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March 31, 2008

Industry View
In-Line

Telecommunications Services

Guide to Investing Through MTR Changes

What's Changed

| | |
|----------|----------------------|
| Vodafone | From OW to UW |
| BT | From UW to EW |

MTR cuts ahead. MTR cuts are likely to be a significant drag on sector estimates from 2009 onwards. We expect the European Commission to bring forward a Recommendation to bring MTRs down to costs, and level the playing field for challenger operators. We downgrade **Vodafone** to Underweight as one of the most exposed to this development, and upgrade **BT** to Equal-weight. While facing its own challenges, it has already de-rated more significantly.

Despite falls the sector is less, not more, attractive.

Since September 2007, the sector has fallen 15% absolute and been exactly flat relative to the market. While time value and dividends, coupled with stable estimates overall, would suggest the sector is now 20% cheaper, we believe around half of this could be explained by pricing in wider economic risks, with the rest due to newer problems such as the rise of mobile broadband or the maturity of SMS. Regulatory drags should therefore be seen as an incremental negative, in our view, and a real risk on earnings from 2009 onwards. *We would look for signs that the market has priced in additional regulatory risks, and that new negative developments in mobile broadband and SMS are contained before turning more positive.*

Stock selection. Our top picks remain **KPN, Tele2, FT, Iliad** and **Telia**, plus central European plays **TPSA** and **TEF O2 Czech Republic**. **Telefonica** remains OW for value. Our key Underweights are now **Vodafone** for differential estimate risk and **TI** for valuation and leverage.

What's Changed

| <u>Company</u> | <u>Rating/Price target</u> |
|------------------|----------------------------|
| Vodafone | OW to UW, PT 215p to 170p |
| BT | UW to EW, PT 275p to 265p |
| Belgacom | From €35 to €33 |
| Deutsche Telekom | From €15.5 to €14.5 |
| France Telecom | From €29 to €28 |
| KPN | From €16 to €15 |
| OTE | From €27 to €26 |
| Portugal Telecom | From €9.0 to €8.5 |
| Swisscom | From CHF442 to CHF423 |
| Telefonica | From €26.5 to €25.5 |
| Telenor | From NOK135 to NOK129 |
| Tele2 | From SEK174 to SEK161 |
| TeliaSonera | From SEK68 to SEK 65 |
| TPSA | From PLN28.5 to PLN28.0 |

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Guide to Investing Through MTR Changes

We downgraded our view on the sector to In-Line (*Sell into Strength*, September 17, 2007) based on downside skew to returns in telecoms. These risks are becoming more apparent and telco risks being neither 'defensive' nor 'recovery', in our view.

We expect the EC to issue a Recommendation in June on cutting MTRs aggressively. This is not legally binding, but usual EU practice suggests that it will be followed.

MTR cuts hit directly (we estimate a cut of 11% to leading European mobile operator EBITDA over three to four years) but also indirectly (enabling challengers to start a price war).

Other threats also remain. In particular, mobile broadband, SMS decline and economic / credit considerations.

- Mobile 'dongles'** (see *Introducing the New Threat – Broadband Substitution*, November 28, 2007) pose a significant challenge to DSL – faster speeds, lower price and portability. DSL growth contributes typically 2pp+ of support to fixed-line revenue growth. Accelerating copper line loss could have a material effect on performance, particular on cost-inflexible incumbents (see the performance of TKA).
- SMS could decline.** There is no evidence of this currently, but when a service is 600x+ over-priced versus a possible replacement, risk is inherent. See www.trutap.com as an example.
- Credit crunch.** This is bound to be somewhat in the price already, but we believe telco forecasts include zero impact from an economic slowdown. In addition, higher bond yields create direct competition for telco investors, who tend to be yield seekers.

Changes to forecasts and stock selection

ROCE will be under attack throughout the sector, but KPN, Tele2, Telia, FT and Iliad are most resilient, in our view. We downgrade Vodafone to UW and upgrade BT to EW (see our separate reports on these stocks also published today).

In Exhibit 1, we show each stock's exposure to leading mobile, and in Exhibit 2 we show our estimate changes for MTR cuts in tabular form. Our price target changes range from 2% to 20% (the upper end including changes for emerging market capex, spectrum purchases and other items). The average change is 6%.

