

European Telecommunication Services

‘Wholesale Salvation’

Retail-wholesale separation offers upside

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SECTOR STANCE: MARKET UNDERWEIGHT AUGUST 18, 2006

Telecommunication Services

Wholesale Salvation

- **STRUCTURAL SEPARATION WILL HAPPEN, IS POSITIVE.** The separation of wireline incumbents' 'last mile' (e.g. BT's Openreach) is widely regarded as another regulatory burden. On the contrary, we believe it delivers significant benefits; firstly, relief on retail asset regulation, secondly, encouraging the market to re-rate the 'last mile' assets to a higher utility multiple, and thirdly, significant release of capital.
- **EXPOSING INTRINSIC VALUE.** A utility re-rating of Openreach (1.25x assets) would increase our BT price target by 18%. By identifying the implied retail-only margins (18-32%), some (TI, TEF, KPN) appear vulnerable. Further, by separating the retail-only and "Openreach" valuations we identify a maximum 5% downside risk to true intrinsic value. Finally, significant release of capital (€123 billion) across Europe could increase leverage/returns.
- **SPECIFIC OPPORTUNITIES, BUT SECTOR RISKS CONTINUE.** In summary, we believe where retail performance is weak, the market applies a discount to the entire fixed unit. However, our research highlights the residual utility/"Openreach" valuation and that implied upside is highest at BT, OTE and TeliaSonera. With broader market risks still prevalent, our top group picks remain BT Group, Telefonica, Telenor and KPN – all rated Outperform.

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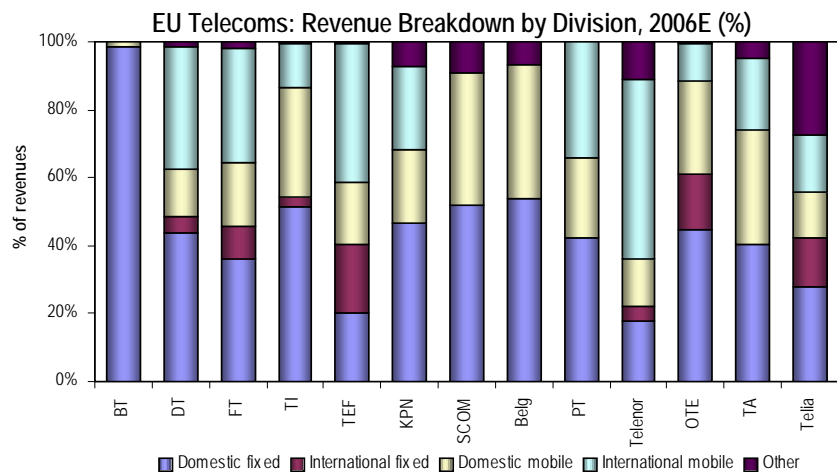
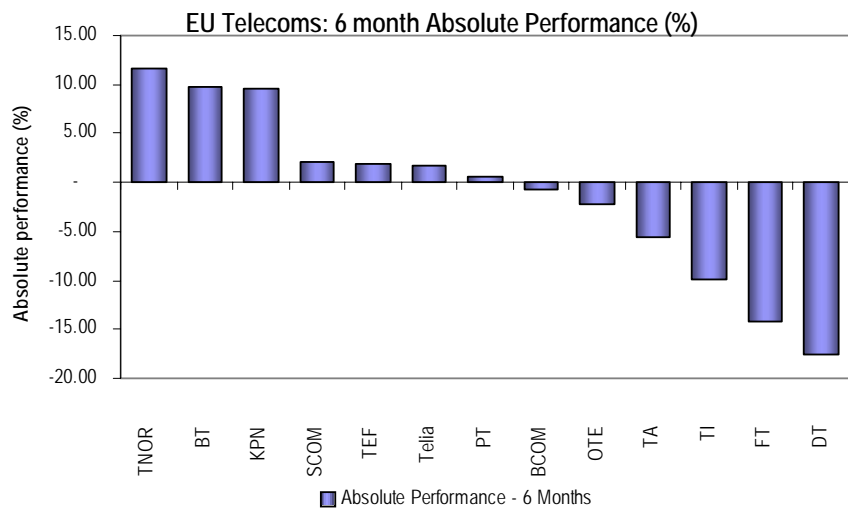
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1. **Wireline continues to depress group earnings**
2. **Structural separation – upside to valuations?**
3. **Utility comparisons: gas...water...telecoms?**
4. **Applying Openreach across Europe**
5. **Selling Openreach**
6. **Identifying the intrinsic value within 'retail'**



1. Wireline continues to depress group earnings



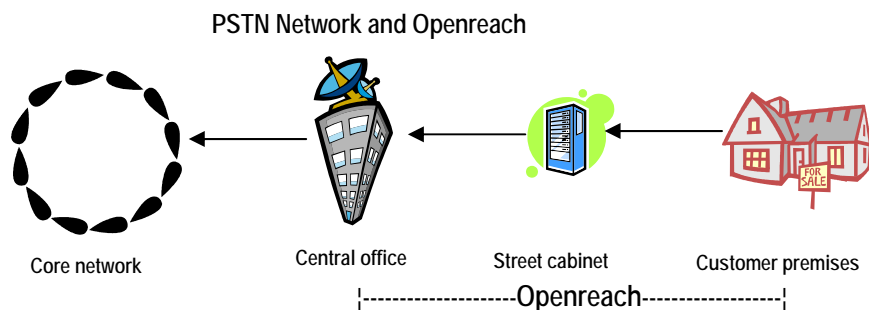
- **European incumbents under increasing pressure**
 - Competition continues unabated, while regulatory relief is slow
 - Broadband penetration starting to mature – less scope to offset traditional declines
 - IPTV will help slow line losses, but unlikely to be panacea

