8x	1.7x	1.6x	257,618	5.7%	6.3%	6.6%	0.9x	
Vodafone	VOD.L	0.2%	0.3%	(4.7%)	52.3%	46,363	45,654	46,206	33.4%	31.8%	32.2%	15.5%	13.7%	14.0%	23,712	21,244	18,523	1.5x	1.4x	1.2x	77,288	6.3%	7.2%	7.1%	0.9x	
Weighted average		0.2%	0.7%	1.9%	20.6%				34.1%	33.9%	34.0%	15.3%	13.7%	13.3%				1.8x	1.7x	1.6x		10.8%	12.4%	13.0%	1.5x	
Cable & Satellite																										
Eutelsat	ETL.PA	8.4%	8.2%	6.2%	1.5%	1,250	1,362	1,489	78.0%	78.5%	78.7%	43.0%	39.4%	31.8%	2,487	2,569	2,538	2.4x	2.3x	2.1x	3,964	4.9%	6.5%	10.0%	2.3x	
Inmarsat	ISAL	(0.6%)	(2.9%)	(15.8%)	34.2%	1,454	1,433	1,374	54.2%	52.6%	56.5%	39.2%	30.0%	25.5%	1,698	1,838	1,868	2.2x	2.4x	2.4x	2,322	(5.0%)	7.4%	16.5%	2.0x	
SES	SESFd.PA	4.3%	4.5%	(12.3%)	60.8%	1,769	1,876	1,963	72.9%	73.9%	73.4%	45.8%	34.1%	22.9%	3,977	3,865	3,613	3.1x	2.8x	2.5x	5,979	6.4%	10.2%	14.0%	1.9x	
Kabel Deutschland	KD8Gn.DE	5.5%	9.4%	40.9%	17.3%	1,697	1,796	1,879	47.5%	48.6%	49.4%	21.1%	19.5%	17.5%	2,526	2,384	2,190	3.0x	2.6x	2.3x	899	41.0%	49.4%	59.4%	6.8x	
Telenet	TNET.BR	4.3%	4.5%	18.9%	4.3%	1,448	1,508	1,556	51.2%	51.3%	51.4%	22.2%	19.2%	18.2%	2,865	3,134	3,193	3.9x	4.1x	4.0x	1,216	25.5%	30.3%	35.0%	5.1x	
Virgin Media	VMED.O	3.6%	5.1%	61.5%	10.9%	4,125	4,288	4,426	40.2%	40.8%	41.2%	17.2%	16.8%	15.2%	5,518	5,440	5,277	3.3x	3.1x	2.9x	4,442	19.0%	21.4%	25.4%	2.0x	
Zon	ZON.LS	1.8%	2.2%	31.4%	16.0%	908	920	933	36.0%	36.5%	36.5%	20.6%	21.6%	21.5%	778	754	735	2.4x	2.2x	2.2x	721	14.0%	13.3%	12.8%	2.1x	
Weighted average (satellite)		5.2%	4.9%	(5.9%)	35.3%				72.4%	72.9%	73.2%	43.9%	35.5%	26.6%				2.7x	2.6x	2.3x		4.4%	8.5%	12.8%	2.1x	
Weighted average (cable)		4.2%	6.0%	42.7%	11.3%				44.9%	45.5%	45.9%	19.8%	18.5%	17.0%				3.3x	3.2x	3.0x		26.7%	31.2%	36.9%	4.2x	
Alternative carriers																										
C&W Worldwide	CWP.L	(3.3%)	(8.0%)	(44.8%)	(39.5%)	2,145	2,073	2,040	17.0%	17.3%	17.7%	12.6%	13.0%	12.2%	235	248	250	0.7x	0.7x	0.7x	853	0.4%	3.8%	6.3%	1.1x	
Freetel	FNTGn.DE	(1.1%)	0.4%	(1.1%)	(0.7%)	3,128	3,104	3,098	10.8%	11.0%	11.0%	0.8%	0.8%	0.8%	435	348	270	1.3x	1.0x	0.8x	787	34.3%	29.6%	28.6%	2.2x	
Jazztel	JAZ.MC	10.4%	18.3%	29.0%	nm	860	948	1,015	20.7%	22.0%	23.0%	9.5%	19.0%	20.0%	163	175	178	0.9x	0.8x	0.8x	472	12.7%	2.9%	2.6%	2.4x	
Sonaecom	SNC.LS	0.3%	2.4%	2.2%	6.0%	894	888	888	23.7%	24.0%	24.2%	14.7%	13.5%	13.4%	248	191	149	1.2x	0.9x	0.7x	804	3.9%	6.3%	9.3%	0.9x	
TalkTalk	TALK.L	(0.1%)	8.7%	16.1%	42.5%	1,696	1,727	1,759	18.6%	19.8%	20.7%	6.1%	6.0%	6.0%	267	129	21	0.8x	0.4x	0.1x	237	58.4%	94.9%	113.2%	6.6x	
United Internet	UTDI.DE	4.6%	9.2%	15.9%	12.3%	2,231	2,317	2,380	18.0%	18.9%	19.2%	3.3%	3.3%	3.3%	133	(47)	(222)	0.3x	-0.1x	-0.5x	264	88.8%	103.1%	114.1%	10.7x	
Weighted average		2.6%	7.1%	9.4%	10.2%				17.5%	18.3%	18.8%	5.5%	6.6%	6.7%				0.7x	0.4x	0.1x		53.2%	64.3%	72.2%	6.2x	

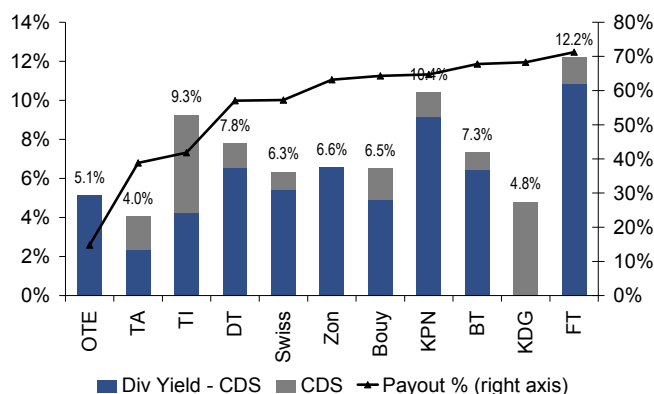
Source: Powered by dataCentral



## Dividends and sector earnings trends

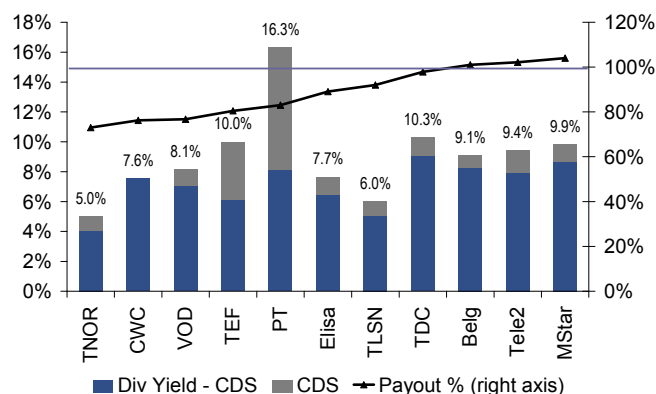
Dividend cuts have already begun, with Telefónica cutting guidance for its 2012 dividend before 2011 ended and Telekom Austria reducing the floor for guidance for its 2011 and 2012 dividends. More stocks could see payouts to shareholders adjusted in 2012 and the modest reaction from the Telefónica and Telekom Austria share prices may encourage the others to see the risks to them as being limited. We think that it would be imprudent on the part of managements to draw that conclusion since, for example, Telefónica's dividend has appeared so unsustainable for some time that it's likely the market had fully anticipated the change. Those that are not in that situation are likely to see a stronger reaction on the day, quite apart from losing an important downside protection should markets weaken.

**Figure 6. Less risk: 2012E Div yields – payout <75%**  
% yield, % payout of FCF excluding spectrum purchases



Source: Datastream, dataCentral

**Figure 7. Greater risk: 2012E Div yields – payout >75%**  
% yield, % payout of FCF excluding spectrum purchases



Source: Datastream, dataCentral

**Figure 8. Payout ratios compared to gearing – 2012E**

Net debt including unfunded pensions to EBITDA (y axis) vs dividend payout of FCF (x axis)



Source: dataCentral



**France Telecom** is the only major telecoms operator which we expect to cut its dividend, but more likely in 2013 rather than 2012. FT is guiding for a flat dividend of €1.40 for FY11 and FY12. While, on our numbers, FT should be able to just pay a flat €1.40/share dividend, we see a significant risk that FT could decide to cut its dividend to €1.10/share from FY13E as this would give it more flexibility to invest in revenue growth while still offering a high dividend yield. A dividend of €1.1/share would equate to a 9.1% dividend yield based on FT's current share price.

**Portugal Telecom's** dividend is apparently considered unsustainable by the market as the 15.2% dividend yield in 2012 suggests. PT has already declared its dividend for 2011 and paid the interim dividend in late December as planned. Despite the high borrowing costs and the formal downgrade of PT to high yield by Moody's, we believe the dividend is not under immediate threat. PT has enough liquidity to stay out of the markets until 2014 and has flexibility around domestic capex or the sale of non core assets to potentially stretch that to 2016, in our view. This does not mean that there is no medium term risk to the dividend as operational trends in Portugal may yet deteriorate from ongoing macro pressure. We are also concerned over the outlook for Oi group as James Rivett is unconvinced that operational performance will recover significantly in 2012 and expects FCF generation to weaken materially. Oi is expected to present a multi year business plan and dividend policy in 1Q 2012, which should provide PT with enough repatriation flows (c.€130m annually) to comfortably cover its own dividend. However, the recurrence of the dividend will be dependent on Oi's FCF recovering in 2013/14, which may prove optimistic.

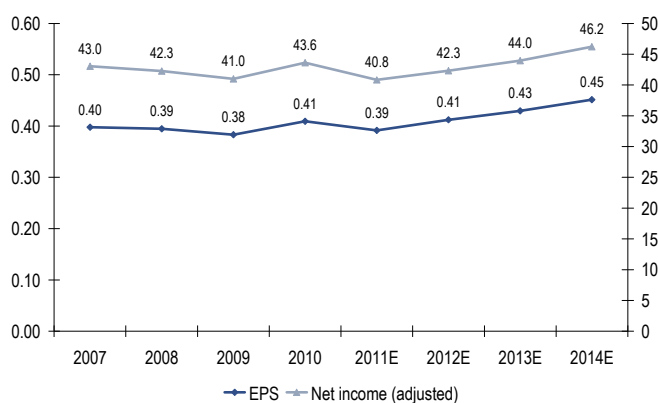
We believe **Telecom Italia** has the capacity to deliver 15% dividend growth given its low payout ratio (c.50% of FCF). However, further deterioration in credit conditions in Italy could put more pressure on TI's rating; currently at BBB and negative outlook with all major rating agencies, TI could afford but is likely to resist a one notch downgrade. The rating agencies and S&P in particular have set leverage thresholds (at c.3.5x adjusted net debt/EBITDA) which we think are unlikely to be breached. However, rating agencies could yet demand stricter leverage ratios in future and use that as an excuse to change the rating.

TI's yields have been closely linked to Italy's - in fact trade below the sovereign, which suggests that, ultimately, access to the market is not down to stock specifics. The Monti administration is also expected to provide the full details of a new law to provide tax relief on retained earnings by the end of January. This aims to provide incentives for leverage reduction, which could also influence the decision over the dividend. TI should already benefit on the existing retained earnings that are in excess of €1bn. We still expect TI to opt for a 15% increase but the new law could be used to justify flat dividends.

## Earnings outlook for 2012

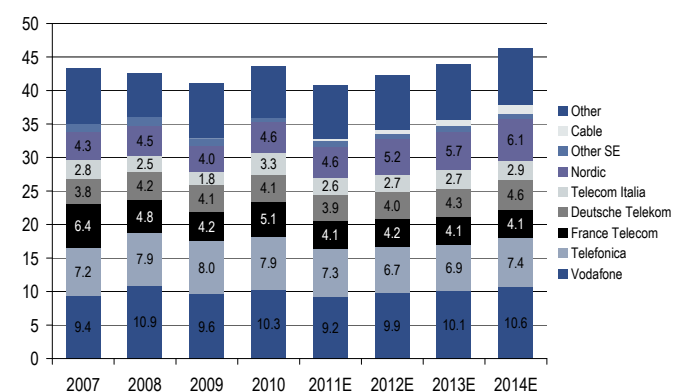
Adjusted net income for the sector rallied in 2010 but we expect it to have fallen again to a recent low in 2011. In 2012 we expect a small recovery of €1.5bn or 4%. Most of the major players contribute in a small way including Vodafone (+8%), which we expect to benefit from growth at Verizon Wireless and a moderation in the pressure on profits in Europe. The Nordics we expect to show healthy growth of +13% although we expect Telefónica to fall yoy by 7%. Cable makes a small positive contribution to sector earnings growth, although large in proportion to its size, on our estimates.

**Figure 9. European sector net income and earnings per share**  
€/share and €bn, incumbents, wireless and cable



Source: dataCentral

**Figure 10. Net income by company**  
€bn, incumbents, wireless and cable



Source: dataCentral

## What goes up must come down: the story of text cannibalisation

During the heavy text messaging Christmas Eve and New Year period, markets like Finland and the Netherlands (early SMS adopters) showed sharp volume declines due to cannibalisation from social media, email and instant messaging. In France, Orange saw only a 21% yoy growth in SMS volumes on Jan 1, 2012 vs. +88% in 2011 and +43% in 2010. Most operators have already anticipated the risk of SMS cannibalisation by offering integrated voice and data bundles containing unlimited SMS. We expect SMS usage and revenue to decline but progressively rather than dramatically as observed with KPN. Vodafone leads the way on how to manage the transition from billing per SMS to integrated bundles with low but positive messaging revenue growth. Operators we see as being more at risk over the next 12 months include Belgacom, KPN and Telefónica.

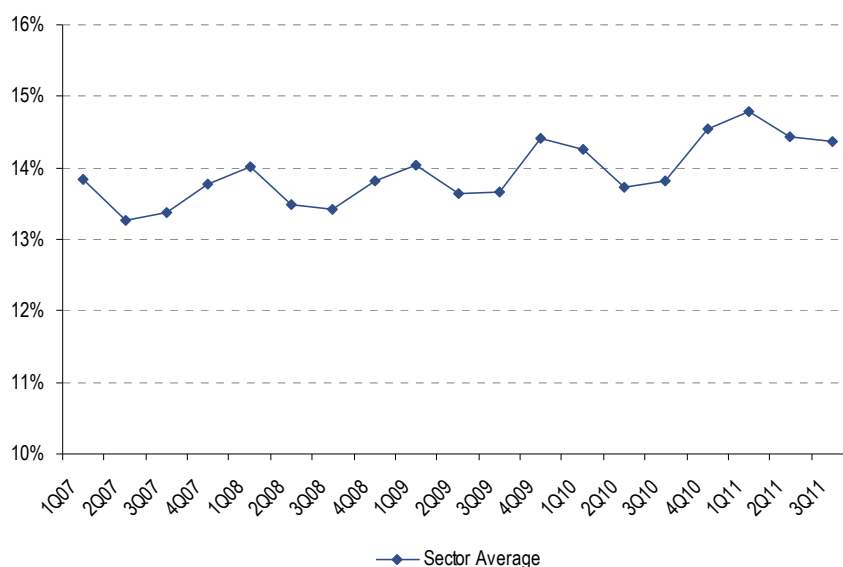
### Significant chunk of revenue

According to Carsten Schlöter, CEO of Swisscom, still over 55% of retail service revenue is generated by out of bundle voice traffic and SMS: "... we think that the pricing strategy for our industry is the key topic for the years to come as revenue per minute and revenue per SMS will come down. And on a single play basis, at some point of time, customers won't pay for a minute and won't pay for SMS anymore. And therefore the pricing strategy on bundles, the price differentiation potential between the low-end bundles and the high-end bundles is key in the way to preserve the value in this business".

The average SMS revenue as a percentage of mobile service revenue was c. 14% in 3Q11, c. 17% on a weighted average basis.

Figure 9 below shows the average SMS revenue as a % of mobile service revenue from 2007 to 2009. These represented c. 14% on average (17% on a weighted average basis) at the end of 3Q11. The calculation includes data as reported by VOD, TEF, FT, TI, Swisscom, Sonaecom and Everything Everywhere. Surprisingly, the weight of SMS revenue within the total mobile service revenue has increased over the past five years. We argue this is mainly a result of the way telecom operators allocate the service revenue as we move towards bundles instead of underlying growth. Either way, it is unlikely SMS revenue will continue to grow within the mix.

Figure 11. Average SMS revenue as a % of Mobile service revenue was 14.4% in 3Q11



Source: Company data, Citi Investment Research and Analysis

## IP technology is the main driver behind lower SMS usage and pricing:

In the medium term, we expect most SMS traffic to move to IP or to be included for free in bundles. We argue SMS usage is likely to continue to fall driven by:

Instant messaging generates very little data traffic making virtually no impact on the data allowance included in the bundle

- **Homo economicus: the economic arbitrage** - VoIP and instant messaging offer the opportunity to reduce standard carrier voice and SMS volumes and thereby lower phone bills. Instant messaging generates very little data traffic making virtually no impact on the data allowance included in the bundle.
- **Proliferation of smartphones and applications** - The growing penetration of smartphones (between 20 and 30% in Europe) is increasing the addressable subscriber base for instant messaging and VoIP. Applications are also getting better (e.g. WhatsApp works across different platforms and will look automatically among all contacts in order to find who is registered on WhatsApp).

iMessenger prioritises instant messaging over SMS and user is agnostic

- The launch of the new iPhone 4S should contribute to the acceleration in the SMS cannibalisation trend driven by the new version of Apple's iMessenger: this app blurs the line between IM and SMS as it is built into the ordinary message application on the iPhone. When the user sends an SMS or a picture to a friend, the phone will check automatically if that friend is on another iOS device and will use iMessenger if so, making it almost invisible to the user. Other popular instant messaging applications include BBM (Blackberry) and ChatON (Samsung).

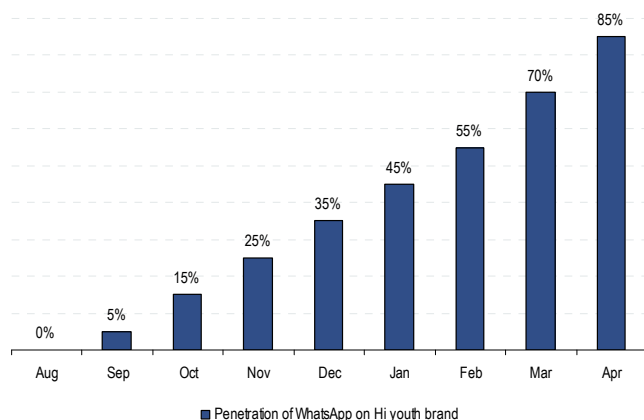
Dutch parliament introduced a law which prohibits operators from blocking VoIP

- **Net neutrality laws** – VoIP traffic remains very low (c. 2% of total traffic according to Vodafone) on smartphones. The main reason is that operators either block VoIP access or charge extra for VoIP in most European countries. The Dutch parliament took the lead this year and banned operators from blocking VoIP in the Netherlands. VoIP requires a material amount of data for now (1MByte=1min) but better compression techniques will bring down capacity needs. As mobile data supports a form of volume-based billing, the risk of outright loss of voice revenue is down to the skill of the operators to manage the transition.

## It all started with KPN...

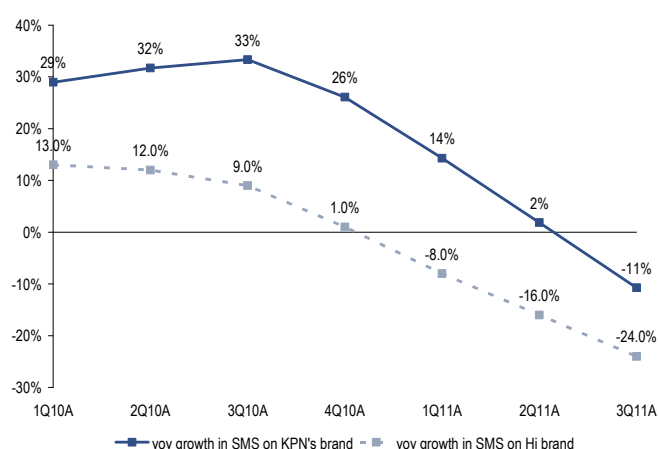
KPN's profit warning in April 2011 was blamed to some extent on voice and text cannibalisation and was an alarm signal for the market and other operators. While it is true that intuitively SMS revenue should come down over time, our view is that, in this particular case, the peculiarities of the Dutch tariff structures made it vulnerable to cannibalisation. On the other hand, we acknowledge that SMS pricing has been coming down historically and will likely continue to come down in other European markets like Spain or Italy – typically high priced pre-paid markets.

Figure 12. Proliferation of apps among KPN's youth segment (2010-2011)



Source: KPN, based on Android phones (postpaid only)

Figure 13. KPN: number of SMS falling on both the young and main brand



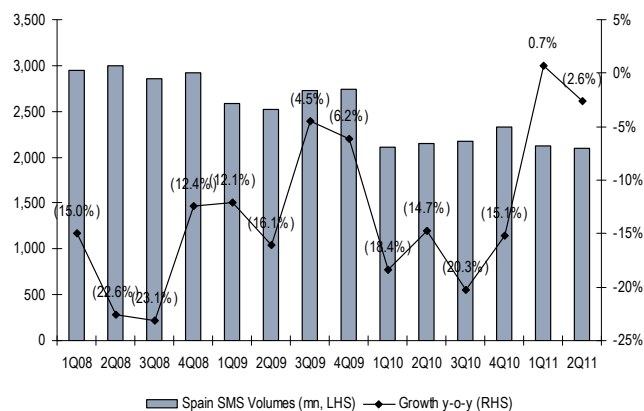
Source: Company data, Citi Investment Research and Analysis

Figure 13 shows the fast deterioration in SMS usage for KPN in the Netherlands: down c. 11% in 3Q11. This is partly due to the proliferation of instant messaging applications. The worrying aspect of this trend is that it is steadily getting worse instead of stabilising. The usage trends seen on KPN's Hi brand targeting the youth segment are even weaker: down 24% in 3Q11.

## Volume trends are country specific but clearly a slowdown

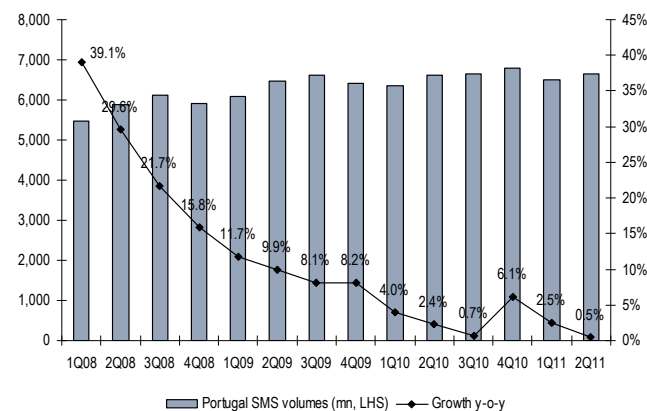
In countries like **Portugal** and **Spain** where there is a high percentage of **pre-paid** subscribers within the base, the decline or deceleration in the growth in SMS volumes is visible over the last two to three years. Not only are prices higher compared to the European average in countries like Spain but, in addition to this, the difficult macro conditions in Southern European countries has incentivised users to optimise spending. The trend will be difficult to reverse in these countries.

Figure 14. Spain: visible decline in short messages quarterly volumes



Source: CMT

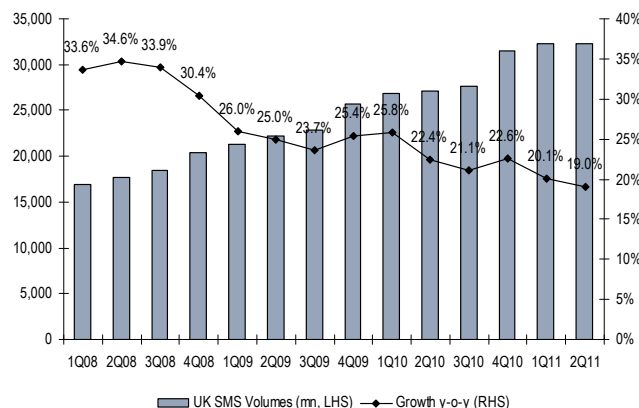
Figure 15. Portugal: deceleration in SMS volume growth



Source: Anacom

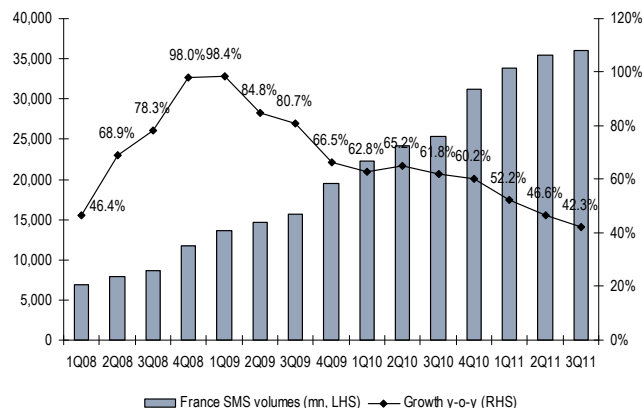
In **post-pay** biased countries like the **UK**, **France** or **Belgium**, there is still growth in SMS volumes; however, a significant slowdown is visible here too. According to France Telecom management, there is a plateau effect in France and Belgacom sees this as a consequence of including free SMS in new tariff plans: *"But at the end, you see that those free SMS are also generating inbound revenues that are a constant compensating part of the loss of those free SMS"*.

Figure 16. UK: steady slower growth in SMS volumes



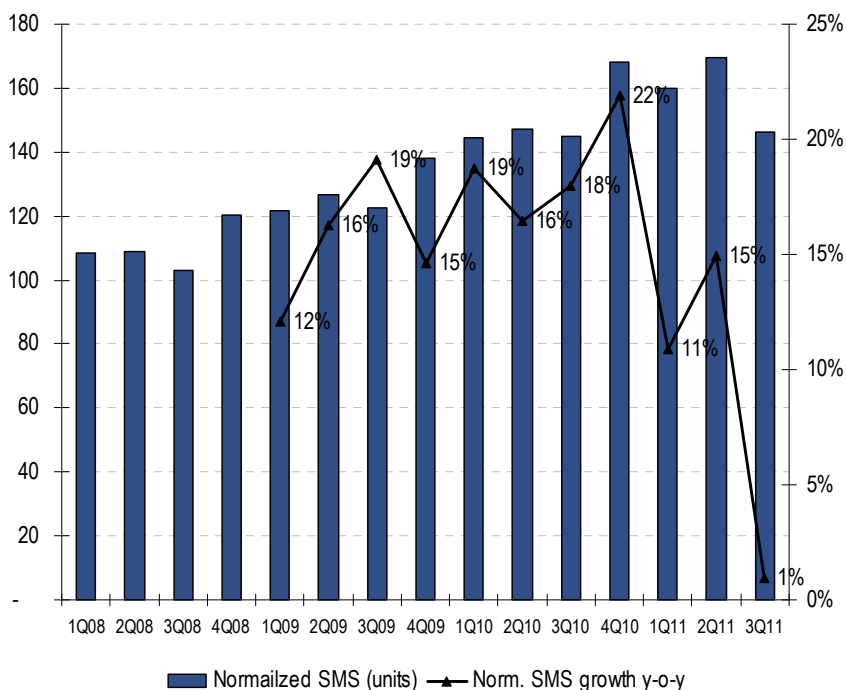
Source: Ofcom

Figure 17. France: similar trend in the national SMS volumes albeit still growing at a healthy pace



Source: Arcep

Figure 18. Belgacom: normalised SMS units growth for consumer and business (combined, mn)

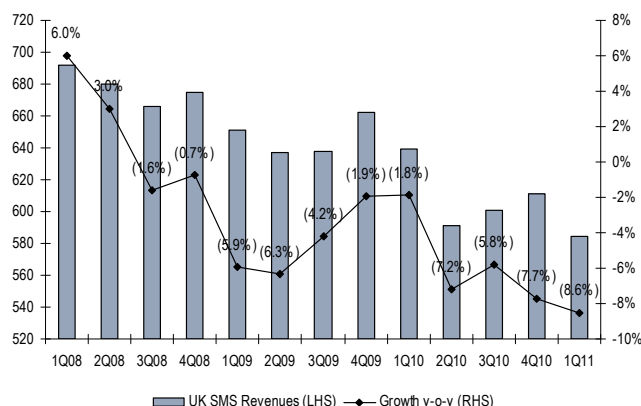


Source: Company data, Citi Investment Research and Analysis

## SMS revenues under pressure: more for less

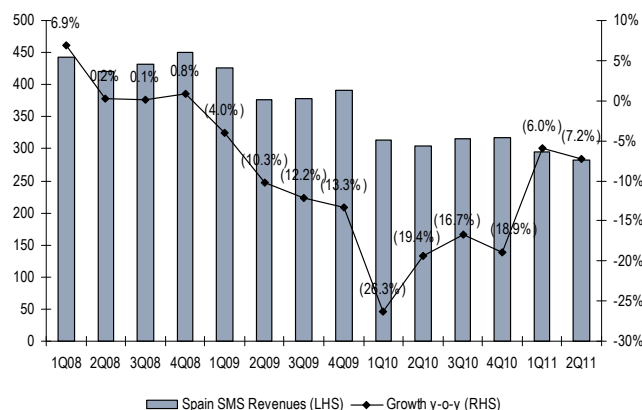
SMS revenues are declining both at a country (Fig. 14 and 15 below) and company level (Fig 16, 17), with some exceptions (FT SMS revenues are still growing albeit at a slower pace) which, in our view, are bound to disappear over the medium term. We argue the trend will continue and the separate accounting for SMS revenue will become less relevant and more arbitrary going forward. This is because operators are incrementally moving towards bundles which include an unlimited number of SMS in a move to protect the total ARPU rather than individual segments' contribution.

Figure 19. UK SMS revenue (£m) declining despite volume growth



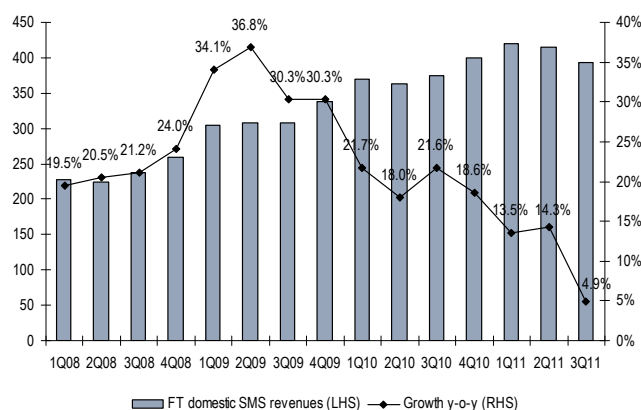
Source: Ofcom

Figure 20. Spain SMS revenue (€m) declining despite easy comps



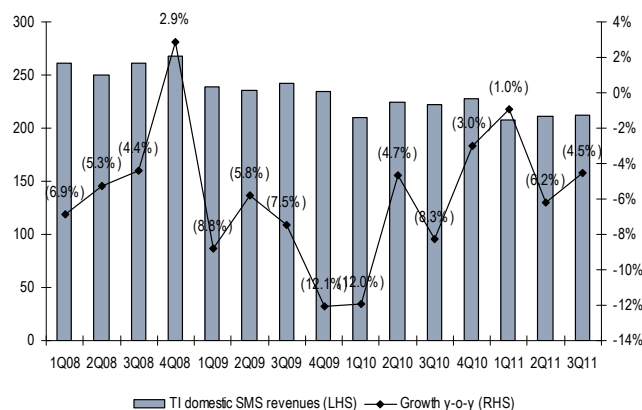
Source: CMT

Figure 21. France Telecom sees a plateau effect in SMS revenue (€m)



Source: company data, Citi Investment Research and Analysis

Figure 22. TI's SMS revenue (€m) have been in steady decline



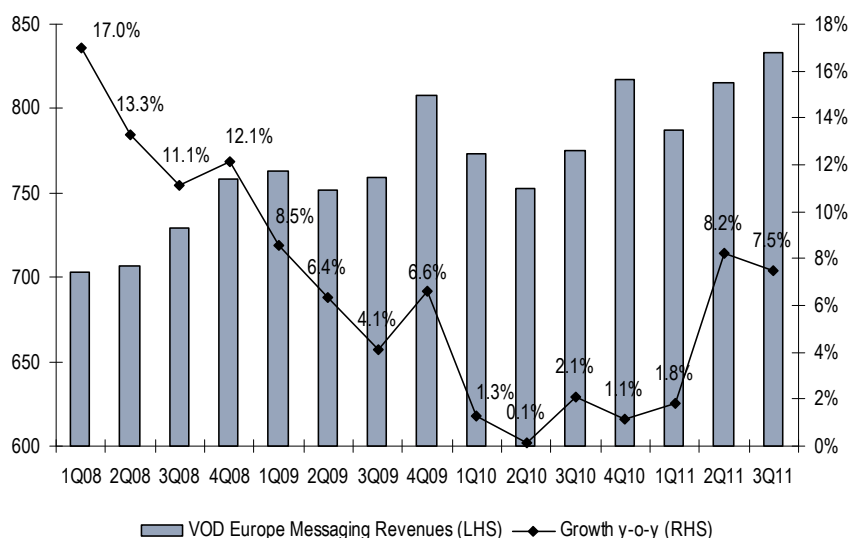
Source: Company data, Citi Investment Research and Analysis

## Is there any way to mitigate this decelerating trend?

Most operators have already integrated within their mindset the evidence that pricing per SMS was a thing of the past with now a steady migration towards unlimited SMS offers (e.g. in the UK and France) or flat SMS pricing. **Vodafone Europe** has been applying this strategy for several quarters now. This seems to be paying off with messaging revenue stabilising and even growing over the last quarters. We do not expect SMS revenue to return to positive growth territory across the sector but we think it is possible to stabilise the decelerating trend through bundling.



Figure 23. Vodafone Europe's messaging revenue recovering in the last two quarters



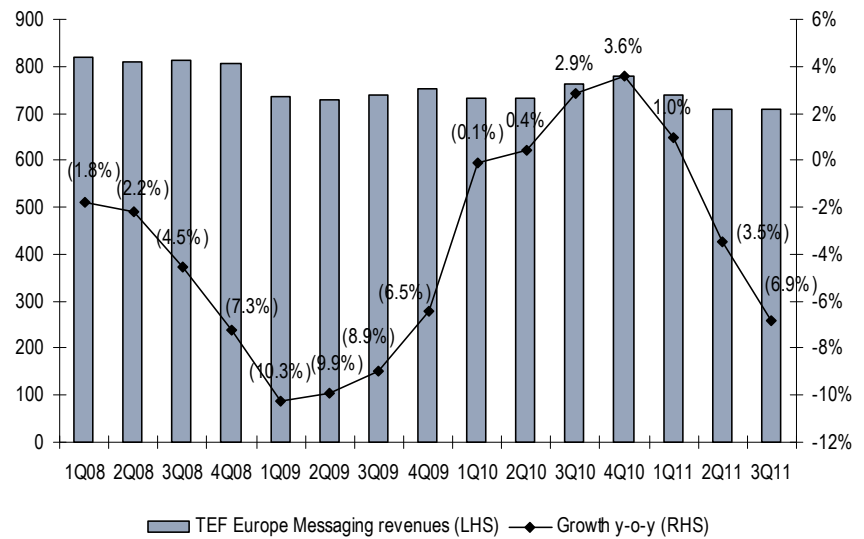
Source: Company data, Citi Investment Research and Analysis

In **post-paid**, many operators have reduced or removed the incentive to drop text options by making large or unlimited bundles available at entry level prices. This naturally comes at a cost (the loss of the high text volume pricing points), although it should be noted that to use instant messaging the customer does have to sign up for a data plan. With almost unlimited text widely available on post pay in markets like the UK, the behavioural change to substitute text with instant messaging has no economic benefit for the customer and becomes more a question of features. Indeed, the networking effects that add power to the migration process are perhaps less likely to have an impact in early days before the service becomes more mass market.

In **pre-paid**, the transition is likely to be more complicated as customers are used to and value the flexibility of buying separately voice, SMS and data. We are seeing the introduction of data add-ons with varying limits and duration. For instance, TMN (PT) in Portugal offers access on a daily (€1.07 for 15MB) or weekly (€1.34 for 25MB) and then a choice of monthly bundles 100MB (€5.35), 200MB (€8.24), 300MB (€10.71) and 600MB (€16.06). Most operators in prepay offer unlimited on-net SMS and ARPU from SMS tends to be low so we believe that the risk of cannibalisation is relatively limited.

We highlight **Telefónica** as one of the operators still at risk from text cannibalisation. The company's exposure to Spain, a pre-paid market where the pricing per SMS is still at a premium vs. the European average, makes it more vulnerable, in our view. We argue the transition period will be painful and we are yet to see the bottom. SMS revenue is likely to continue to decline until the operator decides to reduce the pricing premium vs. competitors. We also expect pricing to come down more in line with the European average and TEF to move towards unlimited/tiered SMS bundles. This requires a change in the mindset towards preserving the total revenue per subscriber rather than extracting the maximum value from each individual service delivered.

Figure 24. Telefónica Europe's declining messaging revenue (EURm)



Source: Company data, Citi Investment Research and Analysis

## Upping mobile data game with TD-LTE

**TD-LTE is a variant of the dominant global 4G mobile standard Long Term Evolution which offers efficient use of spectrum for high speed mobile data services. In what could be a telling change for the industry, the proving ground for this new global 4G standard is set to be in Asia. Due to the timing of spectrum availability and the commitment of the local operators, it is likely to come to market in China, India and Japan before it arrives in Europe or the US. It is in field trials now with both China Mobile and Japan's Softbank Mobile while, in India, Reliance Industries has national TD-LTE (BWA) spectrum at 2.3GHz and is planning to launch a service by end-2012 with low cost tablets. Clearwire is deploying TD-LTE at 2.5GHz in the US under contract from Sprint with a view to devices being available in 2013.**

One European CTO told us that the scale benefits of the huge network deployments in China and India cannot be ignored by western operators. TD should allow operators to add mobile data capacity cost effectively and efficiently use unpaired spectrum which has historically been cheaper to buy than the traditional cellular paired spectrum. It is, though, probably a year or so behind the earlier 4G standard – LTE-FDD – in terms of the readiness of the eco-system to produce compatible devices and network equipment. Interestingly, Datang, a Chinese vendor, bought 45MHz of TD-LTE spectrum in Belgium in November 2011.

Commercial deployments to date of LTE in the US and Europe (Germany, Sweden, Norway, Finland, Denmark) have been of the FDD (Frequency Division Duplex) variant rather than TD (Time Division). The key benefit of TD for mobile data is that more spectrum can be allocated to the busier downlink vs the more lightly used uplink, whereas, with FDD, the two are symmetric, a hangover from the days of voice. As video over mobile networks increases with 4G speeds, this asymmetry of traffic is likely to become a bigger problem, in our view.

The speed gap between 3G and LTE is reducing. In Hong Kong, as well as on the T-Mobile US network, for example, 3G (HSPA) downlink speeds are at 42Mbps though the average speed in Europe is between 14-28Mbps. The narrowing speed gap means 1) LTE cannot be priced at a premium to 3G and 2) LTE will need to directly compete with 3G.

### **What happened to the 3G equivalent - UMTS-TDD?**

**TD's 3G equivalent had little global impact**, although it was deployed in various places including Germany by Airdata, the US by NextWave and in New Zealand by Woosh Wireless. In addition, a variant with some local intellectual property (TDS-CDMA) became China Mobile's 3G offer but it was not deployed elsewhere. The disadvantages were that the chipset and software requirements were different from the standard 3G platform UMTS-FDD and also the European mobile operators had relatively small TD spectrum allocations which are mostly still unused.

### **TD-LTE looks well placed**

By contrast, we expect TD-LTE to be widely deployed, but in western markets probably around a year behind LTE FDD. Unusually, China and India may be about to make early headway in a technology which is likely to come to Western markets later, probably a harbinger of things to come given the enormous scale of both markets.

Large blocks of spectrum are being allocated to TD. Apart from the RF (needed anyway to support a new frequency band), the terminal components are set to be largely common including, crucially, the baseband where there is significant hardware overlap and both standards are likely to be integrated in all LTE shipments in due course.

As TD will eventually share the same baseband as FDD, the economics for TD compatible terminals are not materially adverse (unlike for 3G). There are, though, some compromises required to accommodate the time switching between the up/downlinks and to avoid interference with networks operating in neighbouring frequencies (discussed below). Also, as TD adds to the handset's powerload, it requires the cells to have a slightly smaller footprint than FDD cells for equivalent service.

### Where are we with LTE FDD?

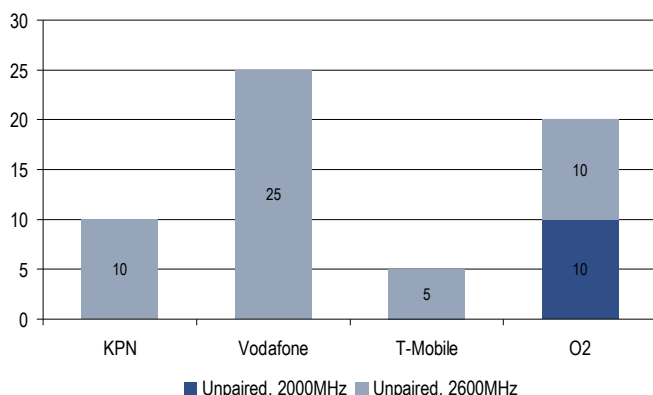
LTE FDD is the technology that most people who think of 4G think of as 4G. It is in live commercial service including in the US, Japan, Germany and all of the Nordic countries. Until recently, it was largely devoted to providing PC connections but attractive handsets have been appearing lately and are starting to become more numerous. These include the Samsung Galaxy Nexus which combines standard 3G/4G but also has a version that runs on Verizon's 3G CDMA and 4G LTE networks. Given the advancing competition, it would be odd, in our view, if Apple passed on the opportunity to add LTE to the next version of the iPhone.

The industry experts that we have spoken to generally expect LTE FDD and TD-LTE to be integrated in the same chipsets so that, in due course, both will be present in all 4G devices. As it stands, however, the necessary eco-system for TD is not as developed as it is for FDD and, judging from our industry interviews, it appears that TD is around a year behind.

### European operators position on TD-LTE

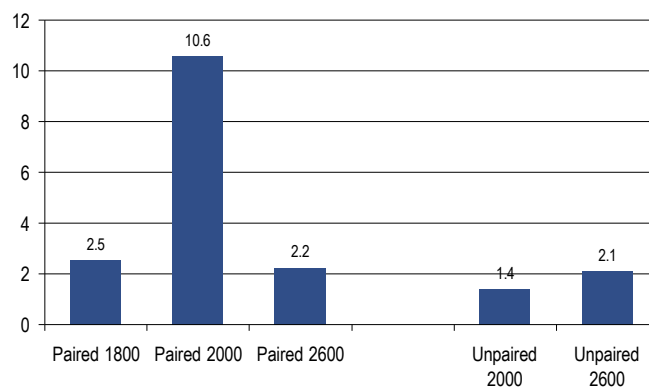
While we are not aware of any European operators who have announced near term plans for TD-LTE deployment, the outcome of the German 4G spectrum auction is telling as Figure 25 and Figure 26 show.

**Figure 25. Vodafone purchased 25MHz of contiguous unpaired spectrum at 2600MHz in the 2010 German auction**  
MHz of unpaired spectrum



Source: BNetzA

**Figure 26. 2010 German auction price for unpaired spectrum was low at ~€0.02/MHz/pop but similar to paired at 1800 & 2600. 800 paired - €0.72 Euro cents per MHz per pop**



Source: BNetzA

Vodafone bought half (25MHz) of the 2.6GHz unpaired spectrum available in the auction. Only O<sub>2</sub> came close with 20MHz of unpaired spectrum. Vodafone may be contemplating a high speed urban broadband service as its contiguous bandwidth is unmatched by the competition for now. The disadvantage of its approach is that its capacity is heavily biased to the high frequency 2.6GHz level which is tough for providing good in-building signal strength as industry experience regularly shows.

During the 2.6GHz auction in Belgium, BUCD BVBA/Datang, a Chinese vendor, bought 45MHz of TD-LTE spectrum. There is limited information regarding Datang. However, since Datang is an equipment supplier rather than an operator it is likely that it will rollout its 4G network in partnership with an operator to showcase its TD-LTE which the Chinese government wants to promote. Belgium, which is a relatively small, flat and densely populated country, could be used to showcase what TD-LTE can deliver and then export this technology to other European countries.

### The advantages and disadvantages of TD-LTE vs LTE FDD

TD-LTE distinguishes the uplink traffic from the downlink using time slots rather than different, separated frequency blocks as in LTE FDD. As the downlink is generally more heavily used, time slots can be allocated accordingly, ie asymmetrically, so the spectrum overall is used more efficiently. Operators can choose the allocation: 5 to 1 or 10 to 1 in favour of the downlink, for example. In the case of LTE FDD, the uplink and downlink capacity are symmetric.

On the other hand, TD's separating of the uplink and downlink into time slots taxes available capacity in new ways:

- **Guard period:** the system needs to go quiet for a short while (a guard period) as it switches from downlink to uplink and vice versa. The guard period takes up spectrum time reducing capacity and needs to be longer for geographically larger cells.
- **Guard band:** TD-LTE requires an operator's network to be synchronised on a single network clock. When competing networks on different network clocks operate in neighbouring frequencies, a guard band between them is required. It is not possible to synchronise networks that are running different up/downlink allocations. Manufacturers are still investigating the size of the guard band that might be needed, but it could be quite sizeable – maybe 5-10MHz in total at each boundary.

### TD-LTE Deployments: (1) Japan

Softbank is deploying its Advanced XGP network (which is fully compatible with TD-LTE) in Japan at the moment:

- **Frequencies:** 2545MHz - 2575MHz.
- **Schedule:** field-test started in Nov 2011 with service launch planned for after Feb 2012.
- **Infrastructure:** by the end of 2012/13, they plan to have 12,693 base stations (99% coverage of 19 major cities), largely deployed on existing PHS base stations. Base stations are made by Huawei and ZTE, backhaul routers by Alcatel-Lucent.
- 520,000 customers targeted.

### TD-LTE Deployments: (2) China

China Mobile is trialing TD-LTE with a view to offering a commercial service in 2013. The Chinese experience is being closely watched, as is the government's decision-making over expanding the trial.

- **Field tests running currently in 7 cities.** Taking this further is still dependent on other issues including licensing. China Unicom and China Telecom have no clear plans on LTE yet.
- **Frequencies:** 2.3GHz for indoor coverage and 2.6GHz for outdoor coverage, for the trial network. Spectrum was provided by the Chinese government for a minimal lease payment.
- **Infrastructure:** CM management plans to deploy 10-20k TD-LTE cell sites for its trial network by 2012.

### TD-LTE Deployments: (3) USA

Clearwire says that its next strategic priority is to deploy TD-LTE during 2012 and 2013, under contract from Sprint. This will cost it \$600m.

- **Frequencies:** 2.5GHz.
- **Infrastructure:** Clearwire plans to deploy on around the 8,000 busiest of its existing 16,000 WiMax cell sites.

### Supplemental downlink

There is another potential option for expanding downlink capacity asymmetrically. Supplemental downlink adds spectrum to the FDD downlink without adding any to the uplink. Conceptually, this is attractive since it takes the advantages of FDD but aligns it better with the asymmetric traffic flows. However, it is some way off and is still subject to work in the 3GPP standards bodies. One industry CTO put it at 2-3 years before it becomes relevant.

## M-payments and NFC

Along with a number of other participants, Visa and France Telecom, which have extensive market trial experience, we think 2012 will be the year that starts to see mass market acceptance of near field communications for features such as mobile payments, identification and ticketing. The launch of Google Wallet on 19 Sep 2011 ran into a snag early on when Verizon Wireless blocked it from its first NFC compatible handset, the LTE/4G Samsung Galaxy Nexus, citing concerns over security and customer experience. Verizon may have to concede on Google Wallet at some stage but injecting a delay for Google may help with its own ISIS launch. Apple's next move will be followed with interest - the iPhone 4S came to market without NFC capability but that might be included in the next release, probably during 2012.

Network operators and banks have been conducting numerous trials all over the world with one of the largest and most successful in Nice in France which has provided encouraging evidence of consumer acceptance, particularly when associated with passes for local transport. France Telecom and the other partners are taking this trial platform to Strasbourg in October 2011 and there are plans for other French cities. London is aiming to have NFC readers for bus ticketing in time for the summer Olympics with the London Underground compatible by the end of the year. We covered the trials and the industry's state of readiness in more detail in our report: Social Media, E-Payments & the new Digital Market, 27 Sep 2011 [European TMT](#).



## ROCE update: wary of inflated margins

### High OpFCF margins at the expense of weak operational performance

We update our ROCE analysis using the same framework we set in our September 2011 report [European Telecoms - ROCE is down but not out](#). The 3Q results have been supportive of our arguments with KPN and TEF (the two incumbents that screened as having the least sustainable margins) delivering disappointing numbers. The arguments and framework remain unchanged but we update the required ROCE for each domestic incumbent based on the estimate changes we have put through and the risk exposure in fixed and mobile after updating the operational trends for the last quarter.

Three key conclusions:

- **Higher required ROCE to keep OpFCF generation stable translates into higher downside risk:** Vodafone Europe, Telefónica Spain and France Telecom had the highest required ROCE to sustain 2009 OpFCF generation and had the steepest declines since.
- **Incumbents that are managing premium OpFCF margins do so at the expense of operational performance:** KPN and TEF have some of the worst market share losses in both fixed (broadband, access) and mobile in their domestic markets. The higher than average margins are partly driven by low commercial momentum.
- **Scope for new entrants/ consolidation:** We argue that in markets with high ROCE, there is scope for new entrants to make a credible business plan, as evidenced by Yoigo's success in Spain. We believe the Dutch market in particular is vulnerable, given its high pricing and political will to encourage more competition: spectrum is reserved for new entrants. On the other hand, in markets like Austria where returns are very low, we could see consolidation. According to an article on [www.futurezone.at](http://www.futurezone.at) in November 2011, H3G is in talks to buy Orange Austria. We believe that pressure for Orange to exit the market will increase especially now that T-Mobile has scrapped its network sharing deal with Orange in favour of H3G. We expect Orange to exit the market (FT has said it is non-core and would look to sell it) in 2012 and believe a sale to H3G would be a likely solution.

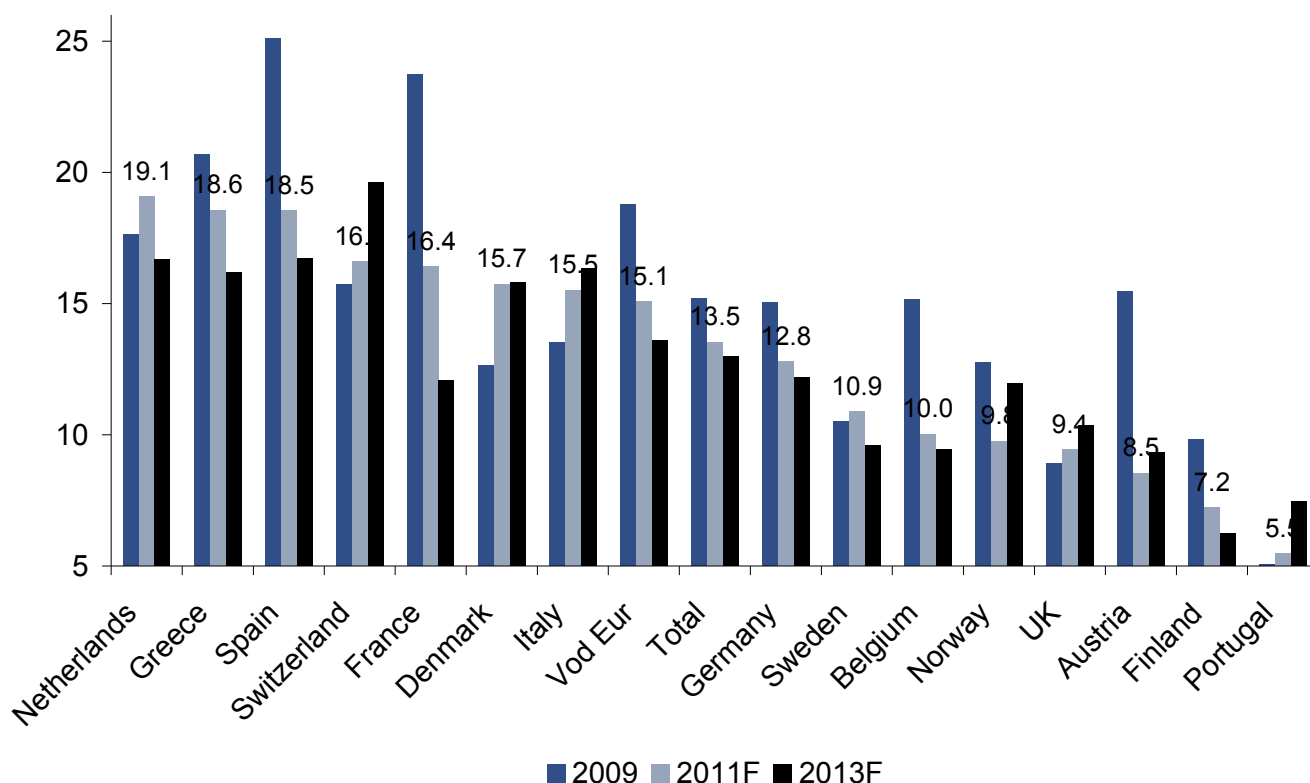
### Stocks to avoid/ focus on

TEF, OTE and KPN look more exposed to OpFCF declines in their home markets

**Avoid high required ROCE:** Telefónica, OTE and KPN are exposed to high required returns and are losing market share in both fixed and mobile (the exception being Cosmote). We believe that OpFCF will be difficult to sustain at current levels in Spain as TEF's pricing is disconnected from the rest of the Spanish market and Europe. KPN looks vulnerable to market share losses in mobile and especially at risk after the terms of the spectrum auction which will most likely add another MNO in mobile. OTE looks very vulnerable in fixed, where loss of market share is out of control in both broadband and access.

**Austria, Portugal and the UK** are markets where we could see improvement to cash flow generation over the medium term. In Austria, the clear trigger is consolidation of the mobile market. In the UK, BT continues to benefit from price increases as well as efficiency measures. We also look for better margins for O2 and the rest of the mobile players. Finally, in Portugal the main driver of better OpFCF is lower capex as current levels reflect accelerated investment in NGA and high run rate of triple play gross adds.

Figure 27. Implied ROCE by incumbent, after adjusting for efficiency and corporate tax rates (%)



Source: Company reports, Citi Investment Research and Analysis

### Which companies are exposed to mobile and fixed risks?

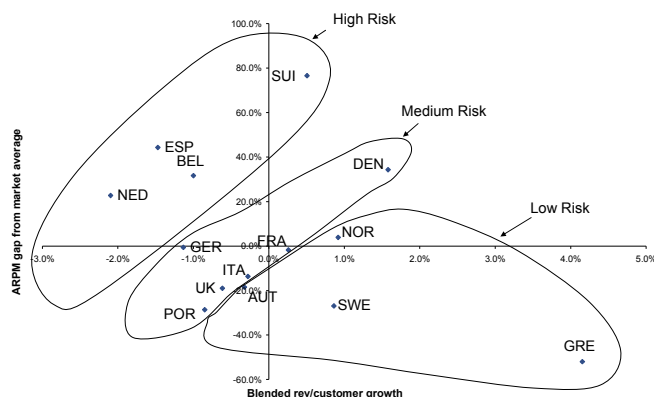
We use a combination of market share loss and pricing levels (vs. the mean of similar structured markets) to assess the level of mobile risk for the incumbent in each country. The key focus is operational performance and its mid term implications.

**In fixed**, we employ a combination of market share gain/loss in retail broadband and access line growth to rank the incumbents in each country. Most at risk are OTE, TEF and KPN.

**In mobile**, the relative price levels of the market and market share changes (weighted equally between service revenue and subscribers).

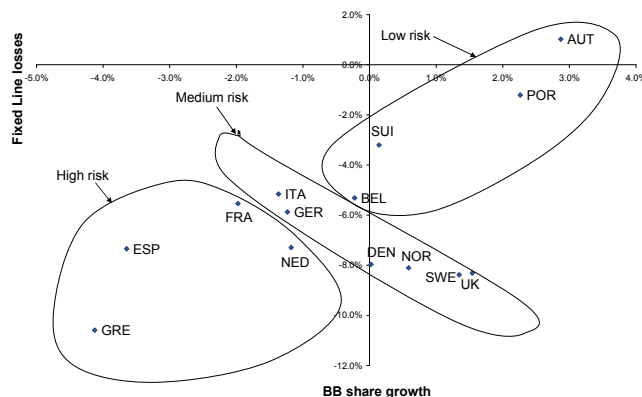
## Domestic incumbent operations

Figure 28. Market price premium vs comparable average and market share gain/loss by incumbent mobile operator



Source: Citi Investment Research and Analysis

Figure 29. Fixed access line growth and market share gains/losses by incumbent

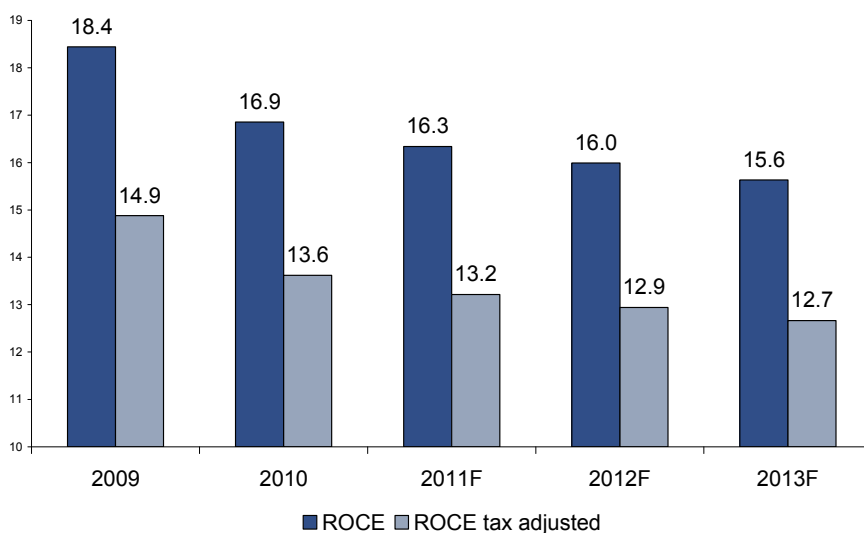


Source: Citi Investment Research and Analysis

## Sector aggregate

Figure 30. Implied ROCE based on sector average OpFCF generation (%)

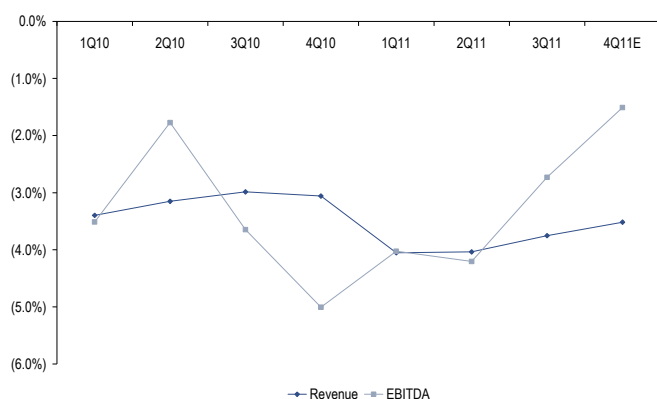
% implied ROCE



Source: Company reports, Citi Investment Research and Analysis

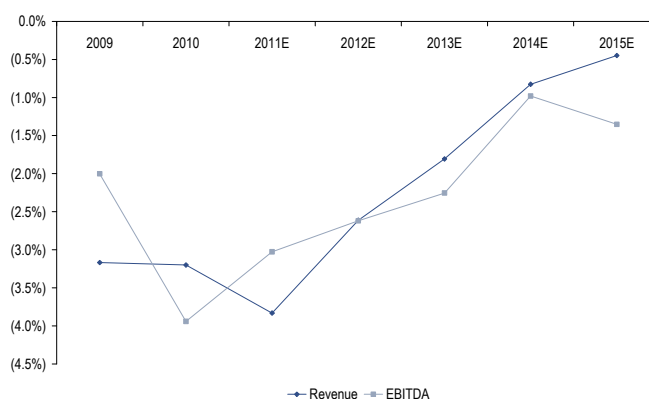
We forecast that 2011 is the trough in domestic operations revenue decline, with 2010 marking the trough for EBITDA decline. We then forecast the decline in revenue and EBITDA moderating in the proceeding years, with a total -9% decline for EBITDA from 2010-14E. However, there is a wide disparity between companies, from BT and Elisa at 5% forecast EBITDA growth 2010-14E, vs FT -17%, KPN -17% and TEF -19%. We highlight the risk where EBITDA is declining significantly and we do not see evidence of successful cost cutting or reasons for the top line decline to moderate.

**Figure 31. Average European domestic operations revenue and EBITDA growth/(decline), by quarter**



Source: Company reports, Citi Investment Research and Analysis

**Figure 32. Average European domestic operations revenue and EBITDA growth/(decline), by year**



Source: Company reports, Citi Investment Research and Analysis

We look for either a stable revenue outlook or a proven ability to cut costs. We would avoid companies with domestic operations still in significant decline with insufficient cost cutting or no sign of revenue improvement. Based on this,

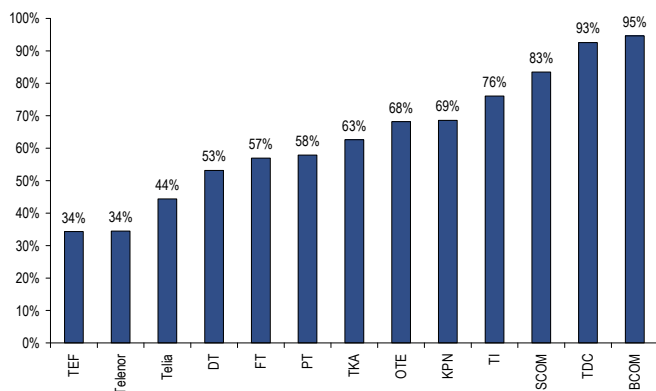
**Positive on:**

- **BT** – Current significant cost cutting is successfully offsetting revenue decline. Revenue decline has been near the average but, with cost cutting, BT has been one of the few telecoms companies to grow domestic EBITDA.
- **DT** – DT has some of the lowest declines in domestic revenue while consistent cost cutting has led to some of the best domestic EBITDA trends of the European incumbents. We do not see a reason for this to change.
- **TI** – Of the operators which are currently seeing significant EBITDA declines, we would highlight TI as the most likely to see an improvement. TI is currently successfully cutting costs to partially offset the high revenue declines, as shown in Figure 40. Then, going forwards, we expect the revenue decline to moderate.

**Cautious on:**

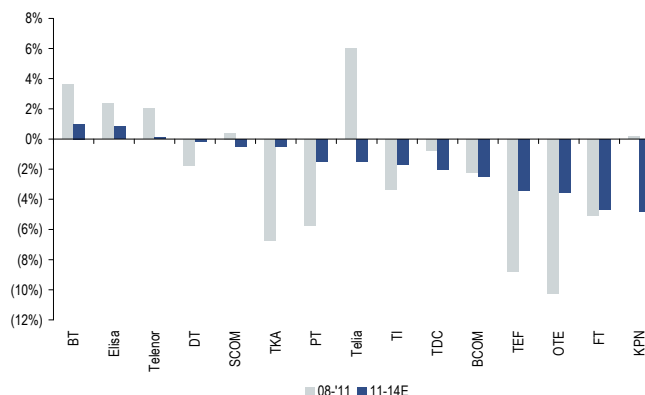
- **KPN** – In the last two quarters KPN has seen a deterioration in domestic revenue and EBITDA trends which we expect to continue. This is driven by price cuts in mobile and the fact that KPN is already one of the most efficient operators and hence has fewer costs to cut to offset this. KPN is often quoted by other operators as a benchmark for operational efficiency.
- **TEF** – The revenue decline is worsening with only modest cost cutting and hence TEF currently has one of the highest declines in domestic EBITDA. We forecast this moderating only slightly in the coming years.

Figure 33. Domestic EBITDA percentage of group 2011E



Source: Company data, Citi Investment Research and Analysis

Figure 34. Domestic EBITDA CAGR



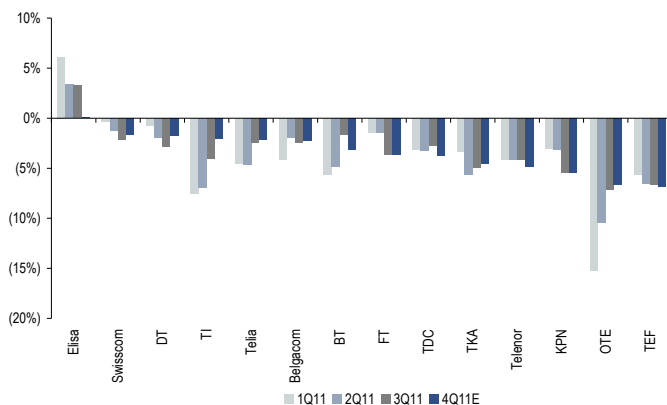
Source: Company data, Citi Investment Research and Analysis

Figure 35. Domestic forecasts company summary

	Current trend	Forecast
BT	Declining revenue offset by significant cost cutting	Moderation in revenue decline and cost cutting, leaving EBITDA growth unchanged at 1-2%
FT	Revenue decline with minimal cost cutting, leading to significant EBITDA reduction	Increased revenue pressure, offset by cost cutting, EBITDA decline unchanged
DT	Worsening top line, though EBITDA has remained stable. Forecast improvement in 4Q11 is due to a one off negative in GHS 4Q10.	Moderation in revenue decline, cost cutting to continue, leaving EBITDA stable
TI	Significant revenue declines, partly offset by cost cutting	Moderation in revenue decline and hence also in EBITDA decline
TEF	Revenue decline with minimal cost cutting, leading to significant EBITDA reduction	Cost cutting increases, but EBITDA declines remain high
KPN	Worsening revenue and EBITDA in the last few quarters	We forecast this continuing, leading to significant EBITDA declines
BCOM	Moderate revenue decline partly offset by cost cutting	We forecast lower cost cutting leading to a higher EBITDA decline
PT	Significant revenue decline, partly offset by cost cutting	Revenue decline moderating, EBITDA decline moderating in 2013
TKA	Significant improvement in top line decline	We forecast continuation of improvement
Telenor	Revenue and EBITDA decline due to fixed price cuts.	We forecast this improving as price cuts are annualised and from the benefit of recent cost cutting
Telia	EBITDA growth driven by successful cost cutting in fixed and growth in mobile	We forecast cost cutting slowing, leading to stable EBITDA
Elisa	Revenue growth driving EBITDA growth, though partly M&A	We forecast modest EBITDA growth
TDC	Cost cutting offsetting revenue decline to leave EBITDA stable	We forecast a low cost cutting with similar top line decline leading to a decline in EBITDA
OTE	Significant revenue decline, partly offset by cost cutting	Some moderation but still significant EBITDA declines
SCOM	Modest revenue decline offset by cost cutting leaving stable EBITDA	We forecast stable EBITDA

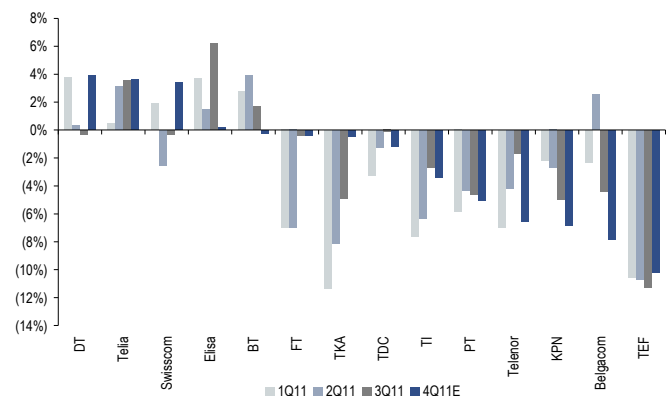
Source: Citi Investment Research and Analysis

**Figure 36. Domestic revenue growth/(decline) by quarter**



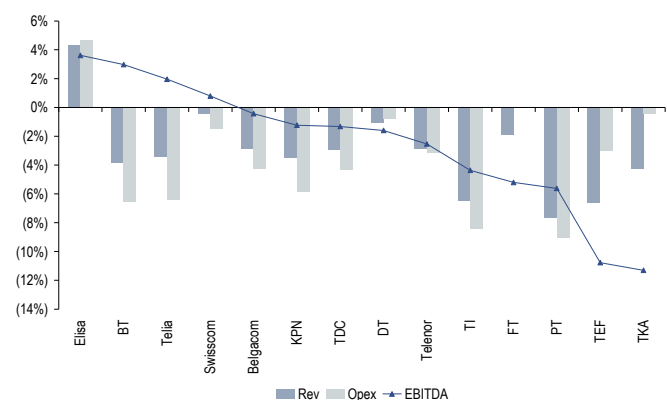
Source: Company data, Citi Investment Research and Analysis

**Figure 38. Domestic EBITDA growth/(decline) by quarter**



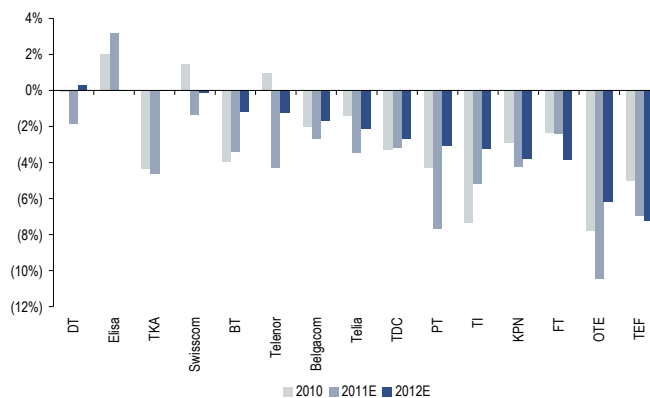
Source: Company data, Citi Investment Research and Analysis

**Figure 40. Growth domestic revenue, EBITDA and opex. Last 12 months to 3Q11**



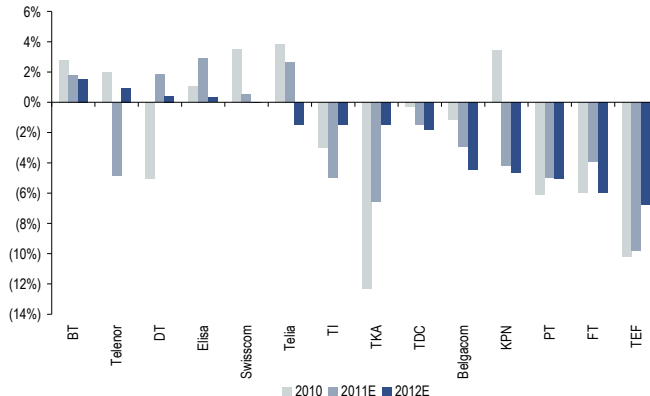
Source: Company data, Citi Investment Research and Analysis

**Figure 37. Domestic revenue growth/(decline) by year**



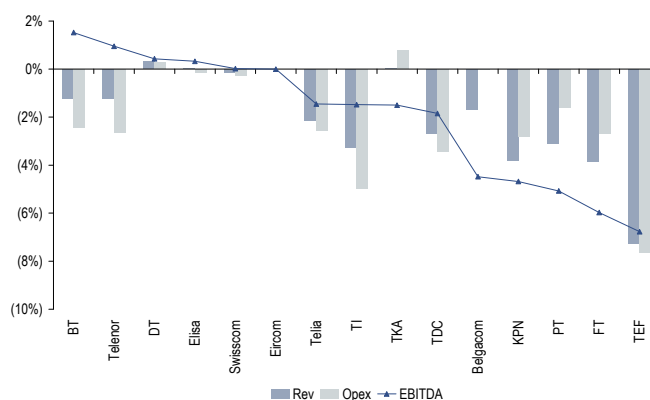
Source: Company data, Citi Investment Research and Analysis

**Figure 39. Domestic EBITDA growth/(decline) by year**



Source: Company data, Citi Investment Research and Analysis

**Figure 41. Growth domestic revenue, EBITDA and opex. 2012**



Source: Company data, Citi Investment Research and Analysis

Figure 42. Definition of domestic operations chosen

BT	Group figures, includes low margin Global Services 40% of revenue, 11% of EBITDA.
FT	France division and Enterprise, excluding IC and SS.
DT	Germany division, T-Systems and GHS
TI	Italy division, no significant 'other' divisions
TEF	Spain division, only a small 'other' line and international wholesale reported within Europe
KPN	Dutch Telco, which excludes iBasis (International carrier) and Getronics (ICT service provider)
BCOM	Group excluding international carrier service
PT	Domestic wireline and mobile, no significant other units
TKA	Austria segment, other excluded which is -4% of Austrian EBITDA
Telenor	Norway division which includes international wholesale and excludes other operations
Telia	Sweden Fixed, Mobile and Wholesale. Wholesale includes international, which is low margin. Other unit excluded.
Elisa	Finland, no 'other' divisions
TDC	Denmark excluding YouSee (cable TV)
SCOM	Swisscom Switzerland, excludes 'other'

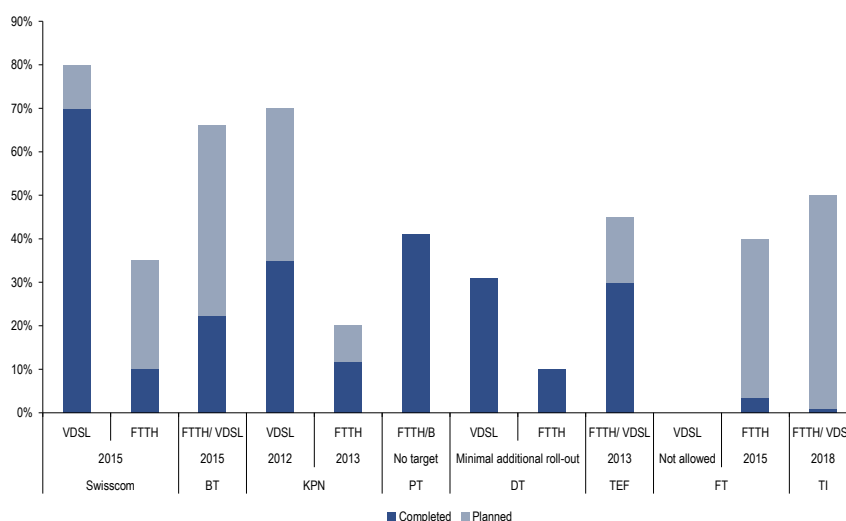
Source: Citi Investment Research and Analysis

## Fibre roll-out plans

With a strong political desire for fibre investment, we argue that this provides incumbents with some negotiating power with regulators given, in general, they are the only operators to invest in nationwide FTTH. One example is **BT** in the UK where the most likely outcome is that the alt nets choose to wholesale a fibre product from BT rather than invest in their own infrastructure. Therefore the competition will likely take a smaller proportion of the network value chain than they did under LLU.

We also argue that **DT's** recent housing association TV contract could be an example of this. DT is investing in FTTH as part of taking on a basic TV contract with a housing association. The basic TV contract makes rolling out fibre economical; however, it does lead to a reduction in choice for households. Households will no longer be able to choose cable broadband. We argue the regulator may be willing to forgo some consumer choice in order to incentivise fibre investment. We show completed and planned fibre roll-outs for the largest incumbents below.

Figure 43. Fibre completed and planned roll-outs



Source: Company reports, Citi Investment Research and Analysis



#### Figure 44. Fibre plans largest incumbents

DT	VDSL c.31%, FTTH <10% of households. Have reached these targets minimal additional fibre roll-out.
BT	Always adjusting roll-out balance between FTTH and VDSL. Target 10m homes passed by end 2012, 2/3 of UK homes passed by 2015. Originally said 25% via FTTH, however this has subsequently been talked down.
FT	€2bn spent on fibre between 2011 and 2015. Targets include co-financing with Iliad and SFR. 2015 target 10m homes with FTTH (36%), target 60% FTTH by 2020. Currently only at c.4% FTTH coverage. Not doing any VDSL, not allowed by the regulator.
TI	Only selective fibre roll-out so far. Now target 50% population coverage by 2018 by next generation access. Started rolling out in 2H11. Did not announce balance between VDSL and FTTH.
TEF	Selective fibre deployment; By Dec 2013: ~80% HH coverage with >10Mbps, ~45% HH coverage > 25 MBps; Co-investment approach for fibre infrastructure inside buildings. These targets will be achieved via fibre and copper technology development.
KPN	FTTH roll-out via Reggefiber, rolling out FTTH to 250-300k incremental households per year. Target >20% FTTH coverage in 2013. Mid term target is 30-60% fibre coverage. Also doing VDSL, though no concrete targets. Target 40% households >40Mbps in 1Q12, 70% >40Mbps by end 2012.
Belgacom	85% coverage target by 2013 mostly through VDSL 2+ (c. 75% VDSL HH coverage by June11A). Will deploy pair bonding and phantoming to boost speed on copper. No concrete plan for FTTH.
Swisscom	Rolling out FTTH in partnership with utility companies to share costs. Target 80% VDSL/FTTH coverage by 2015, target 35% FTTH coverage by 2015. Currently at c.10% FTTH and c.70% VDSL coverage.
PT	PT has rolled out FTTH/B passed 40% of households, continue to invest though no clear roll-out target

Source: Citi Investment Research and Analysis

## Credit events: where is it critical?

The sector is under scrutiny from a credit perspective. On 29 November, Moody's downgraded the outlook on the telecoms sector to negative from stable. But the main driver of ratings action and risk in 2012 comes from the sovereign crisis. The Southern European telecom incumbents have seen their spreads vs. the sovereigns decline and, for most of them, turn negative. Unsurprisingly, we expect the focus to remain on the Southern European incumbents in 2012. Our Credit Sector Specialist, Mike Murphy \*\*, also sees potential downside to some of the 'core' EU incumbents.

**Figure 45. Current ratings for European incumbents (red denotes negative watch)**

	Moody's	S&P
Belgacom	A1	A
Swisscom	A2	A
France Telecom	A3	A-
Telenor	A3	A-
TeliaSonera	A3	A-
Vodafone	A3	A-
Telekom Austria	A3	BBB
Deutsche Telekom	Baa1	BBB+
Telefónica	Baa1	BBB+
KPN	Baa2	BBB+
Telecom Italia	Baa2	BBB
Portugal Telecom	Ba1	BBB-
OTE	B2	B

Source: Rating agency reports, Citi Investment Research and Analysis

- **Portugal Telecom:** On December 21st, Moody's downgraded Portugal Telecom to sub-investment grade by cutting the long term rating by one notch to Ba1, while maintaining a negative outlook. Moody's rates PT one notch above the sovereign from two, which was the maximum previously. Mike Murphy expects further downgrades from the other rating agencies. In practical terms, this does not have significant implications for Portugal Telecom. PT's bonds were effectively already in high yield territory. The Moody's report stresses that PT has enough liquidity to stay out of the market for at least the next 18 months. Thereafter, PT could still consider other options like the sale of non core assets (ex Brazil and sub-Saharan Africa) or even to extend partnerships on Africa Tel or potentially even borrowing against its stake in Oi. However, these are suboptimal solutions and PT's average borrowing costs could start to rise quickly from 2015 onwards.
- **Telecom Italia:** TI is BBB or equivalent rated with a negative outlook by all three main rating agencies. TI's debt levels are coming down but the sovereign risk is a threat given TI's leverage is one of the highest. Unless the sovereign situation improves, there could be further pressure on TI's rating and cost of borrowing. Our economists expect a one notch downgrade to A- for Italy in the next nine months and to BBB+ medium term. This could put pressure on TI's rating in due course. TI needs to refinance approximately €2bn per annum, so the impact on financial performance is modest. Despite this, we cannot rule out adjustments to the dividend<sup>1</sup> policy if action is needed to avoid a downgrade to BBB-.

\*\* This author is not an independent research analyst and may have knowledge of the Firm's positions and/or the Firm's interest in one or more of the securities referenced herein.

- **Telefónica:** TEF's rating of BBB stable could also come under pressure, though the risk is not as imminent as the other Southern Europeans, particularly given the adjustment to its dividend policy on 14 December. But we argue there is still downside risk, especially if operational performance continues to deteriorate and TEF struggles to comfortably meet its 2.5x Net Debt to EBITDA leverage ceiling. Spain's rating is AA- with negative outlook and Citi economists expect a single notch downgrade to A+ over the next nine months and to A on a 2 to 3 year horizon.
- **Contagion risk to DT & FT?** Finally, there is risk of downgrade for core European incumbents. At a macro level, the market may start to get more alarmed by the prospect of the European core shouldering more risk from the periphery. This could be the trigger of broad sovereign downgrades in 2012. We believe that DT and FT could come under some pressure. However, note that both start from high ratings and a one-notch downgrade is unlikely to alarm investors or limit access to the markets. Current ratings for DT and FT are BBB+ and A- respectively. DT's rating is under review with a positive watch from Moody's, but the situation is now more uncertain given the dropped deal with AT&T on 20 December.

## Euro break-up: Unlikely but implication?

A break up of the Eurozone is not our base case assumption. In our view, this is a low probability but high impact event but one that the market is likely to worry about and a likely source of volatility as a result. Our economists argue that, if there was such a scenario, there would be a managed exit.

The main investment risk in telecoms depends on the scale of the devaluation of the local currency versus the euro. The issue will then be that operators will earn revenue in their former local currency but still have to repay their debt and meet interest obligations in euros.

Currently, the main risk of a Eurozone exit is focused on Greece. The bond market remains closed for OTE due to the sovereign risk with a prohibitive 26% yield on OTE's bonds maturing in 2015. This is despite decent fundamentals with OTE's leverage (2.3x net debt/EBITDA 11E) broadly in-line with other operators and strong cash flow generation (>€400m pa). OTE now trades on 3.0x EV/EBITDA 12E which shows how bad things can get for telecom operators which carry the wrong passport. As illustrated very simplistically in Figure 46 below, and despite its low multiple, we estimate OTE's equity could fall in value from €1.2bn to €0.4bn if Greece were to revert back to the drachma and devalue by 50%. Valuing the equity in the current context is difficult as it implies taking a view on the probability of a Eurozone exit and the new exchange rate.

Figure 46. Scenario Analysis: Potential downside on OTE's equity if Greece leaves the Eurozone and devalues by 50%

	Current situation			Assuming a return to the drachma	
	Value	Note	Value	Note	
2012E EBITDA	1,580	In €m based on CIRA estimates	790	In €m and assuming a 50% devaluation of the drachma	
Current EV/EBITDA 12E multiple	3.0x	Based on current valuation	5.0x	Assuming OTE trades in-line with the sector post devaluation	
Enterprise value	4,741	In €m based on EBITDA and multiple	3,951	In €m based on EBITDA and multiple	
Net debt end of 2012	3,573	In €m based on CIRA estimate	3,573	In €m with no change in value as debt was issued in euro	
Equity value	<b>1,168</b>	In €m. Set equal to EV – net debt	<b>378</b>	In €m. Set equal to EV – net debt	

Source: Citi Investment Research and Analysis

Even if our economists' base case is that no Eurozone country will exit, we expect concerns of a breakup of the Eurozone to linger. Hence, we remain cautious on Southern European names on which speculation of a Eurozone exit is likely to focus.

## M&A: Austria and Switzerland

We believe there is scope for consolidation in the **Austrian** market in 2012. According to an article on [www.futurezone.at](http://www.futurezone.at) in November 2011, H3G is in talks to buy Orange Austria. We believe that pressure for Orange to exit the market will increase especially now that T-Mobile has scrapped its network sharing deal with Orange in favour of H3G. We identify three critical catalysts:

- **Low pricing/ returns:** H3G is yet to start generating cash flow and remains subscale at below 10% market share. Though a network outsourcing deal, H3G is trying to address some of its disadvantages and improve network quality. But returns remain depressed and an acquisition of Orange could help gain scale and improve potential for H3G to get some of its c. €1.5bn of its accumulated investments and losses back.
- **High leverage/ difficult to refinance:** Orange Austria's leverage is at least north of 6.1x net debt to EBITDA- probably closer to 7x (as liabilities and debt in addition to the total deal financing less undrawn facilities are unlikely to be zero). Orange could survive until the end of 2014, when its debt maturities start. But it is common practice for refinancing in high yield companies to take place around one year prior to maturity, so by the process could start the end of 2013. Unless we see significant improvement in financials, we believe that it will be a near impossible task
- **Spectrum auction:** The Austrian regulator plans a spectrum auction in September 2012. Aside from the 800MHz spectrum, the plan is to re-auction (for the years 2015-30) the 900MHz and 1800MHz spectrum. That means that, even if Orange does not plan to buy new spectrum, it will still have to pay to keep the existing allocation.

Figure 47. Current spectrum allocation by operator

	A1	T-mobile	Orange	H3G
Market entry	1994	1996	1998	2003
900 MHz	2 x 17	2 x 12.8	2 x 4	
1800 MHz	2 x 15	2 x 25.4	2 x 33	
2.1 MHz- paired	2 x 14.8	2 x 15	2 x 14.8	2 x 14.8
2.1 MHz- unpaired	10	10		
2.6 MHz- paired	2 x 20	2 x 20	2 x 10	2 x 20
2.6 MHz- unpaired	25			25

Source: Company reports, Citi Investment Research and Analysis

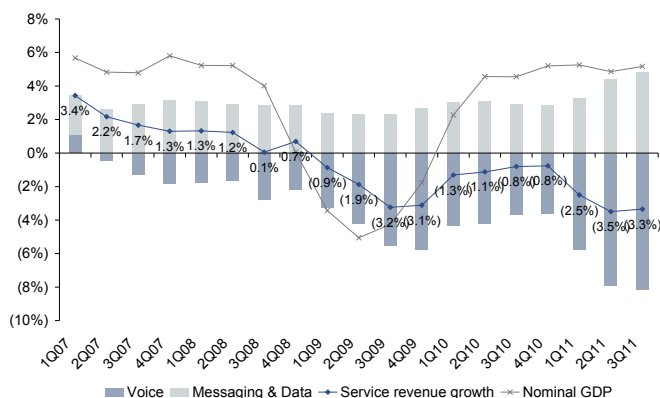
In **Switzerland**, the situation is not really comparable. The market is not particularly competitive when compared to EU markets. Swisscom has a dominant position (controlling over 62% of the market). Orange and Sunrise are subscale and have had limited success in increasing share or driving better margins. The operators tried to merge in the past in a process led by France Telecom but WeKo (the Swiss competition authority) blocked the deal.

France Telecom reached an agreement on 23 Dec 2011 to sell Orange Switzerland to Apax Partners for €1.6bn. There is a possibility that Apax could try together with CVC – owner of Sunrise – to resuscitate a merger between Sunrise and Orange which was blocked last year by WeKo the Swiss competition authority. While the synergies could be substantial we believe that there is a high risk that WeKo the Swiss competition authority would veto any potential merger which would create a duopoly in the Swiss mobile market.

## 3Q11 trends: small improvements

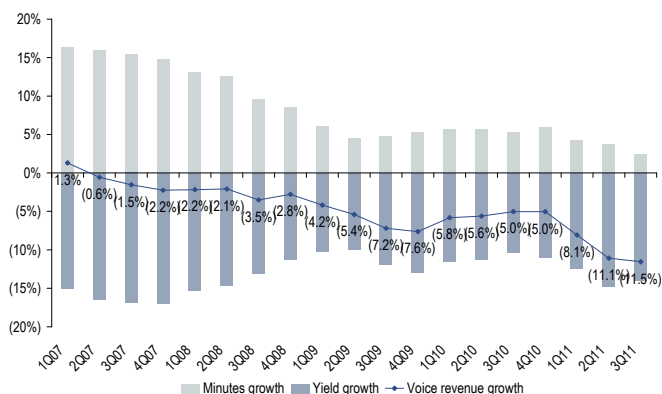
European mobile service revenue declined by -3.3% in 3Q11, a slight improvement from 2Q11 at -3.5% but more than all of that improvement came from MTR phasing. Data growth increased slightly, offset by higher voice declines. Within voice, minute growth slowed further, with a similar decline in the average revenue per minute.

Figure 48. Service revenue growth



Source: Company reports, Citi Investment Research and Analysis

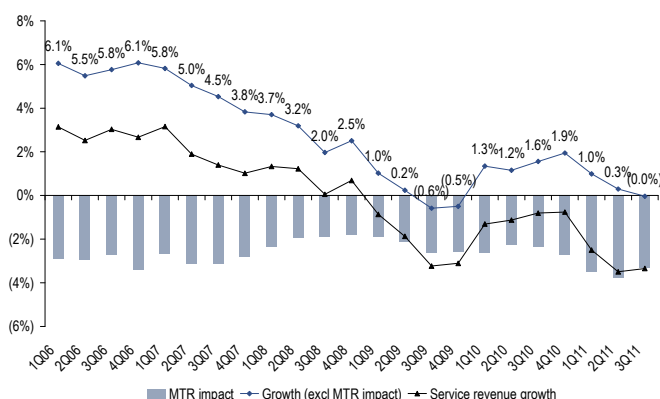
Figure 49. Voice revenue growth



Source: Company reports, Citi Investment Research and Analysis

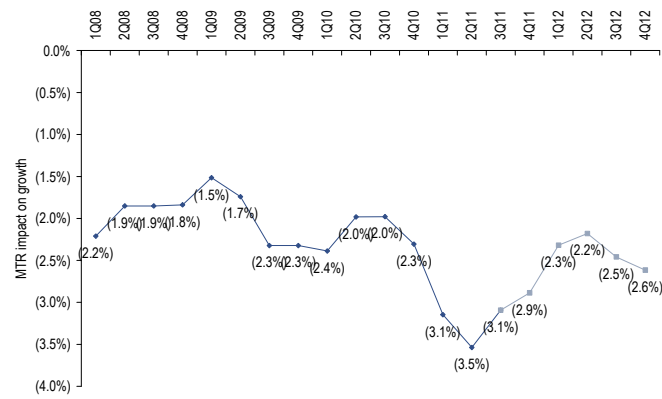
European service revenue growth, excluding the impact of MTR cuts, worsened slightly to 0% 3Q11 from 0.3% 2Q11. On our estimates, the impact from MTRs reduced slightly to -3.1ppt and should continue to reduce through 2012. Mobile voice revenue growth (-11.5%) was poor despite a favourable move in the MTR phasing.

Figure 50. Service revenue growth excl MTR impact, European average



Source: Company reports, Citi Investment Research and Analysis

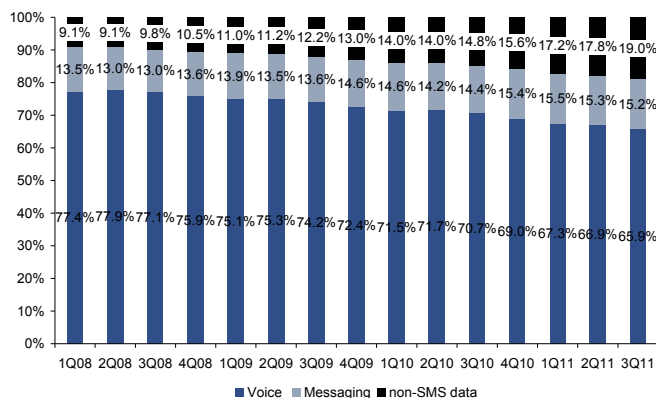
Figure 51. Quarterly MTR impact, European average



Source: Company reports, Citi Investment Research and Analysis

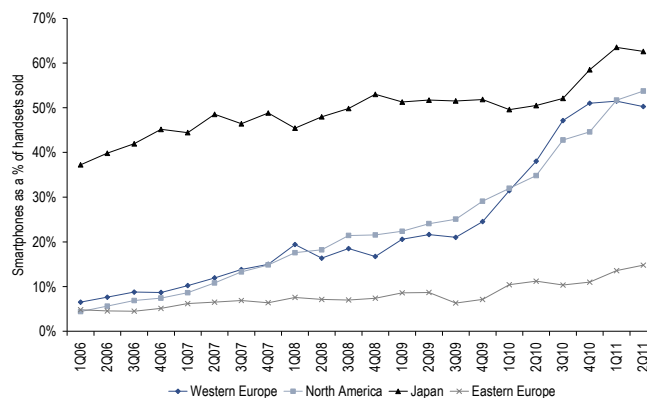
Mobile data continues to grow strongly driven by rising smartphone penetration. Data as a percentage of service revenue is c.19%, with 15% from text and the remaining voice, though we acknowledge that the split of revenue between voice, text and data is now a little arbitrary given the shift to bundled flat rate packages.

Figure 52. Data proportion of revenue in Europe



Source: Citi Investment Research and Analysis, company reports

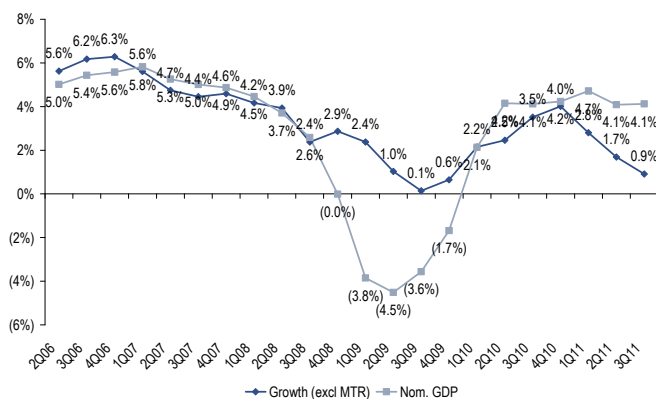
Figure 53. Smartphones as a percentage of handsets sold



Source: Gartner

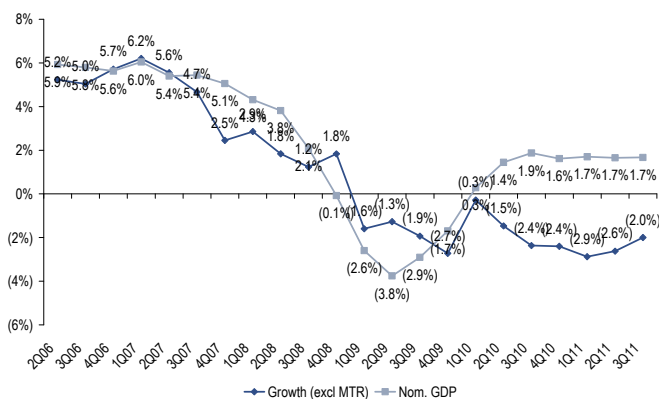
The gap in growth between our two groups of countries, the Sprinters and Dawdlers, narrowed again in 3Q11. Dawdler countries have shown some recovery in lower declines, while sprinter countries growth has continued to fall.

