

## Equities

14 June 2011 | 179 pages

# The Phone Book

## A few diamonds among the debris

- **Incumbents under pressure** — Already negative growth in Europe in both mobile and incumbent fixed line deteriorated sharply in 1Q11, with mobile down partly due to heavier MTR cuts and a tougher comp but no such excuses for fixed. The setback was broad across countries (pre MTRs 13 worse, 1 unchanged - Portugal, 1 better - Spain), supporting the thesis that the benefit of 2010's bounce from the economic gloom of 2009 has not continued into 2011. 1Q often sets the tone for the year in mobile and we don't assume further deterioration from here.
- **Dividend and earnings momentum key for stock picks** — We favour special and differentiated situations, operational turnarounds and emerging market exposure. We highlight Vodafone and Virgin Media (Most Preferred names), BT, DT, TI, Telenor, Bouygues (all Buy), where we see cash return and/or earnings momentum potential for the next 12 months. We are cautious on Belgacom and SES (Least Preferred), Telia, KDG (both Sell), Telefónica and France Telecom (Hold).
- **Profit warnings cast a shadow** — KPN and Belgacom issued profit warnings, throwing in concerns about data cannibalisation of voice and text (KPN) and text cannibalisation of voice (Belgacom). Telenet and TeliaSonera guided down on revenue. Cannibalisation generally points to pricing errors on the part of operators, which seems to be the case this time as both may have been holding prices up to hit EBITDA targets, leaving themselves exposed. Operators including Vodafone and DT look to have taken some of the pain of rebasing tariffs, while others may be yet to.
- **Mobile repricing is already underway** — Similar to fixed line a decade ago, we expect mobile operators to migrate to mobile data tiering in integrated bundles and away from per minute pricing. Migration of voice to IP in mobile has been slow but should accelerate with the launch of VoLTE. The Dutch government's plan to regulate VoIP pricing risks creating perverse investment incentives.
- **Impact of mobiles on health** — We examine the evidence behind recent cautionary recommendations from the WHO and the Council of Europe regarding use of mobiles phones. The scientific community is not in agreement and, so far, tumour incidence has not started to increase despite the widespread use of mobile phones.

### Simon Weeden

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

### Laurie Fitzjohn-Sykes, CFA

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

### Georgios Ierodiaconou

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

### Dimitri Y Kallianiotis, CFA

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

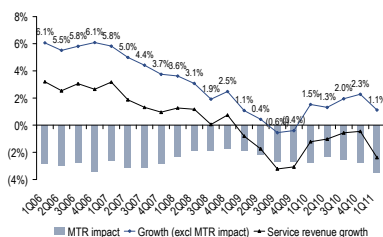
### Tania Valiente

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

### Thomas A Singlehurst, CFA

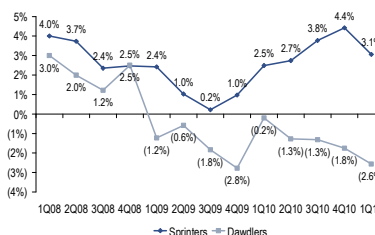
+44-20-7986-4051  
thomas.singlehurst@citi.com

European mobile service revenue growth (%)



Source: Company Reports and CIRA Estimates

Sprinters took a hit to growth in 1Q11



Source: Company Reports and CIRA Estimates

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

Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Data Summary

Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
BCOM.BR	3L	3L	€23.00	€23.00	€2.30	€2.30	€2.21	€2.21
BOUY.PA	1H	1H	€43.00	€43.00	€3.24	€3.24	€3.69	€3.69
BT.L	1M	1M	£2.30	£2.30	p23.4	p23.4	p24.9	p24.9
DTEGn.DE	1L	1L	€12.20	€12.20	€0.92	€0.92	€0.96	€0.96
ELI1V.HE	3L	3L	€13.00	€13.00	€1.16	€1.17	€1.24	€1.24
FTE.PA	2L	2L	€15.50	€15.50	€1.67	€1.67	€1.66	€1.66
KPN.AS	1L	1L	€13.00	€13.00	€1.24	€1.24	€1.31	€1.31
MSTAR.BR	2L	2L	€45.00	€45.00	€3.81	€3.81	€3.79	€3.79
OTEr.AT	2H	2H	€8.00	€8.00	€0.54	€0.54	€0.59	€0.59
PTC.LS	2M	2M	€8.50	€8.50	€0.69	€0.69	€0.68	€0.68
SCMN.VX	2L	2L	SFr420.00	SFr420.00	SFr36.99	SFr36.99	SFr40.11	SFr40.11
TEF.MC	2M	2M	€16.50	€16.50	€1.71	€1.71	€1.63	€1.63
TEL.OL	1M	1M	NKr105.00	NKr105.00	NKr7.15	NKr7.15	NKr8.31	NKr8.31
TEL2b.ST	2M	2M	SKr150.00	SKr125.00	SKr10.56	SKr10.56	SKr11.47	SKr11.47
TELA.VI	2M	2M	€10.50	€10.20	€0.08	€0.03	€0.51	€0.43
TLIT.MI	1M	1M	€1.30	€1.30	EU¢13	EU¢13	EU¢14	EU¢14
TLSN.ST	3M	3M	SKr44.50	SKr44.50	SKr4.45	SKr4.45	SKr4.71	SKr4.71
VIV.PA	1M	1M	€24.50	€24.50	€2.45	€2.45	€2.68	€2.68
VOD.L	1L	1L	£1.95	£1.95	p15.8	p15.8	p17.5	p17.5

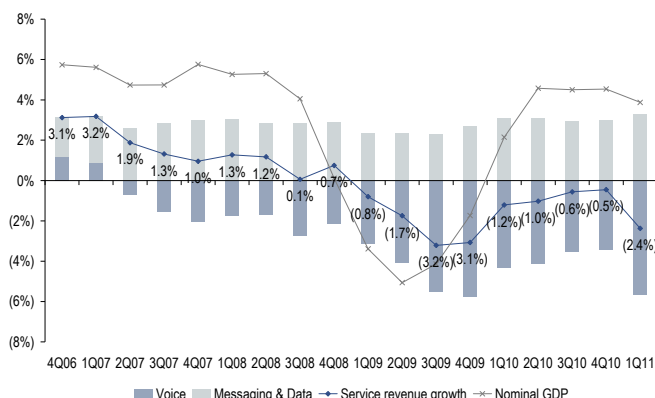
# Contents

Quarterly trends show pressure in North	4	Sweden	156
A couple of profit warnings as a starter	9	Switzerland	160
Interest rate sensitivity	12	UK	164
Wage inflation exposure	13		
Welcome to the future pricing model	15	Elisa Oyj	169
India's New Telecoms Policy	22	Tele2 AB	170
Mobile phones and health	28	Telekom Austria	171
<b>Company section</b>	<b>31</b>	<b>Appendix A-1</b>	<b>174</b>
Belgacom SA (BCOM.BR)	32		
Bouygues SA (BOUY.PA)	35		
BT Group PLC (BT.L)	38		
Deutsche Telekom AG (DTEGn.DE)	41		
Elisa Oyj (ELI1V.HE)	45		
France Telecom (FTE.PA)	49		
KPN NV (KPN.AS)	54		
Mobistar SA (MSTAR.BR)	59		
OTE (OTEr.AT)	62		
Portugal Telecom (PTC.LS)	65		
Swisscom AG (SCMN.VX)	69		
Tele2 AB (TEL2b.ST)	73		
Telecom Italia SpA (TLIT.MI)	77		
Telefonica SA (TEF.MC)	80		
Telekom Austria (TELA.VI)	84		
Telenor ASA (TEL.OL)	89		
TeliaSonera AB (TLSN.ST)	93		
Vivendi (VIV.PA)	97		
Vodafone Group PLC (VOD.L)	101		
<b>Country section</b>	<b>107</b>		
Austria	108		
Belgium	112		
Denmark	116		
Finland Mobile	121		
France	124		
Germany	128		
Greece	132		
Italy	136		
Netherlands	140		
Norway	144		
Portugal	148		
Spain	152		

## Quarterly trends show pressure in North

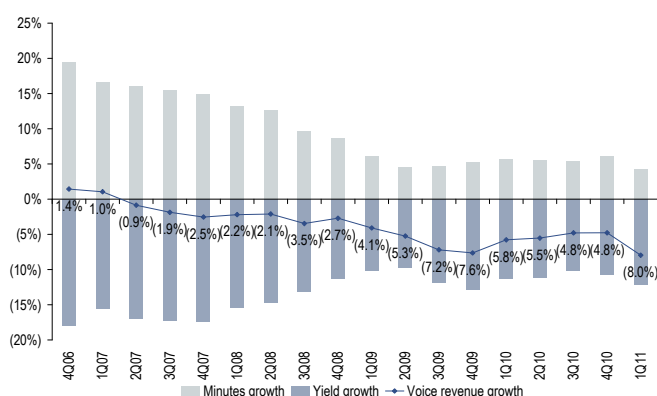
Reported service revenue growth worsened in 1Q11, driven by a higher decline in voice revenue. The decline in voice revenue was partly driven by MTR cuts, lower minute volume growth, and increased price competition. Non-voice revenue growth remained stable.

Figure 1. Mobile service revenue growth (% yoy)



Source: Citi Investment Research and Analysis, company reports

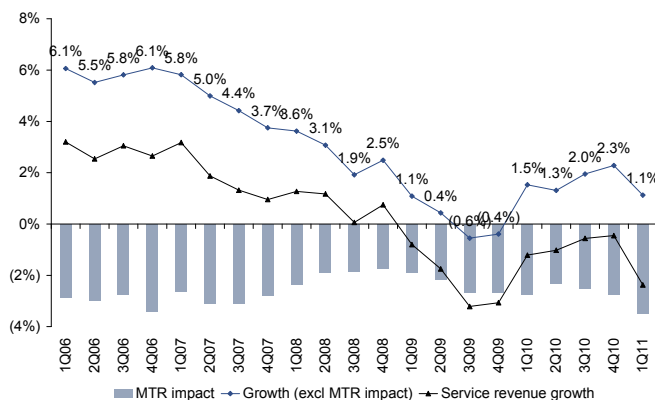
Figure 2. Mobile voice revenue growth (% yoy)



Source: Citi Investment Research and Analysis, company reports

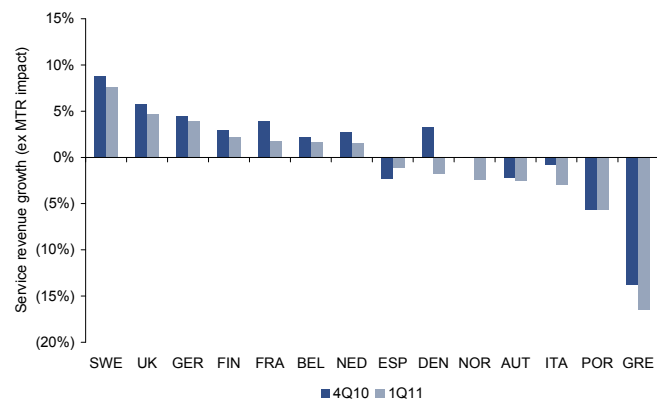
The impact from MTR cuts increased in 1Q11 to -3.5ppt from -2.7ppt in 4Q10. This was primarily driven by Germany, where there was a 50% cut to MTRs and also Netherlands and Norway saw a higher yoy negative impact from MTR cuts. The most significant variation in growth rates from 4Q10 was a worsening in France, Denmark and Italy. Contrary to perception, Spain showed an improvement in underlying market growth, although Vodafone had a one off benefit and both market leaders continue to lose market share quite fast.

Figure 3. Service revenue growth excl MTR impact European average



Source: Citi Investment Research and Analysis, company reports

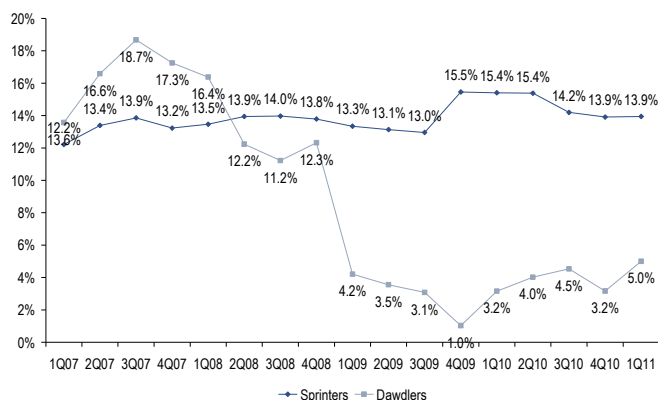
Figure 4. Service revenue growth excl MTR impact by country



Source: Citi Investment Research and Analysis, company reports

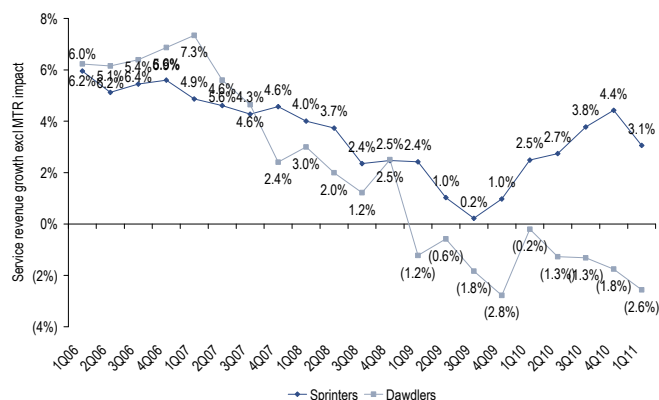
In previous quarters positive sprinter countries improving growth rate had offset the worsening growth in dawdler countries. In 1Q11, the worsening decline in the dawdler countries continued, however the sprinter countries also worsened, leading to the worsening in European total growth. This is being driven by voice revenue, as Figure 5 shows the growth in non-voice remained broadly stable in the sprinter and dawdler countries.

Figure 5. Non-voice revenue growth, % yoy



Source: Citi Investment Research and Analysis, company reports

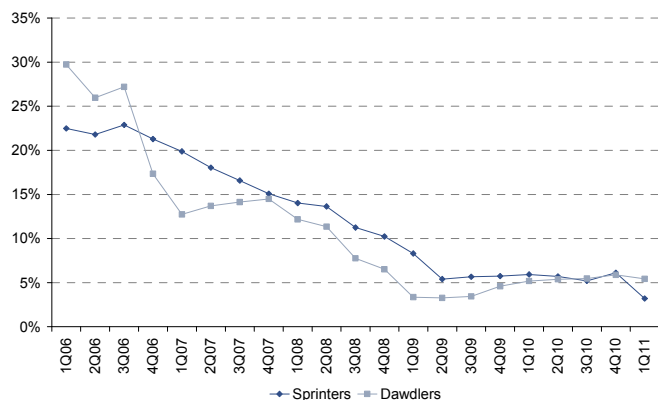
Figure 6. Service revenue growth excl MTR cuts, % yoy



Source: Citi Investment Research and Analysis, company reports

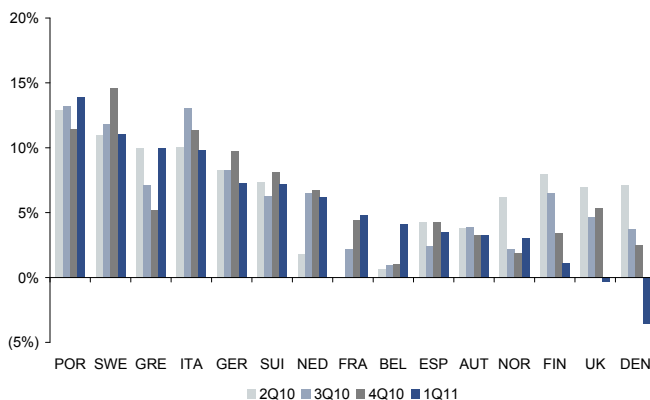
Sprinter countries showed a change in trend for minutes growth worsening from 6.1% yoy growth in 4Q10, to 3.2% in 1Q11. Minutes growth in dawdler countries remained stable at c.5.5% yoy.

Figure 7. Minutes growth (Sprinters vs Dawdlers)



Source: Citi Investment Research and Analysis

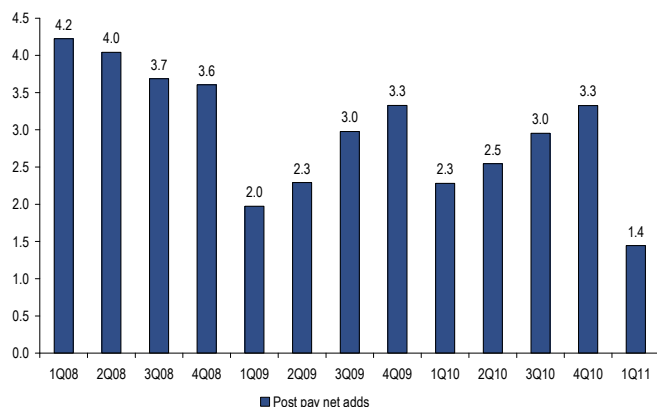
Figure 8. Minutes growth per country



Source: Citi Investment Research and Analysis

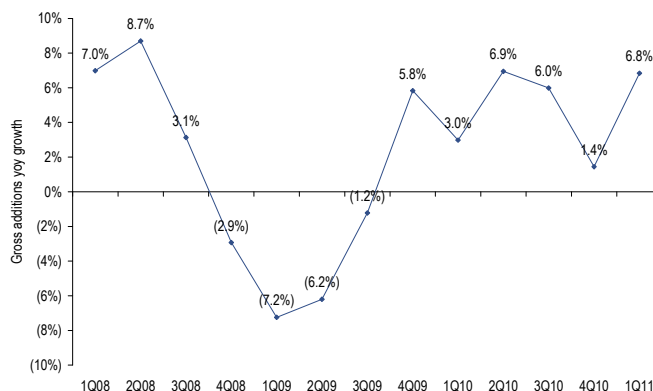
Total European post-pay net adds fell significantly in 1Q11, after a previously improving trend until 4Q10. One reason for this is material negative net adds for FT and SFR in France. On the positive side, gross additions increased 6.8% yoy, suggesting a more positive picture for market activity.

Figure 9. Post-pay net adds, million



Source: Citi Investment Research and Analysis, company reports

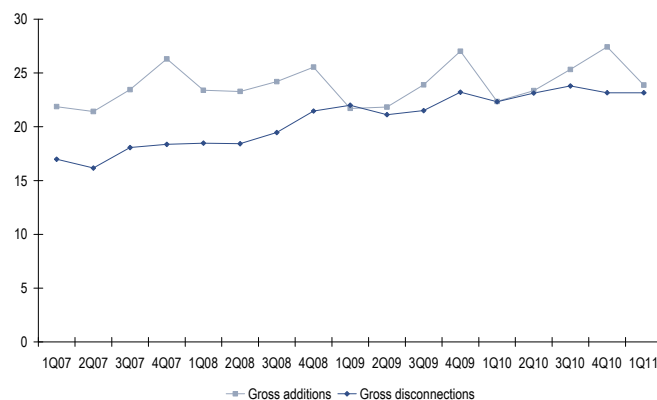
Figure 10. Gross additions growth



Source: Citi Investment Research and Analysis, company reports

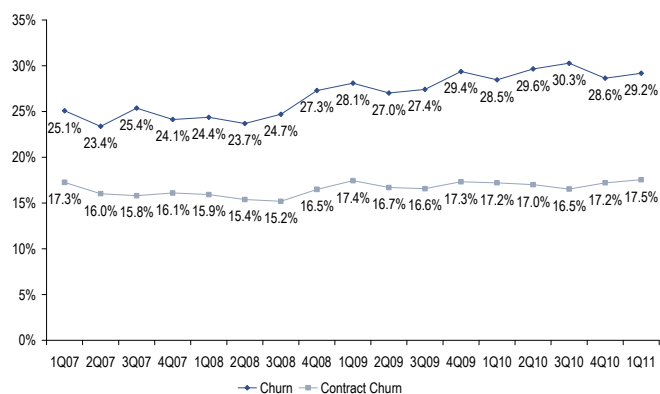
Lower net adds is partially explained by post-pay churn, which rose for the second quarter in a row.

Figure 11. Gross additions and gross disconnections



Source: Citi Investment Research and Analysis, company reports

Figure 12. Blended churn and contract churn

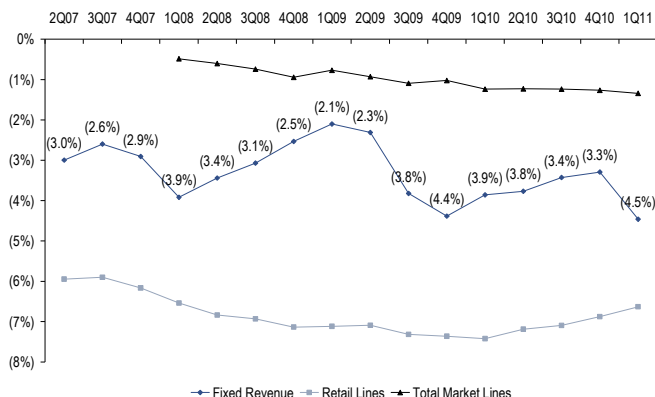


Source: Citi Investment Research and Analysis, company reports

## Fixed

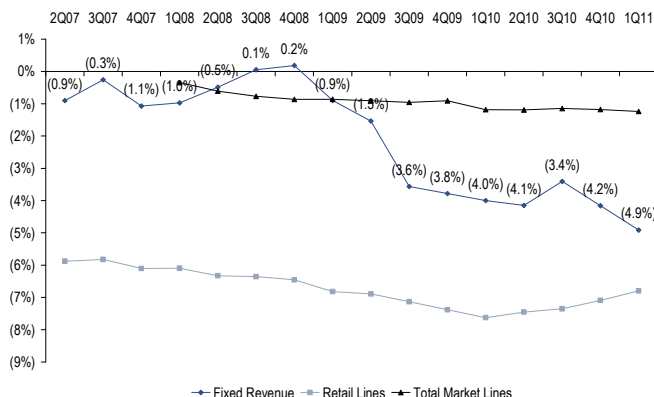
Total European fixed revenue growth decline worsened significantly in 1Q11. Part of this deterioration was driven by DT, which saw domestic fixed revenue decline worsen from 0% 4Q10 to -2.7% in 1Q11 (including T-Systems). As shown in Figure 14, excluding DT we still see a downward trend in fixed revenue decline.

**Figure 13. Domestic fixed revenue growth, line loss and total market line loss**



Source: Citi Investment Research and Analysis, company reports

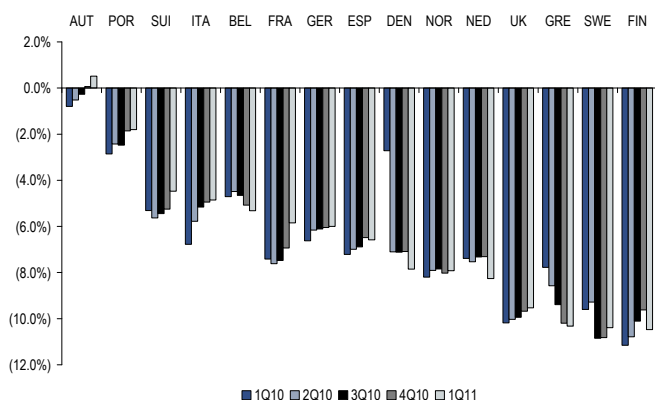
**Figure 14. Domestic fixed revenue growth, line loss and total market line loss (excl DT)**



Source: Citi Investment Research and Analysis, company reports

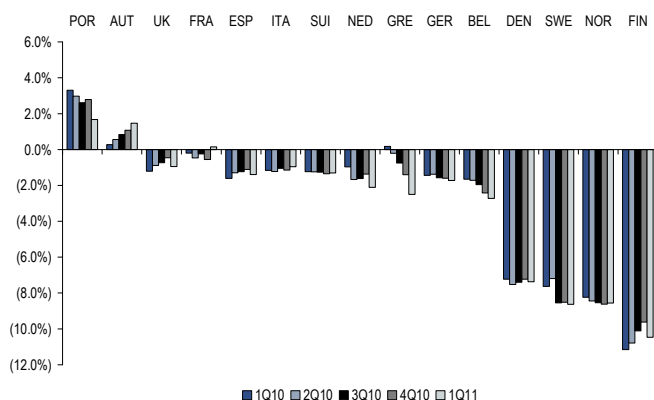
Line loss trends by country did not show any dramatic changes. Italy's retail line loss improvement has stabilized at -4.5%, France's retail line loss shows the greatest improvement. The Nordic countries continue to show the highest total market line loss, driven by the increase in mobile-only households and disconnections of lines to second homes.

**Figure 15. Retail line loss**



Source: Citi Investment Research and Analysis, company reports

**Figure 16. Total market line loss**

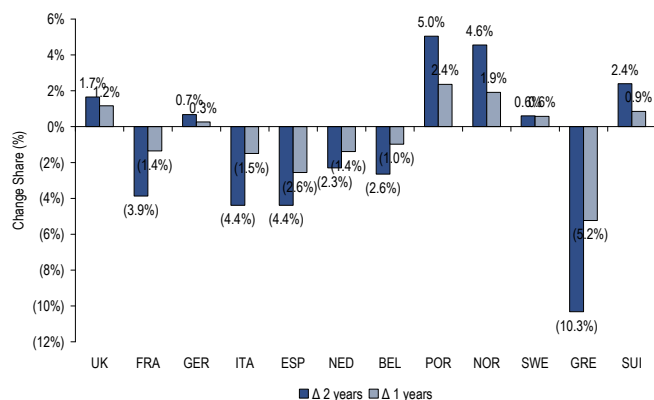


Source: Citi Investment Research and Analysis, company reports

## Broadband market share

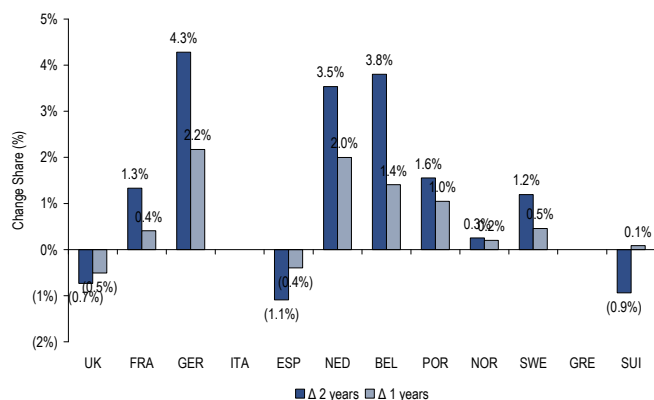
Cable operators continue to gain market share significantly in Germany, Netherlands and Belgium.

Figure 17. Change in incumbent broadband market share



Source: Citi Investment Research and Analysis, company reports

Figure 18. Change in cable operator broadband market share



Source: Citi Investment Research and Analysis, company reports



## A couple of profit warnings as a starter

We had expected a weak 1Q11 results season<sup>1</sup> but not quite as bad as it turned out. We have had two profit warnings (KPN and Belgacom) and two companies lowering revenue guidance (Telenet and Telia) not long after it was set at 4Q10 results. Beyond the profit warnings, the talk from KPN that voice and SMS were being cannibalised by mobile data spooked the market. Most companies remain confident that mobile voice and text cannibalisation can be avoided and either already have moved, or are moving, to integrated tariffs. While the slower mobile growth in 1Q11 was partly a result of a tougher comp compared to 4Q10, 1Q typically sets the pattern for the rest of the year, although growth may not deteriorate much more from here.

Figure 19. 1Q11 Results at a Glance – Actual vs. Consensus

	1Q11 vs cons		Notes
	Revenue	EBITDA	
Incumbents/Wireless			
Belgacom	(2.4%)	(0.8%)	Profit warning mostly driven by lower margin
Bouygues	0.0%	(14.3%)	Weak margins in telcos, solid construction
BT Group	(1.1%)	3.1%	Strong margins
Deutsche Telekom	(1.2%)	(1.9%)	German mobile a touch weaker
Elisa	2.5%	(0.8%)	Revenue beat, EBITDA in-line
France Telecom	0.5%	0.2%	Higher capex expectations post investor day
KPN	(0.8%)	(3.9%)	Profit warning with €200m cut to EBITDA
Mobistar	(1.8%)	(4.5%)	Miss on service revenue
OTE	(2.7%)	(2.6%)	Revenue miss driven by Greece
Portugal Telecom	(2.4%)	0.6%	Solid Portugal, Weak Brazil
Swisscom	(1.6%)	(0.9%)	Solid Swiss offset weak Fastweb
Telefonica	(0.8%)	(1.4%)	EBITDA miss driven by weak Latam
Tele2	(1.8%)	(0.3%)	Core in-line, weakness in smaller markets
Telekom Austria	0.7%	0.0%	Higher than expected restructuring
Telecom Italia	(0.1%)	0.1%	Fixed on track, mobile on hold
TeliaSonera	(2.3%)	(0.4%)	Lower revenue guidance
Vodafone	1.8%	0.0%	Improving revenues, more margin pressure

Source: Citi Investment Research and Analysis, Company reports

Profit warnings are never helpful, but more worrying has been that the reasons behind Q1 profit warnings and revenue guidance cuts were far from convincing and gave concerns over structural trends in the sector. The various reasons provided by operators for changes in guidance were:

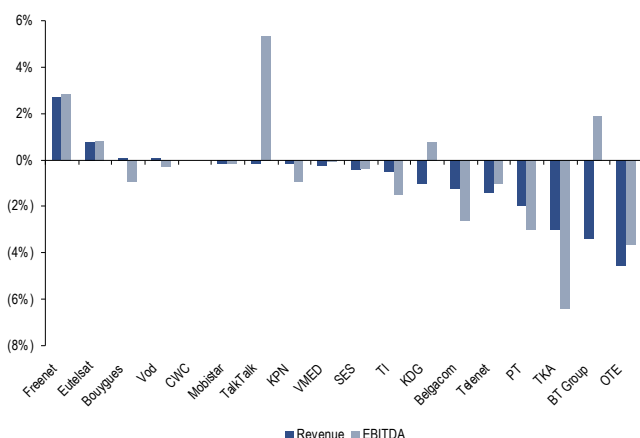
- **Voice and data cannibalisation for KPN** — KPN's profit warning was partly attributed to the cannibalization of voice and SMS by VoIP (e.g. Skype, Viber) and instant messaging (especially WhatsApp). This was the first time a European MNO warned of the unwarranted side effects of mobile data uptake.
- **Voice cannibalisation for Belgacom** — Belgacom partly blamed voice cannibalisation for its profit warning. Voice usage was down yoy for the first time in the last 5 quarters, driven by cannibalisation of voice by SMS (SMS volumes up 14% yoy).
- **Revenue guidance downgraded for Telia** — Guidance for net sales growth in local currencies for 2011 was cut to around 3% from around 4%. This is driven by a number of factors across the operations, lower handset sales in the Nordics and Spain, macro pressure in the Baltics, and weakness in fixed, especially wholesale.
- **Revenue guidance tweaked down by Telenet** — Telenet cut its revenue guidance for FY11 to "around 5.5%" from "at least 6%", driven by an accounting change of revenues from premium voice and SMS content services (no longer on a gross basis). A new accounting rule has a negative revenue impact of c.€8m (or -0.6% of revenues).

<sup>1</sup> See our report *Telecom Prospects 1Q11: Weak earnings Momentum* published on 20 April 2011 for more details.

## Numbers coming down

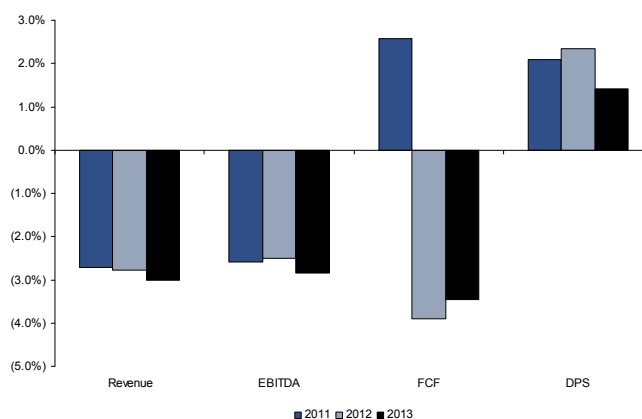
We have cut our revenues and EBITDA by 2-3% post 1Q11 results (see Figure 20). Only BT among the larger-cap showed some positive earnings momentum, with our EBITDA estimates going up post results. Some mid-cap telecoms stocks, such as Talk Talk, Freenet, Eutelsat and KDG, did see EBITDA upgrades, although KDG accompanied that with a revenue miss in FY11E and below consensus revenue growth for FY12E.

Figure 20. 2011 Revenue and EBITDA change (Total 2011-13E)



Source: Citi Investment Research and Analysis

Figure 21. Change in sector weighted average (FCF post spectrum)



Source: Citi Investment Research and Analysis

We have used the opportunity of 1Q11 results to make some significant changes to our models, including: 1) The reclassification of T-Mobile US as a discontinued item, 2) The revision of the terms of the acquisition of PT's stake in Oi the Brazilian operator, 3) The inclusion of more restructuring charges at Telekom Austria.

Figure 22. Forecast changes (aggregate of 2011-13E)

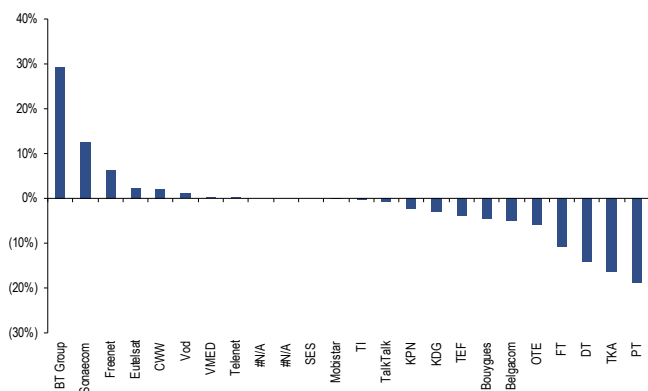
	Rev	EBITDA	FCF	DPS	Capex
Belgacom	(1.2%)	(2.6%)	(5.1%)	0.0%	(0.4%)
Bouygues	0.1%	(0.9%)	(4.6%)	(2.3%)	2.0%
BT Group	(3.4%)	1.9%	29.4%	37.0%	1.2%
DT	(27.8%)	(22.0%)	(14.1%)	0.0%	(0.8%)
Elisa	0.0%	0.0%	0.0%	0.0%	0.0%
FT	(0.1%)	(1.6%)	(10.9%)	0.0%	7.7%
KPN	(0.2%)	(0.9%)	(2.4%)	(4.0%)	1.7%
Mobistar	(0.1%)	(0.2%)	(0.2%)	(0.2%)	(0.1%)
OTE	(4.6%)	(3.7%)	(5.9%)	(7.3%)	(3.7%)
PT	(2.0%)	(3.0%)	(18.9%)	0.0%	11.4%
SCOM	0.0%	0.0%	0.0%	0.0%	0.0%
TEF	(0.1%)	(1.2%)	(3.9%)	0.0%	0.8%
Tele2	0.0%	0.0%	0.0%	0.0%	0.0%
TKA	(3.0%)	(6.4%)	(16.4%)	45.9%	0.6%
TI	(0.5%)	(1.5%)	(0.4%)	0.0%	(2.7%)
Telia	(0.8%)	(0.7%)	(1.0%)	(1.1%)	(0.5%)
Vodafone	0.1%	(0.3%)	1.1%	0.1%	(2.6%)

Source: Citi Investment Research and Analysis

## Watch out for Capex

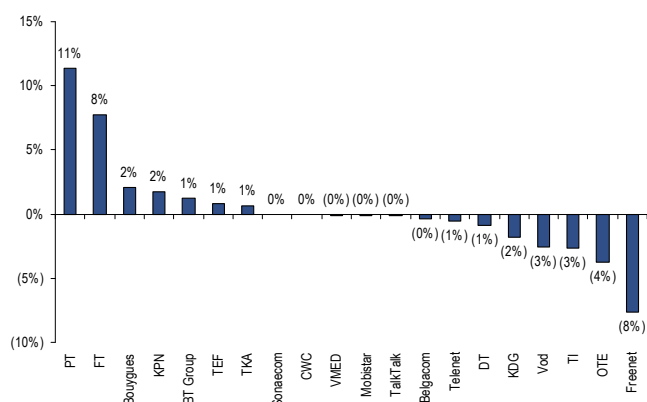
We remain cautious on capex, which we believe could surprise negatively, in particular for fixed, driven by higher fibre investment. We have made some significant upward revisions to our capex forecasts for PT and FT and nudged up our capex estimates for KPN, BT, TEF and TKA. We remain of the view that capex is more likely to surprise negatively. We have also recently increased our capex estimates for DT<sup>2</sup>. Ahead of the December's domestically-focused investor day, we have raised our German capex forecasts 3.5% in 2012 and 6.4% in 2013 to €3.8bn (including GHS) to accommodate a faster pace of local fibre deployment.

Figure 23. FCF forecast change (total 2011-13E)



Source: Citi Investment Research and Analysis

Figure 24. Change in capex forecasts (total 2011-13E)



Source: Citi Investment Research and Analysis

<sup>2</sup> See our report on Deutsche Telekom titled *Home Run* published on 18 May 2011 for more details.

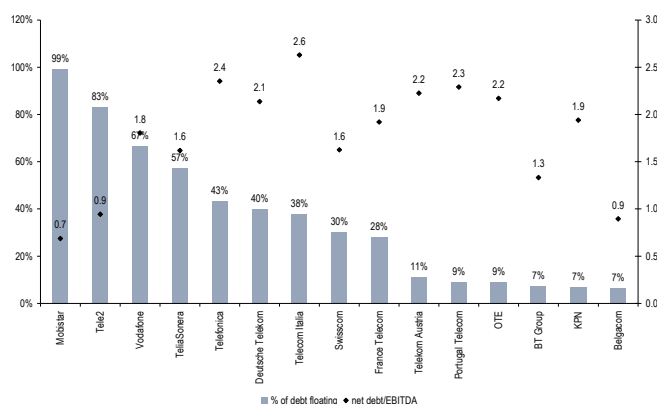
## Interest rate sensitivity

Telecoms companies have benefited from refinancing fixed rate debt at lower interest rates and from floating rate debt falling in line with interest rates. European telecoms bond yields are now 3.7% vs average European government bond yields of 3.0%. We highlight the risk for companies with a high percentage of floating rate debt from rising interest rates. We also note that Vodafone's interest expense has been rising as it makes the shift from floating to fixed rate debt, to head off the risk from rising floating rates longer term.

**At risk:** Telefonica, Deutsche Telekom, Telecom Italia, Vodafone

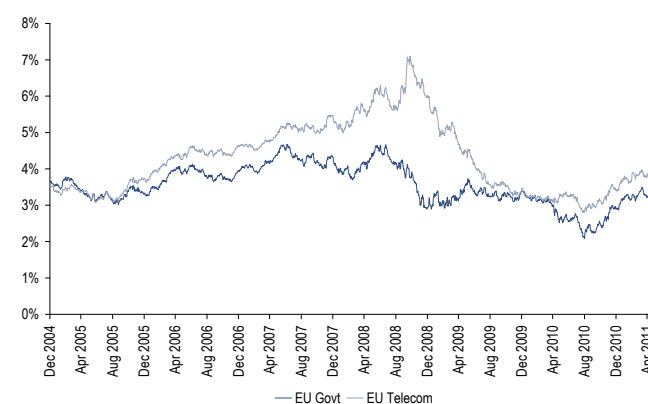
**Safe:** Belgacom, KPN, Telekom Austria

Figure 25. Floating rate debt as a % of total



Source: Citi Investment Research and Analysis, company reports

Figure 26. European government bond yields vs European telecoms companies bond yields



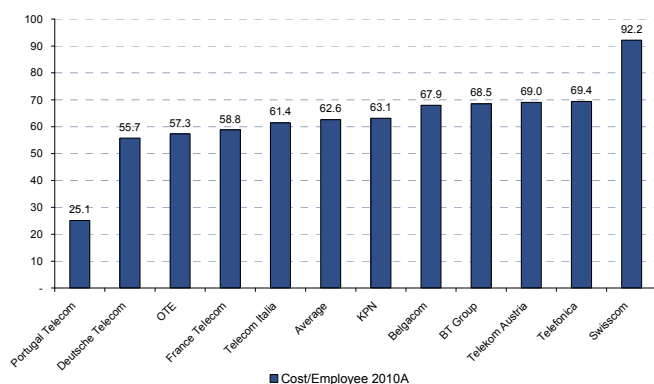
Source: Datastream

## Wage inflation exposure

In a context of rising inflation expectations, we take a closer look at the impact an increase in labour costs might have on telecom operators' profitability. We find that a 1% increase in the cost per employee for three consecutive years (assuming sales and headcount remain stable) would negatively impact EBITDA by c. 60bp. A 3% increase p.a. over 3 years would take c. 175bp off an operator's EBITDA on average over this period. Among European incumbents, the most affected in theory would be BT, OTE and DT. The lower impact would be felt by PT, TEF and KPN.

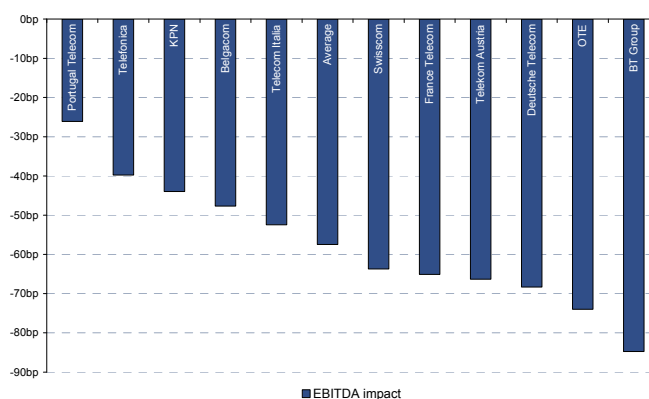
Our economists forecast 2.7% CPI inflation for 2011 and 2.2% inflation for 2012, compared to +1.6% in 2010A. Most recent deals sealed between workers' unions and telcos' management foresee an increase in base pay between 2-3% for 2011. While typically wage indexations have been in line with consumer price indexes foreseen for the next period, some operators have managed to negotiate salary freezes or are currently undergoing or negotiating headcount restructuring plans. We highlight below these special situations, which in our view are likely to become more common in a context of declining top-lines.

Figure 27. Cost per employee for domestic business (where available) (€'000)



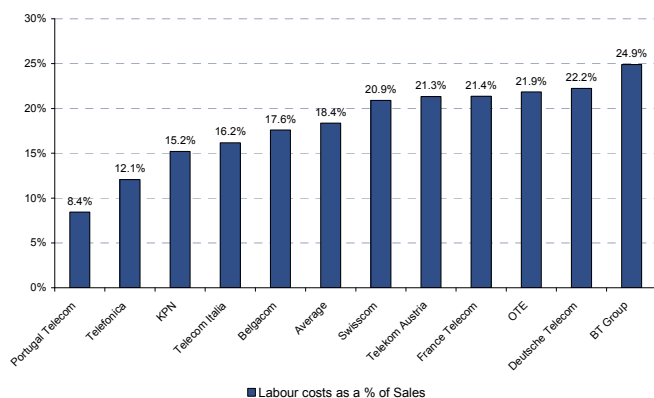
Source: Company reports, Citi Investment Research and Analysis

Figure 28. EBITDA margin impact of a 1% rise in cost per employee, for 3 consecutive years, assuming sales and headcount stay flat



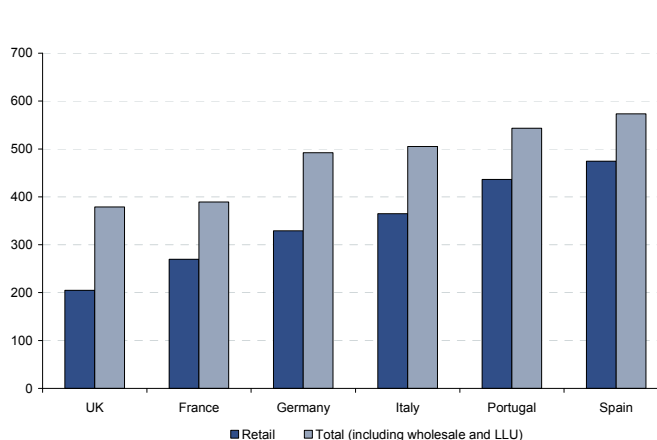
Source: Company reports, Citi Investment Research and Analysis

Figure 29. Labour costs as a % of revenues for domestic business; Mobile and fixed where available (average for the last 3 reported years)



Source: Company reports, Citi Investment Research and Analysis

Figure 30. Lines per employee, retail and total



Source: Company reports, Citi Investment Research and Analysis

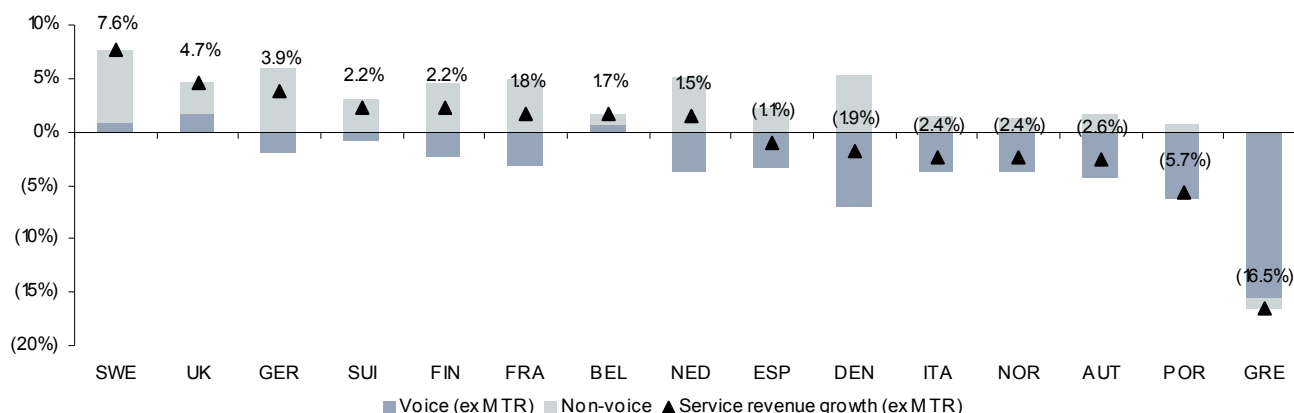
## Special situations:

- **OTE: Salary Freeze and benefits cuts** — With the publication of its FY10 results, OTE management stated: *"Labour costs are the most important element of the cost structure of OTE"* hence the cost cuttings initiatives are oriented towards the reduction of staff costs. With the final settlement between employees' unions and OTE management at the end of 2010, unions agreed to a wage freeze for 2011. In addition, OTE will introduce a 40h work week and impose a 15% reduction to management salaries. Non-essential overtime will be eliminated and rates for weekend and holiday work will be cut; car allowances and dedicated employee bus transportation will be eliminated; and bonus for bad debt recoveries and accounting staff will be reduced. According to DT's CEO (DT currently owns 40% of the company), in time OTE should aim to match DT's level of Labour Costs/Sales. In 2010, this ratio was close to 22% for DT, vs. more than 24% for OTE group and more than 39% for OTE's domestic fixed business.
- **Telecom Italia: Doing a good job at rightsizing** — After completing a programme of 9,000 redundancies program between 2008 and 2010, TI has committed to a further 5,200 headcount reduction plan up to FY12 within its domestic business. This means TI's domestic workforce would be around 52k in 2012. Assuming a 3% decrease in the cost/employee from reductions in working time and other limitations of benefits, TI's staff costs (c. €3.5bn at the end of 2010A) could be reduced by c. 10% over the next two years, reaching a Labour Cost/Sales ratio of c. 15% by 2012, in line with KPN's current level of efficiency.
- **Telefonica: tough times ahead** — At its investor day in April, T. España management revealed it was planning to revise pay and benefits for its domestic employees to be linked to productivity rather than CPI. According to the company's own calculations, each p.p. of CPI increase translates into a €15m costs increase p.a. (out of c. €2.4 of total personnel expenses in Spain). In addition to these measures, Telefonica is currently in the process of negotiating a close to 20% workforce reduction in its domestic business (35,379 employees at the end of 2010).
- We estimate the P&L benefits in terms of NPV could be as high as €1.3bn (based on €300,000 NPV of costs and €200,000 NPV of savings per leaver and assuming 6,400 leavers). Based on an average cost per employee we assume at c. €50k/annum, we expect the restructuring should benefit OIBDA by up to €320m per year. It should also have a more modest annual impact of cash flows as the company will still continue to make payments to leavers. In the previous major restructuring plan (2003), TEF paid 70% of the salary to pre-retired employees between 52 and 59 years of age and 45% between for those between 59 and 65. Hence the limited impact on cash flow generation, but OIBDA benefits, which the market may originally reward.
- Finally, we view TEF's timing on restructuring as not ideal given the tough social context in Spain. In our view, plans might be relatively difficult to implement given the voluntary basis for departures when current unemployment rates in Spain are expected to go above 21% in 2Q11 (one of the highest levels in Europe). Employee morale is likely to suffer on the back of this.

## Welcome to the future pricing model

We still see macro and competition within MNOs as the biggest driver for mobile trends. Southern European performance is weak, north is solid. Some markets are seeing increased pressure from new entrants and aggressive competitive behaviour (Spain, Norway, France). We believe in the next few quarters these factors will continue to account for the bulk of the difference in mobile revenues performance. But the market is right to be concerned by the technology threats that are likely to affect the industry, particularly in light of the big LTE investments that are due. We believe it is too early to call for winners or losers but the pricing models will need to change and how successfully the process runs is going to be driven by regulation and competition in each market.

Figure 31. Mobile service revenue growth (excl MTR impact), voice vs non-voice contribution



Source: Citi Investment Research and Analysis, Company data

### Is traditional mobile turning to legacy?

The market is concerned about the outlook of the mobile industry and its ability to transition and deliver good returns on LTE investments. So far, spectrum auctions prices have moved up recently but the cost of rolling out LTE is –if anything- likely to positively surprise. The problem has less to do with the levels of investment- as capex levels are expected to trend higher but not by much. The main concern lies with the implication for the business models of MNOs and how the transition will affect profitability and returns.

- KPN's profit warning was partly attributed to the cannibalization of voice and SMS by VoIP (e.g. Skype, Viber) and instant messaging- (especially WhatsApp). This was the first time a European MNO warned of the unwarranted side effects of mobile data uptake.
- The Dutch debate on net neutrality. Just when KPN was planning to react to the new threat by restricting VoIP and moving to a similar model to that of Vodafone, Dutch law and politics conspired to provide another set-back. The Dutch economic minister (Maxime Verhagen) plans changes to the country's telecommunications law that will prohibit MNOs from charging extra for the use of VoIP apps or instant messengers. That followed a debate as to whether deep packet inspection (which is used to detect uses of network traffic) could be illegal. We suspect that there will be varying views and reactions across Europe.

- Google and Microsoft gearing to launch VoIP?- Google has announced the open sourcing of its WebRTC framework for real time audio and video communications. That allows more apps to be developed and should soon provide more options and competition in the VoIP and Video over IP space. This follows Microsoft's decision to acquire Skype is another negative development, especially since MNOs were hoping for a successful re-launch of Nokia to reverse the recent concentration of power and share to Google's Android and Apple's iOS. As more platform develop their own VoIP solutions, it will get harder for MNOs to block or resist the challenge as it will not be possible to discriminate against all of the most popular 'ecosystems'. This comes in addition to the tens of VoIP apps that are already widely available. The Apple iMessage will create another Blackberry messenger type of threat and potentially impact mobile SMS further. By this fall, the migration process should start. Even though it is not cross platform messenger (like WhatsApp), it should be better integrated, automatically available and will increase the penetration of instant message users.

### Dutch disease- can it spread?

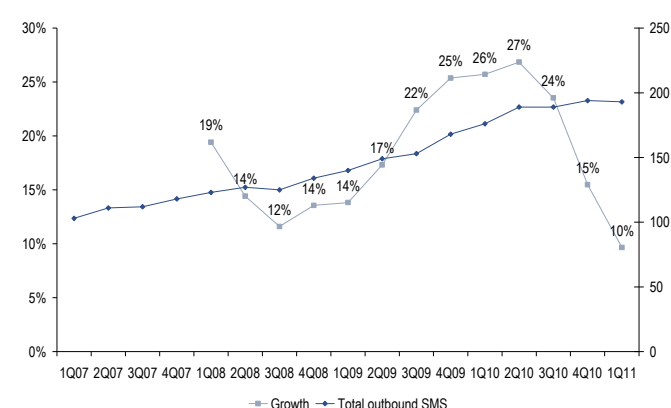
KPN's warning that instant messaging is cannibalising SMS surprised the market. It was the first clear company warning that data growth does not come without consequences. Competitors in the Netherlands are challenging this view (Vodafone NL had almost the same increase in messaging as in data revenues) and peers across Europe claim not to be affected. There are some specific characteristics of the Dutch market and the way offers are packaged by KPN, which we believe make it more vulnerable. KPN's contracts tend to have high bundle of data (1Go per month) even on the lower end packages.

Figure 32. KPN mobile offers for iPhone on two year contract

Bundle	minutes/sms	Data usage	Price /mnd
Personal Sim iPhone 150	150 min/sms	1000 MB	€ 35,-
Personal Sim iPhone 200	200 min/sms	1000 MB	€ 40,-
Personal Sim iPhone 275	275 min/sms	1000 MB	€ 45,-
Personal Sim iPhone 350	350 min/sms	1000 MB	€ 50,-
Personal Sim iPhone 450	450 min/sms	1000 MB	€ 60,-
Personal Sim iPhone 650	650 min/sms	1000 MB	€ 80,-
Personal Sim iPhone 1000	1000 min/sms	1000 MB	€ 102,50
Personal Sim iPhone 1500	1500 min/sms	1000 MB	€ 152,50

Source: KPN website, Citi Investment Research and Analysis

Figure 33. SMS outbound volume for KPN



Source: Company report, Citi Investment Research and Analysis

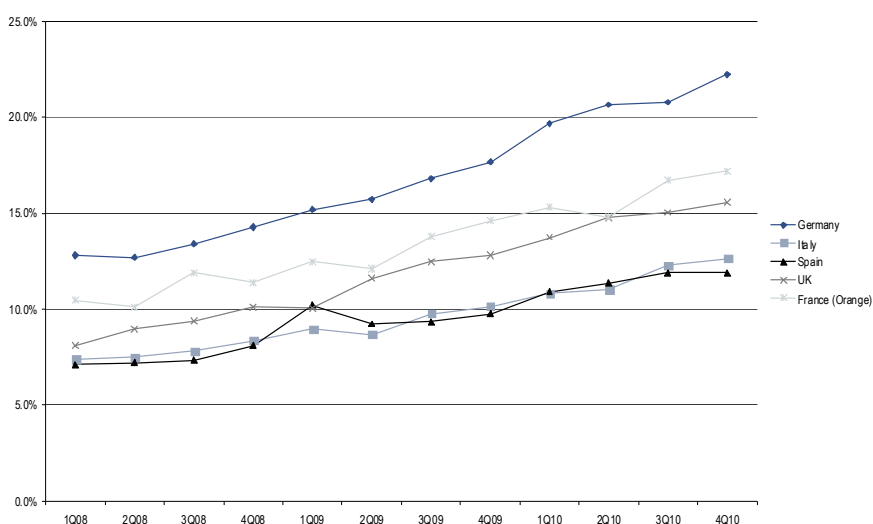
KPN did not see a significant deterioration in SMS traffic growth: a modest ongoing slowdown to 10% growth YoY is in line with the developing trend and should not be surprising. But the company argued that it saw optimization of usage, which meant when customers used instant messaging in order to stay within the bundle's SMS allocation. Looking at the structure of KPN's offers, there is a larger than average data limit of 1GB for smartphone contracts and then tiered offers of minutes and SMS as an add-on. In other countries there tends to be more flexibility on the data usage (O2 in the UK offers 100MB, 500MB and 1GB; Orange 250MB, 500MB, 750MB etc), but more minutes and SMS come as part of the bundle and the increments of additional minutes/SMS are wider. This makes it harder to optimize usage. Another key difference is the level of prices, which are comparatively higher than average in the Dutch market, something we address later.



## But the writing is on the wall

However, the risk of instant messaging and VoIP cannibalising traditional SMS and voice respectively is real and will be the hot topic for the industry in the medium term. Operators are aware of the risks and are already adjusting business and pricing models with the aim of increasing the fixed proportion of customer bills but there is a long way to go. Currently less than 20% of revenues come from new data, which means that more than 80% of revenues are booked as voice and SMS. Part of what is booked as traditional revenues come in as monthly base fees, which is not usage driven and its allocation is arbitrary. But even if one adjusts for this (where the data is available- like Swisscom), still more than half (c.55%) is SMS and voice usage driven and thus vulnerable to cannibalization.

Figure 34. Vodafone's non SMS data as % of service revenues by country (Orange for France)

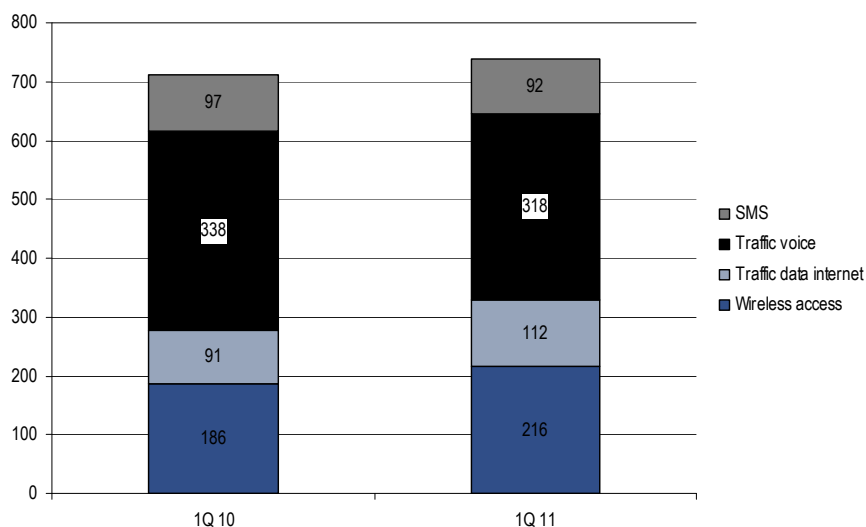


Source: Citi Investment Research and Analysis and company reports

## Solution- change the business model

- Carsten Schlöter, CEO of Swisscom believes that the pricing model for the industry will have to change dramatically. Swisscom managed to increase base fees by 16% YoY in 1Q 11 and now account for 29.3% of retail service revenues. Another 15.2% comes from internet data revenues (up 23% YoY). But still just over 55% of retail service revenues are still generated through out of bundle traffic voice and SMS. We suspect the mix is similar (if not worse) for the majority of European operators.

Figure 35. Swisscom mobile retail service revenues by type (CHFm)



Source: Citi Investment Research and Analysis and company reports

***'... we think that the pricing strategy for our industry is the key topic for the years to come as revenues per minute and revenues per SMS will come down. And on a single play basis, at some point of time, customer 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'.***  
Carsten Schlöter, 4<sup>th</sup> May 2011

- Vodafone Netherlands generates 61.4% of consumer contract billed revenues from the monthly fee, up c.3pp YoY. VoIP was only permissible for customers who generate ARPU in excess of €40. Messaging revenues (as mentioned earlier) are still growing. That is a good level but arguably one of the most advanced markets in Europe. In Italy, Vodafone is outperforming TIM by c.20pp on data growth though its focus on smartphone sales and more effectively bundling and uptake of data packages. That should offset some of the negative consequences in a low subsidy/ low pricing market. Clearly Vodafone is more successful and aware of the problem and the risks that some of its competitors: Vodafone has restricted the use of data and manages VoIP usage in a number of markets.

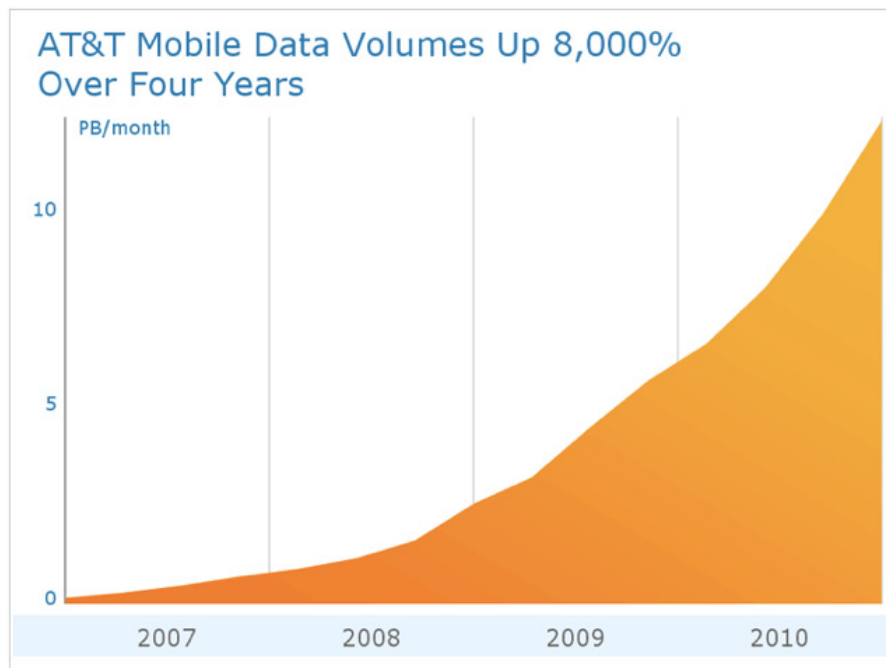
### Is it possible for MNOs to completely change pricing models?

We believe that as long as operators are given enough time and flexibility to adapt models, the rebalancing of the way consumers pay for mobile access and services can be managed.

- **Fixed can be a good guide-** Just over a decade ago, fixed revenues were generated from copper voice based services and traffic driven revenues. Currently, the bulk of retail revenues come from much higher access line rental and broadband access, the threat of VoIP and mobile has pushed traffic prices and volumes down. The realignment process was broadly a smooth transition- in our view. Operators managed to sustain, even build on ARPL potential. The bulk of revenue lost in certain cases was more a result of wholesale regulation that put pressure due to the monopolistic legacy in some countries and services.

- **Do not underestimate the value of data-** We believe MNOs have started to demonstrate that it is possible to shift more of the value of connections and bundles to data. In most markets tiered pricing is being introduced, with varying success more down to macro or competitive factors rather than lack of underlying demand. We believe the market will come to appreciate the value of data, which can offset any unwillingness to maintain spending on voice. We believe that as demand for data continues to grow (Cisco estimates 92% CAGR in global mobile data traffic between 2010-2015), so will the pricing power of operators.

Figure 36. AT&T has seen a significant growth in data demand (21<sup>st</sup> march 2011)



Source: Citi Investment Research and Analysis and company reports

- **VoLTE is a matter of time** — perhaps the biggest transition will be the introduction and progressive migration of voice to IP basis in mobile. It has so far been a slow process as a standard is yet to be agreed upon. But we expect development to accelerate as Verizon is keen to launch services soon and aims for a major launch of VoLTE services in 2012. VoLTE will greatly reduce costs and facilitate total convergence of fixed and mobile networks on an all IP platform. We also expect operators will want to gradually re-farm spectrum and switch off legacy technologies like GSM to make room for more capacity for the next 5-10 years. And it will offer a vastly superior experience to that of current VoIP platform, which could make the service a proper substitute.

### Biggest threat is regulation

We believe the process of moving to VoLTE should be smooth unless operators are not protected from VoIP in the meantime. Currently, the way net neutrality has been developing in Europe allows the operators to manage traffic or even block VoIP applications. The argument is that these services, unlike most other internet applications, require timely and consistent access, for which MNOs would like to charge a premium, either from the customer or from application provider.

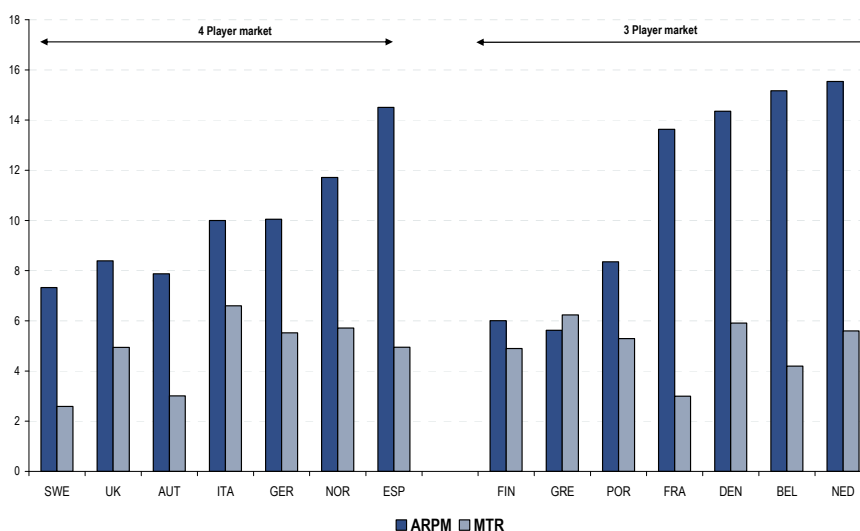
Regulation like the one proposed in the Netherlands, that make blocking VoIP illegal may be popular but could well harm the industry and reduce incentives to invest. Mobile returns have been coming down as evidence the ongoing price reductions, margin pressure, while investments in spectrum and capacity are on the rise. Failure to allow for the difference between real time and best efforts traffic may have serious consequences to the long term development of networks. In prepaid light markets like Japan and the US, the consumer can pay for net neutrality. In Europe, it may be the lower end prepaid segment that is penalized, being charged a minimum price just for the lower quality access in order for operators to defend returns and offset losses in the higher end.

### Evolution- winners and losers

How we see the model evolving- We believe the development will vary by markets. It is very difficult to predict winners and losers as regulation, competition both vs other mobile operators and the new entrants (VoIP solution and instant messengers).

- Most of the northern European postpaid centric markets- particularly the ones with heavy subsidies- are likely to find the evolution faster and closer to the US model. So far, we have seen limited evidence of this path affecting the US companies other operationally, financially or in terms of valuation (Us carrier command a premium to Europeans).
- However, some could still struggle due to high pricing- which will be hard to justify or sustain in an all you can eat VoIP environment. We therefore see risks in countries where pricing is high and usage driven (ie outside the monthly base fee). We believe some of the markets that have managed to sustain high prices look particularly exposed. Having said that, high prices can be the result of a more benign competitive environment, which means operators manage the process better. Any new LTE entrants or regulation that prohibits blocking VoIP maybe the bigger threats for these markets.

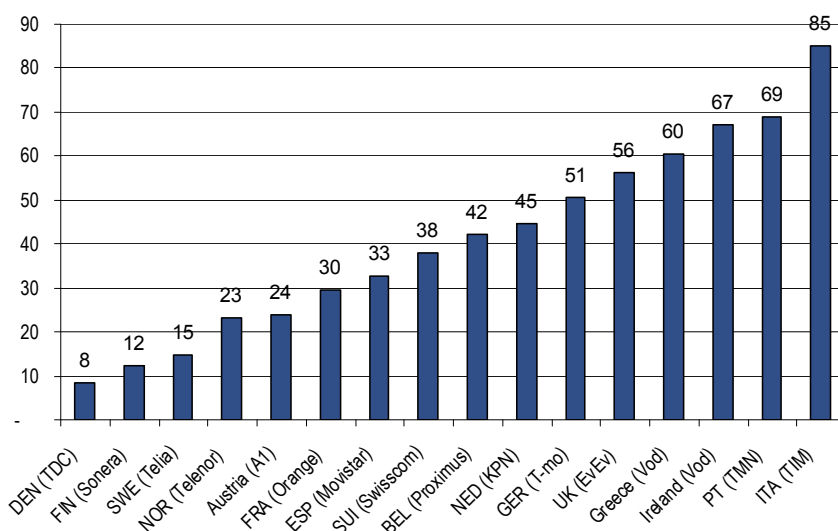
Figure 37. Outbound pricing and MTRs at the end of 4Q10, €/min



Source: Citi Investment Research and Analysis and company reports

- Prepaid markets are already evolving as across the most developed pre-paid markets (Portugal, Greece, Italy) all you can eat on-net calls and SMS are now common and make up most of the prepaid base. With extra bundled minutes being offered for non tribal offers. In some cases, we have also seen the introduction of data add ons with varying limits and duration: TMN offers access on a daily (€1.04 for 15MB) or weekly (€1.30 for 25MB) and then a choice of monthly bundles 100MB (€5.19), 200MB (€7.99), 300MB (€10.39) and 600MB (€15.58). The low (or no) subsidy with tiered data and unlimited onnet (or high limit bundles) model can create a hybrid structure that defends against cannibalization, while addressing successfully the different segments of the market. But operators may find it harder to address the lower end of the market and may also have more difficulties in managing the transition.

Figure 38. Prepaid as a percentage of total subscriber base for the mobile incumbent by country



Source: Citi Investment Research and Analysis and company reports

### Making up for cannibalisation

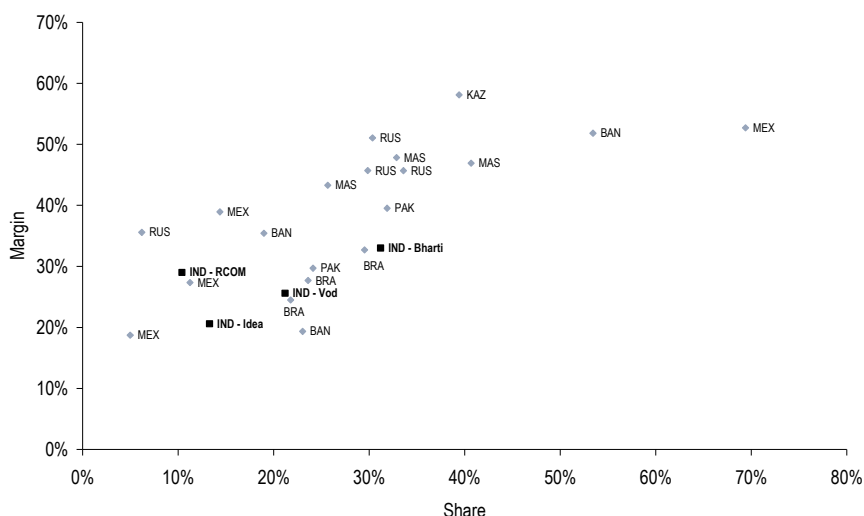
Ultimately, some segments of the market (the higher end in particular) will be cannibalised from all you can eat bundles that will be priced below that level. In the early days of the transition to unlimited offers, there were a lot of concerns in the US, which proved exaggerated. In the US, carriers managed to migrate up enough of the base to more than offset the cannibalization. In Europe, it may prove tougher, especially in prepaid. We believe it would eventually (in the post VoLTE era) lead to a monthly access fee being charged for the majority of subscribers to get a basic data bundle. But how much and how smoothly we get there will be down to the operators and their willingness to price data at levels that offset the treats that come with it. Not all markets will handle it the same way.

## India's New Telecoms Policy

We expect the Indian government to announce its New Telecoms Policy (NTP) later this year, most likely in the autumn. We expect the NTP to relax cooperation rules between operators, opening the way for increased network sharing and potentially M&A. In addition, it will end of the uncertainty on spectrum valuation for excess spectrum charges upon acquisition and for renewal of 2G licenses. The India market has had negative news on operations and regulation for the last few years; we argue the NTP could mark the start of market repair, from our coverage benefiting Vodafone and Telenor. See our recent Telenor note 'Option Value In The East' (6<sup>th</sup> June 2011) for a detailed discussion on the potential impact on Telenor.

As is shown in Figure 39, Indian operators have low margins relative to other emerging market telecoms operators. This is partly due to being a fragmented market and therefore even the market leaders only have low 30s market shares. In addition to lower market shares, the Indian market also has structurally lower margins due a period of intense price competition. In this regard, it is comparable to Brazil. This shows some of the upside from potential consolidation post the NTP.

Figure 39. Market share vs EBITDA margin



Source: Citi Investment Research and Analysis

### 2G investigation

An investigation into the 2008 2G license allocations is still ongoing. The worst-case scenario would be a fine for the operators involved, including Telenor. However we argue the most likely outcome is continued criminal prosecutions, without fines being issued to companies. This avoids retrospective action against companies, which could damage business confidence, while still holding anyone who has committed an offence to account.

## New Telecom Policy (NTP)

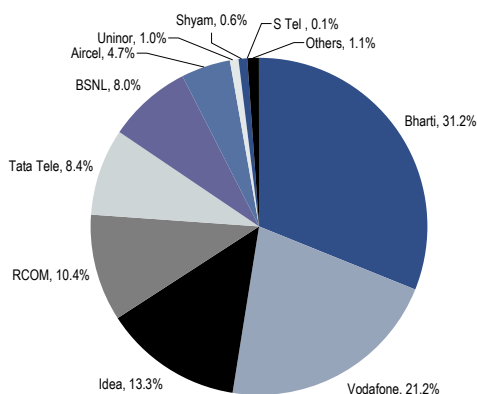
In addition to the 2G court case, the government plans to issue a New Telecom Policy (NTP), which will aim to resolve current issues of spectrum trading, consolidation and regulation. As indicated by our Indian telecom analyst Gaurav Malhotra, we expect the main points of the NPT to be:

- **Excess spectrum charges** — The TRAI has published its calculations for the value of 2G 1800Mhz spectrum. Holdings up to 6.2Mhz, INR17.7bn per Mhz pan-India. For spectrum in excess of 6.2Mhz INR45.7bn on a pan-India basis. (3G price was INR33.5bn). No comment was made on the value of 900Mhz spectrum. These are currently just recommendations to the DoT. We argue the final figures adopted by the DoT will be lower than these recommendations.
- **Renewal fee charges** — The same spectrum valuations will most likely be used for the upcoming licence renewals. Some comments are that 900Mhz spectrum could be a 50% premium to spectrum in the 1800Mhz band. However, this only impacts the incumbent operators with older 2G licences. Vodafone has 9 circles with 2G licenses coming up for renewal in the next 5 years.
- **Relaxed M&A/cooperation rules** — The current telecom minister Kapil Sibal on 30 May 2011 said that the NTP would aim to allow consolidation down to six players per circle. Therefore we expect regulation to relax cooperation rules, helping the struggling new entrants.
  - **Excess spectrum charges** — A key barrier to M&A currently has been the potential that the acquirer in a transaction would need to pay the full value of the spectrum acquired. A key question is if this payment will be required and at what valuation. If this spectrum was valued the same as excess spectrum, then the valuation could be prohibitive for M&A. Therefore, given comments by the telecoms minister that M&A rules will be relaxed, we would expect a lower valuation for spectrum acquired in a transaction.
  - **Number of operators per circle** — In line with comments by the current telecom minister, we expect a minimum of six operators per circle.
  - **30% market share cap** — The TRAI has recommended a 30% market share cap per circle, however the eventual outcome could be a higher cap than this.
  - **10% stake cap to remain** — Under current, rules an operator cannot hold a 10% or greater stake in another operator; we expect this to remain.
  - **Active network sharing** — Measures to encourage active network sharing would help new entrants reduce network opex by combining network assets and spectrum into a JV. One possible measure would be to allow spectrum sharing.
- **Uniform licence fee** — As highlighted in previous proposals, we expect the licence fee to be reduced to a lower uniform rate of 6% of revenue.
- **Timing** — The current telecom minister Kapil Sibal said he aimed to have the new rules in place by the end of the 2011. Some reports said that it could be as early as this summer, however the ongoing 2G court case may cause further delays.

