

# Independent Credit Research

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## Hellenic Telecom

### *Research Coverage Initiation- Buy the Unsecured Bonds*

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We are initiating research coverage of over €3.5bn of the Unsecured Bonds of Hellenic Telecommunications Organization S.A. (“OTE”) with the Buy recommendation. We believe that the bonds are covered under the worst case scenario (“drachmatization”), if Greece defaults on its debt and leaves the Euro currency zone (two unrelated events, by the way!), which will lead to the depreciation of drachma. Under this scenario, OTE will likely offset the drachma depreciation by winning market share from financially strained competitors in Greek fixed-line business. These unregulated competitors, operating for cash instead of profit, are currently charging fixed-line customers substantially lower tariffs compared to OTE. We find this drachmatization scenario unlikely, since the short-term aspirations and steps of European officials will likely target the bailout of the chronically underperforming economy of Greece and the preservation of Euro. The latter has a significant political importance, and we believe that in the short-term, political considerations will prevail over economic concerns of the sustainability of Euro and over concerns about the long-term possibility of having the common currency without the common credit administration. **Unfortunately, there is nothing more permanent than temporary,** and the horizontal line on the map separating hard working and tax paying nations in Europe from many loitering tax evaders employed by local governments will likely continue to exist for a long time, since the transition from latter to the former requires more decisive steps and time, compared to moderate and reactive political solutions currently contemplated. We believe that these solutions will inevitably lead to increasingly inflationary or stagflationary environment, leading to the depreciation of Euro in 2012. The remaining life of Euro as a second global reserve currency will likely be short-term, in our view. Euro may last for another 2-3 years, but its long-term viability is unsustainable, in our opinion. In the meantime, European banks will continue to perform their role of consumer finance institutions and we find any abrupt decline of consumer activities in Europe **EXTREMELY** unlikely. Similar to the “new normal” thesis in the U.S., the European economy will grow slowly, but any severe and pro-longed decline in consumption is unlikely. Securities of many European companies, including autos and telecom, are trading at levels implying consumer demand declines in France and Germany of at least 20%-25% in 2012. We find these assumptions unrealistic. They are equivalent to the deliberate acceleration of the financial and political catastrophe of the two largest European economies, leading to the inevitable major social unrest. While we are realistic about the possibility of irrational behavior of uncoordinated European politicians, we believe that these leaders will ultimately favor the Euro inflation over the social unrest. Plenty of severely under-valued healthy European corporate securities are available. **Distressed markets in general and in Europe in particular should be viewed on an absolute value basis, as opposed to prevailing “spread to local Treasury” views. Several large European corporations have credit qualities significantly superior to those of local sovereigns. As such, benchmarking healthy credits against distressed does not make any sense, in our view. Shortly, shorting Euro as a hedge to the long positions in healthy corporate securities makes sense, in our view.** The program of filling European banks with cash to lend money to consumers will work, and most likely will work more efficiently than TARP in the U.S. – these banks will actually lend money given them by the ECB, IMF or other sources. However, it will inevitably lead to the depreciation of Euro.

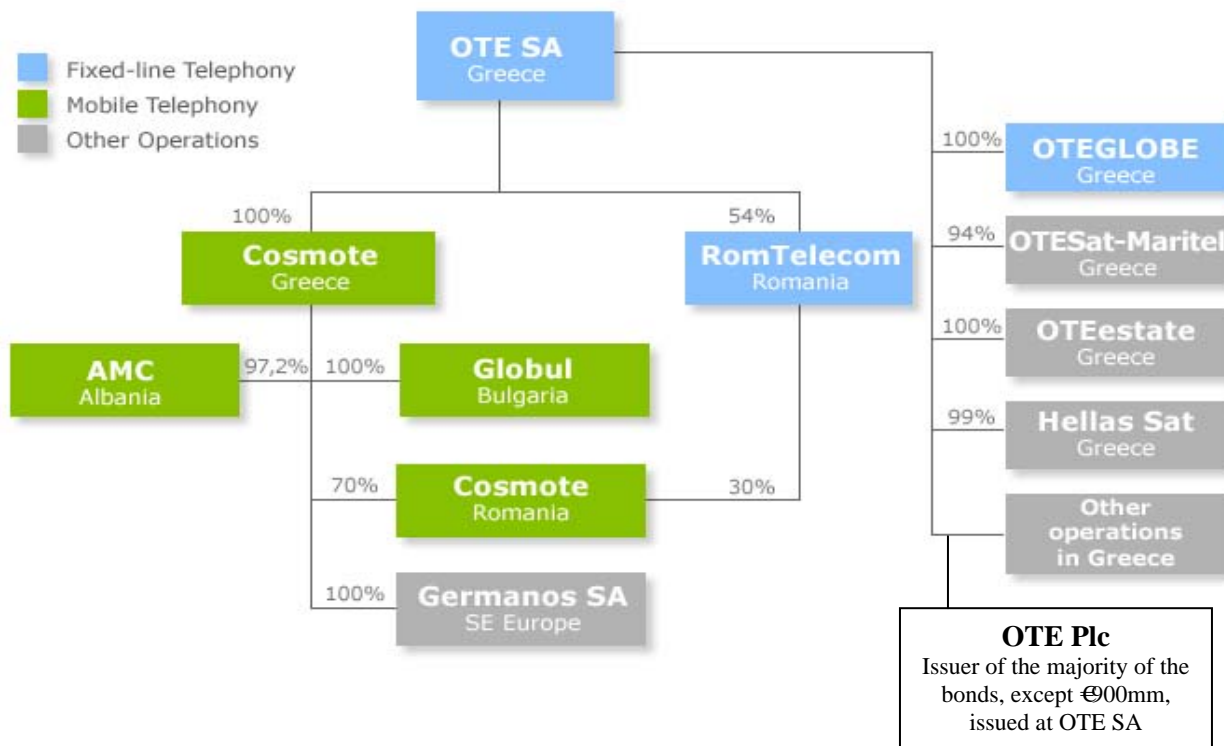
The only concern that we have about the OTE bonds relates to the potential short-term price volatility. In this report we outline all major factors that make us comfortable about the fundamental reasons to be bullish on OTE bonds, including the strong support of Deutsche Telecom, the value of OTE’s minority investments, our assumptions on a trough consumer activity and government intervention in Greece, among others. We perform a sum of the parts analysis analyzing the value of the Greece fixed-line business, the Romanian fixed-line business, and the value of mobile business independently. In the meantime, the vector of the price clearly indicates the short-term positive developments for the bonds. We recommend that you take advantage of them.

### Company Description and Industry Issues

Hellenic Telecommunications Organization (OTE) is the largest telecommunications provider in the Greek market and, together with its subsidiaries, forms one of the leading telecom groups in south-eastern Europe. Since 1996, when OTE was a state-owned monopoly, the Greek State has been reducing its market share in the company to the most recent 10% level. Deutsche Telekom is a 40% shareholder in the company<sup>1</sup>. OTE offers a full range of products and services, including broadband, fixed and mobile telephony, high-speed data communications and leased lines services. OTE companies employ over 30,000 people in 4 countries. OTE provides fixed-line voice telephony and internet access in Romania through its 54.01% equity stake in RomTelecom and mobile telecom services in Albania, Bulgaria and Romania. Mobile services in Greece and other countries are offered through Cosmote – mobile service provider acquired in 2008 for €2,827mm, which represented 2.93x of revenues and 8.92x of EBITDA. Please see comparable M&A activities at the time of this acquisition:

		Deal Value	EBITDA Multiple
<b>Comp Deals Median</b>			
Telefonica Moviles SA	03/16/06	4,178	7.8x
Alamosa Holdings Inc	11/21/05	4,029	13.4x
Centennial Communica	11/07/08	2,809	7.2x
Syniverse Holdings In	10/28/10	2,561	10.6x
SunCom Wireless Holdi	09/17/07	2,484	16.4x
Rural Cellular Corp	07/30/07	2,463	10.4x
Virgin Mobile Holdings	04/04/06	2,067	11.7x
KT Freetel Co Ltd	01/20/09	1,777	3.4x
Idea Cellular Ltd	06/25/08	1,707	21.5x
Partner Communicatio	08/12/09	1,527	4.8x

The following charts show the company's organizational structure and consolidated financials as of 6/30/2011:



<sup>1</sup> Deutsche Telekom consolidates OTE in its financial statements in line with a shareholder agreement with the Greek government