Figure 54. Sprinters service revenue growth (excl MTR) and nominal GDP (UK, France, Germany, Netherlands, Belgium, Norway, Sweden, Finland, Switzerland)



Source: Company reports, Citi Investment Research and Analysis

Figure 55. Dawdlers service revenue growth (excl MTR) and nominal GDP (Italy, Spain, Austria, Denmark, Portugal, Greece)

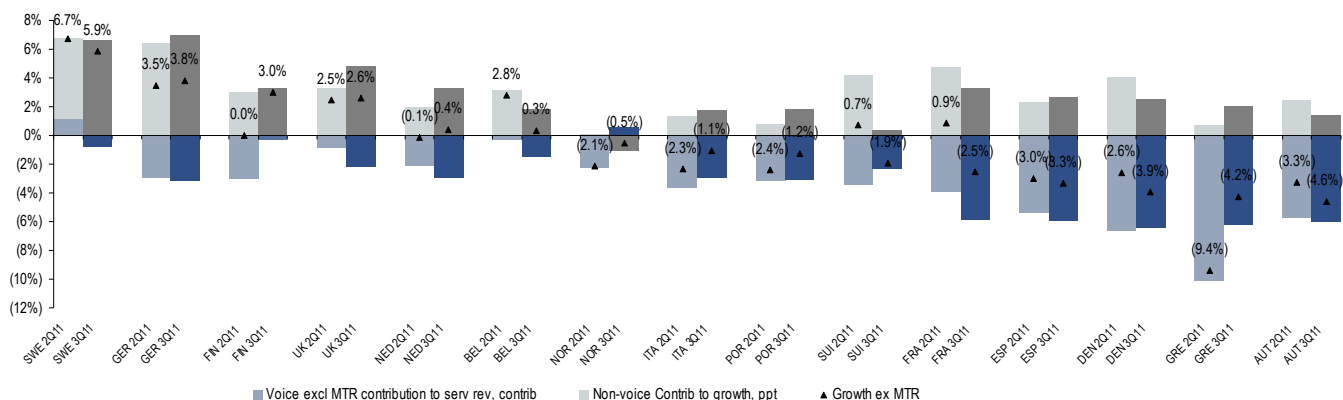


Source: Company reports, Citi Investment Research and Analysis

Sweden continues to register the largest service revenue growth driven by non-voice growth and minimal voice deterioration. After a dramatic improvement from Greece in both voice and data revenue, Austria had the worst growth in 3Q11. Only Norway had positive voice revenue growth or negative non-voice growth in 3Q11. Switzerland saw a notable yoy move, with a decrease in non-voice trends ensuring negative overall revenue growth in 3Q11.



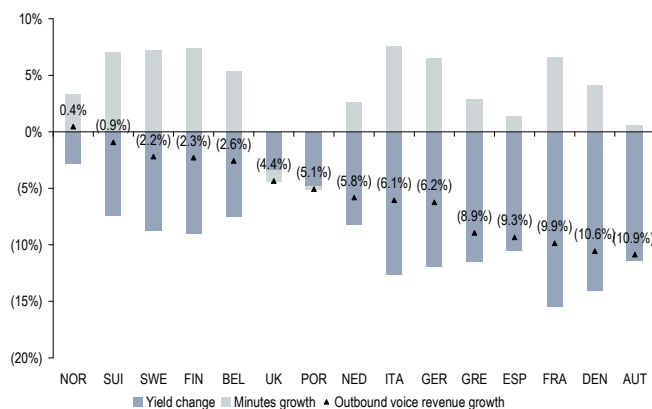
Figure 56. Growth excl MTRs, voice and non-voice contribution



Source: Company reports, Citi Investment Research and Analysis

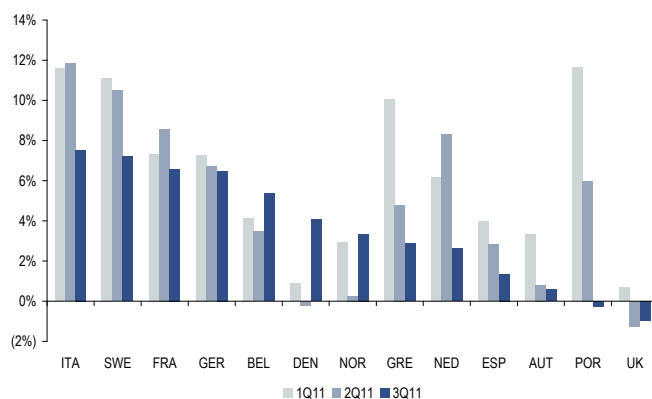
Across Europe, minutes growth is slowing but the deterioration in yield is really driving down voice revenue. UK and Portugal now have negative minutes growth and, in Portugal's case, this negative trend has been quite dramatic as its minutes growth was the highest in Europe in 1Q11.

Figure 57. Voice revenue growth, % yoy



Source: Company reports, Citi Investment Research and Analysis

Figure 58. Minutes growth, % yoy

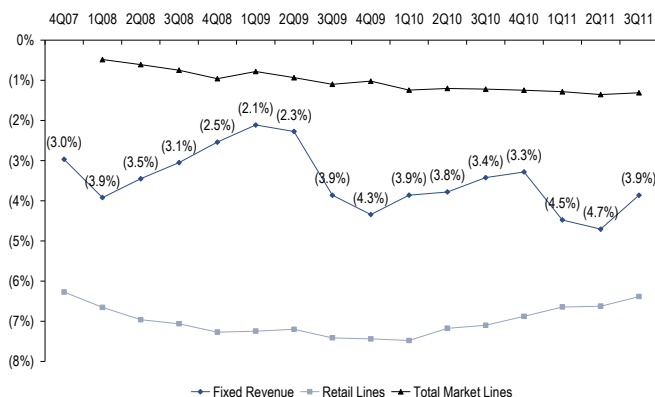


Source: Company reports, Citi Investment Research and Analysis

## Fixed trends

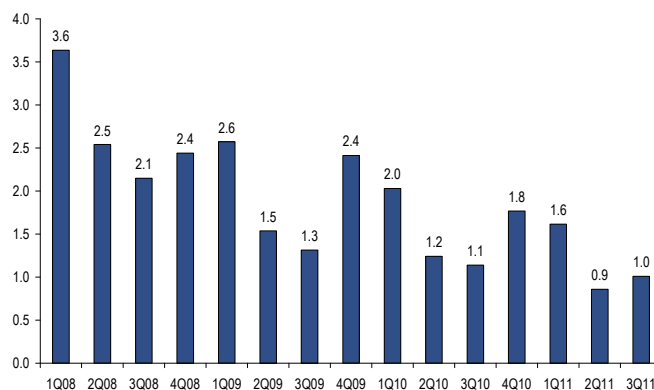
Fixed revenue decline improved significantly in 3Q11 to -3.9% from -4.7% in 2Q11. This was driven by improvements in the UK, Italy and Greece, offset by deterioration in Spain and Belgium.

**Figure 59. Domestic fixed revenue growth, line loss and total market line loss**



Source: Company reports, Citi Investment Research and Analysis

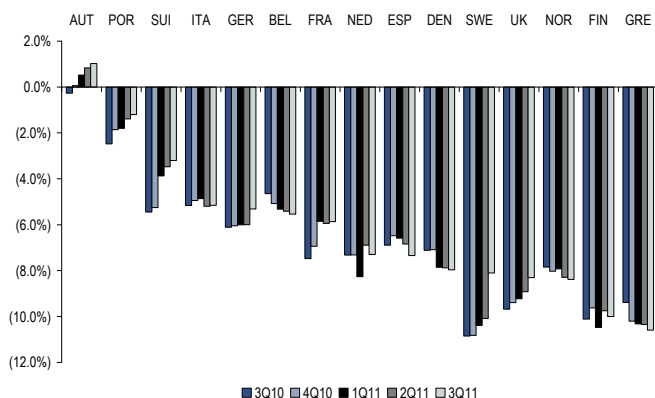
**Figure 60. Europe broadband net adds**



Source: Company reports, Citi Investment Research and Analysis

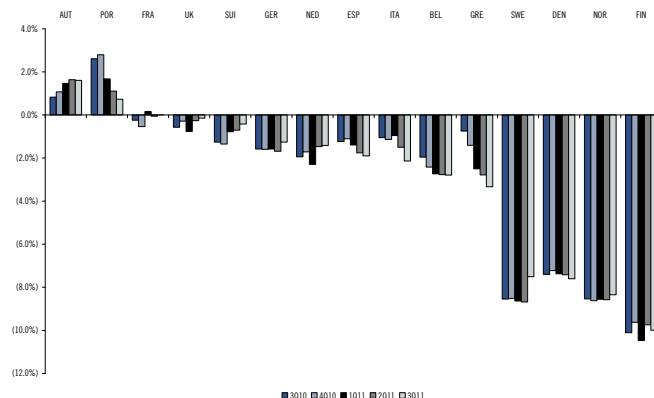
Line loss did not show any dramatic changes. Austria remains the only country with retail line gains. The Nordic countries continue to show the highest total market line loss, driven by the increase in mobile-only households and disconnections of lines to second homes.

**Figure 61. Retail line loss**



Source: Company reports, Citi Investment Research and Analysis

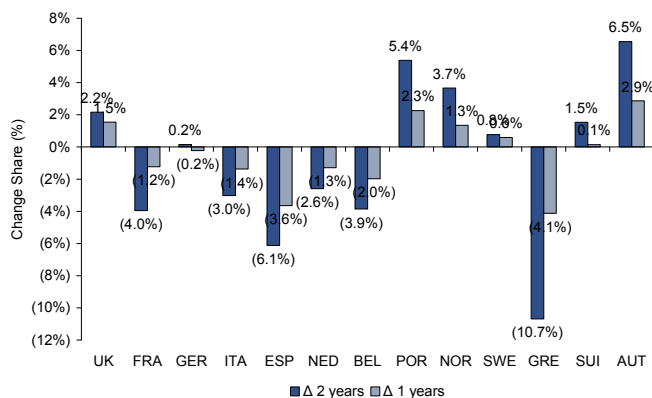
**Figure 62. Total market line loss**



Source: Company reports, Citi Investment Research and Analysis

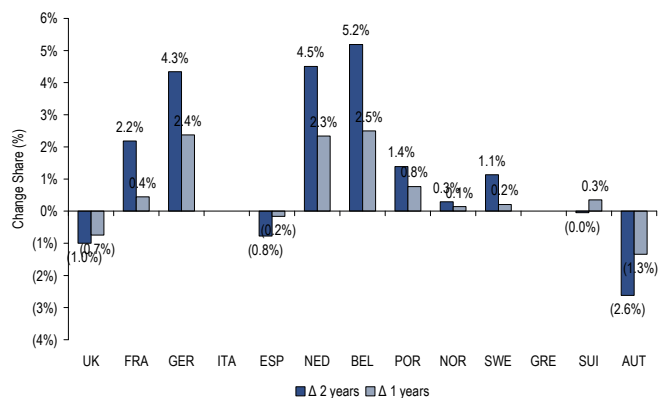
Cable operators continue to gain market share significantly in Germany, the Netherlands and Belgium.

Figure 63. Change in incumbent broadband market share



Source: Company reports, Citi Investment Research and Analysis

Figure 64. Change in Cable broadband market share



Source: Company reports, Citi Investment Research and Analysis

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## **Company Sections**

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# Belgacom

## Unlikely to outperform the sector in 2012

### ■ Company Update

**Dimitri Y Kallianiotis, CFA**

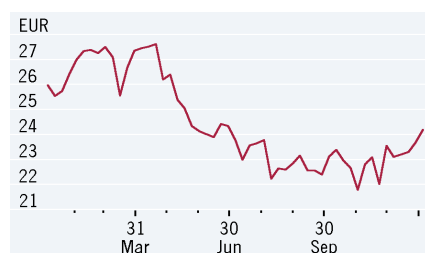
+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Sell</b>	<b>3</b>
Price (04 Jan 12)	€24.19
Target price	€20.00
Expected share price return	-17.3%
Expected dividend yield	9.0%
<b>Expected total return</b>	<b>-8.3%</b>
Market Cap	€8,175M
	US\$10,580M

### Price Performance

(RIC: BCOM.BR, BB: BELG BB)



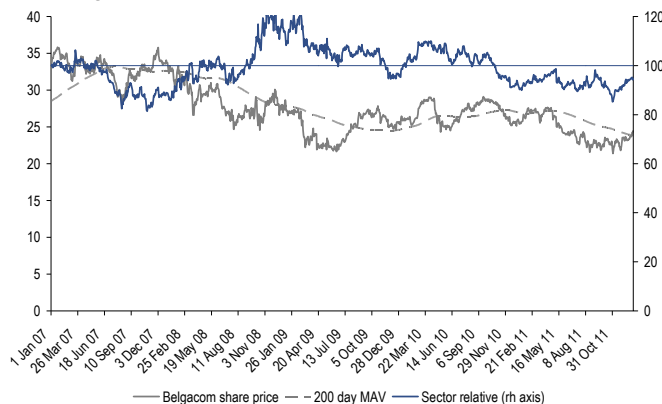
- **Key issues** — Belgacom will increase prices for wireline and a number of old wireless rate plans by 3.41% (to reflect inflation) as well as increase prices for digital TV by up to 8% (due to higher VAT). We are worried that, although this might have a positive effect short term, the risk is an increase in market share loss. This combined with a more aggressive push in mobile by Telenet/Voo following the acquisition of spectrum and the threat of mobile subsidies are the main reasons for our negative stance on the stock going into 2012.
- **Our view: still a Sell** — We continue to be concerned about the declining revenue trend for Belgacom in a context of poor macro outlook affecting mobile and cable competition impacting the wireline business. We expect revenue decline to continue in 2012 driven by market share loss in broadband, fixed-line losses and intensifying competition in mobile. We argue there is no significant re-rating opportunity from current trading levels given the poor earnings momentum. We also think the small premium to the sector (10.4x 2012E P/E vs. 9.5x for telco incumbents) is not justified in light of the poorer growth prospects.
- **Next catalysts** — Belgacom will report full year results and is likely to provide next year's guidance on March 2<sup>nd</sup> 2012. Furthermore, the 800 MHz spectrum auction is likely to take place in 2H12 (rules need to be set after the formation of a new government). We forecast c. €100m licence costs associated with this auction in 2012E.
- **Significant upcoming event** — The Belgian government holds a 57% stake in incumbent Belgacom (if we assume the treasury shares are cancelled; 53.51% if not). Our economists argue the latest political disagreements in Belgium could prove costly in terms of sovereign financing costs and recent surveys are suggesting the economy is at the risk of recession in 2012. Taking all this into account, the government might consider a placement of BCOM shares to raise cash. However, the current stake cannot be reduced below the 50% level without a vote in the Parliament.

### Belgacom SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	5,990.0	6,604.0	6,412.4	6,330.5	6,268.6
Net Income (€M)	892.0	822.0	758.6	695.8	663.9
Diluted EPS (€)	2.78	2.56	2.37	2.20	2.12
Diluted EPS (Old) (€)	2.78	2.56	2.37	2.20	2.12
PE (x)	8.7	9.5	10.2	11.0	11.4
EV/EBITDA (x)	5.2	5.1	5.3	5.6	5.8
DPS (€)	2.08	2.18	2.18	2.18	2.18
Net Div Yield (%)	8.6	9.0	9.0	9.0	9.0

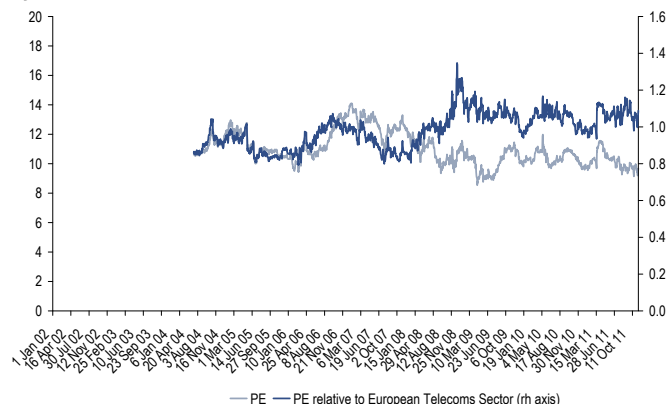
## Unlikely to outperform the sector in 2012E

Figure 65. Belgacom has lately underperformed the sector (left axis €/share; right axis index: end-2006=100)



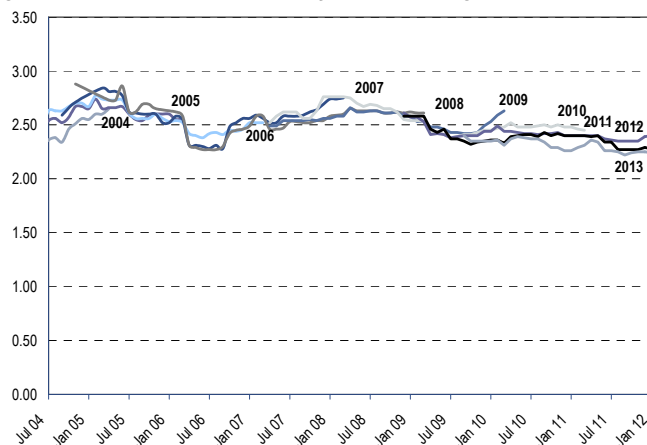
Source: DataStream

Figure 66. Belgacom trades slightly above the sector average on PE (1 year forward)



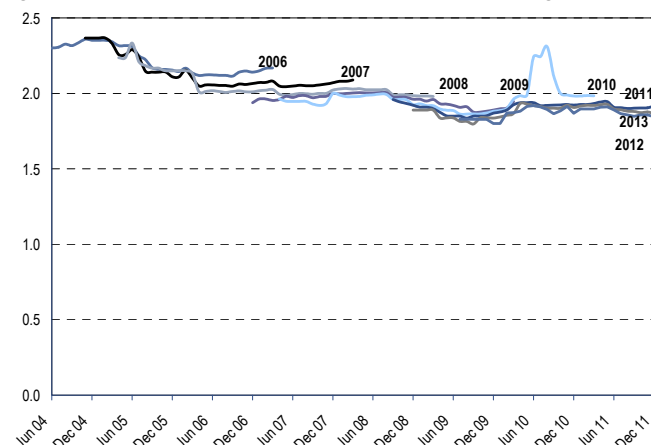
Source: DataStream

Figure 67. Consensus EPS has lately been declining (€)



Source: DataStream

Figure 68. EBITDA consensus has stabilised after declining (€bn)



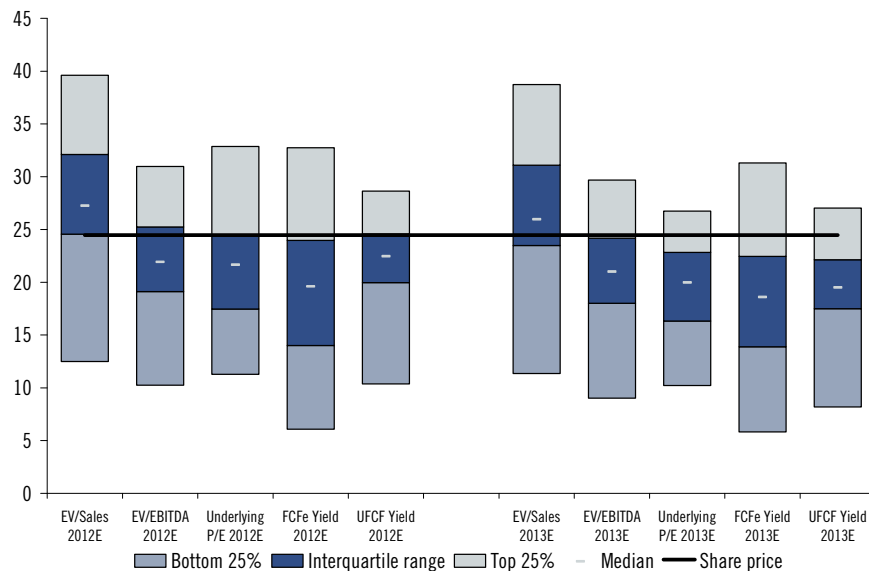
Source: DataStream

Profit & Loss (€M)	2010	2011	2012E	2013E	2014E
Net sales	5,990	6,604	6,412	6,330	6,269
Operating expenses	-4,729	-4,985	-5,293	-5,292	-5,269
<b>EBIT</b>	<b>1,261</b>	<b>1,619</b>	<b>1,120</b>	<b>1,039</b>	<b>999</b>
Net interest expense	-117	-102	-105	-109	-110
Non-operating/exceptionals	0	0	0	0	0
<b>Pre-tax profit</b>	<b>1,144</b>	<b>1,517</b>	<b>1,015</b>	<b>930</b>	<b>889</b>
Tax	-241	-234	-244	-223	-213
Extraord./Min.Int./Pref.div.	1	-17	-11	-11	-12
<b>Reported net income</b>	<b>904</b>	<b>1,266</b>	<b>761</b>	<b>696</b>	<b>664</b>
Adjusted earnings	892	822	759	696	664
Adjusted EBITDA	1,955	1,984	1,921	1,836	1,804
<b>Growth Rates (%)</b>					
Sales	0.2	10.3	-2.9	-1.3	-1.0
EBIT adjusted	0.2	-5.9	-3.2	-8.7	-3.8
EBITDA adjusted	-1.8	1.5	-3.2	-4.4	-1.7
EPS adjusted	2.6	-8.0	-7.4	-7.1	-3.9

Source: Company reports, Citi Investment Research and Analysis

Figure 69. Compared to its incumbent and wireless peers in Europe, Belgacom trades around the upper quartile on our 2012 and 2013 estimates

€/share



Source: dataCentral



# Bouygues

## Company Update

**Dimitri Y Kallianiotis, CFA**

+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Sell</b>	<b>3</b>
Price (04 Jan 12)	€24.64
Target price	€22.50
Expected share price return	-8.7%
Expected dividend yield	6.5%
<b>Expected total return</b>	<b>-2.2%</b>
Market Cap	€7,757M
	US\$10,038M

## Price Performance

(RIC: BOUY.PA, BB: EN FP)



## Austerity and new mobile entrant: not a great combination

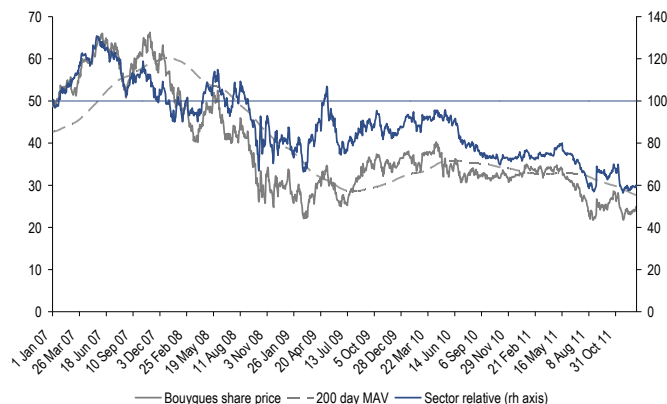
- **Key issues** — Two main issues affect the BOUY investment case, in our view: 1) We expect the Telecoms business to turn to negative revenue growth for the first time next year due to the new mobile entrant. Telecoms margins should continue to be under pressure after a 6% decline in EBITDA in 2011 ytd. 2) Austerity measures to impact the core construction business: we forecast negative revenue growth in 2013 for Colas and Immobilier due to the difficult financing environment for municipalities and the end of the Scellier law. Finally, the effective tax rate for the group will go up to reflect the new 5% extra tax on large French corporates, while interest costs will increase due to higher debt driven by the share repurchase offer.
- **Our view** — Relative to the sector, the valuation looks still undemanding with Bouygues trading on 7.1x PE12E and an estimated dividend yield of 6.5% (telecoms trade on 9.5x PE12E and 9.0% dividend yield). However, we see higher than average earnings risk on Bouygues versus the sector. We retain our negative stance on the stock going into next year.
- **Next catalysts** — Bouygues will publish full year results and is likely to provide 2012 sales guidance on 28 February. We forecast €32bn group revenue in 2012E, a 0.5% decline yoy, -1.3% below I/B/E/S consensus.
- **Significant upcoming event** — The commercial launch of Free Mobile. We think this is now imminent and is likely to happen before the official Arcep deadline: January 12, 2012 – two years after the company was awarded the 2G spectrum licence. Ahead of the launch, which is expected to be aggressive on pricing, Bouygues has reduced for the second time in a row the prices for B&YOU, its SIM only offer, which was launched last July. We expect FT to follow and cut prices on its Sosh offer. These early signs of a price war together with the sharp deterioration in service revenue growth in the third quarter (-0.1% yoy vs. +3.3% in Q2) should raise further concern for investors. We expect revenue trends in the telecom business to deteriorate in 2012 to -6% yoy.

## Bouygues SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	31,353.0	31,225.0	32,270.6	32,096.3	31,602.3
Net Income (€M)	1,319.0	1,071.0	1,065.8	1,090.4	1,119.4
Diluted EPS (€)	3.80	3.03	2.98	3.47	3.56
Diluted EPS (Old) (€)	3.80	3.03	2.98	3.47	3.56
PE (x)	6.5	8.1	8.3	7.1	6.9
EV/EBITDA (x)	2.0	1.8	1.8	2.0	2.1
DPS (€)	1.60	1.60	1.60	1.60	1.60
Net Div Yield (%)	6.5	6.5	6.5	6.5	6.5

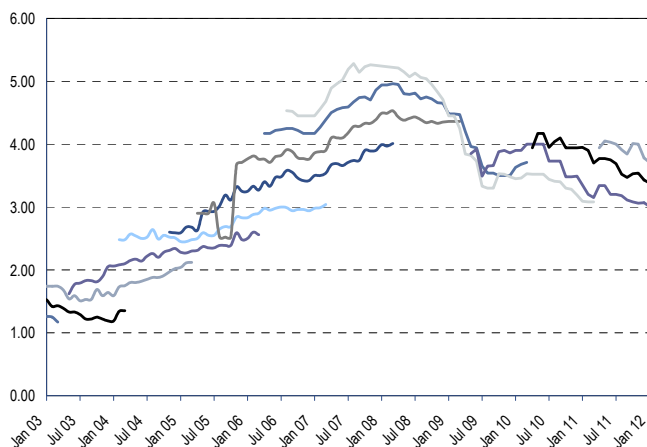
## Austerity and new mobile entrant: not a great combination

Figure 70. Bouygues has underperformed (left axis €/share; right axis index: end-2006=100)



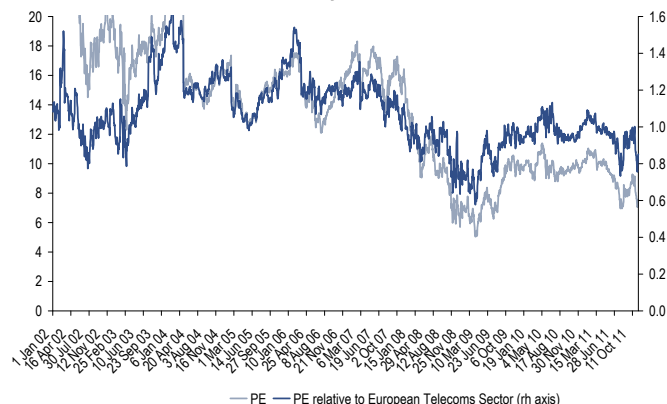
Source: DataStream

Figure 72. Consensus EPS has been falling since 2009 (€)



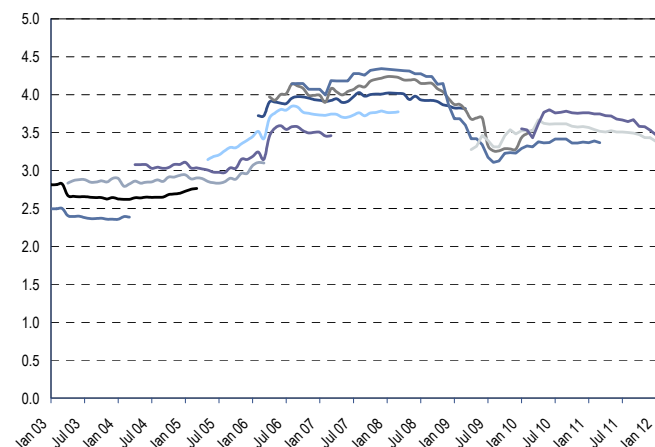
Source: DataStream

Figure 71. Bouygues trades below the sector average on PE (1 year forward); however, it has historically traded at a premium



Source: DataStream

Figure 73. EBITDA consensus has headed down again lately (€bn)



Source: DataStream

Profit & Loss (€M)	2009	2010	2011	2012E	2013E
Net sales	31,353	31,225	32,271	32,096	31,602
Operating expenses	-29,498	-29,434	-30,500	-30,444	-29,971
<b>EBIT</b>	<b>1,855</b>	<b>1,791</b>	<b>1,771</b>	<b>1,652</b>	<b>1,631</b>
Net interest expense	-344	-330	-278	-310	-290
Non-operating/exceptionals	432	284	225	347	386
<b>Pre-tax profit</b>	<b>1,943</b>	<b>1,745</b>	<b>1,717</b>	<b>1,690</b>	<b>1,728</b>
Tax	-487	-482	-501	-451	-451
Extraord./Min.Int./Pref.div.	-137	-192	-150	-148	-158
<b>Reported net income</b>	<b>1,319</b>	<b>1,071</b>	<b>1,066</b>	<b>1,090</b>	<b>1,119</b>
Adjusted earnings	1,319	1,071	1,066	1,090	1,119
Adjusted EBITDA	3,616	3,330	3,338	3,259	3,198
<b>Growth Rates (%)</b>					
Sales	-4.2	-0.4	3.3	-0.5	-1.5
EBIT adjusted	-16.8	-5.1	-1.6	-4.6	-1.3
EBITDA adjusted	-5.5	-7.9	0.3	-2.4	-1.9
EPS adjusted	-12.8	-20.3	-1.7	16.4	2.7

Source: Company reports, Citi Investment Research and Analysis

# BT Group

## 2012: Big year for dividend and pension

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

Buy	1
Price (04 Jan 12)	£1.98
Target price	£2.05
Expected share price return	3.5%
Expected dividend yield	5.6%
<b>Expected total return</b>	<b>9.1%</b>
Market Cap	£15,400M
	US\$24,048M

#### Price Performance

(RIC: BT.L, BB: BT/A LN)



■ **More self help to come, dividend upside Buy, TP £2.05 (£2.16cum div)** — At its investor event in London on 5 Dec, BT detailed its business process re-engineering efforts and was encouraging that there is plenty more cost saving to come. We see this, combined with gains in broadband share and some moderation in retail voice line loss, positioning it well come the board's dividend decision in May. Although we recognise pension uncertainty, we expect an above consensus catch up final dividend of 8.5p for 2011/12 bringing growth in the dividend for the full year to +50%, which still looks eminently affordable.

■ **Pension challenge for 2012** — BT's latest IAS19 deficit was £3.3bn gross (Figure 90) although we think that it has spiked up since due to lower AA bond yields. The Trustee may need to allow for the impact of quantitative easing which seems to have caused real gilt yields to tighten significantly (Figure 92). Our forecasts show the payments stepping up in line with the current plan (albeit shortened) and our valuation already assumes a net present cost at the upper end of what we consider to be the range of likely outcomes. However, it would be overly optimistic, in our view, to think that the triennial review will provide material positive news for BT. This is not a "one bound and he was free" moment.

■ **Decent operational backdrop** — Recent results show BT continuing to gain share in broadband and seeing a gentle moderation in retail voice line loss. We expect broadband share momentum to slow as TalkTalk's customer service levels reduce its churn but are encouraged by the accelerating take up of BT Infinity which represented over 30% of UK broadband net adds in calendar 3Q11. On opex outlook, management says that Retail is now 7 years into cost reductions and has further to go, Operate & Design as well as HQ are probably half as far advanced as Retail, Wholesale a bit behind them and, encouragingly, Openreach and Global Services are only just starting.

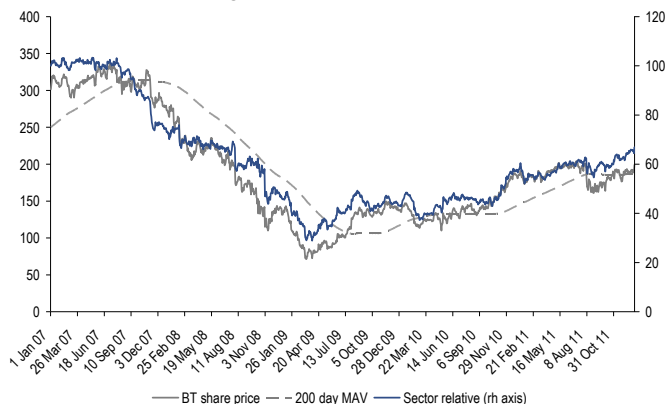
■ **Government relations may be steady** — BT is facing a somewhat tougher regulatory environment as Ofcom extends its decision to impose a very low regulatory WACC on ULL to other regulated services. From feeling the heat from the government over the summer about the pace of local fibre deployment, BT appears to have regained the initiative somewhat with its announcement that the first two thirds of the country is to complete one year early in 2014 and following the CEO's hosting of the UK Prime Minister and cabinet at its R&D centre on 5 December. Nonetheless, Fujitsu's rural fibre proposal and others remain the proverbial sticks that the government can beat BT with and it may still be vulnerable to government subsidised overbuild of its access networks, but we question these projects' economic viability.

#### BT Group PLC (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Sales (£M)	20,911.0	20,076.0	19,395.2	19,162.9	19,356.6
Profit Before Tax (£M)	1,735.0	2,083.0	2,389.5	2,603.3	2,759.8
Diluted EPS (p)	17.7	20.4	22.7	24.4	26.2
Diluted EPS (Old) (p)	17.7	20.4	22.7	24.4	26.2
PE (x)	11.2	9.7	8.7	8.1	7.5
EV/EBITDA (x)	4.4	4.1	3.9	3.7	3.5
DPS (p)	6.9	7.4	11.1	14.8	18.5
Net Div Yield (%)	3.5	3.7	5.6	7.5	9.3

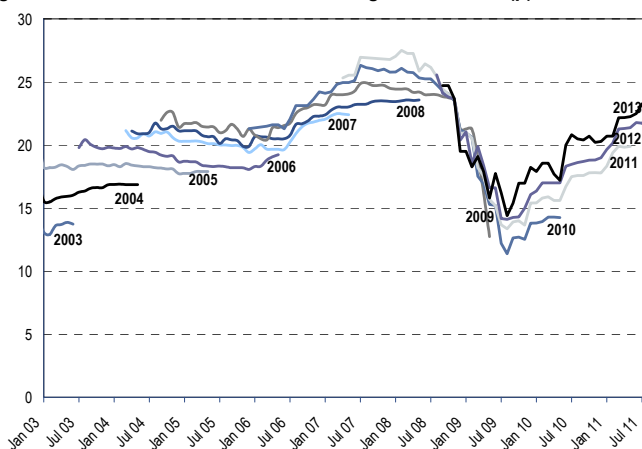
## 2012: Big year for dividend and pension

**Figure 74. BT has been steadily outperforming the sector since April 2009 (left axis p/share; right axis index: end-2006=100)**



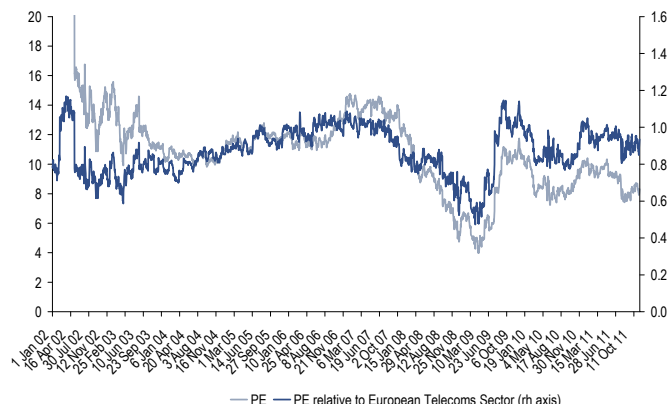
Source: DataStream

**Figure 76. Consensus EPS has been rising since Jan-09 (p)**



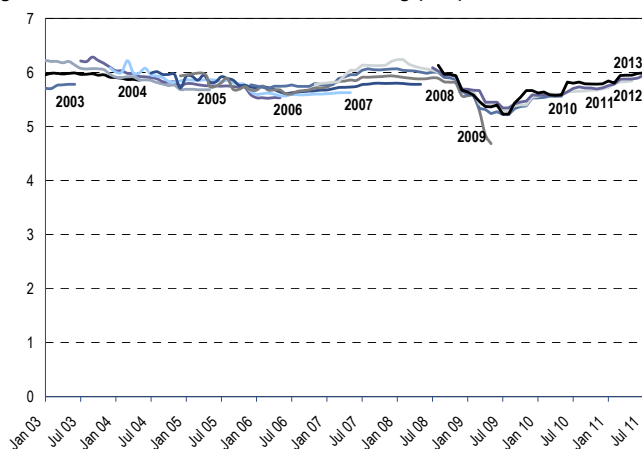
Source: DataStream

**Figure 75. BT trades slightly below the sector average on PE (1 year forward)**



Source: DataStream

**Figure 77. EBITDA consensus has been rising (£bn)**



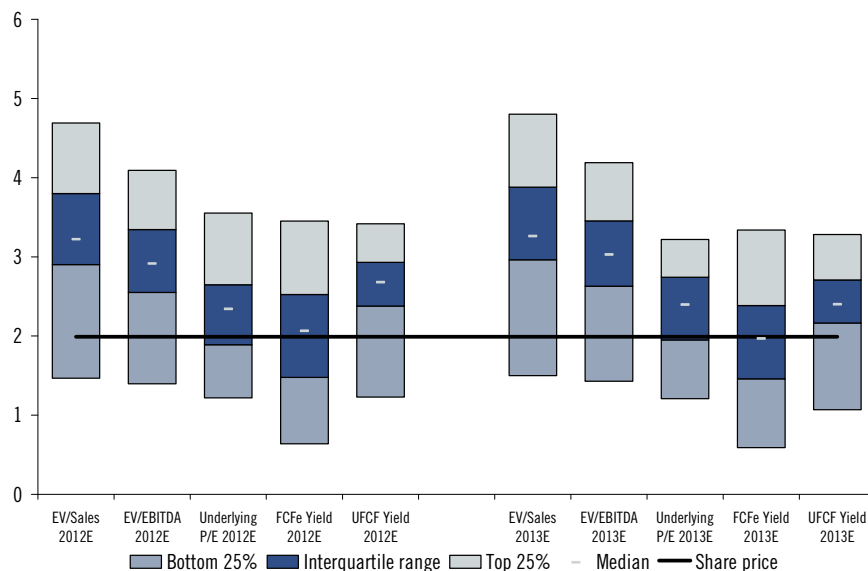
Source: DataStream

<b>Profit &amp; Loss (€M)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Net sales	20,911	20,076	19,395	19,163	19,357
Operating expenses	-18,311	-17,169	-16,317	-15,966	-16,060
<b>EBIT</b>	<b>2,600</b>	<b>2,907</b>	<b>3,078</b>	<b>3,197</b>	<b>3,296</b>
Net interest expense	-890	-845	-705	-610	-554
Non-operating/exceptionals	-703	-303	56	229	242
<b>Pre-tax profit</b>	<b>1,007</b>	<b>1,759</b>	<b>2,430</b>	<b>2,815</b>	<b>2,984</b>
Tax	22	-213	-485	-647	-658
Extraord./Min.Int./Pref.div.	-1	-2	-1	-1	-1
<b>Reported net income</b>	<b>1,028</b>	<b>1,544</b>	<b>1,944</b>	<b>2,168</b>	<b>2,325</b>
Adjusted earnings	1,414	1,629	1,819	1,956	2,101
Adjusted EBITDA	5,639	5,886	6,017	6,122	6,158
<b>Growth Rates (%)</b>					
Sales	-2.2	-4.0	-3.4	-1.2	1.0
EBIT adjusted	10.7	11.8	5.9	3.9	3.1
EBITDA adjusted	7.7	4.4	2.2	1.7	0.6
EPS adjusted	37.1	15.1	11.6	7.5	7.4

Source: Company reports, Citi Investment Research and Analysis

**Figure 78. Compared to its incumbent and wireless peers in Europe, BT trades mostly at or below the lower quartile on our 2012 and 2013 estimates.**

p/share



Source: Powered by dataCentral

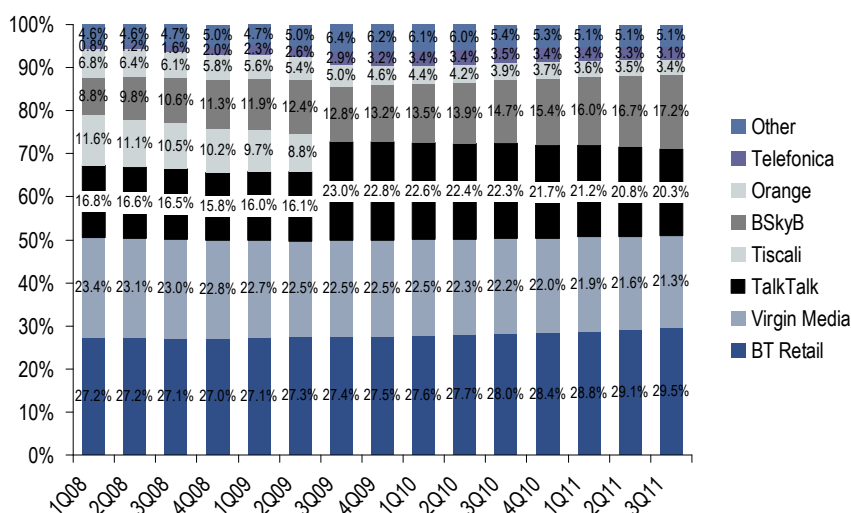
## Significant upcoming events

- **The line rental and broadband price rise** of early December 2011 will partly impact BT's fiscal 3Q11/12 and fully impact its 4Q.
- **Pension part 1 and dividend, May 2012:** The initial announcement on the next three years of repair costs for the pension scheme is likely to come with the May 2012 full year results. This will enable the board to assess the dividend in this context and note the sharp fall in leverage metrics and strong free cash flow which is in excess of the needs for the current dividend and pension contributions. We expect an above consensus catch up final dividend of 8.5p to bring growth in the dividend for the full year to +50%. It is possible that an advance payment into the pension scheme is made before the end of March to take advantage of the higher tax rate.
- **UK 4G spectrum auction, 2H12:** Ofcom currently expects to auction the 800MHz digital dividend and 2600MHz 4G spectrum ranges in the second half of calendar 2012 although legal complexities have already caused it to delay several times. We do not expect BT to be interested in the 800MHz ranges at the prices they are likely to sell for as it is unlikely to see duplicating national cellular infrastructure as an attractive opportunity. However, we do expect it to be interested in 2600MHz at the right price, including the unpaired ranges that can be used to support TD-LTE, a potentially interesting option for wireless broadband.
- **Pension part 2, by March 2013:** The completion of the triennial review is due by 15 months from its pricing date of end-Dec 2011. BT's management has ambitions to complete it before the end of 2012 but this will depend upon being able to reach agreement with the Trustee. This would set the actuarial deficit as well as the payment profile beyond year 3 of the plan which we expect to be considerably shorter than last time.

## Operational update

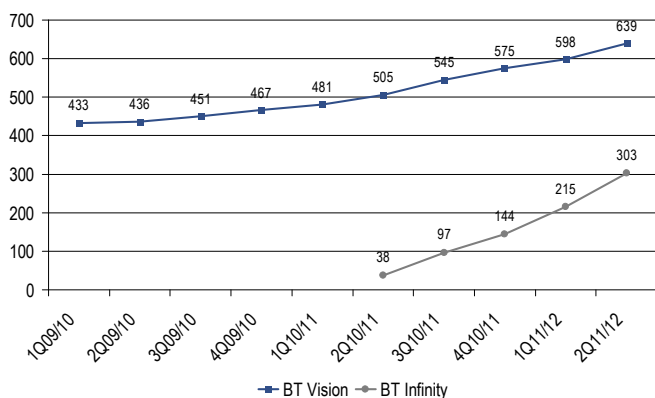
Net adds of the fibre based super-fast broadband service BT Infinity (Figure 80) have been accelerating as the network footprint has expanded, although not quite proportionately. BT's market share of broadband net adds has strengthened significantly over the last 5 quarters (Figure 81) due partly to weakness in ULL as shown in Figure 82. In the UK market, voice line trends have been improving, unlike for Europe as a whole (Figure 83) and BT Retail's line loss has been moderating, albeit slowly.

**Figure 79. BT is UK broadband market leader and has been gaining share**  
% of broadband connections, including business



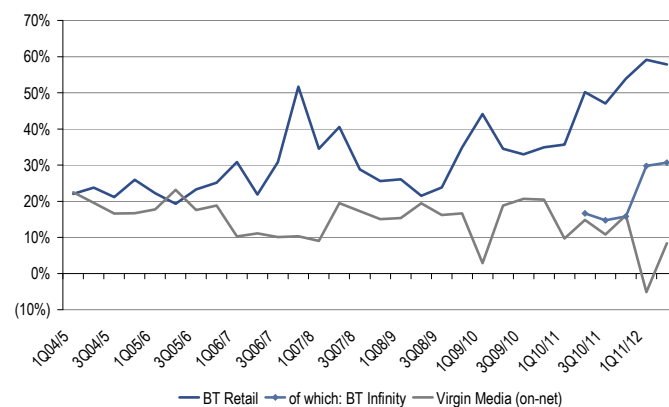
Source: Company Reports and CIRA Estimates

**Figure 80. BT Infinity (fibre broadband) growing well, Vision also rising**  
Thousand connections, year to March



Source: Company Reports

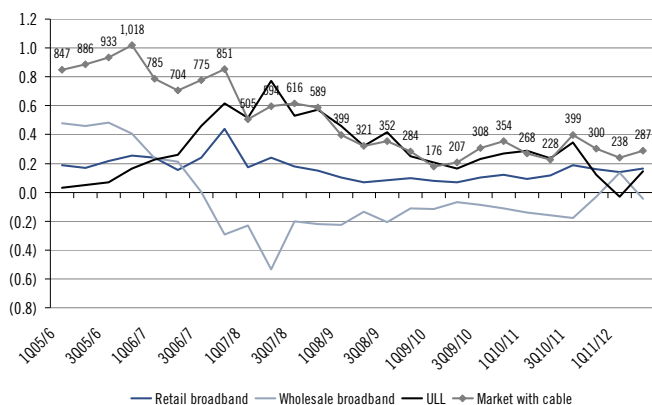
**Figure 81. BT share of broadband net adds still elevated**  
% of total market broadband net additions



Source: Company Reports

**Figure 82. Broadband net adds**

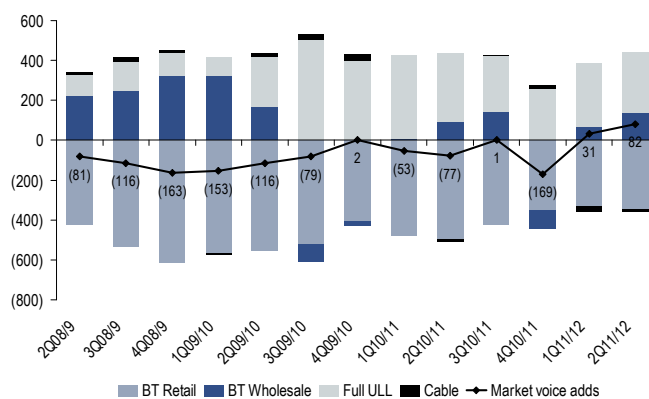
Million net adds (labels in '000s), year to March



Source: Company Reports

**Figure 83. Voice line net adds for the market have lately turned positive**

Thousand net adds, year to March

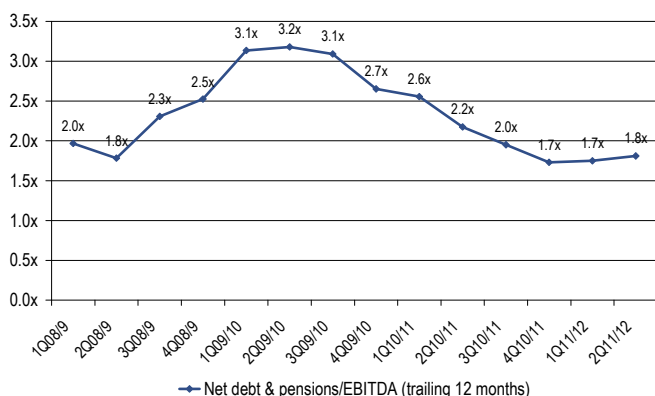


Source: Company Reports

### Balance sheet strengthening, potential for dividend rebasing

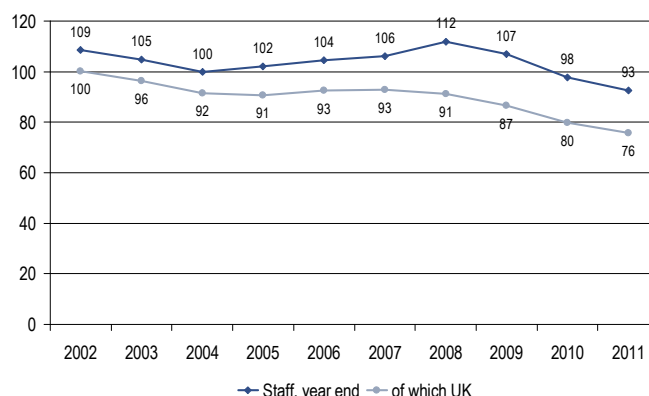
We expect 2012 to be the year when BT is able to step up its dividend, having confirmed its next three years of pension contributions. Figure 84 shows net debt/EBITDA with net debt including the IAS19 deficit calculation (net of tax). From its peak at 3.2x in the quarter to September 2009, it has fallen fast as all three components of the calculation have moved favourably. It is possible that BT will make an early and large upfront payment into the scheme before the end of March 2012 in order to take advantage of the higher corporate tax rate prevailing on its profits in 2011/12, although the adverse impact from early payment – ie time value of money – may eliminate the benefit.

**Figure 84. Net debt & IAS19 pension deficit to EBITDA rising slightly lately due to market pressures on pension**  
x12 month trailing average EBITDA



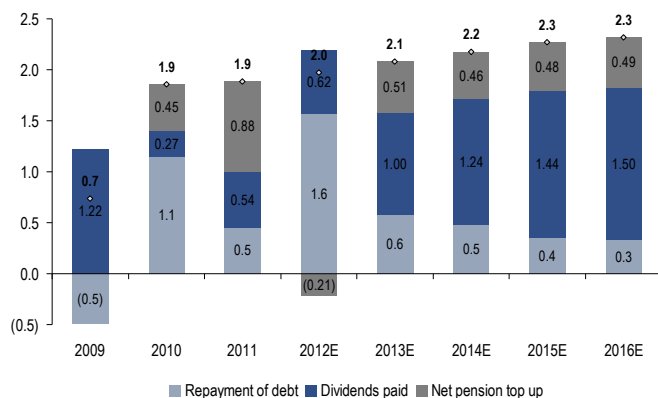
Source: Company Reports

**Figure 85. Staff nos. falling, UK & non-UK both down 17/18% off the peak**  
Thousands, end-March



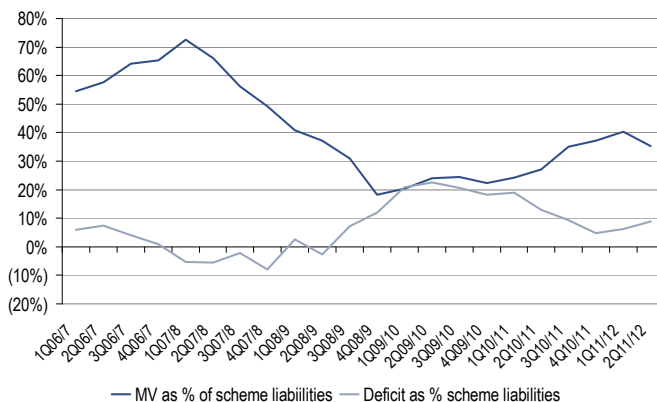
Source: Company Reports

**Figure 86. Use of FCF shows scope to increase the dividend while continuing to contribute to the pension (net of tax) and reducing debt £bn, year to March**



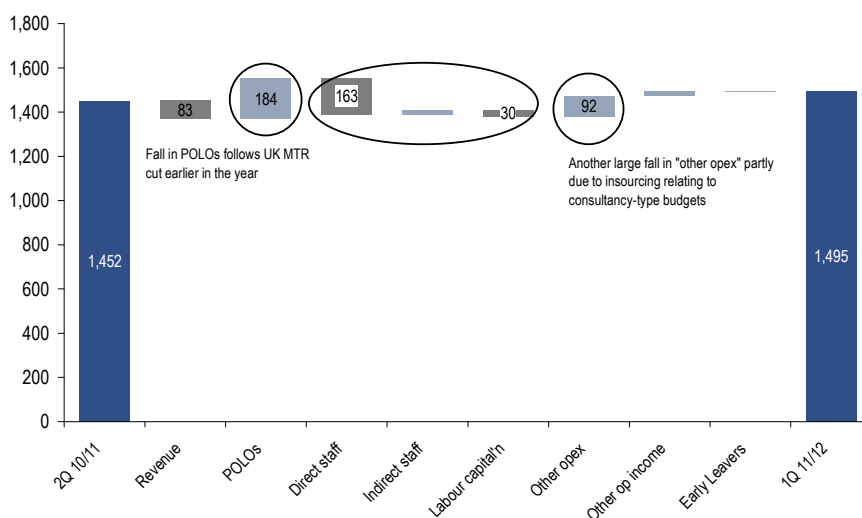
Source: Company Reports, CIRA estimates

**Figure 87. IAS19 pension deficit is down from its peak and BT's market value is double its Mar 09 floor as a percentage of liabilities % , year to March**



Source: Company Reports, CIRA Estimates

**Figure 88. 2Q 2011/12, another sharp fall in "other opex" £m, change yoy**



Source: Company Reports and CIRA Estimates

## Pension triennial review key in 2012

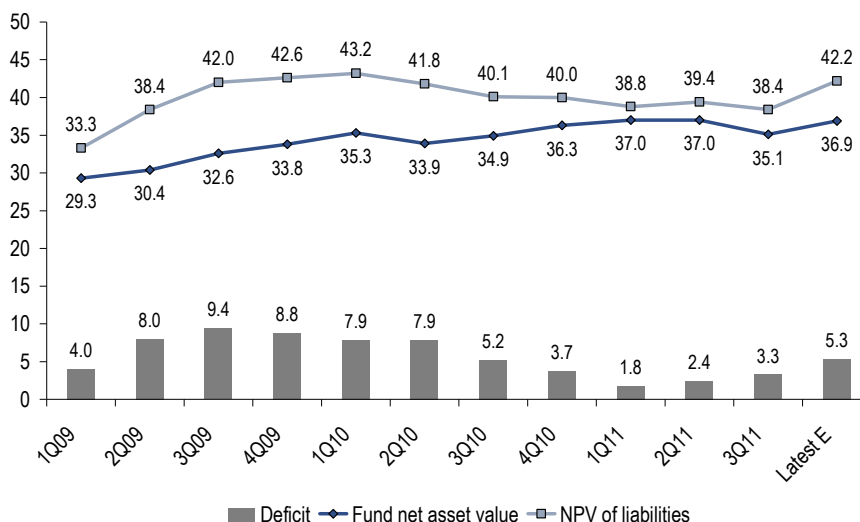
### Pension accounting deficit (IAS19) - may have spiked up since Sep

The latest published IAS19 accounting deficit is for end-Sep 2011 and puts BT's pension deficit at £3.3bn gross of tax. We estimate that, since then, the deficit on this basis has widened quite sharply by around £2.0bn due to lower AA bond yields (40bp) and higher inflation (10bp) which more than offset a ~5% recovery in the assets driven by higher equity and bond prices.

Part of the reason for this might be the sharply lower spread between long gilts and expected inflation which has driven UK government bond yields close to nil on a real basis, probably due to quantitative easing.



**Figure 89. IAS 19 accounting pension deficit**  
£bn, calendar quarters



Source: Datastream, Company Reports and CIRA Estimates

**Figure 90. Pension valuations show a falling deficit and a median calculation still in surplus**  
£bn deficit (surplus)

	Deficit (gross)	Confidence level	Including: Employee pension review	RPI to CPI
<b>Funding valuation</b>				
Dec 2005 (Triennial)	£3.4bn	65%		
Dec 2008 (Triennial)	£9.0bn	69%		
Dec 2009	~£7.5bn	69%		
Mar 2010	~£6.6bn	69%		
Dec 2010	~£3.2bn*	69%		✓
<b>Median valuation</b>				
Dec 2008	£3.0bn	50%	✓	
Mar 2010	~£1.5bn	50%	✓	
Sep 2010	~£0.2bn	50%	✓	✓
Mar 2011	(~£3.2bn)	50%	✓	✓
Sep 2011	(~£1.0bn)	50%	✓	✓
<b>IAS19 valuation</b>				
		Discount rate		
Dec 2008	£2.4bn	6.45%		
Dec 2009	£8.8bn	5.65%	✓	
Mar 2010	£7.9bn	5.5%	✓	
Sep 2010	£5.2bn	5.0%	✓	✓
Mar 2011	£1.8bn	5.5%	✓	✓
Sep 2011	£3.3bn	5.1%	✓	✓

Note: \* Dec 2010 figure takes into account the March 2011 top up contribution

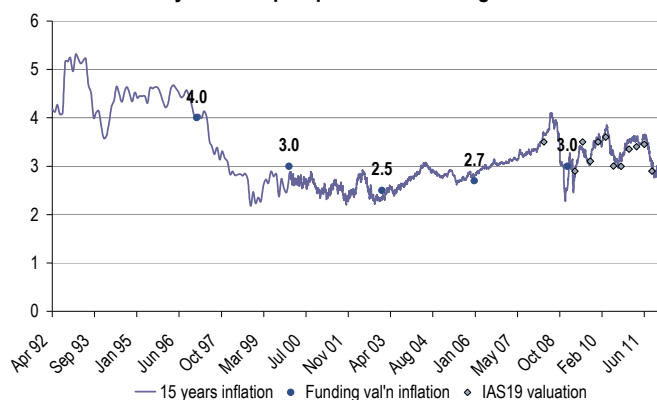
Source: Company Reports and CIRA Estimates

## Pension funding deficit: technical changes and fund performance

BT's funding deficit is the one that counts in the sense that this is the basis for the company's agreement with the Trustee for repair funding. In 2008, the deficit was calculated at £9bn with a discount rate of 5.0% or a real rate of 2.5%. Changes since have included:

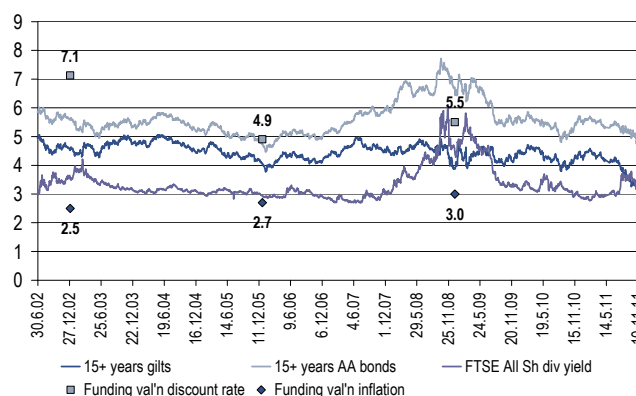
- **Asset performance:** we estimate that the fund value has risen by £4.4bn since the end of 2008, a little under 40% of which came from BT's cash injections plus returns earned on them on our estimates.
- **Change from RPI to the generally lower CPI basis for inflation** in September 2010 which reduced its then IAS19 deficit by £2.9bn (gross of tax). This covers all arrangements apart from Section C members' pensions in payment which are to remain RPI indexed (capped at 5%).
- **Employee pension review** which may be worth £1.0-1.5bn depending on how the trustee expects new options to be taken up. It may be that the Trustee takes a conservative view on take up at this stage.

Figure 91. 15 year spot RPI inflation implied from index linked bonds shows that currently inflation prospects are unchanged vs end-08



Source: Bank of England

Figure 92. UK Gilt yields (>15 year durations) have fallen sharply into end-11 reducing real spreads probably due to quantitative easing



Source: DataStream, Bank of England, Company data

## Pension funding deficit: risk, discount rate and inflation

The discount rate used to calculate the NPV of the liabilities depends on inflation expectations, the expected real returns from the fund and the risk buffer that the Trustee wishes to apply. The 2008 triennial review was priced in the immediate aftermath of the Lehman crisis when BT itself was weakened by over-distribution and cost overruns in Global Services. The Trustee increased the risk buffer by raising its required confidence level from 65% in 2002 to 69% in 2008 (Figure 90). Changes this time might include:

- **Real discount rate:** In 2008 the real discount rate used was 2.5% which, with inflation at 3.0%, gave a nominal discount rate of 5.5% (Figure 92). This was higher than 2002 when the real/nominal discount rates used were 2.2%/4.9% reflecting the elevated AA bond and equity dividend yields prevailing at the time. Since then, the gilt yields are down 90bp, AA bonds by 200bp (both using durations of 15 years or more) and FTSE All Share dividend yields are down by 100bp. The asset base is more diverse than solely these asset classes and the Trustee may choose to take into account the impact of Quantitative easing in distorting bond prices. However, we should expect a reduction in the real discount rate of 50-100bp which equates to an increase in liabilities of £2.8-5.6bn.

- **Inflation:** the RPI outlook looks to be unchanged at close to 3.0% based on the Bank of England's 15 year inflation expectation (Figure 91) derived by comparing index linked and ordinary government bond yields.
- **Lower confidence level:** The (somewhat) clearer economic and market backdrop (vs end-08) and the company's improved financial strength may allow the Trustee to use a lower confidence level reducing the risk "buffer" added to the deficit and easing the possibility of a stranded surplus later. A return to 2002's level of 65%, for example, would reduce the deficit by around £1bn (gross) on our estimates. BT says that the Crown Guarantee will not affect this assessment but it is in any case still subject to a court process.

### **Pension funding deficit: implied deficit and cash repair payments**

Ignoring ordinary receipts and payments during the three years as well as changes in actuarial assumptions (one year of additional life expectancy on average adds £1bn to the pension liabilities) the changes we expect since 2008 are as follows:

- **Assets:** £5.4bn positive including cash contributions.
- **CPI indexation** replacing RPI for most of the scheme: potential £2.5bn positive.
- **Employee pension review** £0.5bn positive, conservatively.
- **Real discount rate** reducing by 0.5-1.0% potentially means £2.8-5.6bn negative, with the lower end of this range reflecting some easing of the confidence level.
- **Inflation:** no change.

**This puts the implied outcome in a range of £3.4-6.2bn gross of tax or £2.6-4.8bn net of tax.** This gets turned into a stream of deficit repair payments from BT into the fund. The lower end of this range would be met by a further ten years of payments at around £0.41bn pa on our estimates while the upper end of the range would require ten years of annual payments at £0.75bn pa.

If we assume 3% annual inflation in the contributions, then the payments can start from a lower level with the lower end of the range met from ten years of payments starting at £0.36bn and the upper end of the range would require a starting point of £0.66bn pa.

**At BT's WACC, the net present cost is lower** - on an inflating payments basis the same range comes to £2.2-4.1bn. We assume a net present cost at the upper end of £4.1bn in our valuation.

### **Pension funding deficit: Pension regulator**

**The Pensions Regulator's review of BT's 2008 triennial valuation and recovery plan is on hold** and is not expected to recommence until the outcome of the final court decision, including appeals, on the Crown Guarantee. In the event that the Crown Guarantee is upheld in court, it is likely that the BT pension scheme will fall outside the regulator's scope.

# Cable and Wireless Communications

## ■ Company Update

### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	£0.38
Target price	£0.45
Expected share price return	18.0%
Expected dividend yield	13.4%
<b>Expected total return</b>	<b>31.4%</b>
Market Cap	£964M
	US\$1,505M

### Price Performance

(RIC: CWC.L, BB: CWC LN)



## More to come if Jamaica starts to turn around

■ **Dividend decision becoming more finely balanced** – We continue to expect the dividend to be halved yoy in the company's 2012/13 financial year and, given the yield on this year's payment is now as high as 13.4%, this would not come as much of a shock to the market. However, the debate is becoming more finely balanced. We doubt the company can avoid a cut altogether, and it is better to make it emphatic than risk having to make another; however, following the interims, we see a less severe cut than 50% as a possibility. Jamaica could benefit from regulatory reform and restructuring and the rest of the portfolio is performing quite well with mobile data growth accelerating fast and further to go.

■ **We retain our Buy recommendation and ex-div target price of 45p** derived from our sum of the parts valuation. As our forecasts assume a recovery in the Caribbean which is not yet evident, we apply a 15% execution discount. CWC is trading at 9.2x cal 2012E PE, below European incumbents (9.4x), and 5.0x EV EBITDA in line with European incumbents, which supports a Buy case.

■ **Mobile data bonus is starting to show through** with particularly strong 1H12 results from Macau on account of the iPhone launch last year. In 2H12 we expect a stronger performance in Panama as recently signed Enterprise contracts show through. In 1H11/12 across the group mobile data revenue grew 94% yoy (to 7% of revenue), and as smartphone penetration increases (currently 19% of the base) we expect this to accelerate.

■ **Jamaica still a concern** – Legislation to reform telecoms regulation in Jamaica has been held up by the 29 December general election but should still be enacted in early 2012. In the meantime, business performance there may be bottoming out and management says that it has clamped down on capex. In our view, Jamaica's regulatory challenges have been exacerbated by lack of financial discipline and an over-optimistic investment programme. In 2010/11, CWC had 10% of sales, 14% of opex and 22% of capex in Jamaica which in 1H 2011/12 became 7%, 10% and 14% respectively. To bring these further into proportion, CWC needs to combine regulatory changes with more extensive restructuring.

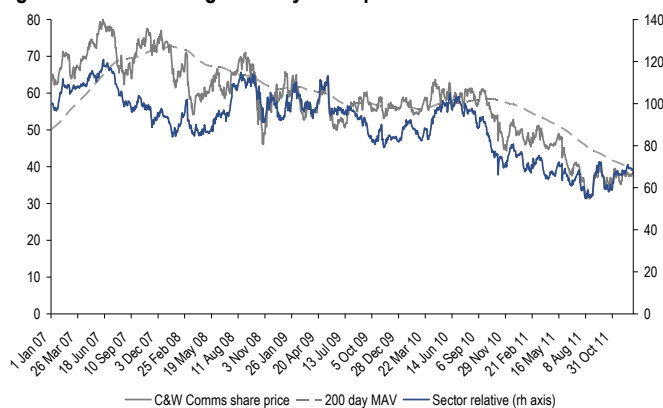
■ **Key risks remain the sustainability of the dividend and minority rights** — At the interim results, the CFO's message of support for the credit rating was uncompromising; we inferred from this that, if cash flow doesn't improve to preserve the <2.5x proportionate net debt/EBITDA target, the dividend might be cut. Ahead of the interim results, the stock appeared burdened by liquidity concerns which we did not share and which were resolved by the announcement of a new 5 year, \$600m credit facility. Constraints of minorities in many jurisdictions should be a manageable risk.

### Cable and Wireless Communications Plc (USD)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Sales (\$M)	2,346.0	2,440.0	2,860.6	2,781.2	2,810.5
Profit Before Tax (\$M)	383.0	462.0	342.4	426.4	435.1
Diluted EPS (¢)	7.2	7.2	6.7	6.4	6.6
Diluted EPS (Old) (¢)	7.2	7.2	6.7	6.4	6.6
PE (x)	8.3	8.3	8.9	9.2	9.0
EV/EBITDA (x)	3.5	3.6	3.7	4.2	4.2
DPS (¢)	10.0	8.0	8.0	4.0	4.0
Net Div Yield (%)	16.8	13.5	13.5	6.7	6.7

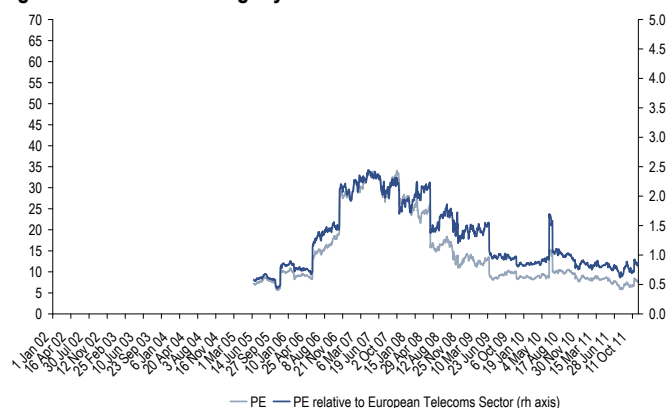
## More to come if Jamaica starts to turn around

Figure 93. CWC has significantly underperformed the sector



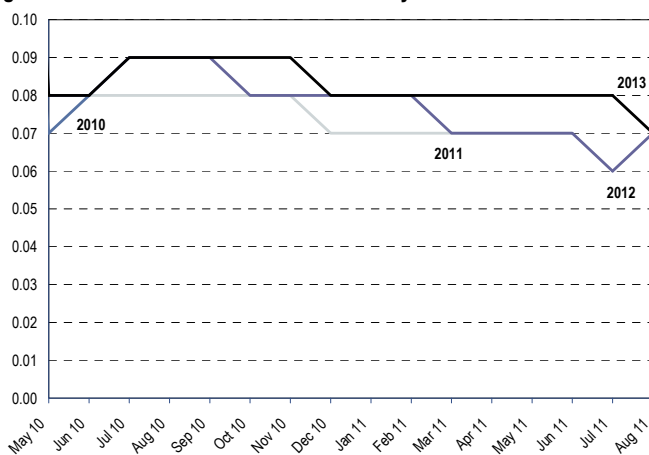
Source: DataStream

Figure 94. CWC trades slightly below the sector



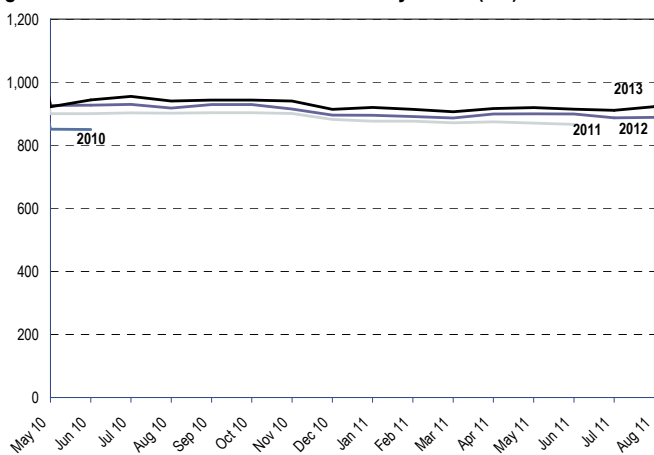
Source: DataStream

Figure 95. Consensus EPS has fallen recently



Source: DataStream

Figure 96. EBITDA consensus has been fairly stable (\$m)

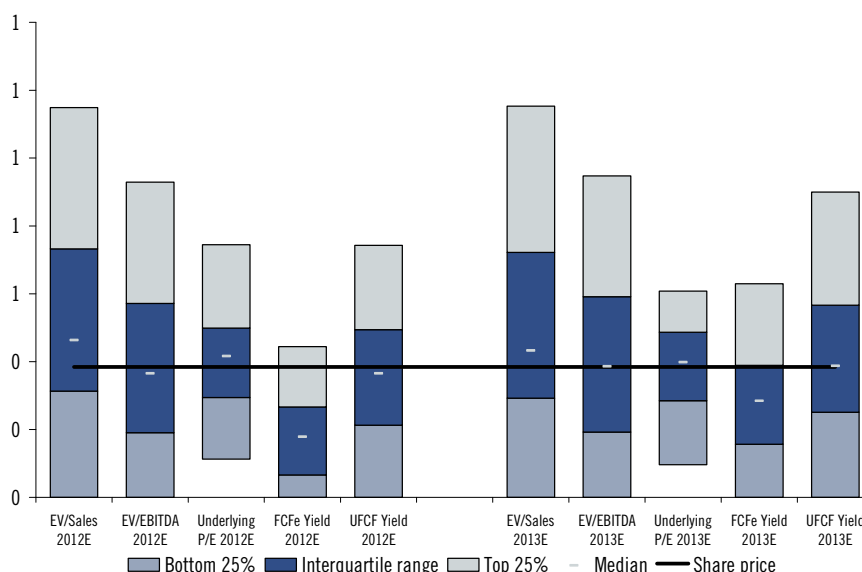


Source: DataStream

Profit & Loss (€M)	2010	2011	2012E	2013E	2014E
Net sales	2,346	2,440	2,861	2,781	2,810
Operating expenses	-1,826	-1,941	-2,338	-2,239	-2,257
<b>EBIT</b>	<b>520</b>	<b>499</b>	<b>523</b>	<b>542</b>	<b>554</b>
Net interest expense	-96	-108	-128	-130	-133
Non-operating/exceptionals	-35	74	-50	14	14
<b>Pre-tax profit</b>	<b>389</b>	<b>465</b>	<b>345</b>	<b>426</b>	<b>435</b>
Tax	-126	-119	-92	-106	-108
Extraord./Min.Int./Pref.div.	-139	-149	-116	-160	-163
<b>Reported net income</b>	<b>124</b>	<b>197</b>	<b>137</b>	<b>161</b>	<b>164</b>
Adjusted earnings	184	189	167	161	164
Adjusted EBITDA	866	872	897	916	926
<b>Growth Rates (%)</b>					
Sales	-4.1	4.0	17.2	-2.8	1.1
EBIT adjusted	-9.4	-4.0	4.8	3.7	2.0
EBITDA adjusted	-0.6	0.7	2.9	2.1	1.2
EPS adjusted	-47.2	0.3	-7.2	-3.5	2.6

Source: Company reports, Citi Investment Research and Analysis

Figure 97. CWC trades close to the median on our 2012 and 2013 estimates except in FCF yield where it is near the top of the range



Source: dataCentral

## Significant upcoming events

- **Jamaican legislation:** The Jamaican elections on 29 December saw an unexpected victory for the opposition People's National Party. As the bill passing the new telecoms legislation into law had the support of both parties, we expect it to be passed in early 2012, although timing is now uncertain.
- **Results and dividend decision for 2012/13:** We expect CWC to meet its commitment to an 8 US cent full year dividend for 2011/12. However, we expect FCF will have to improve markedly for this to be repeatable in 2012/13. The board may choose to guide to a lower dividend after its March 2012 meeting, or at the May full year results or, probably less likely if the dividend still looks a stretch, it may leave it until the interim is announced in November.

## Jamaican regulatory sensitivities

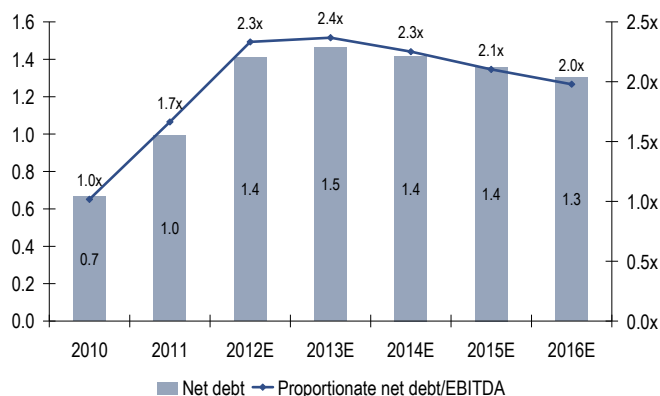
A scenario in which Jamaican mobile wholesale rates are halved without changing retail prices would drive an increase in EBITDA margin for C&W Jamaica of 5-10pp (J\$1-2bn, US\$12-23m), on our estimates. This is before any gains in market share or rebalancing of the traffic flows between competitors. We believe any MTR cuts are unlikely to be introduced in FY12, and will only have a limited impact in FY13. Furthermore, the calculations above assume that existing price structures are maintained. We assume C&W Jamaica will pass on some of the price reductions to customers.

CWC has found it difficult to recapture mobile market share due at least in part to Digicel's retail pricing with low on-net and high off-net call prices tending to suck customers in and making it expensive for them to leave, a particularly effective strategy in cases like this where there is a single dominant player. In addition, Digicel's high off-net calls charges have led to a traffic imbalance and a net flow of MTR settlement payments to Digicel from CWC. Lower MTRs in due course should reduce the traffic imbalance and allow CWC to offer competitive cross network rates without onerous financial impact. This should in time be beneficial to its market share as well as to its gross margin.

The Jamaican government has already approved the merger of the local operations of Digicel with third placed Claro; however, it says that the country's Fair Trading Commission is considering its own steps to protect consumers which may involve legal action. CWC has also filed a legal challenge against the government regarding its approval of the deal.

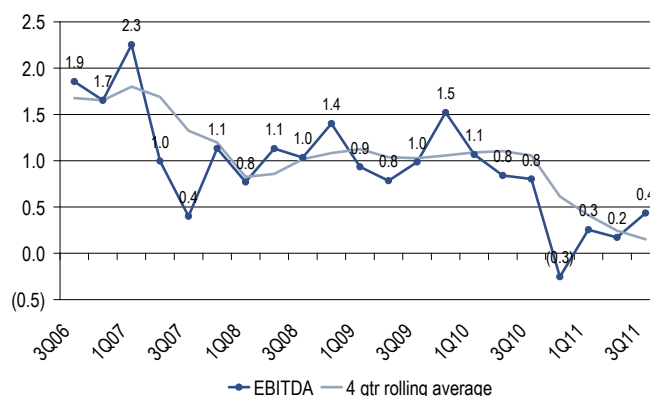
The Digicel/Claro merger is awaiting approvals in El Salvador and Honduras as the Jamaican transaction is part of a three-way set of mutually dependent deals. For CWC there are pros and cons from this merger. It strengthens Digicel's market share but this is already sufficiently far above CWC's own that the difference commercially from extending the lead may not be that great. However, a move to a two player market (for some time in all likelihood) should be beneficial. For MTRs to be lowered, Parliament has to approve the government's proposed legislation and the regulator then has to apply its new powers. A cost assessment will be required, as the new regime is to apply cost-based fees- a well trod path elsewhere but a first for Jamaica. Then a glide path is likely to smooth implementation. This is therefore a multi year project.

**Figure 98. Proportionate net debt expected to remain <2.5x EBITDA**  
US\$bn, year to March



Source: Company Reports and CIRA Estimates

**Figure 99. Jamaica EBITDA off the bottom**  
J\$bn, calendar quarters



Source: Company Reports and CIRA Estimates

Figure 100. CWC sum of the parts valuation comes to 50p cum div (In \$m unless stated otherwise)

Operation	Stake Sep-10	Total EV	Total Net (Debt)	Total MV	CWC MV	£ per share	EV/EBITDA 2012E	EV/EBITDA 2013E	EBITDA 2012E	EBITDA 2013E
Panama	49%	1,512	(175)	1,337	655	0.26	5.5x	5.3x	275	283
Macau	51%	1,040	100	1,140	581	0.23	6.5x	6.4x	160	162
<b>Caribbean</b>										
Jamaica	82%	227	(291)	(65)	(53)	(0.02)		10.0x	0	23
Barbados	81%	386	(14)	372	301	0.12	6.0x	6.2x	64	63
Bahamas	51%	563	(74)	489	249	0.10	7.5x	6.9x	75	81
Other Caribbean	95%	682	0	682	649	0.26	5.5x	5.7x	124	119
<b>Total Caribbean</b>	<b>79%</b>	<b>1,857</b>	<b>(380)</b>	<b>1,477</b>	<b>1,146</b>	<b>0.46</b>	<b>7.1x</b>	<b>6.5x</b>	<b>263</b>	<b>285</b>
<b>Monaco &amp; Islands</b>										
Monaco	55%	320	0	320	176	0.07	5.5x	5.6x	58	57
Maldives	52%	319	50	369	192	0.08	5.5x	5.9x	58	54
Channel Is/loM	100%	252	0	252	252	0.10	6.0x	7.4x	42	34
Other	67%	178	0	178	119	0.05	5.0x	5.1x	36	35
<b>Total Monaco &amp; Islands</b>	<b>66%</b>	<b>1,069</b>	<b>50</b>	<b>1,119</b>	<b>739</b>	<b>0.29</b>	<b>5.5x</b>	<b>5.9x</b>	<b>194</b>	<b>180</b>
<b>Total Consolidated Assets</b>	<b>62%</b>	<b>5,478</b>		<b>5,074</b>	<b>3,122</b>	<b>1.25</b>	<b>6.1x</b>	<b>6.0x</b>	<b>897</b>	<b>916</b>
<b>Associates/JVs</b>										
Trinidad & Tobago (TSTT)	49%	143		143	70	0.03	PE	CWC engs		
Afghanistan (Roshan)	20%	246		246	50	0.02	10.0x		7	
Fiji (Fintel)	49%	20		20	10	0.00	10.0x		5	
Solomon Islands & Vanuatu	42%	24		24	10	0.00	10.0x		1	
<b>Total Joint Ventures</b>		<b>433</b>		<b>433</b>	<b>140</b>	<b>0.06</b>				
<b>Enterprise Value (\$m)</b>					<b>3,262</b>	<b>1.30</b>				
Net debt not included above			(1,003)	(1,003)	(1,003)	(0.40)				
Unfunded pension liabilities			(139)	(139)	(139)	(0.06)				
<b>Equity value (\$m)</b>					<b>2,119</b>	<b>0.85</b>				
					<b>\$/share</b>	<b>£/share</b>	<b>\$/£</b>			
Per share value, ex div				Shares: 2,506	0.85	0.53	1.61			
Per share -15% discount						0.45				
.... cum dividend						0.50				

Source: Company reports, Citi Investment Research and Analysis



# Cable and Wireless Worldwide

## ■ Company Update

### Simon Weeden

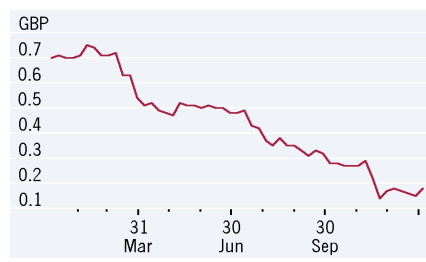
+44-20-7986-4204

simon.weeden@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	£0.18
Target price	-
Expected share price return	-
Expected dividend yield	-
<b>Expected total return</b>	<b>-</b>
Market Cap	£484M
	US\$756M

### Price Performance

(RIC: CWP.L, BB: CW/ LN)



## Time to be much more radical

■ **New CEO's many predecessors faced similar issues** – Gavin Darby took over as CEO on 28 November. He is the third holder of the office since the demerger of March 2010 since when the stock has fallen over 80%, and one of many more dating back to the predecessor entity in the early nineties. At around £480m, CWW's market cap is still well over its roughly £300m of net assets ex-goodwill and pension obligations. Whether scything off hosting or international assets helps valuation or just leaves the core business in more trouble is debatable. In our view, the core business needs to be fixed as the obvious has been tried many times before and we think only radical action has a hope of success.

■ **Bad news probably comes first** – The company's interims ended with unanswered questions about its outlook, in our view, and provided what we see as no more than a basic overlay of its strategy. In all likelihood, the new CEO will want to get any further bad news out of the way early and we are not convinced that market numbers are at a floor as yet. Our forecasts for EBITDA of £370m and £352m for FY12 and FY13 compare to a Bloomberg post event consensus of £383m and £379m. We prefer to wait in the expectation that the new CEO will present to investors ahead of the end-March close period.

■ **Complexity not lack of opportunity, is at the heart of the problem** – We believe CWW has not directed sufficient resources to simplifying its business and stripping out its legacy. It retains extensive duplication and brings more in with every corporate network outsource that it wins. It has many incompatible billing and customer care systems, complex logistics and training needs, three core networks on different era technologies and a sprawling, oversized property portfolio, to name but a few. Therefore it struggles to be nimble and early in 2011 recent under investment caught up with it as further cost reduction ambitions had to be frozen.

■ **More of the BT medicine needed** – BT has the advantage of much greater scale but it is also not a stranger to difficulty in its corporate business. Its efforts at business process re-engineering showcased at an investor event on 5 Dec were not specifically corporate facing but were impressive for combining sharp cost reduction with simplification and improved customer service. It is also turning off services and shutting down legacy. Now that it has abandoned its inflated dividends, we suggest CWW needs to do more along these lines.

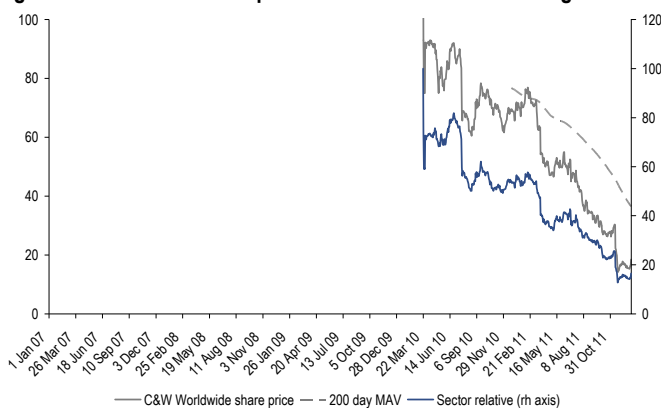
■ **Need to overturn the legacy** – CWW could be more nimble, lower cost and gaining share. This effort is likely to come at an up front cost but should in part be self financing. Technology trends could help - the real world is a long way from being all-IP as yet which can help shed legacy, while concepts such as virtual hosting can even make a virtue out of dispersed, well-fibred properties.

### Cable & Wireless Worldwide PLC (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Sales (£M)	2,265.0	2,257.0	2,144.7	2,073.1	2,040.4
Profit Before Tax (£M)	116.0	157.0	-127.7	19.4	22.5
Diluted EPS (p)	8.2	7.9	0.5	0.6	0.7
Diluted EPS (Old) (p)	8.2	7.9	0.5	0.6	0.7
PE (x)	2.2	2.3	34.2	28.8	24.7
EV/EBITDA (x)	1.7	1.7	2.3	2.7	2.7
DPS (p)	3.0	4.5	0.8	0.0	0.5
Net Div Yield (%)	16.7	25.0	4.2	0.0	2.8

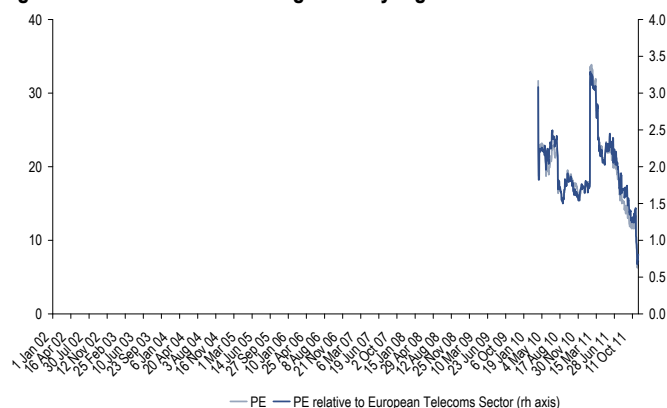
## Time to be much more radical

Figure 101. CWW has underperformed the sector since listing



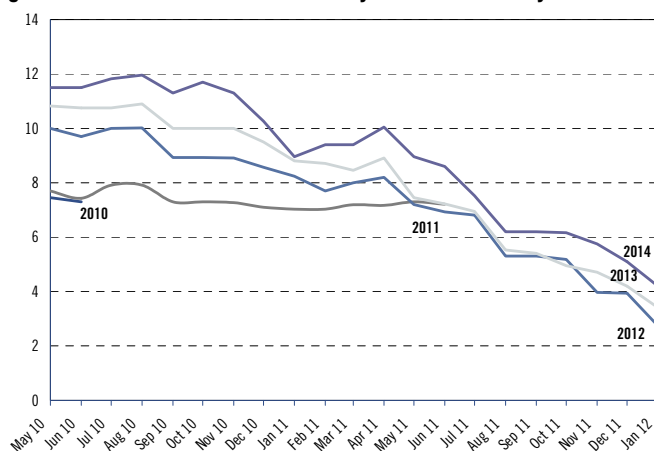
Source: DataStream

Figure 102. CWW trades on a significantly higher PE than the sector



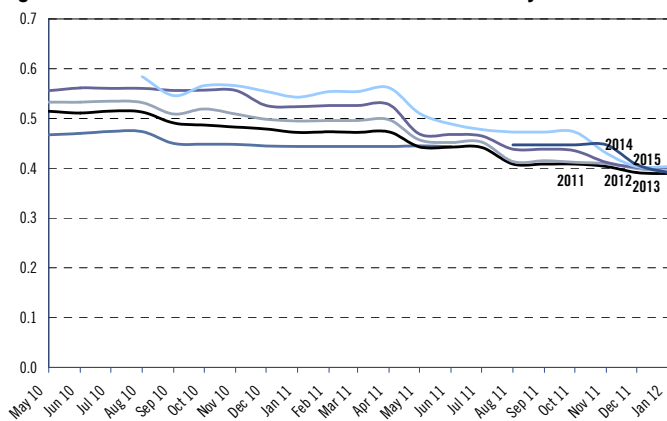
Source: DataStream

Figure 103. Consensus EPS has recently fallen dramatically



Source: DataStream

Figure 104. Consensus EBITDA has also fallen in recent years



Source: DataStream

Profit & Loss (€M)	2010	2011	2012E	2013E	2014E
Net sales	2,265	2,257	2,145	2,073	2,040
Operating expenses	-2,117	-2,087	-2,091	-2,017	-1,981
<b>EBIT</b>	<b>148</b>	<b>170</b>	<b>54</b>	<b>57</b>	<b>60</b>
Net interest expense	-31	-27	-36	-37	-37
Non-operating/exceptionals	-211	-3	-624	0	0
<b>Pre-tax profit</b>	<b>-94</b>	<b>140</b>	<b>-606</b>	<b>19</b>	<b>23</b>
Tax	95	69	-2	0	0
Extraord./Min.Int./Pref.div.	0	0	-1	-1	-1
<b>Reported net income</b>	<b>1</b>	<b>209</b>	<b>-609</b>	<b>18</b>	<b>22</b>
Adjusted earnings	211	226	15	18	22
Adjusted EBITDA	431	442	370	352	355
Growth Rates (%)					
Sales	-0.1	-0.4	-5.0	-3.3	-1.6
EBIT adjusted	52.6	14.9	-68.3	4.8	5.6
EBITDA adjusted	32.2	2.6	-16.3	-4.9	0.8
EPS adjusted	74.9	-4.4	-93.3	19.0	16.6

Source: Company reports, Citi Investment Research and Analysis EPS growth looks correct

# Deutsche Telekom

## Work to do in the US, Germany looking better

### ■ Company Update

#### Simon Weeden

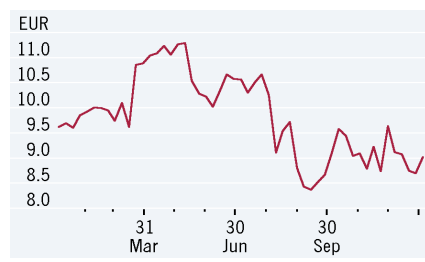
+44-20-7986-4204

simon.weeden@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	€9.02
Target price	€10.00
Expected share price return	10.9%
Expected dividend yield	7.8%
<b>Expected total return</b>	<b>18.7%</b>
Market Cap	€38,970M
	US\$50,433M

#### Price Performance

(RIC: DTEGn.DE, BB: DTE GR)



■ **Collecting the break fee a consolation for the US** — DT outperformed the European sector by 8% in 2011, equivalent to €0.76/share, close to the €0.7 per share post tax valuation that we put on the US deal break fee. It seems the market felt that German solidity was pretty much awash with weakening US organic performance. Indeed, although the US saw an improved EBITDA margin in 3Q11, this was flattered by the accounting treatment of the new Equipment Installment Plans which accrues income from future payments reducing the EBITDA impact of the subsidy but creating an adverse working capital item instead. On a recent conference call, DT management agreed that it doesn't have a clear path to LTE in the US and we expect progress on this in 2012.

■ **Buy, target price €10.0** — Our SOP-based target price of €10.0 (€10.7 cum div) reflects 2012E EBITDA multiples of 5.0x for Germany and 4.5x EBITDA for T-Mobile US (including its new spectrum) with the break fee cash absorbed by the group. At the current price, the stock is trading on our revised 2012 forecasts at 4.5x EBITDA and 13.7% FCF yield (sector averages 4.8x and 12.6%). However, deducting the restructuring costs at a run rate of €1.5bn pa from EBITDA raises the EV/EBITDA by 0.4 points.

■ **Work to do in the US** — Given DT and AT&T had time to consider, and evidently rejected, alternative structures it seems unlikely to us that we will see a return to a new scenario for T-Mobile US with AT&T. Verizon Wireless's deals with Comcast, Cox and other US cable operators rule out US cable as potential partners and we do not have high hopes for TMU's chances of benefiting from partnering with US satellite players. While a network share with Sprint may be a possibility longer term, regulatory objections, complexity and financial risk are all obstacles to a broader deal. For now, we expect T-Mobile US to seek to strengthen its operations and look for new spectrum options which could include a 4G option using TD-LTE but still see potential for option value to be realised should a surprise partnership arise.

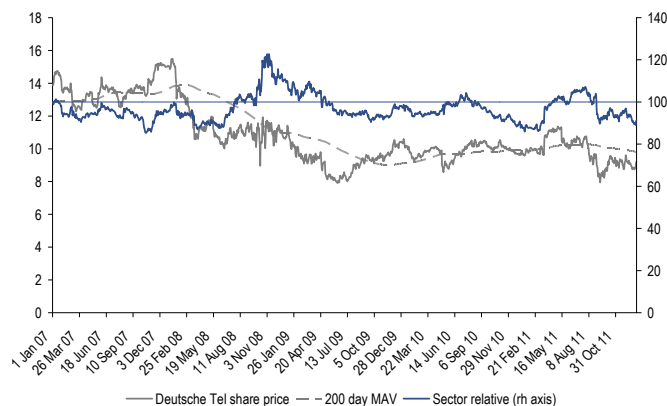
■ **Progress with housing associations in Germany** — DT has achieved its long held ambition to displace the cable operators from a large German housing association contract. Its strategic partnership with housing association Deutsche Annington fits the bill, bringing in 171,000 apartments over time. DT has committed to connecting any apartment that wants it with fibre (and bringing fibre to the home to a minimum penetration level), in addition to which nearly 90% of customers will see lower basic TV costs than before. This will now be the benchmark for housing association renewals putting some pressure on cable in its basic TV business.