- **Mobile growth stunted as termination rate cuts continue**
 - Ongoing rate cuts expected – Dutch regulator has set the EU floor
 - International roaming regulation set to negatively impact profitability
 - Market penetration >100% limits absolute upside

- **Maintaining Underweight sector stance**
 - DT/FT/Swisscom 2Q profit warnings appear to validate position
 - Recovery in margins is likely to be cost driven, growth via M&A
 - No sign of positive earnings momentum in the medium term



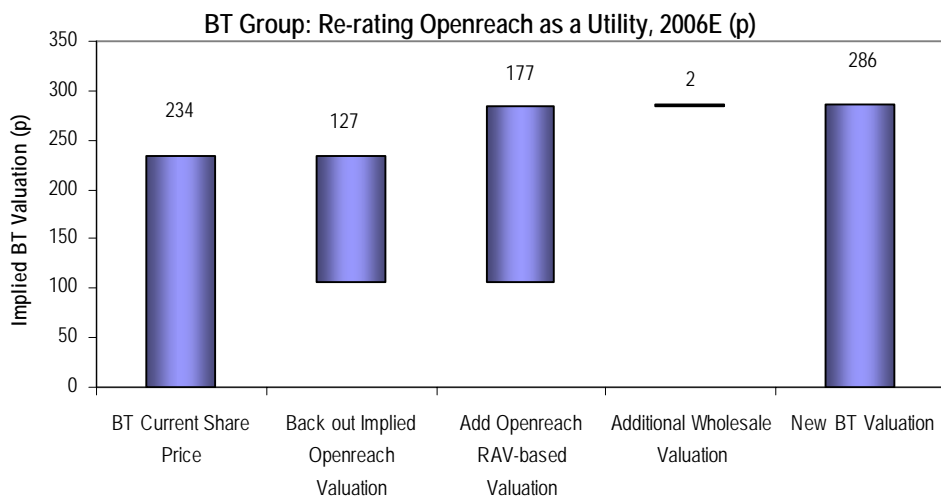
2. Structural separation - upside to valuations?



- **Structural separation – what is it?**
 - Distance between local exchange and customer premises
 - Equal access for all players to last-mile copper network
 - Separating last-mile from remaining businesses – accounting or operationally

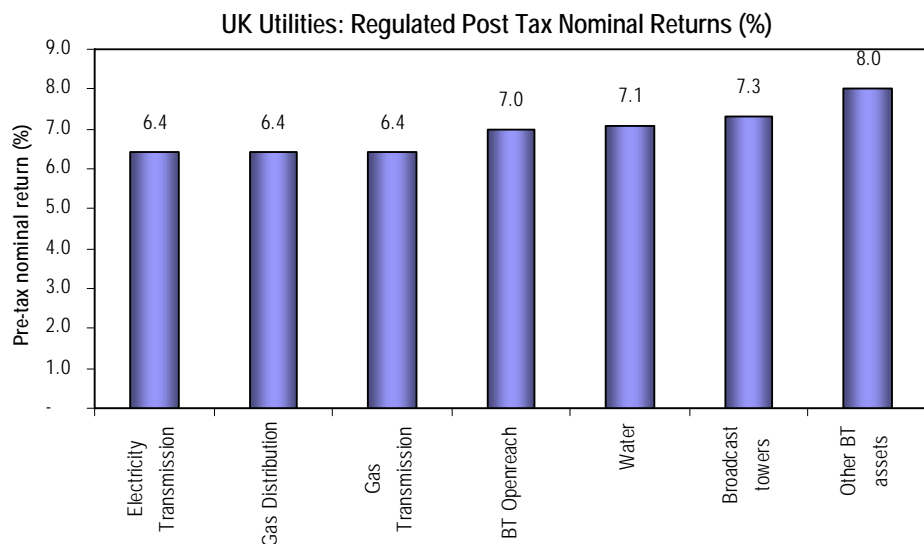
- **BT Group and Ofcom precedent – EU likely to follow**
 - Establishment of Openreach a key outcome of The Strategic Review
 - EU Commissioner Vivian Reding has highlighted the need for further investigation
 - Other examples adopting/likely to adopt include TI, eircom, Telstra, Telecom NZ and potentially Portugal Telecom

- **Utility re-rating opportunity**
 - Via leverage, regulated assets should be valued in excess of assets
 - Regulated assets value (RAV) – definition critical to returns
 - BT’s Openreach offers ca. 20% upside from utility-like valuation





3. Utility comparisons: water, electricity, gas...telecoms?



- **Monopoly industries**
 - Parallels in water, gas, electricity and broadcast transmission networks
 - Returns consider gearing, inflation and tax assumptions

- **Regulated asset values, regulated returns**
 - Price cap mechanism is determined by regulated returns and assets
 - Monopoly assets independently valued, outside IFRS/GAAP
 - Allowable returns set at 5 year intervals, embedded cost saving incentives add further upside