**Quarterly Revenue / Annual Revenue**

	2006	2007	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
Domestic telephony	€2,256.7	€2,022.2	€1,814.2	€410.1	€413.6	€395.9	€400.0	€1,619.6	€369.5	€352.6	€342.7	€329.3	€1,394.1	€303.6	€296.0
<i>Change yoy</i>		-10.4%	-10.3%	-12.0%	-10.5%	-10.5%	-10.3%	-10.7%	-9.9%	-14.7%	-13.4%	-17.7%	-13.9%	-17.8%	-16.1%
International telephony	€346.9	€304.5	€286.9	€56.6	€62.3	€71.3	€60.9	€251.1	€53.0	€50.7	€50.1	€46.3	€200.1	€36.7	€39.8
<i>Change yoy</i>		-12.2%	-5.8%	-28.3%	-12.0%	2.7%	-11.0%	-12.5%	-6.4%	-18.6%	-29.7%	-24.0%	-20.3%	-30.8%	-21.5%
Mobile telephony	€1,975.8	€2,210.0	€2,470.8	€579.0	€599.7	€620.0	€597.5	€2,396.2	€560.5	€555.6	€567.1	€519.2	€2,202.4	€485.3	€520.7
<i>Change yoy</i>		11.9%	11.8%	3.4%	-0.5%	-7.7%	-1.0%	-3.0%	-3.2%	-7.4%	-8.5%	-13.1%	-8.1%	-13.4%	-6.3%
Other revenue	€1,308.0	€1,783.1	€1,812.1	€408.8	€405.8	€423.1	€454.3	€1,692.0	€418.1	€399.7	€432.8	€435.4	€1,686.0	€399.2	€398.4
<i>Change yoy</i>		36.3%	1.6%	-5.5%	-9.3%	-5.7%	-5.2%	-6.6%	2.3%	-1.5%	2.3%	-4.2%	-0.4%	-4.5%	-0.3%
Total Net Revenue	€5,887.4	€6,319.8	€6,384.0	€1,454.5	€1,481.4	€1,510.3	€1,512.7	€5,958.9	€1,401.1	€1,358.6	€1,392.7	€1,330.2	€5,482.6	€1,224.8	€1,254.9
<i>Growth YY</i>		7.3%	1.0%	-5.4%	-6.5%	-7.4%	-6.4%	-6.7%	-3.7%	-8.3%	-7.8%	-12.1%	-8.0%	-12.6%	-7.6%
Other income	€0.0	€0.0	€27.2	€0.0	€7.0	€6.7	€14.2	€27.9	€9.4	€21.5	€3.8	€2.3	€37.0	€2.2	€3.6
<b>Operating expenses</b>															
Payroll and employee benefits	€1,260.8	€1,149.0	€1,168.4	€293.4	€302.2	€289.0	€306.2	€1,190.8	€294.1	€289.8	€273.3	€271.1	€1,128.3	€268.7	€271.8
<i>%-ge of sales</i>	21.4%	18.2%	18.3%	20.2%	20.4%	19.1%	20.2%	20.0%	21.0%	21.3%	19.6%	20.4%	20.6%	21.9%	21.7%
Provision for staff retirement indemnities	(€9.5)	€92.3	€77.1	€21.7	€10.7	€11.3	€9.7	€53.4	€12.7	€6.7	€13.6	€5.8	€38.8	€10.6	€5.9
Cost of early retirement program	€0.0	€22.1	€50.2	(€187.6)	€152.6	€1.2	€3.5	(€30.3)	€37.2	(€4.4)	€3.4	€135.3	€171.5	€39.7	€10.0
Charges from international operators	€208.8	€216.4	€173.9	€48.8	€40.5	€53.4	€41.3	€184.0	€42.9	€50.0	€52.5	€44.9	€190.3	€43.6	€58.5
Charges from domestic operators	€720.9	€655.3	€642.3	€126.6	€132.0	€131.3	€126.4	€516.3	€105.0	€107.4	€100.0	€102.2	€414.6	€85.4	€88.1
COGS	€2,181.0	€2,135.1	€2,111.9	€302.9	€638.0	€486.2	€487.1	€1,914.2	€491.9	€449.5	€442.8	€559.3	€1,943.5	€448.0	€434.3
Total Gross Profit	€3,706.4	€4,184.7	€4,272.1	€1,151.6	€843.4	€1,024.1	€1,025.6	€4,044.7	€909.2	€909.1	€949.9	€770.9	€3,539.1	€776.8	€820.6
<i>Gross Margin</i>	63.0%	66.2%	66.9%	79.2%	56.9%	67.8%	67.8%	67.9%	64.9%	66.9%	68.2%	58.0%	64.6%	63.4%	65.4%
Cost of telecommunications equipment	€363.5	€672.8	€633.4	€101.7	€119.6	€118.8	€135.0	€475.1	€113.4	€99.0	€116.2	€118.7	€447.3	€82.9	€91.6
<i>% of Sales</i>	6.2%	10.6%	9.9%	7.0%	8.1%	7.9%	8.9%	8.0%	8.1%	7.3%	8.3%	8.9%	8.2%	6.8%	7.3%
Other Operating Expenses	€1,187.3	€1,293.2	€1,359.7	€329.3	€356.3	€330.4	€383.2	€1,399.2	€326.5	€361.2	€342.5	€350.9	€1,381.1	€302.8	€331.0
<i>% of Sales</i>	20.2%	20.5%	21.3%	22.6%	24.1%	21.9%	25.3%	23.5%	23.3%	26.6%	24.6%	26.4%	25.2%	24.7%	26.4%
EBITDA	€2,155.6	€2,218.7	€2,306.2	€720.6	€374.5	€581.6	€521.6	€2,198.3	€478.7	€470.4	€495.0	€303.6	€1,747.7	€393.3	€401.6
<i>EBITDA Margin</i>	36.6%	35.1%	36.1%	49.5%	25.3%	38.5%	34.5%	36.9%	34.2%	34.6%	35.5%	22.8%	31.9%	32.1%	32.0%
D&A	€1,093.5	€1,171.8	€1,213.0	€277.8	€284.4	€278.0	€315.1	€1,155.3	€276.9	€284.8	€266.1	€535.2	€1,363.0	€263.0	€265.6
Operating Income	€1,062.1	€1,046.9	€1,093.2	€442.8	€90.1	€303.6	€206.5	€1,043.0	€201.8	€185.6	€228.9	(€231.6)	€384.7	€130.3	€136.0
<i>Operating Margin</i>	18.0%	16.6%	17.1%	30.4%	6.1%	20.1%	13.7%	17.5%	14.4%	13.7%	16.4%	-17.4%	7.0%	10.6%	10.8%
Net Interest expense	€138.1	€160.9	€298.7	€77.1	€69.3	€73.5	€76.5	€296.4	€65.8	€89.7	€63.7	€63.3	€282.5	€60.6	€63.5
Forex differences	€14.6	(€4.8)	€11.8	€3.4	€0.3	€1.3	€5.2	€10.2	€3.0	(€13.2)	€4.6	(€6.5)	(€12.1)	€3.7	€5.0
Dividend Income	€0.0	€16.8	€12.2	€0.0	€9.6	€0.0	€0.0	€9.6	€0.0	€4.0	€0.0	€10.2	€14.2	€0.0	€10.4
Income Taxes	€441.5	€381.8	€248.2	€98.5	€45.6	€62.1	€206.2	€412.4	€75.5	€169.4	€46.2	(€82.2)	€208.9	€48.3	€26.9
Discontinued operations	€11.9	€256.8	€33.7	€0.0	€24.4	(€1.0)	€0.2	€23.6	€2.2	(€7.2)	(€0.2)	€0.6	(€4.6)	€0.0	(€4.9)
Net Income	€509.0	€773.0	€604.0	€270.6	€9.5	€168.3	(€70.8)	€377.6	€65.7	(€89.9)	€123.4	(€208.4)	(€109.2)	€25.1	€56.1
Net income to parent	€509.0	€662.6	€608.0	€266.7	€6.4	€165.0	(€57.2)	€380.9	€65.8	(€60.8)	€126.3	(€61.7)	€69.6	€30.2	€62.2
Non-controlling interests	€0.0	€110.4	(€4.0)	€3.9	€3.1	€3.3	(€13.6)	(€3.3)	(€0.1)	(€29.1)	(€2.9)	(€146.7)	(€178.8)	(€5.1)	(€6.1)

	2006	2007	2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
<b>Liquidity</b>															
Non-cash adjustments to EBITDA	€94.8	€40.6	€0.0	€9.4	€12.2	€10.3	(€31.9)	€0.0	€10.1	€10.4	€10.5	(€30.8)	€0.2	€9.3	€9.5
Adjusted EBITDA	€2,250.4	€2,259.3	€2,306.2	€730.0	€386.7	€591.9	€489.7	€2,198.3	€488.8	€480.8	€505.5	€272.8	€1,747.9	€402.6	€411.1
Capex -maintenance	(€962.4)	(€1,103.3)	(€964.0)	(€221.4)	(€220.1)	(€196.2)	(€253.2)	(€890.9)	(€191.3)	(€206.7)	(€169.3)	(€183.8)	(€751.1)	(€166.5)	(€136.4)
Acquisitions, divestitures	(€1,345.7)	(€1,676.9)	(€842.0)	(€46.0)	€14.3	€302.4	(€338.4)	(€67.7)	(€0.4)	(€31.3)	€25.2	€24.1	€17.6	€6.8	(€0.4)
Dividends Paid	(€117.2)	(€350.9)	(€373.7)	(€1.4)	(€29.0)	(€366.9)	€28.9	(€368.4)	(€1.2)	(€0.8)	(€86.5)	(€12.6)	(€101.1)	(€43.7)	€0.0
Interest Expense	(€178.5)	(€216.4)	(€212.9)	(€130.3)	(€48.8)	(€69.1)	(€28.2)	(€276.4)	(€118.5)	(€45.3)	(€61.0)	(€31.2)	(€256.0)	(€116.5)	(€57.9)
Income Taxes	(€210.4)	(€384.9)	(€240.2)	(€4.9)	(€73.6)	(€119.5)	(€101.3)	(€299.3)	(€123.3)	(€112.5)	(€64.7)	(€52.7)	(€353.2)	(€24.5)	(€49.0)
Change in Working Capital	(€9.8)	(€270.2)	€305.6	(€379.8)	€360.6	(€204.1)	€67.2	(€156.1)	(€175.4)	€37.1	(€125.8)	€288.8	€24.7	(€155.0)	€116.1
Free Cash Flow	(€573.6)	(€1,743.3)	(€21.0)	(€53.8)	€390.1	(€61.5)	(€135.3)	€139.5	(€121.3)	€121.3	€23.4	€305.4	€328.8	(€96.8)	€283.5
Cash flow from operations	€1,786.2	€1,450.7	€1,757.6	€310.8	€406.5	€296.2	€404.5	€1,418.0	€202.9	€175.1	€300.2	€432.2	€1,110.4	€168.4	€322.0
Cash flow from investments	(€2,308.1)	(€2,780.2)	(€1,806.0)	(€267.4)	(€205.8)	€106.2	(€591.6)	(€958.6)	(€191.7)	(€238.0)	(€144.1)	(€159.7)	(€733.5)	(€159.7)	(€136.8)
Cash flow from financing	€1,052.2	€603.3	€165.3	(€10.4)	(€39.2)	(€390.5)	(€565.4)	(€1,005.5)	(€1.5)	(€54.5)	(€122.3)	(€60.2)	(€238.5)	(€543.9)	€213.1
Total cash flow	€530.3	(€726.2)	€116.9	€33.0	€161.5	€11.9	(€752.5)	(€546.1)	€9.7	(€117.4)	€33.8	€212.3	€138.4	(€535.2)	€398.3
<b>Balance Sheet</b>															
Cash and Marketable Securities	€2,042.5	€1,316.3	€1,427.8	€1,460.5	€1,624.2	€1,636.1	€868.8	€868.8	€878.5	€761.1	€794.9	€1,004.3	€1,004.3	€469.1	€867.4
Accounts Receivable	€1,160.9	€1,172.0	€1,194.2	€1,173.0	€1,149.3	€1,150.9	€1,153.0	€1,153.0	€1,114.8	€1,120.5	€1,095.7	€1,010.8	€1,010.8	€982.0	€995.5
<i>Days Accounts Receivable</i>	71.0	66.8	67.3	73.4	70.6	69.3	69.4	69.7	72.4	75.1	71.6	69.1	66.4	73.0	72.2
Inventories	€204.6	€201.7	€201.3	€216.7	€232.3	€220.4	€229.1	€229.1	€219.3	€205.5	€187.2	€160.8	€160.8	€171.6	€163.3
<i>Days Inventory (CGS)</i>	33.8	34.0	34.3	65.1	33.1	41.3	42.8	43.1	40.6	41.6	38.5	26.2	29.8	34.9	34.2
Deferred Taxes & Other Current Assets	€450.6	€372.5	€397.5	€516.4	€633.8	€345.8	€291.0	€291.0	€311.0	€314.0	€276.8	€242.4	€242.4	€250.1	€249.3
<i>Days def. Taxes and other assets</i>	27.6	21.2	22.4	32.3	38.9	20.8	17.5	17.6	20.2	21.0	18.1	16.6	15.9	18.6	18.1
Accounts Payable	€945.5	€931.5	€943.9	€851.3	€831.9	€836.6	€813.2	€813.2	€762.2	€720.0	€647.0	€695.2	€695.2	€588.2	€661.7
<i>Days Accounts Payable</i>	156.1	157.1	160.9	255.8	118.7	156.6	151.9	152.9	141.0	145.8	133.0	113.1	128.8	119.5	138.6
Accrued Liabilities	€1,390.3	€1,064.2	€1,404.2	€1,230.1	€1,719.4	€1,212.3	€1,258.9	€1,258.9	€1,106.5	€1,180.7	€1,047.6	€1,142.5	€1,142.5	€1,084.2	€1,131.2
<i>Days Accrued Liabilities</i>	229.5	179.4	239.4	365.5	242.5	224.4	232.6	236.8	202.4	236.4	212.9	183.8	211.6	217.8	234.4
<b>Debt</b>															
Total Debt	€4,600.7	€5,527.8	€6,047.7	€6,045.1	€6,015.3	€5,998.1	€5,421.9	€5,421.9	€5,427.4	€5,375.2	€5,340.1	€5,299.8	€5,299.8	€4,832.9	€5,007.5
Net Debt (net of excess cash)	€2,558.2	€4,211.5	€4,619.9	€4,584.6	€4,391.1	€4,362.0	€4,553.1	€4,553.1	€4,548.9	€4,614.1	€4,545.2	€4,295.5	€4,295.5	€4,363.8	€4,140.1
LTM Adjusted EBITDA	€2,250.4	€2,259.3	€2,306.2					€2,198.3	€1,957.1	€2,051.2	€1,964.8	€1,747.9	€1,747.9	€1,661.7	€1,592.0
LTM Interest Expense, cash	€9.0	€216.4	€212.9					€276.4	€264.6	€261.1	€253.0	€256.0	€256.0	€254.0	€266.6
LTM Capex	€962.4	€1,103.3	€964.0					€890.9	€860.8	€847.4	€820.5	€751.1	€751.1	€726.3	€656.0
<b>Ratios</b>															
Leverage	2.0x	2.4x	2.6x					2.5x	2.8x	2.6x	2.7x	3.0x	3.0x	2.9x	3.1x
Net Leverage (net of excess)	1.1x	1.9x	2.0x					2.1x	2.3x	2.2x	2.3x	2.5x	2.5x	2.6x	2.6x