## Cooperation/M&A Scenarios

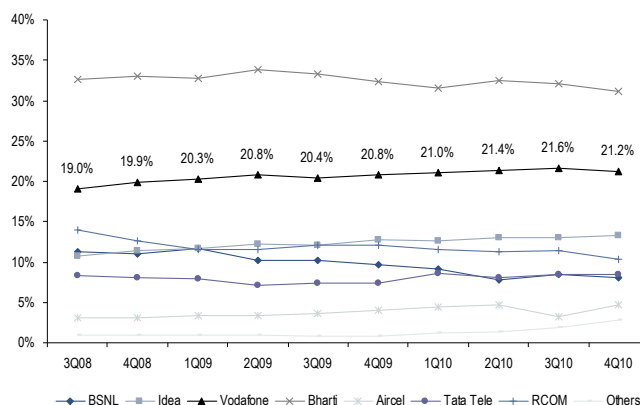
We expect cooperation rules to be relaxed in the New Telecoms Policy; we run through possible scenarios based on market share and spectrum holdings by circle. Given the large range of potential outcomes and uncertainty over the NTP, we highlight a number of possible scenarios.

Figure 40. 4Q10 revenue market share



Source: Citi Investment Research and Analysis and company reports

Figure 41. Revenue market share trends



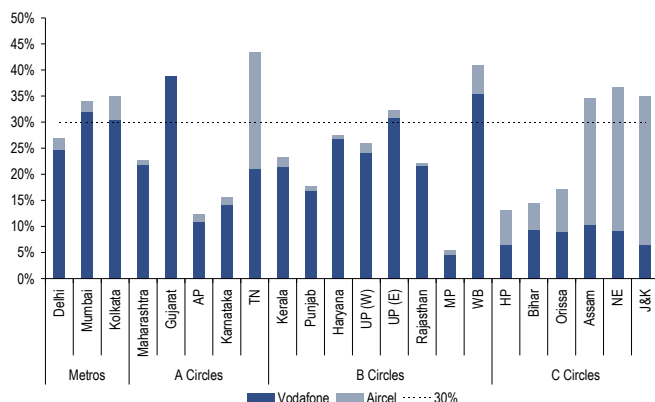
Source: Citi Investment Research and Analysis and company reports

- **Post 2008 new entrants** — The post-2008 new entrants are struggling operationally due to the reduction in market pricing in the last few years. Uninor (Telenor) has the highest market share and most extensive network of the post 2008 new entrants. Options for these operators range from network sharing to merging with another operator to a complete exit.
- **Mid-sized players** — We argue that M&A will be focused on the mid-sized players RCOM, Idea, Tata-Docomo and Aircel. Most combinations between these players look sensible in terms of market share and spectrum per circle. However, the ownership of RCOM, Idea and Tata-Docomo by significant Indian parent companies means that we would not see an exit by any of these operators as likely. Aircel may be more open to a possible exit or a reduced stake in a larger company, given its majority shareholder is a foreign company, in contrast to the other mid-sized players.
- **Vodafone and Bharti** — We believe Bharti and Vodafone would only be likely to acquire a small operator for the spectrum. Vodafone and Bharti together make up 52% of the market and would therefore breach the potential 30% market share cap in too many circles if either acquired a large competitor. For example, Bharti has 12 circles already with above 30% market share, making any combination difficult, and Vodafone 5. Vodafone has a similarly high market share. The value to Bharti and Vodafone of an acquisition is mainly from the spectrum, therefore they may look at the new entrants, however this would be balanced against eventual 2G spectrum refarming.



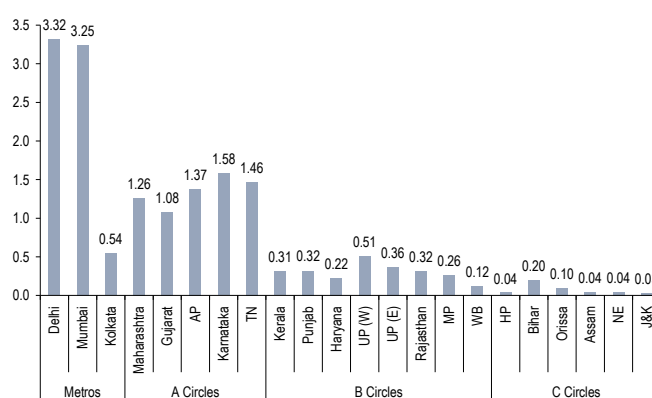
We present below a range of potential combinations and what the combined market shares would be per circle. We show the 3G auction price per circle as an indication of the value of each circle.

Figure 42. Vodafone and Aircel market share combined by circle



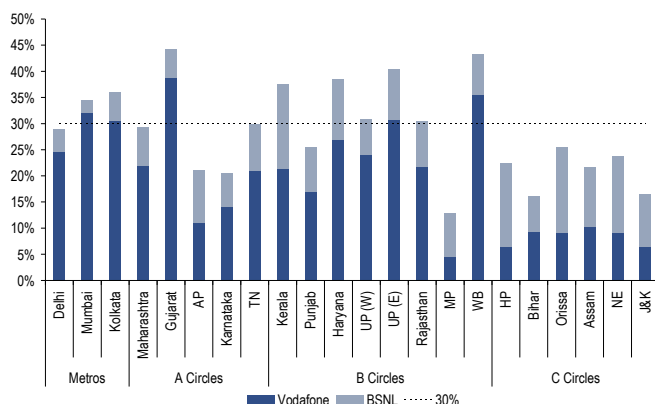
Source: TRAI data (Indian regulator)

Figure 43. 3G auction price per circle (billion rupees)



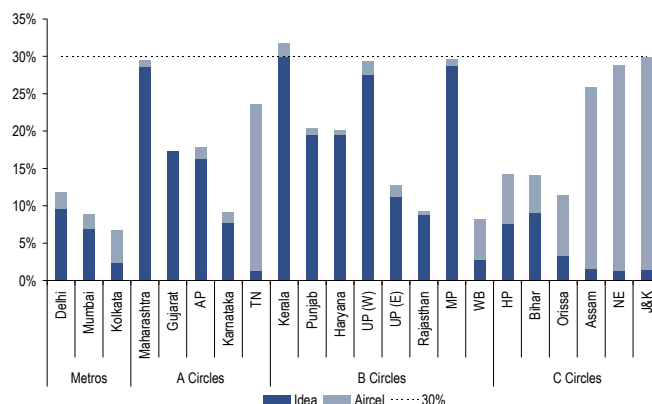
Source: Citi Investment Research and Analysis

Figure 44. Vodafone and BSNL market share combined by circle



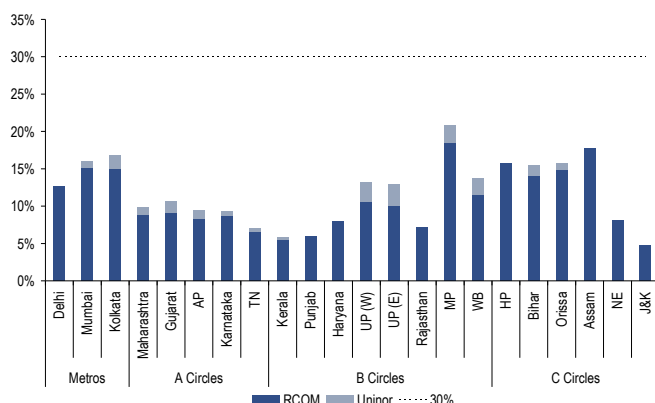
Source: Citi Investment Research and Analysis

Figure 45. Idea and Aircel market share combined by circle



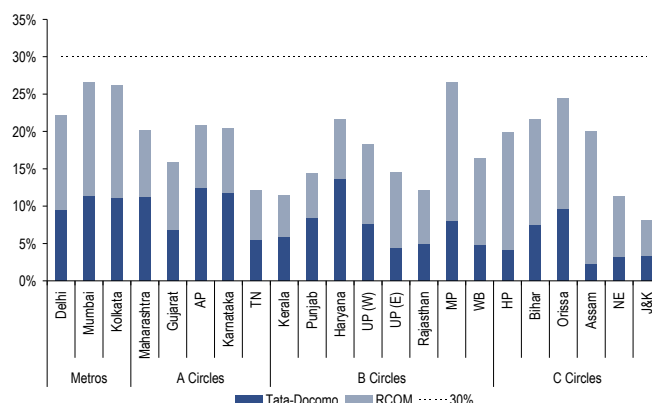
Source: Citi Investment Research and Analysis

Figure 46. RCOM and Uninor combined market share



Source: Citi Investment Research and Analysis

Figure 47. Tata-Docomo and RCOM combined market share



Source: Citi Investment Research and Analysis

## Reference: Indian operator summary

Figure 48. Indian operator summary

	Rev. share	Tech	Ownership	Spectrum and licence	Potential M&A
Bharti	31.2%	GSM	45.5% founders, 15.6% (direct) Singtel, 7% Indian Continent Investment Ltd. Remaining listed	2G in all circles, 3G in 13 circles	Could only acquire small players for spectrum
Vodafone	21.2%	GSM	Vodafone Group	2G in all circles, 3G in 9 circles	Could only acquire small players for spectrum
Idea	13.3%	GSM	47% owned by Aditya Birla, a large India conglomerate, Axiata group, a Malaysian telecoms company, owns 19%.	2G in all circles, 3G in 11 circles	In need of spectrum, potential coop or acquirer
RCOM	10.4%	CDMA & GSM	68% owned by the Ambani family	5Mhz CDMA spectrum in all circles. Was allotted 4.4Mhz 2G spectrum in 2008 allotments. 3G in 13 circles	Potential need for cash injection, open to partial stake sale, as looking to sell tower business
Tata Tele	8.4%	CDMA & GSM	74% Tata Group, 26% Docomo	5Mhz CDMA spectrum in all circles. Was allotted 4.4Mhz 2G spectrum in 2008 allotments. 3G in 10 circles	In need of spectrum, could acquire a smaller player
BSNL	8.0%	GSM	State-owned	2G in all circles	State-owned
Aircel	4.7%	GSM	JV between Maxis communications (74%), a Malaysian telecoms company, and the Reddy family (26%) (Apollo Hospitals)	2G licences in all circles, though built over time, some incumbent licences, some new entrant ones from 2008	Most open of mid-sized players to potential combination (given foreign majority shareholder)
Uninor	1.0%	GSM	67% owned by Telenor, 33% by Unitech, an Indian property group	2G licence in 22 circles from 2008 allotments	Potential exit or cooperation
Shyam	0.6%	CDMA	JV between Sistema, a Russia conglomerate, and Shyam group, an Indian conglomerate. 55% Sistema, Shyam 25%, 20% Russian government	2.5Mhz CDMA spectrum in 18 circles	Unlikely participant
S Tel	0.1%	GSM	49% Batelco, a Bahrainian telecoms company, and 51% Siva Group, an Indian conglomerate	2G licence for 5 C circles from 2008 allotments	Potential seller, due to current small scale
<b>Others</b>	<b>1.1%</b>				
Videocon		GSM	Indian conglomerate		Potential seller, due to current small scale
Loop telecom		GSM	Majority stake Dubai-based Khaitan family		Potential seller, due to current small scale
Etisalat		GSM	55% Dynamix Balwas Group, Mumbai-based property group, and 45% Etisalat, Emirates telecoms company. (Formerly called Swan Telecom)		Potential seller, due to current small scale

Source: TRAI, Citi Investment Research and Analysis

Figure 49. 2G 900Mhz and 1800Mhz GSM spectrum (\*CDMA spectrum)

		Bharti	Vodafone	BSNL	Idea	Aircel	RCOM	Videocon	Uninor	Tata-Docomo	Shyam*	Etisalat	Loop	HFCL	S Tel
Metros	Delhi	10	10	12.4	8	4.4	4.4	4.4				4.4			
	Mumbai	9.2	10	12.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4			
	Kolkata	8	9.8	10	4.4	4.4	6.2	4.4	4.4	4.4	2.5		4.4		
A Circles	Maharashtra	6.2	6.2	10	9.8	4.4	4.4	4.4	4.4	4.4		4.4	4.4		
	Gujarat	6.2	9.8	7.4	6.2	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	Andhra Pradesh	9.2	6.2	10	8	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	Karnataka	9.8	8	10	4.4	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	Tamil Nadu	9.2	7.2	10	4.4	9.8	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
B Circles	Kerala	6.2	6.2	10	8	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	Punjab	7.8	6.2	6.2	4.4	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4	4.4	
	Haryana	6.2	6.2	10	6.2	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	UP (E)	6.2	8	10	6.2	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	UP (W)	6.2	6.1	10	8	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	Rajasthan	6.2	6.2	8	6.2	4.4	4.4	4.4	4.4	4.4	2.5	4.4	4.4		
	MP	6.2	4.4	10	8	4.4	6.2	4.4	4.4	4.4	2.5		4.4		
	WB	6.2	6.2	8	4.4	4.4	6.2	4.4	4.4	4.4	2.5		4.4		
	Himachal Pradesh	6.2	4.4	10	4.4	4.4	6.2	4.4	4.4	4.4	2.5		4.4		4.4
C Circles	Bihar	8	4.4	10	4.4	4.4	8	4.4	4.4	4.4	2.5		4.4		4.4
	Orissa	8	4.4	10	4.4	4.4	6.2	4.4	4.4	4.4	2.5		4.4		4.4
	Assam	6.2	4.4	10	4.4	6.2	6.2	4.4	4.4				4.4		4.4
	North East	4.4	4.4	10	4.4	4.4	6.4	4.4	4.4		2.5		4.4		4.4
	J&K	6.2	4.4	6.2	4.4	4.4	4.4	4.4	4.4				4.4		4.4

Source: TRAI, Citi Investment Research and Analysis

Figure 50. 3G 2100Mhz spectrum

		Bharti	Vodafone	BSNL	Idea	Aircel	RCOM	Videocon	Uninor	Tata-Docomo	Shyam*	Etisalat	Loop	HFCL	S Tel
Metros	Delhi	5	5				5								
	Mumbai	5	5				5								
	Kolkata		5				5			5					
A Circles	Maharashtra		5		5					5					
	Gujarat		5		5					5					
	Andhra Pradesh	5			5	5									
	Karnataka	5				5				5					
	Tamil Nadu	5	5			5									
B Circles	Kerala				5	5				5					
	Punjab				5	5	5			5					
	Haryana		5		5					5					
	UP (E)		5		5	5									
	UP (W)	5			5					5					
	Rajasthan	5					5			5					
	MP				5		5			5					
	WB	5	5			5	5								
	Himachal Pradesh	5			5		5								5
C Circles	Bihar	5				5	5								5
	Orissa					5	5								5
	Assam	5				5	5								
	North East	5				5	5								
	J&K	5			5	5	5								

Source: TRAI, Citi Investment Research and Analysis

Figure 51. Revenue market share 4Q10

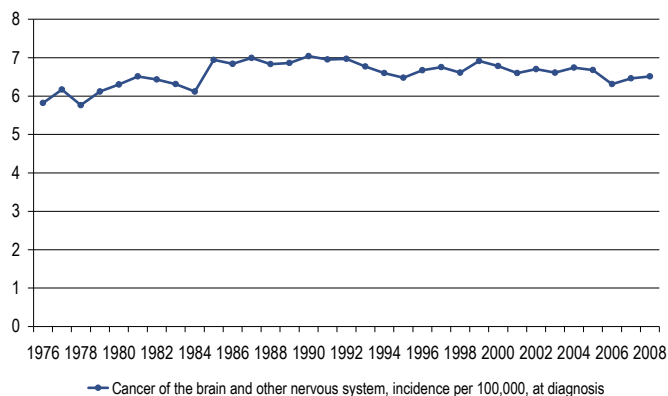
		Bharti	Vodafone	BSNL	Idea	Aircel	RCOM	Videocon	Uninor	Tata-Docomo	Shyam*	Etisalat	Loop	HFCL	S Tel
Metros	Delhi	36.6%	24.7%	4.3%	9.6%	2.2%	12.7%	0.0%	0.0%	9.4%	0.5%	0.0%	N/A	NA	NA
	Mumbai	19.4%	32.1%	2.4%	6.9%	1.9%	15.2%	1.0%	0.9%	11.3%	0.4%	0.0%	8.5%	NA	NA
	Kolkata	27.3%	30.5%	5.5%	2.4%	4.4%	15.0%	0.0%	1.8%	11.1%	1.9%	NA	N/A	0.1%	NA
A Circles	Maharashtra	20.0%	21.9%	7.4%	28.6%	0.8%	8.9%	0.0%	1.0%	11.2%	0.3%	0.0%	N/A	NA	NA
	Gujarat	18.9%	38.9%	5.4%	17.3%	NA	9.0%	2.0%	1.6%	6.9%	0.0%	0.0%	N/A	NA	NA
	Andhra Pradesh	39.1%	11.0%	10.1%	16.3%	1.5%	8.3%	0.0%	1.1%	12.4%	0.2%	0.0%	N/A	NA	NA
	Karnataka	47.8%	14.2%	6.3%	7.8%	1.4%	8.7%	0.0%	0.6%	11.8%	1.5%	0.0%	N/A	NA	NA
	Tamil Nadu	32.4%	21.0%	8.9%	1.3%	22.3%	6.6%	0.6%	0.4%	5.5%	0.9%	0.0%	N/A	NA	NA
B Circles	Kerala	17.9%	21.4%	16.1%	29.9%	1.8%	5.5%	0.4%	0.3%	5.9%	0.8%	0.0%	N/A	NA	NA
	Punjab	36.1%	16.9%	8.5%	19.6%	0.8%	6.0%	NA	0.0%	8.4%	0.0%	0.0%	N/A	3.7%	NA
	Haryana	17.8%	26.9%	11.6%	19.5%	0.6%	8.0%	1.7%	0.0%	13.6%	0.2%	0.0%	N/A	0.0%	NA
	UP (E)	19.0%	24.2%	6.7%	27.5%	1.8%	10.7%	0.0%	2.6%	7.6%	0.0%	0.0%	N/A	NA	NA
	UP (W)	29.5%	30.7%	9.7%	11.2%	1.5%	10.0%	0.0%	2.9%	4.4%	0.0%	0.0%	N/A	NA	NA
	Rajasthan	45.4%	21.7%	8.7%	8.9%	0.4%	7.1%	0.0%	0.0%	5.0%	2.8%	0.0%	N/A	0.0%	NA
	MP	27.9%	4.6%	8.3%	28.8%	0.9%	18.5%	0.7%	2.4%	8.0%	0.0%	0.0%	N/A	0.0%	NA
	WB	27.1%	35.5%	7.7%	2.8%	5.4%	11.5%	0.0%	2.3%	4.8%	2.9%	NA	N/A	NA	NA
	Himachal Pradesh	40.5%	6.5%	15.9%	7.6%	6.7%	15.7%	0.1%	0.0%	4.1%	0.0%	NA	N/A	NA	2.8%
C Circles	Bihar	45.3%	9.3%	6.7%	9.0%	5.0%	14.1%	0.0%	1.4%	7.5%	0.6%	0.0%	N/A	NA	0.9%
	Orissa	36.8%	9.0%	16.3%	3.2%	8.1%	14.8%	0.0%	0.9%	9.6%	0.0%	NA	N/A	0.0%	1.2%
	Assam	32.3%	10.4%	11.3%	1.6%	24.3%	17.8%	0.0%	0.0%	2.2%	0.0%	NA	N/A	0.0%	0.1%
	North East	35.9%	9.2%	14.6%	1.4%	27.5%	8.1%	0.0%	0.0%	3.3%	0.0%	NA	N/A	0.0%	0.0%
	J&K	45.5%	6.5%	10.1%	1.4%	28.5%	4.7%	0.0%	0.0%	3.4%	0.0%	NA	N/A	0.0%	0.0%

Source: TRAI (Indian regulator)

## Mobile phones and health

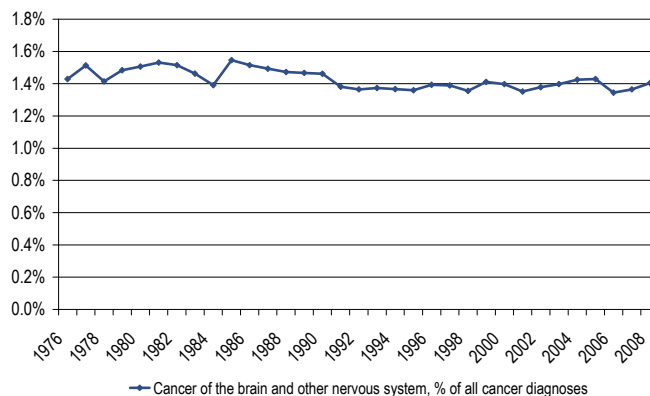
Public focus on possible health risks from mobile phone use has increased again recently with the World Health Organisation adding it to its list of “possible carcinogens” where it joins coffee and, seemingly more favoured by newspaper headline writers, DDT (among others). The Council of Europe’s committee on the Environment, Agriculture and Local and Regional Affairs has also called for mobiles and WiFi to be banned from schools, among other precautionary recommendations. Behind these shifts in public position are research projects including the drawn-out multinational Interphone study, work by Lennart Hardell in Sweden, and a meta study (study of studies) covering these and others by Khurana et al, which claimed raised incidence of brain tumours for long-term (10 years or more), heavy users of mobile phones. However, this conclusion is contested by other scientists and incidence rates do not appear to be rising so far. Given mobile phones are so widespread and have had over a hundred million users for over ten years, and brain tumour incidence is so low, implying that even a small influence should be detectable, a causal link between cell phone use and brain cancer should show up in the aggregate medical statistics at some point. So far, it has not.

**Figure 52. US malignant brain and CNS tumour incidence, age adjusted**  
Incidence per 100,000, age adjusted



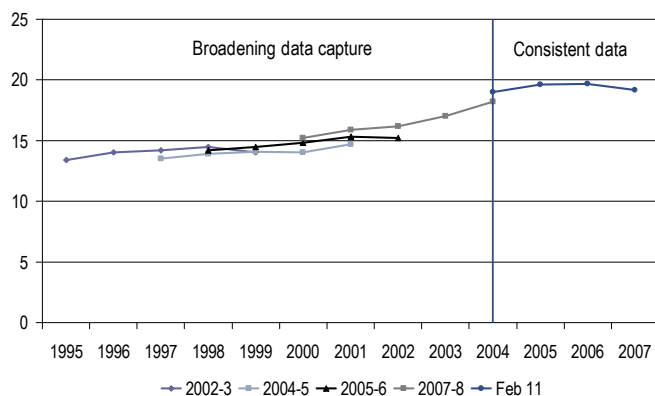
Source: SEER

**Figure 53. US malignant brain and CNS tumour incidence**  
% of all malignant cancers



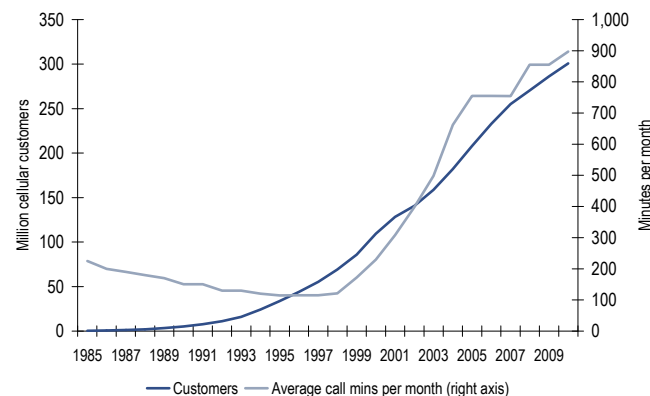
Source: SEER

**Figure 54. US malignant and non-malignant primary brain and CNS tumour incidence, age adjusted**  
Incidence per 100,000, age adjusted



Source: CBTRUS

**Figure 55. US cellular customers and monthly average usage**  
Million customers, average call minutes per month



Source: Citi Investment Research and Analysis

### **SEER data shows declining malignant brain tumour incidence in US**

The US SEER data shows malignant brain and central nervous system tumour incidence rose in the 1980's due to better diagnosis techniques but have fallen gradually since 1992 (Figure 52). Incidence as a proportion of total cancers has been stable at around 1.4%.

### **CBTRUS developing methodology, impacting results for non-malignant tumours**

The CBTRUS data (Figure 54) shows an increase in cases but according to the supplier of the data, the data was not captured consistently prior to the 2004-07 results published in Feb 2011. In their paper, V.G. Khurana et al (Surgical Neurology 72 (2009) 205–215) used the CBTRUS data which was available to them up to the date of their publication (i.e. the data up to 2004) and noted “changes in incidence within and between years have been attributed by CBTRUS mainly to better surveillance and delayed reporting”.

When we contacted CBTRUS they told us that prior to enactment of the Benign Brain Tumor Cancer Registries Amendment Act, which went into effect in 2004, several collaborating states voluntarily collected non-malignant brain tumor data and some relied on passive reporting by hospitals only. Only the latest data set (Feb 11) can be seen as a consistent sample, and that shows incidence rates in a roughly stable pattern, albeit based on only four years of results so far. Changes in data recovery methods and improved diagnosis are likely to have had an impact on the results.

### **No sign of material rise in incidence in the data so far**

The argument that mobile phones contribute to brain cancer is hard to conclusively sustain when they are in such widespread use and yet there is no discernable increase in incidence, especially when this is from a thankfully very low base (in the US, 19 per annum per hundred thousand people). However, given the latest statistics that we have are for 2008, it is possible that we have not seen enough heavy users for a sufficiently sustained period to see the effects of what could be very slow-developing illness and few would argue against a cautious approach.

Quoted in the Daily Telegraph (30 May 2011), Ed Yong, head of health information at Cancer Research UK, said: “The risk of brain cancer is similar in people who use mobile phones compared to those who don't, and rates of this cancer have not gone up in recent years despite a dramatic rise in phone use”.

**This page is intentionally left blank**

---

## Company section

---

## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Dimitri Y Kallianiotis, CFA

+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Sell/Low Risk</b>	<b>3L</b>
Price (14 Jun 11)	€24.17
Target price	€23.00
Expected share price return	-4.8%
Expected dividend yield	7.0%
<b>Expected total return</b>	<b>2.1%</b>
Market Cap	€8,170M
	US\$11,778M

### Price Performance

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



## Belgacom SA (BCOM.BR)

### More downside even post profit warning

- **Remains a Sell** — Despite the recent underperformance in the shares post the profit warning at the time of the 1Q11 results, we feel there is still limited scope for the shares to perform better than the sector into the year end. Handset subsidies in mobile and cable competition in fixed are likely to put BCOM's earnings profile at risk over the medium term.
- **Lack of iPhone and subsidies to penalise growth** — While the market remained rational in 2010, we think Belgacom will need to start pushing subsidised handsets in order to protect its market share vs. Telenet and Mobistar. Both operators distribute the iPhone, which is likely to penalise BCOM's top line. We estimate c. 14% of BCOM's earnings to be at risk from mobiles subsidies, above what we think the company has incorporated into its revised profitability guidance for FY11.
- **Tough time in the South** — We expect retail line losses to continue in fixed, especially as BCOM faces cable competition in the South of the country. Voo, the dominant cable operator in the south, has been slower than Telenet at upgrading its network to DOCSIS 3.0 and targeting BCOM's broadband and telephony subscribers. This is changing with Voo's high-speed broadband offers of up to 50Mbps. This could push BCOM to be more aggressive with its network upgrade and potentially considering FTTH to match cable speed.
- **CEO buying shares a signal?** — We would argue against it. The €3.6m share purchase was done under a discounted share purchase plan. At an entry point of €20.9, it makes sense to be a long-term holder of the shares even if the turnaround story doesn't come through over the next year or so.
- **Buyback program started** — In June, the company started to implement the share buyback program announced at its 4Q10 results. The maximum amount is of €200m to be carried out during 2011-2012. We view the initial €50m as unlikely to have a material impact on the stock near term.
- **Investor day unlikely to be a positive catalyst** — Belgacom will host an investor day on June 29 in Brussels. Given the macro and structural issues the Belgian market faces in both fixed and mobile, we view this event as unlikely to reassure investors on BCOM's turnaround potential this year. The stock remains relatively expensive vs. the sector on 11x 2012E P/E and the poor earnings momentum is unlikely to trigger a rerating into the year end.

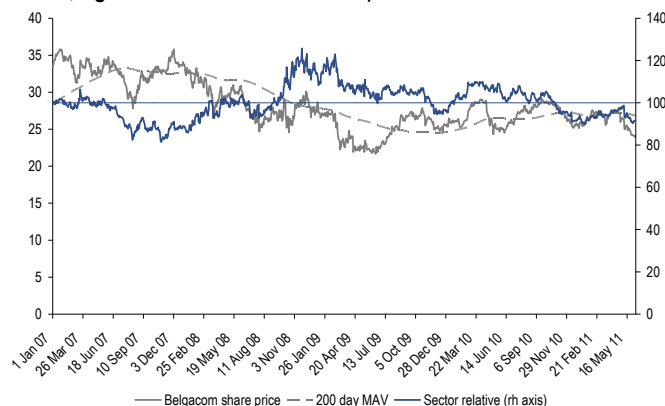
### Belgacom SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	5,990.0	6,604.0	6,451.8	6,429.6	6,447.8
Net Income (€M)	892.0	822.0	736.2	699.0	709.9
Diluted EPS (€)	2.78	2.56	2.30	2.21	2.26
Diluted EPS (Old) (€)	2.78	2.56	2.30	2.21	2.26
PE (x)	8.7	9.4	10.5	10.9	10.7
EV/EBITDA (x)	5.2	5.1	5.4	5.6	5.6
DPS (€)	2.08	2.18	2.18	2.20	2.20
Net Div Yield (%)	8.6	9.0	9.0	9.1	9.1



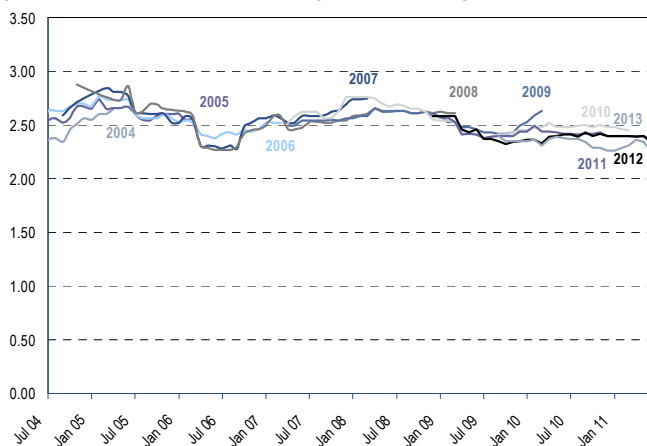
## Performance and Outlook

**Figure 56. Belgacom has lately underperformed the sector (left axis €/share; right axis index: end-2006=100)**



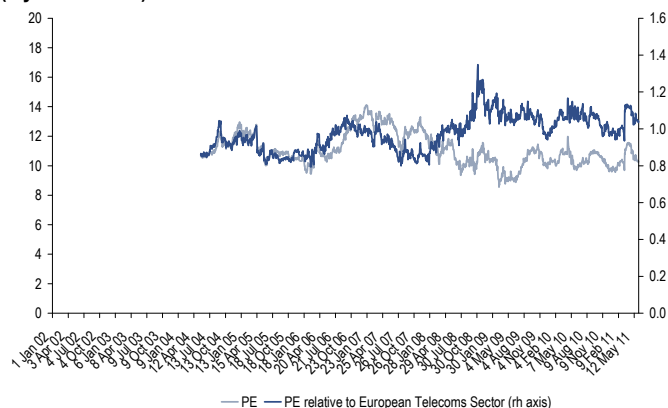
Source: DataStream

**Figure 58. Consensus EPS has lately been declining (€)**



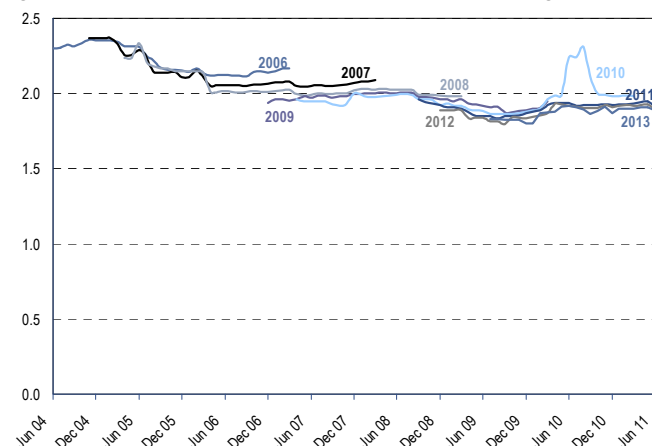
Source: DataStream

**Figure 57. Belgacom trades slightly above the sector average on PE (1 year forward)**



Source: DataStream

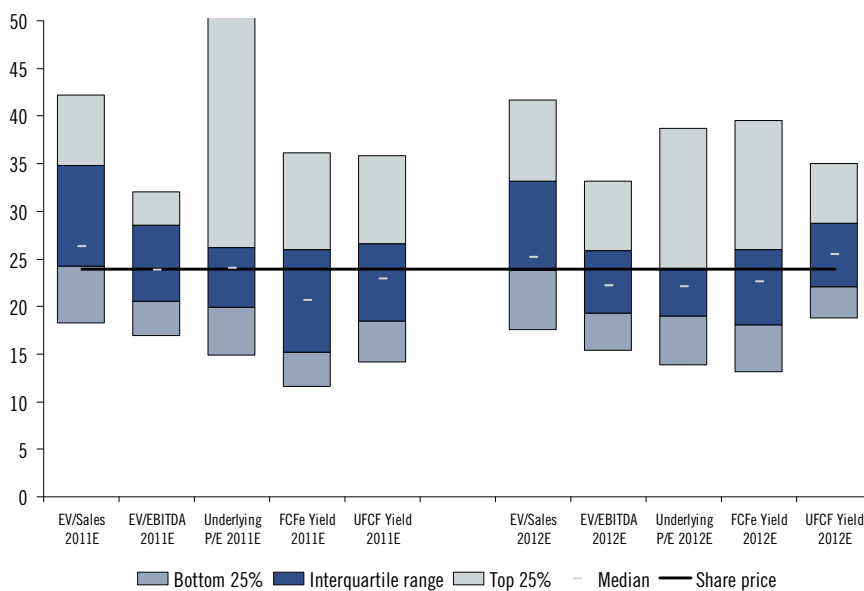
**Figure 59. EBITDA consensus has stabilised after declining (€bn)**



Source: DataStream

**Figure 60. Compared to its incumbent and wireless peers in Europe Belgacom trades around the median on our 2011 and 2012 estimates**

€/share



Source: Powered by dataCentral

dataCentral is CIRA's proprietary database, which includes Citi estimates, data from company reports, and feeds from Reuters, Datastream, Firstcall, IBES and Toyo Keizai.

## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Dimitri Y Kallianiotis, CFA

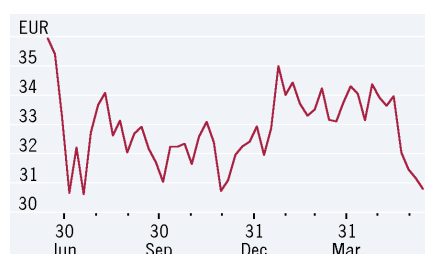
+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Buy/High Risk</b>	<b>1H</b>
Price (14 Jun 11)	€30.89
Target price	€43.00
Expected share price return	39.2%
Expected dividend yield	5.2%
<b>Expected total return</b>	<b>44.4%</b>
Market Cap	€11,313M US\$16,309M

#### Price Performance

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



## Bouygues SA (BOUY.PA) Great entry point

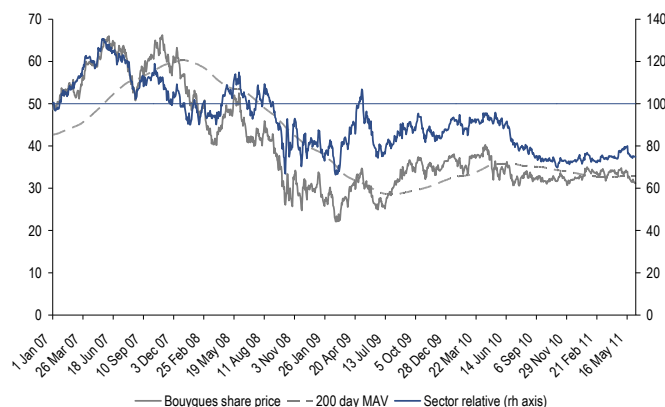
- **Attractive valuation for a growing business** — The stock trades just above 3x 12E EV/EBITDA and below 9x 12E P/E, which is a significant discount to the sector and historical multiples. We see the current level as a good entry point and we are confident that Bouygues can deliver on its increased FY11 sales guidance of €31.9bn despite the uncertainty in the macro outlook.
- **Telco fears overdone** — Telecoms revenues beat by c. 1% in 1Q11, with service revenues up 2% yoy in Q1 (vs. -1.5% for FT and -3.6% for SFR). Net additions were strong in both mobile and fixed. EBITDA margin at 23% was light vs. our expectations of c. 25%, however management mentioned that margins should improve in Q2 as churn is coming down. We argue Bouygues is well-prepared for Free's entry in mobile and management can deliver on low expectations. 4G auction with results in Dec is a risk as Bouygues could lose out on 800MHz spectrum or price could be higher than expected (we forecast €300m).
- **More savings at TF1** — At the recent TF1 investor day, management implied that there was further cost savings potential over the next 2-3 years. Although efficiency measures were not quantified, we view this as a positive development for the group, given TF1 represents c. 8% of BOUY's EV and close to 10% of consolidated EBITDA.
- **Some important contract announcements** — Bouygues Construction won two big contracts during the quarter: 1) the design, construct and maintenance of the French Ministry of Defence for c. €500m (works to start in 1Q12) plus a €534m for ETDE and 2) the cryogenic tanks for the Dunkerque LNG terminal (amount not disclosed). Order book in construction remains very healthy.
- **Good momentum in Broadband** — Bouygues passed the 1m fixed broadband subscribers threshold at the beginning of June. This is in line with our expectations for the quarter and we argue the company should continue to take its fair share of the market into the year end (from c. 4% broadband market share at the end of 1Q11).

#### Bouygues SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	31,353.0	31,225.0	32,339.4	32,824.5	33,566.7
Net Income (€M)	1,319.0	1,071.0	1,184.7	1,348.2	1,485.6
Diluted EPS (€)	3.80	3.03	3.24	3.69	4.06
Diluted EPS (Old) (€)	3.80	3.03	3.24	3.69	4.06
PE (x)	8.1	10.2	9.5	8.4	7.6
EV/EBITDA (x)	2.9	2.9	2.6	2.5	2.1
DPS (€)	1.60	1.60	1.60	1.66	1.83
Net Div Yield (%)	5.2	5.2	5.2	5.4	5.9

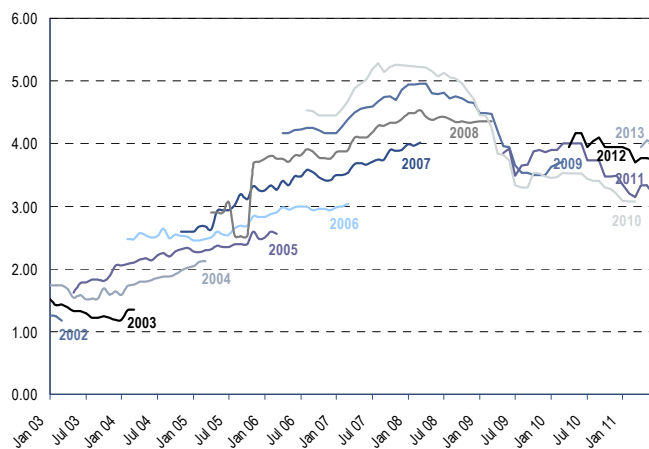
## Bouygues performance and outlook

**Figure 61.** Bouygues has performed in-line with the sector recently (left axis €/share; right axis index: end-2006=100)



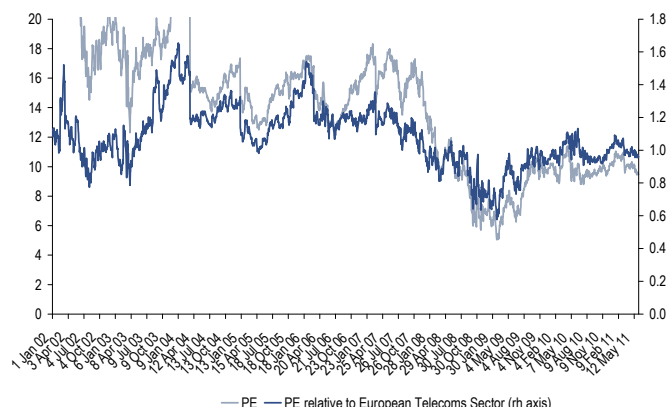
Source: DataStream

**Figure 63.** Consensus EPS has been falling since 2009 (€)



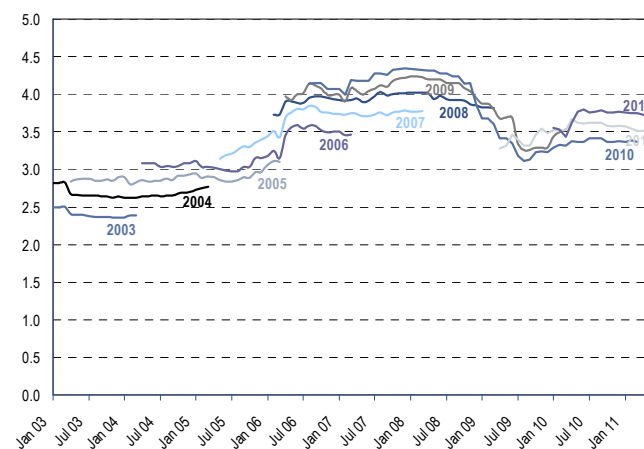
Source: DataStream

**Figure 62.** Bouygues trades slightly below the sector average on PE (1 year forward), however it has historically traded at a premium



Source: DataStream

**Figure 64.** EBITDA consensus has been stable recently following downgrades during 2009 (€bn)



Source: DataStream

Figure 65. Bouygues Sum of the Parts (In €m except per share data)

	Stake (%)	MV	Net (debt)	EV	Equity p/share	As a % of Group EV	As a % of Group MV	2011E EV/EBITDA	Metric
Construction	100%	5,848	2,855	2,993	16.0	18%	24%	5.0x	Same multiple used for Vinci and Eiffage construction
Immobilier (property development)	100%	1,708	376	1,332	4.7	8%	7%	6.0x	In-line with Nexity
Colas (road building)	96.4%	4,910	-55	4,965	13.4	30%	20%	5.5x	Road building division average
TF1 (broadcasting)	42.8%	1,288	7	1,280	3.5	8%	5%	8.4x	Market value
Telecoms	89.6%	5,770	-152	5,922	15.8	36%	24%	5.0x	In line with sector and FT
<b>Total Consolidated Assets</b>		<b>19,524</b>	<b>3,031</b>	<b>16,493</b>	<b>53.4</b>	<b>100%</b>	<b>81%</b>		
Cofiroute (concession)	17.6%	898			2.5		4%		Vinci's estimate for Cofiroute (EV of €8.3bn, MV of €5.1bn)
Alstom	30.7%	3,755			10.3		16%		Market value
<b>Total Associates</b>		<b>4,653</b>			<b>12.7</b>		<b>19%</b>		
Less Net Debt 2011 at holding level		-5,587			-15.3				
<b>Group</b>		<b>18,591</b>			<b>50.8</b>				
Less conglomerate discount of 15%		-2,789			-7.6				
<b>Group - Post Conglomerate Discount</b>		<b>15,802</b>			<b>43.2</b>				
Shares outstanding (m)		365.9							
<b>Per share valuation</b>		<b>43.19</b>							

Source: Citi Investment Research and Analysis

## Company Focus

### ■ Company Update

#### Simon Weeden

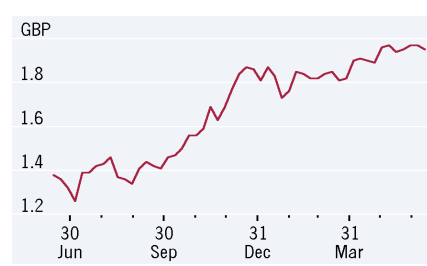
+44-20-7986-4204

simon.weeden@citi.com

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (14 Jun 11)	£1.99
Target price	£2.30
Expected share price return	15.6%
Expected dividend yield	4.0%
<b>Expected total return</b>	<b>19.7%</b>
Market Cap	£15,441M
	US\$25,293M

#### Price Performance

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



## BT Group PLC (BT.L)

### Self help and dividend momentum

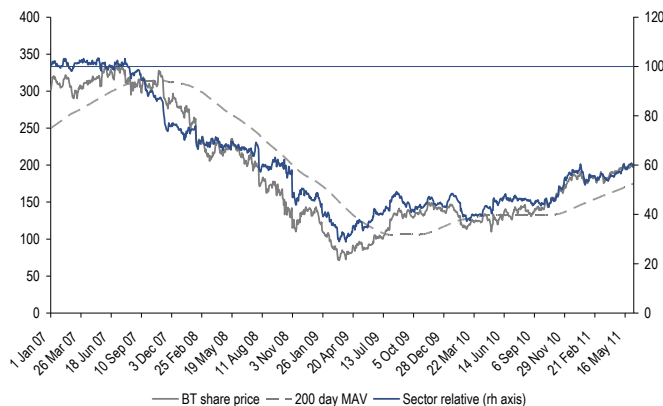
- **More self help to come, Buy, TP £2.30 (£2.38 cum div)** — BT showed the resilience of its self-help project with a decent quarter in fiscal 4Q accompanied by an increase in FCF guidance. Net debt fell £0.5bn in 2010/11 and with the current three year run of pension scheme top ups completed early we expect it to fall a further £1.6bn in 2011/12. We see more cost savings to come, particularly from the amorphous “other operating cost” bucket and see as positive the now reasonably stable UK fixed market, April’s MTR cut and BT’s low starting point for both pricing and market share.
- **Credit rating key to dividend increase** — The Pension Regulator has put its review of BT’s scheme on hold while the dispute over the Crown Guarantee works its way through the courts. Post £1.6bn of top-up funding, the scheme is now in surplus on a median scenario basis, although the Trustee allows a margin for risk on top of that and will review its actuarial assumptions anyway with the end-2011 triennial review. Management have indicated that it is the credit rating that is key to changes in the dividend, with BBB or BBB+ the level that it has in mind. S&P is still at BBB- but with positive outlook and given S&P’s guidance, in our view an upgrade could come in the summer. BT could increase the dividend substantially and still merely slow its rate of deleveraging — its first significant move may, in our view, accompany the May 2012 results and the initial pension update post the end-11 triennial review.
- **MTR cuts should help from 1Q11/12** — A key positive coming next quarter is the sharp cut in UK mobile termination rates, although this may be partly offset by more than usual bank holidays occurring during the quarter. The mobile operators are appealing but the first step down in the glide path to the new rates was applied from the start of April. In addition, BT sees a £130m one-time cash benefit from its regular pension payments in 2011/12 and also gets the tax benefit from March’s top-up payment. 2012/13 FCF may fall yoy as a result.
- **Not all going the company’s way** — While BT has a number of near-term catalysts, it also faces a tougher regulatory environment, with Ofcom reducing its regulatory WACC to what we regard as an unrecognisably low level and also preparing to intervene in the negotiations over passive infrastructure pricing (for example duct and pole sharing). Also, Fujitsu’s rural fibre proposal suggests BT may be vulnerable to overbuild of its access networks, subsidised by the government, but we question the project’s economic viability.

#### BT Group PLC (GBP)

Year to 31 Mar	2010A	2011A	2012E	2013E	2014E
Sales (£M)	20,911.0	20,076.0	19,285.3	19,170.1	19,363.5
Profit Before Tax (£M)	1,735.0	2,083.0	2,425.9	2,614.0	2,760.5
Diluted EPS (p)	17.7	20.4	23.4	24.9	26.6
Diluted EPS (Old) (p)	17.7	20.4	23.4	24.9	26.6
PE (x)	11.2	9.8	8.5	8.0	7.5
EV/EBITDA (x)	4.5	4.1	4.0	3.7	3.6
DPS (p)	6.9	7.4	11.1	14.8	18.5
Net Div Yield (%)	3.5	3.7	5.6	7.4	9.3

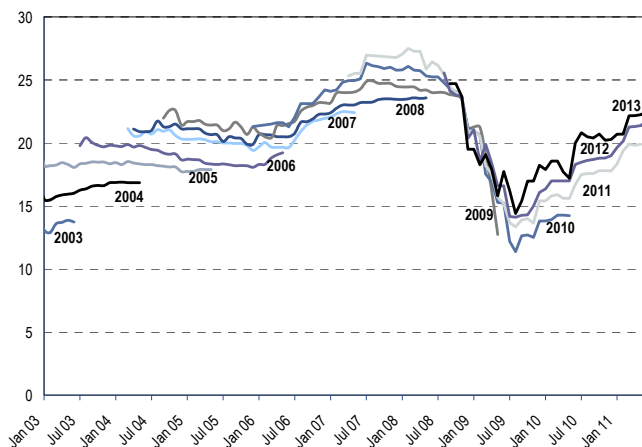
## Self help and dividend momentum

**Figure 66.** BT has outperformed the sector since recently driven after significant underperformance prior to April 2009 (left axis p/share; right axis index: end-2006=100)



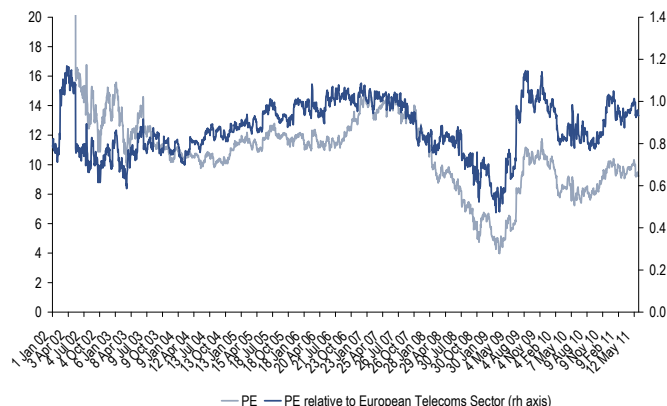
Source: DataStream

**Figure 68.** Consensus EPS has been rising since Jan-09 (p)



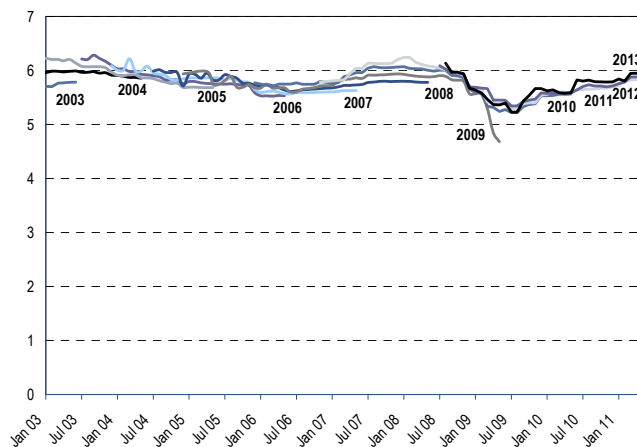
Source: DataStream

**Figure 67.** BT trades slightly below the sector average on PE (1 year forward)



Source: DataStream

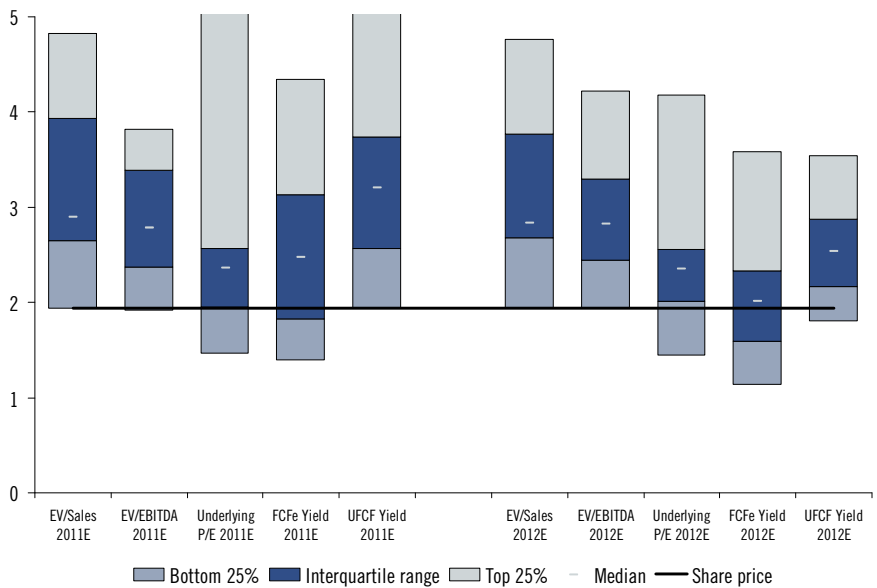
**Figure 69.** EBITDA consensus has been rising (£bn)



Source: DataStream

Figure 70. Compared to its incumbent and wireless peers in Europe BT trades mostly at or below the lower quartile on our 2011 and 2012 estimates.

p/share



Source: Powered by dataCentral



## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

<b>Buy/Low Risk</b>	<b>1L</b>
Price (14 Jun 11)	€10.42
Target price	€12.20
Expected share price return	17.1%
Expected dividend yield	6.7%
<b>Expected total return</b>	<b>23.9%</b>
Market Cap	€45,007M
	US\$64,884M

#### Price Performance

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



## Deutsche Telekom AG (DTEGn.DE) US Sale, German Broadband

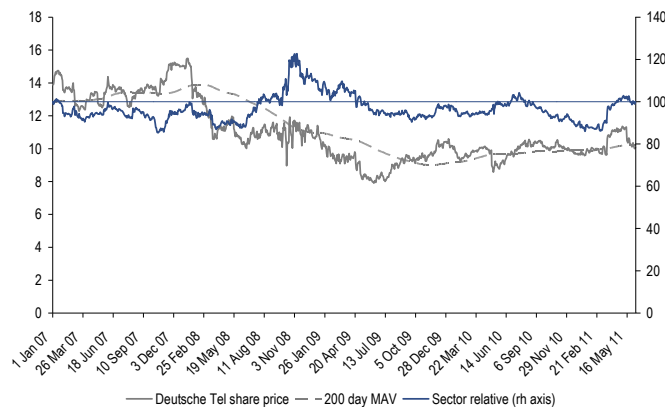
- **Stock supported by proposed transaction** — We expect DT shares to be supported by the proposed sale of T-Mobile US to AT&T. Should the deal not be approved, the demonstrated intent to pursue radical surgery and the break fee (worth an estimated €0.71/share to DT) should provide important downside protection for the stock.
- **Buy, target price €12.2** — Our SOP-based target price of €12.2 (€12.9 cum div) reflects a valuation of 5.5x EBITDA for T Mobile US if it is retained, plus the break fee, and an allowance for option value around the sale completing of €0.1/share. We believe the current share price does not capture any likelihood of the deal closing, and reflects concerns about Germany which are overdone.
- **Plenty to work with in Germany** — In our view, the company has plenty to work within Germany, where it has a leading market position in Europe's premier economy. Outgoings are high and as we have seen previously at DT, as well as at other telcos, there is scope to redirect these as priorities change. We expect capex to rise only slightly to accommodate local fibre build-out as we see room for other budgets need to reduce to compensate.
- **US disposal and German investor event key to stock performance** — Key to stock performance from here is closing the US deal or quickly moving to an alternative if the deal is rejected, convincing on returns on capital and restructuring investment in Germany, and in time seeing some improvement in Eastern European economies.
- **Risk to the downside on US numbers** — 1Q11 showed an acceleration of contract customer losses in the US. Possibly early visibility of this trend encouraged management to reach a deal. While service revenue growth has held up quite well so far, helped by in-sourcing of handset insurance, there is downside risk to estimates if the user trends continue to deteriorate.

#### Deutsche Telekom AG (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	64,639.0	62,421.0	44,112.2	44,209.1	44,499.0
Net Income (€M)	4,090.0	4,104.0	3,936.8	4,089.8	4,391.0
Diluted EPS (€)	0.94	0.95	0.92	0.96	1.04
Diluted EPS (Old) (€)	0.94	0.95	0.92	0.96	1.04
PE (x)	11.1	11.0	11.3	10.8	10.0
EV/EBITDA (x)	4.7	5.1	6.6	6.5	6.4
DPS (€)	0.78	0.70	0.70	0.75	0.85
Net Div Yield (%)	7.5	6.7	6.7	7.2	8.2

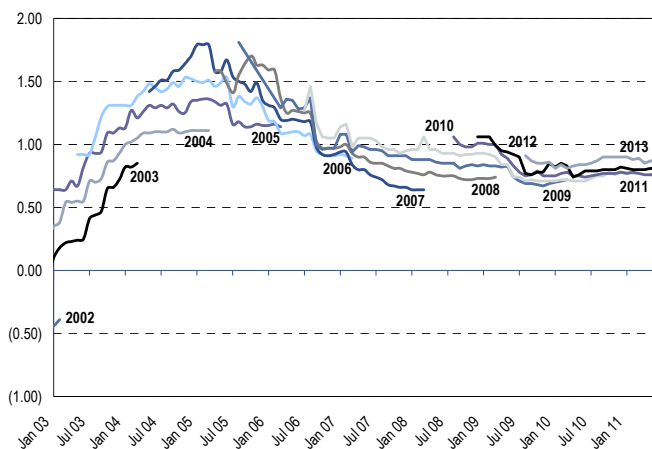
# US sale, German broadband

**Figure 71. DT has performed in line with the sector (left axis €/share; right axis index: end-2006=100)**



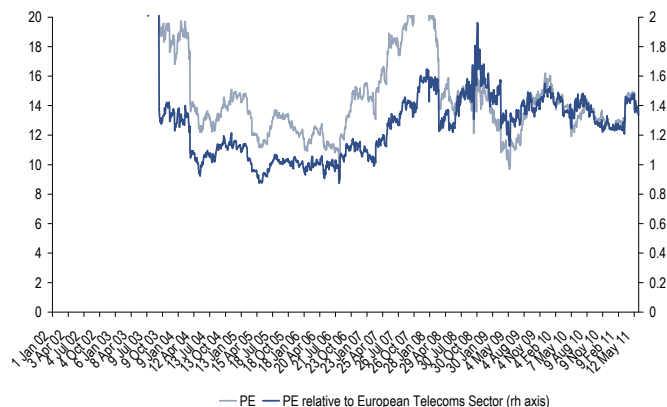
Source: DataStream

**Figure 73. Consensus EPS has been broadly stable (€)**



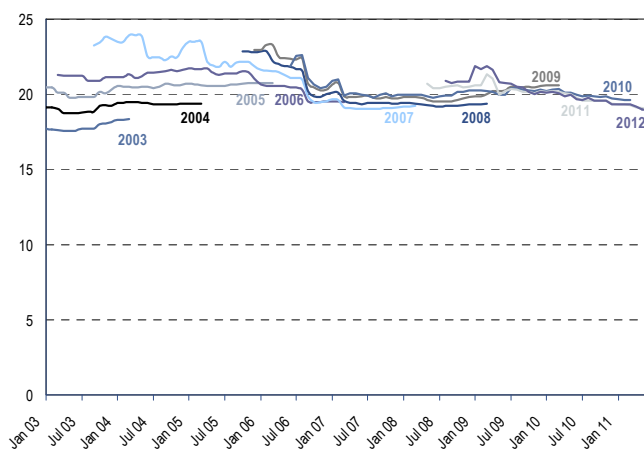
Source: DataStream

**Figure 72. DT trades above the sector average on PE (1 year forward)**



Source: DataStream

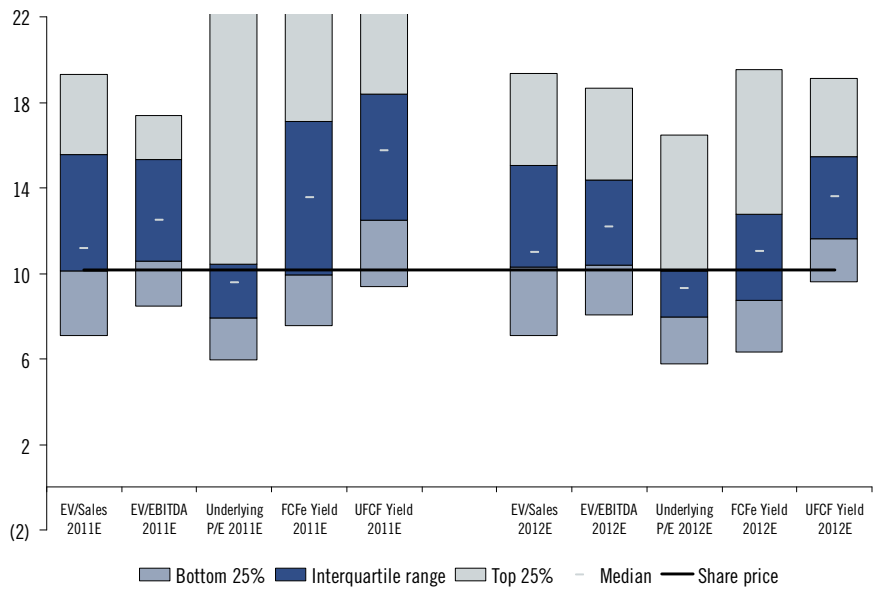
**Figure 74. EBITDA consensus has been declining as US is moved to a discontinued item treatment (€bn)**



Source: DataStream

**Figure 75. Compared to its incumbent and wireless peers in Europe DT trades around the lower quartile on our 2011 and 2012 estimates**

€/share



Source: Powered by dataCentral

Figure 76. Deutsche Telekom sum of the parts

€m

Division	Stake	Enterprise value	Net (debt) 2012	Valuation Method	DT equity	% of DT EV (\$)	Value/ share	EV/ Sales	EV/ EBITDA	EV/ OpFCF
<b>Germany</b>										
Fixed	100.0%	30,332		5.0x 2012 EV/EBITDA	30,332	58.9%	7.1	1.8x	5.0x	10.2x
Mobile	100.0%	22,185		6.0x 2012 EV/EBITDA	22,185	43.1%	5.2	2.9x	6.0x	7.5x
<b>Total</b>		<b>52,517</b>			<b>52,517</b>	<b>101.9%</b>	<b>12.4</b>	<b>2.1x</b>	<b>5.4x</b>	<b>8.8x</b>
<b>T-Systems</b>										
T-Systems	100.0%	4,715		5.0x 2012 EV/EBITDA	4,715	9.2%	1.1	0.5x	5.0x	14.1x
GHS	100.0%	(9,682)		German avg EV/OpFCF	(9,682)	(18.8%)	(2.3)		13.9x	8.8x
<b>Europe</b>										
Austria	100.0%	1,243		5.0x 2012 EV/EBITDA	1,243	2.4%	0.3	1.3x	5.0x	8.4x
Czech Republic	60.8%	2,729		5.0x 2012 EV/EBITDA	1,658	3.2%	0.4	2.3x	5.0x	6.4x
Netherlands	100.0%	2,227		5.5x 2012 EV/EBITDA	2,227	4.3%	0.5	1.3x	5.5x	8.7x
Poland	97.0%	3,501		5.5x 2012 EV/EBITDA	3,396	6.6%	0.8	1.9x	5.5x	8.0x
Hrvatski Telekom	51.0%	2,901		Market value	1,480	2.9%	0.3	2.5x	6.1x	8.7x
Magyar Telekom	59.3%	3,568	(921)	Market value + 25%	1,570	3.0%	0.4	2.4x	6.5x	10.3x
Slovak Telekom	51.0%	1,874		5.0x 2012 EV/EBITDA	956	1.9%	0.2	2.1x	5.0x	7.4x
OTE	30.0%	7,605	(3,296)	5.0x 2012 EV/EBITDA	1,293	2.5%	0.3	1.7x	5.0x	8.5x
<b>Total</b>		<b>25,649</b>	<b>(4,217)</b>		<b>13,823</b>	<b>26.8%</b>	<b>3.3</b>			
United Kingdom	50.0%	12,739	(859)	DDM-10% + loan	5,940	6.5%	1.4	1.6x	9.6x	15.4x
<b>T-Mobile USA</b>										
Scenario 1: Retain	100.0%	20,382		5.5x 2012 EV/EBITDA	20,382	22.5%	4.8	1.4x	5.5x	12.6x
Scenario 1: Break fee		3,034			3,034	3.3%	0.7			
Scenario 2: Disposal - cash		17,405			17,405	19.2%	4.1			
Scenario 2: Disposal - AT&T stock		9,315			9,315	10.3%	2.2			
<b>TMU Scenario 1</b>		<b>23,415</b>			<b>23,415</b>	<b>25.8%</b>	<b>5.5</b>			
<b>TMU Scenario 2</b>		<b>26,719</b>			<b>26,719</b>	<b>29.4%</b>	<b>6.3</b>			
<b>Total EV: TMU scenario 1 (retain)</b>		<b>109,353</b>	<b>(5,076)</b>		<b>90,728</b>	<b>100.0%</b>	<b>21.3</b>	<b>2.5x</b>	<b>7.3x</b>	<b>17.1x</b>
<b>Total EV: TMU scenario 2 (sale)</b>		<b>112,657</b>	<b>(5,076)</b>		<b>94,032</b>		<b>22.1</b>	<b>2.5x</b>	<b>7.5x</b>	<b>17.6x</b>
Net debt not included above	100.0%		(33,531)		(33,531)	(37.0%)	(7.89)			
Unfunded pensions, net of tax	100.0%		(5,670)		(5,670)	(6.2%)	(1.33)			
<b>Equity value: TMU scenario 1 (retain)</b>			<b>Shares:</b>	<b>4,250m</b>	<b>51,528</b>	<b>56.8%</b>	<b>12.1</b>			
<b>Equity value: TMU scenario 2 (sale)</b>					<b>54,832</b>	<b>60.4%</b>	<b>12.9</b>			

Source: dataCentral, CIRA

## Company Focus

- Company Update
- Estimate Change

### Simon Weeden

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

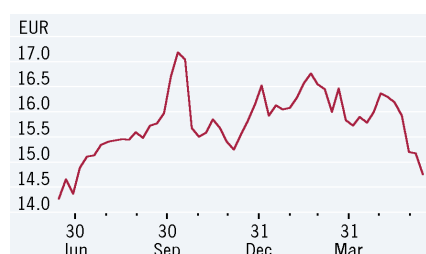
### Laurie Fitzjohn-Sykes, CFA

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

<b>Sell/Low Risk</b>	<b>3L</b>
Price (13 Jun 11)	€14.76
Target price	€13.00
Expected share price return	-11.9%
Expected dividend yield	7.5%
<b>Expected total return</b>	<b>-4.5%</b>
Market Cap	€2,455M
	US\$3,539M

### Price Performance

(RIC: ELI1V.HE, BB: ELI1V FH)



## Elisa Oyj (ELI1V.HE)

### High dividend offset by premium valuation

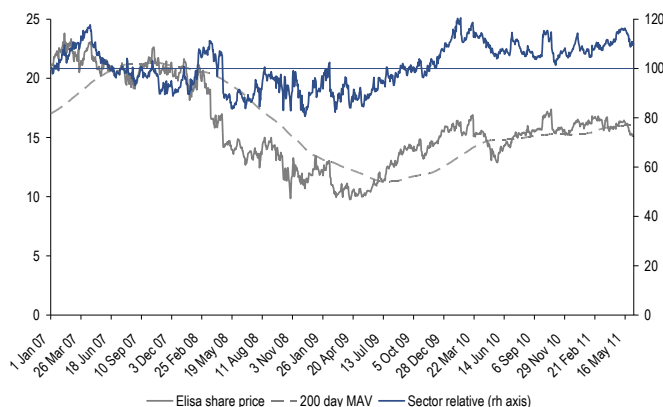
- **Overall** — Elisa continues to trade at a premium to the sector. On our numbers Elisa trades on 6.8x 2011E EV/EBITDA, a 28% premium to the sector at 5.3x. Elisa trades on 9.5% 2011E equity FCF a slight premium to the sector on 10.3%. In addition, we highlight increasing competition in Finnish mobile. Partly offsetting this is a high dividend yield at c.8.5%; however, we prefer other companies in the sector to play dividend yield. On valuation grounds, we maintain a Sell rating; however, we see limited upcoming potential catalysts.
- **Attractive dividend** — Elisa paid cash dividends in 2010 of €221m, a 9.5% yield. For 2011, Elisa has announced a €0.90/share dividend for 2010 results and plans to pay an additional €0.40/share, which would take total 2011 cash returns to €202m or an 8.7% yield. Elisa has authorisation for up to a 5% buyback.
- **Increase in smartphone sales** — In 1Q11, smartphone sales continued to increase significantly, driving mobile revenue growth of 6.9%. Service revenue growth worsened partly due to a MTR cut on 1<sup>st</sup> Dec 2010. Smartphone adoption is starting to increase in Finland, as shown by the higher handset sales, which may in turn drive higher service revenue growth. Finland has been slow in the uptake of high end smartphones due to the prior high market share of Nokia.
- **Fixed M&A driven growth** — Fixed revenue growth grew by 5.3% yoy in 1Q11, which was driven by acquisitions of Appelsiini and Videra in 2010. However Elisa has not disclosed what the underlying growth was. On the 1Q11 results call, management said that underlying growth continued on a similar trend.
- **Forecast changes** — We make small changes to our forecasts following 1Q11 results; we increase fixed revenue due to a greater-than-expected benefit from M&A, which was partly offset by a reduction in our mobile revenue forecast due to worsening service revenue trends in 1Q11. We now forecast 2.6% revenue growth 2011, vs guidance for >0%. For 2011E EBITDA growth, we forecast 1.9% growth vs guidance for >0%.

### Elisa Oyj (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	1,430.0	1,463.0	1,501.2	1,500.3	1,510.2
Net Income (€M)	177.2	196.4	182.9	193.8	204.7
Diluted EPS (€)	1.14	1.26	1.17	1.24	1.31
Diluted EPS (Old) (€)	1.14	1.26	1.16	1.24	1.30
PE (x)	13.0	11.7	12.6	11.9	11.2
EV/EBITDA (x)	6.6	6.5	6.5	6.3	6.1
DPS (€)	0.92	1.40	1.10	1.25	1.39
Net Div Yield (%)	6.2	9.5	7.5	8.4	9.4

# Elisa performance and outlook

**Figure 77. Elisa has lately recovered somewhat after underperforming since end-09 (left axis €/share; right axis index: end-2006=100)**



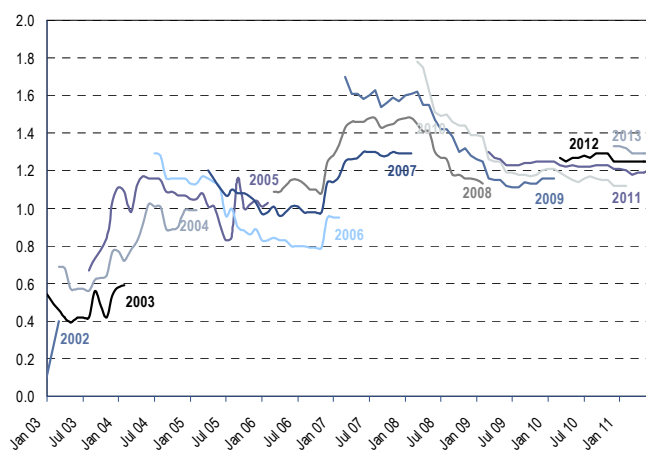
Source: DataStream

**Figure 78. Elisa trades well above the sector average on PE (1 year forward)**



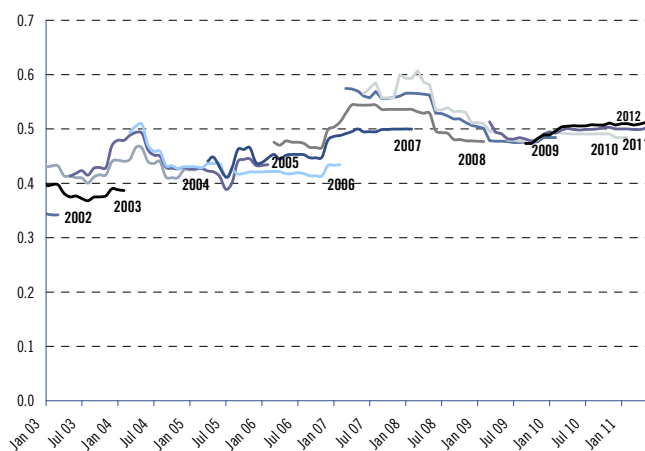
Source: DataStream

**Figure 79. Consensus EPS has lately stabilised after declining in 08 (€)**



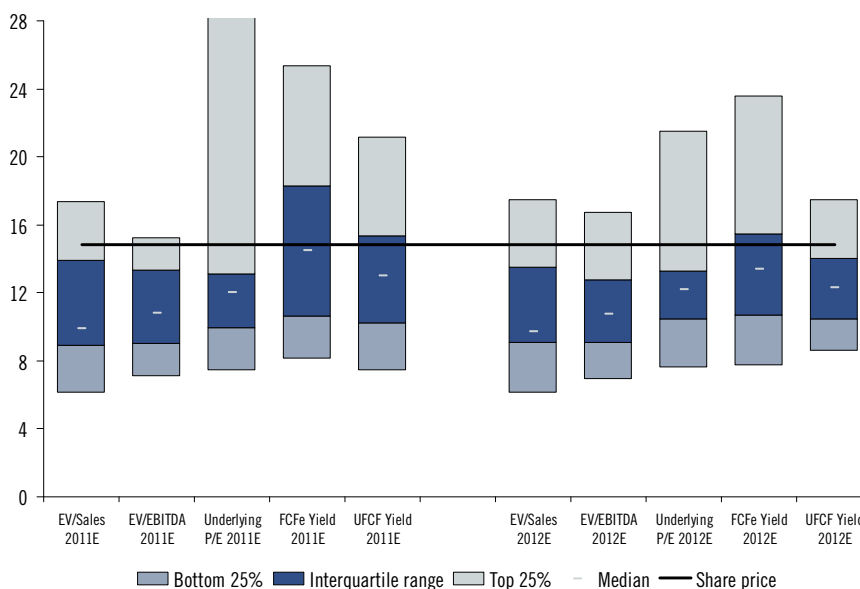
Source: DataStream

**Figure 80. EBITDA consensus has lately been recovering (€bn)**



Source: DataStream

**Figure 81. Compared to its incumbent and wireless peers in Europe Elisa trades at or above the upper quartile on our 2011 and 2012 estimates**  
€/share



Source: Powered by dataCentral

## Forecast changes

We modestly adjust our forecasts following 1Q11 results. We increase our fixed forecasts due to the benefit from the Appelsiini and Videra acquisitions. We cut our mobile forecasts on lower service revenue growth, which was partly offset by higher handset sales. We modestly increase 2011 EBITDA, but cut 2012 and 2013. This falls through to net income we increase 2011 EPS forecast by +1.6% and raise 2012 by 0.1%.