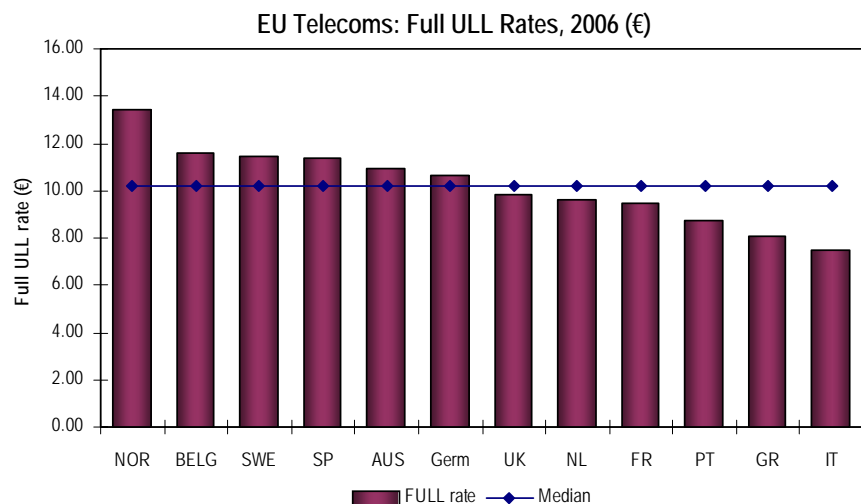
EU Telecoms: Utility Comparisons, 2006-07E

	Market Cap	Net Debt	Enterprise Value	Net Debt / EBITDA 2006E	EV/EBITDA 2006E	EV/EBITDA 2007E	Price/Earnings 2006E	Price/Earnings 2007E
AWG	1,808	3,318	5,126	6.3	9.8	10.0	19.3	20.4
Kelda	3,174	1,841	5,015	4.1	11.1	10.2	18.3	17.5
Northumbrian	1,381	1,919	3,300	6.4	10.9	10.2	16.1	14.4
Pennon	1,687	1,156	2,843	4.7	11.5	10.7	17.9	18.7
Severn Trent	4,566	2,996	7,562	3.5	8.9	8.5	25.9	22.3
United Utilities	5,902	3,854	9,756	3.7	9.3	8.6	18.8	13.3
National Grid	22,793	16,333	39,126	3.6	8.6	8.2	11.5	11.4

Source: Company data; Thomson First Call Consensus Estimates.

- **Utilities trade at a premium to telecoms**
 - Stable, predictable returns
 - Pension contributions/deficit funding and capital investment are recoverable
 - Gearing potential increases upside

4. Applying Openreach across Europe



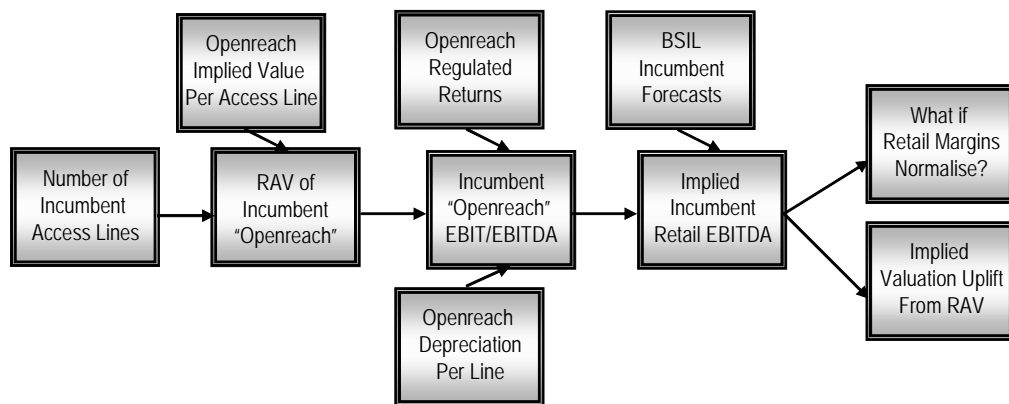
■ **ULL access and rates underpin methodology**

- Monopoly on last mile network exists across European incumbents
- Obligation to provide ULL access backs up conclusion
- European incumbents face the same operating risks – similar FULL rates across operators supports assertion

■ **Methodology**

- Regulated assets per lines deployed, not those just in service
- 10% regulated return on each incumbents' regulated assets value
- Using Openreach data points to imply 'European Openreach'

EU Telecoms: Creating European Openreach

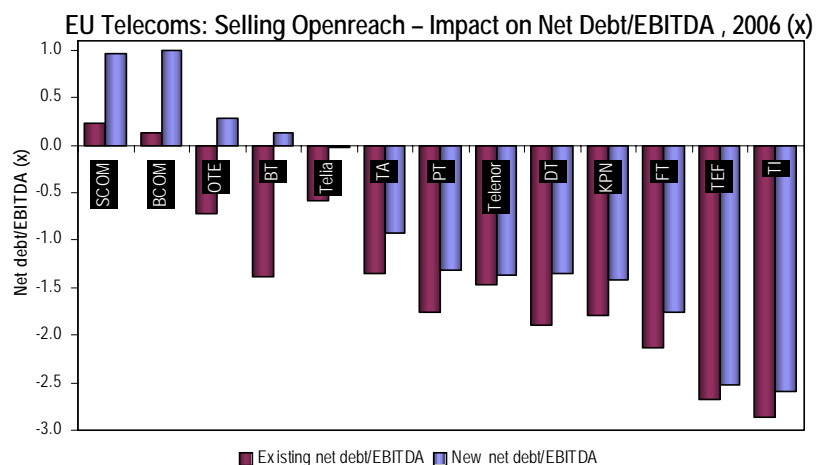


■ **Significance to group**

- Accounts for greater % of valuation than EBITDA across all incumbents due to monopolistic characteristics
- Greatest exposure at less diversified operators – BT, OTE and BCOM