Exhibit 1

Leading European mobile as percent of equity value: Vodafone highly exposed

| | % Enterprise value | % Equity Value |
|----------------------|--------------------|----------------|
| Swisscom (%) | 48.7 | 69.1 |
| Telecom Italia (%) | 36.1 | 69.1 |
| Vodafone (%) | 50.0 | 63.0 |
| Tef O2 Czech (%) | 59.5 | 59.2 |
| Belgacom (%) | 47.6 | 57.2 |
| TPSA (%) | 45.4 | 52.4 |
| Portugal Telecom (%) | 27.8 | 47.0 |
| KPN (%) | 30.0 | 41.0 |
| Telekom Austria (%) | 27.9 | 40.0 |
| France Telecom (%) | 25.2 | 38.3 |
| Tele2 (%) | 28.3 | 33.6 |
| Telefonica (%) | 23.3 | 31.3 |
| Deutsche Telekom (%) | 15.7 | 26.2 |
| Telenor (%) | 15.6 | 13.7 |
| TeliaSonera (%) | 9.8 | 11.4 |

Source: Morgan Stanley Research estimates

March 31, 2008

Telecommunications Services

Exhibit 2

Changes to Forecasts and Price Targets

| | 2011 EBITDA | 2011 EPS | | Price Target | | | |
|------------------|-------------|----------|-------|--------------|-------|-------|--------|
| | Diff | Old | New | Diff | Old | New | Diff |
| Belgacom | -3.5% | 2.78 | 2.62 | -5.8% | 35.0 | 33.0 | -5.7% |
| BT | -0.5% | 24.80 | 24.90 | 0.4% | 275 | 265 | -3.6% |
| Deutsche Telekom | -4.6% | 1.03 | 0.90 | -12.6% | 15.5 | 14.5 | -6.5% |
| France Telecom | -1.0% | 2.36 | 2.32 | -1.9% | 29.0 | 28.0 | -3.4% |
| KPN | -3.0% | 1.08 | 1.01 | -6.5% | 16.0 | 15.0 | -6.3% |
| OTE | -2.0% | 1.77 | 1.69 | -4.5% | 27.0 | 26.0 | -3.7% |
| Portugal Telecom | -1.0% | 0.87 | 0.84 | -3.4% | 9.0 | 8.5 | -5.6% |
| Swisscom | -0.9% | 33.55 | 32.86 | -2.0% | 442 | 423 | -4.3% |
| Telefonica | -1.5% | 2.22 | 2.15 | -3.2% | 26.5 | 25.5 | -3.8% |
| Telenor | -3.2% | 11.44 | 11.00 | -3.8% | 135.0 | 129.0 | -4.4% |
| Tele2 | -4.4% | 11.83 | 11.00 | -7.0% | 174.0 | 161.0 | -7.5% |
| TeliaSonera | -4.6% | 5.72 | 5.49 | -4.0% | 68.0 | 65.0 | -4.4% |
| TPSA | -1.2% | 2.31 | 2.25 | -2.7% | 28.5 | 28.0 | -1.8% |
| Vodafone | -4.5% | 16.57 | 14.19 | -14.4% | 215.0 | 170.0 | -20.9% |