Figure 82. Forecast changes (€m)

	New forecasts			Diff		
	2011	2012	2013	2011	2012	2013
<b>Revenue</b>						
Finland Mobile	881	884	890	(0.8%)	(2.4%)	(2.4%)
Finland Fixed	585	575	574	6.2%	4.9%	5.0%
- other	(47)	(47)	(47)	1.9%	0.3%	0.3%
<b>Finland Total</b>	<b>1,418</b>	<b>1,412</b>	<b>1,417</b>	<b>1.9%</b>	<b>0.3%</b>	<b>0.3%</b>
Estonia Mobile	83	88	94	(2.9%)	(2.9%)	(2.9%)
<b>Total</b>	<b>1,501</b>	<b>1,500</b>	<b>1,510</b>	<b>1.6%</b>	<b>0.1%</b>	<b>0.1%</b>
<b>EBITDA (clean)</b>						
Finland Total	474	477	482	1.9%	0.3%	0.3%
Estonia Mobile	21	24	27	(24.2%)	(18.1%)	(12.0%)
<b>Total</b>	<b>494</b>	<b>501</b>	<b>509</b>	<b>0.4%</b>	<b>(0.7%)</b>	<b>(0.4%)</b>
<b>Margin</b>						
Finland Total	33.4%	33.8%	34.0%	0.0ppt	0.0ppt	0.0ppt
Estonia Mobile	25.0%	27.0%	29.0%	-7.0ppt	-5.0ppt	-3.0ppt
<b>Total</b>	<b>32.9%</b>	<b>33.4%</b>	<b>33.7%</b>	<b>-0.4ppt</b>	<b>-0.3ppt</b>	<b>-0.2ppt</b>
Non-recurring items	0	0	0	0.0%	0.0%	0.0%
<b>Reported EBITDA</b>	<b>494</b>	<b>501</b>	<b>509</b>	<b>0.4%</b>	<b>(0.7%)</b>	<b>(0.4%)</b>
Depreciation	213	209	205	0.1%	0.2%	0.2%
<b>Reported EBIT</b>	<b>281</b>	<b>292</b>	<b>304</b>	<b>0.7%</b>	<b>(1.3%)</b>	<b>(0.8%)</b>
<b>Net Financial Items</b>	<b>(36)</b>	<b>(32)</b>	<b>(29)</b>	<b>(5.4%)</b>	<b>(11.9%)</b>	<b>(14.3%)</b>
<b>PBT</b>	<b>245</b>	<b>260</b>	<b>275</b>	<b>1.6%</b>	<b>0.1%</b>	<b>0.9%</b>
Tax	(63)	(66)	(70)	1.6%	0.1%	0.9%
Minority Interests	0	0	0	0.0%	0.0%	0.0%
<b>Reported Net Income</b>	<b>183</b>	<b>194</b>	<b>205</b>	<b>1.6%</b>	<b>0.1%</b>	<b>0.9%</b>
Underlying Cash Net Income	183	194	205	1.6%	0.1%	0.9%
Reported EPS	1.17	1.24	1.31	1.6%	0.1%	0.9%
Net debt	757	709	673	(10.2%)	(12.4%)	(14.0%)
Capex	175	170	167	1.7%	0.2%	0.2%

Source: Citi Investment Research and Analysis



## Company Focus

### ■ Company Update

#### Simon Weeden

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

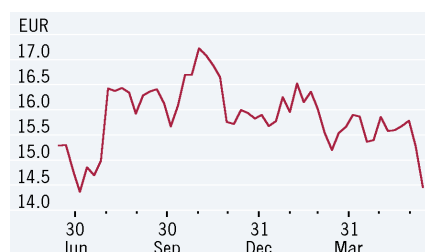
#### Dimitri Y Kallianiotis, CFA

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

<b>Hold/Low Risk</b>	<b>2L</b>
Price (14 Jun 11)	€14.48
Target price	€15.50
Expected share price return	7.1%
Expected dividend yield	9.7%
<b>Expected total return</b>	<b>16.8%</b>
Market Cap	€38,342M US\$55,276M

#### Price Performance

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



## France Telecom (FTE.PA) Jam Tomorrow, thinly spread

- **Hold for now** — We fear that the shares are likely to remain range-bound, with on one side, a supportive 9% dividend yield, but on the other side, poor earnings momentum and uncertainty, with a new operator entering the French mobile market.
- **Great expectations** — Management delivered a bullish strategic plan, with ambitions to grow revenues by 2.7% CAGR 13-15 (CIRA: -0.2%). While we remain unconvinced FT can hit its revenue targets, we welcome the commitment by the CEO to keep the dividend flat at €1.4/share even beyond 2012 and the more rational M&A approach. Buying out the minorities in Mobistar could add up to 4% to FT's FY12E EPS. Selling minorities in Austria and Portugal could make sense but hardly move the needle. Exiting Switzerland is not part of our base case but could be more material.
- **Short-term downgrades** — We expect consensus to trend down. We believe that capex estimates are likely to go up and that FT's capex guidance post 2012 is too low. We are materially below FT's medium-term guidance for 13-15E as we believe that FT's revenue trends are too optimistic.
- **Need to do more on cost cutting** — EBITDA growth by 2013 expected by FT relies on improving and optimistic revenue trends. The issue remains the lack of cost cutting. FT (together with BT) has one of the lowest numbers of lines per employee. This is likely to get worse as we do not forecast any material headcount reduction until 2015 due to the rigid labour market in France and past social issue at FT.
- **Regulation getting better** — Regulation in France has tended to be harsh on FT, but things are improving. The positive move to symmetric regulation for mobile termination rates, cross selling, bitstream access, and fibre should level the playing field for FT. The 4G spectrum auction could be a positive catalyst if FT and SFR manage to buy the totality of the 800MHz spectrum between them even at a high price.

#### France Telecom (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	45,944.0	45,503.0	45,383.0	44,790.0	44,452.9
Net Income (€M)	4,234.0	5,114.0	4,413.6	4,428.3	4,441.8
Diluted EPS (€)	1.60	1.93	1.67	1.66	1.66
Diluted EPS (Old) (€)	1.60	1.93	1.67	1.66	1.66
PE (x)	9.0	7.5	8.7	8.7	8.7
EV/EBITDA (x)	5.2	5.0	4.4	4.4	4.4
DPS (€)	1.40	1.40	1.40	1.40	1.40
Net Div Yield (%)	9.7	9.7	9.7	9.7	9.7

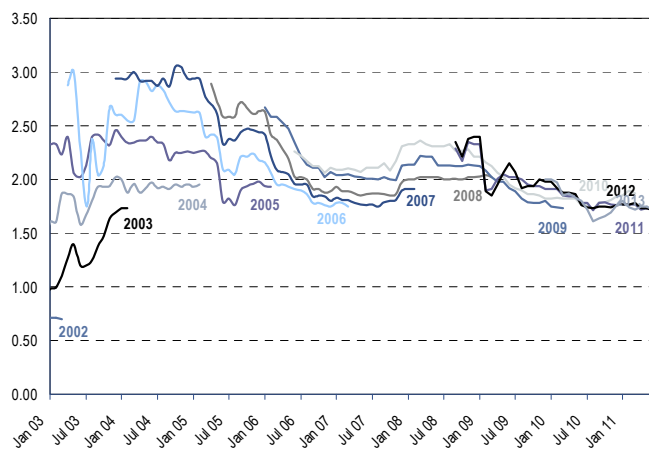
## Getting ready for a new entrant

**Figure 83. France Telecom has lately performed in line after lengthy underperformance (left axis €/share; right axis index: end-2006=100)**



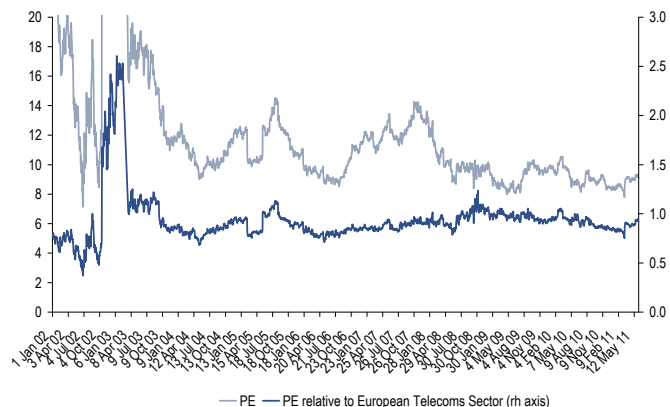
Source: DataStream

**Figure 85. Consensus EPS has lately been declining (€)**



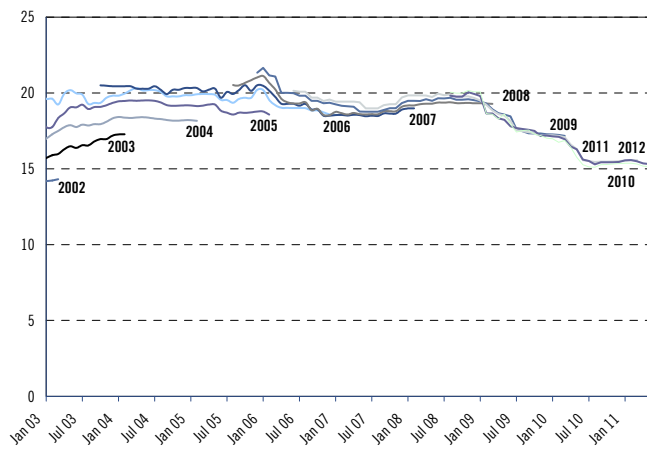
Source: DataStream

**Figure 84. France Telecom trades slightly below the sector average on PE (1 year forward)**



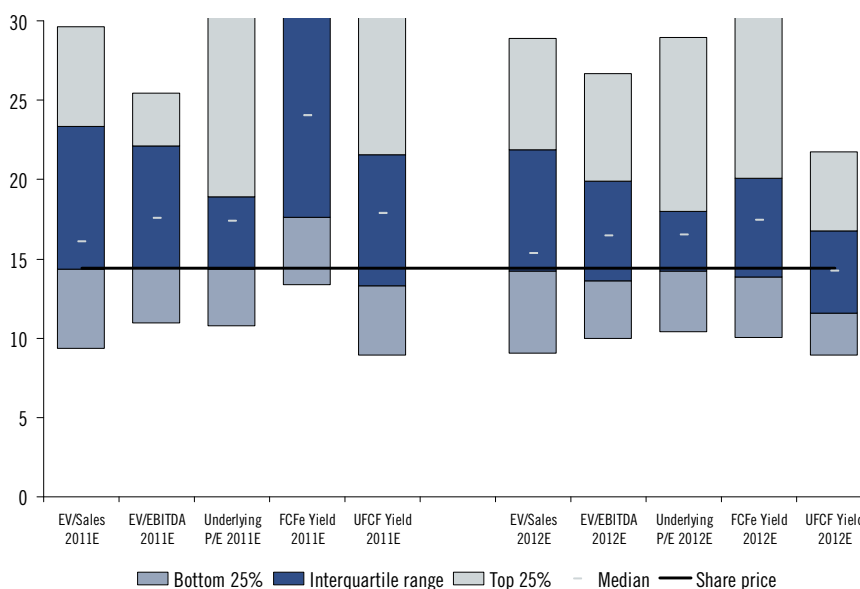
Source: DataStream

**Figure 86. EBITDA consensus declining again (€bn)**



Source: DataStream

**Figure 87. Compared to its incumbent and wireless peers in Europe FT trades close to the lower quartile on our 2011 and 2012 estimates**  
€/share



Source: Powered by dataCentral

## Significant upcoming events:

- **4G auction** — We expect the 4G auction in France to be completed by December 2011. The most important point beyond the price actually paid (we forecast €900m for FT) is if FT and SFR manage to buy most of the spectrum in 800MHz, which we feel is a possibility.
- **Entry of Free in mobile** — We expect Free to enter the French mobile market in early 2012 or possibly in 4Q11. Free has already announced its intention to go aggressive on price (halve the phone bill of the average user). However, the main risk for FT is SFR and Bouygues' reaction to Free's entry.
- **Asset disposals** — FT's CEO stated during the investor day that FT would consider selling any minority stakes with no operational controls in countries like Austria and Portugal. We also expect FT to take a decision on whether or not to buy the minorities in Mobistar and exit Switzerland.
- **Virgin Mobile switching to SFR** — Virgin Mobile, the largest MVNO in France, is expected to move to a full MVNO on SFR in 2012. This could lead to a medium-term revenue shortfall of c.€200m pa for France Telecom, which currently hosts Virgin Mobile on its network.

## Valuation

Our €15.50 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% WACC, 2) -1% terminal growth rate, 3) Target gearing (D/E) of 40%, 4) 32% effective tax rate.

Figure 88. FT's DCF valuation (In €/share)

	€ mn	€/share
Value of years 1-9 cash flows	36,040	13.6
Terminal value	35,759	13.5
<b>Enterprise value</b>	<b>71,800</b>	<b>27.1</b>
Net Debt (2011E)	- 27,848	- 11
Minorities	- 8,028	- 3
Associates	6,273	2
Pension and provision for senior plan	- 1,874	- 1
NPV of tax assets	693	0
<b>Equity value</b>	<b>41,016</b>	<b>15.5</b>
Current stock price		<b>15.40</b>
<i>Upside/(downside)</i>		<b>1%</b>
<i>Total ETR including 2011E dividend</i>		<b>10%</b>

Source: Citi Investment Research and Analysis

Figure 89 illustrates our Sum of the Part for FT, which is used to cross check our DCF valuation but not to set our target price.

Figure 89. France Telecom Sum of the Parts (in €m except per share data)

Asset	Stake	Driver (2011)	EV (€m)	Net debt end 2011E (€m)	FT share of equity	Per Share (€)	As a % of Group Equity value
French Fixed line	100.00%	5.0x EV/EBITDA	23,622	0	23,622	8.92	34%
French Mobile	100.00%	4.5x EV/EBITDA	16,963	0	16,963	6.40	24%
<b>French assets</b>			<b>40,584</b>		<b>40,584</b>	<b>15.32</b>	<b>58%</b>
Spanish Fixed line	99.98%	€300/subscriber	360	0	360	0.14	1%
Spanish Mobile	99.98%	5.5x EV/EBITDA	4,367	0	4,366	1.65	6%
TPSA Poland	49.79%	Listed Value	6,819	-1,208	2,794	1.05	4%
UK	50.00%	DDM - 10%	13,194	-1,437	5,878	2.22	8%
<b>Main Mobile Assets (incl. Polish fixed)</b>			<b>24,739</b>	<b>-1,208</b>	<b>13,398</b>	<b>5.06</b>	<b>19%</b>
Mobistar	52.91%	Listed Value	3,194	-380	1,489	0.56	2%
Switzerland Mobile	100.00%	2.0x EV/Revenues	1,932	0	1,932	0.73	3%
Mobinil	36.30%	Listed Value	3,085	-802	828	0.31	1%
Mobilrom (Romania)	96.82%	1.8x EV/Revenues	1,678	0	1,625	0.61	2%
Slovakia Mobile	100.00%	1.8x EV/Revenues	1,289	0	1,289	0.49	2%
Jordan	51.00%	2.0x EV/Revenues	890	0	454	0.17	1%
Senegal Mobile	42.33%	2.0x EV/Revenues	1,360	0	576	0.22	1%
Ivory Coast	85.00%	2.0x EV/Revenues	1,002	0	852	0.32	1%
Dominican Republic	100.00%	2.0x EV/Revenues	935	0	935	0.35	1%
Mali	29.71%	2.0x EV/Revenues	648	0	193	0.07	0%
Cameroon	99.50%	2.0x EV/Revenues	561	0	558	0.21	1%
Moldavia	94.31%	1.8x EV/Revenues	291	0	275	0.10	0%
Kenya	40.00%	2.0x EV/Revenues	190	0	76	0.03	0%
Madagascar	71.80%	2.0x EV/Revenues	132	0	95	0.04	0%
Botswana	43.70%	2.0x EV/Revenues	251	0	110	0.04	0%
Other	65.00%	2.0x EV/Revenues	571	0	371	0.14	1%
<b>RoW Assets</b>			<b>18,008</b>	<b>-1,183</b>	<b>11,655</b>	<b>4.40</b>	<b>17%</b>
Enterprise	100.00%	4.0x EV/EBITDA	5,123	0	5,123	1.93	7%
IC&SS	100.00%	5.0x EV/EBITDA	-734	0	-734	-0.28	-1%
Sonaecom	20.00%	Listed Value			110	0.04	0%
Orange Austria	35.00%				300	0.11	0%
Orange BNP Paribas Services	50.00%		80	0	40	0.02	
<b>Total Assets</b>			<b>87,800</b>	<b>-2,390</b>	<b>70,477</b>	<b>26.61</b>	<b>100%</b>
Pension and provision for senior plan, DTPG, TV rights					-1,874	-0.71	
NPV of tax assets					693	0.26	
Debt adjustment for minorities and other				2,390		0.90	
<b>Net debt (2011E)</b>				<b>-27,848</b>		<b>-10.51</b>	
<b>Equity Value</b>		number of shares	2,649			<b>16.5</b>	
<b>Discount applied for fibre and M&amp;A risk</b>						<b>5%</b>	
<b>Fair Value</b>						<b>15.7</b>	

Source: Citi Investment Research and Analysis

## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Dimitri Y Kallianiotis, CFA

+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Buy/Low Risk</b>	<b>1L</b>
Price (14 Jun 11)	€10.10
Target price	€13.00
Expected share price return	28.7%
Expected dividend yield	6.9%
<b>Expected total return</b>	<b>35.6%</b>
Market Cap	€15,435M
	US\$22,252M

#### Price Performance

(RIC: KPN.AS, BB: KPN NA)



## KPN NV (KPN.AS) De-equitisation Play

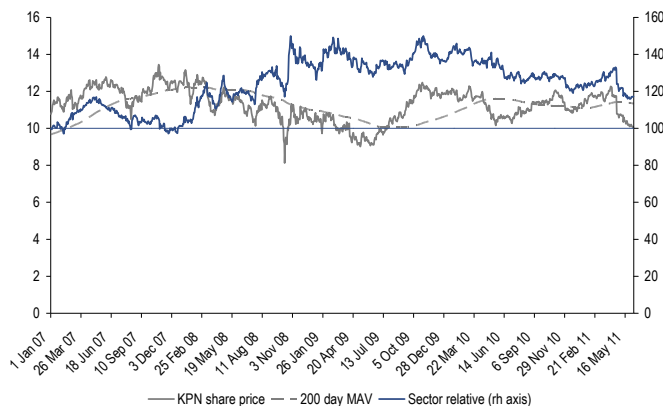
- **Less buyback, more investment** — Following the change in CEO, we expect KPN to take a more balanced approach with respect to its three stakeholders (customers, employees and shareholders). Even if we forecast KPN to cut its share buyback to €500m pa, we believe that KPN increased investment in market share, fibre and mobile data will allow it to make good on its promise to grow dividend per share (8.7% dividend yield for FY12E).
- **Double copper: a unique benefit to KPN** — The Netherlands is one of the few countries in Europe together with Belgium and Denmark to have double pairs of copper installed in 90% of households. Doubling speed from an average of 20Mbps to 40Mbps on VDSL by using double copper pairs should be relatively quick (expected in 2H11) and cheap (<€150 per home). Other innovations such as Vectoring (likely in 2012) and Phantom mode (likely in 2013) could further increase speed on copper to >100Mbps.
- **Mobile repricing: easier said than done** — We expect KPN to launch new mobile tariffs this summer, partly to solve the issue of voice and SMS cannibalization by data but also to become more price competitive vs. Vodafone. We expect KPN to try to reduce the amount of data included in its offers (currently 1GB) and move towards bundles rather than pricing voice and mobile separately. The main risk is that repricing its back book could take 2 years and a new entrant and existing competitors use the opportunity to gain market share with KPN still controlling 47% of the mobile market.
- **German mobile data story on track** — We remain positive on the challenger model used by KPN in Germany. Underlying mobile service revenue growth should continue to run in the high single digits (+8.9% in1Q11 yoy). We believe that KPN is ideally positioned to push mobile data to the mass market due to cheaper smartphones based on Android. Long term, while we believe that a potential merger with O<sub>2</sub> could generate around €3bn of synergies, we think that a network-sharing deal is a more realistic option.

#### KPN NV (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	13,509.0	13,398.0	13,289.8	13,389.4	13,383.7
Net Income (€M)	2,178.0	1,792.0	1,841.2	1,864.4	1,938.7
Diluted EPS (€)	1.33	1.15	1.24	1.31	1.41
Diluted EPS (Old) (€)	1.33	1.15	1.24	1.31	1.41
PE (x)	7.6	8.8	8.2	7.7	7.2
EV/EBITDA (x)	5.0	4.9	5.0	4.8	4.8
DPS (€)	0.69	0.80	0.85	0.90	0.95
Net Div Yield (%)	6.8	7.9	8.4	8.9	9.4

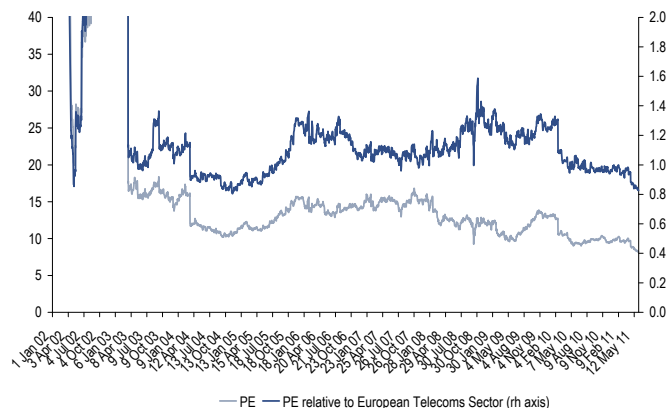
## De-equitisation Play

**Figure 90. KPN has underperformed the sector since end-09 (left axis €/share; right axis index: end-2006=100)**



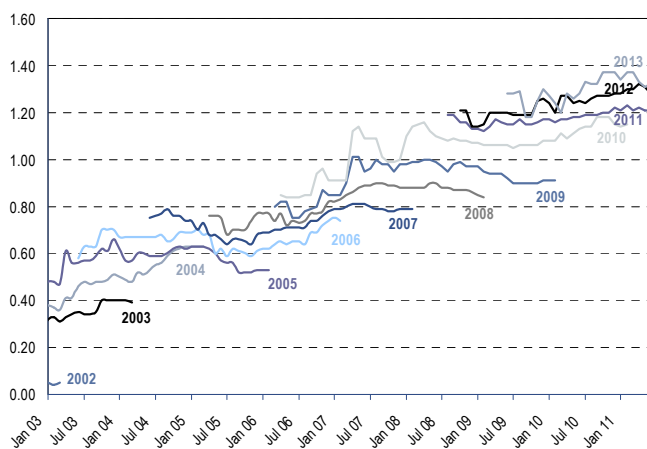
Source: DataStream

**Figure 91. KPN now trades at a discount to the sector on PE (1 year forward)**



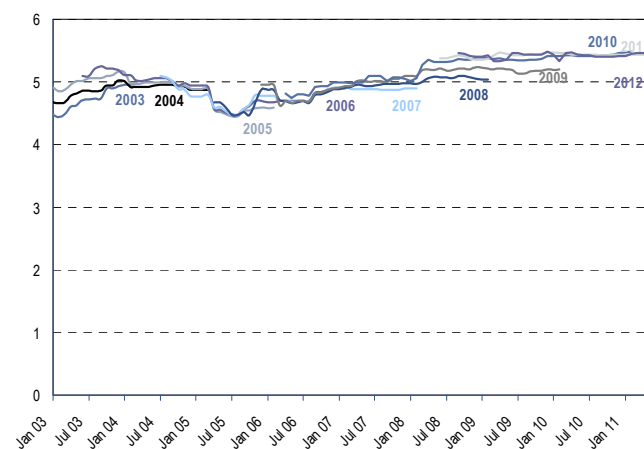
Source: DataStream

**Figure 92. Consensus EPS has consistently risen (€)**



Source: DataStream

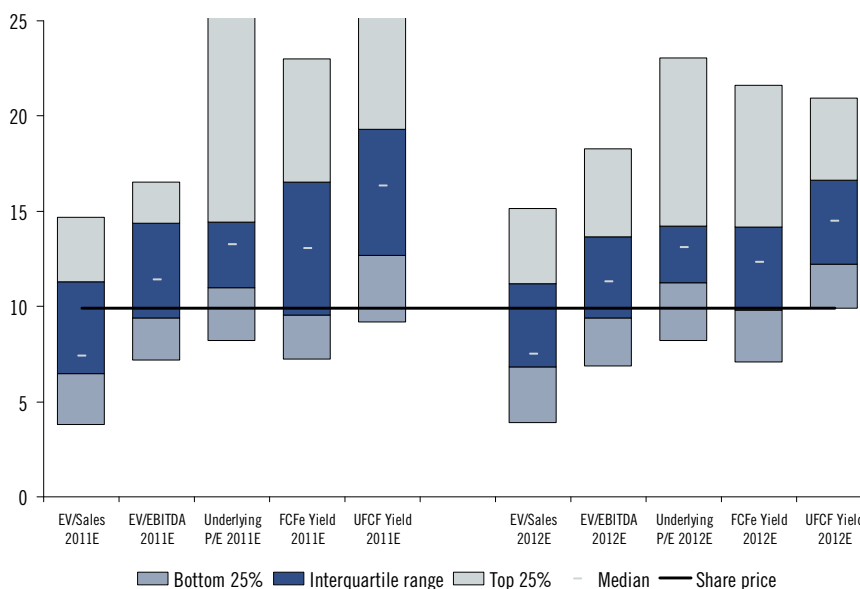
**Figure 93. EBITDA consensus has lately turned down (€bn)**



Source: DataStream

**Figure 94. Compared to its incumbent and wireless peers in Europe KPN trades around the lower quartile on our 2011 and 2012 estimates**

€/share



Source: Powered by dataCentral

## Significant upcoming events:

- **4G auction** — We expect the 4G auction in the Netherlands to be completed by 1Q12. KPN will have to bid for the re-tender of 900MHz and 1800MHz. We forecast KPN to spend €200m on 800MHz, 900MHz and 1800MHz. A new entrant is likely to appear in the Netherlands post the auction.
- **New mobile offers** — We expect KPN to launch new mobile offers in the Netherlands this summer, with a push towards bundles and data tiering with inclusive data usage coming down on lower-value packages (currently all packages offer up to 1Go/month of data).
- **New broadband offers using pair bonding** — KPN has announced its intentions to use pair bonding to increase the speed of its broadband offers from an average of 20Mbps on VDSL to 40Mbps. We expect those new offers to be launched in 2H11 and be available to around 40% of households.
- **More details on cost cutting** — KPN is currently negotiating with the unions on the cost associated with the 25% planned reduction in KPN's domestic workforce.
- **New law on net neutrality** — Dutch Economy Minister Maxime Verhagen on 25 May said that the Dutch government was considering a new telecoms law to ensure that consumers do not have to pay extra to use certain online applications, namely VoIP. Dutch Parliament should vote on a new law on 14 June. We estimate that the probability of this law being passed is high as it has the backing of the current Dutch Economy Minister.



## Valuation

We set our €13 price target based on the fair value derived from our DCF valuation.

Figure 95. 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>5,306</b>	<b>5,369</b>	<b>5,385</b>	<b>5,402</b>	<b>5,342</b>	<b>5,336</b>	<b>5,343</b>	<b>5,352</b>	<b>5,362</b>	<b>5,374</b>
Change in working capital	10	75	-100	0	0	0	0	0	0	0	0	0
Capex	-1,767	-1,809	-1,821	-1,838	-1,776	-1,748	-1,782	-1,785	-1,788	-1,792	-1,798	-1,804
Licences	0	-285	0	-200	-100	0	0	0	0	0	0	0
Tax paid	-506	-589	-450	-656	-614	-593	-607	-719	-730	-742	-753	-764
Interest paid	-612	-736	-682	-674	-662	-646	-601	-563	-534	-513	-504	-507
<b>FCFE</b>	<b>2,317</b>	<b>2,132</b>	<b>2,253</b>	<b>2,002</b>	<b>2,233</b>	<b>2,415</b>	<b>2,352</b>	<b>2,270</b>	<b>2,291</b>	<b>2,305</b>	<b>2,308</b>	<b>2,299</b>
<b>Adjustments</b>												
Add back cash interest paid	612	736	682	674	662	646	601	563	534	513	504	507
Tax shield on interest	-153	-184	-171	-169	-166	-161	-150	-141	-133	-128	-126	-127
<b>Unlevered FCF (FCFF)</b>	<b>2,776</b>	<b>2,684</b>	<b>2,765</b>	<b>2,507</b>	<b>2,730</b>	<b>2,900</b>	<b>2,803</b>	<b>2,692</b>	<b>2,691</b>	<b>2,690</b>	<b>2,686</b>	<b>2,679</b>
<i>Discount factors</i>		0.00	1.00	0.93	0.86	0.79	0.74	0.68	0.63	0.58	0.54	0.50
	<b>€ mn</b>	<b>€/share</b>										
Value of years 1-9 cash flows	16,939	11.7										
Terminal value	14,539	10.0										
<b>Enterprise value</b>	<b>31,478</b>	<b>21.7</b>										
Net Debt (2011E)	-11,878	-8										
Pension and other	-653	0										
<b>Equity value</b>	<b>18,946</b>	<b>13.1</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 96. KPN's Sum of the Parts (In €m except per share data)

	Stake (%)	Enterprise Value (€)	Per Share Value (€)	As a % of Group EV	20011E EV/EBITDA
The Netherlands (incl. iBasis and Getronics)	100%	22,772	15.69	72.6%	6.0x
E-Plus (German Mobile)	100%	7,092	4.89	22.6%	5.5x
Base (Belgian Mobile)	100%	1,418	0.98	4.5%	5.5x
Other (incl. RoW mobile)	100%	100	0.07	0.3%	
<b>Total Assets</b>		<b>31,382</b>	<b>21.62</b>	<b>100.0%</b>	
<b>Group Enterprise Value</b>		<b>31,382</b>	<b>21.62</b>		5.9x
Net Debt (end 2011)		-11,878	-8.2		
Pension and other		-653			
NPV of tax assets		500	0.3		
<b>Group Equity Value</b>		<b>19,351</b>	<b>13.33</b>		
Shares outstanding ('000's) end 2011E	1,451				
<b>Per share valuation</b>		<b>13.33</b>			

Source: Citi Investment Research and Analysis

## Bringing copper back to life

According to management, KPN is in a unique position to benefit from higher speed on copper due to widespread availability of double copper pairs<sup>3</sup>. Average speed on VDSL is expected to double this year from 20Mbps to 40Mbps. By upgrading copper and pushing FttH, management guide rather ambitiously for growing broadband market share despite cable competition (KPN expects its broadband market share to grow from current 41% to 45% in 2015, we forecast 39% market share in 2015). The upgrade path for VDSL is promising due to:

- **Double twisted pair** — New modems available in 2H11 should allow KPN to take advantage of the unique position of the Netherlands, with 90% of homes already equipped with double copper pair. This should allow KPN to double the average speed on VDSL from 20Mbps to 40Mbps, which should be enough to allow KPN to offer multi TV and broadband to more effectively compete against cable. We expect the cost of copper bonding per household to be below €150. We believe that copper bonding could be available to 40% of households by end 2011 and 70% by end 2012.
- **Vectoring** — New innovations such as vectoring (a more efficient use of copper spectrum) cancels the noise (i.e. cross-talk especially important for customers situated the furthest away from the exchange) generated by bonding two separate copper pairs and increasing bandwidth. Vectoring should become available from mid-2012 and could increase speed by an average of 1.5x.
- **Phantom mode** — The rather cryptic Phantom mode<sup>4</sup> could allow speed of up to 300Mbps, according to Alcatel. This recent innovation comes from the creation of a third, virtual pair. DSL pairs are made of a signal wire and ground wire. When two pairs are bonded together, one of the ground wires becomes redundant and can be converted into a signal wire to boost bandwidth. By combining the two physical pairs and the virtual pair into a single large pipe, Alcatel claims speed on copper pairs of 300Mbps over 400metres and 100Mbps over 1km. Phantoming should be available from 2013 and could increase speed by 1.5x to 2x on top of Vectoring.

On top of all the above technological applications, we expect KPN to reinforce its TV offer by improving its TV interface and content.

Figure 97. Fixed Network strategy for KPN

Technology	Coverage	Subscribers (end 2010)	Target	Cost
VDSL from central office Up to 40Mb/s down, up to 4Mb/s up	88% IPTV coverage	302k IPTV subs, 1,197k TV subs including DTT	>1.5m TV subs by 2012	Low cost as VDSL upgrade is done in the central office
FTTH Up to 30-50Mb/s down, up to 4Mb/s up	446k homes passed	41k homes activated	1.1-1.3m Homes passed by 2012 by Reggefiber, 25k active fibre subs on KPN. Long-term penetration of 60% homes activated. Ambition for 30-60% fibre coverage in the Netherlands	€1,000 capex per home to connect home and another €400 to activate (installation costs and box)
FTTC >100Mb/s (symmetrical)	464k homes passed	27k homes activated	No further rollout	NA

Source: Company reports, Citi Investment Research and Analysis

<sup>3</sup> While a few other countries, such as Belgium and Denmark, also have double pairs of copper only in the Netherlands is the availability of double pair of copper so high at 90%.

<sup>4</sup> For more details on "Phantom Mode" please check the Alcatel-Lucent website on <http://www.alcatel-lucent.com/features/phantom/index.html>

## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Dimitri Y Kallianiotis, CFA

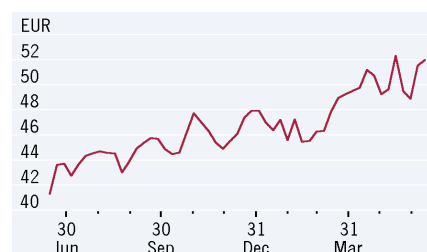
+44-20-7986-4253

dimitri.kallianiotis@citi.com

<b>Hold/Low Risk</b>	<b>2L</b>
Price (14 Jun 11)	€52.36
Target price	€45.00
Expected share price return	-14.1%
Expected dividend yield	7.6%
<b>Expected total return</b>	<b>-6.5%</b>
Market Cap	€3,142M
	US\$4,530M

#### Price Performance

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



## Mobistar SA (MSTAR.BR) M&A support

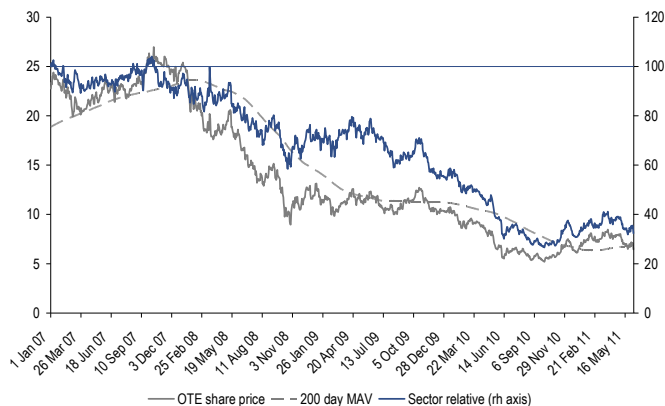
- **Technical support** — At its investor day in Paris, FT management comments suggested the company may consider the buyout of the minorities. FT currently owns 52.91% of Mobistar shares, which are worth just short of €2bn at current market price. Although we argue the asset is facing structural issues in Belgium and the stock looks overvalued vs. the sector, we think ongoing M&A newsflow should provide support for the shares in the near term (up >10% over the last 3 months vs. the telecoms sector down 8%).
- **Light 1Q11 trends likely to continue** — Mobile service revenues in Belgium fell by 5.8% yoy (vs. -3.8% in 4Q), driven by declining ARPU: -4% yoy. While the timing of mobile termination cuts is and will continue to be unhelpful to reported numbers, more concerning is that underlying revenue growth did not improve during the quarter despite a growing share of mobile data (now c. 37% of revenues. We expect very similar trends in 2Q11.
- **Full year guidance at risk** — Despite management maintaining 2011 guidance unchanged, we argue EBITDA will be under pressure in a context of deflationary top-line and upside risk to SACs driven by Telenet's heavy usage of handset subsidies and more aggressive commercial activity from Belgacom. We are currently forecasting a 4% yoy decline in EBITDA to €526m for the year, but see downside risk to our forecast.
- **TV not taking off (yet)** — In 1Q11, Mobistar reported TV net additions below the quarterly run rate since the introduction of the service. While provisioning times (of close to 8 weeks) seem to be the reason for the light performance, we argue the issue will take time to fix, which puts Mobistar's 50k net adds target for the year end at risk.
- **Negative earnings momentum** — We argue the poor operational trends and the issues Mobistar is facing in the Belgian market are as a potential catalyst for further earnings downgrades going into 2Q11. The stock looks expensive vs. the telecom sector on close to 7x 12E EV/EBITDA and 14x P/E.

#### Mobistar SA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	1,604.8	1,664.6	1,668.1	1,664.2	1,665.1
Net Income (€M)	260.3	249.5	229.0	227.2	226.4
Diluted EPS (€)	4.34	4.16	3.81	3.79	3.77
Diluted EPS (Old) (€)	4.34	4.16	3.81	3.79	3.77
PE (x)	12.1	12.6	13.7	13.8	13.9
EV/EBITDA (x)	6.1	6.3	6.7	6.8	6.9
DPS (€)	4.55	4.30	4.04	3.90	3.85
Net Div Yield (%)	8.7	8.2	7.7	7.4	7.3

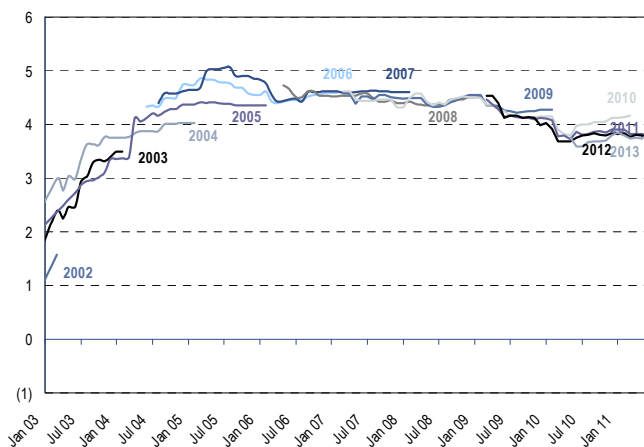
## Uninspiring earnings momentum

**Figure 98. Mobistar has underperformed the sector since mid-09 but lately performed inline (left axis €/share; right axis index: end-2006=100)**



Source: DataStream

**Figure 100. Consensus EPS has lately recovered after weakness (€)**



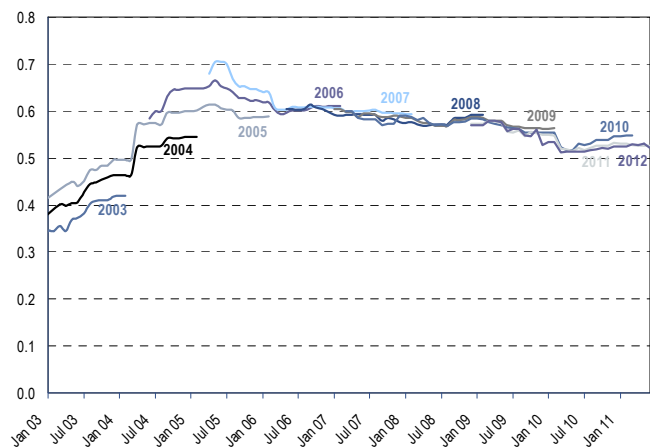
Source: DataStream

**Figure 99. Mobistar trades slightly above the sector average on PE (1 year forward)**



Source: DataStream

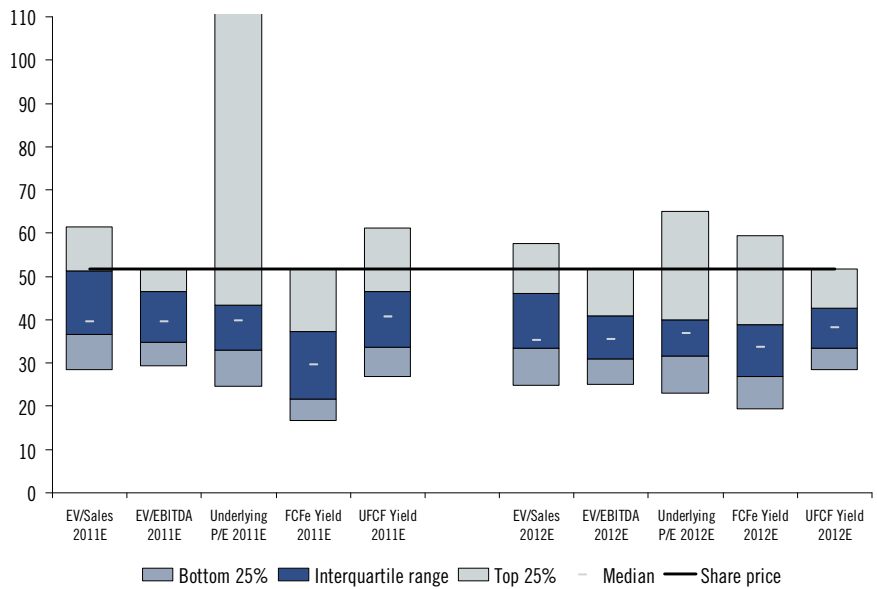
**Figure 101. EBITDA consensus has stabilised (€bn)**



Source: DataStream

**Figure 102. Compared to its incumbent and wireless peers in Europe Mobistar trades close to the maximum on our 2011 and 2012 estimates**

€/share



Source: Powered by dataCentral

## Company Focus

### Company Update

#### Simon Weeden

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

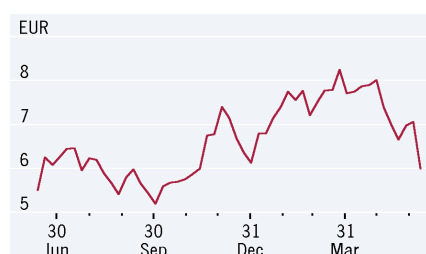
#### Dimitri Y Kallianiotis, CFA

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

<b>Hold/High Risk</b>	<b>2H</b>
Price (14 Jun 11)	€6.08
Target price	€8.00
Expected share price return	31.6%
Expected dividend yield	0.5%
<b>Expected total return</b>	<b>32.1%</b>
Market Cap	€2,980M
	US\$4,296M

#### Price Performance

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



## OTE (OTEr.AT)

### No improvement in sight until 2H11

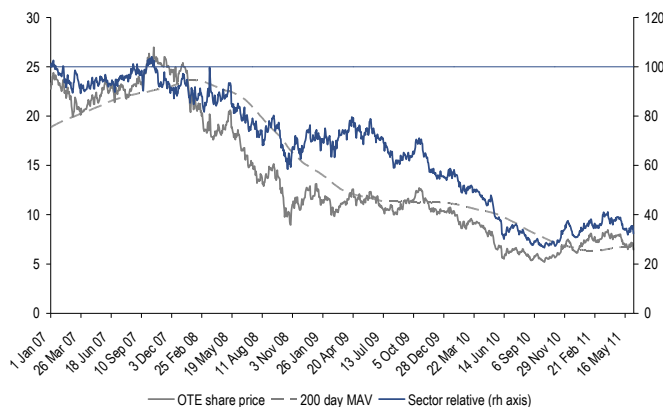
- **Back to square one** — Three months ago, OTE was the best performer in telecoms, up >30% YTD. OTE's share price is now below where it started the year (down 2%) and in-line with the telecoms sector performance. A very poor 1Q11 (revenues down 13% yoy, EBITDA down 18% yoy), increased sovereign risk and DT's lack of commitment to buy the 6% remaining stake from the Greek government have put the shares under pressure. While we see fundamental value, we expect the shares to be predominantly driven by macro in the short term
- **Improvement expected in 2H11** — OTE management expect Cosmote to start seeing signs of market stabilisation in Greek mobile. Mobile operations in other countries and in particular in Romania should also show more resilience. The headcount-reduction and cost-cutting measures adopted in the first quarter should start to positively impact the group's operating performance in the latter part of the year.
- **Greek fixed: no end in sight** — OTE keeps losing fixed lines (-11% yoy in 1Q11) and market share in broadband (at 42% in 1Q11 down 5ppt yoy). This situation looks unlikely to change due to the current regulatory framework preventing OTE from cutting its retail tariffs unless it does the same to its wholesale offers.
- **Still tough in Bulgaria and Romania** — Bulgarian mobile service revenues are still declining in the high single digits, but margins remain strong in the high 30s. Romanian mobile service revenue growth is improving (-1.5% in 1Q11 vs. -3% yoy in 4Q10).
- **Romanian fixed: same declining trends** — Fixed revenues in Romania continue to decline sharply (-15% yoy in 1Q11 in-line with previous quarters). Margins are also weak at around 25% due to restructuring charges.
- **Full government exit** — The Greek government has exercised its put option and has stated publicly its intentions to sell its remaining 6% stake in OTE. We do not expect DT to buy the last remaining 6% stake from the government unless it gets concessions.

#### OTE (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	5,984.1	5,482.3	4,949.0	4,820.7	4,786.5
Net Income (€M)	458.0	160.0	266.5	289.3	376.2
Diluted EPS (€)	0.93	0.33	0.54	0.59	0.77
Diluted EPS (Old) (€)	0.93	0.33	0.54	0.59	0.77
PE (x)	6.5	18.6	11.2	10.3	7.9
EV/EBITDA (x)	3.7	4.0	4.1	4.0	3.8
DPS (€)	0.19	0.12	0.17	0.19	0.46
Net Div Yield (%)	3.1	1.9	2.8	3.1	7.6

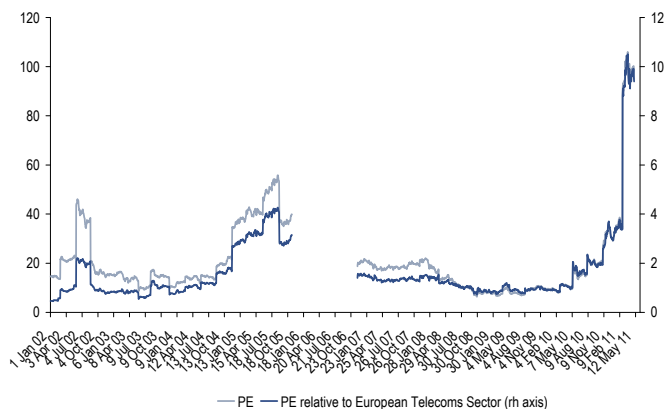
# OTE Performance and Outlook

**Figure 103. OTE has lately seen a small recovery following extended underperformance (left axis €/share; right axis index: end-2006=100)**



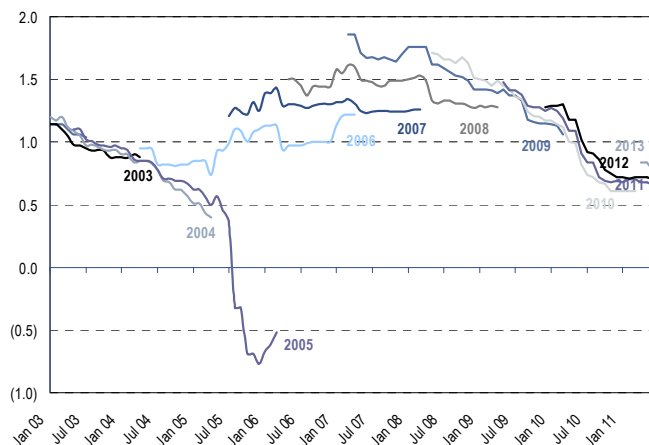
Source: DataStream

**Figure 104. OTE currently trades well above the sector average on PE (1 year forward)**



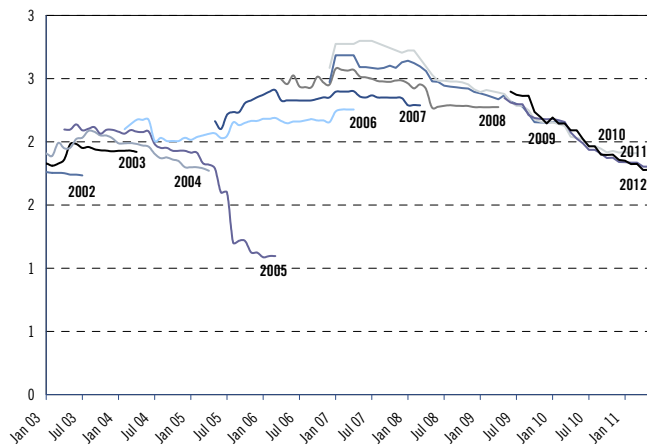
Source: DataStream

**Figure 105. Consensus EPS has been falling rapidly (€)**



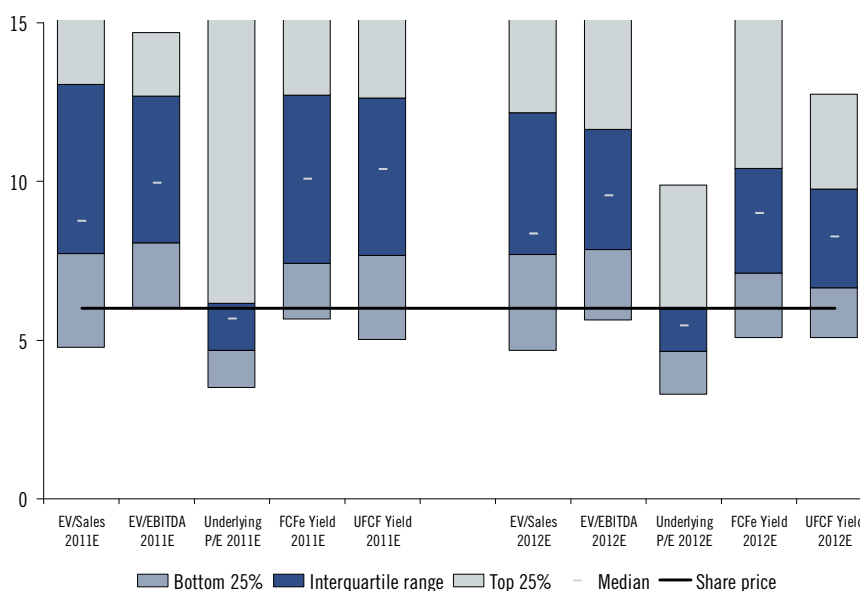
Source: DataStream

**Figure 106. EBITDA consensus is still declining (€bn)**



Source: DataStream

**Figure 107. Compared to its incumbent and wireless peers in Europe OTE trades below the lower quartile on most metrics on our 2011 and 2012 forecasts**  
€/share



Source: Powered by dataCentral

## Significant upcoming events:

- **Privatisation of Telekom Serbia** — Telekom Serbia is 80% owned by the Serbian government and 20% by OTE. The Serbian government has tried to sell the stake in early 2011 but no bid met the reserve price set by the government. Serbian government may decide to try to sell its stake again in the future. OTE's CEO has indicated its plan to sell OTE's 20% stake in Telekom Serbia.
- **Potential increase stake in Romtelecom** — The Romanian government has been considering an IPO or a direct sell of its 46% stake in Romtelecom to OTE. OTE decided not to submit an offer to buy the Romanian government stake in Romtelecom but may consider merging Cosmote Romania and 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 announced the departure of 1,500 employees at its 1Q11 results. We expect the restructuring of OTE's labour force to continue.
- **Licence renewal** — The Greek government is planning to raise €270m in 4Q11 from the renewal of licences for 900MHz for Wind Hellas and Vodafone. While Cosmote's licence expires only in 2016, there is always a risk that the government tries to get Cosmote to renew its licence in advance



## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Georgios Ierodiconou

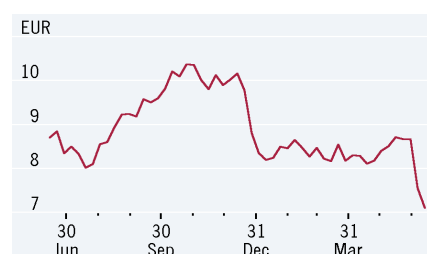
+44-20-7986-4086

georgios.ierodiconou@citi.com

<b>Hold/Medium Risk</b>	<b>2M</b>
Price (14 Jun 11)	€7.06
Target price	€8.50
Expected share price return	20.4%
Expected dividend yield	9.2%
<b>Expected total return</b>	<b>29.6%</b>
Market Cap	€6,184M
	US\$8,915M

#### Price Performance

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



## Portugal Telecom (PTC.LS)

### Well managed but lacking positive catalysts

- **Dealing with macro headwinds** — PT is adept at facing macro challenges and managed to surprise on profitability on solid cost cutting in 1Q. We believe this could be broadly sustained for the rest of the year. Fixed is reaching EBITDA inflection. The competitive environment is improving, with price increases (part real; part passing through on VAT rises) and lower promotional activity in the triple play market. Mobile should improve during the rest of the year on easier comps in 2H 11. The big unknown is the impact from further austerity measures that should be announced in the summer.
- **Positive outlook on cost cutting** — PT has managed to cut opex by c. 10.5% in fixed and c.12.5% in mobile. In fixed, lower personnel costs (down by 11.5%) and programming costs (per unit down by 15%) as Meo TV reaches critical mass were the main drivers. Cost reduction at TMN was broadly spread, mainly driven by efficiency measures and lower MTRs as commercial expenses were down by just 1.2%.
- **Oi restructuring a positive step** — We argue the simplification of the structure will reduce complexity and improve corporate governance and is an encouraging first step, which could facilitate cost cutting and commercial (operational) improvements. The next key step is the announcement of the new CEO in the coming weeks and a new strategy and dividend policy before the end of the year (post completion of restructuring and more key decisions by Anatel on regulation). Already reports suggest that Oi may be granted more flexibility in delivering USO. We also believe it is a matter of time before we get a change to the law that has so far prevented telecom companies from delivering pay TV services.
- **Ratings downgrade** — S&P cut PT's long-term rating to BBB- with negative outlook on 3<sup>rd</sup> June. The rating agency makes adjustments to the reported numbers, in effect not accepting the proportionate consolidation of Oi but making some adjustments to EBITDA to include the dividend received from Oi.
- **Hold for now** — We believe PT is well managed and has demonstrated adaptability during a challenging competitive and macro environment over the last few years. We believe Oi will take time to turnaround, but sensible steps are already being implemented. We view PT as a structural long, but we believe macro uncertainty and the initial headline pain of turning Oi operationally may translate into better buying opportunities. We expect near-term pressure to persist. We reiterate our Hold recommendation, DCF-based price target of €8.5.

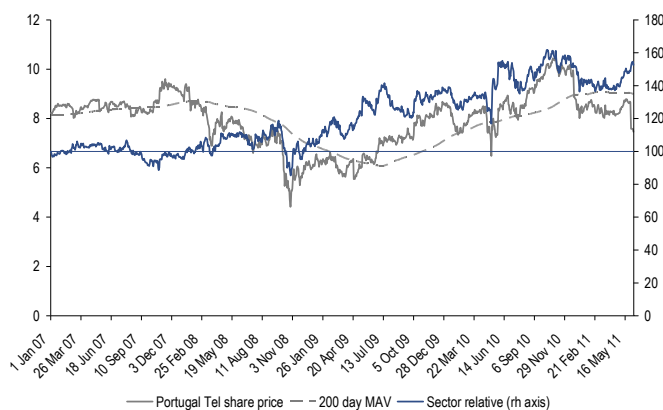
#### Portugal Telecom (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	6,784.3	3,742.3	5,957.5	6,556.4	6,436.4
Net Income (€M)	636.5	387.6	601.3	594.3	628.1
Diluted EPS (€)	0.73	0.44	0.69	0.68	0.72
Diluted EPS (Old) (€)	0.73	0.44	0.69	0.68	0.72
PE (x)	9.7	16.0	10.3	10.4	9.8
EV/EBITDA (x)	5.6	7.8	5.1	5.7	5.7
DPS (€)	0.58	0.65	0.65	0.68	0.70
Net Div Yield (%)	8.1	9.2	9.2	9.6	10.0

## Near-term risks offset long-term potential

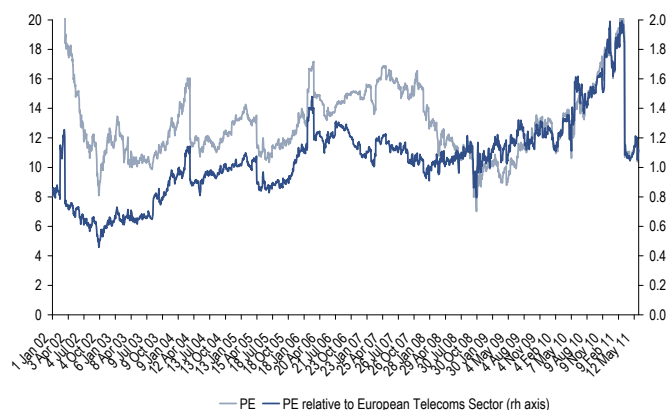
PT has invested heavily in upgrading its network since 2008 and has launched new services. We think it should now start to enjoy the fruits of this investment easing pressure on cash flow generation. PT's opex discipline reduces downside risk from weak macro conditions and leaves scope for upside in the medium term. This commitment to long-term value creation is at the core of PT's success and what makes it a desirable medium-term to long-term investment. But 2011 looks to be a challenging year and we expect the stock (which has consistently outperformed peers and the market) to face some headwinds. We also see the initial newsflow around Oi to be negative, while the results from the investment and the push for more sustainable growth will only yield dividends in the coming years.

Figure 108. PT has lately outperformed the sector (left axis €/share; right axis index: end-2006=100)



Source: DataStream

Figure 109. PT trades above the sector average on PE (1 year forward)



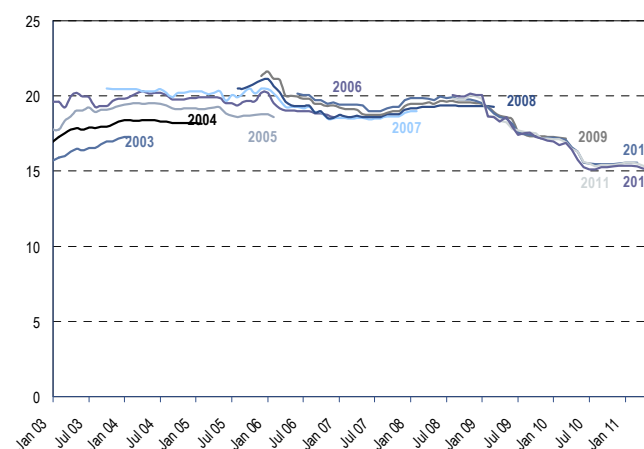
Source: DataStream

Figure 110. Consensus EPS has been rising (€)



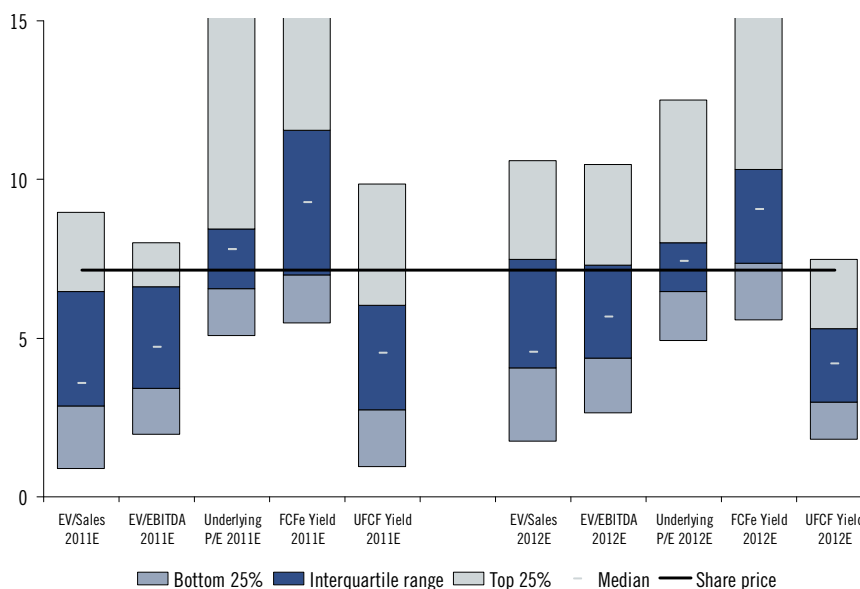
Source: DataStream

Figure 111. EBITDA consensus fell on sale of Vivo (€bn)



Source: DataStream

**Figure 112. Compared to its incumbent and wireless peers in Europe PT's lack of leverage shows in inconsistent trading levels vs peers on our 2011 and 2012 estimates**  
€/share



Source: Powered by dataCentral

## Significant upcoming events:

- **Simplification of Oi's structure:** on March 24<sup>th</sup> Oi started the process of simplifying the shareholder structure, which should eliminate complexity. We expect the process to be completed before the end of the year. We also expect Oi to announce the new dividend policy upon completion.
- **Portuguese spectrum:** The 800Mhz spectrum is going to be available in Portugal after April 2012, when the analogue switch-off is expected to take place. We expect to get more clarity on whether the spectrum will be made available to the MNOs and when towards the end of the year.
- **Anatel to publish final decisions on key topics-** USO obligations and pay TV are already expected by September. The most critical decision is around MTRs, with Oi favouring deeper cuts. Press reports suggest that we should expect positive decisions on the first two topics (USO and pay TV).
- **New Portuguese MTR announcement:** The current Portuguese MTR glide-path runs until end-2011. We expect Anacom to start a consultation in 2011, but past experience suggests that the final decision could come a few months later, so probably in 2012.

## Sum-of-Parts Valuation

Both on a relative (after adjusting for the special dividend) and an absolute basis, PT is attractive, in our view. Our DCF-based valuation stands at €8.5/share, by using a WACC of 9.1% for the Portuguese business. We value PT's stake in Telemar at 5x 2011E EV/EBITDA, which reflects €2bn after all liabilities and minorities to Brasil telecom are taken into account.

Figure 113. Sum of Parts valuation

Asset	Stake	EV	Net PT stake (debt)	Per Share Value	As a % of Group EV	Implied 2011E EV/EBITDA
	(%)	(€m)	(€m)	(€)		
Wireline	100.0%	4,160	4,160	4.7	36.9%	5.7x
Domestic Mobile (TMN)	100.0%	3,157	3,157	3.6	28.0%	5.6x
Telemar	26.50%	20,106	(10,304)	3.0	23.1%	5.0x
less Brasil Tel minority			(587)	(0.7)	(5.2%)	3.2x
MTC (Namibia)	25.50%	314	80	0.1	0.7%	3.6x
Dedic (Brazilian call centre)	87.50%	258	226	0.3	2.0%	
CVT (Cape Verde)	30.00%	267	80	0.1	0.7%	8.0x
CST (Sao Tome)	38.25%	52	20	0.0	0.2%	12.2x
<b>Consolidated Assets</b>			<b>9,734</b>	<b>11.1</b>	<b>86.4%</b>	
Unitel (Angola)	18.75%	5,017	941	1.1	8.3%	7.5x
CTM (Macau)	28.00%	606	170	0.2	1.5%	5.4x
UOL (Brazilian ISP)	29.00%	475	138	0.2	1.2%	
Directories	25.00%	180	45	0.1	0.4%	
East Timor	41.12%	122	50	0.1	0.4%	6.2x
Other		190	190	0.2	1.7%	
<b>Total Other Assets</b>			<b>1,533</b>	<b>1.8</b>	<b>13.6%</b>	
<b>Group Enterprise Value</b>			<b>11,267</b>	<b>12.9</b>	<b>100.0%</b>	
FY11E Net (Debt)			(6,504)	(7.4)	(57.7%)	
less Telemar net debt included above			2,731	3.1	24.2%	
Unfunded Pension Liabilities (net of tax)			(579)	(0.7)	(5.1%)	
Tax assets			434			
<b>Group Equity Value</b>			<b>7,348</b>	<b>8.4</b>	<b>65.2%</b>	

Source: Citi Investment Research and Analysis

## Company Focus

## ■ Company Update

## Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

## Georgios Ierodiconou

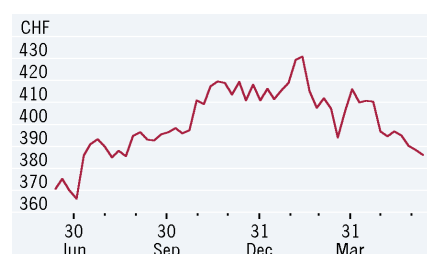
+44-20-7986-4086

georgios.ierodiconou@citi.com

<b>Hold/Low Risk</b>	<b>2L</b>
Price (14 Jun 11)	SFr390.10
Target price	SFr420.00
Expected share price return	7.7%
Expected dividend yield	5.4%
<b>Expected total return</b>	<b>13.0%</b>
Market Cap	SFr20,208M
	US\$24,140M

## Price Performance

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



## Swisscom AG (SCMN.VX)

## Core is rock solid but offset by Italian risk

- **Solid domestic business** — Swisscom is already on track to deliver growth in the retail business even as steep MTR cuts are being implemented and may drive price pressure. Demand for data services remains strong and Swisscom exceeded our expectations across all three major retail divisions, especially at the core residential business.
- **KPIs point the right way** — Line losses are starting to show inflection, following deterioration since the introduction of ULL. We expect trends to start to meaningfully improve in 2H 2011 and 2012 as ULL growth is driven by migration of existing wholesale lines to ULL, which should start to slow. As long as Swisscom's retail business remains successful, the threat from ULL and even cable will be incremental. Cable is more active but has so far failed to meaningfully change trends.
- **Wholesale pressure is temporary** — Revenues declined by 20% YoY in 1Q 11 but that was down to the impact from the 43% MTR cuts. The total impact from the cuts was CHF33m and we expect similar trends for the remainder of the year. But on an underlying basis, we see no major challenges and wholesale should also benefit from slow wholesale to ULL migration.
- **Fastweb fiasco** — We expect Swisscom may struggle to meet expectations and guidance for improvement in Italy as the market conditions remain challenging—even though there has been some improvement compared to 1Q. We believe this is the only operational blemish, but one that should put the guidance in doubt. We suspect that Swisscom is starting to consider the possibility of potentially selling Fastweb, but we believe it would be difficult to secure the price that Swisscom may consider acceptable. Instead we believe partnerships with Sky Italia or other parties in Italy could extend the Italian venture for longer.
- **Stay neutral** — We believe Swisscom has a lot of merits: It has invested consistently and proactively. It is advanced both in terms of fixed NGA but also mobile data. The regulatory environment remains benign and competition weak in both fixed (cable is highly leveraged) and mobile (both Sunrise and Orange are subscale- the former also geared). We believe there is still potential for another attempt for mobile consolidation as early as this year. But we believe newsflow in Italy will continue to weigh on sentiment and management needs to be bolder and more ambitious with the shareholder returns policy. We therefore maintain our Hold recommendation, DCF-based price target of CHF420/ share.

## Swisscom AG (CHF)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (SFrM)	12,001.0	11,988.0	11,763.1	11,836.1	11,924.8
Net Income (SFrM)	1,928.0	1,811.0	1,916.0	2,077.9	2,206.3
Diluted EPS (SFr)	37.22	34.96	36.99	40.11	42.59
Diluted EPS (Old) (SFr)	37.22	34.96	36.99	40.11	42.59
PE (x)	10.5	11.2	10.5	9.7	9.2
EV/EBITDA (x)	6.5	6.4	6.1	5.9	5.7
DPS (SFr)	20.00	21.00	24.00	26.00	26.91
Net Div Yield (%)	5.1	5.4	6.2	6.7	6.9

## Swisscom performance and outlook

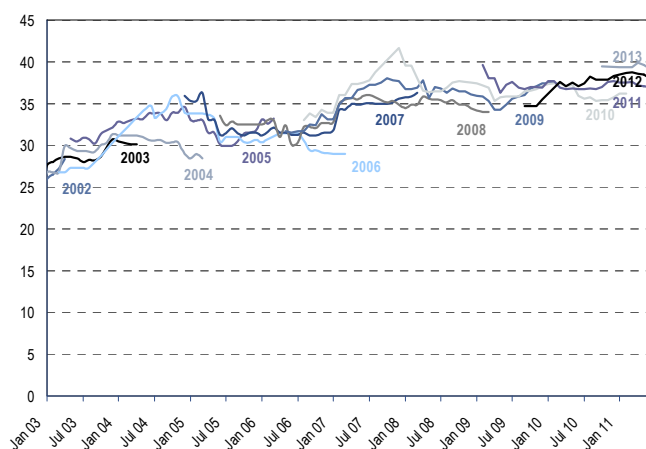
Swisscom has been a steady performer in recent years: a solid domestic business and very low exposure to macro risks mean it is still regarded by some as a 'safe heaven'. And the premium valuation is justified in our view. But Swisscom has disappointed in terms of shareholder returns over the past 3-4 years. At a time when some of the larger and traditionally more acquisitive companies in the sector have pledged more of their cash flow to shareholder returns (rather than M&A), Swisscom's shareholders have seen only modest increases in shareholder returns (in c.5% increments) and no buybacks. At these levels, we believe that for the shares to make further progress, the company needs to increase returns or leave scope for potential positive surprise in the medium term.

Figure 114. Swisscom has steadily outperformed the sector since mid-08 (left axis SFr/share; right axis index: end-2006=100)



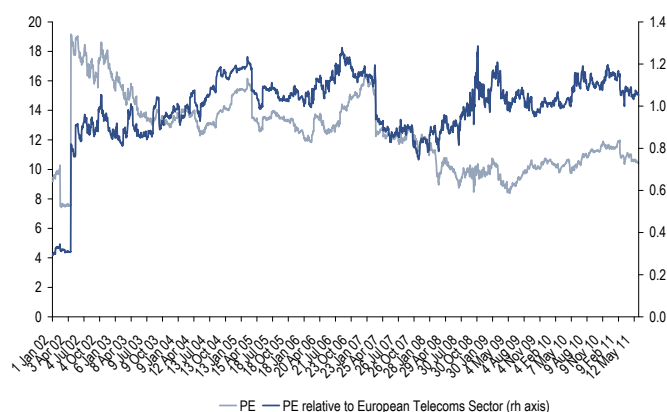
Source: DataStream

Figure 116. Consensus EPS has been slowly improving (SFr)



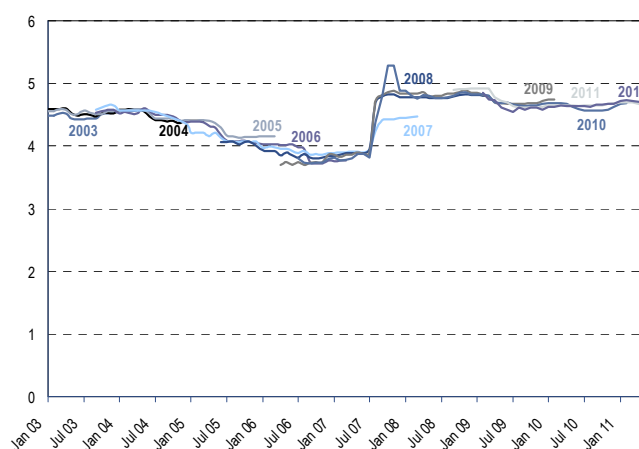
Source: DataStream

Figure 115. Swisscom trades above the sector average on PE and the premium has lately been rising (1 year forward)



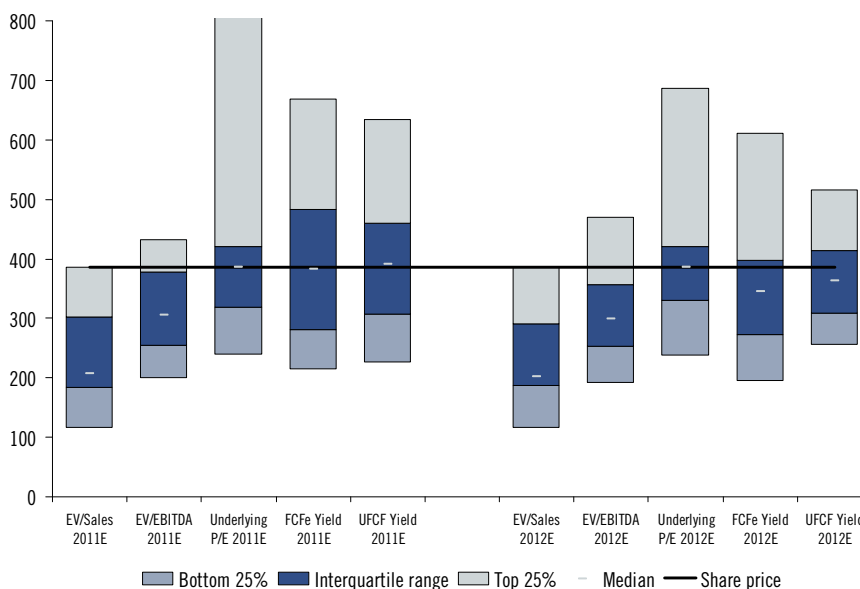
Source: DataStream

Figure 117. EBITDA consensus has lately been fairly stable (SFrbn)



Source: DataStream

**Figure 118. Compared to its incumbent and wireless peers in Europe Swisscom trades at or above the median on our 2011 and 2012 estimates**  
SFr/share



Source: Powered by dataCentral

## Significant upcoming events:

- **Spectrum auction** — The 800MHz spectrum is going to be available as of 2012 and the auction is expected late in 2011 or early in 2012. The details of the process as well as the terms of payments are yet to be finalised. We understand the Sunrise in particular would like a more flexible payment schedule, spread over time. It is hard to estimate the cost for Swisscom as we suspect the incumbent will try and buy as much spectrum as possible, given its market share is in excess of 60%.
- **Sale of Metroweb** — The process has already been delayed (initially scheduled for 1Q 2011) but we understand it is in the final stages. Swisscom is not participating in the process. We see risk in the event that Metroweb is acquired by a strategic investor (Vodafone/ Wind).

## Sum of Parts Valuation

Our DCF based valuation stands at CHF420/share. We use a WACC of 6.3% for the Swiss business and a terminal growth rate of 1.5%. That yields a valuation equivalent to 6.8x EV/EBITDA in 2011E. The blended valuation for the entire group stands at 6.6x.

Figure 119. Sum of Parts valuation

	Stake (%)	Enterprise Value (SFr m)	Per Share Value (SFr)	As a % of Group EV	2011E EV/EBITDA
Swisscom Switzerland	100%	25,668	496	88.3%	6.8x
Fastweb	100%	2,386	46	8.2%	3.3x
Other Assets	100%	1,017	20	3.5%	4.5x
<b>Total Consolidated Assets</b>		<b>29,071</b>	<b>561</b>	<b>100.0%</b>	
<b>Group Enterprise Value</b>		<b>29,071</b>	<b>561</b>		<b>6.6x</b>
2011E Net Debt		7,778	150	26.8%	
<b>Group Equity Value</b>		<b>21,293</b>	<b>411</b>		

Source: Citi Investment Research and Analysis



## Company Focus

- Company Update
- Target Price Change

### Simon Weeden

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

### Laurie Fitzjohn-Sykes, CFA

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

<b>Hold/Medium Risk</b>	<b>2M</b>
Price (14 Jun 11)	SKr119.20
Target price	SKr125.00
	from SKr150.00
Expected share price return	4.9%
Expected dividend yield	8.1%
<b>Expected total return</b>	<b>13.0%</b>
Market Cap	SKr53,598M
	US\$8,478M

### Price Performance

(RIC: TEL2b.ST, BB: TEL2B SS)



## Tele2 AB (TEL2b.ST)

### Strong operations, offset by Russian regulatory risk

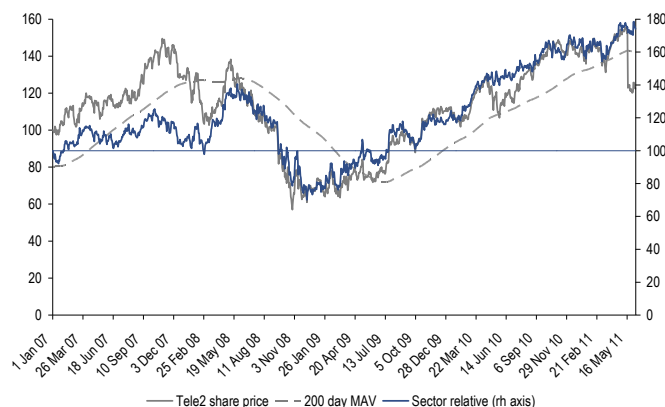
- **Overall, retain Hold, TP SEK 125** — Tele2's operations remain strong, with growth in Russia and Sweden, option value in Kazakhstan from new mobile operations, and option value in the Netherlands from the potential to increase mobile activities. As a consequence, Tele2 trades at 6.3x 2011E EV/EBITDA, a 26% premium to the sector. However, we remain concerned over the lack of a clear path to a 4G network in Russia. We cut our TP to SEK 125 due to the payment of the special dividend.
- **Sweden mobile** — The Swedish mobile market remains the highest growing in Europe, growing 7.6% excluding the impact from MTR cuts in 1Q11. This is being driven by increased adoption of smartphones and voice price stability. Tele2 has been successfully increasing share in the post-pay segment. In 1Q11, Tele2 took a significant market share of handset sales, which should in turn increase future service revenue growth.
- **Russia strong growth, 4G concerns** — Operations in Russia remain strong, with 28% local currency revenue growth in 1Q11 and margins in old regions increased to 47% vs guidance of 45%. However concerns remain over ability to offer data services; on the 1Q11 results call management said we may not hear anything until 2012.
- **Kazakhstan upside** — In April, Tele2 re-launched services in Kazakhstan under its own brand in Aktobe. Tele2 plan to launch region by region, as it has done in Russia. Pricing is aggressive as expected. One tariff offers c9 KZT/min to all networks. This compares to Kcell (Telia) on-net avg 20 KZT/min and off-net 35 KZT/min.
- **Option in Netherlands** — Tele2 is considering bidding for spectrum in the upcoming 800Mhz auction, though it would more than likely do this via a network JV, as these are common in the Nordic region. Tele2 currently has a small MVNO in the Netherlands with 334k customer.