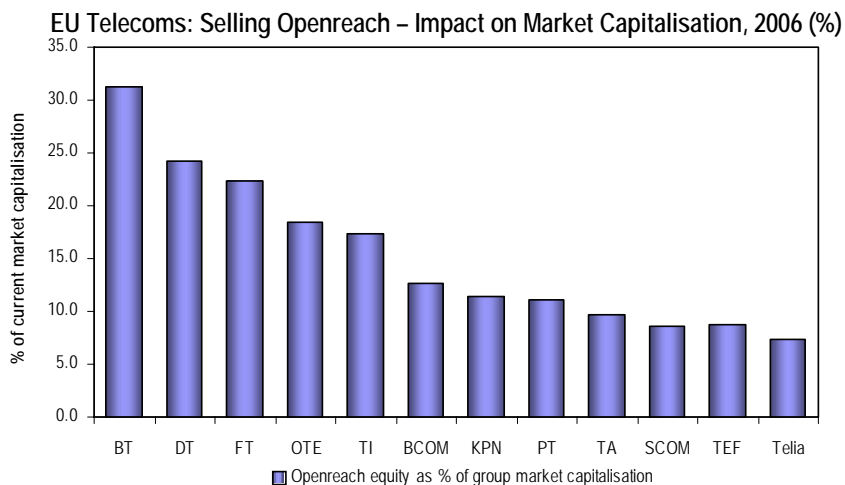
5. Selling Openreach



- **Sale/spin-off or securitisation**
 - Could unlock considerable value
 - Operational separation is the first step to full deconsolidation
 - Infrastructure investors/private equity interest likely, given stable cashflow, regulated returns and gearing capacity

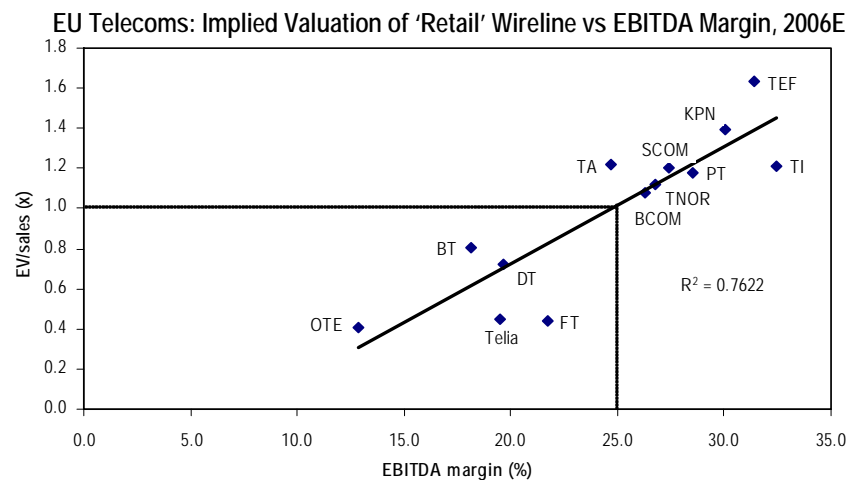
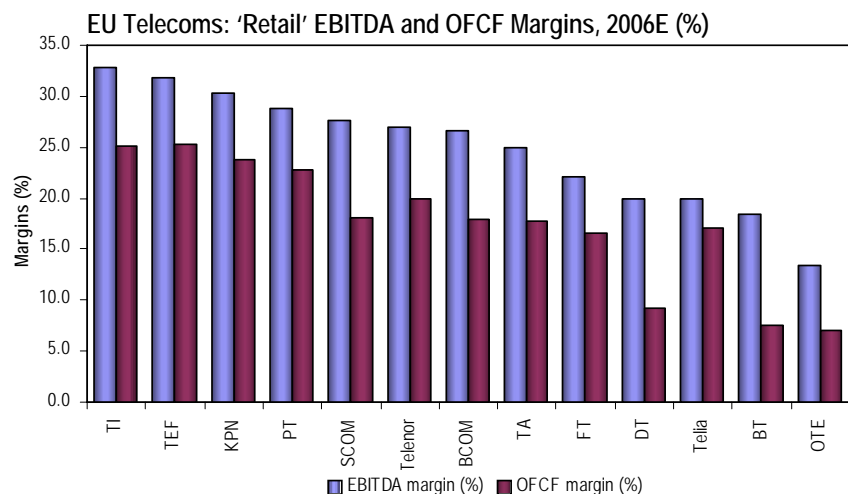
- **Assumptions**
 - Sold at 1.25x regulated asset value (RAV)
 - Openreach geared to 70% of RAV, in line with other utilities

- **Benefits offered**
 - Releases €123bn of capital across the sector (€54bn equity, €69bn debt) to fund growth or boost shareholder returns
 - Lighter touch regulation for remaining retail business
 - Valuation and gearing multiples improve





6. Identifying the intrinsic value within 'retail'



Methodology

- With Openreach established, we imply the remaining wireline operations
- Monopoly assets relatively alike, implied 'retail' units differ considerably
- Exposure to group also varies, dependent on level of diversification

Implied retail margins – who's at risk

- We consider a scenario where retail EBITDA margins normalise at 25%
- Impact on EBITDA varies considerably across Europe
- Southern EU operators (TEF, TI, PT) most exposed, KPN also at risk