PLEASE NOTE THAT DT CHANGES ALSO INCORPORATE US\$/€ FROM 1.45 TO 1.55 FROM 2008

Source: Morgan Stanley Research estimates

Exhibit 3

Stock Selection: Order of Preference

| | Valuation | | | | Comments |
|-------------------------|--------------|-----------------------|--------------------------------------|------------------------|---|
| | Price Target | Upside (downside) (%) | 2008E Modelware P/E ex licence amort | 2008E FCFE tax adj (%) | |
| Overweight | | | | | |
| KPN | 15.0 | 44.1 | 10.9 | 11.3 | Continual cash returns, margins to be higher for longer in Netherlands and Germany. |
| Tele2 | 161.0 | 44.1 | 18.6 | 5.0 | Highly discounted Russian exposure. Cash returns to begin soon. |
| France Telecom | 28.0 | 30.7 | 11.1 | 9.8 | Good earnings momentum, valuation support and negative catalysts now behind. |
| Iliad* | 81.0 | 27.1 | 20.8 | 1.29 | Strong growth story, solid execution and right strategic thinking on fibre. 3G risk now discounted. |
| TP* | 28.0 | 28.5 | 13.2 | 13.9 | Strongest FCF yield in sector; potential for earnings upgrades; defensive play. |
| Telefonica O2 Czech Rep | 680.0 | 32.6 | 17.7 | 11.6 | Excellent yield, strong mobile growth in Czech and Slovakia, fixed turnaround to come. |
| TeliaSonera | 65.0 | 35.4 | 10.3 | 9.0 | Valuation fair, superior 07-10e CAGR growth in proportionate EBITDA, cash returns to continue. |
| Telefonica | 25.5 | 36.6 | 9.6 | 9.3 | Good valuation, better earnings momentum than average, strong guidance and shareholder returns. |
| OTE | 26.0 | 46.9 | 11.8 | NM | Solid numbers plus pension and real estate optionality. Management uncertainty medium term. |
| Equal-weight | | | | | |
| Cable & Wireless* | 1.90 | 30.9 | 12.8 | 5.5 | Pension risk (p&l and potential deficit), but risk reward improving as stock falls. |
| Telekom Austria | 22.3 | 66.3 | 10.6 | 13.8 | Earnings pressure from fixed cost inflexibility/roaming, M&A risk, but attractive valuation. |
| Telenor | 129.0 | 33.3 | 10.0 | 5.8 | Emerging assets at a discount to the market - esp excluding Vimpelcom. |
| Neuf Cegetel | 38.0 | 9.1 | 15.8 | 5.8 | Limited upside in SFR bid situation. |
| Swisscom | 423.0 | 22.9 | 9.1 | 9.5 | Improving valuation as long as Fastweb results remain on track, but capex drags FCFE. |
| Deutsche Telekom | 14.5 | 34.0 | 11.0 | 12.1 | Limited visibility on restructuring potential, but cheapest stock in sector. |
| Bouygues | 58.0 | 40.9 | 8.3 | 7.7 | Recession risks now better priced; however still see risks to telecoms forecasts. |
| Inmarsat* | 5.30 | 17.0 | 53.0 | NM | Core growth has improved. Aero GSM is a key variable from here. Cyclicity an open question. |
| BT | 2.65 | 22.7 | 9.2 | 8.9 | Fibre rollout risk, rising capex trends, increasing ULL, pensions. But risks now better reflected. |
| Fastweb* | 30.0 | 53.4 | 12.8 | 5.9 | Operating concerns on PA contract now well discounted. |
| Colt Telecom* | 1.66 | 0.2 | 28.6 | 0.9 | Price deflation continues apace, no FCF. |
| Telecom Italia (Savers) | 1.45 | 37.7 | 7.6 | 11.8 | Exposure to possible conversion proposal from the new owners of TI. |
| Underweight | | | | | |
| Vodafone | 1.70 | 8.0 | 10.1 | 8.2 | Among most exposed to MTR cuts in Europe. Valuation not compelling on a relative basis. |
| Portugal Telecom | 8.5 | 14.9 | 13.6 | NM | Operational challenges, limited financial flexibility but high shareholder return. |
| Belgacom | 33.0 | 16.2 | 10.2 | 9.8 | Valuation expensive, overhang risk remains, better earnings momentum already priced in. |
| Telecom Italia (Ords) | 1.60 | 18.4 | 9.7 | 9.2 | Low yield, high payout given leverage, and low growth. MTRs an additional risk. |

For valuation methodology and risks associated with price targets mentioned, please refer to the latest relevant research on these stocks, which is available through your sales representative; Client Link at www.morganstanley.com; or other electronic systems.
Source: Morgan Stanley Research estimates * this stock has a V flag to denote volatility

Valuation

The sector is trading on 10.1x 2008e and 9.5x 2009e earnings, with EV/EBITDA of 5.2x and 4.8x, respectively. The weighted average dividend yield is 5.6% and 6.2%.

While these multiples look attractive, and we continue to have 28% weighted average upside to our price targets, we caution that with very low top-line growth and 'downside skew' to cash flows, the chances of telecoms being a value trap in the near term are high.

The clear risk is that the sector remains at depressed levels while the new regulatory news is digested. Any market rally would leave the sector standing, we believe.

We would look for signs that the market has priced in additional regulatory risks, and that new negative developments in mobile

broadband and SMS are contained before turning more positive.