The company is an integrated incumbent local exchange carrier, and it is involved in the wholesale business with other telecommunications providers in Greece, including wholesale ADSL access services, interconnection services, leased lines, data telecommunications services and local loop unbundling (“LLU”). OTE also holds a 20.0% interest in Telekom Serbia, which provides fixed-line, mobile telephony and broadband services in Serbia and in the Republic of Srpska in Bosnia and Herzegovina through Telekom Srpske and in Montenegro through Mtel.

Please see breakdown of the company's sales and EBITDA by various businesses and geographies:

Revenues	2005	2006	2007	2008	2009	2010
Greece	€3,988.4	€4,239.4	€4,530.7	€4,498.3	€4,189.6	€3,819.1
<i>%-ge of total</i>	<i>72.9%</i>	<i>72.0%</i>	<i>71.7%</i>	<i>70.5%</i>	<i>70.3%</i>	<i>69.7%</i>
Albania				€161.9	€125.3	€106.9
Bulgaria				€469.4	€423.9	€388.4
Romania				€1,164.9	€1,181.2	€1,146.3
<i>%-ge of total</i>				<i>18.2%</i>	<i>19.8%</i>	<i>20.9%</i>
Other Countries				<u>€89.5</u>	<u>€38.9</u>	<u>€22.1</u>
Total Other Countries	<u>€1,482.6</u>	<u>€1,648.0</u>	<u>€1,789.1</u>	<u>€1,885.7</u>	<u>€1,769.3</u>	<u>€1,663.7</u>
Total	€5,471.0	€5,887.4	€6,319.8	€6,384.0	€5,958.9	€5,482.8

LTM Sales as of June 30, 2011		LTM EBITDA as of June 30, 2011	
Fixed-line Greece	35%	Fixed-line Greece	33%
Fixed-line Romania	12%	Fixed-line Romania	9%
Mobile Greece	29%	Mobile Greece	35%
Mobile Romania	8%	Mobile Romania	5%
Mobile Bulgaria	7%	Mobile Bulgaria	9%
Mobile Albania	2%	Mobile Albania	3%
Other	<u>7%</u>	Other	<u>6%</u>
Total	100%	Total	100%

### Fixed-line Business – Description and Valuation

As the incumbent telecommunications services provider in Greece, OTE owns and operates the most extensive fixed-line network in the country. It is a market leader both in Greece and Romania.

Since the liberalization of Greek telephony market in 2001, and especially in recent years, OTE has gradually lost a significant share of the Greek fixed-line telecommunications market to competitors, although it still remains the principal provider of fixed-line telephony services in Greece. Please see financials of the OTE fixed-line business in Greece:

The decline of the number of regular PSTN lines is easy to understand because of the general transition to mobile and VOIP telephony and the growing competition from emerging unregulated competitors. The increase in wholesale business and increase in the number of DSL and IPTV subscribers have not been able to offset revenue losses from the main fixed-line business. As such, revenues from fixed-to-fixed lines, fixed-to-mobile lines and basic monthly revenues have been declining during the last several years. This decline is also explained by the weakening economy, since the majority of fixed-line sales usually derive from businesses. Fixed-line tariffs charged by OTE are almost identical to those of competitors, including Vodafone, Wind Hellas and Q-Telecom. As you can see from the financials below, the decline of sales from international calls has been higher compared to the percentage losses in other revenue categories. The following table sets out OTE's international traffic volume data in Greece:

**Breakdown of international traffic in Greece (minutes in millions)**

	2008	2009	2010
<u>Outgoing calls</u>			
OTE	361.5	332.0	323.7
<i>Change</i>		-8.2%	-2.5%
Other	<u>536.6</u>	<u>537.4</u>	<u>500.1</u>
<i>Change</i>		0.1%	-6.9%
OTE's share in outgoing minutes	40.3%	38.2%	39.3%
Total Outgoing Minutes	898.1	869.4	823.8
<u>Incoming Calls</u>			
OTE	551.8	639.2	592.3
<i>Change</i>		15.8%	-7.3%
Other	<u>346.0</u>	<u>420.3</u>	<u>515.5</u>
<i>Change</i>		21.5%	22.7%
OTE's share in incoming minutes:	61.5%	60.3%	53.5%
Total Incoming Minutes	897.8	1,059.5	1,107.8
<i>Change</i>		18.0%	4.6%

As you can conclude, OTE's share in international calls has been declining, mainly because of the aggressive pricing war initiated by competitors.

OTE's major competitors in the Greek fixed-line business include Vodafone, Hellas Online, Forthnet-Nova, Wind, OnTelecoms and Cyta. Forthnet, the 2<sup>nd</sup>-largest holder of the market share in the Greek broadband business, is a publicly-traded company with the LTM EBITDA of €36.4mm, €335.0mm of debt and €22.5mm of cash. It has been financed by local banks, despite the high leverage and severe cash burn. This financing will likely cease to exist after the resolution of the Greek sovereign debt issue. Overall, OTE holds ~42% market share in the Greek fixed-line business. It also has the largest market share in the broadband telephony in Greece. We believe that OTE has good chances to increase this market share during the impending financial turmoil that will lead to potential elimination of several financially struggling competitors:

<b>Greece broadband market share</b>	
OTE	38%
Forthnet	18%
Hellas Online	17%
OnTelecoms	6%
Other	21%

Fixed broadband penetration in Greece has reached 63.2% of total households. OTE's market share in broadband telephony has declined by 1.4% during the last 6 months. Incumbent retail ADSL market share in Greece has declined from 69.0% in 2004 to 41.9% at the end of 2010 and continues to decline, although the total number of ADSL lines will continue to increase at OTE. Approximately 107,000 fixed lines were disconnected during Q2 2011, which is comparable with the average number of disconnected lines during the last year. In the meantime, OTE is increasing the number of customers in new technologies, including VOIP, IPTV and VOD to partially offset the decline in the traditional voice products. The decline in the number of traditional fixed lines is correlated with the GDP growth and specifics of local incumbent markets in all European countries:

**Broadband penetration of households in different European countries**

	2004	2005	2006	2007	2008	2009	2010
Germany	17.8%	29.6%	39.4%	50.8%	58.9%	63.1%	66.2%
Greece	1.2%	4.0%	12.5%	27.3%	39.3%	51.0%	60.8%
Italy	22.9%	32.0%	38.6%	45.6%	51.6%	58.3%	59.9%
Netherlands	45.3%	58.7%	71.0%	76.0%	81.1%	85.1%	87.3%
Portugal	22.4%	31.8%	38.0%	41.3%	44.0%	49.6%	54.4%
Spain	23.3%	33.6%	43.7%	51.6%	57.8%	61.1%	59.9%
Norway	32.7%	47.7%	59.2%	69.4%	74.0%	74.8%	73.7%
France	26.8%	38.2%	48.7%	59.0%	66.5%	73.0%	78.2%

**Decline in the number of PSTN lines in different European countries**

	2005	2006	2007	2008	2009	2010
Germany	-3.5%	-5.2%	-7.2%	-10.6%	-8.2%	-6.2%
Greece	-2.0%	-5.0%	-5.6%	-8.9%	-7.9%	-10.8%
Italy	0.0%	0.0%	-9.3%	-9.7%	-7.2%	-4.6%
Netherlands	-7.4%	-18.7%	-24.2%	-15.1%	-12.5%	-13.3%
Portugal	-4.5%	-12.0%	-9.2%	-6.0%	-2.9%	-1.8%
Spain	-6.4%	-1.2%	-0.3%	-3.7%	-7.6%	-6.7%
Norway	-5.8%	-10.4%	-7.7%	-7.1%	-7.5%	-7.8%
France	-2.0%	-5.4%	-9.8%	-5.1%	-5.3%	-6.9%

**GDP Growth**

	2005	2006	2007	2008	2009	2010
Germany	0.9%	3.6%	2.8%	0.7%	-4.7%	3.5%
Greece	2.3%	5.2%	4.3%	1.0%	-2.3%	-4.4%
Italy	0.8%	2.1%	1.4%	-1.3%	-5.2%	1.2%
Netherlands	2.2%	3.5%	3.9%	1.8%	-3.5%	1.6%
Portugal	0.8%	1.4%	2.4%	0.0%	-2.5%	1.3%
Spain	3.6%	4.0%	3.6%	0.9%	-3.7%	-0.1%
Norway	1.8%	1.7%	2.7%	0.6%	-1.6%	0.3%
France	1.9%	2.7%	2.2%	-0.2%	-2.6%	1.4%

**Specifications:**

**Domestic revenues** include revenues from monthly network service fees, revenues from fixed-to-fixed and fixed-to-mobile calls and revenues from such services as operator assistance, connection and reconnection charges and paging services.

**International revenues** include revenues from monthly network service fees, revenues from fixed-to-fixed and fixed-to-mobile calls and revenues from such services as operator assistance, connection and reconnection charges and paging services.

**Other revenues** include revenues from prepaid cards, leased lines and data ATM telecommunications, provision for services, interconnection charges, internet services/ADSL, integrated services digital network ("ISDN"), sales of telecommunication equipment, collocation and local loop unbundling.