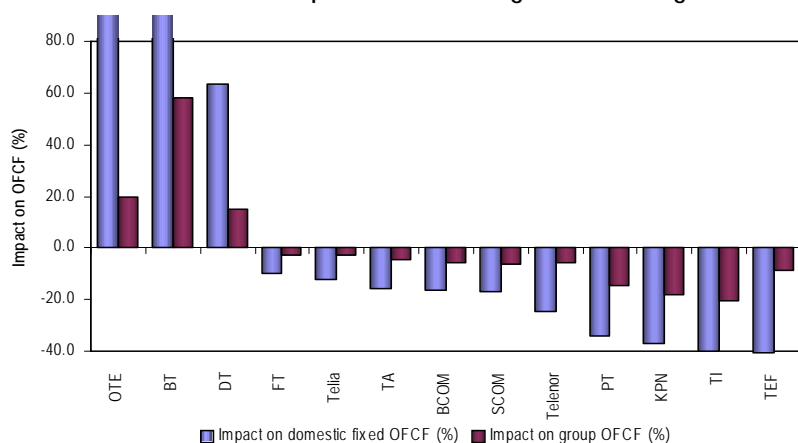
Implied retail units – what are they worth?

- Diverse set of implied valuations across Europe
- Data set suggests 25% EBITDA margins, EV/sales should be 1.0x
- In addition to Openreach re-rating as a utility, upside exists at OTE, BT, DT, FT and Telia from retail operations trading towards 1.0x EV/sales



6b. Identifying the intrinsic value within 'retail' (cont'd)

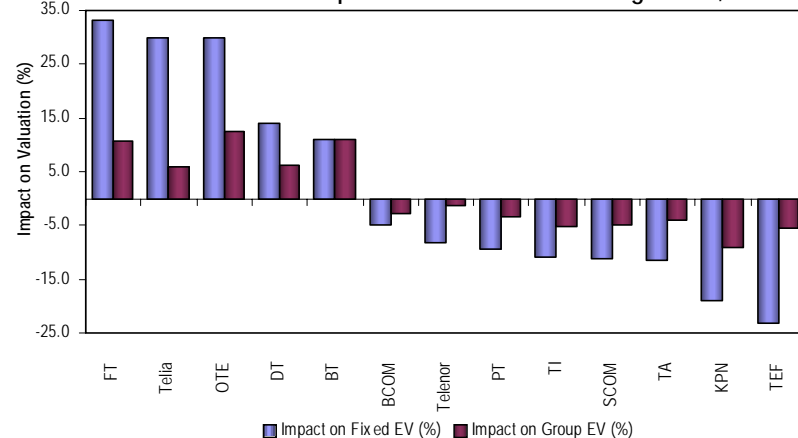
EU Telecoms: OFCF Impact on 'Retail' Margins Normalising at 15%



■ Margins at risk

- We flex scenario where EBITDA and OFCF margins normalise to 25% and 15% respectively
- OTE, BT and DT margins already depressed and hence benefit from normalising margins
- Most incumbents indicate modest downside, but at group level <20%

EU Telecoms: Valuation Impact on EV/Sales Normalising at 1.0x, 2006E (%)



■ Valuation at risk

- We consider a scenario where valuation of retail division ex-Openreach normalises to 1.0x EV/sales
- FT, Telia and OTE standout performers, given already low valuations
- TEF, KPN and TA at risk, given higher margins and higher valuations

Stock Implications (1)

■ Reiterate Outperform on KPN

- Retail margins and valuation high vs peers – indicates efficiency of retail operations despite cable threat
- Q3 results: Another strong quarter led by E-Plus and KPN mobile NL, wireline losses continue
- Investment thesis: Strong capital discipline: in-market consolidator (domestic mobile, domestic broadband), €1bn buyback in 2006

■ Reiterate Outperform on Telenor

- Openreach is 5.2% of group valuation, Retail margins have mid-range exposure
- Q3 results: Rebound in Nordic mobile continues, guidance upgraded, Norwegian fixed weak
- Investment thesis: Strong emerging growth, Nordic mobile rebound strong, offsetting ongoing domestic fixed declines

■ Reiterate Outperform on Belgacom

- Heavy investment in fibre is likely to increase regulated returns
- Q3 results: Results ahead of expectation, mobile guidance increased
- Investment thesis: Valuation remains attractive, early adopter of VDSL

■ Reiterate Outperform recommendation on TI

- September 11 2006: TI announces it is adopting structural separation
- Q3 results: Worst of termination rate cuts now over for TIM Italy, growth coming from outside Italy, deregulation of directories hurting fixed
- Increasing clarity on strategy, dividend yield remains attractive ('06E Ords: 6.1%, Savers: 7.8%)

Stock Implications (2)

- **Reiterate Outperform on TA**
 - Broadly in line with sector – risks neutral
 - Q3 results: Strong results reported, led by domestic operations, net income and dividend guidance raised
 - Investment thesis: Low gearing, EMEA exposure, shares driven by capital redistribution, potential take-over candidate

- **Reiterate Outperform on PT**
 - Defence document and acquirer looking at Openreach separation and spin-off
 - Q3 results: Better than expected results, led by Vivo margin rebound, raising pressure on Sonaecom to raise bid
 - Investment thesis: Sonaecom bid too low, will have to raise it or shareholders are likely to back PT management's own plan

- **Reiterate Peer Perform on Telefonica**
 - Retail margins at risk but in longer term, concerns offset by diverse asset base and benign regulatory risk
 - Q3 results: Diversification demonstrated in strong group results
 - Investment thesis: Highly geared to operational underperformance in Spanish mobile should competitive intensity increase, M&A risk limited