#### Deutsche Telekom AG (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	64,639.0	62,421.0	58,994.7	59,243.6	59,334.4
Net Income (€M)	4,090.0	4,104.0	3,888.0	3,991.0	4,313.7
Diluted EPS (€)	0.94	0.95	0.91	0.94	1.02
Diluted EPS (Old) (€)	0.94	0.95	0.91	0.94	1.02
PE (x)	9.6	9.5	9.9	9.6	8.8
EV/EBITDA (x)	4.4	4.8	4.9	4.9	4.7
DPS (€)	0.78	0.70	0.70	0.70	0.75
Net Div Yield (%)	8.6	7.8	7.8	7.8	8.3

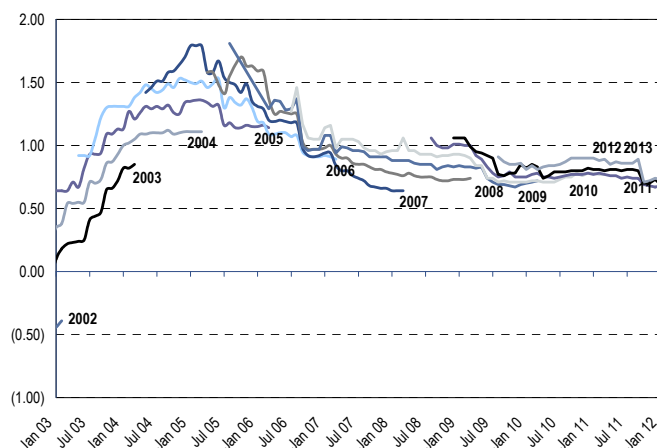
## Work to do in the US, Germany looking better

Figure 105. DT has performed broadly in line with the sector (left axis €/share; right axis index: end-2006=100)



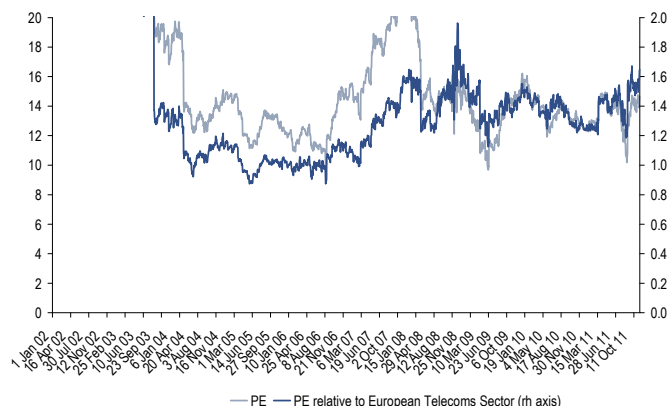
Source: DataStream

Figure 107. Consensus EPS has been broadly stable (€)



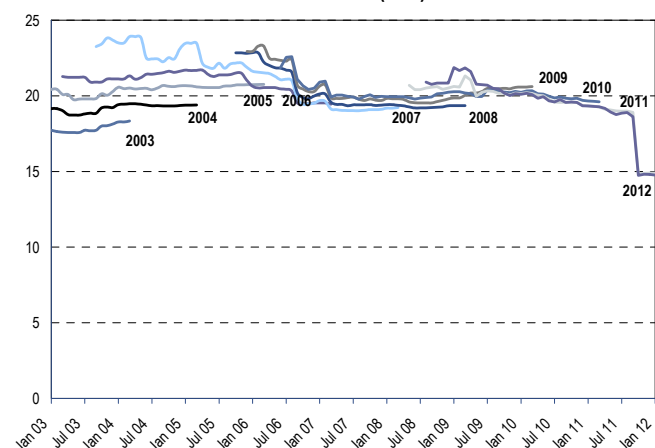
Source: DataStream

Figure 106. DT trades above the sector average on PE (1 year forward)



Source: DataStream

Figure 108. EBITDA consensus has been declining as the US was moved to a discontinued item treatment (€bn)



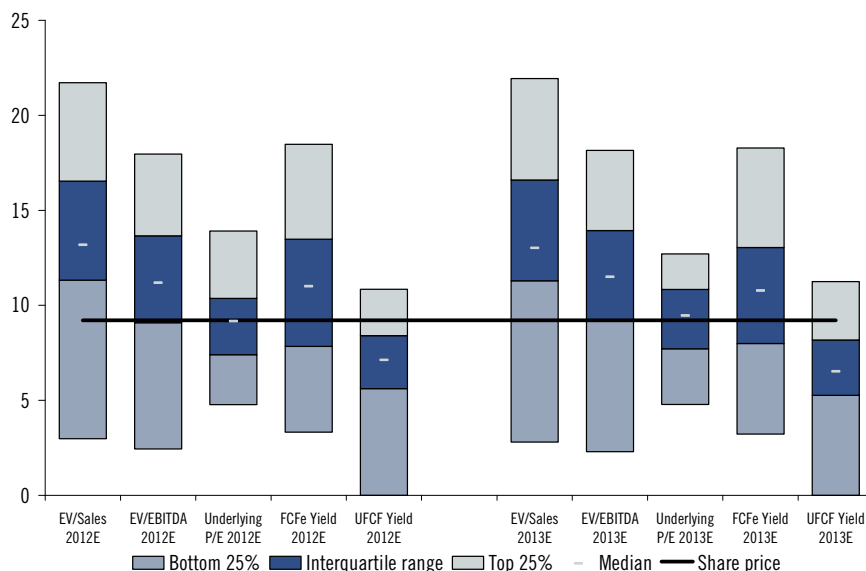
Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	64,639	62,421	44,075	43,751	43,951
Operating expenses	-55,481	-54,057	-38,074	-37,617	-37,552
<b>EBIT</b>	<b>9,158</b>	<b>8,364</b>	<b>6,001</b>	<b>6,134</b>	<b>6,399</b>
Net interest expense	-3,149	-2,667	-2,345	-2,332	-2,255
Non-operating/exceptionals	-3,354	-3,002	-1,145	-1,053	-979
<b>Pre-tax profit</b>	<b>2,655</b>	<b>2,695</b>	<b>2,511</b>	<b>2,749</b>	<b>3,165</b>
Tax	-1,782	-935	-869	-913	-1,015
Extraord./Min.Int./Pref.div.	-520	-65	-532	-582	-647
<b>Reported net income</b>	<b>353</b>	<b>1,695</b>	<b>1,110</b>	<b>1,255</b>	<b>1,502</b>
Adjusted earnings	4,090	4,104	3,794	3,773	4,075
Adjusted EBITDA	20,668	19,473	14,864	14,783	14,836
<b>Growth Rates (%)</b>					
Sales	4.8	-3.4	-29.4	-0.7	0.5
EBIT adjusted	3.8	-8.7	-28.3	2.2	4.3
EBITDA adjusted	6.2	-5.8	-23.7	-0.6	0.4
EPS adjusted	-2.2	0.8	-6.7	0.3	8.5

Source: Citi Investment Research and Analysis

Figure 109. Compared to its incumbent and wireless peers in Europe DT trades around the lower quartile on our 2012 and 2013 estimates

€/share



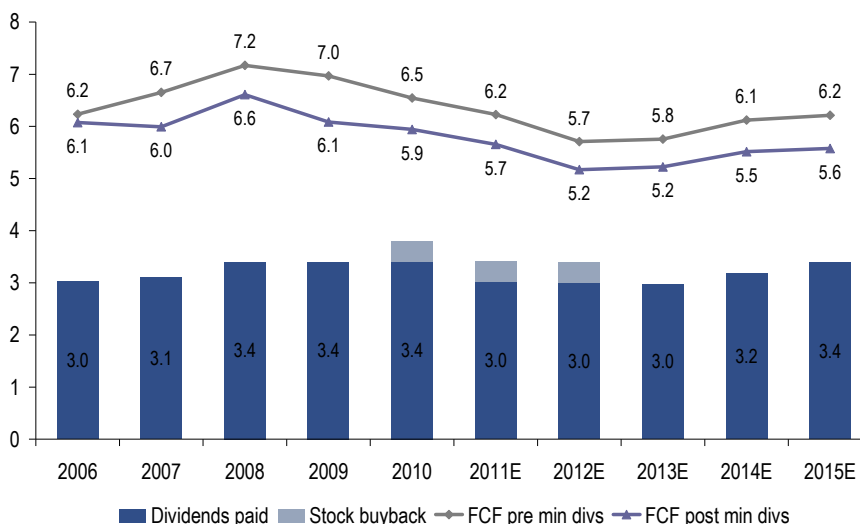
Source: Powered by dataCentral

## Significant upcoming events

- **The AT&T break fee** cash was received by DT before end-11 and therefore will be reflected in the closing net debt with the related cash tax due in 2012.
- **Everything Everywhere**, the UK JV, repaid part of its loan from its parents during 4Q11 but this will not have any impact on the DT net debt as the loan was held on short term account and treated as cash equivalent at the group.
- **T-Mobile US** started offering handset insurance services in October 2010 and in 4Q10 this added around 2% to its reported service revenue growth. The one-off benefit from the introduction of this service will drop out of the numbers in 4Q11.
- On its 20 December conference call, management said that it would provide **an update on the US business** in the next couple of months. The 2011 results announcement on 23 February 2012 may be an appropriate moment and may also be the time for management to revisit investment needs in Germany.
- **The next Bundesliga football rights auction** is due during 1H12 which we expect to cover all the main features including broadcast, IPTV and mobile. DT holds the IPTV rights currently and its CEO of Germany, Niek Jan van Damme, has said that DT may consider bidding for the broadcast rights this time around.
- **The UK digital dividend spectrum auction** is slated to occur in 2H12 and we currently expect payment by end-2012. However, the protracted disputes about this auction may lead to further delays with payment possibly in 2013 instead.

**Figure 110. FCF set to cover dividend even as cash tax bill rises**

€bn, year to Dec



Source: Company Reports and CIRA Estimates

## Outlook

- Currently, we expect EBITDA of €18.6bn and FCF of €5.75bn for 2012, both down yoy. The reason for the reduction in FCF, apart from the slightly lower EBITDA, is higher capex in Germany, slightly higher tax in the US and lower dividends from the UK due to its need to finance 800MHz digital dividend spectrum purchases. Our view on 2012 FCF may turn out to be too conservative if the UK business self finances the spectrum purchase.
- We expect tax assets relating to the US business to be fully consumed during the course of 2013 causing a sharp rise in group cash tax that year. We expect the impact on FCF to be offset by other factors including a rebound in the UK dividend.

## US deal break fee

The break fee from AT&T consists of:

- \$3bn in cash.
- AWS spectrum in 128 cellular market areas (CMAs), including 12 of the top 20 markets, equivalent to a little over 1.5bn MHz pops, fitting well with T-Mobile US's existing spectrum. As T-Mobile currently has around 15bn MHz pops, the new spectrum equates to about one tenth of its existing portfolio.
- Roaming agreement lasting over seven years providing T-Mobile with 3G reach that matches AT&T's own (though not LTE) by allowing cost effective roaming in areas where T-Mobile does not have its own coverage. This takes T-Mobile's network coverage to 280m people from 230m.

We value the combination of these items at €3bn (€0.7/share) post-tax. Tax is payable on the cash (\$3bn) and book value of the spectrum (\$1bn) in Germany where it will be partly offset against NOLs (maximum 60% offset). We expect the related cash tax payment to come to around \$500m in 2012 with some depletion of German NOLs as well.

### **US EBITDA flattered short term by new style contracts**

While popular in Europe, SIM-only has had only a minor role in the US to date as the operators' differing network technologies and frequencies limit free movement of handsets and SIMs. T-Mobile's value packs are proving popular but, while technically SIM-only, they come with the option of an Equipment Installment Plan (EIP) for the handset which the majority of customers are taking up.

This structure makes relatively little difference to the actual cash flows but changes the accounting for new customer connections, flattering short term earnings at the expense of earnings later on. The bulk of the revenue pending from the handset installments is treated as accrued income and booked in the income statement up front. This substantially reduces the appearance of the subsidy in the income statement (though not in the cash flow), reducing future revenue and EBITDA commensurately.

Even without this change we estimate that the US EBITDA for 3Q11 would have slightly exceeded our forecast from immediately prior to the results. However, the bulk of the 12% US EBITDA beat came down to the changed accounting treatment relating to the move to EIPs from the previous model of covering the handset cost from the monthly service fees. Without this change, DT's US EBITDA would in our view end 2011 closer to \$5.0bn than its \$5.5bn target.

### **Key housing association contract win**

DT announced on 8 December that it has entered into a strategic partnership with German housing association Deutsche Annington covering 171,000 apartments at 610 locations across Germany. DT has committed to connecting a minimum number of apartments directly with high speed fibre (and all those that request it), in addition to which nearly 90% of customers will see lower TV costs than before.

DT has been targeting German housing associations to get an anchor tenant to commit to its basic TV service and to undermine the cable industry's pricing in their most monopolistic area – providing basic TV to tenants who purchase through the housing association and cannot cancel or choose an alternative supplier. Basic cable TV plays an important role in providing the cable companies with their high margins and strong FCF which they partly direct at competing with DT.

With this contract benchmark now in the public domain, housing association renewals will likely come at a higher cost for cable even when they retain them, and they will probably lose some more to DT, along with the telephony, broadband and premium TV customers that are connected through the same systems.

DT says it is investing low three digit millions of euros in this contract, a hefty commitment. The budget includes new fibre deployment to all of the building connection points, the majority of the capex, as well as into the apartments including necessary modems and routers. DT almost certainly won't spend all the capex budget because not all of the customers will want a direct fibre connection, and the service will likely be charged at a premium which may cap demand. Additionally, this is a 10 year programme so the capex required for the apartment connections will be spread out over time.

Customers can get their broadband via the existing copper pair telephone network and it might prove viable for DT to upgrade it to VDSL given it is deploying fibre in the area anyway. This could provide higher speeds while reducing the case for the customer to go to fibre and so keeping capex down.

Finally, we believe that the build out of fibre into the area of the buildings' cable distribution points will probably have to be completed at some point anyway in most urban areas so this element is more of a question of timing.

### Network mechanics for basic TV and other products

Initially DT will roll-out fibre to the basement of the buildings. Then it will start to switchover TV signals from the start of 2013, with the plan to have 40k (of 171k) apartments connected by 1Q13, with migrations continuing over the next few years. The reason for the slow migration is that Deutsche Annington contracts with different cable operators expire at different times in different locations.

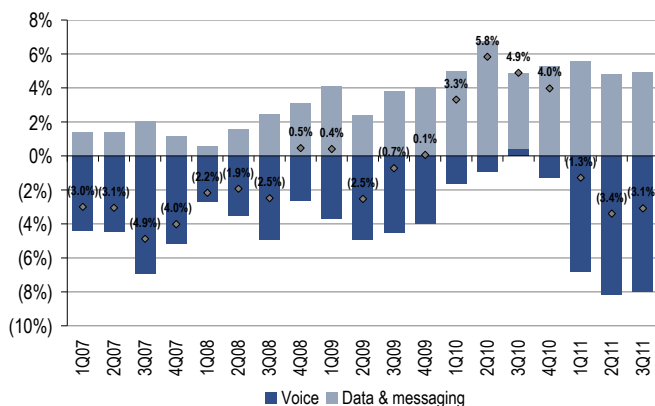
DT does not need to notify the customers who are taking cable broadband that they will be disconnected. Deutsche Annington and the cable operator will notify them that they will be cut off on a certain date.

DT will offer the 30-35 basic TV channels which is the same as cable operators analogue offer. However, DT will provide them digitally and so will need to replace the set top box at each customer; however, this should not be a significant proportion of the total cost. Customers will still be able to receive premium TV packages from Sky Deutschland as before. DT has not given any indication on its pricing.

### Operational trends

Figure 111. T-Mobile Germany service revenue slowed post MTR cut

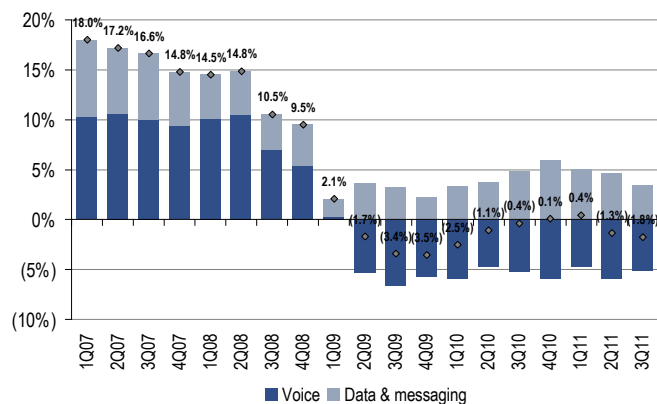
Contribution to service revenue growth, % yoy



Source: Company Reports

Figure 112. T-Mobile US service revenue growth slow despite insurance

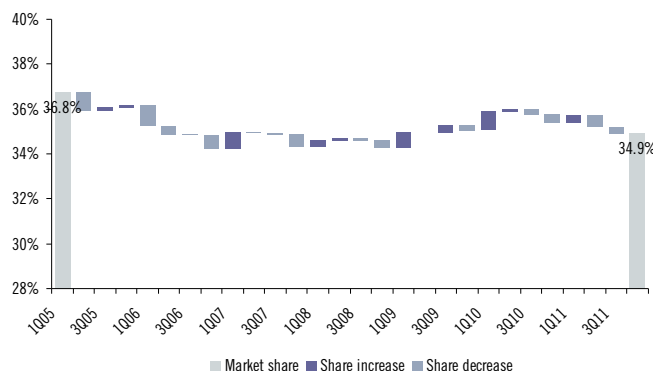
Contribution to service revenue growth, % yoy



Source: Company Reports

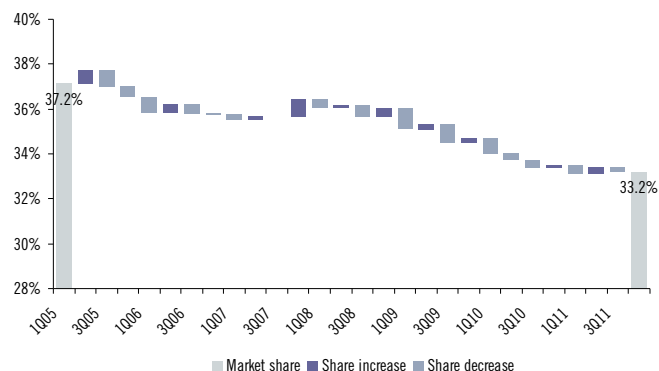


**Figure 113. Germany: T-Mobile has lately seen modest share declines**  
% service revenue market share, quarterly movements



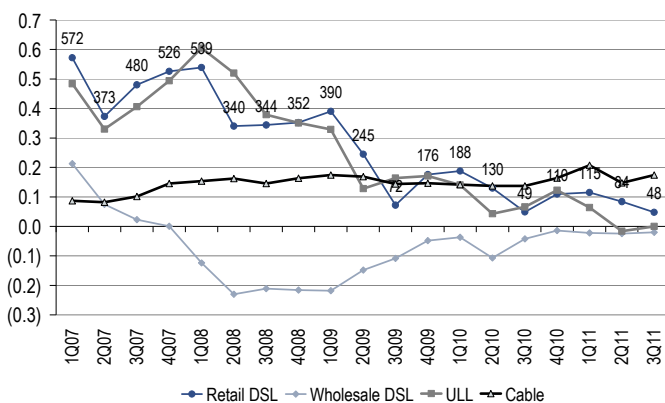
Source: Company Reports and CIRA Estimates

**Figure 114. UK: EE's share declines may have bottomed out**  
% service revenue market share, quarterly movements



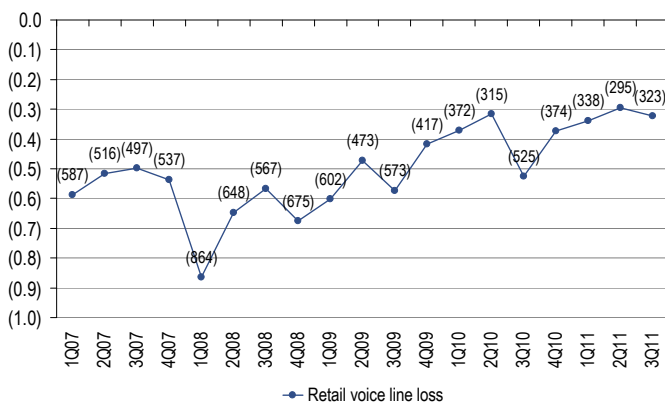
Source: Company Reports and CIRA Estimates

**Figure 115. German broadband trends favour cable**  
Million net broadband connections



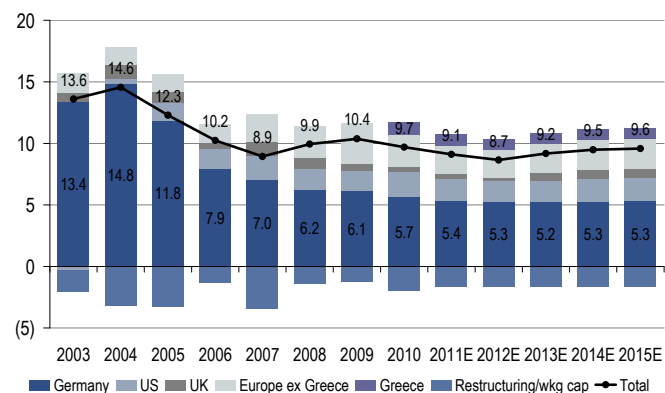
Source: Company Reports

**Figure 116. German voice line loss slowing**  
Million voice lines



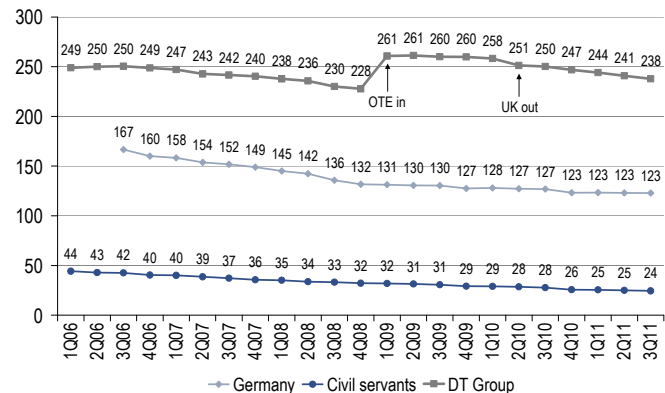
Source: Company Reports

**Figure 117. Operating FCF inc dividends received, Germany still declining but slowing**  
€bn, year to Dec



Source: Company reports and CIRA Estimates

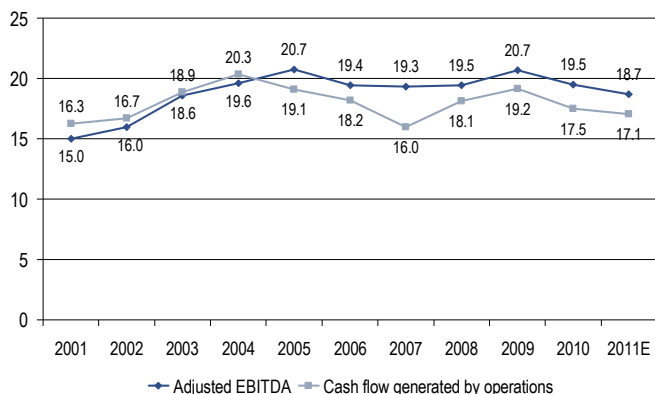
**Figure 118. Staff numbers gradually reducing although Germany lately stable**  
€bn, year to Dec



Source: Company reports and CIRA Estimates

**Figure 119. EBITDA has been materially higher than CFFO for some time**

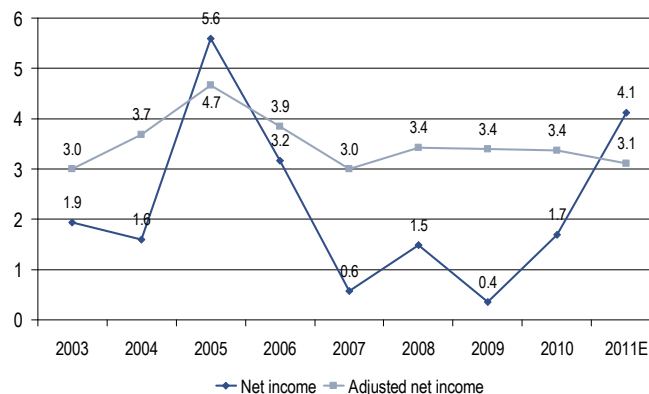
€bn, year to Dec



Source: Company reports and CIRA Estimates

**Figure 120. Net income adjustments materially positive in most years**

€bn, year to Dec



Source: Company reports and CIRA Estimates

## Non-operating and restructuring items

### Staff and other restructuring commitments

As of end-2010, DT's balance sheet showed liabilities for mainly staff-related restructuring under provisions for restructuring expenses (€458m) and other liabilities for early retirement (€1,819m). We expect income statement restructuring charges to continue at €1.5bn pa pre tax for the five years starting in 2011 with the same amount in cash outflow. The impact on the cash flow and income statement are evident in Figure 119 and Figure 120.

In 2010 the personnel-related charge through the income statement came to €1,006m and an additional €1,031m was used from the provisions for restructuring expenses. However, the other liabilities for early retirement rose by €506m so not all of the income statement item made it through the cash flow that year. The net of the three provides a cash outflow of €1,531m in 2010.

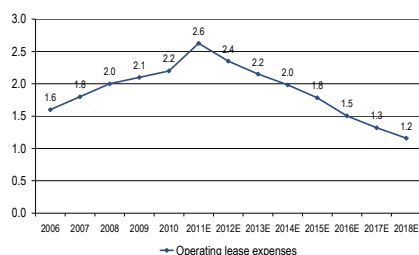
We hope that more visibility can be provided on the returns from DT's considerable restructuring spend if and when it revives its earlier plan for a Germany focus at an investor event. In 2010 restructuring costs were 18% of capex and reduced FCF by around 20% but this cash flow item is not individually identified in the quarterly results.

### Pensions

DT's end-2010 balance sheet shows €6,373m in provisions for pensions and other employee benefits which relate to its defined benefit scheme. Of this, the unfunded component is €5,996m which DT must fund off the balance sheet (note 12 to the accounts). Tax assets (note 25) are relatively modest at €326m leaving a net unfunded liability at €5,670m or €1.34 per share.

In addition to the defined benefit scheme, the company notes that it pays one-third of gross salary for its civil servants into the BPS-PT special pension fund. At end 2010 the present value of these commitments came to €5.9bn but any shortfall in the fund is met by the government and not by DT. The pension cost to DT was €676m in 2010 and is declining slowly as the number of civil servants which it employs reduces (Figure 118).

**Figure 121. Operating lease expenses inc US  
€bn**



Source: Company reports and CIRA estimates

## Operating leases

DT expensed €2.2bn through its 2010 income statement for operating leases and at the time of the annual report expected an increase to €2.6bn in 2011. We believe about 70% of this relates to the US where capitalised operating leases came to €12.4bn at end-2010 out of the group's total of €17.7bn. We expect the IASB to continue to seek to change the accounting rules on operating leases so that most have to be capitalised, and we expect it to release revised proposals in 2Q12, the final standard in 2013 with the earliest possible effective date being 2015. The main change in the IASB's thinking lately is that the treatment of short term operating leases (with a maximum possible life of less than 12 months) is now likely to remain consistent with current practice (ie lease charges expensed as incurred).

When this accounting change is applied it will materially impact the presentation of DT's net debt although it is something that the credit rating agencies already take into account.

## Tax

The company carried deferred tax assets of €5.1bn at the end of Dec 2010, of which around €2bn related to the US. The bulk of the rest are in Germany and we expect the cash tax paid there to remain low for some time as additional restructuring charges are applied and as the NOLs are used up only gradually (a maximum of 60% of PBT can be shielded under German tax law). We expect the US tax assets to be fully utilised during the course of 2013 leading to a rise in cash tax at the time.

## Valuation: Deutsche Telekom

Figure 122. Sum of the parts comes to €10 per share ex the 2011 dividend forecast at €0.7

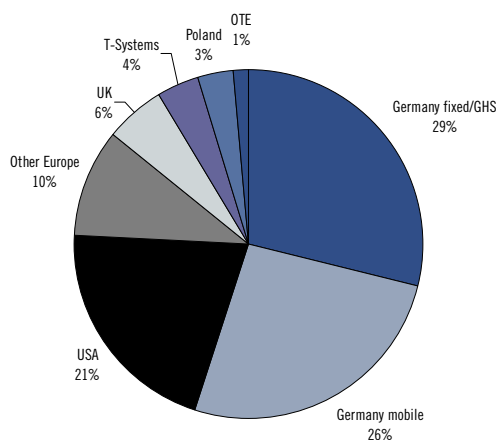
€m

Division	Stake	Enterprise value	Net (debt) 2012E	Valuation Method (CIRA ests)	DT equity	% of DT EV	Value/ share	EV/ Sales	EV/ EBITDA	EV/ OpFCF
<b>Germany</b>										
Fixed	100.0%	33,733		5.5x 2012 EV/EBITDA	33,733	40.6%	7.9	2.1x	5.5x	10.8x
Mobile	100.0%	21,799		6.0x 2012 EV/EBITDA	21,799	26.3%	5.1	2.8x	6.0x	7.5x
<b>Total</b>		<b>55,532</b>			<b>55,532</b>	<b>66.9%</b>	<b>13.1</b>	<b>2.3x</b>	<b>5.7x</b>	<b>9.2x</b>
<b>T-Systems</b>										
T-Systems	100.0%	3,082		3.5x 2012 EV/EBITDA	3,082	3.7%	0.7	0.3x	3.5x	13.9x
GHS	100.0%	(9,784)		German avg EV/OpFCF	(9,784)	(11.8%)	(2.3)		14.8x	9.2x
<b>Germany + GHS</b>	<b>100.0%</b>	<b>45,747</b>			<b>45,747</b>	<b>55.1%</b>		<b>1.9x</b>	<b>5.0x</b>	<b>9.2x</b>
<b>T-Mobile USA</b>										
T-Mobile USA	100.0%	17,149		4.5x 2012 EV/EBITDA	17,149	20.7%	4.0	1.1x	4.5x	10.5x
<b>Europe</b>										
Austria	100.0%	1,154		4.5x 2012 EV/EBITDA	1,154	1.4%	0.3	1.3x	4.5x	7.3x
Czech Republic	60.8%	2,608		5.0x 2012 EV/EBITDA	1,585	1.9%	0.4	2.4x	5.0x	6.4x
Netherlands	100.0%	2,095		5.0x 2012 EV/EBITDA	2,095	2.5%	0.5	1.2x	5.0x	7.8x
Poland	97.0%	2,903		5.0x 2012 EV/EBITDA	2,816	3.4%	0.7	1.8x	5.0x	7.1x
Hrvatski Telekom	51.0%	2,611		Market value	1,332	1.6%	0.3	2.4x	5.8x	8.1x
Magyar Telekom	59.3%	2,763	(832)	Market value + 25%	1,145	1.4%	0.3	2.2x	6.2x	11.0x
Slovak Telekom	51.0%	1,910		5.0x 2012 EV/EBITDA	974	1.2%	0.2	2.1x	5.0x	7.4x
OTE	30.0%	7,401	(3,414)	5.0x 2012 EV/EBITDA	1,196	1.4%	0.3	1.6x	5.0x	8.2x
<b>Total</b>		<b>23,445</b>	<b>(4,245)</b>		<b>12,297</b>	<b>14.8%</b>	<b>2.9</b>			
United Kingdom	50.0%	10,345	(896)	DDM-20%	4,725	5.7%	1.1	1.3x	7.8x	12.5x
<b>Total EV</b>		<b>99,769</b>	<b>(5,141)</b>		<b>83,000</b>	<b>100.0%</b>	<b>19.5</b>	<b>1.7x</b>	<b>5.4x</b>	<b>10.0x</b>
Net debt not included above	100.0%		(32,634)		(32,634)	(39.3%)	(7.68)			
Unfunded pensions, net of tax	100.0%		(5,670)		(5,670)	(6.8%)	(1.34)			
Cash restructuring beyond end-12	100.0%		(3,991)		(3,991)	(4.8%)	(0.94)			
Tax shield (ex US)	100.0%		1,706		1,706	2.1%	0.40			
<b>Equity value</b>			<b>Shares:</b>	<b>4,247m</b>	<b>42,411</b>	<b>51.1%</b>	<b>10.0</b>			

Source: Citi Investment Research and Analysis

Figure 123. Valuation by division (based on SOP)

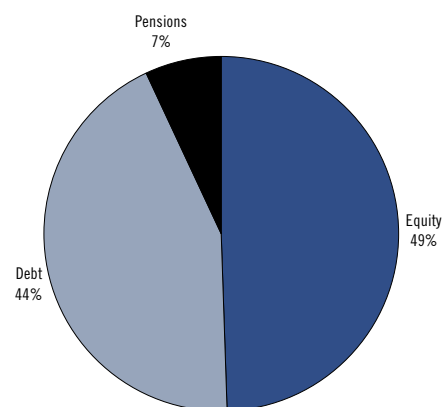
% of EV



Source: dataCentral

Figure 124. Valuation by equity/liabilities (based on SOP)

% of EV



Source: Citi Investment Research and Analysis

# Elisa

## ■ Company Update

Laurie Fitzjohn-Sykes, CFA  
+44-20-7986-4114  
laurie.fitzjohnsykes@citi.com

<b>Sell</b>	<b>3</b>
Price (04 Jan 12)	€16.26
Target price	€12.50
Expected share price return	-23.1%
Expected dividend yield	7.5%
<b>Expected total return</b>	<b>-15.6%</b>
Market Cap	€2,710M
	US\$3,507M

## Price Performance (RIC: ELI1V.HE, BB: ELI1V.FH)



## A Safe Haven, But at a Price

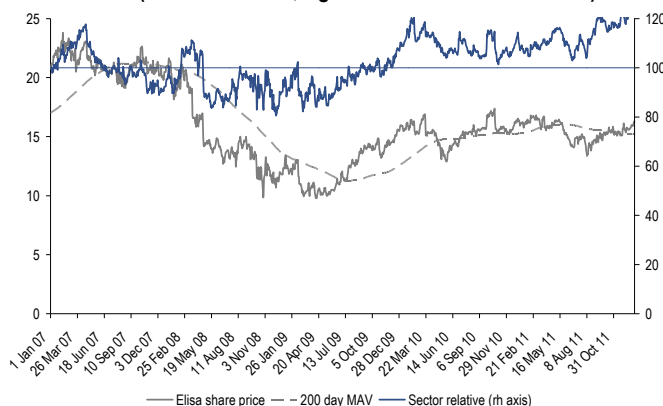
- **Maintain Sell on Valuation** — We think Elisa has an attractive macro footprint with 95% of operations in Finland and is one of the few incumbents to be growing domestic revenue and EBITDA. However, this is more than offset by a premium valuation in our view. In addition, 4Q11 onwards will have a smaller M&A benefit worsening headline trends. We favour other names in the sector for Northern European exposure.
- **Premium valuation** — Elisa trades on a significant valuation premium, on 6.8x 2012E EV/EBITDA a 35% premium to the sector on 4.9x. Elisa trades on 8.7% 2012E equity FCF yield vs the sector on 12.3%. Elisa does pay out c.100% of FCF and therefore has an attractive expected dividend yield of 7.5% vs the sector average of 8.5%.
- **Potential dividend policy change** — Elisa's current ordinary dividend policy is 40-60% payout of net profit; this has led to a significant additional extraordinary dividend each year. We believe that Elisa may look at increasing the ordinary dividend policy to reduce the uncertainty on the dividend payments. This could be with the Q4 results and would be a positive.
- **Reducing M&A benefit** — Elisa's revenue growth has been benefiting from the acquisition of Appelsiini which was in Nov-10. Elisa said that the M&A benefit in 3Q11 was €2m, implying only a 0.6ppt benefit to growth, while the growth rate in 4Q10 increased to 4.9% from 0.8% in 3Q10. We forecast reported revenue growth slowing from 4.1% in 3Q11 to 1.1% in 4Q11.
- **Higher marketing spend in Q4** — One of the reasons for the strong margin in 3Q11 was a low marketing spend, which management said would increase in Q4. Together with the iPhone launch, this may create some downside risk to Q4 margins.
- **High mobile competition** — Despite a recent increase in smartphone penetration from a low base, mobile service revenue remains negative, -0.3% 3Q11. We argue that this is due to a high ongoing level of competition.

## Elisa Oyj (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	1,430.0	1,463.0	1,517.2	1,522.6	1,530.6
Net Income (€M)	177.2	196.4	192.4	195.6	203.4
Diluted EPS (€)	1.14	1.26	1.24	1.26	1.31
Diluted EPS (Old) (€)	1.14	1.26	1.24	1.26	1.31
PE (x)	14.3	12.9	13.2	12.9	12.5
EV/EBITDA (x)	7.1	7.1	6.9	6.8	6.7
DPS (€)	0.92	1.40	1.24	1.27	1.34
Net Div Yield (%)	5.7	8.6	7.6	7.8	8.2

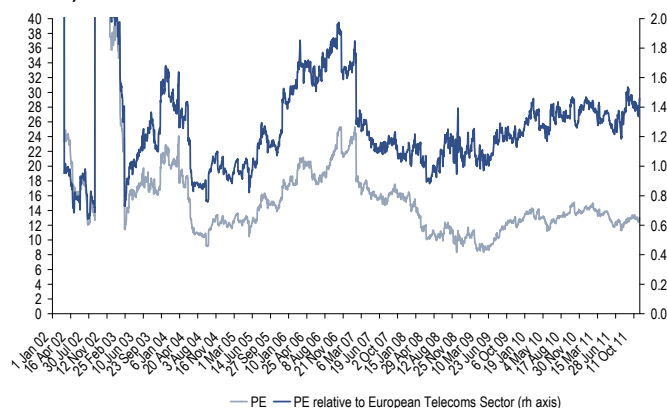
## A Safe Haven, But at a Price

Figure 125. Elisa has lately recovered somewhat after underperforming since end – 09 (left axis €/share; right axis index: end-2006=100)



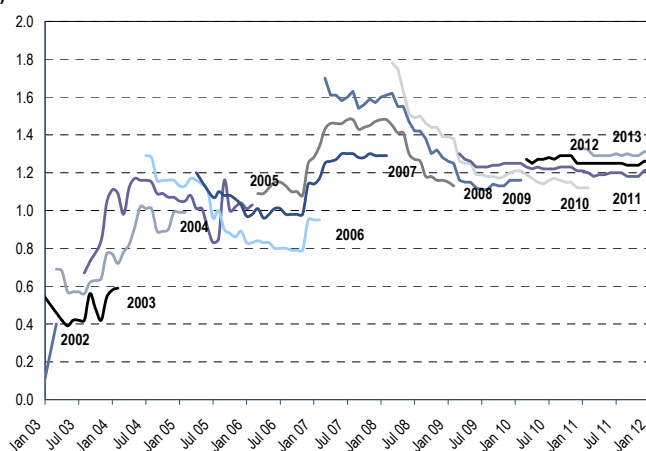
Source: DataStream

Figure 126. Elisa trades well above the sector average on PE (1 year forward)



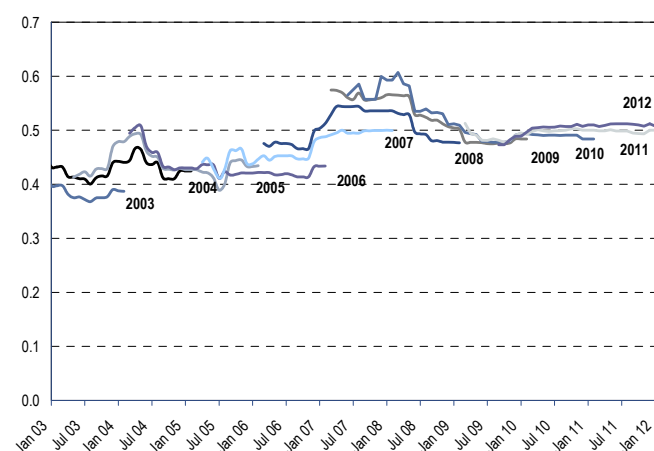
Source: DataStream

Figure 127. Consensus EPS has lately established after declining in 08 (€)



Source: DataStream

Figure 128. EBITDA consensus has lately been recovering (€bn)

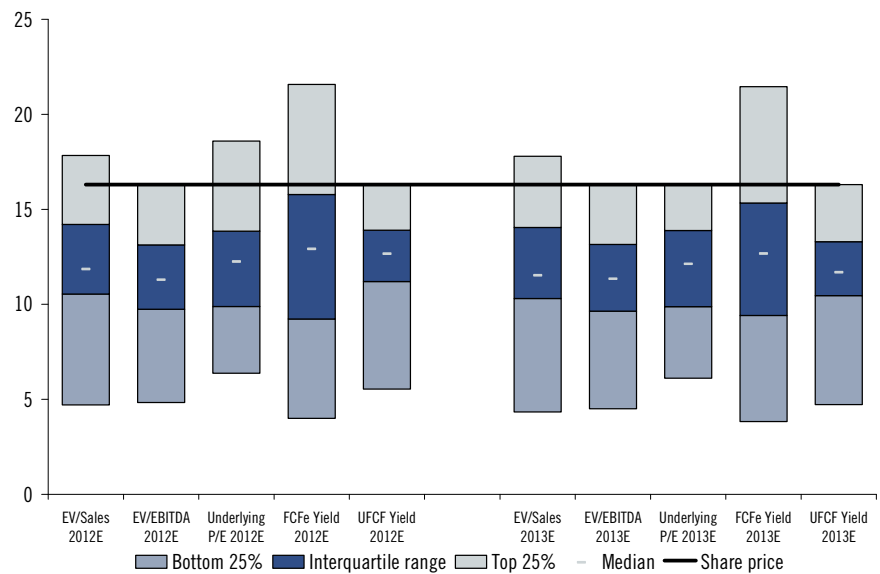


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	1,430	1,463	1,517	1,523	1,531
Operating expenses	-1,163	-1,195	-1,226	-1,226	-1,225
<b>EBIT</b>	<b>267</b>	<b>268</b>	<b>291</b>	<b>297</b>	<b>306</b>
Net interest expense	-33	-71	-33	-34	-33
Non-operating/exceptionals	0	0	0	0	0
<b>Pre-tax profit</b>	<b>234</b>	<b>197</b>	<b>258</b>	<b>263</b>	<b>273</b>
Tax	-58	-47	-66	-67	-70
Extraord./Min.Int./Pref.div.	-1	-1	0	0	0
<b>Reported net income</b>	<b>176</b>	<b>150</b>	<b>192</b>	<b>196</b>	<b>203</b>
Adjusted earnings	177	196	192	196	203
Adjusted EBITDA	484	485	502	504	511
<b>Growth Rates (%)</b>					
Sales	-3.7	2.3	3.7	0.4	0.5
EBIT adjusted	-1.5	0.4	8.6	1.9	3.1
EBITDA adjusted	1.3	0.2	3.6	0.4	1.4
EPS adjusted	1.6	10.7	-2.1	1.7	4.0

Source: Company, Citi Investment Research and Analysis

**Figure 129. Compared to its incumbent and wireless peers in Europe, Elisa trades at or above the upper quartile on our 2011-2012 estimates**



Source: dataCentral

# France Telecom

## Let the Battle Begin

### ■ Company Update

**Dimitri Y Kallianiotis, CFA**

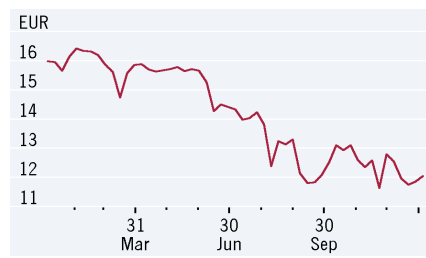
+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	€12.05
Target price	€12.00
Expected share price return	-0.4%
Expected dividend yield	11.6%
<b>Expected total return</b>	<b>11.2%</b>
Market Cap	€31,906M
	US\$41,291M

### Price Performance

(RIC: FTE.PA, BB: FTE FP)



- **Real fight starting now** – We expect Free mobile to launch in the coming days. FT will now be able to show how it can protect its mobile business worth 25% of group EBITDA against Free's mobile offer. The launch of Free mobile could paradoxically be a positive catalyst for FT which has derated over the last two years. We are Neutral on FT as attractive looking valuation is offset by poor earnings momentum. We cut our EPS forecasts for FT by 2-3% and expect FT to reduce its dividend to €1.10 from €1.40 in 2013E.
- **Expect Free to launch at €29.99/month** — We believe that Free will launch its mobile offer with a tariff of €29.99/month for unlimited voice/SMS and 1G of data based on our tariff analysis. On this base case scenario, we value FT at €13.6 per share. If Free is more aggressive and comes in at €19.99/month, our fair value for FT drops to €9.54.
- **FT getting ready to face Free mobile** — In a market with high subsidies, FT benefits from the best distribution network (1180 shops for FT versus only three for Free). FT owns 31% of total available spectrum in France vs. Free's 13%. Free will roam on FT's network at least until 2018. We believe that this roaming agreement could last even beyond 2018 now that Free has failed to secure 800MHz spectrum.
- **Natural evolution rather than revolution** — The move from a 3- to 4-player market is a natural evolution with France catching up with other large European markets. SIM-only should become more popular but bundles with subsidies remain the norm. We expect Free to make a successful entry into the mobile market but we believe that Orange is unlikely to be the operator most negatively impacted by that entry.
- **Sosh: a positive but risky move** — The launch of Sosh, a low-cost, web-based offer by FT is a smart move to compete with Free but runs the risk of cannibalising existing subscribers, in our view. Unlimited offers with no commitment could in the end increase churn to the benefit of Free by making price comparison much easier.
- **Improving commercial momentum** – FT recorded the best net additions in both mobile and fixed broadband in France in Q3. We expect FT's commercial momentum to remain strong thanks to the new Open (quadruple play) offers, the new TV interface, and some new inventive apps (e.g. automatically routing mobile calls through the Livebox). Offering unlimited fixed calls to PSTN subscribers may help reduce fixed line losses which have improved but are still high (-6% yoy).
- **Regulatory newsflow not all negative** – There is a risk that ARCEP decides to lower FT's unbundling rate. Reducing the unbundling rate from €9 to €8.5/month could cost FT €51m per year. The big positive, however, has been the decision by ARCEP to grant a very limited mobile termination asymmetry to Free mobile vs. FT (Free's MTR of €0.011/min vs. existing operators on €0.008 as of Jan 2013).

### France Telecom (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	45,944.0	45,503.0	45,215.5	43,376.2	42,896.4
Net Income (€M)	4,234.0	5,114.0	3,964.6	3,963.1	3,856.2
Diluted EPS (€)	1.60	1.93	1.50	1.53	1.49
Diluted EPS (Old) (€)	1.60	1.93	1.53	1.59	1.54
PE (x)	7.5	6.2	8.0	7.8	8.1
EV/EBITDA (x)	4.8	4.6	4.0	4.1	4.2
DPS (€)	1.40	1.40	1.40	1.40	1.10
Net Div Yield (%)	11.6	11.6	11.6	11.6	9.2

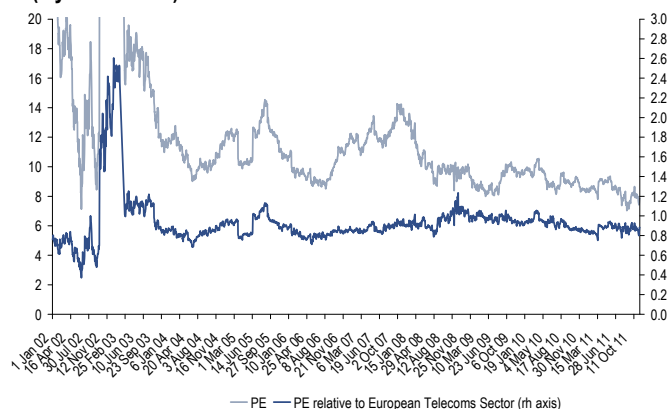


Figure 130. France Telecom has underperformed in 2011 (left axis €/share; right axis index: end-2006=100)



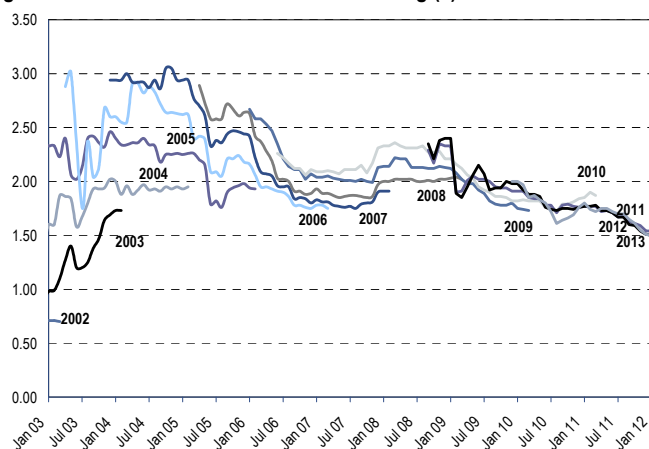
Source: DataStream

Figure 131. France Telecom trades slightly below the sector average on PE (1 year forward)



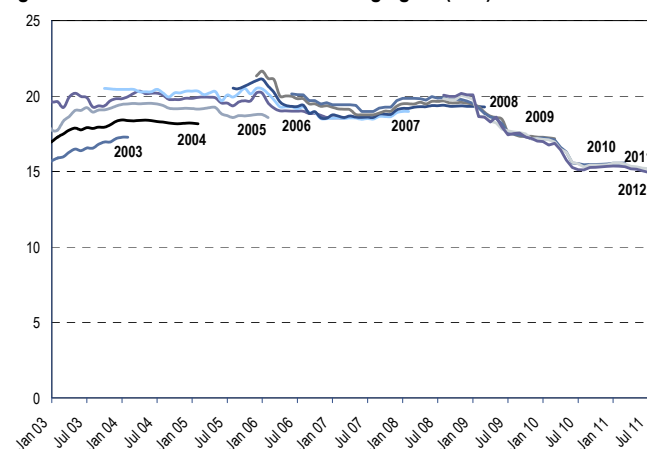
Source: DataStream

Figure 132. Consensus EPS has been declining (€)



Source: DataStream

Figure 133. EBITDA consensus declining again (€bn)

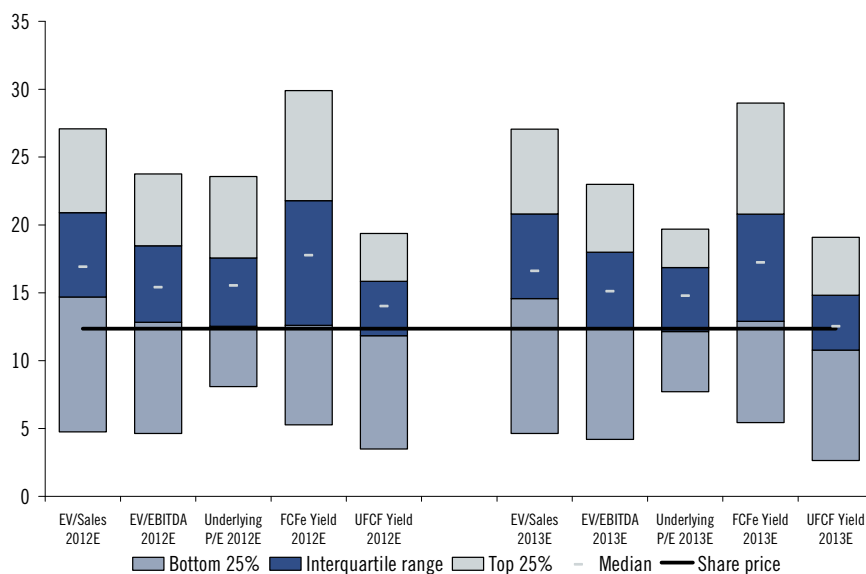


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	45,944	45,503	45,216	43,376	42,896
Operating expenses	-37,567	-37,628	-37,098	-35,690	-35,566
<b>EBIT</b>	<b>8,377</b>	<b>7,875</b>	<b>8,118</b>	<b>7,686</b>	<b>7,330</b>
Net interest expense	-2,160	-2,117	-1,811	-1,590	-1,504
Non-operating/exceptionals	-657	-197	0	0	0
<b>Pre-tax profit</b>	<b>5,560</b>	<b>5,561</b>	<b>6,306</b>	<b>6,096</b>	<b>5,827</b>
Tax	-2,295	-1,755	-2,018	-1,951	-1,864
Extraord./Min.Int./Pref.div.	-268	1,074	-324	-182	-106
<b>Reported net income</b>	<b>2,997</b>	<b>4,880</b>	<b>3,965</b>	<b>3,963</b>	<b>3,856</b>
Adjusted earnings	4,234	5,114	3,965	3,963	3,856
Adjusted EBITDA	14,794	14,336	14,883	14,036	13,632
<b>Growth Rates (%)</b>					
Sales	-14.1	-1.0	-0.6	-4.1	-1.1
EBIT adjusted	-23.5	-3.8	7.4	-5.3	-4.6
EBITDA adjusted	-19.3	-3.1	3.8	-5.7	-2.9
EPS adjusted	-12.8	20.5	-22.5	2.4	-2.7

Source: Company, Citi Investment Research and Analysis

Figure 134. Compared to its incumbent wireless peers in Europe, FT trades close to the lower quartile on our 2011 and 2012 estimates



Source: dataCentral

## Significant Upcoming events

- **Arrival of Free mobile** – Free mobile has to launch its operations before 12 January 2012. Free has announced that it plans to halve French mobile prices. Main risk from FT apart from losing share to Free mobile will be the reaction from SFR and Bouygues which could lead to a price war.
- **Decision on ULL rate** – There is a risk that ARCEP decides to lower FT's unbundling rate. Reducing the unbundling rate from €9 to €8.5/month could cost FT €51m per year.
- **Results of appeal against EU decision** – FT will appeal the ruling by the EU Commission forcing it to pay €150m pa for unemployment insurance on behalf of its civil servants.
- **Virgin Mobile switching (at least partly) to SFR** – Virgin Mobile, by far the largest MVNO in France, has signed a full MVNO agreement with SFR. Previously Virgin Mobile directed all its traffic to Orange. This is likely to change and could lead to a medium-term revenue shortfall of c.€200m pa for France Telecom.
- **Asset disposals** – FT's CEO stated during the investor day that FT would consider selling any minority stakes in countries like Austria and Portugal. The amounts are too small to be material on FT's numbers (stakes in Orange Austria and Sonaecom valued respectively at €200m and €95m) but sentiment could improve on the back of a more focused portfolio management.

- **Potential exercise of put option in Egypt** – There is a risk that the put options agreed between France Telecom and Orascom Telecom may be exercised this year. These put options can be exercised from 15 Sep 2012 if there is a deadlock or if Sawiris' family doesn't control Orascom anymore. Exercise price for the put options increases over time from EGP 221.7 as of April 2010 to 248.5 as of end 2013 and will be converted in EUR at a fixed EUR/EGP of 7.53. The exercise of these options would trigger a minority offer. In total buying the 63.70% of Mobinil that it doesn't own could cost FT around €1.8bn (FT's net debt already includes the cost of the put option).
- **Completion of the Sale of Orange Switzerland** – FT has reached an agreement to sell Orange Switzerland for €1.6bn to Apax Partners corresponding to a multiple of 6.5x EBITDA 11E. The sale should be completed by end of 1Q2012. We expect FT to use half of the proceeds for a share buyback.

## Valuation

Our €12.0 target price is based on our DCF valuation for FT which is the standard valuation methodology we use for telecoms companies. The main assumptions used in our DCF are: 1) 8.6% WACC, 2) 0% terminal growth rate, 3) Target gearing (D/E) of 40%, 4) 32% effective tax rate.

Figure 135. FT's DCF valuation (In €/share)

	€ mn	€/share
Value of years 1-8 cash flows	29,634	11.5
Terminal value	30,912	12.0
<b>Enterprise value</b>	<b>60,546</b>	<b>23.4</b>
Net Debt (2012E)	-26,852	-10.4
Minorities	-6,866	-2.7
Associates	5,969	2.3
Provisions for senior plan, DPTG, TV rights	-1,217	-0.5
Unfunded pension liabilities and retirement indemnities	-910	-0.4
<b>Equity value</b>	<b>30,670</b>	<b>12.0</b>

Source: Citi Investment Research and Analysis

The following Figure illustrates our Sum of the Parts for FT, which is used to cross check DCF valuation but not to set our target price.

Figure 136. France Telecom Sum of the Parts (in €m except per share data)

Asset	Stake	Driver (2012E)	EV (€m)	Net debt end 2012E (€m)	FT share of equity	Per Share (€)	As a % of Equity value
French Fixed line	100.00%	5.0x EV/EBITDA	21,975	0	21,975	8.50	35%
French Mobile	100.00%	4.0x EV/EBITDA	13,640	0	13,640	5.28	22%
<b>French assets</b>			<b>35,615</b>		<b>35,615</b>	<b>13.78</b>	<b>57%</b>
Spanish Fixed line	99.98%	€300/subscriber	391	0	391	0.15	1%
Spanish Mobile	99.98%	5.5x EV/EBITDA	4,553	0	4,552	1.76	7%
TPSA Poland	49.79%	Listed Value	6,012	-746	2,622	1.01	4%
UK	50.00%	DDM - 20%	10,385	-869	4,758	1.84	8%
<b>Main Mobile Assets (incl. Polish fixed)</b>			<b>21,340</b>	<b>-746</b>	<b>12,323</b>	<b>4.77</b>	<b>20%</b>
Mobistar	52.91%	Listed Value	2,925	-485	1,291	0.50	2%
Mobinil	36.30%	Listed Value	1,736	-743	361	0.14	1%
Mobilrom (Romania)	96.82%	1.8x EV/Revenue	1,694	0	1,640	0.63	3%
Slovakia Mobile	100.00%	1.8x EV/Revenue	1,315	0	1,315	0.51	2%
Jordan	51.00%	2.0x EV/Revenue	899	0	459	0.18	1%
Senegal Mobile	42.33%	2.0x EV/Revenue	1,400	0	593	0.23	1%
Ivory Coast	85.00%	2.0x EV/Revenue	949	0	807	0.31	1%
Dominican Republic	100.00%	2.0x EV/Revenue	853	0	853	0.33	1%
Mali	29.71%	2.0x EV/Revenue	680	0	202	0.08	0%
Cameroon	99.50%	2.0x EV/Revenue	589	0	586	0.23	1%
Moldavia	94.31%	1.8x EV/Revenue	300	0	283	0.11	0%
Kenya	40.00%	2.0x EV/Revenue	194	0	78	0.03	0%
Madagascar	71.80%	2.0x EV/Revenue	132	0	95	0.04	0%
Botswana	43.70%	2.0x EV/Revenue	259	0	113	0.04	0%
Other	65.00%	2.0x EV/Revenue	563	0	366	0.14	1%
<b>RoW Assets</b>			<b>14,490</b>	<b>-1,228</b>	<b>9,041</b>	<b>3.50</b>	<b>14%</b>
Enterprise	100.00%	4.0x EV/EBITDA	4,927	0	4,927	1.91	8%
IC&SS	100.00%	4.5x EV/EBITDA	-362	0	-362	-0.14	-1%
Sonaecom	20.00%	Listed Value	91		91	0.04	0%
Orange Austria	35.00%		1,250	-821	150	0.06	0%
Tunisia	49.00%		96		96	0.04	0%
Meditel (Morocco)	40.00%		2,140	-540	640	0.25	1%
Korek (Iraq)	20.00%		1,429	-554	175	0.07	0%
Dailymotion	49.00%		59		59	0.02	0%
<b>Total Assets</b>			<b>81,016</b>	<b>-1,973</b>	<b>62,696</b>	<b>24.28</b>	<b>100%</b>
Provisions for senior plan, DPTG, TV rights					-1,217	-0.47	
NPV of tax assets					1,069	0.41	
Unfunded pension liabilities and retirement indemnities					-910	-0.35	
Equity component of TDIRA					-439	-0.17	
Tax dispute (50% probability)					-1,000	-0.39	
Debt adjustment for minorities and other				1,973		0.76	
<b>Net debt (2012E)</b>				<b>-26,852</b>		<b>-10.39</b>	
<b>Equity Value</b>	number of shares		2,585			<b>13.69</b>	

Source: Citi Investment Research and Analysis

## Forecast Changes

We have lowered our EPS estimates by 2.3%, 3.8% and 2.9% for respectively 2011E, 2012E and 2013E to account for:

- Sale of Orange Switzerland for €1.6bn. We assume that half of the proceeds are used for a share buyback and the other half to lower debt. Orange Switzerland is generating around €1bn of revenue and €250m of EBITDA per year

- €150m pa extra payment for unemployment insurance for FT's civil servants following the ruling from the EU Commission

- Lower estimates for Everything Everywhere in the UK

We have cut our dividend forecasts to €1.10 per share from FY13E onwards vs. €1.40/share previously.

Figure 137. FT's Forecast Changes (In €m except per share data)

	New 2011E	New 2012E	New 2013E	Old 2011E	Old 2012E	Old 2013E	change % 2011E	change % 2012E	change % 2013E
<b>France</b>	<b>22,475</b>	<b>21,433</b>	<b>20,647</b>	<b>22,475</b>	<b>21,433</b>	<b>20,647</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
o/w personal	10,880	10,179	9,661	10,880	10,179	9,661	0.0%	0.0%	0.0%
o/w home	12,852	12,501	12,187	12,852	12,501	12,187	0.0%	0.0%	0.0%
<b>Spain</b>	<b>3,947</b>	<b>4,022</b>	<b>4,076</b>	<b>3,947</b>	<b>4,022</b>	<b>4,076</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
o/w personal	3,258	3,311	3,357	3,258	3,311	3,357	0.0%	0.0%	0.0%
o/w home	689	711	719	689	711	719	0.0%	0.0%	0.0%
<b>Poland</b>	<b>3,731</b>	<b>3,573</b>	<b>3,511</b>	<b>3,731</b>	<b>3,573</b>	<b>3,511</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
o/w personal	1,938	1,838	1,835	1,938	1,838	1,835	0.0%	0.0%	0.0%
o/w home	2,068	1,674	1,635	2,068	1,674	1,635	0.0%	0.0%	0.0%
<b>RoW</b>	<b>8,782</b>	<b>7,992</b>	<b>8,219</b>	<b>8,782</b>	<b>9,001</b>	<b>9,243</b>	<b>0.0%</b>	<b>-11.2%</b>	<b>-11.1%</b>
<b>IC&amp;SS</b>	<b>1,575</b>	<b>1,611</b>	<b>1,647</b>	<b>1,575</b>	<b>1,611</b>	<b>1,647</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Enterprise</b>	<b>7,097</b>	<b>7,039</b>	<b>7,066</b>	<b>7,097</b>	<b>7,039</b>	<b>7,066</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Elimination (and Other pre-2007)	-2,391	-2,294	-2,268	-2,391	-2,344	-2,320	0.0%	-2.2%	-2.2%
<b>Total Revenue</b>	<b>45,216</b>	<b>43,376</b>	<b>42,896</b>	<b>45,216</b>	<b>44,335</b>	<b>43,869</b>	<b>0.0%</b>	<b>-2.2%</b>	<b>-2.2%</b>
<b>France</b>	<b>8,476</b>	<b>7,805</b>	<b>7,350</b>	<b>8,476</b>	<b>7,905</b>	<b>7,472</b>	<b>0.0%</b>	<b>-1.3%</b>	<b>-1.6%</b>
<b>Spain</b>	<b>799</b>	<b>828</b>	<b>839</b>	<b>799</b>	<b>828</b>	<b>839</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Poland</b>	<b>1,412</b>	<b>1,495</b>	<b>1,495</b>	<b>1,412</b>	<b>1,495</b>	<b>1,495</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>RoW</b>	<b>2,986</b>	<b>2,757</b>	<b>2,794</b>	<b>2,986</b>	<b>3,015</b>	<b>3,050</b>	<b>0.0%</b>	<b>-8.6%</b>	<b>-8.4%</b>
<b>Enterprise</b>	<b>1,242</b>	<b>1,232</b>	<b>1,237</b>	<b>1,242</b>	<b>1,232</b>	<b>1,237</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>IC&amp;SS</b>	<b>-32</b>	<b>-81</b>	<b>-82</b>	<b>-32</b>	<b>-81</b>	<b>-82</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>EBITDA</b>	<b>14,883</b>	<b>14,036</b>	<b>13,632</b>	<b>14,883</b>	<b>14,394</b>	<b>14,010</b>	<b>0.0%</b>	<b>-2.5%</b>	<b>-2.7%</b>
margin	32.9%	32.4%	31.8%	32.9%	32.5%	31.9%	0.0 ppt	-0.1 ppt	-0.2 ppt
Depreciation and amortisation	-6,765	-6,350	-6,302	-6,765	-6,350	-6,319	0.0%	0.0%	-0.3%
<b>Operating Income</b>	<b>8,118</b>	<b>7,686</b>	<b>7,330</b>	<b>8,118</b>	<b>8,044</b>	<b>7,690</b>	<b>0.0%</b>	<b>-4.5%</b>	<b>-4.7%</b>
Finance Costs net	-1,811	-1,590	-1,504	-1,815	-1,597	-1,510	-0.2%	-0.4%	-0.4%
<b>Profit before Tax</b>	<b>6,306</b>	<b>6,096</b>	<b>5,827</b>	<b>6,303</b>	<b>6,447</b>	<b>6,181</b>	<b>0.1%</b>	<b>-5.4%</b>	<b>-5.7%</b>
Income tax	-2,018	-1,951	-1,864	-2,017	-2,063	-1,978	0.1%	-5.4%	-5.7%
results from discontinued operations (UK)	194	336	434	287	378	449	-32.5%	-11.0%	-3.3%
Share of minorities	518	518	540	518	518	540	0.0%	0.0%	0.0%
<b>NI</b>	<b>3,965</b>	<b>3,963</b>	<b>3,856</b>	<b>4,055</b>	<b>4,243</b>	<b>4,112</b>	<b>-2.2%</b>	<b>-6.6%</b>	<b>-6.2%</b>
<b>Adjusted EPS</b>	<b>1.50</b>	<b>1.53</b>	<b>1.49</b>	<b>1.53</b>	<b>1.59</b>	<b>1.54</b>	<b>-2.3%</b>	<b>-3.8%</b>	<b>-2.9%</b>
EBITDA - capex	9,017	7,979	7,758	9,017	8,191	8,002	0.0%	-2.6%	-3.1%
<b>Capex</b>	<b>5,865</b>	<b>6,057</b>	<b>5,875</b>	<b>5,865</b>	<b>6,204</b>	<b>6,008</b>	<b>0.0%</b>	<b>-2.4%</b>	<b>-2.2%</b>
Capex to Sales	13.0%	14.0%	13.7%	13.0%	14.0%	13.7%	0.0 ppt	0.0 ppt	0.0 ppt
<b>Net Debt</b>	<b>28,922</b>	<b>28,852</b>	<b>27,672</b>	<b>29,640</b>	<b>29,436</b>	<b>28,170</b>	<b>-2.4%</b>	<b>-2.0%</b>	<b>-1.8%</b>
Net debt to EBITDA	1.9x	2.1x	2.0x	2.0x	2.0x	2.0x			
<b>Free Cash Flow (FT definition)</b>	<b>7,283</b>	<b>5,791</b>	<b>5,696</b>	<b>7,366</b>	<b>6,025</b>	<b>5,912</b>	<b>-1.1%</b>	<b>-3.9%</b>	<b>-3.6%</b>

Source: Citi Investment Research and Analysis

# KPN

## ■ Company Update

**Dimitri Y Kallianiotis, CFA**

+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Sell</b>	<b>3</b>
Price (04 Jan 12)	€8.89
Target price	€8.10
Expected share price return	-8.8%
Expected dividend yield	9.6%
<b>Expected total return</b>	<b>0.7%</b>
Market Cap	€13,128M
	US\$16,989M

## Price Performance (RIC: KPN.AS, BB: KPN NA)



## Too much uncertainty to be tempted by valuation

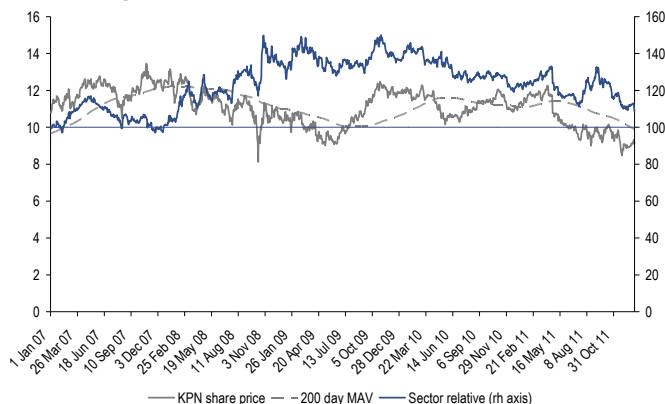
- **Risk of new entrant not priced in** — We expect a new player (most likely Tele2) to enter the Dutch mobile market. KPN's valuation looks attractive on FCF yield but we expect FCF to fall due to a new mobile entrant, tariff rebalancing, spectrum auction and cable taking share. By 2013, on our estimates, KPN should be trading broadly in-line with the sector on FCF yield at 13.7% (sector on 13.2%) but with higher earnings risk and leverage. We are 8% below consensus on 2013 EPS. Sell.
- **Impact of new entrant on KPN** — We estimate that entry of a new player could cost KPN €320m of EBITDA within 5 years. As witnessed with France Telecom, KPN's share price is likely to underperform as soon as the new entrant secures 800MHz spectrum (likely in 4Q12) rather than when Tele2 actually launches its mobile operations (probably in 2013/14). We see the terms of the spectrum auction announced on 6 Jan as very favourable to a new entrant.
- **Concerns over Dutch business likely to grow** — We expect KPN to hit its €5.3bn EBITDA guidance this year despite weakness in the Netherlands but only by including positive one-offs and excluding recurring restructuring costs. We are more concerned for next year's €2.4bn FCF guidance (CIRA: €2.3bn). The departure of the former Dutch CEO and group CFO does not reassure us and could be an opportunity for the company to reset shareholder returns.
- **Risk on spectrum auction** — We expect KPN to spend €500m on spectrum in 2012 (€400m in the Netherlands and €100m in Belgium). Only four blocks of 800MHz spectrum should be available for the three existing Dutch operators which could push prices up. Vodafone and T-Mobile, which last year spent more than expected during the German auction partly due to KPN, are likely to do their best to make KPN pay up.
- **New Dutch mobile tariffs a double edged sword** — The new tariffs introduced by KPN in Dutch mobile in September will help reduce the risk of SMS/voice cannibalisation but will also increase prices for data and make tariffs easier to compare for consumers. This could work in favour of a new entrant looking for price leadership.
- **Cable competition not going away** — Cable threat in the Netherlands is not new but KPN is likely to continue losing fixed lines (c.5% pa) and market share in fixed broadband (from current 40% to 38% in 2015).
- **Germany good for now** — German revenue growth should improve in 2012 at +3.5% vs. +0.1% for FY11E thanks to easier comps with no termination cuts. Long term, KPN's lack of 800MHz spectrum could become more of an issue when LTE takes off.

## KPN NV (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	13,509.0	13,398.0	13,122.2	13,060.5	12,917.4
Net Income (€M)	2,178.0	1,792.0	1,927.2	1,797.6	1,723.1
Diluted EPS (€)	1.33	1.15	1.29	1.25	1.22
Diluted EPS (Old) (€)	1.33	1.15	1.29	1.25	1.22
PE (x)	6.7	7.7	6.9	7.1	7.3
EV/EBITDA (x)	4.6	4.4	4.8	4.9	5.0
DPS (€)	0.69	0.80	0.85	0.90	0.95
Net Div Yield (%)	7.8	9.0	9.6	10.1	10.7

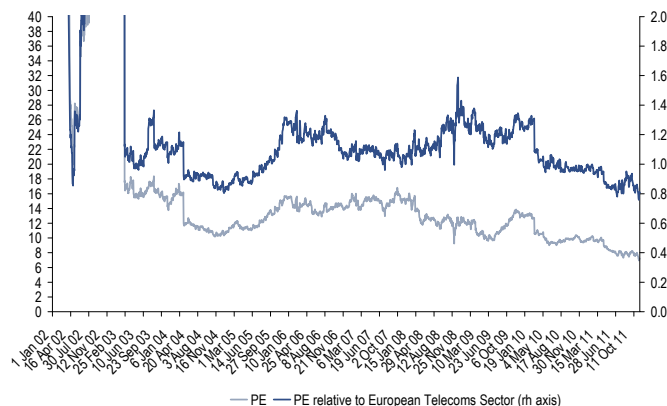
## Too much uncertainty to be tempted by valuation

Figure 138. KPN has underperformed the sector since end 09 (left axis/share; right axis index; end-06=100)



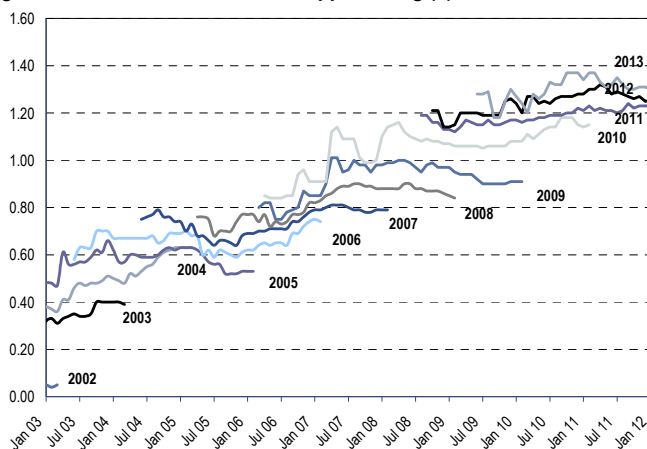
Source: DataStream

Figure 139. KPN now trades at a discount to the sector on PE (1 year forward)



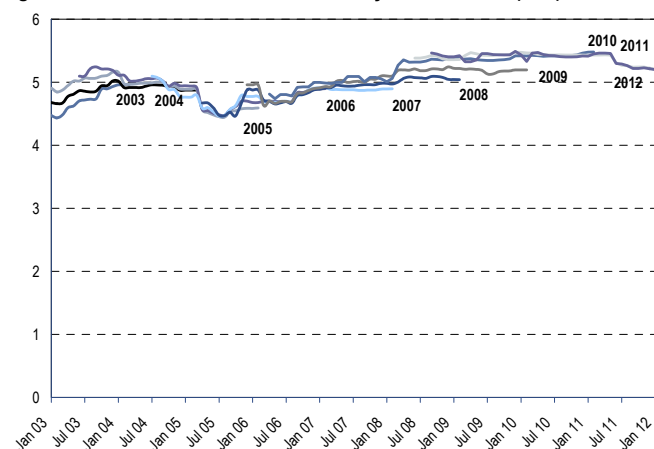
Source: DataStream

Figure 140. Consensus EPS has stopped rising (€)



Source: DataStream

Figure 141. EBITDA consensus has lately turned down (€bn)

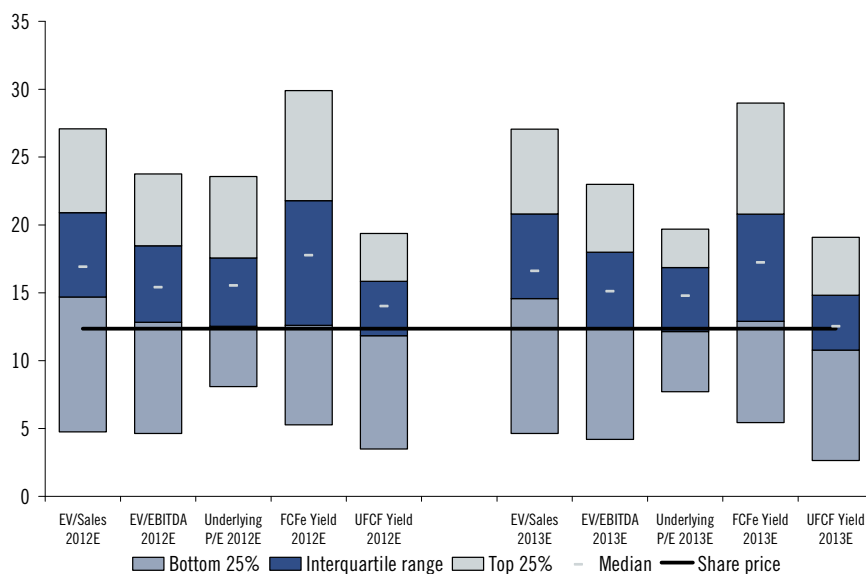


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	13,509	13,398	13,122	13,060	12,917
Operating expenses	-10,659	-10,148	-10,245	-10,133	-10,104
<b>EBIT</b>	<b>2,850</b>	<b>3,250</b>	<b>2,878</b>	<b>2,927</b>	<b>2,813</b>
Net interest expense	-808	-916	-734	-710	-700
Non-operating/exceptionals	-6	-31	-22	-20	-10
<b>Pre-tax profit</b>	<b>2,036</b>	<b>2,303</b>	<b>2,122</b>	<b>2,197</b>	<b>2,104</b>
Tax	139	-508	-296	-439	-421
Extraord./Min.Int./Pref.div.	3	-3	0	0	0
<b>Reported net income</b>	<b>2,178</b>	<b>1,792</b>	<b>1,826</b>	<b>1,758</b>	<b>1,683</b>
Adjusted earnings	2,178	1,792	1,927	1,798	1,723
Adjusted EBITDA	5,192	5,476	5,170	5,158	5,014
<b>Growth Rates (%)</b>					
Sales	-7.5	-0.8	-2.1	-0.5	-1.1
EBIT adjusted	9.7	14.0	-11.5	1.7	-3.9
EBITDA adjusted	2.6	5.5	-5.6	-0.2	-2.8
EPS adjusted	73.6	-13.7	12.5	-3.0	-2.4

Source: Company reports, Citi Investment Research and Analysis

Figure 142. Compared to its incumbent and wireless peers in Europe, KPN trades around the lower quartile on our 2012 and 2013 estimates



Source: dataCentral, CIRA

## Significant upcoming events

- **4G auction** – The final details for the 4G auction have now been published and are very favourable to a new entrant in our view (2x10MHz of 800MHz spectrum reserved to a new entrant at €70m). The 4G auction will take place in October 2012 with the list of the participants likely to be published by mid April. We forecast KPN to spend €400m on spectrum in the Netherlands (plus another €100m in Belgium). We expect a new entrant (most likely Tele2) to acquire 4G spectrum in the Netherlands.
- **New guidance at FY results** – KPN will report its 4Q11 results on 24 January 2012. We expect KPN to provide guidance for 2012 beyond its €2.4bn FCF guidance. We believe that the share buyback will be slashed to €250m in FY12E vs. €1bn in FY11A.
- **New CFO** – Following the resignation of Carla Smits-Nusteling, the former group CFO, we expect KPN to look for a replacement and potentially use this opportunity to reset shareholder remuneration.
- **New broadband offers using pair bonding** – KPN has announced its intentions to use pair bonding and vectoring to increase the speed of its broadband offers from an average of 20Mbps on VDSL to 40Mbps. We expect KPN to launch new broadband offers with improved speed based on copper in 2012.
- **More restructuring** – We expect KPN to continue reducing its workforce as part of its plan to cut the Dutch workforce by 25%. KPN's guidance for restructuring costs is between €250m and €300m between 2011 and 2015.
- **LTE rollout** – We expect KPN to start launching LTE offers in Germany in 2012/13.



- **Sale of MVNOs in Spain and France** – KPN announced during its May 2011 investor day that it was considering selling part of its MVNOs in France and Spain (most likely to sell Simyo and keep Ortel). We forecast €192m of revenue in 2011 from KPN's RoW businesses. Since those businesses are not yet breaking even at EBITDA level we believe that a sale will not have a material impact on the group. We value KPN's entire RoW division at €200m. KPN has already agreed in Dec 2011 to Simyo in France to Bouygues.
- **Results from price-fixing investigation** – The Dutch competition authority, the NMA, raided the offices of KPN and other telecoms operators on 6 Dec 2012 in a price fixing investigation. KPN was fined €7.93m as a result of a separate price-fixing case launched in August 2011.

## Valuation

We include in our forecast the impact of a new entrant. We expect that a new entrant could lead to a €320m negative impact on Dutch EBITDA which corresponds to a 6% cut to group EBITDA. Dutch mobile is likely to be around a third of group EBITDA<sup>2</sup>. The tables below show a sensitivity analysis of the impact of a new entrant on EBITDA.

Figure 143. Scenario Analysis: Impact of new entrant on KPN EBITDA (in €m)

Market share loss	ARPU impact				
	-1%	-5%	-10%	-20%	-30%
-1%	-44	-131	-241	-459	-678
-3%	-88	-173	-280	-495	-709
-5%	-131	-215	-320	-530	-740
-10%	-241	-320	-419	-618	-817

Source: Citi Investment Research and Analysis

We set our €8.1 price target based on the fair value derived from our DCF valuation.

<sup>2</sup> KPN does not disclose EBITDA margin for mobile and fixed separately.

Figure 144. KPN's DCF valuation (€m except per share data)

Year to Dec	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>EBITDA</b>	<b>5,192</b>	<b>5,476</b>	<b>5,170</b>	<b>5,158</b>	<b>5,014</b>	<b>4,999</b>	<b>4,957</b>	<b>4,920</b>	<b>4,909</b>	<b>4,925</b>	<b>4,945</b>	<b>4,968</b>
Change in working capital	10	75	0	0	0	0	0	0	0	0	0	0
Capex	-1,767	-1,809	-1,807	-1,811	-1,750	-1,985	-1,974	-1,956	-1,966	-1,979	-1,993	-2,008
Licences	0	-337	0	-500	0	0	0	0	0	0	0	0
Tax paid	-506	-589	-350	-556	-600	-600	-600	-425	-434	-449	-466	-485
Interest paid	-612	-736	-734	-710	-700	-722	-758	-750	-727	-702	-674	-642
<b>FCFE</b>	<b>2,317</b>	<b>2,080</b>	<b>2,279</b>	<b>1,581</b>	<b>1,965</b>	<b>1,692</b>	<b>1,625</b>	<b>1,787</b>	<b>1,781</b>	<b>1,794</b>	<b>1,812</b>	<b>1,833</b>
<b>Adjustments</b>												
Add back cash interest paid	612	736	734	710	700	722	758	750	727	702	674	642
Tax shield on interest	-141	-169	-169	-163	-161	-166	-174	-173	-167	-161	-155	-148
<b>Unlevered FCF (FCFF)</b>	<b>2,788</b>	<b>2,647</b>	<b>2,844</b>	<b>2,128</b>	<b>2,504</b>	<b>2,248</b>	<b>2,209</b>	<b>2,365</b>	<b>2,341</b>	<b>2,335</b>	<b>2,331</b>	<b>2,327</b>
<i>Discount factors</i>		0.00	0.00	1.00	0.92	0.85	0.78	0.72	0.67	0.61	0.57	0.52
	€ mn	€/share										
Value of years 1-9 cash flows	13,177	9.3										
Terminal value	11,699	8.2										
<b>Enterprise value</b>	<b>24,876</b>	<b>17.5</b>										
Net Debt (2012E)	-12,108	-8.5										
Pension and other (Reggefiber)	-1,208	-0.8										
<b>Equity value</b>	<b>11,560</b>	<b>8.1</b>										

Source: Citi Investment Research and Analysis

Below, we show our sum of the parts for KPN, which we use as a cross reference to our DCF valuation.

Figure 145. KPN's Sum of the Parts (In €m except per share data)

	Stake (%)	Enterprise Value (€)	Per Share Value (€)	As a % of Group EV	20012E EV/EBITDA
The Netherlands (incl. iBasis and Getronics)	100%	16,007	11.25	64.3%	4.5x
E-Plus (German Mobile)	100%	7,567	5.32	30.4%	5.5x
Base (Belgian Mobile)	100%	1,340	0.94	5.4%	5.0x
Other	100%	-238	-0.17	-1.0%	4.5x
RoW	100%	200	0.14	0.8%	
<b>Total Assets</b>		<b>24,877</b>	<b>17.48</b>	<b>100.0%</b>	
<b>Group Enterprise Value</b>		<b>24,877</b>	<b>17.48</b>		4.8x
Net Debt (end 2012)		-12,108	-8.5		
Pension and other (Reggefiber)		-1,208			
<b>Group Equity Value</b>		<b>11,561</b>	<b>8.1</b>		
Shares outstanding (000's) end 2012E	1,423				
<b>Per share valuation</b>	<b>8.1</b>				

Source: Citi Investment Research and Analysis

In the following Figure, we show our forecast for KPN's FCF based on KPN's FCF definition. We are broadly in-line with this year FCF guidance of €2.4bn but below next year guidance of €2.4bn (CIRA: €2.334m).

Figure 146. KPN's FCF yield to equity based on KPN's definition (€m)

	2011E	2012E	2013E	2014E	2015E
Cash flow from operating activities	3,753	3,709	3,532	3,595	3,516
Capital expenditures (PP&E and software)	-1,807	-1,811	-1,750	-1,985	-1,974
Proceeds from real estate	115	100	100	100	100
Tax recapture E-Plus	322	336	347	175	-
<b>FCF (KPN definition)</b>	<b>2,383</b>	<b>2,334</b>	<b>2,229</b>	<b>1,884</b>	<b>1,642</b>
<i>dividend payout as a % of FCF</i>	53%	55%	60%	70%	79%

Source: Citi Investment Research and Analysis

**Expect share buyback to be cut to €250m in 2012 from €1bn in 2011**

The following figure shows our FCF estimates based on our definition which includes spectrum costs and investment in fibre (proportionate to KPN's stake in Reggefiber). While the growing dividend remains well covered, we expect KPN to cut materially its share buyback from €1bn in 2011 to €250m pa going forward as spectrum costs and the consolidation of Reggefiber will stretch its shareholder return cover and balance sheet. KPN's net debt/EBITDA could go above 2.5x in 2014 when KPN fully consolidates Reggefiber, which, on our estimates, will have €1bn of debt by 2014.

Figure 147. KPN's FCF yield to equity based on CIRA definition (€m)

	2011E	2012E	2013E	2014E	2015E
EBITDA (incl restructuring)	5,170	5,158	5,014	4,999	4,957
- interest	-734	-710	-700	-722	-758
- tax	-350	-556	-600	-600	-600
- capex	-1,807	-1,811	-1,750	-1,985	-1,974
- spectrum	0	-500	0	0	0
- fibre investment	-108	-138	-128	-150	-150
<b>FCF (CIRA definition)</b>	<b>2,170</b>	<b>1,443</b>	<b>1,838</b>	<b>1,542</b>	<b>1,475</b>
<i>dividend payout as a % of FCF</i>	58%	90%	73%	85%	88%
<i>dividend + share buyback payout</i>	105%	107%	87%	102%	105%

Source: Citi Investment Research and Analysis

# Mobistar

## What's in it for me?

### ■ Company Update

**Dimitri Y Kallianiotis, CFA**

+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Sell</b>	<b>3</b>
Price (04 Jan 12)	€40.46
Target price	€37.10
Expected share price return	-8.3%
Expected dividend yield	9.9%
<b>Expected total return</b>	<b>1.6%</b>
Market Cap	€2,428M
	US\$3,142M

### Price Performance

(RIC: MSTAR.BR, BB: MOBB BB)



■ **Key Issues** — We are mainly concerned about the two following issues going into 2012: 1) an increase in competitive intensity in the Belgian market: Cable operators Telenet and Voo have acquired mobile spectrum this year and we are likely to see a potential launch of Voo's mobile MVNO as well as improved mobile data offers from Telenet on the back of a potential spectrum hosting agreement; 2) in fixed, the ramp-up of the TV business has been disappointing so far and it is likely to remain a small contributor to the group numbers in 2012.

■ **Our cautious view is unchanged** — We believe there is little scope for significant negative earnings surprise from Mobistar next year. However, this is not enough to justify the premium valuation to the sector in our view. Regulation will continue to impact MOB earnings and although there is still limited cannibalisation of traditional voice and SMS revenue from data, there is a risk of a switch in consumer behaviour as austerity measures kick-in and MVNO's start to push more aggressive data offers into the market.

■ **Next Catalyst** — Mobistar will publish its full year results on February 8<sup>th</sup>, 2012. Management is likely to provide 2012 guidance at the same time. We expect a 1% revenue decline in 2012 and €523m of EBITDA that year (-1.6% yoy).

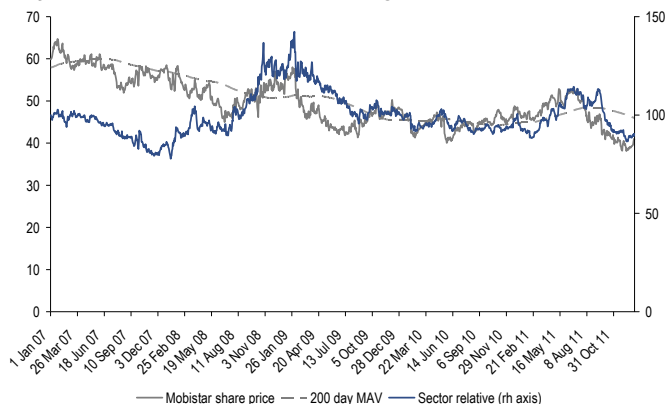
■ **Significant upcoming events** — 1) Following the recent 4G (2.6 GHz) spectrum auction, the Chinese vendor called Datang acquired 45 MHz of TD (unpaired) spectrum. We have little visibility on the future usage of this spectrum; we think that whereas it is unlikely that Datang wants to become a full mobile operator and compete with existing incumbents, the spectrum might be used for promoting the TD-LTE technology. This however adds a supplementary layer of uncertainty into a market which is already competitive. 2) We believe the stock's premium valuation continues to be partly driven by a potential buyout of minorities by FT. We think there is a low probability for this event happening over the next six months given the challenging market conditions and we see no compelling financial rationale for such a move near term.

### Mobistar SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	1,604.8	1,664.6	1,671.2	1,658.2	1,657.8
Net Income (€M)	260.3	249.5	228.9	221.6	217.9
Diluted EPS (€)	4.34	4.16	3.81	3.69	3.63
Diluted EPS (Old) (€)	4.34	4.16	3.81	3.69	3.63
PE (x)	9.3	9.7	10.6	11.0	11.1
EV/EBITDA (x)	4.8	5.0	5.3	5.5	5.7
DPS (€)	4.55	4.30	4.00	3.90	3.80
Net Div Yield (%)	11.2	10.6	9.9	9.6	9.4

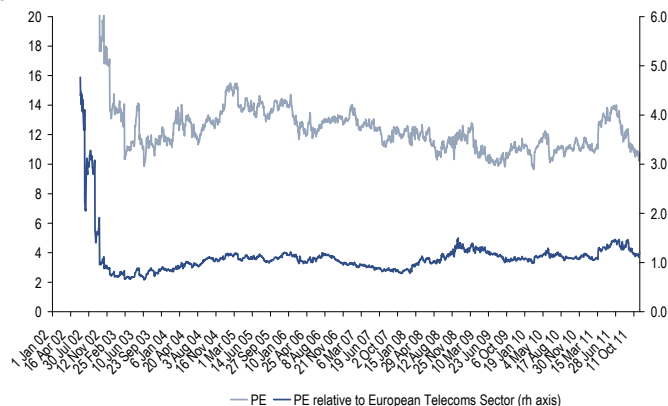
## What's in it for me?