The nature of Greek fixed-line profitability problem is mainly in the company's payroll expense. The rest of operating expense is mainly variable. Please see the statistics of the company's payroll expense:

<b>Fixed line Operations, Greece</b>	<b>2008</b>	<b>2009</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>	<b>2010</b>	<b>Q1 2011</b>	<b>Q2 2011</b>
PSTN Connections	4,110.0	3,787.0	3,688.4	3,581.1	3,484.3	3,379.0	3,379.0	3,289.8	3,194.1
<i>change</i>		-7.9%					-10.8%	-10.8%	-10.8%
ISDN Connections	554.0	523.0	512.9	501.3	491.2	478.0	478.0	468.0	456.4
<i>change</i>		-5.6%					-8.6%	-8.8%	-8.9%
Wholesale line rental connections		42,405	50,883	59,560	61,092	71,883	71,883	86,618	95,312
<i>change</i>							69.5%	70.2%	60.0%
ADSL active subscribers	972.3	1,112.8	1,140.8	1,139.9	1,139.2	1,149.2	1,149.2	1,154.4	1,151.3
<i>change</i>		14.5%					3.3%	1.2%	1.0%
IPTV subscribers		16,075	23,438	30,412	40,478	50,038	50,038	56,464	54,400
<i>change</i>							211.3%	140.9%	78.9%
Unbundled local loops	672.1	987.3	1,100.3	1,201.1	1,316.5	1,379.7	1,379.7	1,456.0	1,524.4
<i>change</i>		46.9%					39.7%	32.3%	26.9%
Local minutes (mm)	10,197.1	9,806.5	2,462.6	2,296.3	1,916.8	2,219.3	8,895.0	2,150.7	2,025.8
<i>change</i>		-3.8%					-9.3%	-12.7%	-11.8%
National long-distance	1,902.2	1,927.6	458.4	455.3	424.7	413.1	1,751.5	387.2	386.8
<i>change</i>		1.3%					-9.1%	-15.5%	-15.0%
International Long-Distance	258.0	235.0	62.2	64.5	61.9	63.4	252.0	61.0	61.5
<i>change</i>		-8.9%					7.2%	-1.9%	-4.7%
Fixed-to Mobile	1,746.5	1,586.1	349.7	348.7	345.0	319.6	1,363.0	284.0	304.8
<i>change</i>		-9.2%					-14.1%	-18.8%	-12.6%
Special calls	<u>155.7</u>	<u>138.9</u>	<u>31.2</u>	<u>29.9</u>	<u>30.2</u>	<u>31.2</u>	<u>122.5</u>	<u>25.5</u>	<u>24.3</u>
Total fixed line Greece voice traffic	14,259.5	13,694.1	3,364.1	3,194.7	2,778.6	3,046.6	12,384.0	2,908.4	2,803.2
<i>change</i>		-4.0%					-9.6%	-13.5%	-12.3%
<b>Revenues - Greece - fixed line</b>									
Basic monthly rentals	€621.0	€566.9	€132.1	€126.9	€122.8	€119.1	€500.9	€114.8	€110.3
<i>change</i>		-8.7%					-11.6%	-13.1%	-13.1%
Fixed-to-fixed calls	€434.3	€415.7	€93.4	€90.9	€87.7	€85.1	€357.1	€77.2	€76.8
<i>change</i>		-4.3%					-14.1%	-17.3%	-15.5%
Fixed-to mobile calls	€229.4	€174.8	€30.9	€30.1	€30.7	€28.3	€120.0	€21.6	€22.2
<i>change</i>		-23.8%					-31.4%	-30.1%	-26.2%
International	€202.4	€183.3	€37.3	€39.9	€37.5	€33.9	€148.6	€24.9	€26.6
<i>change</i>		-9.4%					-18.9%	-33.2%	-33.3%
Other	<u>€1,102.6</u>	<u>€1,071.7</u>	<u>€266.9</u>	<u>€260.4</u>	<u>€260.6</u>	<u>€255.3</u>	<u>€1,043.2</u>	<u>€246.8</u>	<u>€230.2</u>
<i>change</i>		-2.8%					-2.7%	-7.5%	-11.6%
<b>Total Revenues fixed line Greece</b>	<b>€2,589.7</b>	<b>€2,412.4</b>	<b>€560.6</b>	<b>€548.2</b>	<b>€539.3</b>	<b>€521.7</b>	<b>€2,169.8</b>	<b>€485.3</b>	<b>€466.1</b>
<b>EBITDA fixed line revenues in Greece</b>	<b>€777.2</b>	<b>€770.1</b>	<b>€153.7</b>	<b>€185.6</b>	<b>€162.9</b>	<b>€158.9</b>	<b>€661.1</b>	<b>€141.1</b>	<b>€119.8</b>
<i>EBITDA Margin</i>	30.0%	31.9%	27.4%	33.9%	30.2%	30.5%	30.5%	29.1%	25.7%



	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
<b>OTE Sales</b>									
Domestic Telephony	€1,355.5	€1,223.4	€272.0	€263.0	€255.8	€247.1	€1,037.9	€227.7	€222.9
<i>change</i>		-9.7%					-15.2%	-16.3%	-15.2%
International Telephony	€202.4	€183.3	€37.3	€39.9	€37.5	€33.9	€148.6	€24.9	€26.6
<i>change</i>		-9.4%					-18.9%	-33.2%	-33.3%
Mobile	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0
Other	<u>€1,031.8</u>	<u>€1,005.7</u>	<u>€251.3</u>	<u>€245.3</u>	<u>€246.0</u>	<u>€240.7</u>	<u>€983.3</u>	<u>€232.7</u>	<u>€216.6</u>
<i>change</i>		-2.5%					-2.2%	-7.4%	-11.7%
OTE sales before eliminations	€2,589.7	€2,412.4	€560.6	€548.2	€539.3	€521.7	€2,169.8	€485.3	€466.1
Intersegment Sales	<u>(€227.6)</u>	<u>(€207.6)</u>	<u>(€46.7)</u>	<u>(€57.8)</u>	<u>(€47.4)</u>	<u>(€39.0)</u>	<u>(€190.9)</u>	<u>(€35.1)</u>	<u>(€41.1)</u>
<b>Total OTE Sales</b>	€2,362.1	€2,204.8	€513.9	€490.4	€491.9	€482.7	€1,978.9	€450.2	€425.0
<i>change</i>		-6.7%					-10.2%	-12.4%	-13.3%
<b>OTE Expenses</b>									
Payroll & Employee Benefits	€778.4	€763.3	€189.5	€187.9	€175.0	€162.0	€714.4	€174.8	€173.2
<i>Percentage of OTE Sales</i>	33.0%	34.6%	36.9%	38.3%	35.6%	33.6%	36.1%	38.8%	40.8%
Retirement costs	€12.2	€38.9	€31.5	(€21.6)	€0.0	€134.8	€144.7	€8.0	€2.5
Payment to international operators	€126.7	€129.4	€26.0	€32.3	€27.6	€23.8	€109.7	€21.1	€21.9
Payment to domestic operators	<u>€299.2</u>	<u>€227.6</u>	<u>€45.4</u>	<u>€46.3</u>	<u>€44.1</u>	<u>€42.4</u>	<u>€178.2</u>	<u>€33.2</u>	<u>€35.1</u>
COGS	€1,216.5	€1,159.2	€292.4	€244.9	€246.7	€363.0	€1,147.0	€237.1	€232.7
Gross Profit	€1,373.2	€1,253.2	€268.2	€303.3	€292.6	€158.7	€1,022.8	€248.2	€233.4
<i>Gross Margin</i>	58.1%	56.8%	52.2%	61.8%	59.5%	32.9%	51.7%	55.1%	54.9%
Cost of equipment & prepaid cards	€102.5	€88.7	€15.2	€19.6	€20.6	€23.4	€78.8	€11.5	€13.2
<i>% of OTE Sales</i>	4.3%	4.0%	3.0%	4.0%	4.2%	4.8%	4.0%	2.6%	3.1%
Other operating expense	€493.5	€474.2	€100.2	€111.6	€109.7	€118.6	€440.1	€93.9	€101.4
Adjustments to EBITDA	<u>€0.0</u>	<u>€79.8</u>	<u>€0.9</u>	<u>€13.5</u>	<u>€0.6</u>	<u>€142.2</u>	<u>€157.2</u>	<u>(€1.7)</u>	<u>€1.0</u>
OTE EBITDA	€777.2	€770.1	€153.7	€185.6	€162.9	€158.9	€661.1	€141.1	€119.8
<i>EBITDA Margin (incl. eliminations)</i>	32.9%	34.9%	29.9%	37.8%	33.1%	32.9%	33.4%	31.3%	28.2%
D&A	<u>€465.0</u>	<u>€424.4</u>	<u>€95.9</u>	<u>€93.9</u>	<u>€90.9</u>	<u>€93.5</u>	<u>€374.2</u>	<u>€84.0</u>	<u>€85.5</u>
Operating Income	€312.2	€345.7	€57.8	€91.7	€72.0	€65.4	€286.9	€57.1	€34.3

	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
Total Revenues fixed line Greece	€2,589.7	€2,412.4	€560.6	€548.2	€539.3	€521.7	€2,169.8	€485.3	€466.1
<i>change</i>		-6.8%					-10.1%	-13.4%	-15.0%
Revenues per employee fixed-line Greece		€212,191	€49,576	€48,955	€48,398	€47,753	€198,609	€44,445	€43,054
<i>change</i>							-6.4%	-10.3%	-12.1%
Payroll + retirement costs	€790.6	€802.2	€221.0	€166.3	€175.0	€296.8	€859.1	€182.8	€175.7
<i>change</i>		1.5%					7.1%	-17.3%	5.7%
Payroll per employee fixed-line Greece		€67,139	€16,758	€16,780	€15,705	€14,828	€65,391	€16,009	€15,999
<i>change</i>							-2.6%	-4.5%	-4.7%
Revenues fixed line Romania	€869.9	€782.5	€186.6	€178.7	€181.5	€170.1	€716.9	€166.3	€166.1
<i>change</i>		-10.0%					-8.4%	-10.9%	-7.1%
Revenues per employee fixed-line Romania		€78,117	€19,603	€19,373	€19,745	€18,529	€78,094	€18,639	€21,479
<i>change</i>							0.0%	-4.9%	10.9%
Payroll per employee fixed-line Romania		€16,432	€4,066	€4,629	€4,275	€3,987	€17,135	€3,699	€4,306
<i>change</i>							4.3%	-9.0%	-7.0%

As you can see, sales have been declining faster, compared to reduction of payroll per employee and total payroll expense. As a result, EBITDA margins in the fixed-line business have suffered a significant deterioration. However, the company has recently reported the successfully negotiated with the unions decline in salary expense by €160mm during the next 3 years (each year by ~€32.3mm) – see projections at the next page. This scenario outlines the worst case for the fixed-line business in Greece – if Greece defaults on the debt and abandons the Euro zone.

We have made the following assumptions in the valuation of the Greek fixed-line business:

1. The number of fixed lines will continue declining by 12.5% annually;
2. The number of ADSL (broadband) customers will grow by 3.5% annually;
3. Payroll will be declining until 2015, according to the agreement with the unions;
4. Working capital changes in the Greek fixed-line business are assumed flat;
5. Normalized Capex/Sales ration in the fixed line business in Greece is ~12%. However, we spoke with the management and have been told that the company will substantially reduce the discretionary part of capex in case Greece abandons the Euro zone and will focus on taking advantage of winning market share.