Telecoms and Buffett's Moats

As Warren Buffet has outlined, some companies have strong, durable advantages ('Moats') that allow them to continue to earn premium returns on capital. These advantages can be grouped under four headings:

- 1) **Intangible assets** such as brands or patents (e.g. Coca Cola, drug patents).
- 2) **High switching costs for the customer** (e.g. complexity of moving direct debit mandates when switching bank accounts).
- 3) **Network economics** (e.g. marketplaces such as eBay or on-net calls in mobile).
- 4) **Cost advantage** providing a permanent opportunity to sell at a lower cost than competitors (e.g. Walmart).

We would argue that mobile companies already do not possess (1), (2) or (3).

- Brands in Europe especially are not highly differentiated (some in the US possess a cachet for better coverage);
- Switching costs for the customer are low and falling (customers tend to switch each time they want a new phone, and regulators are ensuring the time to port a number continues to fall).

- Large operators do not have a clear cost advantage. E+ has similar margins to DT and better growth; O2 consistently outperformed its peers in the UK market even when these were part of much larger multinational groupings; and high apparent margins at larger operators are in large part a product of accounting (lower M2M revenues and costs from other operators). Finally, while large operators could cut prices aggressively to maintain market share, this would result in lower returns near term – which the market is not discounting, in our view.

However, advantage (3) has – until now – existed. The most egregious example has been Swisscom, which prices on-net calls at SFr 0.50 **per hour**, but off-net at SFr 0.50 **per minute**. But there are many other examples as well – for example, Telefonica Spain's marketing of cheap calls to 23mn Spaniards.

This can be further emphasised by recalling that 3 UK has admitted that, despite an MTR 2x that of the competition, its cheap calls policy has led it to become a **net payer** to the competition of termination of 3pp of revenues.

Regulators have noted that the current MTR regime is anti-competitive and precludes smaller operators from cutting prices.

Could Moat #3 be about to be breached?

Mobile Termination Rates – Possible Glide Path

We believe that EU regulators have increasing power and yet the instruments at their disposal are not well understood by the market.

The roaming Regulation (with a capital R – Regulations have a direct effect in member states) was a key example of this. How many investors knew in advance that the EU possessed the power to pass an instrument that regulated retail and wholesale prices in the EU *and that was directly applicable in all member states*? We certainly did not until we dug into the EU legal/constitutional details. And, in some ways, the roaming Regulation broke new ground – a Regulation had not been used on such scale before in the area of pricing, and yet legal challenges have not occurred.

Mobile Termination Rates (MTRs) look set to be another step on the road to European harmonisation. We anticipate a different legal instrument being used – a Recommendation under Article 19 of the 2002 Directive. This instrument is not directly applicable as a Regulation, but has traditionally been followed by all Member States.

Key statements by EU officials on MTRs

We noted in our sector downgrade (*Sell into Strength*, September 2007) that termination rates had begun to be targeted by the EU. Since then, there have been a number of further statements. We list some of these below:

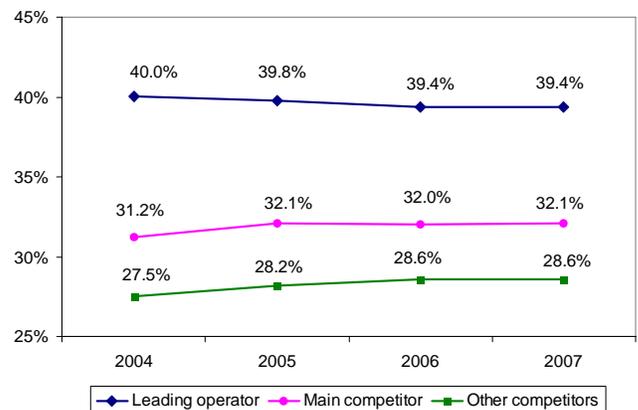
- Commissioner Reding welcomes French Regulator ARCEP’s analysis of the MTR problem** (September 14, 2007). ARCEP set rates below EU averages but said that this was still substantially above cost. It believed action should be taken at the EU level to avoid distortions to the internal market. Ms. Reding agreed, saying that in the long term, MTRs should converge with fixed termination rates. <http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1333&format=PDF&aged=0&language=EN&guiLanguage=en>.
- Nicolas Curien of ARCEP, which chairs the ERG working group on MTRs, said in a presentation (January 31, 2008) that costs in 2005 stood around 3-4€ and that by 2010 these are likely below 2.5€ at a constant cost perimeter.** See http://www.mobilechallengers.eu/01/MyDocuments/presentation_prof_curien.pdf.