Figure 148. Mobistar has underperformed the sector since mid 09 but lately performed in line (left axis/share; right axis index: end-06=100)



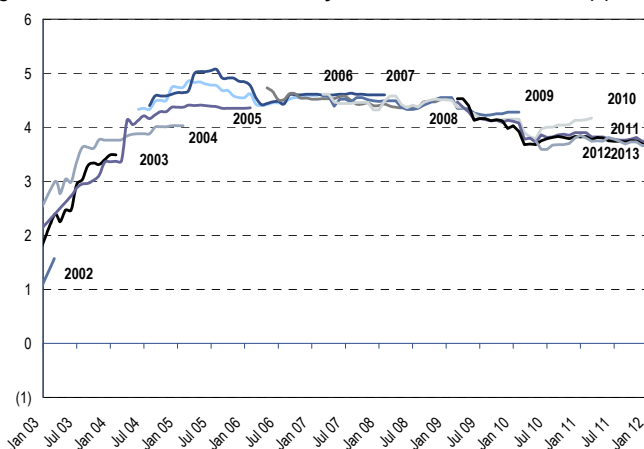
Source: DataStream

Figure 149. Mobistar trades slight above the sector average on PE (1 year forward)



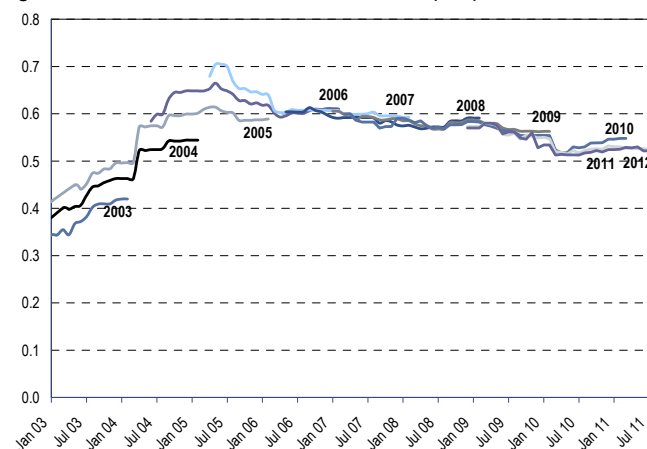
Source: DataStream

Figure 150. Consensus EPS has lately recovered after weakness (€)



Source: DataStream

Figure 151. EBITDA consensus has stabilised (€bn)

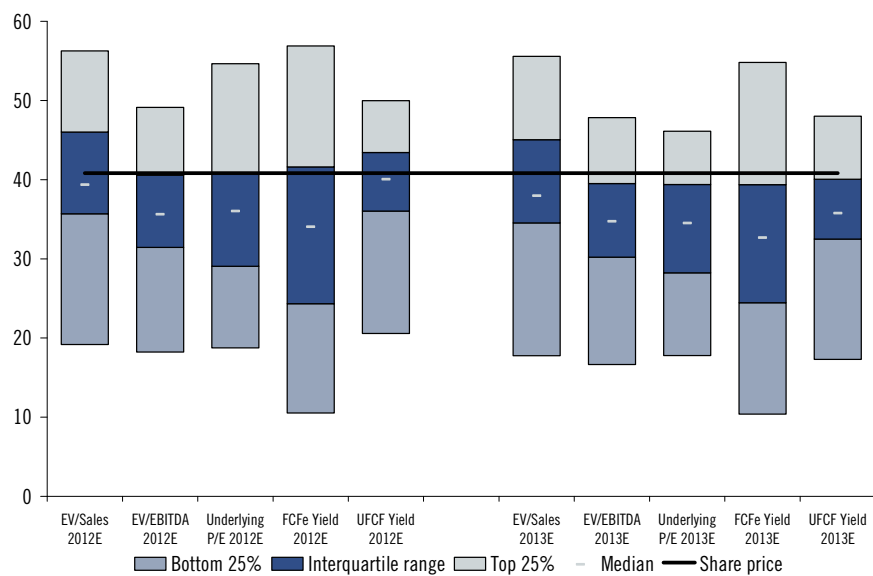


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	1,605	1,665	1,671	1,658	1,658
Operating expenses	-1,202	-1,287	-1,318	-1,312	-1,313
<b>EBIT</b>	<b>403</b>	<b>378</b>	<b>353</b>	<b>346</b>	<b>345</b>
Net interest expense	-5	-5	-9	-13	-17
Non-operating/exceptionals	0	0	0	0	0
<b>Pre-tax profit</b>	<b>398</b>	<b>374</b>	<b>344</b>	<b>333</b>	<b>328</b>
Tax	-138	-110	-115	-112	-110
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>260</b>	<b>264</b>	<b>229</b>	<b>222</b>	<b>218</b>
Adjusted earnings	260	250	229	222	218
Adjusted EBITDA	567	549	532	523	521
<b>Growth Rates (%)</b>					
Sales	2.4	3.7	0.4	-0.8	0.0
EBIT adjusted	-3.8	-6.1	-6.6	-2.1	-0.2
EBITDA adjusted	-4.2	-3.2	-3.0	-1.6	-0.5
EPS adjusted	-4.5	-4.1	-8.3	-3.2	-1.7

Source: Company, Citi Investment Research and Analysis

**Figure 152. Compared to its incumbent and wireless peers in Europe, Mobistar trades close to the maximum on our 2012 and 2013 estimates**



Source: dataCentral

# OTE

## ■ Company Update

Dimitri Y Kallianiotis, CFA

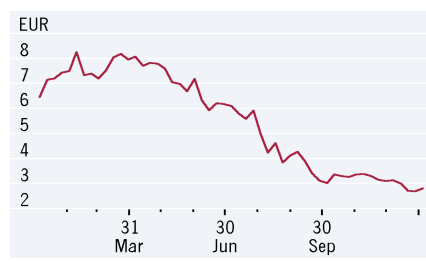
+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	€2.81
Target price	€3.04
Expected share price return	8.2%
Expected dividend yield	5.3%
<b>Expected total return</b>	<b>13.5%</b>
Market Cap	€1,377M
	US\$1,782M

## Price Performance

(RIC: OTEr.AT, BB: HTO GA)



## Operations are getting better but who cares?

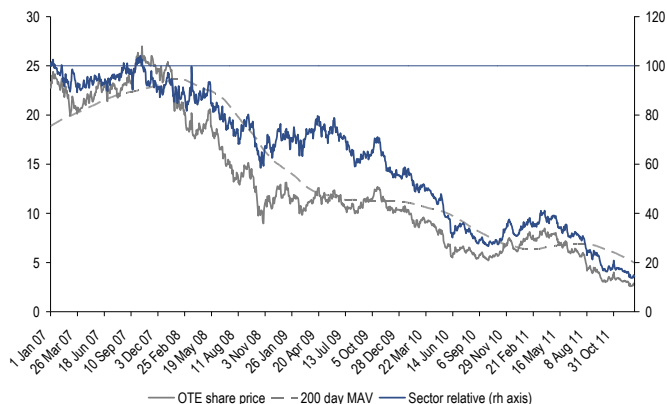
- **Macro call first and foremost** – We believe that as long as the credit market continues to ask for 26% on OTE's bonds maturing in 2015, the equity market will aggressively discount the value of OTE's shares. Credit is driven by sovereign risk which is likely to keep a cap on the performance of the shares despite the sharp improvement in mobile seen at the Q3 results. Neutral.
- **Credit in the driving seat** – We believe that OTE's share price performance will continue to be driven by the concerns on its liquidity position. OTE needs to refinance before 2013 when it faces debt maturities exceeding €2.1bn. We believe that OTE doesn't have a solvency issue as leverage looks reasonable at 2.4x net debt/EBTIDA 11E (sector on 1.9x) and cash flow generation should stay strong (slightly below €500m of FCF per year). However the bond market could stay closed to OTE until we get more visibility on the Greek sovereign issue.
- **Operations getting better from a low base** — Greek mobile EBITDA was only down 2% yoy in 3Q11. Most of the operational improvement is driven by a more rational pricing environment which we think is sustainable. Vodafone Greece and Wind Hellas are officially in talks and any consolidation would be positive for Cosmote. Mobile service revenue are growing again in Romania (+4% yoy in Q2, +7% yoy in Q3) and are now flat in Bulgaria (+0.8% yoy in Q3) thanks to a better macro. We expect revenue decline for OTE group to decelerate next year to -4.9% yoy vs. -7.7% in 2011E. This rate of decline is broadly in-line with our economists' real GDP growth expectations for Greece of -4.9% yoy in 2012E.
- **The impossible conundrum in fixed** — OTE faces two issues in fixed: 1) Market share loss driven by its inability to get regulatory approval to reduce prices, 2) Sticky labour costs (worth 37% of revenue) which are coming down but not fast enough as headcount cannot be reduced due to permanent civil servant status for the majority of OTE's fixed employees. Both issues are not new but will remain, in our view.
- **DT playing the waiting game** — DT's management has repeatedly expressed its frustration over the lack of support from the Greek government with respect to the regulatory and labour environment in Greece. DT's management also stated that there was no rush to buy the remaining 6% stake in OTE held by the Greek government and that they didn't expect any recovery in Greece until 2013. We remain of the view that DT is unlikely to increase its stake in OTE in the short term although it can now buy OTE's shares freely in the market if it wants to.

## OTE (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	5,984.1	5,482.3	5,058.0	4,835.5	4,736.2
Net Income (€M)	458.0	160.0	241.4	228.2	280.9
Diluted EPS (€)	0.93	0.33	0.49	0.47	0.57
Diluted EPS (Old) (€)	0.93	0.33	0.49	0.47	0.57
PE (x)	2.9	8.4	5.6	5.9	4.8
EV/EBITDA (x)	2.9	3.1	3.2	3.1	2.9
DPS (€)	0.19	0.12	0.16	0.15	0.19
Net Div Yield (%)	6.9	4.3	5.7	5.3	7.0

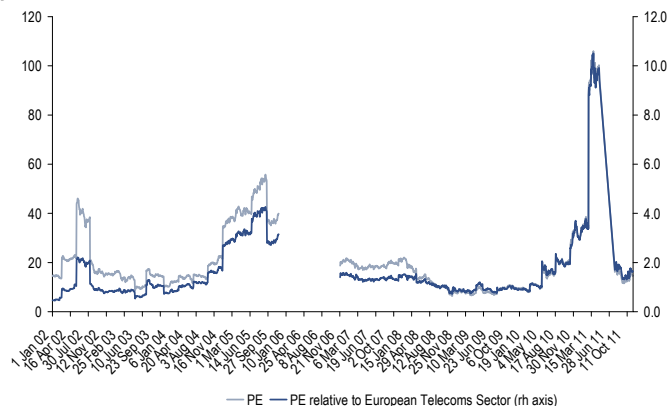
## Operations are getting better but who cares?

Figure 153. OTE is still underperforming (left axis/share; right axis index: end-06=100)



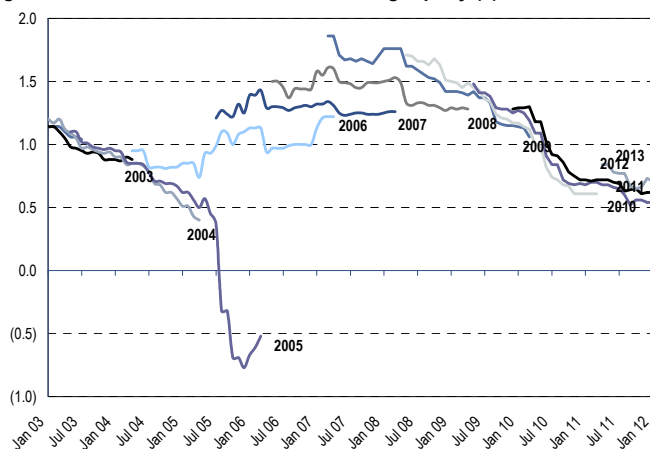
Source: DataStream

Figure 154. OTE currently trades well above the sector average on PE (1 year forward)



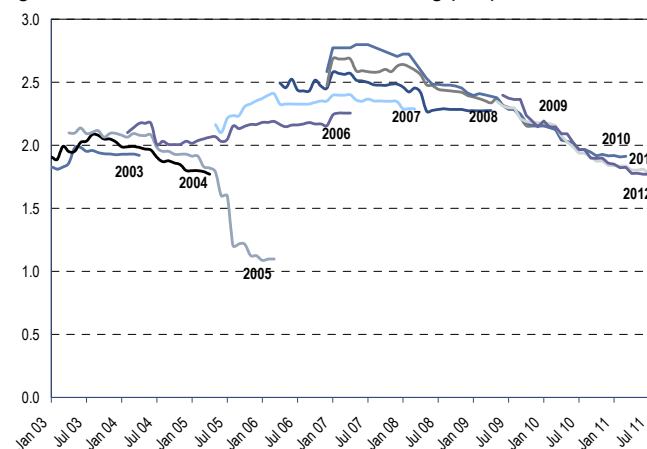
Source: DataStream

Figure 155. Consensus EPS has been falling rapidly (€)



Source: DataStream

Figure 156. EBITDA consensus is still declining (€bn)



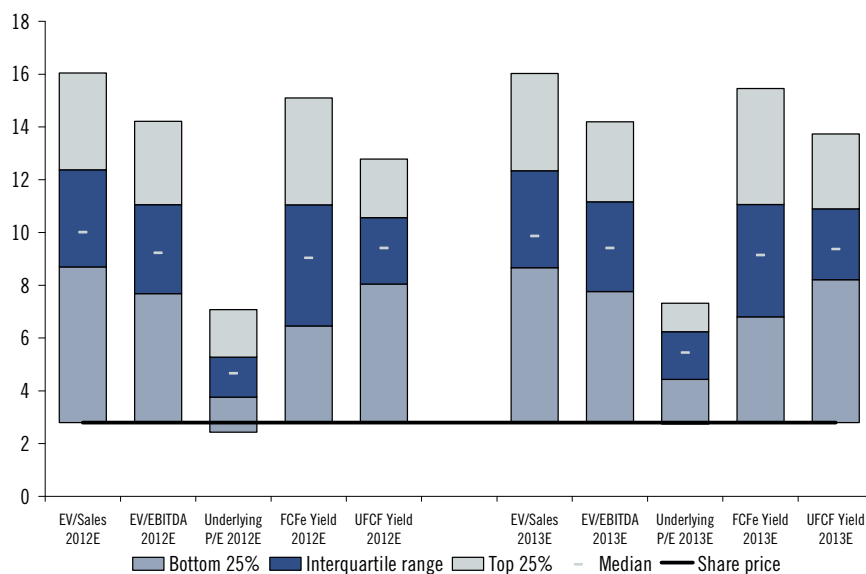
Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	5,984	5,482	5,058	4,835	4,736
Operating expenses	-4,983	-5,098	-4,460	-4,249	-4,120
<b>EBIT</b>	<b>1,001</b>	<b>385</b>	<b>598</b>	<b>587</b>	<b>616</b>
Net interest expense	-264	-283	-286	-283	-255
Non-operating/exceptionals	43	-3	30	0	0
<b>Pre-tax profit</b>	<b>781</b>	<b>100</b>	<b>343</b>	<b>303</b>	<b>361</b>
Tax	-380	-239	-134	-115	-108
Extraord./Min.Int./Pref.div.	3	179	11	15	14
<b>Reported net income</b>	<b>404</b>	<b>40</b>	<b>220</b>	<b>203</b>	<b>267</b>
Adjusted earnings	458	160	241	228	281
Adjusted EBITDA	2,126	1,919	1,716	1,620	1,575
<b>Growth Rates (%)</b>					
Sales	-6.6	-8.4	-7.7	-4.4	-2.1
EBIT adjusted	-12.4	-42.7	19.2	-5.5	1.5
EBITDA adjusted	-8.4	-9.7	-10.6	-5.6	-2.8
EPS adjusted	-24.3	-65.1	50.9	-5.5	23.1

Source: Citi Investment Research and Analysis



**Figure 157. Compared to its incumbent and wireless peers in Europe, OTE trades below the lower quartile on most matrix on our 2011-2012 forecasts**



Source: dataCentral

## Significant upcoming events:

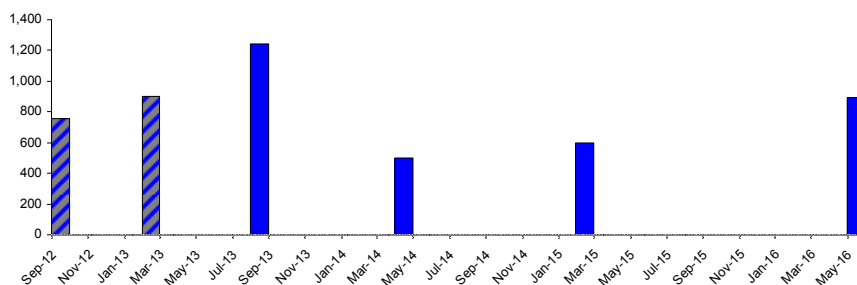
- **Sale of stake in Telekom Serbia** – On 30 Dec 2011, OTE agreed to sell its 20% stake in Telekom Serbia for €380m (vs. our €368m valuation) plus a €17m dividend. Sale is expected to be completed by end of 1Q12.
- **Sale of Hellas Sat** – OTE management has classified its satellite business as non core and stated that would consider selling it. We believe that a sale of Hellas Sat could generate between €100m and €200m.
- **Potential increase stake in Romtelecom** – The Romanian government has been considering an IPO or a direct sale of its 46% stake in Romtelecom to OTE. OTE decided not to submit an offer to buy the Romanian government stake in Romtelecom.
- **Final sell down of Greek government stake in OTE** – The Greek government has publicly stated its intentions to sell down its remaining 6% stake in OTE. We expect DT to refrain from buying the 6% stake from the Greek government until it gets more clarity over the unfavourable regulatory, tax and labour regimes affecting OTE's operations.
- **More restructuring** – OTE already announced a reduction in the number of working hours which should lead to an 11% cut in payroll costs for OTE fixed. We expect more restructuring to be implemented in fixed in order to bring down opex. New measures should include a reduction in Youth account expenses and a reduction in headcount.
- **Refinancing** – OTE has enough cash to pay for the bonds and bank debt maturing in 2012 but not enough for 2013. Hence OTE is likely to try to tap into the bond market and/or raise bank loans if and when permitted by the market.

## The credit side is what matters

The main issue for OTE is the refinancing of its bonds and credit facility maturing in 2013. OTE needs to be able to refinance part of its debt before 2013 or face a credit event. Due to the current economic crisis in Greece and its debt rating (B2 at Moody's and B at S&P, both on Negative outlook) there is still much uncertainty as to whether OTE will be able to refinance on its own or will need the help of Deutsche Telekom, its controlling shareholder. We remain concerned that OTE could face a liquidity crisis when it has to pay back over €2.1bn of debt in 2013. We do not expect the stock to perform until the market is reassured about OTE's potential to refinance its debt, itself linked directly to the Greek sovereign and macro situation for which we have limited visibility.

The following Figure shows the debt maturity profile of OTE which is relatively short term. OTE had over €1bn of cash on its balance sheet at the end of 3Q11 and we believe that it will be in a position to repay the almost €0.8bn of debt maturing in 2012. However, 2013 is a critical year with over €2.1bn of debt maturing.

Figure 158. OTE's maturity profile



Source: Citi Investment Research and Analysis

The following figure shows more details on OTE's debt profile.

Figure 159. OTE's maturity profile

Type	Maturity	Par Outstanding (€ m)
RCF (€)	31-Jan-12	-
RCF (€)	02-Sep-12	311.7
TL Tranche B (€)	02-Sep-12	445.2
Loans Sub Total	02-Sep-12	756.9
RCF (€)	09-Feb-13	900.0
Sr Un Bond	05-Aug-13	1,244.9
Sr Un Bond	08-Apr-14	500.0
Sr Un Bond	12-Feb-15	597.4
Sr Un Bond	20-May-16	893.5

Source: Citi Investment Research and Analysis

The next Figure shows the current cost of the different debt instruments for OTE on an annual basis. The main issue for OTE is that the cash margin requested by debt holders for new debt is much higher than it used to be. We expect the cost of debt to increase from the current 6% to 8% in the medium term which could be considered optimistic since the last bond issued by OTE had a spread of 7.25% over 3 month Libor. Much of the cost of financing for OTE will depend on the Greek sovereign issue.

Figure 160. Cost of debt for OTE

Capital Structure (£m)	12-Nov-11	Maturity	Cash Margin	Cash Coupon
<b>First Lien</b>				
RCF (€)	-	31-Jan-12	-	-
RCF (€)	311.7	02-Sep-12	0.23%	5.4
TL Tranche B (€)	445.2	02-Sep-12	0.25%	7.8
RCF (€)	900.0	09-Feb-13	5.00%	58.5
Sr Un Bond	1,244.9	05-Aug-13	5.00%	62.2
Sr Un Bond	500.0	08-Apr-14	7.25%	36.3
Sr Un Bond	597.4	12-Feb-15	6.00%	35.8
Sr Un Bond	893.5	20-May-16	4.63%	41.3
Finance Leases	-			-
Hedge Counterparties Liability	15.3			-
Acquisition Facility	-			-
Other	-			-
<b>Total Senior</b>	<b>4,908.0</b>			<b>247.3</b>
<b>Cash (Adjusted)</b>	<b>796.0</b>			
<b>Net Debt</b>	<b>4,112.0</b>			
<b>Average cost of debt</b>	<b>6.0%</b>			

Source: Citi Investment Research and Analysis

As illustrated in the following Figure, OTE's leverage is not unsustainable at 2.4x net debt/EBITDA 11E especially as cash flow generation is expected to remain strong at just below €500m per year. We think OTE has a liquidity rather than solvency issue.

Figure 161. Interest costs, relative leverage and FCF generation for OTE (In €m)

	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Net debt (cash)	1,936	2,548	4,212	4,620	4,553	4,296	3,982	3,573	3,235	2,836	2,439
<b>Net debt/EBITDA</b>	<b>1.8</b>	<b>1.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>
Average net debt	2,124	2,242	3,380	4,416	4,587	4,424	4,139	3,778	3,404	3,036	2,638
Average Interest Rate (%)	3.8%	8.0%	3.5%	5.6%	5.8%	6.6%	6.8%	7.5%	7.5%	8.0%	8.0%
<b>Net Interest</b>	<b>-74</b>	<b>-204</b>	<b>-149</b>	<b>-260</b>	<b>-264</b>	<b>-283</b>	<b>-281</b>	<b>-283</b>	<b>-255</b>	<b>-243</b>	<b>-211</b>
<b>FCF (OFCF - Capex)</b>	<b>853</b>	<b>824</b>	<b>349</b>	<b>794</b>	<b>527</b>	<b>359</b>	<b>513</b>	<b>472</b>	<b>494</b>	<b>477</b>	<b>489</b>

Source: Company, Citi Investment Research and Analysis

## Valuation

We value OTE at €3.04 per share based on our fair value derived from our DCF valuation. We use a 12% cost of capital. The WACC in our model remains the most sensitive variable and the hardest one to forecast due to the current macro uncertainty in Greece. Any improvement in the macro situation in Greece and subsequent lowering of the WACC we use in our model could lead to significant upside risk (lowering our WACC by 1ppt for OTE would lead to an increase of over €1 in our fair value).

The following table illustrates our Sum of the Parts for reference only as we do not use it to derive our fair value for OTE.

Figure 162. OTE's Sum of the Parts (In €m)

	Stake (%)	EV	Per share value	As a % of group EV	Metric	2012E
Greek Fixed	100%	1,969	4.0	30%	EV/EBITDA multiple	4.0x
Greek mobile	100%	2,606	5.3	40%	EV/EBITDA multiple	4.5x
Bulgarian mobile	100%	730	1.5	11%	EV/EBITDA multiple	4.5x
Romanian mobile	86%	440	0.9	7%	EV/EBITDA multiple	5.0x
Albanian mobile	95%	146	0.3	2%	EV/EBITDA multiple	4.5x
Romanian fixed	54.0%	280	0.6	4%	EV/EBITDA multiple	4.5x
<b>Total Consolidated Assets</b>		<b>6,171</b>	<b>12.6</b>	<b>94%</b>		
Serbia Telecom	20.0%	368	0.8	6%	EV/EBITDA	4.5x
<b>Total Associates</b>		<b>368</b>	<b>0.8</b>	<b>6%</b>		
<b>Group Enterprise Value</b>		<b>6,539</b>	<b>13.3</b>			
Real estate gains beyond 2010		0				
Less Net Debt 2012		-3,573	-7.3	-54.6%		
<b>Group Equity Value</b>		<b>2,966</b>	<b>6.1</b>	<b>45.4%</b>		
Shares outstanding (m)		490				
<b>Per share valuation</b>		<b>6.05</b>				

Source: Citi Investment Research and Analysis

# Portugal Telecom

## Uncertainty offsets fundamental value

### ■ Company Update

#### Georgios Ierodias

+44-20-7986-4086

georgios.ierodias@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	€4.43
Target price	€5.00
Expected share price return	12.8%
Expected dividend yield	14.7%
<b>Expected total return</b>	<b>27.4%</b>
Market Cap	€3,884M
	US\$5,026M

#### Price Performance

(RIC: PTC.LS, BB: PTC PL)



■ **Concerned about Brazil** — James Rivett is cautious on the Oi group: TMAR5 Sell (R\$38 target, R\$50.00 price); Neutral on TNLP3 (R\$19 target, R\$22.00 price) and TNLP4 (R\$15 target, R\$17.85 price). Oi contributes north of 40% of PT group's proportionate revenue and EBITDA. The Brazilian market is getting increasingly competitive, as Claro and Oi try to catch up and reverse market share loss to Vivo and TIM. Vivo is also more active in the pre-paid market, while all operators have launched aggressive long distance offers. With TIM launching fixed broadband services in Rio in 2Q12, competition in fixed is also unlikely to ease.

■ **A difficult balancing act** — Oi does not generate sufficient FCF (c.R\$850m per year) to invest similar amounts to its competitors (R\$6bn), reduce debt (FY12E Net Debt/EBITDA 2.5x) and pay out dividends to cover the controlling shareholders' cash needs (c.R\$1.6bn annually).

■ **Portuguese austerity manageable** — PT continues to make steady inroads in the pay TV market and, based on the timing of its announcement of reaching 1m subscribers, we expect good net adds in 4Q (50k+). PT looks set to continue to gain market share in broadband and maintain line losses under control (c.2-3% YoY). Mobile is harder to defend, especially in light of the steep MTR cuts that are due in 2012. Overall, we expect PT's domestic cash flow generation to increase on the back of lower capex in the coming years as investment in NGA has peaked. With coverage investment completed and triple play gross adds likely to slow, we see scope for c.10% annual decline in domestic capex in each of the next three years.

■ **Neutral for now; Price target of €5** — PT offers deep value and a strong management team, but we struggle to see the catalysts for earnings momentum to reverse, though the simplification of the Oi structure and the dividend payments could provide downside support.

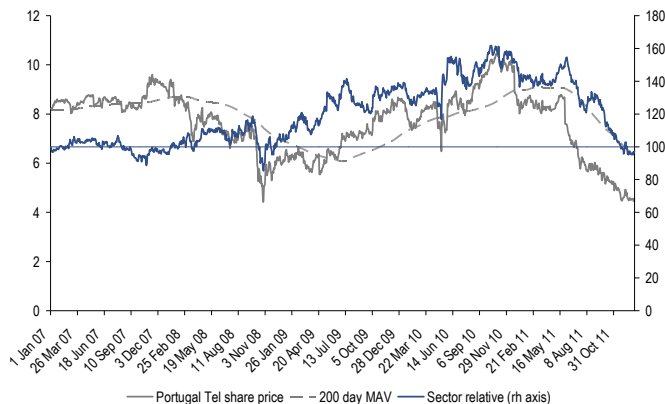
■ **Next events** — Simplification of the Oi shareholder structure and announcement of a multi year plan and dividend policy. We expect this to be completed by the end of 1Q12. PT's board approved the payment of an interim dividend on Dec 15. The €0.215/share interim dividend was paid in Jan 2012, with the final payment expected in May 2012. As a result, we expect PT will pay more than c.20% of its market cap in the next 13 months.

#### Portugal Telecom (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	6,784.3	3,966.3	6,076.2	6,583.6	6,441.4
Net Income (€M)	636.5	386.6	604.1	503.8	535.7
Diluted EPS (€)	0.73	0.44	0.69	0.58	0.61
Diluted EPS (Old) (€)	0.73	0.44	0.69	0.58	0.61
PE (x)	6.1	10.0	6.4	7.7	7.2
EV/EBITDA (x)	4.7	6.2	4.1	4.9	5.0
DPS (€)	0.58	0.65	0.65	0.68	0.70
Net Div Yield (%)	13.0	14.7	14.7	15.3	15.9

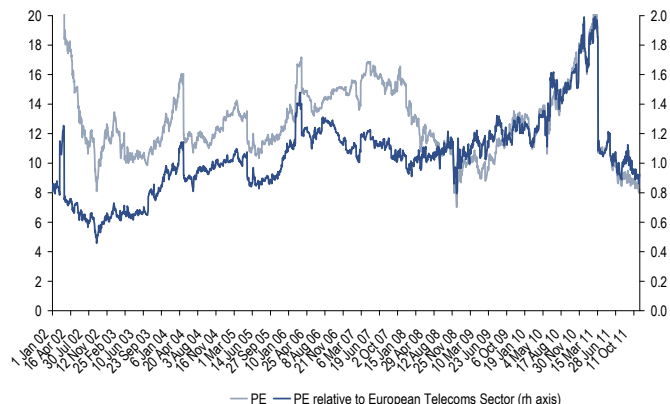
## Uncertainty offsets fundamental value

Figure 163. PT has lately out performed the sector ((left axis/share; right axis index: end-06=100)



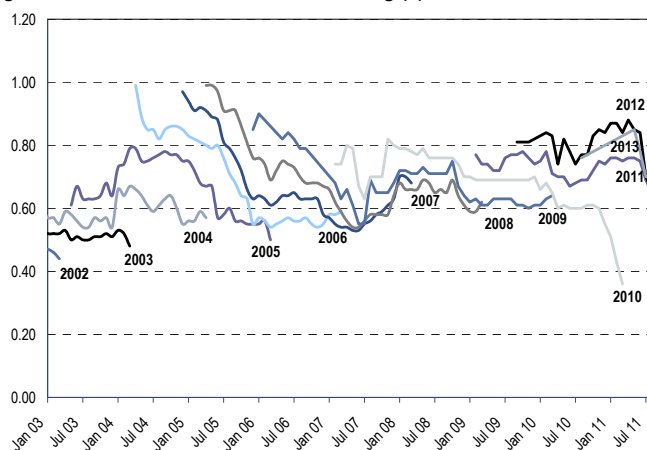
Source: DataStream

Figure 164. PT trades above the sector average on PE (1 year forward)



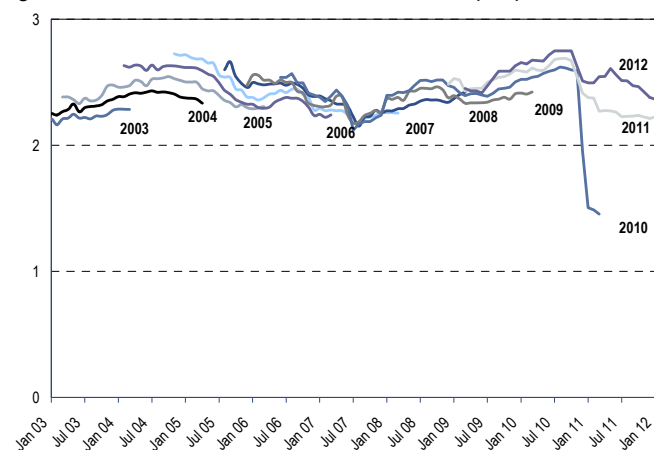
Source: DataStream

Figure 165. Consensus EPS has been rising (€)



Source: DataStream

Figure 166. EBITDA consensus fell on sale of Vivo (€bn)



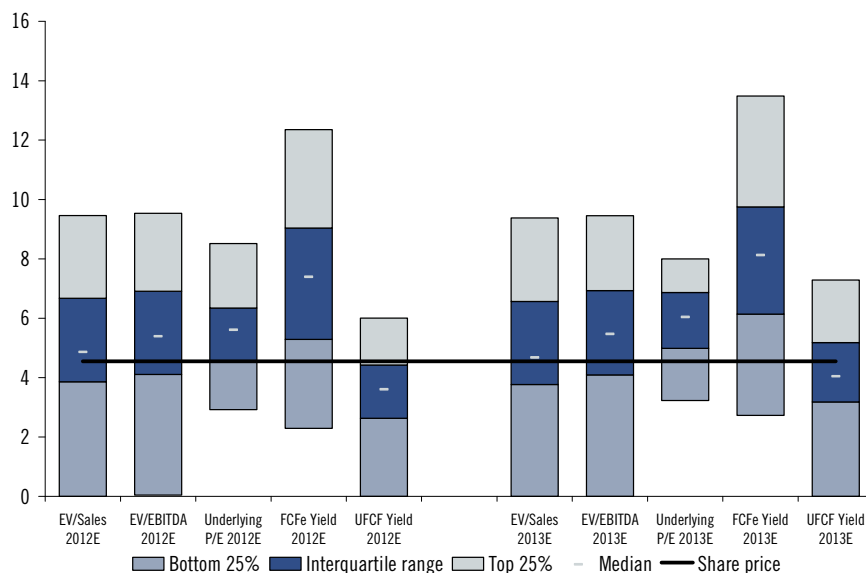
Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	6,784	3,966	6,076	6,584	6,441
Operating expenses	-5,720	-3,234	-5,017	-5,581	-5,405
<b>EBIT</b>	<b>1,064</b>	<b>733</b>	<b>1,059</b>	<b>1,003</b>	<b>1,036</b>
Net interest expense	-302	-185	-323	-436	-434
Non-operating/exceptionals	258	-216	26	51	62
<b>Pre-tax profit</b>	<b>1,020</b>	<b>332</b>	<b>762</b>	<b>618</b>	<b>664</b>
Tax	-233	-78	-167	-162	-174
Extraord./Min.Int./Pref.div.	-103	5,417	-41	-43	-45
<b>Reported net income</b>	<b>684</b>	<b>5,671</b>	<b>554</b>	<b>414</b>	<b>446</b>
Adjusted earnings	637	387	604	504	536
Adjusted EBITDA	2,413	1,454	2,220	2,298	2,265
<b>Growth Rates (%)</b>					
Sales	0.9	-41.5	53.2	8.4	-2.2
EBIT adjusted	-12.2	-31.2	44.5	-5.3	3.3
EBITDA adjusted	-0.9	-39.8	52.7	3.5	-1.4
EPS adjusted	9.7	-39.3	56.3	-16.6	6.3

Source: Company data, Citi Investment Research and Analysis

Figure 167. Compared to its incumbent and its wireless peers in Europe, PT's lack of leverage shows in inconsistent trading levels versus peers on our 2012 and 2013 estimates

(€/share)



Source: dataCentral

## Significant upcoming events

- **Simplification of the shareholder structure of Oi:** The aim is to reduce the shareholder structure and the layers of the company. Currently there are seven listed vehicles and the aim is to reduce that to two. A new process to arrive at the exchange ratios has been delayed and a final outcome is expected in 1Q12.
- **Announcement of Oi's medium term strategy and dividend policy:** After the simplification of the structure is completed, we expect Oi to update the market on its medium term plans and give operational targets as well as introduce a dividend policy. We believe this could be a positive catalyst for the stock. We expect an annual dividend flow of c.€140m for PT's stake.
- **High frequency LTE auction in Brazil:** We expect the auction to take place during 2012, possibly as early as 2Q. There are three blocks of 40MHz and one block of 20MHz. We expect all operators to aggressively compete during the auction process, with GVT possibly also showing interest. Given how important LTE is for Oi's prospects of catching up with the other operators, we believe the company will target the 40MHz block.

## Sum of Parts valuation

Figure 168. SOTP Valuation

Asset	Stake (%)	EV (€m)	Net (debt) (€m)	PT stake (€m)	Per Share Value (€)	As a % of Group EV	Implied 2011E EV/EBITDA
Wireline	100.0%	3,592		3,592	4.1	41.6%	4.8x
Domestic Mobile (TMN)	100.0%	2,451		2,451	2.8	28.4%	4.3x
Telemar	26.50%	14,250	(9,480)	1,264	1.4	14.6%	3.5x
less Brasil Tel minority				(543)	(0.6)	(6.3%)	3.0x
MTC (Namibia)	25.50%	314		80	0.1	0.9%	3.6x
Dedic (Brazilian call centre)	87.50%	258		226	0.3	2.6%	
CVT (Cape Verde)	30.00%	267		80	0.1	0.9%	8.0x
CST (Sao Tome)	38.25%	52		20	0.0	0.2%	12.2x
<b>Consolidated Assets</b>				<b>7,170</b>	<b>8.2</b>	<b>83.0%</b>	
Unitel (Angola)	18.75%	4,683		878	1.0	10.2%	7.0x
CTM (Macau)	28.00%	606		170	0.2	2.0%	5.4x
UOL (Brazilian ISP)	29.00%	475		138	0.2	1.6%	
Directories	25.00%	180		45	0.1	0.5%	
East Timor	41.12%	122		50	0.1	0.6%	6.2x
Other		190		190	0.2	2.2%	
<b>Total Other Assets</b>				<b>1,471</b>	<b>1.7</b>	<b>17.0%</b>	
<b>Group Enterprise Value</b>				<b>8,641</b>	<b>9.9</b>	<b>100.0%</b>	
FY11E Net (Debt)				(6,743)	(7.7)	(78.0%)	
less Telemar net debt included above				2,512	2.9	29.1%	
Unfunded Pension Liabilities (net of tax)				(509)	(0.6)	(5.9%)	
Tax assets				434			
<b>Group Equity Value</b>				<b>4,334</b>	<b>4.9</b>	<b>50.2%</b>	
Shares outstanding (m)	876						
<b>Per share valuation</b>	<b>4.9</b>						
Adding back special dividend	0.00						
2011 declared dividend	0.65						
<b>Cum Div price target</b>	<b>5.6</b>						

Source: Citi Investment Research and Analysis



# Swisscom

## Stable, proactive and sustainable

### ■ Company Update

#### Georgios Ierodionou

+44-20-7986-4086

georgios.ierodionou@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	SFr358.90
Target price	SFr420.00
Expected share price return	17.0%
Expected dividend yield	6.1%
<b>Expected total return</b>	<b>23.2%</b>
Market Cap	SFr18,592M
	US\$19,749M

#### Price Performance

(RIC: SCMN.VX, BB: SCMN VX)



■ **Buyers of Swisscom because:** in our view, valuation premium is modest across most multiples, despite a lower structural, macro, competitive and regulatory risk. Operationally, the Swiss business looks attractive, particularly in fixed. We are worried about risks in mobile arising from cannibalisation, but these seem well understood by the market. Concerns around the change of ownership at orange are speculative and overplayed – in our view.

■ **Dividend support beyond yield** — Swisscom's dividend at 6.6% in 2012E is below sector average (9.1%). But Swisscom's dividend compares to a yield of 0.9% for 10-year Swiss bonds, which is significantly below core Europe (eg. Netherlands at 2.5%). Swisscom's dividend is well covered and has scope for growth (5% cagr) in the medium term. We see potential for Swisscom to enhance its shareholder returns with the use of special dividends or buybacks from 2013. We estimate net debt to EBITDA falls to 1.7x by year end 2012- even after CHF350m cost of spectrum. The limit set by the controlling shareholder is 2.0x.

■ **Swiss fixed is solid** — Swisscom has proactively invested in fibre and its operational performance in fixed remains one of the best in Europe. Swisscom is gaining share in pay TV and is already the market leader in digital TV. Its retail broadband market share is stable to slightly up. Access line losses are amongst the lowest in Europe and should continue to fall as wholesale to ULL migration slows. Capex is high and likely to start trending down from 2013.

■ **Mobile risks well understood-** The main concern revolves around cannibalisation of SMS from new data, which is likely to act as a headwind. But there are other concerns around a resurgent Orange due to pending ownership change; we believe these are premature and could prove to be wrong. Orange is already more successful operationally than Sunrise and it may be unwise to expect even more given the leverage that Orange will need to carry in the future. And we still see scope for consolidation, which should benefit Swisscom.

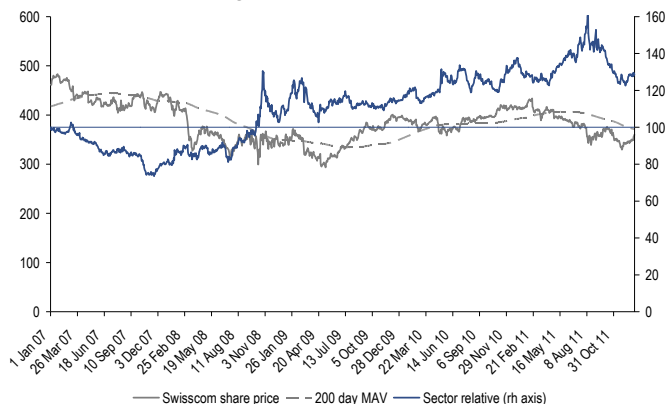
■ **Fastweb will likely continue to disappoint-** there is a structural slowdown in the Italian fixed broadband market mainly due to the success of mobile broadband. And we see a structural problem for Fastweb specifically due to the ongoing price pressure that should continue to drive down ARPU and market share. The good news is that Fastweb is getting smaller and less significant for the group.

#### Swisscom AG (CHF)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (SFrM)	12,001.0	11,988.0	11,491.5	11,536.8	11,536.7
Net Income (SFrM)	1,925.0	1,788.0	1,909.3	1,919.3	1,930.4
Diluted EPS (SFr)	37.16	34.52	36.86	37.05	37.27
Diluted EPS (Old) (SFr)	37.16	34.52	36.86	37.05	37.27
PE (x)	9.7	10.4	9.7	9.7	9.6
EV/EBITDA (x)	6.2	6.1	5.9	5.8	5.6
DPS (SFr)	20.00	21.00	22.00	23.00	25.00
Net Div Yield (%)	5.6	5.9	6.1	6.4	7.0

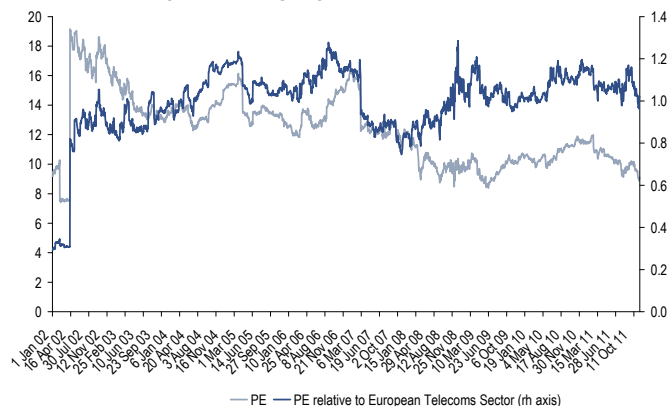
## Stable, proactive and sustainable

Figure 169. Swisscom has steadily outperformed the sector since mid-08 (left axis SFR/share; right axis index: end-06=100)



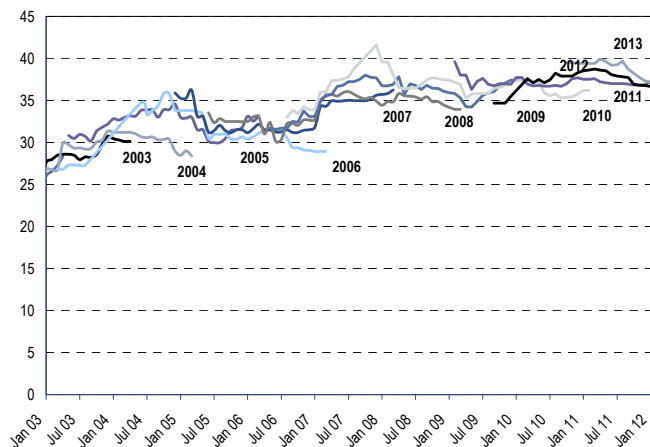
Source: DataStream

Figure 170. Swisscom trades above the sector average on PE and the premium has lately been rising (1 year forward)



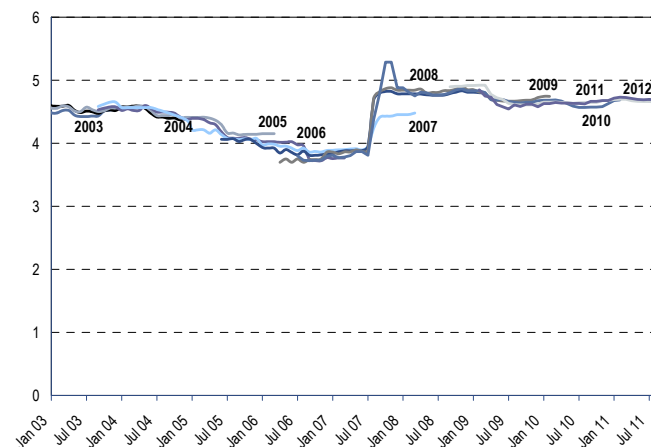
Source: DataStream

Figure 171. Consensus EPS has been slowly improving (SFr)



Source: DataStream

Figure 172. EBITDA consensus has lately been fairly stable (SFrbn)

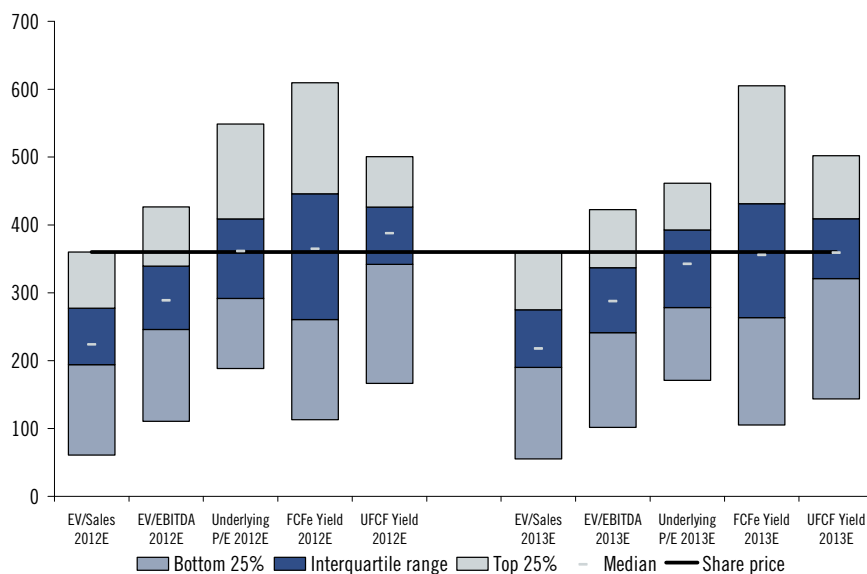


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	12,001	11,988	11,491	11,537	11,537
Operating expenses	-9,323	-9,361	-8,782	-8,800	-8,807
<b>EBIT</b>	<b>2,678</b>	<b>2,627</b>	<b>2,709</b>	<b>2,737</b>	<b>2,730</b>
Net interest expense	-336	-365	-350	-335	-315
Non-operating/exceptionals	43	28	28	28	28
<b>Pre-tax profit</b>	<b>2,385</b>	<b>2,290</b>	<b>2,387</b>	<b>2,429</b>	<b>2,444</b>
Tax	-457	-477	-491	-510	-513
Extraord./Min.Int./Pref.div.	-3	-25	14	0	0
<b>Reported net income</b>	<b>1,925</b>	<b>1,788</b>	<b>1,909</b>	<b>1,919</b>	<b>1,930</b>
Adjusted earnings	1,925	1,788	1,909	1,919	1,930
Adjusted EBITDA	4,666	4,599	4,582	4,624	4,626
<b>Growth Rates (%)</b>					
Sales	-1.6	-0.1	-4.1	0.4	0.0
EBIT adjusted	1.4	-1.9	3.1	1.0	-0.2
EBITDA adjusted	-2.6	-1.4	-0.4	0.9	0.1
EPS adjusted	9.6	-7.1	6.8	0.5	0.6

Source: Company, Citi Investment Research and Analysis

Figure 173. Compared to its incumbent and its wireless peers in Europe, Swisscom trades at or above the median on our 2011-2012 estimates



Source: dataCentral

## Significant upcoming events

- Regulatory approval of the Orange Switzerland sale process:** France Telecom is expected to complete the sale of Orange Switzerland in 1Q11. On Dec 23, FT announced it has reached an agreement with Apax Partners for the disposal of Orange Switzerland for €1.6bn. The transaction is subject to regulatory approval. The market seems to have taken the view that the sale is a small positive for Swisscom (stock up since the Dec 23 announcement) as the vehicle is likely to be highly leveraged and resemble Sunrise, which hasn't been particularly effective. The main downside risk is that if the deal is approved is that it may lead to a more aggressive and ambitious operator, while the upside risk is the scope for in-market consolidation. The latter would have been more likely if Providence had won the auction.
- Spectrum auction:** We expect both new (800MHz) and existing spectrum (900MHz, 1800MHz) to be auctioned. Swisscom is likely to take an aggressive stance and should acquire close to 50% of the spectrum that is available. We estimate the cost of the auction to stand at CHF350m. After the auction, Swisscom may be in a position to signal its intentions around shareholder returns –with scope for an ongoing buyback program starting from 2013 onwards.
- New MTR glide-path:** We look for around 10-20% annual declines in MTRs in the coming years, a slower rate of decline than the one seen in 2011. MTRs are being set between the operators, so the timing of any decision is uncertain, but we would expect something in 1H12.

## Sum of Parts valuation

Figure 174. SOTP Valuation

	Stake (%)	Enterprise Value (SFr m)	Per Share Value (SFr)	As a % of Group EV	2011E EV/EBITDA
Swisscom Switzerland	100%	26,772	517	89.0%	7.0x
Fastweb	100%	2,298	44	7.6%	4.0x
Other Assets	100%	1,004	19	3.3%	5.5x
Total Consolidated Assets		30,074	581	100.0%	
Group Enterprise Value		30,074	581		6.6x
2011E Net Debt		8,423	163	28.0%	
Group Equity Value		21,652	418		

Source: Citi Investment Research and Analysis

# TDC

## ■ Company Update

Laurie Fitzjohn-Sykes, CFA  
+44-20-7986-4114  
laurie.fitzjohnsykes@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	Dkr46.01
Target price	Dkr43.50
Expected share price return	-5.5%
Expected dividend yield	9.5%
<b>Expected total return</b>	<b>4.0%</b>
Market Cap	Dkr37,958M
	US\$6,606M

## Price Performance (RIC: TDC.CO, BB: TDC DC)



## Not Quite a Safe Haven

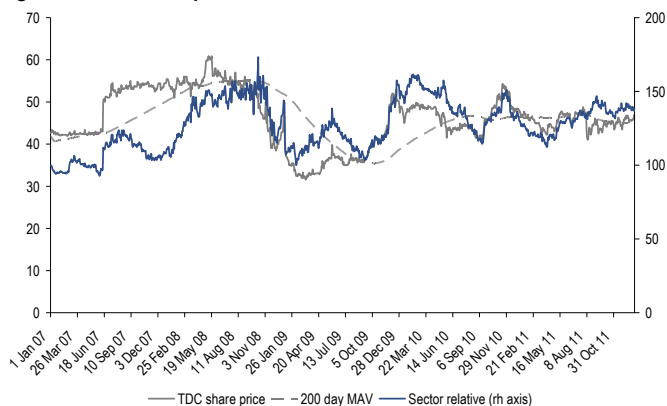
- **Not without risks** — TDC is often viewed as a safe haven with a decent dividend yield; however, underlying mobile revenue trends worsened in Q3 and we see further downside risk due to recent price cuts. Fixed trends excluding TV remain some of the weakest in Europe and competition remains high in the broadband market. While the dividend yield of 10% 2012E is attractive, it is a 95% payout of equity FCF, leaving the dividend exposed to any deterioration in the business. In addition, private equity still owns 59% of TDC leaving considerable placement risk.
- **Valuation** — TDC trades at 10.2% 2012E equity FCF yield, a premium to the sector on 12.3%. On EV/EBITDA, TDC trades on 5.5x 2012E, vs the sector on 4.9x.
- **Mobile competition risk remains** — Mobile competition remains high and we continue to see downside risk to mobile revenue. After correcting for the Onfone acquisition, we calculate that underlying mobile service revenue worsened to -6.4% in 3Q11 from -4.1% 2Q11. Management highlighted that customers continue to migrate towards lower price discount brands. The price gap between the main brands and discount brands is significant, creating further downside risk to revenue.
- **Weak fixed trends, high competition** — Excluding TV, TDC's fixed revenue declined -8.9% in 3Q11, driven by a -7% decline in broadband and -12% decline in traditional fixed revenue. Management also highlighted that price competition remains high which is leading to market share loss for TDC; however, the run rate has not seen an acceleration. This decline continues to be offset by steady growth in TDC TV and YouSee, the latter is driven by yearly prices rises.
- **Good progress on fixed cost cutting** — As our analysis of domestic operation EBITDA trends showed, TDC has been one of the most successful incumbents in cost cutting. We expect this to continue but at a lower rate than before, therefore EBITDA trends may weaken slightly.

## TDC (DKK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (DkrM)	26,079.0	26,167.0	26,206.4	26,028.9	25,843.8
Net Income (DkrM)	3,278.0	2,793.0	3,279.1	3,310.9	3,256.8
Diluted EPS (Dkr)	3.31	2.84	4.01	4.05	3.99
Diluted EPS (Old) (Dkr)	3.31	2.84	4.01	4.05	3.99
PE (x)	13.9	16.2	11.5	11.4	11.5
EV/EBITDA (x)	7.0	6.3	5.6	5.5	5.6
DPS (Dkr)	7.85	0.00	4.35	4.64	4.64
Net Div Yield (%)	17.1	0.0	9.5	10.1	10.1

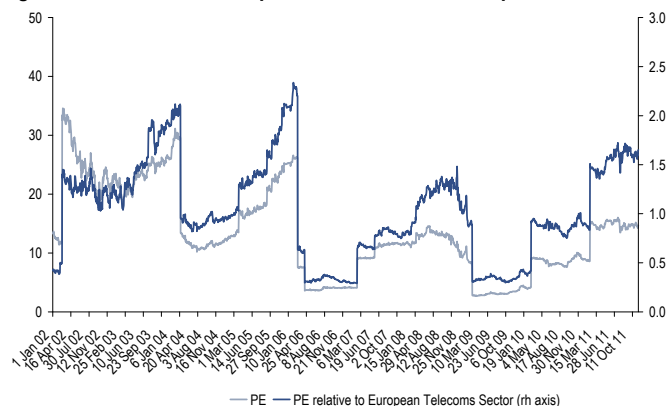
## Not Quite a Safe Haven

Figure 175. TDC has performed in-line with the sector



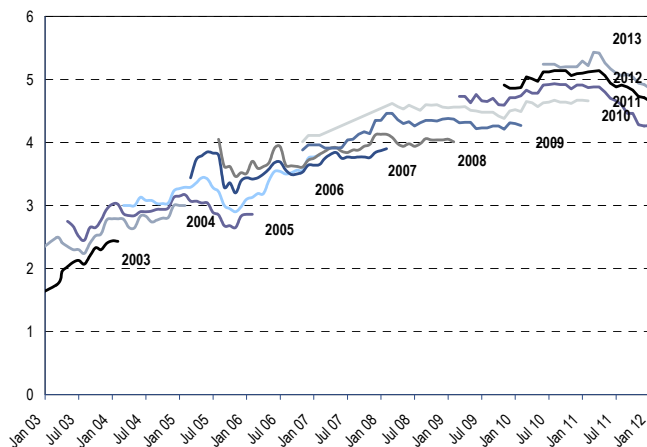
Source: DataStream

Figure 176. TDC trades at a premium to the sector on p/e



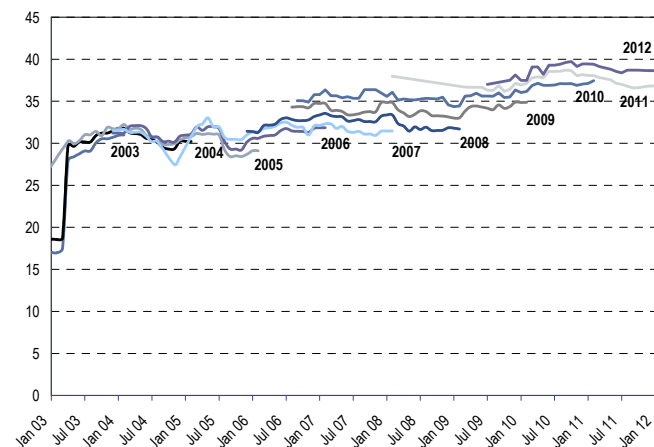
Source: DataStream

Figure 177. Recent downgrades to consensus EPS after consistent upgrades for a number of years



Source: DataStream

Figure 178. Consensus EBITDA has seen recent downgrades

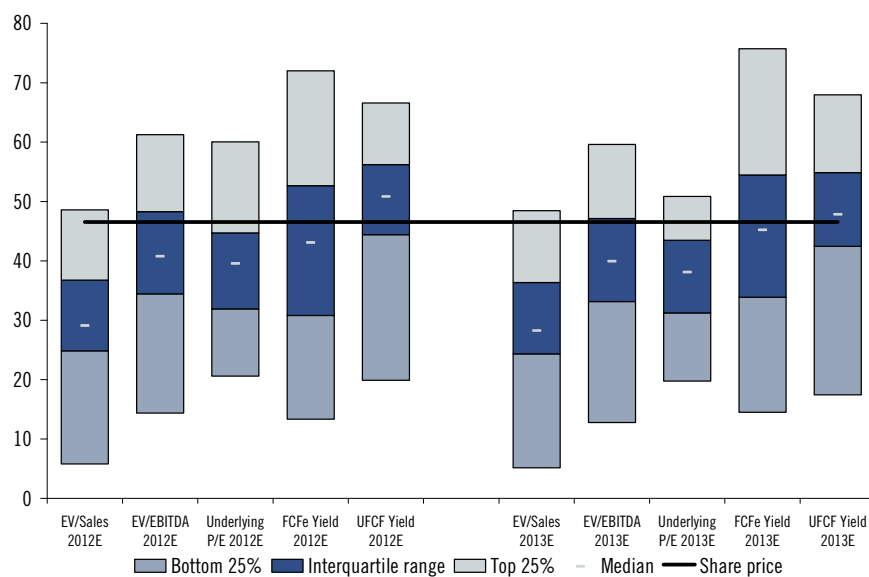


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	26,079	26,167	26,206	26,029	25,844
Operating expenses	-20,098	-20,658	-20,484	-20,305	-20,213
<b>EBIT</b>	<b>5,981</b>	<b>5,509</b>	<b>5,722</b>	<b>5,723</b>	<b>5,631</b>
Net interest expense	-1,554	-1,591	-1,194	-1,182	-1,163
Non-operating/exceptionals	-1,657	-1,332	-527	-587	-337
<b>Pre-tax profit</b>	<b>2,770</b>	<b>2,586</b>	<b>4,002</b>	<b>3,955</b>	<b>4,131</b>
Tax	-809	-782	-1,005	-1,051	-1,096
Extraord./Min.Int./Pref.div.	463	1,203	0	0	0
<b>Reported net income</b>	<b>2,424</b>	<b>3,007</b>	<b>2,997</b>	<b>2,904</b>	<b>3,035</b>
Adjusted earnings	3,278	2,793	3,279	3,311	3,257
Adjusted EBITDA	10,536	10,772	10,900	10,820	10,651
<b>Growth Rates (%)</b>					
Sales	-3.1	0.3	0.2	-0.7	-0.7
EBIT adjusted	6.7	-7.8	4.7	0.0	-1.6
EBITDA adjusted	4.8	2.2	1.2	-0.7	-1.6
EPS adjusted	8.3	-14.0	41.1	1.0	-1.6

Source: Company, Citi Investment Research and Analysis

Figure 179. TDC trades at the upper quartile on p/e and EV/EBITDA and in-line on FCF.



Source: dataCentral, CIRA

# Tele2

## ■ Company Update

Laurie Fitzjohn-Sykes, CFA  
+44-20-7986-4114  
laurie.fitzjohnsykes@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	SKr133.30
Target price	SKr148.00
Expected share price return	11.0%
Expected dividend yield	10.3%
<b>Expected total return</b>	<b>21.3%</b>
Market Cap	SKr59,715M
	US\$8,742M

## Price Performance (RIC: TEL2b.ST, BB: TEL2B SS)



## Entrepreneurial approach, retain Buy

■ **Entrepreneurial approach, retain Buy** — Tele2 offers above-sector growth with an entrepreneurial approach. Where other operators are defending market share and price premia, Tele2 pursues a disruptive approach. Group growth is being driven by Sweden which is the highest growth mobile market in Europe and Russia where Tele2 is gaining share in new regions. In addition, we see upside from a new entry in Kazakhstan, acquisition of Network Norway and the potential for a new entry in the Netherlands. Regulatory risk remains in Russia, though Tele2 has a number of options.

■ **Higher growth justifies valuation premium** — Tele2 trades at 6.0x 2011E EV/EBITDA a 22% premium to the sector on 4.9x. This premium reduces to 8% in 2014 driven by Tele2's higher growth; we forecast 8.7% 2011-14 EBITDA CAGR, vs the sector 0.7%. In addition Tele2 delivers high shareholder returns by increasing leverage.

■ **Attractive Netherlands mobile opportunity** — We argue Tele2 is in a strong position to make attractive returns on a full mobile entry into the Netherlands with 800MHz spectrum. Recent mobile entrants into mature markets suggest EBITDA breakeven is possible with low market share; however, generating decent returns on capital is unproven. In our base case, we assume Tele2 reaches 10% market share with a 25% margin, this would create 5 SEK/share of value for Tele2. See our report [Knock, knock... who's there?](#) for detailed analysis.

■ **Concerns on slowing growth in Russia** — Tele2's customer additions in Russia fell in October and November, consequently Tele2 reduced 2011 Russia subscriber guidance. Tele2 says this is because it chose not to compete with current aggressive promotions by other operators. While this does raise concerns on growth, margins should be correspondingly strong in Q4.

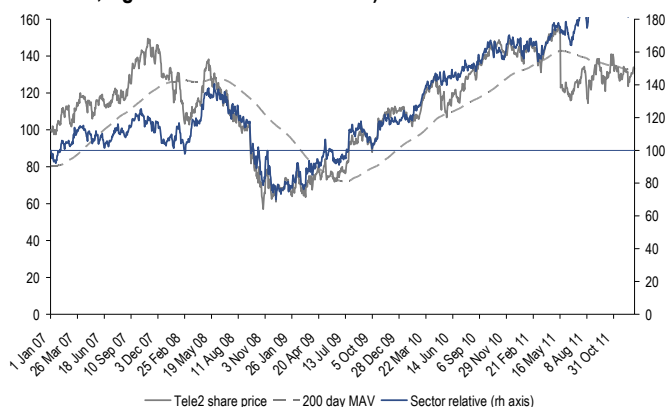
■ **Russian regulatory/political risk** — Regulatory uncertainty remains on obtaining a 4G licence. We currently expect 4G licences to be allocated in 1Q12, though the structure of this is unclear on how many will be issued. Following this we expect a decision on tech neutrality. We highlight that Tele2 has a number of options from obtaining an LTE licence, partnering, exiting, running for cash and tech neutrality.

## Tele2 AB (SEK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (SKrM)	39,265.0	40,164.0	40,875.5	43,923.4	45,446.6
Net Income (SKrM)	4,519.0	6,926.0	4,760.3	5,387.8	6,118.9
Diluted EPS (SKr)	10.24	15.56	10.69	12.10	13.75
Diluted EPS (Old) (SKr)	10.24	15.56	10.69	12.10	13.75
PE (x)	13.0	8.6	12.5	11.0	9.7
EV/EBITDA (x)	6.3	5.5	5.7	5.7	5.2
DPS (SKr)	5.85	27.00	13.66	12.39	13.21
Net Div Yield (%)	4.4	20.3	10.2	9.3	9.9

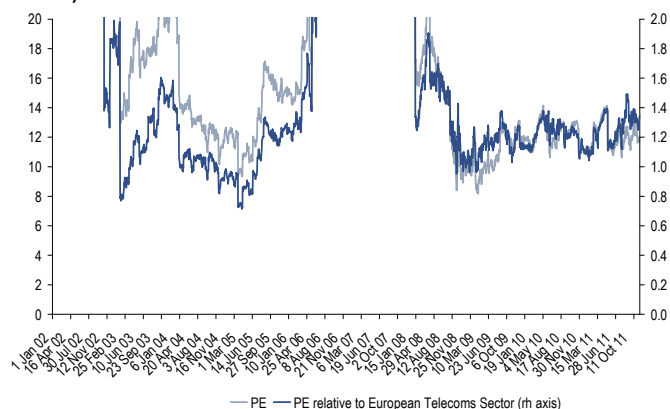


Figure 180. Tele2 has performed strongly since mid-09 (left axis SEK/share; right axis index: end-06=100)



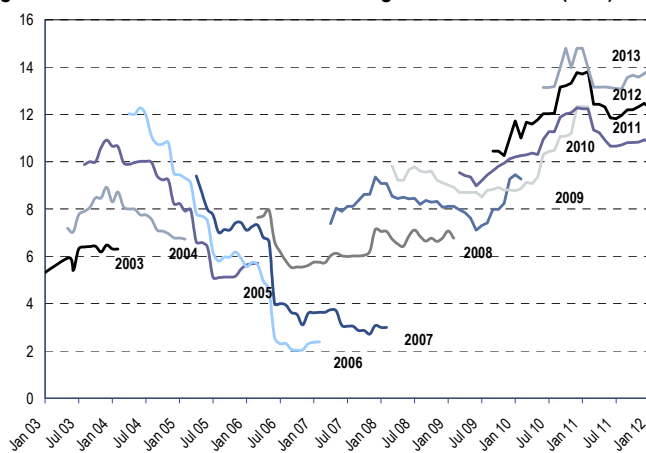
Source: DataStream

Figure 181. Tele2 trades slightly above the sector average on PE (1 year forward)



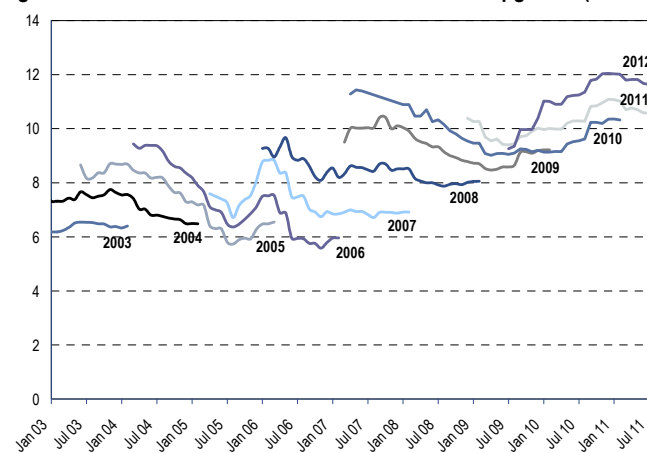
Source: DataStream

Figure 182. Consensus EPS has been rising after a recent fall (SEK)



Source: DataStream

Figure 183. EBITDA consensus has seen consistent upgrades (SEKbn)

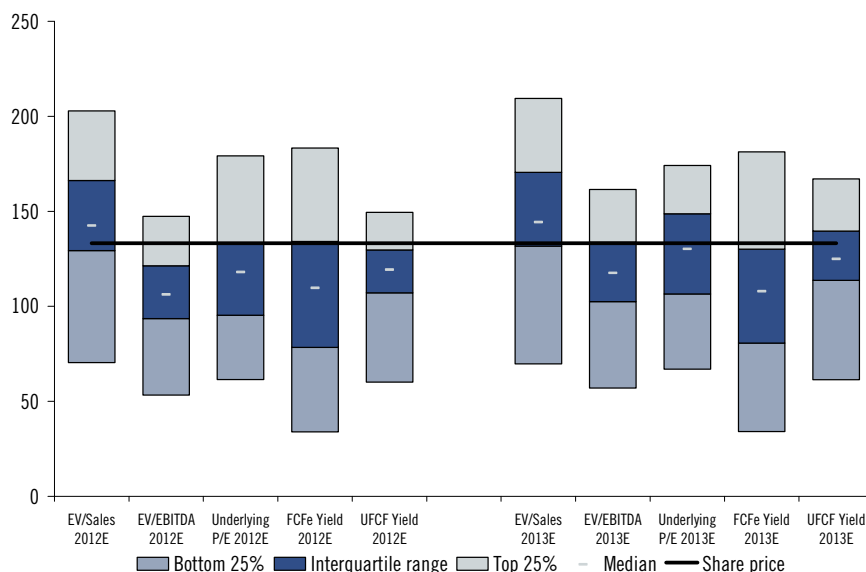


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	39,265	40,164	40,875	43,923	45,447
Operating expenses	-33,629	-33,506	-33,797	-36,001	-36,515
<b>EBIT</b>	<b>5,636</b>	<b>6,658</b>	<b>7,078</b>	<b>7,923</b>	<b>8,932</b>
Net interest expense	-358	-497	-384	-642	-663
Non-operating/exceptionals	-251	574	-261	0	0
<b>Pre-tax profit</b>	<b>5,027</b>	<b>6,735</b>	<b>6,433</b>	<b>7,281</b>	<b>8,269</b>
Tax	-426	-254	-1,673	-1,893	-2,150
Extraord./Min.Int./Pref.div.	-82	445	0	0	0
<b>Reported net income</b>	<b>4,519</b>	<b>6,926</b>	<b>4,760</b>	<b>5,388</b>	<b>6,119</b>
Adjusted earnings	4,519	6,926	4,760	5,388	6,119
Adjusted EBITDA	9,185	10,284	10,827	11,834	12,953
<b>Growth Rates (%)</b>					
Sales	-0.6	2.3	1.8	7.5	3.5
EBIT adjusted	19.8	18.1	6.3	11.9	12.7
EBITDA adjusted	12.4	12.0	5.3	9.3	9.5
EPS adjusted	87.2	52.0	-31.3	13.2	13.6

Source: Company data, Citi Investment Research and Analysis

Figure 184. Compared to its incumbent and its wireless peers in Europe, Tele2 trades around the upper quartile on both our 2011-2012 estimates



Source: dataCentral, CIRA

## Significant upcoming events

### Netherlands spectrum auction

We expect the final auction terms to be announced early in 2012, and the auction to take place in summer 2012, with spectrum available in 2013. See our report [Knock, knock... who's there?](#) for further details.

### Russian 4G licence

We currently expect the LTE licences (2x30MHz in the 800MHz band) in Russia to be allocated in 1Q12. However, the structure of this has not been decided, as in whether it is 4 blocks of 2x7.5MHz, or 6 blocks of 2x5MHz. The latter would enable 2 regional licences which would benefit Tele2. However, subsequent to this the 800MHz spectrum would need to be freed from current military use which may take some time. After this a decision should be made on tech neutrality, which would allow Tele2 to run LTE data services over its existing spectrum holdings.

A great deal of uncertainty remains; for example, press reported on a potential deal between Megfon/Rostelecom/Scartel, which would provide Megafon access to Scartel's 4G spectrum. This is important because Scartel has 4G spectrum currently while the potential 800MHz may take some time to be freed from military use.

This remains a significant risk for Tele2; however, we highlight Tele2 has a number of options available.

- **Obtain an LTE licence** – Tele2's preferred outcome would be to receive an LTE licence which would provide a long term solution to providing data services.

- **Tech neutrality** – Tech neutrality would allow Tele2 to run LTE services over its existing spectrum. Previously the GKRCh (Russian State Commission into Radio Frequencies) approved tech-neutrality pending testing that it did not create interference. We now expect a decision on this after the 800MHz allocation. Tele2 is currently waiting for approval to go ahead with testing LTE over 1800MHz in two regions.
- **Partnership** – Tele2 could choose to form a local partnership, either a telecoms operator or a pure financial partner. This could be in the form of a network JV, as Tele2 has done in Norway and Sweden.
- **Exit** - Tele2 could exit; recently the CEO of Vimpelcom said Tele2 was key to consolidation in the Russian mobile market.
- **Run for cash** – With good growth still being driven by 2G voice services, in a worst case, Tele2 could decide to run for cash on a low cost model without data services.

Figure 185. Tele2 SOTP Valuation

Division	Stake	Enterprise value	Net (debt) 2012	Valuation Method (CIRA ests)	Tele2 equity	% of Tele2 EV	Value/ share	EV/ Sales	EV/ EBITDA
Sweden	100%	22,914	0	6.5x 2012 EV/EBITDA	22,914	29.5%	51.7	1.8x	6.5x
Norway	100%	4,855	0	1.0x 2012 EV/Sales	4,855	6.3%	11.0	1.0x	17.6x
Russia - Old	100%	23,490	0	5.5x 2012 EV/EBITDA	23,490	30.3%	53.0	2.6x	5.5x
Russia - New	100%	7,745	0	5.0x 2015 EV/EBITDA	7,745	10.0%	17.5	2.1x	
<b>Total Russia</b>		<b>31,235</b>	<b>0</b>		<b>31,235</b>	<b>40.2%</b>	<b>70.5</b>	<b>2.4x</b>	<b>6.3x</b>
Estonia	100%	1,235	0	5.0x 2012 EV/EBITDA	1,235	1.6%	2.8	1.3x	5.0x
Lithuania	100%	2,207	0	5.0x 2012 EV/EBITDA	2,207	2.8%	5.0	1.7x	5.0x
Latvia	100%	1,900	0	5.0x 2012 EV/EBITDA	1,900	2.4%	4.3	1.7x	5.0x
Croatia	100%	1,416	0	1.0x 2012 EV/Sales	1,416	1.8%	3.2	1.0x	10.0x
Kazakhstan	51%	2,777	0	3.5x 2012 EV/Sales	1,416	1.8%	3.2	3.5x	(10.3x)
Netherlands	100%	8,796	0	5.0x 2012 EV/EBITDA	8,796	11.3%	19.8	1.5x	5.0x
Germany	100%	1,121	0	4.5x 2012 EV/EBITDA	1,121	1.4%	2.5	1.2x	4.5x
Austria	100%	1,131	0	4.0x 2012 EV/EBITDA	1,131	1.5%	2.6	0.9x	4.0x
Other	100%	(600)	0	5.0x 2012 EV/EBITDA	(600)	(0.8%)	(1.4)	(0.9x)	5.0x
<b>Total</b>		<b>78,987</b>			<b>77,626</b>		<b>175.1</b>	<b>1.8x</b>	<b>6.7x</b>
Net debt (2012)					(12,013)				
<b>Total Core</b>					<b>65,614</b>		<b>148.0</b>		

Source: Citi Investment Research and Analysis

# Telecom Italia

## ■ Company Update

### Georgios Ierodionou

+44-20-7986-4086

georgios.ierodionou@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	€0.85
Target price	€1.20
Expected share price return	42.0%
Expected dividend yield	7.9%
<b>Expected total return</b>	<b>49.9%</b>
Market Cap	€15,628M
	US\$20,225M

### Price Performance

(RIC: TLIT.MI, BB: TIT IM)



## Self help elements come to the surface

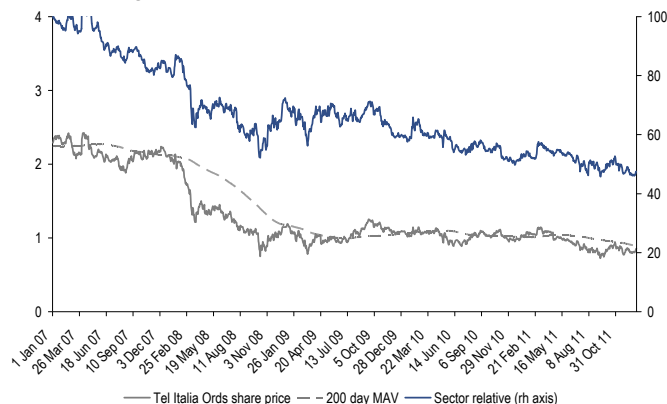
- **Domestic resilience underestimated** — two thirds of TI's domestic revenue come from fixed, which we believe will prove resilient during the downturn. Mobile is more cyclical but TI's performance has room to improve as it closes the gap with Vodafone and the rest of the market. But crucially, TI has a good track record on cost cutting and we believe it can continue to drive further efficiency measures and surprise on the margin. Self help could more than offset any weakness in the market and continue to drive earnings estimates up. Lower pressure to invest in NGA (no cable in Italy) a key driver for OpFCF improvement.
- **Fixed problems not critical** — Lack of fixed broadband growth and price pressure from Tele2 have led to negative retail broadband growth. However, line losses are still in check and growth in IT services has accelerated in 2011. With international wholesale comparisons improving, we expect the Italian incumbent will continue to outperform its peers.
- **Mobile could still improve** — Mobile will be affected by the macro slowdown in both the enterprise and consumer segments. However, we believe TIM will still continue to deliver progress on service revenue as it addressed its problems and stimulates data growth. We expect TIM to close the gap vs competition and therefore deliver better trends despite the macro slowdown.
- **Best of the bunch in Brazil** — Our LatAm analyst, James Rivett is cautious on Brazilian Telecoms on concerns about competition and the cost of acquiring LTE licences. TIM's performance will be affected, but we remain positive on the name. But it should be a more mixed picture vs recent success.
- **Valuation remains compelling** — n 2012E, TI trades on EV/EBITDA of 4.2x; P/E of 5.7x (4.9x); 23% (27%) FCF yield and 9.7% (11.2%) dividend yield for ordinary (savings) shares. The ongoing improvement in the domestic business and solid growth in international do not justify a distressed valuation for TI in our view. We see confirmation that the 15% dividend CAGR will be delivered as a key catalyst.
- **We reiterate our Buy recommendation** — DCF-based price target of €1.20 (€1.05) for the ordinary (savings) shares — We have preference for the savings shares given that we struggle to see a takeover scenario, which would not involve the entire capital of the company. We also believe the savings shares will outperform as the market turns more confident that TI could deliver on its dividend commitments.

### Telecom Italia SpA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	27,163.0	27,571.0	30,015.4	30,017.1	29,699.4
Net Income (€M)	1,849.0	3,250.0	2,572.8	2,675.6	2,713.0
Diluted EPS (¢)	10	17	13	14	14
Diluted EPS (Old) (¢)	10	17	13	14	14
PE (x)	8.9	5.0	6.4	6.1	6.0
EV/EBITDA (x)	4.5	4.4	4.3	4.2	4.1
DPS (¢)	5	6	7	8	9
Net Div Yield (%)	5.9	6.8	7.8	9.0	10.2

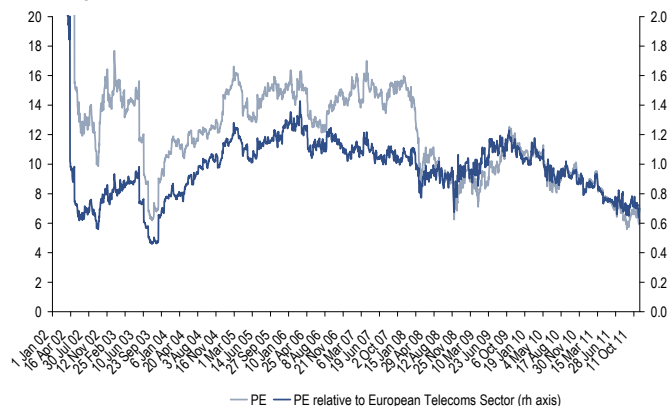
## Self help elements come to the surface

Figure 186. TI has moderately underperformed the sector in 2011 (left axis/€share; right axis index: end-06=100)



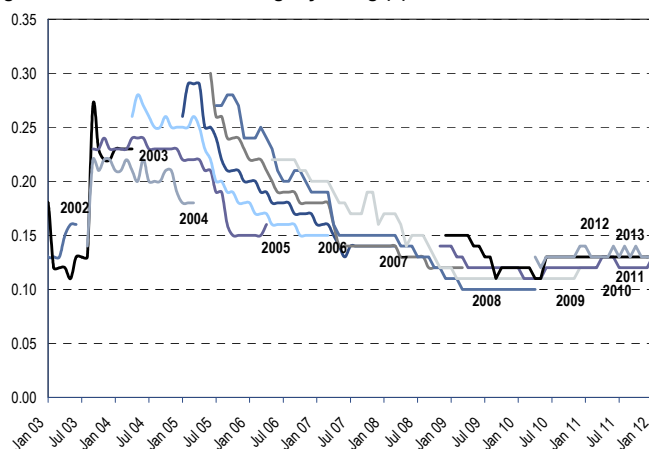
Source: DataStream

Figure 187. TEF trades at a significant discount with the sector average on PE (1 year forward)



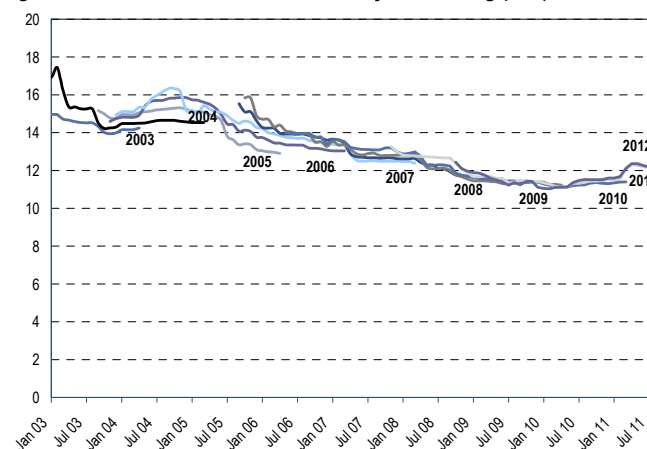
Source: DataStream

Figure 188. Consensus EPS slightly rising (€)



Source: DataStream

Figure 189. EBITDA consensus has lately been rising (€bn)

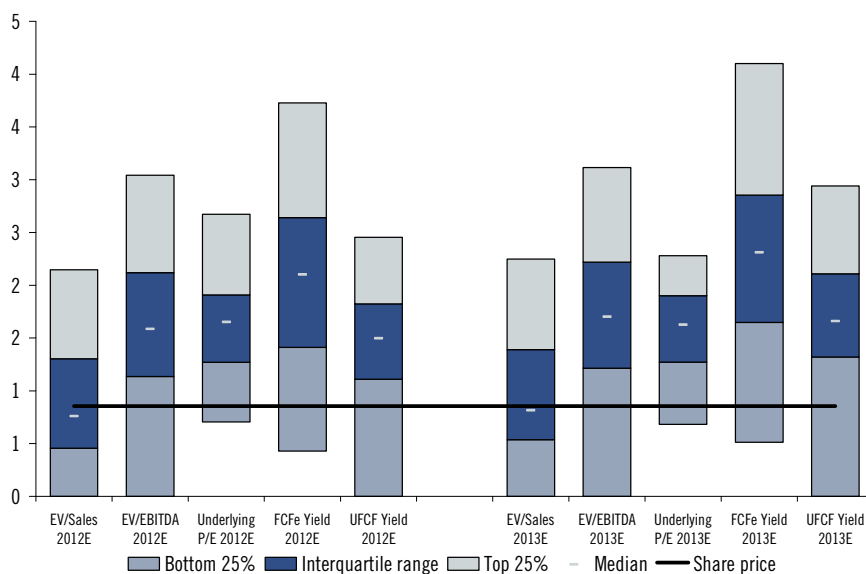


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	27,163	27,571	30,015	30,017	29,699
Operating expenses	-21,670	-21,758	-26,569	-23,085	-22,742
<b>EBIT</b>	<b>5,493</b>	<b>5,813</b>	<b>3,446</b>	<b>6,932</b>	<b>6,957</b>
Net interest expense	-2,221	-2,074	-2,023	-1,922	-1,808
Non-operating/exceptionals	67	99	-20	-20	-20
<b>Pre-tax profit</b>	<b>3,339</b>	<b>3,838</b>	<b>1,403</b>	<b>4,990</b>	<b>5,130</b>
Tax	-1,121	-548	-1,613	-1,831	-1,875
Extraord./Min.Int./Pref.div.	-637	-169	-415	-518	-542
<b>Reported net income</b>	<b>1,581</b>	<b>3,121</b>	<b>-625</b>	<b>2,641</b>	<b>2,713</b>
Adjusted earnings	1,849	3,250	2,573	2,676	2,713
Adjusted EBITDA	11,327	11,801	12,261	12,502	12,397
<b>Growth Rates (%)</b>					
Sales	-6.3	1.5	8.9	0.0	-1.1
EBIT adjusted	0.4	8.2	6.6	4.8	-0.1
EBITDA adjusted	-0.8	4.2	3.9	2.0	-0.8
EPS adjusted	-25.4	75.8	-20.8	4.0	1.4

Source: Citi Investment Research and Analysis

**Figure 190. Compared to its incumbent and its wireless peers in Europe, TI typically trades in the lower quartile on our estimates**



Source: dataCentral, CIRA

## Significant upcoming events

- **Update on possible network sharing deal with Vodafone:** With increases to emission limits having been already approved and a more investment-friendly administration likely to make further concessions, we expect significant investments in mobile data (mainly LTE). Vodafone and TIM have already benefited from network sharing in 3G but could save more from a move to active sharing.
- **Consolidation potential:** The aggressive MTR glide-path proposed by Agcom which calls for steep cuts and symmetry for H3G may put more pressure on the fourth player to exit the market. We believe it would be harder to reach a deal after all parties embark in LTE investments. In that sense, 2012 will be a critical year and perhaps the last change for consolidation. We believe any deal will be complex and difficult to deliver, but cannot completely dismiss the possibility.
- **Atimus integration and product launches in Brazil:** TIM Brazil's investor day has set a roadmap for the integration of Atimus and the launch of new services. TIM expects to complete the connection of sites to the fibre network and launch fixed services for the corporate segment by March 2012. The upgrade of speeds on the mobile network and the launch of residential broadband is expected by June 2012.
- **High frequency LTE auction in Brazil:** We expect the auction to take place during 2012, possibly as early as 2Q. There are three blocks of 40MHz and one block of 20MHz. We expect all operators to aggressively compete during the auction process, with GVT possibly also showing interest. We expect TIM to be left with the 20MHz block at a cost of c. €250m.

## Sum of Parts valuation

Figure 191. Telecom Italia's SoP (In €m)

Asset	Stake	EV	Net (debt)	Method	TI market value	Blended €/share
Italy - Wireline	100.0%	31,635	0	5.1x 2011E EBITDA	31,635	1.64
Italy - Wireless	100.0%	12,938	0	4.2x 2011E EBITDA	12,938	0.67
TIM Brazil	66.27%	11,120	(1,049)	5.5x 2011E EBITDA	6,674	0.35
Telecom Argentina	22.6%	3,295	180	Market price (Peso 19.0/share)	786	0.04
TI Media	68.0%	460	(113)	Market price (EUR 0.24/share)	236	0.01
Olivetti	100.0%	196	0	0.5x 2011E Sales	196	0.01
ETEC-SA (Cuba)	27.0%	1,359	0	Book value, Dec 09	0	0.00
Central costs/other	100.0%	(144)	0	4.5x 2010E EBITDA	(144)	(0.01)
<b>Group EV</b>					<b>52,320</b>	
Other net debt (2011E)			(29,600)		(29,600)	(1.54)
<b>Equity value</b>					<b>22,721</b>	
Implied blended per-share value					1.18	
<b>Implied value per ordinary share</b>					<b>1.23</b>	
<b>Implied value per savings share</b>					<b>1.08</b>	

Source: Citi Investment Research and Analysis

# Telefónica

## ■ Company Update

### Georgios Ierodionou

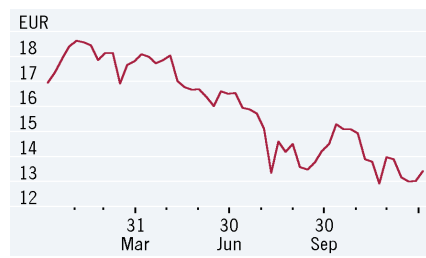
+44-20-7986-4086

georgios.ierodionou@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	€13.42
Target price	€13.00
Expected share price return	-3.1%
Expected dividend yield	8.4%
<b>Expected total return</b>	<b>5.3%</b>
Market Cap	€61,249M
	US\$79,265M

### Price Performance

(RIC: TEF.MC, BB: TEF SM)



## Significant earnings risk remains

- **Dividend cut might not be enough** — In mid December, Telefónica revised its medium term dividend policy by significantly reducing the cash dividend target, while introducing a buyback in the mix earlier than expected. Though we think the revised remuneration policy is more credible as it gives management some flexibility to invest more in the business if growth opportunities arise, there is still risk. The payout ratio remains high by sector standards and further earnings pressure would lead to another cut. While we see possible upside risk from short term correlation of the shares to the IBEX -which could track any market bounce- in the medium term, we believe TEF will continue to underperform the sector as long as earnings remain under pressure (we are below consensus for 2012/13E).
- **Price pressure to persist in Spain**— TEF has already started cutting mobile prices in 4Q11, which we argue is a good first step. This should negatively impact service revenue in 2012E and drive more pressure on profitability. TEF's market share is unsustainable, in our view, and we think prices will continue to move down in the coming years. In fixed, TEF's revenue are in structural decline (much like the rest of Europe) but also face additional pressure in the coming years from broadband price competition from altnets and share correction.
- **LatAm strategy a puzzle** — We expect LatAm margins to remain capped due to wage inflation (personnel expenses were up by 15% in 3Q11) and higher commercial expenses. We are cautious on Brazil as we expect Claro and Oi to be more active in the market in 2012, while Vivo's aggressive commercial stance in pre-paid could trigger retaliation from competition. Macro concerns in Argentina and Venezuela remain; Mexico is unlikely to recover soon in our view and TEF is in dispute with Peru authorities over tax payments and is likely to pay more taxes.
- **Uninspiring valuation makes TEF a Least Preferred investment**- The stock trades at a slight premium to the sector across most valuation multiples. The big overhang risk of an imminent dividend cut was removed, which makes the shares more investable. However, we argue that, given the earnings risk and the macro pressure, TEF offers limited downside support vs. the sector. Any improvement in sentiment from Southern Europe or potential consolidation news flow in Spanish mobile could provide some upside potential. Our favoured play in Southern Europe remains Telecom Italia, which we argue is better positioned to capture a market bounce.

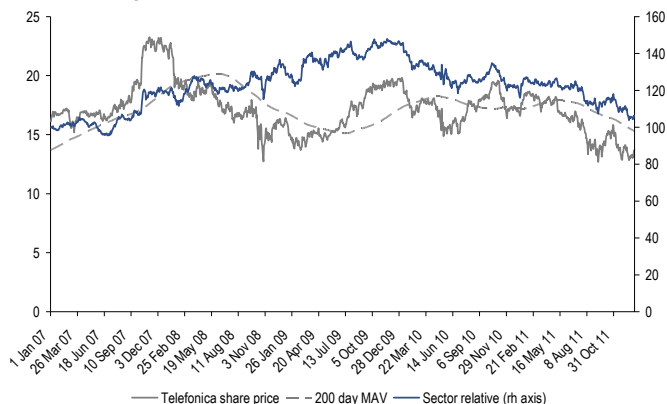
### Telefónica SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	56,731.0	60,737.0	62,673.4	61,276.4	60,879.3
Net Income (€M)	8,029.0	7,930.0	7,269.4	6,738.7	6,913.9
Diluted EPS (€)	1.76	1.76	1.59	1.49	1.55
Diluted EPS (Old) (€)	1.76	1.76	1.59	1.49	1.55
PE (x)	7.6	7.6	8.4	9.0	8.7
EV/EBITDA (x)	4.6	4.7	5.2	5.3	5.2
DPS (€)	1.15	1.40	1.30	1.30	1.30
Net Div Yield (%)	8.6	10.4	9.7	9.7	9.7



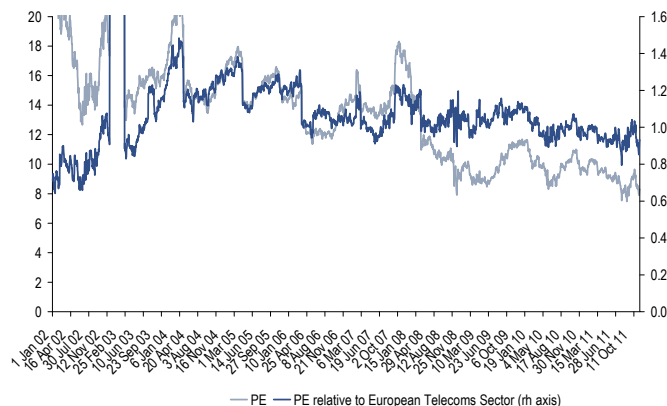
## Neutral given the risks in 2012

Figure 192. TEF has recently underperformed the sector (left axis/€share; right axis index: end-06=100)



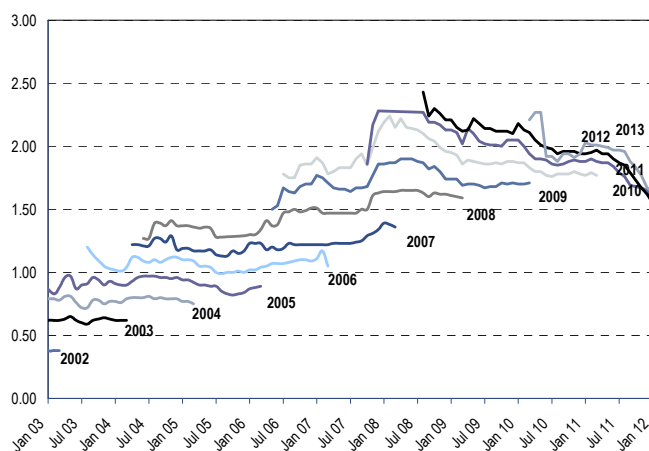
Source: DataStream

Figure 193. TEF trades in line with the sector average on PE (1 year forward)



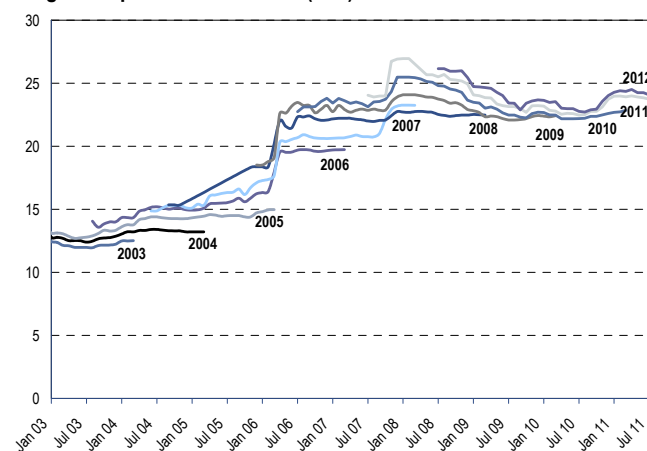
Source: DataStream

Figure 194. Consensus EPS still declining (€)



Source: DataStream

Figure 195. EBITDA consensus has lately been rising due to VIVO's changed scope of consolidation (€bn)

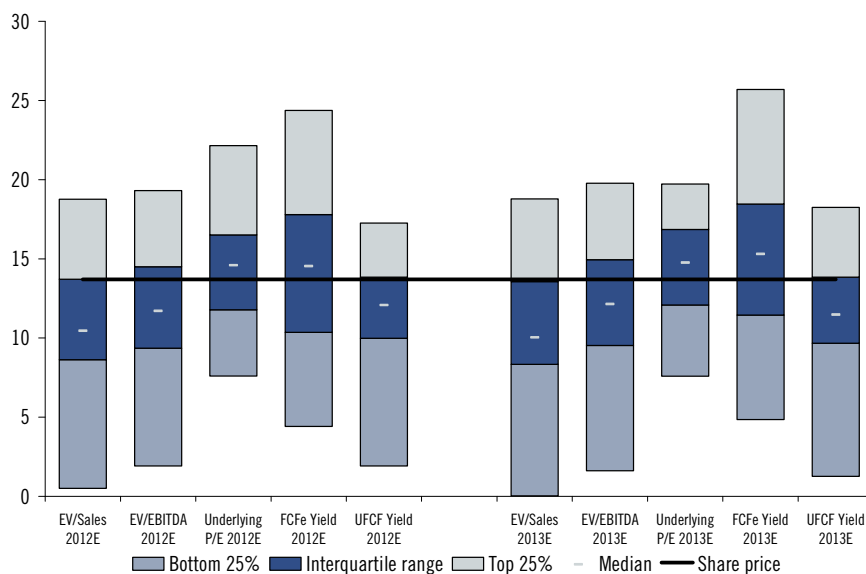


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	56,731	60,737	62,673	61,276	60,879
Operating expenses	-43,343	-47,063	-50,293	-49,161	-48,433
<b>EBIT</b>	<b>13,388</b>	<b>13,674</b>	<b>12,380</b>	<b>12,115</b>	<b>12,447</b>
Net interest expense	-3,307	-2,649	-2,820	-2,984	-3,029
Non-operating/exceptionals	5	111	-116	61	70
<b>Pre-tax profit</b>	<b>10,086</b>	<b>11,136</b>	<b>9,443</b>	<b>9,193</b>	<b>9,488</b>
Tax	-2,450	-3,829	-1,853	-2,465	-2,543
Extraord./Min.Int./Pref.div.	-420	2,895	-2,933	-468	-495
<b>Reported net income</b>	<b>7,216</b>	<b>10,202</b>	<b>4,658</b>	<b>6,259</b>	<b>6,450</b>
Adjusted earnings	8,029	7,930	7,271	6,715	6,861
Adjusted EBITDA	22,344	22,977	22,380	22,130	22,454
<b>Growth Rates (%)</b>					
Sales	-2.1	7.1	3.2	-2.2	-0.6
EBIT adjusted	-1.5	2.1	-9.5	-2.1	2.7
EBITDA adjusted	-1.3	2.8	-2.6	-1.1	1.5
EPS adjusted	3.7	-0.3	-9.4	-7.6	2.2

Source: Company, Citi Investment Research and Analysis

**Figure 196. Compared to its incumbent and its wireless peers in Europe, TEF typically trades between the median and the upper quartile on our 2011 estimates and 2012 estimates**



Source: dataCentral, CIRA

## Significant upcoming events

- **UK spectrum auction in 2H12:** Ofcom is expected to start an auction for licences to use the 800 MHz and 2.6 GHz bands in 2H12 with payment possibly slipping into 2013. The process is being delayed by legal disagreements over the auction terms that we discuss in more detail in the section of this report on Vodafone. We forecast a £750m cash outflow for VOD in FY13 and the same amount for TEF in 2012E relation to the 4G auction.
- **Confirmation of the MTR glide-path from CMT:** following the publication of the regulator's proposal, post the consultation, we expect the final decision to come in 1Q12. There is a risk that the European commission takes a more aggressive stance on the reduction of MTRs and the glide-path could be revised to accommodate steeper cuts.
- **High frequency LTE auction in Brazil:** We expect the auction to take place during 2012, possibly as early as 2Q12. There are three blocks of 40MHz and one block of 20MHz being auctioned. We expect all operators to aggressively compete during the auction process, with wireline operator GVT possibly also showing interest. We expect Vivo to be one of the winners of the 40MHz block and forecast a cost of c. €500m.