- **Reiterate Peer Perform on BT Group**
 - Most exposed to upside given no mobile assets, Ofcom also leading regulatory body on structural separation
 - Q2 results: Continuing momentum with underlying EBITDA increasing for the third quarter running
 - Investment thesis: Downgraded to Peer Perform as structural separation benefits now broadly reflected in price, ULL threat remains

Stock Implications (3)

- **Maintain Peer Perform recommendation on FT**
 - Positively exposed due to low valuation of group, could provide catalyst to re-rate in line with sector
 - Q3 results: Revenues slightly ahead, underlying EBITDA fell by 3.5% however cashflow guidance reiterated €6.8bn, FULL threat looms
 - Investment thesis: Valuation remains attractive however as earnings downgrades continue

- **Maintain Peer Perform recommendation on TeliaSonera**
 - Low margins on retail indicates upside, although impact at group level limited
 - Q3 results: Dividends increase materially, cost cutting initiatives led to robust margins in Sweden/Finland
 - Investment thesis: Emerging market exposure, but lacks growth profile to compensate for the additional risk, Spanish mobile concerns

- **Maintain Peer Perform recommendation on OTE**
 - Beneficiary under structural separation, largely on account of low retail margins
 - Q3 results: Reported November 29
 - Investment thesis: Domestic wireline relatively benign with broadband growth continuing to support earnings, mobile risk at Cosmote



Stock Implications (4)

- **Retain Underperform stance on DT**
 - Large capital expenditure in fibre offers investment upside
 - Q3 results: Domestic operations continuing to suffer from termination and competition, UK margins rebound
 - Numbers still at risk, running the business on cashflow generation and likely to under-invest going forward in order to meet targets

- **Retain Underperform stance on Swisscom**
 - No ULL in Switzerland, making Openreach more valuable
 - Q3 results: Moderately ahead of expectations with fixed still benign and mobile still taking share
 - Stock remains expensive vs sector peers, regulatory threat accelerating (ULL, interconnect rates) and competition increasing

European Telecoms: Capitalisation

European Telecoms: Capitalisation

						(a)			(b)	(c)	(a)+(b)-(c)		Net	Dividend	
	Rating	Currency	Price (Local)	Price Target (Local)	Fully Diluted Shares (mn)	Mkt Cap. (Local mn)	Free Float (%)	Free- Float (Local mn)	EOY Net Debt (Local mn)	EOY Other (Local mn)	Enterprise Valuation (Local mn)	Debt/EBITDA	'05	'06	
													(%)	(%)	
Integrated															
Belgacom	O	Euro	32.71	34.96	340	11,135	44.7	4,978	(268)	(2,427)	13,295	-0.2	-0.1	4.6	4.8
BT Group ¹	P	Sterling	2.92	NA	8,328	24,319	100.0	24,319	7,416	(764)	32,500	1.4	1.3	4.1	4.7
Deutsche Telekom	U	Euro	13.37	NA	4,260	56,956	67.5	38,445	38,479	(3,659)	99,094	1.9	2.0	5.4	5.7
France Telecom	P	Euro	19.6	NA	2,603	51,020	65.1	33,214	37,562	(15,677)	104,259	2.7	2.2	5.1	6.1
KPN	O	Euro	10.49	12.50	2,036	21,359	100.0	21,359	9,707	(63)	31,130	1.9	1.9	4.3	5.0
Telecom Italia (Blended) ¹	O	Euro		2.71		41,680	100.0	41,680	33,931	(3,640)	79,251	3.2	2.8	6.7	7.0
Telefonica	P	Euro	15.87	NA	4,784	75,924	100.0	75,924	51,882	(8,977)	136,783	2.0	2.6	3.2	3.8
Portugal Telecom	O	Euro	9.76	10.5	1,129	11,018	100.0	11,018	4,090	(2,888)	17,996	1.5	1.8	4.9	5.0
OTE	P	Euro	21.9	NA	491	10,746	61.5	6,609	2,112	(3,669)	16,528	1.8	1.3	0.0	2.1
Telekom Austria	O	Euro	20.42	25.5	466	9,516	69.7	6,633	3,240	0	12,756	1.8	1.6	2.7	3.8
Telenor	O	NOK	117.25	126	1,712	200,713	47.0	94,335	34,963	(15,794)	251,470	1.3	1.3	1.7	2.6
TeliaSonera	P	SEK	52.75	NA	4,490	236,872	39.3	93,091	20,577	23,763	233,686	0.3	0.6	2.4	3.2
Swisscom	U	CHF	442.5	NA	52	22,922	37.3	8,550	334	(4,359)	27,614	-0.4	0.1	3.6	3.8
Integrated Average												1.8	1.6	4.1	4.7
Wireless															
Vodafone	U	Sterling	1.3825	NA	52,658	72,800	100.0	72,800	24,234	987	96,047	1.5	1.8	4.4	4.6
Mobistar	U	Euro	63.35	NA	63	3,980	49.4	1,966	(183)	81	3,716	-0.1	-0.2	6.3	5.5
Cosmote	O	Euro	21.70	23.8	334	7,241	41.2	2,983	2,232	0	9,474	1.3	2.6	3.0	3.5
Wireless Average												1.3	1.8	4.4	4.6
Other															
Carphone Warehouse	O	Sterling	2.93	4.44	883	2,588	37.2	963	581	0	3,170	1.2	2.1	0.9	0.9
Bouygues	O	Euro	46.79	50.60	337	15,757	74.2	11,692	3,312	(3,671)	22,741	0.7	0.9	1.9	2.6
Cable & Wireless	O	Sterling	1.60	1.77	2,307	3,680	100.0	3,680	72	(119)	3,871	-0.8	-0.1	2.8	3.4
Other Average												0.4	1.0	1.9	2.3
Telecom Average												1.4	1.6	3.6	3.8

¹ TI Ords €2.245 Savers €1.936

Priced at Market Close 08 December 2006

Source: Bear, Stearns International Limited estimates.