### Tele2 AB (SEK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (SKrM)	39,265.0	40,164.0	40,954.3	42,384.0	43,678.0
Net Income (SKrM)	4,519.0	6,926.0	4,699.1	5,103.5	5,871.2
Diluted EPS (SKr)	10.24	15.56	10.56	11.47	13.19
Diluted EPS (Old) (SKr)	10.24	15.56	10.56	11.47	13.19
PE (x)	11.6	7.7	11.3	10.4	9.0
EV/EBITDA (x)	5.7	4.9	5.3	5.2	4.6
DPS (SKr)	5.85	27.00	9.66	10.39	11.21
Net Div Yield (%)	4.9	22.7	8.1	8.7	9.4

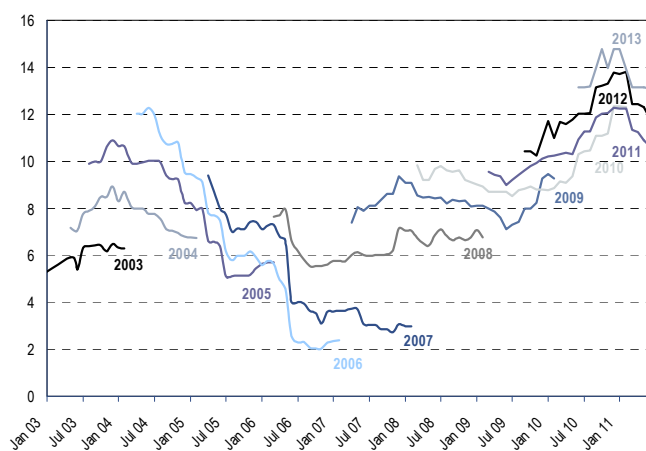
## Tele2 performance and outlook

**Figure 120. Tele2 has performed strongly since mid-09 (left axis SEK/share; right axis index: end-2006=100)**



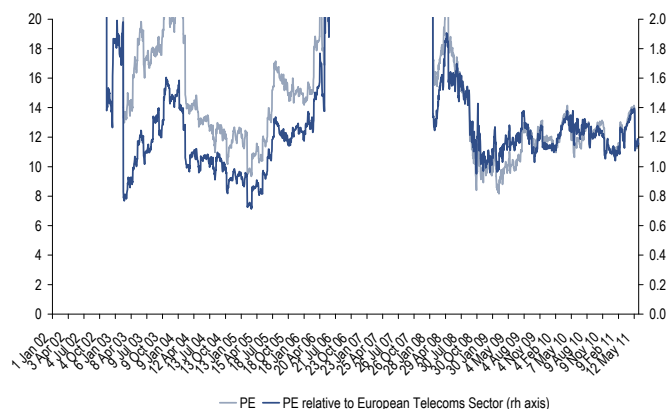
Source: DataStream

**Figure 122. Consensus EPS has been rising until recently (SEK)**



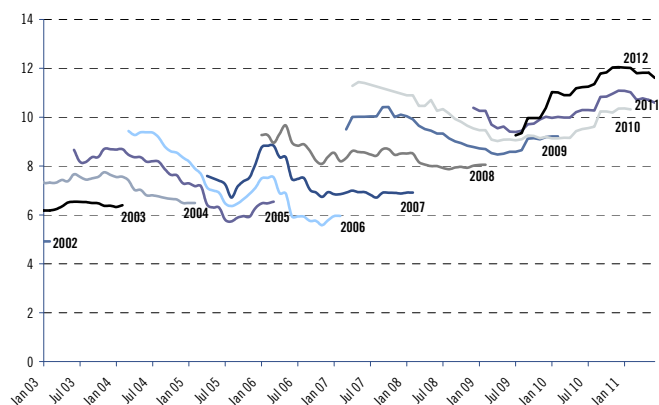
Source: DataStream

**Figure 121. Tele2 trades slightly above the sector average on PE (1 year forward)**



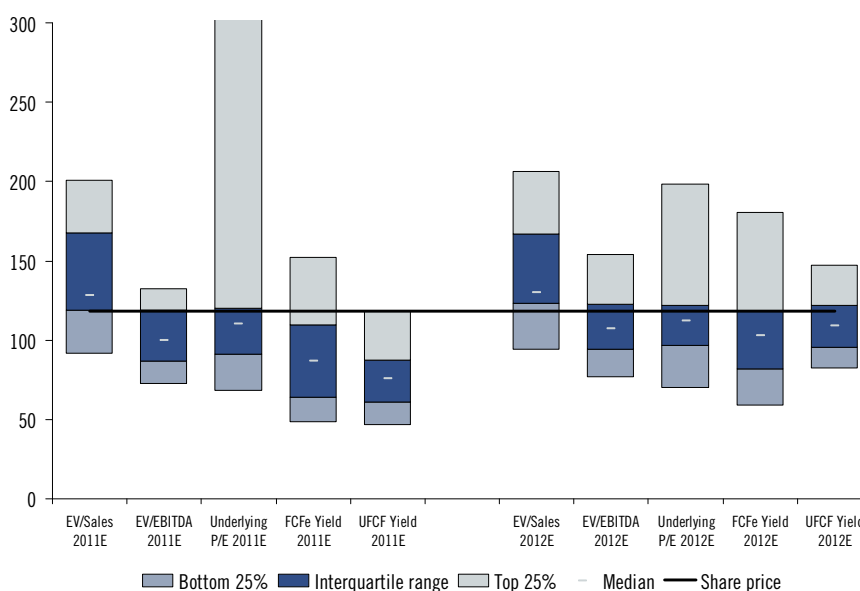
Source: DataStream

**Figure 123. EBITDA consensus has seen consistent upgrades (SEKbn)**



Source: DataStream

**Figure 124. Compared to its incumbent and wireless peers in Europe Tele2 trades around the upper quartile on both our 2011 and 2012 estimates**  
SEK/share



Source: Powered by dataCentral

**Figure 125. SOTP Valuation (SEK m)**

Division	Stake	Enterprise value	Net (debt) 2011	Valuation Method	Tele2 equity	% of Tele2 EV	Value/ share	EV/ Sales	EV/ EBITDA
Sweden	100%	19,567	0	6.0x 2011 EV/EBITDA	19,567	30.0%		1.5x	6.0x
Norway	100%	2,326	0	0.8x 2011 EV/Sales	2,326	3.6%		0.8x	(48.2x)
Russia - Old	100%	19,985	0	5.0x 2011 EV/EBITDA	19,985	30.6%		2.3x	5.0x
Russia - New	100%	8,089	0	5.0x 2015 EV/EBITDA	8,089	12.4%		2.8x	
<b>Total Russia</b>		<b>28,074</b>	<b>0</b>		<b>28,074</b>	<b>43.0%</b>		<b>2.4x</b>	<b>6.6x</b>
Estonia	100%	873	0	4.5x 2011 EV/EBITDA	873	1.3%		1.0x	4.5x
Lithuania	100%	1,824	0	4.5x 2011 EV/EBITDA	1,824	2.8%		1.5x	4.5x
Latvia	100%	1,604	0	4.5x 2011 EV/EBITDA	1,604	2.5%		1.4x	4.5x
Croatia	100%	1,080	0	0.8x 2011 EV/Sales	1,080	1.7%		0.8x	12.5x
Kazakhstan	100%	406	0	2.0x 2011 EV/Sales	406	0.6%		2.0x	(0.8x)
Netherlands	100%	7,480	0	4.0x 2011 EV/EBITDA	7,480	11.5%		1.2x	4.0x
Germany	100%	1,269	0	4.0x 2011 EV/EBITDA	1,269	1.9%		1.0x	4.0x
Austria	100%	1,168	0	4.0x 2011 EV/EBITDA	1,168	1.8%		0.8x	4.0x
Other	100%	(400)	0	5.0x 2011 EV/EBITDA	(400)	(0.6%)		(0.5x)	5.0x
<b>Total</b>		<b>65,273</b>			<b>65,273</b>		<b>147.3</b>	<b>1.6x</b>	<b>6.2x</b>
Net debt (2011)					(9,867)				
<b>Total Core</b>					<b>55,406</b>		<b>125.0</b>		

Source: Citi Investment Research and Analysis

## Significant upcoming events:

- **Netherlands 800Mhz auction** — Tele2 management have said they are considering bidding the in Dutch 800Mhz auction. Currently Tele2 has a small MVNO in the Netherlands with 334k customers. The final document for the auction is due to July/August, one of the 3 slots in 800Mhz may be reserved for a new entrant such as Tele2. The auction would then take place in Q1 2012, with the spectrum being available from 2013/14.
- **Russia 4G** — Uncertainty remains for Tele2 Russia's path to a 4G data network. Progress on a 4G auction is limited; we could see progress in 2012. Before a 4G auction, there may be progress on tech neutrality, which would allow Tele2 to offer 3G services over its current holdings of 900Mhz and 1800Mhz spectrum.
- **Kazakhstan Launch** — Tele2 continues to re-launch region by region in Kazakhstan, which may generate news flow from aggressive pricing

## Company Focus

### Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Georgios Ierodiconou

+44-20-7986-4086

georgios.ierodiconou@citi.com

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (14 Jun 11)	€0.95
Target price	€1.30
Expected share price return	37.6%
Expected dividend yield	5.8%
<b>Expected total return</b>	<b>43.4%</b>
Market Cap	€17,681M
	US\$25,490M

#### Price Performance

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



## Telecom Italia SpA (TLIT.MI)

### Recovery unlikely before 2H

- We have published a separate note that looks at the momentum of the domestic market in detail. In summary, we believe the market may be giving up on TI at the wrong time. Based on our assessment, TI is right to expect a significant improvement in 2H and if TIM executes well (willing to increase SAC and sacrifice margins), the pace of improvement could be material.
- **The incredible...** — TI's guidance on the domestic market already looks ambitious after weak 1Q11 numbers and another mixed quarter with tough comparisons due next. TI guided for 4% decline in revenues and EBITDA for 2011 and has so far delivered -7.4% and -7.6%, and is expected to remain below trend for 2Q. Reaching guidance will require a comeback in 2H, which will take more than just easier comps and absence of one-off shock billing (which benefited 1H10) and promotional revenues.
- **...Credible** — Yet it is possible for TI to deliver significant improvement in 2H and come close to targets. Fixed should benefit from the line rental increase (starts 1<sup>st</sup> July) and what appears to be a slightly more rational competitive environment. In mobile, we believe the revenue revival needs significant investment in handsets sales (which could increase materially; we estimate by more than 50% in 2011) and will have immediate benefits to service revenue and more on data growth from an increase in smartphones.
- **The possible...** — TIM has made the biggest adjustment in pricing, which should no longer be a drag: price cuts and cannibalisation means that outbound pricing at 8.7c in 1Q11 is in line with that of Vodafone. TIM's network is as good as Vodafone's (the two companies network share). So with enough commercial investment, TIM should be able to close the gap in service revenue growth with Vodafone and at least deliver positive momentum in data revenues.
- **...Impossible** — But that would require bold execution and commitment to the operational performance. So far TI has been cutting costs to offset revenue weakness. But cutting commercial expenses when competition is doing the reverse only leads to further loss of market share and problems down the line. TI has pledged to maintain stable commercial investment this year, but we argue increasing it could be better. We assume TI will miss its domestic EBITDA guidance by €200m, but that will be enough to ensure revenue recovery.
- **We remain buyers** — 1) Fixed continues to improve and remains the biggest value generator for the group; 2) valuation looks compelling and benefits from good dividend momentum and low payout ratio; and 3) problems at mobile are execution related and not structural, so we are willing to wait for the recovery. TI shares valuation look compelling for both the ordinary and savings shares: 4.6x EV/EBITDA, 7.7x (6.6x) P/E, 14% (16%) FCF yield for ordinary (savings) shares in 11E. TI benefits from dividend momentum and yield that reaches 8.8% (10.1%) in 13E.

#### Telecom Italia SpA (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	27,163.0	27,571.0	29,433.5	29,394.7	29,325.2
Net Income (€M)	1,581.0	2,832.0	2,484.1	2,613.1	2,704.1
Diluted EPS (¢)	8	15	13	14	14
Diluted EPS (Old) (¢)	8	15	13	14	14
PE (x)	11.6	6.5	7.4	7.0	6.8
EV/EBITDA (x)	4.7	4.6	4.5	4.4	4.3
DPS (¢)	5	6	7	8	9
Net Div Yield (%)	5.3	6.1	7.0	8.1	9.1

## Recovery unlikely before 2H

We are positive because we see scope for fixed (which accounts for 2/3 of domestic revenues) to improve on favourable regulation, increases in retail prices and cost cutting. We were encouraged by the resilience of fixed, during an especially competitive 1Q 11. We are getting less comfortable with TIM Brazil, as fear the competitive environment will deteriorate in 2H 11 as Claro and Oi make a come back. But the main emphasis of the market and driver for the shares will be the performance of TIM Italy. It continues to lose market share and has fallen behind Vodafone in terms of service revenues, with the gap widening. We expect 2Q to remain disappointing on touch comparisons and only incremental progress on an underlying basis. But we see room for improvement in 2H 11, particularly if TI is willing to sacrifice margin and give itself room to solve the operational problems.

### Significant upcoming events

- TI will increase line rental in July by 2.6%, which should help access revenue trends. TI is also refreshing and simplifying the structure of its tariff offers and expects to benefit from higher usage, which should progressively benefit numbers and drive lower voice traffic dilution.
- **Agcom to finalise decision on MTRs:** The draft decision has been challenged by the operators that are unhappy with the initial correction in 2012. The final decision should be published before the end of the year.
- **Spectrum:** Government is willing to conclude the auction by the end of 2011 for 800Mhz, 1.8Ghz, 2.6Ghz. The 800Mhz are unlikely to be released before the end of 2012, something that could delay the process. The government expects to cash in around €2bn. A lot depends on the structure of the auction.
- **Potential sale of Sparkle:** With the settlement of liabilities that relate to the VAT fraud case, we believe TI could consider selling the business as was the plan before the scandal broke. That could be a major catalyst for the implementation of the buyback program.

### Valuation

We value Italian fixed at 5.1x 2011 EBITDA, broadly in line with peer group. We believe a premium could be justified given lack of cable, lower revenue erosion and better cost cutting ability. We value mobile at 4.2x 2011 EBITDA, a discount reflecting poor execution and underperformance compared to competitors and peers. We value Brazil at 6.0x in 2011, a premium to the trading valuation which we expect will continue to close as TIM Brazil's share continue to re-rate as it moves to the Novo Mercado.

Figure 126. Sum of Parts valuation (€m)

Asset	Stake	EV	Net (debt)	Method	TI market value	Blended €/share
Italy - Wireline	100.0%	31,086	0	5.1x 2011E EBITDA	31,086	1.61
Italy - Wireless	100.0%	13,082	0	4.2x 2011E EBITDA	13,082	0.68
TIM Brazil	66.27%	11,890	(1,049)	6.0x 2011E EBITDA	7,185	0.37
Telecom Argentina	16.2%	3,416	59	Market price (Peso 19.0/share)	563	0.03
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%	40	0	4.5x 2010E EBITDA	40	0.00
<b>Group EV</b>					<b>52,387</b>	
Other net debt (2011E)			(28,388)		(28,388)	(1.47)
<b>Equity value</b>					<b>23,999</b>	
Implied blended per-share value					1.24	
<b>Implied value per ordinary share</b>					<b>1.29</b>	
<b>Implied value per savings share</b>					<b>1.14</b>	

Source: Citi Investment Research and Analysis

Figure 127. The savings shares trading discount vs the ords has lately narrowed significantly



Source: Citi Investment Research and Analysis

## Company Focus

## Telefonica SA (TEF.MC)

### New risks in LatAm; same problems in Spain; solid in Europe

#### Company Update

##### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

##### Georgios Ierodiconou

+44-20-7986-4086

georgios.ierodiconou@citi.com

<b>Hold/Medium Risk</b>	<b>2M</b>
Price (14 Jun 11)	€16.28
Target price	€16.50
Expected share price return	1.4%
Expected dividend yield	9.2%
<b>Expected total return</b>	<b>10.6%</b>
Market Cap	€74,279M
	US\$107,084M

#### Price Performance

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



■ **New sources of risk in LatAm** — 1Q 11 saw significant deterioration in Mexico and Venezuela and slowdown in Argentina and Colombia. LatAm growth in aggregate deteriorated for a second consecutive quarter and we see further risk in 2H from increased competition in Brazil (GVT launch in fixed; more competition from Claro and Oi in mobile) and Chile (two new mobile entrants). We also see scope for devaluation and depreciation of the VEF and ARS to have a significant impact on medium-term estimates. Due to uncertainty over timing, these are not reflected in our numbers. We also believe that cuts to MTR in Mexico are now inevitable and a matter of time and this acts as additional headwinds that should complicate the turnaround further.

■ **Spain remains challenging** — Following a mixed 1Q 11, with weak KPIs and a small improvement in service revenue trends, we see further risk for the rest of the year. Vodafone cut prices early in 2Q and Movistar reacted with its own offer, which started on 6<sup>th</sup> June (€6/month and 6c per minute to all networks). The pricing environment is coming under pressure earlier than we anticipated and 2H results could disappoint. But we argue that TEF is right to react early before the pace of market share decline accelerates and the route to stabilisation becomes harder to reach. We expect that soon TEF will also have to deal with the ongoing loss of market share in broadband, which should lead to further ARPU dilution and revenue pressure. Cost-cutting initiatives could partly mitigate trends, but on balance we expect EBITDA and cash flows to come under pressure.

■ **Europe on track** — Headline service revenue numbers pointed towards a significant deceleration in the UK and underperformance compared to competition in Germany. But on an underlying basis, the German business is performing well operationally and we attribute the decoupling of revenues and service revenues to the update and success and revenue recognition of 'My Handy'. In the UK, the decline in service revenues is partly down to a change in the way O2 recognises third party services, which benefited service revenues growth during 2010. We believe that O2 remains well-positioned to benefit from margin improvement in both the UK and Germany and see upside risk to market expectations, especially at OpFCF level.

■ **We remain concerned (Hold; €16.50)** — We do not expect TEF will cut the dividend this year and that is keeping us from talking a more cautious stance. But in our numbers, dividend commitments of €1.75/share are not covered by FCF generation from 2012 onwards, even before adjusting for cash flow coming from Venezuela. Spectrum auctions are likely to also impact cash flow generation in the near term and should absorb most of the funds that arise from planned disposals.

#### Telefonica SA (EUR)

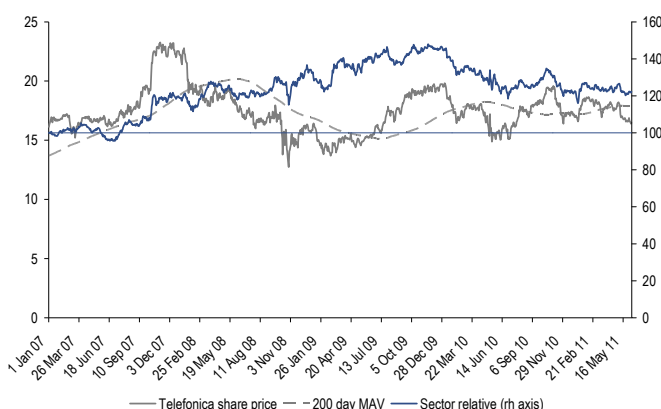
Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	56,731.0	60,737.0	63,084.0	61,774.4	61,710.1
Net Income (€M)	8,029.0	7,930.0	7,791.7	7,420.1	7,264.4
Diluted EPS (€)	1.76	1.76	1.71	1.63	1.59
Diluted EPS (Old) (€)	1.76	1.76	1.71	1.63	1.59
PE (x)	9.2	9.3	9.5	10.0	10.2
EV/EBITDA (x)	5.2	5.3	5.7	5.8	5.8
DPS (€)	1.15	1.40	1.60	1.75	1.75
Net Div Yield (%)	7.1	8.6	9.8	10.7	10.7



## Rebasing expectations- Dividend cut next?

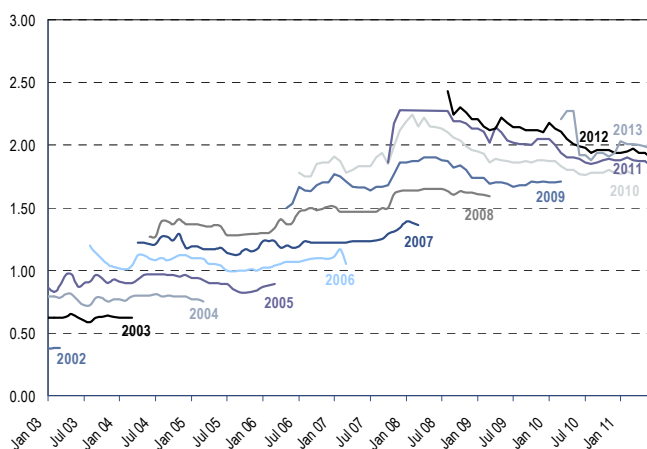
TEF's operational performance remains weak in Spain and mixed in LatAm. The investor day in April failed to ease concerns around the medium term outlook and the position of the company to deal with the challenges. The market is also unconvinced as to the sustainability of the dividend and returns commitment for 2012 and beyond of €1.75/share. But we do not expect a dividend cut this year as we believe management have signaled their intention to keep the commitment as long as possible. The usual skeletons in TEF's closet (Venezuela and Argentina), as well as operational and regulatory challenges in Mexico, should ensure a more somber assessment of the potential for LatAm to offset problems in Spain. We therefore expect the shares to be range-bound in the near term and reiterate our Hold recommendation.

Figure 128. TEF has recently underperformed the sector (left axis €/share; right axis index: end-2006=100)



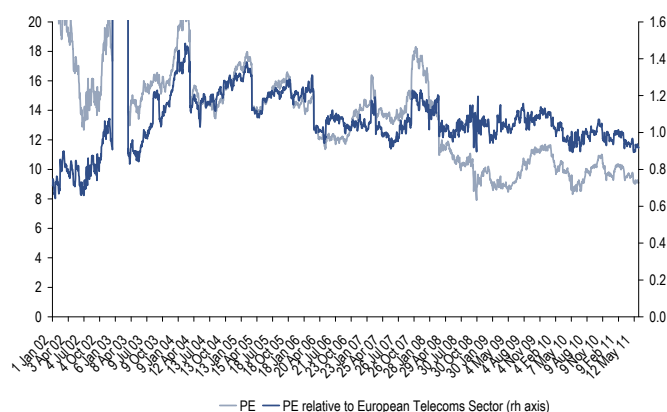
Source: DataStream

Figure 130. Consensus EPS has started to stabilize, though some improvement is down to exceptionals (€)



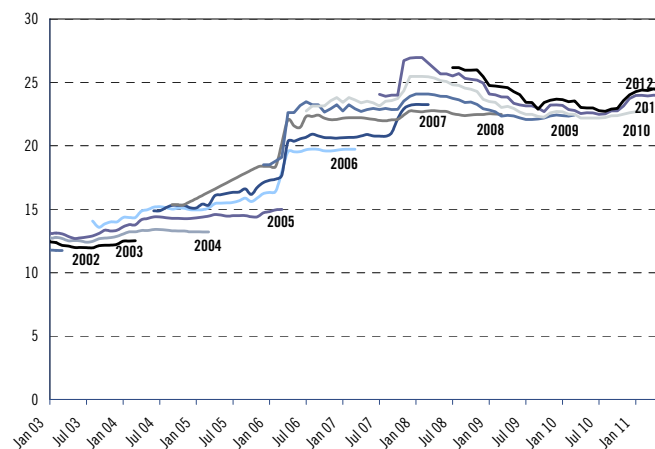
Source: DataStream

Figure 129. TEF trades in line with the sector average on PE (1 year forward)



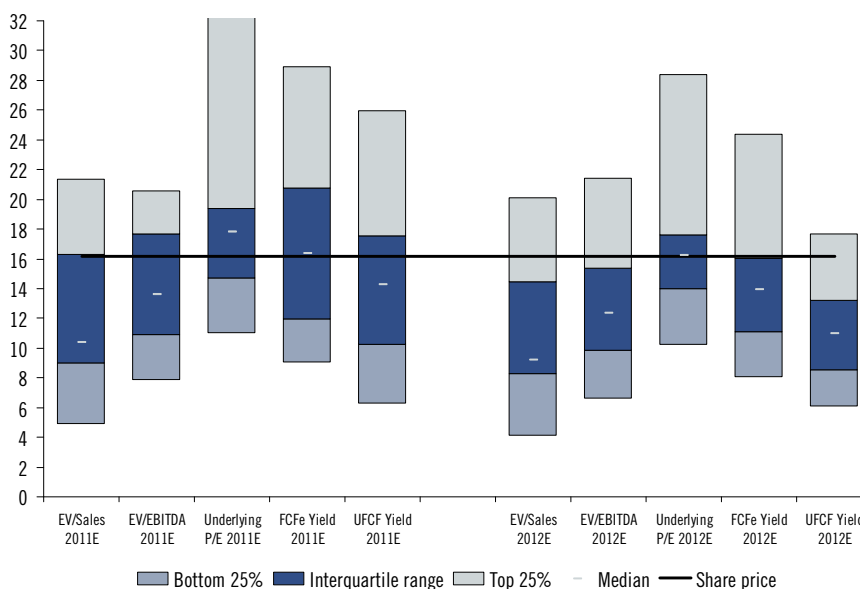
Source: DataStream

Figure 131. EBITDA consensus has lately been rising due to Vivo's changed scope of consolidation (€bn)



Source: DataStream

**Figure 132. Compared to its incumbent and wireless peers in Europe TEF typically trades between the median and the upper quartile on our 2011 estimates and on 2012 estimates €/share**



Source: Powered by dataCentral

## Significant upcoming events

- Spectrum auctions in Spain** — The first part of the spectrum auction has already been completed, with Orange acquiring the residual 900Mhz spectrum and Yoigo the 1800Mhz returned back due to rearming. The main event will be the auction for the 800Mhz and 2600Mhz. The 800Mhz spectrum will be made available from 1<sup>st</sup> Jan 2015 and will be auctioned in six blocks of 2x 5MHz. this is similar to the German auction process. We would expect Movistar and Vodafone to get at least two blocks each. This leaves two blocks of 800Mhz and 5.8Mhz of 900Mhz spectrum for Orange and Yoigo. Based on the price paid by the operators in Germany, we would expect TEF to pay around €400-500m, but could come towards the bottom end, if not lower, as the spectrum will not be in use for another four years.
- Details on restructuring plan** — There is a lot of noise in the media but TEF is yet to reach a final agreement with the unions. The latest reports suggest that TEF will reduce headcount by 6,500 and the terms are expected to be inferior to the last major restructuring, which started in 2003.

## Valuation

We value Spain on 5.5x 2011E EBITDA as above average EBITDA to cash conversion is mitigated by pressure on top line and margins over the medium term (5.9x Ev/EBITDA in 2012E). We value LatAm at 5.5x 2011E, which is towards the top end of the trading peer multiples. Finally we value Europe at 6.7x EV/EBITDA, a premium mainly driven by Germany (7.8x), where we see significant potential for revenue growth and margin expansion.

Figure 133. Telefonica sum of the parts (EURmn, €/share)

Operation	Stake end-2009	Total EV	Net (debt) 2011E	Total MV	Telefonica MV	% of EV
<b>Spain</b>						
Fixed	100%	28,629	0	28,629	28,629	22.4%
Mobile	100%	14,574	0	14,574	14,574	11.4%
<b>Total</b>		<b>43,203</b>	<b>0</b>	<b>43,203</b>	<b>43,203</b>	<b>33.8%</b>
<b>Latin America</b>						
Brazil Fixed (Telesp)	87.95%	11,132	(209)	10,923	9,607	7.5%
Brazil Mobile (Vivo)	63.22%	16,620	(1,130)	15,490	9,792	7.7%
Argentina Fixed	100%	1,782	0	1,782	1,782	1.4%
Argentina Mobile	100%	4,424	0	4,424	4,424	3.5%
Chile Fixed	97.89%	1,976	(500)	1,476	1,445	1.1%
Chile Mobile	100%	3,466	0	3,466	3,466	2.7%
Colombia Fixed	52.03%	1,462	0	1,462	761	0.6%
Colombia Mobile	100%	1,611	0	1,611	1,611	1.3%
Peru Fixed	98.34%	3,010	(609)	2,401	2,361	1.8%
Peru Mobile	100%	2,661	0	2,661	2,661	2.1%
Mexico - Wireless	100%	3,518	0	3,518	3,518	2.8%
Venezuela - Wireless	100%	3,956	0	3,956	3,956	3.1%
Central America	99.99%	1,092	0	1,092	1,092	0.9%
Ecuador	100%	642	0	642	642	0.5%
Other	100%	600	0	600	600	0.5%
<b>Total</b>		<b>57,952</b>	<b>(2,448)</b>	<b>55,504</b>	<b>47,717</b>	<b>37.4%</b>
<b>Europe</b>						
UK	100%	12,938	0	12,938	12,938	10.1%
Germany	100%	10,175	0	10,175	10,175	8.0%
Ireland	100%	1,164	0	1,164	1,164	0.9%
Czech Rep (Cesky Telecom)	69.41%	5,344	34	5,378	3,733	2.9%
Other	100%	303	0	303	303	0.2%
<b>Total</b>		<b>29,923</b>	<b>34</b>	<b>29,957</b>	<b>28,312</b>	<b>22.2%</b>
<b>Associates and other</b>						
Telecom Italia - Telco SPA	46.18%	3,229	(2,187)	1,042	481	0.4%
Portugal Telecom	9.86%			7,333	723	0.6%
Lycos Europe	32.10%			23	7	0.0%
Hispasat	13.23%				50	0.0%
China Unicom	8.37%			31,532	2,639	2.1%
ZON Multimedia	5.40%			1,190	64	0.1%
BBVA	0.98%			37,957	372	0.3%
Amper	6.10%			129	8	0.0%
<b>Total</b>				<b>79,206</b>	<b>4,345</b>	<b>3.4%</b>
<b>Enterprise Value</b>					<b>123,577</b>	
Net debt not included above			(52,624)	(52,624)	(52,624)	(41.2%)
Dividend adj (ex-2010)					0.0%	
Unfunded pension liabilities			(2,687)	(2,687)	(2,687)	(2.1%)
NPV of tax/synergy					4,136	
<b>Equity value</b>					<b>72,402</b>	<b>56.7%</b>
Shares outstanding (mn)					4,564	
<b>Per share value (EUR)</b>					<b>15.9</b>	

Source: Company reports and Citi Investment Research and Analysis

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

### Simon Weeden

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

### Georgios Ierodiconou

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

<b>Hold/Medium Risk</b>	<b>2M</b>
Price (14 Jun 11)	€8.82
Target price	€10.20
	from €10.50
Expected share price return	15.6%
Expected dividend yield	8.5%
<b>Expected total return</b>	<b>24.1%</b>
Market Cap	€3,907M
	US\$5,633M

### Price Performance

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



## Telekom Austria (TELA.VI)

### The perennial value trap or a call option?

- **Another big disappointment** — A broadly in-line set of results was marred by the devaluation of the Belarusian ruble and more negative newsflow around the competitive intensity of Austrian mobile. We cut our price target to €10.2 and lower our estimates to reflect devaluation in Belarus.
- **Domestic may get worse before it gets better** — After years of intense competition and a tough 4Q, where SAC depressed margins for all parties involved, TA extended an 'olive branch' to competitors in 1Q. It raised prices and reduced subsidies in certain iPhone offers. T-Mobile initially and Orange responded by cutting prices; since then, Orange has taken another step.
- **No one willing to admit defeat** — We believe things may have to get worse before they get better as the returns delivered by operators are low but not negative or low enough for there to be imminent financial consequences. Also H3G solved its near-term future by outsourcing its network to ZTE, while Orange agreed a network sharing deal with T-Mobile.
- **Fixed encouraging** — TA is growing access lines and despite a modest setback in 1Q 11 is expected to have broadly flat ARPL in the medium term. Fixed to mobile substitution is less acute than in the past on the access side, but voice traffic is still in steep decline. TA's new revenue streams partly mitigate this, but these are lower-margin products, which means that EBITDA should continue to be under pressure. Cost-cutting efforts are encouraging and we would like TA to keep pushing for more cost savings in the future, despite the headline impact on profitability.
- **International also mixed** — Excluding Belarus, where the performance of the business is impressive, both operationally and financially (however, partly driven by unsustainable stimulus), Bulgarian performance remains under some pressure from macro and competition and more MTR cuts are expected from 2H 2011. And there is a similar situation in Croatia, with the economy remaining weak and Tele2 especially disruptive in the business segment.
- **TKA is for the patient** — There is little scope for positive newsflow in the near term and we expect estimates to remain under pressure. TKA is making some sensible steps but macro conditions in international and intense competition in domestic mobile hinder improvement. We believe the stock is well-supported on the downside at these levels, as we believe the dividend is sustainable despite the declining EBITDA. However, in order to see upside, either international has to stabilise or domestic mobile market should see market repair. That may take time and we see TA as a near-term value trap, but one that investors with 12-24 month horizons should be looking as a call option for the eventual recovery.

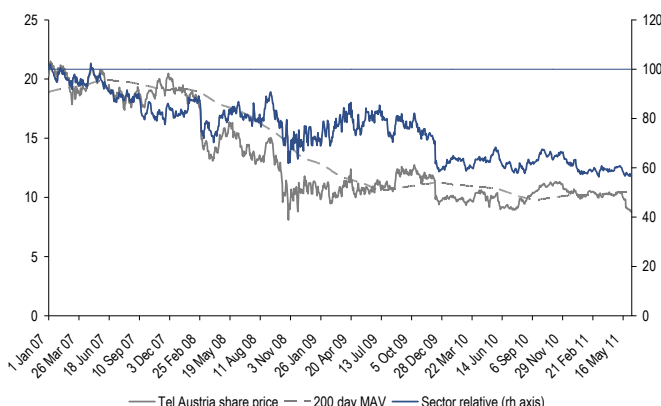
### Telekom Austria (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	4,802.0	4,650.8	4,356.9	4,268.8	4,259.2
Net Income (€M)	94.9	195.2	13.6	191.1	261.2
Diluted EPS (€)	0.21	0.44	0.03	0.43	0.59
Diluted EPS (Old) (€)	0.21	0.44	0.08	0.51	0.66
PE (x)	41.1	20.0	287.2	20.4	14.9
EV/EBITDA (x)	4.0	4.7	5.5	4.8	4.8
DPS (€)	0.75	0.75	0.76	0.76	0.76
Net Div Yield (%)	8.5	8.5	8.6	8.6	8.6

## Core still under pressure

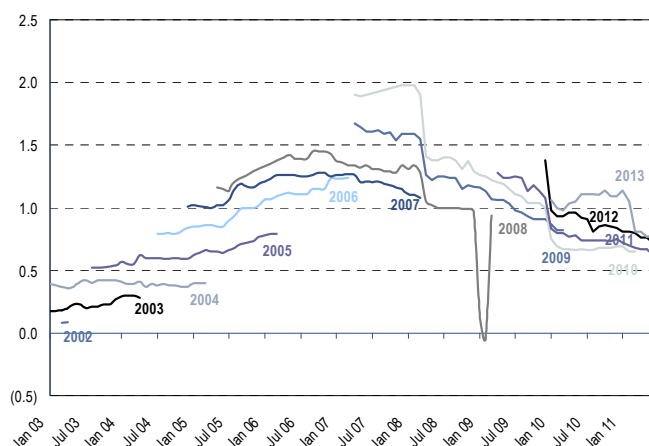
TA's operational performance has deteriorated both at home and across its international operations in recent years. TA has faced systematic earnings downgrades and as a result the stock has underperformed the rest of the sector. A commitment to keep the dividend at €0.76/share provides some downside support, but for the shares to progress, we believe the outlook needs to improve. We do not see this catalyst as imminent, but a more rational domestic market would be enough for a serious rerating. We believe this is long overdue, but high leverage (Orange) and unacceptable ROCE (H3G) are yet to drive the process. Having said that, it has been four years since Mid-Europa partners invested in Orange and we expect that it will start considering its options to exit soon. The transition to LTE and the auction for the digital dividend could be a driver, but we would like to see tangible evidence before we turn more positive.

Figure 134. TKA has performed roughly in line with the sector since end-09 (left axis €/share; right axis index: end-2006=100)



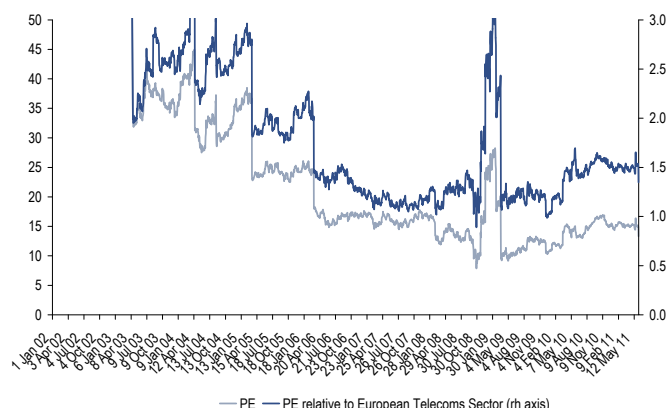
Source: DataStream

Figure 136. Consensus EPS has lately stabilized after falling (€)



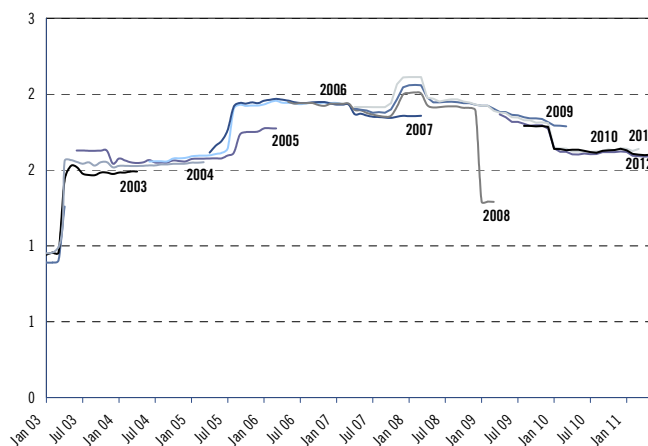
Source: DataStream

Figure 135. Telekom Austria trades well above the sector average on PE due to higher depreciation and amortization of Purchase Price Allocation (1 year forward)



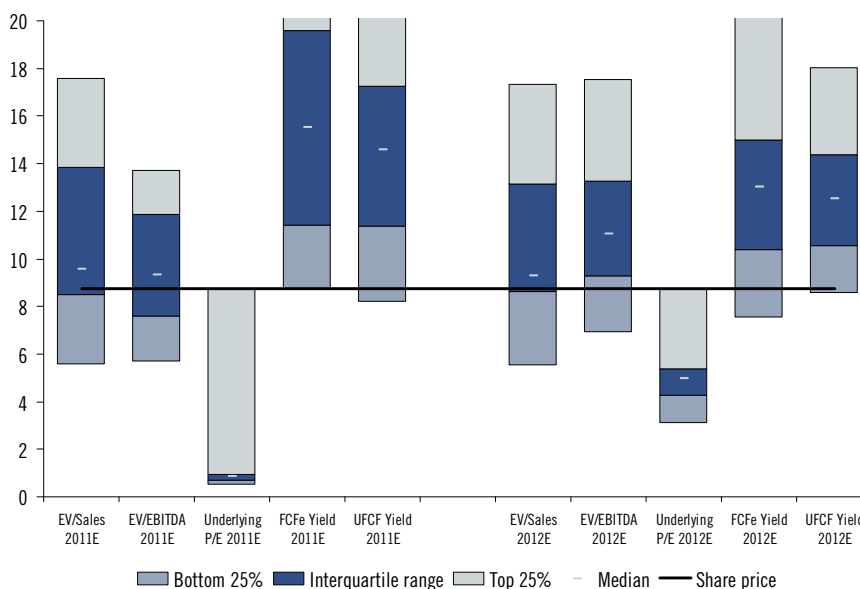
Source: DataStream

Figure 137. EBITDA consensus has started to stabilise (€bn)



Source: DataStream

**Figure 138. Compared to its incumbent and wireless peers in Europe TKA trades below the lower quartile on our 2011 estimates and around the lower quartile on our 2012 estimates €/share**



Source: Powered by dataCentral

## Significant upcoming news events

- **Spectrum** — The Austrian regulator is expected to auction the 800Mhz in late 2011/ early 2012. We expect the auction to be competitive, but since the regulator is yet to set the framework, the potential cost is hard to predict. This could prove to be a major catalyst for more rational behaviour in the mobile market, particularly as highly leveraged Orange and unprofitable H3G will be forced to make significant investments to acquire and develop the spectrum.
- **Telekom Serbia privatization** — Despite the failure for TA and the Serbian government to reach agreement in the terms of the privatisation of a controlling stake in Telekom Serbia, we believe there could be another process after the next general election.
- **FT's call option** — France telecom has an option to buy the remaining stake in Orange Austria. The option starts on 2<sup>nd</sup> October 2011 and runs until June 2013.
- **Bulgarian MTR decision** — Expected in 2H 2011 and should call for steep cuts in order to come closer to the European average from 6.6c currently.

## Core markets continue to face challenges

The challenging environment across TA's operations continues to weigh on performance in 2011.

Compared to previous campaigns, including last year's half monthly fee promotions during Christmas, this is not unexpected. But it should have a meaningful impact on margins, which should come under pressure during this period. The benefits in the form of better service revenue trends may take more time to come through, which means the initial impact from the shift to higher prices and subsidies is the worst.

In fixed, TA continued to deliver solid KPIs, with competition marginalised. The move to mobile substitution is less acute than in the past on the access side, but voice traffic is still in steep decline. TA's new revenue streams partly mitigate this, but these are lower-margin products, which mean that EBITDA should continue to be under pressure.

Bulgaria: The macro environment is showing slow progress but any improvement is likely to be modest, with competition from Vivatel and the impact from interconnection cuts putting more pressure on Mtel's margins.

## Forecast revisions

We revise our estimates downward following the devaluation of the Belarussian ruble. We assume potential further weakness that could see 45% devaluation by the end of the year (from 36% so far). We assume some offset from ARPU improvement in local currency (though modest and mainly usage driven as we believe it would be hard to push price increases). All other forecasts are broadly unchanged following an in-line quarter.

Figure 139. Forecast revision table (€m)

	NEW FORECASTS			CHANGES		
	2011E	2012E	2013E	1E	2E	3E
Wireline	1,748	1,684	1,634	0.3%		
mobikom Austria	1,398	1,411	1,421			
VIPnet (Croatia)	441	431	425			
Mobitel (Bulgaria)	510	465	457			
MDC (Belarus)	207	208	242	-38.2%	-42.0%	-35.1%
Other mobile and eliminations	303	319	331	0.8%	0.9%	0.8%
Wireless	2,859	2,835	2,875	-4.2%	-5.0%	-4.3%
Corporate, Others & Elimination	-250	-250	-250			
<b>Total Revenues</b>	<b>4,357</b>	<b>4,269</b>	<b>4,259</b>	<b>-2.7%</b>	<b>-3.4%</b>	<b>-2.9%</b>
growth (y-o-y)	-6.3%	-2.0%	-0.2%			
Wireline	489	455	441	0.3%		
margin (%)	28.0%	27.0%	27.0%			
mobikom Austria	489	480	469			
margin (%)	35.0%	34.0%	33.0%			
VIPnet (Croatia)	150	151	149			
margin (%)	34.0%	35.0%	35.0%			
Mobitel (Bulgaria)	260	233	224			
margin (%)	51.0%	50.0%	49.0%			
MDC (Belarus)	91	92	106	-47.1%	-53.3%	-49.3%
margin (%)						
Other mobile and eliminations	59	67	76			
<b>Wireless</b>	<b>1,049</b>	<b>1,022</b>	<b>1,024</b>	<b>-7.2%</b>	<b>-9.3%</b>	<b>-9.2%</b>
margin (%)	36.7%	36.0%	35.6%			
Corporate, Others & Elimination	-28	-27	-27	nm	nm	nm
<b>Comparable EBITDA</b>	<b>1,511</b>	<b>1,450</b>	<b>1,438</b>	<b>-5.0%</b>	<b>-6.7%</b>	<b>-6.7%</b>
growth (y-o-y)	-12.8%	10.6%	-0.8%			
Depreciation & Amortization	1,291	995	918	-3.8%	-6.0%	-6.8%
<b>EBIT</b>	<b>220</b>	<b>455</b>	<b>520</b>	<b>-11.5%</b>	<b>-8.3%</b>	<b>-6.6%</b>
Financial Items	-203	-213	-193			
<b>PBT</b>	<b>17</b>	<b>242</b>	<b>326</b>	<b>-62.5%</b>	<b>-14.5%</b>	<b>-10.1%</b>
Taxation	-4	-51	-65	-62.5%	-14.5%	-10.1%
Minorities						
<b>Reported Net Income</b>	<b>14</b>	<b>191</b>	<b>261</b>	<b>-62.5%</b>	<b>-14.5%</b>	<b>-10.1%</b>
<b>Cash EPS</b>	<b>0.03</b>	<b>0.43</b>	<b>0.59</b>	<b>-62.5%</b>	<b>-14.5%</b>	<b>-10.1%</b>
<b>Net Debt</b>	<b>3,168</b>	<b>3,065</b>	<b>2,919</b>	<b>2.4%</b>	<b>6.2%</b>	<b>18.9%</b>
Net Debt to EBITDA	2.1x	2.1x	2.0x			
<b>Capex</b>	<b>-764</b>	<b>-716</b>	<b>-677</b>	<b>0.1%</b>	<b>0.4%</b>	<b>1.5%</b>

Source: Citi Investment Research and Analysis

## Valuation

We use a 40-year fade ROCE DCF for the individual business units. In wireline, we assume ROCE falls to our 8% WACC by 2030. For domestic mobile, we assume ROCE/WACC convergence in 2030 on an 8% WACC. Our valuation is based on a combination of multiples backed by DCF valuation. We have cut our price target to €10.2 from €10.5, mainly down to Belarus.

Figure 140. Sum of parts valuation

	Stake (%)	Enterprise Value (€m)	Per Share Value (€)	As a % of Group EV	Metric	2011E EV/EBITDA
Domestic Fixed Line	100%	2,203	5.0	28.7%	DCF( 7% WACC, 1% terminal growth)	4.5x
Domestic Mobile (Mobikom)	100%	2,506	5.7	32.7%	DCF( 7% WACC, 1% terminal growth)	5.1x
<b>Total Domestic Telecom Assets</b>		<b>4,708</b>	<b>10.6</b>	<b>61.5%</b>		<b>6.0x</b>
Velcom (Belarus)	100%	609	1.4	7.9%	DCF( 11.5% WACC, 2% terminal growth)	6.7x
Mobiltel (Bulgarian Mobile)	100%	1,243	2.8	16.2%	DCF( 12% WACC, 1% terminal growth)	4.8x
VIPnet (Croatian Mobile)	100%	675	1.5	8.8%	DCF( 11.5% WACC, 1% terminal growth)	4.5x
Mobikom (Liechtenstein)	100%	5	0.0	0.1%	2010E EBITDA multiple	4.0x
Vip operator (FYROM)	100%	100	0	1.3%		n.m.
Vip mobile (Serbia)	100%	150	0	2.0%		n.m.
Si.mobil (Slovenian Mobile)	100%	172	0.4	2.2%	DCF( 11.5% WACC, 0% terminal growth)	3.6x
<b>Total International Mobile</b>		<b>2,954</b>	<b>6.7</b>	<b>38.5%</b>		<b>5.3x</b>
<b>Total Consolidated Assets</b>		<b>7,662</b>	<b>17.3</b>	<b>100.0%</b>		
<b>Group Enterprise Value</b>		<b>7,662</b>	<b>17.3</b>			<b>5.8x</b>
2010E Net Debt		3,168	7.2	41.4%		
<b>Group Equity Value</b>		<b>4,494</b>	<b>10.2</b>			

Source: Citi Investment Research and Analysis



## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Laurie Fitzjohn-Sykes, CFA

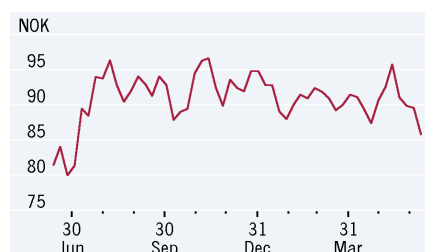
+44-20-7986-4114

laurie.fitzjohnsykes@citi.com

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (14 Jun 11)	NKr87.10
Target price	NKr105.00
Expected share price return	20.6%
Expected dividend yield	4.5%
<b>Expected total return</b>	<b>25.1%</b>
Market Cap	NKr144,402M
	US\$26,591M

#### Price Performance

(RIC: TEL.OL, BB: TEL NO)



## Telenor ASA (TEL.OL) Option Value in the East

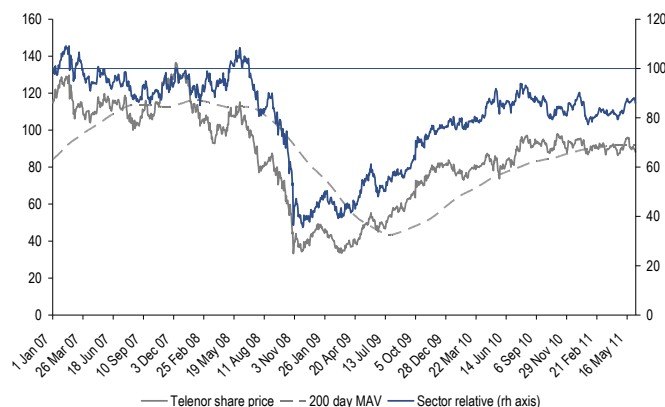
- **Strong core, with option value, Buy** — We believe Telenor offers growth from Emerging markets in contrast to Europe where increasing competition and Southern European macro weakness led to lower growth in 1Q11. In addition to this, the market is factoring in the worst case for India and Vimpelcom, in our view, we see upside risk for both. In India we see relaxed rules on cooperation in the New Telecom Policy benefiting Telenor. We also argue that the market is not crediting Telenor for its increased focus on shareholder returns; we forecast a 7% yield from dividends and buybacks in 2011.
- **Emerging market growth, rising political risk** — Constant currency revenue growth (excl India) was 11.2% in 1Q11, having increased steadily in previous quarters, in contrast to Europe, which saw a worsening in 1Q11. This is partly offset by increasing political risk in emerging markets, mainly in Thailand and Bangladesh.
- **Increased focus on shareholder returns** — We argue the market has not given credit to Telenor for its increased shareholder returns focus. We forecast a 4.5% 2011 dividend yield, based on the current dividend policy. In addition, Telenor has authorisation for a further 5% buyback; we forecast a 3% buyback will be implemented this summer, taking total shareholder returns to c.7.5%, in line with the sector.
- **India new options** — Operations remain challenging in India, though we see a high likelihood that the New Telecoms Policy will open the possibility of increased cooperation between operators. We argue Telenor is well-positioned to benefit from these potential changes. This gives us reason to be optimistic despite the fact the INR155bn maximum FCF loss target looks a stretch on current trends.
- **Vimpelcom, already low expectations** — We argue the market is currently factoring in the worst case for Vimpelcom. Altimio's announcement that it has sold down its stake to break the shareholders agreement should have been expected.

#### Telenor ASA (NOK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (NKrM)	97,650.0	94,843.5	98,129.8	101,820.9	105,784.2
Net Income (NKrM)	10,481.0	8,860.5	11,658.9	13,230.9	15,616.2
Diluted EPS (NKr)	6.33	5.37	7.15	8.31	9.96
Diluted EPS (Old) (NKr)	6.33	5.37	7.15	8.31	9.96
PE (x)	13.8	16.2	12.2	10.5	8.7
EV/EBITDA (x)	5.6	5.4	5.0	4.5	3.9
DPS (NKr)	2.50	3.80	4.00	4.61	6.01
Net Div Yield (%)	2.9	4.4	4.6	5.3	6.9

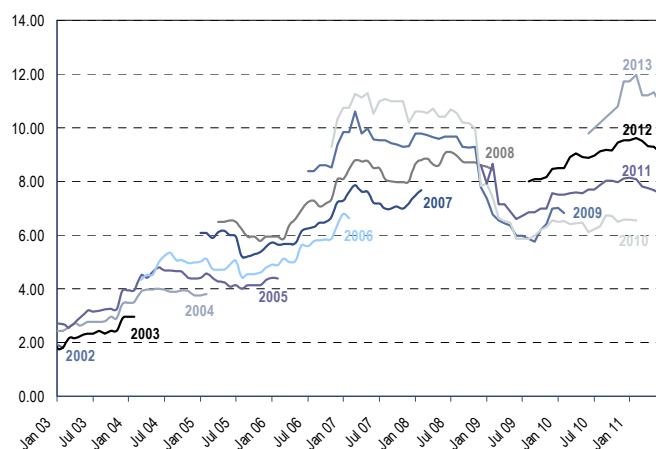
# Telenor performance and outlook

**Figure 141. Telenor has outperformed the sector until recently (left axis NOK/share; right axis index: end-2006=100)**



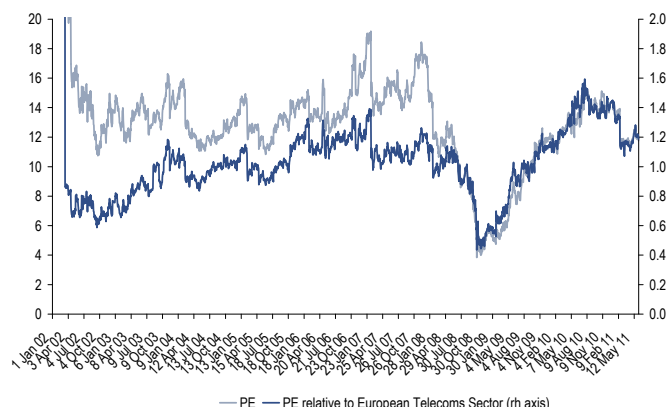
Source: DataStream

**Figure 143. Consensus EPS has lately recovered somewhat (NOK)**



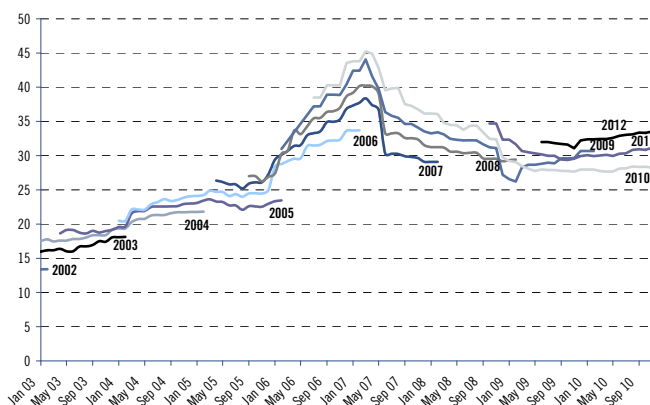
Source: DataStream

**Figure 142. Telenor trades well above the sector average on PE (1 year forward)**



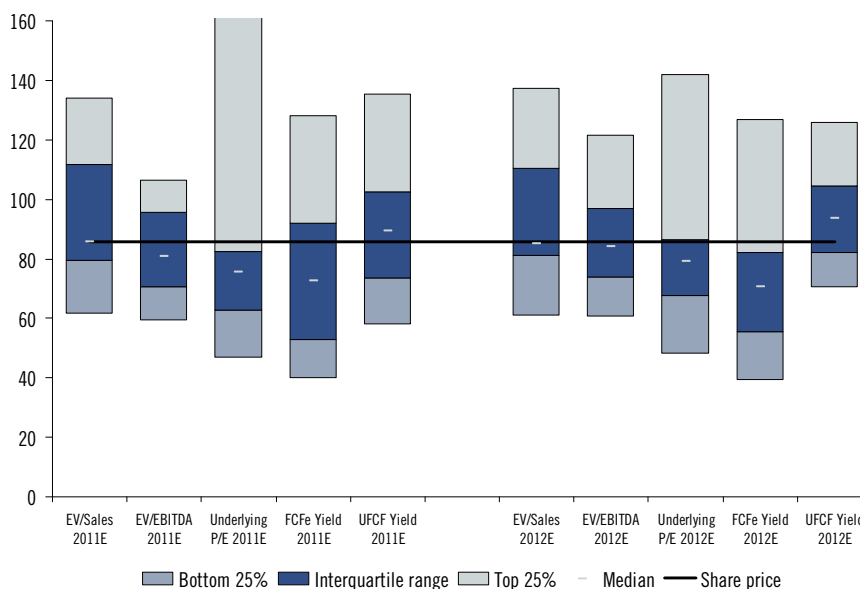
Source: DataStream

**Figure 144. EBITDA consensus has lately been moving up (NOKbn)**



Source: DataStream

**Figure 145. Compared to its incumbent and wireless peers in Europe Telenor generally trades between the median and the upper quartile on our 2011 and 2012 estimates**  
NOK/share



Source: Powered by dataCentral

### Upcoming news flow

- **Buyback announcement** — The recent AGM provided Telenor with authorisation for a 5% buyback. We assume a 3% buyback announcement with the 2Q11 results. This should be further evidence of Telenor's increased focus on shareholder returns.
- **Indian New Telecom Policy** — The New Telecom Policy in India is expected to be announced this summer, though the timing is uncertain. We argue this should be a positive because it should open a number of new options to improve the currently challenging operations.
- **Vimpelcom disputes** — The arbitration is due to take place in early 2012. There may also news flow around Altimio proceeding with selling down its stake, which will bring the shareholders agreement with Telenor to an end. We argue that market is already factoring in the worst case for Vimpelcom, therefore while news flow may be negative, we would not expect this to weigh much on the stock.

Figure 146. SOTP Valuation (NOK m)

Division	Stake	Enterprise value	Net (debt) 2011	Valuation Method	Telenor equity	% of Telenor EV	Value/ share	EV/ Sales	EV/ EBITDA
Norway	100%	54,330	0	5.1x 2011 EV/EBITDA	54,330	28.2%	33.9	2.0x	5.1x
Denmark	100%	8,303	0	5.0x 2011 EV/EBITDA	8,303	4.3%	5.2	1.2x	5.0x
Sweden	100%	15,071	0	6.0x 2011 EV/EBITDA	15,071	7.8%	9.4	1.5x	6.0x
<b>Total Nordic</b>		<b>77,704</b>	<b>0</b>		<b>77,704</b>	<b>40.4%</b>	<b>48.4</b>	<b>1.8x</b>	<b>5.3x</b>
Hungary	100%	8,178	0	5.0x 2011 EV/EBITDA	8,178	4.2%	5.1	1.8x	5.0x
Serbia	100%	5,590	0	5.0x 2011 EV/EBITDA	5,590	2.9%	3.5	2.1x	5.0x
Montenegro	100%	1,371	0	5.0x 2011 EV/EBITDA	1,371	0.7%	0.9	2.2x	5.0x
Thailand	66%	24,125	370	Market value	16,166	8.4%	10.1	1.7x	4.8x
Malaysia	49%	43,092	(848)	Market value	20,700	10.8%	12.9	4.0x	8.9x
Bangladesh	56%	15,567	0	Market value	8,717	4.5%	5.4	2.3x	4.9x
Pakistan	100%	10,177	0	6.5x 2011 EV/EBITDA	10,177	5.3%	6.3	2.2x	6.5x
India	67%	(4,307)	0	FCF loss post end-11	(2,886)	(1.5%)	(1.8)	(1.4x)	1.1x
<b>Total Emerging</b>		<b>103,793</b>	<b>(478)</b>		<b>68,014</b>	<b>35.3%</b>	<b>42.4</b>	<b>2.2x</b>	<b>7.6x</b>
Total (excl India)		108,100	(478)		70,900	36.8%	44.2	2.4x	6.1x
Broadcast	100%	10,341	0	6.0x 2011 EV/EBITDA	10,341	5.4%	6.4	1.4x	6.0x
Other	100%	(3,491)	0	5.0x 2011 EV/EBITDA	(3,491)	(1.8%)	(2.2)	(1.4x)	5.0x
<b>Total Core</b>		<b>188,347</b>	<b>(478)</b>		<b>152,568</b>		<b>95.1</b>	<b>1.9x</b>	<b>6.4x</b>
Vimpelcom	31.7%	143,152	(20,702)	Market value	38,817	20.2%	24.2		
EDB Business Partners	27.5%			Market value	1,103	0.6%	0.7		
<b>Total Group</b>		<b>331,499</b>	<b>(21,180)</b>		<b>192,488</b>		<b>120.0</b>		
<b>Net debt, 2011</b>	100%		(23,944)		(23,944)	(12.4%)			
<b>Total Group</b>		<b>331,499</b>	<b>(45,123)</b>		<b>168,544</b>		<b>105.0</b>		

Source: Citi Investment Research and Analysis

## Company Focus

### ■ Company Update

#### Simon Weeden

+44-20-7986-4204

simon.weeden@citi.com

#### Laurie Fitzjohn-Sykes, CFA

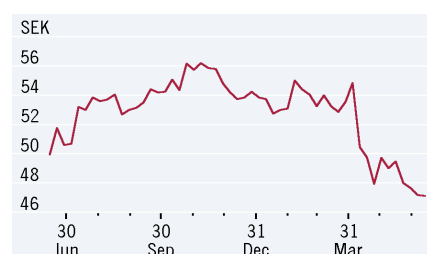
+44-20-7986-4114

laurie.fitzjohnsykes@citi.com

<b>Sell/Medium Risk</b>	<b>3M</b>
Price (14 Jun 11)	SKr47.00
Target price	SKr44.50
Expected share price return	-5.3%
Expected dividend yield	5.9%
<b>Expected total return</b>	<b>0.6%</b>
Market Cap	SKr203,514M US\$32,190M

#### Price Performance

(RIC: TLSN.ST, BB: TLSN SS)



## TeliaSonera AB (TLSN.ST)

### Weakening operations, rising associate asset risk

- **Retain Sell** — Telia reported a weak set of 1Q11 results and downgraded 2011 revenue guidance. The results supported the key points of our Sell thesis. Revenue decline worsened in Swedish Fixed and Wholesale. Increasing competition in Nordic markets apart from Sweden worsened revenue growth. The reliance of group growth on Eurasia and Spain increased further. Telia's valuation remains expensive, trading at a 23% premium to the sector on 2011E EV/EBITDA, operations are weakening and we argue risks are still underestimated in associate asset legal disputes.
- **Worsening Nordic revenue trends** — Nordic underlying revenue growth deteriorated significantly in 1Q11 to -3.4% from -1.6% in 4Q10. This was driven by lower handset sales in Sweden, higher competition in other Nordic mobile markets, and worsening Fixed trends. In Sweden, fixed is increasingly being cannibalised by mobile on both voice and data. We see a risk of this increasing with the rollout of LTE.
- **Increasing reliance on Eurasia and Spain** — Reliance on Spain and Eurasia continues to increase. In 1Q11, Eurasia contributed 2.9ppt and Spain 1.9ppt towards Telia's group growth of 2.5%. Underlying revenue growth excluding these assets was c.-5% in 1Q11, down from c.-3% in 4Q10. On our numbers, Eurasia and Spain are only 12% of Telia's EV; we argue that Telia does not justify a premium rating for the growth these assets generate. We also highlight that Telia only proportionately owns c.41% of its Eurasian assets.
- **Associate asset risk rising** — Associate assets Megafon and Turkcell make up 33% of Telia's EV on our SOTP valuation. We argue that the market is underestimating the risk in these assets. Telia is currently not receiving a dividend from Megafon and this looks unlikely to change in the short term. Recently the Turkcell dividend was not approved at its AGM, it now looks like this delay may last for longer than previously expected. The Turkcell dividend is 18% of Telia's 2011E equity FCF on our numbers.
- **M&A risk** — Telia announced they have dropped out of the bidding for Polkomtel, reducing M&A risk.

#### TeliaSonera AB (SEK)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (SKrM)	109,550.0	106,979.0	104,244.4	106,409.8	107,727.4
Net Income (SKrM)	18,854.0	21,257.0	19,564.2	20,298.4	20,993.4
Diluted EPS (SKr)	4.20	4.73	4.45	4.71	4.88
Diluted EPS (Old) (SKr)	4.20	4.73	4.45	4.71	4.88
PE (x)	11.2	9.9	10.6	10.0	9.6
EV/EBITDA (x)	5.4	5.3	5.4	5.3	5.0
DPS (SKr)	2.25	2.75	2.76	2.83	2.93
Net Div Yield (%)	4.8	5.9	5.9	6.0	6.2

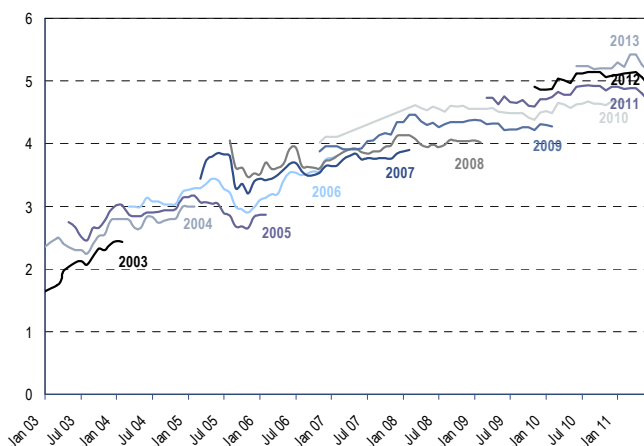
# TeliaSonera performance and outlook

**Figure 147. TeliaSonera has lately slightly underperformed the sector after a period of strength (left axis SEK/share; right axis index: end-2006=100)**



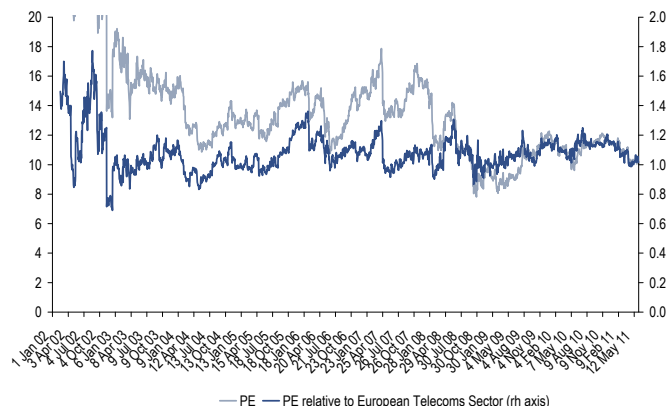
Source: DataStream

**Figure 149. Consensus EPS has been on a strong run until lately (SEK)**



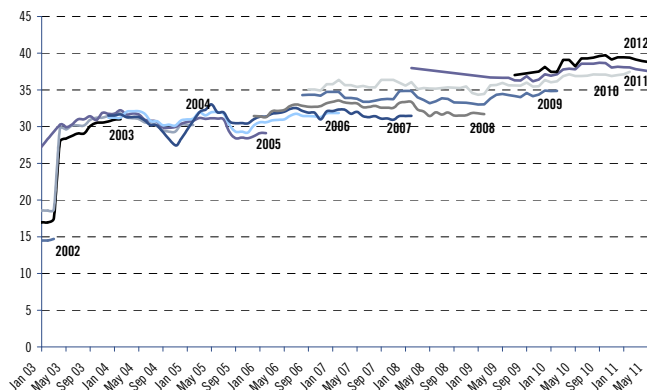
Source: DataStream

**Figure 148. TeliaSonera trades close to the sector average on PE (1 year forward)**



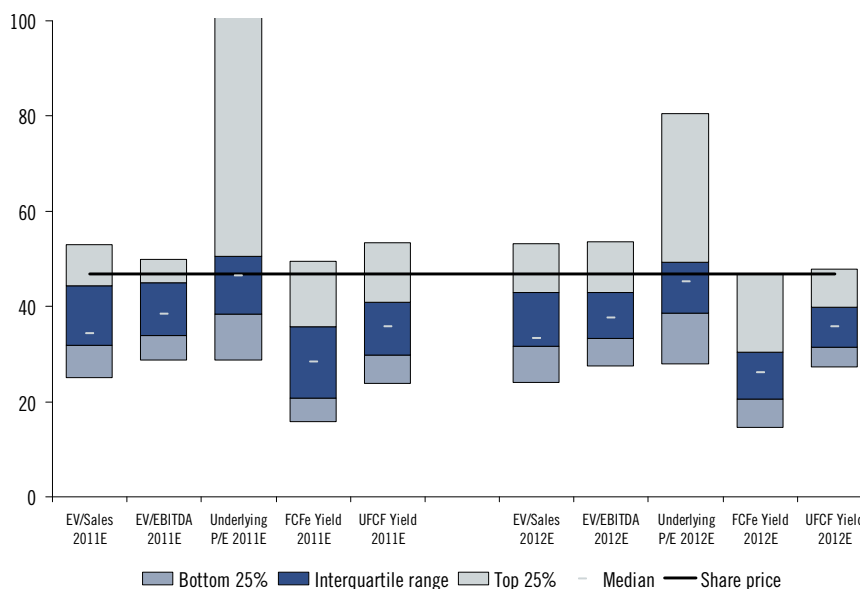
Source: DataStream

**Figure 150. EBITDA consensus has lately stopped increasing (SEKbn)**



Source: DataStream

**Figure 151. Compared to its incumbent and wireless peers in Europe TeliaSonera generally trades in line with the top 25% of its peers on our 2011 and 2012 estimates**  
SEK/share



Source: Powered by dataCentral

### Significant upcoming events:

- **Tele2 re-launch in Kazakhstan** — In April, Tele2 re-launched services in Kazakhstan under its own brand in Aktobe. Tele2 plans to launch region by region, as it has done in Russia. Pricing is aggressive, as expected. One tariff offers c9 KZT/min to all networks. This compares to Kcell (Telia) on-net avg 20 KZT/min and off-net 35 KZT/min. Kazakhstan is 50% of TeliaSonera's Eurasian revenues, which in turn is one of the group's main growth drivers. We argue that Kazakhstan mobile pricing is at risk from a new entrant given its high prices and duopoly market structure. We expect ongoing news flow as Tele2 launches in additional regions.
- **Turkcell dividend delay** — Press reports indicated on 26<sup>th</sup> May 2011 that an Istanbul court rejected Telia's application to convene at Turkcell EGM. This follows the Turkcell AGM on 21st April, where Telia failed to change the composition of the board because an item was blocked by the current Chairman. In a response to this, Altimo abstained from voting at the AGM, leading to the dividend not being approved. The dividend from Turkcell was 18.5% of Telia's 2010 equity FCF. It is now looking probable that the Turkcell dividend may be delayed for longer than expected. Expect news flow as Telia works to resolve this dispute.
- **2Q11 results** — Telia reports 2Q11 results on 20<sup>th</sup> July. Following the downgrade to guidance with the 1Q11 results, operational expectations have been brought down.

Figure 152. SOTP Valuation (SEK m)

Division	Stake	Enterprise value	Net (debt) 2011	Valuation Method	Telia equity	% of Telia EV	Value/ share	EV/ Sales	EV/ EBITDA
Swedish Fixed-line	100%	29,441		4.5x 2011 EV/EBITDA	29,441	11.8%		1.7x	4.5x
Finnish Fixed-line	100%	5,894		4.5x 2011 EV/EBITDA	5,894	2.4%		1.1x	4.5x
<b>Total Domestic Fixed-Line</b>		<b>35,335</b>			<b>35,335</b>	<b>14.1%</b>	<b>8.2</b>	<b>1.6x</b>	<b>4.5x</b>
Swedish Mobile	100%	43,646		6.5x 2011 EV/EBITDA	43,646	17.5%		2.7x	6.5x
Finnish Mobile	100%	13,598		5.0x 2011 EV/EBITDA	13,598	5.4%		1.5x	5.0x
<b>Total Domestic Mobile</b>	<b>100%</b>	<b>57,244</b>			<b>57,244</b>	<b>22.9%</b>	<b>13.3</b>	<b>2.3x</b>	<b>6.1x</b>
Norway Fixed	100%	729		4.5x 2011 EV/EBITDA	729	0.3%		0.7x	4.5x
Norway Mobile	100%	13,725		5.0x 2011 EV/EBITDA	13,725	5.5%		1.7x	5.0x
Denmark Fixed	100%	394		4.5x 2011 EV/EBITDA	394	0.2%		0.5x	4.5x
Denmark Mobile	100%	5,008		5.0x 2011 EV/EBITDA	5,008	2.0%		0.9x	5.0x
Wholesale	100%	10,263		4.0x 2011 EV/EBITDA	10,263	4.1%		1.0x	4.0x
<b>Other Nordic</b>		<b>30,119</b>			<b>30,119</b>	<b>12.0%</b>	<b>7.0</b>	<b>1.2x</b>	<b>4.6x</b>
Lithuania Fixed	60%	3,538		4.5x 2011 EV/EBITDA	2,123	0.8%		1.8x	4.5x
Lithuanian Mobile	100%	2,176		5.0x 2011 EV/EBITDA	2,176	0.9%		1.5x	5.0x
Latvia Mobile	60%	2,996		5.0x 2011 EV/EBITDA	1,806	0.7%		1.9x	5.0x
Estonian Fixed	58%	2,370		4.5x 2011 EV/EBITDA	1,381	0.6%		1.4x	4.5x
Estonian Mobile	60%	2,818		5.0x 2011 EV/EBITDA	1,694	0.7%		1.8x	5.0x
<b>Baltic Assets</b>		<b>13,898</b>			<b>9,180</b>	<b>3.7%</b>	<b>2.1</b>	<b>1.7x</b>	<b>4.8x</b>
Eurasia	41%	57,039		6.5x 2011 EV/EBITDA	23,556	9.4%		3.3x	6.5x
Spanish Mobile	76%	10,189		1.4x 2011 EV/Sales	7,744	3.1%	1.8	1.4x	28.0x
Other ops	100%	2,340		4.5x 2011 EV/EBITDA	2,340	0.9%		0.5x	4.5x
<b>Total Core</b>		<b>206,163</b>			<b>165,517</b>	<b>66.2%</b>	<b>38.4</b>	<b>2.0x</b>	<b>5.7x</b>
<b>Associates</b>									
Turkish Mobile (Turkcell)	37%	78,781	8,500	Market Value	32,556	13.0%	7.6	1.8x	5.0x
Russian Mobile (Megafon)	44%	104,752	13,966	4.5x 2010 EV/EBITDA	51,999	20.8%	12.1	2.0x	4.5x
<b>Total</b>					<b>250,072</b>		<b>58.1</b>		
Net debt (2011)					(58,630)		(13.6)		
<b>Total Core</b>					<b>191,441</b>		<b>44.5</b>		

Source: Citi Investment Research and Analysis



## Company Focus

### ■ Company Update

Thomas A Singlehurst, CFA

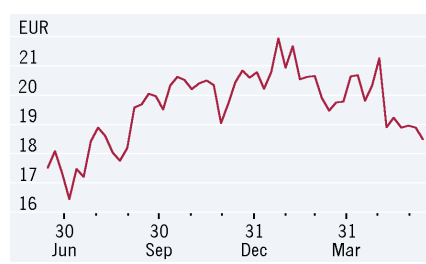
+44-20-7986-4051

thomas.singlehurst@citi.com

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (14 Jun 11)	€18.54
Target price	€24.50
Expected share price return	32.2%
Expected dividend yield	8.1%
<b>Expected total return</b>	<b>40.3%</b>
Market Cap	€22,940M
	US\$33,071M

### Price Performance

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



## Vivendi (VIV.PA)

### A 'telco with sex appeal'

- **Reaching the bottom in French mobile** — Competitive maneuvering around the change to sales tax at the beginning of the year and the anticipated entry of Free in 2012 make for a challenging outlook for French mobile. But, with consensus expecting a cumulative c.15% mobile EBITDA decline 2011-12, we think we have come to the end of downgrade cycle for SFR.
- **GVT & Activision provide growth** — GVT is the group's growth engine and we think consensus expectations/company guidance look achievable even assuming a delay to the Sao Paulo launch in 3Q. Activision, too, looks set to deliver another decent year (cf. flat EBI TA forecast despite Guitar Hero closure) – and this before details on the next global Blizzard launch.
- **Canal+ and UMG are works in progress** — The overall revenue growth profile at Canal+ and UMG appears less attractive, but in both cases we believe there are opportunities to add value. Within Music, we see substantial scope for cost savings (programme launched 2011) and see medium-term upside in digital – especially in emerging markets. For Canal+ the main priority should be buying in the Lagardere minority, itself a potential driver of accretion, in our view.
- **How do you solve a problem like Maroc?** — Vivendi's exposure to Morocco is now the anomaly. Although the group has a 100% payout ratio and is easy to exclude from valuation given its public listing, we would argue that the 53% holding is clearly inefficient. Aggregate growth is slow in the core market (diversification growing fast but at lower margin) and competitive/regulatory pressures are increasing. If it were a case of up or out, Vivendi's standard *modus operandi*, we think most investors would prefer the latter.
- **Our view: 'A telco with sex appeal'; we are Buyers** — At our recent roundtable event, CFO Philippe Capron described VIV as a 'telco with sex appeal'. This sentiment was embodied in the 1Q results: the telco results were solid (albeit vs. low expectations), while the group as a whole saw a decent beat from Activision and GVT. While there are elements that are one-off, the overall trend is positive. This, plus the group's discount to its telco peers – 4.3x 2012E EV/EBITDA ex quoted stakes – stands the group in good stead, in our view. We rate Vivendi Buy/Medium Risk.