- The European Commission noted in its 13th Progress Report on the Single Communications Market (March 19, 2008) that the lack of consistency of approach on MTRs “is a hindrance to the single market”.** MTRs range from 1.93c in Cyprus to 22.37c in Estonia, and “the average MTR is 8.7x higher than the average fixed termination”. See page 5 of http://ec.europa.eu/information_society/policy/ecom/doc/library/annualreports/13th/com_2008_153_en_final.pdf.
- Viviane Reding was reported (*Financial Times*, March 19, 2008) as saying that she planned “legislative action” to reduce MTRs.** (Though much of the article concerned data roaming charges, which are less significant in our view.)

The EC also comments that “Although consumers are witnessing lower prices as a result of increasing competition, the market shares of the leading operators in each Member State have only reduced slightly since 2004” – as shown in Exhibit 4.

Exhibit 4

Market Shares of European Mobile Operators



Source: EC 13th Progress Report, Morgan Stanley Research

What could the legislative instruments be?

The roaming Regulation was enacted under Article 95 of the EC Treaty. This article was intended to harmonise national laws to ensure the smooth functioning of the internal market, though in the roaming case it was used where no national laws

existed that needed to be harmonised. It is worth reading just to reinforce the point that, with nine pages the EU is able to regulate prices throughout the member states with immediate effect, following votes in the European Parliament and the European Council

(<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:171:0032:0040:EN:PDF>).

MTRs will be different, and somewhat more subtle:

- In the case of roaming, it was the actual price of the wholesale and retail service that was the issue, and the inability of national regulators to regulate what was by nature a cross border service (cutting wholesale rates only benefited foreign operators, not national consumers).
- In MTRs it is the lack of consistency in cost calculations that is likely to be the focus, but with a consequent impact on the rate itself.
- ARCEP believes that true costs will be under 2.5€c by 2010, whereas Ofcom set an MTR for the same year of over 8€c. There is a clear divergence of approach (not just in whether to include some of the very high 3G licence costs in the calculation).
- **We believe that the Commission will be able to act under the current framework without waiting until 2010/2011 for the new framework to be passed.** While it is true that the EC has proposed a central regulatory body in the new framework – the European Electronic Communication Market Authority (EECMA) – simply proposing such a body may be a sufficient incentive to persuade the national regulators (who would lose power under such a scenario) to co-operate on the issues of data roaming and MTRs.
- **A Recommendation under Article 19 of the existing framework** is not directly applicable in all states in the same way as a Regulation, but it has almost always been followed. As we note below, the Commission can pass such a Recommendation without reference to the Council or Parliament.

The national regulators meet in the European Regulators Group (ERG) and have already published a Common Position on Symmetry of fixed and mobile termination rates, and are now working on a Common Position on cost methodologies under the chairmanship of ARCEP.

This work on cost methodologies could then form the basis for the Commission to issue a Recommendation under Article 19 of the 2002 Directive:

“Where the Commission, acting in accordance with the procedure referred to in Article 22(2), issues recommendations to Member States on the harmonised application of the provisions in this Directive and the Specific Directives in order to further the achievement of the objectives set out in Article 8, Member States shall ensure that national regulatory authorities take the utmost account of those recommendations in carrying out their tasks. Where a national regulatory authority chooses not to follow a recommendation, it shall inform the Commission giving the reasoning for its position.”

Article 8 states among other things that “The national regulatory authorities shall contribute to the development of the internal market by inter alia: cooperating with each other and with the Commission in a transparent manner to ensure the development of consistent regulatory practice and the consistent application of this Directive and the Specific Directives.”

See

http://ec.europa.eu/information_society/policy/ecommm/info_ce_nre/documentation/legislation/index_en.htm#dir_2002_21_ec for the full text.

Article 22(2) refers to another directive (http://eur-lex.europa.eu/pri/en/oj/dat/1999/l_184/l_184_9990717en00230026.pdf) which enables the Commission to pass a Recommendation quickly – only needing to show it to a committee and “take utmost account” of any comments.