European Telecom: Valuation

European Telecom: Valuation

	Currency	P/E Multiple			Equity/FCF Multiple			EV/Operating FCF Multiple			EV/EBITDA Multiple		
		2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Integrated													
Belgacom	Euro	13.6	14.1	14.1	13.0	16.2	16.8	9.0	9.5	9.3	6.3	6.5	6.5
BT Group	Sterling	13.0	12.8	12.1	18.5	17.6	14.7	13.1	12.3	11.8	5.8	5.7	5.7
Deutsche Telekom	Euro	14.5	16.0	15.1	27.7	11.0	11.7	11.9	9.0	9.2	5.2	5.3	5.2
France Telecom	Euro	11.2	12.2	12.1	7.4	7.6	7.2	8.9	9.1	9.0	5.6	5.6	5.6
KPN	Euro	13.8	13.8	13.0	8.6	10.4	14.1	9.9	10.9	11.0	6.4	6.4	6.4
Telecom Italia (Blended)	Euro	13.9	13.3	12.0	8.0	7.2	8.3	9.8	8.9	8.6	6.1	5.9	5.9
Telefonica	Euro	16.0	13.9	11.0	12.0	10.8	8.9	10.9	9.9	8.8	7.0	6.6	6.2
Portugal Telecom	Euro	17.1	19.1	19.6	38.7	34.6	20.8	13.5	12.4	11.7	7.9	7.6	7.5
OTE	Euro	23.8	18.1	15.9	25.1	15.6	11.6	14.4	11.6	9.7	7.5	6.9	6.4
Telecom Austria	Euro	17.2	17.9	14.8	9.1	12.3	10.9	10.1	11.9	10.9	6.6	6.9	6.6
Telenor	NOK	18.7	15.2	12.8	20.4	16.6	12.2	16.7	11.9	9.7	7.4	6.7	6.1
TeliaSonera	SEK	14.3	14.1	13.7	15.7	15.2	12.8	12.9	12.5	11.5	7.5	7.1	6.9
Swisscom	CHF	15.2	13.9	14.0	15.7	16.4	15.4	11.4	10.9	11.3	7.4	7.0	7.1
Integrated Average		14.5	14.1	13.7	15.7	15.2	12.2	11.4	10.9	9.7	6.6	6.6	6.4
Wireless													
Vodafone (Consol)	Sterling	14.0	13.8	13.1	19.1	30.3	14.2	12.7	12.2	11.6	8.1	8.2	8.0
Vodafone (Prop)	Sterling	14.0	13.8	13.1	19.1	30.3	14.2	8.9	8.5	8.1	5.7	5.7	5.6
Mobistar	Euro	13.6	14.2	14.3	13.4	13.8	14.1	8.3	9.1	9.3	6.1	6.4	6.5
Cosmote (Consol)	Euro	21.2	16.2	13.2	NM	19.9	13.2	24.6	15.5	12.1	10.8	9.0	8.0
Cosmote (Prop)	Euro	21.2	16.2	13.2	NM	19.9	13.2	26.4	17.3	13.6	11.3	10.0	9.0
Wireless Average Proportionate		14.0	14.2	13.2	16.3	19.9	14.1	8.9	9.1	9.3	6.1	6.4	6.5
Wireless Average Consolidated		14.0	14.2	13.2	16.3	19.9	14.1	8.9	9.1	9.3	6.1	6.4	6.5
Other													
Carphone Warehouse	Sterling	27.4	11.8	9.4	NM	20.9	12.2	28.1	9.0	7.8	11.3	6.4	5.7
Bouygues	Euro	13.7	12.6	11.8	NM	12.9	12.2	10.1	8.6	8.4	6.5	5.7	5.6
Cable & Wireless	Sterling	37.0	18.8	13.8	NM	126.3	26.5	NM	16.3	11.3	8.4	6.2	5.3
Other Average		26.0	14.4	11.7	NM	53.4	17.0	19.1	11.3	9.2	8.7	6.1	5.5
Telecom Average		14.5	14.1	13.2	15.7	15.6	12.8	11.1	10.9	9.7	6.6	6.4	6.2

Source: Bear, Stearns International Limited estimates.