### Vivendi (EUR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (€M)	27,132.0	28,878.0	28,404.5	28,321.3	29,128.1
Net Income (€M)	2,585.0	2,698.0	3,043.3	3,327.5	3,445.6
Diluted EPS (€)	2.15	2.19	2.45	2.68	2.78
Diluted EPS (Old) (€)	2.15	2.19	2.45	2.68	2.78
PE (x)	8.6	8.5	7.6	6.9	6.7
EV/EBITDA (x)	4.1	3.9	4.4	4.8	4.6
DPS (€)	1.40	1.40	1.50	1.50	1.50
Net Div Yield (%)	7.6	7.6	8.1	8.1	8.1

## We are Buyers of Vivendi

We think Vivendi represents a decent combination of attractive medium-term growth and discounted valuation. Looking at the former, clearly there are challenges within French telecoms, in particular mobile services, while a rising tax rate creates a few problems from 2013/2014E. However these challenges are 'in the numbers'. Looking forward we are confident in the aggregate growth/return profile of GVT, UMG, Activision and Canal+. Further minority buyouts within the latter two names would also likely be supportive to forecasts.

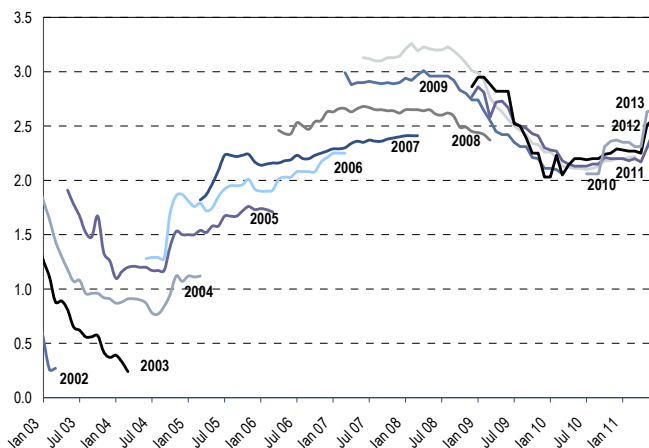
Looking at valuation, near-term P/E multiples are clearly distorted by the group's tax rate (7.0x 2012E P/E), but even on a normalized tax rate, valuation is not extreme vs. peers – nearer 9.0x 2012E. We also think the group's EV/EBITDA (around 5.4x) is reasonable given the group's growth profile. Excluding quoted stakes – i.e. adjusting both the EV and the earnings for Vivendi's quoted minorities – suggests the core business is trading at just 4.3x 2012E EV/EBITDA. None of the constituent businesses – SFR, UMG, GVT or Canal+ - deserve this multiple, in our view. With ownership of the assets, now almost at a 100% (only 20% of C+ France outstanding), there may not even be a justification for a holding company discount.

We rate the group Buy/Medium Risk with a €24.5 per share PT.

### Significant Upcoming Events

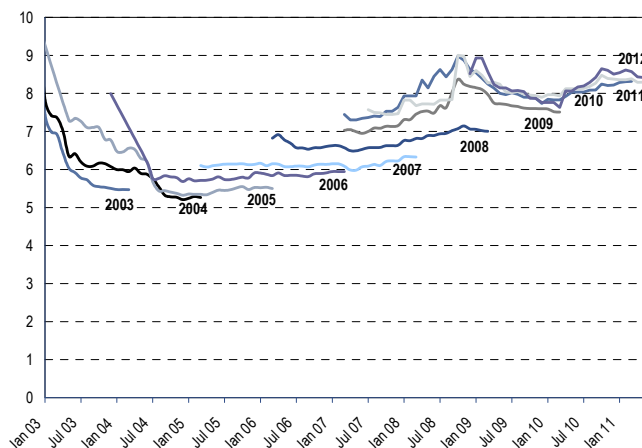
- **Spectrum auction:** The French government wants to raise €2.5bn from its 4G spectrum auction and in order to reach its €2.5bn target, the government has set a minimum reserve price and set the maximum level of spectrum bought by a single operator at a high level of 2x15MHz in 800MHz (the most valuable band of spectrum) and only guaranteed smaller operators spectrum in the 2.6GHz band. The point here is that FT and Vivendi could buy all the frequencies in 800MHz as the auction naturally favours the larger players. Even if this is done at a high price, we would see it as a positive catalyst.
- **1H Results:** 1H results for Vivendi are not due until the very end of August (expected 31 August). The focus will be on continued stabilization within French mobile, and continued strong performance at GVT. One special area of focus will be UMG where investors, we think, will probably be increasingly focused on the cost savings programme.

Figure 153. Consensus EPS has recently recovered somewhat (EUR)



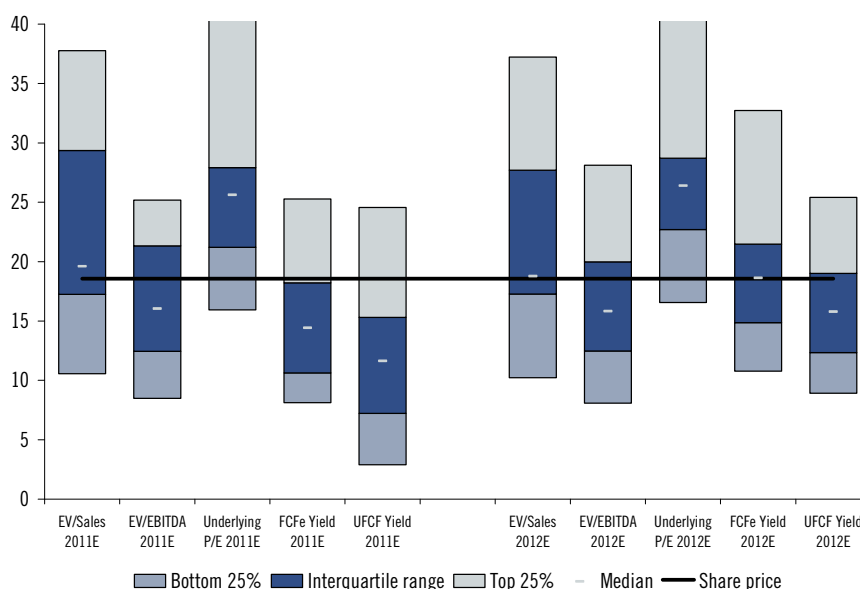
Source: DataStream

Figure 154. EBITDA consensus has lately stopped increasing (EURbn)



Source: DataStream

**Figure 155. Compared to its incumbent and wireless peers in Europe Vivendi generally trades in line with the top 25% of its peers**  
EUR/share



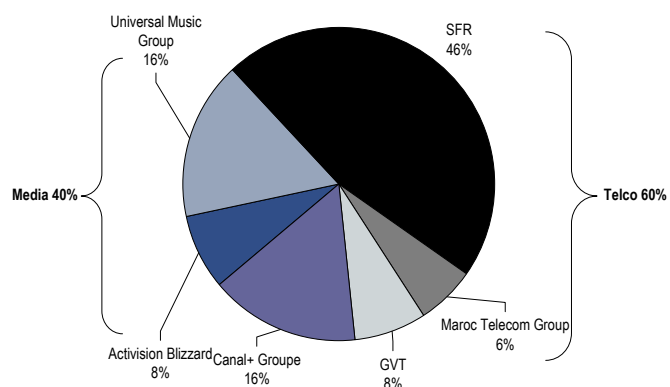
Source: dataCentral, CIRA

**Figure 156. Vivendi – Sum-of-the-Parts (Year-end December 2012E, €m except where stated)**

Division	2012E			2012E			Owner-ship	Value (€m)		
	Revenue	EBITDA	EBITA	EV/Sales	EV/EBITDA	EV/EBITA		100%	VIV Per share (€)	
Activision Blizzard	2,841	932	756	2.7x	8.1x	10.0x	70.0%	7,534	5,274	4.3
Universal Music Group	4,134	547	510	0.9x	7.0x	7.6x	100.0%	3,853	3,853	3.1
SFR	11,724	3,516	2,011	1.6x	5.5x	9.6x	100.0%	19,339	19,339	15.7
Maroc Telecom Group	2,907	1,684	1,284	4.1x	7.1x	9.3x	53.0%	11,935	6,326	5.1
GVT	1,892	747	457	3.6x	9.0x	14.8x	100.0%	6,755	6,755	5.5
Canal+ Groupe	4,894	974	736	1.8x	9.0x	11.9x	80.0%	8,762	7,009	5.7
Holding & Corporate		-128	-128		10.0x	10.0x	100.0%	-1,280	-1,280	-1.0
Non-core/eliminations	-70	-41	-43		10.0x	9.5x	100.0%	-411	-411	-0.3
<b>Group</b>	<b>28,321</b>	<b>8,230</b>	<b>5,582</b>	<b>2.0x</b>	<b>6.9x</b>	<b>10.1x</b>		<b>56,488</b>	<b>46,866</b>	<b>38.0</b>
Tax Asset								2,000	2000	1.6
<b>Enterprise Value</b>	<b>28,321</b>	<b>8,230</b>	<b>5,582</b>	<b>2.1x</b>	<b>7.1x</b>	<b>10.5x</b>		<b>58,488</b>	<b>48,866</b>	<b>39.7</b>
2011E Net Debt								-13,156	-13,411	-10.9
Value of Minorities								-9,877		
<b>Equity Value pre-Holding Co Discount</b>								<b>35,454</b>	<b>35,454</b>	<b>28.8</b>
Holding Company Discount							15%	-5,318	-5,318	-4.3
<b>Equity Value</b>								<b>30,136</b>	<b>30,136</b>	<b>24.5</b>

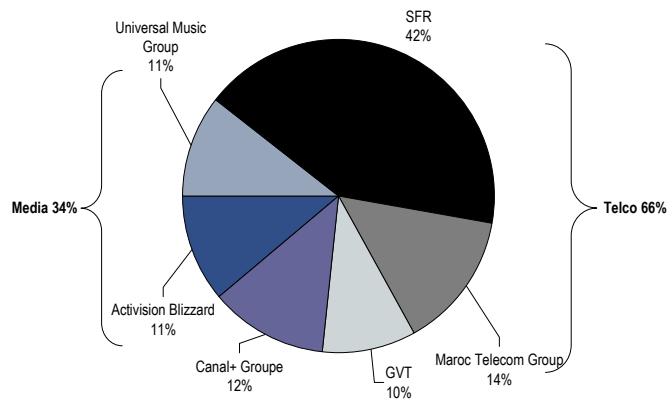
Source: Citi Investment Research and Analysis

Figure 157. Vivendi – 2012E Share of Revenues (Proportionate)



Source: Company Reports and CIRA Estimates

Figure 158. Vivendi – 2012E Share of EBITA (Proportionate)



Source: Company Reports and CIRA Estimates

## Company Focus

### ■ Company Update

#### Simon Weeden

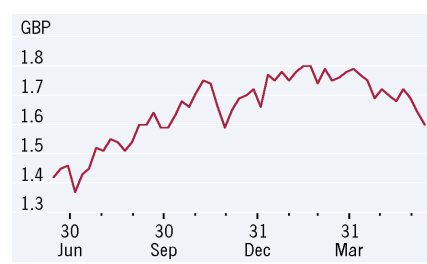
+44-20-7986-4204

simon.weeden@citi.com

<b>Buy/Low Risk</b>	<b>1L</b>
Price (14 Jun 11)	£1.61
Target price	£1.95
Expected share price return	21.1%
Expected dividend yield	5.6%
<b>Expected total return</b>	<b>26.7%</b>
Market Cap	£82,490M
	US\$135,123M

#### Price Performance

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



## Vodafone Group PLC (VOD.L)

### US option moment approaches

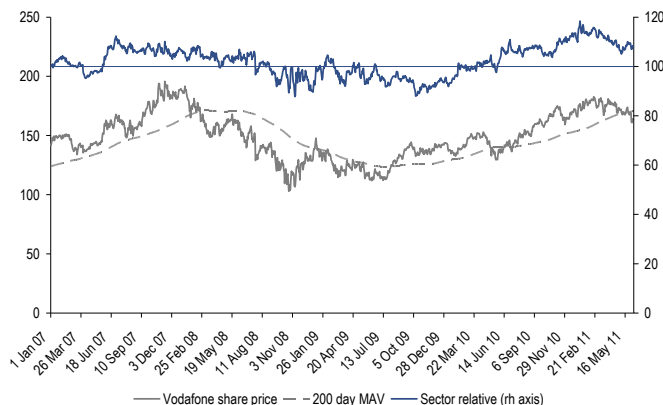
- **Retain Buy, Target Price 195p** — We retain our Buy rating on Vodafone, which seems to us well placed given the sector's difficulties, and leave our DCF-based price target unchanged at 195p ex div. We also publish separately today on Verizon Wireless and Vodafone's US options (*The Baby that Outgrew its Parents*). Please see this note for details on estimate changes.
- **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.
- **Options for the US** — For now, we think Vodafone's best option is probably to stay with what it has in the US, and collect the increased dividend from Verizon Wireless as it comes. With Verizon Wireless's net debt rapidly approaching the level of its long-term debt, news may come on this before the end of 2011, though we currently anticipate an increase in the dividend only after VOD's financial year ends in March 2012. We expect the VZW dividend to be suspended from time to time as investment options arise but to boost Vodafone's own dividend payment and enable it to rerate. At that point, the negotiating positions of the two parents will be more evenly balanced and other structural changes could be considered.
- **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 (Figure 164) 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	47,072.1	47,408.5	47,717.6
Profit Before Tax (£M)	10,738.0	10,195.0	10,352.2	11,409.5	12,367.8
Diluted EPS (p)	16.0	16.7	15.8	17.5	18.7
Diluted EPS (Old) (p)	16.0	16.7	15.8	17.5	18.7
PE (x)	10.0	9.6	10.2	9.2	8.6
EV/EBITDA (x)	4.7	4.8	4.9	4.9	4.5
DPS (p)	8.3	8.9	9.5	11.9	14.9
Net Div Yield (%)	5.2	5.5	5.9	7.4	9.2

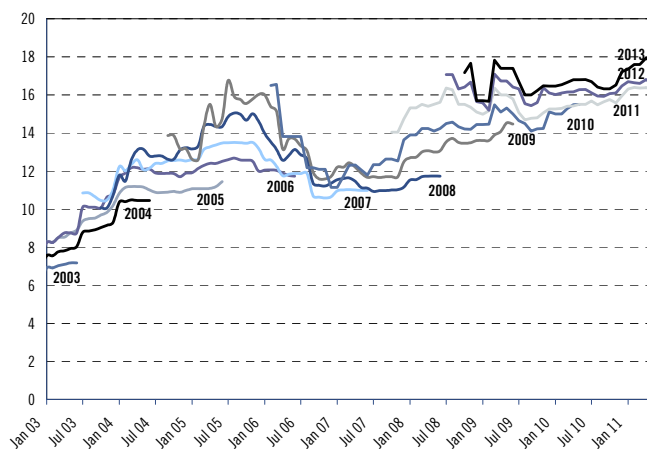
## US option moment approaches

**Figure 159. In 2011 Vodafone has lost some relative outperformance against the sector (left axis p/share; right axis index: end-2006=100)**



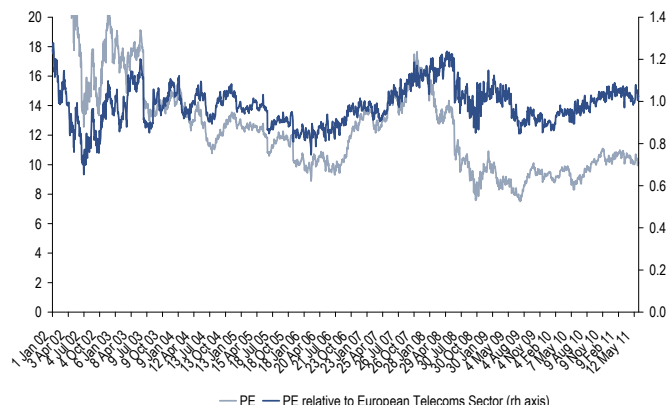
Source: DataStream

**Figure 161. Consensus EPS rise has lately halted (p)**



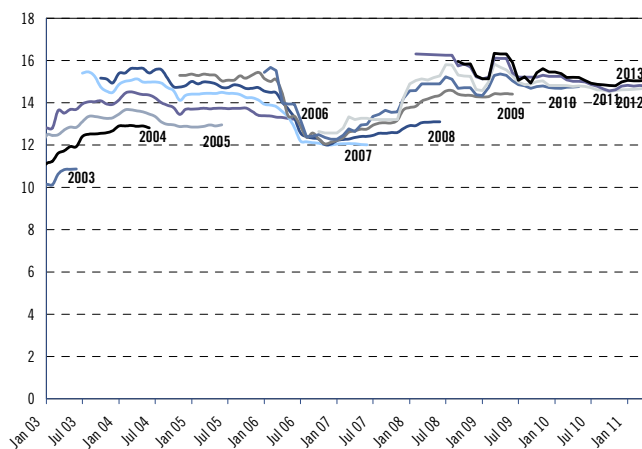
Source: DataStream

**Figure 160. Vodafone trades slightly above the sector average on PE (1 year forward)**



Source: DataStream

**Figure 162. EBITDA consensus has been fairly stable (£bn)**



Source: DataStream

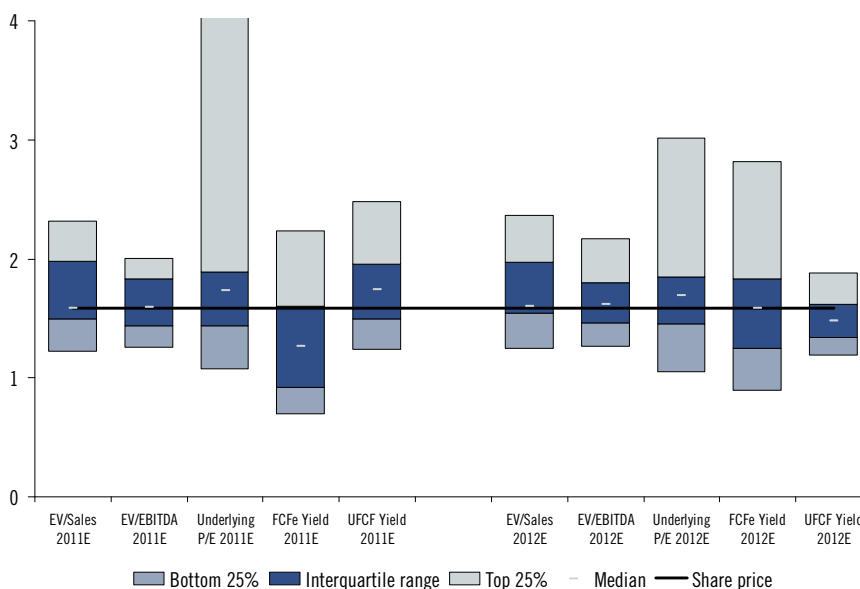
## Significant upcoming events

- **Roaming regulation:** We are still expecting to hear from the European Commission on the details of the future shape of EU roaming regulations as the current regime expires in summer 2012. The Commission is unhappy with the lack of competitive pricing below the current price caps and looking at new options such as much tougher price caps on mobile data and allowing customers to select networks themselves while travelling.
- **Indian capital gains tax case** returns to India's Supreme Court on 19 July 2011 (delayed from February) including Vodafone's challenge against the move by the Indian tax office to treat it as an agent of the seller. The tax authority is claiming 112.18bn rupees (£1.53bn) and against this Vodafone made a deposit of 25bn rupees (£0.34bn) into the Supreme Court registry with bank guarantees on top.

- **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 and market share limits per circle. There is a risk that disputes over retrospective changes to previous spectrum sales could delay operators from applying them. We would not expect any move to list Indus Towers ahead of resolution of the competitive environment. Vodafone has indicated that it may also be interested in a public listing for Vodafone India at some point.
- **The Essar put option** has been exercised and the second stage of the purchase should close before the end of 2011. Given its separate capital gains tax dispute, Vodafone is seeking clarification from the Authority for Advanced Rulings about whether it will be expected to withhold any CGT that might be due on the part of the Essar Group's stake owned via a Mauritius holding company.
- **Verizon Wireless dividend:** For Verizon Comms (VZ.N; US\$35.63; 2M) to meet its own dividend and other obligations, we expect it to borrow to meet maturities at the parent company level during 2011, and its management is indicating a discussion about reinstating a VZW dividend by end 2011 possibly for implementation in 2012. Once the dividend conversation is finalised, in our view, Vodafone and Verizon may also discuss VZ's minority in Vodafone Italy.
- **Accounting for Vodafone Italy:** Vodafone owns 76.9% of its Italian business, but it is considered a joint venture under IFRS and is proportionately consolidated. The IASB is considering changes to the accounting of joint ventures, with equity accounting being one possible outcome. While implementation will probably be two years away, at least, and a new category – joint operation – is being considered that would retain proportionate accounting, the finalisation of this change could come in 2011.
- **Spectrum auctions:** The UK will probably run an auction in 1H12 and Spain may issue spectrum in 2012 too. UK competitor O2 (Telefónica), which along with Vodafone is now deploying 3G on its 900MHz frequencies, has earned a rebuke from the government for challenging Ofcom's right to set certain conditions as part of the 800MHz auction which are designed to encourage a competitive 4G market. O2 claims that this goes beyond what is necessary and amounts to state aid by making the spectrum costs cheaper for Everything Everywhere and 3 UK. However, Ofcom says it has taken state aid rules into account. Looking across Europe, spectrum issuance follows a variety of different approaches designed to meet a number of policy and financial objectives and national authorities have a great deal of scope to set the criteria as they see fit.
- **Second 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.

**Figure 163. Compared to its incumbent and wireless peers in Europe Vodafone generally trades close to the median on our 2011 and 2012 estimates**

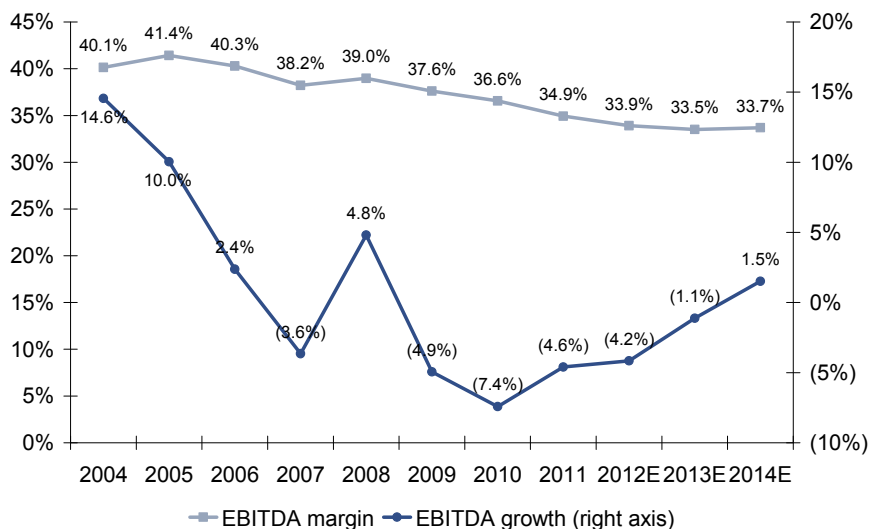
£/share



Source: Powered by dataCentral

**Figure 164. West Europe's EBITDA margin has gradually sunk but the decline in EBITDA slowed in FY11 and we expect it to turn around by FY14**

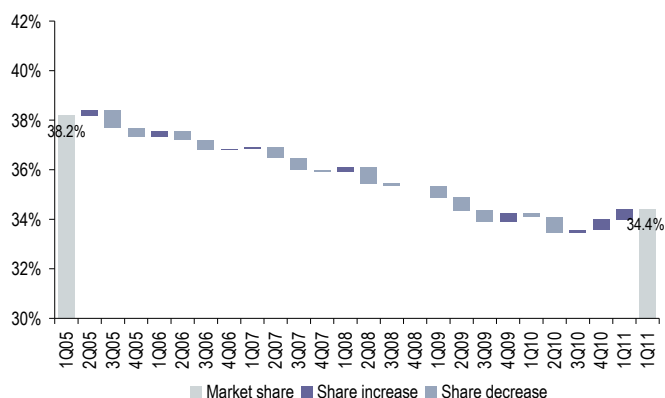
Year to March, % margin (left axis), growth yoy at constant exchange rates (right axis)



Source: Company Reports and CIRA Estimates

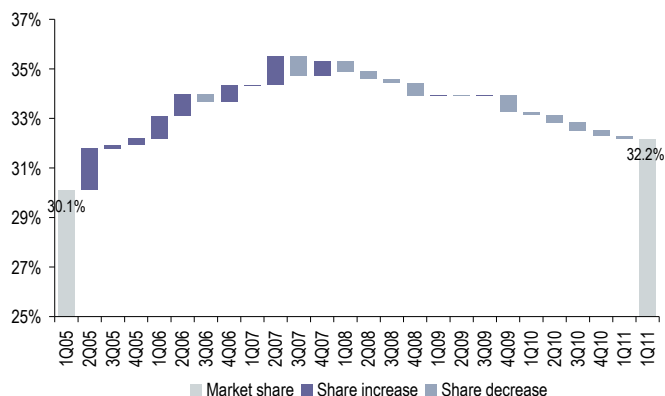


**Figure 165. Vodafone is starting to regain share in Germany**  
% service revenue market share, quarterly movements



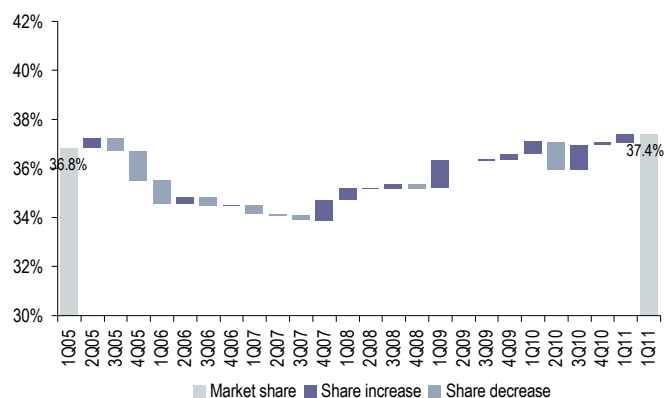
Source: Company Reports and CIRA Estimates

**Figure 167. Vodafone is continuing to lose share in Spain**  
% service revenue market share, quarterly movements



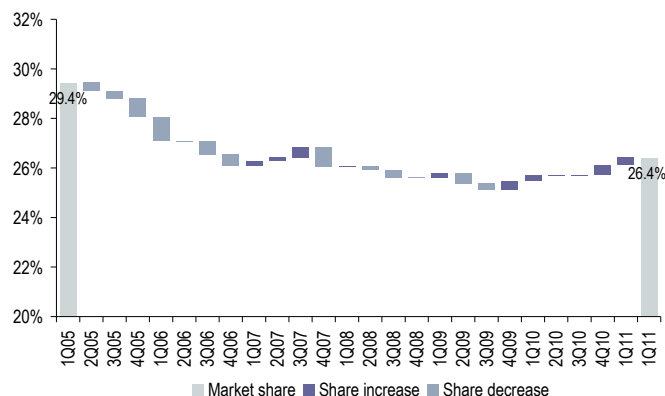
Source: Company Reports and CIRA Estimates

**Figure 166. Vodafone is continuing to gain share in Italy**  
% service revenue market share, quarterly movements



Source: Company Reports and CIRA Estimates

**Figure 168. Vodafone is starting to regain share in the UK**  
% service revenue market share, quarterly movements



Source: Company Reports and CIRA Estimates

Figure 169. Vodafone: Our sum-of-the-parts model implies a valuation of 211p  
£m

	Driver 2011E/ Share Price	Market Capitalis'n £m	Net (Debt) Mar 2012E £m	EV £m	VOD Stake Mar 2012E %	VOD Equity £m	VOD Equity p/share	Share of equity %
<b>Europe</b>								
Germany	6.0 x EBITDA	17,835	0	17,835	100.0%	17,835	36.1	17.1%
Italy	5.5 x EBITDA	16,809	(824)	17,632	76.9%	12,926	26.2	12.4%
Spain	5.0 x EBITDA	6,915	0	6,915	100.0%	6,915	14.0	6.6%
UK	5.0 x EBITDA	6,863	0	6,863	100.0%	6,863	13.9	6.6%
<b>Other Europe</b>								
Albania	5.5 x EBITDA	593	0	593	99.9%	592	1.2	0.6%
Czech Republic	5.5 x EBITDA	691	0	691	100.0%	691	1.4	0.7%
Greece	4.5 x EBITDA	796	0	796	99.9%	795	1.6	0.8%
Hungary	5.5 x EBITDA	1,059	0	1,059	100.0%	1,059	2.1	1.0%
Ireland	4.5 x EBITDA	1,172	0	1,172	100.0%	1,172	2.4	1.1%
Malta	€800/sub	176	0	176	100.0%	176	0.4	0.2%
Netherlands	5.5 x EBITDA	3,535	0	3,535	100.0%	3,535	7.2	3.4%
Poland (Polkomtel)	6.0 x EBITDA	3,189	(356)	3,544	24.4%	778	1.6	0.7%
Portugal	5.0 x EBITDA	2,313	0	2,313	100.0%	2,313	4.7	2.2%
Romania	5.5 x EBITDA	1,346	0	1,346	100.0%	1,346	2.7	1.3%
Turkey	8.0 x EBITDA	1,729	0	1,729	100.0%	1,729	3.5	1.7%
<b>Total Europe</b>		<b>65,020</b>	<b>(1,179)</b>	<b>66,199</b>	<b>90.3%</b>	<b>58,725</b>	<b>118.9</b>	<b>56.3%</b>
<b>Africa, Middle East and Asia Pacific</b>								
Australia	6.0 x EBITDA	1,733	0	1,733	50.0%	867	1.8	0.8%
Egypt	6.0 x EBITDA	2,740	(445)	3,185	54.9%	1,504	3.0	1.4%
Fiji	€200 per pop	240	82	158	49.0%	118	0.2	0.1%
Ghana	€250/sub	492	(182)	674	70.0%	344	0.7	0.3%
India	7.5 x EBITDA	8,844	0	8,844	100.0%	8,844	17.9	8.5%
Qatar	€500 per pop	412	0	412	23.0%	94	0.2	0.1%
New Zealand	6.0 x EBITDA	1,245	0	1,245	100.0%	1,245	2.5	1.2%
South Africa (Vodacom)	SAR 84.32	11,359	(609)	11,968	65.0%	7,383	14.9	7.1%
<b>Total Asia Pac &amp; Middle East</b>		<b>27,065</b>	<b>(1,154)</b>	<b>28,219</b>	<b>75.4%</b>	<b>20,400</b>	<b>41.3</b>	<b>19.6%</b>
<b>Associates &amp; investments</b>								
Kenya (Safaricom)	KES 3.95	1,102	143	960	35.0%	386	0.8	0.4%
Verizon Wireless, US	DDM - 10%	103,797	(1,078)	104,875	45.0%	46,709	94.5	44.8%
Bharti	INR 377-30%	6,831	(809)	7,640	4.4%	298	0.6	0.3%
<b>Total</b>		<b>203,815</b>	<b>(4,078)</b>	<b>207,893</b>	<b>62.1%</b>	<b>126,517</b>	<b>256.1</b>	<b>121.3%</b>
<b>Other liabilities</b>								
Net debt not included above		(23,359)	(23,359)	0	100.0%	(23,359)	(47.3)	(22.4%)
Dividend adj to target price		0	0	0	100.0%	0	0.0	0.0%
VZW pref share cont liability		(269)	(269)	0	100.0%	(269)	(0.5)	(0.3%)
Deferred receipts		1,540	1,540	0	100.0%	1,540	3.1	1.5%
Pension liability		(87)	(87)	0	100.0%	(87)	(0.2)	(0.1%)
<b>Subtotal/Average</b>		<b>(22,175)</b>	<b>(22,175)</b>	<b>0</b>	<b>100.0%</b>	<b>(22,175)</b>	<b>(44.9)</b>	<b>(21.3%)</b>
<b>Total sum of the parts</b>		<b>211</b>	<b>per share</b>			<b>104,342</b>	<b>49.41</b>	<b>bn shares</b>

Source: Citi Investment Research and Analysis

---

## Country section

---

# Austria

## Fixed

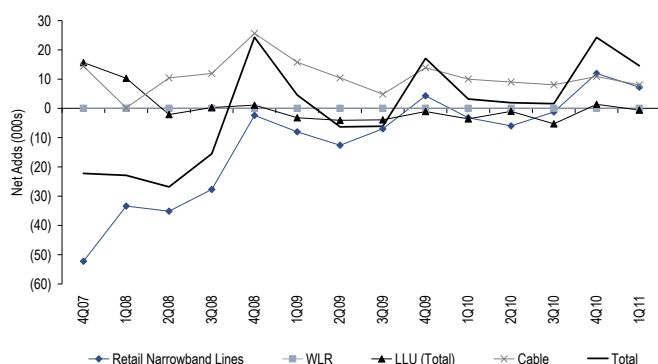
- For the second quarter in a row fixed retail voice lines grew; Austria is one of the few markets in Europe where this is the case. Fixed broadband net adds also remained strong, driven mainly by Telekom Austria.

## Mobile

- Competition remained high in the Austrian mobile market with a slight worsening in service revenue growth from -4.2% in 4Q10 to -4.8% in 1Q11. This was driven by lower mobile data growth, with the decline in voice similar to 4Q10.

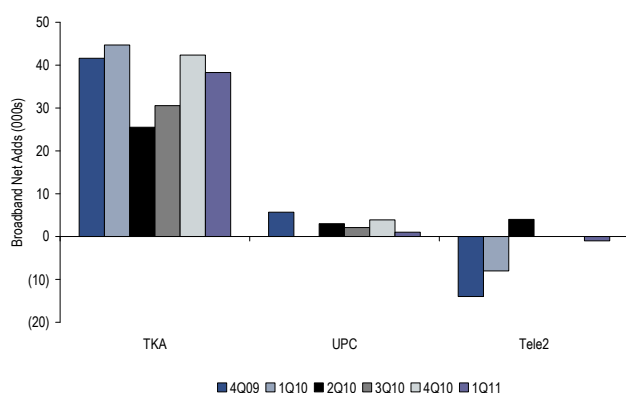
## Fixed Charts

Figure 170. Telephony Net Adds



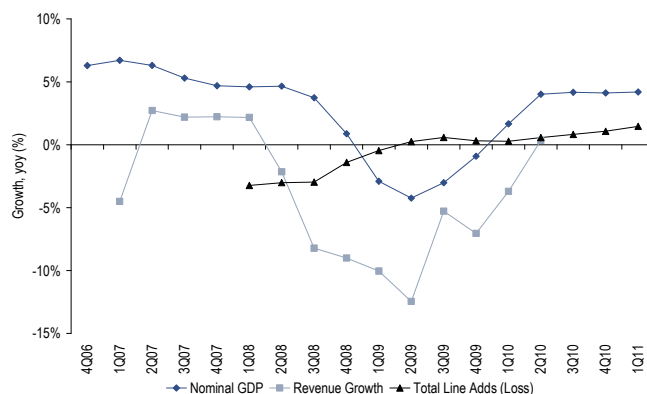
Source: Company reports and Citi Investment Research and Analysis

Figure 172. Line Loss, Incumbent Revenue Growth and GDP



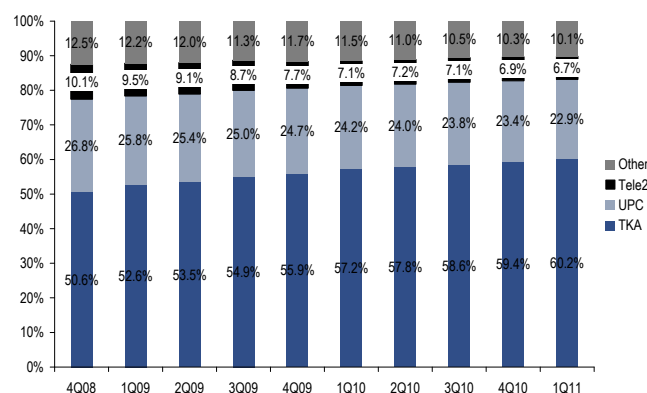
Source: Company reports and Citi Investment Research and Analysis

Figure 171. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

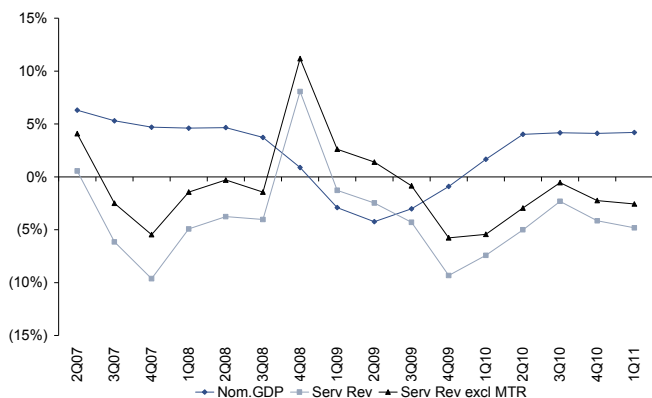
Figure 173. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

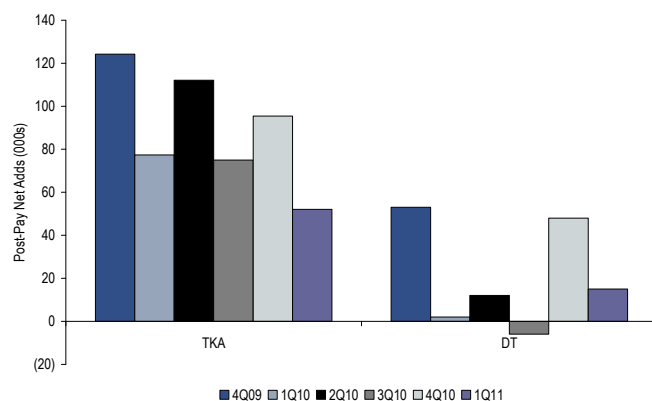
## Mobile Charts

Figure 174. Revenue and GDP



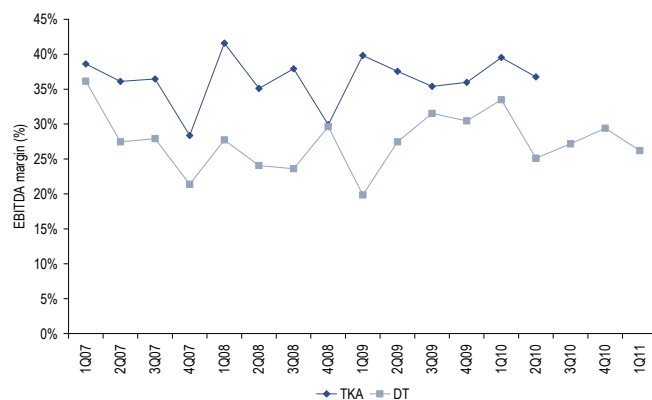
Source: Company reports and Citi Investment Research and Analysis

Figure 175. Post-Paid Net Adds



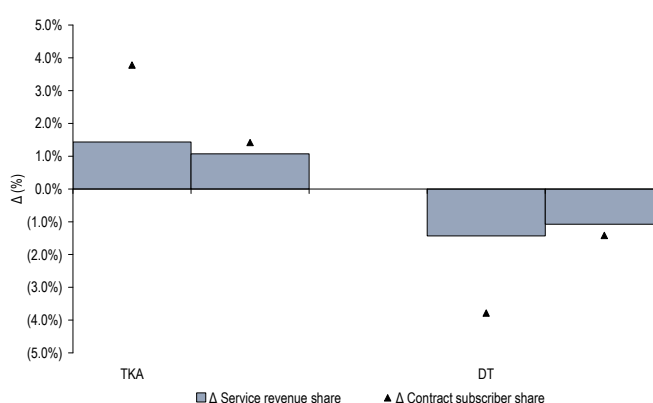
Source: Company reports and Citi Investment Research and Analysis

Figure 177. EBITDA Margin



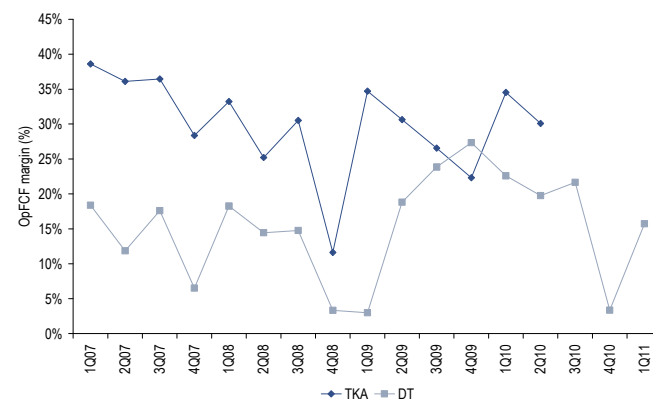
Source: Company reports and Citi Investment Research and Analysis

Figure 176. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 178. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Austria Mobile Data

Figure 179. Austria Mobile Market Information

Austria	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
TKA	343	348	355	375	343	348	337	334	319	331	334	328	310
T-Mobile (DT)	264	260	255	259	256	245	247	241	235	232	236	223	218
<b>Total</b>	<b>607</b>	<b>608</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>Service Revenue Growth, yoy</b>													
TKA	(0.4%)	(1.6%)	0.1%	14.1%	0.1%	(0.0%)	(5.1%)	(11.0%)	(6.8%)	(4.8%)	(0.8%)	(1.8%)	(3.1%)
T-Mobile (DT)	(10.2%)	(6.5%)	(9.3%)	0.4%	(3.0%)	(5.8%)	(3.1%)	(6.9%)	(8.2%)	(5.3%)	(4.5%)	(7.5%)	(7.2%)
<b>Total</b>	<b>(4.9%)</b>	<b>(3.8%)</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>Service Revenue Market Share</b>													
TKA	56.5%	57.2%	58.2%	59.2%	57.3%	58.7%	57.7%	58.1%	57.6%	58.8%	58.6%	59.5%	58.7%
T-Mobile (DT)	43.5%	42.8%	41.8%	40.8%	42.7%	41.3%	42.3%	41.9%	42.4%	41.2%	41.4%	40.5%	41.3%
<b>Post-pay Customers, 000s</b>													
TKA	2,776	2,872	2,986	3,126	3,228	3,281	3,395	3,519	3,597	3,709	3,784	3,879	3,931
T-Mobile (DT)	2,173	2,191	2,223	2,270	2,305	2,297	2,273	2,326	2,328	2,340	2,334	2,382	2,397
<b>Call Volumes, mn min/qtr</b>													
TKA	2,217	2,220	2,190	2,324	2,292	2,264	2,242	2,369	2,331	2,366	2,321	2,425	2,337
Deutsche Telekom	2,252	2,183	2,138	2,344	2,445	2,414	2,322	2,511	2,419	2,489	2,421	2,619	2,671
<b>Total</b>	<b>4,469</b>	<b>4,403</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>5,008</b>
<b>Call Volume growth, yoy</b>													
TKA	18.0%	13.7%	10.2%	6.6%	3.3%	1.9%	2.4%	1.9%	1.7%	4.5%	3.6%	2.4%	0.2%
Deutsche Telekom	11.3%	6.4%	3.0%	3.5%	8.6%	10.6%	8.6%	7.1%	(1.1%)	3.1%	4.3%	4.3%	10.5%
<b>Total</b>	<b>14.5%</b>	<b>10.0%</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>5.4%</b>
<b>Contract Churn, % p.a</b>													
TKA	24.0%	13.7%	16.8%	18.5%	23.9%	25.4%	24.2%	26.4%	27.6%	21.6%	22.8%	26.4%	31.7%
T-Mobile (DT)	12.0%	12.0%	10.8%	12.0%	12.0%	12.0%	13.2%	12.0%	15.6%	10.8%	16.8%	9.6%	10.8%
<b>EBITDA, €m</b>													
TKA	170	140	159	132	161	147	139	139	144	138			
T-Mobile (DT)	76	65	64	80	53	70	82	78	83	61	69	70	60

Source: Company reports and Citi Investment Research and Analysis

## Austria Fixed Data

Figure 180. Austria Fixed Line Market Information

Austria	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	746	758	766	819	872	896	931	972	1,017	1,043	1,073	1,116	1,154
Incumbent wholesale	72	69	69	67	63	63	52	50	48	47	46	46	46
ULL (total)	300	298	298	299	296	292	288	287	283	282	277	278	278
Cable	433	434	431	434	427	426	424	430	430	433	435	439	440
<b>Total</b>	<b>1,550</b>	<b>1,558</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>Broadband Subscribers (000s)</b>													
TKA	746	758	766	819	872	896	931	972	1,017	1,043	1,073	1,116	1,154
UPC	433	434	431	434	427	426	424	430	430	433	435	439	440
Tele2	179	171	168	164	157	153	148	134	126	130	130	130	129
- other	192	195	199	202	202	201	192	203	205	199	193	194	195
<b>Total</b>	<b>1,550</b>	<b>1,558</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>Broadband Subscribers Net Adds (000s)</b>													
TKA	81	12	9	53	53	24	35	42	45	25	31	42	38
UPC	(9)	1	(3)	3	(7)	(1)	(2)	6	0	3	2	4	1
Tele2	7	(8)	(3)	(4)	(7)	(4)	(5)	(14)	(8)	4	0	0	(1)
- other	(10)	3	3	3	0	(1)	(10)	11	2	(6)	(6)	1	1
<b>Total</b>	<b>69</b>	<b>7</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>Telephony Channels (000s)</b>													
Incumbent retail	2,402	2,367	2,339	2,337	2,329	2,316	2,309	2,314	2,310	2,304	2,303	2,315	2,322
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	300	298	298	299	296	292	288	287	283	282	277	278	278
Cable	194	205	217	242	258	268	273	287	297	306	314	325	333
<b>Total</b>	<b>2,896</b>	<b>2,869</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(33)	(35)	(28)	(2)	(8)	(13)	(7)	4	(3)	(6)	(1)	12	7
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	10	(2)	0	1	(3)	(4)	(4)	(1)	(4)	(1)	(5)	1	(1)
Cable	0	10	12	26	16	10	5	14	10	9	8	11	8
<b>Total</b>	<b>(23)</b>	<b>(27)</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>

Source: Company reports and Citi Investment Research and Analysis

# Belgium

## Fixed

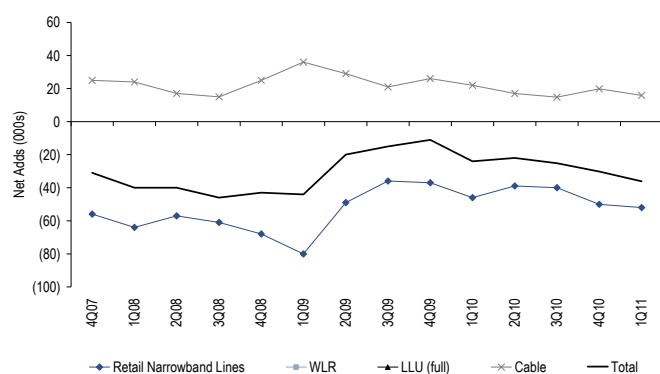
- Belgacom's retail line losses worsened during the quarter. The main pressure on the incumbent's fixed business came from Voo (cable competition) in the south of Belgium. Voo's very aggressive promotions in high-speed BB could push BCOM to roll out FTTH faster than expected.

## Mobile

- Service revenue growth deteriorated on heavy MTR cuts. The yoy growth was -5.3% in 1Q11 vs. -3.8% in 4Q10 and -1.9% in 3Q10.
- Telenet introduced subsidised iPhone4 plans in 2Q11. We expect Mobistar to introduce iPhone subsidies as a reaction to this move or lower bundle pricing instead. We argue BCOM will find it hard to remain competitive as it doesn't have a distribution agreement with Apple.

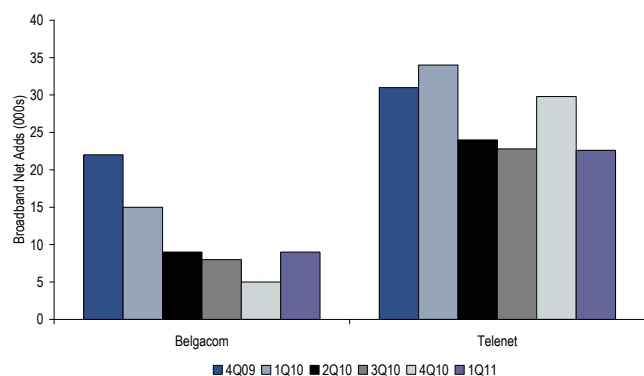
## Fixed Charts

Figure 181. Telephony Net Adds



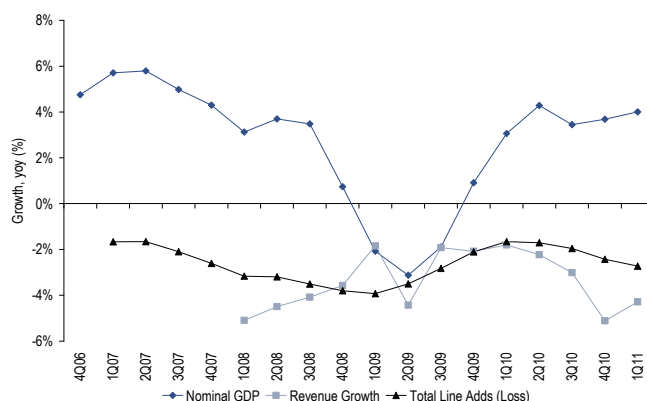
Source: Company reports and Citi Investment Research and Analysis

Figure 183. Broadband Subscriber Quarterly Net Adds



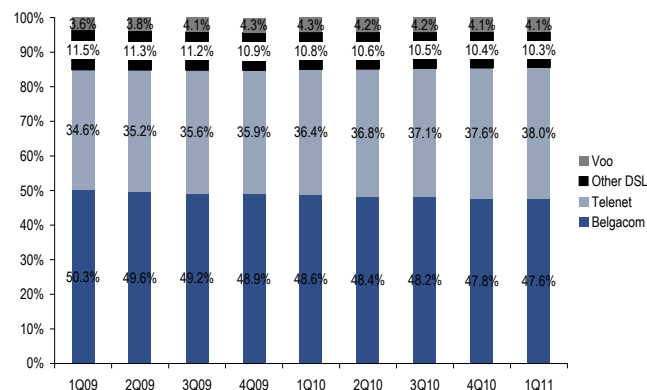
Source: Company reports and Citi Investment Research and Analysis

Figure 182. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

Figure 184. Broadband Subscriber Market Share

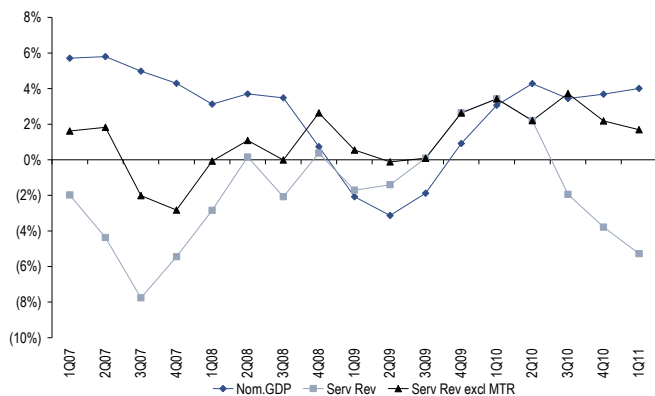


Source: Company reports and Citi Investment Research and Analysis



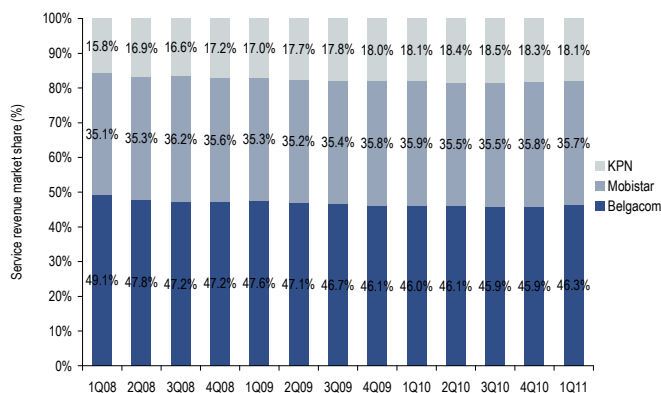
## Mobile Charts

Figure 185. Revenue and GDP



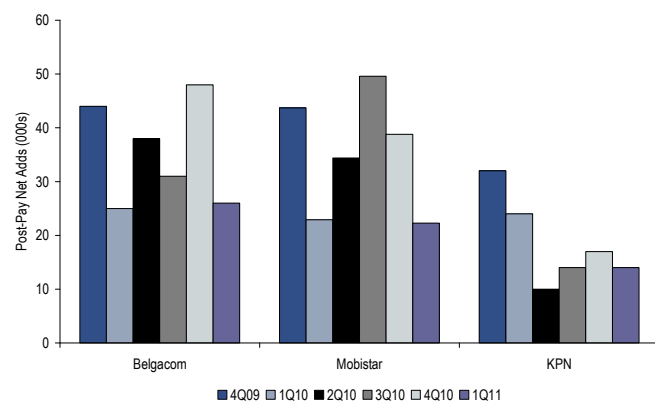
Source: Company reports and Citi Investment Research and Analysis

Figure 186. Service Revenue Market Share



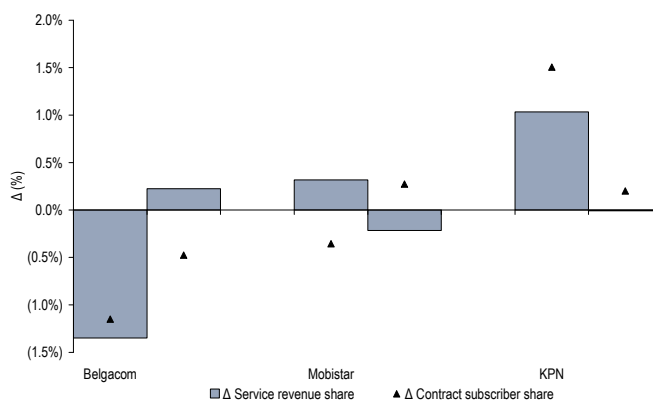
Source: Company reports and Citi Investment Research and Analysis

Figure 187. Post-Paid Net Adds



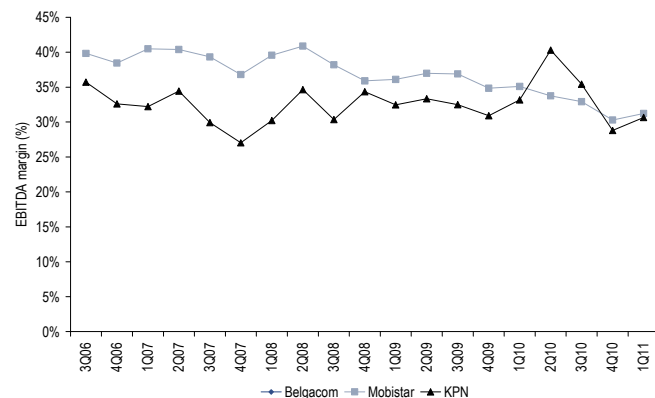
Source: Company reports and Citi Investment Research and Analysis

Figure 188. Change in Service Revenue and Contract Sub Share



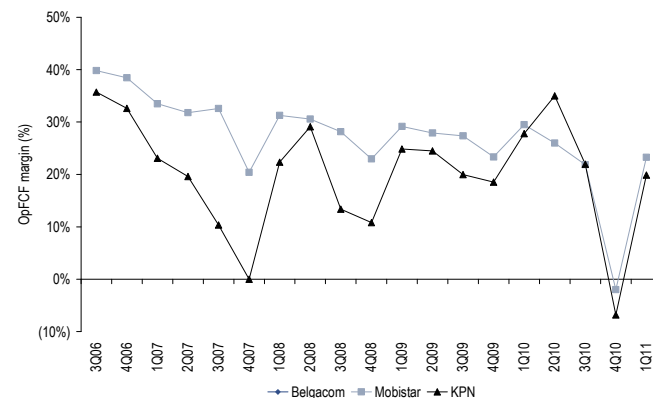
Source: Company reports and Citi Investment Research and Analysis

Figure 189. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 190. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Belgium Mobile Data

Figure 191. Belgium Mobile Market Information

Belgium	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
Belgacom	451	458	441	437	430	445	437	438	430	445	421	419	409
Mobistar	323	338	339	329	319	332	332	340	335	342	326	327	316
KPN	145	162	155	159	154	167	167	171	169	178	170	167	160
<b>Total</b>	<b>919</b>	<b>958</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>Service Revenue Growth, yoy</b>													
Belgacom	(1.7%)	(1.5%)	(6.6%)	(0.9%)	(4.7%)	(2.8%)	(0.9%)	0.2%	0.0%	0.0%	(3.6%)	(4.4%)	(4.8%)
Mobistar	(4.4%)	(0.7%)	1.0%	(1.1%)	(1.1%)	(1.6%)	(2.1%)	3.4%	5.0%	2.9%	(1.7%)	(3.8%)	(5.8%)
KPN	(2.7%)	7.3%	5.4%	7.4%	6.2%	3.1%	7.7%	7.5%	9.7%	6.6%	1.8%	(2.3%)	(5.3%)
<b>Total</b>	<b>(2.8%)</b>	<b>0.2%</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>Service Revenue Market Share</b>													
Belgacom	49.1%	47.8%	47.2%	47.2%	47.6%	47.1%	46.7%	46.1%	46.0%	46.1%	45.9%	45.9%	46.3%
Mobistar	35.1%	35.3%	36.2%	35.6%	35.3%	35.2%	35.4%	35.8%	35.9%	35.5%	35.5%	35.8%	35.7%
KPN	15.8%	16.9%	16.6%	17.2%	17.0%	17.7%	17.8%	18.0%	18.1%	18.4%	18.5%	18.3%	18.1%
<b>Post-pay Customers, 000s</b>													
Belgacom	2,429	2,482	2,509	2,570	2,621	2,678	2,721	2,765	2,790	2,828	2,859	2,907	2,933
Mobistar	1,807	1,855	1,891	1,940	1,979	2,014	2,033	2,077	2,100	2,134	2,184	2,223	2,245
KPN	518	533	548	569	583	612	646	678	702	712	726	743	757
<b>Call Volumes, mn min/qtr</b>													
Belgacom	2,467	2,551	2,378	2,494	2,455	2,541	2,434	2,555	2,372	2,450	2,364	2,470	2,399
Mobistar	1,863	1,939	1,816	1,899	1,871	1,933	1,823	1,893	1,782	1,869	1,818	1,919	1,881
KPN	1,140	1,169	1,159	1,224	1,291	1,299	1,184	1,349	1,404	1,489	1,313	1,464	1,506
<b>Total</b>	<b>5,470</b>	<b>5,659</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>Call Volume growth, yoy</b>													
Belgacom	12.4%	10.4%	7.1%	4.4%	(0.5%)	(0.4%)	2.3%	2.5%	(3.4%)	(3.6%)	(2.9%)	(3.3%)	1.1%
Mobistar	16.0%	14.3%	10.8%	6.2%	0.4%	(0.3%)	0.4%	(0.3%)	(4.7%)	(3.3%)	(0.3%)	1.4%	5.5%
KPN	19.1%	4.8%	8.8%	6.8%	13.2%	11.2%	2.1%	10.3%	8.7%	14.7%	10.9%	8.5%	7.3%
<b>Total</b>	<b>15.0%</b>	<b>10.5%</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>Contract Churn, % p.a</b>													
KPN	29.0%	18.0%	18.0%	21.0%	20.0%	21.0%	17.0%	24.0%	19.0%	21.0%	16.0%	24.0%	20.0%
<b>EBITDA, €m</b>													
Mobistar	143	157	150	141	134	144	142	146	138	144	137	131	125
KPN	55	70	58	68	62	68	65	64	67	81	68	55	57

Source: Company reports and Citi Investment Research and Analysis

## Belgium Fixed Data

Figure 192. Belgium Fixed Line Market Information

Belgium	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,285	1,295	1,315	1,345	1,487	1,487	1,499	1,521	1,536	1,545	1,553	1,558	1,567
Wholesale and ULL	470	470	470	470	340	340	340	340	340	340	340	340	340
Cable	1,009	1,033	1,058	1,088	1,132	1,170	1,210	1,251	1,285	1,309	1,332	1,362	1,384
<b>Total</b>	<b>2,764</b>	<b>2,798</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>3,161</b>	<b>3,194</b>	<b>3,225</b>	<b>3,260</b>	<b>3,291</b>
<b>Broadband Subscribers (000s)</b>													
Belgacom	1,285	1,295	1,315	1,345	1,487	1,487	1,499	1,521	1,536	1,545	1,553	1,558	1,567
Telenet	914	935	958	985	1,025	1,055	1,085	1,116	1,150	1,174	1,197	1,227	1,249
Other DSL	470	470	470	470	340	340	340	340	340	340	340	340	340
Voo	95	98	100	103	107	115	125	135	135	135	135	135	135
<b>Total</b>	<b>2,764</b>	<b>2,798</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>3,161</b>	<b>3,194</b>	<b>3,225</b>	<b>3,260</b>	<b>3,291</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Belgacom	48	10	20	30	142	0	12	22	15	9	8	5	9
Telenet	31	21	23	27	40	30	30	31	34	24	23	30	23
Other DSL	0	0	0	0	(130)	0	0	0	0	0	0	0	0
Voo	3	2	2	3	4	8	10	10	0	0	0	0	0
<b>Total</b>	<b>82</b>	<b>33</b>	<b>45</b>	<b>60</b>	<b>56</b>	<b>38</b>	<b>52</b>	<b>63</b>	<b>49</b>	<b>33</b>	<b>31</b>	<b>35</b>	<b>32</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	3,835	3,778	3,717	3,649	3,569	3,520	3,484	3,447	3,401	3,362	3,322	3,272	3,220
Incumbent wholesale (WLR)													
ULL (total)													
Cable	572	589	604	629	665	694	715	741	763	780	795	815	831
<b>Total</b>	<b>4,407</b>	<b>4,367</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(64)	(57)	(61)	(68)	(80)	(49)	(36)	(37)	(46)	(39)	(40)	(50)	(52)
Incumbent wholesale (WLR)													
ULL (total)													
Cable	24	17	15	25	36	29	21	26	22	17	15	20	16
<b>Total</b>	<b>(40)</b>	<b>(40)</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>Pay TV Subscribers (000s)</b>													
Belgacom	313	350	389	441	486	513	575	652	713	753	795	839	879
Telenet	1,695	1,688	1,654	2,402	2,386	2,374	2,363	2,342	2,318	2,303	2,288	2,274	2,254
<b>Pay TV Subscribers Net Adds (000s)</b>													
Belgacom	8	37	39	52	45	27	62	77	61	40	42	44	40
Telenet	(34)	(7)	(34)	748	(16)	(12)	(11)	(21)	(24)	(15)	(15)	(14)	(21)

Source: Company reports and Citi Investment Research and Analysis

# Denmark

## Fixed

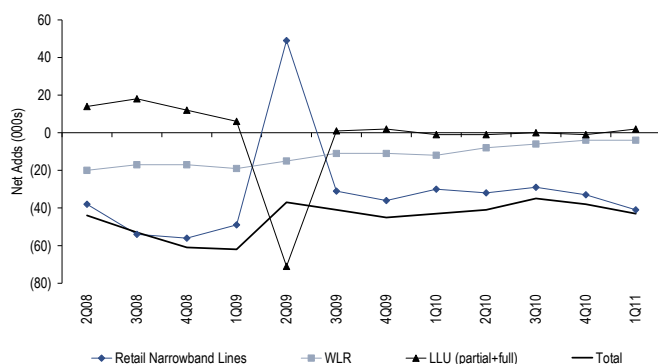
- Fixed line trends showed little change on 4Q10. Retail line loss worsened slightly to -41k from -33k 4Q10.

## Mobile

- Service revenue growth excluding the impact of MTRs worsened from 3.3% to -1.9% due to price competition initially driven by the MVNO Onfone. Onfone had been pushing discount SIM only flat rate tariffs, which in turn led to similar cuts by all operators.
- TDC acquired Onfone on 11<sup>th</sup> May 2011, which should help moderate the increase in competition.