Many incumbent European telecom companies are trading at significantly depressed multiples, including Telecom Italy and others. We believe that these multiples reflect the market perception of the severe market recession in Europe. As our mini-LBO model shows, the value of the Greek fixe-line business of OTE is at least 3.2x of the company's conservative 2012 EBITDA. And this valuation incorporates pretty draconian assumptions on the growth and profitability. Although the fixed-line business is challenged by harsh regulations, recession in Greece and competition from wireless, it is unfair to assume that its value will disappear. Our estimates are that the conservative value of this business is €1.6bn, assuming that OTE will need to restructure and the bondholders will become new shareholders of the company in potential absence of support of Deutsche Telecom. All these assumptions are hypothetical, but we believe that this methodology represents the worst case scenario to value the recoveries of the OTE bonds. Generally speaking, we believe that the company has a lot of options to refinance the bonds and to take good care of its capital structure. It is just waiting for the resolution of the sovereign conflict to take the optimal route.

<b>Fixed-line Greece</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Annual rental charges per line (bn)	€148.8	€148.8	€148.8	€148.8	€148.8	€148.8	€148.8	€148.8
Lines in use (millions)	4.173	3.810	3.366	2.962	2.592	2.268	1.985	1.736
<i>Change</i>		-8.7%	-11.6%	-12.0%	-12.5%	-12.5%	-12.5%	-12.5%
Revenues from monthly rentals	€621.0	€566.9	€500.9	€440.8	€385.7	€337.5	€295.3	€258.4
Fixed-to mobile minutes (bn)	1.7	1.6	1.4	1.2	1.1	0.9	0.8	0.7
<i>Change</i>		-5.9%	-12.5%	-13.0%	-13.5%	-13.5%	-13.5%	-13.5%
Price per minute	€0.135	€0.109	€0.086	€0.073	€0.062	€0.053	€0.045	€0.038
<i>Change</i>		-19.0%	-21.5%	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%
Revenues fixed-to-mobile	€229.4	€174.8	€120.0	€88.7	€65.2	€48.0	€35.3	€25.9
<i>Change</i>		-23.8%	-31.4%	-26.1%	-26.5%	-26.5%	-26.5%	-26.5%
Fixed-to fixed minutes (bn) (1)	15.2	13.3	11.5	9.9	8.5	7.3	6.3	5.4
<i>Change</i>		-12.5%	-13.5%	-13.8%	-14.3%	-14.3%	-14.3%	-14.3%
Price per minute	€0.029	€0.031	€0.031	€0.031	€0.031	€0.030	€0.030	€0.030
<i>Change</i>		9.4%	-0.7%	-0.2%	-1.6%	-1.6%	0.0%	0.0%
Revenues fixed-to-fixed	€434.3	€415.7	€357.1	€307.5	€259.4	€218.8	€187.6	€160.9
<i>Change</i>		-4.3%	-14.1%	-13.9%	-15.6%	-15.7%	-14.3%	-14.3%
<b>(1) (includes local, long-distance calls and calls from OTE to other fixed networks)</b>								
Total International Minutes in Greece (mi)	1,795.9	1,928.9	1,931.6	1,835.0	1,743.3	1,656.1	1,573.3	1,494.6
<i>Change</i>		7.4%	0.1%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Price per minute	€0.113	€0.095	€0.077	€0.075	€0.073	€0.071	€0.070	€0.068
<i>Change</i>		-15.7%	-19.0%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
International Revenues in Greece	€202.4	€183.3	€148.6	€137.6	€127.5	€118.1	€109.4	€101.3
<i>Change</i>		-9.4%	-18.9%	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%
ADSL Customers (millions)	972.3	1,112.8	1,149.2	1,189.4	1,231.1	1,274.1	1,318.7	1,364.9
<i>Change</i>		14.5%	3.3%	3.5%	3.5%	3.5%	3.5%	3.5%
Average sales per ADSL customer	€1,134.0	€963.1	€907.8	€894.1	€880.7	€867.5	€854.5	€841.7
<i>Change</i>		-15.1%	-5.7%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
Other revenues in Greece	€1,102.6	€1,071.7	€1,043.2	€1,063.5	€1,084.2	€1,105.3	€1,126.9	€1,148.8
<i>Change</i>		-2.8%	-2.7%	1.9%	1.9%	1.9%	1.9%	1.9%
Total Sales Fixed-line Greece	€2,589.7	€2,412.4	€2,169.8	€2,038.2	€1,922.1	€1,827.7	€1,754.4	€1,695.3
<i>Change</i>		-6.8%	-10.1%	-6.1%	-5.7%	-4.9%	-4.0%	-3.4%
Intersegment Sales	(€227.6)	(€207.6)	(€190.9)	(€182.4)	(€172.0)	(€163.6)	(€157.0)	(€151.7)
<b>Total</b>	<b>€2,362.1</b>	<b>€2,204.8</b>	<b>€1,978.9</b>	<b>€1,855.8</b>	<b>€1,750.0</b>	<b>€1,664.1</b>	<b>€1,597.4</b>	<b>€1,543.6</b>
Payroll & Employee Benefits	€778.4	€763.3	€714.4	€695.9	€666.8	€635.7	€607.0	€640.6
<i>Percentage of OTE Sales</i>	33.0%	34.6%	36.1%	37.5%	38.1%	38.2%	38.0%	41.5%
Retirement costs	€12.2	€38.9	€144.7	€50.0	€50.0	€50.0	€50.0	€50.0
Payment to international operators	€126.7	€129.4	€109.7	€101.9	€95.6	€89.7	€84.2	€79.0
<i>Percentage of International Sales</i>	62.6%	70.6%	73.8%	74.0%	75.0%	76.0%	77.0%	78.0%
Payment to domestic operators	€299.2	€227.6	€178.2	€138.7	€113.6	€93.4	€78.0	€65.4
<i>Percentage of domestic fixed-line sales</i>	45.1%	38.5%	37.4%	35.0%	35.0%	35.0%	35.0%	35.0%
COGS	€1,216.5	€1,159.2	€1,147.0	€986.4	€926.0	€868.8	€819.3	€835.0
Gross Profit	€1,373.2	€1,253.2	€1,022.8	€1,051.7	€996.1	€958.9	€935.2	€860.3
<i>Gross Margin</i>	58.1%	56.8%	51.7%	56.7%	56.9%	57.6%	58.5%	55.7%
Cost of equipment & prepaid cards	€102.5	€88.7	€78.8	€77.9	€75.3	€69.9	€68.7	€66.4
<i>% of OTE Sales</i>	4.3%	4.0%	4.0%	4.2%	4.3%	4.2%	4.3%	4.3%
Other operating expense	€493.5	€474.2	€440.1	€426.8	€420.0	€409.4	€416.9	€409.1
<i>Percentage of OTE Sales</i>	20.9%	21.5%	22.2%	23.0%	24.0%	24.6%	26.1%	26.5%
Adjustments to EBITDA	€0.0	€79.8	€157.2	€0.0	€0.0	€0.0	€0.0	€0.0
OTE EBITDA	€777.2	€770.1	€661.1	€547.0	€500.8	€479.6	€449.6	€384.9
<i>EBITDA Margin (incl. eliminations)</i>	32.9%	34.9%	33.4%	29.5%	28.6%	28.8%	28.1%	24.9%
Capex	(€300.7)	(€272.6)	(€224.9)	(€167.0)	(€140.0)	(€133.1)	(€127.8)	(€123.5)
Capex/Sales	12.7%	12.4%	11.4%	9.0%	8.0%	8.0%	8.0%	8.0%
Unlevered Cash Flow	€476.5	€497.5	€436.2	€379.9	€360.8	€346.5	€321.8	€261.4
Terminal Value @ 27.5%								€950.6
Cash Flow				€379.9	€360.8	€346.5	€321.8	€1,212.0
<b>Enterprise Value at 15.0%</b>	<b>€1,617.6</b>	<b>(implying permanent sales decline of 12.5%)</b>						
<b>EV/ 2012 est. EBITDA</b>	<b>3.2x</b>							
<b>EV/ 2015 est. EBITDA</b>	<b>4.2x</b>							

## Sensitivity Model for Fixed-Line Business in Greece

Discount Rate for Cash Flow	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Assumed revenue growth in perpetuity	-7.0%	-9.0%	-11.0%	-12.0%	-12.5%	-16.0%	-18.0%	-20.0%
Discount Rate for TV	22.0%	24.0%	26.0%	27.0%	27.5%	31.0%	33.0%	35.0%
Terminal Value	€1,188.2	€1,089.2	€1,005.4	€968.2	€950.6	€843.3	€792.2	€746.9
NPV of Terminal Value	€720.7	€671.5	€629.8	€611.3	€602.6	€549.2	€523.8	€501.3
NPV of unlevered cash flow	<u>€1,015.0</u>	<u>€1,015.0</u>	<u>€1,015.0</u>	<u>€1,015.0</u>	<u>€1,015.0</u>	<u>€1,015.0</u>	<u>€1,015.0</u>	<u>€1,015.0</u>
Enterprise Value	€1,735.7	€1,686.5	€1,644.8	€1,626.3	€1,617.6	€1,564.2	€1,538.8	€1,516.3

### Enterprise Value of Fixed-Line Business in Greece

		<i>Assumed Discount Rate for Cash Flow</i>							
		5.5%	6.0%	7.5%	9.0%	10.0%	11.5%	13.0%	15.0%
<b><i>Assumed Revenue Growth In Perpetuity</i></b>	-7.0%	€3,039.2	€2,923.3	€2,623.4	€2,379.5	€2,240.8	€2,060.7	€1,907.6	€1,735.7
	-9.0%	€2,818.5	€2,723.0	€2,471.2	€2,261.5	€2,140.3	€1,980.7	€1,843.1	€1,686.5
	-11.0%	€2,651.3	€2,569.7	€2,351.8	€2,167.1	€2,058.9	€1,915.0	€1,789.3	€1,644.8
	-12.5%	€2,550.3	€2,476.6	€2,278.0	€2,107.9	€2,007.4	€1,872.8	€1,754.6	€1,617.6
	-14.0%	€2,464.8	€2,397.4	€2,214.5	€2,056.3	€1,962.3	€1,835.7	€1,723.7	€1,593.1
	-16.0%	€2,369.4	€2,308.6	€2,142.4	€1,997.3	€1,910.3	€1,792.4	€1,687.4	€1,564.2
	-18.0%	€2,290.3	€2,234.6	€2,081.7	€1,946.9	€1,865.7	€1,755.0	€1,655.8	€1,538.8
	-20.0%	€2,223.5	€2,172.0	€2,029.7	€1,903.5	€1,827.0	€1,722.3	€1,628.1	€1,516.3
	-22.0%	€2,166.5	€2,118.3	€1,984.8	€1,865.7	€1,793.2	€1,693.6	€1,603.5	€1,496.2
	-24.0%	€2,117.1	€2,071.8	€1,945.6	€1,832.5	€1,763.4	€1,668.1	€1,581.6	€1,478.2