Fiscal Benefits – Impact on Multiples

Adjusted FCF Multiple Comparison, 2005-09E

	2005	2006	2007	2008	2009
Belgacom	13.2	15.0	16.0	15.1	14.9
BT Group	16.8	20.0	18.9	15.2	15.8
Deutsche Telekom	12.6	25.5	13.0	13.1	10.1
France Telecom	8.1	8.6	8.7	8.2	8.1
KPN	18.0	13.6	14.4	12.5	11.6
Telecom Italia (Blended)	11.3	9.6	9.0	8.5	8.6
Telefonica	14.5	22.7	12.2	10.2	9.6
Portugal Telecom	34.2	48.3	30.7	20.4	18.9
OTE	29.5	21.1	15.0	11.6	10.0
Telekom Austria	10.7	10.8	13.2	11.9	9.9
Telenor	29.8	23.0	15.7	12.1	10.8
TeliaSonera	19.0	18.6	17.5	15.0	13.5
Swisscom	11.8	15.1	15.3	14.8	14.0
Mean	17.6	19.4	15.3	12.9	12.0
Median	14.5	18.6	15.0	12.5	10.8
Vodafone	9.8	12.4	11.3	10.5	10.1
Mobistar	13.5	13.8	14.2	14.4	13.9
Cosmote	NM	NM	19.4	14.5	12.1
Mean	11.6	13.1	14.9	13.2	12.0
Median	11.6	13.1	14.2	14.4	12.1
Carphone Warehouse	NM	NM	22.2	13.6	10.1
Bouygues	19.9	NM	13.5	12.7	11.8
Cable & Wireless	NM	NM	49.2	23.6	15.4
Mean	19.9	NM	28.3	16.6	12.4
Median	19.9	NM	22.2	13.6	11.8
Sector Mean	17.0	18.5	17.3	13.6	12.1
Sector Median	14.0	15.1	15.0	13.1	11.6

Source: Bear, Stearns International Limited estimates.

Reported FCF Multiple Comparison, 2005-09E

	2005	2006	2007	2008	2009
Belgacom	11.2	13.0	16.2	16.8	16.5
BT Group	14.7	18.5	17.6	14.7	15.8
Deutsche Telekom	9.9	27.7	11.0	11.7	9.2
France Telecom	6.9	7.4	7.6	7.2	7.2
KPN	8.8	8.6	10.4	14.1	13.7
Telecom Italia (Blended)	8.8	8.0	7.2	8.3	9.0
Telefonica	12.2	17.6	10.8	8.9	8.9
Portugal Telecom	27.2	38.7	34.6	20.8	21.2
OTE	21.7	25.1	15.6	11.6	9.8
Telekom Austria	9.1	9.1	12.3	10.9	9.0
Telenor	25.1	20.4	16.6	12.2	10.8
TeliaSonera	15.8	15.7	15.2	12.8	11.6
Swisscom	16.4	16.4	16.4	16.4	-
Mean	14.5	17.4	14.7	12.8	11.0
Median	12.2	16.4	15.2	12.2	9.8
Vodafone	8.0	14.8	23.4	10.9	9.7
Mobistar	12.5	13.4	13.8	14.1	13.6
Cosmote	NM	NM	19.9	13.2	10.7
Mean	10.2	14.1	19.0	12.7	11.3
Median	8.0	13.4	16.9	12.1	10.2
Carphone Warehouse	NM	NM	20.9	12.2	8.8
Bouygues	20.4	NM	12.9	12.2	11.3
Cable & Wireless	NM	NM	126.3	26.5	14.8
Mean	20.4	NM	53.4	17.0	11.6
Median	20.4	NM	20.9	12.2	11.3
Sector Mean	14.3	17.0	21.5	13.4	11.1
Sector Median	12.3	15.7	15.6	12.2	10.7

Source: Bear, Stearns International Limited estimates.

Companies Mentioned

European Telecom Coverage

Company Name	Ticker	Latest Price	Rating	Target Price (If target is included)	Methodology	Investment Risks
Belgacom	BELG.BR	€32.71	O	€34.96	DCF based SOP	Increasing competitive pressures in domestic fixed line, mobile competition continuing, M&A risk
BT Group	BT.L	£2.92	P	NA	NA	
Deutsche Telekom	DTEGn.DE	€13.37	U	NA	NA	
France Telecom	FTE.PA	€19.60	P	NA	NA	
KPN	KPN.AS	€10.49	O	€12.50	DCF based SOP	German wireless competition intensifies, domestic wireline declines accelerate, M&A risk
Telecom Italia (Ords)	TLIT.MI	€2.25	O	€2.71	DCF Based SOP / RAB	Acceleration in wireline and wireless competition, political and economic multiples risk
Telefonica	TEF.MC	€15.87	P	NA	NA	
Portugal Telecom	PTCO.IN	€9.76	O	€10.50	Achievable bid offer	Political and M&A risk
OTE	OTEr.AT	€21.90	P	NA	NA	
Telekom Austria	TELA.VI	€20.42	O	€25.5	DCF based SOP	Margin erosion in Bulgaria due to new entrants, increased unbundling and cable threat to domestic fixed, and Hutchison could destabilise the Austrian wireless market
Telenor	TEL.OL	Nkr 117.25	O	NKr 126	DCF based SOP	Conflict with Alfa group regarding Kyivstar and Vimpelcom, emerging market and forex risk, deterioration in domestic fixed line market continues
TeliaSonera	TLSN.ST	SEK 52.75	P	NA	NA	
Swisscom	SCMN.VX	SFr. 443	U	NA	NA	
Vodafone	VOD.L	£1.38	U	NA	NA	
Mobistar	MSTAR.BR	€63.35	U	NA	NA	
Cosmote	COSr.AT	€21.70	O	€23.8	DCF based SOP	Execution risk of Germanos integration and termination exposure in Greece and Bulgaria
Carphone Warehouse	CPW.L	£2.93	O	£4.44	DCF based SOP	Threat of disintermediation by operators, stock overhang, stability of TalkTalk margins
Bouygues	BOUY.PA	€46.79	O	€50.60	DCF based SOP	High exposure to wireless termination rate cuts, increasing MVNO threat, slowing group growth and rising capex
Cable & Wireless	CW.L	£1.60	O	£1.77	DCF based SOP	UK business turnaround fails, re-acceleration of competition in Caribbean

Priced at Market close December 08 2006

Source: Company data; Bear, Stearns International Ltd. estimates.

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