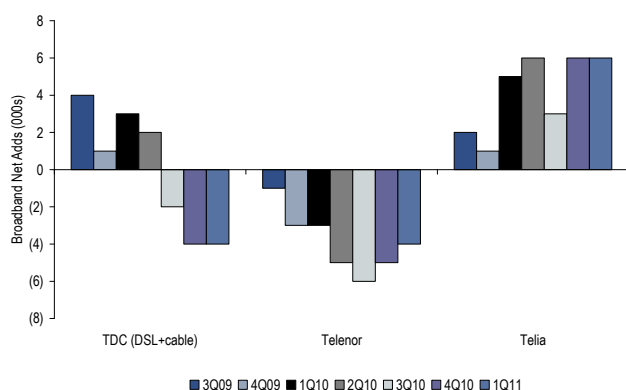
## Fixed Charts

Figure 193. Telephony Net Adds



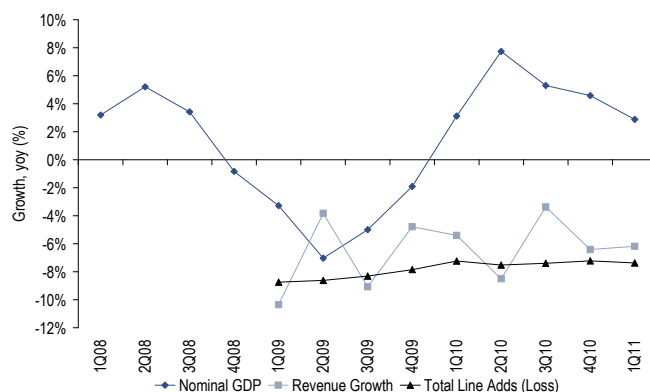
Source: Company reports and Citi Investment Research and Analysis

Figure 195. Line Loss, Incumbent Revenue Growth and GDP



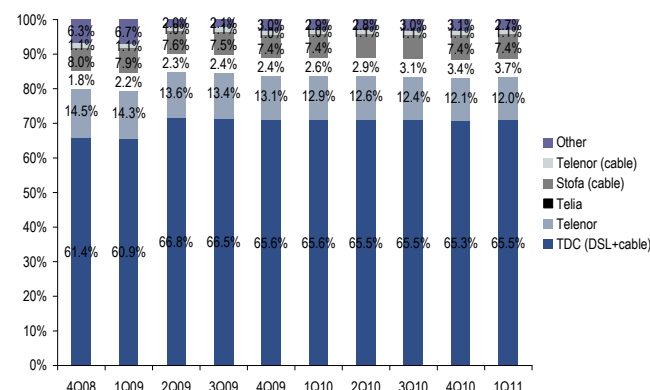
Source: Company reports and Citi Investment Research and Analysis

Figure 194. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

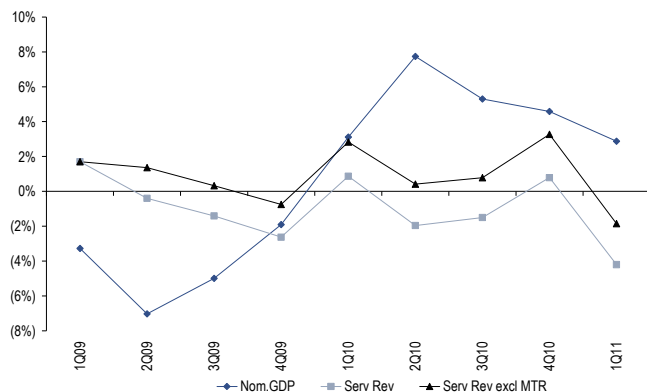
Figure 196. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports and Citi Investment Research and Analysis

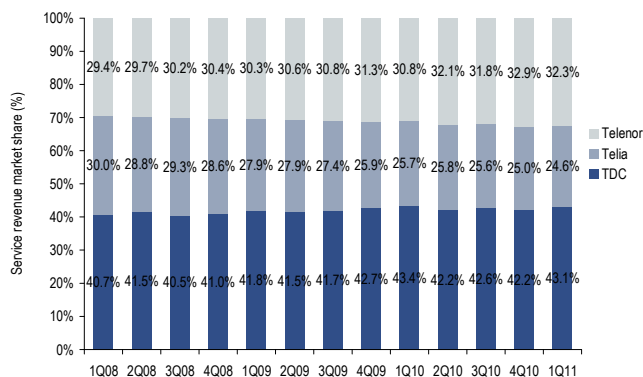
## Mobile Charts

Figure 197. Revenue and GDP



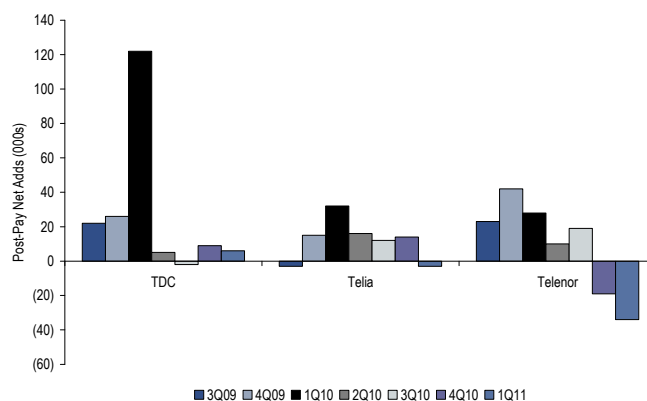
Source: Company reports and Citi Investment Research and Analysis

Figure 198. Service Revenue Market Share



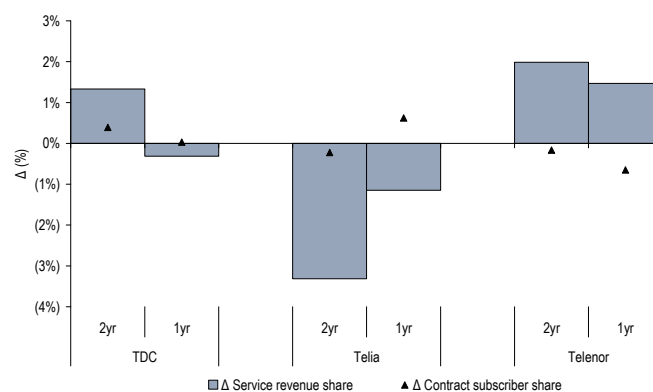
Source: Company reports and Citi Investment Research and Analysis

Figure 199. Post-Paid Net Adds



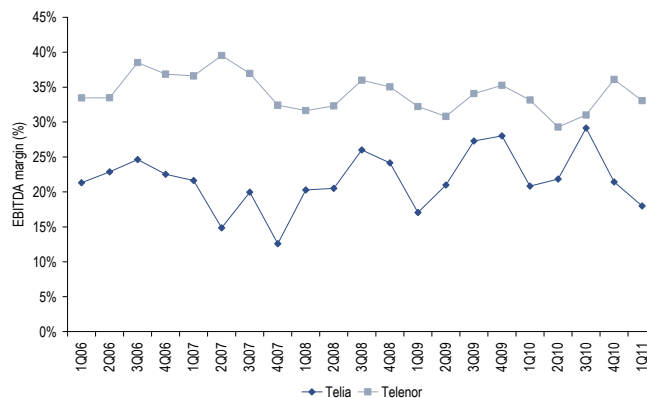
Source: Company reports and Citi Investment Research and Analysis

Figure 200. Change in Service Revenue and Contract Sub Share



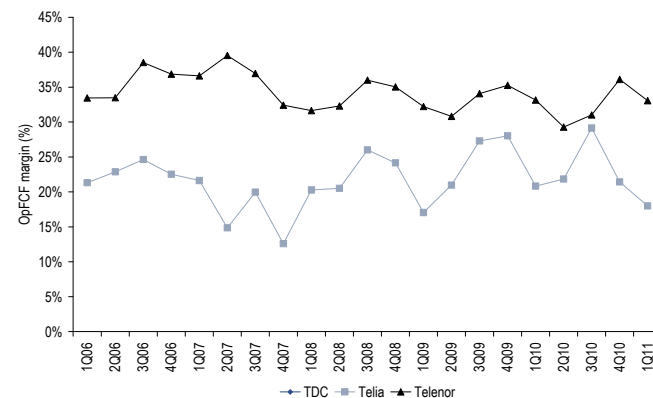
Source: Company reports and Citi Investment Research and Analysis

Figure 201. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 202. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Denmark Mobile Data

Figure 203. Denmark Mobile Market Information

Denmark	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
TDC	1,583	1,684	1,637	1,649	1,653	1,680	1,663	1,673	1,733	1,672	1,671	1,663	1,648
Telia	1,165	1,171	1,185	1,148	1,103	1,127	1,092	1,014	1,027	1,022	1,006	986	939
Telenor	1,142	1,205	1,219	1,223	1,200	1,237	1,229	1,227	1,231	1,271	1,247	1,296	1,235
<b>Total</b>	<b>3,890</b>	<b>4,061</b>	<b>4,041</b>	<b>4,020</b>	<b>3,956</b>	<b>4,044</b>	<b>3,984</b>	<b>3,914</b>	<b>3,991</b>	<b>3,965</b>	<b>3,924</b>	<b>3,945</b>	<b>3,823</b>
<b>Service Revenue Growth, yoy</b>													
TDC					4.4%	(0.2%)	1.6%	1.5%	4.8%	(0.5%)	0.5%	(0.6%)	(4.9%)
Telia	31.6%	26.2%	11.9%	6.0%	(5.3%)	(3.8%)	(7.8%)	(11.6%)	(7.0%)	(9.3%)	(7.9%)	(2.8%)	(8.5%)
Telenor	2.3%	8.4%	2.9%	5.4%	5.1%	2.7%	0.8%	0.3%	2.6%	2.7%	1.5%	5.7%	0.3%
<b>Total</b>					<b>1.7%</b>	<b>(0.4%)</b>	<b>(1.4%)</b>	<b>(2.6%)</b>	<b>0.9%</b>	<b>(2.0%)</b>	<b>(1.5%)</b>	<b>0.8%</b>	<b>(4.2%)</b>
<b>Service Revenue Market Share</b>													
TDC	40.7%	41.5%	40.5%	41.0%	41.8%	41.5%	41.7%	42.7%	43.4%	42.2%	42.6%	42.2%	43.1%
Telia	30.0%	28.8%	29.3%	28.6%	27.9%	27.9%	27.4%	25.9%	25.7%	25.8%	25.6%	25.0%	24.6%
Telenor	29.4%	29.7%	30.2%	30.4%	30.3%	30.6%	30.8%	31.3%	30.8%	32.1%	31.8%	32.9%	32.3%
<b>Post-pay Customers, 000s</b>													
TDC	2,135	2,180	2,214	2,252	2,278	2,305	2,327	2,353	2,475	2,480	2,478	2,487	2,493
Telia	1,112	1,127	1,141	1,154	1,154	1,159	1,156	1,171	1,203	1,219	1,231	1,245	1,242
Telenor	1,083	1,108	1,119	1,128	1,143	1,164	1,187	1,229	1,257	1,267	1,286	1,267	1,233
<b>Call Volumes, mn min/qtr</b>													
TDC	1,510	1,461	1,385	1,494	1,468	1,351	1,318	1,466	1,540	1,419	1,297	1,450	1,403
Telia	882	1,012	923	970	947	964	925	984	1,000	1,044	1,024	1,069	1,036
Telenor	974	1,044	1,001	1,052	1,050	1,088	1,075	1,150	1,160	1,181	1,125	1,178	1,139
<b>Total</b>	<b>3,365</b>	<b>3,517</b>	<b>3,309</b>	<b>3,516</b>	<b>3,465</b>	<b>3,402</b>	<b>3,318</b>	<b>3,600</b>	<b>3,700</b>	<b>3,645</b>	<b>3,445</b>	<b>3,697</b>	<b>3,577</b>
<b>Call Volume growth, yoy</b>													
TDC					(2.8%)	(7.6%)	(4.9%)	(1.9%)	4.9%	5.1%	(1.6%)	(1.1%)	(8.9%)
Telia	34.0%	44.8%	9.3%	7.2%	7.4%	(4.8%)	0.2%	1.4%	5.6%	8.3%	10.7%	8.6%	3.6%
Telenor	13.9%	18.5%	13.8%	6.3%	7.9%	4.3%	7.5%	9.3%	10.5%	8.6%	4.6%	2.4%	(1.8%)
<b>Total</b>	<b>122.4%</b>	<b>122.7%</b>	<b>91.9%</b>	<b>85.6%</b>	<b>3.0%</b>	<b>(3.3%)</b>	<b>0.3%</b>	<b>2.4%</b>	<b>6.8%</b>	<b>7.1%</b>	<b>3.9%</b>	<b>2.7%</b>	<b>(3.3%)</b>
<b>EBITDA, €m</b>													
TDC													
Telia	236	240	308	278	188	236	298	284	214	223	293	211	169
Telenor	361	389	439	428	387	381	419	433	408	372	387	468	408

Source: Company reports and Citi Investment Research and Analysis

## Denmark Fixed Data

Figure 204. Denmark Fixed Line Market Information

Denmark	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,159	1,164	1,162	1,151	1,145	1,291	1,295	1,296	1,299	1,301	1,299	1,295	1,291
Incumbent wholesale	137	135	125	124	131	118	121	139	142	146	148	154	147
ULL (total)	249	265	289	301	304	228	227	227	223	219	217	214	215
Cable	194	193	196	197	196	193	194	193	193	193	193	193	193
<b>Total</b>	<b>1,842</b>	<b>1,860</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>Broadband Subscribers (000s)</b>													
TDC (DSL+cable)	1,159	1,164	1,162	1,151	1,145	1,291	1,295	1,296	1,299	1,301	1,299	1,295	1,291
Telenor	278	280	282	272	268	263	262	259	256	251	245	240	236
Telia	31	31	34	34	42	44	46	47	52	58	61	67	73
Stofa (cable)	152	151	150	150	149	147	147	147	147	146	146	146	146
Telenor (cable)	16	16	20	21	21	20	21	20	20	21	21	21	21
- other	77	89	98	119	125	39	40	60	57	56	59	61	53
<b>Total</b>	<b>1,842</b>	<b>1,860</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>Broadband Subscribers Net Adds (000s)</b>													
TDC (DSL+cable)		5	(2)	(11)	(6)	146	4	1	3	2	(2)	(4)	(4)
Telenor		2	2	(10)	(4)	(5)	(1)	(3)	(3)	(5)	(6)	(5)	(4)
Telia		0	3	0	8	2	2	1	5	6	3	6	6
<b>Total</b>		<b>18</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>Telephony Channels (000s)</b>													
Retail Narrowband Lines	1,964	1,926	1,872	1,816	1,767	1,816	1,785	1,749	1,719	1,687	1,658	1,625	1,584
WLR	351	331	314	297	278	263	252	241	229	221	215	211	207
LLU (full)	200	214	232	244	250	179	180	182	181	180	180	179	181
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>2,515</b>	<b>2,471</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>Telephony Channels Net Adds (000s)</b>													
Retail Narrowband Lines		(38)	(54)	(56)	(49)	49	(31)	(36)	(30)	(32)	(29)	(33)	(41)
WLR		(20)	(17)	(17)	(19)	(15)	(11)	(11)	(12)	(8)	(6)	(4)	(4)
LLU (partial+full)		14	18	12	6	(71)	1	2	(1)	(1)	0	(1)	2
<b>Total</b>		<b>(44)</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>

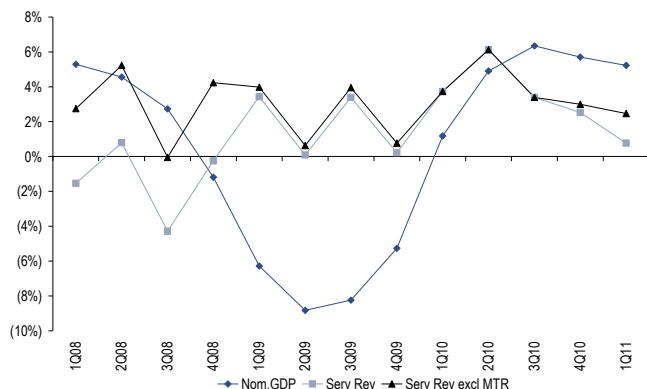
Source: Company reports and Citi Investment Research and Analysis

**This page is intentionally left blank**



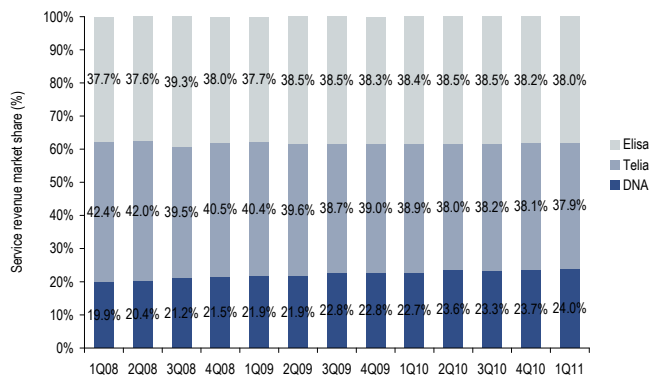
# Finland Mobile

Figure 205. Revenue and GDP



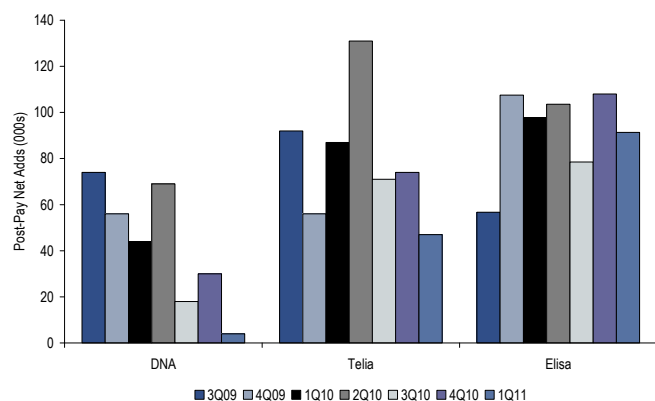
Source: Company reports, CIRA and Datasteam

Figure 206. Service Revenue Market Share



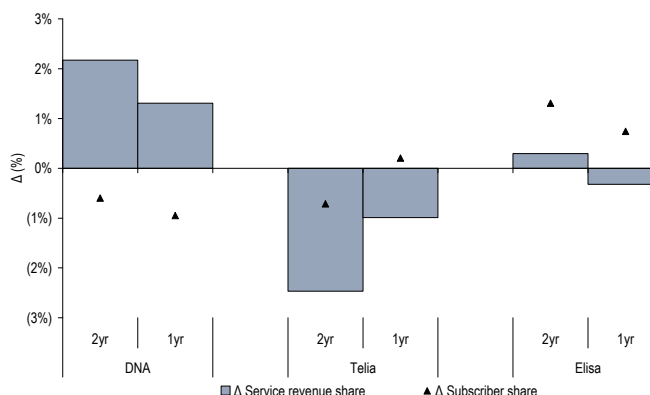
Source: Company reports and Citi Investment Research and Analysis

Figure 207. Post-Paid Net Adds



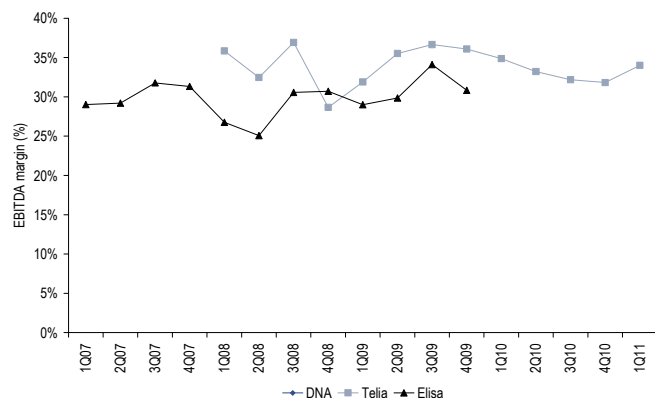
Source: Company reports and Citi Investment Research and Analysis

Figure 208. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 209. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

## Finland Mobile Data

Figure 210. Finland Mobile Market Information

Finland	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
DNA	97	104	105	113	110	113	117	119	118	129	124	127	126
Telia	205	216	196	212	202	203	199	204	202	207	203	204	199
Elisa	183	193	195	198	189	198	197	200	199	210	204	205	199
<b>Total</b>	<b>484</b>	<b>513</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>530</b>	<b>537</b>	<b>524</b>
<b>Service Revenue Growth, yoy</b>													
DNA	16.0%	17.7%	10.3%	12.7%	13.5%	7.7%	11.2%	6.1%	7.8%	14.2%	5.6%	6.7%	6.6%
Telia	(3.0%)	(0.6%)	(10.2%)	(1.3%)	(1.4%)	(5.7%)	1.4%	(3.6%)	(0.1%)	1.8%	2.0%	0.2%	(1.8%)
Elisa	(7.4%)	(5.1%)	(4.8%)	(5.4%)	3.5%	2.4%	1.2%	1.0%	5.4%	6.0%	3.5%	2.4%	(0.1%)
<b>Total</b>	<b>(1.5%)</b>	<b>0.8%</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>3.4%</b>	<b>2.5%</b>	<b>0.8%</b>
<b>Service Revenue Market Share</b>													
DNA	19.9%	20.4%	21.2%	21.5%	21.9%	21.9%	22.8%	22.8%	22.7%	23.6%	23.3%	23.7%	24.0%
Telia	42.4%	42.0%	39.5%	40.5%	40.4%	39.6%	38.7%	39.0%	38.9%	38.0%	38.2%	38.1%	37.9%
Elisa	37.7%	37.6%	39.3%	38.0%	37.7%	38.5%	38.5%	38.3%	38.4%	38.5%	38.5%	38.2%	38.0%
<b>Post-pay Customers, 000s</b>													
DNA	0	0	0	0	0	0	0	0	0	0	0	0	0
Telia	2,300	2,337	2,377	2,410	2,430	2,466	2,526	2,600	2,670	2,722	2,781	2,843	2,898
Elisa	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Call Volumes, mn min/qtr</b>													
DNA	1,317	1,444	1,442	1,576	1,591	1,669	1,683	1,767	1,780	1,818	1,775	1,782	1,739
Telia	2,179	2,302	2,217	2,340	2,281	2,311	2,287	2,382	2,398	2,470	2,439	2,477	2,445
Elisa	2,060	2,170	2,098	2,218	2,220	2,341	2,339	2,442	2,482	2,546	2,505	2,558	2,553
<b>Total</b>	<b>5,555</b>	<b>5,915</b>	<b>5,757</b>	<b>6,134</b>	<b>6,093</b>	<b>6,321</b>	<b>6,308</b>	<b>6,591</b>	<b>6,661</b>	<b>6,834</b>	<b>6,720</b>	<b>6,817</b>	<b>6,738</b>
<b>Call Volume growth, yoy</b>													
DNA	25.3%	27.0%	21.3%	25.8%	20.9%	15.6%	16.7%	12.1%	11.9%	8.9%	5.5%	0.9%	(2.3%)
Telia	4.2%	7.6%	4.4%	9.2%	4.7%	0.4%	3.2%	1.8%	5.1%	6.9%	6.7%	4.0%	2.0%
Elisa	6.2%	6.8%	3.1%	7.9%	7.8%	7.9%	11.5%	10.1%	11.8%	8.8%	7.1%	4.8%	2.9%
<b>Total</b>	<b>9.3%</b>	<b>11.4%</b>	<b>7.7%</b>	<b>12.5%</b>	<b>9.7%</b>	<b>6.9%</b>	<b>9.6%</b>	<b>7.4%</b>	<b>9.3%</b>	<b>8.1%</b>	<b>6.5%</b>	<b>3.4%</b>	<b>1.2%</b>
<b>EBITDA, €m</b>													
Telia	83	75	84	68	70	80	80	84	80	78	77	77	79
Elisa	53	51	65	64	56	59	69	64					

Source: Company reports and Citi Investment Research and Analysis

## Finland Fixed Data

Figure 211. Finland Fixed Line Market Information

Finland	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Elisa	526	523	520	502	495	482	476	467	462	462	464	467	478
Telia	483	475	479	478	472	465	460	458	458	459	458	476	470
DNA	195	191	191	190	190	187	186	180	178	175	289	291	297
Welho	107	107	107	107	107	109	111	113	115	115			
Finnet	178	178	178	178	178	178	178	178	178	178	178	178	178
- other	26	26	26	26	26	26	26	26	26	26	26	26	26
<b>Total</b>	<b>1,515</b>	<b>1,500</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>Broadband Subscribers Net Adds (000s)</b>													
Elisa		(3)	(3)	(18)	(6)	(14)	(6)	(9)	(5)	(0)	2	3	10
Telia		(8)	4	(1)	(6)	(7)	(5)	(2)	0	1	(1)	18	(6)
DNA		(4)	0	(1)	0	(3)	(1)	(6)	(2)	(3)	(1)	2	6
<b>Total</b>		<b>(15)</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>Telephony Channels (000s)</b>													
Elisa	527	513	513	502	487	475	454	450	440	427	409	396	384
Telia	478	465	446	420	394	365	343	324	312	295	286	277	270
DNA	248	242	236	229	222	215	209	197	189	182	174	171	152
Finnet	285	285	285	285	285	285	285	285	285	285	285	285	285
- other	64	64	64	64	64	64	64	64	64	64	64	64	64
<b>Total</b>	<b>1,602</b>	<b>1,569</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>Telephony Channels Net Adds (000s)</b>													
Elisa	0	(13)	(0)	(11)	(15)	(12)	(21)	(4)	(10)	(13)	(18)	(14)	(12)
Telia	0	(13)	(19)	(26)	(26)	(29)	(22)	(19)	(12)	(17)	(9)	(9)	(7)
DNA	0	(6)	(6)	(7)	(7)	(7)	(6)	(12)	(8)	(7)	(8)	(3)	(19)
<b>Total</b>	<b>0</b>	<b>(32)</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>Pay TV Subscribers (000s)</b>													
Elisa (cable TV)	241	243	244		245	247	248	249	250	252	249	250	252
Telia (Cable TV)	176	176	176		175	175	175	175	187	189	207	218	238
Telia (IPTV)	0	0	0		0	0	0	1	1	0	0	0	0
DNA (Cable TV)	258	259	263		265	267	267	270	271	274	596	598	602
Welho (cable tv) (est.)	321	322	323		323	324	324	324	324	324	0	0	0
Finnet Group (cable tv) (est.)	217	217	217		217	217	217	217	217	217	217	217	217
<b>Total</b>	<b>1,213</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>Pay TV Subscribers Net Adds (000s)</b>													
Elisa (cable TV)		2	2	2	1	1	1	1	1	1	(3)	2	1
Telia (Cable TV)		(1)	0	0	(1)	0	0	0	12	2	18	11	20
Telia (IPTV)		0	0	0	0	0	0	1	0	(1)	0	0	0
DNA (Cable TV)		(1)	1	4	2	2	0	3	1	3	322	2	4

Source: Company reports and Citi Investment Research and Analysis

# France

## Fixed

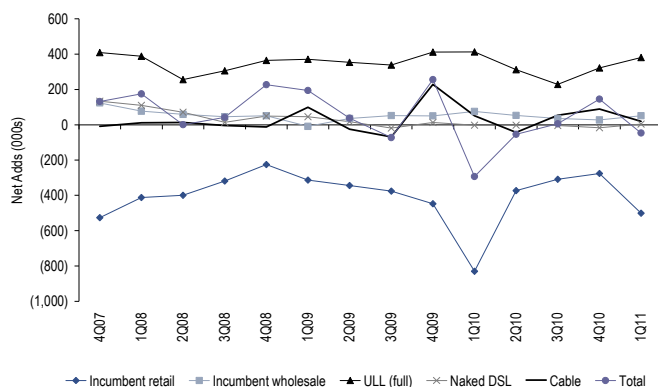
- FT's retail line losses of c. 500k during the quarter were disappointing and were reflected in fixed revenues down 5.1% yoy in 1Q11, the worst performance in two years. In BB, FT's market share of net adds was decent (c. 23%) despite Bouygues' continued share gains and Free's relatively successful Revolution box.

## Mobile

- After a poor 1Q11 from FT's perspective (losing market share of net adds to Bouygues and MVNOs), company comments suggest churn levels decreased in March and April and the market was relatively quiet in terms of commercial activity.
- SFR launched new mobile plans in June offering heavy discounts for contract renewals and pushing SIM only deals and mobile data tiered pricing. We see this as a defensive move ahead of Free's arrival and as likely to increase SARCs across the market. It is consistent with FT's comments on domestic EBITDA being under pressure in 2011.

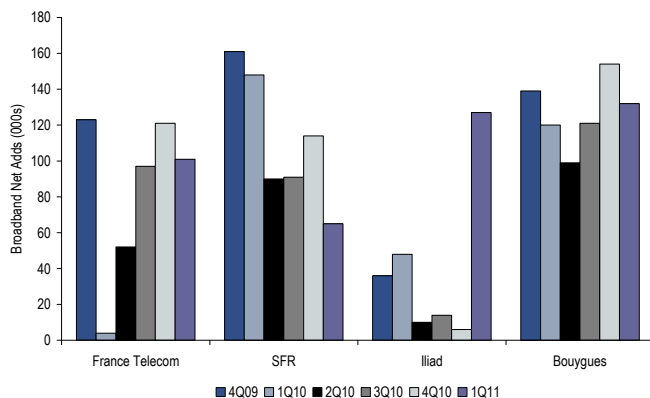
## Fixed Charts

Figure 212. Telephony Net Adds



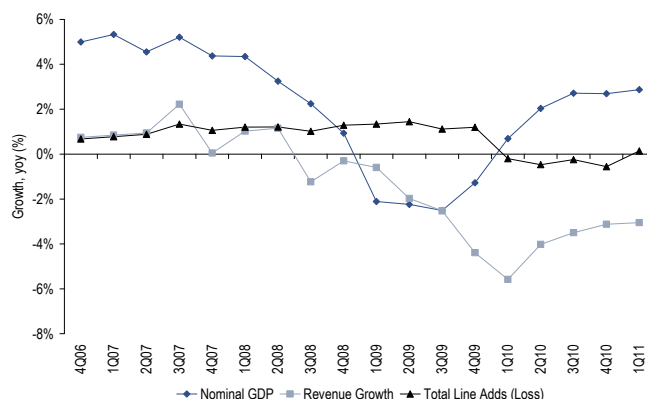
Source: Company reports and Citi Investment Research and Analysis

Figure 214. Broadband Subscriber Net Adds



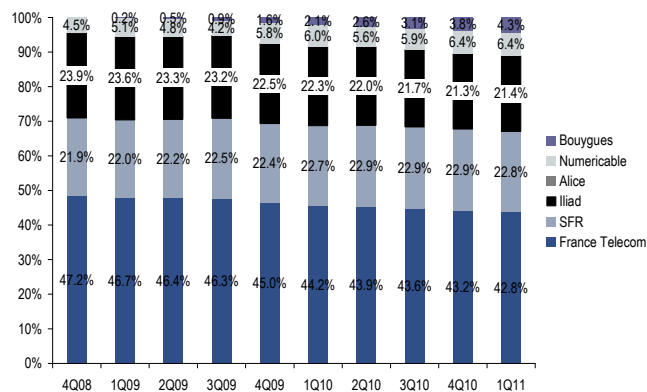
Source: Company reports and Citi Investment Research and Analysis

Figure 213. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datasteam

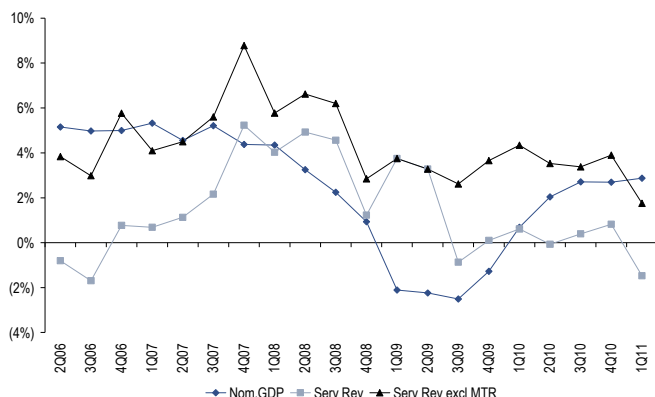
Figure 215. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

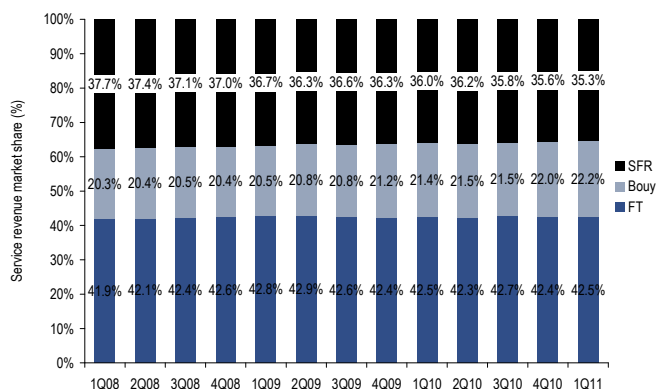
## Mobile Charts

Figure 216. Revenue and GDP



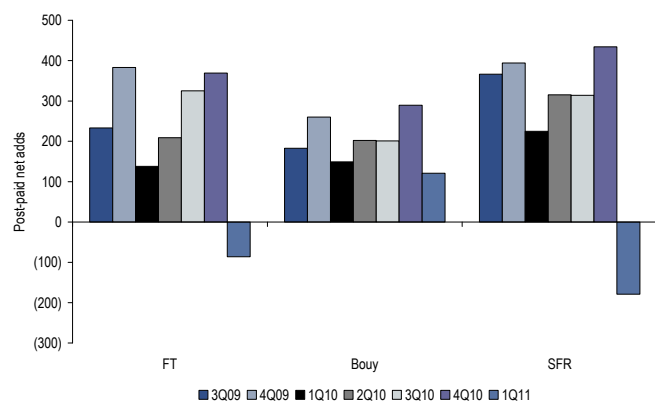
Source: Company reports, CIRA and Datastream

Figure 217. Service Revenue Market Share



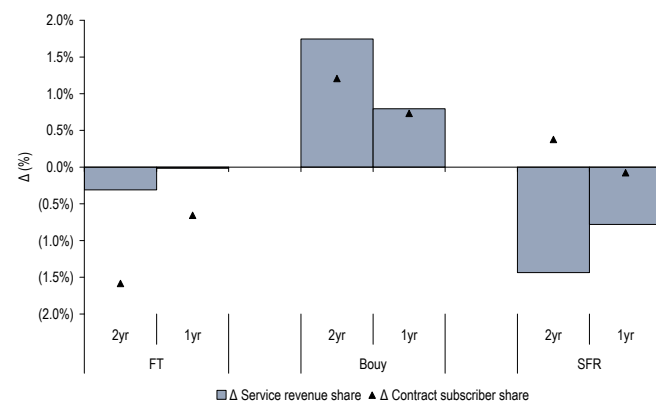
Source: Company reports and Citi Investment Research and Analysis

Figure 218. Post-Paid Net Adds



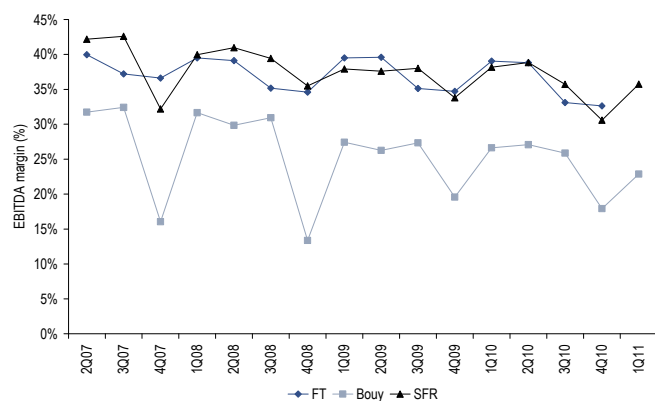
Source: Company reports and Citi Investment Research and Analysis

Figure 219. Change in Service Revenue and Contract Sub Share



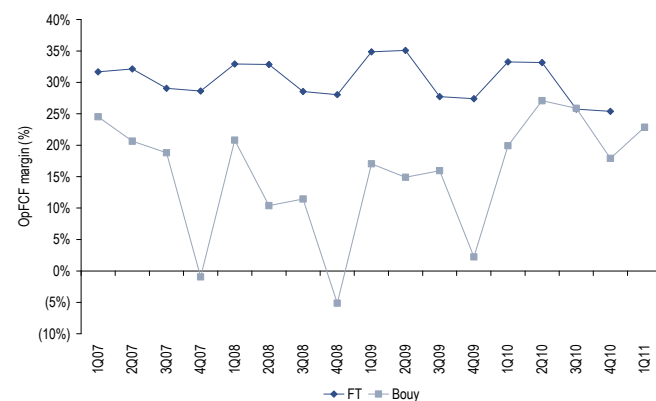
Source: Company reports and Citi Investment Research and Analysis

Figure 220. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 221. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## France Mobile Data

Figure 222. France Mobile Market Information

France	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
Orange (FT)	2,317	2,413	2,493	2,491	2,455	2,538	2,488	2,482	2,453	2,500	2,502	2,503	2,416
Bouygues	1,124	1,171	1,207	1,194	1,175	1,232	1,213	1,243	1,237	1,269	1,257	1,297	1,264
SFR	2,086	2,144	2,186	2,160	2,104	2,146	2,134	2,126	2,079	2,143	2,099	2,099	2,004
<b>Total</b>	<b>5,527</b>	<b>5,728</b>	<b>5,886</b>	<b>5,845</b>	<b>5,734</b>	<b>5,916</b>	<b>5,835</b>	<b>5,851</b>	<b>5,769</b>	<b>5,912</b>	<b>5,858</b>	<b>5,899</b>	<b>5,684</b>
<b>Service Revenue Growth, yoy</b>													
Orange (FT)	3.7%	4.9%	4.6%	3.7%	6.0%	5.2%	(0.2%)	(0.4%)	(0.1%)	(1.5%)	0.6%	0.8%	(1.5%)
Bouygues	6.2%	10.5%	8.7%	(3.4%)	4.5%	5.2%	0.5%	4.1%	5.3%	3.0%	3.6%	4.3%	2.2%
SFR	3.3%	2.1%	2.4%	1.1%	0.9%	0.1%	(2.4%)	(1.6%)	(1.2%)	(0.1%)	(1.6%)	(1.3%)	(3.6%)
<b>Total</b>	<b>4.0%</b>	<b>4.9%</b>	<b>4.6%</b>	<b>1.2%</b>	<b>3.7%</b>	<b>3.3%</b>	<b>(0.9%)</b>	<b>0.1%</b>	<b>0.6%</b>	<b>(0.1%)</b>	<b>0.4%</b>	<b>0.8%</b>	<b>(1.5%)</b>
<b>Service Revenue Market Share</b>													
Orange (FT)	41.9%	42.1%	42.4%	42.6%	42.8%	42.9%	42.6%	42.4%	42.5%	42.3%	42.7%	42.4%	42.5%
Bouygues	20.3%	20.4%	20.5%	20.4%	20.5%	20.8%	20.8%	21.2%	21.4%	21.5%	21.5%	22.0%	22.2%
SFR	37.7%	37.4%	37.1%	37.0%	36.7%	36.3%	36.6%	36.3%	36.0%	36.2%	35.8%	35.6%	35.3%
<b>Post-pay Customers, 000s</b>													
Orange (FT)	15,875	16,161	16,557	16,977	17,114	17,327	17,560	17,943	18,081	18,290	18,615	18,984	18,898
Bouygues	6,869	6,959	7,042	7,196	7,304	7,483	7,666	7,926	8,075	8,277	8,478	8,767	8,888
SFR	12,442	13,049	13,267	13,580	13,760	14,047	14,413	14,807	15,032	15,347	15,661	16,095	15,916
<b>Call Volumes, mn min/qtr</b>													
France Telecom	14,612	14,323	14,652	14,918	15,259	14,958	14,585	14,783	15,092	14,814	14,582	15,001	15,436
Bouygues	7,936	7,962	7,575	7,687	7,771	7,892	7,605	7,779	8,153	8,217	8,198	8,539	8,909
SFR	13,701	13,763	13,601	13,734	13,906	13,973	13,526	13,547	13,868	13,833	13,738	14,186	14,564
<b>Total</b>	<b>36,249</b>	<b>36,048</b>	<b>35,828</b>	<b>36,339</b>	<b>36,937</b>	<b>36,823</b>	<b>35,715</b>	<b>36,109</b>	<b>37,114</b>	<b>36,864</b>	<b>36,518</b>	<b>37,725</b>	<b>38,909</b>
<b>Call Volume growth, yoy</b>													
France Telecom	7.1%	4.8%	4.1%	5.6%	4.4%	4.4%	(0.5%)	(0.9%)	(1.1%)	(1.0%)	(0.0%)	1.5%	2.3%
Bouygues	6.4%	6.2%	(2.8%)	(3.8%)	(2.1%)	(0.9%)	0.4%	1.2%	4.9%	4.1%	7.8%	9.8%	9.3%
SFR	6.2%	6.4%	1.9%	1.3%	1.5%	1.5%	(0.6%)	(1.4%)	(0.3%)	(1.0%)	1.6%	4.7%	5.0%
<b>Total</b>	<b>6.6%</b>	<b>5.7%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>(0.3%)</b>	<b>(0.6%)</b>	<b>0.5%</b>	<b>0.1%</b>	<b>2.2%</b>	<b>4.5%</b>	<b>4.8%</b>
<b>Contract Churn, % p.a</b>													
Orange (FT)	9.7%	9.3%	9.3%	10.1%	10.9%	11.6%	12.4%	12.9%	13.1%	13.7%	13.9%	14.2%	15.8%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Orange (FT)	10.5%	10.1%	11.9%	11.4%	12.5%	12.1%	13.8%	14.6%	15.3%	14.8%	16.7%	17.2%	18.5%
<b>EBITDA, €m</b>													
Orange (FT)	973	1,014	951	950	1,045	1,080	941	939	1,025	1,044	906	907	0
Bouygues	379	376	400	177	348	354	364	278	357	377	366	267	321
SFR	873	914	907	807	827	850	852	777	834	872	798	693	762
<b>Capex, €m</b>													
Orange (FT)	163	163	180	180	123	123	198	198	152	152	201	201	0
Bouygues	130	245	252	245	132	153	152	246	90				

Source: Company reports and Citi Investment Research and Analysis

## France Fixed Data

Figure 223. France Fixed Line Market Information

France	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	7,633	7,850	8,096	8,350	8,574	8,680	8,810	8,933	8,937	8,989	9,086	9,207	9,308
Incumbent wholesale	2,297	2,290	2,252	2,221	2,189	2,157	2,105	2,032	1,959	1,941	1,945	1,838	1,828
ULL (total)	5,521	5,719	6,008	6,332	6,664	6,986	7,325	7,723	8,119	8,401	8,593	8,884	9,232
Cable	794	813	807	788	938	900	796	1,143	1,220	1,155	1,236	1,371	1,400
<b>Total</b>	<b>16,245</b>	<b>16,672</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>20,486</b>	<b>20,860</b>	<b>21,300</b>	<b>21,741</b>
<b>Broadband Subscribers (000s)</b>													
France Telecom	7,633	7,850	8,096	8,350	8,574	8,680	8,810	8,933	8,937	8,989	9,086	9,207	9,308
SFR	3,699	3,767	3,730	3,879	4,042	4,154	4,283	4,444	4,592	4,682	4,773	4,887	4,952
Iliad	3,041	3,134	4,125	4,225	4,337	4,371	4,420	4,456	4,504	4,514	4,528	4,534	4,661
Alice	954	902	0	0	0	0	0	0	0	0	0	0	0
Numericable	794	813	807	788	938	900	796	1,143	1,220	1,155	1,236	1,371	1,400
Bouygues	0	0	0	12	30	86	175	314	434	533	654	808	940
<b>Total</b>	<b>16,245</b>	<b>16,672</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>20,486</b>	<b>20,860</b>	<b>21,300</b>	<b>21,741</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
France Telecom	334	217	246	254	224	106	130	123	4	52	97	121	101
SFR	97	68	(37)	149	163	112	129	161	148	90	91	114	65
Iliad	137	93	991	100	112	34	49	36	48	10	14	6	127
Alice	53	(52)	(902)	0	0	0	0	0	0	0	0	0	0
Numericable	18	20	(6)	(19)	150	(39)	(104)	347	77	(65)	81	136	29
Bouygues	0	0	0	12	18	56	89	139	120	99	121	154	132
<b>Total</b>	<b>694</b>	<b>427</b>	<b>491</b>	<b>528</b>	<b>674</b>	<b>358</b>	<b>313</b>	<b>795</b>	<b>404</b>	<b>251</b>	<b>374</b>	<b>440</b>	<b>441</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	28,195	27,796	27,477	27,252	26,939	26,595	26,219	25,771	24,941	24,568	24,259	23,983	23,482
Incumbent wholesale (WLR)	793	852	897	948	939	974	1,026	1,076	1,151	1,204	1,240	1,267	1,318
ULL (full)	4,012	4,268	4,574	4,939	5,310	5,664	6,002	6,414	6,827	7,139	7,368	7,690	8,071
Naked DSL	1,052	1,123	1,137	1,186	1,232	1,250	1,232	1,245	1,243	1,240	1,236	1,219	1,223
Cable	524	537	533	520	619	594	525	754	805	762	816	905	924
<b>Total</b>	<b>34,576</b>	<b>34,576</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>34,913</b>	<b>34,919</b>	<b>35,064</b>	<b>35,018</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(412)	(399)	(319)	(225)	(313)	(344)	(376)	(448)	(830)	(373)	(309)	(276)	(501)
Incumbent wholesale	77	59	45	51	(9)	35	52	50	75	53	36	27	51
ULL (full)	388	256	306	365	371	354	338	412	413	312	229	322	381
Naked DSL	110	71	14	49	46	18	(18)	13	(2)	(3)	(4)	(17)	4
Cable	12	13	(4)	(13)	99	(25)	(68)	229	51	(43)	53	90	19
<b>Total</b>	<b>175</b>	<b>0</b>	<b>42</b>	<b>227</b>	<b>194</b>	<b>38</b>	<b>(72)</b>	<b>256</b>	<b>(293)</b>	<b>(54)</b>	<b>5</b>	<b>146</b>	<b>(46)</b>
<b>Pay TV Subscribers (000s)</b>													
France Telecom	1,282	1,389	1,603	1,909	2,166	2,339	2,547	2,761	2,894	3,051	3,230	3,505	3,711
<b>Pay TV Subscribers Net Adds (000s)</b>													
France Telecom	133	107	214	306	257	173	208	214	133	157	179	275	206

Source: Company reports and Citi Investment Research and Analysis

# Germany

## Fixed

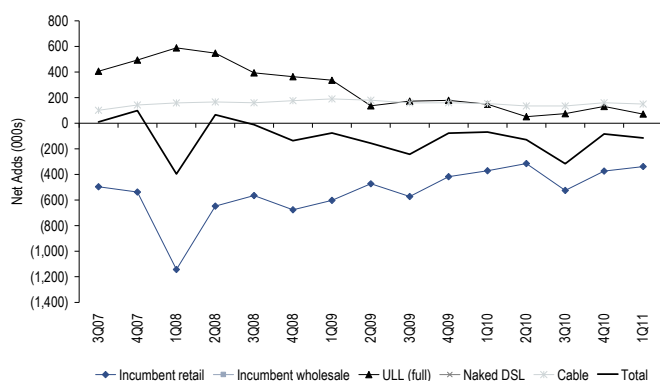
- Retail line loss improved modestly in 1Q11 to -338k from -374k in 4Q10, due partly to lower migrations to unbundled lines.
- DT's broadband net adds remained stable at 115k and O2 delivered the second quarter in a row of strong net adds at 62k in 1Q11. Cable operators continued to gain share.

## Mobile

- Service revenue growth excluding the impact of MTR cuts slowed in 1Q11 to 3.9% from 4.5% in 4Q10. DT's underlying growth was slower due to new tariff plans and lower minutes growth.
- Reported growth worsened significantly due to a c.50% cut to MTRs. Reported service revenue growth was -0.8% in 1Q11, vs 2.9% 4Q10.

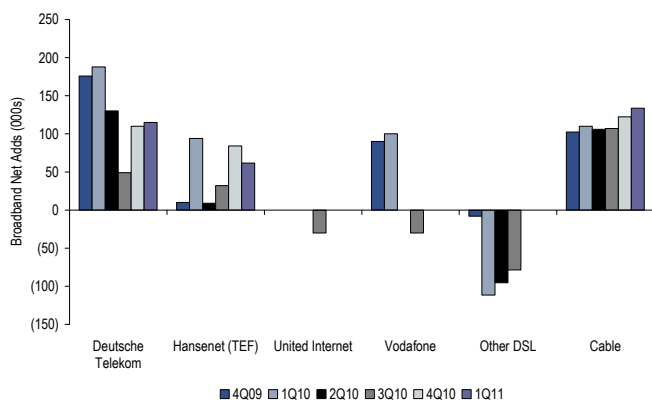
## Fixed Charts

Figure 224. Telephony Net Adds



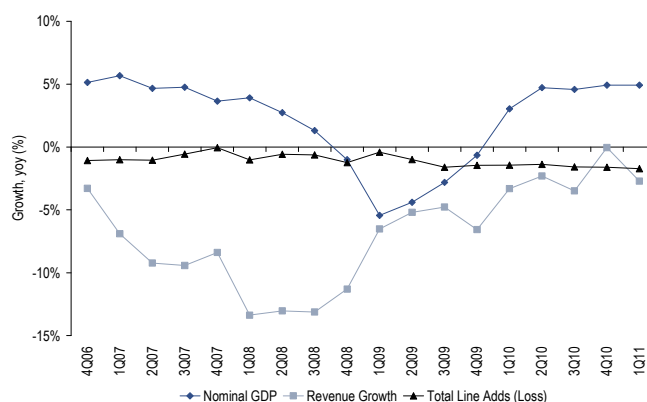
Source: Company reports and Citi Investment Research and Analysis

Figure 226. Broadband Subscriber Net Adds



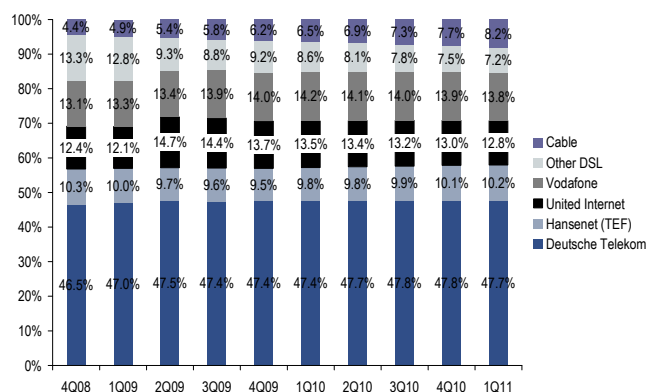
Source: Company reports and Citi Investment Research and Analysis

Figure 225. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

Figure 227. Broadband Subscriber Market Share

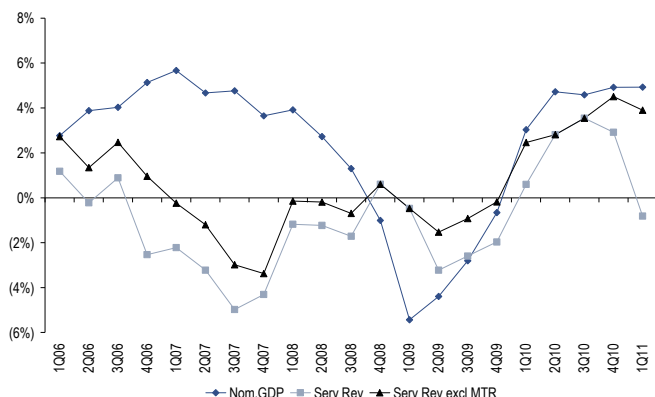


Source: Company reports and Citi Investment Research and Analysis



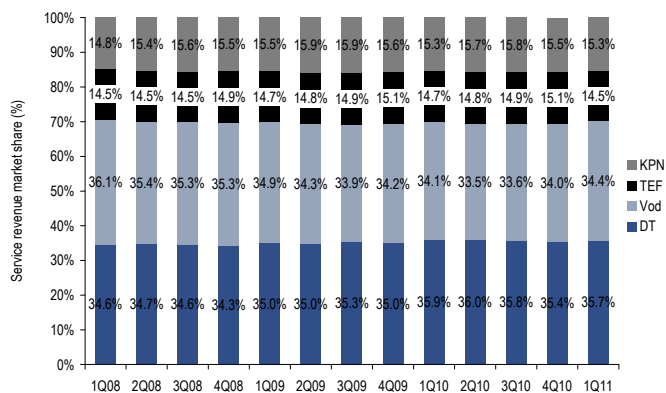
## Mobile Charts

Figure 228. Revenue and GDP



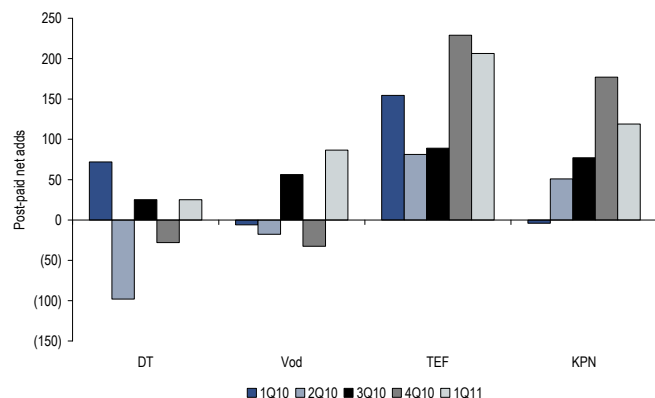
Source: Company reports, CIRA and Datastream

Figure 229. Service Revenue Market Share



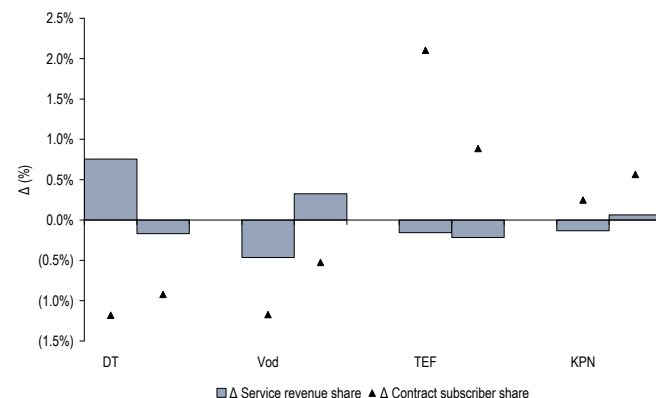
Source: Company reports and Citi Investment Research and Analysis

Figure 230. Post-Paid Net Adds



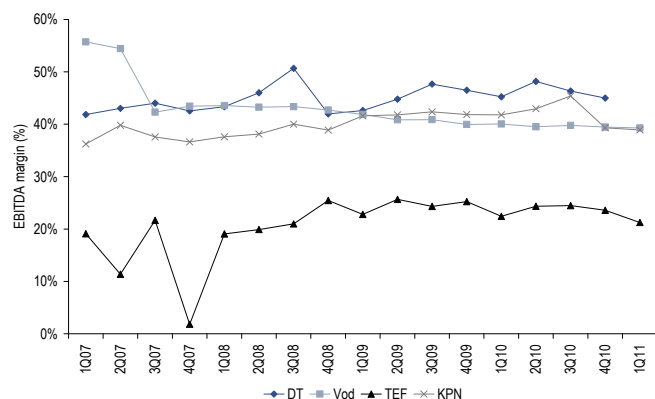
Source: Company reports and Citi Investment Research and Analysis

Figure 231. Change in Service Revenue and Contract Sub Share



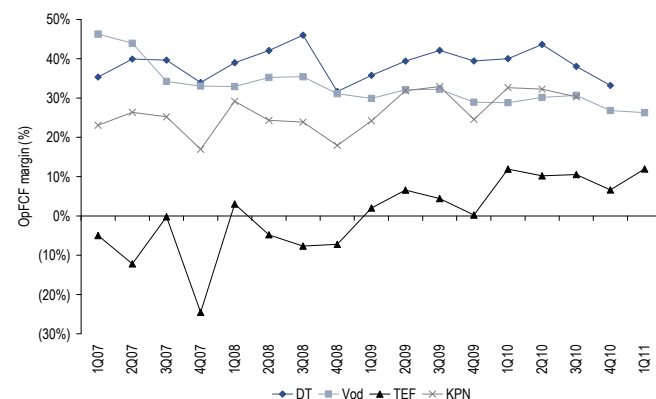
Source: Company reports and Citi Investment Research and Analysis

Figure 232. EBITDA Margin



Source: Company reports and Citi Investment Research and Analysis

Figure 233. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Germany Mobile Data

Figure 234. German Mobile Market Information

Germany	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
T-Mobile (DT)	1,648	1,710	1,739	1,686	1,658	1,669	1,728	1,689	1,712	1,766	1,813	1,756	1,690
Vodafone	1,720	1,747	1,776	1,737	1,654	1,638	1,659	1,650	1,626	1,641	1,701	1,686	1,628
O2 (Telefonica)	690	716	729	732	695	707	729	729	702	726	755	749	686
KPN	705	757	782	761	734	757	779	751	729	772	800	769	726
<b>Total</b>	<b>4,763</b>	<b>4,930</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>Service Revenue Growth, yoy</b>													
T-Mobile (DT)	(2.2%)	(1.9%)	(2.5%)	0.5%	0.6%	(2.4%)	(0.6%)	0.2%	3.3%	5.8%	4.9%	4.0%	(1.3%)
Vodafone	(3.3%)	(4.0%)	(3.5%)	(1.1%)	(3.8%)	(6.2%)	(6.6%)	(5.0%)	(1.7%)	0.2%	2.5%	2.2%	0.1%
O2 (Telefonica)	(0.9%)	(1.6%)	(3.4%)	0.1%	0.7%	(1.2%)	(0.0%)	(0.4%)	1.0%	2.7%	3.6%	2.7%	(2.3%)
KPN	6.8%	8.1%	6.4%	5.5%	4.1%	0.0%	(0.4%)	(1.3%)	(0.7%)	2.0%	2.7%	2.4%	(0.4%)
<b>Total</b>	<b>(1.2%)</b>	<b>(1.2%)</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>Service Revenue Market Share</b>													
T-Mobile (DT)	34.6%	34.7%	34.6%	34.3%	35.0%	35.0%	35.3%	35.0%	35.9%	36.0%	35.8%	35.4%	35.7%
Vodafone	36.1%	35.4%	35.3%	35.3%	34.9%	34.3%	33.9%	34.2%	34.1%	33.5%	33.6%	34.0%	34.4%
O2 (Telefonica)	14.5%	14.5%	14.5%	14.9%	14.7%	14.8%	14.9%	15.1%	14.7%	14.8%	14.9%	15.1%	14.5%
KPN	14.8%	15.4%	15.6%	15.5%	15.5%	15.9%	15.9%	15.6%	15.3%	15.7%	15.8%	15.5%	15.3%
<b>Post-pay Customers, 000s</b>													
T-Mobile (DT)	16,264	16,468	16,739	17,009	16,953	17,020	17,140	17,202	17,274	17,176	17,201	17,173	17,198
Vodafone	15,176	15,424	15,671	15,914	15,986	15,972	16,096	16,101	16,095	16,077	16,133	16,101	16,187
O2 (Telefonica)	6,442	6,735	6,881	6,967	7,085	7,225	7,440	7,700	7,855	7,936	8,025	8,254	8,460
KPN	6,345	6,437	6,542	6,676	6,739	6,785	6,800	6,768	6,764	6,815	6,892	7,069	7,188
<b>Call Volumes, mn min/qtr</b>													
Deutsche Telekom	7,195	7,475	7,643	7,829	7,848	8,082	8,353	8,592	8,622	8,836	9,162	9,393	8,936
Vodafone	8,818	9,206	9,218	9,478	9,464	9,314	9,234	9,659	9,697	9,798	9,770	10,362	10,270
Telefonica	5,618	5,741	5,512	5,454	5,555	5,819	5,775	6,108	6,223	6,299	6,292	6,729	6,859
KPN	6,430	6,861	6,920	7,413	7,467	7,998	8,036	8,426	8,497	8,865	8,767	9,497	9,379
<b>Total</b>	<b>28,062</b>	<b>29,283</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>Call Volume growth, yoy</b>													
Deutsche Telekom	13.4%	12.7%	12.8%	12.9%	9.1%	8.1%	9.3%	9.7%	9.9%	9.3%	9.7%	9.3%	3.6%
Vodafone	19.4%	16.3%	12.3%	9.4%	7.3%	1.2%	0.2%	1.9%	2.5%	5.2%	5.8%	7.3%	5.9%
Telefonica	30.7%	26.5%	21.0%	10.1%	(1.1%)	1.4%	4.8%	12.0%	12.0%	8.2%	9.0%	10.2%	10.2%
KPN	31.9%	28.8%	22.6%	17.1%	16.1%	16.6%	16.1%	13.7%	13.8%	10.8%	9.1%	12.7%	10.4%
<b>Total</b>	<b>22.5%</b>	<b>19.9%</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>Contract Churn, % p.a</b>													
T-Mobile (DT)	13.2%	13.2%	13.2%	15.6%	18.0%	13.2%	12.0%	13.2%	15.6%	16.8%	13.2%	14.4%	12.0%
Vodafone	15.1%	16.0%	15.6%	15.2%	15.3%	16.0%	16.0%	17.8%	15.4%	16.9%	16.7%	19.6%	14.1%
KPN	21.0%	19.0%	19.0%	21.0%	21.0%	20.0%	20.0%	23.0%	20.0%	20.0%	20.0%	23.0%	23.0%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Vodafone	12.8%	12.7%	13.4%	14.3%	15.2%	15.8%	16.8%	17.7%	19.7%	20.6%	20.8%	22.2%	24.7%
O2 (Telefonica)	7.9%	7.3%	8.4%	9.0%	9.9%	10.2%	11.0%	12.8%	13.8%	12.5%	14.2%	15.6%	18.9%
<b>EBITDA, €m</b>													
T-Mobile (DT)	777	852	964	771	761	798	920	894	828	912	928	891	
Vodafone	983	981	997	967	921	883	895	880	867	856	888	879	849
O2 (Telefonica)	163	178	192	237	202	230	235	252	241	291	304	310	261
KPN	284	308	336	317	322	333	347	331	321	345	386	322	301
<b>Capex, €m</b>													
T-Mobile (DT)	78	72	89	189	122	96	107	136	96	86	166	233	
Vodafone	240	182	182	263	263	189	189	243	243	203	203	281	281
O2 (Telefonica)	137	221	262	304	184	171	192	250	113	169	173	223	114
KPN	64	111	135	171	135	79	77	137	70	86	128	202	91

Source: Company reports and Citi Investment Research and Analysis

## Germany Fixed Data

Figure 235. German Fixed Line Market Information

Germany	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	9,558	9,898	10,242	10,594	10,984	11,229	11,301	11,477	11,665	11,795	11,844	11,954	12,069
Incumbent wholesale	3,401	3,169	2,905	2,537	2,209	1,952	1,752	1,621	1,523	1,354	1,143	984	891
ULL (total)	6,965	7,512	7,906	8,270	8,606	8,742	8,914	9,093	9,242	9,293	9,367	9,498	9,570
Cable	913	1,075	1,221	1,384	1,558	1,727	1,871	2,017	2,159	2,296	2,434	2,597	2,772
<b>Total</b>	<b>20,837</b>	<b>21,654</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>25,302</b>
<b>Broadband Subscribers (000s)</b>													
Deutsche Telekom	9,558	9,898	10,242	10,594	10,984	11,229	11,301	11,477	11,665	11,795	11,844	11,954	12,069
Hansenet (TEF)	2,372	2,361	2,343	2,344	2,325	2,289	2,300	2,310	2,404	2,413	2,445	2,529	2,591
United Internet	2,700	2,760	2,780	2,820	2,820	3,470	3,440	3,310	3,310	3,310	3,280	3,260	3,240
Freenet	1,190	1,100	1,050	940	910								
Vodafone	2,675	2,781	2,887	2,994	3,100	3,180	3,310	3,400	3,500	3,500	3,470	3,490	3,500
Versatel	666	692	702	709	712	710	694	683	670	654	634	624	622
Telefonica (pre Hansenet)	125	165	198	215	232	253	272	285					
Tele2	192	198	191	177	163	153	145	139	131	125	121	116	112
Kabel Deutschland	393	482	548	625	707	787	851	906	966	1,029	1,089	1,153	1,228
Unity Media	244	282	326	377	438	496	537	584	634	677	721	780	840
Other	447	624	659	609	553	639	505	587	750	645	560	463	396
<b>Total</b>	<b>20,837</b>	<b>21,654</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>25,302</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
Deutsche Telekom	539	340	344	352	390	245	72	176	188	130	49	110	115
Hansenet (TEF)	23	(11)	(18)	1	(19)	(36)	11	10	94	9	32	84	62
United Internet	30	60	20	40	0	(50)	(30)	0	0	0	(30)	(20)	(20)
Freenet	(90)	(90)	(50)	(110)	(30)								
Vodafone	144	106	106	106	106	80	130	90	100	0	(30)	20	10
Versatel	30	26	11	7	3	(2)	(16)	(11)	(13)	(16)	(20)	(10)	(2)
Telefonica	50	41	33	17	17	22	19	13					
Tele2	19	6	(7)	(14)	(14)	(10)	(8)	(6)	(8)	(6)	(4)	(5)	(4)
Kabel Deutschland	73	89	66	77	82	80	64	55	60	63	60	65	75
Unity Media	45	38	44	51	61	58	41	47	50	43	44	59	60
<b>Total</b>	<b>1,159</b>	<b>818</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>269</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	30,191	29,543	28,978	28,301	27,699	27,226	26,653	26,236	25,864	25,549	25,024	24,650	24,312
ULL (full)	6,965	7,512	7,906	8,270	8,606	8,742	8,914	9,093	9,242	9,293	9,367	9,498	9,570
Naked DSL													
Cable	859	1,025	1,185	1,361	1,551	1,731	1,890	2,050	2,204	2,339	2,474	2,633	2,800
<b>Total</b>	<b>38,015</b>	<b>38,080</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>36,682</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(1,143)	(648)	(565)	(677)	(602)	(473)	(573)	(417)	(372)	(315)	(525)	(374)	(338)
ULL (full)	589	547	394	364	336	136	172	179	149	51	74	131	72
Naked DSL													
Cable	159	167	160	177	190	180	159	161	154	136	135	159	167
<b>Total</b>	<b>(396)</b>	<b>66</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>(99)</b>
<b>Pay TV Subscribers (000s)</b>													
DT			257	352	448	561	678	806	896	971	1,042	1,156	1,257
Sky Deutschland			2,411	2,399	2,371	2,364	2,431	2,470	2,471	2,476	2,521	2,653	0
Kabel Deutschland	8,980	9,258	9,282	9,205	9,247	9,184	9,111	9,044	9,002				
Unity Media	4,733	4,712	4,655	4,619	4,577	4,554	4,547	4,523	4,514	4,499	4,500	4,488	4,477
<b>Total</b>	<b>0</b>	<b>0</b>	<b>16,605</b>	<b>16,575</b>	<b>16,643</b>	<b>16,663</b>	<b>16,767</b>	<b>16,843</b>	<b>16,931</b>	<b>16,973</b>	<b>17,097</b>	<b>17,304</b>	<b>14,611</b>
<b>Pay TV Subscribers Net Adds (000s)</b>													
DT				95	96	113	117	128	90	75	71	114	101
Sky Deutschland				(12)	(28)	(7)	67	39	1	5	45	132	0
Kabel Deutschland	(133)	278	24	(77)	42	(63)	(73)	(67)	(42)				
Unity Media	(29)	(21)	(57)	(36)	(42)	(23)	(7)	(24)	(9)	(15)	1	(12)	(11)
<b>Total</b>				<b>(30)</b>	<b>68</b>	<b>20</b>	<b>104</b>	<b>76</b>	<b>88</b>	<b>42</b>	<b>124</b>	<b>207</b>	<b>0</b>

Source: Company reports and Citi Investment Research and Analysis

# Greece

## Fixed

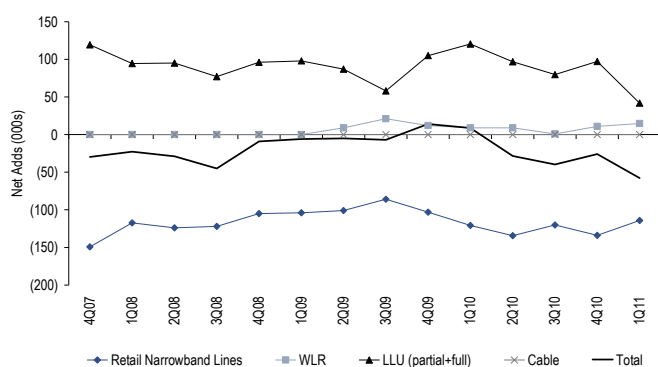
- Retail line loss remains high in Greece at -10.3% in 1Q11, the same as in 4Q10. Growth in the broadband market slowed substantially, with OTE net adds falling to zero.

## Mobile

- Service revenue decline continued to worsen to -20% in 1Q11 from -17.8% 4Q10. This is despite healthy minutes growth of 10%, which is being more than offset by significant per minute price declines. There is currently a c.-4ppt growth headwind from MTR cuts in the Greek market; excluding these, growth is still the worst in Europe at -16.5% 1Q11.

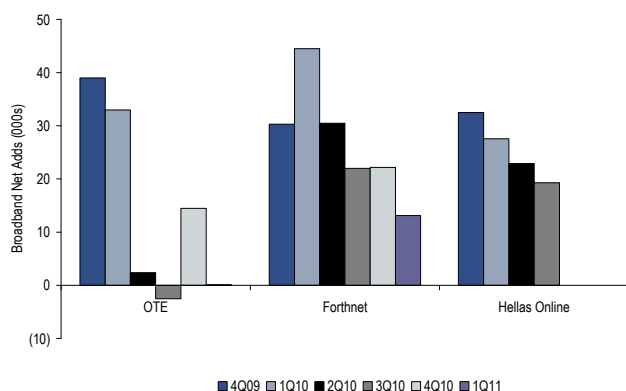
## Fixed Charts

Figure 236. Telephony Net Adds



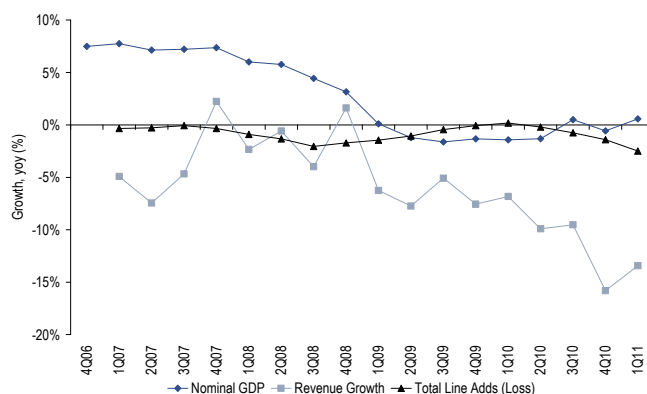
Source: Company reports and Citi Investment Research and Analysis

Figure 238. Broadband Subscriber Net Adds



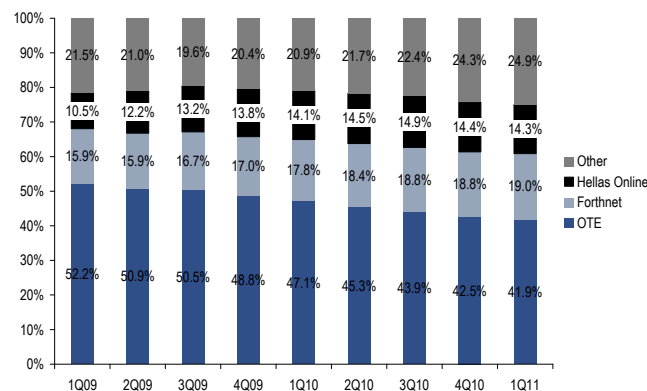
Source: Company reports and Citi Investment Research and Analysis

Figure 237. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

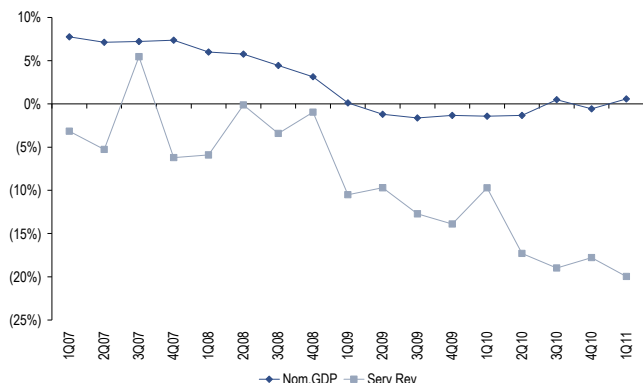
Figure 239. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

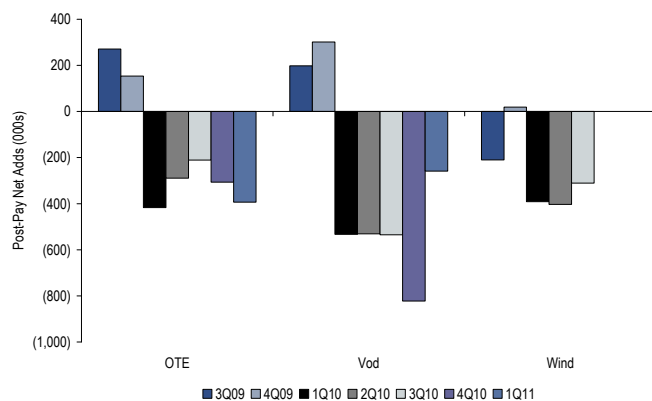
## Mobile Charts

Figure 240. Revenue and GDP



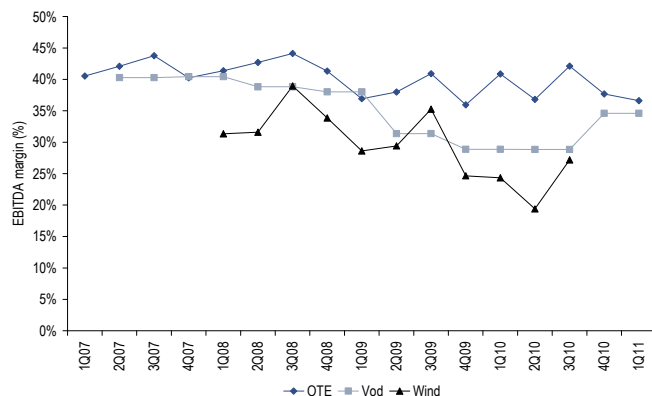
Source: Company reports, CIRA and Datastream

Figure 242. Total Net Adds



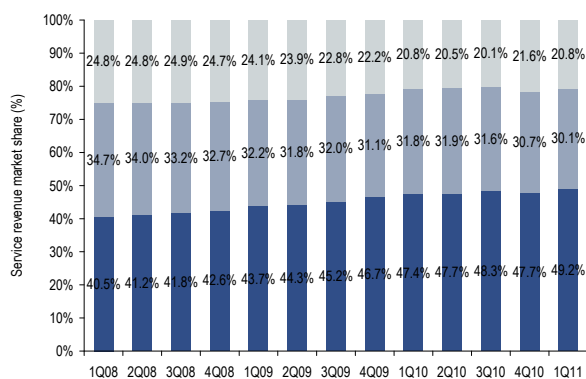
Source: Company reports and Citi Investment Research and Analysis

Figure 244. EBITDA Margin



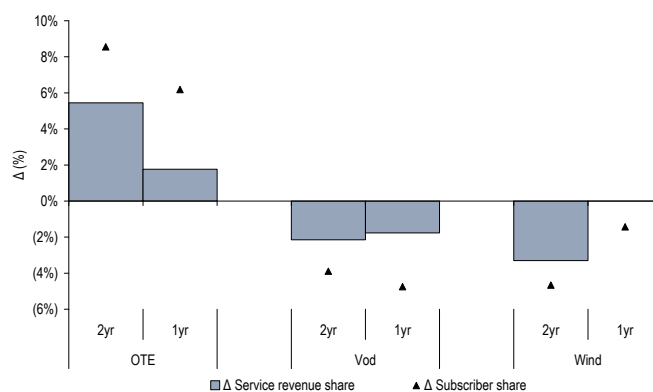
Source: Company reports and Citi Investment Research and Analysis

Figure 241. Service Revenue Market Share



Source: Company reports and Citi Investment Research and Analysis

Figure 243. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

## Greece Mobile Data

Figure 245. Mobile Market Information

Greece	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
OTE	411	440	478	440	397	427	451	416	388	380	390	349	322
Vodafone	351	363	380	338	292	307	319	277	261	254	256	225	197
Wind	252	265	285	256	218	230	227	198	170	163	163		
<b>Total</b>	<b>1,014</b>	<b>1,068</b>	<b>1,144</b>	<b>1,034</b>	<b>907</b>	<b>964</b>	<b>998</b>	<b>890</b>	<b>819</b>	<b>797</b>	<b>809</b>	<b>732</b>	<b>655</b>
<b>Service Revenue Growth, yoy</b>													
OTE	(10.0%)	5.2%	6.6%	4.6%	(3.4%)	(2.9%)	(5.6%)	(5.6%)	(2.1%)	(11.0%)	(13.5%)	(16.0%)	(17.0%)
Vodafone	(4.9%)	(7.4%)	(8.3%)	(7.9%)	(16.9%)	(15.4%)	(15.9%)	(18.1%)	(10.8%)	(17.2%)	(20.0%)	(18.9%)	(24.4%)
Wind	0.0%	2.2%	(11.1%)	(0.1%)	(13.3%)	(13.1%)	(20.3%)	(22.6%)	(22.1%)	(29.1%)	(28.5%)		
<b>Total</b>	<b>(5.9%)</b>	<b>(0.1%)</b>	<b>(3.4%)</b>	<b>(1.0%)</b>	<b>(10.5%)</b>	<b>(9.7%)</b>	<b>(12.7%)</b>	<b>(13.9%)</b>	<b>(9.7%)</b>	<b>(17.3%)</b>	<b>(19.0%)</b>	<b>(17.8%)</b>	<b>(20.0%)</b>
<b>Service Revenue Market Share</b>													
OTE	40.5%	41.2%	41.8%	42.6%	43.7%	44.3%	45.2%	46.7%	47.4%	47.7%	48.3%	47.7%	49.2%
Vodafone	34.7%	34.0%	33.2%	32.7%	32.2%	31.8%	32.0%	31.1%	31.8%	31.9%	31.6%	30.7%	30.1%
Wind	24.8%	24.8%	24.9%	24.7%	24.1%	23.9%	22.8%	22.2%	20.8%	20.5%	20.1%		
<b>Post-pay Customers, 000s</b>													
OTE	0	0	0	0	0	0	0	0	0	0	0	0	0
Vodafone	1,731	1,757	1,776	1,780	1,760	1,724	1,701	1,698	1,686	1,675	1,656	1,637	1,609
Wind	1,030	1,053	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	3,398	3,692	3,955	4,201	4,891	5,574	5,946	6,197	6,243	6,494	6,571	6,655	6,996
Vodafone	2,262	2,395	2,443	2,370	2,281	2,402	2,411	2,309	2,221	2,438	2,485	2,410	2,288
Tellas	1,630	1,757	1,803	1,710	1,626	1,681	1,659	1,558	1,286	1,582	1,586	1,466	1,407
<b>Total</b>	<b>7,289</b>	<b>7,844</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>10,691</b>
<b>Call Volume growth, yoy</b>													
OTE	39.1%	35.9%	34.3%	34.9%	44.0%	51.0%	50.3%	47.5%	27.6%	16.5%	10.5%	7.4%	12.1%
Vodafone	14.0%	10.5%	7.1%	5.6%	0.8%	0.3%	(1.3%)	(2.6%)	(2.6%)	1.5%	3.1%	4.4%	3.0%
Tellas	9.1%	7.1%	5.7%	2.4%	(0.3%)	(4.3%)	(8.0%)	(8.9%)	(20.9%)	(5.9%)	(4.4%)		
<b>Total</b>	<b>23.1%</b>	<b>20.2%</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>Contract Churn, % p.a</b>													
Wind	24.2%	21.6%	22.2%	26.0%	29.3%	30.2%	30.9%						
<b>EBITDA, €m</b>													
OTE	176	194	220	192	164	180	208	174	177	155	185	153	139
Vodafone	142	141	148	129	111	96	100	80	75	73	74	78	68
Wind	94	99	132	105	76	82	98	61	52	39	54		

Source: Company reports and Citi Investment Research and Analysis

## Greece Fixed Data

Figure 246. Greek Fixed Line Market Information

Greece	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	646	687	740	830	938	970	1,006	1,045	1,078	1,080	1,078	1,092	1,092
Incumbent wholesale	215	205	184	142	90	79	73	78	71	65	61	62	62
ULL (total)	404	499	576	672	770	857	915	1,020	1,141	1,237	1,317	1,414	1,456
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1,265</b>	<b>1,391</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>Broadband Subscribers (000s)</b>													
OTE	646	687	740	830	938	970	1,006	1,045	1,078	1,080	1,078	1,092	1,092
Forthnet	217	231	250	274	286	303	334	364	409	439	461	483	496
Hellas Online	92	104	115	151	188	232	264	296	324	346	366	370	372
Wind	0	0	0	0	0	0	0	0	0	0	0	0	0
- other	310	370	395	389	386	401	391	438	479	517	551	623	650
<b>Total</b>	<b>1,265</b>	<b>1,391</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>Broadband Subscribers Net Adds (000s)</b>													
OTE	69	41	53	90	108	32	36	39	33	2	(3)	14	0
Forthnet	16	14	20	24	12	16	31	30	45	31	22	22	13
Other	39	59	25	(6)	(3)	15	(10)	47	41	38	34		
<b>Total</b>	<b>130</b>	<b>126</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>Telephony Channels (000s)</b>													
Retail Narrowband Lines	5,737	5,613	5,491	5,386	5,282	5,181	5,095	4,992	4,871	4,737	4,617	4,483	4,369
WLR	0	0	0	0	0	9	30	42	51	60	61	72	87
LLU (partial+full)	404	499	576	672	770	857	915	1,020	1,141	1,237	1,317	1,414	1,456
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>6,141</b>	<b>6,112</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>Telephony Channels Net Adds (000s)</b>													
Retail Narrowband Lines	(117)	(124)	(122)	(105)	(104)	(101)	(86)	(103)	(121)	(134)	(120)	(134)	(114)
WLR	0	0	0	0	0	9	21	12	9	9	1	11	15
LLU (partial+full)	94	95	77	96	98	87	58	105	121	97	80	97	42
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>(23)</b>	<b>(29)</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>

Source: Company reports and Citi Investment Research and Analysis

# Italy

## Fixed

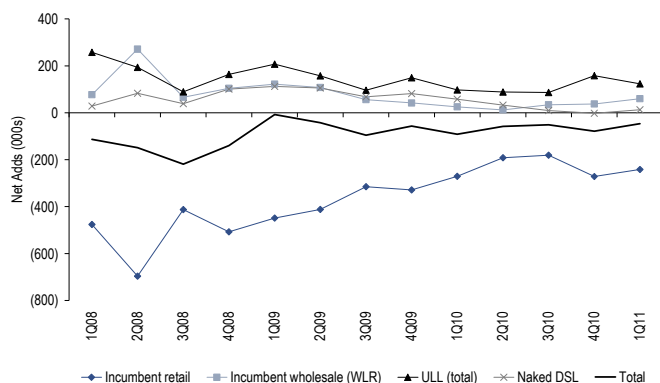
- Adjusting for Sparkle, TI's fixed revenue decline slowed to 2.8% in 1Q11. Despite competitive pressure in BB, trends improved qoq. Competition is still aggressive from Wind and Vodafone, but promotional offers became more rational in 2Q11. We argue that current aggressive prices on fixed are hard to sustain in the medium term without cannibalizing the ARPU of their existing bases.

## Mobile

- Italy remained one of the weakest European markets in terms of service revenue growth. The trend deteriorated sequentially, declining by 5.8% yoy in 1Q11 vs. -3.6% in 4Q10. Most of this underperformance is due to TI's tough comps (-11.7% yoy).
- We argue Agcom's new MTR glidepath, although steeper than previously to start with, is a positive for the market in the long term as rates remain above the European average after 4Q12.