OTE's international fixed-line business is represented by its 54.01% equity stake in RomTelecom and 20.0% interest in Telekom Serbia. RomTelecom is the incumbent fixed-line telephony services company in Romania. Romania's population is ~21.5 million and fixed-line penetration at the end of 2010 was ~21.8%. Please see details of RomTelecom's financial performance:

	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
<b>RomTelecom Sales</b>									
Domestic Telephony	€456.6	€388.8	€90.0	€84.2	€80.9	€76.1	€331.2	€75.0	€71.8
<i>change</i>		-14.8%					-14.8%	-16.7%	-14.7%
International Telephony	€106.1	€92.5	€23.1	€23.1	€23.6	€21.1	€90.9	€17.9	€21.8
<i>change</i>		-12.8%					-1.7%	-22.5%	-5.6%
Mobile	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0	€0.0
Other	€307.1	€301.2	€73.5	€71.4	€77.0	€72.9	€294.8	€73.4	€72.5
<i>change</i>		-1.9%					-2.1%	-0.1%	1.5%
Romtelecom sales before intersegment	€869.8	€782.5	€186.6	€178.7	€181.5	€170.1	€716.9	€166.3	€166.1
Intersegment Sales	<u>(€19.3)</u>	<u>(€17.4)</u>	<u>(€4.6)</u>	<u>(€3.6)</u>	<u>(€7.7)</u>	<u>(€6.3)</u>	<u>(€22.2)</u>	<u>(€8.1)</u>	<u>(€6.3)</u>
<b>Total RomTelecom Sales</b>	€850.5	€765.1	€182.0	€175.1	€173.8	€163.8	€694.7	€158.2	€159.8
<i>change</i>		-10.0%					-9.2%	-13.1%	-8.7%
<b>RomTelecom Expenses</b>									
Payroll & Employee Benefits	€191.9	€164.6	€38.7	€42.7	€39.3	€36.6	€157.3	€33.0	€33.3
<i>Percentage of RomTelecom Sales</i>	22.6%	21.5%	21.3%	24.4%	22.6%	22.3%	22.6%	20.9%	20.8%
Retirement costs	€38.0	€8.6	€3.1	€17.2	€3.4	€0.5	€24.2	€20.7	€7.2
Payment to international operators	€35.2	€41.4	€12.3	€12.3	€13.1	€11.0	€48.7	€8.3	€10.8
Payment to domestic operators	<u>€99.2</u>	<u>€66.3</u>	<u>€13.2</u>	<u>€14.1</u>	<u>€14.7</u>	<u>€16.7</u>	<u>€58.7</u>	<u>€15.7</u>	<u>€16.3</u>
COGS	€364.3	€280.9	€67.3	€86.3	€70.5	€64.8	€288.9	€77.7	€67.6
Gross Profit	€505.5	€501.6	€119.3	€92.4	€111.0	€105.3	€428.0	€88.6	€98.5
<i>Gross Margin</i>	59.4%	65.6%	65.5%	52.8%	63.9%	64.3%	61.6%	56.0%	61.6%
Cost of equipment & prepaid cards	€54.9	€36.7	€6.0	€6.7	€12.2	€9.0	€33.9	€9.7	€7.7
<i>% of RomTelecom Sales</i>	6.5%	4.8%	3.3%	3.8%	7.0%	5.5%	4.9%	6.1%	4.8%
Other operating expense	€197.0	€237.6	€62.2	€71.3	€64.2	€70.0	€267.7	€60.8	€65.7
Adjustments to EBITDA	<u>€38.1</u>	<u>€33.7</u>	<u>€8.2</u>	<u>€10.0</u>	<u>€4.5</u>	<u>€5.6</u>	<u>€28.3</u>	<u>€4.1</u>	<u>€4.1</u>
Romtelecom EBITDA	€291.7	€261.0	€59.3	€24.4	€39.1	€31.9	€154.7	€22.2	€29.2
<i>EBITDA Margin (incl. eliminations)</i>	34.3%	34.1%	32.6%	13.9%	22.5%	19.5%	22.3%	14.0%	18.3%
D&A and other	<u>€253.6</u>	<u>€227.9</u>	<u>€46.0</u>	<u>€59.0</u>	<u>€39.6</u>	<u>€302.2</u>	<u>€446.8</u>	<u>€38.9</u>	<u>€41.2</u>
RomTelecom Operating Income	€38.1	€33.1	€13.3	(€34.6)	(€0.5)	(€270.3)	(€292.1)	(€16.7)	(€12.0)

<b>Fixed line Operations, Romania</b>	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
Voice Telephony Lines	2,961.1	2,764.2	2,710.3	2,678.6	2,632.4	2,604.0	2,604.0	2,572.9	2,558.7
<i>change</i>		-6.6%					-5.8%	-5.1%	-4.5%
Broadband Subscribers	760.7	824.1	853.5	881.2	947.4	1,013.4	1,013.4	1,062.3	1,084.6
<i>change</i>		8.3%					23.0%	24.5%	23.1%
TV Subscribers	643.2	884.1	926.0	934.1	1,003.2	1,053.6	1,053.6	1,064.7	1,222.3
<i>change</i>		37.5%					19.2%	15.0%	30.9%
<b>Revenues fixed line Romania</b>	<b>€869.9</b>	<b>€782.5</b>	<b>€186.6</b>	<b>€178.7</b>	<b>€181.5</b>	<b>€170.1</b>	<b>€716.9</b>	<b>€166.3</b>	<b>€166.1</b>
<i>change</i>		-10.0%					-8.4%	-10.9%	-7.1%
<b>EBITDA fixed line Romania</b>	<b>€291.7</b>	<b>€261.0</b>	<b>€59.3</b>	<b>€24.4</b>	<b>€39.1</b>	<b>€31.9</b>	<b>€154.7</b>	<b>€22.2</b>	<b>€29.2</b>
<i>EBITDA Margin</i>	33.5%	33.4%	31.8%	13.7%	21.5%	18.8%	21.6%	13.3%	17.6%
Voluntary retirement cost	€38.0	€8.6	€3.1	€17.2	€3.4	€0.5	€24.2	€20.7	€7.2
Number of Employees	10,348	10,017	9,519	9,224	9,192	9,180	9,180	8,922	7,733

The minority equity stake (45.99%) in RomTelecom is owned by the Government of Romania. In September 2011, RomTelecom announced that Morgan Stanley will manage the possible share sale of this minority share. According to Minister of Communications Valerian Vreme, this stake is worth at least €1bn. OTE bought the initial 35% of the share capital at RomTelecom in 1998 or \$675mm. In March 2003, OTE acquired additional 19.04% of the company. Our estimates of the company's fixed-line business in Romania are more humble. Its market share in the DTH TV business is 37%, the broadband share is 33%, and the fixed-line – 57%. Fixed-line competition in Romania is more severe, compared to Greece. As a result, EBITDA margins are weaker. We believe that under the stressed scenario, OTE's share in RomTelecom is worth ~€277mm. This valuation is based on the conservative 3.0x multiple of our estimated 2011 EBITDA of €108.8mm.

<b>Fixed-line Romania</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Lines in use (millions)	2,961.1	2,764.2	2,604.0	2,408.7	2,191.9	1,972.7	1,726.1	1,510.4
<i>Change</i>	-1.9%	-6.6%	-5.8%	-7.5%	-9.0%	-10.0%	-12.5%	-12.5%
Total Revenue	€869.9	€782.5	€716.9	€651.4				
<i>Change</i>		-10.0%	-8.4%	-9.1%				
Voice Services as %-ge of total sales	56.7%	52.9%	48.1%	46.0%				
Total Voice Services Sales	€493.2	€413.7	€345.0	€299.6				
<i>Change</i>		-16.1%	-16.6%	-13.2%				
EBITDA Fixed Line	€291.7	€261.0	€154.7	€108.8				
EBITDA Margin	33.5%	33.4%	21.6%	16.7%				
EBITDA Multiple				<b>3.0x</b>				
Enterprise Value				€326.5				
Net debt				(€185.5)				
Equity				€511.9				
OTE's share				<u>54.09%</u>				
Value of OTE's share in Romtelecom				€276.9				

Interestingly enough, RomTelecom holds ~€40mm of the OTE's unsecured bonds. The company has told us that this acquisition was made mainly because any cash repatriation from Romania is associated with taxation. As such, OTE spent some potential dividends from RomTelecom to buy its own bonds.

Telekom Serbia's 20% equity stake was purchased by OTE in 1997 for \$287mm. In May 2010, Telekom Austria AG submitted a bid of €1.1bn to buy the 51% of Telekom Serbia. This bid was rejected by the Serbian Government requesting €1.4bn. According to Austrian press, Telekom Austria AG may revisit its failed bid after Serbia's national election in 2012. Serbia's GDP is expected to grow by 11.1% in 2011 with the inflation-adjusted growth of 3.4%. This week, talks between OTE and Serbia over the sale of OTE's 20% stake in Telekom Serbia have stalled over a price. OTE was offering the Serbian authorities to buy its stake at €550mm – the price implied by the asking price of €1.4bn for the 51% stake. We believe that the realistic monetization value of the OTE stake in Telekom Serbia is between €450mm and €500mm. As of December 31, 2010, Telekom Serbia had 3.0 million access lines in service and 5.6 million mobile customers. Telekom Serbia covers 90% of the mobile telephony coverage in Serbia.

Since February 2009, OTE offers the IPTV service. As of 6/30/2011, OTE had 54,400 IPTV subscribers. The main goal of this service is to retain broadband and fixed-line customers, to increase the share of ADSL customers and to increase ARPU. Additionally, OTE holds a 99.05% interest in Hellas Sat Consortium Limited, a satellite business. Hellas Satellite was launched in May 2003. Its total cost was ~€172mm. Hellas Sat is currently covering, and providing services to customers, in over 30 countries in Europe, the Middle East and Southern Africa. The majority of Hellas Sat's revenues is derived from Central and Eastern European markets and video/DTH services. For 2010, Hellas Sat increased its revenues primarily in the Southern African region. In 2010, Hellas Sat had consolidated revenues of €30.2mm and a consolidated profit after tax of €8.7mm as compared to consolidated revenues of €27.5mm and consolidated profit after tax of €6.2mm in 2009. OTE intends to use its share in Serbia Telekom and its equity in the satellite business as a prime source of potential liquidity for the looming 2013 debt maturities. According to management, OTE can sell its satellite business for at least €150mm.

Summarizing our estimates, we conclude that the total conservative liquidation value of the company's fixed-line business is:

Est. value of the Greek fixed-line business	€1,617.6
Est. value of equity RomTelecom	€276.9
Est. value of equity in Serbia Telecom	€475.0
Est. value of Satellite Hellas	<u>€150.0</u>
Total fixed-line business	€2,519.5

This amount includes only OTE's portion of cash in Romania and excludes all other cash at other subsidiaries and OTE SA. There is an alternative way to think about the valuation. As of 6/30/2011, OTE has generated €622.5mm of free cash flow to equity, defined as cash flow from operations plus cash flow from investments. Currently, the market value of OTE's equity is €1.55bn, which represents 2.5x of the free cash flow to equity, which is ridiculously low. In other words, the company's equity is trading at 40% cash yield. If OTE restructures its debt, the interest expense and taxes will be virtually zero. In the Greek fixed-line business, we estimate the 2012 EBITDA minus 2012 Capex at €360.8mm, and our valuation of €1.6bn equates to a 4.5x multiple of the 2012 free cash flow to equity. This is cheap...