## Sum of Parts valuation

Figure 197. Telefonica's SoP (€m)

Operation	Stake end-2009	Total EV	Net (debt) 2011E	Total MV	Telefónica MV	% of EV	EV/EBITDA 2011E	EV/EBITDA 2012E
Spain								
Fixed	100%	25,559	0	25,559	25,559	22.2%	5.0x	5.4x
Mobile	100%	11,567	0	11,567	11,567	10.1%	4.5x	4.7x
Total		37,126	0	37,126	37,126	32.3%	4.8x	5.2x
Latin America								
Brazil (Vivo and Telesp)	73.80%	22,116	(495)	21,621	15,956	13.9%	5.0x	4.4x
Argentina Fixed	100%	1,795	0	1,795	1,795	1.6%	4.5x	4.6x
Argentina Mobile	100%	3,926	0	3,926	3,926	3.4%	6.0x	5.6x
Chile Fixed	97.89%	1,885	(500)	1,386	1,356	1.2%	6.0x	4.3x
Chile Mobile	100%	4,200	0	4,200	4,200	3.7%	7.0x	7.0x
Colombia Fixed	52.03%	1,219	0	1,219	634	0.6%	5.0x	4.8x
Colombia Mobile	100%	1,703	0	1,703	1,703	1.5%	6.0x	5.7x
Peru Fixed	98.34%	2,843	(668)	2,175	2,139	1.9%	6.0x	7.3x
Peru Mobile	100%	2,038	0	2,038	2,038	1.8%	5.5x	5.0x
Mexico - Wireless	100%	1,872	0	1,872	1,872	1.6%	5.0x	5.8x
Venezuela - Wireless	100%	4,549	0	4,549	4,549	4.0%	4.0x	3.4x
Central America	99.99%	864	0	864	864	0.8%	6.0x	5.6x
Ecuador	100%	761	0	761	761	0.7%	6.0x	5.4x
Other	100%	180	0	180	180	0.2%	6.0x	3.6x
Total		49,953	(1,663)	48,290	41,976	36.5%	4.7x	4.7x
Europe								
UK	100%	14,233	0	14,233	14,233	12.4%	7.5x	6.7x
Germany	100%	8,885	0	8,885	8,885	7.7%	7.5x	6.7x
Ireland	100%	1,093	0	1,093	1,093	1.0%	5.0x	5.6x
Czech Rep (Cesky Telecom)	69.41%	4,904	32	4,936	3,426	3.0%	5.5x	5.6x
Other	100%	200	0	200	200	0.2%	5.0x	4.7x
Total		29,315	32	29,347	27,837	24.2%	6.9x	6.4x
Associates and other								
Telecom Italia - Telco SPA	46.18%	2,371	(2,187)	184	85	0.1%		
Portugal Telecom	9.86%			4,052	400	0.3%		
Lycos Europe	32.10%			17	6	0.0%		
Hispasat	13.23%				50	0.0%		
China Unicom	8.37%			36,890	3,088	2.7%		
ZON Multimedia	5.40%			550	30	0.0%		
BBVA	0.98%			27,497	269	0.2%		
Amper	6.10%			44	3	0.0%		
Total				69,235	3,930	3.4%		
Enterprise Value					110,868			
Net debt not included above			(53,180)	(53,180)	(53,180)	(46.2%)		
Dividend adj (ex-2010)					0.0%			
Unfunded pension liabilities			(2,687)	(2,687)	(2,687)	(2.3%)		
NPV of tax/synergy					4,138			
Equity value					59,140	51.4%		
Shares outstanding (mn)					4,564			
Per share value (EUR)					13.0			

Source: Citi Investment Research and Analysis

# Telekom Austria

## Medium term upside from consolidation still exists

### ■ Company Update

#### Georgios Ierodionou

+44-20-7986-4086

georgios.ierodionou@citi.com

<b>Hold</b>	<b>2</b>
Price (04 Jan 12)	€8.98
Target price	€9.35
Expected share price return	4.1%
Expected dividend yield	4.2%
<b>Expected total return</b>	<b>8.4%</b>
Market Cap	€3,977M
	US\$5,083M

#### Price Performance

(RIC: TELA.VI, BB: TKA AV)



■ **Dividend cut by 50%** - On Dec 16, TKA reduced the dividend floor for 2011 and 2012 to €0.38/share, a 50% cut. This leaves the stock with weaker yield support: 4.1% vs. 8.4% sector average in 12E. However, TKA might continue to benefit from ongoing technical support as investor Ronny Pecik continues to build a stake in the company: controlled 15% on 25<sup>th</sup> of November, with the option to acquire an additional 0.79%. It is unclear whether Mr. Pecik aims to build a stake in excess of 25%, which give some blocking rights in board meetings.

■ **But consolidation could change fundamentals** — We believe that reports from local media which suggest H3G could acquire Orange Austria could be credible. H3G is reportedly close to finalising an agreement to acquire Orange from MEP (65%) and FT (35%) for €1.4bn. As part of the deal, TKA would acquire Orange's no frills brand, called Yesss! for c.€300m. We believe the benefits for TKA could translate to €3-5of upside on the shares over three years as the Austrian mobile market corrects from being the most competitive in Europe. However, we don't expect the benefits to be reflected immediately hence our Neutral rating on the stock post the recent rally.

■ **International challenges**- There is still downside risk to numbers for 2012E, in particular coming from the two main international operations: Belarus and Bulgaria. In the former, we expect more pressure on reported numbers from ongoing depreciation of the currency- which should continue to be steep given inflation is approaching 100%. The telecom sector is likely to underperform inflation in Belarus and therefore shrink in real and hard currency terms. In Bulgaria, we believe that interconnection cuts will have a meaningful impact on numbers: this is already reflected in our estimates. But the situation could deteriorate further if the smaller operator (Velcom) chooses to use the MTR cuts for more aggressive pricing.

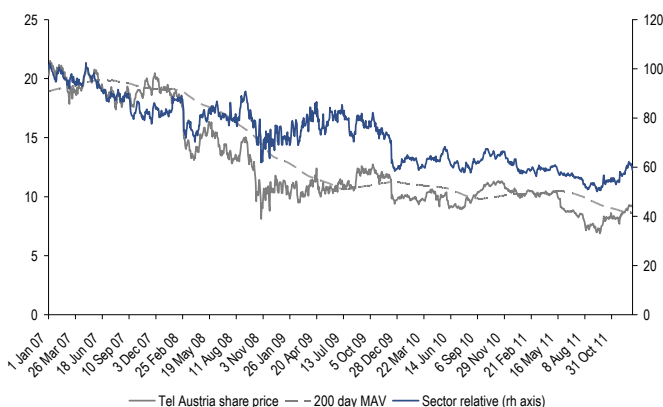
■ **Fairly valued if we exclude positive consolidation impact** — TKA is not a clean investment story due to mixed operational performance and poor earnings momentum. We think the market does not price in a consolidation scenario that could add significant upside to TKA shares. However, this is likely to be a medium-term event and, although fundamental upside still exists from domestic market repair, this is unlikely to be triggered until a formal consolidation announcement is made and regulatory approval is obtained. In the meantime, shares are likely to range trade.

#### Telekom Austria (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	4,802.1	4,650.8	4,437.9	4,423.6	4,487.6
Net Income (€M)	425.1	309.1	298.2	298.6	337.4
Diluted EPS (€)	0.96	0.70	0.67	0.67	0.76
Diluted EPS (Old) (€)	0.96	0.70	0.67	0.62	0.80
PE (x)	9.4	12.9	13.4	13.4	11.8
EV/EBITDA (x)	4.0	4.4	4.7	4.9	4.6
DPS (€)	0.75	0.75	0.38	0.38	0.62
Net Div Yield (%)	8.3	8.3	4.2	4.2	6.9

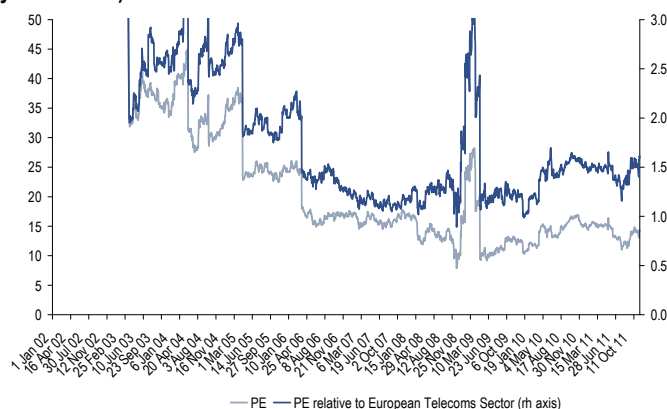
## Austrian upside meets international downside

Figure 198. TKA has performed roughly in line with the sector since end-09 (left axis/€share; right axis index: end-06=100)



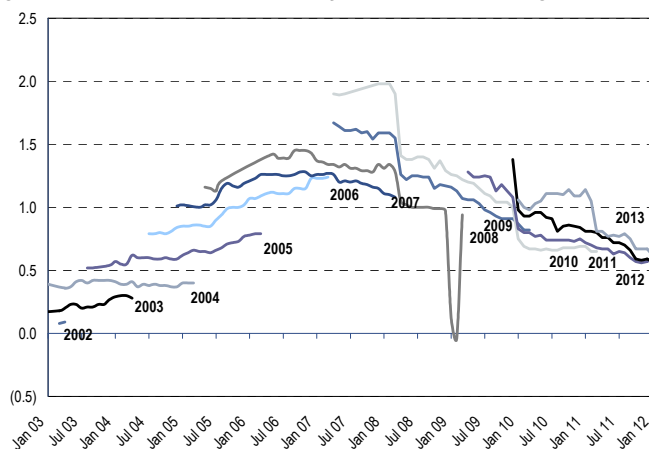
Source: DataStream

Figure 199. TKA trades well above the sector average on PE due to higher depreciation and amortisation of purchase price allocation (1 year forward)



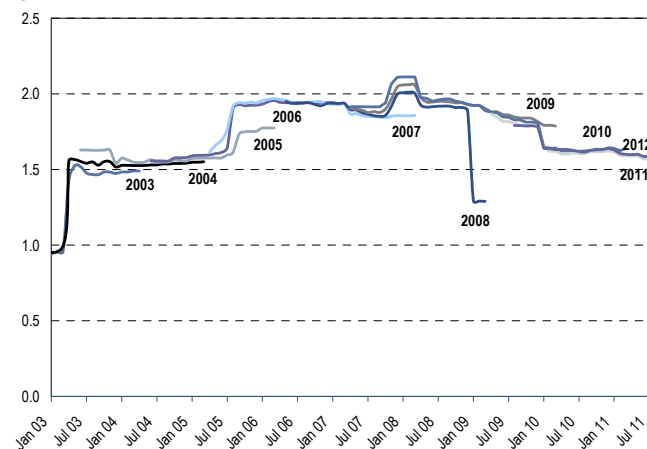
Source: DataStream

Figure 200. Consensus EPS has lately stabilised after falling (€)



Source: DataStream

Figure 201. EBITDA consensus has started to stabilise (€/bn)

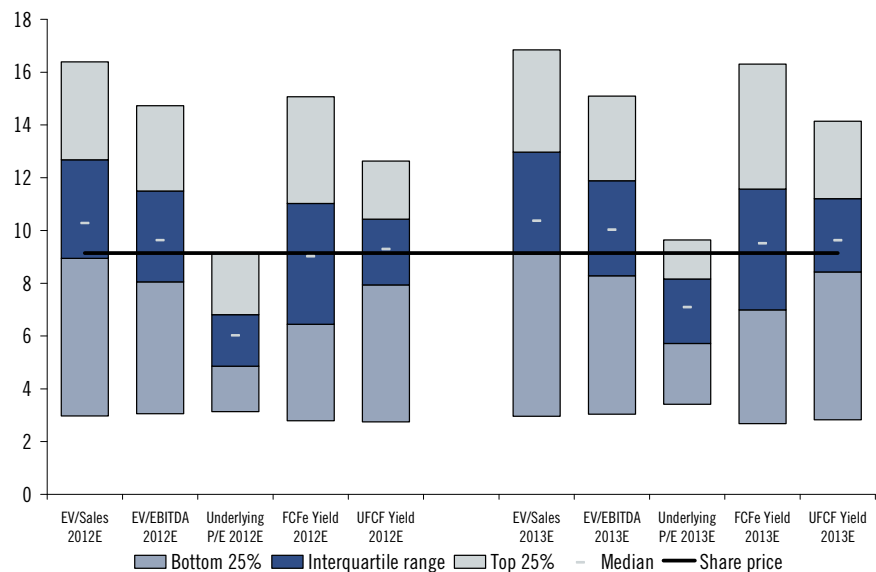


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	4,802	4,651	4,438	4,424	4,488
Operating expenses	-4,088	-4,071	-3,893	-3,850	-3,900
<b>EBIT</b>	<b>714</b>	<b>580</b>	<b>545</b>	<b>574</b>	<b>588</b>
Net interest expense	-220	-194	-182	-176	-166
Non-operating/exceptionals	-387	-145	-311	-70	-50
<b>Pre-tax profit</b>	<b>106</b>	<b>242</b>	<b>52</b>	<b>328</b>	<b>372</b>
Tax	-11	-46	49	-69	-74
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>95</b>	<b>195</b>	<b>101</b>	<b>259</b>	<b>297</b>
Adjusted earnings	425	309	298	299	337
Adjusted EBITDA	1,812	1,646	1,540	1,459	1,486
Growth Rates (%)					
Sales	-7.1	-3.1	-4.6	-0.3	1.4
EBIT adjusted	468.7	-18.7	-6.1	5.3	2.4
EBITDA adjusted	41.4	-9.1	-6.5	-5.3	1.9
EPS adjusted	nm	-27.4	-3.5	0.1	13.0

Source: Citi Investment Research and Analysis

Figure 202. Compared to its incumbent and wireless peers in Europe, TKA trades broadly in-line with peers on most metrics except PE



Source: dataCentral, CIRA

## Significant upcoming events

- **Spectrum auction:** RTR (Austrian telecoms regulator) plans to auction 800MHz spectrum as well as re-auction (and allow refarming) on the 900MHz and 1800MHz spectrum. This means that Orange, Telekom Austria and T-Mobile will have to pay to renew their existing spectrum for the years 2015-30, which H3G will also want to acquire. This is a key catalyst for the exit of Orange in our view as the cash constrained operator will have to pay just to keep its existing spectrum.

## Sum of Parts valuation

Figure 203. TKA SOTP

	Stake (%)	Enterprise Value (€m)	Per Share Value (€)	As a % of Group EV	Metric	2011E EV/EBITDA	2012E EV/EBITDA
Domestic Mobile (Mobikom)	100%	4,460	10.1	61.1%	DCF( 7% WACC, 1% terminal growth)	4.6x	4.7x
<b>Total Domestic Telecom Assets</b>		<b>4,460</b>	<b>10.1</b>	<b>61.1%</b>		<b>4.6x</b>	<b>4.7x</b>
Velcom (Belarus)	100%	488	1.1	6.7%	DCF( 15% WACC, 3% terminal growth)	4.1x	6.0x
Mobilitel (Bulgarian Mobile)	100%	1,065	2.4	14.6%	DCF( 12% WACC, 1% terminal growth)	3.9x	4.7x
VIPnet (Croatian Mobile)	100%	562	1.3	7.7%	DCF( 11.5% WACC, 1% terminal growth)	4.2x	4.4x
Mobikom (Liechtenstein)	100%	9	0.0	0.1%	2011E EBITDA multiple	4.0x	3.8x
Vip operator (FYROM)	100%	100	0	1.4%		0.0x	16.2x
Vip mobile (Serbia)	100%	250	1	3.4%		7.5x	5.7x
Si.mobil (Slovenian Mobile)	100%	364	0.8	5.0%	DCF( 9.5% WACC, 2% terminal growth)	6.8x	6.9x
<b>Total International Mobile</b>		<b>2,838</b>	<b>6.4</b>	<b>38.9%</b>		<b>4.7x</b>	<b>5.2x</b>
<b>Total Consolidated Assets</b>		<b>7,298</b>	<b>16.5</b>	<b>100.0%</b>		<b>4.6x</b>	<b>4.9x</b>
<b>Group Enterprise Value</b>		<b>7,298</b>	<b>16.5</b>	<b>100.0%</b>		<b>4.7x</b>	<b>5.0x</b>
2011E Net Debt		3,273	7.4	44.9%			
<b>Group Equity Value</b>		<b>4,024</b>	<b>9.1</b>	<b>55.1%</b>			
Shares outstanding (000's)	443						

Source: Citi Investment Research and Analysis

## Forecast Revisions

We have adjusted our depreciation estimates to fully incorporate the expected devaluation of the Belarussian currency. This results in a 10.8% increase to 2012E Net Income.

Figure 204. Forecast revision table (€m)

	NEW FORECASTS			CHANGES			OLD FORECASTS		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Austria	2,922	2,922	2,926	0.0%	0.0%	0.0%	2,922	2,922	2,926
VIPnet (Croatia)	413	428	420	0.0%	0.0%	0.0%	413	428	420
Mobitel (Bulgaria)	529	485	475	0.0%	0.0%	0.0%	529	485	475
MDC (Belarus)	264	202	200	0.0%	0.0%	0.0%	264	202	200
Other mobile and eliminations	310	387	467	0.0%	0.0%	0.0%	310	387	467
<b>Total Revenue</b>	<b>4,438</b>	<b>4,424</b>	<b>4,488</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>4,438</b>	<b>4,424</b>	<b>4,488</b>
growth (y-o-y)	-4.6%	-0.3%	1.4%				-4.6%	-0.3%	1.4%
Austria	964	950	951	0.0%	0.0%	0.0%	964	950	951
margin (%)	33.0%	32.5%	32.5%				33.0%	32.5%	32.5%
VIPnet (Croatia)	132	128	126	0.0%	0.0%	0.0%	132	128	126
margin (%)	32.0%	30.0%	30.0%				32.0%	30.0%	30.0%
Mobitel (Bulgaria)	270	228	218	0.0%	0.0%	0.0%	270	228	218
margin (%)	51.0%	47.0%	46.0%				51.0%	47.0%	46.0%
MDC (Belarus)	119	81	80	0.0%	0.0%	0.0%	119	81	80
margin (%)	38.4%	20.9%	17.1%				38.4%	20.9%	17.1%
Other mobile and eliminations	54	72	110	0.0%	0.0%	0.0%	54	72	110
Corporate, Others & Elimination	-32	-27	-27	0.0%	0.0%	0.0%	-32	-27	-27
<b>Comparable EBITDA</b>	<b>1,540</b>	<b>1,459</b>	<b>1,486</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1,540</b>	<b>1,459</b>	<b>1,486</b>
growth (y-o-y)	-6.5%	-5.3%	1.9%				-6.5%	-5.3%	1.9%
D&A/provisions	1,245	935	948	0.0%	-3.3%	2.1%	1,244	967	928
<b>EBIT</b>	<b>295</b>	<b>524</b>	<b>538</b>	<b>-0.1%</b>	<b>6.5%</b>	<b>-3.5%</b>	<b>295</b>	<b>492</b>	<b>558</b>
Financial Items	-243	-196	-166	0.0%	0.0%	0.0%	-243	-196	-166
<b>PBT</b>	<b>52</b>	<b>328</b>	<b>372</b>	<b>-0.7%</b>	<b>10.8%</b>	<b>-5.0%</b>	<b>52</b>	<b>296</b>	<b>391</b>
Taxation	49	-69	-74	0.1%	10.8%	-5.0%	49	-62	-78
Minorities									
<b>Reported Net Income</b>	<b>101</b>	<b>259</b>	<b>297</b>	<b>-0.3%</b>	<b>10.8%</b>	<b>-5.0%</b>	<b>101</b>	<b>234</b>	<b>313</b>
<b>Reported EPS</b>	<b>0.23</b>	<b>0.59</b>	<b>0.67</b>	<b>-0.3%</b>	<b>10.8%</b>	<b>-5.0%</b>	<b>0.23</b>	<b>0.53</b>	<b>0.71</b>
<b>Net Debt</b>	<b>3,273</b>	<b>3,056</b>	<b>2,740</b>	<b>0.0%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>3,273</b>	<b>3,049</b>	<b>2,738</b>
Net Debt to EBITDA	2.1x	2.1x	1.8x				2.1x	2.1x	1.8x
<b>Capex</b>	<b>-741</b>	<b>-734</b>	<b>-722</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-741</b>	<b>-734</b>	<b>-722</b>
Capex to sales	-16.7%	-16.6%	-16.1%				-16.7%	-16.6%	-16.1%

Source: Citi Investment Research and Analysis



# Telenor

## 2012 - Crunch time in the East

### ■ Company Update

Laurie Fitzjohn-Sykes, CFA  
+44-20-7986-4114  
laurie.fitzjohnsykes@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	NKr97.00
Target price	NKr112.00
Expected share price return	15.5%
Expected dividend yield	4.4%
<b>Expected total return</b>	<b>19.8%</b>
Market Cap	NKr155,995M
	US\$26,268M

### Price Performance (RIC: TEL.OL, BB: TEL NO)



■ **Strong operations, retain Buy** — Telenor has strong operations, with stable Nordic FCF and emerging markets growth. This is still offset by market concerns on Vimpelcom and India, which explains Telenor's attractive looking valuation given its growth. 2012 will represent a critical year for both India and Vimpelcom. In India there should be greater clarity in regulation and visibility if medium term targets can be met. For Vimpelcom there is the arbitration in 1H12. We believe the market is overly negative on both assets and therefore see upside risk. Telenor trades at 5x 2011E EV/EBITDA excl India vs. the sector on 4.9x, while offering significantly higher growth, on our estimates.

■ **Improving losses in India** — There are signs of operational improvement with lower EBITDA losses in Q3, though medium term targets remain a stretch. Net adds have been strong in 4Q11, benefiting from recent price rises by the main operators. Regulation remains highly uncertain, and the timing of the final details of the new policy remains uncertain. As the largest new entrant we argue Uninor is well placed to take advantage of the different options. Overall we see risk to the upside from low market expectations.

■ **Vimpelcom, warming relations** — The focus remains the arbitration in 1H12, which could lead to Telenor paying \$2.7bn to increase its stake back to 36%. However, relations with Altimio appear to be warming, Telenor's CEO has rejoined the Vimpelcom board, Altimio/Telenor have agreed to leave the shareholders agreement in place until the 1H12 arbitration and lastly Vimpelcom's CEO and COO are both ex-Telenor employees.

■ **Emerging markets growth** — Telenor's emerging market assets continue to grow strongly with 11% local currency revenue growth excluding India 3Q11; margins are also increasing. While this does increase the probability of negative government intervention, for example in Bangladesh, this looks to us reflected in valuations. We also note the high number of spectrum auctions expected in 2012.

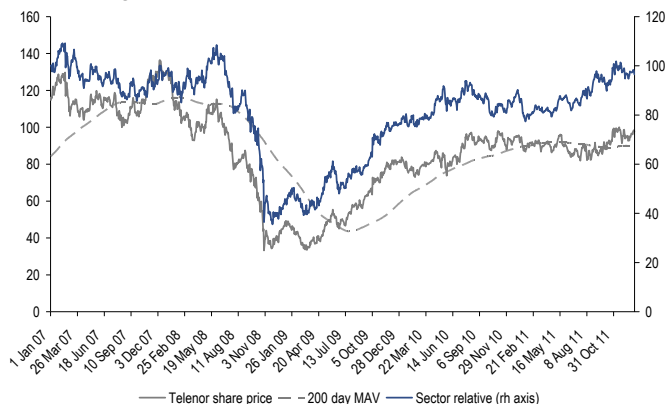
■ **Nordic stable FCF** — Local currency EBITDA grew 2.0% 3Q11 an improvement from -1.1% 2Q11. Nordic FCF was stable in 3Q11 after reducing due to higher capex on mobile network swaps. Telenor introduced aggressive promotions in Norway in November to encourage customers to transition to new tariff plans; this will have a negative impact on service revenue for 4Q11 and 1Q12.

### Telenor ASA (NOK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (NkrM)	97,650.0	94,843.5	98,435.8	103,064.3	107,259.1
Net Income (NkrM)	10,481.0	8,860.5	11,008.6	13,208.1	16,152.3
Diluted EPS (Nkr)	6.33	5.37	6.74	8.29	10.31
Diluted EPS (Old) (Nkr)	6.33	5.37	6.74	8.29	10.31
PE (x)	15.3	18.1	14.4	11.7	9.4
EV/EBITDA (x)	6.0	5.8	5.0	4.5	4.0
DPS (Nkr)	2.50	3.80	4.24	5.19	6.23
Net Div Yield (%)	2.6	3.9	4.4	5.3	6.4

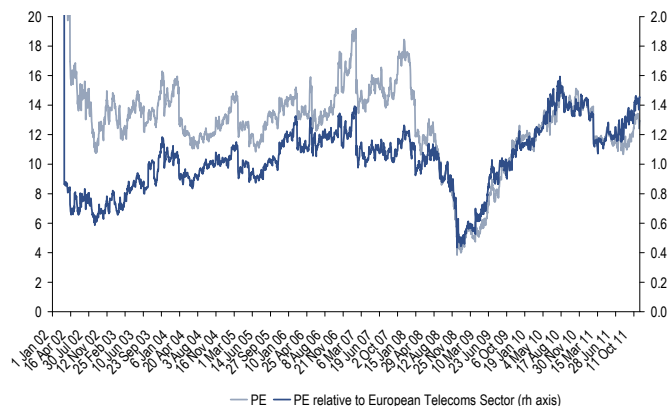
## 2012 - Crunch time in the East

Figure 205. Telenor has outperformed the sector until recently (left axis/ NOKshare; right axis index: end-06=100)



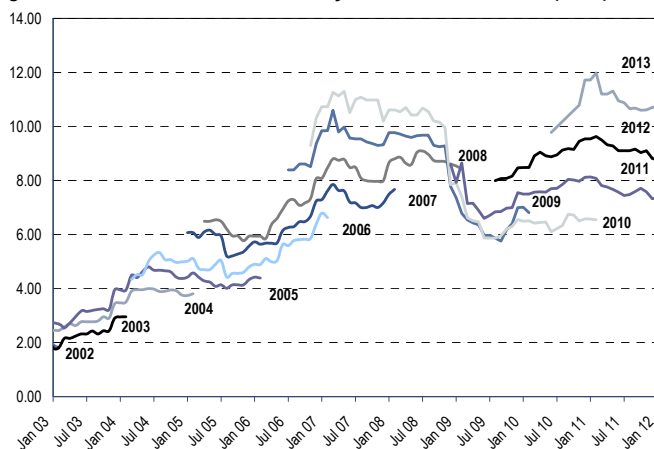
Source: DataStream

Figure 206. Telenor trades well above the sector average on PE (1 year forward)



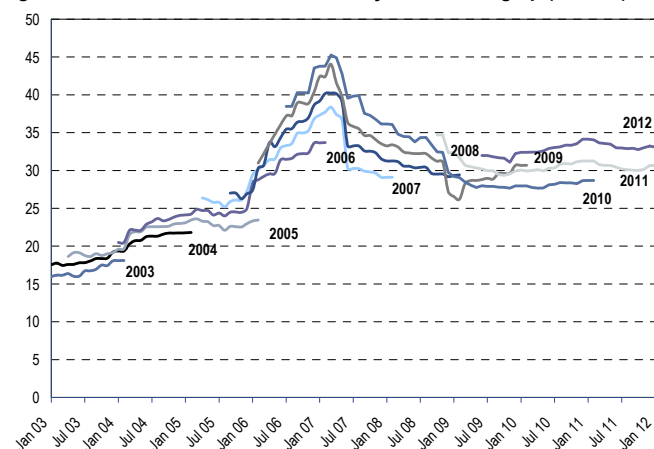
Source: DataStream

Figure 207. Consensus EPS has lately recovered somewhat (NOK)



Source: DataStream

Figure 208. EBITDA consensus has lately been moving up (NOKbn)

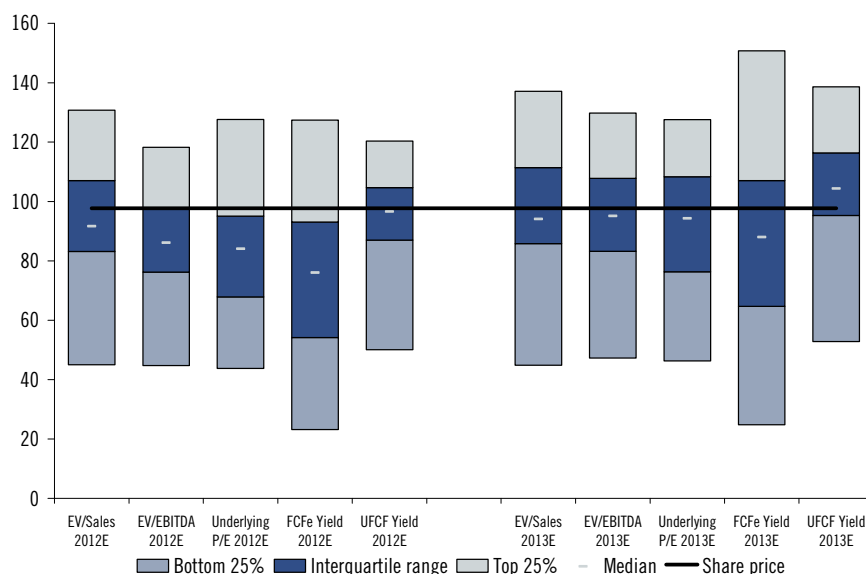


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	97,650	94,843	98,436	103,064	107,259
Operating expenses	-84,330	-82,343	-82,936	-84,660	-85,700
<b>EBIT</b>	<b>13,320</b>	<b>12,500</b>	<b>15,499</b>	<b>18,404</b>	<b>21,559</b>
Net interest expense	-2,092	-1,060	-1,407	-1,268	-1,221
Non-operating/exceptionals	3,574	8,765	5,057	3,595	4,816
<b>Pre-tax profit</b>	<b>14,802</b>	<b>20,205</b>	<b>19,149</b>	<b>20,731</b>	<b>25,153</b>
Tax	-4,290	-4,982	-6,063	-6,395	-6,873
Extraord./Min.Int./Pref.div.	-1,861	-890	-783	-1,234	-2,234
<b>Reported net income</b>	<b>8,651</b>	<b>14,334</b>	<b>12,304</b>	<b>13,102</b>	<b>16,046</b>
Adjusted earnings	10,481	8,861	11,009	13,208	16,152
Adjusted EBITDA	31,122	29,220	30,993	33,816	36,762
<b>Growth Rates (%)</b>					
Sales	1.5	-2.9	3.8	4.7	4.1
EBIT adjusted	-15.2	-6.2	24.0	18.7	17.1
EBITDA adjusted	2.3	-6.1	6.1	9.1	8.7
EPS adjusted	-25.4	-15.1	25.5	22.9	24.4

Source: Citi Investment Research and Analysis

**Figure 209. Compared to its incumbent and wireless peers in Europe, Telenor generally trades between the median and the upper quartile on our 2012 and 2013 estimates**



Source: dataCentral, CIRA

## Significant upcoming events

### 1H12 Vimpelcom arbitration

#### Pre-emption rights arbitration expected 1H12

There is an ongoing arbitration on whether Telenor is entitled to pre-emptive rights in the Vimpelcom/Weather transaction. As a result of the transaction Telenor was diluted to a 31.7% economic stake, 25.0% voting, (from 38.8% economic, 36.0% voting). If Telenor could exercise its pre-emptive rights it could acquire 183k ordinary shares, 172k pref shares, increasing its voting stake back to 36%, this would cost US\$ 2.7bn. The arbitration decision is expected in 1H12.

#### Warming relations with Altimo

We note what appear to be warming relations with Altimo. Telenor's CEO is rejoining the Vimpelcom board after leaving in June 2011. The current Vimpelcom CEO and COO are both ex-Telenor employees. And Altimo and Telenor have agreed to leave the shareholders agreement in place until the arbitration, which prevents Naguib Sawiris being given any board seats until then, limiting Telenor's reduced influence.

#### Either outcome positive as it ends the uncertainty

We see either outcome as a positive as it would end the current uncertainty. Either Telenor loses the arbitration, reducing Telenor's influence significantly, which we argue could make Telenor look to sell the asset. Or Telenor defends its position in the company, reaffirming the stronger corporate governance post the Vimpelcom/Kyivstar merger.

#### Healthy dividend irrespective of the arbitration

Irrespective of the arbitration, Vimpelcom has a dividend policy for a US\$ 0.80 dividend floor, which is a 7.4% dividend yield based on the valuation of Vimpelcom we have in SOTP (US\$ 10.9). This is in contrast to Telia where ownership disputes are preventing the payment of dividends from its associate assets.

## Indian regulatory clarity

### Heading in the right direction, though uncertainty remains

Regulation in India remains uncertain. The direction appears to be right with acknowledgement by the Telecoms Minister that the market needs to be allowed to consolidate from 14 operators to around 6 operators. In addition, this was supported by announced objectives for the New Telecoms Policy. However there are still parts of the TRAI recommendations which remain restrictive to consolidation and there have been some comments from officials implying continued restrictive policies, ie an 8-10MHz spectrum cap.

### Timing uncertain

Further details of the policy had been expected in early 2012, however timing remains uncertain.

Figure 210. Telenor SOTP Valuation (NOK m)

Division	Stake	Enterprise value	Net (debt) 2012	Valuation Method (CIRA ests)	Telenor equity	% of EV	Value/ share	EV/ Sales	EV/ EBITDA
Norway	100%	53,001	0	5.0x 2012 EV/EBITDA	53,001	26.4%	33.6	2.0x	5.0x
Denmark	100%	7,671	0	5.0x 2012 EV/EBITDA	7,671	3.8%	4.9	1.2x	5.0x
Sweden	100%	14,806	0	5.5x 2012 EV/EBITDA	14,806	7.4%	9.4	1.5x	5.5x
<b>Total Nordic</b>		<b>75,477</b>	<b>0</b>		<b>75,477</b>	<b>37.6%</b>	<b>47.8</b>	<b>1.8x</b>	<b>5.1x</b>
Hungary	100%	6,494	0	4.5x 2012 EV/EBITDA	6,494	3.2%	4.1	1.6x	4.5x
Serbia	100%	7,234	0	5.0x 2012 EV/EBITDA	7,234	3.6%	4.6	2.1x	5.0x
Montenegro	100%	1,302	0	4.5x 2012 EV/EBITDA	1,302	0.6%	0.8	2.0x	4.5x
Thailand	66%	27,681	2,516	Market value	19,930	9.9%	12.6	1.7x	5.5x
Malaysia	49%	54,283	1,065	Market value	27,120	13.5%	17.2	4.4x	9.4x
Bangladesh	56%	17,364	0	Market value	9,724	4.9%	6.2	2.4x	4.5x
Pakistan	100%	16,108	0	8.0x 2012 EV/EBITDA	16,108	8.0%	10.2	2.9x	8.0x
India	67%	0	0	Zero post 2012	0	0.0%	0.0	0.0x	0.0x
<b>Total Emerging</b>		<b>130,466</b>	<b>3,581</b>		<b>87,912</b>	<b>43.9%</b>	<b>55.7</b>	<b>2.4x</b>	<b>7.3x</b>
Total (excl India)		130,466	3,581		87,912	43.9%	55.7	2.7x	6.5x
Broadcast	100%	11,315	0	6.0x 2012 EV/EBITDA	11,315	5.6%	7.2	1.6x	6.0x
Other	100%	(4,795)	0	6.0x 2012 EV/EBITDA	(4,795)	(2.4%)	(3.0)	(1.8x)	6.0x
<b>Total Core</b>		<b>212,462</b>	<b>3,581</b>		<b>169,908</b>		<b>107.6</b>	<b>2.1x</b>	<b>6.3x</b>
Vimpelcom	31.7%	30,309		Market value	30,309	15.1%	19.2		
Vimpelcom (swap)	2.4%	(467)		Market value	(467)	(0.2%)	(0.3)		
EDB Business Partners	27.5%	728		Market value	728	0.4%	0.5		
<b>Total Group</b>		<b>243,499</b>			<b>200,477</b>		<b>126.9</b>		
Net debt, 2012	100%		(23,572)		(23,572)	(11.8%)			
<b>Total Group (ex 2011 div)</b>		<b>243,499</b>			<b>176,906</b>		<b>112.0</b>		

Source: Citi Investment Research and Analysis

# TeliaSonera

## Company Update

Laurie Fitzjohn-Sykes, CFA  
+44-20-7986-4114  
laurie.fitzjohnsykes@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	SKr45.96
Target price	SKr44.50
Expected share price return	-3.2%
Expected dividend yield	6.1%
<b>Expected total return</b>	<b>2.9%</b>
Market Cap	SKr199,011M US\$29,134M

## Price Performance (RIC: TLSN.ST, BB: TLSN SS)



## Slowing Growth and Low Cash Flow

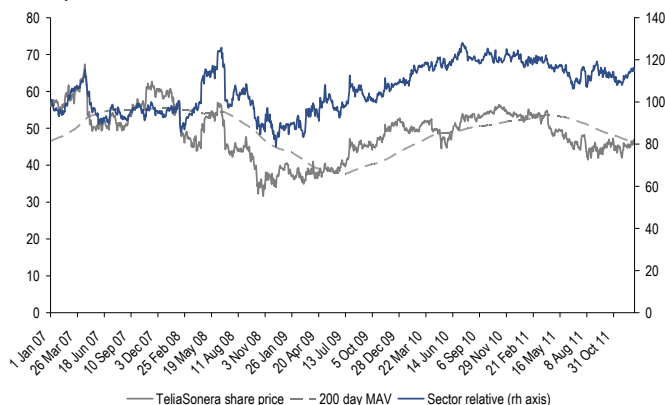
- Retain Neutral** — Telia trades at a premium valuation at 5.2x 2012E EV/EBITDA vs the sector on 4.8x. In addition, due to low dividends from associates and high dividends to minorities, Telia's 2012 equity FCF yield is only 6.6%. Even assuming a Turkcell dividend is paid in 2012, the dividend will still be 91% of equity FCF. Growth is slowing and is entirely driven by Spain and Eurasia which are only 14% of Telia's EV on our numbers. These risks are offset by a strong management team and an attractive macro footprint; we therefore retain a Neutral.
- Slowing growth** — Telia's underlying growth was 2.4% in 3Q11, below FY guidance of c.3%. We forecast 2.5% for FY 2011, with a further slowdown in 4Q11, driven by worsening revenue trends in Spain, Eurasia and Denmark, with continued high declines in International Wholesale.
- Associate asset disputes** — Ownership and control disputes continue around Turkcell (13% of Telia's EV on our numbers). Megafon (20% of Telia's EV on our numbers) continues to not pay a dividend. The focus for Turkcell is the Altimo/Cukurova court case next year which will decide if Altimo has control of Turkcell. We highlight that Altimo's cooperation with Telia after this is not guaranteed.
- Increased profit focus in Spain** — Yoigo (Telia Spain) recently cut prices and stated an aim to be at a 20% discount to the main operators. However the new tariffs are only at a small discount to the other operators. Therefore, while growth should remain strong, Telia is putting in place a slightly stronger profit focus. For example Yoigo targets EBIT positive in Q4 and FCF positive for 2012.
- Growth remains high in Sweden mobile** — Mobile service revenue growth increased to 7.5% in 3Q11 from 5.6% 2Q11, this is in contrast to slowing growth rates for Tele2 (c.4%) and Telenor (c.5%). Sweden remains the highest growth mobile market in Europe driven primarily by low voice competition.
- Fixed line decline partly offset by cost cutting** — Swedish fixed line revenue decline remains high at -4.8%, though this is being offset by cost cutting. EBITDA margins increased 0.7ppt yoy, reducing the EBITDA decline to -3.1% in 3Q11.

## TeliaSonera AB (SEK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (SKrM)	109,550.0	106,979.0	104,346.5	106,691.7	108,143.6
Net Income (SKrM)	18,854.0	21,257.0	18,531.4	20,128.5	20,797.4
Diluted EPS (SKr)	4.20	4.73	4.20	4.65	4.80
Diluted EPS (Old) (SKr)	4.20	4.73	4.20	4.65	4.80
PE (x)	10.9	9.7	10.9	9.9	9.6
EV/EBITDA (x)	5.3	5.2	5.3	5.2	5.0
DPS (SKr)	2.25	2.75	2.80	2.85	2.90
Net Div Yield (%)	4.9	6.0	6.1	6.2	6.3

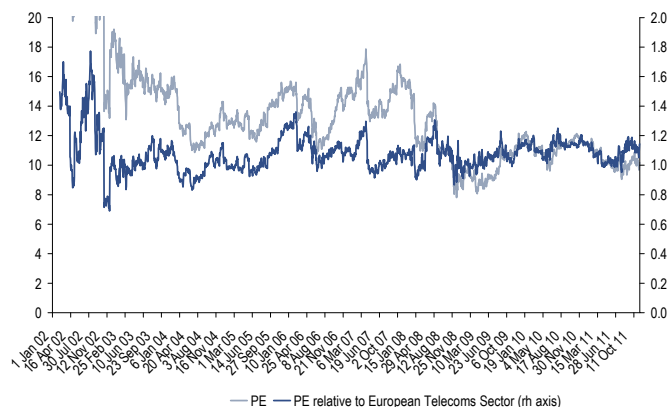
## Slowing Growth and Low Cash Flow

Figure 211. TeliaSonera has lately slightly underperformed the sector after a period of strength (left axis SEK/ share; right axis index: end-06=100)



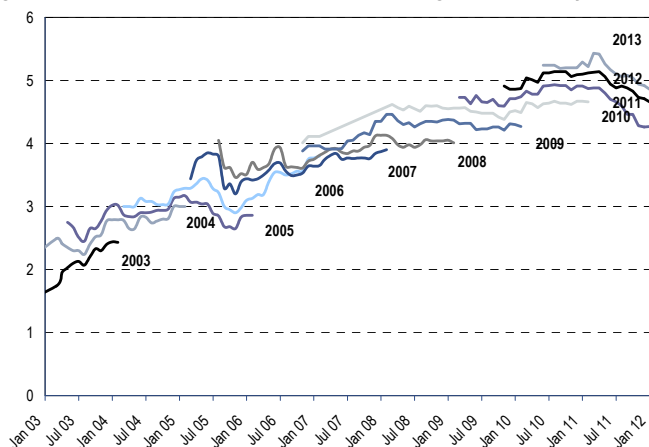
Source: DataStream

Figure 212. TeliaSonera trades close to the sector average on PE (1 year forward)



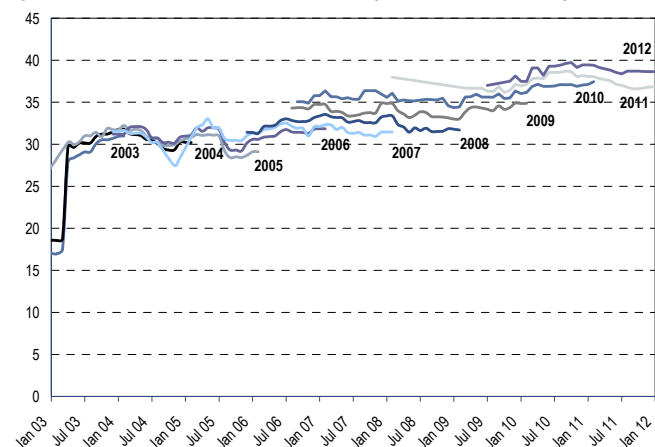
Source: DataStream

Figure 213. Consensus EPS has been on a strong run until lately (SEK)



Source: DataStream

Figure 214. EBITDA consensus has lately stopped increasing (SEKbn)

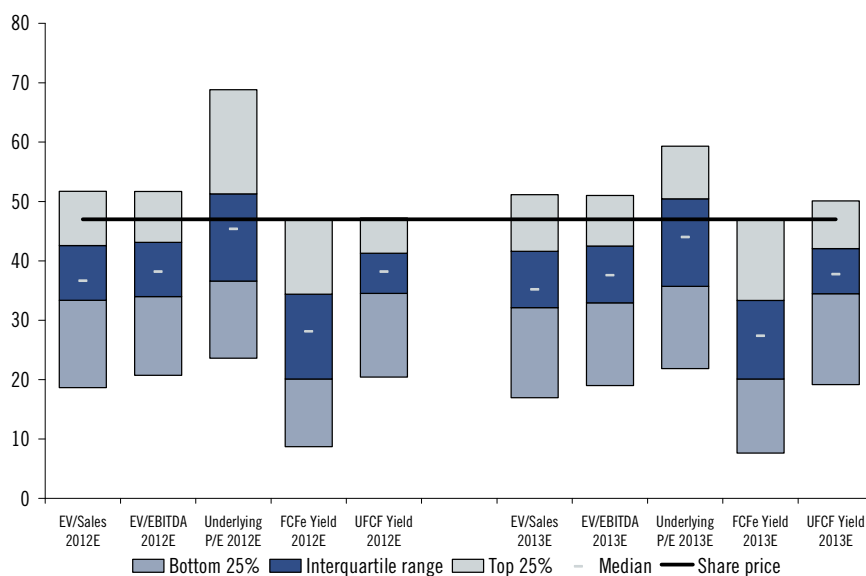


Source: DataStream

Profit & Loss (€M)	2009	2010	2011E	2012E	2013E
Net sales	109,550	106,979	104,346	106,692	108,144
Operating expenses	-87,323	-82,797	-80,231	-81,937	-82,719
<b>EBIT</b>	<b>22,227</b>	<b>24,182</b>	<b>24,116</b>	<b>24,755</b>	<b>25,425</b>
Net interest expense	-2,628	-2,067	-2,581	-3,117	-3,259
Non-operating/exceptionals	8,015	7,821	5,951	7,645	8,145
<b>Pre-tax profit</b>	<b>27,614</b>	<b>29,936</b>	<b>27,486</b>	<b>29,283</b>	<b>30,311</b>
Tax	-6,334	-6,374	-6,322	-6,735	-6,971
Extraord./Min.Int./Pref.div.	-2,426	-2,305	-2,633	-2,420	-2,542
<b>Reported net income</b>	<b>18,854</b>	<b>21,257</b>	<b>18,531</b>	<b>20,128</b>	<b>20,797</b>
Adjusted earnings	18,854	21,257	18,531	20,128	20,797
Adjusted EBITDA	36,584	36,897	36,962	38,068	38,791
<b>Growth Rates (%)</b>					
Sales	5.8	-2.3	-2.5	2.2	1.4
EBIT adjusted	13.4	-1.0	2.9	3.5	2.7
EBITDA adjusted	11.0	0.9	0.2	3.0	1.9
EPS adjusted	-0.8	12.7	-11.2	10.6	3.3

Source: Citi Investment Research and Analysis

**Figure 215. Compared to its incumbent and wireless peers in Europe, TeliaSonera generally trades in line with the top 25% of it's peers on our 2012 and 2013 estimates**



Source: dataCentral, CIRA

## Significant upcoming events

### Turkcell – EGM and battle for control

The battle for control of Turkcell continues, the latest EGM which was held on 12<sup>th</sup> October 2011 failed to approve a dividend because Altimo and Telia were unable to change the board of directors. This was because the rules on appointing independent directors were changed at the last minute requiring prior submission of CVs to the Capital Markets Board CMB.

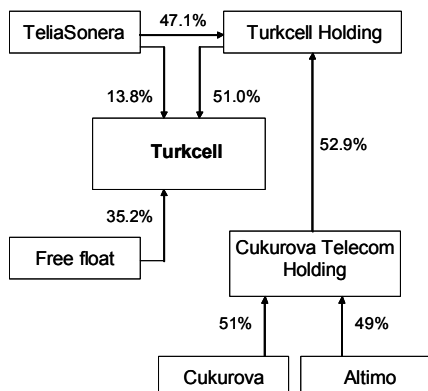
**We expect a Turkcell EGM in the new year**

Turkcell has submitted revised articles of association to the CMB to take account of the rules requiring a higher number of independent directors. After this an EGM can be called to appoint the new board members. However, there is currently a delay as some aspects of the new rules are being disputed by a group of Turkish companies. Therefore the timing of an EGM remains uncertain.

**Recent Altimo payment to Telia is a signal of the complexity of the agreement**

It is interesting to note that in the Q3 results Telia said it had received US\$100m from Altimo because certain milestones were reached in the November 2009 agreement. Management would not comment on this further, only to say that it was a complex agreement with a number of milestones. In our view, while the stated outcome of the agreement was to merge their respective holdings in Megafon and Turkcell, it is probably more complex than this, encompassing a number of additional outcomes.

Figure 216. Turkcell ownership structure



Source: Citi Investment Research and Analysis

The main outstanding court case is Altimo vs Cukurova. Altimo lent Cukurova \$1.35bn, for which Cukurova gave the collateral of its 51% stake in Cukurova Telecom Holding (CTH). Altimo claims Cukurova defaulted on this loan and therefore can take ownership of the 51% stake in CTH. Altimo won this case in the Eastern Caribbean Supreme Court, Cukurova is appealing this to the Privy Council in London. We expect this court case in 1H12.

This court case will decide who controls Turkcell. We highlight the risk that, if Altimo secures control, continued cooperation with Telia is not guaranteed.

Figure 217. TeliaSonera SOTP Valuation (SEK m)

Division	Stake	Enterprise value	Net (debt) 2012	Valuation Method (CIRA ests)	Telia equity	% of Telia EV	Value/ share	EV/ Sales	EV/ EBITDA
Swedish Fixed-line	100%	31,730		5.0x 2012 EV/EBITDA	31,730	12.2%		1.9x	5.0x
Finnish Fixed-line	100%	5,618		4.5x 2012 EV/EBITDA	5,618	2.2%		1.1x	4.5x
<b>Total Domestic Fixed-Line</b>		<b>37,348</b>			<b>37,348</b>	<b>14.4%</b>	<b>8.6</b>	<b>1.8x</b>	<b>4.9x</b>
Swedish Mobile	100%	43,872		6.0x 2012 EV/EBITDA	43,872	16.9%		2.6x	6.0x
Finnish Mobile	100%	15,241		5.5x 2012 EV/EBITDA	15,241	5.9%		1.7x	5.5x
<b>Total Domestic Mobile</b>	<b>100%</b>	<b>59,113</b>			<b>59,113</b>	<b>22.7%</b>	<b>13.7</b>	<b>2.3x</b>	<b>5.9x</b>
Norway Fixed	100%	722		4.5x 2012 EV/EBITDA	722	0.3%		0.7x	4.5x
Norway Mobile	100%	14,687		5.0x 2012 EV/EBITDA	14,687	5.6%		1.8x	5.0x
Denmark Fixed	100%	502		4.5x 2012 EV/EBITDA	502	0.2%		0.5x	4.5x
Denmark Mobile	100%	3,254		4.0x 2012 EV/EBITDA	3,254	1.3%		0.6x	4.0x
Wholesale	100%	9,268		4.0x 2012 EV/EBITDA	9,268	3.6%		1.0x	4.0x
<b>Other Nordic</b>		<b>28,434</b>			<b>28,434</b>	<b>10.9%</b>	<b>6.6</b>	<b>1.1x</b>	<b>4.5x</b>
Lithuania Fixed	60%	3,333		4.5x 2012 EV/EBITDA	2,000	0.8%		1.7x	4.5x
Lithuanian Mobile	100%	2,169		5.0x 2012 EV/EBITDA	2,169	0.8%		1.5x	5.0x
Latvia Mobile	60%	3,148		5.0x 2012 EV/EBITDA	1,897	0.7%		1.9x	5.0x
Estonian Fixed	58%	2,534		4.5x 2012 EV/EBITDA	1,477	0.6%		1.4x	4.5x
Estonian Mobile	60%	2,856		5.0x 2012 EV/EBITDA	1,717	0.7%		1.8x	5.0x
<b>Baltic Assets</b>		<b>14,040</b>			<b>9,260</b>	<b>3.6%</b>	<b>2.1</b>	<b>1.6x</b>	<b>4.8x</b>
Eurasia	52%	59,902		6.0x 2012 EV/EBITDA	31,365	12.1%		3.0x	6.0x
Spanish Mobile	76%	11,876		1.4x 2012 EV/Sales	9,026	3.5%	2.1	1.4x	17.5x
Other ops	100%	1,800		4.5x 2012 EV/EBITDA	1,800	0.7%		0.5x	4.5x
<b>Total Core</b>		<b>212,513</b>			<b>176,346</b>	<b>67.8%</b>	<b>40.7</b>	<b>2.0x</b>	<b>5.6x</b>
<b>Associates</b>									
Turkish Mobile (Turkcell)	37%	60,918	11,000	Market Value	26,825	10.3%	6.2	1.2x	3.2x
Russian Mobile (Megafon)	44%	109,036	21,150	4.5x 2012 EV/EBITDA	57,022	21.9%	13.2	2.0x	4.5x
<b>Total</b>					<b>260,193</b>		<b>60.1</b>		
Net debt (2012)					(67,360)		(15.6)		
<b>Total Core</b>					<b>192,833</b>		<b>44.5</b>		

Source: Citi Investment Research and Analysis



# Vodafone

## ■ Company Update

### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

<b>Buy</b>	<b>1</b>
Price (04 Jan 12)	£1.80
Target price	£2.05
Expected share price return	13.9%
Expected dividend yield	7.5%
<b>Expected total return</b>	<b>21.4%</b>
Market Cap	£90,310M
	US\$141,028M

### Price Performance

(RIC: VOD.L, BB: VOD LN)



## US and emerging markets trump Southern Europe risk

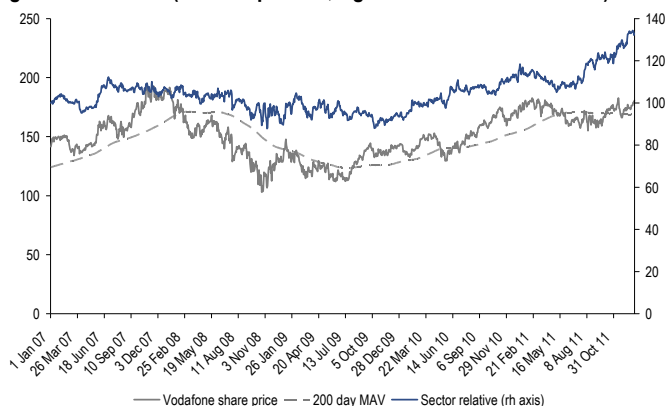
- **Safe port in a storm, Retain Buy, Target Price 205p** — Vodafone is gaining market share in most of its European markets and could improve its overall growth trends there markedly if the turnaround of its Spanish business is successful, albeit that probably requires another price cut first. The company's balance sheet is strong, giving it options for potential consolidation moves in India. We leave our DCF-based price target unchanged at 205p ex div. We expect improving EBITDA trends in Europe to help the stock perform.
- **Dividend outlook remains positive** — We expect Vodafone's dividend payout to grow from the already elevated level of 2011/12. Implied dividend yields (time value-adjusted) on our new estimates come to 8.1% in calendar 2012 and 8.7% in 2013 including the VZW special. We regard this as excessively high given the exposure that Vodafone has to growth in emerging markets and the US.
- **Indian investor event showcased strong operation, uncertain regulation** — Vodafone hosted an investor event in Mumbai on 30 Nov and 1 Dec. Particularly impressive were Vodafone India's distribution and marketing supported by first rate IT, notably in data mining and the related billing features needed for highly customised offers. OpFCF from India is close to nil now but we expect it to grow. Vodafone management says that it is considering an IPO of the Indian business (most recently Bloomberg, Nov 22) but we do not regard that as an essential step prior to taking part in industry consolidation.
- **Vodafone well placed vs. sector difficulties** — We expect Vodafone to show strong dividend momentum in the next 12-18 months as a fuller dividend from Verizon Wireless comes on stream and gets largely paid through. In our view, its premium proportionate growth vs. its major peers is not fully reflected in its share price. Although the growth in its major markets is slowing again, that is against tougher comps and Vodafone itself is generally gaining share against its competitors.
- **European EBITDA decline slowed in FY11** — The decline in EBITDA in West Europe slowed in FY11 to 4.6% yoy from 7.4% yoy in FY10 on a constant currency basis. We expect pressure in Southern Europe, particularly the aggressive corrective action in Spain, to lead to a further fall of 4.2% in FY12 before the company's operational medicine and action on its pricing starts to pay off with a much slower rate of decline of 1.1% in FY13E and modest growth in FY14E.

### Vodafone Group PLC (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Sales (£M)	44,472.0	45,884.0	46,363.3	45,653.9	46,205.7
Profit Before Tax (£M)	10,738.0	10,195.0	12,689.7	10,619.2	11,410.1
Diluted EPS (p)	16.0	16.7	15.7	16.8	17.2
Diluted EPS (Old) (p)	16.0	16.7	15.7	16.8	17.2
PE (x)	11.2	10.8	11.5	10.7	10.4
EV/EBITDA (x)	5.3	5.3	5.5	5.7	5.4
DPS (p)	8.3	8.9	13.5	14.7	15.9
Net Div Yield (%)	4.6	4.9	7.5	8.2	8.8

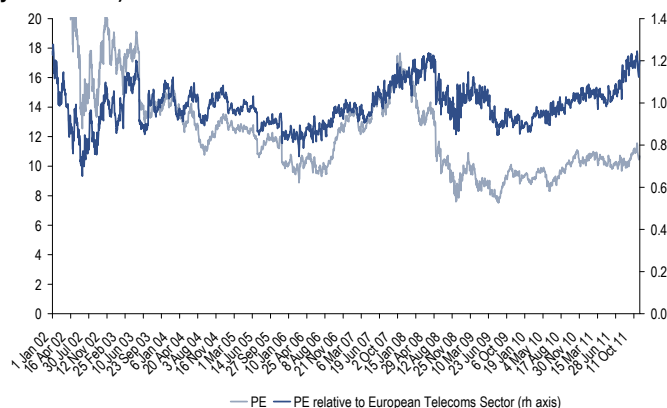
## US and emerging markets trump Southern Europe risk

Figure 218. In 2011 Vodafone has lost some relative out performance against the sector (left axis p/share; right axis index: end-06=100)



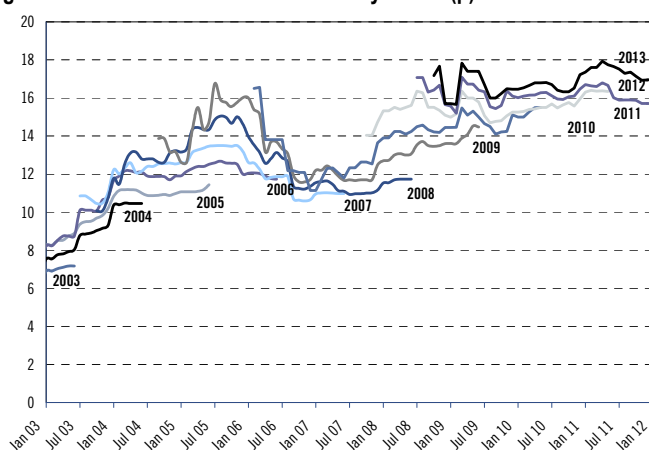
Source: DataStream

Figure 219. Vodafone trades slightly above the sector average on PE (1 year forward)



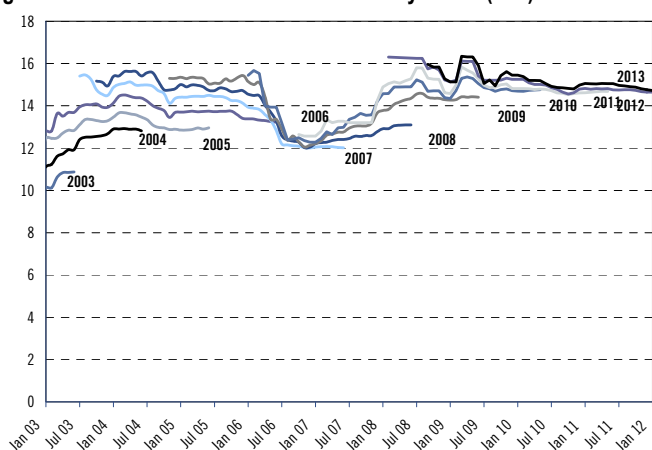
Source: DataStream

Figure 220. Consensus EPS rise has lately halted (p)



Source: DataStream

Figure 221. EBITDA consensus has been fairly stable (£bn)



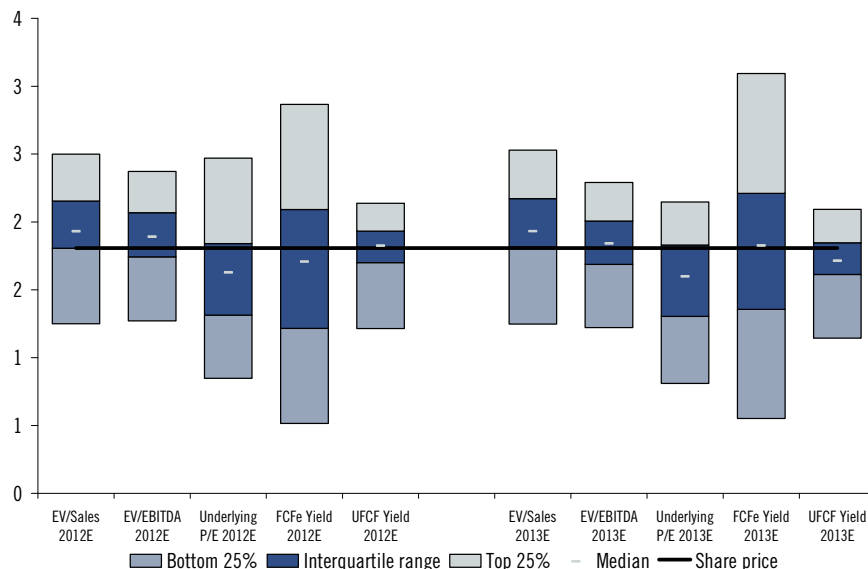
Source: DataStream

Profit & Loss (€M)	2010	2011	2012E	2013E	2014E
Net sales	44,472	45,884	46,363	45,654	46,206
Operating expenses	-37,634	-39,253	-36,274	-39,137	-39,450
<b>EBIT</b>	<b>6,838</b>	<b>6,631</b>	<b>10,090</b>	<b>6,517</b>	<b>6,756</b>
Net interest expense	-902	-815	-1,594	-1,391	-1,288
Non-operating/exceptionals	4,802	4,379	4,194	5,493	5,942
<b>Pre-tax profit</b>	<b>10,738</b>	<b>10,195</b>	<b>12,690</b>	<b>10,619</b>	<b>11,410</b>
Tax	-2,120	-2,325	-1,997	-2,179	-2,642
Extraord./Min.Int./Pref.div.	27	98	-39	-137	-291
<b>Reported net income</b>	<b>8,645</b>	<b>7,968</b>	<b>10,654</b>	<b>8,303</b>	<b>8,478</b>
Adjusted earnings	8,471	8,776	7,955	8,303	8,478
Adjusted EBITDA	14,735	14,670	14,629	14,417	14,750
<b>Growth Rates (%)</b>					
Sales	8.4	3.2	1.0	-1.5	1.2
EBIT adjusted	-12.3	-0.3	-0.4	-2.4	3.7
EBITDA adjusted	1.7	-0.4	-0.3	-1.4	2.3
EPS adjusted	-6.3	4.3	-6.0	7.0	2.5

Source: Company, Citi Investment Research and Analysis

**Figure 222. Compared to its incumbent and wireless peers in Europe, Vodafone generally trades close to the median on our 2012 and 2013 estimates**

£/share



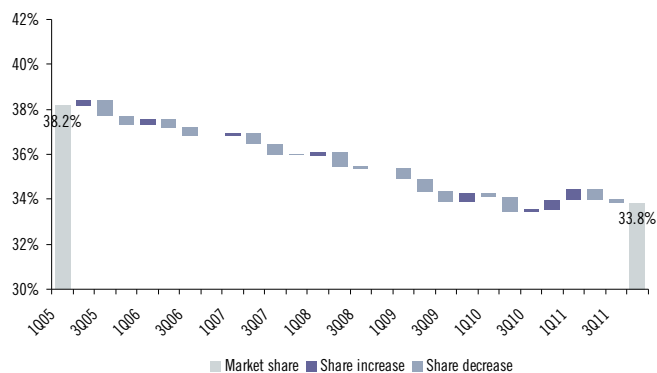
Source: Powered by dataCentral

## Significant upcoming events

- **Indian capital gains tax case** ruling is awaited from the Supreme Court. This case covers jurisdiction and quantification and, according to Vodafone, may or may not conclude the matter. The tax authority is claiming INR112.18bn (£1.53bn) including tax of INR79bn rupees and interest of INR33.2bn, with the potential for this to double due to the penalty although we regard this as unlikely given the precedent setting nature of the dispute. Vodafone paid the Supreme Court a deposit of INR25bn (£0.34bn) and provided bank guarantees of INR85bn. The defendant is the wholly owned Vodafone International Holdings.
- **India's New Telecoms Policy** should be issued in the next few months and deal with matters such as the minimum number of competitors in each circle and, in the event that companies merge, excess spectrum transfer payments as well as market share and spectrum limits per circle. There is a risk that disputes over previous spectrum issuance could delay consolidation.
- **Essar exit, Piramal entry in Vodafone India.** The Essar put option over its stake in Vodafone India has been exercised and its exit is due to have been completed in stages by mid February 2012. Part of the deal was completed in 1H11/12 leaving a payment of US\$1.26bn (INR56.7bn) for the remaining 11% due by 15 February. However, half of this stake is to be bought by Piramal Healthcare for approximately US\$640 million. Vodafone has written another put in Piramal's favour which will allow it to sell the stake to Vodafone for around \$900m in about 2 years time.
- **Vodafone India public listing.** Vodafone has indicated that it may be interested in seeking a public listing for Vodafone India at some point. This is unlikely to happen in 2012 though not impossible. The benefit for Vodafone would be to reduce the cost of compliance with the foreign ownership rules as well as to create a body of local shareholders with the same economic interests as itself.

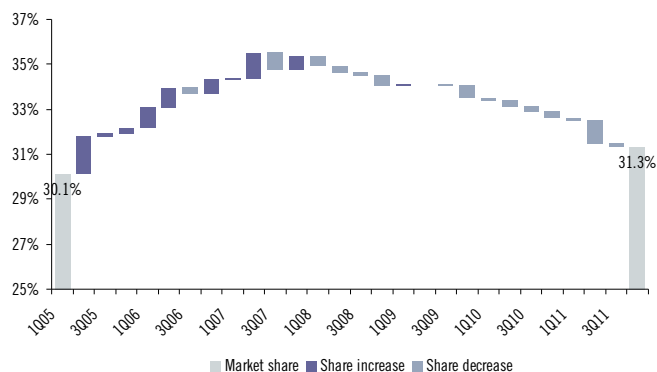
- **Last tranche of J-Phone receipts:** Vodafone is due to receive the final payment of ¥200bn (£1.5bn) in April 2012 for the sale of its securities in Softbank Mobile and has left its options open regarding use of funds. Extending its share buyback may depend on the outcome of the India capital gains tax case.
- **Accounting for Vodafone Italy:** Vodafone owns 76.9% of its Italian business, but it is considered a joint venture under IFRS and is currently proportionately consolidated. However, under the IASB's new standard, IFRS 11 dealing with joint venture accounting, Vodafone is likely to have to treat Italy as an associate for accounting purposes – ie to equity account it. Such a change would be earnings neutral but impact revenue, EBITDA and the cash flow statement. Vodafone Italy already distributes all of its FCF and under IFRS 11 Vodafone's share of Italy's FCF would appear as a dividend received in the group accounts rather than under the line items as now. We expect Vodafone to have to comment on this change in its next annual report – for 2011/12 - but only to have to implement it from 2013/14 unless changes to governance arrangements can be agreed with Verizon in the meantime. While Vodafone is likely to be interested in buying Verizon's 23.1% stake if it were available at the right price, another option might be to agree a leveraging up and dividend policy in return for Verizon conceding the shareholder rights that it holds which prevent Vodafone from consolidating under IFRS 11. Given that this is an accounting and not an economic change, we doubt Vodafone would be prepared to go further.
- **UK spectrum auctions:** Ofcom is still intending to start the UK 4G spectrum auction in 2H12 and, with the country falling behind the rest of Europe, this matter is getting increasing political and media attention. In practice the spectrum will not be available until 2013 anyway and few European countries are starting to deploy LTE now, Germany being a notable exception. Ofcom has complained publicly that the UK mobile operators were gaming the system by threatening legal action over the 4G auctions to give themselves strategic advantage. Vodafone has responded saying that Ofcom's proposed auction structure is unfair as it would lead to an implicit subsidy from Vodafone and O2 to market leader Everything Everywhere and Hutchison's 3UK. We sympathise with Mr Richards who has inherited a complex set of licences and UK and European legislation to navigate but it also seems the UK government is hoping to have it both ways with a high price charged to the incumbent sub 1GHz operators to maximize auction returns and a lower price for the other operators to ensure plurality of ownership at this level in the frequency range. It is worth noting that Germany achieved greater plurality while also charging all the players essentially the same amount for the same spectrum.
- **Approval process for Verizon Wireless acquisition of SpectrumCo.** Verizon Wireless has announced the purchase of SpectrumCo – a joint venture between Comcast and other cable firms – for \$3.6bn (\$0.69 per MHz per pop) and well as the AWS spectrum holdings of Cox Communications for \$315m. SpectrumCo owns 122 licences in the AWS band (1.7GHz/2.1GHz) covering 259m pops. We expect the deal approval process to be complete before the end of 2012. Other commercial agreements were included in the deal: 1) Verizon Wireless can sell cable services outside its parent Verizon's own local fibre territories, 2) Cable firms can sell Verizon Wireless services as an agent with the option to sell cable branded wireless "powered by Verizon" through an MVNO in 4+ years. 3) Firms expect to set up a JV innovation company to integrate wireline/wireless services. We regard the deal as a positive for Verizon which, if it is approved, has grabbed a powerful partner and valuable 4G spectrum while T-Mobile US was tied up with its AT&T deal approval process. We do not view the cost of these deals as having a significant impact on VZW's dividend outlook on its own.

**Figure 223. Vodafone has stabilised share in Germany**  
% service revenue market share, quarterly movements



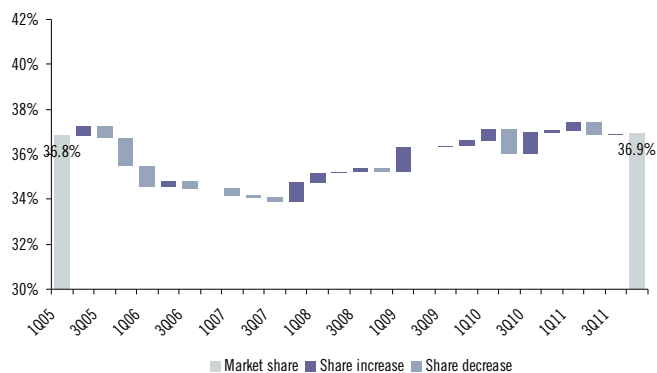
Source: Company Reports and CIRA Estimates

**Figure 225. Vodafone is continuing to lose share in Spain**  
% service revenue market share, quarterly movements



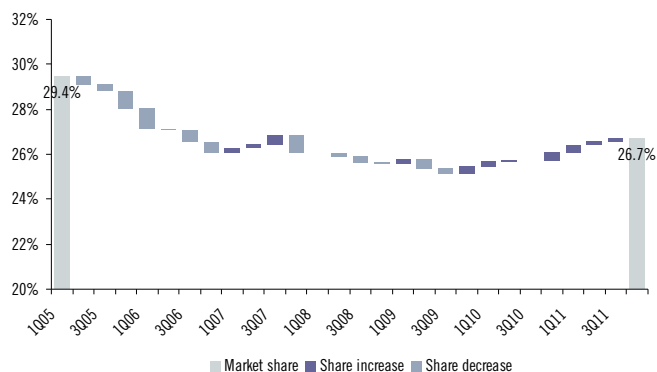
Source: Company Reports and CIRA Estimates

**Figure 224. Vodafone's share gain share in Italy has leveled out**  
% service revenue market share, quarterly movements



Source: Company Reports and CIRA Estimates

**Figure 226. Vodafone has maintained its recovery in share in the UK**  
% service revenue market share, quarterly movements



Source: Company Reports and CIRA Estimates

# Eutelsat Communications

## ■ Company Update

**Tania Valiente**  
+44-20-7986-4140  
tania.valiente@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	€29.94
Target price	€32.00
Expected share price return	6.9%
Expected dividend yield	3.3%
<b>Expected total return</b>	<b>10.2%</b>
Market Cap	€6,590M
	US\$8,529M

## Price Performance (RIC: ETL.PA, BB: ETL FP)



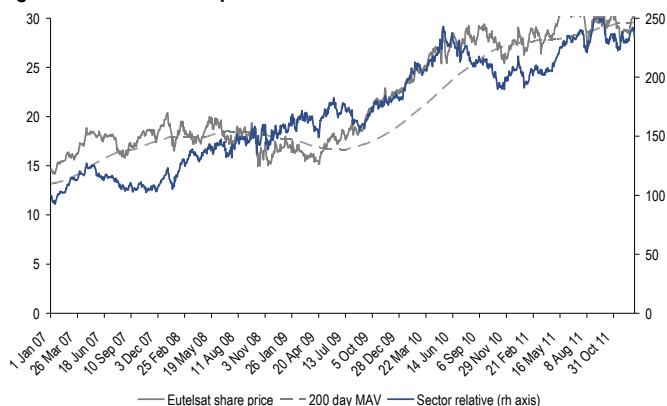
## Defensive but not great earnings momentum

- **Key Issue** — After a soft first quarter top-line trend (+3.4% yoy vs. +9.7% last quarter) management reassured investors on the potential for growth acceleration in 2H12 as more Ku-Band capacity becomes available with AB7 and W3C. Although the full year 2012 revenue guidance implying +5.7% yoy was reiterated, Bloomberg consensus numbers still look for a +7.2% top-line growth in FY12 despite the recent estimate downgrades (see overleaf for earnings momentum).
- **Our view** — ETL remains a defensive stock with limited macro exposure in a severe downturn scenario next year. We think this is priced-in with the shares trading on 9.0x/17.8x calendarised 2012E EV/EBITDA, P/E. We are worried about the limited scope for earnings upgrades over the next twelve months, mainly because of a slow early ramp-up in Ka-Sat (included in the Value Added Services revenue line). This makes a significant multiple re-rating unlikely in our view. However, we are not concerned about the sustainability of the dividend payment or potential for dilutive M&A given solid management track-record so far: we forecast €1.00/share DPS (cons. €0.99) in FY12, 11.5% growth y-o-y.
- **Next catalyst** — Eutelsat will report 1H11/12 earnings on Feb 16, 2012. We forecast 5% yoy revenue growth in 2Q (still below the full year trend) and 78.3% EBITDA margin for 1H11/12 vs. 80.4% margin in 1H10/11.
- **Significant upcoming event — Two launches in 2012:** The company has a lighter launch schedule this year, which will allow it to focus on selling the existing capacity (79.2% fill rate at the end of June 2011). The launch of W6A is scheduled for Sept-Nov 2012. The satellite will be located at 21.5°East replacing W6 and adding 50% capacity (12 incremental Ku-band transponders) over Europe, North Africa and the Middle East. W5A is likely to launch in Oct-Dec 2012 and carries replacement capacity only at 70.5°East (Middle East and Central Asia).

## Eutelsat Communications (EUR)

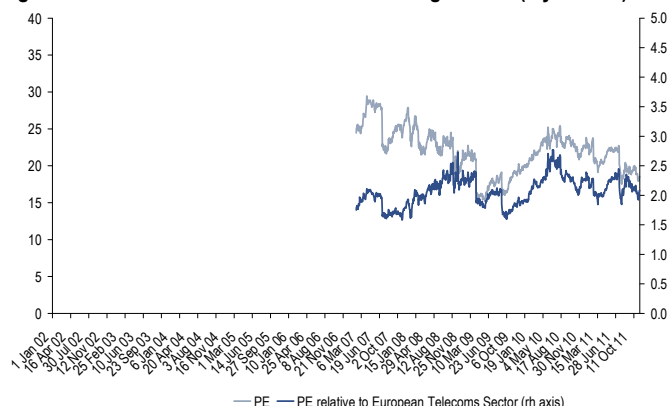
Year to 30 Jun	2010A	2011A	2012E	2013E	2014E
Sales (€M)	1,047.2	1,168.1	1,249.8	1,362.4	1,489.3
Net Income (€M)	269.5	338.5	350.6	393.6	415.6
Diluted EPS (€)	1.22	1.54	1.59	1.79	1.89
Diluted EPS (Old) (€)	1.22	1.54	1.59	1.79	1.89
PE (x)	24.5	19.5	18.8	16.7	15.9
EV/EBITDA (x)	10.9	9.7	9.2	8.4	7.7
DPS (€)	0.76	0.90	1.00	1.15	1.30
Net Div Yield (%)	2.5	3.0	3.4	3.9	4.4

Figure 227. ETL has outperformed the telecoms sector in 2011



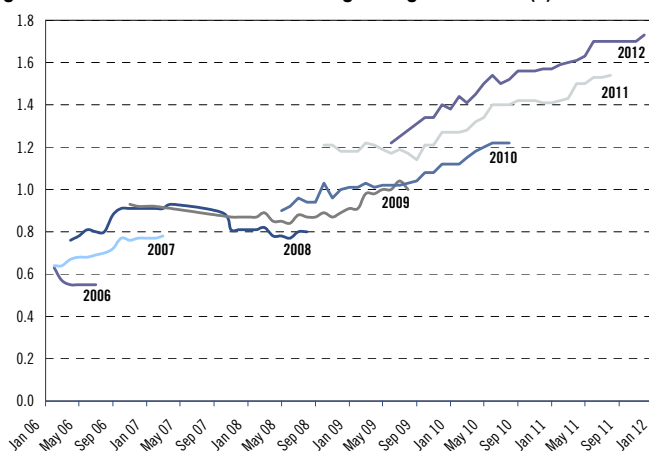
Source: DataStream

Figure 228. ETL trades above the sector average on PE (1 year fwd)



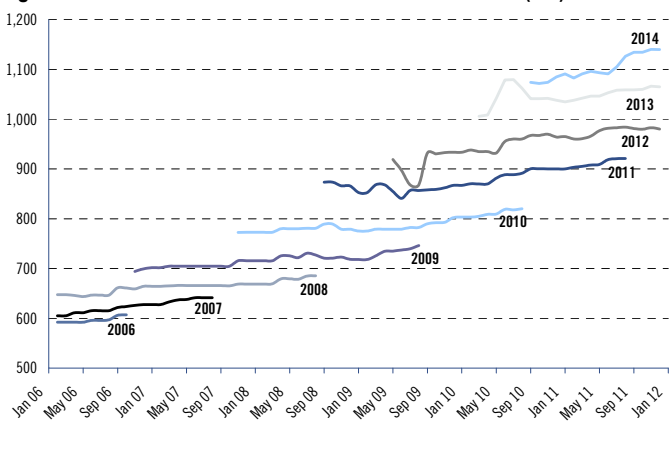
Source: DataStream

Figure 229. Consensus EPS has been growing since 2009 (€)



Source: DataStream

Figure 230. EBITDA consensus has stabilized for 2012E (€m)



Source: DataStream

Profit & Loss (€M)	2010	2011	2012E	2013E	2014E
Net sales	1,047	1,168	1,250	1,362	1,489
Operating expenses	-533	-522	-603	-649	-741
<b>EBIT</b>	<b>514</b>	<b>646</b>	<b>647</b>	<b>714</b>	<b>748</b>
Net interest expense	-101	-109	-107	-108	-110
Non-operating/exceptionals	12	17	20	23	26
<b>Pre-tax profit</b>	<b>426</b>	<b>554</b>	<b>560</b>	<b>629</b>	<b>664</b>
Tax	-143	-199	-193	-217	-229
Extraord./Min.Int./Pref.div.	-13	-16	-17	-19	-20
<b>Reported net income</b>	<b>270</b>	<b>338</b>	<b>351</b>	<b>394</b>	<b>416</b>
Adjusted earnings	270	338	351	394	416
Adjusted EBITDA	828	926	970	1,066	1,172
Growth Rates (%)					
Sales	11.3	11.5	7.0	9.0	9.3
EBIT adjusted	7.8	26.9	0.2	10.3	4.8
EBITDA adjusted	11.5	11.9	4.7	9.9	10.0
EPS adjusted	8.7	25.6	3.6	12.3	5.6

Source: Company, Citi Investment Research and Analysis

# Inmarsat plc

## Low valuation but very high risks

### ■ Company Update

**Tania Valiente**  
+44-20-7986-4140  
tania.valiente@citi.com

<b>Neutral</b>	<b>2</b>
Price (04 Jan 12)	£4.22
Target price	£4.80
Expected share price return	13.9%
Expected dividend yield	6.0%
<b>Expected total return</b>	<b>19.9%</b>
Market Cap	£1,888M
	US\$2,948M

### Price Performance (RIC: ISA.L, BB: ISAT LN)



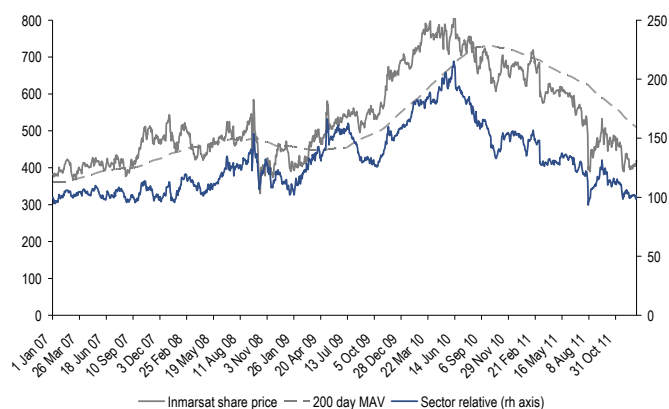
- **Key Issues** — While the core MSS business remains under pressure (-2.4% yoy revenue growth in 3Q11; we forecast +0.2% in 4Q11E on easier comps), we think the two main issues investors are focused on are: 1) the FCC decision on the GPS interference issues in the US and 2) is the stock an attractive M&A target given current valuation at the bottom of the historic trading range?
- **FCC decision: a binary event** — We are cautious on the stock ahead of the FCC final decision which is likely to come in 1H12 and is a binary event in our view. The deadline for the NTIA incremental testing on GPS interference issues was Nov 30. The federal agency said it would "*promptly*" analyse the results, examine potential technical solutions if needed, and develop recommendations. On our estimates, the 10-year NPV of the annual payments from the spectrum leasing agreement comes to c. 80p/share. The visibility on the sustainability of these payments is very low. The valuation for ISAT US L-Band spectrum implied by the annual payments is c. \$0.30/MHz/pop which doesn't look stretched compared to industry standards. However, this floor valuation is conditioned by the FCC allowing the L-Band spectrum to be used for terrestrial 4G services.
- **Low probability of a take-over in our view** — Bloomberg (13 Sep) quoted ISAT's CEO as saying that it is natural for private equity firms to consider investment in satellite businesses but that it has received no "formal" approach. We think the regulatory uncertainty regarding the potential usage of L-Band spectrum in the US, combined with the reduced visibility on the core MSS business growth prospects over the near term and ahead of the ISAT-5 launch in 2013/2014, are two major risks which reduce the probability of a private equity investment.
- **Next catalyst** — Full year 2011 results and a potential update on the mid-term core MSS revenue growth guidance (was 5-7% on average between 2010 and 2014E, using 2009 as the base year) on March 6th, 2012.
- **Significant upcoming event** — The final FCC decision on the GPS interference issues, likely to come in 1H12 in our view. As a reminder, according to an FCC filing, the portion of the frequency band concerned by the leasing agreement with Inmarsat (1,526-1,536 MHz) "poses no risk to the users of over 99 percent of GPS devices". The FCC's final take on this issue will determine the usability and valuation of ISAT's US L-Band spectrum holdings.

### Inmarsat plc (USD)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (\$M)	1,038.1	1,171.6	1,400.6	1,453.8	1,433.3
Profit Before Tax (\$M)	196.9	333.5	488.6	376.9	259.8
Diluted EPS (\$)	0.38	0.57	0.81	0.65	0.46
Diluted EPS (Old) (\$)	0.38	0.57	0.81	0.65	0.46
PE (x)	17.5	11.5	8.2	10.2	14.4
EV/EBITDA (x)	7.3	6.0	5.0	5.7	6.2
DPS (\$)	0.33	0.37	0.40	0.44	0.49
Net Div Yield (%)	5.1	5.6	6.1	6.7	7.4

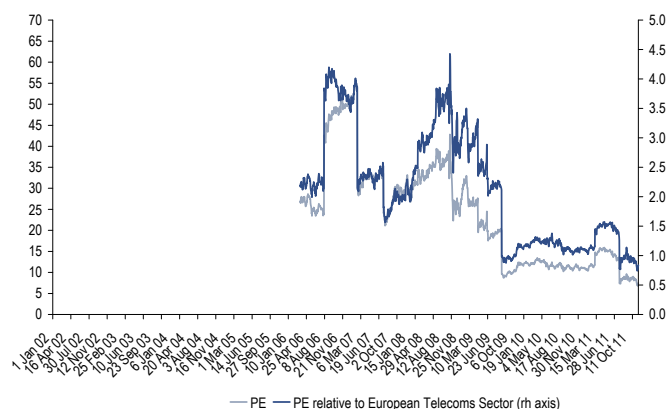


Figure 231. ISAT has underperformed the telecoms sector since mid 2010



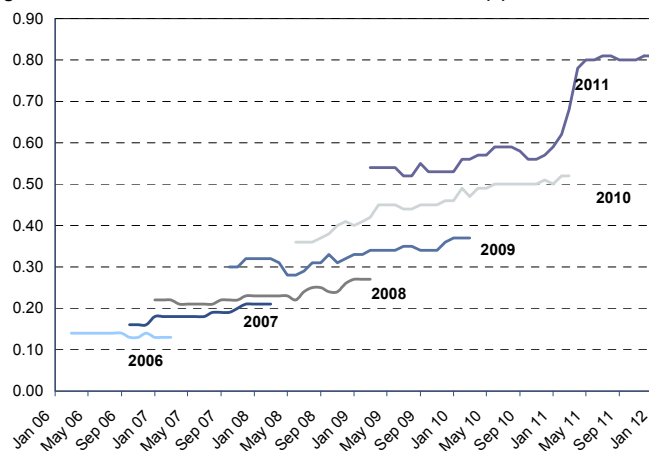
Source: DataStream

Figure 232. ISAT traded above the sector average on PE (1 yr fwd)



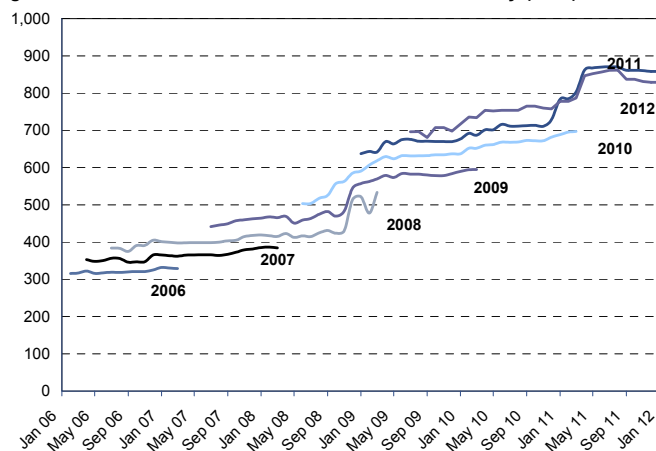
Source: DataStream

Figure 233. Consensus EPS has been stable for 2011 (\$)



Source: DataStream

Figure 234. Consensus EBITDA has come down recently (\$mn)



Source: DataStream

Profit & Loss (\$M)	2009	2010	2011E	2012E	2013E
Net sales	1,038	1,172	1,401	1,454	1,433
Operating expenses	-676	-710	-796	-939	-995
<b>EBIT</b>	<b>363</b>	<b>462</b>	<b>605</b>	<b>515</b>	<b>439</b>
Net interest expense	-160	-127	-117	-139	-180
Non-operating/exceptionals	-6	-1	1	2	2
<b>Pre-tax profit</b>	<b>197</b>	<b>334</b>	<b>489</b>	<b>377</b>	<b>260</b>
Tax	-44	-72	-122	-94	-65
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>153</b>	<b>261</b>	<b>366</b>	<b>282</b>	<b>195</b>
Adjusted earnings	173	263	366	282	195
Adjusted EBITDA	594	696	847	789	755
<b>Growth Rates (%)</b>					
Sales	4.2	12.9	19.5	3.8	-1.4
EBIT adjusted	14.6	27.3	31.0	-14.9	-14.8
EBITDA adjusted	11.9	17.1	21.6	-6.8	-4.3
EPS adjusted	26.5	51.4	41.3	-19.8	-29.4

Source: Company, Citi Investment Research and Analysis

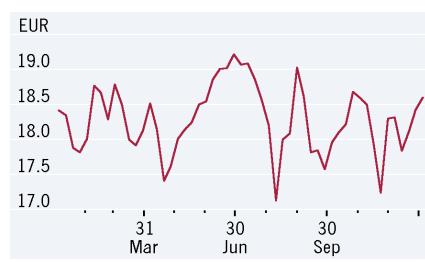
# SES S.A

## ■ Company Update

**Tania Valiente**  
+44-20-7986-4140  
tania.valiente@citi.com

<b>Sell</b>	<b>3</b>
Price (04 Jan 12)	€18.60
Target price	€16.50
Expected share price return	-11.3%
Expected dividend yield	4.7%
<b>Expected total return</b>	<b>-6.6%</b>
Market Cap	€8,844M
	US\$11,446M

## Price Performance (RIC: SESFd.PA, BB: SESG FP)



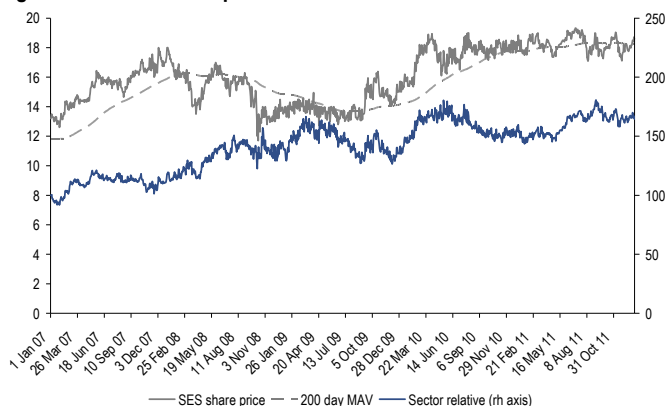
## High price to pay for poor earnings momentum

- **Key Issues** — Two main issues look set to affect SES's growth profile next year: 1) the negative impact from the German analogue switch-off which we estimate at c. €80m vs. consensus at c. €40m and 2) launch delays on two satellites and a solar array problem with a third satellite: we estimate the total negative top-line impact in 2012E from launch delays and circuit failure on AMC-15 to c. €18m.
- **Our view** — The stock trades on 9.0x adjusted 2012E EV/EBITDA, in line with its closest peer Eutelsat. We argue SES should trade at a discount to ETL given we estimate SES will grow top-line y-o-y by just above 1% organically in 2012E vs. c. 7% for ETL.
- **Next catalyst** — We expect SES management to update on the 2012 and mid-term guidance with its full year results on February 17. The current midterm guidance is for recurring revenue CAGR of between 4% and 5% over 2009-2012, which implies 3.7% recurring revenue growth y-o-y for 2012E. This assumes the delays in satellite launches are non-organic (hence excluded from guidance) and includes a €40m negative top-line impact from the German analogue switch-off.
- **Significant upcoming event** — In a Bloomberg interview from Sep.14, SES CEO said the company would be interested in acquiring Greek satellite operator Hellas Sat, currently owned by telecom operator OTE if the asset becomes available for sale. OTE might consider non-core asset disposals ahead of significant refinancing needed ahead of 2013. Hellas Sat 2 is located at 39° East with coverage over Europe, South Africa and the Middle East. The satellite has 30 Ku-Band transponders and c. 6.5 years of expected lifetime remaining.
- **What price for a Greek satellite?** — There are two things to keep in mind when thinking about the value of this asset: 1) There is scarcity in terms of valuable orbital slots above Europe: the 39° East slot is attractive given the operational synergies could be significant and 2) The value of the asset might be depressed by the fact that the owner is the Greek telecom incumbent which the market expects to have difficulties in raising cash over the next period. Based on a recent Brazilian auction where the price paid per orbital slot allocated was between \$22m and \$91m and based on the SES acquisition of New Skies Satellites in 2006 (5 orbital slots and 5 satellites + 1 satellite under construction) where the implied value per slot + satellite comes roughly at €170m, we think the sale of Hellas Sat could generate between €100m and €200m.