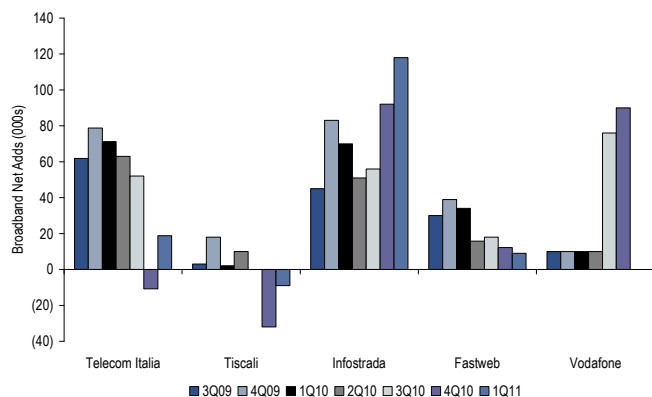
## Fixed Charts

Figure 247. Telephony Net Adds



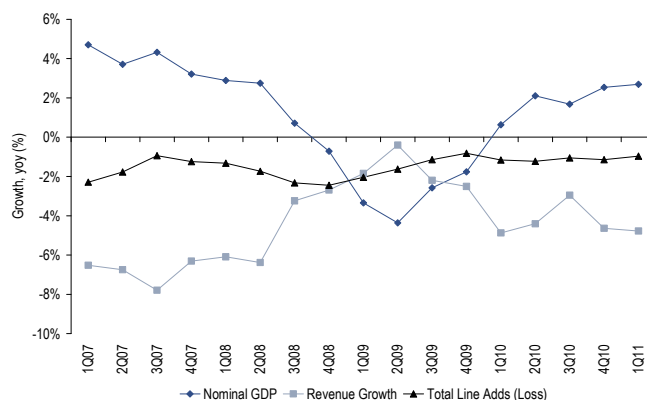
Source: Company reports and Citi Investment Research and Analysis

Figure 249. Broadband Subscriber Net Adds



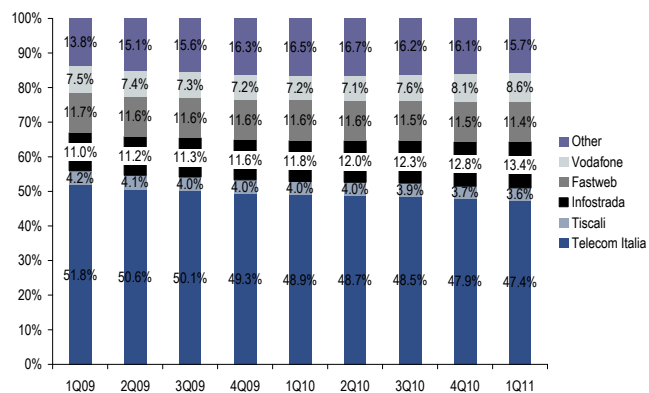
Source: Company reports and Citi Investment Research and Analysis

Figure 248. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

Figure 250. Broadband Subscriber Market Share

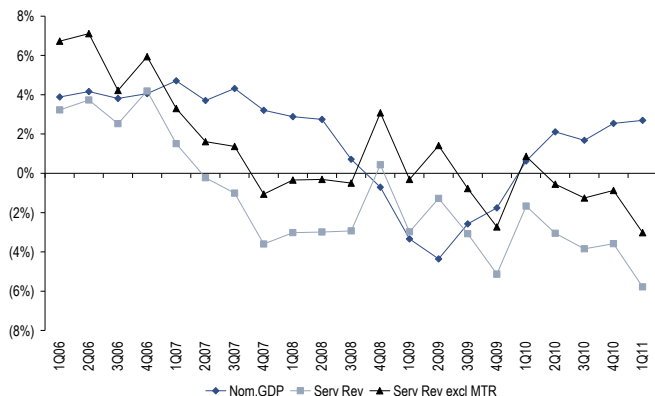


Source: Company reports and Citi Investment Research and Analysis



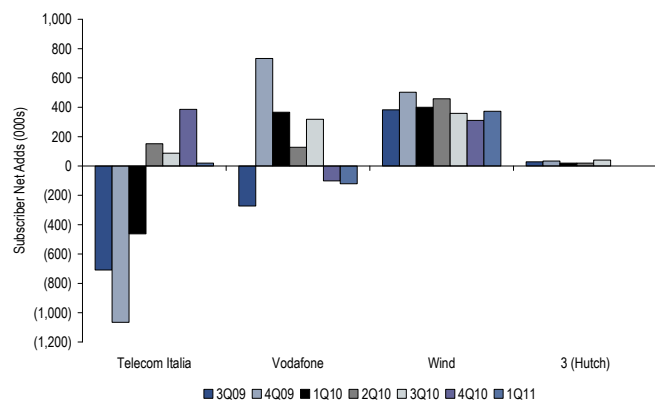
## Mobile Charts

Figure 251. Revenue and GDP



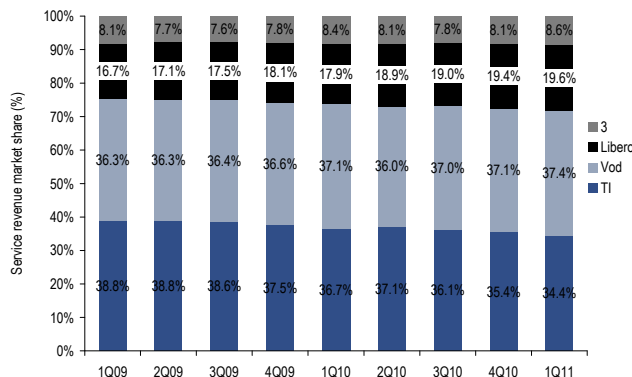
Source: Company reports, CIRA and Datastream

Figure 253. Subscriber Net Adds



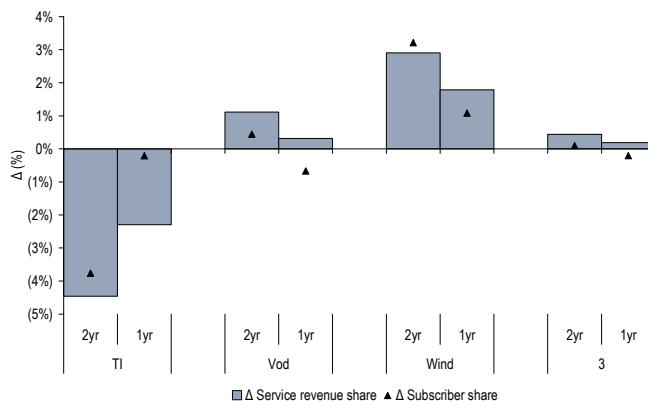
Source: Company reports and Citi Investment Research and Analysis

Figure 252. Service Revenue Market Share



Source: Company reports and Citi Investment Research and Analysis

Figure 254. Service Revenue Growth



Source: Company reports and Citi Investment Research and Analysis

## Italy Mobile Data

Figure 255. Italian Mobile Market Information

Italy	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
Telecom Italia	2,118	2,199	2,261	2,250	1,993	2,092	2,072	1,959	1,850	1,936	1,867	1,784	1,634
Vodafone	1,861	1,921	1,961	1,938	1,863	1,956	1,955	1,912	1,873	1,878	1,910	1,865	1,779
Wind	859	902	901	896	859	921	939	944	901	985	984	978	934
3 (Hutch)	452	434	420	420	417	417	407	407	422	422	405	407	407
<b>Total</b>	<b>5,289</b>	<b>5,455</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>5,046</b>	<b>5,221</b>	<b>5,166</b>	<b>5,034</b>	<b>4,754</b>
<b>Service Revenue Growth, yoy</b>													
Telecom Italia	(6.9%)	(5.3%)	(4.4%)	2.9%	(5.9%)	(4.8%)	(8.4%)	(12.9%)	(7.2%)	(7.5%)	(9.9%)	(8.9%)	(11.7%)
Vodafone	(0.1%)	0.2%	1.3%	1.8%	0.1%	1.8%	(0.3%)	(1.3%)	0.5%	(4.0%)	(2.3%)	(2.4%)	(5.0%)
Wind	5.0%	1.7%	1.5%	0.8%	0.0%	2.1%	4.2%	5.4%	4.9%	6.9%	4.8%	3.6%	3.7%
3 (Hutch)	(9.4%)	(13.0%)	(19.3%)	(16.1%)	(7.8%)	(4.0%)	(3.1%)	(3.1%)	1.4%	1.4%	(0.4%)	0.0%	(3.7%)
<b>Total</b>	<b>(3.0%)</b>	<b>(3.0%)</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>(3.0%)</b>	<b>(3.8%)</b>	<b>(3.6%)</b>	<b>(5.8%)</b>
<b>Service Revenue Market Share</b>													
Telecom Italia	40.0%	40.3%	40.8%	40.9%	38.8%	38.8%	38.6%	37.5%	36.7%	37.1%	36.1%	35.4%	34.4%
Vodafone	35.2%	35.2%	35.4%	35.2%	36.3%	36.3%	36.4%	36.6%	37.1%	36.0%	37.0%	37.1%	37.4%
Wind	16.2%	16.5%	16.3%	16.3%	16.7%	17.1%	17.5%	18.1%	17.9%	18.9%	19.0%	19.4%	19.6%
3 (Hutch)	8.5%	8.0%	7.6%	7.6%	8.1%	7.7%	7.6%	7.8%	8.4%	8.1%	7.8%	8.1%	8.6%
<b>Post-pay Customers, 000s</b>													
Vodafone	2,850	3,058	3,228	3,423	3,635	3,797	3,933	4,091	4,172	4,311	4,448	4,556	4,690
<b>Call Volumes, mn min/qtr</b>													
Telecom Italia	12,360	12,572	12,427	12,359	11,819	12,272	12,025	12,453	12,104	12,805	13,188	13,847	13,310
Vodafone	12,761	13,126	13,017	13,813	13,442	13,740	13,382	13,999	13,957	14,347	14,122	14,670	14,511
Wind	7,700	7,999	8,001	8,500	8,398	8,868	8,734	9,500	9,705	10,530	10,165	10,340	10,519
3 Hutch	3,393	3,555	3,590	3,802	3,769	3,982	3,938	4,166	4,139	4,346	4,269	4,382	4,310
<b>Total</b>	<b>36,214</b>	<b>37,252</b>	<b>37,035</b>	<b>38,473</b>	<b>37,428</b>	<b>38,862</b>	<b>38,079</b>	<b>40,118</b>	<b>39,905</b>	<b>42,028</b>	<b>41,744</b>	<b>43,239</b>	<b>42,650</b>
<b>Call Volume growth, yoy</b>													
Telecom Italia	18.4%	11.1%	4.4%	0.9%	(4.4%)	(2.4%)	(3.2%)	0.8%	2.4%	4.3%	9.7%	11.2%	10.0%
Vodafone	16.3%	13.0%	10.6%	10.1%	5.3%	4.7%	2.8%	1.3%	3.8%	4.4%	5.5%	4.8%	4.0%
Wind	11.6%	8.1%	11.1%	11.8%	9.1%	10.9%	9.2%	11.8%	15.6%	18.7%	16.4%	8.8%	8.4%
3 Hutch	20.1%	17.0%	15.2%	14.9%	11.1%	12.0%	9.7%	9.6%	9.8%	9.1%	8.4%	5.2%	4.1%
<b>Total</b>	<b>16.3%</b>	<b>11.6%</b>	<b>8.9%</b>	<b>7.7%</b>	<b>3.4%</b>	<b>4.3%</b>	<b>2.8%</b>	<b>4.3%</b>	<b>6.6%</b>	<b>8.1%</b>	<b>9.6%</b>	<b>7.8%</b>	<b>6.9%</b>
<b>Contract Churn, % p.a</b>													
Vodafone	18.1%	17.6%	15.8%	17.3%	16.9%	19.8%	17.2%	23.3%	22.8%	25.3%	20.2%	23.6%	22.9%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Telecom Italia	12.1%	12.2%	12.7%	14.2%	11.7%	12.5%	13.8%	14.8%	16.2%	14.8%	15.7%	15.8%	16.3%
Vodafone	7.4%	7.5%	7.8%	8.4%	9.0%	8.7%	9.8%	10.2%	10.8%	11.0%	12.3%	12.7%	13.7%
<b>EBITDA, €m</b>													
Vodafone	931	1,016	1,038	992	954	1,073	1,073	1,025	1,004	1,037	1,054	1,000	953
<b>Capex, €m</b>													
Vodafone	236	192	192	212	212	222	222	226	226	200	200	250	250

Source: Company reports and Citi Investment Research and Analysis

## Italy Fixed Data

Figure 256. Italian Fixed Line Market Information

Italy	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	6,541	6,564	6,610	6,754	6,843	6,859	6,921	7,000	7,071	7,134	7,186	7,175	7,194
Incumbent wholesale	1,187	1,228	1,304	1,380	1,486	1,584	1,646	1,741	1,788	1,825	1,847	1,883	1,937
ULL (total)	3,953	4,248	4,387	4,621	4,883	5,112	5,237	5,456	5,600	5,700	5,789	5,931	6,044
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>11,681</b>	<b>12,040</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>Broadband Subscribers (000s)</b>													
Telecom Italia	6,541	6,564	6,610	6,754	6,843	6,859	6,921	7,000	7,071	7,134	7,186	7,175	7,194
Tiscali	580	574	581	586	554	549	552	570	572	582	582	550	541
Infostrada	1,115	1,198	1,250	1,360	1,450	1,515	1,560	1,643	1,713	1,764	1,820	1,912	2,030
Fastweb	1,388	1,398	1,441	1,482	1,542	1,575	1,605	1,644	1,678	1,694	1,712	1,724	1,733
Vodafone	0	0	0	0	994	1,004	1,014	1,024	1,034	1,044	1,120	1,210	1,300
Other	2,057	2,306	2,419	2,573	1,829	2,053	2,152	2,315	2,391	2,441	2,402	2,418	2,376
<b>Total</b>	<b>11,681</b>	<b>12,040</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>Broadband Subscribers Net Adds (000s)</b>													
Telecom Italia	114	23	46	144	89	16	62	79	71	63	52	(11)	19
Tiscali	28	(6)	7	5	(32)	(5)	3	18	2	10	0	(32)	(9)
Infostrada	93	83	52	110	90	65	45	83	70	51	56	92	118
Fastweb	75	10	43	41	60	33	30	39	34	16	18	12	9
Vodafone	0	0	0	0	994	10	10	10	10	10	76	90	90
<b>Total</b>	<b>454</b>	<b>359</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>Telephony Channels (000s)</b>													
Incumbent retail	21,648	20,952	20,539	20,031	19,582	19,170	18,854	18,525	18,254	18,062	17,881	17,609	17,367
Incumbent wholesale (WLR)	77	348	414	518	640	747	803	845	870	882	916	954	1,013
ULL (total)	3,218	3,411	3,500	3,664	3,871	4,028	4,124	4,273	4,370	4,459	4,545	4,703	4,826
Naked DSL	349	432	471	572	684	789	857	939	996	1,029	1,038	1,036	1,048
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>25,292</b>	<b>25,143</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(476)	(696)	(413)	(508)	(449)	(412)	(316)	(329)	(271)	(192)	(181)	(272)	(242)
Incumbent wholesale (WLR)	77	271	66	104	122	108	56	42	25	12	34	38	60
ULL (total)	257	193	89	164	207	157	96	149	97	89	86	158	123
Naked DSL	28	83	39	101	112	105	68	81	57	33	9	(2)	12
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>(114)</b>	<b>(149)</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>Pay TV Subscribers (000s)</b>													
TI	136	180	218	329	365	397	406	401	395	395	391	374	350
Sky Italia	0	0	4,600	4,700	4,800	4,800	4,800	4,735	4,696	4,741	4,799	4,870	4,915

Source: Company reports and Citi Investment Research and Analysis

# Netherlands

## Fixed

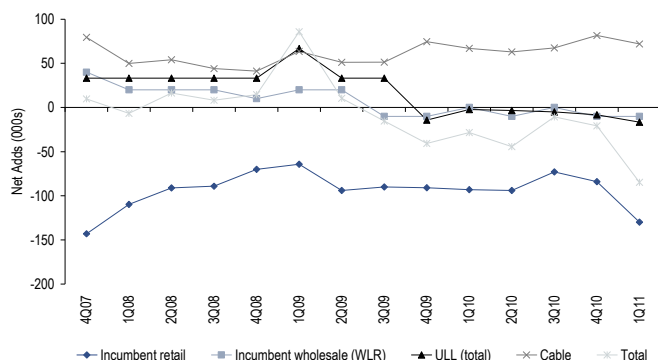
- Retail line loss worsened significantly in 1Q11 to -130k from -84k in 4Q10, the highest quarterly loss since 2007. Fixed revenue decline remained broadly unchanged at -5.6%.

## Mobile

- Service revenue growth excluding the impact of MTR cuts worsened to 1.5% in 1Q11, from 2.8% in 4Q10. KPN highlighted cannibalisation of SMS and voice by new apps. The other operators said they had avoided this problem by moving to integrated tariffs more quickly than KPN.

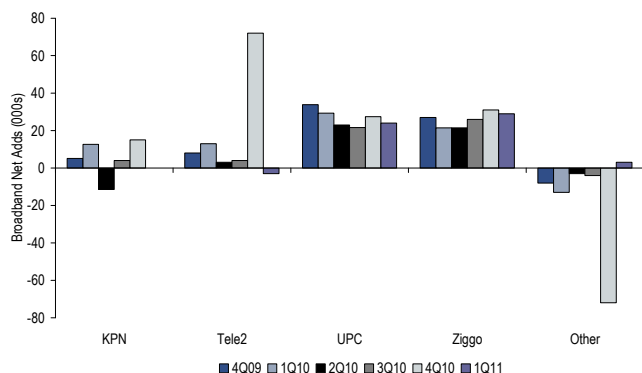
## Fixed Charts

Figure 257. Telephony Net Adds



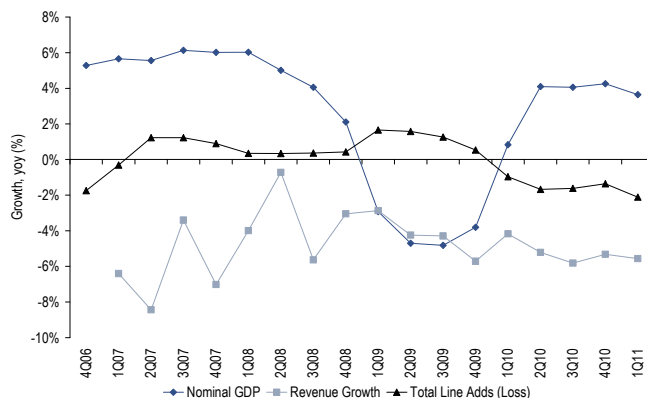
Source: Company reports and Citi Investment Research and Analysis

Figure 259. Broadband Subscriber Net Adds



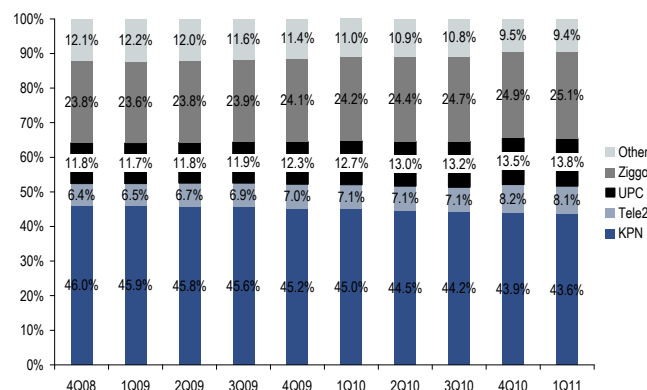
Source: Company reports and Citi Investment Research and Analysis

Figure 258. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

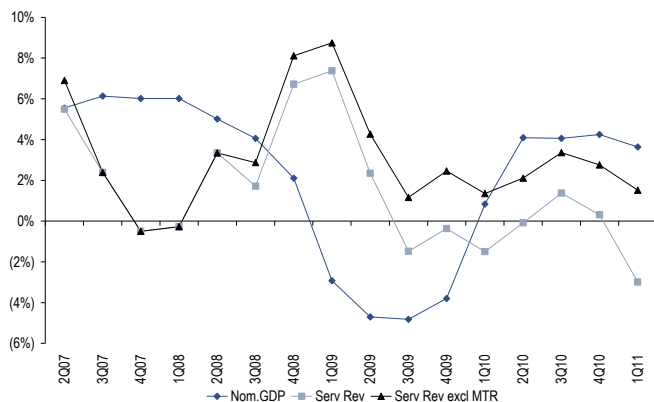
Figure 260. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

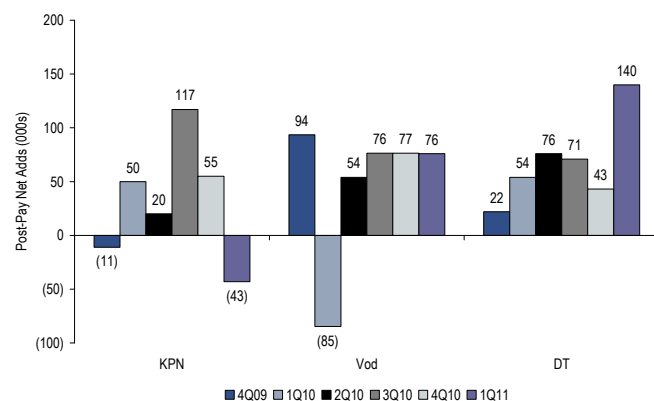
## Mobile Charts

Figure 261. Revenue and GDP



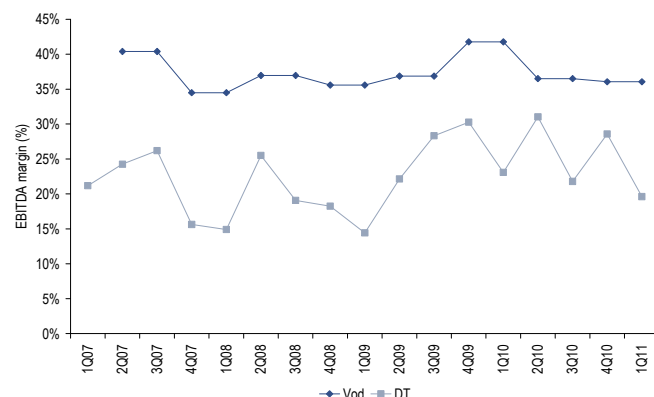
Source: Company reports, CIRA and Datastream

Figure 263. Post-Paid Net Adds



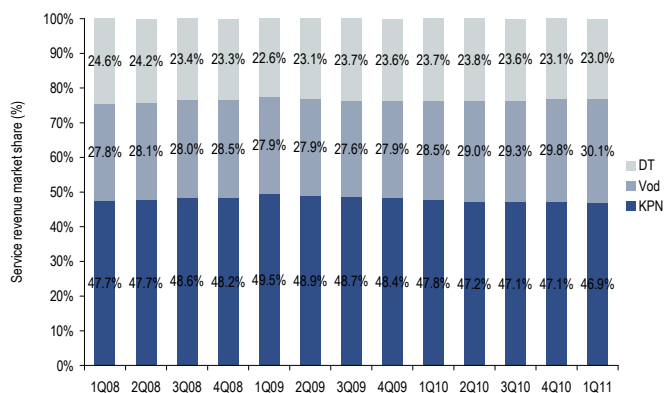
Source: Company reports and Citi Investment Research and Analysis

Figure 265. EBITDA Margin



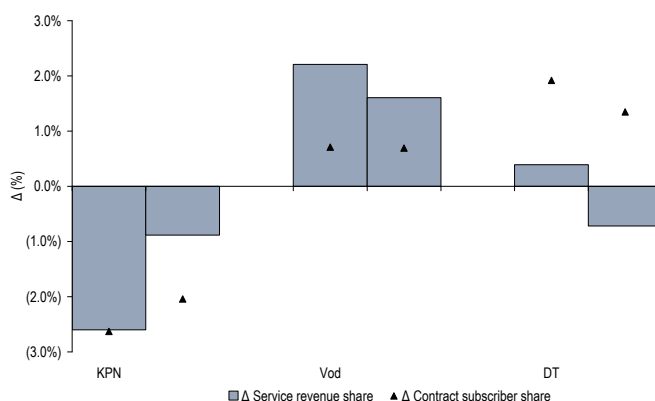
Source: Company reports and Citi Investment Research and Analysis

Figure 262. Service Revenue Market Share



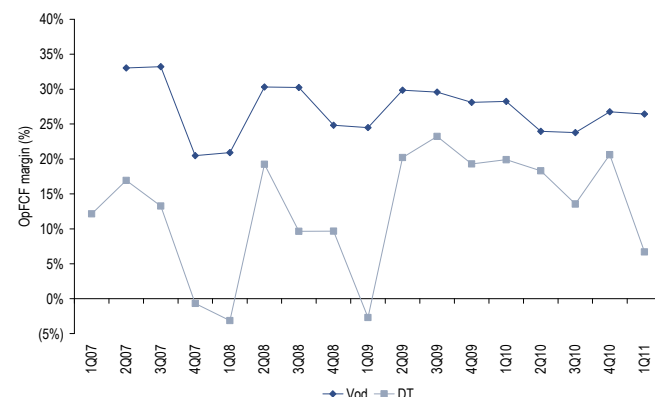
Source: Company reports and Citi Investment Research and Analysis

Figure 264. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 266. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Netherlands Mobile Data

Figure 267. Netherlands Mobile Market Information

Netherlands	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
KPN	706	756	764	754	767	783	757	758	740	761	742	735	698
Vodafone	412	446	440	446	433	447	430	437	442	468	461	464	449
T-Mobile (DT)	364	383	369	365	350	370	368	370	367	383	371	360	342
<b>Total</b>	<b>1,118</b>	<b>1,202</b>	<b>1,204</b>	<b>1,200</b>	<b>1,200</b>	<b>1,230</b>	<b>1,187</b>	<b>1,195</b>	<b>1,182</b>	<b>1,229</b>	<b>1,203</b>	<b>1,199</b>	<b>1,147</b>
<b>Service Revenue Growth, yoy</b>													
KPN	(3.4%)	0.4%	0.0%	4.0%	8.6%	3.6%	(0.9%)	0.5%	(3.5%)	(2.8%)	(2.0%)	(3.0%)	(5.7%)
Vodafone	5.6%	8.8%	4.8%	11.7%	5.2%	0.3%	(2.5%)	(1.9%)	2.1%	4.7%	7.3%	6.1%	1.5%
T-Mobile (DT)	1.3%	2.3%	(0.3%)	(3.3%)	(3.8%)	(3.4%)	(0.2%)	1.4%	4.9%	3.5%	0.8%	(2.7%)	(6.8%)
<b>Total</b>	<b>(0.3%)</b>	<b>3.3%</b>	<b>1.7%</b>	<b>6.7%</b>	<b>7.4%</b>	<b>2.3%</b>	<b>(1.5%)</b>	<b>(0.4%)</b>	<b>(1.5%)</b>	<b>(0.1%)</b>	<b>1.4%</b>	<b>0.3%</b>	<b>(3.0%)</b>
<b>Service Revenue Market Share</b>													
KPN	47.7%	47.7%	48.6%	48.2%	49.5%	48.9%	48.7%	48.4%	47.8%	47.2%	47.1%	47.1%	46.9%
Vodafone	27.8%	28.1%	28.0%	28.5%	27.9%	27.9%	27.6%	27.9%	28.5%	29.0%	29.3%	29.8%	30.1%
T-Mobile (DT)	24.6%	24.2%	23.4%	23.3%	22.6%	23.1%	23.7%	23.6%	23.7%	23.8%	23.6%	23.1%	23.0%
<b>Post-pay Customers, 000s</b>													
KPN	4,436	4,600	4,782	4,971	5,118	5,177	5,209	5,198	5,248	5,268	5,385	5,440	5,397
Vodafone	2,432	2,498	2,575	2,658	2,725	2,756	2,820	2,914	2,829	2,883	2,959	3,036	3,112
T-Mobile (DT)	2,123	2,153	2,229	2,259	2,313	2,359	2,384	2,406	2,460	2,536	2,607	2,650	2,790
<b>Call Volumes, mn min/qtr</b>													
KPN	3,500	3,676	3,452	3,703	3,613	3,722	3,507	3,739	3,640	3,679	3,451	3,577	3,572
Vodafone	2,077	2,260	2,108	2,313	2,278	2,363	2,212	2,367	2,359	2,323	2,625	2,884	2,821
Deutsche Telekom	1,756	1,911	1,734	1,755	1,708	1,743	1,765	1,842	1,900	1,987	1,923	2,049	2,011
<b>Total</b>	<b>7,334</b>	<b>7,847</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>Call Volume growth, yoy</b>													
KPN	3.4%	5.9%	6.2%	4.1%	3.2%	1.3%	1.6%	1.0%	0.8%	(1.1%)	(1.6%)	(4.3%)	(1.9%)
Vodafone	9.3%	12.7%	11.0%	13.6%	9.7%	4.6%	4.9%	2.3%	3.6%	(1.7%)	18.7%	21.8%	19.6%
Deutsche Telekom	46.9%	52.5%	47.1%	8.6%	(2.8%)	(8.8%)	1.8%	5.0%	11.2%	14.0%	9.0%	11.2%	5.8%
<b>Total</b>	<b>(1.0%)</b>	<b>1.8%</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>Contract Churn, % p.a</b>													
T-Mobile (DT)	19.2%	19.2%	16.8%	21.6%	18.0%	16.8%	19.2%	18.0%	15.6%	12.0%	13.2%	14.4%	15.6%
<b>EBITDA, €m</b>													
Vodafone	142	165	163	159	154	165	158	183	185	171	168	167	162
T-Mobile (DT)	62	114	91	85	64	103	128	135	102	139	98	122	82
<b>Capex, €m</b>													
Vodafone	56	30	30	48	48	31	31	60	60	59	59	43	43
T-Mobile (DT)	75	28	45	40	76	9	23	49	14	57	37	34	54

Source: Company reports and Citi Investment Research and Analysis

## Netherlands Fixed Data

Figure 268. Netherlands Fixed Line Market Information

Netherlands	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	2,552	2,587	2,621	2,664	2,692	2,698	2,712	2,717	2,729	2,718	2,722	2,737	2,737
Incumbent wholesale	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	967	1,000	1,033	1,067	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Cable	2,018	2,047	2,053	2,058	2,077	2,093	2,130	2,191	2,242	2,286	2,334	2,392	2,445
<b>Total</b>	<b>5,537</b>	<b>5,634</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>6,104</b>	<b>6,156</b>	<b>6,229</b>	<b>6,282</b>
<b>Broadband Subscribers (000s)</b>													
KPN	2,552	2,587	2,621	2,664	2,692	2,698	2,712	2,717	2,729	2,718	2,722	2,737	2,737
Tele2	331	338	349	368	382	395	410	418	431	434	438	510	507
UPC	650	659	672	683	689	693	708	742	771	794	816	843	867
Ziggo	1,368	1,388	1,382	1,375	1,388	1,400	1,422	1,449	1,471	1,492	1,518	1,549	1,578
Other	636	662	684	699	718	705	690	682	669	666	662	590	593
<b>Total</b>	<b>5,537</b>	<b>5,634</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>6,104</b>	<b>6,156</b>	<b>6,229</b>	<b>6,282</b>
<b>Broadband Subscribers Net Adds (000s)</b>													
KPN	51	35	34	43	28	6	13	5	13	(11)	4	15	0
Tele2	7	7	11	19	14	13	15	8	13	3	4	72	(3)
UPC	10	8	13	11	7	4	15	34	29	23	22	27	24
Ziggo	21	21	(7)	(7)	13	13	22	27	22	22	26	31	29
- other	26	26	22	14	19	(13)	(15)	(8)	(13)	(3)	(4)	(72)	3
<b>Total</b>	<b>115</b>	<b>97</b>	<b>74</b>	<b>80</b>	<b>80</b>	<b>23</b>	<b>50</b>	<b>66</b>	<b>63</b>	<b>33</b>	<b>52</b>	<b>73</b>	<b>53</b>
<b>Telephony Channels (000s)</b>													
Incumbent retail	5,293	5,202	5,112	5,042	4,978	4,884	4,794	4,703	4,610	4,516	4,443	4,359	4,229
Incumbent wholesale (WLR)	340	360	380	390	410	430	420	410	410	400	400	390	380
ULL (total)	667	700	733	767	833	867	900	886	883	880	875	867	850
Cable	1,242	1,296	1,340	1,381	1,445	1,496	1,547	1,622	1,689	1,752	1,820	1,901	1,973
<b>Total</b>	<b>7,541</b>	<b>7,558</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>7,592</b>	<b>7,548</b>	<b>7,538</b>	<b>7,517</b>	<b>7,432</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(110)	(91)	(89)	(70)	(64)	(94)	(90)	(91)	(93)	(94)	(73)	(84)	(130)
Incumbent wholesale (WLR)	20	20	20	10	20	20	(10)	(10)	0	(10)	0	(10)	(10)
ULL (full)	33	33	33	33	67	33	33	(14)	(2)	(3)	(5)	(8)	(17)
Cable	50	54	44	41	64	51	51	75	67	63	68	82	72
<b>Total</b>	<b>(7)</b>	<b>16</b>	<b>8</b>	<b>15</b>	<b>86</b>	<b>10</b>	<b>(15)</b>	<b>(41)</b>	<b>(28)</b>	<b>(44)</b>	<b>(11)</b>	<b>(21)</b>	<b>(85)</b>
<b>Pay TV Subscribers (000s)</b>													
KPN	553	636	700	775	835	886	924	970	1,025	1,073	1,124	1,173	0
UPC	2,119	2,089	2,068	2,044	2,013	1,986	1,966	1,955	1,941	1,930	1,907	1,892	1,874
<b>Pay TV Subscribers Net Adds (000s)</b>													
KPN	56	83	64	75	60	51	38	46	55	48	51	49	0
UPC	(34)	(30)	(21)	(24)	(31)	(27)	(20)	(11)	(14)	(11)	(23)	(15)	(18)

Source: Company reports and Citi Investment Research and Analysis

# Norway

## Fixed

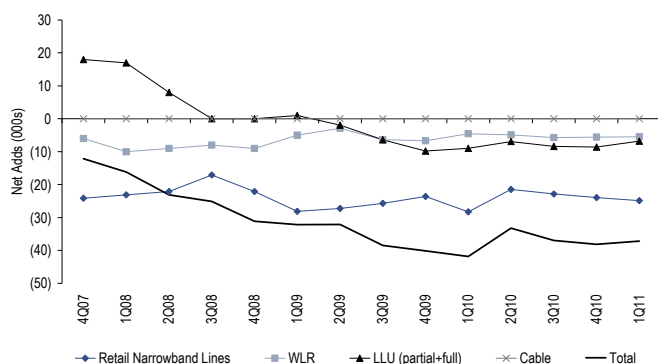
- Fixed line loss was similar to 4Q10 with 7.9% retail line loss yoy. The broadband market shares remained stable with a small overall decline in the total market. Broadband market net adds were -4k in 1Q11, the same as 4Q10.

## Mobile

- Service revenue growth excluding the impact of MTR cuts worsened to -2.4% in 1Q11, from 0.0% in 4Q10. This was due to price competition driven by Onecall (Network Norway), with Tele2 and Chess (Telia) following. Reported service revenue growth worsened further due to a 40% cut to MTRs.

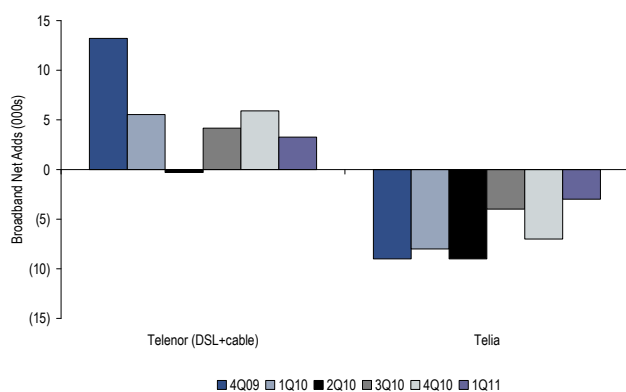
## Fixed Charts

Figure 269. Telephony Net Adds



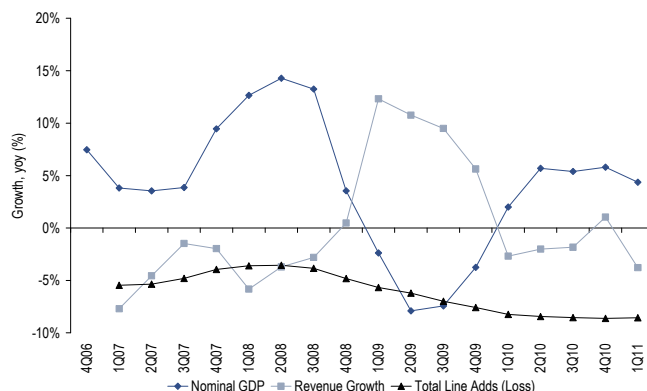
Source: Company reports and Citi Investment Research and Analysis

Figure 271. Broadband Subscriber Net Adds



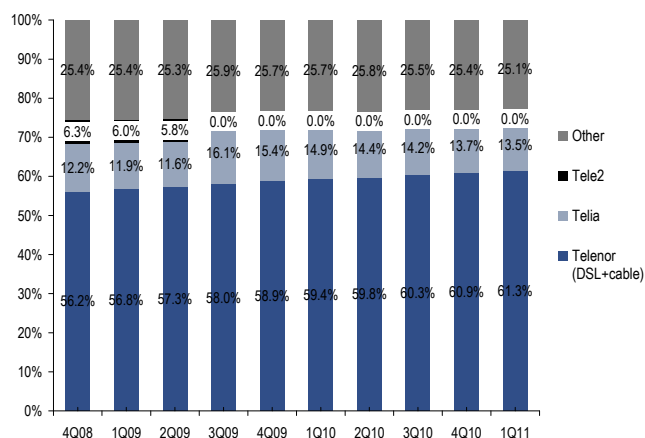
Source: Company reports and Citi Investment Research and Analysis

Figure 270. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

Figure 272. Broadband Subscriber Market Share

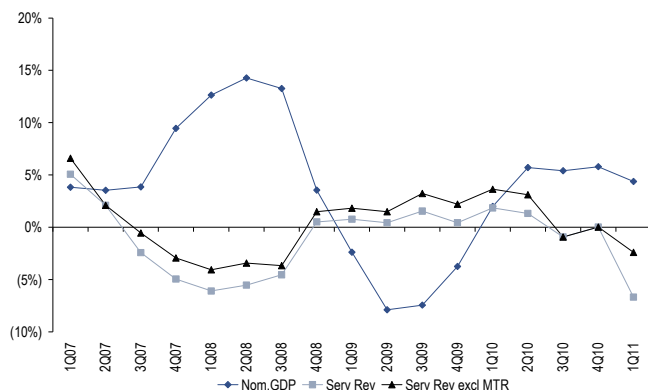


Source: Company reports and Citi Investment Research and Analysis



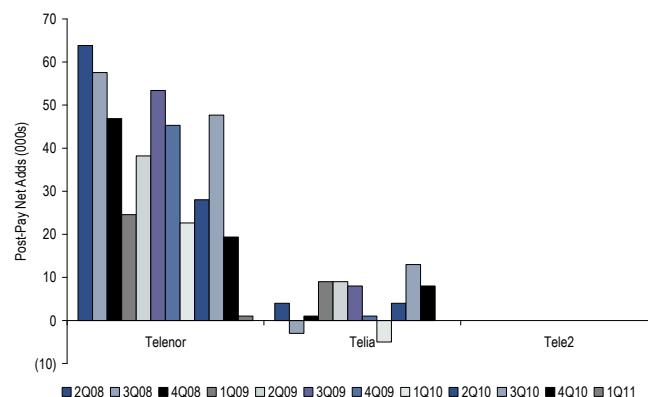
## Mobile Charts

Figure 273. Revenue and GDP



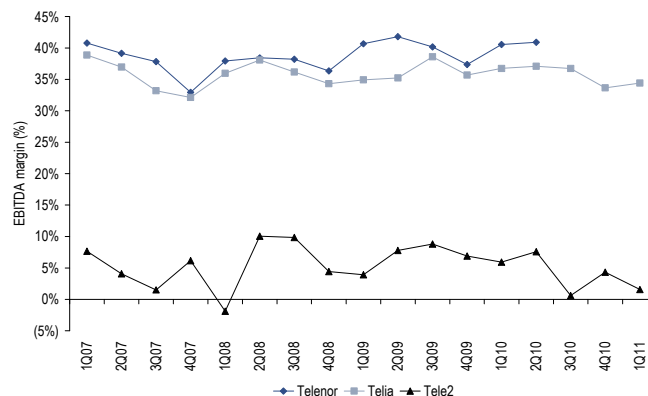
Source: Company reports, CIRA and Datastream

Figure 275. Post-Paid Net Adds



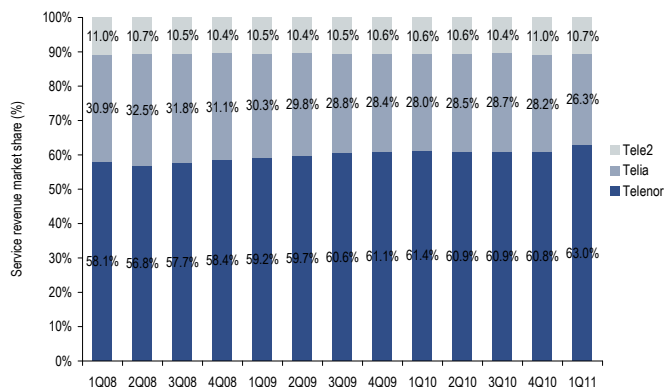
Source: Company reports and Citi Investment Research and Analysis

Figure 277. EBITDA Margin



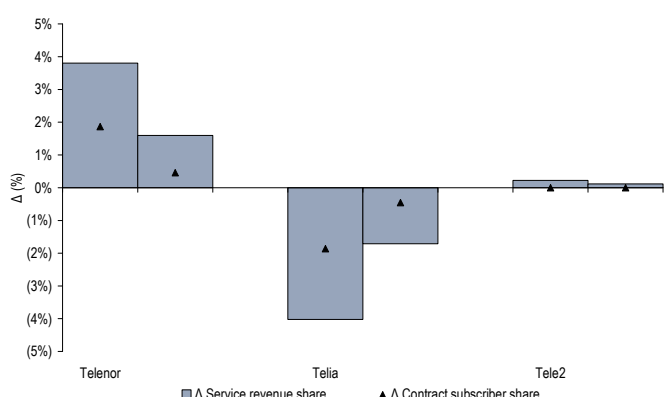
Source: Company reports and Citi Investment Research and Analysis

Figure 274. Service Revenue Market Share



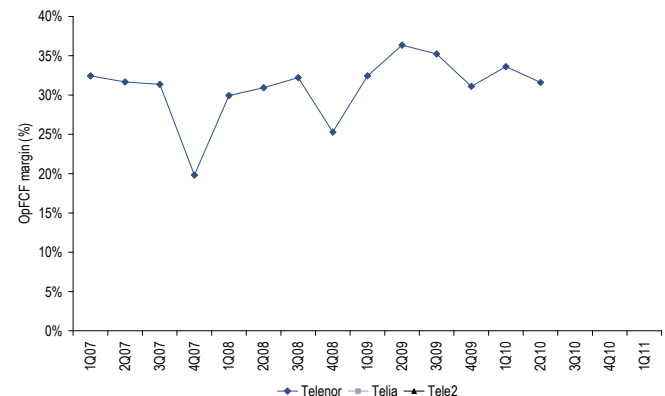
Source: Company reports and Citi Investment Research and Analysis

Figure 276. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 278. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Norway Mobile Data

Figure 279. Norway Mobile Market Information

Norway	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, NOK m</b>													
Telenor	2,861	2,912	2,988	2,982	2,934	3,075	3,188	3,129	3,100	3,176	3,170	3,115	2,968
Telia	1,521	1,665	1,646	1,588	1,504	1,537	1,516	1,454	1,414	1,489	1,496	1,445	1,239
Tele2	541	550	543	532	522	537	553	541	537	552	543	565	507
<b>Total</b>	<b>4,922</b>	<b>5,127</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>4,713</b>
<b>Service Revenue Growth, yoy</b>													
Telenor	(1.7%)	(4.1%)	(4.0%)	2.3%	2.6%	5.6%	6.7%	4.9%	5.6%	3.3%	(0.6%)	(0.5%)	(4.3%)
Telia	(11.9%)	(5.9%)	(5.9%)	(0.6%)	(1.1%)	(7.7%)	(7.9%)	(8.5%)	(5.9%)	(3.1%)	(1.3%)	(0.6%)	(12.4%)
Tele2	(10.7%)	(11.7%)	(3.1%)	(5.8%)	(3.4%)	(2.3%)	1.8%	1.8%	2.9%	2.9%	(1.9%)	4.4%	(5.7%)
<b>Total</b>	<b>(6.1%)</b>	<b>(5.5%)</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>(6.7%)</b>
<b>Service Revenue Market Share</b>													
Telenor	58.1%	56.8%	57.7%	58.4%	59.2%	59.7%	60.6%	61.1%	61.4%	60.9%	60.9%	60.8%	63.0%
Telia	30.9%	32.5%	31.8%	31.1%	30.3%	29.8%	28.8%	28.4%	28.0%	28.5%	28.7%	28.2%	26.3%
Tele2	11.0%	10.7%	10.5%	10.4%	10.5%	10.4%	10.5%	10.6%	10.6%	10.6%	10.4%	11.0%	10.7%
<b>Post-pay Customers, 000s</b>													
Telenor	1,901	1,965	2,022	2,069	2,093	2,132	2,185	2,230	2,253	2,281	2,329	2,348	2,349
Telia	1,136	1,140	1,137	1,138	1,147	1,156	1,164	1,165	1,160	1,164	1,177	1,185	1,185
Tele2	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Call Volumes, mn min/qtr</b>													
Telenor	1,713	1,857	1,777	1,855	1,894	1,962	1,951	2,041	2,013	2,099	2,014	2,116	2,062
Telia	1,181	1,297	1,244	1,256	1,304	1,354	1,359	1,409	1,374	1,414	1,360	1,390	1,397
Tele2	383	411	390	406	423	433	429	446	439	457	443	466	473
<b>Total</b>	<b>3,277</b>	<b>3,565</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>Call Volume growth, yoy</b>													
Telenor	12.0%	15.2%	9.1%	8.8%	10.5%	5.6%	9.8%	10.0%	6.3%	7.0%	3.2%	3.7%	2.4%
Telia	0.7%	9.3%	4.9%	4.0%	10.4%	4.4%	9.3%	12.2%	5.4%	4.4%	0.1%	(1.4%)	1.6%
Tele2	14.9%	16.0%	5.2%	4.0%	10.5%	5.3%	10.1%	9.8%	3.7%	5.6%	3.2%	4.4%	7.7%
<b>Total</b>	<b>8.0%</b>	<b>13.1%</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>EBITDA, NOK m</b>													
Telenor	1,127	1,166	1,182	1,135	1,249	1,339	1,369	1,270	1,359	1,376			
Telia	675	766	731	672	630	639	706	625	627	657	677	603	603
Tele2	(10)	55	54	24	21	42	49	37	32	42	3	24	8

Source: Company reports and Citi Investment Research and Analysis

## Norway Fixed Data

Figure 280. Norway Fixed Line Market Information

Norway	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	767	777	798	812	823	828	838	852	857	857	861	867	870
Incumbent wholesale	132	123	116	106	98	90	87	85	84	82	80	79	78
ULL (total)	348	356	356	356	356	355	348	338	329	322	314	305	299
Cable	172	172	172	172	172	172	172	172	172	172	172	172	172
<b>Total</b>	<b>1,418</b>	<b>1,427</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>Broadband Subscribers (000s)</b>													
Telenor (DSL+cable)	767	777	798	812	823	828	838	852	857	857	861	867	870
Telia	178	176	176	176	172	168	232	223	215	206	202	195	192
Tele2	107	104	98	91	87	84	0	0	0	0	0	0	0
- other	367	371	370	367	368	365	375	372	371	370	364	362	357
<b>Total</b>	<b>1,418</b>	<b>1,427</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>Broadband Subscribers Net Adds (000s)</b>													
Telenor (DSL+cable)	25	10	21	14	11	6	10	13	6	(0)	4	6	3
Telia	1	(2)	0	0	(4)	(4)	(11)	(9)	(8)	(9)	(4)	(7)	(3)
Tele2	(5)	(3)	(6)	(7)	(4)	(3)	(84)	0	0	0	0	0	0
- other	9	4	(1)	(3)	1	(3)	10	(3)	(1)	(1)	(6)	(2)	(5)
<b>Total</b>	<b>30</b>	<b>9</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>Telephony Channels (000s)</b>													
Incumbent retail	1,369	1,347	1,330	1,308	1,280	1,253	1,227	1,203	1,175	1,154	1,131	1,107	1,082
Incumbent wholesale (WLR)	247	238	230	221	216	213	207	200	196	191	185	180	174
ULL (total)	348	356	356	356	356	355	348	338	329	322	314	305	299
Cable													
<b>Total</b>	<b>1,964</b>	<b>1,941</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(23)	(22)	(17)	(22)	(28)	(27)	(26)	(24)	(28)	(21)	(23)	(24)	(25)
Incumbent wholesale (WLR)	(10)	(9)	(8)	(9)	(5)	(3)	(6)	(7)	(5)	(5)	(6)	(6)	(5)
ULL (total)	17	8	0	0	1	(2)	(6)	(10)	(9)	(7)	(8)	(9)	(7)
Cable	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>(16)</b>	<b>(23)</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>

Source: Company reports and Citi Investment Research and Analysis

# Portugal

## Fixed

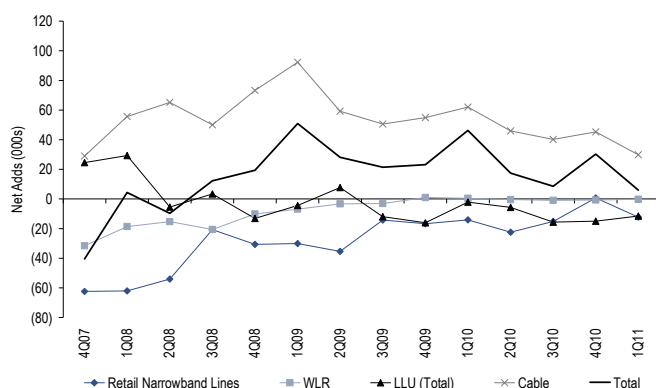
- The competitive environment in the triple play market has improved and offset the macro weakness and the VAT increase implemented during the quarter. The business segment, however, remained weak due to macro factors.

## Mobile

- Competitive pressure has eased across most segments of the market. Vodafone and TMN still suffer from tough comparisons from the repricing of the tribal offers and MTR cuts, but the underlying performance improved.
- Mobile service revenue growth remained very much under pressure in 1Q11 at -9.6% yoy vs. -8.3% in 4Q10.

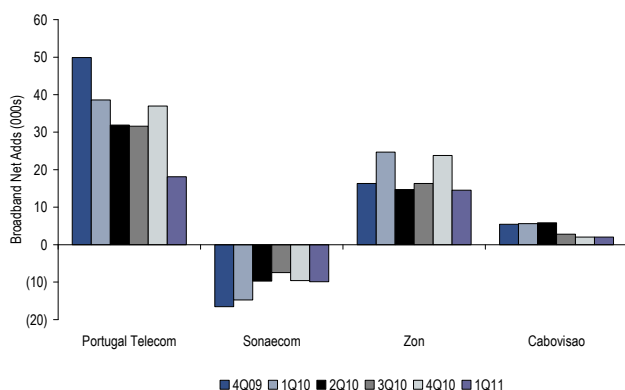
## Fixed Charts

Figure 281. Telephony Net Adds



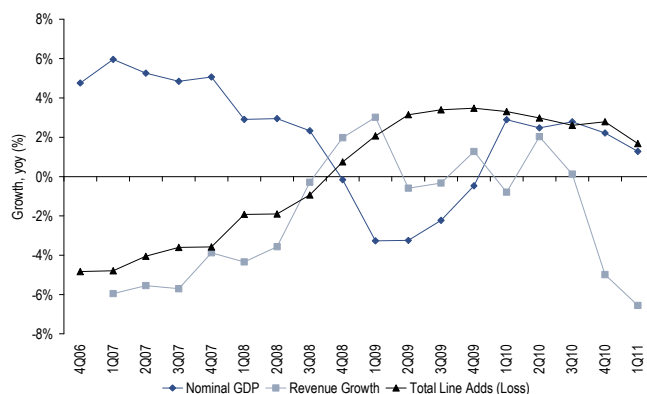
Source: Company reports and Citi Investment Research and Analysis

Figure 283. Broadband Subscriber Net Adds



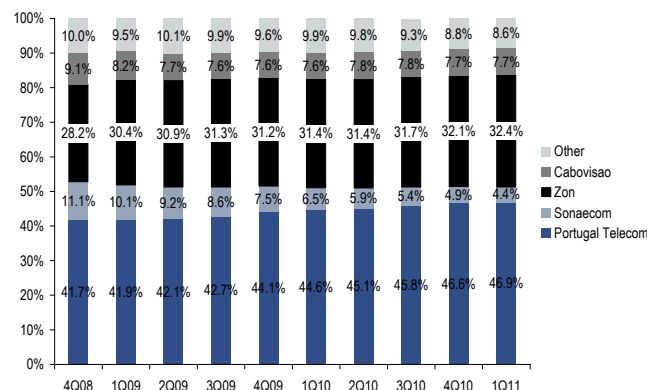
Source: Company reports and Citi Investment Research and Analysis

Figure 282. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

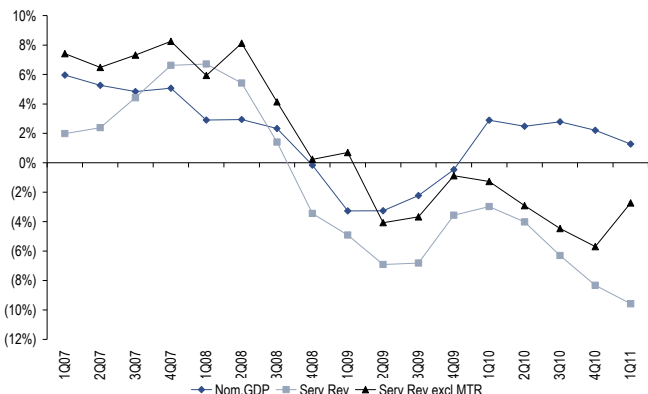
Figure 284. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

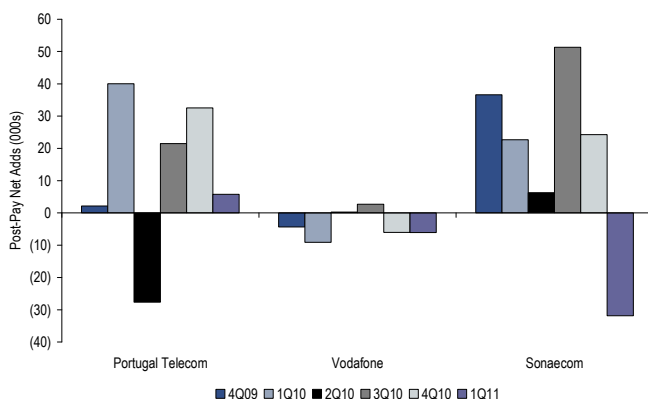
## Mobile Charts

Figure 285. Revenue and GDP



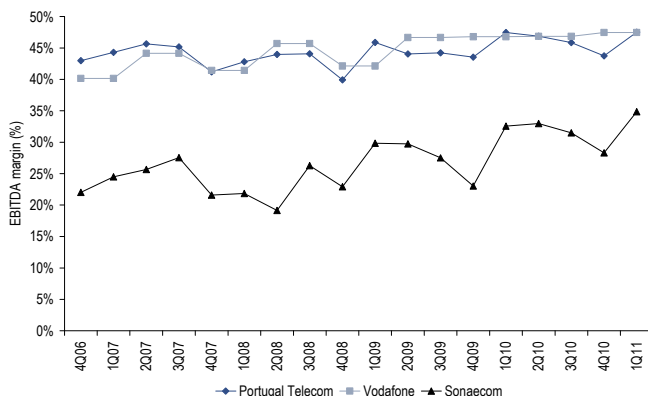
Source: Company reports, CIRA and Datastream

Figure 287. Post-Paid Net Adds



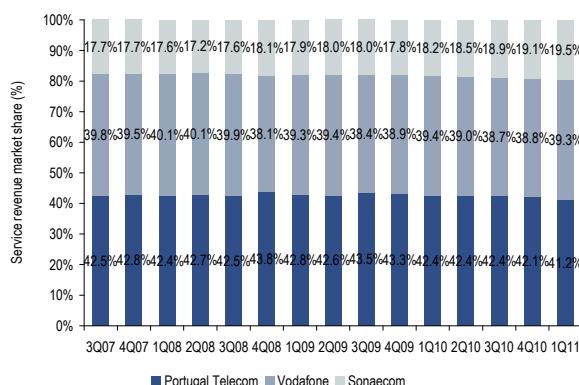
Source: Company reports and Citi Investment Research and Analysis

Figure 289. EBITDA Margin



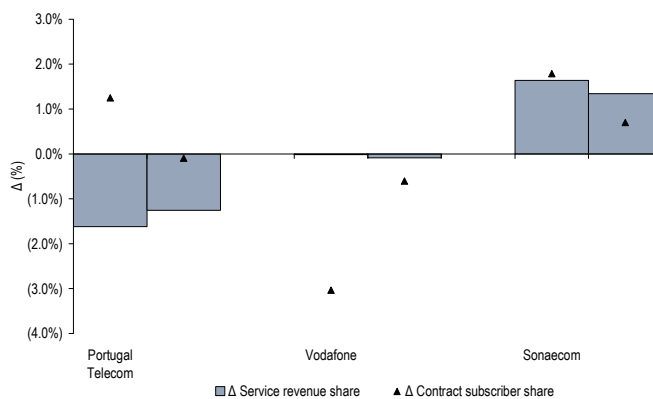
Source: Company reports and Citi Investment Research and Analysis

Figure 286. Service Revenue Market Share



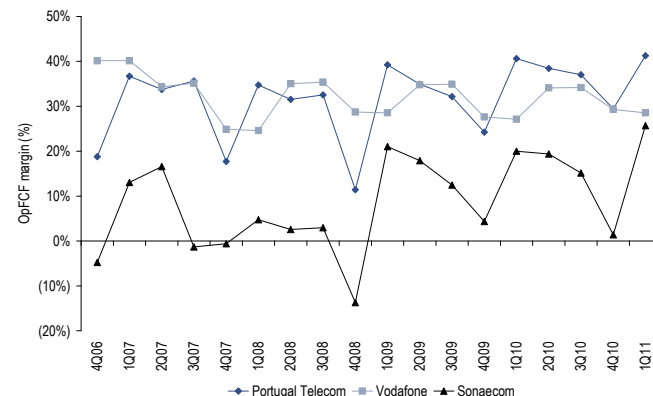
Source: Company reports and Citi Investment Research and Analysis

Figure 288. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 290. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Portugal Mobile Data

Figure 291. Portugal Mobile Market Information

Portugal	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
Portugal Telecom	347	358	370	357	333	333	353	340	321	318	322	304	281
Vodafone	328	336	347	311	306	307	312	306	298	293	295	280	269
Sonae	144	144	153	148	139	141	146	140	137	139	144	138	133
<b>Total</b>	<b>819</b>	<b>839</b>	<b>871</b>	<b>816</b>	<b>779</b>	<b>781</b>	<b>811</b>	<b>787</b>	<b>756</b>	<b>749</b>	<b>760</b>	<b>721</b>	<b>683</b>
<b>Service Revenue Growth, yoy</b>													
Portugal Telecom	5.9%	5.7%	1.5%	(1.3%)	(3.9%)	(7.1%)	(4.6%)	(4.7%)	(3.8%)	(4.4%)	(8.8%)	(10.8%)	(12.3%)
Vodafone	7.6%	7.0%	1.7%	(6.8%)	(6.6%)	(8.6%)	(10.2%)	(1.7%)	(2.8%)	(4.9%)	(5.5%)	(8.6%)	(9.8%)
Sonae	6.7%	1.3%	0.6%	(1.3%)	(3.3%)	(2.6%)	(4.5%)	(4.8%)	(1.4%)	(1.2%)	(1.8%)	(1.9%)	(2.9%)
<b>Total</b>	<b>6.7%</b>	<b>5.4%</b>	<b>1.4%</b>	<b>(3.4%)</b>	<b>(4.9%)</b>	<b>(6.9%)</b>	<b>(6.8%)</b>	<b>(3.6%)</b>	<b>(3.0%)</b>	<b>(4.0%)</b>	<b>(6.3%)</b>	<b>(8.3%)</b>	<b>(9.6%)</b>
<b>Service Revenue Market Share</b>													
Portugal Telecom	42.4%	42.7%	42.5%	43.8%	42.8%	42.6%	43.5%	43.3%	42.4%	42.4%	42.4%	42.1%	41.2%
Vodafone	40.1%	40.1%	39.9%	38.1%	39.3%	39.4%	38.4%	38.9%	39.4%	39.0%	38.7%	38.8%	39.3%
Sonae	17.6%	17.2%	17.6%	18.1%	17.9%	18.0%	18.0%	17.8%	18.2%	18.5%	18.9%	19.1%	19.5%
<b>Post-pay Customers, 000s</b>													
Portugal Telecom	1,623	1,744	1,824	1,951	2,081	2,206	2,231	2,234	2,274	2,246	2,267	2,300	2,306
Vodafone	1,130	1,164	1,188	1,201	1,201	1,190	1,180	1,176	1,167	1,167	1,170	1,164	1,157
Sonae	855	880	921	961	992	1,026	1,045	1,081	1,104	1,110	1,161	1,186	1,154
<b>Call Volumes, mn min/qtr</b>													
Portugal Telecom	2,157	2,207	2,351	2,324	2,252	2,432	2,595	2,602	2,504	2,627	2,719	2,707	2,727
Vodafone	1,763	1,839	2,049	2,075	2,143	2,206	2,373	2,343	2,367	2,572	2,931	2,860	3,002
Sonae	1,029	1,144	1,221	1,231	1,249	1,278	1,324	1,384	1,387	1,401	1,394	1,431	1,357
<b>Total</b>	<b>4,949</b>	<b>5,190</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>7,086</b>
<b>Call Volume growth, yoy</b>													
Portugal Telecom	9.0%	6.3%	5.8%	4.4%	4.4%	10.2%	10.4%	12.0%	11.2%	8.0%	4.8%	4.0%	8.9%
Vodafone	9.4%	11.0%	11.6%	17.6%	21.6%	20.0%	15.8%	12.9%	10.5%	16.6%	23.5%	22.1%	26.8%
Sonae	12.7%	25.5%	24.1%	20.3%	21.4%	11.7%	8.4%	12.4%	11.1%	9.6%	5.3%	3.4%	(2.2%)
<b>Total</b>	<b>9.9%</b>	<b>11.7%</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>13.2%</b>
<b>EBITDA, €m</b>													
Portugal Telecom	167	172	180	164	170	162	176	167	164	161	163	150	144
Vodafone	136	154	159	131	129	143	145	143	139	137	138	133	127
Sonae	33	29	44	37	44	45	43	35	46	48	48	43	48

Source: Company reports and Citi Investment Research and Analysis

## Portugal Fixed Data

Figure 292. Portugal Fixed Line Market Information

Portugal	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	657	667	679	710	752	781	812	862	901	933	964	1,001	1,019
Incumbent wholesale	60	57	55	53	50	51	54	54	53	53	52	52	51
ULL (total)	320	315	318	305	301	309	297	281	278	273	257	242	231
Cable	582	595	610	633	693	715	738	760	790	811	830	855	872
<b>Total</b>	<b>1,619</b>	<b>1,634</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>Broadband Subscribers (000s)</b>													
PT	657	667	679	710	752	781	812	862	901	933	964	1,001	1,019
Sonaecom	202	202	198	188	180	171	163	146	132	122	114	105	95
Zon	416	431	451	479	546	573	594	611	635	650	666	690	705
Cabovisao	166	164	159	154	147	143	144	149	155	160	163	165	167
- other	179	169	175	169	171	188	188	188	199	203	195	189	187
<b>Total</b>	<b>1,619</b>	<b>1,634</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>Broadband Subscribers Net Adds (000s)</b>													
PT	5	11	12	31	42	29	32	50	39	32	32	37	18
Sonaecom	(16)	0	(4)	(10)	(8)	(9)	(8)	(17)	(15)	(10)	(7)	(10)	(10)
Zon	16	15	20	28	67	27	22	16	25	15	16	24	15
Cabovisao	(40)	(2)	(5)	(5)	(7)	(4)	1	5	6	6	3	2	2
- other	43	(9)	5	(5)	1	18	(0)	(0)	11	4	(8)	(6)	(2)
<b>Total</b>	<b>8</b>	<b>15</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>Telephony Channels (000s)</b>													
Incumbent retail	2,948	2,894	2,873	2,843	2,813	2,777	2,763	2,746	2,732	2,710	2,695	2,695	2,683
Incumbent wholesale (WLR)	122	106	86	76	69	66	62	63	64	64	63	62	62
ULL (total)	320	315	318	305	301	309	297	281	278	273	257	242	231
Cable	139	204	254	327	419	479	529	584	646	692	732	778	808
<b>Total</b>	<b>3,529</b>	<b>3,519</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(62)	(54)	(21)	(31)	(30)	(35)	(14)	(17)	(14)	(22)	(15)	1	(12)
Incumbent wholesale (WLR)	(19)	(15)	(21)	(10)	(7)	(3)	(3)	1	1	(0)	(1)	(1)	(0)
ULL (full)	29	(6)	3	(13)	(4)	8	(12)	(16)	(2)	(6)	(16)	(15)	(12)
Cable	56	65	50	73	92	59	51	55	62	46	40	45	30
<b>Total</b>	<b>4</b>	<b>(10)</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>Pay TV Subscribers (000s)</b>													
PT	47	116	211	312	384	443	505	581	646	702	769	830	876
Zon	1,561	1,557	1,539	1,525	1,595	1,591	1,595	1,595	1,588	1,576	1,573	1,572	1,554
<b>Pay TV Subscribers Net Adds (000s)</b>													
PT	26	70	95	101	72	59	62	76	65	57	67	61	46
Zon	14	(4)	(18)	(14)	70	(4)	3	0	(6)	(12)	(3)	(2)	(17)

Source: Company reports and Citi Investment Research and Analysis

# Spain

## Fixed

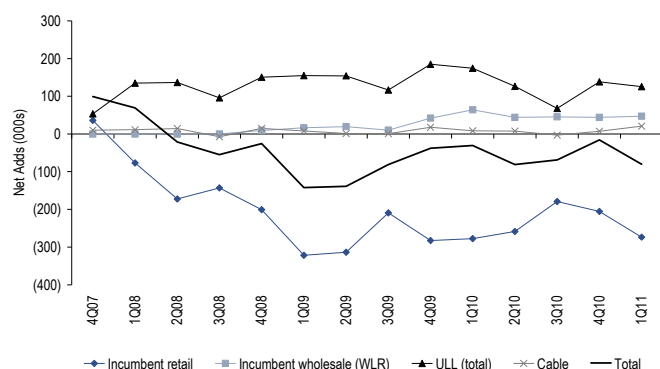
- Aggressive promotions continued to weigh on fixed revenue growth for the market. TEF sees the increase in ULL fees as a driver of higher prices in broadband and there has been a modest improvement in the pricing environment during 2Q11. Vodafone increased prices and speeds in 2Q and some of the other competitors might follow the move in the near term.

## Mobile

- We are sceptical about the sustainability of the apparent mobile service revenue recovery in 1Q11: -3.8% yoy vs. -5% in 4Q10. TEF's KPIs remain weak (ARPU decline and losing customers) and the market remains very competitive in a context of continued macro weakness.
- TEF announced aggressive new voice tariffs as a reaction to falling market share during the quarter. The market is likely to remain highly competitive with prices coming down over time. We argue Orange is well positioned for market share gains as it has more flexibility for commercial investments over the next 1-2 years.

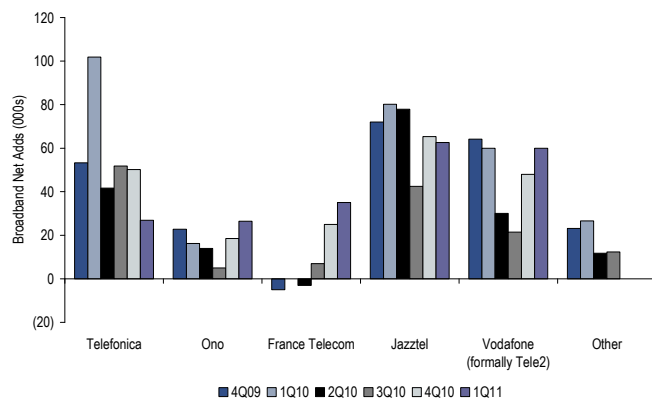
## Fixed Charts

Figure 293. Telephony Net Adds



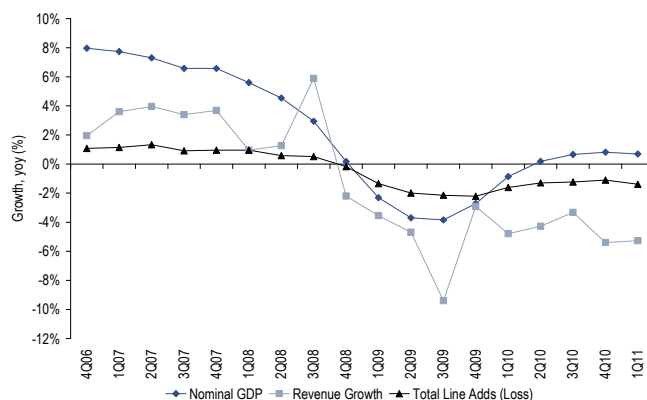
Source: Company reports and Citi Investment Research and Analysis

Figure 295. Broadband Subscriber Net Adds



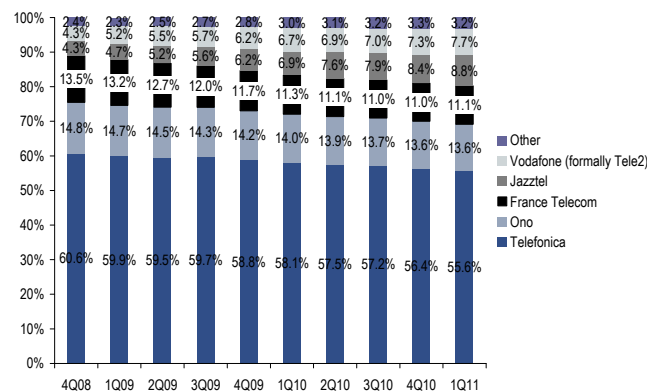
Source: Company reports and Citi Investment Research and Analysis

Figure 294. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

Figure 296. Broadband Subscriber Market Share

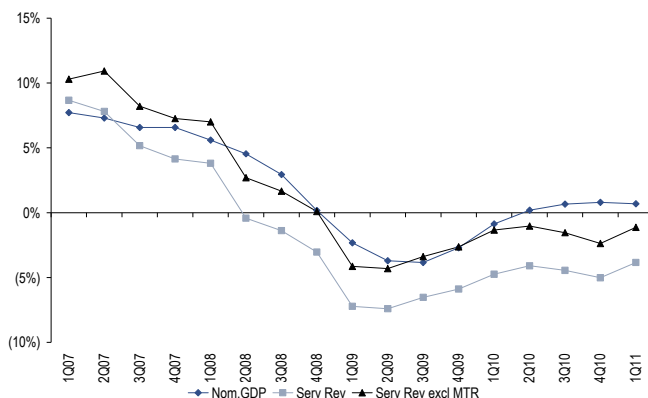


Source: Company reports and Citi Investment Research and Analysis



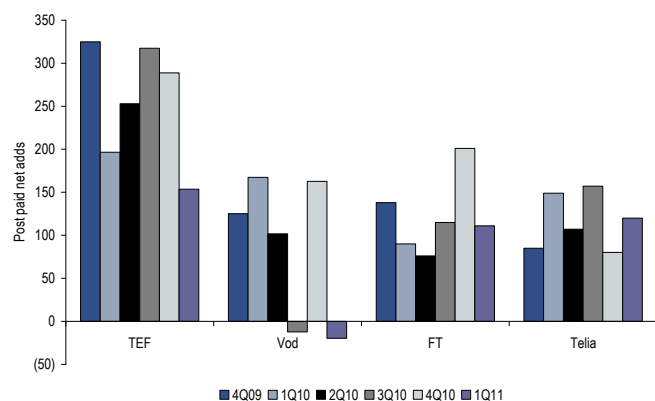
## Mobile Charts

Figure 297. Revenue and GDP



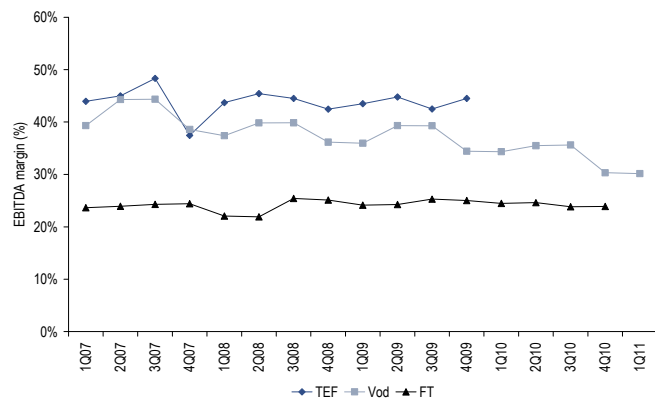
Source: Company reports, CIRA and Datastream

Figure 299. Post-Paid Net Adds



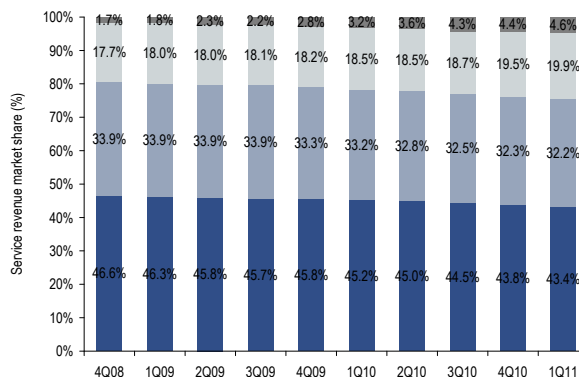
Source: Company reports and Citi Investment Research and Analysis

Figure 301. EBITDA Margin



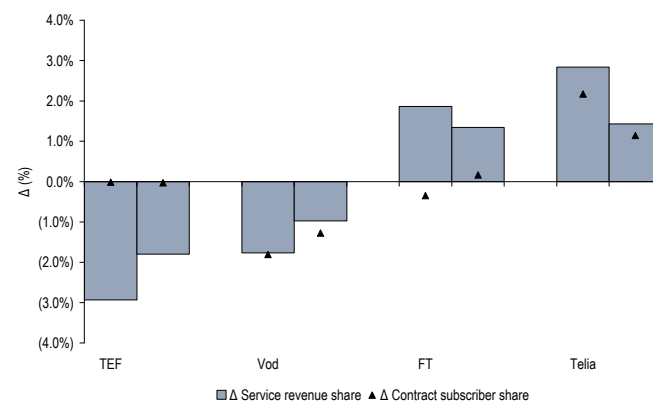
Source: Company reports and Citi Investment Research and Analysis

Figure 298. Service Revenue Market Share



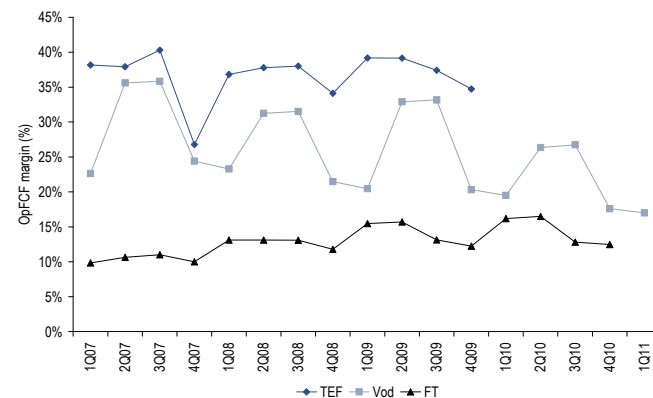
Source: Company reports and Citi Investment Research and Analysis

Figure 300. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 302. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Spain Mobile Data

Figure 303. Spanish Mobile Market Information

Spain	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, €m</b>													
Telefonica	2,072	2,132	2,198	2,055	1,921	1,940	2,022	1,898	1,785	1,829	1,880	1,725	1,648
Vodafone	1,560	1,582	1,629	1,495	1,409	1,436	1,500	1,379	1,311	1,334	1,374	1,272	1,223
Orange (FT)	806	815	852	779	747	762	802	755	732	753	792	767	755
Telia	35	44	52	77	73	97	98	114	126	146	180	174	175
<b>Total</b>	<b>4,473</b>	<b>4,573</b>	<b>4,731</b>	<b>4,406</b>	<b>4,150</b>	<b>4,235</b>	<b>4,422</b>	<b>4,146</b>	<b>3,953</b>	<b>4,061</b>	<b>4,225</b>	<b>3,938</b>	<b>3,801</b>
<b>Service Revenue Growth, yoy</b>													
Telefonica	2.0%	0.5%	(2.1%)	(2.7%)	(7.3%)	(9.0%)	(8.0%)	(7.6%)	(7.1%)	(5.7%)	(7.0%)	(9.1%)	(7.7%)
Vodafone	5.4%	(3.0%)	(2.2%)	(6.8%)	(9.7%)	(9.2%)	(7.9%)	(7.7%)	(7.0%)	(7.1%)	(8.4%)	(7.8%)	(6.7%)
Orange (FT)	2.3%	(1.7%)	(2.0%)	(3.2%)	(7.3%)	(6.5%)	(5.9%)	(3.1%)	(2.0%)	(1.2%)	(1.2%)	1.6%	3.1%
Telia													
<b>Total</b>	<b>3.8%</b>	<b>(0.4%)</b>	<b>(1.4%)</b>	<b>(3.0%)</b>	<b>(7.2%)</b>	<b>(7.4%)</b>	<b>(6.5%)</b>	<b>(5.9%)</b>	<b>(4.7%)</b>	<b>(4.1%)</b>	<b>(4.4%)</b>	<b>(5.0%)</b>	<b>(3.8%)</b>
<b>Service Revenue Market Share</b>													
Telefonica	46.3%	46.6%	46.5%	46.6%	46.3%	45.8%	45.7%	45.8%	45.2%	45.0%	44.5%	43.8%	43.4%
Vodafone	34.9%	34.6%	34.4%	33.9%	33.9%	33.9%	33.9%	33.3%	33.2%	32.8%	32.5%	32.3%	32.2%
Orange (FT)	18.0%	17.8%	18.0%	17.7%	18.0%	18.0%	18.1%	18.2%	18.5%	18.5%	18.7%	19.5%	19.9%
Telia	0.8%	1.0%	1.1%	1.7%	1.8%	2.3%	2.2%	2.8%	3.2%	3.6%	4.3%	4.4%	4.6%
<b>Post-pay Customers, 000s</b>													
Telefonica	13,950	14,261	14,458	14,568	14,553	14,694	15,009	15,334	15,531	15,784	16,101	16,390	16,543
Vodafone	9,303	9,531	9,701	9,824	9,977	10,052	10,173	10,298	10,466	10,567	10,555	10,718	10,698
Orange (FT)	6,079	6,220	6,311	6,434	6,485	6,495	6,519	6,657	6,747	6,823	6,938	7,139	7,250
Telia	219	248	290	370	463	550	605	690	839	946	1,103	1,183	1,303
<b>Call Volumes, mn min/qtr</b>													
Telefonica	10,408	10,991	11,441	10,727	10,038	10,499	11,007	10,495	10,051	10,562	10,675	10,412	9,936
Vodafone	8,815	9,226	9,059	8,827	8,457	8,759	9,035	8,980	8,769	9,124	9,259	9,128	9,058
France Telecom	4,890	4,908	5,062	5,125	5,219	5,223	5,272	5,401	5,543	5,501	5,583	5,978	5,809
Telia	286	353	414	499	575	648	726	808	955	1,126	1,323	1,469	1,536
<b>Total</b>	<b>24,398</b>	<b>25,478</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>26,339</b>
<b>Call Volume growth, yoy</b>													
Telefonica	0.2%	4.9%	2.0%	1.3%	(3.6%)	(4.5%)	(3.8%)	(2.2%)	0.1%	0.6%	(3.0%)	(0.8%)	(1.1%)
Vodafone	6.9%	8.2%	1.9%	0.3%	(4.1%)	(5.1%)	(0.3%)	1.7%	3.7%	4.2%	2.5%	1.6%	3.3%
France Telecom	4.8%	4.2%	10.5%	9.6%	6.7%	6.4%	4.1%	5.4%	6.2%	5.3%	5.9%	10.7%	4.8%
Telia	681.1%	356.1%	242.7%	157.0%	101.2%	83.5%	75.1%	61.8%	66.1%	73.7%	82.3%	81.9%	60.9%
<b>Total</b>	<b>4.6%</b>	<b>7.1%</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>4.0%</b>
<b>Contract Churn, % p.a</b>													
Telefonica	13.2%	13.2%	13.2%	15.6%	16.8%	15.6%	14.4%	15.6%	18.0%	16.8%	16.8%	16.8%	21.6%
Vodafone	16.6%	16.4%	16.1%	18.3%	18.3%	19.9%	20.6%	21.7%	21.2%	18.9%	19.5%	19.9%	25.4%
Orange (FT)	23.8%	22.9%	22.7%	23.1%	23.5%	24.1%	24.5%	24.2%	23.6%	22.8%	21.5%	20.7%	20.3%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Telefonica	8.8%	8.7%	9.4%	10.3%	11.4%	11.2%	11.9%	12.7%	13.5%	13.4%	14.5%	15.8%	17.7%
Vodafone	7.1%	7.3%	7.3%	8.1%	10.2%	9.3%	9.3%	9.8%	10.9%	11.3%	11.9%	11.9%	13.6%
Orange (FT)	5.0%	5.7%	5.7%	6.3%	7.3%	6.8%	7.2%	8.9%	8.9%	9.1%	9.2%	11.4%	12.1%
<b>EBITDA, €m</b>													
Telefonica	1,048	1,099	1,106	1,012	945	980	988	1,014					
Vodafone	612	660	680	570	537	599	625	506	481	507	522	413	397
Orange (FT)	182	185	224	204	189	193	212	200	186	191	197	190	0
<b>Capex, €m</b>													
Telefonica	165	185	162	199	94	123	118	223					
Vodafone	231	142	142	232	232	98	98	208	208	130	130	173	173
Orange (FT)	74	74	109	109	68	68	102	102	63	63	91	91	0

Source: Company reports and Citi Investment Research and Analysis

## Spain Fixed Data

Figure 304. Spanish Fixed Line Market Information

Spain	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	4,836	5,005	5,117	5,246	5,292	5,331	5,424	5,477	5,579	5,620	5,672	5,722	5,749
Incumbent wholesale	480	463	445	424	406	369	337	359	419	464	508	561	615
ULL (total)	1,467	1,533	1,585	1,698	1,835	1,951	2,021	2,154	2,261	2,332	2,372	2,477	2,579
Cable	1,241	1,272	1,272	1,283	1,295	1,302	1,303	1,326	1,342	1,356	1,361	1,380	1,406
<b>Total</b>	<b>8,024</b>	<b>8,272</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>Broadband Subscribers (000s)</b>													
Telefonica	4,836	5,005	5,117	5,246	5,292	5,331	5,424	5,477	5,579	5,620	5,672	5,722	5,749
Ono	1,241	1,272	1,272	1,283	1,295	1,302	1,303	1,326	1,342	1,356	1,361	1,380	1,406
France Telecom	1,186	1,192	1,174	1,164	1,165	1,135	1,091	1,086	1,086	1,083	1,090	1,115	1,150
Jazztel	277	300	327	375	416	462	510	582	662	740	782	848	910
Vodafone (formally Tele2)	300	326	350	373	456	497	516	581	641	671	692	740	800
Other	184	178	179	210	204	225	241	264	291	303	315	336	0
<b>Total</b>	<b>8,024</b>	<b>8,272</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>Broadband Subscribers Net Adds (000s)</b>													
Telefonica	222	169	112	129	45	40	92	53	102	42	52	50	27
Ono	38	31	0	11	13	7	1	23	16	14	5	19	26
France Telecom	9	6	(18)	(10)	1	(30)	(44)	(5)	0	(3)	7	25	35
Jazztel	23	23	27	48	42	46	48	72	80	78	42	65	63
Vodafone (formally Tele2)	27	25	24	24	83	41	20	64	60	30	22	48	60
Other	40	(6)	1	31	(6)	21	16	23	27	12	12	0	0
<b>Total</b>	<b>358</b>	<b>248</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>Telephony Channels (000s)</b>													
Incumbent retail	15,842	15,670	15,527	15,326	15,005	14,691	14,483	14,200	13,923	13,664	13,485	13,280	13,006
Incumbent wholesale (WLR)	0	0	0	10	26	45	56	97	161	205	251	295	342
ULL (total)	713	849	945	1,096	1,251	1,405	1,521	1,706	1,881	2,007	2,075	2,213	2,339
Cable	1,616	1,631	1,623	1,638	1,646	1,647	1,648	1,666	1,675	1,682	1,679	1,686	1,707
<b>Total</b>	<b>18,171</b>	<b>18,150</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(77)	(172)	(143)	(201)	(321)	(314)	(209)	(282)	(278)	(259)	(179)	(205)	(274)
Incumbent wholesale (WLR)	0	0	0	10	16	20	10	42	64	44	45	44	47
ULL (full)	135	137	96	151	155	154	117	185	174	127	68	138	126
Cable	11	14	(8)	15	8	1	1	18	9	7	(3)	7	21
<b>Total</b>	<b>69</b>	<b>(21)</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>Pay TV Subscribers (000s)</b>													
TEF	554	577	590	613	605	610	654	703	733	748	773	788	786
ONO	1,011	1,052	1,057	1,039	1,016	991	977	975	970	966	948	953	958
Orange	75	92	86	87	99	92	86	84	79	75	72	70	69
<b>Total</b>	<b>1,640</b>	<b>1,721</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>Pay TV Subscribers Net Adds (000s)</b>													
TEF	43	23	13	23	(8)	5	45	49	30	15	26	15	(2)
ONO	51	41	5	(18)	(23)	(25)	(14)	(2)	(5)	(4)	(18)	5	5
Orange	21	17	(6)	1	12	(7)	(6)	(2)	(5)	(4)	(3)	(2)	(1)
<b>Total</b>	<b>115</b>	<b>81</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>

Source: Company reports and Citi Investment Research and Analysis

# Sweden

## Fixed

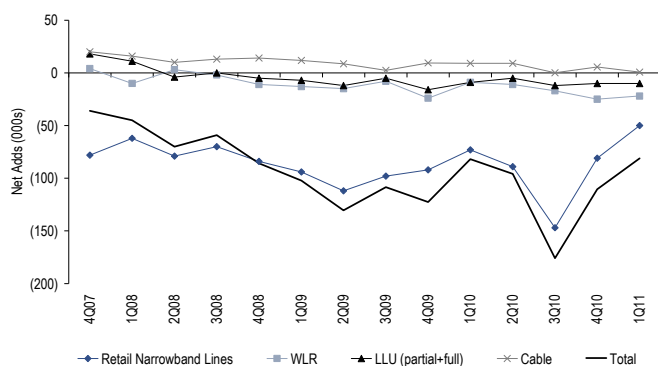
- Fixed line loss improved in 1Q11 with retail line loss reducing to -50k in 1Q11 from -81k 4Q10. However, fixed revenue decline worsened significantly to -5.7% 1Q11 from -2.7% 4Q10.