### Mobile Business – Description and Valuation

The following charts shows allocation of the company's mobile sales and EBITDA by country and more detailed financials and operating statistics:

	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
<b>Mobile Revenues</b>									
Greece	€1,843.1	€2,007.4	€464.7	€446.9	€470.6	€429.9	€1,812.1	€378.9	€414.4
<i>change</i>		8.9%					-9.7%	-18.5%	-7.3%
Albania	€191.3	€145.7	€28.6	€30.3	€33.8	€26.6	€119.3	€23.3	€23.5
<i>change</i>		-23.8%					-18.1%	-18.5%	-22.4%
Bulgaria	€460.0	€461.7	€104.0	€105.8	€106.3	€107.2	€423.3	€96.4	€101.4
<i>change</i>		0.4%					-8.3%	-7.3%	-4.2%
Romania	€311.0	€456.3	€114.8	€115.0	€117.5	€121.5	€468.8	€107.3	€114.0
<i>change</i>		46.7%					2.7%	-6.5%	-0.9%
Eliminations	<u>€456.3</u>	<u>(€35.1)</u>	<u>(€6.9)</u>	<u>(€6.1)</u>	<u>(€4.9)</u>	<u>(€8.5)</u>	<u>(€26.4)</u>	<u>(€4.2)</u>	<u>(€6.8)</u>
Total Mobile Revenues	€3,261.7	€3,036.0	€705.2	€691.9	€723.3	€676.7	€2,797.1	€601.7	€646.5
<b>Mobile EBITDA</b>									
Greece	€781.9	€741.8	€174.2	€155.2	€185.0	€153.3	€667.7	€138.7	€152.3
<i>Greece Mobile EBITDA Margin</i>	42.4%	37.0%	37.5%	34.7%	39.3%	35.7%	36.8%	36.6%	36.8%
Albania	€123.8	€84.0	€12.7	€15.8	€18.4	€11.4	€58.3	€9.0	€8.7
<i>Albania Mobile EBITDA Margin</i>	64.7%	57.7%	44.4%	52.1%	54.4%	42.9%	48.9%	38.6%	37.0%
Bulgaria	€195.6	€182.4	€41.4	€41.3	€43.5	€46.0	€172.2	€37.3	€38.5
<i>Bulgaria Mobile EBITDA Margin</i>	42.5%	39.5%	39.8%	39.0%	40.9%	42.9%	40.7%	38.7%	38.0%
Romania	€40.8	€68.2	€6.6	€18.7	€23.3	€25.1	€73.7	€17.9	€22.6
<i>Romania Mobile EBITDA Margin</i>	13.1%	14.9%	5.7%	16.3%	19.8%	20.7%	15.7%	16.7%	19.8%
Eliminations	<u>€0.0</u>	<u>(€5.7)</u>	<u>€3.9</u>	<u>€0.3</u>	<u>(€3.3)</u>	<u>(€0.7)</u>	<u>€0.2</u>	<u>€0.2</u>	<u>(€3.5)</u>
Total Mobile EBITDA	<u>€1,142.1</u>	<u>€1,070.7</u>	<u>€238.8</u>	<u>€231.3</u>	<u>€266.9</u>	<u>€235.1</u>	<u>€972.1</u>	<u>€203.1</u>	<u>€218.6</u>
<i>Total Mobile EBITDA Margin</i>	35.0%	35.3%	33.9%	33.4%	36.9%	34.7%	34.8%	33.8%	33.8%
Employees at Mobile		9,652	9,257	9,274	9,182	9,137	9,137	8,848	8,699
<b>Mobile Greece</b>									
Customers (000s)	7,893.1	9,217.5	8,837.0	8,508.6	8,330.5	7,993.5	7,993.5	7,599.8	7,732.6
<i>change</i>		16.8%					-13.3%	-14.0%	-9.1%
Straight ARPU	€233.5	€217.8	€52.6	€52.5	€56.5	€53.8	€226.7	€49.9	€53.6
<i>change</i>		-6.7%					4.1%	-5.2%	2.0%

	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
<b>Mobile Albania</b>									
Mobile Subscribers	1,396.0	1,909.0	2,007.6	2,037.4	2,037.9	2,022.5	2,022.5	2,033.6	1,912.2
<i>change</i>		36.7%					5.9%	1.3%	-6.1%
ARPU per customer	€137.0	€76.3	€14.2	€14.9	€16.6	€13.2	€59.0	€11.5	€12.3
<i>change</i>		-44.3%					-22.7%	-19.6%	-17.4%
<b>Mobile Bulgaria</b>									
Mobile Subscribers	4,097.0	3,902.3	3,845.0	3,953.6	3,886.1	3,919.8	3,919.8	3,933.8	4,034.7
<i>change</i>		-4.8%					0.4%	2.3%	2.1%
ARPU per customer	€112.3	€118.3	€27.0	€26.8	€27.4	€27.3	€108.0	€24.5	€25.1
<i>change</i>		5.4%					-8.7%	-9.4%	-6.1%
<b>Mobile Romania</b>									
Mobile Subscribers	5,894.1	7,280.4	7,154.9	7,087.0	7,066.8	6,849.5	6,849.5	6,641.4	6,595.5
<i>change</i>		23.5%					-5.9%	-7.2%	-6.9%
ARPU per customer	€52.8	€62.7	€16.0	€16.2	€16.6	€17.7	€68.4	€16.2	€17.3
<i>change</i>		18.8%					9.2%	0.7%	6.5%
<b>Mobile Revenues</b>									
Monthly Service Fees	€749.1	€830.0	€214.6	€213.7	€207.5	€204.5	€840.3	€200.5	€200.6
<i>change</i>		10.8%					1.2%	-6.6%	-6.1%
Airtime Revenues	€1,074.2	€982.6	€219.2	€214.0	€216.6	€190.3	€840.1	€171.6	€193.3
<i>change</i>		-8.5%					-14.5%	-21.7%	-9.7%
Interconnection revenues	€601.3	€520.2	€103.2	€111.2	€109.1	€102.7	€426.2	€88.5	€95.7
<i>change</i>		-13.5%					-18.1%	-14.2%	-13.9%
Roaming Revenues	€63.6	€45.9	€5.4	€10.7	€20.5	€5.5	€42.1	€3.8	€10.1
SMS Revenues	€204.0	€219.1	€56.5	€47.7	€57.3	€55.2	€216.7	€54.7	€59.5
<i>change</i>		7.4%					-1.1%	-3.2%	24.7%
Sales of handsets and accessories	€541.7	€403.1	€98.3	€87.4	€104.3	€105.4	€395.4	€73.5	€80.3
<i>change</i>		-25.6%					-1.9%	-25.2%	-8.1%
Commission Revenues	€2.5	€3.2	€1.4	€0.6	(€0.1)	€0.3	€2.2	€0.7	€0.4
Other revenues	€25.4	€31.8	€6.5	€6.6	€8.2	€12.9	€34.2	€8.4	€6.6
<b>Total Mobile Revenues</b>	<b>€3,261.7</b>	<b>€3,035.9</b>	<b>€705.1</b>	<b>€691.9</b>	<b>€723.4</b>	<b>€676.8</b>	<b>€2,797.2</b>	<b>€601.7</b>	<b>€646.5</b>
<b>Mobile Expenses</b>									
Interconnection expense	€461.6	€405.4	€82.2	€85.6	€88.3	€78.8	€334.9	€67.8	€71.6
<i>%-ge of interconnection revenues</i>	76.8%	77.9%	79.7%	77.0%	80.9%	76.7%	78.6%	76.6%	74.8%
COGS	€525.4	€403.1	€100.8	€87.9	€98.5	€94.4	€381.6	€70.6	€79.5
Payroll	€244.3	€260.7	€67.4	€60.0	€59.3	€58.0	€244.7	€69.5	€62.3
Network Operating Costs	€206.7	€220.3	€56.7	€54.3	€53.1	€51.6	€215.7	€54.9	€54.8
Distribution and Sales	€375.5	€346.1	€73.9	€80.1	€77.9	€86.3	€318.2	€57.9	€67.1
Marketing & Customer Care	€181.1	€191.1	€45.9	€47.4	€40.7	€27.8	€161.8	€34.8	€41.1
G&A	€92.4	€94.6	€26.3	€29.2	€21.5	€26.5	€103.5	€24.8	€25.1
Provision for Doubtful Accounts	€32.5	€44.0	€13.2	€16.1	€17.1	€18.4	€64.8	€18.4	€25.0
EBITDA	€1,142.1	€1,070.6	€238.7	€231.3	€267.0	€235.0	€972.0	€203.0	€220.0
<i>EBITDA Margin</i>	35.0%	35.3%	33.9%	33.4%	36.9%	34.7%	34.7%	33.7%	34.0%
D&A	€416.6	€458.3	€125.1	€123.2	€120.8	€122.9	€492.0	€124.4	€125.1
Operating Income	€725.6	€612.3	€113.6	€108.1	€146.2	€112.1	€480.0	€78.6	€94.9