## SES S.A. (EUR)

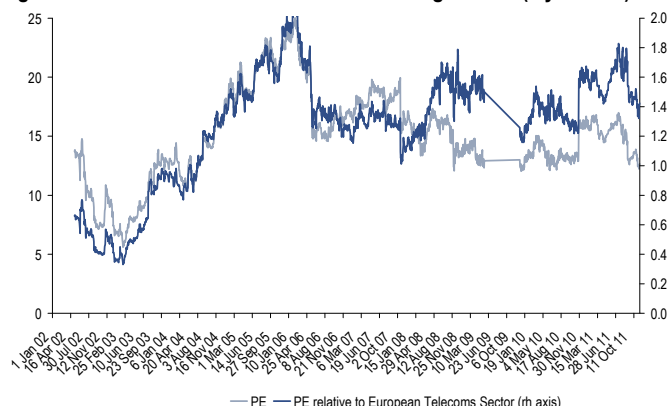
Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	1,701.6	1,735.7	1,730.0	1,769.0	1,876.5
Net Income (€M)	476.5	523.6	560.7	453.9	481.4
Diluted EPS (€)	1.22	1.33	1.39	1.13	1.19
Diluted EPS (Old) (€)	1.22	1.33	1.39	1.13	1.19
PE (x)	15.2	14.0	13.4	16.5	15.6
EV/EBITDA (x)	10.6	9.8	10.2	10.1	9.5
DPS (€)	0.73	0.80	0.88	0.99	1.09
Net Div Yield (%)	3.9	4.3	4.7	5.3	5.9

Figure 235. SES has outperformed the telecom sector in 2011



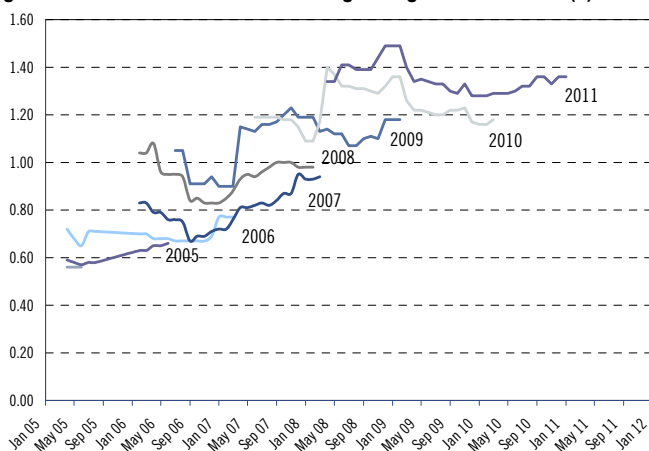
Source: DataStream

Figure 236. SES trades above the sector average on PE (1 year fwd)



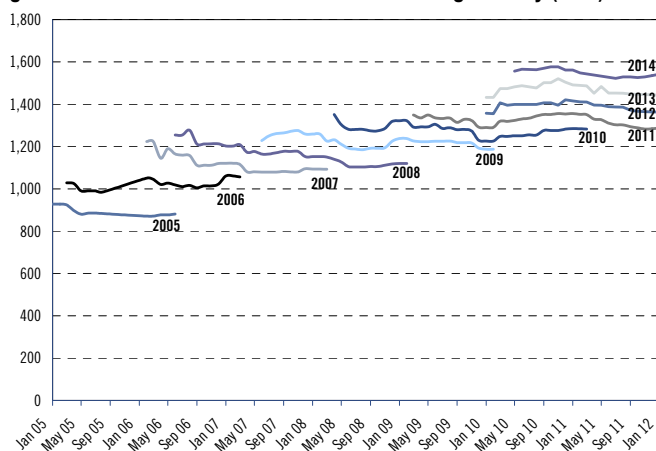
Source: DataStream

Figure 237. Consensus EPS has been growing since mid-2011 (€)



Source: DataStream

Figure 238. EBITDA consensus has been declining recently (€mn)



Source: DataStream

Profit & Loss (€M)	2010	2011	2012E	2013E	2014E
Net sales	1,702	1,736	1,730	1,769	1,876
Operating expenses	-1,001	-938	-922	-1,030	-1,096
<b>EBIT</b>	<b>701</b>	<b>797</b>	<b>808</b>	<b>739</b>	<b>781</b>
Net interest expense	-135	-196	-159	-205	-206
Non-operating/exceptionals	2	-4	-13	-10	-5
<b>Pre-tax profit</b>	<b>568</b>	<b>598</b>	<b>636</b>	<b>525</b>	<b>570</b>
Tax	-91	-74	-65	-68	-86
Extraord./Min.Int./Pref.div.	-1	0	-10	-2	-2
<b>Reported net income</b>	<b>477</b>	<b>524</b>	<b>561</b>	<b>454</b>	<b>481</b>
Adjusted earnings	477	524	561	454	481
Adjusted EBITDA	1,190	1,296	1,264	1,290	1,386
<b>Growth Rates (%)</b>					
Sales	4.4	2.0	-0.3	2.3	6.1
EBIT adjusted	12.0	13.8	1.3	-8.5	5.7
EBITDA adjusted	8.3	9.0	-2.5	2.1	7.4
EPS adjusted	24.5	9.2	4.5	-19.1	6.1

Source: Company, Citi Investment Research and Analysis

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## Country Section

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# Austria

## Fixed

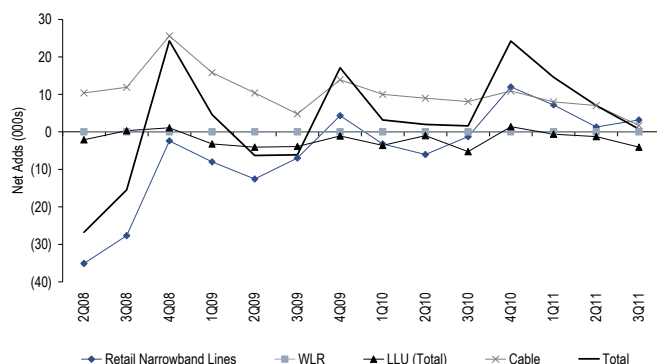
- For the fourth quarter in a row, fixed retail voice lines grew. Austria is the only market in Europe where this is the case. Fixed broadband net adds (+26k) remained strong, driven by Telekom Austria (+32k) and Telekom Austria continues to take share now at 61.5%.

## Mobile

- Competition remained high in the Austrian mobile market where service revenue growth ex MTRs has fallen from -0.5% in 3Q10 to -4.6% in 3Q11 the lowest in Europe. This was driven by lower mobile data growth, with the decline in voice slightly worse than 2Q11.

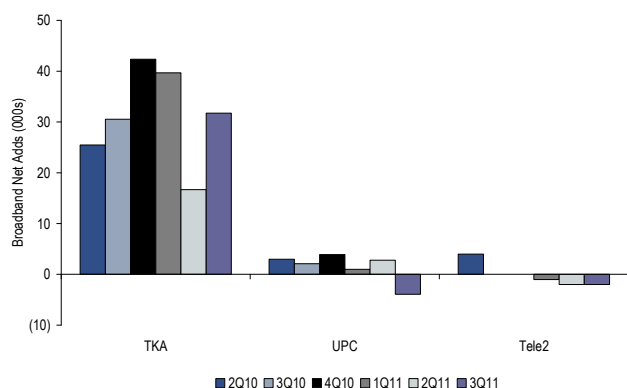
## Fixed Charts

Figure 239. Telephony Net Adds



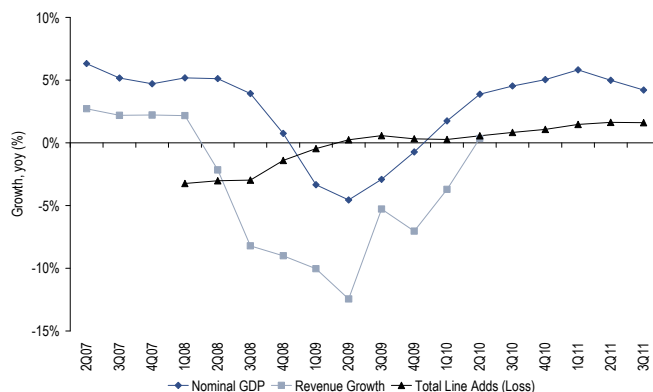
Source: Company reports and Citi Investment Research and Analysis

Figure 241. Line Loss, Incumbent Revenue Growth and GDP



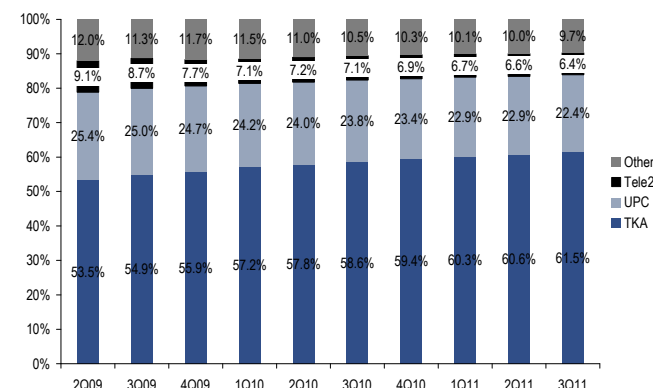
Source: Company reports and Citi Investment Research and Analysis

Figure 240. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

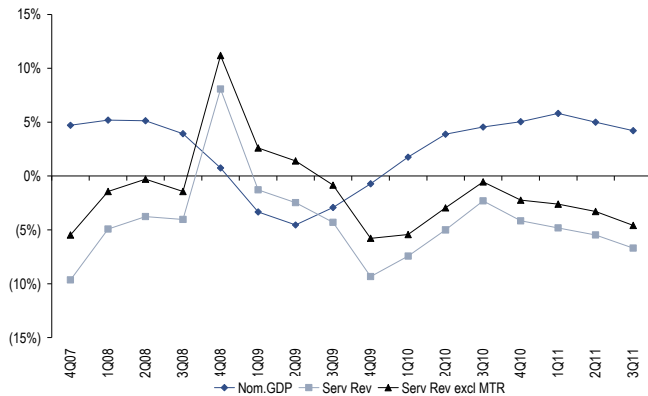
Figure 242. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

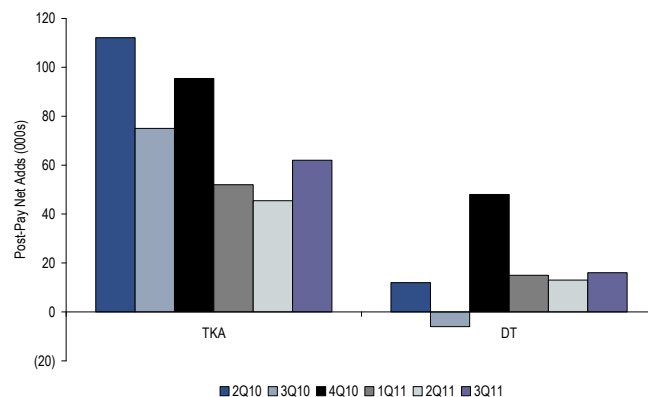
## Mobile Charts

Figure 243. Revenue and GDP



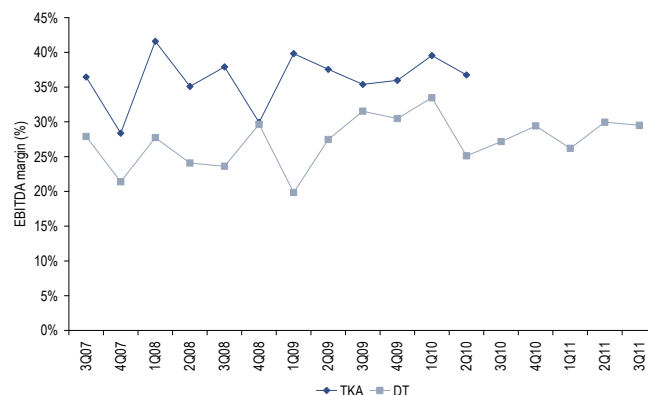
Source: Company reports and Citi Investment Research and Analysis

Figure 244. Post-Paid Net Adds



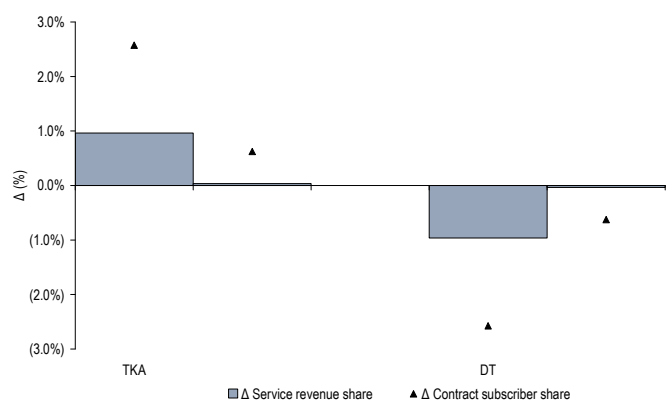
Source: Company reports and Citi Investment Research and Analysis

Figure 246. EBITDA Margin



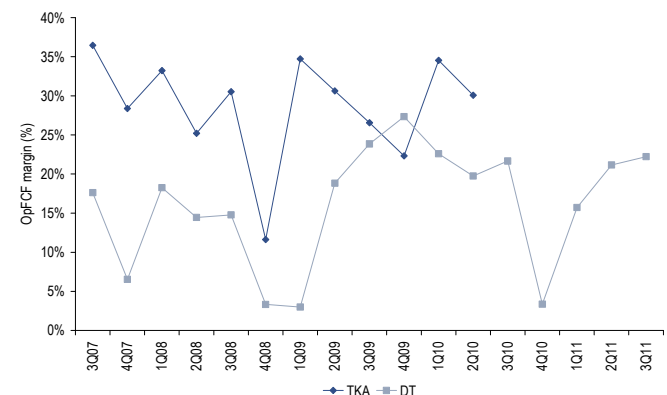
Source: Company reports and Citi Investment Research and Analysis

Figure 245. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 247. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Austria Mobile Data

Figure 248. Austria Mobile Market Information

Austria	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
TKA	355	375	343	348	337	334	319	331	334	328	310	317	312
T-Mobile (DT)	255	259	256	245	247	241	235	232	236	223	218	215	220
<b>Total</b>	<b>610</b>	<b>634</b>	<b>599</b>	<b>593</b>	<b>584</b>	<b>575</b>	<b>554</b>	<b>563</b>	<b>570</b>	<b>551</b>	<b>528</b>	<b>532</b>	<b>532</b>
<b>Service Revenue Growth, yoy</b>													
TKA	0.1%	14.1%	0.1%	(0.0%)	(5.1%)	(11.0%)	(6.8%)	(4.8%)	(0.8%)	(1.8%)	(3.1%)	(4.2%)	(6.6%)
T-Mobile (DT)	(9.3%)	0.4%	(3.0%)	(5.8%)	(3.1%)	(6.9%)	(8.2%)	(5.3%)	(4.5%)	(7.5%)	(7.2%)	(7.3%)	(6.8%)
<b>Total</b>	<b>(4.0%)</b>	<b>8.1%</b>	<b>(1.3%)</b>	<b>(2.5%)</b>	<b>(4.3%)</b>	<b>(9.3%)</b>	<b>(7.4%)</b>	<b>(5.0%)</b>	<b>(2.3%)</b>	<b>(4.2%)</b>	<b>(4.8%)</b>	<b>(5.5%)</b>	<b>(6.7%)</b>
<b>Service Revenue Market Share</b>													
TKA	58.2%	59.2%	57.3%	58.7%	57.7%	58.1%	57.6%	58.8%	58.6%	59.5%	58.7%	59.6%	58.6%
T-Mobile (DT)	41.8%	40.8%	42.7%	41.3%	42.3%	41.9%	42.4%	41.2%	41.4%	40.5%	41.3%	40.4%	41.4%
<b>Post-pay Customers, 000s</b>													
TKA	2,986	3,126	3,228	3,281	3,395	3,519	3,597	3,709	3,784	3,879	3,931	3,977	4,039
T-Mobile (DT)	2,223	2,270	2,305	2,297	2,273	2,326	2,328	2,340	2,334	2,382	2,397	2,410	2,426
<b>Call Volumes, mn min/qtr</b>													
TKA	2,190	2,324	2,292	2,264	2,242	2,369	2,331	2,366	2,321	2,425	2,337	2,315	2,281
Deutsche Telekom	2,138	2,344	2,445	2,414	2,322	2,511	2,419	2,489	2,421	2,619	2,580	2,591	2,496
<b>Total</b>	<b>4,329</b>	<b>4,668</b>	<b>4,737</b>	<b>4,678</b>	<b>4,564</b>	<b>4,880</b>	<b>4,750</b>	<b>4,855</b>	<b>4,742</b>	<b>5,044</b>	<b>4,917</b>	<b>4,905</b>	<b>4,777</b>
<b>Call Volume growth, yoy</b>													
TKA	10.2%	6.6%	3.3%	1.9%	2.4%	1.9%	1.7%	4.5%	3.6%	2.4%	0.2%	(2.2%)	(1.7%)
Deutsche Telekom	3.0%	3.5%	8.6%	10.6%	8.6%	7.1%	(1.1%)	3.1%	4.3%	4.3%	6.7%	4.1%	3.1%
<b>Total</b>	<b>6.5%</b>	<b>5.0%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>5.4%</b>	<b>4.5%</b>	<b>0.3%</b>	<b>3.8%</b>	<b>3.9%</b>	<b>3.4%</b>	<b>3.5%</b>	<b>1.0%</b>	<b>0.7%</b>
<b>Contract Churn, % p.a</b>													
TKA	16.8%	18.5%	23.9%	25.4%	24.2%	26.4%	27.6%	21.6%	22.8%	26.4%	31.7%	29.4%	27.2%
T-Mobile (DT)	10.8%	12.0%	12.0%	12.0%	13.2%	12.0%	15.6%	10.8%	16.8%	9.6%	10.8%	10.8%	9.6%
<b>EBITDA, €m</b>													
TKA	159	132	161	147	139	139	144	138					
T-Mobile (DT)	64	80	53	70	82	78	83	61	69	70	60	68	69

Source: Company reports and Citi Investment Research and Analysis



## Austria Fixed Data

Figure 249. Austria Fixed Line Market Information

Austria	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	766	819	872	896	931	972	1,017	1,043	1,073	1,116	1,155	1,172	1,204
Incumbent wholesale	69	67	63	63	52	50	48	47	46	46	45	44	43
ULL (total)	298	299	296	292	288	287	283	282	277	278	278	276	272
Cable	431	434	427	426	424	430	430	433	435	439	440	443	439
<b>Total</b>	<b>1,564</b>	<b>1,619</b>	<b>1,659</b>	<b>1,676</b>	<b>1,695</b>	<b>1,739</b>	<b>1,778</b>	<b>1,804</b>	<b>1,831</b>	<b>1,878</b>	<b>1,917</b>	<b>1,935</b>	<b>1,958</b>
<b>Broadband Subscribers (000s)</b>													
TKA	766	819	872	896	931	972	1,017	1,043	1,073	1,116	1,155	1,172	1,204
UPC	431	434	427	426	424	430	430	433	435	439	440	443	439
Tele2	168	164	157	153	148	134	126	130	130	130	129	127	125
- other	199	202	202	201	192	203	205	199	193	194	193	193	190
<b>Total</b>	<b>1,564</b>	<b>1,619</b>	<b>1,659</b>	<b>1,676</b>	<b>1,695</b>	<b>1,739</b>	<b>1,778</b>	<b>1,804</b>	<b>1,831</b>	<b>1,878</b>	<b>1,917</b>	<b>1,935</b>	<b>1,958</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
TKA	9	53	53	24	35	42	45	25	31	42	40	17	32
UPC	(3)	3	(7)	(1)	(2)	6	0	3	2	4	1	3	(4)
Tele2	(3)	(4)	(7)	(4)	(5)	(14)	(8)	4	0	0	(1)	(2)	(2)
- other	3	3	0	(1)	(10)	11	2	(6)	(6)	1	(1)	0	(3)
<b>Total</b>	<b>7</b>	<b>54</b>	<b>40</b>	<b>17</b>	<b>19</b>	<b>45</b>	<b>39</b>	<b>26</b>	<b>27</b>	<b>47</b>	<b>39</b>	<b>18</b>	<b>23</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	2,339	2,337	2,329	2,316	2,309	2,314	2,310	2,304	2,303	2,315	2,322	2,323	2,327
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	298	299	296	292	288	287	283	282	277	278	278	276	272
Cable	217	242	258	268	273	287	297	306	314	325	333	340	342
<b>Total</b>	<b>2,854</b>	<b>2,878</b>	<b>2,882</b>	<b>2,876</b>	<b>2,870</b>	<b>2,887</b>	<b>2,890</b>	<b>2,892</b>	<b>2,894</b>	<b>2,918</b>	<b>2,933</b>	<b>2,940</b>	<b>2,940</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(28)	(2)	(8)	(13)	(7)	4	(3)	(6)	(1)	12	7	1	3
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	0	1	(3)	(4)	(4)	(1)	(4)	(1)	(5)	1	(1)	(1)	(4)
Cable	12	26	16	10	5	14	10	9	8	11	8	7	2
<b>Total</b>	<b>(16)</b>	<b>24</b>	<b>5</b>	<b>(6)</b>	<b>(6)</b>	<b>17</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>24</b>	<b>15</b>	<b>7</b>	<b>1</b>

Source: Company reports and Citi Investment Research and Analysis

# Belgium

## Fixed

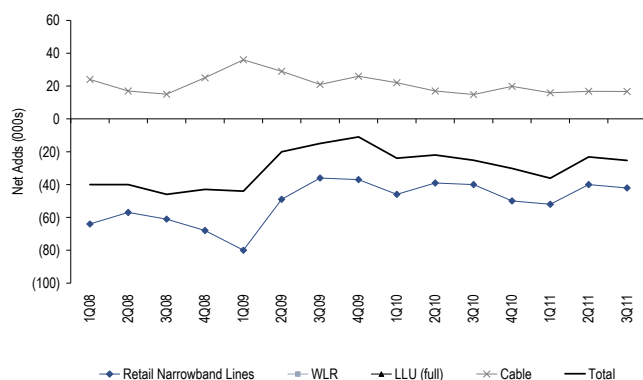
- 3Q11 Retail line losses (-5.5%) were similar to 2Q11 (-5.4%) and Belgacom continued to lose broadband market share in particular to Voo in the South and to a lower extent Telenet in the North.

## Mobile

- Service revenue growth ex MTRs worsened to 0.3% in 3Q11 from 2.8% in 2Q11 with postpaid net adds stable at 95k.
- KPN continues to grow EBITDA margin (3Q11:36.9% vs 2Q11:33%) and market share (3Q11:19.3% vs 2Q11:18.5%) at the expense of Belgacom (3Q11:45.1% vs 2Q11:46.3%). Belgacom's improved commercial momentum shown in Q2 continued in Q3. For the second quarter in a row, Belgacom recorded the best number of net additions in the market.

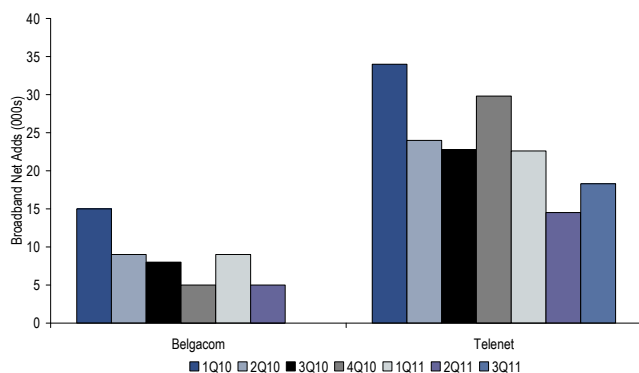
## Fixed Charts

Figure 250. Telephony Net Adds



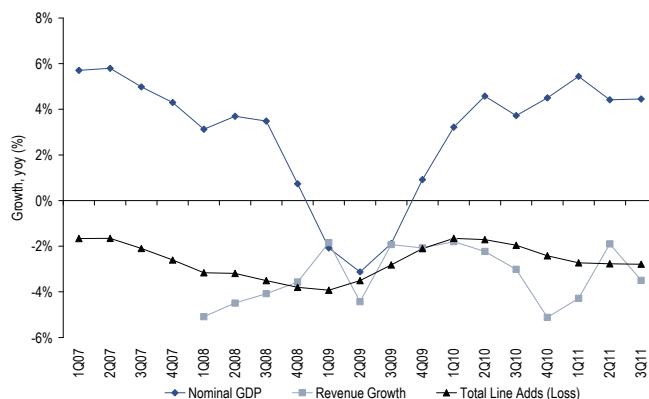
Source: Company reports and Citi Investment Research and Analysis

Figure 252. Broadband Subscriber Quarterly Net Adds



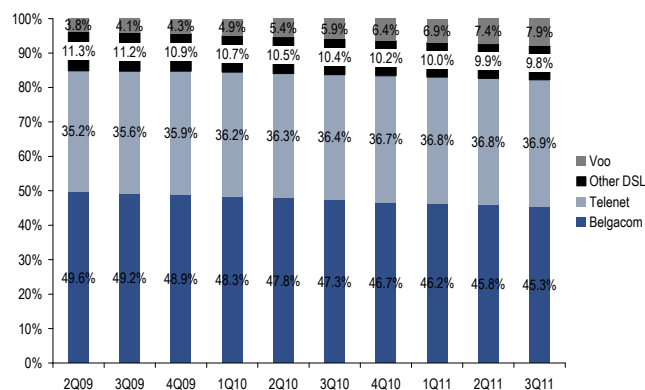
Source: Company reports and Citi Investment Research and Analysis

Figure 251. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

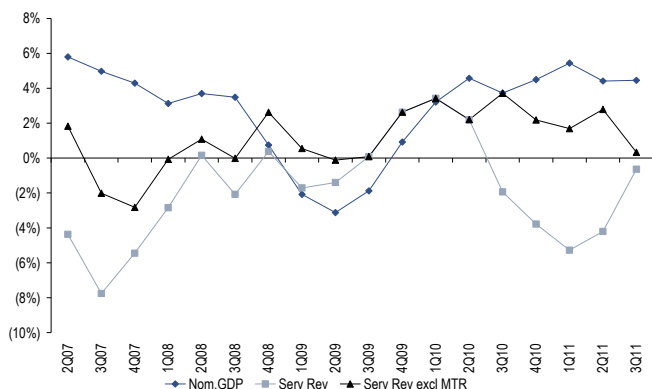
Figure 253. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

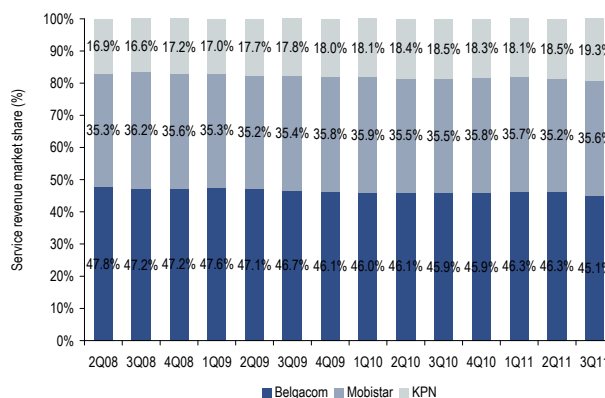
## Mobile Charts

Figure 254. Revenue and GDP



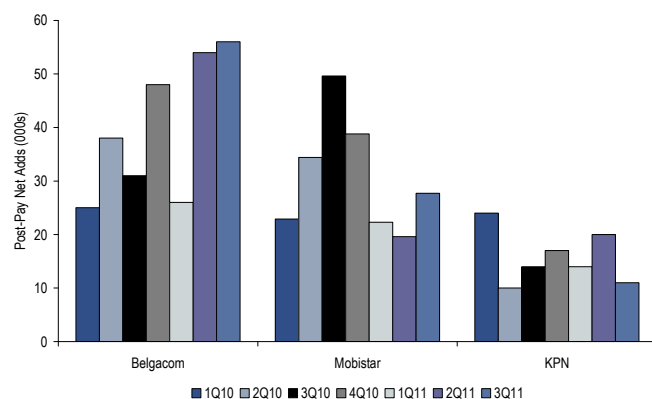
Source: Company reports and Citi Investment Research and Analysis

Figure 255. Service Revenue Market Share



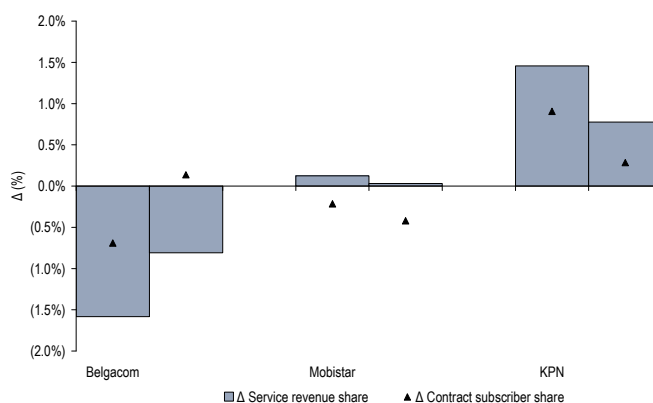
Source: Company reports and Citi Investment Research and Analysis

Figure 256. Post-Paid Net Adds



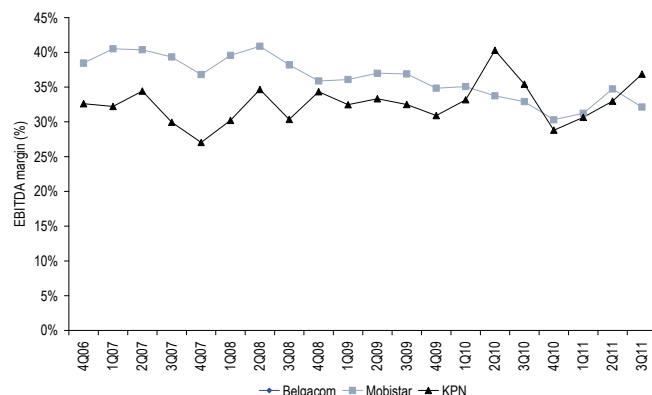
Source: Company reports and Citi Investment Research and Analysis

Figure 257. Change in Service Revenue and Contract Sub Share



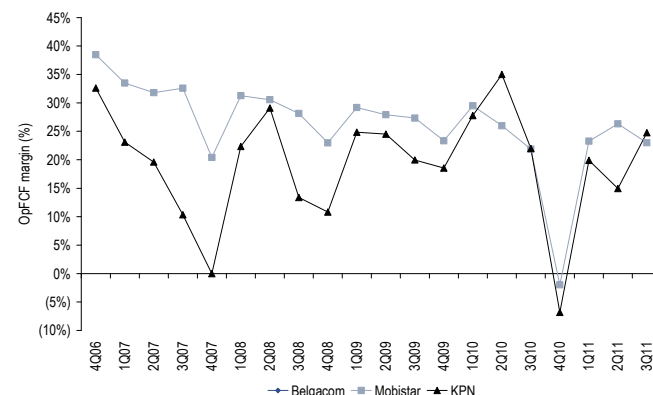
Source: Company reports and Citi Investment Research and Analysis

Figure 258. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 259. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Belgium Mobile Data

Figure 260. Belgium Mobile Market Information

Belgium	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
Belgacom	441	437	430	445	437	438	430	445	421	419	409	428	411
Mobistar	339	329	319	332	332	340	335	342	326	327	316	326	324
KPN	155	159	154	167	167	171	169	178	170	167	160	171	176
<b>Total</b>	<b>935</b>	<b>925</b>	<b>903</b>	<b>944</b>	<b>936</b>	<b>949</b>	<b>934</b>	<b>965</b>	<b>918</b>	<b>913</b>	<b>885</b>	<b>925</b>	<b>912</b>
<b>Service Revenue Growth, yoy</b>													
Belgacom	(6.6%)	(0.9%)	(4.7%)	(2.8%)	(0.9%)	0.2%	0.0%	0.0%	(3.6%)	(4.4%)	(4.8%)	(3.8%)	(2.4%)
Mobistar	1.0%	(1.1%)	(1.1%)	(1.6%)	(2.1%)	3.4%	5.0%	2.9%	(1.7%)	(3.8%)	(5.8%)	(4.8%)	(0.6%)
KPN	5.4%	7.4%	6.2%	3.1%	7.7%	7.5%	9.7%	6.6%	1.8%	(2.3%)	(5.3%)	(3.9%)	3.5%
<b>Total</b>	<b>(2.1%)</b>	<b>0.4%</b>	<b>(1.7%)</b>	<b>(1.4%)</b>	<b>0.1%</b>	<b>2.6%</b>	<b>3.4%</b>	<b>2.2%</b>	<b>(1.9%)</b>	<b>(3.8%)</b>	<b>(5.3%)</b>	<b>(4.2%)</b>	<b>(0.6%)</b>
<b>Service Revenue Market Share</b>													
Belgacom	47.2%	47.2%	47.6%	47.1%	46.7%	46.1%	46.0%	46.1%	45.9%	45.9%	46.3%	46.3%	45.1%
Mobistar	36.2%	35.6%	35.3%	35.2%	35.4%	35.8%	35.9%	35.5%	35.5%	35.8%	35.7%	35.2%	35.6%
KPN	16.6%	17.2%	17.0%	17.7%	17.8%	18.0%	18.1%	18.4%	18.5%	18.3%	18.1%	18.5%	19.3%
<b>Post-pay Customers, 000s</b>													
Belgacom	2,509	2,570	2,621	2,678	2,721	2,765	2,790	2,828	2,859	2,907	2,933	2,987	3,043
Mobistar	1,891	1,940	1,979	2,014	2,033	2,077	2,100	2,134	2,184	2,223	2,245	2,265	2,292
KPN	548	569	583	612	646	678	702	712	726	743	757	777	788
<b>Call Volumes, mn min/qtr</b>													
Belgacom	2,378	2,494	2,455	2,541	2,434	2,555	2,372	2,450	2,364	2,470	2,399	2,513	2,418
Mobistar	1,816	1,899	1,871	1,933	1,823	1,893	1,782	1,869	1,818	1,919	1,881	1,982	1,904
KPN	1,159	1,224	1,291	1,299	1,184	1,349	1,404	1,489	1,313	1,464	1,506	1,518	1,472
<b>Total</b>	<b>5,354</b>	<b>5,616</b>	<b>5,617</b>	<b>5,773</b>	<b>5,441</b>	<b>5,797</b>	<b>5,559</b>	<b>5,809</b>	<b>5,496</b>	<b>5,853</b>	<b>5,786</b>	<b>6,013</b>	<b>5,793</b>
<b>Call Volume growth, yoy</b>													
Belgacom	7.1%	4.4%	(0.5%)	(0.4%)	2.3%	2.5%	(3.4%)	(3.6%)	(2.9%)	(3.3%)	1.1%	2.5%	2.3%
Mobistar	10.8%	6.2%	0.4%	(0.3%)	0.4%	(0.3%)	(4.7%)	(3.3%)	(0.3%)	1.4%	5.5%	6.0%	4.7%
KPN	8.8%	6.8%	13.2%	11.2%	2.1%	10.3%	8.7%	14.7%	10.9%	8.5%	7.3%	1.9%	12.1%
<b>Total</b>	<b>8.7%</b>	<b>5.5%</b>	<b>2.7%</b>	<b>2.0%</b>	<b>1.6%</b>	<b>3.2%</b>	<b>(1.0%)</b>	<b>0.6%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>4.1%</b>	<b>3.5%</b>	<b>5.4%</b>
<b>Contract Churn, % p.a</b>													
KPN	18.0%	21.0%	20.0%	21.0%	17.0%	24.0%	19.0%	21.0%	16.0%	24.0%	20.0%	16.0%	17.0%
<b>EBITDA, €m</b>													
Mobistar	150	141	134	144	142	146	138	144	137	131	125	146	130
KPN	58	68	62	68	65	64	67	81	68	55	57	64	73

Source: Company reports and Citi Investment Research and Analysis

## Belgium Fixed Data

Figure 261. Belgium Fixed Line Market Information

Belgium	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,315	1,345	1,487	1,487	1,499	1,521	1,536	1,545	1,553	1,558	1,567	1,572	1,572
Wholesale and ULL	470	470	340	340	340	340	340	340	340	340	340	340	341
Cable	1,058	1,088	1,132	1,170	1,210	1,251	1,305	1,349	1,392	1,442	1,484	1,519	1,557
<b>Total</b>	<b>2,843</b>	<b>2,903</b>	<b>2,959</b>	<b>2,997</b>	<b>3,049</b>	<b>3,112</b>	<b>3,181</b>	<b>3,234</b>	<b>3,285</b>	<b>3,340</b>	<b>3,391</b>	<b>3,431</b>	<b>3,470</b>
<b>Broadband Subscribers (000s)</b>													
Belgacom	1,315	1,345	1,487	1,487	1,499	1,521	1,536	1,545	1,553	1,558	1,567	1,572	1,572
Telenet	958	985	1,025	1,055	1,085	1,116	1,150	1,174	1,197	1,227	1,249	1,264	1,282
Other DSL	470	470	340	340	340	340	340	340	340	340	340	340	341
Voo	100	103	107	115	125	135	155	175	195	215	235	255	275
<b>Total</b>	<b>2,843</b>	<b>2,903</b>	<b>2,959</b>	<b>2,997</b>	<b>3,049</b>	<b>3,112</b>	<b>3,181</b>	<b>3,234</b>	<b>3,285</b>	<b>3,340</b>	<b>3,391</b>	<b>3,431</b>	<b>3,470</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Belgacom	20	30	142	0	12	22	15	9	8	5	9	5	0
Telenet	23	27	40	30	30	31	34	24	23	30	23	15	18
Other DSL	0	0	(130)	0	0	0	0	0	0	0	0	0	1
Voo	2	3	4	8	10	10	20	20	20	20	20	20	20
<b>Total</b>	<b>45</b>	<b>60</b>	<b>56</b>	<b>38</b>	<b>52</b>	<b>63</b>	<b>69</b>	<b>53</b>	<b>51</b>	<b>55</b>	<b>52</b>	<b>40</b>	<b>39</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	3,717	3,649	3,569	3,520	3,484	3,447	3,401	3,362	3,322	3,272	3,220	3,180	3,138
Incumbent wholesale (WLR)													
ULL (total)													
Cable	604	629	665	694	715	741	763	780	795	815	831	847	864
<b>Total</b>	<b>4,321</b>	<b>4,278</b>	<b>4,234</b>	<b>4,214</b>	<b>4,199</b>	<b>4,188</b>	<b>4,164</b>	<b>4,142</b>	<b>4,117</b>	<b>4,087</b>	<b>4,051</b>	<b>4,027</b>	<b>4,002</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(61)	(68)	(80)	(49)	(36)	(37)	(46)	(39)	(40)	(50)	(52)	(40)	(42)
Incumbent wholesale (WLR)													
ULL (total)													
Cable	15	25	36	29	21	26	22	17	15	20	16	17	17
<b>Total</b>	<b>(46)</b>	<b>(43)</b>	<b>(44)</b>	<b>(20)</b>	<b>(15)</b>	<b>(11)</b>	<b>(24)</b>	<b>(22)</b>	<b>(25)</b>	<b>(30)</b>	<b>(36)</b>	<b>(23)</b>	<b>(25)</b>
<b>Pay TV Subscribers (000s)</b>													
Belgacom	389	441	486	513	575	652	713	753	795	839	879	925	963
Telenet	1,654	2,402	2,386	2,374	2,363	2,342	2,318	2,303	2,288	2,274	2,254	2,234	2,214
<b>Pay TV Subscribers Net Adds (000s)</b>													
Belgacom	39	52	45	27	62	77	61	40	42	44	40	46	38
Telenet	(34)	748	(16)	(12)	(11)	(21)	(24)	(15)	(15)	(14)	(21)	(20)	(20)

Source: Company reports and Citi Investment Research and Analysis

# Denmark

## Fixed

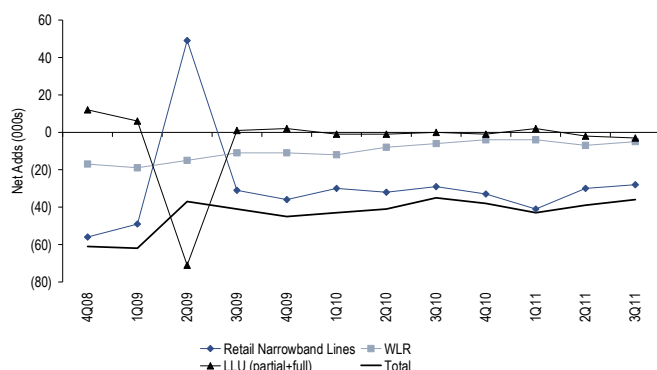
- Fixed line trends were broadly unchanged. Retail line losses were -28k 3Q11 vs -28k 2Q11. TDC's fixed line revenue decline worsened to -6.7% from -6.1% 2Q11 (incl TV). TDC had positive broadband net adds for the first time in 5 quarters.

## Mobile

- Price cuts continued on the main and the discount brands, consequently service revenue growth excluding the impact of MTRs worsened from -2.6% to -3.9%. TDC continues to outperform Telia and Telenor even after correcting for the acquisition of Onfone, though we see downside risk to pricing as customers migrate from headline to discount brands, as TDC highlighted it is seeing on its Q3 results call.

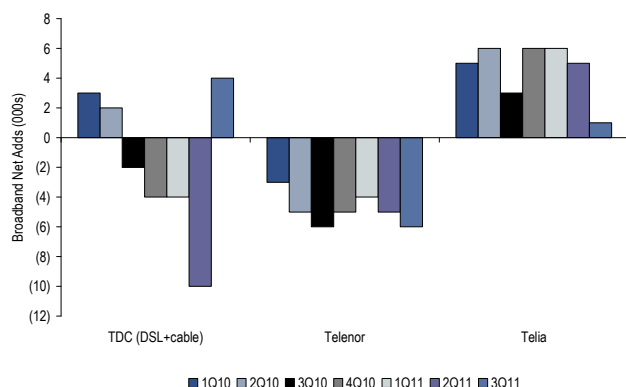
## Fixed Charts

Figure 262. Telephony Net Adds



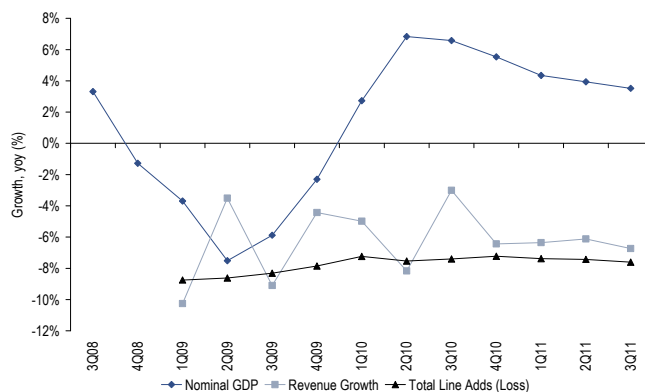
Source: Company reports and Citi Investment Research and Analysis

Figure 264. Broadband Subscriber Net Adds



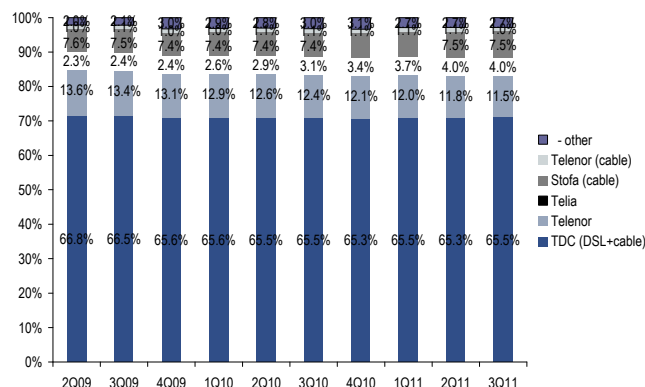
Source: Company reports and Citi Investment Research and Analysis

Figure 263. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

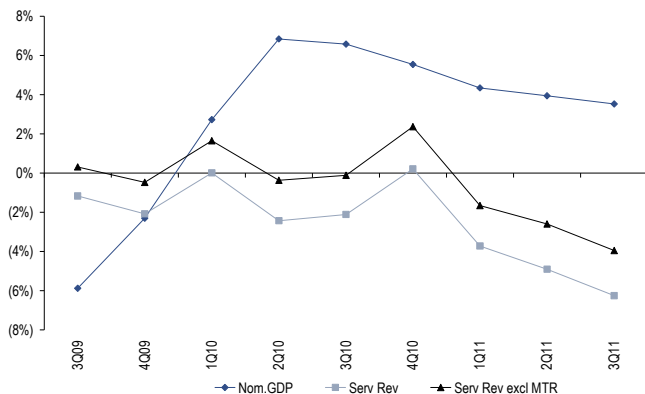
Figure 265. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

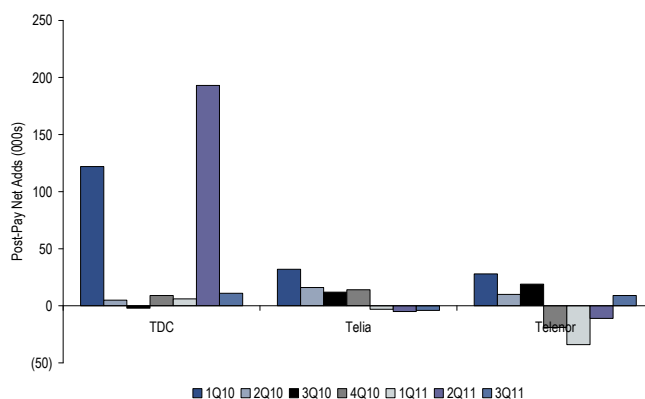
## Mobile Charts

Figure 266. Revenue and GDP



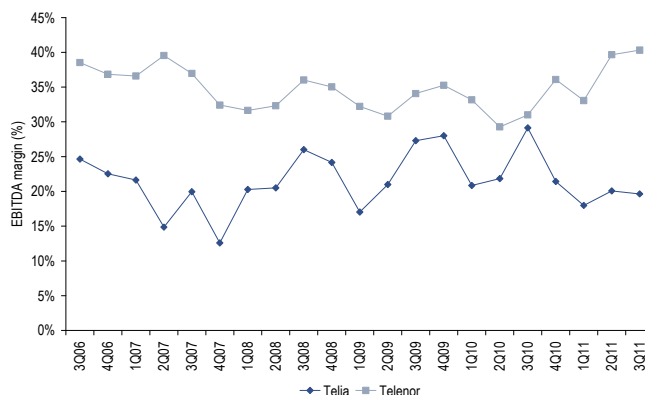
Source: Company reports and Citi Investment Research and Analysis

Figure 268. Post-Paid Net Adds



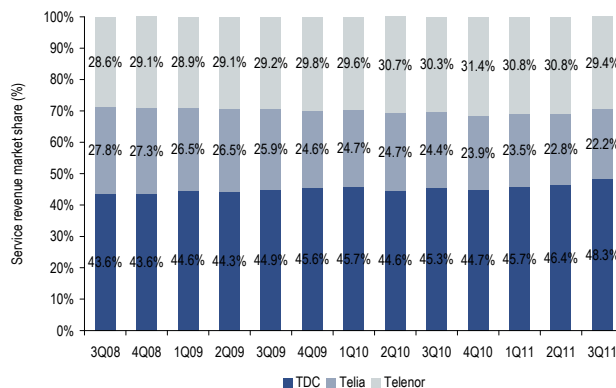
Source: Company reports and Citi Investment Research and Analysis

Figure 270. EBITDA Margin



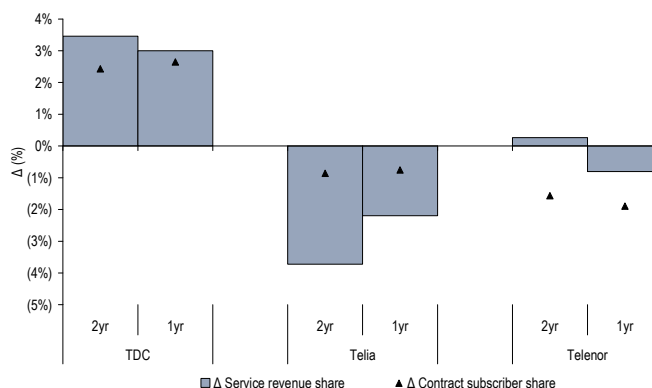
Source: Company reports and Citi Investment Research and Analysis

Figure 267. Service Revenue Market Share



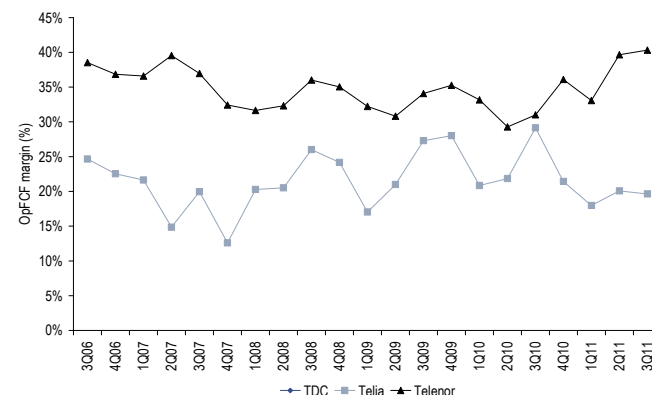
Source: Company reports and Citi Investment Research and Analysis

Figure 269. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 271. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Denmark Mobile Data

Figure 272. Denmark Mobile Market Information

Denmark	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
TDC	1,857	1,833	1,856	1,881	1,890	1,875	1,902	1,849	1,869	1,843	1,830	1,828	1,868
Telia	1,185	1,148	1,103	1,127	1,092	1,014	1,027	1,022	1,006	986	939	898	858
Telenor	1,219	1,223	1,200	1,237	1,229	1,227	1,231	1,271	1,247	1,296	1,235	1,212	1,138
<b>Total</b>	<b>4,261</b>	<b>4,204</b>	<b>4,159</b>	<b>4,245</b>	<b>4,211</b>	<b>4,116</b>	<b>4,160</b>	<b>4,142</b>	<b>4,122</b>	<b>4,125</b>	<b>4,005</b>	<b>3,938</b>	<b>3,864</b>
<b>Service Revenue Growth, yoy</b>													
TDC			5.9%	0.5%	1.8%	2.3%	2.5%	(1.7%)	(1.1%)	(1.7%)	(3.8%)	(1.1%)	(0.1%)
Telia	11.9%	6.0%	(5.3%)	(3.8%)	(7.8%)	(11.6%)	(7.0%)	(9.3%)	(7.9%)	(2.8%)	(8.5%)	(12.1%)	(14.7%)
Telenor	2.9%	5.4%	5.1%	2.7%	0.8%	0.3%	2.6%	2.7%	1.5%	5.7%	0.3%	(4.7%)	(8.8%)
<b>Total</b>			<b>2.4%</b>	<b>(0.1%)</b>	<b>(1.2%)</b>	<b>(2.1%)</b>	<b>0.0%</b>	<b>(2.4%)</b>	<b>(2.1%)</b>	<b>0.2%</b>	<b>(3.7%)</b>	<b>(4.9%)</b>	<b>(6.3%)</b>
<b>Service Revenue Market Share</b>													
TDC	43.6%	43.6%	44.6%	44.3%	44.9%	45.6%	45.7%	44.6%	45.3%	44.7%	45.7%	46.4%	48.3%
Telia	27.8%	27.3%	26.5%	26.5%	25.9%	24.6%	24.7%	24.7%	24.4%	23.9%	23.5%	22.8%	22.2%
Telenor	28.6%	29.1%	28.9%	29.1%	29.2%	29.8%	29.6%	30.7%	30.3%	31.4%	30.8%	30.8%	29.4%
<b>Post-pay Customers, 000s</b>													
TDC	2,214	2,252	2,278	2,305	2,327	2,353	2,475	2,480	2,478	2,487	2,493	2,686	2,697
Telia	1,141	1,154	1,154	1,159	1,156	1,171	1,203	1,219	1,231	1,245	1,242	1,237	1,233
Telenor	1,119	1,128	1,143	1,164	1,187	1,229	1,257	1,267	1,286	1,267	1,233	1,222	1,231
<b>Call Volumes, mn min/qtr</b>													
TDC	926	959	967	988	975	1,032	1,032	1,060	1,007	1,085	1,045	1,104	1,150
Telia	923	970	947	964	925	984	1,000	1,044	1,024	1,069	1,036	1,040	995
Telenor	1,001	1,052	1,050	1,088	1,075	1,150	1,160	1,181	1,125	1,178	1,139	1,129	1,127
<b>Total</b>	<b>2,849</b>	<b>2,981</b>	<b>2,964</b>	<b>3,040</b>	<b>2,975</b>	<b>3,166</b>	<b>3,191</b>	<b>3,285</b>	<b>3,156</b>	<b>3,332</b>	<b>3,219</b>	<b>3,273</b>	<b>3,272</b>
<b>Call Volume growth, yoy</b>													
TDC	12.0%	5.5%	8.8%	1.0%	5.3%	7.7%	6.6%	7.3%	3.3%	5.1%	1.3%	4.2%	14.1%
Telia	9.3%	7.2%	7.4%	(4.8%)	0.2%	1.4%	5.6%	8.3%	10.7%	8.6%	3.6%	(0.4%)	(2.8%)
Telenor	13.8%	6.3%	7.9%	4.3%	7.5%	9.3%	10.5%	8.6%	4.6%	2.4%	(1.8%)	(4.4%)	0.2%
<b>Total</b>	<b>11.7%</b>	<b>6.4%</b>	<b>8.0%</b>	<b>0.2%</b>	<b>4.4%</b>	<b>6.2%</b>	<b>7.7%</b>	<b>8.1%</b>	<b>6.1%</b>	<b>5.2%</b>	<b>0.9%</b>	<b>(0.4%)</b>	<b>3.7%</b>
<b>EBITDA, €m</b>													
TDC													
Telia	308	278	188	236	298	284	214	223	293	211	169	180	169
Telenor	439	428	387	381	419	433	408	372	387	468	408	480	459

Source: Company reports and Citi Investment Research and Analysis



## Denmark Fixed Data

Figure 273. Denmark Fixed Line Market Information

Denmark	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,162	1,151	1,145	1,291	1,295	1,296	1,299	1,301	1,299	1,295	1,291	1,281	1,285
Incumbent wholesale	125	124	131	118	121	139	142	146	148	154	147	150	150
ULL (total)	289	301	304	228	227	227	223	219	217	214	215	211	206
Cable	196	197	196	193	194	193	193	193	193	193	193	194	194
<b>Total</b>	<b>1,875</b>	<b>1,876</b>	<b>1,879</b>	<b>1,933</b>	<b>1,948</b>	<b>1,974</b>	<b>1,980</b>	<b>1,985</b>	<b>1,983</b>	<b>1,982</b>	<b>1,972</b>	<b>1,962</b>	<b>1,961</b>
<b>Broadband Subscribers (000s)</b>													
TDC (DSL+cable)	1,162	1,151	1,145	1,291	1,295	1,296	1,299	1,301	1,299	1,295	1,291	1,281	1,285
Telenor	282	272	268	263	262	259	256	251	245	240	236	231	225
Telia	34	34	42	44	46	47	52	58	61	67	73	78	79
Stofa (cable)	150	150	149	147	147	147	147	146	146	146	146	147	148
Telenor (cable)	20	21	21	20	21	20	20	21	21	21	21	21	20
- other	98	119	125	39	40	60	57	56	59	61	53	52	52
<b>Total</b>	<b>1,875</b>	<b>1,876</b>	<b>1,879</b>	<b>1,933</b>	<b>1,948</b>	<b>1,974</b>	<b>1,980</b>	<b>1,985</b>	<b>1,983</b>	<b>1,982</b>	<b>1,972</b>	<b>1,962</b>	<b>1,961</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
TDC (DSL+cable)	(2)	(11)	(6)	146	4	1	3	2	(2)	(4)	(4)	(10)	4
Telenor	2	(10)	(4)	(5)	(1)	(3)	(3)	(5)	(6)	(5)	(4)	(5)	(6)
Telia	3	0	8	2	2	1	5	6	3	6	6	5	1
<b>Total</b>	<b>15</b>	<b>1</b>	<b>3</b>	<b>54</b>	<b>15</b>	<b>26</b>	<b>5</b>	<b>5</b>	<b>(2)</b>	<b>(1)</b>	<b>(10)</b>	<b>(10)</b>	<b>(1)</b>
<b>Telephony Channels (000s)</b>													
Retail Narrowband Lines	1,872	1,816	1,767	1,816	1,785	1,749	1,719	1,687	1,658	1,625	1,584	1,554	1,526
WLR	314	297	278	263	252	241	229	221	215	211	207	200	195
LLU (full)	232	244	250	179	180	182	181	180	180	179	181	179	176
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>2,418</b>	<b>2,357</b>	<b>2,295</b>	<b>2,258</b>	<b>2,217</b>	<b>2,172</b>	<b>2,129</b>	<b>2,088</b>	<b>2,053</b>	<b>2,015</b>	<b>1,972</b>	<b>1,933</b>	<b>1,897</b>
<b>Telephony Channels Net Adds (000s)</b>													
Retail Narrowband Lines	(54)	(56)	(49)	49	(31)	(36)	(30)	(32)	(29)	(33)	(41)	(30)	(28)
WLR	(17)	(17)	(19)	(15)	(11)	(11)	(12)	(8)	(6)	(4)	(4)	(7)	(5)
LLU (partial+full)	18	12	6	(71)	1	2	(1)	(1)	0	(1)	2	(2)	(3)
<b>Total</b>	<b>(53)</b>	<b>(61)</b>	<b>(62)</b>	<b>(37)</b>	<b>(41)</b>	<b>(45)</b>	<b>(43)</b>	<b>(41)</b>	<b>(35)</b>	<b>(38)</b>	<b>(43)</b>	<b>(39)</b>	<b>(36)</b>

Source: Company reports and Citi Investment Research and Analysis

## Finland

### Fixed

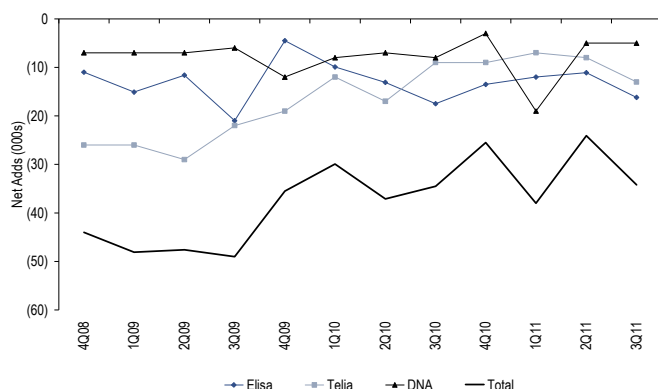
- Fixed line loss was similar to 2Q11 at -34k (Elisa, Telia and DNA combined), which is -10% the highest in Europe. However, the high line loss is not translating into poor revenue growth. Combined fixed revenue grew 2.2% which is the best result in Europe.

### Mobile

- Service revenue growth improved to 1.5% 3Q11 from -1.4% 2Q11. This was largely due to an improvement from Elisa which in turn was due to a tough comp in 2Q10.

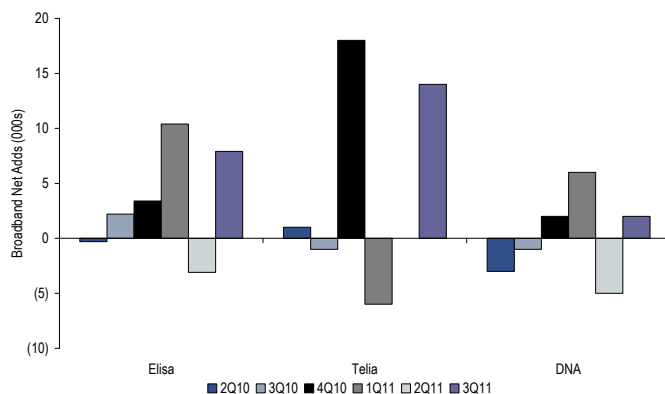
## Fixed Charts

Figure 274. Telephony Net Adds



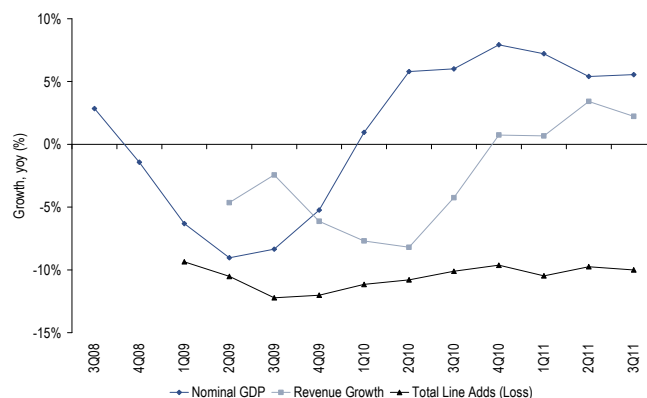
Source: Company reports and Citi Investment Research and Analysis

Figure 276. Broadband Subscriber Net Adds



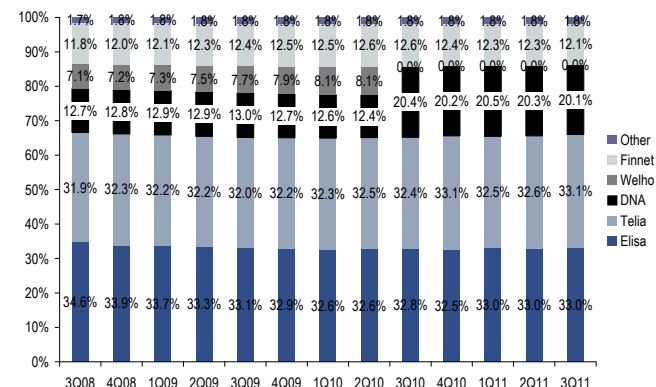
Source: Company reports and Citi Investment Research and Analysis

Figure 275. Line Loss, Incumbent Revenue Growth (Elisa, Telia, DNA) and GDP



Source: Company reports and Citi Investment Research and Analysis

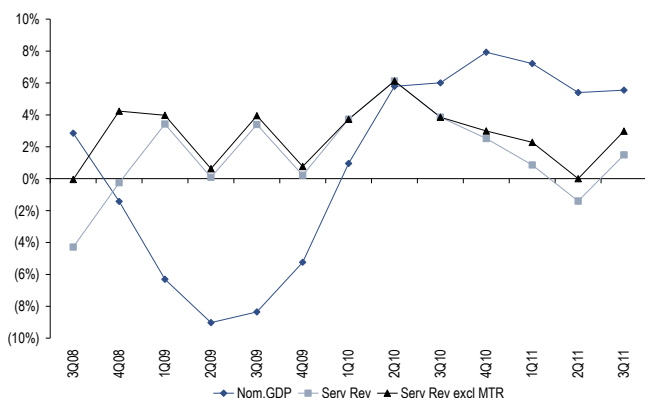
Figure 277. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

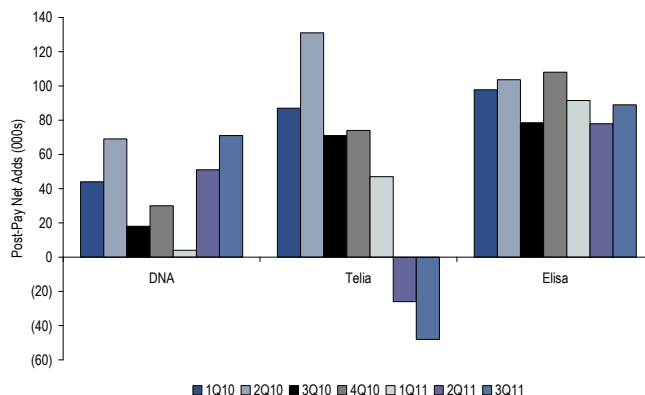
## Mobile Charts

Figure 278. Revenue and GDP



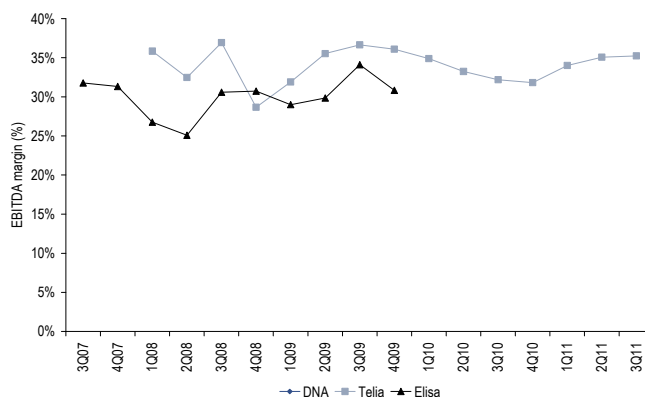
Source: Company reports, CIRA and Datasteam

Figure 280. Post-Paid Net Adds



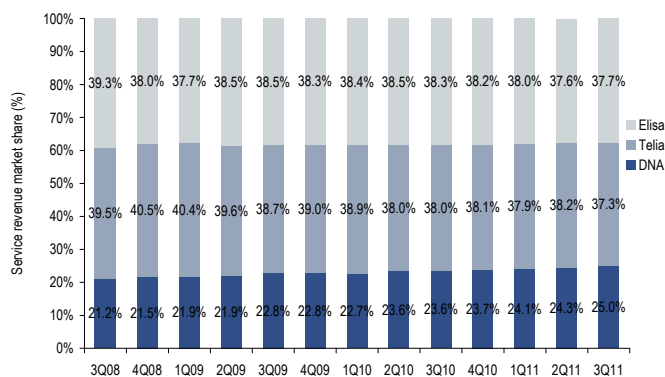
Source: Company reports and Citi Investment Research and Analysis

Figure 282. EBITDA Margin



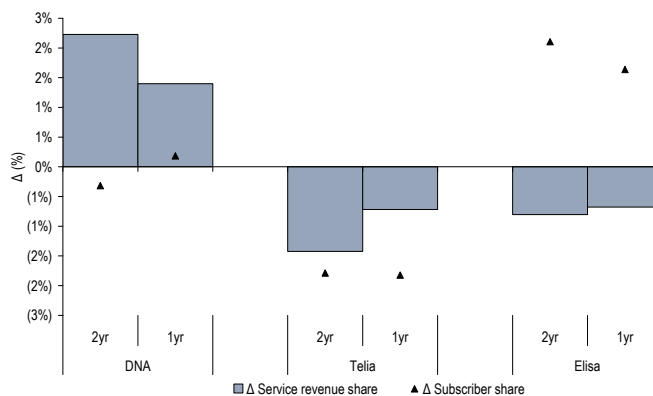
Source: Company reports and Citi Investment Research and Analysis

Figure 279. Service Revenue Market Share



Source: Company reports and Citi Investment Research and Analysis

Figure 281. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

## Finland Mobile Data

Figure 283. Finland Mobile Market Information

Finland	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
DNA	105	113	110	113	117	119	118	129	126	127	126	130	135
Telia	196	212	202	203	199	204	202	207	203	204	199	205	202
Elisa	195	198	189	198	197	200	199	210	204	205	199	202	204
<b>Total</b>	<b>496</b>	<b>523</b>	<b>501</b>	<b>514</b>	<b>513</b>	<b>524</b>	<b>520</b>	<b>545</b>	<b>533</b>	<b>537</b>	<b>524</b>	<b>538</b>	<b>541</b>
<b>Service Revenue Growth, yoy</b>													
DNA	10.3%	12.7%	13.5%	7.7%	11.2%	6.1%	7.8%	14.2%	7.6%	6.7%	7.0%	1.5%	7.5%
Telia	(10.2%)	(1.3%)	(1.4%)	(5.7%)	1.4%	(3.6%)	(0.1%)	1.8%	2.0%	0.2%	(1.8%)	(0.9%)	(0.4%)
Elisa	(4.8%)	(5.4%)	3.5%	2.4%	1.2%	1.0%	5.4%	6.0%	3.5%	2.4%	(0.1%)	(3.7%)	(0.3%)
<b>Total</b>	<b>(4.3%)</b>	<b>(0.3%)</b>	<b>3.4%</b>	<b>0.1%</b>	<b>3.4%</b>	<b>0.2%</b>	<b>3.7%</b>	<b>6.1%</b>	<b>3.9%</b>	<b>2.5%</b>	<b>0.9%</b>	<b>(1.4%)</b>	<b>1.5%</b>
<b>Service Revenue Market Share</b>													
DNA	21.2%	21.5%	21.9%	21.9%	22.8%	22.8%	22.7%	23.6%	23.6%	23.7%	24.1%	24.3%	25.0%
Telia	39.5%	40.5%	40.4%	39.6%	38.7%	39.0%	38.9%	38.0%	38.0%	38.1%	37.9%	38.2%	37.3%
Elisa	39.3%	38.0%	37.7%	38.5%	38.5%	38.3%	38.4%	38.5%	38.3%	38.2%	38.0%	37.6%	37.7%
<b>Post-pay Customers, 000s</b>													
Telia	2,377	2,410	2,430	2,466	2,526	2,600	2,670	2,722	2,781	2,843	2,898	2,930	2,901
<b>Call Volumes, mn min/qtr</b>													
Telia	2,217	2,340	2,281	2,311	2,287	2,382	2,398	2,470	2,439	2,477	2,445	2,502	2,532
<b>Call Volume growth, yoy</b>													
Telia	4.4%	9.2%	4.7%	0.4%	3.2%	1.8%	5.1%	6.9%	6.7%	4.0%	2.0%	1.3%	3.8%
<b>EBITDA, €m</b>													
Telia	84	68	70	80	80	84	80	78	77	77	79	81	82

Source: Company reports and Citi Investment Research and Analysis

## Finland Fixed Data

Figure 284. Finland Fixed Line Market Information

Finland	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Elisa	520	502	495	482	476	467	462	462	464	467	478	475	482
Telia	479	478	472	465	460	458	458	459	458	476	470	470	484
DNA	191	190	190	187	186	180	178	175	289	291	297	292	294
Welho	107	107	107	109	111	113	115	115					
Finnet	178	178	178	178	178	178	178	178	178	178	178	178	178
<b>Total</b>	<b>1,500</b>	<b>1,480</b>	<b>1,468</b>	<b>1,446</b>	<b>1,436</b>	<b>1,422</b>	<b>1,416</b>	<b>1,414</b>	<b>1,414</b>	<b>1,438</b>	<b>1,448</b>	<b>1,440</b>	<b>1,464</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Elisa	(3)	(18)	(6)	(14)	(6)	(9)	(5)	(0)	2	3	10	(3)	8
Telia	4	(1)	(6)	(7)	(5)	(2)	0	1	(1)	18	(6)	0	14
DNA	0	(1)	0	(3)	(1)	(6)	(2)	(3)	(1)	2	6	(5)	2
<b>Total</b>	<b>1</b>	<b>(20)</b>	<b>(12)</b>	<b>(22)</b>	<b>(10)</b>	<b>(15)</b>	<b>(5)</b>	<b>(2)</b>	<b>0</b>	<b>23</b>	<b>10</b>	<b>(8)</b>	<b>24</b>
<b>Telephony Channels (000s)</b>													
Elisa	513	502	487	475	454	450	440	427	409	396	384	373	357
Telia	446	420	394	365	343	324	312	295	286	277	270	262	249
DNA	236	229	222	215	209	197	189	182	174	171	152	147	142
Finnet	285	285	285	285	285	285	285	285	285	285	285	285	285
<b>Total</b>	<b>1,544</b>	<b>1,500</b>	<b>1,452</b>	<b>1,404</b>	<b>1,355</b>	<b>1,320</b>	<b>1,290</b>	<b>1,253</b>	<b>1,218</b>	<b>1,193</b>	<b>1,155</b>	<b>1,131</b>	<b>1,097</b>
<b>Telephony Channels Net Adds (000s)</b>													
Elisa	(0)	(11)	(15)	(12)	(21)	(4)	(10)	(13)	(18)	(14)	(12)	(11)	(16)
Telia	(19)	(26)	(26)	(29)	(22)	(19)	(12)	(17)	(9)	(9)	(7)	(8)	(13)
DNA	(6)	(7)	(7)	(7)	(6)	(12)	(8)	(7)	(8)	(3)	(19)	(5)	(5)
<b>Total</b>	<b>(25)</b>	<b>(44)</b>	<b>(48)</b>	<b>(48)</b>	<b>(49)</b>	<b>(36)</b>	<b>(30)</b>	<b>(37)</b>	<b>(35)</b>	<b>(26)</b>	<b>(38)</b>	<b>(24)</b>	<b>(34)</b>
<b>Pay TV Subscribers (000s)</b>													
Elisa (cable TV)	243	244	245	247	248	249	250	252	249	250	252	252	252
Telia (Cable TV)	176	176	175	175	175	175	187	189	207	218	238	328	339
Telia (IPTV)	0	0	0	0	0	1	1	0	0	0	0	0	0
DNA (Cable TV)	259	263	265	267	267	270	271	274	596	598	602	597	599
Welho (cable tv) (est.)	322	323	323	324	324	324	324	324	0	0	0	0	1
Finnet Group (cable tv) (est.)	217	217	217	217	217	217	217	217	217	217	217	217	217
<b>Total</b>	<b>1,216</b>	<b>1,223</b>	<b>1,226</b>	<b>1,230</b>	<b>1,231</b>	<b>1,236</b>	<b>1,250</b>	<b>1,256</b>	<b>1,269</b>	<b>1,283</b>	<b>1,309</b>	<b>1,394</b>	<b>1,408</b>
<b>Pay TV Subscribers Net Adds (000s)</b>													
Elisa (cable TV)	2	2	1	1	1	1	1	1	(3)	2	1	0	1
Telia (Cable TV)	0	0	(1)	0	0	0	12	2	18	11	20	90	11
Telia (IPTV)	0	0	0	0	0	1	0	(1)	0	0	0	0	0
DNA (Cable TV)	1	4	2	2	0	3	1	3	322	2	4	(5)	2

Source: Company reports and Citi Investment Research and Analysis

# France

## Fixed

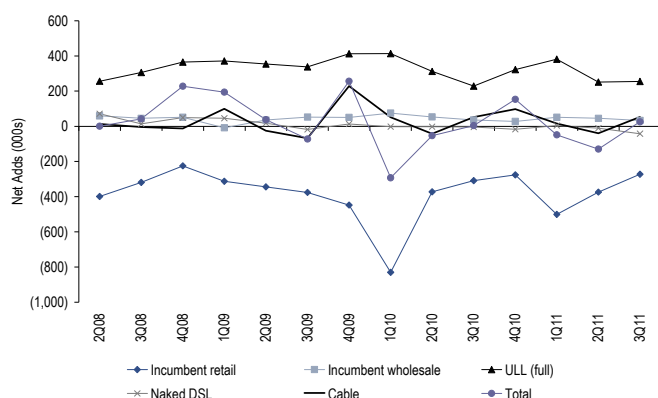
- FT's 3Q11 retail line losses of -273k were an improvement from -374k in 2Q11. Fixed Revenue growth was stable qoq at -4.2%. FT expects revenue growth to improvement as broadband ARPU should stop declining now that most of the repricing is done.

## Mobile

- Service revenue growth excluding MTRs deteriorated to -2.5% in 3Q11 from 0.9% in 2Q11. We believe that this big deterioration is due to some repricing ahead of Free mobile entry. Q4 should also be negatively impacted by the current repricing.
- SFR is the operator losing the most market share with -108k postpaid net additions in Q3. Margins improved yoy for all operators as SARCs came down. Most operators decided to be less aggressive on acquisition costs following intense competition in 1H11.

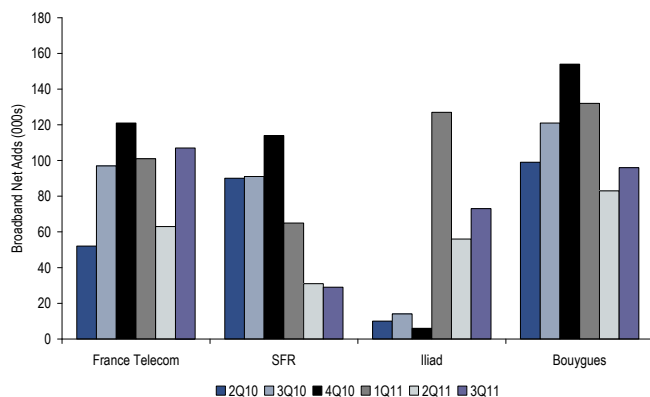
## Fixed Charts

Figure 285. Telephony Net Adds



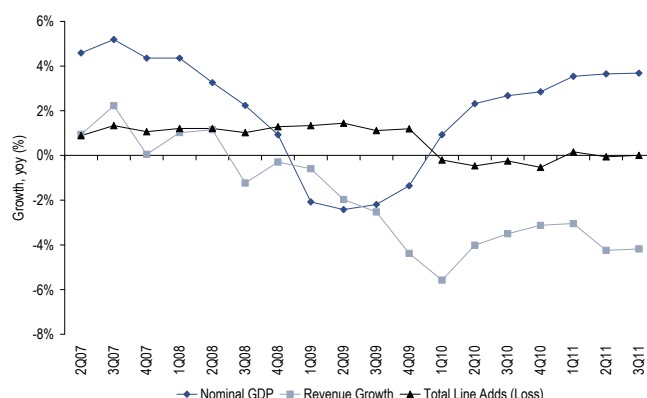
Source: Company reports and Citi Investment Research and Analysis

Figure 287. Broadband Subscriber Net Adds



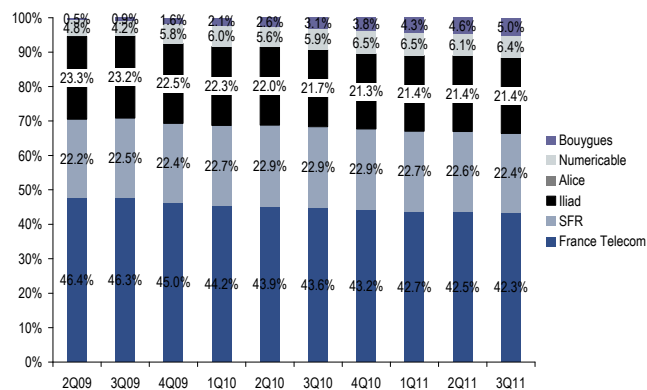
Source: Company reports and Citi Investment Research and Analysis

Figure 286. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

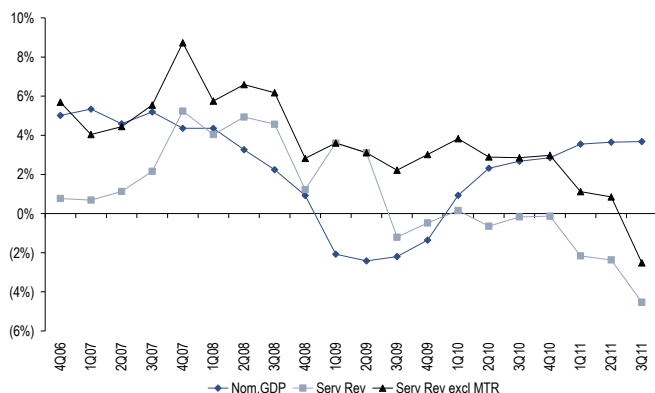
Figure 288. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

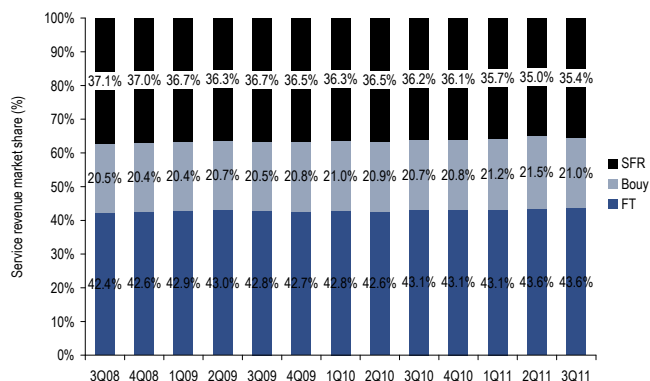
## Mobile Charts

Figure 289. Revenue and GDP



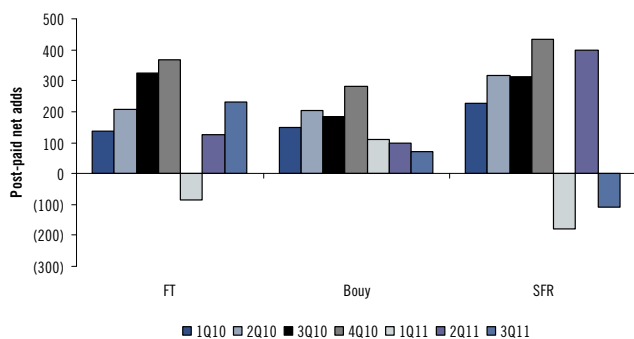
Source: Company reports, CIRA and Datastream

Figure 290. Service Revenue Market Share



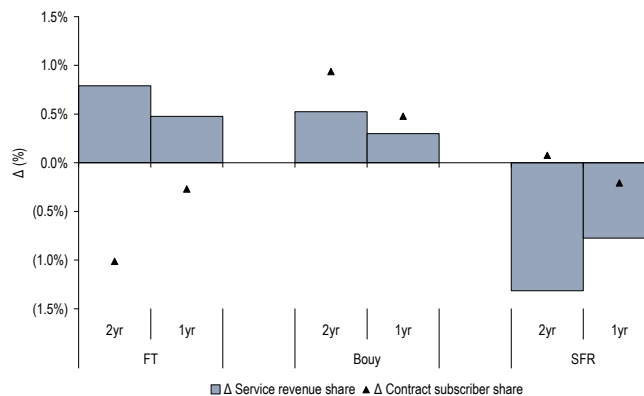
Source: Company reports and Citi Investment Research and Analysis

Figure 291. Post-Paid Net Adds



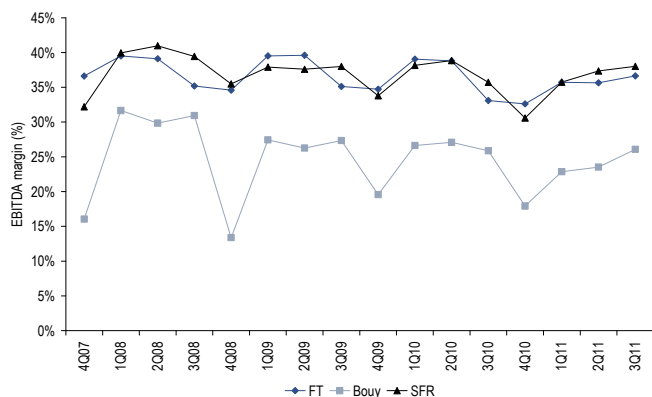
Source: Company reports and Citi Investment Research and Analysis

Figure 292. Change in Service Revenue and Contract Sub Share



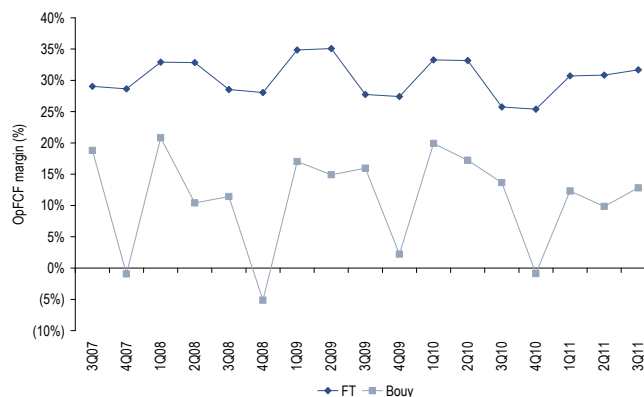
Source: Company reports and Citi Investment Research and Analysis

Figure 293. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 294. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## France Mobile Data

Figure 295. France Mobile Market Information

France	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
Orange (FT)	2,493	2,491	2,455	2,538	2,488	2,482	2,453	2,500	2,502	2,503	2,416	2,496	2,415
Bouygues	1,207	1,194	1,167	1,222	1,193	1,209	1,203	1,225	1,204	1,207	1,191	1,229	1,166
SFR	2,186	2,160	2,104	2,146	2,134	2,126	2,079	2,143	2,099	2,099	2,004	2,004	1,961
<b>Total</b>	<b>5,886</b>	<b>5,845</b>	<b>5,726</b>	<b>5,906</b>	<b>5,815</b>	<b>5,817</b>	<b>5,735</b>	<b>5,868</b>	<b>5,805</b>	<b>5,809</b>	<b>5,611</b>	<b>5,729</b>	<b>5,542</b>
<b>Service Revenue Growth, yoy</b>													
Orange (FT)	4.6%	3.7%	6.0%	5.2%	(0.2%)	(0.4%)	(0.1%)	(1.5%)	0.6%	0.8%	(1.5%)	(0.2%)	(3.5%)
Bouygues	8.7%	(3.4%)	3.8%	4.4%	(1.2%)	1.2%	3.1%	0.2%	0.9%	(0.2%)	(1.0%)	0.3%	(3.2%)
SFR	2.4%	1.1%	0.9%	0.1%	(2.4%)	(1.6%)	(1.2%)	(0.1%)	(1.6%)	(1.3%)	(3.6%)	(6.5%)	(6.6%)
<b>Total</b>	<b>4.6%</b>	<b>1.2%</b>	<b>3.6%</b>	<b>3.1%</b>	<b>(1.2%)</b>	<b>(0.5%)</b>	<b>0.2%</b>	<b>(0.6%)</b>	<b>(0.2%)</b>	<b>(0.1%)</b>	<b>(2.2%)</b>	<b>(2.4%)</b>	<b>(4.5%)</b>
<b>Service Revenue Market Share</b>													
Orange (FT)	42.4%	42.6%	42.9%	43.0%	42.8%	42.7%	42.8%	42.6%	43.1%	43.1%	43.1%	43.6%	43.6%
Bouygues	20.5%	20.4%	20.4%	20.7%	20.5%	20.8%	21.0%	20.9%	20.7%	20.8%	21.2%	21.5%	21.0%
SFR	37.1%	37.0%	36.7%	36.3%	36.7%	36.5%	36.3%	36.5%	36.2%	36.1%	35.7%	35.0%	35.4%
<b>Post-pay Customers, 000s</b>													
Orange (FT)	16,557	16,977	17,114	17,327	17,560	17,943	18,081	18,290	18,615	18,984	18,898	19,025	19,254
Bouygues	7,042	7,196	7,304	7,483	7,666	7,926	8,075	8,277	8,461	8,741	8,852	8,950	9,018
SFR	13,267	13,580	13,760	14,047	14,413	14,807	15,032	15,347	15,661	16,095	15,916	16,315	16,207
<b>Call Volumes, mn min/qtr</b>													
France Telecom	14,652	14,918	15,259	14,958	14,585	14,783	15,092	14,814	14,582	15,001	15,516	15,517	15,294
Bouygues	7,575	7,687	7,772	7,892	7,605	7,779	8,153	8,217	8,632	8,864	9,322	9,466	9,510
SFR	12,921	13,048	13,211	13,275	12,850	12,869	13,175	13,141	13,453	13,774	14,240	14,278	14,273
<b>Total</b>	<b>35,148</b>	<b>35,653</b>	<b>36,242</b>	<b>36,125</b>	<b>35,039</b>	<b>35,431</b>	<b>36,420</b>	<b>36,173</b>	<b>36,667</b>	<b>37,639</b>	<b>39,078</b>	<b>39,261</b>	<b>39,078</b>
<b>Call Volume growth, yoy</b>													
France Telecom	4.1%	5.6%	4.4%	4.4%	(0.5%)	(0.9%)	(1.1%)	(1.0%)	(0.0%)	1.5%	2.8%	4.7%	4.9%
Bouygues	(2.8%)	(3.8%)	(2.1%)	(0.9%)	0.4%	1.2%	4.9%	4.1%	13.5%	13.9%	14.3%	15.2%	10.2%
SFR	1.9%	1.3%	1.5%	1.5%	(0.6%)	(1.4%)	(0.3%)	(1.0%)	4.7%	7.0%	8.1%	8.6%	6.1%
<b>Total</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>2.2%</b>	<b>(0.3%)</b>	<b>(0.6%)</b>	<b>0.5%</b>	<b>0.1%</b>	<b>4.6%</b>	<b>6.2%</b>	<b>7.3%</b>	<b>8.5%</b>	<b>6.6%</b>
<b>Contract Churn, % p.a</b>													
Orange (FT)	9.3%	10.1%	10.9%	11.6%	12.4%	12.9%	13.1%	13.7%	13.9%	14.2%	15.8%	16.1%	16.4%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Orange (FT)	11.9%	11.4%	12.5%	12.1%	13.8%	14.6%	15.3%	14.8%	16.7%	17.2%	18.5%	18.3%	20.4%
<b>EBITDA, €m</b>													
Orange (FT)	951	950	1,045	1,080	941	939	1,025	1,044	906	907	956	987	987
Bouygues	400	177	348	354	364	278	357	377	366	267	321	344	370
SFR	907	807	827	850	852	777	834	872	798	693	762	794	797
<b>Capex, €m</b>													
Orange (FT)	180	180	123	123	198	198	152	152	201	201	134	134	134
Bouygues	252	245	132	153	152	246	90						

Source: Company reports and Citi Investment Research and Analysis



## France Fixed Data

Figure 296. France Fixed Line Market Information

France	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	8,096	8,350	8,574	8,680	8,810	8,933	8,937	8,989	9,086	9,207	9,308	9,371	9,478
Incumbent wholesale	2,252	2,221	2,189	2,157	2,105	2,032	1,959	1,941	1,945	1,838	1,828	1,860	1,821
ULL (total)	6,008	6,332	6,664	6,986	7,325	7,723	8,119	8,401	8,593	8,884	9,232	9,456	9,670
Cable	807	788	938	900	796	1,143	1,220	1,156	1,235	1,382	1,406	1,345	1,425
<b>Total</b>	<b>17,163</b>	<b>17,691</b>	<b>18,365</b>	<b>18,723</b>	<b>19,036</b>	<b>19,831</b>	<b>20,235</b>	<b>20,487</b>	<b>20,859</b>	<b>21,311</b>	<b>21,774</b>	<b>22,032</b>	<b>22,394</b>
<b>Broadband Subscribers (000s)</b>													
France Telecom	8,096	8,350	8,574	8,680	8,810	8,933	8,937	8,989	9,086	9,207	9,308	9,371	9,478
SFR	3,730	3,879	4,042	4,154	4,283	4,444	4,592	4,682	4,773	4,887	4,952	4,983	5,012
Iliad	4,125	4,225	4,337	4,371	4,420	4,456	4,504	4,514	4,528	4,534	4,661	4,717	4,790
Alice	0	0	0	0	0	0	0	0	0	0	0	0	0
Numericable	807	788	938	900	796	1,143	1,220	1,156	1,235	1,382	1,406	1,345	1,425
Bouygues	0	12	30	86	175	314	434	533	654	808	940	1,023	1,119
<b>Total</b>	<b>17,163</b>	<b>17,691</b>	<b>18,365</b>	<b>18,723</b>	<b>19,036</b>	<b>19,831</b>	<b>20,235</b>	<b>20,487</b>	<b>20,859</b>	<b>21,311</b>	<b>21,774</b>	<b>22,032</b>	<b>22,394</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
France Telecom	246	254	224	106	130	123	4	52	97	121	101	63	107
SFR	(37)	149	163	112	129	161	148	90	91	114	65		
Iliad	991	100	112	34	49	36	48	10	14	6	127		
Alice	(902)	0	0	0	0	0	0	0	0	0	0		
Numericable	(6)	(19)	150	(39)	(104)	347	77	(64)	79	148	24		
Bouygues	0	12	18	56	89	139	120	99	121	154	132		
<b>Total</b>	<b>491</b>	<b>528</b>	<b>674</b>	<b>358</b>	<b>313</b>	<b>795</b>	<b>404</b>	<b>252</b>	<b>372</b>	<b>452</b>	<b>463</b>		
<b>Telephony Channels (000s)</b>													
Incumbent retail	27,477	27,252	26,939	26,595	26,219	25,771	24,941	24,568	24,259	23,983	23,482	23,108	22,835
Incumbent wholesale (WLR)	897	948	939	974	1,026	1,076	1,151	1,204	1,240	1,267	1,318	1,363	1,396
ULL (full)	4,574	4,939	5,310	5,664	6,002	6,414	6,827	7,139	7,368	7,690	8,071	8,322	8,577
Naked DSL	1,137	1,186	1,232	1,250	1,232	1,245	1,243	1,240	1,236	1,219	1,223	1,212	1,170
Cable	533	520	619	594	525	754	805	763	815	912	928	888	941
<b>Total</b>	<b>34,618</b>	<b>34,845</b>	<b>35,039</b>	<b>35,077</b>	<b>35,004</b>	<b>35,260</b>	<b>34,967</b>	<b>34,914</b>	<b>34,918</b>	<b>35,071</b>	<b>35,022</b>	<b>34,893</b>	<b>34,919</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(319)	(225)	(313)	(344)	(376)	(448)	(830)	(373)	(309)	(276)	(501)	(374)	(273)
Incumbent wholesale	45	51	(9)	35	52	50	75	53	36	27	51	45	33
ULL (full)	306	365	371	354	338	412	413	312	229	322	381	251	255
Naked DSL	14	49	46	18	(18)	13	(2)	(3)	(4)	(17)	4	(11)	(42)
Cable	(4)	(13)	99	(25)	(68)	229	51	(42)	52	97	16	(40)	52
<b>Total</b>	<b>42</b>	<b>227</b>	<b>194</b>	<b>38</b>	<b>(72)</b>	<b>256</b>	<b>(293)</b>	<b>(53)</b>	<b>4</b>	<b>153</b>	<b>(49)</b>	<b>(129)</b>	<b>25</b>
<b>Pay TV Subscribers (000s)</b>													
France Telecom	1,603	1,909	2,166	2,339	2,547	2,761	2,894	3,051	3,230	3,505	3,711	3,896	4,124
<b>Pay TV Subscribers Net Adds (000s)</b>													
France Telecom	214	306	257	173	208	214	133	157	179	275	206	185	228

Source: Company reports and Citi Investment Research and Analysis

# Germany

## Fixed

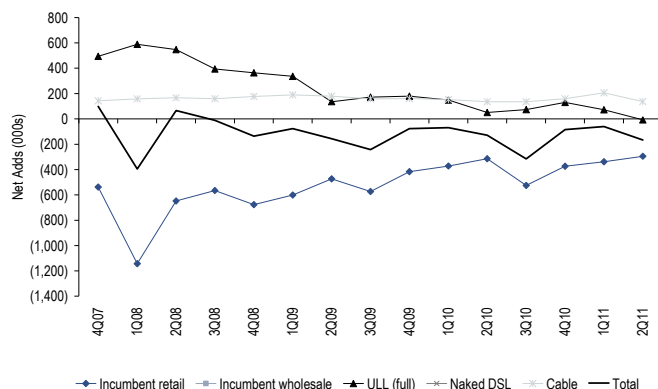
- Due to normal seasonality, DT's retail losses were higher at -323k 3Q11 from -295k in 2Q11. Similarly, DT's retail broadband net adds were low at 48k, vs cable operators net adds of c.170k. Other DSL operators in total had negative net adds of -55k.

## Mobile

- Service revenue growth excluding the impact of MTR cuts remained high at 3.8% 3Q11, vs 3.5% 2Q11. Germany remains one of the highest growth markets in Europe. Minutes growth remained healthy at 6.7% 3Q11, vs 6.7% 2Q11. An additional positive sign was post-pay net adds of 933k in 3Q11.
- KPN and O2 continue to gain market share with Vodafone maintaining share and DT losing a small amount of market share.