## Mobile

- The Swedish mobile market remained the fastest-growing in Europe, driven by higher smartphone adoption and, more importantly, stability in voice pricing. Service revenue excluding the impact of MTRs was 5.8% 1Q11 vs 6.9% 4Q10.

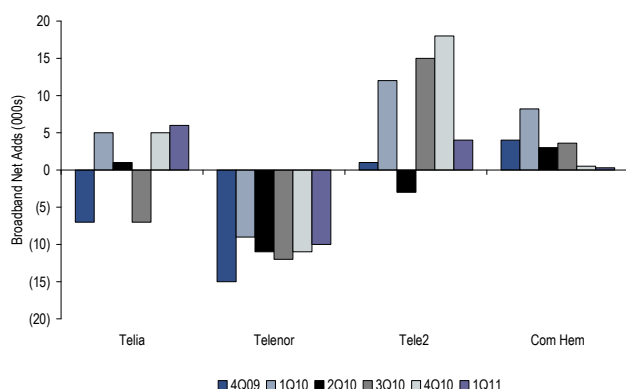
## Fixed Charts

Figure 305. Telephony Net Adds



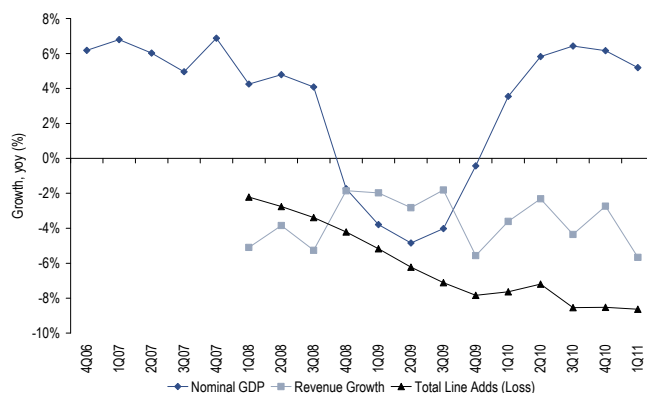
Source: Company reports and Citi Investment Research and Analysis

Figure 307. Broadband Subscriber Net Adds



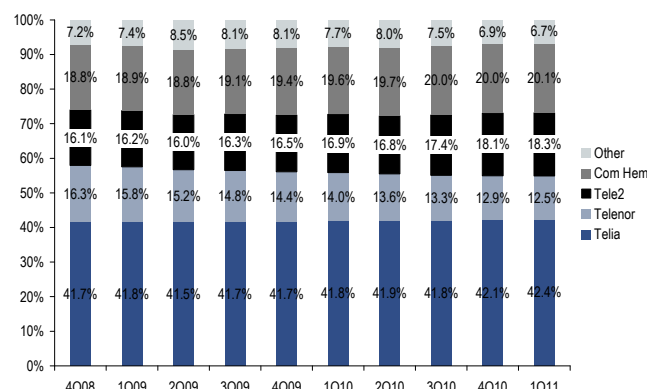
Source: Company reports and Citi Investment Research and Analysis

Figure 306. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

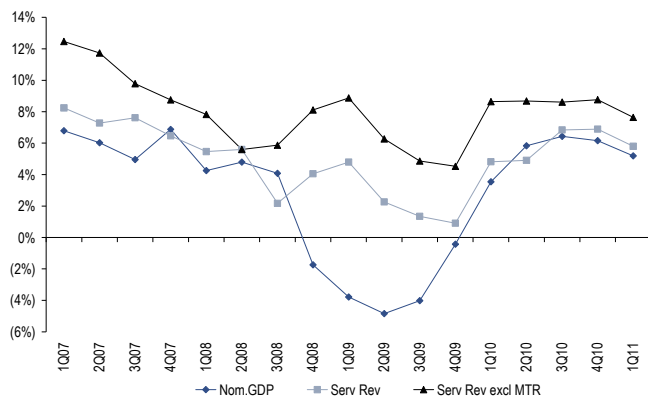
Figure 308. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

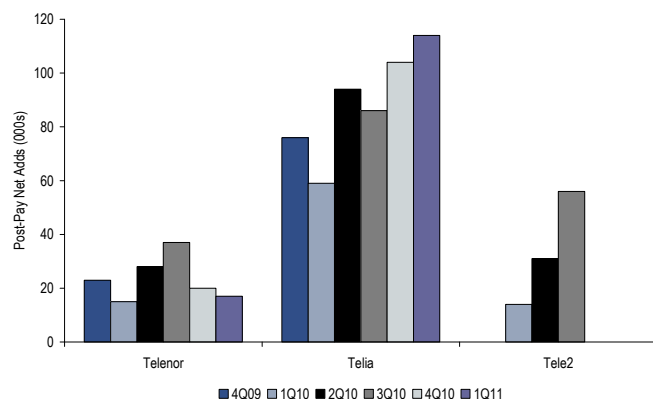
## Mobile Charts

Figure 309. Revenue and GDP



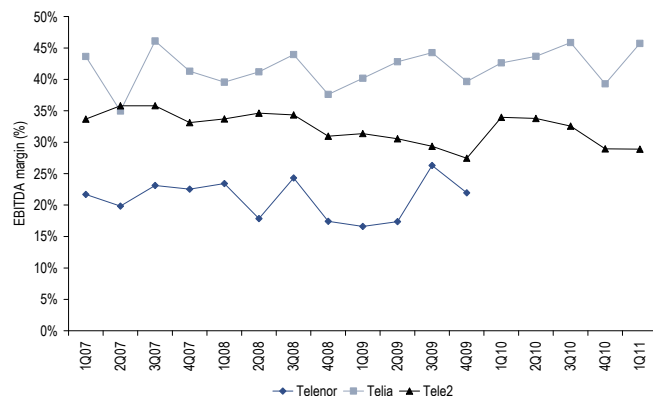
Source: Company reports, CIRA and Datastream

Figure 311. Post-Paid Net Adds



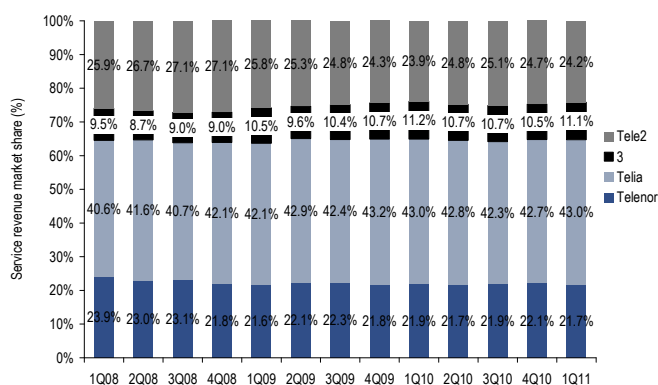
Source: Company reports and Citi Investment Research and Analysis

Figure 313. EBITDA Margin



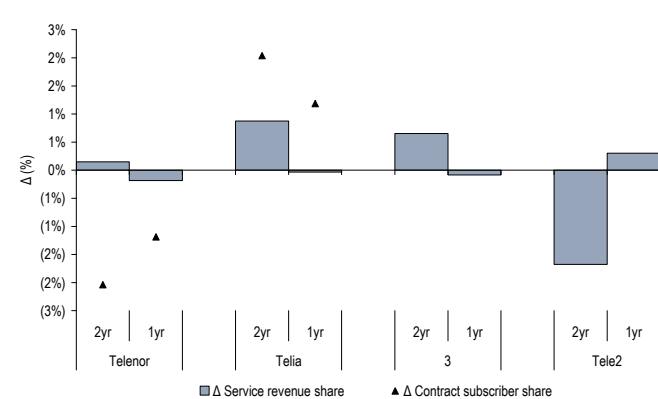
Source: Company reports and Citi Investment Research and Analysis

Figure 310. Service Revenue Market Share



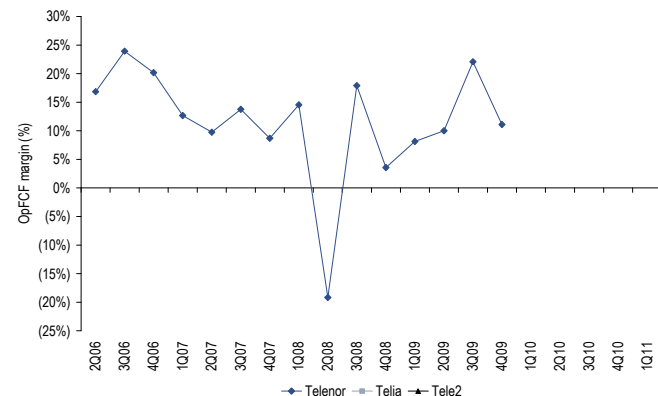
Source: Company reports and Citi Investment Research and Analysis

Figure 312. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 314. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## Sweden Mobile Data

Figure 315. Swedish Mobile Market Information

Sweden	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, SEK m</b>													
Telenor	1,650	1,721	1,694	1,617	1,562	1,693	1,660	1,629	1,662	1,739	1,738	1,765	1,744
Telia	2,805	3,113	2,988	3,121	3,046	3,280	3,155	3,230	3,262	3,436	3,359	3,415	3,449
Tele2	1,790	1,994	1,991	2,006	1,870	1,935	1,845	1,821	1,810	1,988	1,996	1,975	1,939
<b>Total</b>	<b>6,904</b>	<b>7,476</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>8,020</b>	<b>7,944</b>	<b>7,997</b>	<b>8,023</b>
<b>Service Revenue Growth, yoy</b>													
Telenor	4.5%	(0.5%)	(1.2%)	(4.5%)	(5.4%)	(1.6%)	(2.0%)	0.7%	6.4%	2.7%	4.7%	8.4%	4.9%
Telia	4.0%	7.6%	3.7%	9.7%	8.6%	5.4%	5.6%	3.5%	7.1%	4.8%	6.5%	5.7%	5.7%
Tele2	0.0%	3.6%	0.3%	1.5%	4.4%	(2.9%)	(7.3%)	(9.3%)	(3.2%)	2.7%	8.1%	8.5%	7.1%
<b>Total</b>	<b>5.5%</b>	<b>5.6%</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>4.9%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>5.8%</b>
<b>Service Revenue Market Share</b>													
Telenor	23.9%	23.0%	23.1%	21.8%	21.6%	22.1%	22.3%	21.8%	21.9%	21.7%	21.9%	22.1%	21.7%
Telia	40.6%	41.6%	40.7%	42.1%	42.1%	42.9%	42.4%	43.2%	43.0%	42.8%	42.3%	42.7%	43.0%
Tele2	25.9%	26.7%	27.1%	27.1%	25.8%	25.3%	24.8%	24.3%	23.9%	24.8%	25.1%	24.7%	24.2%
<b>Post-pay Customers, 000s</b>													
Telenor	1,383	1,421	1,476	1,536	1,571	1,609	1,631	1,654	1,669	1,697	1,734	1,754	1,771
Telia	2,546	2,708	2,863	2,952	3,012	3,099	3,189	3,265	3,324	3,418	3,504	3,608	3,722
Tele2	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Call Volumes, mn min/qtr</b>													
Telenor	1,107	1,239	1,161	1,222	1,206	1,314	1,294	1,296	1,327	1,435	1,407	1,475	1,445
Telia	2,835	3,233	3,189	3,533	3,385	3,608	3,605	3,788	3,874	4,137	3,999	4,308	4,260
Tele2	1,921	2,166	2,126	2,318	2,230	2,325	2,260	2,364	2,437	2,387	2,492	2,644	2,676
<b>Total</b>	<b>6,252</b>	<b>7,129</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>Call Volume growth, yoy</b>													
Telenor	7.9%	10.8%	6.1%	7.2%	9.0%	6.0%	11.5%	6.1%	9.9%	9.2%	8.7%	13.8%	8.9%
Telia	15.2%	20.3%	18.7%	26.2%	19.4%	11.6%	13.1%	7.2%	14.4%	14.7%	10.9%	13.7%	10.0%
Tele2	(7.1%)	6.6%	18.0%	21.1%	16.1%	7.3%	6.3%	2.0%	9.3%	2.7%	10.3%	11.8%	9.8%
<b>Total</b>	<b>8.8%</b>	<b>17.3%</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>EBITDA, SEK m</b>													
Telenor	426	335	456	324	296	336	512	434					
Telia	1,123	1,291	1,388	1,197	1,252	1,424	1,490	1,360	1,472	1,580	1,682	1,467	1,685
Tele2	632	707	708	611	595	620	600	560	664	722	748	669	669

Source: Company reports and Citi Investment Research and Analysis

## Sweden Fixed Data

Figure 316. Swedish Fixed Line Market Information

Sweden	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,089	1,099	1,107	1,122	1,132	1,132	1,132	1,125	1,130	1,131	1,124	1,129	1,135
Incumbent wholesale	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	620	616	616	611	604	592	587	571	562	557	545	535	525
Cable	490	495	503	506	512	513	518	522	530	533	537	537	538
Other	406	411	430	453	461	489	480	480	480	480	480	480	480
<b>Total</b>	<b>2,605</b>	<b>2,621</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>Broadband Subscribers (000s)</b>													
Telia	1,089	1,099	1,107	1,122	1,132	1,132	1,132	1,125	1,130	1,131	1,124	1,129	1,135
Telenor	468	456	446	438	427	413	403	388	379	368	356	345	335
Tele2	416	418	430	433	439	436	443	444	456	453	468	486	490
Com Hem	490	495	503	506	512	513	518	522	530	533	537	537	538
- other	142	153	170	193	199	232	221	219	207	216	201	184	180
<b>Total</b>	<b>2,605</b>	<b>2,621</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>Broadband Subscribers Net Adds (000s)</b>													
Telia	22	10	8	15	10	0	0	(7)	5	1	(7)	5	6
Telenor	(7)	(12)	(10)	(8)	(11)	(14)	(10)	(15)	(9)	(11)	(12)	(11)	(10)
Tele2	30	2	12	3	6	(3)	7	1	12	(3)	15	18	4
Com Hem	11	5	8	3	6	1	5	4	8	3	4	1	0
- other	(40)	11	18	23	6	32	(11)	(2)	(12)	9	(15)	(17)	(4)
<b>Total</b>	<b>16</b>	<b>16</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>Telephony Channels (000s)</b>													
Incumbent retail	4,233	4,154	4,084	4,000	3,906	3,794	3,696	3,604	3,531	3,442	3,295	3,214	3,164
Incumbent wholesale (WLR)	997	1,000	998	987	974	959	951	927	918	907	890	865	843
ULL (total)	620	616	616	611	604	592	587	571	562	557	545	535	525
Cable	277	287	300	314	326	335	337	347	356	365	365	371	371
<b>Total</b>	<b>6,127</b>	<b>6,057</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>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(62)	(79)	(70)	(84)	(94)	(112)	(98)	(92)	(73)	(89)	(147)	(81)	(50)
Incumbent wholesale (WLR)	(10)	3	(2)	(11)	(13)	(15)	(8)	(24)	(9)	(11)	(17)	(25)	(22)
ULL (total)	11	(4)	0	(5)	(7)	(12)	(5)	(16)	(9)	(5)	(12)	(10)	(10)
Cable	16	10	13	14	12	9	3	10	9	9	0	6	1
<b>Total</b>	<b>(45)</b>	<b>(70)</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>Pay TV Subscribers (000s)</b>													
Telia IPTV	318	320	320	324	333	350	367	396	411	418	431	450	473
Telenor cable	235	235	233	235	231	226	223	217	212	202	203	201	199
Viasat Satellite	0	0	0	0	350	0	0	0	0	0	0	0	0
<b>Pay TV Subscribers Net Adds (000s)</b>													
Telia	14	2	0	4	9	17	17	29	15	7	13	19	23
Telenor	(7)	0	(2)	2	(4)	(5)	(3)	(6)	(5)	(10)	1	(2)	(2)
Com Hem	0	0	0	0	350	(350)	0	0	0	0	0	0	0

Source: Company reports and Citi Investment Research and Analysis

# Switzerland

## Fixed

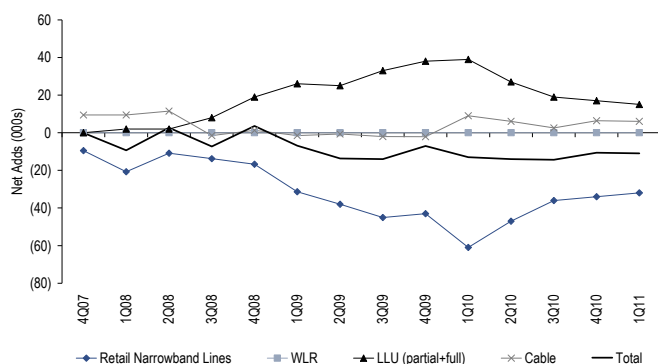
- Cable is clearly more present than last year but Swisscom's performance remained solid and, if anything, should soon start to improve as wholesale to ULL migration starts to slow over coming quarters.

## Mobile

- The focus is on increasing base fees by including more in the bundle. Demand for data remains strong in the Swiss market.
- Mobile service revenue growth returned to negative territory during 1Q11, at -1.4% vs. flat yoy in 4Q10. This is due mainly to poor performance at Orange Switzerland.

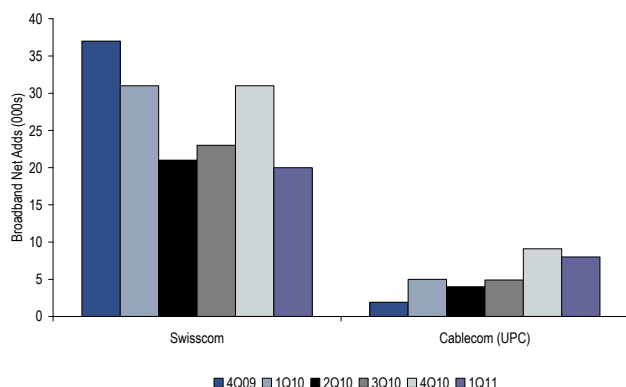
## Fixed Charts

Figure 317. Telephony Net Adds



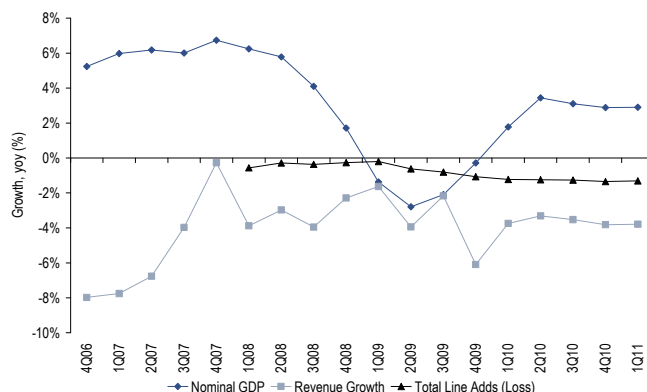
Source: Company reports and Citi Investment Research and Analysis

Figure 319. Broadband Subscriber Net Adds



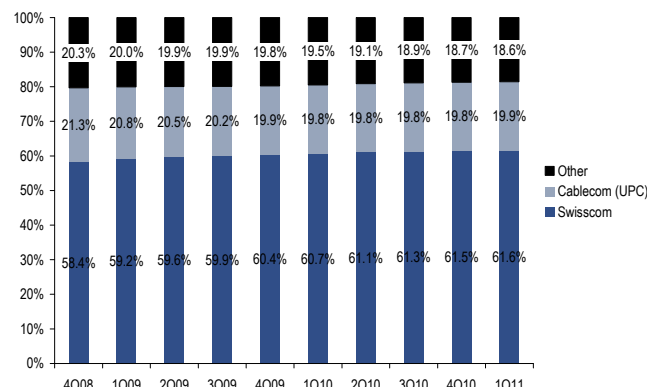
Source: Company reports and Citi Investment Research and Analysis

Figure 318. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

Figure 320. Broadband Subscriber Market Share

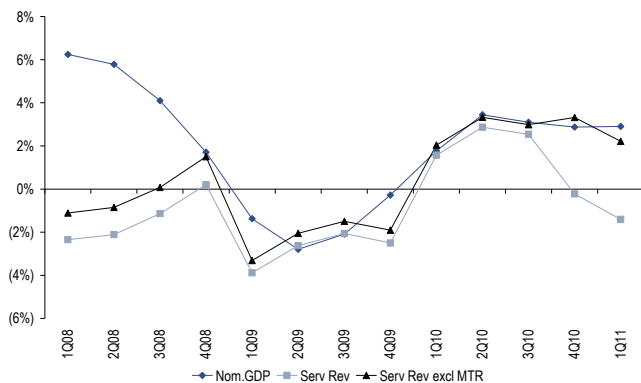


Source: Company reports and Citi Investment Research and Analysis



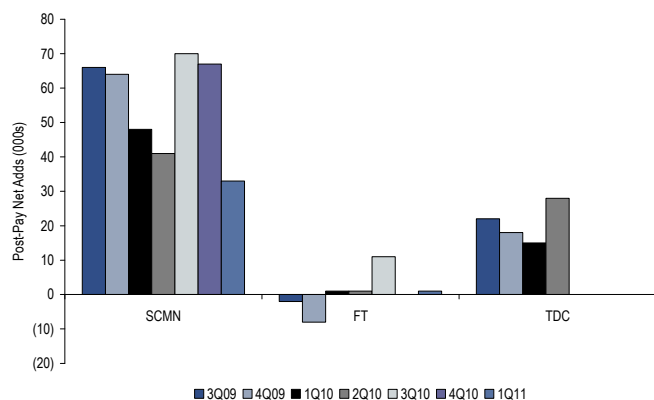
## Mobile Charts

Figure 321. Revenue and GDP



Source: Company reports, CIRA and Datastream

Figure 323. Post-Paid Net Adds



Source: Company reports and Citi Investment Research and Analysis

Figure 322. Service Revenue Market Share

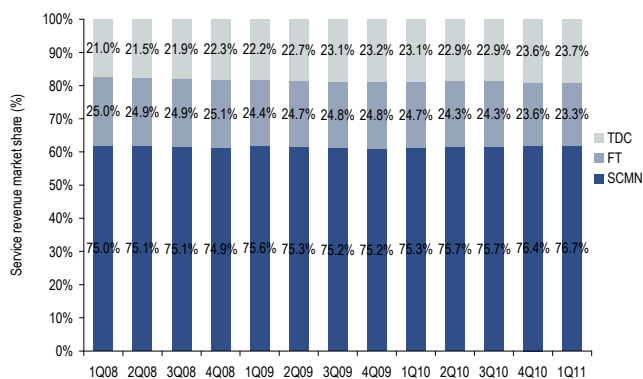
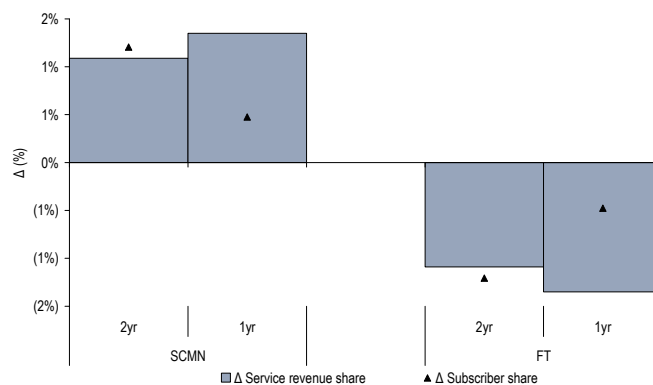


Figure 324. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

## Switzerland Mobile Data

Figure 325. Swiss Mobile Market Information

Switzerland	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, CHFm</b>													
Swisscom	847	871	899	862	820	851	882	844	830	880	910	856	833
Orange (FT)	282	289	297	290	265	279	290	279	272	282	292	264	254
<b>Total</b>	<b>1,129</b>	<b>1,160</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>Service Revenue Growth, yoy</b>													
Swisscom	2.4%	0.9%	(0.4%)	2.1%	(3.2%)	(2.3%)	(1.9%)	(2.1%)	1.2%	3.4%	3.2%	1.4%	0.4%
Orange (FT)	(14.3%)	(10.2%)	(3.2%)	(5.1%)	(5.9%)	(3.5%)	(2.5%)	(3.7%)	2.7%	1.2%	0.6%	(5.2%)	(6.8%)
<b>Total</b>	<b>(2.3%)</b>	<b>(2.1%)</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>Customers, 000s</b>													
Swisscom	5,100	5,181	5,284	5,370	5,411	5,472	5,538	5,602	5,650	5,691	5,761	5,828	5,861
Orange (FT)	1,529	1,527	1,530	1,543	1,558	1,568	1,566	1,558	1,559	1,560	1,571	1,571	1,572
<b>Customer Net Adds, 000s</b>													
Swisscom	93	81	103	86	41	61	66	64	48	41	70	67	33
Orange (FT)	19	(2)	3	13	15	10	(2)	(8)	1	1	11	0	1

Source: Company reports and Citi Investment Research and Analysis

## Switzerland Fixed Data

Figure 326. Swiss Fixed Line Market Information

Switzerland	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	1,221	1,254	1,279	1,331	1,379	1,410	1,441	1,478	1,509	1,530	1,553	1,584	1,604
Incumbent wholesale	439	450	448	431	410	390	363	331	293	260	240	226	214
ULL (total)	2	4	12	31	57	82	115	153	192	219	238	255	270
Cable	468	480	477	486	485	485	485	487	492	496	501	510	518
<b>Total</b>	<b>2,130</b>	<b>2,188</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>Broadband Subscribers (000s)</b>													
Swisscom	1,221	1,254	1,279	1,331	1,379	1,410	1,441	1,478	1,509	1,530	1,553	1,584	1,604
Cablecom (UPC)	468	480	477	486	485	485	485	487	492	496	501	510	518
- other	441	454	460	462	467	472	478	484	485	479	478	481	484
<b>Total</b>	<b>2,130</b>	<b>2,188</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>Broadband Subscribers Net Adds (000s)</b>													
Swisscom	52	33	24	52	48	31	31	37	31	21	23	31	20
Cablecom (UPC)	13	12	(2)	8	(0)	(0)	0	2	5	4	5	9	8
- other	3	13	6	2	5	5	6	6	1	(6)	(1)	3	3
<b>Total</b>	<b>68</b>	<b>58</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>Telephony Channels (000s)</b>													
Incumbent retail	3,590	3,579	3,565	3,548	3,517	3,479	3,434	3,391	3,330	3,283	3,247	3,213	3,181
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	2	4	12	31	57	82	115	153	192	219	238	255	270
Cable	298	310	308	309	308	307	305	303	312	318	321	327	333
<b>Total</b>	<b>3,890</b>	<b>3,892</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>3,784</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(21)	(11)	(14)	(17)	(31)	(38)	(45)	(43)	(61)	(47)	(36)	(34)	(32)
Incumbent wholesale (WLR)	0	0	0	0	0	0	0	0	0	0	0	0	0
ULL (total)	2	2	8	19	26	25	33	38	39	27	19	17	15
Cable	10	12	(2)	1	(2)	(1)	(2)	(2)	9	6	3	6	6
<b>Total</b>	<b>(9)</b>	<b>3</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>(11)</b>
<b>Pay TV Subscribers (000s)</b>													
Swisscom	64	80	95	118	139	165	186	232	275	317	358	421	469
Cablecom (UPC)	1,557	1,562	1,567	1,556	1,557	1,552	1,554	1,546	1,541	1,539	1,537	1,520	1,516
<b>Pay TV Subscribers Net Adds (000s)</b>													
Swisscom	5	16	15	23	21	26	21	46	43	42	41	63	48
Cablecom (UPC)	6	4	5	(10)	1	(5)	2	(8)	(5)	(2)	(2)	(17)	(4)

Source: Company reports and Citi Investment Research and Analysis

# UK

## Fixed

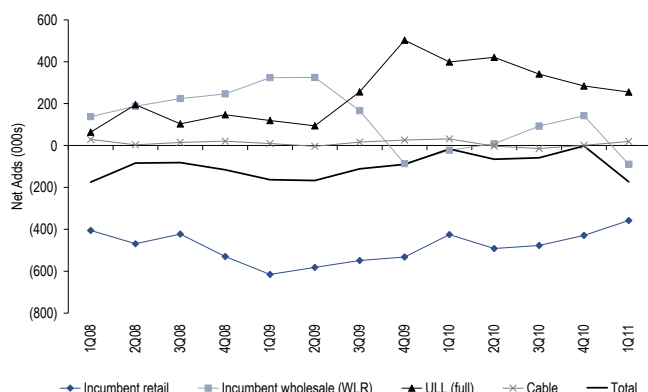
- Retail line loss improved to -358k 1Q11 from -429k 4Q10. This was driven by a fall in the number of WLR lines, with migrations to ULL lines remaining roughly stable at 256k 1Q11, vs 284k 4Q10. Broadband market net adds continue to be dominated by BT and BSKyB.

## Mobile

- Service revenue growth excluding the impact of MTR cuts worsened modestly to 4.7% in 1Q11, from 5.8% in 4Q10. The UK market remains one of the fastest-growing in Europe. O2 saw a slowdown in growth, while Vodafone had a strong quarter as it starts to win back market share after a few years of share decline. 2Q11 will see the impact of Aprils substantial (about 35%) MTR cut.

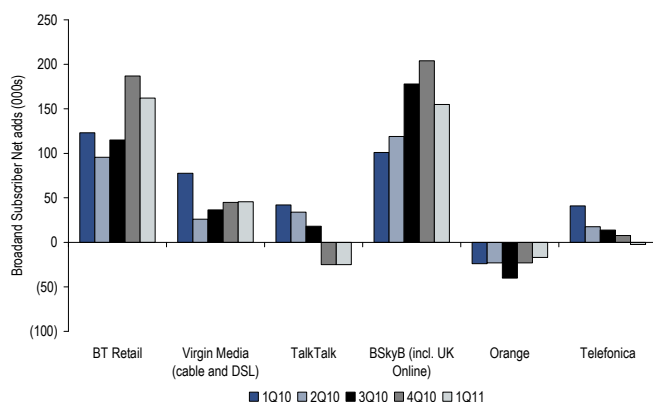
## Fixed Charts

Figure 327. Telephony Net Adds



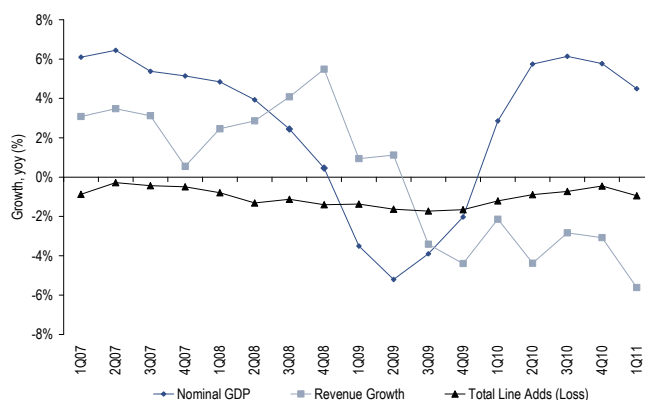
Source: Company reports and Citi Investment Research and Analysis

Figure 329. Broadband Subscriber Net Adds



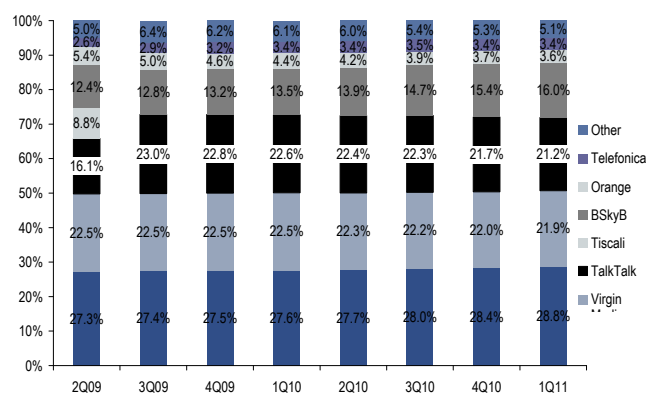
Source: Company reports and Citi Investment Research and Analysis

Figure 328. Line Loss, Incumbent Revenue Growth and GDP



Source: Company reports, CIRA and Datastream

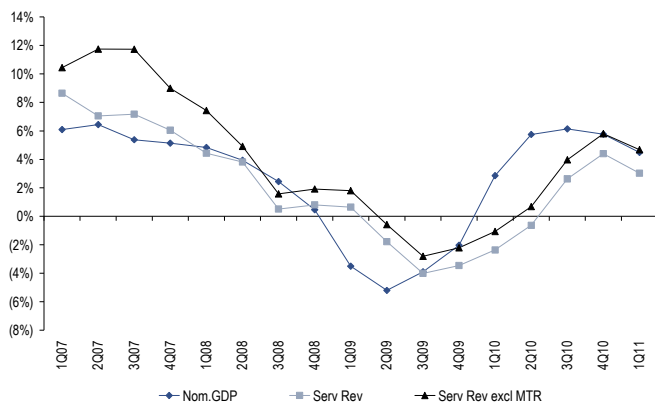
Figure 330. Broadband Subscriber Market Share



Source: Company reports and Citi Investment Research and Analysis

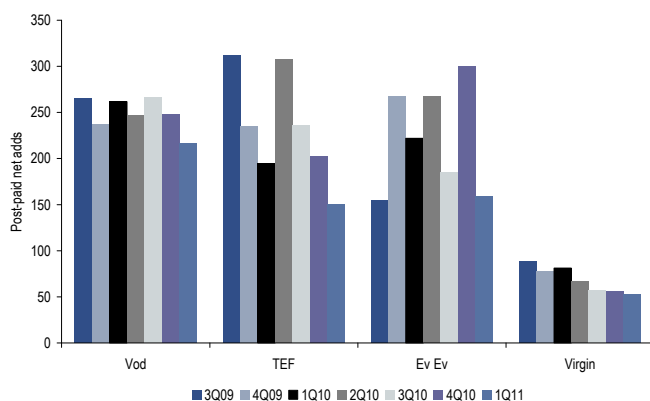
## Mobile Charts

Figure 331. Revenue and GDP



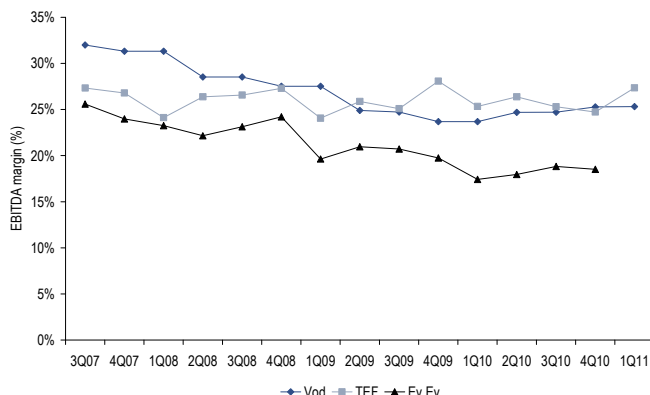
Source: Company reports, CIRA and Datastream

Figure 333. Post-Paid Net Adds



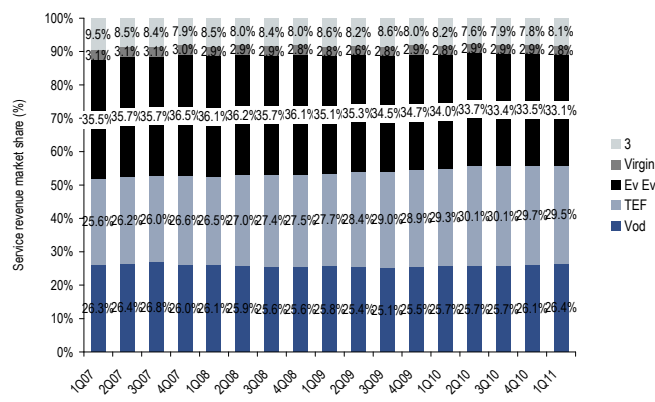
Source: Company reports and Citi Investment Research and Analysis

Figure 335. EBITDA Margin



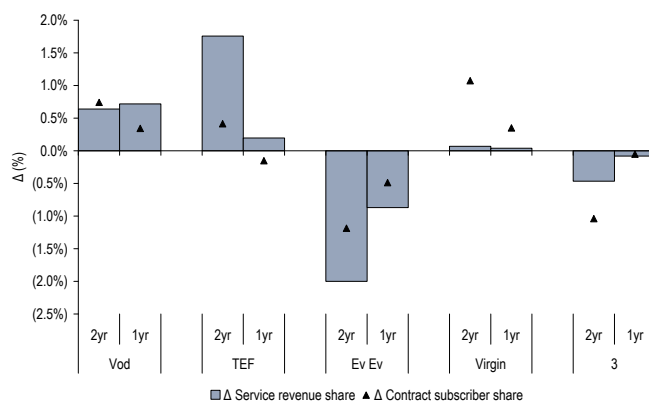
Source: Company reports and Citi Investment Research and Analysis

Figure 332. Service Revenue Market Share



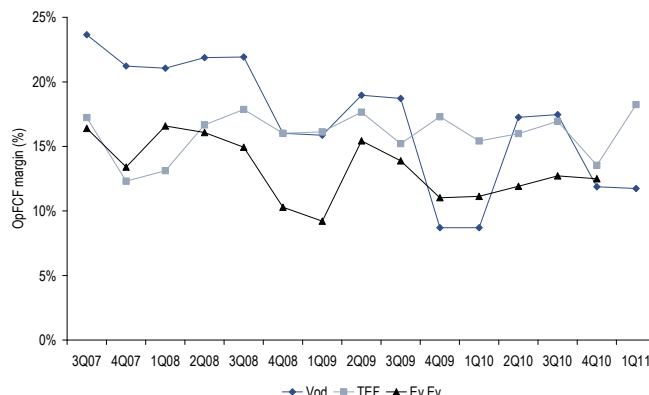
Source: Company reports and Citi Investment Research and Analysis

Figure 334. Change in Service Revenue and Contract Sub Share



Source: Company reports and Citi Investment Research and Analysis

Figure 336. OpFCF Margin



Source: Company reports and Citi Investment Research and Analysis

## UK Mobile Data

Figure 337. UK Mobile Market Information

UK	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Service Revenue, £m</b>													
Vodafone	1,208	1,226	1,235	1,218	1,202	1,179	1,162	1,169	1,170	1,187	1,222	1,252	1,239
O2 (Telefonica)	1,226	1,277	1,322	1,307	1,293	1,322	1,342	1,329	1,333	1,390	1,429	1,424	1,383
Ev Ev	1,671	1,712	1,720	1,715	1,638	1,643	1,598	1,594	1,548	1,557	1,586	1,605	1,554
Virgin Mobile	135	139	140	135	129	121	129	133	128	132	139	139	133
3 (Hutch)	394	378	405	382	401	383	398	367	374	353	375	374	382
<b>Total</b>	<b>4,634</b>	<b>4,732</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>Service Revenue Growth, yoy</b>													
Vodafone	3.6%	1.8%	(4.0%)	(0.9%)	(0.5%)	(3.8%)	(5.9%)	(4.0%)	(2.7%)	0.7%	5.2%	7.1%	5.9%
O2 (Telefonica)	8.0%	6.7%	6.1%	4.3%	5.4%	3.5%	1.5%	1.7%	3.1%	5.1%	6.5%	7.2%	3.7%
Ev Ev	6.0%	5.2%	0.5%	(0.3%)	(2.0%)	(4.0%)	(7.1%)	(7.0%)	(5.5%)	(5.2%)	(0.8%)	0.7%	0.4%
Virgin Mobile	(1.1%)	(2.1%)	(5.0%)	(5.2%)	(3.8%)	(13.0%)	(7.6%)	(1.3%)	(1.3%)	8.8%	7.2%	4.4%	4.5%
3 (Hutch)	(6.7%)	(2.9%)	0.0%	2.1%	1.9%	1.1%	(1.9%)	(3.8%)	(6.7%)	(7.8%)	(5.6%)	2.0%	2.0%
<b>Total</b>	<b>4.4%</b>	<b>3.8%</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>Service Revenue Market Share</b>													
Vodafone	26.1%	25.9%	25.6%	25.6%	25.8%	25.4%	25.1%	25.5%	25.7%	25.7%	25.7%	26.1%	26.4%
O2 (Telefonica)	26.5%	27.0%	27.4%	27.5%	27.7%	28.4%	29.0%	28.9%	29.3%	30.1%	30.1%	29.7%	29.5%
Ev Ev	36.1%	36.2%	35.7%	36.1%	35.1%	35.3%	34.5%	34.7%	34.0%	33.7%	33.4%	33.5%	33.1%
Virgin Mobile	2.9%	2.9%	2.9%	2.8%	2.8%	2.6%	2.8%	2.9%	2.8%	2.9%	2.9%	2.9%	2.8%
3 (Hutch)	8.5%	8.0%	8.4%	8.0%	8.6%	8.2%	8.6%	8.0%	8.2%	7.6%	7.9%	7.8%	8.1%
<b>Post-pay Customers, 000s</b>													
Vodafone	7,415	7,552	7,711	7,896	7,767	7,909	8,174	8,410	8,672	8,918	9,184	9,432	9,649
O2 (Telefonica)	7,687	7,868	8,189	8,412	8,699	9,011	9,324	9,559	9,754	10,061	10,297	10,499	10,650
Ev Ev	9,583	9,769	10,026	10,229	10,407	10,552	10,707	10,974	11,196	11,463	11,648	11,948	12,107
Virgin Mobile	436	492	579	649	712	785	873	950	1,031	1,097	1,155	1,211	1,263
3 (Hutch)	2,801	3,051	3,278	3,474	3,657	3,711	3,741	3,683	3,679	3,676	4,019	4,019	4,019
<b>Call Volumes, mn min/qtr</b>													
Vodafone	9,508	9,650	9,597	9,762	10,195	9,784	10,259	10,379	10,870	10,704	10,569	10,769	10,616
Telefonica	11,069	12,002	12,240	12,816	12,798	13,304	13,579	14,176	14,155	14,346	14,565	15,076	13,500
Ev Ev	15,867	16,357	16,384	16,509	16,434	16,056	15,995	16,250	16,054	16,493	15,994	16,429	16,212
Virgin Mobile	1,236	1,261	1,216	1,177	1,178	1,178	1,205	1,226	1,261	1,316	1,365	1,460	1,440
3 Hutch	1,974	2,142	2,256	2,385	2,498	2,569	2,668	2,794	2,935	3,097	3,323	3,593	3,412
<b>Total</b>	<b>39,653</b>	<b>41,411</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>47,327</b>	<b>45,181</b>
<b>Call Volume growth</b>													
Vodafone	8.2%	7.7%	5.3%	3.5%	7.2%	1.4%	6.9%	6.3%	6.6%	9.4%	3.0%	3.8%	(2.3%)
Telefonica	16.5%	19.1%	18.5%	19.5%	15.6%	10.8%	10.9%	10.6%	10.6%	7.8%	7.3%	6.3%	(4.6%)
Ev Ev	8.5%	9.3%	7.1%	4.4%	3.6%	(1.8%)	(2.4%)	(1.6%)	(2.3%)	2.7%	(0.0%)	1.1%	1.0%
Virgin Mobile	6.2%	6.2%	1.3%	(4.6%)	(4.7%)	(6.6%)	(0.9%)	4.2%	7.1%	11.7%	13.3%	19.0%	14.2%
3 Hutch	18.7%	22.4%	23.9%	24.7%	26.6%	19.9%	18.2%	17.1%	17.5%	20.6%	24.6%	28.6%	16.2%
<b>Total</b>	<b>11.0%</b>	<b>12.1%</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>5.6%</b>	<b>(0.2%)</b>
<b>Contract Churn, % p.a</b>													
Vodafone	17.3%	18.0%	17.5%	17.3%	21.9%	18.0%	18.5%	18.1%	16.2%	15.5%	16.1%	16.8%	15.8%
O2 (Telefonica)	18.0%	16.8%	15.6%	15.6%	14.4%	14.4%	14.4%	12.0%	13.2%	13.2%	14.4%	13.2%	13.2%
Ev Ev	20.8%	19.5%	20.0%	21.9%	23.0%	21.3%	21.7%	20.4%	18.0%	18.0%	16.8%	15.6%	15.6%
<b>Data Revenue (excl messaging) % Service Revenue</b>													
Vodafone	8.1%	9.0%	9.4%	10.1%	10.1%	11.6%	12.5%	12.8%	13.8%	14.7%	15.1%	15.6%	16.8%
O2 (Telefonica)	6.3%	6.2%	7.1%	7.9%	8.7%	9.7%	11.0%	11.6%	12.3%	13.5%	13.2%	13.8%	16.3%
<b>EBITDA, £m</b>													
Vodafone	378	350	352	335	331	294	289	279	279	295	304	319	315
O2 (Telefonica)	320	363	381	401	342	371	366	418	367	401	401	398	418
Ev Ev	425	416	435	457	352	379	364	356	305	309	334	334	
<b>Capex, £m</b>													
Vodafone	125	82	82	141	141	71	71	177	177	89	89	169	169
O2 (Telefonica)	146	134	125	166	113	118	144	160	144	158	133	180	139
Ev Ev	122	114	154	263	187	100	120	157	110	104	109	109	

Source: Company reports and Citi Investment Research and Analysis

## UK Fixed Data

Figure 338. UK Fixed Line Market Information

UK	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
<b>Broadband Subscribers (000s)</b>													
Incumbent retail	4,402	4,505	4,574	4,658	4,757	4,835	4,906	5,008	5,132	5,227	5,342	5,529	5,691
Incumbent wholesale	3,983	3,756	3,622	3,416	3,305	3,191	3,124	3,036	2,926	2,785	2,629	2,451	2,421
ULL (total)	4,300	4,756	5,084	5,501	5,750	5,957	6,121	6,352	6,620	6,906	7,143	7,490	7,609
Cable	3,502	3,563	3,625	3,682	3,730	3,735	3,774	3,837	3,910	3,936	3,969	4,011	4,061
<b>Total</b>	<b>16,187</b>	<b>16,580</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>Broadband Subscribers (000s)</b>													
BT Retail	4,402	4,505	4,574	4,658	4,757	4,835	4,906	5,008	5,132	5,227	5,342	5,529	5,691
Virgin Media	3,782	3,836	3,885	3,934	3,977	3,981	4,027	4,102	4,180	4,206	4,242	4,287	4,333
TalkTalk	2,713	2,754	2,788	2,732	2,806	2,853	4,119	4,155	4,197	4,231	4,249	4,224	4,199
Tiscali	1,875	1,838	1,774	1,768	1,710	1,551							
BSkyB	1,428	1,628	1,792	1,955	2,085	2,203	2,303	2,404	2,505	2,624	2,802	3,006	3,161
Orange	1,107	1,063	1,023	1,000	977	954	899	840	816	793	753	730	713
Telefonica	131	194	267	341	405	457	527	592	632	650	664	672	669
- other	749	762	802	869	826	884	1,144	1,133	1,126	1,123	1,031	1,034	1,017
<b>Total</b>	<b>16,187</b>	<b>16,580</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>Broadband Subscribers Net Adds (000s)</b>													
BT Retail	151	103	69	84	99	78	71	102	123	95	115	187	162
Virgin Media (cable and DSL)	81	54	49	49	43	4	46	75	78	26	37	45	46
TalkTalk	109	41	34	36	74	47	15	36	42	34	18	(25)	(25)
Tiscali	46	(37)	(64)	(6)	(58)	(77)	0	0	0	0	0	0	0
BSkyB (incl. UK Online)	229	200	164	163	130	118	100	101	101	119	178	204	155
Orange	(31)	(44)	(40)	(23)	(23)	(23)	(55)	(59)	(24)	(23)	(40)	(23)	(17)
Telefonica	61	63	73	74	64	52	70	64	41	18	14	8	(2)
- other	(57)	13	40	67	(44)	59	260	(11)	(7)	(2)	(92)	2	(17)
<b>Total</b>	<b>588</b>	<b>393</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>Telephony Channels (000s)</b>													
Incumbent retail	22,543	22,074	21,651	21,121	20,506	19,924	19,375	18,843	18,418	17,926	17,449	17,020	16,662
Incumbent wholesale	4,666	4,853	5,077	5,323	5,647	5,972	6,138	6,051	6,028	6,036	6,128	6,270	6,180
ULL (total)	1,150	1,345	1,448	1,595	1,714	1,808	2,064	2,567	2,966	3,387	3,728	4,012	4,268
Cable	4,060	4,064	4,078	4,099	4,108	4,104	4,120	4,146	4,178	4,175	4,161	4,162	4,181
<b>Total</b>	<b>32,419</b>	<b>32,336</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>31,524</b>	<b>31,466</b>	<b>31,464</b>	<b>31,291</b>
<b>Telephony Channels Net Adds (000s)</b>													
Incumbent retail	(405)	(469)	(423)	(530)	(615)	(582)	(549)	(532)	(425)	(492)	(477)	(429)	(358)
Incumbent wholesale (WLR)	138	187	224	246	324	325	166	(87)	(23)	8	92	142	(90)
ULL (total)	63	195	103	147	119	94	256	503	399	421	341	284	256
Cable	29	3	15	21	9	(4)	16	26	32	(3)	(14)	1	19
<b>Total</b>	<b>(175)</b>	<b>(84)</b>	<b>(82)</b>	<b>(116)</b>	<b>(163)</b>	<b>(167)</b>	<b>(111)</b>	<b>(90)</b>	<b>(17)</b>	<b>(66)</b>	<b>(58)</b>	<b>(2)</b>	<b>(173)</b>
<b>Pay TV Subscribers (000s)</b>													
BT IPTV	214	282	320	376	423	433	436	451	467	481	505	545	575
Sky	8,888	8,980	9,067	9,238	9,318	9,442	9,536	9,708	9,770	9,860	9,956	10,096	10,147
Virgin Media	3,466	3,490	3,527	3,572	3,602	3,623	3,660	3,694	3,730	3,752	3,767	3,779	3,789
<b>Total</b>	<b>12,568</b>	<b>12,752</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>Pay TV Subscribers Net Adds (000s)</b>													
BT IPTV	94	68	38	56	47	10	3	15	16	14	24	40	30
Sky	56	92	87	171	80	124	94	172	62	90	96	140	51
Virgin Media	37	24	37	45	30	20	37	34	36	22	15	12	10
<b>Total</b>	<b>187</b>	<b>184</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>

Source: Company reports and Citi Investment Research and Analysis

Other companies mentioned:

Virgin Media (VMED.O; US\$31.67; 1M)

SES (SESFd.PA; €19.09; 2M)

KDG (KD8Gn.DE; €42.61; 3M)

## Belgacom SA

**Catalyst and Thesis** — Handset subsidies in mobile and cable competition in fixed are likely to put Belgacom's earnings at risk over the medium term. The loss of TV rights for domestic football could lead to increased market share loss against cable. We believe that the investor day on 29 June is unlikely to be catalyst.

## Virgin Media

**Catalyst and Thesis** — Virgin is our top cable pick in Europe. We believe that the market has had time to absorb the slower growth expected for 2011 and that with growing consumer demand for high speed broadband and growth in Business at high marginal returns, higher multiples can be justified. 1Q11 results are 20 April.

## SES S.A.

**Catalyst and Thesis** — SES trades at a premium to the sector on 8.3x 11E EV/EBITDA, leaving little room for re-rating. With low visibility on the O3B investment and German analogue switch-off, we argue there are better opportunities elsewhere in the sector. Trading update on May 12 and Investor Day on May 24.

## Vodafone Group PLC

**Catalyst and Thesis** — We expect Vodafone to show strong dividend momentum as a fuller dividend from Verizon Wireless comes on stream. 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 Vodafone is gaining share.



## **Elisa Oyj**

### **Company description**

Elisa is the second-largest telecom operator in Finland, comprising the number two national mobile business, and a wireline unit which is the incumbent in the capital region. Elisa's portfolio of activities also comprises a mobile business in Estonia.

### **Investment strategy**

We rate Elisa Sell/Low Risk (3L) with a target price of €13.0. Elisa trades on a c.20% premium to the sector. We argue that this premium is unjustified due to operational risks. Over the last year strong growth in mobile has been offsetting declines in Fixed, however now competition is rising within the mobile market. We do not see any specific upcoming negative catalysts, however on valuation grounds we maintain a Sell

### **Valuation**

Our €13.0 target price on Elisa is based on a 40-year ROCE fade DCF model. We assume a 7.6% WACC and a 1.5% perpetuity growth.

### **Risks**

We rate Elisa Low Risk based on our assessment of industry and company-specific risk factors. Elisa has stable operations and macro environment. 95% of Elisa's value is from Finland. There is upside risk from higher capital returns and Elisa may become an M&A target.

## Tele2 AB

### Company description

Tele2 is a combination of mature mobile assets in Sweden (c.35% of value) and the Baltics (c.35% of the value); and a fast-growing Russian mobile business (c.30% of SOTP). It also has fixed line reseller businesses across Europe including Dutch fixed line (2% of value) and German fixed line (4% of value).

### Investment strategy

We rate Tele2 Hold/Medium Risk (2M). Growing confidence in Russian execution has driven share price outperformance YTD. Tele2 trades at a premium to its peers with growth accounted for in the share price. Risk on the downside remains on Russian NGN and Swedish Margins. This is set against continued strong execution in the regional roll-out in Russia.

### Valuation

Our SKr125 target price is based on a DCF valuation. We assume a 11.5% WACC and 1.0% perpetuity growth. We cross check this with a SOTP valuation with Russia on 6.6x 2011E EV/EBITDA, the other operations on 4.0-6.0x 2011E EV/EBITDA.

### Risks

We rate Tele2 as Medium Risk based on our assessment of industry and company-specific risk factors. Tele2 has a high exposure to Russia, 45% of our SOTP. Operational trends in Russia remain strong, however the lack of a data network may create longer term problems. An upside risk in Russia is a possible acquisition by Svyazinvest, which is looking to expand further into mobile.

## Telekom Austria

### Company description

Telekom Austria is Austria's leading provider of telephony, internet, data and multimedia communications, accounting for 65% of the group's value. The company also has mobile assets in Belarus (MDC), Bulgaria (MobilTel), Croatia (VIPnet), Slovenia (Si.Mobil) and Liechtenstein and start-up 3G licences in Serbia and Macedonia.

### Investment strategy

We rate Telekom Austria Hold/Medium Risk (2M). In the domestic units, mobile improvement is offsetting accelerated fixed revenue declines. In mobile, ARPU trend improvement and reduced SARCs represent signs of easing competition. But in fixed, while the shift to high end broadband has eased mobile broadband cannibalisation, price cuts are pressuring revenues. But uncertainty on emerging market economies (emerging markets 35% of TKA group value) and the impact on mobile operations is the key market concern. Despite this, we are broadly in-line with 2010 company guided EBITDA. With Telekom Austria trading at a 50% premium to the sector on 10E PE, valuation is not compelling enough to offset significant ongoing emerging market uncertainty in our view.

### Valuation

Our €10.2 target price is based on a SOTP fade DCF valuation model. We use a 40-year fade ROCE DCF for the individual business units. For domestic mobile, we assume ROCE/WACC convergence in 2030 on an 8% WACC. Our valuation is based on a combination of multiples backed by DCF valuation.

### Risks

We rate Telekom Austria as Medium Risk, based on a number of factors, including input from the CIRA quantitative research team. The biggest risk to the stock is the uncertainty surrounding the emerging market economies (35% of group value). With cheap finance and exports dwindling, TKA's emerging market economies are stalling. Bulgaria and Belarus continue to suffer from macro pressure into 2010 with no let up in competitive pressure from aggressive third players. Croatian roaming regulatory pain annualises in 2010 and data roaming regulation is a further risk. The length and extent of the economic problems and their impact on mobile telephony is far from certain. In Austria, on top of economic deterioration fixed to mobile substitution continues to be a net negative for Telekom Austria. Slowing overall telecom market growth and regulation (encouraging new fixed-line and mobile entrants) present further downside risk to financial forecasts. On the other hand, if the impact of these risk factors is less negative than we currently anticipate, then the share price could rise above our target price.

## 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.

### IMPORTANT DISCLOSURES

#### Elisa Oyj (ELI1V.HE)

##### Ratings and Target Price History Fundamental Research

Analyst: Laurie Fitzjohn-Sykes, CFA  
Covered since June 25 2010



Chart current as of 13 June 2011

	Date	Rating	Target Price	Closing Price
1	24-Oct-08	2M	*11.02	9.82
2	16-Oct-09	2M	*12.40	13.25
3	27-Nov-09	2M	*12.40	13.57

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	15-Feb-10	*3M	*12.28	14.52
5	23-Apr-10	3M	*12.07	14.70
6	14-Oct-10	*3L	12.07	16.73

	Date	Rating	Target Price	Closing Price
7	9-Dec-10	3L	*13.00	15.60

Rating/target price changes above reflect Eastern Standard Time

#### Elisa Oyj (ELI1V.HE)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Laurie Fitzjohn-Sykes, CFA  
Covered since June 25 2010

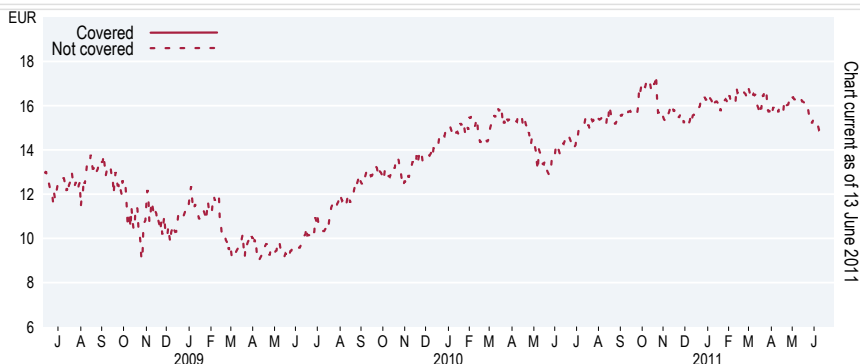


Chart current as of 13 June 2011

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

#### Tele2 AB (TEL2b.ST)

##### Ratings and Target Price History Fundamental Research

Analyst: Laurie Fitzjohn-Sykes, CFA  
Covered since December 10 2010



Chart current as of 13 June 2011

	Date	Rating	Target Price	Closing Price
1	5-Dec-08	1H	*90.00	61.00
2	22-Jul-09	1H	*105.00	90.10

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	2-Sep-09	1H	*110.00	94.00
4	30-Mar-10	*2H	*121.00	123.00

	Date	Rating	Target Price	Closing Price
5	21-Jul-10	2H	*133.00	126.60
6	14-Oct-10	*2M	*150.00	143.20

Rating/target price changes above reflect Eastern Standard Time

## Tele2 AB (TEL2b.ST)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Laurie Fitzjohn-Sykes, CFA

Covered since December 10 2010



## Telekom Austria (TELA.VI)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Georgios Ierodionou

Covered since December 10 2010



Date	Rating	Target Price	Closing Price
1 17-Jun-08	*1M	17.00	14.34
2 12-Nov-08	1M	*14.00	10.40

Date	Rating	Target Price	Closing Price
3 14-Apr-09	*2H	*12.00	11.81
4 9-Dec-09	2H	*10.50	9.85

Date	Rating	Target Price	Closing Price
5 14-Oct-10	*2M	10.50	10.87

## Telekom Austria (TELA.VI)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Georgios Ierodionou

Covered since December 10 2010



Citigroup Global Markets Limited was mandated by Vimpelcom Ltd to act as financial advisor to and to provide a Fairness Opinion to the Supervisory Board of Vimpelcom Ltd. on its recent acquisition of Wind Telecom S.p.A. Telenor is a majority shareholder in Vimpelcom. Citi was therefore unable to provide any opinion, rating or target price on Telenor ASA from the period 17 January 2011 to 6 May 2011.

BEST IDEAS UNIVERSE: The best ideas universe from which Vodafone Group PLC (covered by Simon Weeden), Belgacom SA (covered by Dimitri Y Kallianiotis, CFA), France Telecom (covered by Dimitri Y Kallianiotis, CFA), Swisscom AG (covered by Georgios Ierodionou) were chosen comprises: BT Group PLC (BT.L, £2.0), Vodafone Group PLC (VOD.L, £1.61), Deutsche Telekom AG (DTEGn.DE, €10.57), Cable and Wireless Communications Plc (CWC.L, US\$0.39), Cable & Wireless Worldwide PLC (CWPL.L, £0.5), Tele2 AB (TEL2b.ST, SKr119.6), SES S.A. (SESFd.PA, €19.09), Belgacom SA (BCOM.BR, €24.36), Telefonica SA (TEF.MC, €16.34), Freenet (FNTGn.DE, €9.36), Kabel Deutschland (KD8Gn.DE, €42.61), Eutelsat Communications (ETL.PA, €30.8), Telecom Italia SpA (TLIT.MI, €0.95), Forthnet S.A (FORr.AT, €0.33), TeliaSonera AB (TLSN.ST, SKr46.94), France Telecom (FTE.PA, €14.59), Portugal Telecom (PTC.LS, €7.13), KPN NV (KPN.AS, €10.13), OTE (OTEr.AT, €6.2), Elisa Oyj (ELI1V.HE, €14.67), Inmarsat plc (ISA.L, US\$5.94), United Internet AG (UTDI.DE, €13.75), Mobistar SA (MSTAR.BR, €52.2), Telekom Austria (TELA.VI, €8.81), Swisscom AG (SCMN.VX, SFr390.5), Telecom Italia SpA (TLITn.MI, €0.84), Telenet Group Holding NV (TNET.BR, €31.31), Telenor ASA (TEL.OL, Nkr86.7), Bouygues SA (BOUY.PA, €31.04), Zon (ZON.LS, €3.49), TalkTalk Telecom Group PLC (TALK.L, £1.49), Virgin Media (VMED.O, £31.4), Virgin Media (VMED.L, £19.44), Sonaecom (SNC.LS, €1.52). All prices as of 14 Jun 2011.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of France Telecom. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Belgacom SA, Deutsche Telekom AG, France Telecom, Kabel Deutschland, KPN NV, Portugal Telecom, Telefonica SA, Telenor ASA, TeliaSonera AB, Verizon Communications Inc.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Belgacom SA, BT Group PLC, Deutsche Telekom AG, France Telecom, KPN NV, Mobistar SA, Portugal Telecom, Swisscom AG, Telefonica SA, Telenor ASA, TeliaSonera AB, Virgin Media, Vodafone Group PLC, Verizon Communications Inc.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from BT Group PLC, France Telecom, Mobistar SA, OTE, Telefonica SA, Telekom Austria, Telecom Italia SpA.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Belgacom SA, Bouygues SA, BT Group PLC, Deutsche Telekom AG, France Telecom, Kabel Deutschland, KPN NV, Mobistar SA, OTE, Portugal Telecom, Swisscom AG, Telefonica SA, Telenor ASA, Tele2 AB, Telekom Austria, Telecom Italia SpA, TeliaSonera AB, Vivendi, Virgin Media, Vodafone Group PLC, Verizon Communications Inc in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Verizon Communications Inc, Belgacom SA, BT Group PLC, Deutsche Telekom AG, France Telecom, KPN NV, Mobistar SA, OTE, Portugal Telecom, Swisscom AG, Telefonica SA, Telenor ASA, Telekom Austria, Telecom Italia SpA, TeliaSonera AB, Virgin Media, Vodafone Group PLC.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Belgacom SA, Bouygues SA, BT Group PLC, Deutsche Telekom AG, France Telecom, Kabel Deutschland, KPN NV, Mobistar SA, OTE, Portugal Telecom, Swisscom AG, SES S.A., Telefonica SA, Telenor ASA, Tele2 AB, Telekom Austria, Telecom Italia SpA, TeliaSonera AB, Vivendi, Virgin Media, Vodafone Group PLC, Verizon Communications Inc.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Belgacom SA, Bouygues SA, BT Group PLC, Deutsche Telekom AG, France Telecom, Kabel Deutschland, KPN NV, Mobistar SA, OTE, Portugal Telecom, Swisscom AG, Telefonica SA, Telenor ASA, Tele2 AB, Telekom Austria, Telecom Italia SpA, TeliaSonera AB, Vivendi, Virgin Media, Vodafone Group PLC, Verizon Communications Inc.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

The Firm is a market maker in the publicly traded equity securities of Deutsche Telekom AG, KPN NV, OTE, Swisscom AG, Telenor ASA, Telekom Austria, Virgin Media, Vodafone Group PLC.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at [www.citigroupgeo.com](http://www.citigroupgeo.com). Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

#### Citi Investment Research & Analysis Ratings Distribution

##### Data current as of 31 Mar 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	9%	82%	9%
% of companies in each rating category that are investment banking clients	43%	41%	41%	51%	41%	45%

#### Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include a risk rating and an investment rating.

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

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

Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" will be monitored daily by management. As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis.

To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

**Relative three-month ratings:** CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the analyst's coverage universe over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in his coverage universe, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.



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

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

---

#### **NON-US RESEARCH ANALYST DISCLOSURES**

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Simon Weeden; Laurie Fitzjohn-Sykes, CFA; Georgios Ierodiconou; Dimitri Y Kallianiotis, CFA; Tania Valiente; Thomas A Singlehurst, CFA
Citigroup Global Markets India Private Limited	Gaurav Malhotra, CFA
Citigroup Global Markets Inc	Michael Rollins, CFA

---

#### **OTHER DISCLOSURES**

The subject company's share price set out on the front page of this Product is quoted as at 14 June 2011 01:29 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Belgacom SA, Bouygues SA, Deutsche Telekom AG, France Telecom, KPN NV, Portugal Telecom, Swisscom AG, Telefonica SA, Telenor ASA, Telecom Italia SpA, TeliaSonera AB, Vivendi, Virgin Media, Vodafone Group PLC, Verizon Communications Inc. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at [www.citigroupgeo.com](http://www.citigroupgeo.com).)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Citigroup Global Markets Inc. or its affiliates acts as a corporate broker to Deutsche Telekom AG, Vodafone Group PLC.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

**Important Disclosures for Morgan Stanley Smith Barney LLC Customers:** Morgan Stanley & Co. Incorporated (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use [smithbarney.com](http://smithbarney.com) to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney

LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at [www.morganstanleysmithbarney.com/researchdisclosures](http://www.morganstanleysmithbarney.com/researchdisclosures). The required disclosures provided by Morgan Stanley and Citigroup Global Markets, Inc. on Morgan Stanley and CIRA research relate in part to the separate businesses of Citigroup Global Markets, Inc. and Morgan Stanley that now form Morgan Stanley Smith Barney LLC, rather than to Morgan Stanley Smith Barney LLC in its entirety. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures) and [https://www.citigroupgeo.com/geopublic/Disclosures/index\\_a.html](https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html).

This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in Chile through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Israel through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by Nikko Cordial Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the Philippines through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private

Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Taiwan Securities Company Ltd., which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan. If the Product is related to non-Taiwan listed securities, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangkok, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at [www.citigroupgeo.com](http://www.citigroupgeo.com).

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual analysts may also opt to circulate research to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels.

---

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

---

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

---