	2008	2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011
<b>Cosmote Sales</b>									
Mobile	€2,692.1	€2,597.8	€599.0	€597.3	€610.8	€558.2	€2,365.3	€519.1	€559.2
<i>change</i>		-3.5%					-8.9%	-13.3%	-6.4%
Other	€569.6	€438.1	€106.2	€94.6	€112.5	€118.6	€431.9	€82.6	€87.3
<i>change</i>		-23.1%					-1.4%	-22.2%	-7.7%
Intersegment Sales	<u>(€197.2)</u>	<u>(€192.6)</u>	<u>(€40.4)</u>	<u>(€42.7)</u>	<u>(€44.7)</u>	<u>(€42.6)</u>	<u>(€170.4)</u>	<u>(€35.0)</u>	<u>(€40.1)</u>
<b>Total Cosmote Sales</b>	€3,064.5	€2,843.3	€664.8	€649.2	€678.6	€634.2	€2,626.8	€566.7	€606.4
<i>change</i>		-7.2%					-7.6%	-14.8%	-6.6%
<b>Cosmote Expenses</b>									
Payroll & Employee Benefits	€243.1	€258.8	€64.8	€60.1	€59.3	€55.3	€239.5	€58.5	€61.9
<i>Percentage of Cosmote Sales</i>	7.9%	9.1%	9.7%	9.3%	8.7%	8.7%	9.1%	10.3%	10.2%
Restructuring costs	€0.0	€0.0	€2.6	€0.0	€0.0	€0.0	€2.6	€11.0	€0.3
Payment to international operators	€38.0	€37.6	€7.9	€9.1	€12.0	€7.7	€36.7	€5.4	€5.9
Payment to domestic operators	<u>€423.5</u>	<u>€367.8</u>	<u>€74.3</u>	<u>€76.6</u>	<u>€76.8</u>	<u>€70.5</u>	<u>€298.2</u>	<u>€62.4</u>	<u>€63.7</u>
COGS	€704.6	€664.2	€149.6	€145.8	€148.1	€133.5	€577.0	€137.3	€131.8
Gross Profit	€2,359.9	€2,179.1	€515.2	€503.4	€530.5	€500.7	€2,049.8	€429.4	€474.6
<i>Gross Margin</i>	77.0%	76.6%	77.5%	77.5%	78.2%	78.9%	78.0%	75.8%	78.3%
Cost of equipment & prepaid cards	€526.3	€403.6	€105.1	€87.2	€100.5	€97.5	€390.3	€71.2	€81.3
<i>% of Cosmote Sales</i>	17.2%	14.2%	15.8%	13.4%	14.8%	15.4%	14.9%	12.6%	13.4%
Other operating expense	<u>€888.6</u>	<u>€897.9</u>	<u>€211.7</u>	<u>€227.6</u>	<u>€208.4</u>	<u>€210.3</u>	<u>€858.0</u>	<u>€190.1</u>	<u>€211.5</u>
Cosmote EBITDA	€945.0	€877.6	€198.4	€188.6	€221.6	€192.9	€801.5	€168.1	€181.8
<i>EBITDA Margin</i>	30.8%	30.9%	29.8%	29.1%	32.7%	30.4%	30.5%	29.7%	30.0%
D&A	<u>€416.6</u>	<u>€458.3</u>	<u>€125.1</u>	<u>€123.3</u>	<u>€120.9</u>	<u>€122.7</u>	<u>€492.0</u>	<u>€124.4</u>	<u>€125.1</u>
Cosmote Operating Income	€528.4	€419.3	€73.3	€65.3	€100.7	€70.2	€309.5	€43.7	€56.7

As you can see, the number of customers and ARPU has been declining in 2010 but has started normalizing recently.

Customer base	<i>millions</i>			Market Share	
	2009	2010	Q2 2011		
Greece	9.2	8.0	7.7	1	<i>industry-wide attrition following pre-paid mandatory registration</i>
Romania	7.3	6.8	6.6	3	<i>subscriber loss mainly due to pre-paid base rationalization. 22.6% of customers is post-paid</i>
Bulgaria	3.9	3.9	4.0	2	<i>60% of customers are post-paid</i>
Albania	1.9	2.0	1.9	1	<i>largely a pre-paid market. Unfavorable regulations</i>

With the exception of Romania, EBITDA margins have been high and relatively stable. Mobile ARPU and customer attrition are closer correlated with a country's GDP growth than the fixed-line business characteristics. We value OTE's consolidated mobile EBITDA multiple of 3.0x, which we believe, is extremely conservative.

Mobile Business est. 2012 EBITDA	€860.0
Multiple	3.0x
Enterprise Value	€2,580.0

### Capital Structure and Valuation

The following chart shows the company's pro-forma capital structure that incorporates €300mm revolver drawn after the Q2 2011 financial results:

	Number of Shares (millions)	Face Value	Market Price	Market Value	LTM Leverage	YTW
Pro-forma cash as of 6/30/2011 - (1)		€1,167.4				
<b>Secured debt</b>						
€500mm Term loan E+0.25% due Sep. 2012		€445.2	77.0%	€342.8		
€350mm Revolver E+0.25% due Sep. 2012		€331.4	77.0%	€255.2		
€900mm Revolver E+5% due Sep. 2013		€900.0	70.0%	€630.0		
Other loans (RomTelecom)		<u>€54.2</u>	100.0%	<u>€54.2</u>		
Total Secured Debt		€1,730.8		€1,282.2		
Total Net Secured Debt		€563.4		€114.8	<b>0.1x</b>	
<b>Unsecured Debt</b>						
3.75% Senior Unsecured Notes due 11/11/2011		€285.4	100.0%	€285.4		3.8%
5.0% Senior Unsecured Notes due 8/6/2013		€1,243.0	76.0%	€944.7		23.0%
7.25% Senior Unsecured Notes due 4/8/2014		€500.0	74.0%	€370.0		22.0%
6.0% Senior Unsecured Notes due 2/12/2015		€600.0	71.0%	€426.0		20.5%
4.625% Senior Unsecured Notes due 5/20/2016		<u>€895.0</u>	61.0%	<u>€546.0</u>		16.0%
Total Unsecured Debt		<u>€3,523.4</u>		<u>€2,572.1</u>		
Total Debt		€5,254.3		€3,854.3		
Total Net Debt		€4,086.9		€2,686.9	<b>2.0x</b>	
Common Stock	490.15		€3.2	€1,549.9		
<b>Total Enterprise Value</b>		€5,636.7		€4,236.7	<b>3.5x</b>	
LTM EBITDA as of 6/30/2011	€1,592.0					
(1) €300mm of additional credit Drawn and some '11 bonds repurchased during Q3 2011						

Below please see the breakdown of LTM sales and EBITDA between fixed-line and mobile businesses:

	LTM 30-Jun-11	Percentage of total
Fixed-line Business Revenues	€2,746.4	52.8%
Fixed-line Business EBITDA	€651.1	41.3%
<i>Fixed-line EBITDA Margin</i>	23.7%	
Mobile revenues	€2,648.2	50.9%
Mobile Business EBITDA	€923.7	58.7%
<i>Mobile EBITDA Margin</i>	34.9%	
Eliminations Sales	<u>(€191.0)</u>	
Elimination EBITDA	<u>(€17.2)</u>	
Total Sales	€5,203.6	
Total EBITDA	€1,574.8	

We assign 90% probability that the company will be able to successfully refinance all of its debt maturities even under the worst-case assumption when Greece abandons the Euro zone. We believe that the company represents a strategically important long-term investment for its 40% shareholder Deutsche Telecom regardless of the currency issues. Greece is an important European telecom market, and the currency depreciation, if any, will have a relatively mild effect on the company's bottom line because of the cost structure. We think that the unsecured bonds will be refinanced by August 2013. The YTM for the 5.0% notes is currently 23.0%. Let's calculate the IRR for these bonds under the assumption of the worst case scenario and ensuing equitization:

Pro-forma cash as of 6/30/2011	€1,167.4	
Est. cash flow from operations in H2 2011	€250.0	<i>CF from operations plus CF from investments</i>
Est. debt repay in H2 2011	(€285.4)	
Est. cash flow from operations in 2012	€350.0	<i>conservative assumptions</i>
Est. debt repay in 2012	(€776.6)	
Estimated cash at the end of 2012	€705.4	
Estimated debt at the end of 2012	€4,192.2	
Estimated net debt at the end of 2012	€3,486.9	

**Assume that OTE cannot refinance the 2013 bond maturities and refinances the €900mm of term loan**

**The last coupon on the bonds will be paid on February 6, 2013. We assume that the restructuring will last for 12 months.**

Estimated restructuring costs	(€300.0)	
Estimated FCF during restructuring	€0.0	
Secured Debt after restructuring	€954.2	
Estimated cash after restructuring	<u>€405.4</u>	
Estimated net secured debt after restructuring	€548.9	
Value of new Equity available	€5,099.5	
<b>Recovery for the unsecured pool</b>		
Unsecured bonds	€3,238.0	
Assumed underfunded pension liabilities	<u>€750.0</u>	assumption, although as per Greek law, pensions are covered
Total pool for new equity	€3,988.0	by the Greek government
Recovery for the unsecured pool	127.9%	

It appears that even under our draconian assumptions, the bonds will actually only benefit from the equitization:

10/27/11	(€944.7)
02/05/12	€16.7
08/05/12	€31.1
02/05/13	€31.1
02/05/14	<u>€1,589.4</u>
<b>IRR</b>	<b>29.5%</b>

There is an argument that in case of 2012-2013 refinancing, the rest of the capital structure will also be refinanced. As such, the longer-maturities' bonds are more attractive, compared to the '2013 notes. We agree with this argument. To be frank, we don't understand the market nervousness about the Greek issue to begin with, since the incumbent telecom companies with leading shares in emerging market countries have always successfully restructured (Republic of Georgia, Argentina, to start with...) Investors should consider buying the bonds, since they represent liquid and attractive, misunderstood and under-appreciated distressed investment.

## **Disclosure Regarding Research Report**

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## Appendix

## Alternative Revenue Breakdown

	2005	2006	2007	2008	2009	2010
<b>Domestic telephony</b>						
Call Charges	€1,274.8	€1,172.8	€943.8	€807.2	€711.4	€572.8
<i>Percentage of total</i>	55.2%	52.0%	46.7%	44.5%	43.9%	41.1%
Monthly rental charges	€950.1	€991.8	€985.0	€910.7	€845.9	€751.2
<i>Percentage of total</i>	41.2%	43.9%	48.8%	50.2%	52.2%	53.9%
Other	<u>€83.2</u>	<u>€92.1</u>	<u>€90.3</u>	<u>€96.3</u>	<u>€62.3</u>	<u>€70.1</u>
Total	€2,308.1	€2,256.7	€2,019.1	€1,814.2	€1,619.6	€1,394.1
<b>International telephony</b>						
Outgoing traffic	€150.5	€132.3	€108.1	€93.8	€84.9	€70.9
<i>Percentage of total</i>	38.5%	38.1%	35.5%	32.7%	33.8%	35.4%
Incoming and transit traffic	€202.4	€172.7	€146.8	€136.6	€113.3	€89.2
<i>Percentage of total</i>	51.8%	49.8%	48.2%	47.6%	45.1%	44.6%
Payments from operators	<u>€38.1</u>	<u>€41.9</u>	<u>€49.6</u>	<u>€56.5</u>	<u>€52.9</u>	<u>€40.0</u>
Total	€391.0	€346.9	€304.5	€286.9	€251.1	€200.1
Mobile Telephony		€1,975.8	€2,210.0	€2,470.8	€2,396.2	€2,202.4
Other Revenue		<u>€1,308.0</u>	<u>€1,783.1</u>	<u>€1,812.1</u>	<u>€1,692.0</u>	<u>€1,686.2</u>
Total		€5,887.4	€6,316.7	€6,384.0	€5,958.9	€5,482.8

Revenues	2005	2006	2007	2008	2009	2010
Greece	€3,988.4	€4,239.4	€4,530.7	€4,498.3	€4,189.6	€3,819.1
<i>%-ge of total</i>	72.9%	72.0%	71.7%	70.5%	70.3%	69.7%
Albania				€161.9	€125.3	€106.9
Bulgaria				€469.4	€423.9	€388.4
Romania				€1,164.9	€1,181.2	€1,146.3
<i>%-ge of total</i>				18.2%	19.8%	20.9%
Other Countries				<u>€89.5</u>	<u>€38.9</u>	<u>€22.1</u>
Total Other Countries	<u>€1,482.6</u>	<u>€1,648.0</u>	<u>€1,789.1</u>	<u>€1,885.7</u>	<u>€1,769.3</u>	<u>€1,663.7</u>
Total	€5,471.0	€5,887.4	€6,319.8	€6,384.0	€5,958.9	€5,482.8

### Real GDP Growth in Greece