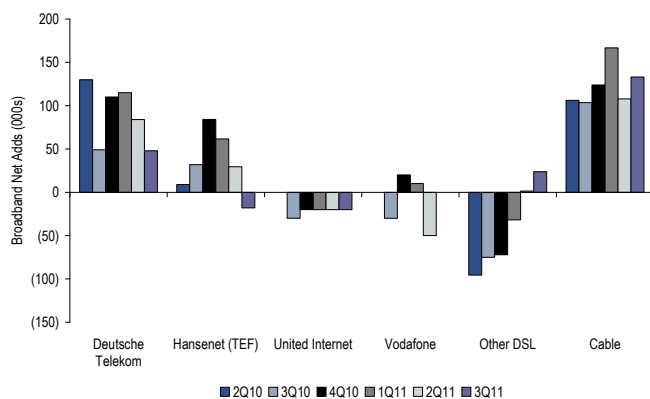
## Fixed Charts

Figure 297. Telephony Net Adds



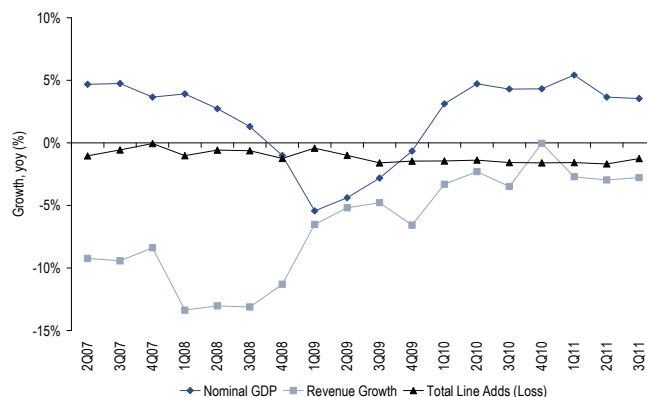
Source: Company reports and Citi Investment Research and Analysis

Figure 299. Broadband Subscriber Net Adds



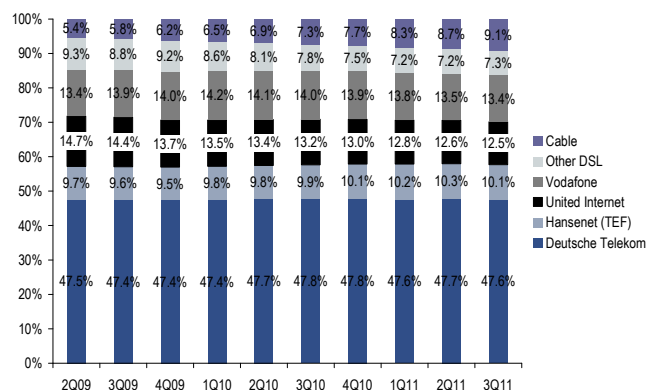
Source: Company reports and Citi Investment Research and Analysis

Figure 298. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

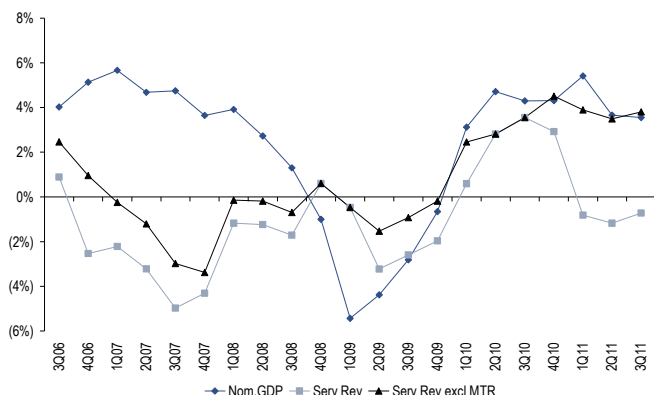
Figure 300. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

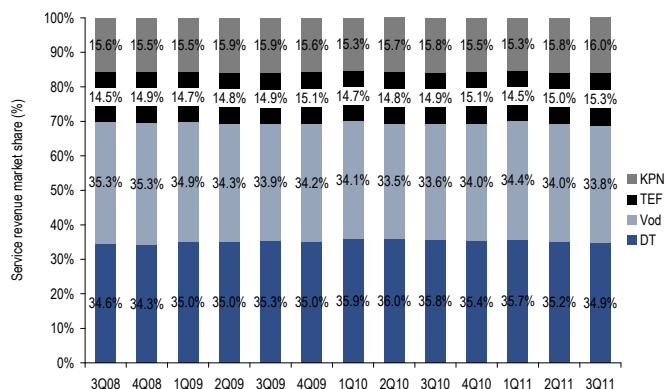
## Mobile Charts

Figure 301. Revenue and GDP



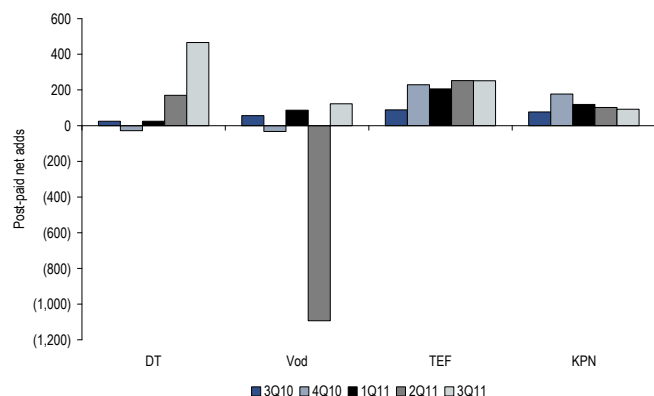
Source: Company reports, CIRA and Datastream

Figure 302. Service Revenue Market Share



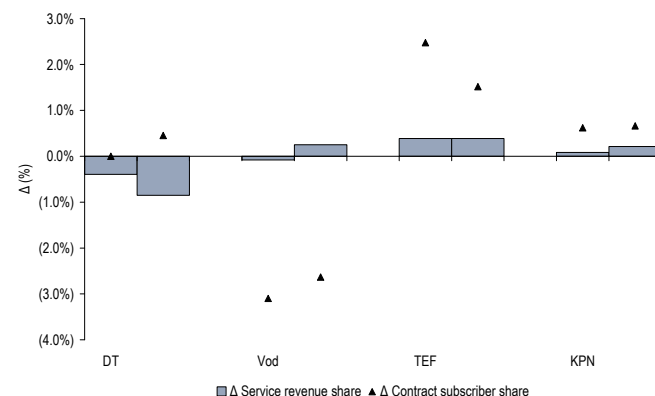
Source: Company reports and Citi Investment Research and Analysis

Figure 303. Post-Paid Net Adds



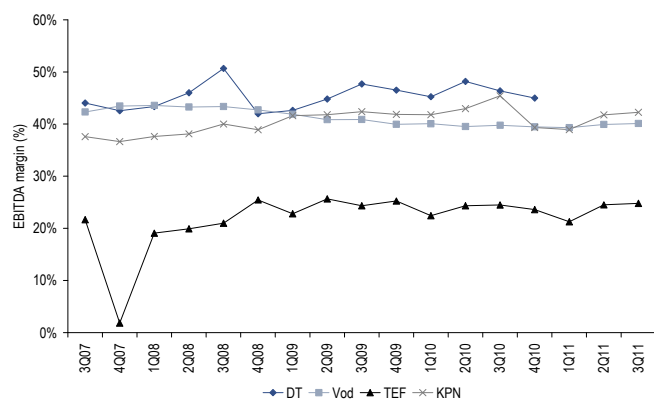
Source: Company reports and Citi Investment Research and Analysis

Figure 304. Change in Service Revenue and Contract Sub Share



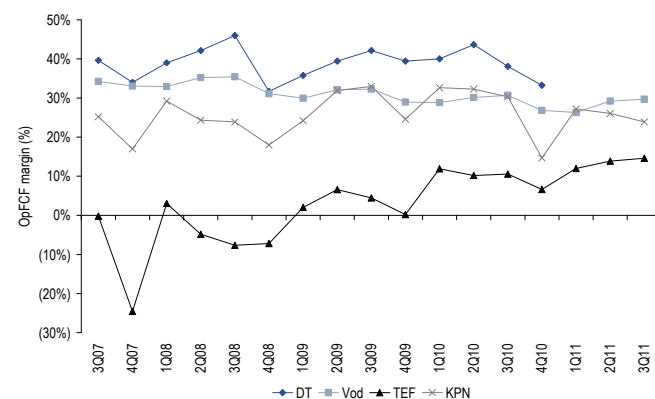
Source: Company reports and Citi Investment Research and Analysis

Figure 305. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 306. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Germany Mobile Data

Figure 307. German Mobile Market Information

Germany	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
T-Mobile (DT)	1,739	1,686	1,658	1,669	1,728	1,689	1,712	1,766	1,813	1,756	1,690	1,706	1,757
Vodafone	1,776	1,737	1,654	1,638	1,659	1,650	1,626	1,641	1,701	1,686	1,628	1,646	1,702
O2 (Telefonica)	729	732	695	707	729	729	702	726	755	749	686	727	769
KPN	782	761	734	757	779	751	729	772	800	769	726	768	805
<b>Total</b>	<b>5,026</b>	<b>4,916</b>	<b>4,741</b>	<b>4,771</b>	<b>4,896</b>	<b>4,819</b>	<b>4,769</b>	<b>4,905</b>	<b>5,069</b>	<b>4,960</b>	<b>4,730</b>	<b>4,847</b>	<b>5,033</b>
<b>Service Revenue Growth, yoy</b>													
T-Mobile (DT)	(2.5%)	0.5%	0.6%	(2.4%)	(0.6%)	0.2%	3.3%	5.8%	4.9%	4.0%	(1.3%)	(3.4%)	(3.1%)
Vodafone	(3.5%)	(1.1%)	(3.8%)	(6.2%)	(6.6%)	(5.0%)	(1.7%)	0.2%	2.5%	2.2%	0.1%	0.3%	0.0%
O2 (Telefonica)	(3.4%)	0.1%	0.7%	(1.2%)	(0.0%)	(0.4%)	1.0%	2.7%	3.6%	2.7%	(2.3%)	0.1%	1.9%
KPN	6.4%	5.5%	4.1%	0.0%	(0.4%)	(1.3%)	(0.7%)	2.0%	2.7%	2.4%	(0.4%)	(0.5%)	0.6%
<b>Total</b>	<b>(1.7%)</b>	<b>0.6%</b>	<b>(0.5%)</b>	<b>(3.2%)</b>	<b>(2.6%)</b>	<b>(2.0%)</b>	<b>0.6%</b>	<b>2.8%</b>	<b>3.5%</b>	<b>2.9%</b>	<b>(0.8%)</b>	<b>(1.2%)</b>	<b>(0.7%)</b>
<b>Service Revenue Market Share</b>													
T-Mobile (DT)	34.6%	34.3%	35.0%	35.0%	35.3%	35.0%	35.9%	36.0%	35.8%	35.4%	35.7%	35.2%	34.9%
Vodafone	35.3%	35.3%	34.9%	34.3%	33.9%	34.2%	34.1%	33.5%	33.6%	34.0%	34.4%	34.0%	33.8%
O2 (Telefonica)	14.5%	14.9%	14.7%	14.8%	14.9%	15.1%	14.7%	14.8%	14.9%	15.1%	14.5%	15.0%	15.3%
KPN	15.6%	15.5%	15.5%	15.9%	15.9%	15.6%	15.3%	15.7%	15.8%	15.5%	15.3%	15.8%	16.0%
<b>Post-pay Customers, 000s</b>													
T-Mobile (DT)	16,739	17,009	16,953	17,020	17,140	17,202	17,274	17,176	17,201	17,173	17,198	17,368	17,834
Vodafone	15,671	15,914	15,986	15,972	16,096	16,101	16,095	16,077	16,133	16,101	16,187	15,094	15,217
O2 (Telefonica)	6,881	6,967	7,085	7,225	7,440	7,700	7,855	7,936	8,025	8,254	8,460	8,713	8,965
KPN	6,542	6,676	6,739	6,785	6,800	6,768	6,764	6,815	6,892	7,069	7,188	7,290	7,382
<b>Call Volumes, mn min/qtr</b>													
Deutsche Telekom	7,643	7,829	7,848	8,082	8,353	8,592	8,622	8,836	9,162	9,393	8,936	9,016	9,268
Vodafone	9,218	9,478	9,464	9,314	9,234	9,659	9,697	9,798	9,770	10,362	10,270	10,470	10,657
Telefonica	5,512	5,454	5,555	5,819	5,775	6,108	6,223	6,299	6,292	6,729	6,859	7,018	6,907
KPN	6,920	7,413	7,467	7,998	8,036	8,426	8,497	8,865	8,767	9,497	9,379	9,567	9,371
<b>Total</b>	<b>29,292</b>	<b>30,174</b>	<b>30,334</b>	<b>31,213</b>	<b>31,398</b>	<b>32,785</b>	<b>33,040</b>	<b>33,797</b>	<b>33,990</b>	<b>35,980</b>	<b>35,443</b>	<b>36,071</b>	<b>36,202</b>
<b>Call Volume growth, yoy</b>													
Deutsche Telekom	12.8%	12.9%	9.1%	8.1%	9.3%	9.7%	9.9%	9.3%	9.7%	9.3%	3.6%	2.0%	1.2%
Vodafone	12.3%	9.4%	7.3%	1.2%	0.2%	1.9%	2.5%	5.2%	5.8%	7.3%	5.9%	6.9%	9.1%
Telefonica	21.0%	10.1%	(1.1%)	1.4%	4.8%	12.0%	12.0%	8.2%	9.0%	10.2%	10.2%	11.4%	9.8%
KPN	22.6%	17.1%	16.1%	16.6%	16.1%	13.7%	13.8%	10.8%	9.1%	12.7%	10.4%	7.9%	6.9%
<b>Total</b>	<b>16.3%</b>	<b>12.2%</b>	<b>8.1%</b>	<b>6.6%</b>	<b>7.2%</b>	<b>8.7%</b>	<b>8.9%</b>	<b>8.3%</b>	<b>8.3%</b>	<b>9.7%</b>	<b>7.3%</b>	<b>6.7%</b>	<b>6.5%</b>
<b>Contract Churn, % p.a</b>													
T-Mobile (DT)	13.2%	15.6%	18.0%	13.2%	12.0%	13.2%	15.6%	16.8%	13.2%	14.4%	12.0%	13.2%	13.2%
Vodafone	15.6%	15.2%	15.3%	16.0%	16.0%	17.8%	15.4%	16.9%	16.7%	19.6%	14.1%	14.8%	15.4%
KPN	19.0%	21.0%	21.0%	20.0%	20.0%	23.0%	20.0%	20.0%	20.0%	23.0%	23.0%	22.0%	21.0%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Vodafone	13.4%	14.3%	15.2%	15.8%	16.8%	17.7%	19.7%	20.6%	20.8%	22.2%	24.7%	25.0%	25.8%
O2 (Telefonica)	8.4%	9.0%	9.9%	10.2%	11.0%	12.8%	13.8%	12.5%	14.2%	15.6%	18.9%	20.7%	21.4%
<b>EBITDA, €m</b>													
T-Mobile (DT)	964	771	761	798	920	894	828	912	928	891	849	867	896
Vodafone	997	967	921	883	895	880	867	856	888	879	261	297	314
O2 (Telefonica)	192	237	202	230	235	252	241	291	304	310	301	335	354
KPN	336	317	322	333	347	331	321	345	386	322			
<b>Capex, €m</b>													
T-Mobile (DT)	89	189	122	96	107	136	96	86	166	233	281	233	233
Vodafone	182	263	263	189	189	243	243	203	203	281	114	129	129
O2 (Telefonica)	262	304	184	171	192	250	113	169	173	223	91	126	154
KPN	135	171	135	79	77	137	70	86	128	202			

Source: Company reports and Citi Investment Research and Analysis

## Germany Fixed Data

Figure 308. German Fixed Line Market Information

Germany	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	10,242	10,594	10,984	11,229	11,301	11,477	11,665	11,795	11,844	11,954	12,069	12,153	12,201
Incumbent wholesale	2,905	2,537	2,209	1,952	1,752	1,621	1,523	1,354	1,143	984	891	820	757
ULL (total)	7,906	8,270	8,606	8,742	8,914	9,093	9,242	9,293	9,367	9,498	9,570	9,562	9,570
Cable	1,221	1,384	1,558	1,727	1,871	2,017	2,159	2,296	2,434	2,597	2,805	2,953	3,127
<b>Total</b>	<b>22,274</b>	<b>22,785</b>	<b>23,357</b>	<b>23,650</b>	<b>23,838</b>	<b>24,208</b>	<b>24,589</b>	<b>24,738</b>	<b>24,788</b>	<b>25,033</b>	<b>25,335</b>	<b>25,488</b>	<b>25,655</b>
<b>Broadband Subscribers (000s)</b>													
Deutsche Telekom	10,242	10,594	10,984	11,229	11,301	11,477	11,665	11,795	11,844	11,954	12,069	12,153	12,201
Hansenet (TEF)	2,343	2,344	2,325	2,289	2,300	2,310	2,404	2,413	2,445	2,529	2,591	2,620	2,603
United Internet	2,780	2,820	2,820	3,470	3,440	3,310	3,310	3,310	3,280	3,260	3,240	3,220	3,200
Vodafone	2,887	2,994	3,100	3,180	3,310	3,400	3,500	3,500	3,470	3,490	3,500	3,450	3,450
Versatel	702	709	712	710	694	683	670	654	634	624	622	602	585
Tele2	191	177	163	153	145	139	131	125	121	116	112	110	105
Kabel Deutschland	548	625	707	787	851	906	966	1,029	1,089	1,153	1,260	1,314	1,377
Unity Media	326	377	438	496	537	584	634	677	721	780	840	894	964
Other	659	609	553	639	505	587	750	645	560	463	396	380	385
<b>Total</b>	<b>22,274</b>	<b>22,785</b>	<b>23,357</b>	<b>23,650</b>	<b>23,838</b>	<b>24,208</b>	<b>24,589</b>	<b>24,738</b>	<b>24,788</b>	<b>25,033</b>	<b>25,335</b>	<b>25,488</b>	<b>25,655</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Deutsche Telekom	344	352	390	245	72	176	188	130	49	110	115	84	48
Hansenet (TEF)	(18)	1	(19)	(36)	11	10	94	9	32	84	62	30	(18)
United Internet	20	40	0	(50)	(30)	0	0	0	(30)	(20)	(20)	(20)	(20)
Freenet	(50)	(110)	(30)										
Vodafone	106	106	106	80	130	90	100	0	(30)	20	10	(50)	0
Versatel	11	7	3	(2)	(16)	(11)	(13)	(16)	(20)	(10)	(2)	(20)	(17)
Telefonica	33	17	17	22	19	13							
Tele2	(7)	(14)	(14)	(10)	(8)	(6)	(8)	(6)	(4)	(5)	(4)	(2)	(5)
Kabel Deutschland	66	77	82	80	64	55	60	63	60	65	107	54	63
Unity Media	44	51	61	58	41	47	50	43	44	59	60	54	70
<b>Total</b>	<b>620</b>	<b>512</b>	<b>572</b>	<b>293</b>	<b>188</b>	<b>370</b>	<b>381</b>	<b>150</b>	<b>50</b>	<b>246</b>	<b>302</b>	<b>153</b>	<b>167</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	28,978	28,301	27,699	27,226	26,653	26,236	25,864	25,549	25,024	24,650	24,312	24,017	23,694
Incumbent wholesale													
ULL (full)	7,906	8,270	8,606	8,742	8,914	9,093	9,242	9,293	9,367	9,498	9,570	9,562	9,570
Naked DSL													
Cable	1,185	1,361	1,551	1,731	1,890	2,050	2,204	2,339	2,474	2,633	2,839	2,976	3,137
<b>Total</b>	<b>38,069</b>	<b>37,932</b>	<b>37,856</b>	<b>37,699</b>	<b>37,457</b>	<b>37,379</b>	<b>37,310</b>	<b>37,181</b>	<b>36,865</b>	<b>36,781</b>	<b>36,721</b>	<b>36,555</b>	<b>36,401</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(565)	(677)	(602)	(473)	(573)	(417)	(372)	(315)	(525)	(374)	(338)	(295)	(323)
Incumbent wholesale													
ULL (full)	394	364	336	136	172	179	149	51	74	131	72	(8)	8
Naked DSL													
Cable	160	177	190	180	159	161	154	136	135	159	206	137	161
<b>Total</b>	<b>(12)</b>	<b>(137)</b>	<b>(76)</b>	<b>(157)</b>	<b>(243)</b>	<b>(78)</b>	<b>(70)</b>	<b>(129)</b>	<b>(316)</b>	<b>(84)</b>	<b>(60)</b>	<b>(166)</b>	<b>(154)</b>
<b>Pay TV Subscribers (000s)</b>													
DT	257	352	448	561	678	806	896	971	1,042	1,156	1,257	1,301	1,375
Sky Deutschland	2,411	2,399	2,371	2,364	2,431	2,470	2,471	2,476	2,521	2,653	2,726	2,759	2,857
Kabel Deutschland	9,282	9,205	9,247	9,184	9,111	9,044	9,002	8,969	8,966	8,930	8,877	8,856	8,838
Unity Media	4,655	4,619	4,577	4,554	4,547	4,523	4,514	4,499	4,500	4,488	4,477	4,469	4,462
<b>Total</b>	<b>18,894</b>	<b>18,869</b>	<b>18,937</b>	<b>18,958</b>	<b>19,061</b>	<b>19,138</b>	<b>19,231</b>	<b>19,273</b>	<b>19,397</b>	<b>19,604</b>	<b>19,637</b>	<b>19,685</b>	<b>19,832</b>
<b>Pay TV Subscribers Net Adds (000s)</b>													
DT		95	96	113	117	128	90	75	71	114	101	44	74
Sky Deutschland		(12)	(28)	(7)	67	39	1	5	45	132	73	33	98
Kabel Deutschland		(77)	42	(63)	(73)	(67)	(42)	(33)	(3)	(36)	(53)	(21)	(18)
Unity Media		(36)	(42)	(23)	(7)	(24)	(9)	(15)	1	(12)	(11)	(8)	(7)
<b>Total</b>		<b>(25)</b>	<b>68</b>	<b>20</b>	<b>104</b>	<b>77</b>	<b>93</b>	<b>42</b>	<b>124</b>	<b>207</b>	<b>33</b>	<b>48</b>	<b>147</b>

Source: Company reports and Citi Investment Research and Analysis

# Greece

## Fixed

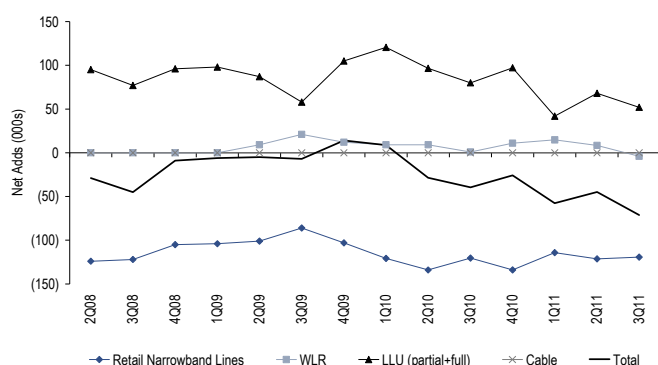
- Retail line loss worsened in Greece to -10.6% in 3Q11 vs -10.3% in 2Q11. OTE continues to lose broadband lines. Fixed revenues improved but from a very low base at -8.1% yoy in 3Q11 vs. -11% in 2Q11.

## Mobile

- Service revenue decline dramatically improved to -7.7% in 3Q11 from -13.0% 2Q11 and -19.2% in 1Q11. This is driven by lower price competition and better roaming revenues thanks to strong tourist numbers during the summer. There is currently a c.-3.5ppt growth headwind from MTR cuts in the Greek market; excluding these, growth is still one of the worst in Europe at -4.2% 1Q11.

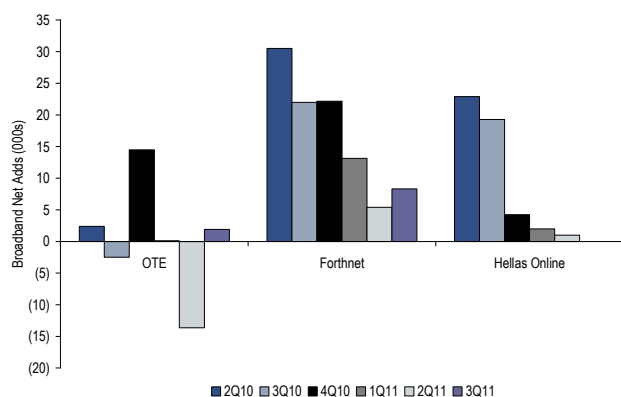
## Fixed Charts

Figure 309. Telephony Net Adds



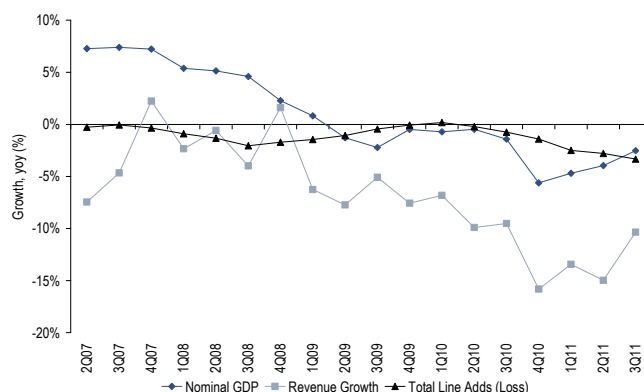
Source: Company reports and Citi Investment Research and Analysis

Figure 311. Broadband Subscriber Net Adds



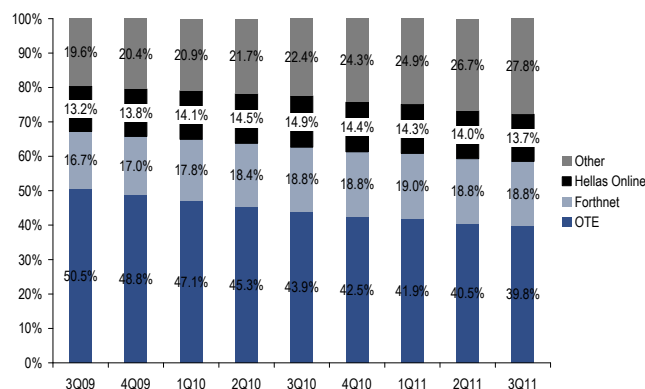
Source: Company reports and Citi Investment Research and Analysis

Figure 310. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

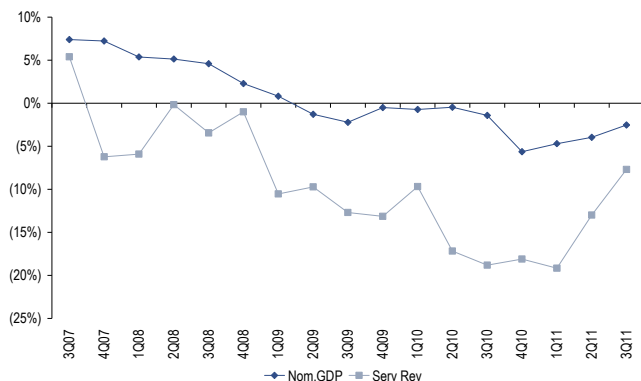
Figure 312. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

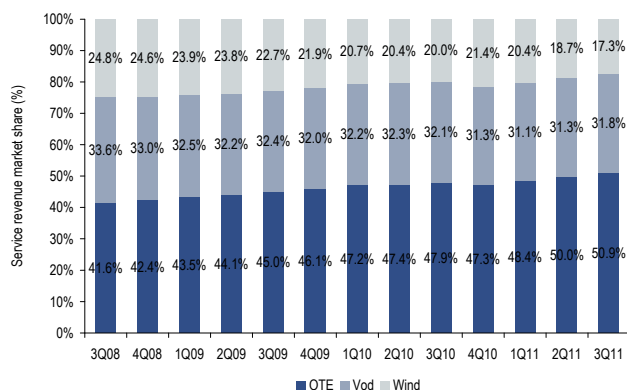
## Mobile Charts

Figure 313. Revenue and GDP



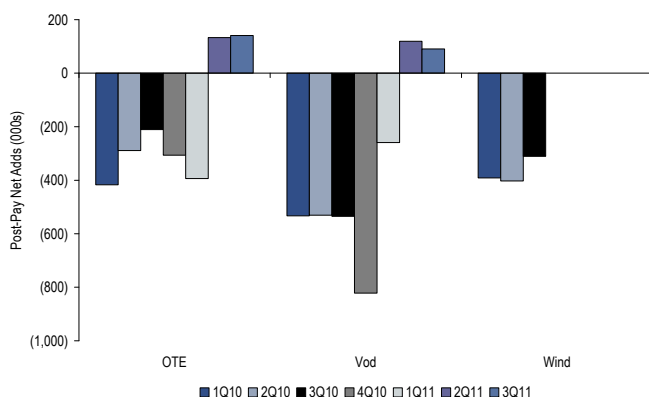
Source: Company reports, CIRA and Datastream

Figure 314. Service Revenue Market Share



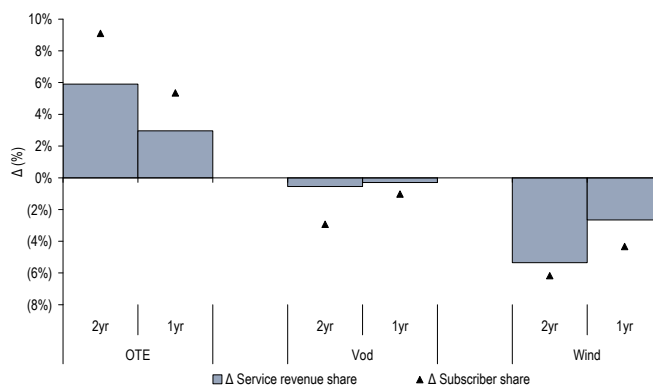
Source: Company reports and Citi Investment Research and Analysis

Figure 315. Total Net Adds



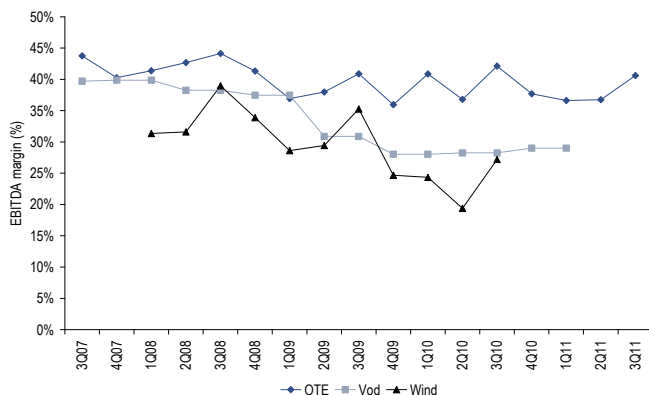
Source: Company reports and Citi Investment Research and Analysis

Figure 316. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 317. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

## Greece Mobile Data

Figure 318. Greek Mobile Market Information

Greece	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
OTE	478	440	397	427	451	416	388	380	390	349	322	349	382
Vodafone	386	343	296	312	325	289	265	259	262	232	207	219	239
Wind	285	256	218	230	227	198	170	163	163				
<b>Total</b>	<b>1,149</b>	<b>1,039</b>	<b>911</b>	<b>969</b>	<b>1,003</b>	<b>902</b>	<b>823</b>	<b>802</b>	<b>814</b>	<b>739</b>	<b>666</b>	<b>698</b>	<b>752</b>
<b>Service Revenue Growth, yoy</b>													
OTE	6.6%	4.6%	(3.4%)	(2.9%)	(5.6%)	(5.6%)	(2.1%)	(11.0%)	(13.5%)	(16.0%)	(17.0%)	(8.2%)	(2.0%)
Vodafone	(8.3%)	(7.9%)	(16.9%)	(15.4%)	(15.8%)	(15.8%)	(10.7%)	(16.8%)	(19.5%)	(19.8%)	(21.8%)	(15.6%)	(8.5%)
Wind	(11.1%)	(0.1%)	(13.3%)	(13.1%)	(20.3%)	(22.6%)	(22.1%)	(29.1%)	(28.5%)				
<b>Total</b>	<b>(3.4%)</b>	<b>(1.0%)</b>	<b>(10.5%)</b>	<b>(9.7%)</b>	<b>(12.7%)</b>	<b>(13.1%)</b>	<b>(9.7%)</b>	<b>(17.2%)</b>	<b>(18.8%)</b>	<b>(18.1%)</b>	<b>(19.2%)</b>	<b>(13.0%)</b>	<b>(7.7%)</b>
<b>Service Revenue Market Share</b>													
OTE	41.6%	42.4%	43.5%	44.1%	45.0%	46.1%	47.2%	47.4%	47.9%	47.3%	48.4%	50.0%	50.9%
Vodafone	33.6%	33.0%	32.5%	32.2%	32.4%	32.0%	32.2%	32.3%	32.1%	31.3%	31.1%	31.3%	31.8%
Wind	24.8%	24.6%	23.9%	23.8%	22.7%	21.9%	20.7%	20.4%	20.0%				
<b>Post-pay Customers, 000s</b>													
OTE	2,153	2,214	2,241	2,272	2,260	2,285	2,306	2,314	2,329	2,311	2,302	2,276	2,319
Vodafone	1,776	1,780	1,760	1,724	1,701	1,698	1,686	1,675	1,656	1,637	1,609	1,598	1,604
Wind	1,074	1,081	1,069	1,059	1,054	1,059	1,067	1,055	1,036				
<b>Call Volumes, mn min/qtr</b>													
OTE	3,955	4,201	4,891	5,574	5,946	6,197	6,243	6,494	6,571	6,655	6,996	7,056	7,083
Vodafone	2,443	2,370	2,281	2,402	2,411	2,309	2,221	2,438	2,485	2,410	2,288	2,461	2,347
Wind	1,803	1,710	1,626	1,681	1,659	1,558	1,286	1,582	1,586				
<b>Total</b>	<b>8,201</b>	<b>8,280</b>	<b>8,798</b>	<b>9,657</b>	<b>10,015</b>	<b>10,064</b>	<b>9,750</b>	<b>10,514</b>	<b>10,643</b>	<b>10,531</b>			
<b>Call Volume growth, yoy</b>													
OTE	34.3%	34.9%	44.0%	51.0%	50.3%	47.5%	27.6%	16.5%	10.5%	7.4%	12.1%	8.7%	7.8%
Vodafone	7.1%	5.6%	0.8%	0.3%	(1.3%)	(2.6%)	(2.6%)	1.5%	3.1%	4.4%	3.0%	0.9%	(5.6%)
Wind	5.7%	2.4%	(0.3%)	(4.3%)	(8.0%)	(8.9%)	(20.9%)	(5.9%)	(4.4%)				
<b>Total</b>	<b>18.3%</b>	<b>17.8%</b>	<b>20.7%</b>	<b>23.1%</b>	<b>22.1%</b>	<b>21.5%</b>	<b>10.8%</b>	<b>8.9%</b>	<b>6.3%</b>	<b>4.6%</b>	<b>9.7%</b>	<b>3.9%</b>	<b>1.8%</b>
<b>Contract Churn, % p.a</b>													
Wind	22.2%	26.0%	29.3%	30.2%	30.9%								
<b>EBITDA, €m</b>													
OTE	220	192	164	180	208	174	177	155	185	153	139	152	183
Vodafone	148	129	111	96	100	81	74	73	74	67	60	72	78
Wind	132	105	76	82	98	61	52	39	54				

Source: Company reports and Citi Investment Research and Analysis



## Greece Fixed Data

Figure 319. Greek Fixed Line Market Information

Greece	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	740	830	938	970	1,006	1,045	1,078	1,080	1,078	1,092	1,092	1,079	1,081
Incumbent wholesale	184	142	90	79	73	78	71	66	61	62	62	61	61
ULL (total)	576	672	770	857	915	1,020	1,141	1,237	1,317	1,414	1,456	1,524	1,576
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1,500</b>	<b>1,644</b>	<b>1,798</b>	<b>1,906</b>	<b>1,994</b>	<b>2,143</b>	<b>2,289</b>	<b>2,383</b>	<b>2,456</b>	<b>2,569</b>	<b>2,610</b>	<b>2,664</b>	<b>2,718</b>
<b>Broadband Subscribers (000s)</b>													
OTE	740	830	938	970	1,006	1,045	1,078	1,080	1,078	1,092	1,092	1,079	1,081
Forthnet	250	274	286	303	334	364	409	439	461	483	496	502	510
Hellas Online	115	151	188	232	264	296	324	346	366	370	372	373	373
Wind	0	0	0	0	0	0	0	0	0	0	0	0	0
- other	395	389	386	401	391	438	479	517	551	623	650	710	754
<b>Total</b>	<b>1,500</b>	<b>1,644</b>	<b>1,798</b>	<b>1,906</b>	<b>1,994</b>	<b>2,143</b>	<b>2,289</b>	<b>2,383</b>	<b>2,456</b>	<b>2,569</b>	<b>2,610</b>	<b>2,664</b>	<b>2,718</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
OTE	53	90	108	32	36	39	33	2	(3)	14	0	(14)	2
Forthnet	20	24	12	16	31	30	45	31	22	22	13	5	8
Other	25	(6)	(3)	15	(10)	47	41	38	34				
<b>Total</b>	<b>109</b>	<b>144</b>	<b>154</b>	<b>108</b>	<b>88</b>	<b>149</b>	<b>146</b>	<b>94</b>	<b>73</b>	<b>113</b>	<b>42</b>	<b>54</b>	<b>54</b>
<b>Telephony Channels (000s)</b>													
Retail Narrowband Lines	5,491	5,386	5,282	5,181	5,095	4,992	4,871	4,737	4,617	4,483	4,369	4,247	4,128
WLR	0	0	0	9	30	42	51	60	61	72	87	95	91
LLU (partial+full)	576	672	770	857	915	1,020	1,141	1,237	1,317	1,414	1,456	1,524	1,576
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>6,067</b>	<b>6,058</b>	<b>6,052</b>	<b>6,047</b>	<b>6,040</b>	<b>6,054</b>	<b>6,063</b>	<b>6,034</b>	<b>5,995</b>	<b>5,969</b>	<b>5,911</b>	<b>5,866</b>	<b>5,795</b>
<b>Telephony Channels Net Adds (000s)</b>													
Retail Narrowband Lines	(122)	(105)	(104)	(101)	(86)	(103)	(121)	(134)	(120)	(134)	(114)	(121)	(119)
WLR	0	0	0	9	21	12	9	9	1	11	15	8	(4)
LLU (partial+full)	77	96	98	87	58	105	121	97	80	97	42	68	52
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>(45)</b>	<b>(9)</b>	<b>(6)</b>	<b>(5)</b>	<b>(7)</b>	<b>14</b>	<b>9</b>	<b>(29)</b>	<b>(40)</b>	<b>(26)</b>	<b>(58)</b>	<b>(45)</b>	<b>(71)</b>

Source: Company reports and Citi Investment Research and Analysis

# Italy

## Fixed

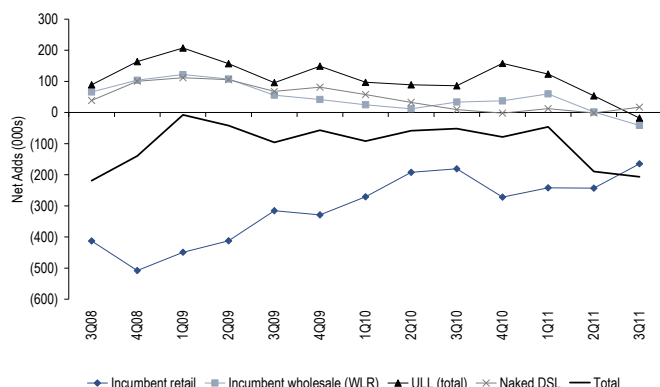
- TI's fixed revenue decline slowed to -3.2% in 3Q11 vs -5.6% in 2Q11. However BB net adds were disappointing at -49k, with Infostrada gaining share at TI's expense. Retail line loss of -5.2% was steady qoq.

## Mobile

- Italy showed improvements in service revenue growth ex MTRs to -1.1% in 3Q11 vs -2.3% in 2Q11. Most of this improved performance is due to TI.
- Agcom's new MTR glidepath, although now even steeper only begins in June and not January 2012.

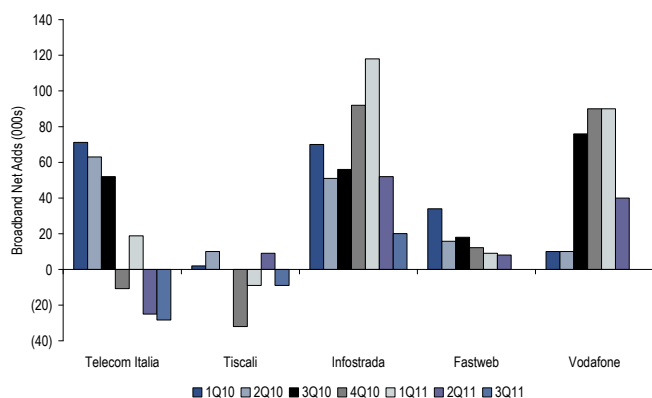
## Fixed Charts

Figure 320. Telephony Net Adds



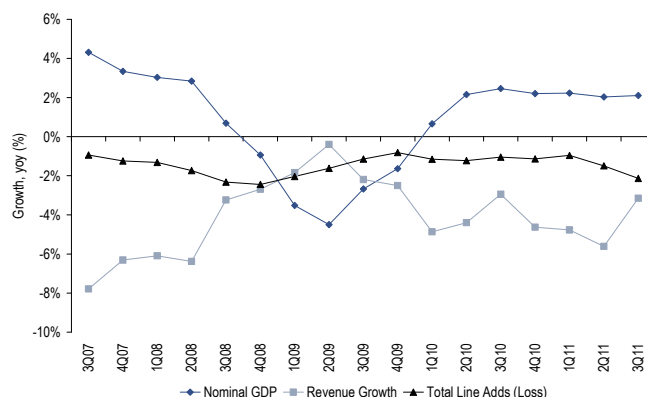
Source: Company reports and Citi Investment Research and Analysis

Figure 322. Broadband Subscriber Net Adds



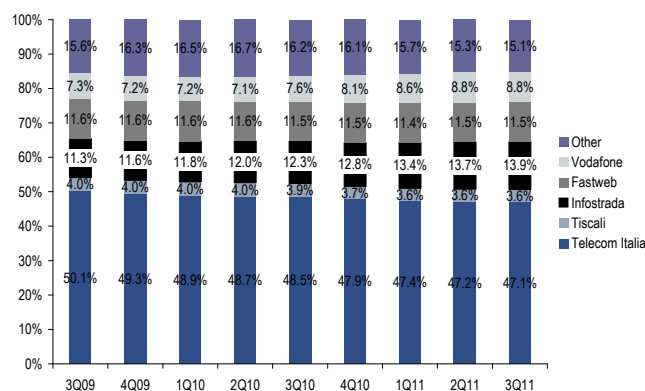
Source: Company reports and Citi Investment Research and Analysis

Figure 321. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

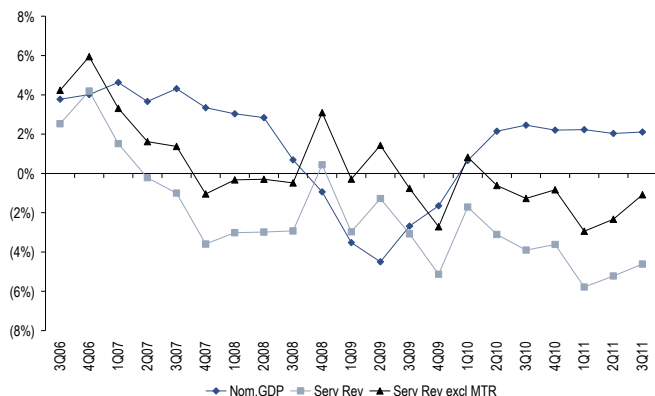
Figure 323. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

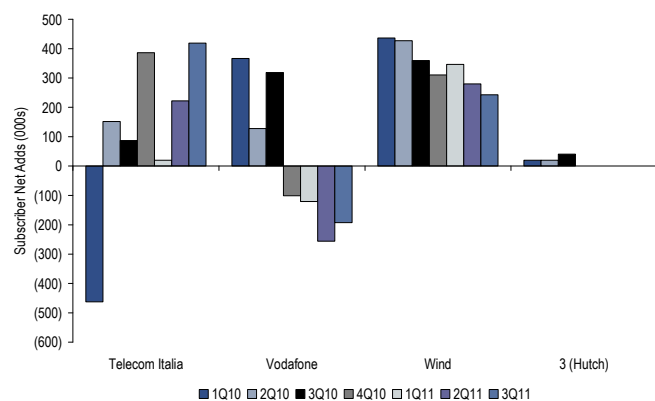
## Mobile Charts

Figure 324. Revenue and GDP



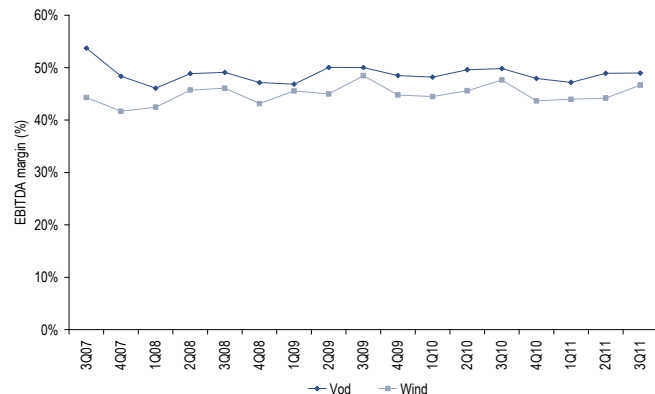
Source: Company reports, CIRA and Datastream

Figure 326. Subscriber Net Adds



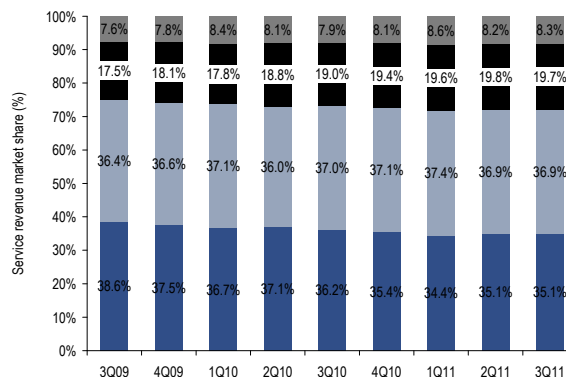
Source: Company reports and Citi Investment Research and Analysis

Figure 328. EBITDA Margin



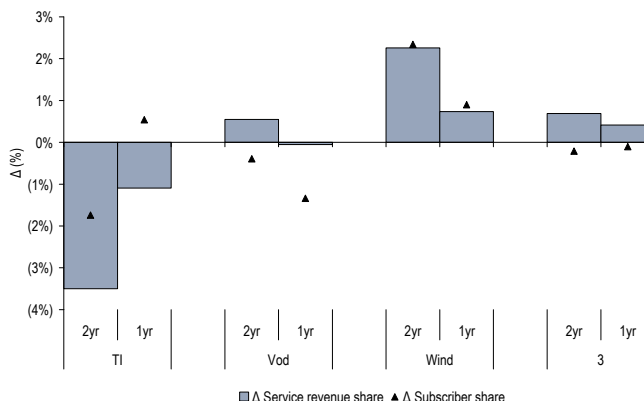
Source: Company reports and Citi Investment Research and Analysis

Figure 325. Service Revenue Market Share



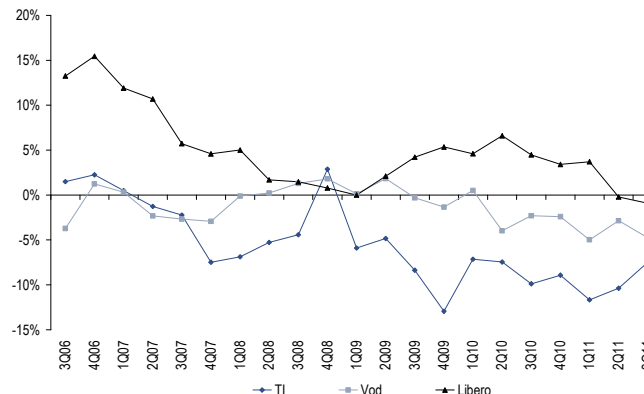
Source: Company reports and Citi Investment Research and Analysis

Figure 327. Service Revenue Growth



Source: Company reports and Citi Investment Research and Analysis

Figure 329. Mobile service revenue growth



Source: Company reports and Citi Investment Research and Analysis

## Italy Mobile Data

Figure 330 Italian Mobile Market Information

Italy	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
Telecom Italia	2,261	2,250	1,993	2,092	2,072	1,959	1,850	1,936	1,867	1,784	1,634	1,735	1,727
Vodafone	1,961	1,938	1,863	1,956	1,955	1,912	1,873	1,878	1,910	1,865	1,779	1,824	1,819
Wind	901	896	859	921	939	944	899	982	981	976	932	980	972
3 (Hutch)	420	420	417	417	407	407	422	422	405				
<b>Total</b>	<b>5,543</b>	<b>5,504</b>	<b>5,132</b>	<b>5,385</b>	<b>5,373</b>	<b>5,221</b>	<b>5,044</b>	<b>5,218</b>	<b>5,163</b>	<b>5,033</b>	<b>4,752</b>	<b>4,946</b>	<b>4,925</b>
<b>Service Revenue Growth, yoy</b>													
Telecom Italia	(4.4%)	2.9%	(5.9%)	(4.8%)	(8.4%)	(12.9%)	(7.2%)	(7.5%)	(9.9%)	(8.9%)	(11.7%)	(10.4%)	(7.5%)
Vodafone	1.3%	1.8%	0.1%	1.8%	(0.3%)	(1.3%)	0.5%	(4.0%)	(2.3%)	(2.4%)	(5.0%)	(2.9%)	(4.8%)
Wind	1.5%	0.8%	0.0%	2.1%	4.2%	5.4%	4.6%	6.6%	4.5%	3.4%	3.7%	(0.2%)	(0.9%)
3 (Hutch)	(19.3%)	(16.1%)	(7.8%)	(4.0%)	(3.1%)	(3.1%)	1.4%	1.4%	(0.4%)	0.0%	(3.7%)	(3.7%)	0.4%
<b>Total</b>	<b>(2.9%)</b>	<b>0.4%</b>	<b>(3.0%)</b>	<b>(1.3%)</b>	<b>(3.1%)</b>	<b>(5.1%)</b>	<b>(1.7%)</b>	<b>(3.1%)</b>	<b>(3.9%)</b>	<b>(3.6%)</b>	<b>(5.8%)</b>	<b>(5.2%)</b>	<b>(4.6%)</b>
<b>Service Revenue Market Share</b>													
Telecom Italia	40.8%	40.9%	38.8%	38.8%	38.6%	37.5%	36.7%	37.1%	36.2%	35.4%	34.4%	35.1%	35.1%
Vodafone	35.4%	35.2%	36.3%	36.3%	36.4%	36.6%	37.1%	36.0%	37.0%	37.1%	37.4%	36.9%	36.9%
Wind	16.3%	16.3%	16.7%	17.1%	17.5%	18.1%	17.8%	18.8%	19.0%	19.4%	19.6%	19.8%	19.7%
3 (Hutch)	7.6%	7.6%	8.1%	7.7%	7.6%	7.8%	8.4%	8.1%	7.9%	8.1%	8.6%	8.2%	8.3%
<b>Post-pay Customers, 000s</b>													
Vodafone	3,228	3,423	3,635	3,797	3,933	4,091	4,172	4,311	4,448	4,556	4,690	4,771	4,910
<b>Call Volumes, mn min/qtr</b>													
Telecom Italia	12,427	12,359	11,819	12,272	12,025	12,453	12,104	12,805	13,188	13,847	13,310	13,962	13,735
Vodafone	13,017	13,813	13,442	13,740	13,382	13,999	13,957	14,347	14,122	14,670	14,511	15,185	14,641
Wind	8,147	8,655	8,552	9,030	8,894	9,674	9,892	10,552	10,645	11,303	11,299	12,153	12,129
<b>Total</b>	<b>37,207</b>	<b>38,656</b>	<b>37,608</b>	<b>39,052</b>	<b>38,266</b>	<b>40,320</b>	<b>40,121</b>	<b>42,052</b>	<b>42,299</b>	<b>44,362</b>	<b>43,574</b>	<b>45,990</b>	<b>45,090</b>
<b>Call Volume growth, yoy</b>													
Telecom Italia	4.4%	0.9%	(4.4%)	(2.4%)	(3.2%)	0.8%	2.4%	4.3%	9.7%	11.2%	10.0%	9.0%	4.1%
Vodafone	10.6%	10.1%	5.3%	4.7%	2.8%	1.3%	3.8%	4.4%	5.5%	4.8%	4.0%	5.8%	3.7%
Wind	11.1%	11.8%	9.1%	10.9%	9.2%	11.8%	15.7%	16.9%	19.7%	16.8%	14.2%	15.2%	13.9%
<b>Total</b>	<b>9.0%</b>	<b>7.8%</b>	<b>3.4%</b>	<b>4.3%</b>	<b>2.8%</b>	<b>4.3%</b>	<b>6.7%</b>	<b>7.7%</b>	<b>10.5%</b>	<b>10.0%</b>	<b>8.6%</b>	<b>9.4%</b>	<b>6.6%</b>
<b>Contract Churn, % p.a</b>													
Vodafone	15.8%	17.3%	16.9%	19.8%	17.2%	23.3%	22.8%	25.3%	20.2%	23.6%	22.9%	22.1%	19.2%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Telecom Italia	12.7%	14.2%	11.7%	12.5%	13.8%	14.8%	16.2%	14.8%	15.7%	15.8%	16.3%	16.8%	18.1%
Vodafone	7.8%	8.4%	9.0%	8.7%	9.8%	10.2%	10.8%	11.0%	12.3%	12.7%	13.7%	13.6%	15.1%
<b>EBITDA, €m</b>													
Vodafone	1,038	992	954	1,073	1,073	1,025	1,004	1,037	1,054	1,000	953	1,007	1,005
<b>Capex, €m</b>													
Vodafone	192	212	212	222	222	226	226	200	200	250	250	199	199

Source: Company reports and Citi Investment Research and Analysis

## Italy Fixed Data

Figure 331. Italian Fixed Line Market Information

Italy	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	6,610	6,754	6,843	6,859	6,921	7,000	7,071	7,134	7,186	7,175	7,194	7,169	7,141
Incumbent wholesale	1,304	1,380	1,486	1,584	1,646	1,741	1,788	1,825	1,847	1,883	1,937	1,948	1,931
ULL (total)	4,387	4,621	4,883	5,112	5,237	5,456	5,600	5,700	5,789	5,931	6,044	6,087	6,084
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>12,301</b>	<b>12,755</b>	<b>13,212</b>	<b>13,555</b>	<b>13,804</b>	<b>14,196</b>	<b>14,459</b>	<b>14,659</b>	<b>14,822</b>	<b>14,989</b>	<b>15,174</b>	<b>15,204</b>	<b>15,155</b>
<b>Broadband Subscribers (000s)</b>													
Telecom Italia	6,610	6,754	6,843	6,859	6,921	7,000	7,071	7,134	7,186	7,175	7,194	7,169	7,141
Tiscali	581	586	554	549	552	570	572	582	582	550	541	550	541
Infostrada	1,250	1,360	1,450	1,515	1,560	1,643	1,713	1,764	1,820	1,912	2,030	2,082	2,102
Fastweb	1,441	1,482	1,542	1,575	1,605	1,644	1,678	1,694	1,712	1,724	1,733	1,741	1,741
Vodafone	0	0	994	1,004	1,014	1,024	1,034	1,044	1,120	1,210	1,300	1,340	1,340
Other	2,419	2,573	1,829	2,053	2,152	2,315	2,391	2,441	2,402	2,418	2,376	2,322	2,291
<b>Total</b>	<b>12,301</b>	<b>12,755</b>	<b>13,212</b>	<b>13,555</b>	<b>13,804</b>	<b>14,196</b>	<b>14,459</b>	<b>14,659</b>	<b>14,822</b>	<b>14,989</b>	<b>15,174</b>	<b>15,204</b>	<b>15,155</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Telecom Italia	46	144	89	16	62	79	71	63	52	(11)	19	(25)	(28)
Tiscali	7	5	(32)	(5)	3	18	2	10	0	(32)	(9)	9	(9)
Infostrada	52	110	90	65	45	83	70	51	56	92	118	52	20
Fastweb	43	41	60	33	30	39	34	16	18	12	9	8	0
Vodafone	0	0	994	10	10	10	10	10	76	90	90	40	0
<b>Total</b>	<b>261</b>	<b>454</b>	<b>456</b>	<b>344</b>	<b>249</b>	<b>392</b>	<b>263</b>	<b>200</b>	<b>163</b>	<b>167</b>	<b>185</b>	<b>30</b>	<b>(49)</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	20,539	20,031	19,582	19,170	18,854	18,525	18,254	18,062	17,881	17,609	17,367	17,124	16,959
Incumbent wholesale (WLR)	414	518	640	747	803	845	870	882	916	954	1,013	1,015	974
ULL (total)	3,500	3,664	3,871	4,028	4,124	4,273	4,370	4,459	4,545	4,703	4,826	4,880	4,862
Naked DSL	471	572	684	789	857	939	996	1,029	1,038	1,036	1,048	1,047	1,065
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>24,924</b>	<b>24,784</b>	<b>24,777</b>	<b>24,734</b>	<b>24,639</b>	<b>24,582</b>	<b>24,490</b>	<b>24,432</b>	<b>24,380</b>	<b>24,301</b>	<b>24,255</b>	<b>24,066</b>	<b>23,860</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(413)	(508)	(449)	(412)	(316)	(329)	(271)	(192)	(181)	(272)	(242)	(243)	(165)
Incumbent wholesale (WLR)	66	104	122	108	56	42	25	12	34	38	60	2	(41)
ULL (total)	89	164	207	157	96	149	97	89	86	158	123	54	(18)
Naked DSL	39	101	112	105	68	81	57	33	9	(2)	12	(1)	18
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>(219)</b>	<b>(140)</b>	<b>(8)</b>	<b>(42)</b>	<b>(96)</b>	<b>(57)</b>	<b>(92)</b>	<b>(58)</b>	<b>(52)</b>	<b>(79)</b>	<b>(46)</b>	<b>(189)</b>	<b>(206)</b>
<b>Pay TV Subscribers (000s)</b>													
TI	218	329	365	397	406	401	395	395	391	374	350	328	296
Sky Italia	4,600	4,700	4,800	4,800	4,800	4,735	4,696	4,741	4,799	4,870	4,915	4,970	5,004

Source: Company reports and Citi Investment Research and Analysis

# Netherlands

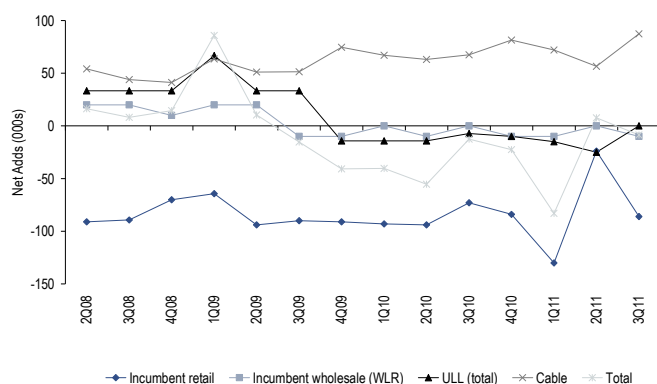
## Fixed

- Retail line losses are still not showing many signs of improvement at -54k in Q3 vs. -51k in Q2 and -72k in Q1. Fixed revenue decline improved to -5.1% from -5.4% in 2Q11. Broadband net additions remain negative for KPN at -6k in Q3 due to strong market share gain by cable.

## Mobile

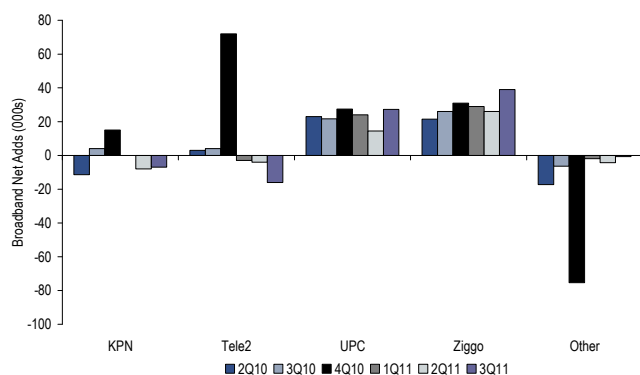
- Service revenue growth excluding the impact of MTR cuts improved to 0.4% in 3Q11, from -0.1% in 2Q11 with improved revenue trends from all the operators. KPN continues to lose market share to Vod and DT. Mobile service consumer revenues decline reached a worrying level for KPN at -10.8% yoy in 3Q11. Vod is the only operator whose revenue is growing.

Figure 332. Telephony Net Adds



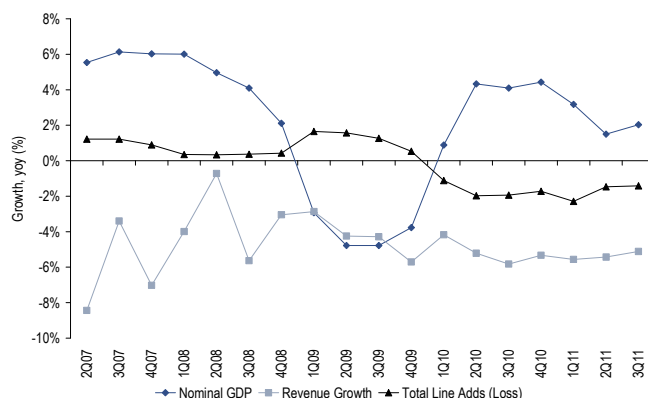
Source: Company reports and Citi Investment Research and Analysis

Figure 334. Broadband Subscriber Net Adds



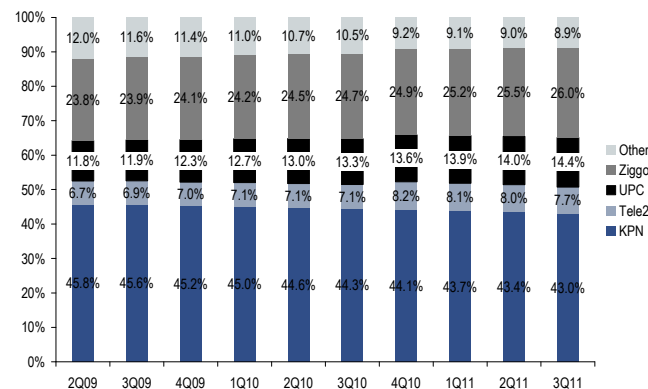
Source: Company reports and Citi Investment Research and Analysis

Figure 333. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

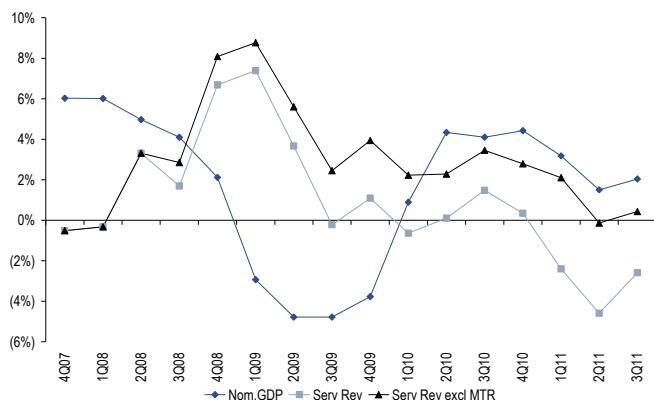
Figure 335. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

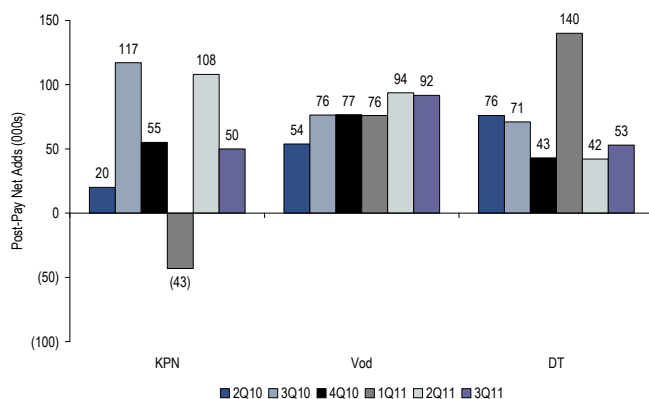
## Mobile Charts

Figure 336. Revenue and GDP



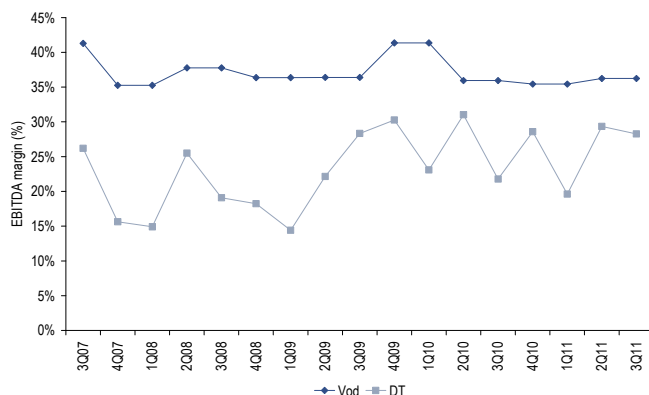
Source: Company reports, CIRA and Datastream

Figure 338. Post-Paid Net Adds



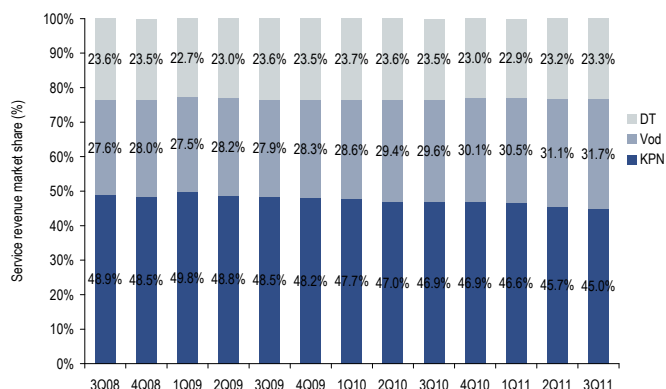
Source: Company reports and Citi Investment Research and Analysis

Figure 340. EBITDA Margin



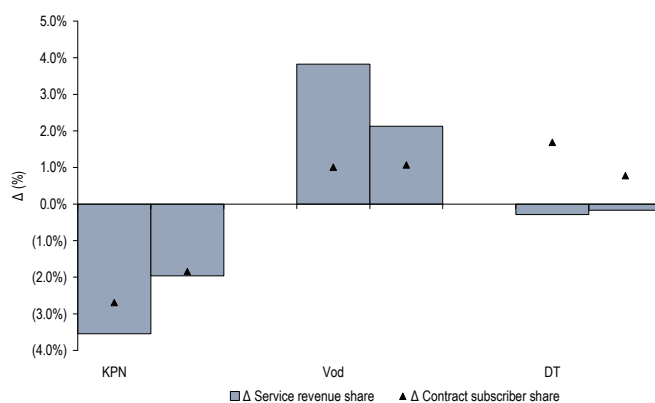
Source: Company reports and Citi Investment Research and Analysis

Figure 337. Service Revenue Market Share



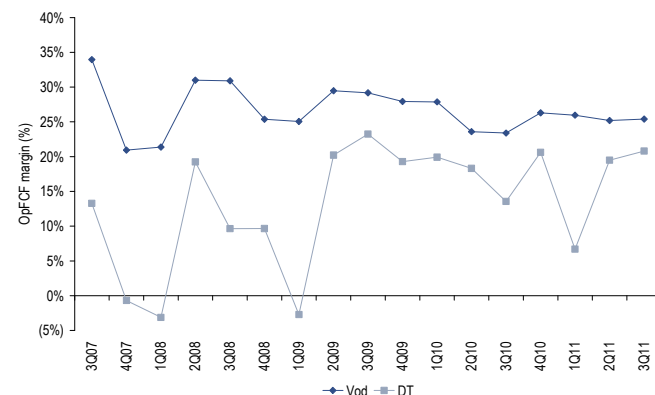
Source: Company reports and Citi Investment Research and Analysis

Figure 339. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 341. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Netherlands Mobile Data

Figure 342. Netherlands Mobile Market Information

Netherlands	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
KPN	764	754	767	783	757	758	740	761	742	735	698	702	691
Vodafone	431	436	424	453	435	445	443	476	468	472	457	478	487
T-Mobile (DT)	369	365	350	370	368	370	367	383	371	360	342	357	358
<b>Total</b>	<b>1,195</b>	<b>1,190</b>	<b>1,191</b>	<b>1,236</b>	<b>1,192</b>	<b>1,203</b>	<b>1,183</b>	<b>1,237</b>	<b>1,210</b>	<b>1,207</b>	<b>1,155</b>	<b>1,180</b>	<b>1,178</b>
<b>Service Revenue Growth, yoy</b>													
KPN	0.0%	4.0%	8.6%	3.6%	(0.9%)	0.5%	(3.5%)	(2.8%)	(2.0%)	(3.0%)	(5.7%)	(7.8%)	(6.9%)
Vodafone	4.8%	11.7%	5.2%	3.8%	1.0%	2.1%	4.6%	5.1%	7.5%	6.1%	3.1%	0.5%	4.2%
T-Mobile (DT)	(0.3%)	(3.3%)	(3.8%)	(3.4%)	(0.2%)	1.4%	4.9%	3.5%	0.8%	(2.7%)	(6.8%)	(6.8%)	(3.5%)
<b>Total</b>	<b>1.7%</b>	<b>6.7%</b>	<b>7.4%</b>	<b>3.7%</b>	<b>(0.2%)</b>	<b>1.1%</b>	<b>(0.6%)</b>	<b>0.1%</b>	<b>1.5%</b>	<b>0.4%</b>	<b>(2.4%)</b>	<b>(4.6%)</b>	<b>(2.6%)</b>
<b>Service Revenue Market Share</b>													
KPN	48.9%	48.5%	49.8%	48.8%	48.5%	48.2%	47.7%	47.0%	46.9%	46.9%	46.6%	45.7%	45.0%
Vodafone	27.6%	28.0%	27.5%	28.2%	27.9%	28.3%	28.6%	29.4%	29.6%	30.1%	30.5%	31.1%	31.7%
T-Mobile (DT)	23.6%	23.5%	22.7%	23.0%	23.6%	23.5%	23.7%	23.6%	23.5%	23.0%	22.9%	23.2%	23.3%
<b>Post-pay Customers, 000s</b>													
KPN	4,782	4,971	5,118	5,177	5,209	5,198	5,248	5,268	5,385	5,440	5,397	5,505	5,555
Vodafone	2,575	2,658	2,725	2,756	2,820	2,914	2,829	2,883	2,959	3,036	3,112	3,205	3,297
T-Mobile (DT)	2,229	2,259	2,313	2,359	2,384	2,406	2,460	2,536	2,607	2,650	2,790	2,832	2,885
<b>Call Volumes, mn min/qtr</b>													
KPN	3,452	3,703	3,613	3,722	3,507	3,739	3,640	3,679	3,451	3,577	3,572	3,664	3,459
Vodafone	2,108	2,313	2,278	2,363	2,212	2,367	2,359	2,323	2,625	2,884	2,821	2,945	2,820
Deutsche Telekom	1,734	1,755	1,708	1,743	1,765	1,842	1,900	1,987	1,923	2,049	2,011	2,062	1,948
<b>Total</b>	<b>7,294</b>	<b>7,771</b>	<b>7,599</b>	<b>7,827</b>	<b>7,484</b>	<b>7,948</b>	<b>7,900</b>	<b>7,990</b>	<b>8,000</b>	<b>8,510</b>	<b>8,403</b>	<b>8,671</b>	<b>8,227</b>
<b>Call Volume growth, yoy</b>													
KPN	6.2%	4.1%	3.2%	1.3%	1.6%	1.0%	0.8%	(1.1%)	(1.6%)	(4.3%)	(1.9%)	(0.4%)	0.2%
Vodafone	11.0%	13.6%	9.7%	4.6%	4.9%	2.3%	3.6%	(1.7%)	18.7%	21.8%	19.6%	26.8%	7.4%
Deutsche Telekom	47.1%	8.6%	(2.8%)	(8.8%)	1.8%	5.0%	11.2%	14.0%	9.0%	11.2%	5.8%	3.8%	1.3%
<b>Total</b>	<b>0.4%</b>	<b>1.0%</b>	<b>3.6%</b>	<b>(0.3%)</b>	<b>2.6%</b>	<b>2.3%</b>	<b>4.0%</b>	<b>2.1%</b>	<b>6.9%</b>	<b>7.1%</b>	<b>6.4%</b>	<b>8.5%</b>	<b>2.8%</b>
<b>Contract Churn, % p.a</b>													
T-Mobile (DT)	16.8%	21.6%	18.0%	16.8%	19.2%	18.0%	15.6%	12.0%	13.2%	14.4%	15.6%	15.6%	15.6%
<b>EBITDA, €m</b>													
Vodafone	163	159	154	165	158	184	183	171	168	167	162	173	177
T-Mobile (DT)	91	85	64	103	128	135	102	139	98	122	82	128	121
<b>Capex, €m</b>													
Vodafone	30	48	48	31	31	60	60	59	59	43	43	53	53
T-Mobile (DT)	45	40	76	9	23	49	14	57	37	34	54	43	32

Source: Company reports and Citi Investment Research and Analysis



## Netherlands Fixed Data

Figure 343. Netherlands Fixed Line Market Information

Netherlands	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	2,621	2,664	2,692	2,698	2,712	2,717	2,729	2,718	2,722	2,737	2,737	2,729	2,722
Incumbent wholesale	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	1,033	1,067	1,100	1,100	1,100	1,100	1,100	1,086	1,083	1,080	1,075	1,067	1,050
Cable	2,053	2,058	2,077	2,093	2,130	2,191	2,242	2,286	2,334	2,392	2,445	2,486	2,552
<b>Total</b>	<b>5,708</b>	<b>5,788</b>	<b>5,869</b>	<b>5,891</b>	<b>5,942</b>	<b>6,008</b>	<b>6,071</b>	<b>6,090</b>	<b>6,139</b>	<b>6,209</b>	<b>6,257</b>	<b>6,281</b>	<b>6,324</b>
<b>Broadband Subscribers (000s)</b>													
KPN	2,621	2,664	2,692	2,698	2,712	2,717	2,729	2,718	2,722	2,737	2,737	2,729	2,722
Tele2	349	368	382	395	410	418	431	434	438	510	507	503	487
UPC	672	683	689	693	708	742	771	794	816	843	867	882	909
Ziggo	1,382	1,375	1,388	1,400	1,422	1,449	1,471	1,492	1,518	1,549	1,578	1,604	1,643
Other	684	699	718	705	690	682	669	652	645	570	568	564	563
<b>Total</b>	<b>5,708</b>	<b>5,788</b>	<b>5,869</b>	<b>5,891</b>	<b>5,942</b>	<b>6,008</b>	<b>6,071</b>	<b>6,090</b>	<b>6,139</b>	<b>6,209</b>	<b>6,257</b>	<b>6,281</b>	<b>6,324</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
KPN	34	43	28	6	13	5	13	(11)	4	15	0	(8)	(7)
Tele2	11	19	14	13	15	8	13	3	4	72	(3)	(4)	(16)
UPC	13	11	7	4	15	34	29	23	22	27	24	15	27
Ziggo	(7)	(7)	13	13	22	27	22	22	26	31	29	26	39
- other	22	14	19	(13)	(15)	(8)	(13)	(17)	(6)	(75)	(2)	(4)	(1)
<b>Total</b>	<b>74</b>	<b>80</b>	<b>80</b>	<b>23</b>	<b>50</b>	<b>66</b>	<b>63</b>	<b>19</b>	<b>49</b>	<b>70</b>	<b>48</b>	<b>24</b>	<b>43</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	5,112	5,042	4,978	4,884	4,794	4,703	4,610	4,516	4,443	4,359	4,229	4,205	4,119
Incumbent wholesale (WLR)	380	390	410	430	420	410	410	400	400	390	380	380	370
ULL (total)	733	767	833	867	900	886	871	857	850	840	825	800	800
Cable	1,340	1,381	1,445	1,496	1,547	1,622	1,689	1,752	1,820	1,901	1,973	2,030	2,117
<b>Total</b>	<b>7,566</b>	<b>7,580</b>	<b>7,666</b>	<b>7,677</b>	<b>7,661</b>	<b>7,621</b>	<b>7,580</b>	<b>7,525</b>	<b>7,513</b>	<b>7,490</b>	<b>7,407</b>	<b>7,415</b>	<b>7,406</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(89)	(70)	(64)	(94)	(90)	(91)	(93)	(94)	(73)	(84)	(130)	(24)	(86)
Incumbent wholesale (WLR)	20	10	20	20	(10)	(10)	0	(10)	0	(10)	(10)	0	(10)
ULL (full)	33	33	67	33	33	(14)	(14)	(14)	(7)	(10)	(15)	(25)	0
Cable	44	41	64	51	51	75	67	63	68	82	72	57	87
<b>Total</b>	<b>8</b>	<b>15</b>	<b>86</b>	<b>10</b>	<b>(15)</b>	<b>(41)</b>	<b>(40)</b>	<b>(55)</b>	<b>(13)</b>	<b>(23)</b>	<b>(83)</b>	<b>8</b>	<b>(9)</b>
<b>Pay TV Subscribers (000s)</b>													
KPN	700	775	835	886	924	970	1,025	1,073	1,124	1,173	0	0	0
UPC	2,068	2,044	2,013	1,986	1,966	1,955	1,941	1,930	1,907	1,892	1,874	1,855	1,837
<b>Pay TV Subscribers Net Adds (000s)</b>													
KPN	64	75	60	51	38	46	55	48	51	49	0	0	0
UPC	(21)	(24)	(31)	(27)	(20)	(11)	(14)	(11)	(23)	(15)	(18)	(19)	(18)

Source: Company reports and Citi Investment Research and Analysis

# Norway

## Fixed

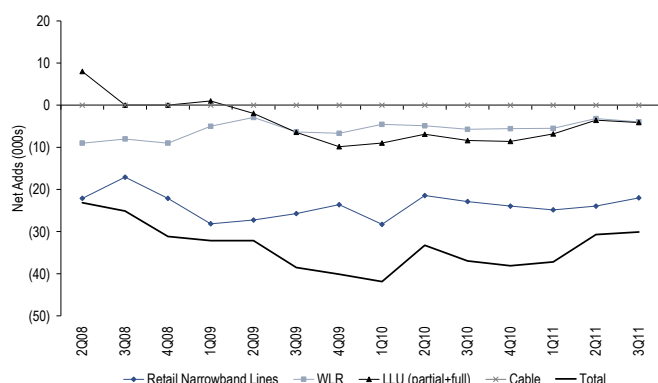
- Fixed line loss in 3Q11 was similar to 2Q11 with 8.4% retail line loss yoy. The broadband market was flat, an improvement on a decline in the previous 6 quarters. Broadband market shares were stable.
- Telenor's fixed revenue decline improved to -3.3% from -4.3% 2Q11; however, this was primarily due to 'other revenue' which is quite volatile.

## Mobile

- Service revenue growth excluding the impact of MTR cuts improved to -0.5% in 3Q11, from -2.1% in 2Q11 driven by positive trends from all the operators. Minutes growth improved to 2.3% from -0.8% in 2Q11. Telenor and Telia introduced new tariff structures earlier this year; so far this has not led to ARPU dilution as the loss of revenue from high end customers is being offset by data take up at the low end.

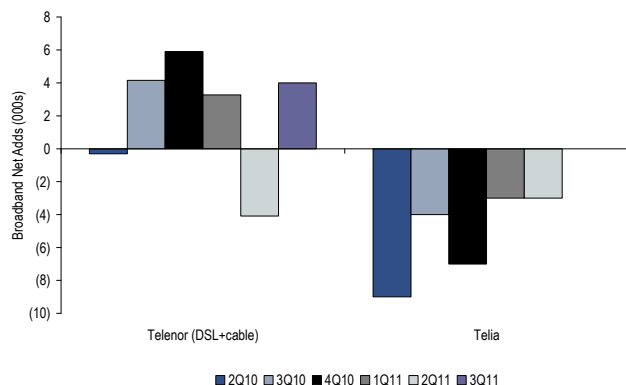
## Fixed Charts

Figure 344. Telephony Net Adds



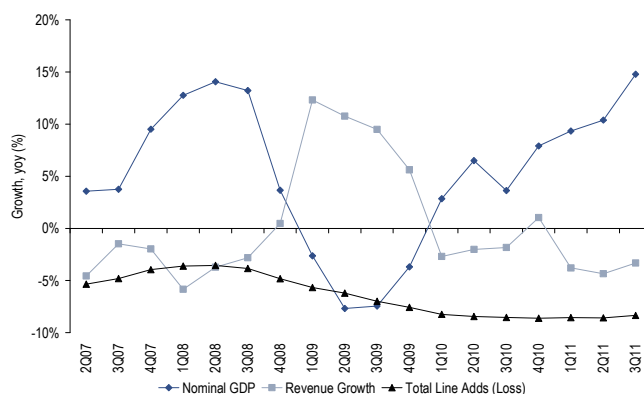
Source: Company reports and Citi Investment Research and Analysis

Figure 346. Broadband Subscriber Net Adds



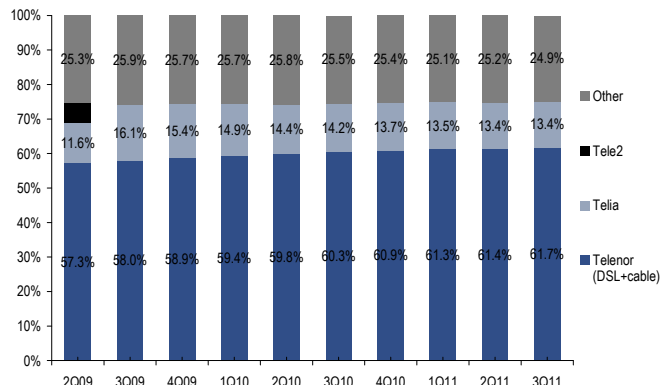
Source: Company reports and Citi Investment Research and Analysis

Figure 345. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

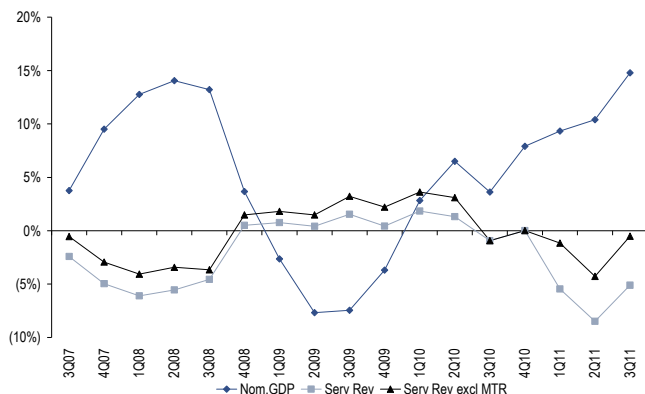
Figure 347. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

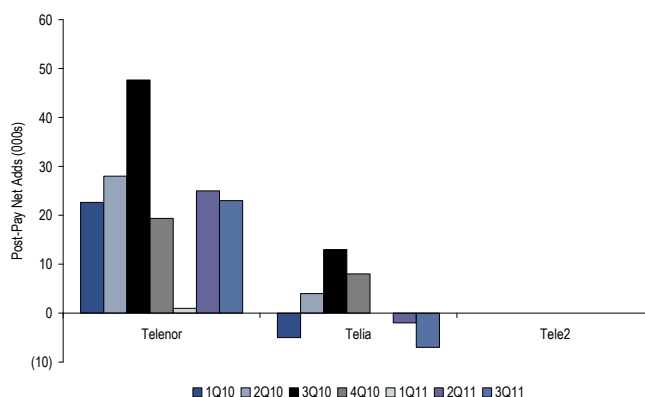
## Mobile Charts

Figure 348. Revenue and GDP



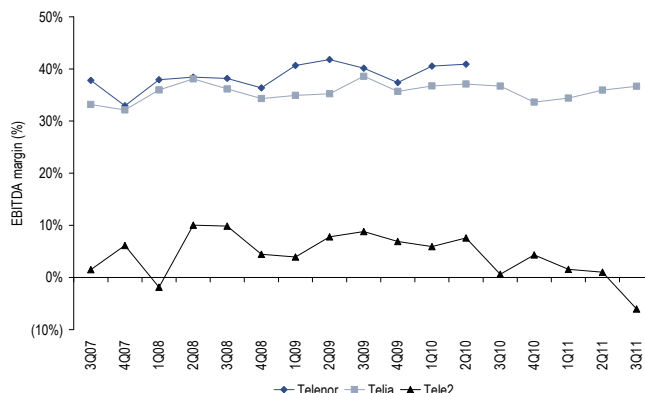
Source: Company reports, CIRA and Datastream

Figure 350. Post-Paid Net Adds



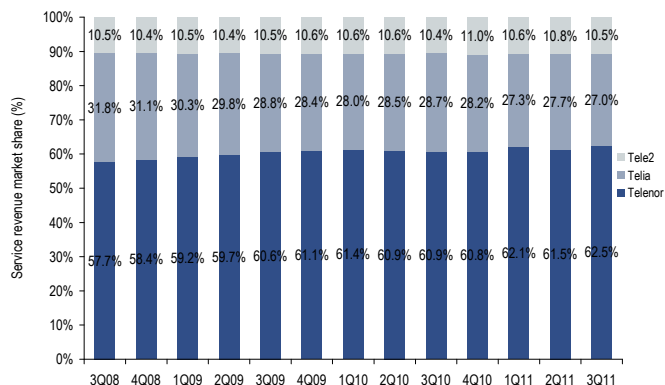
Source: Company reports and Citi Investment Research and Analysis

Figure 352. EBITDA Margin



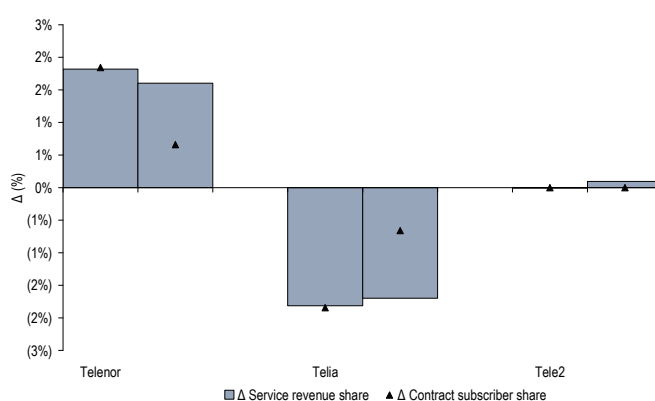
Source: Company reports and Citi Investment Research and Analysis

Figure 349. Service Revenue Market Share (excl Network Norway)



Source: Company reports and Citi Investment Research and Analysis

Figure 351. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

## Norway Mobile Data

Figure 353. Norway Mobile Market Information

Norway	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, NOK m</b>													
Telenor	2,988	2,982	2,934	3,075	3,188	3,129	3,100	3,176	3,170	3,115	2,968	2,934	3,087
Telia	1,646	1,588	1,504	1,537	1,516	1,454	1,414	1,489	1,496	1,445	1,301	1,325	1,336
Tele2	543	532	522	537	553	541	537	552	543	565	507	515	520
<b>Total</b>	<b>5,178</b>	<b>5,102</b>	<b>4,960</b>	<b>5,149</b>	<b>5,257</b>	<b>5,124</b>	<b>5,051</b>	<b>5,217</b>	<b>5,209</b>	<b>5,125</b>	<b>4,776</b>	<b>4,774</b>	<b>4,943</b>
<b>Service Revenue Growth, yoy</b>													
Telenor	(4.0%)	2.3%	2.6%	5.6%	6.7%	4.9%	5.6%	3.3%	(0.6%)	(0.5%)	(4.3%)	(7.6%)	(2.6%)
Telia	(5.9%)	(0.6%)	(1.1%)	(7.7%)	(7.9%)	(8.5%)	(5.9%)	(3.1%)	(1.3%)	(0.6%)	(8.0%)	(11.0%)	(10.7%)
Tele2	(3.1%)	(5.8%)	(3.4%)	(2.3%)	1.8%	1.8%	2.9%	2.9%	(1.9%)	4.4%	(5.7%)	(6.8%)	(4.2%)
<b>Total</b>	<b>(4.6%)</b>	<b>0.5%</b>	<b>0.8%</b>	<b>0.4%</b>	<b>1.5%</b>	<b>0.4%</b>	<b>1.8%</b>	<b>1.3%</b>	<b>(0.9%)</b>	<b>0.0%</b>	<b>(5.5%)</b>	<b>(8.5%)</b>	<b>(5.1%)</b>
<b>Service Revenue Market Share</b>													
Telenor	57.7%	58.4%	59.2%	59.7%	60.6%	61.1%	61.4%	60.9%	60.9%	60.8%	62.1%	61.5%	62.5%
Telia	31.8%	31.1%	30.3%	29.8%	28.8%	28.4%	28.0%	28.5%	28.7%	28.2%	27.3%	27.7%	27.0%
Tele2	10.5%	10.4%	10.5%	10.4%	10.5%	10.6%	10.6%	10.6%	10.4%	11.0%	10.6%	10.8%	10.5%
<b>Post-pay Customers, 000s</b>													
Telenor	2,022	2,069	2,093	2,132	2,185	2,230	2,253	2,281	2,329	2,348	2,349	2,374	2,397
Telia	1,137	1,138	1,147	1,156	1,164	1,165	1,160	1,164	1,177	1,185	1,185	1,183	1,176
Tele2													
<b>Call Volumes, mn min/qtr</b>													
Telenor	1,777	1,855	1,894	1,962	1,951	2,041	2,013	2,099	2,014	2,116	2,062	2,080	2,060
Telia	1,244	1,256	1,304	1,354	1,359	1,409	1,374	1,414	1,360	1,390	1,397	1,405	1,391
Tele2	390	406	423	433	429	446	439	457	443	466	473	484	481
<b>Total</b>	<b>3,411</b>	<b>3,518</b>	<b>3,620</b>	<b>3,749</b>	<b>3,739</b>	<b>3,897</b>	<b>3,827</b>	<b>3,971</b>	<b>3,817</b>	<b>3,972</b>	<b>3,932</b>	<b>3,969</b>	<b>3,932</b>
<b>Call Volume growth, yoy</b>													
Telenor	9.1%	8.8%	10.5%	5.6%	9.8%	10.0%	6.3%	7.0%	3.2%	3.7%	2.4%	(0.9%)	2.3%
Telia	4.9%	4.0%	10.4%	4.4%	9.3%	12.2%	5.4%	4.4%	0.1%	(1.4%)	1.6%	(0.6%)	2.3%
Tele2	5.2%	4.0%	10.5%	5.3%	10.1%	9.8%	3.7%	5.6%	3.2%	4.4%	7.7%	5.8%	8.7%
<b>Total</b>	<b>7.1%</b>	<b>6.5%</b>	<b>10.5%</b>	<b>5.1%</b>	<b>9.6%</b>	<b>10.8%</b>	<b>5.7%</b>	<b>5.9%</b>	<b>2.1%</b>	<b>1.9%</b>	<b>2.7%</b>	<b>(0.0%)</b>	<b>3.0%</b>
<b>EBITDA, NOK m</b>													
Telenor	1,182	1,135	1,249	1,339	1,369	1,270	1,359	1,376					
Telia	731	672	630	639	706	625	627	657	677	603	603	639	671
Tele2	54	24	21	42	49	37	32	42	3	24	8	5	(31)

Source: Company reports and Citi Investment Research and Analysis

## Norway Fixed Data

Figure 354. Norway Fixed Line Market Information

Norway	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	798	812	823	828	838	852	857	857	861	867	870	866	870
Incumbent wholesale	116	106	98	90	87	85	84	82	80	79	78	78	78
ULL (total)	356	356	356	355	348	338	329	322	314	305	299	295	291
Cable	172	172	172	172	172	172	172	172	172	172	172	172	172
<b>Total</b>	<b>1,441</b>	<b>1,445</b>	<b>1,449</b>	<b>1,445</b>	<b>1,445</b>	<b>1,447</b>	<b>1,443</b>	<b>1,433</b>	<b>1,427</b>	<b>1,423</b>	<b>1,419</b>	<b>1,411</b>	<b>1,411</b>
<b>Broadband Subscribers (000s)</b>													
Telenor (DSL+cable)	798	812	823	828	838	852	857	857	861	867	870	866	870
Telia	176	176	172	168	232	223	215	206	202	195	192	189	189
Tele2	98	91	87	84	0	0	0	0	0	0	0	0	0
- other	370	367	368	365	375	372	371	370	364	362	357	356	352
<b>Total</b>	<b>1,441</b>	<b>1,445</b>	<b>1,449</b>	<b>1,445</b>	<b>1,445</b>	<b>1,447</b>	<b>1,443</b>	<b>1,433</b>	<b>1,427</b>	<b>1,423</b>	<b>1,419</b>	<b>1,411</b>	<b>1,411</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Telenor (DSL+cable)	21	14	11	6	10	13	6	(0)	4	6	3	(4)	4
Telia	0	0	(4)	(4)	(11)	(9)	(8)	(9)	(4)	(7)	(3)	(3)	0
Tele2	(6)	(7)	(4)	(3)	(84)	0	0	0	0	0	0	0	0
- other	(1)	(3)	1	(3)	10	(3)	(1)	(1)	(6)	(2)	(5)	(1)	(4)
<b>Total</b>	<b>14</b>	<b>4</b>	<b>4</b>	<b>(4)</b>	<b>(0)</b>	<b>2</b>	<b>(4)</b>	<b>(10)</b>	<b>(6)</b>	<b>(4)</b>	<b>(4)</b>	<b>(8)</b>	<b>(0)</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	1,330	1,308	1,280	1,253	1,227	1,203	1,175	1,154	1,131	1,107	1,082	1,058	1,036
Incumbent wholesale (WLR)	230	221	216	213	207	200	196	191	185	180	174	171	167
ULL (total)	356	356	356	355	348	338	329	322	314	305	299	295	291
Cable													
<b>Total</b>	<b>1,916</b>	<b>1,885</b>	<b>1,853</b>	<b>1,821</b>	<b>1,782</b>	<b>1,742</b>	<b>1,700</b>	<b>1,667</b>	<b>1,630</b>	<b>1,592</b>	<b>1,555</b>	<b>1,524</b>	<b>1,494</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(17)	(22)	(28)	(27)	(26)	(24)	(28)	(21)	(23)	(24)	(25)	(24)	(22)
Incumbent wholesale (WLR)	(8)	(9)	(5)	(3)	(6)	(7)	(5)	(5)	(6)	(6)	(5)	(3)	(4)
ULL (total)	0	0	1	(2)	(6)	(10)	(9)	(7)	(8)	(9)	(7)	(4)	(4)
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>(25)</b>	<b>(31)</b>	<b>(32)</b>	<b>(32)</b>	<b>(39)</b>	<b>(40)</b>	<b>(42)</b>	<b>(33)</b>	<b>(37)</b>	<b>(38)</b>	<b>(37)</b>	<b>(31)</b>	<b>(30)</b>

Source: Company reports and Citi Investment Research and Analysis

# Portugal

## Fixed

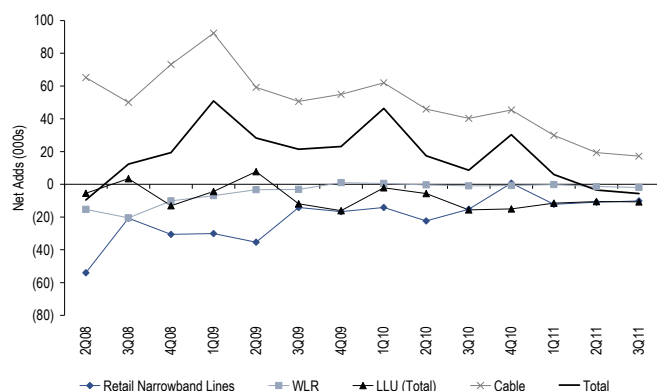
- Retail line loss has improved to -1.2% in 3Q11 vs -1.4% in 2Q11. Broadband net adds of 38k were also an improvement. PT continues to gain market share (now at 48.1%).

## Mobile

- Mobile service revenue growth ex MTRs at -1.2% showed considerable improvement from -2.4% in 2Q11 and -5.5% in 1Q11. Market share remained fairly stable.

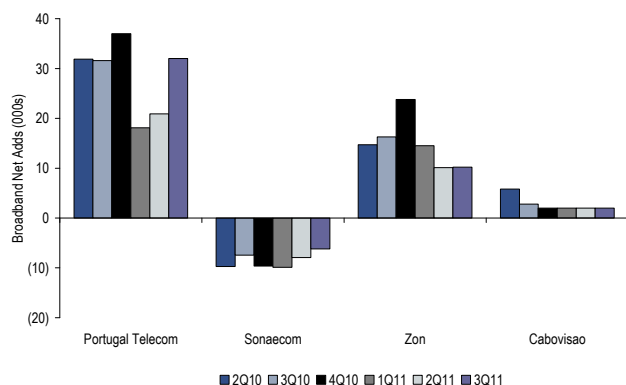
## Fixed Charts

Figure 355. Telephony Net Adds



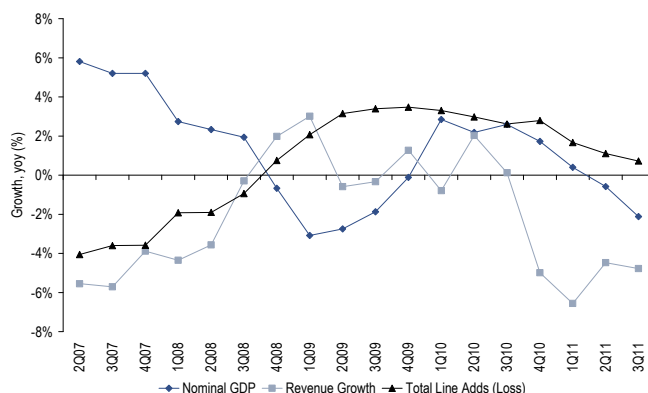
Source: Company reports and Citi Investment Research and Analysis

Figure 357. Broadband Subscriber Net Adds



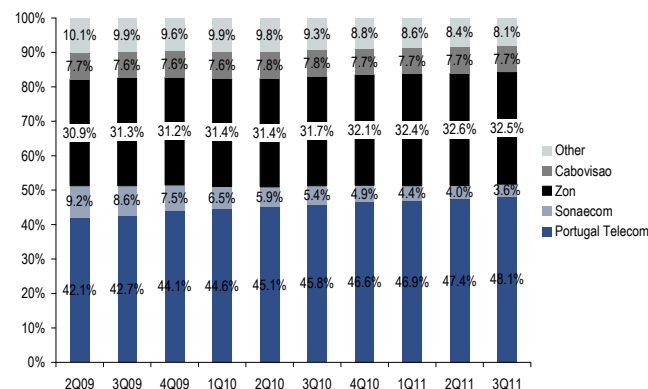
Source: Company reports and Citi Investment Research and Analysis

Figure 356. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

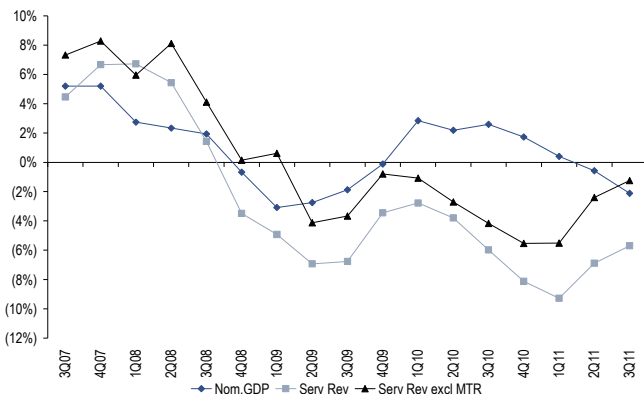
Figure 358. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

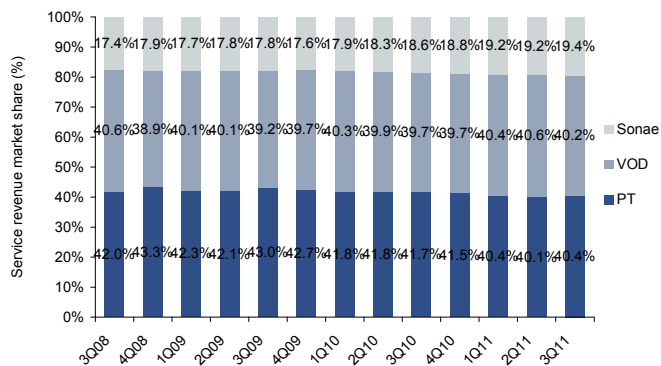
## Mobile Charts

Figure 359. Revenue and GDP



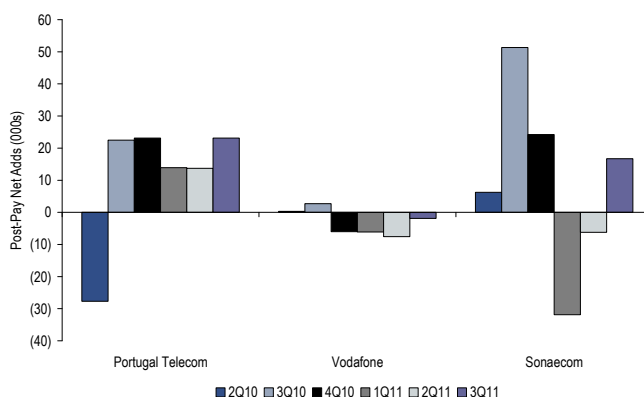
Source: Company reports, CIRA and Datastream

Figure 360. Service Revenue Market Share



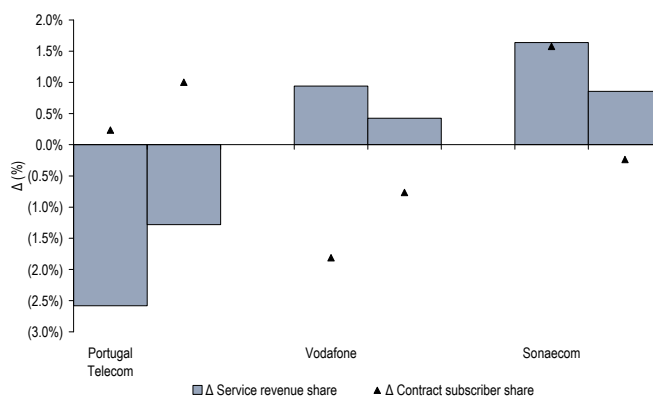
Source: Company reports and Citi Investment Research and Analysis

Figure 361. Post-Paid Net Adds



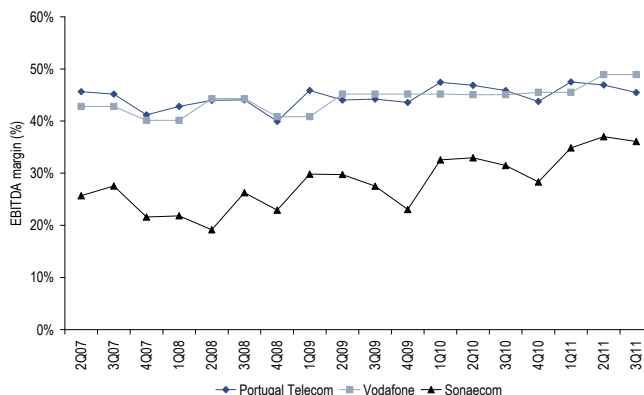
Source: Company reports and Citi Investment Research and Analysis

Figure 362. Change in Service Revenue and Contract Sub Share



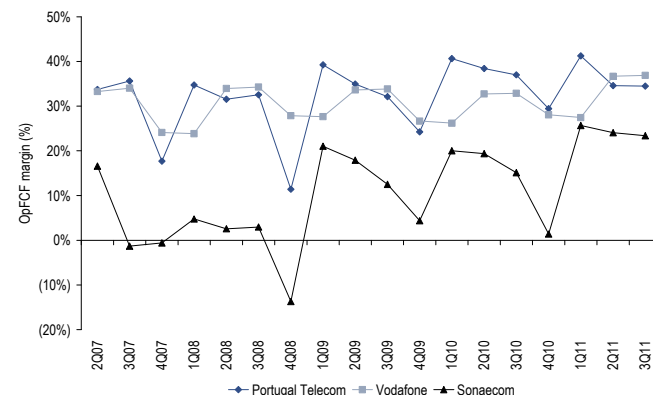
Source: Company reports and Citi Investment Research and Analysis

Figure 363. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 364. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Portugal Mobile Data

Figure 365. Portugal Mobile Market Information

Portugal	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
Portugal Telecom	370	357	333	333	353	340	321	318	322	304	281	284	294
Vodafone	358	321	316	317	322	316	309	304	307	291	281	288	293
Sonae	153	148	139	141	146	140	137	139	144	138	133	136	142
<b>Total</b>	<b>882</b>	<b>826</b>	<b>789</b>	<b>790</b>	<b>822</b>	<b>797</b>	<b>767</b>	<b>760</b>	<b>773</b>	<b>732</b>	<b>696</b>	<b>708</b>	<b>729</b>
<b>Service Revenue Growth, yoy</b>													
Portugal Telecom	1.5%	(1.3%)	(3.9%)	(7.1%)	(4.6%)	(4.7%)	(3.8%)	(4.4%)	(8.8%)	(10.8%)	(12.3%)	(10.7%)	(8.6%)
Vodafone	1.7%	(6.8%)	(6.6%)	(8.6%)	(10.0%)	(1.5%)	(2.3%)	(4.3%)	(4.7%)	(8.1%)	(9.0%)	(5.2%)	(4.7%)
Sonae	0.6%	(1.3%)	(3.3%)	(2.6%)	(4.5%)	(4.8%)	(1.4%)	(1.2%)	(1.8%)	(1.9%)	(2.9%)	(1.9%)	(1.4%)
<b>Total</b>	<b>1.4%</b>	<b>(3.5%)</b>	<b>(4.9%)</b>	<b>(6.9%)</b>	<b>(6.8%)</b>	<b>(3.4%)</b>	<b>(2.8%)</b>	<b>(3.8%)</b>	<b>(6.0%)</b>	<b>(8.1%)</b>	<b>(9.3%)</b>	<b>(6.9%)</b>	<b>(5.7%)</b>
<b>Service Revenue Market Share</b>													
Portugal Telecom	42.0%	43.3%	42.3%	42.1%	43.0%	42.7%	41.8%	41.8%	41.7%	41.5%	40.4%	40.1%	40.4%
Vodafone	40.6%	38.9%	40.1%	40.1%	39.2%	39.7%	40.3%	39.9%	39.7%	39.7%	40.4%	40.6%	40.2%
Sonae	17.4%	17.9%	17.7%	17.8%	17.8%	17.6%	17.9%	18.3%	18.6%	18.8%	19.2%	19.2%	19.4%
<b>Post-pay Customers, 000s</b>													
Portugal Telecom	1,824	1,951	2,081	2,206	2,231	2,234	2,273	2,245	2,267	2,291	2,304	2,318	2,341
Vodafone	1,188	1,201	1,201	1,190	1,180	1,176	1,167	1,167	1,170	1,164	1,157	1,150	1,148
Sonae	921	961	992	1,026	1,045	1,081	1,104	1,110	1,161	1,186	1,154	1,148	1,164
<b>Call Volumes, mn min/qtr</b>													
Portugal Telecom	2,351	2,324	2,252	2,432	2,595	2,602	2,504	2,627	2,719	2,707	2,585	2,635	2,752
Vodafone	2,049	2,075	2,143	2,206	2,373	2,343	2,367	2,572	2,931	2,860	3,002	2,969	2,912
Sonae	1,221	1,231	1,249	1,278	1,324	1,384	1,387	1,401	1,394	1,431	1,357	1,371	1,365
<b>Total</b>	<b>5,622</b>	<b>5,630</b>	<b>5,645</b>	<b>5,916</b>	<b>6,292</b>	<b>6,329</b>	<b>6,259</b>	<b>6,600</b>	<b>7,044</b>	<b>6,998</b>	<b>6,945</b>	<b>6,975</b>	<b>7,029</b>
<b>Call Volume growth, yoy</b>													
Portugal Telecom	5.8%	4.4%	4.4%	10.2%	10.4%	12.0%	11.2%	8.0%	4.8%	4.0%	3.3%	0.3%	1.2%
Vodafone	11.6%	17.6%	21.6%	20.0%	15.8%	12.9%	10.5%	16.6%	23.5%	22.1%	26.8%	15.4%	(0.6%)
Sonae	24.1%	20.3%	21.4%	11.7%	8.4%	12.4%	11.1%	9.6%	5.3%	3.4%	(2.2%)	(2.1%)	(2.1%)
<b>Total</b>	<b>11.5%</b>	<b>12.3%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>11.9%</b>	<b>12.4%</b>	<b>10.9%</b>	<b>11.6%</b>	<b>12.0%</b>	<b>10.6%</b>	<b>11.0%</b>	<b>5.7%</b>	<b>(0.2%)</b>
<b>EBITDA, €m</b>													
Portugal Telecom	180	164	170	162	176	167	164	161	163	150	144	144	146
Vodafone	159	131	129	143	146	143	140	137	138	132	128	141	143
Sonae	44	37	44	45	43	35	46	48	48	43	48	53	54

Source: Company reports and Citi Investment Research and Analysis



## Portugal Fixed Data

Figure 366. Portugal Fixed Line Market Information

Portugal	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	679	710	752	781	812	862	901	933	964	1,001	1,019	1,040	1,072
Incumbent wholesale	55	53	50	51	54	54	53	53	52	52	51	51	51
ULL (total)	318	305	301	309	297	281	278	273	257	242	231	220	209
Cable	610	633	693	715	738	760	790	811	830	855	872	884	896
<b>Total</b>	<b>1,662</b>	<b>1,701</b>	<b>1,796</b>	<b>1,856</b>	<b>1,901</b>	<b>1,956</b>	<b>2,022</b>	<b>2,068</b>	<b>2,103</b>	<b>2,151</b>	<b>2,173</b>	<b>2,195</b>	<b>2,229</b>
<b>Broadband Subscribers (000s)</b>													
PT	679	710	752	781	812	862	901	933	964	1,001	1,019	1,040	1,072
Sonaecom	198	188	180	171	163	146	132	122	114	105	95	87	81
Zon	451	479	546	573	594	611	635	650	666	690	705	715	725
Cabovisao	159	154	147	143	144	149	155	160	163	165	167	169	171
- other	175	169	171	188	188	188	199	203	195	189	187	184	180
<b>Total</b>	<b>1,662</b>	<b>1,701</b>	<b>1,796</b>	<b>1,856</b>	<b>1,901</b>	<b>1,956</b>	<b>2,022</b>	<b>2,068</b>	<b>2,103</b>	<b>2,151</b>	<b>2,173</b>	<b>2,195</b>	<b>2,229</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
PT	12	31	42	29	32	50	39	32	32	37	18	21	32
Sonaecom	(4)	(10)	(8)	(9)	(8)	(17)	(15)	(10)	(7)	(10)	(10)	(8)	(6)
Zon	20	28	67	27	22	16	25	15	16	24	15	10	10
Cabovisao	(5)	(5)	(7)	(4)	1	5	6	6	3	2	2	2	2
- other	5	(5)	1	18	(0)	(0)	11	4	(8)	(6)	(2)	(3)	(4)
<b>Total</b>	<b>28</b>	<b>38</b>	<b>95</b>	<b>60</b>	<b>45</b>	<b>55</b>	<b>66</b>	<b>47</b>	<b>35</b>	<b>47</b>	<b>22</b>	<b>22</b>	<b>34</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	2,873	2,843	2,813	2,777	2,763	2,746	2,732	2,710	2,695	2,695	2,683	2,672	2,662
Incumbent wholesale (WLR)	86	76	69	66	62	63	64	64	63	62	62	60	58
ULL (total)	318	305	301	309	297	281	278	273	257	242	231	220	209
Cable	254	327	419	479	529	584	646	692	732	778	808	827	844
<b>Total</b>	<b>3,531</b>	<b>3,551</b>	<b>3,602</b>	<b>3,630</b>	<b>3,651</b>	<b>3,674</b>	<b>3,721</b>	<b>3,738</b>	<b>3,747</b>	<b>3,777</b>	<b>3,783</b>	<b>3,780</b>	<b>3,774</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(21)	(31)	(30)	(35)	(14)	(17)	(14)	(22)	(15)	1	(12)	(11)	(10)
Incumbent wholesale (WLR)	(21)	(10)	(7)	(3)	(3)	1	1	(0)	(1)	(1)	(0)	(1)	(2)
ULL (full)	3	(13)	(4)	8	(12)	(16)	(2)	(6)	(16)	(15)	(12)	(11)	(11)
Cable	50	73	92	59	51	55	62	46	40	45	30	19	17
<b>Total</b>	<b>12</b>	<b>19</b>	<b>51</b>	<b>28</b>	<b>21</b>	<b>23</b>	<b>46</b>	<b>17</b>	<b>9</b>	<b>30</b>	<b>6</b>	<b>(4)</b>	<b>(6)</b>
<b>Pay TV Subscribers (000s)</b>													
PT	211	312	384	443	505	581	646	702	769	830	876	919	974
Zon	1,539	1,525	1,595	1,591	1,595	1,595	1,588	1,576	1,573	1,572	1,554	1,553	1,554
<b>Pay TV Subscribers Net Adds (000s)</b>													
PT	95	101	72	59	62	76	65	57	67	61	46	44	55
Zon	(18)	(14)	70	(4)	3	0	(6)	(12)	(3)	(2)	(17)	(2)	1

Source: Company reports and Citi Investment Research and Analysis

# Spain

## Fixed

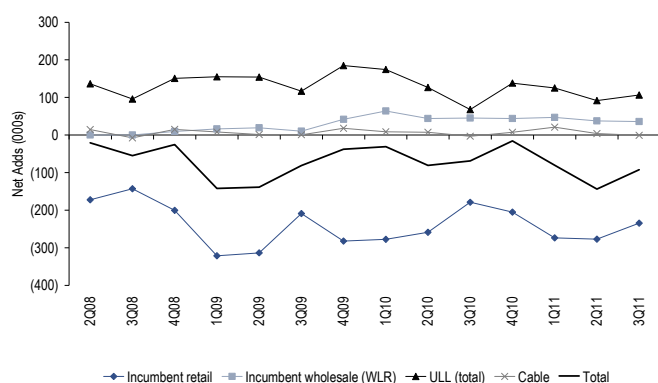
- Retail line loss worsened to -7.3% in 3Q11 vs -6.8% in 2Q11. TEF continues to lose market share to FT and Jazztel.

## Mobile

- Mobile service revenue ex MTRs worsened to -3.3% in 3Q11 from -3.0% in 2Q11 and -1.4% in 1Q11.
- TEF (43.6%) lost market share to FT (20.8%) in 3Q11.

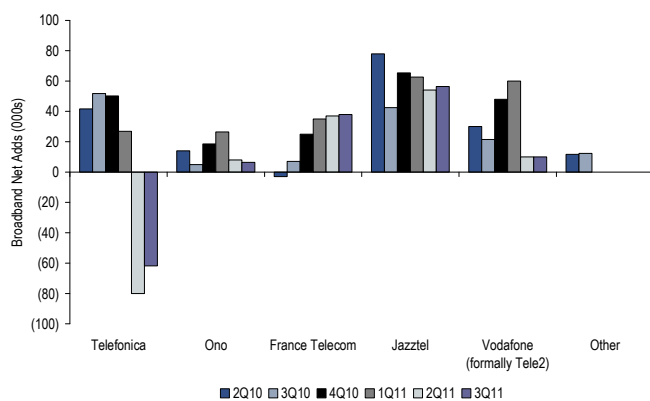
## Fixed Charts

Figure 367. Telephony Net Adds



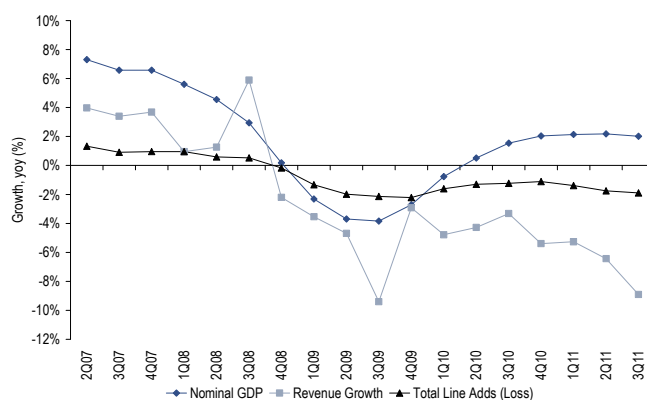
Source: Company reports and Citi Investment Research and Analysis

Figure 369. Broadband Subscriber Net Adds



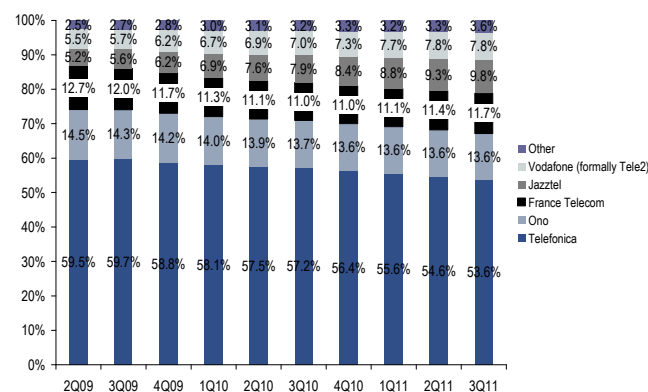
Source: Company reports and Citi Investment Research and Analysis

Figure 368. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

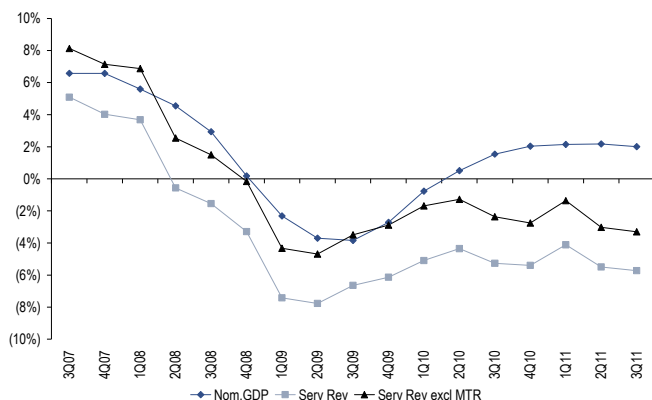
Figure 370. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

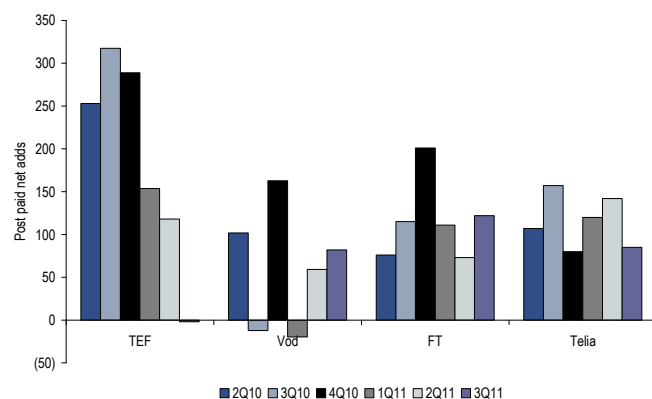
## Mobile Charts

Figure 371. Revenue and GDP



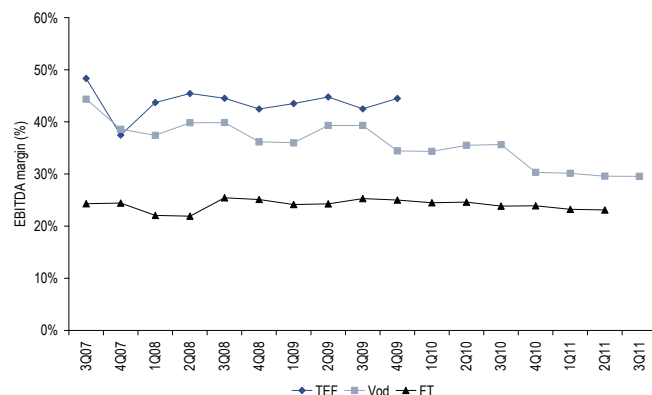
Source: Company reports, CIRA and Datastream

Figure 373. Post-Paid Net Adds



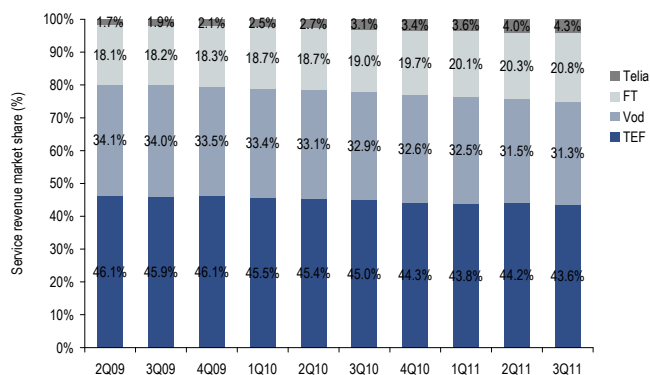
Source: Company reports and Citi Investment Research and Analysis

Figure 375. EBITDA Margin



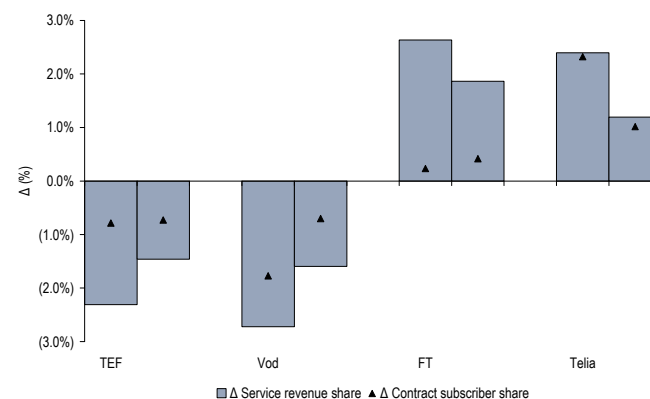
Source: Company reports and Citi Investment Research and Analysis

Figure 372. Service Revenue Market Share



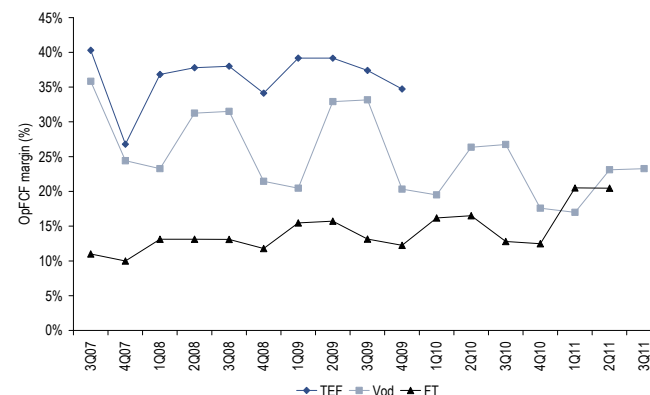
Source: Company reports and Citi Investment Research and Analysis

Figure 374. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 376. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Spain Mobile Data

Figure 377. Spanish Mobile Market Information

Spain	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, €m</b>													
Telefonica	2,198	2,055	1,921	1,940	2,022	1,898	1,785	1,829	1,880	1,725	1,648	1,681	1,715
Vodafone	1,629	1,495	1,409	1,436	1,500	1,379	1,311	1,334	1,374	1,272	1,223	1,196	1,232
Orange (FT)	852	779	747	762	802	755	732	753	792	767	755	774	820
Telia	41	60	57	71	82	87	96	110	128	133	136	153	168
<b>Total</b>	<b>4,720</b>	<b>4,389</b>	<b>4,134</b>	<b>4,209</b>	<b>4,406</b>	<b>4,120</b>	<b>3,924</b>	<b>4,026</b>	<b>4,174</b>	<b>3,897</b>	<b>3,762</b>	<b>3,804</b>	<b>3,935</b>
<b>Service Revenue Growth, yoy</b>													
Telefonica	(2.1%)	(2.7%)	(7.3%)	(9.0%)	(8.0%)	(7.6%)	(7.1%)	(5.7%)	(7.0%)	(9.1%)	(7.7%)	(8.1%)	(8.8%)
Vodafone	(2.2%)	(6.8%)	(9.7%)	(9.2%)	(7.9%)	(7.7%)	(7.0%)	(7.1%)	(8.4%)	(7.4%)	(7.7%)	(9.9%)	(10.3%)
Orange (FT)	(2.0%)	(3.2%)	(7.3%)	(6.5%)	(5.9%)	(3.1%)	(2.0%)	(1.2%)	(1.2%)	1.6%	3.1%	2.8%	3.5%
Telia													
<b>Total</b>	<b>(1.5%)</b>	<b>(3.3%)</b>	<b>(7.4%)</b>	<b>(7.8%)</b>	<b>(6.6%)</b>	<b>(6.1%)</b>	<b>(5.1%)</b>	<b>(4.4%)</b>	<b>(5.3%)</b>	<b>(5.4%)</b>	<b>(4.1%)</b>	<b>(5.5%)</b>	<b>(5.7%)</b>
<b>Service Revenue Market Share</b>													
Telefonica	46.6%	46.8%	46.5%	46.1%	45.9%	46.1%	45.5%	45.4%	45.0%	44.3%	43.8%	44.2%	43.6%
Vodafone	34.5%	34.1%	34.1%	34.1%	34.0%	33.5%	33.4%	33.1%	32.9%	32.6%	32.5%	31.5%	31.3%
Orange (FT)	18.1%	17.7%	18.1%	18.1%	18.2%	18.3%	18.7%	18.7%	19.0%	19.7%	20.1%	20.3%	20.8%
Telia	0.9%	1.4%	1.4%	1.7%	1.9%	2.1%	2.5%	2.7%	3.1%	3.4%	3.6%	4.0%	4.3%
<b>Post-pay Customers, 000s</b>													
Telefonica	14,458	14,568	14,553	14,694	15,009	15,334	15,531	15,784	16,101	16,390	16,543	16,661	16,659
Vodafone	9,701	9,824	9,977	10,052	10,173	10,298	10,466	10,567	10,555	10,718	10,698	10,757	10,839
Orange (FT)	6,311	6,434	6,485	6,495	6,519	6,657	6,747	6,823	6,938	7,139	7,250	7,323	7,445
Telia	290	370	463	550	605	690	839	946	1,103	1,183	1,303	1,445	1,530
<b>Call Volumes, mn min/qtr</b>													
Telefonica	11,441	10,727	10,038	10,499	11,007	10,495	10,051	10,562	10,675	10,412	9,936	10,229	10,068
Vodafone	9,059	8,827	8,457	8,759	9,035	8,980	8,769	9,124	9,259	9,128	9,058	9,355	9,294
France Telecom	5,062	5,125	5,219	5,223	5,272	5,401	5,543	5,501	5,583	5,978	5,935	5,922	6,157
Telia	414	499	575	648	726	808	955	1,126	1,323	1,469	1,548	1,702	1,833
<b>Total</b>	<b>25,977</b>	<b>25,178</b>	<b>24,289</b>	<b>25,129</b>	<b>26,039</b>	<b>25,684</b>	<b>25,317</b>	<b>26,313</b>	<b>26,839</b>	<b>26,987</b>	<b>26,476</b>	<b>27,209</b>	<b>27,352</b>
<b>Call Volume growth, yoy</b>													
Telefonica	2.0%	1.3%	(3.6%)	(4.5%)	(3.8%)	(2.2%)	0.1%	0.6%	(3.0%)	(0.8%)	(1.1%)	(3.2%)	(5.7%)
Vodafone	1.9%	0.3%	(4.1%)	(5.1%)	(0.3%)	1.7%	3.7%	4.2%	2.5%	1.6%	3.3%	2.5%	0.4%
France Telecom	10.5%	9.6%	6.7%	6.4%	4.1%	5.4%	6.2%	5.3%	5.9%	10.7%	7.1%	7.7%	10.3%
Telia	242.7%	157.0%	101.2%	83.5%	75.1%	61.8%	66.1%	73.7%	82.3%	81.9%	62.1%	51.2%	38.6%
<b>Total</b>	<b>4.7%</b>	<b>3.8%</b>	<b>(0.4%)</b>	<b>(1.4%)</b>	<b>0.2%</b>	<b>2.0%</b>	<b>4.2%</b>	<b>4.7%</b>	<b>3.1%</b>	<b>5.1%</b>	<b>4.6%</b>	<b>3.4%</b>	<b>1.9%</b>
<b>Contract Churn, % p.a</b>													
Telefonica	13.2%	15.6%	16.8%	15.6%	14.4%	15.6%	18.0%	16.8%	16.8%	16.8%	21.6%	20.4%	20.4%
Vodafone	16.1%	18.3%	18.3%	19.9%	20.6%	21.7%	21.2%	18.9%	19.5%	19.9%	25.4%	19.0%	20.9%
Orange (FT)	22.7%	23.1%	23.5%	24.1%	24.5%	24.2%	23.6%	22.8%	21.5%	20.7%	20.3%	20.2%	20.4%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Telefonica	9.4%	10.3%	11.4%	11.2%	11.9%	12.7%	13.5%	13.4%	14.5%	15.8%	17.7%	18.3%	20.0%
Vodafone	7.3%	8.1%	10.2%	9.3%	9.3%	9.8%	10.9%	11.3%	11.9%	11.9%	13.6%	13.8%	15.2%
Orange (FT)	5.7%	6.3%	7.3%	6.8%	7.2%	8.9%	8.9%	9.1%	9.2%	11.4%	12.1%	12.8%	13.6%
<b>EBITDA, €m</b>													
Telefonica	1,106	1,012	945	980	988	1,014							
Vodafone	680	570	537	599	625	506	481	507	522	413	397	381	393
Orange (FT)	224	204	189	193	212	200	186	191	197	190	183	188	
<b>Capex, €m</b>													
Telefonica	162	199	94	123	118	223							
Vodafone	142	232	232	98	98	208	208	130	130	173	173	83	83
Orange (FT)	109	109	68	68	102	102	63	63	91	91	22	22	

Source: Company reports and Citi Investment Research and Analysis

## Spain Fixed Data

Figure 378. Spanish Fixed Line Market Information

Spain	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	5,117	5,246	5,292	5,331	5,424	5,477	5,579	5,620	5,672	5,722	5,749	5,669	5,607
Incumbent wholesale	445	424	406	369	337	359	419	464	508	561	615	652	686
ULL (total)	1,585	1,698	1,835	1,951	2,021	2,154	2,261	2,332	2,372	2,477	2,579	2,654	2,752
Cable	1,272	1,283	1,295	1,302	1,303	1,326	1,342	1,356	1,361	1,380	1,406	1,414	1,420
<b>Total</b>	<b>8,419</b>	<b>8,651</b>	<b>8,828</b>	<b>8,953</b>	<b>9,085</b>	<b>9,315</b>	<b>9,600</b>	<b>9,772</b>	<b>9,913</b>	<b>10,140</b>	<b>10,349</b>	<b>10,390</b>	<b>10,466</b>
<b>Broadband Subscribers (000s)</b>													
Telefonica	5,117	5,246	5,292	5,331	5,424	5,477	5,579	5,620	5,672	5,722	5,749	5,669	5,607
Ono	1,272	1,283	1,295	1,302	1,303	1,326	1,342	1,356	1,361	1,380	1,406	1,414	1,420
France Telecom	1,174	1,164	1,165	1,135	1,091	1,086	1,086	1,083	1,090	1,115	1,150	1,187	1,225
Jazztel	327	375	416	462	510	582	662	740	782	848	910	965	1,021
Vodafone (formally Tele2)	350	373	456	497	516	581	641	671	692	740	800	810	820
Other	179	210	204	225	241	264	291	303	315	336	333	345	373
<b>Total</b>	<b>8,419</b>	<b>8,651</b>	<b>8,828</b>	<b>8,953</b>	<b>9,085</b>	<b>9,315</b>	<b>9,600</b>	<b>9,772</b>	<b>9,913</b>	<b>10,140</b>	<b>10,349</b>	<b>10,390</b>	<b>10,466</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Telefonica	112	129	45	40	92	53	102	42	52	50	27	(80)	(62)
Ono	0	11	13	7	1	23	16	14	5	19	26	8	6
France Telecom	(18)	(10)	1	(30)	(44)	(5)	0	(3)	7	25	35	37	38
Jazztel	27	48	42	46	48	72	80	78	42	65	63	54	56
Vodafone (formally Tele2)	24	24	83	41	20	64	60	30	22	48	60	10	10
Other	1	31	(6)	21	16	23	27	12	12	0	0	0	0
<b>Total</b>	<b>147</b>	<b>232</b>	<b>177</b>	<b>125</b>	<b>132</b>	<b>230</b>	<b>285</b>	<b>172</b>	<b>140</b>	<b>228</b>	<b>209</b>	<b>41</b>	<b>77</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	15,527	15,326	15,005	14,691	14,483	14,200	13,923	13,664	13,485	13,280	13,006	12,729	12,495
Incumbent wholesale (WLR)	0	10	26	45	56	97	161	205	251	295	342	379	415
ULL (total)	945	1,096	1,251	1,405	1,521	1,706	1,881	2,007	2,075	2,213	2,339	2,430	2,537
Cable	1,623	1,638	1,646	1,647	1,648	1,666	1,675	1,682	1,679	1,686	1,707	1,711	1,710
<b>Total</b>	<b>18,095</b>	<b>18,070</b>	<b>17,927</b>	<b>17,789</b>	<b>17,707</b>	<b>17,670</b>	<b>17,639</b>	<b>17,558</b>	<b>17,489</b>	<b>17,474</b>	<b>17,394</b>	<b>17,250</b>	<b>17,157</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(143)	(201)	(321)	(314)	(209)	(282)	(278)	(259)	(179)	(205)	(274)	(277)	(234)
Incumbent wholesale (WLR)	0	10	16	20	10	42	64	44	45	44	47	38	36
ULL (full)	96	151	155	154	117	185	174	127	68	138	126	92	107
Cable	(8)	15	8	1	1	18	9	7	(3)	7	21	4	(1)
<b>Total</b>	<b>(55)</b>	<b>(25)</b>	<b>(142)</b>	<b>(139)</b>	<b>(81)</b>	<b>(38)</b>	<b>(31)</b>	<b>(81)</b>	<b>(69)</b>	<b>(16)</b>	<b>(80)</b>	<b>(144)</b>	<b>(92)</b>
<b>Pay TV Subscribers (000s)</b>													
TEF	590	613	605	610	654	703	733	748	773	788	786	785	804
ONO	1,057	1,039	1,016	991	977	975	970	966	948	953	958	952	939
Orange	86	87	99	92	86	84	79	75	72	70	69	68	67
<b>Total</b>	<b>1,733</b>	<b>1,739</b>	<b>1,720</b>	<b>1,693</b>	<b>1,717</b>	<b>1,762</b>	<b>1,782</b>	<b>1,789</b>	<b>1,793</b>	<b>1,812</b>	<b>1,813</b>	<b>1,805</b>	<b>1,811</b>
<b>Pay TV Subscribers Net Adds (000s)</b>													
TEF	13	23	(8)	5	45	49	30	15	26	15	(2)	(2)	20
ONO	5	(18)	(23)	(25)	(14)	(2)	(5)	(4)	(18)	5	5	(6)	(13)
Orange	(6)	1	12	(7)	(6)	(2)	(5)	(4)	(3)	(2)	(1)	(1)	(1)
<b>Total</b>	<b>12</b>	<b>6</b>	<b>(18)</b>	<b>(28)</b>	<b>25</b>	<b>45</b>	<b>20</b>	<b>7</b>	<b>4</b>	<b>18</b>	<b>2</b>	<b>(9)</b>	<b>6</b>

Source: Company reports and Citi Investment Research and Analysis

# Sweden

## Fixed

- Retail line loss was stable, -67k 3Q11 vs -69k 2Q11. The broadband DSL market declined -4k 3Q11 vs 5k in 2Q11. Com Hem no longer reports quarterly from 2Q11 therefore we no longer have a quarterly view on total market growth.

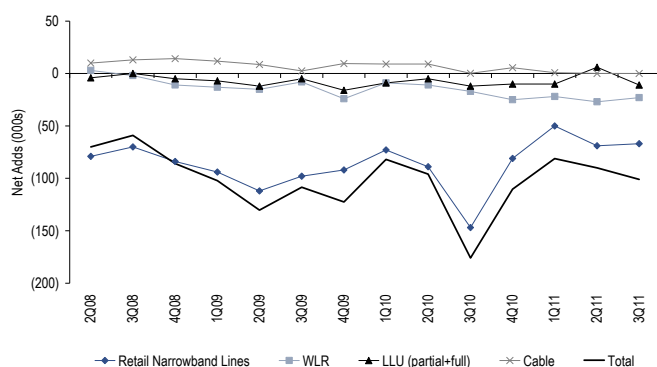
- Telia's fixed revenue decline was stable at -4.8% 3Q11 vs -4.8% 2Q11.

## Mobile

- The Swedish mobile market remained the fastest-growing in Europe. Service revenue excluding the impact of MTRs was 5.9% 3Q11 vs 6.7% 2Q11. The slowdown was driven by Telenor and Tele2, while Telia's growth increased. Market minutes growth remained stable at 7%.

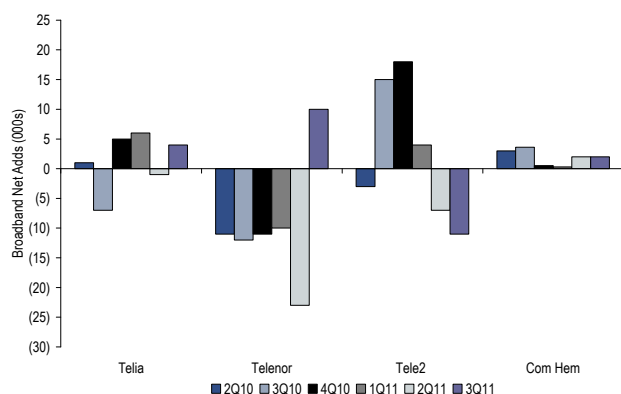
## Fixed Charts

Figure 379. Telephony Net Adds



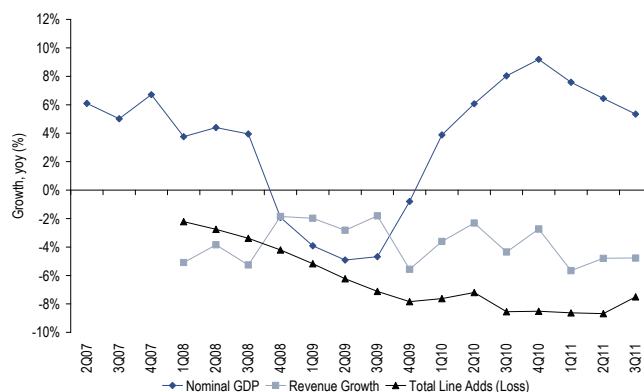
Source: Company reports and Citi Investment Research and Analysis

Figure 381. Broadband Subscriber Net Adds



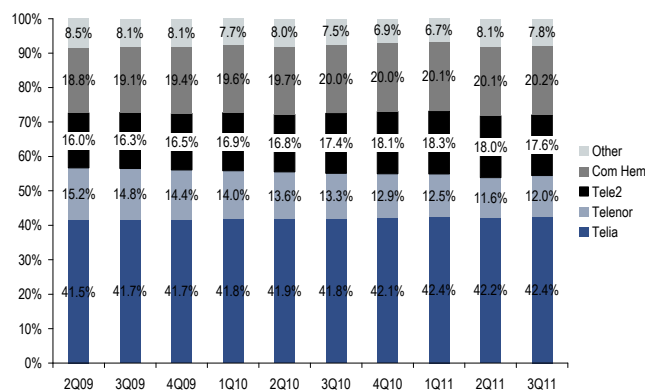
Source: Company reports and Citi Investment Research and Analysis

Figure 380. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

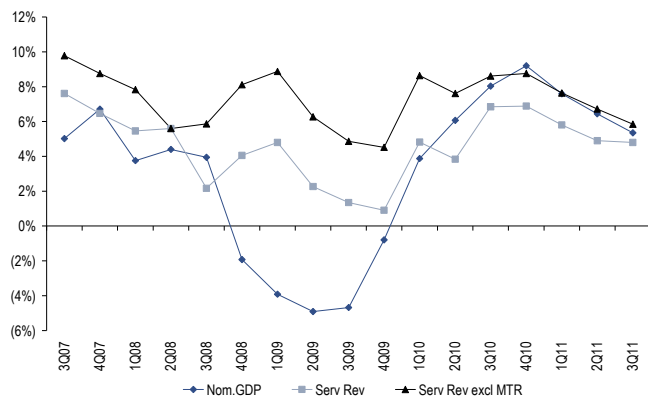
Figure 382. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

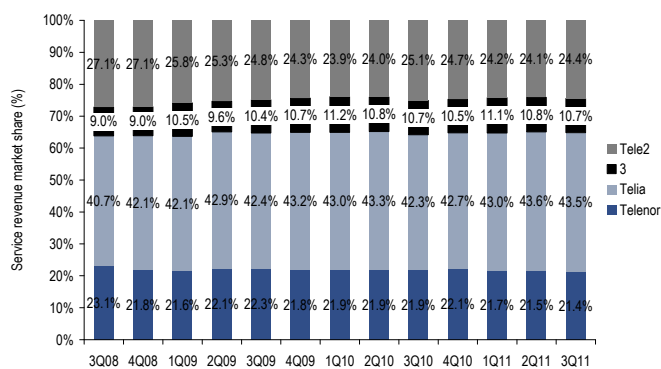
## Mobile Charts

Figure 383. Revenue and GDP



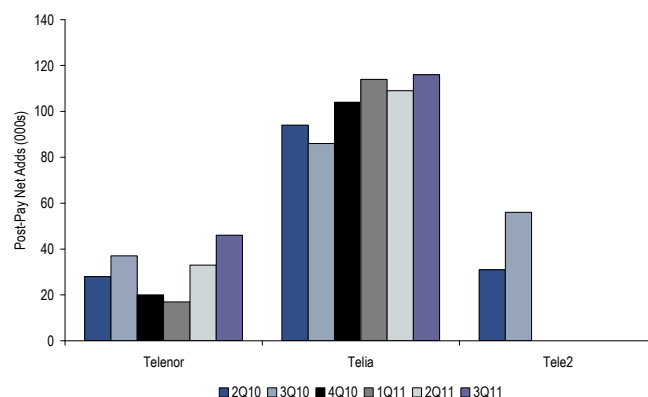
Source: Company reports, CIRA and Datastream

Figure 384. Service Revenue Market Share



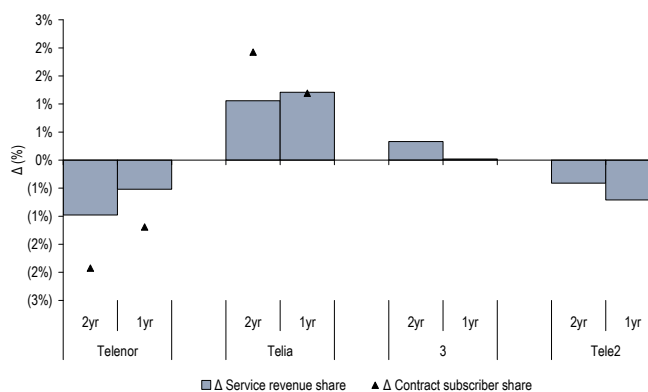
Source: Company reports and Citi Investment Research and Analysis

Figure 385. Post-Paid Net Adds



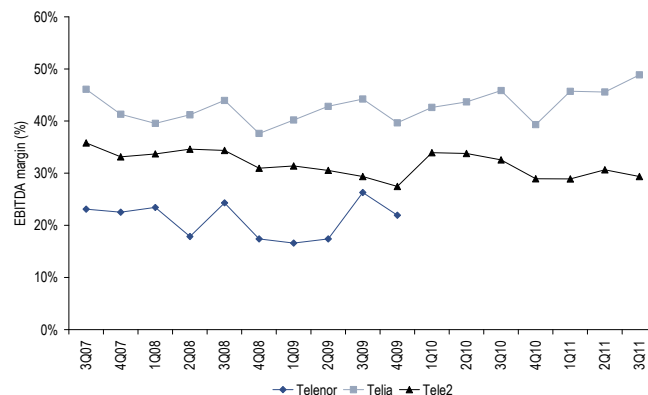
Source: Company reports and Citi Investment Research and Analysis

Figure 386. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 387. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Source: Company reports and Citi Investment Research and Analysis

## Sweden Mobile Data

Figure 388. Swedish Mobile Market Information

Sweden	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, SEK m</b>													
Telenor	1,694	1,617	1,562	1,693	1,660	1,629	1,662	1,739	1,738	1,765	1,744	1,793	1,778
Telia	2,988	3,121	3,046	3,280	3,155	3,230	3,262	3,436	3,359	3,415	3,449	3,628	3,620
Tele2	1,991	2,006	1,870	1,935	1,845	1,821	1,810	1,906	1,996	1,975	1,939	2,006	2,032
<b>Total</b>	<b>7,336</b>	<b>7,415</b>	<b>7,235</b>	<b>7,645</b>	<b>7,435</b>	<b>7,482</b>	<b>7,583</b>	<b>7,939</b>	<b>7,944</b>	<b>7,997</b>	<b>8,023</b>	<b>8,327</b>	<b>8,325</b>
<b>Service Revenue Growth, yoy</b>													
Telenor	(1.2%)	(4.5%)	(5.4%)	(1.6%)	(2.0%)	0.7%	6.4%	2.7%	4.7%	8.4%	4.9%	3.1%	2.3%
Telia	3.7%	9.7%	8.6%	5.4%	5.6%	3.5%	7.1%	4.8%	6.5%	5.7%	5.7%	5.6%	7.8%
Tele2	0.3%	1.5%	4.4%	(2.9%)	(7.3%)	(9.3%)	(3.2%)	(1.5%)	8.1%	8.5%	7.1%	5.3%	1.8%
<b>Total</b>	<b>2.2%</b>	<b>4.1%</b>	<b>4.8%</b>	<b>2.3%</b>	<b>1.3%</b>	<b>0.9%</b>	<b>4.8%</b>	<b>3.8%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>5.8%</b>	<b>4.9%</b>	<b>4.8%</b>
<b>Service Revenue Market Share</b>													
Telenor	23.1%	21.8%	21.6%	22.1%	22.3%	21.8%	21.9%	21.9%	21.9%	22.1%	21.7%	21.5%	21.4%
Telia	40.7%	42.1%	42.1%	42.9%	42.4%	43.2%	43.0%	43.3%	42.3%	42.7%	43.0%	43.6%	43.5%
Tele2	27.1%	27.1%	25.8%	25.3%	24.8%	24.3%	23.9%	24.0%	25.1%	24.7%	24.2%	24.1%	24.4%
<b>Post-pay Customers, 000s</b>													
Telenor	1,476	1,536	1,571	1,609	1,631	1,654	1,669	1,697	1,734	1,754	1,771	1,804	1,850
Telia	2,863	2,952	3,012	3,099	3,189	3,265	3,324	3,418	3,504	3,608	3,722	3,831	3,947
Tele2													
<b>Call Volumes, mn min/qtr</b>													
Telenor	1,161	1,222	1,206	1,314	1,294	1,296	1,327	1,435	1,407	1,475	1,445	1,484	1,450
Telia	3,189	3,533	3,385	3,608	3,605	3,788	3,874	4,137	3,999	4,308	4,260	4,494	4,319
Tele2	2,126	2,318	2,230	2,325	2,260	2,364	2,437	2,387	2,492	2,644	2,676	2,759	2,687
<b>Total</b>	<b>6,996</b>	<b>7,680</b>	<b>7,445</b>	<b>7,955</b>	<b>7,876</b>	<b>8,212</b>	<b>8,438</b>	<b>8,834</b>	<b>8,814</b>	<b>9,422</b>	<b>9,374</b>	<b>9,756</b>	<b>9,426</b>
<b>Call Volume growth, yoy</b>													
Telenor	6.1%	7.2%	9.0%	6.0%	11.5%	6.1%	9.9%	9.2%	8.7%	13.8%	8.9%	3.4%	3.0%
Telia	18.7%	26.2%	19.4%	11.6%	13.1%	7.2%	14.4%	14.7%	10.9%	13.7%	10.0%	8.6%	8.0%
Tele2	18.0%	21.1%	16.1%	7.3%	6.3%	2.0%	9.3%	2.7%	10.3%	11.8%	9.8%	15.6%	7.8%
<b>Total</b>	<b>19.3%</b>	<b>23.9%</b>	<b>19.1%</b>	<b>11.6%</b>	<b>12.6%</b>	<b>6.9%</b>	<b>13.3%</b>	<b>11.0%</b>	<b>11.9%</b>	<b>14.7%</b>	<b>11.1%</b>	<b>10.4%</b>	<b>6.9%</b>
<b>EBITDA, SEK m</b>													
Telenor	456	324	296	336	512	434							
Telia	1,388	1,197	1,252	1,424	1,490	1,360	1,472	1,580	1,682	1,467	1,685	1,771	1,924
Tele2	708	611	595	620	600	560	664	722	748	669	669	734	723

Source: Company reports and Citi Investment Research and Analysis



## Sweden Fixed Data

Figure 389. Swedish Fixed Line Market Information

Sweden	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,107	1,122	1,132	1,132	1,132	1,125	1,130	1,131	1,124	1,129	1,135	1,134	1,138
Incumbent wholesale	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	616	611	604	592	587	571	562	557	545	535	525	531	520
Cable	503	506	512	513	518	522	530	533	537	537	538	540	542
Other	430	453	461	489	480	480	480	480	480	480	480	481	482
<b>Total</b>	<b>2,656</b>	<b>2,692</b>	<b>2,709</b>	<b>2,726</b>	<b>2,717</b>	<b>2,698</b>	<b>2,702</b>	<b>2,701</b>	<b>2,686</b>	<b>2,681</b>	<b>2,678</b>	<b>2,686</b>	<b>2,682</b>
<b>Broadband Subscribers (000s)</b>													
Telia	1,107	1,122	1,132	1,132	1,132	1,125	1,130	1,131	1,124	1,129	1,135	1,134	1,138
Telenor	446	438	427	413	403	388	379	368	356	345	335	312	322
Tele2	430	433	439	436	443	444	456	453	468	486	490	483	472
Com Hem	503	506	512	513	518	522	530	533	537	537	538		
- other	170	193	199	232	221	219	207	216	201	184	180		
<b>Total</b>	<b>2,656</b>	<b>2,692</b>	<b>2,709</b>	<b>2,726</b>	<b>2,717</b>	<b>2,698</b>	<b>2,702</b>	<b>2,701</b>	<b>2,686</b>	<b>2,681</b>	<b>2,678</b>	<b>2,686</b>	<b>2,682</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Telia	8	15	10	0	0	(7)	5	1	(7)	5	6	(1)	4
Telenor	(10)	(8)	(11)	(14)	(10)	(15)	(9)	(11)	(12)	(11)	(10)	(23)	10
Tele2	12	3	6	(3)	7	1	12	(3)	15	18	4	(7)	(11)
Com Hem	8	3	6	1	5	4	8	3	4	1	0		
- other	18	23	6	32	(11)	(2)	(12)	9	(15)	(17)	(4)		
<b>Total</b>	<b>36</b>	<b>36</b>	<b>17</b>	<b>17</b>	<b>(9)</b>	<b>(19)</b>	<b>4</b>	<b>(1)</b>	<b>(15)</b>	<b>(5)</b>	<b>(4)</b>	<b>8</b>	<b>(4)</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	4,084	4,000	3,906	3,794	3,696	3,604	3,531	3,442	3,295	3,214	3,164	3,095	3,028
Incumbent wholesale (WLR)	998	987	974	959	951	927	918	907	890	865	843	816	793
ULL (total)	616	611	604	592	587	571	562	557	545	535	525	531	520
Cable	300	314	326	335	337	347	356	365	365	371	371		
<b>Total</b>	<b>5,998</b>	<b>5,912</b>	<b>5,810</b>	<b>5,680</b>	<b>5,571</b>	<b>5,449</b>	<b>5,367</b>	<b>5,271</b>	<b>5,095</b>	<b>4,985</b>	<b>4,903</b>	<b>4,813</b>	<b>4,712</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(70)	(84)	(94)	(112)	(98)	(92)	(73)	(89)	(147)	(81)	(50)	(69)	(67)
Incumbent wholesale (WLR)	(2)	(11)	(13)	(15)	(8)	(24)	(9)	(11)	(17)	(25)	(22)	(27)	(23)
ULL (total)	0	(5)	(7)	(12)	(5)	(16)	(9)	(5)	(12)	(10)	(10)	6	(11)
Cable	13	14	12	9	3	10	9	9	0	6	1		
<b>Total</b>	<b>(59)</b>	<b>(86)</b>	<b>(102)</b>	<b>(130)</b>	<b>(109)</b>	<b>(123)</b>	<b>(82)</b>	<b>(96)</b>	<b>(176)</b>	<b>(110)</b>	<b>(81)</b>	<b>(90)</b>	<b>(101)</b>
<b>Pay TV Subscribers (000s)</b>													
Telia IPTV	320	324	333	350	367	396	411	418	431	450	473	488	496
Telenor cable	233	235	231	226	223	217	212	202	203	201	199	196	196
Viasat Satellite	0	0	350	0	0	0	0	0	0	0	0	0	0
<b>Pay TV Subscribers Net Adds (000s)</b>													
Telia	0	4	9	17	17	29	15	7	13	19	23	15	8
Telenor	(2)	2	(4)	(5)	(3)	(6)	(5)	(10)	1	(2)	(2)	(3)	0
Com Hem	0	0	350	(350)	0	0	0	0	0	0	0	0	0

Source: Company reports and Citi Investment Research and Analysis

# Switzerland

## Fixed

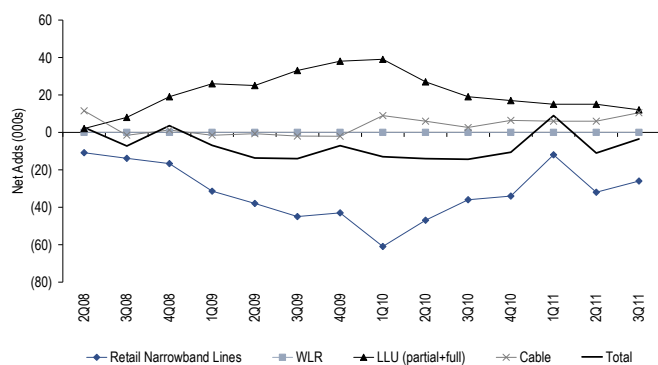
- 3Q11 retail line loss of -3.2% was an improvement from -3.5% in 2Q11. Swisscom's market share remains stable.

## Mobile

- Mobile service revenue growth excl MTRs returned to negative territory during 3Q11, at -1.9% vs. 0.7% in 2Q11. This is due mainly to poor performance at Orange Switzerland.

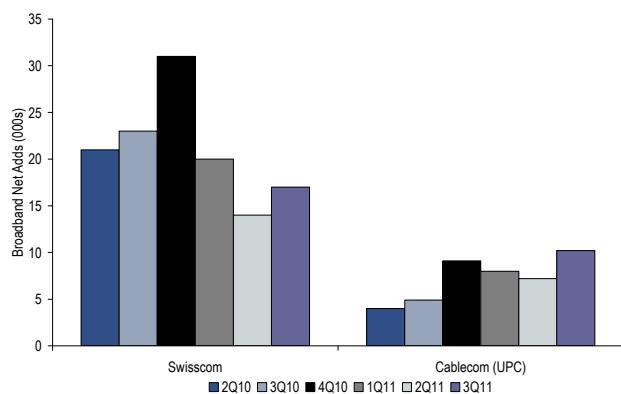
## Fixed Charts

Figure 390. Telephony Net Adds



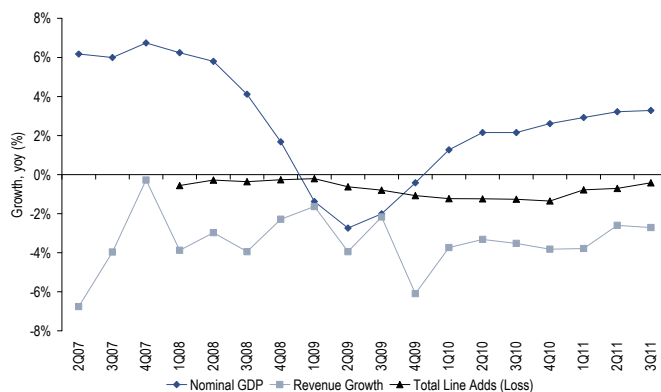
Source: Company reports and Citi Investment Research and Analysis

Figure 392. Broadband Subscriber Net Adds



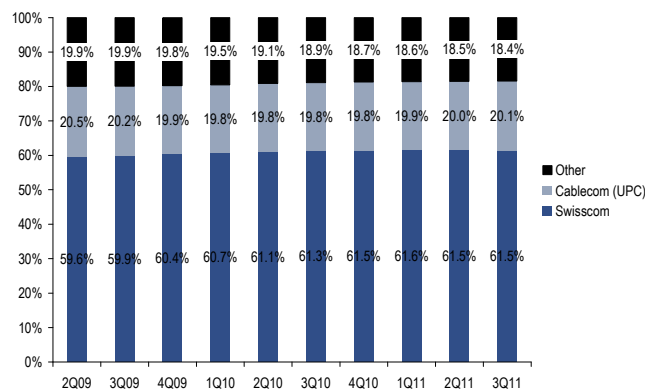
Source: Company reports and Citi Investment Research and Analysis

Figure 391. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

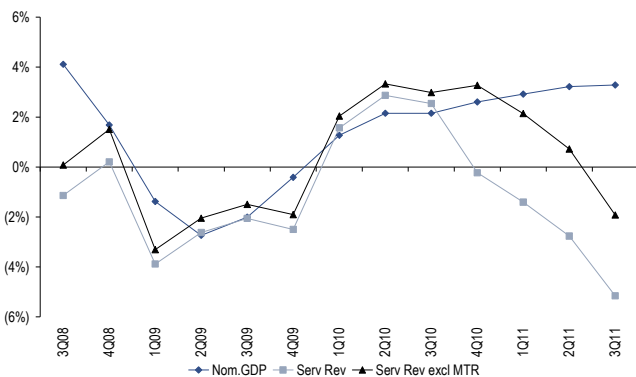
Figure 393. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

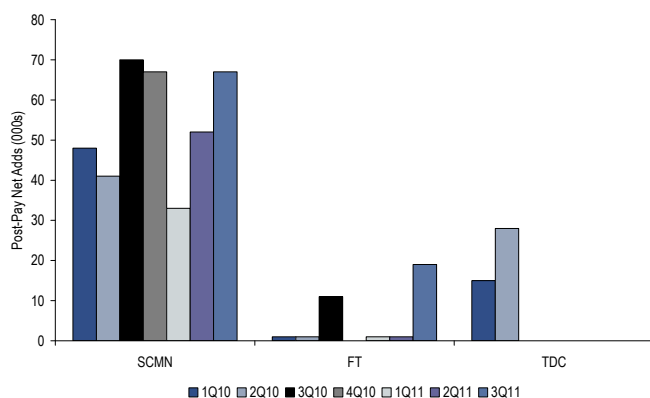
## Mobile Charts

Figure 394. Revenue and GDP



Source: Company reports, CIRA and Datastream

Figure 396. Post-Paid Net Adds



Source: Company reports and Citi Investment Research and Analysis

Figure 395. Service Revenue Market Share

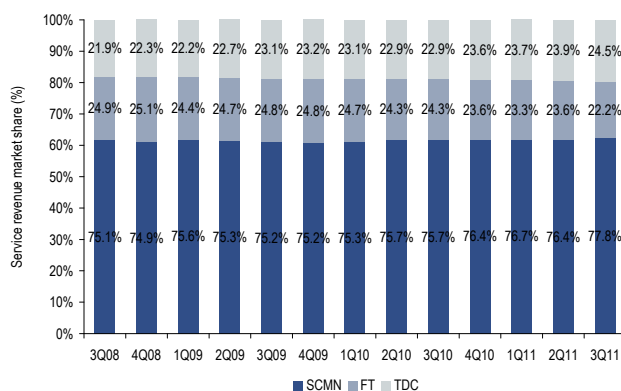
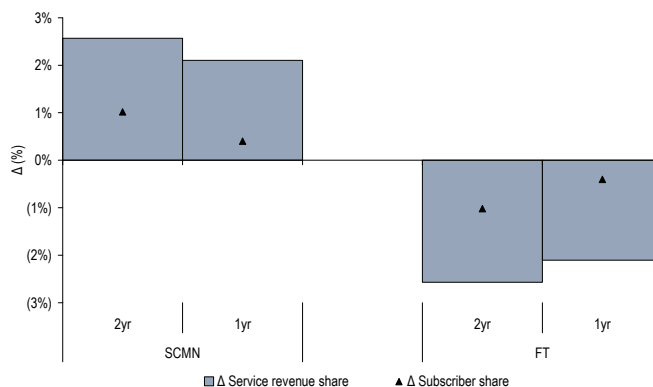


Figure 397. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

## Switzerland Mobile Data

Figure 398. Swiss Mobile Market Information

Switzerland	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, CHFm</b>													
Swisscom	899	862	820	851	882	844	830	880	910	856	833	863	887
Orange (FT)	297	290	265	279	290	279	272	282	292	264	254	267	253
<b>Total</b>	<b>1,197</b>	<b>1,152</b>	<b>1,085</b>	<b>1,130</b>	<b>1,172</b>	<b>1,123</b>	<b>1,102</b>	<b>1,162</b>	<b>1,202</b>	<b>1,120</b>	<b>1,087</b>	<b>1,130</b>	<b>1,140</b>
<b>Service Revenue Growth, yoy</b>													
Swisscom	(0.4%)	2.1%	(3.2%)	(2.3%)	(1.9%)	(2.1%)	1.2%	3.4%	3.2%	1.4%	0.4%	(1.9%)	(2.5%)
Orange (FT)	(3.2%)	(5.1%)	(5.9%)	(3.5%)	(2.5%)	(3.7%)	2.7%	1.2%	0.6%	(5.2%)	(6.8%)	(5.4%)	(13.4%)
<b>Total</b>	<b>(1.1%)</b>	<b>0.2%</b>	<b>(3.9%)</b>	<b>(2.6%)</b>	<b>(2.1%)</b>	<b>(2.5%)</b>	<b>1.6%</b>	<b>2.9%</b>	<b>2.5%</b>	<b>(0.2%)</b>	<b>(1.4%)</b>	<b>(2.8%)</b>	<b>(5.2%)</b>
<b>Customers, 000s</b>													
Swisscom	5,284	5,370	5,411	5,472	5,538	5,602	5,650	5,691	5,761	5,828	5,861	5,913	5,980
Orange (FT)	1,530	1,543	1,558	1,568	1,566	1,558	1,559	1,560	1,571	1,571	1,572	1,573	1,592
<b>Customer Net Adds, 000s</b>													
Swisscom	103	86	41	61	66	64	48	41	70	67	33	52	67
Orange (FT)	3	13	15	10	(2)	(8)	1	1	11	0	1	1	19

Source: Company reports and Citi Investment Research and Analysis

## Switzerland Fixed Data

Figure 399. Swiss Fixed Line Market Information

Switzerland	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,279	1,331	1,379	1,410	1,441	1,478	1,509	1,530	1,553	1,584	1,604	1,618	1,635
Incumbent wholesale	448	431	410	390	363	331	293	260	240	226	214	202	192
ULL (total)	12	31	57	82	115	153	192	219	238	255	270	285	297
Cable	477	486	485	485	485	487	492	496	501	510	518	525	535
<b>Total</b>	<b>2,216</b>	<b>2,278</b>	<b>2,331</b>	<b>2,367</b>	<b>2,404</b>	<b>2,449</b>	<b>2,486</b>	<b>2,505</b>	<b>2,532</b>	<b>2,575</b>	<b>2,606</b>	<b>2,630</b>	<b>2,659</b>
<b>Broadband Subscribers (000s)</b>													
Swisscom	1,279	1,331	1,379	1,410	1,441	1,478	1,509	1,530	1,553	1,584	1,604	1,618	1,635
Cablecom (UPC)	477	486	485	485	485	487	492	496	501	510	518	525	535
- other	460	462	467	472	478	484	485	479	478	481	484	487	489
<b>Total</b>	<b>2,216</b>	<b>2,278</b>	<b>2,331</b>	<b>2,367</b>	<b>2,404</b>	<b>2,449</b>	<b>2,486</b>	<b>2,505</b>	<b>2,532</b>	<b>2,575</b>	<b>2,606</b>	<b>2,630</b>	<b>2,659</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Swisscom	24	52	48	31	31	37	31	21	23	31	20	14	17
Cablecom (UPC)	(2)	8	(0)	(0)	0	2	5	4	5	9	8	7	10
- other	6	2	5	5	6	6	1	(6)	(1)	3	3	3	2
<b>Total</b>	<b>28</b>	<b>62</b>	<b>53</b>	<b>36</b>	<b>37</b>	<b>45</b>	<b>37</b>	<b>19</b>	<b>27</b>	<b>43</b>	<b>31</b>	<b>24</b>	<b>29</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	3,565	3,548	3,517	3,479	3,434	3,391	3,330	3,283	3,247	3,213	3,201	3,169	3,143
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	12	31	57	82	115	153	192	219	238	255	270	285	297
Cable	308	309	308	307	305	303	312	318	321	327	333	339	350
<b>Total</b>	<b>3,885</b>	<b>3,889</b>	<b>3,882</b>	<b>3,868</b>	<b>3,854</b>	<b>3,847</b>	<b>3,834</b>	<b>3,820</b>	<b>3,806</b>	<b>3,795</b>	<b>3,804</b>	<b>3,793</b>	<b>3,790</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(14)	(17)	(31)	(38)	(45)	(43)	(61)	(47)	(36)	(34)	(12)	(32)	(26)
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	8	19	26	25	33	38	39	27	19	17	15	15	12
Cable	(2)	1	(2)	(1)	(2)	(2)	9	6	3	6	6	6	11
<b>Total</b>	<b>(7)</b>	<b>4</b>	<b>(7)</b>	<b>(14)</b>	<b>(14)</b>	<b>(7)</b>	<b>(13)</b>	<b>(14)</b>	<b>(14)</b>	<b>(11)</b>	<b>9</b>	<b>(11)</b>	<b>(4)</b>
<b>Pay TV Subscribers (000s)</b>													
Swisscom	95	118	139	165	186	232	275	317	358	421	469	512	556
Cablecom (UPC)	1,567	1,556	1,557	1,552	1,554	1,546	1,541	1,539	1,537	1,520	1,516	1,512	1,517
<b>Pay TV Subscribers Net Adds (000s)</b>													
Swisscom	15	23	21	26	21	46	43	42	41	63	48	43	44
Cablecom (UPC)	5	(10)	1	(5)	2	(8)	(5)	(2)	(2)	(17)	(4)	(4)	5

Source: Company reports and Citi Investment Research and Analysis

# UK

## Fixed

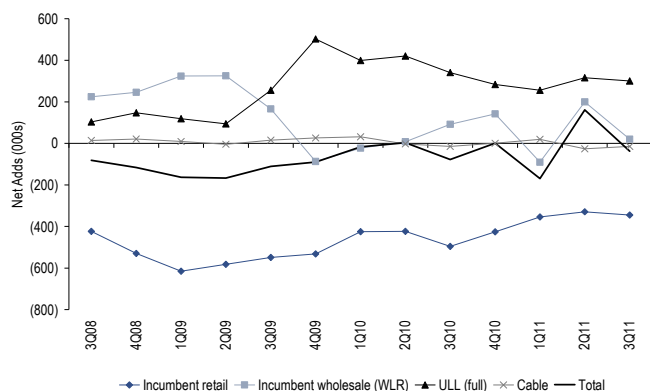
- Retail line losses improved to -8.3% in 3Q11 from -8.9% in 2Q11. This was driven by a fall in the number of WLR lines, with migrations to ULL lines remaining roughly stable at 301k 3Q11, vs 316k 2Q11. Broadband market net adds continue to be dominated by BT and BSKyB (316k) vs the rest of the market (-29k).

## Mobile

- Service revenue growth excluding the impact of MTR cuts was broadly stable at 2.6% vs 2.5% in 2Q11. The UK market remains one of the fastest-growing in Europe. O2 saw a slowdown in growth, while Vodafone continued to gain market share.

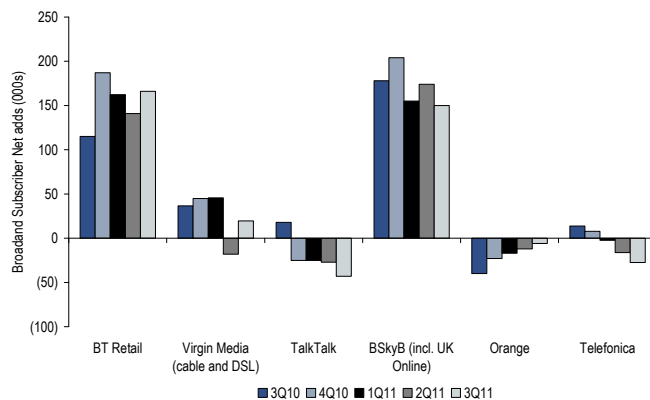
## Fixed Charts

Figure 400. Telephony Net Adds



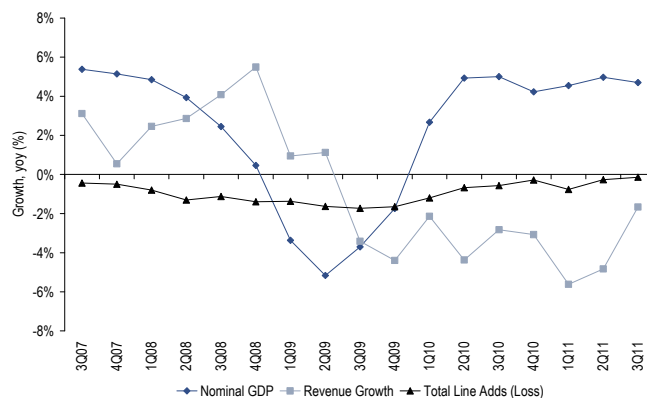
Source: Company reports and Citi Investment Research and Analysis

Figure 402. Broadband Subscriber Net Adds



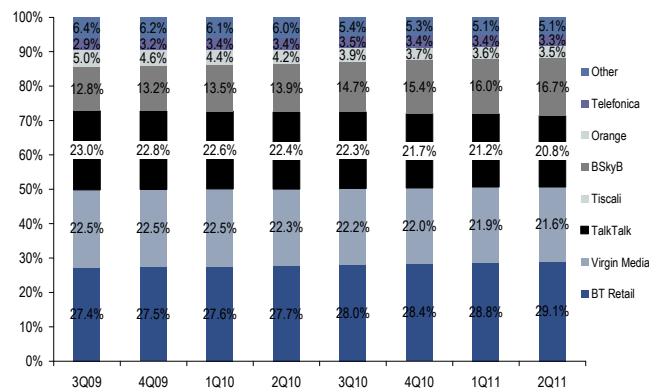
Source: Company reports and Citi Investment Research and Analysis

Figure 401. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

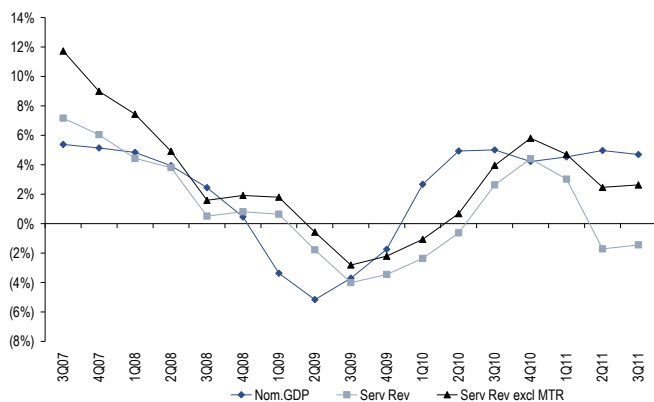
Figure 403. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

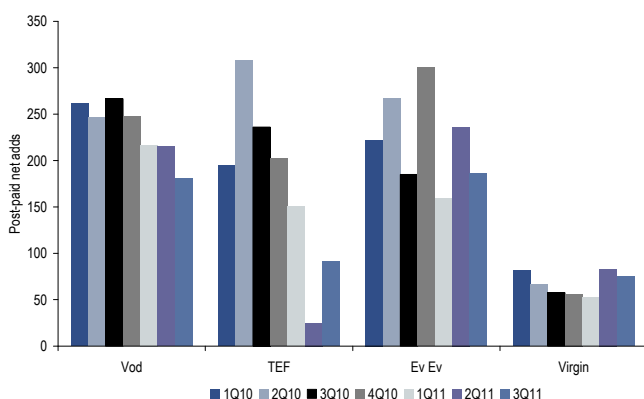
## Mobile Charts

Figure 404. Revenue and GDP



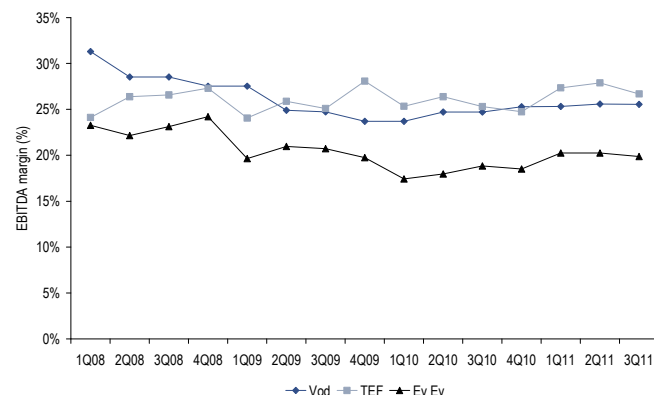
Source: Company reports, CIRA and Datastream

Figure 406. Post-Paid Net Adds



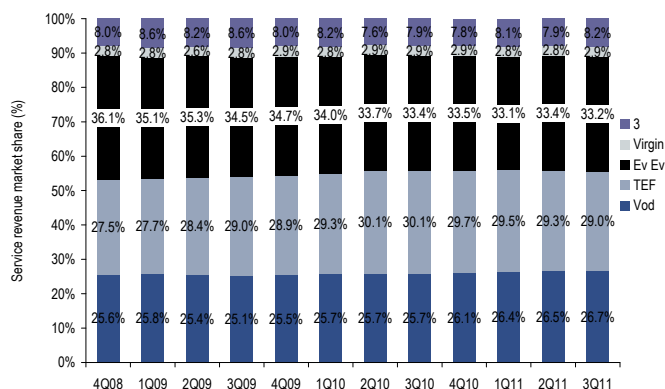
Source: Company reports and Citi Investment Research and Analysis

Figure 408. EBITDA Margin



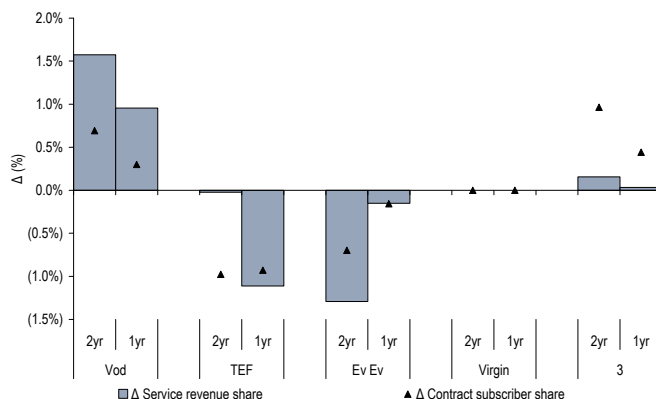
Source: Company reports and Citi Investment Research and Analysis

Figure 405. Service Revenue Market Share



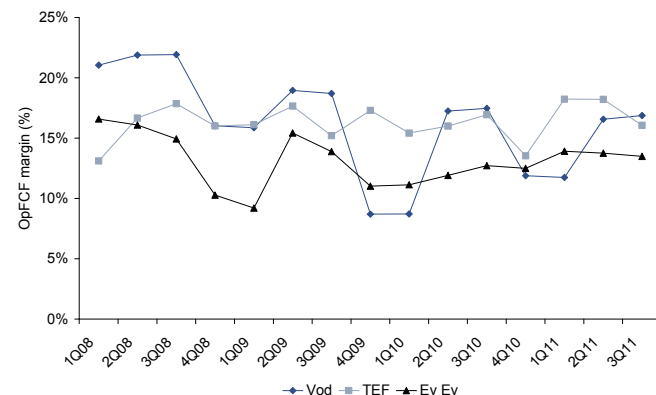
Source: Company reports and Citi Investment Research and Analysis

Figure 407. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 409. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## UK Mobile Data

Figure 410. UK Mobile Market Information

UK	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Service Revenue, £m</b>													
Vodafone	1,235	1,218	1,202	1,179	1,162	1,169	1,170	1,187	1,222	1,252	1,239	1,205	1,249
O2 (Telefonica)	1,322	1,307	1,293	1,322	1,342	1,329	1,333	1,390	1,429	1,424	1,383	1,329	1,356
Ev Ev	1,720	1,715	1,638	1,643	1,598	1,594	1,548	1,557	1,586	1,605	1,554	1,516	1,556
Virgin Mobile	140	135	129	121	129	133	128	132	139	139	133	129	138
3 (Hutch)	405	382	401	383	398	367	374	353	375				
<b>Total</b>	<b>4,822</b>	<b>4,757</b>	<b>4,664</b>	<b>4,648</b>	<b>4,629</b>	<b>4,592</b>	<b>4,553</b>	<b>4,618</b>	<b>4,751</b>	<b>4,794</b>	<b>4,691</b>	<b>4,539</b>	<b>4,682</b>
<b>Service Revenue Growth, yoy</b>													
Vodafone	(4.0%)	(0.9%)	(0.5%)	(3.8%)	(5.9%)	(4.0%)	(2.7%)	0.7%	5.2%	7.1%	5.9%	1.5%	2.2%
O2 (Telefonica)	6.1%	4.3%	5.4%	3.5%	1.5%	1.7%	3.1%	5.1%	6.5%	7.2%	3.7%	(4.4%)	(5.1%)
Ev Ev	0.5%	(0.3%)	(2.0%)	(4.0%)	(7.1%)	(7.0%)	(5.5%)	(5.2%)	(0.8%)	0.7%	0.4%	(2.6%)	(1.9%)
Virgin Mobile	(5.0%)	(5.2%)	(3.8%)	(13.0%)	(7.6%)	(1.3%)	(1.3%)	8.8%	7.2%	4.4%	4.5%	(2.0%)	(0.4%)
3 (Hutch)	0.0%	2.1%	1.9%	1.1%	(1.9%)	(3.8%)	(6.7%)	(7.8%)	(5.6%)	2.0%	2.0%	2.0%	2.0%
<b>Total</b>	<b>0.5%</b>	<b>0.8%</b>	<b>0.6%</b>	<b>(1.8%)</b>	<b>(4.0%)</b>	<b>(3.5%)</b>	<b>(2.4%)</b>	<b>(0.6%)</b>	<b>2.6%</b>	<b>4.4%</b>	<b>3.0%</b>	<b>(1.7%)</b>	<b>(1.4%)</b>
<b>Service Revenue Market Share</b>													
Vodafone	25.6%	25.6%	25.8%	25.4%	25.1%	25.5%	25.7%	25.7%	25.7%	26.1%	26.4%	26.5%	26.7%
O2 (Telefonica)	27.4%	27.5%	27.7%	28.4%	29.0%	28.9%	29.3%	30.1%	30.1%	29.7%	29.5%	29.3%	29.0%
Ev Ev	35.7%	36.1%	35.1%	35.3%	34.5%	34.7%	34.0%	33.7%	33.4%	33.5%	33.1%	33.4%	33.2%
Virgin Mobile	2.9%	2.8%	2.8%	2.6%	2.8%	2.9%	2.8%	2.9%	2.9%	2.9%	2.8%	2.8%	2.9%
3 (Hutch)	8.4%	8.0%	8.6%	8.2%	8.6%	8.0%	8.2%	7.6%	7.9%	7.8%	8.1%	7.9%	8.2%
<b>Post-pay Customers, 000s</b>													
Vodafone	7,711	7,896	7,767	7,909	8,174	8,410	8,672	8,918	9,184	9,432	9,649	9,864	10,045
O2 (Telefonica)	8,189	8,412	8,699	9,011	9,324	9,559	9,754	10,061	10,297	10,499	10,650	10,675	10,765
Ev Ev	10,026	10,229	10,407	10,552	10,707	10,974	11,196	11,463	11,648	11,948	12,107	12,343	12,529
Virgin Mobile	579	649	712	785	873	950	1,031	1,097	1,155	1,211	1,263	1,347	1,421
3 (Hutch)	3,278	3,474	3,657	3,711	3,741	3,683	3,679	3,676	4,019	4,111	4,243	4,375	4,480
<b>Call Volumes, mn min/qtr</b>													
Vodafone	9,597	9,762	10,195	9,784	10,259	10,379	10,870	10,704	10,569	10,769	10,616	10,600	10,759
Telefonica	12,240	12,816	12,798	13,304	13,579	14,176	14,155	14,346	14,565	15,076	13,500	13,139	12,920
Ev Ev	16,384	16,509	16,434	16,056	15,995	16,250	16,054	16,493	15,994	16,429	16,505	16,498	16,345
Virgin Mobile	1,216	1,177	1,178	1,178	1,205	1,226	1,261	1,316	1,365	1,460	1,449	1,509	1,576
3 Hutch	2,256	2,385	2,498	2,569	2,668	2,794	2,935	3,097	3,323	3,642	3,609	3,756	3,877
<b>Total</b>	<b>41,693</b>	<b>42,650</b>	<b>43,104</b>	<b>42,891</b>	<b>43,706</b>	<b>44,825</b>	<b>45,276</b>	<b>45,956</b>	<b>45,817</b>	<b>47,375</b>	<b>45,679</b>	<b>45,502</b>	<b>45,477</b>
<b>Call Volume growth</b>													
Vodafone	5.3%	3.5%	7.2%	1.4%	6.9%	6.3%	6.6%	9.4%	3.0%	3.8%	(2.3%)	(1.0%)	1.8%
Telefonica	18.5%	19.5%	15.6%	10.8%	10.9%	10.6%	10.6%	7.8%	7.3%	6.3%	(4.6%)	(8.4%)	(11.3%)
Ev Ev	7.1%	4.4%	3.6%	(1.8%)	(2.4%)	(1.6%)	(2.3%)	2.7%	(0.0%)	1.1%	2.8%	0.0%	2.2%
Virgin Mobile	1.3%	(4.6%)	(4.7%)	(6.6%)	(0.9%)	4.2%	7.1%	11.7%	13.3%	19.0%	14.9%	14.7%	15.4%
3 Hutch	23.9%	24.7%	26.6%	19.9%	18.2%	17.1%	17.5%	20.6%	24.6%	30.4%	22.9%	21.3%	16.7%
<b>Total</b>	<b>10.4%</b>	<b>9.1%</b>	<b>8.7%</b>	<b>3.6%</b>	<b>4.8%</b>	<b>5.1%</b>	<b>5.0%</b>	<b>7.1%</b>	<b>4.8%</b>	<b>5.7%</b>	<b>0.9%</b>	<b>(1.0%)</b>	<b>(0.7%)</b>
<b>Contract Churn, % p.a</b>													
Vodafone	17.5%	17.3%	21.9%	18.0%	18.5%	18.1%	16.2%	15.5%	16.1%	16.8%	15.8%	16.3%	17.0%
O2 (Telefonica)	15.6%	15.6%	14.4%	14.4%	14.4%	12.0%	13.2%	13.2%	14.4%	13.2%	13.2%	14.4%	13.2%
Ev Ev	20.0%	21.9%	23.0%	21.3%	21.7%	20.4%	18.0%	18.0%	16.8%	15.6%	15.6%	13.2%	13.2%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Vodafone	9.4%	10.1%	10.1%	11.6%	12.5%	12.8%	13.8%	14.7%	15.1%	15.6%	16.8%	17.7%	17.5%
O2 (Telefonica)	7.1%	7.9%	8.7%	9.7%	11.0%	11.6%	12.3%	13.5%	13.2%	13.8%	16.3%	18.3%	19.1%
<b>EBITDA, £m</b>													
Vodafone	352	335	331	294	289	279	279	295	304	319	315	311	322
O2 (Telefonica)	381	401	342	371	366	418	367	401	401	398	418	409	401
Ev Ev	435	457	352	379	364	356	305	309	334	334			
<b>Capex, £m</b>													
Vodafone	82	141	141	71	71	177	177	89	89	169	169	110	110
O2 (Telefonica)	125	166	113	118	144	160	144	158	133	180	139	142	160
Ev Ev	154	263	187	100	120	157	110	104	109	109			

Source: Company reports and Citi Investment Research and Analysis



## UK Fixed Data

Figure 411. UK Fixed Line Market Information

UK	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	4,574	4,658	4,757	4,835	4,906	5,008	5,132	5,227	5,342	5,529	5,691	5,832	5,998
Incumbent wholesale	3,622	3,416	3,305	3,191	3,124	3,036	2,926	2,785	2,629	2,451	2,421	2,559	2,512
ULL (total)	5,084	5,501	5,750	5,957	6,121	6,352	6,620	6,906	7,143	7,490	7,609	7,581	7,725
Cable	3,625	3,682	3,730	3,735	3,774	3,837	3,910	3,936	3,969	4,011	4,061	4,049	4,073
<b>Total</b>	<b>16,905</b>	<b>17,257</b>	<b>17,542</b>	<b>17,718</b>	<b>17,925</b>	<b>18,234</b>	<b>18,587</b>	<b>18,854</b>	<b>19,083</b>	<b>19,481</b>	<b>19,783</b>	<b>20,021</b>	<b>20,308</b>
<b>Broadband Subscribers (000s)</b>													
BT Retail	4,574	4,658	4,757	4,835	4,906	5,008	5,132	5,227	5,342	5,529	5,691	5,832	5,998
Virgin Media	3,885	3,934	3,977	3,981	4,027	4,102	4,180	4,206	4,242	4,287	4,333	4,315	4,334
TalkTalk	2,788	2,732	2,806	2,853	4,119	4,155	4,197	4,231	4,249	4,224	4,199	4,172	4,129
Tiscali	1,774	1,768	1,710	1,551									
BSkyB	1,792	1,955	2,085	2,203	2,303	2,404	2,505	2,624	2,802	3,006	3,161	3,335	3,485
Orange	1,023	1,000	977	954	899	840	816	793	753	730	713	701	695
Telefonica	267	341	405	457	527	592	632	650	664	672	669	653	625
- other	802	869	826	884	1,144	1,133	1,126	1,123	1,031	1,034	1,017	1,013	1,042
<b>Total</b>	<b>16,905</b>	<b>17,257</b>	<b>17,542</b>	<b>17,718</b>	<b>17,925</b>	<b>18,234</b>	<b>18,587</b>	<b>18,854</b>	<b>19,083</b>	<b>19,481</b>	<b>19,783</b>	<b>20,021</b>	<b>20,308</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
BT Retail	69	84	99	78	71	102	123	95	115	187	162	141	166
Virgin Media (cable and DSL)	49	49	43	4	46	75	78	26	37	45	46	(18)	20
TalkTalk	34	36	74	47	15	36	42	34	18	(25)	(25)	(27)	(43)
Tiscali	(64)	(6)	(58)	(77)	0	0	0	0	0	0	0	0	0
BSkyB (incl. UK Online)	164	163	130	118	100	101	101	119	178	204	155	174	150
Orange	(40)	(23)	(23)	(23)	(55)	(59)	(24)	(23)	(40)	(23)	(17)	(12)	(6)
Telefonica	73	74	64	52	70	64	41	18	14	8	(2)	(16)	(28)
- other	40	67	(44)	59	260	(11)	(7)	(2)	(92)	2	(17)	(4)	29
<b>Total</b>	<b>325</b>	<b>352</b>	<b>285</b>	<b>176</b>	<b>207</b>	<b>309</b>	<b>354</b>	<b>267</b>	<b>229</b>	<b>398</b>	<b>302</b>	<b>238</b>	<b>287</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	21,651	21,121	20,506	19,924	19,375	18,843	18,418	17,995	17,499	17,073	16,719	16,390	16,045
Incumbent wholesale	5,077	5,323	5,647	5,972	6,138	6,051	6,028	6,036	6,128	6,270	6,180	6,380	6,400
ULL (total)	1,448	1,595	1,714	1,808	2,064	2,567	2,966	3,387	3,728	4,012	4,268	4,584	4,885
Cable	4,078	4,099	4,108	4,104	4,120	4,146	4,178	4,175	4,161	4,162	4,181	4,155	4,141
<b>Total</b>	<b>32,254</b>	<b>32,138</b>	<b>31,975</b>	<b>31,808</b>	<b>31,697</b>	<b>31,607</b>	<b>31,590</b>	<b>31,593</b>	<b>31,516</b>	<b>31,517</b>	<b>31,348</b>	<b>31,509</b>	<b>31,471</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(423)	(530)	(615)	(582)	(549)	(532)	(425)	(423)	(496)	(426)	(354)	(329)	(345)
Incumbent wholesale (WLR)	224	246	324	325	166	(87)	(23)	8	92	142	(90)	200	20
ULL (total)	103	147	119	94	256	503	399	421	341	284	256	316	301
Cable	15	21	9	(4)	16	26	32	(3)	(14)	1	19	(26)	(14)
<b>Total</b>	<b>(82)</b>	<b>(116)</b>	<b>(163)</b>	<b>(167)</b>	<b>(111)</b>	<b>(90)</b>	<b>(17)</b>	<b>3</b>	<b>(77)</b>	<b>1</b>	<b>(169)</b>	<b>161</b>	<b>(38)</b>
<b>Pay TV Subscribers (000s)</b>													
BT IPTV	320	376	423	433	436	451	467	481	505	545	575	598	639
Sky	9,067	9,238	9,318	9,442	9,536	9,708	9,770	9,860	9,956	10,096	10,147	10,187	10,213
Virgin Media	3,527	3,572	3,602	3,623	3,660	3,694	3,730	3,752	3,767	3,779	3,789	3,768	3,762
<b>Total</b>	<b>12,914</b>	<b>13,186</b>	<b>13,343</b>	<b>13,498</b>	<b>13,632</b>	<b>13,853</b>	<b>13,967</b>	<b>14,093</b>	<b>14,228</b>	<b>14,420</b>	<b>14,511</b>	<b>14,553</b>	<b>14,614</b>
<b>Pay TV Subscribers Net Adds (000s)</b>													
BT IPTV	38	56	47	10	3	15	16	14	24	40	30	23	41
Sky	87	171	80	124	94	172	62	90	96	140	51	40	26
Virgin Media	37	45	30	20	37	34	36	22	15	12	10	(21)	(6)
<b>Total</b>	<b>162</b>	<b>272</b>	<b>157</b>	<b>154</b>	<b>134</b>	<b>221</b>	<b>114</b>	<b>126</b>	<b>135</b>	<b>192</b>	<b>91</b>	<b>42</b>	<b>61</b>

Source: Company reports and Citi Investment Research and Analysis

## Notes

## Notes

## Appendix A-1

### Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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