What could the timing be?

Were the European Commission to pass a Recommendation before the end of 2008, it could have an effect on 2009 MTRs in countries that have not yet set rates (in particular **Germany** and **Italy**) and then progressively in all other member states. The UK would be last, as rates have been set until April 2011 and, in the interests of regulatory predictability, that decision may be allowed to stand (unless overturned by the Competition Appeals Tribunal).

We believe publication of a draft Recommendation text could occur in the next three months, as Commissioner Reding has said that she will bring forward proposals (FT, March 19) and the ERG is working on a Common Position on costing methodologies. The Recommendation could be

passed before the summer as it only requires Commission approval.

Note that a Recommendation is NOT legally binding and does NOT have direct effect in member states. However in practice Recommendations are followed very closely (e.g. the Recommendation on relevant markets for national regulators to study has been followed to the letter) and also national regulators may be keen to avoid the accusation that European regulation is not harmonized across the single market – something that could lead to the creation of a central regulator (the proposed European Electronic Communications Market Authority) and greater powers for Brussels.

Where could MTRs go?

We believe the ARCEP's words are most likely to be instructive (from the presentation above):

- “In the medium run, MTR should progressively reach cost” (by which we believe they mean 2.5€ or below by 2010); and

- “In the long run, fixed and mobile termination rates should come much closer to one another” (we interpret this to mean 1€ or under).

Exhibit 5 shows the evolution of MTRs until early 2009. Beyond this time, different national regulators have differing lengths of glide paths (the longest being the UK to April 2011).

In Exhibit 6, we show two possible glide paths to lower MTRs for the leading operators. In practice, it is still unknown what pace the EU will specify, though we know that ARCEP believes 2.5€ in 2010 is already an appropriate number.

Finally, in Exhibit 7 and Exhibit 8 we show in detail the MTR decisions that have already been adopted by each member state's national regulator.

Exhibit 5

Average MTRs, 2007-2009

| | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 |
|---------------------------------|------|------|------|------|------|------|------|------|------|
| Simple average leading operator | 9.1 | 8.7 | 8.4 | 8.3 | 8.0 | 7.7 | 7.4 | 7.3 | 6.6 |
| Simple average third operator | 10.4 | 10.2 | 9.9 | 9.8 | 9.3 | 8.7 | 8.2 | 8.1 | 7.5 |

Source: Company data, Morgan Stanley Research

Exhibit 6

Possible Glide Paths to Lower MTRs

| | End 2008 | End 2009 | End 2010 | End 2011 |
|--------------------|----------|----------|----------|----------|
| Case 1 - 1.5c cuts | 7.3 | 5.8 | 4.3 | 2.8 |
| Case 2 - 2.0c cuts | 7.3 | 5.3 | 3.3 | 1.3 |

Source: Morgan Stanley Research

Exhibit 7

Announced European MTRs, 2007-2009 (Part 1)

| | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 | 2Q09 | 3Q09 | 4Q09 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| Germany (€/min) | | | | | | | | | | | | |
| DT, Vod | 8.78 | 8.78 | 8.78 | 8.78 | 7.92 | 7.92 | 7.92 | 7.92 | | | | |
| E+, O2 | 9.94 | 9.94 | 9.94 | 9.94 | 8.80 | 8.80 | 8.80 | 8.80 | | | | |
| DT, Vod | -20.2% | -20.2% | -20.2% | -20.2% | -9.8% | -9.8% | -9.8% | -9.8% | | | | |
| E+, O2 | -19.8% | -19.8% | -19.8% | -19.8% | -11.5% | -11.5% | -11.5% | -11.5% | | | | |
| Austria (€/min) | | | | | | | | | | | | |
| Mobilkom Austria | 7.13 | 7.13 | 5.91 | 5.91 | 5.72 | 5.72 | 5.72 | 5.72 | 5.72 | | | |
| TMO | 9.45 | 9.45 | 8.23 | 8.23 | 7.02 | 7.02 | 5.80 | 5.80 | 5.72 | | | |
| One | 10.07 | 10.07 | 8.85 | 8.85 | 7.64 | 7.64 | 6.42 | 6.42 | 5.72 | | | |
| 3 Austria | 13.9 | 13.9 | 11.86 | 11.86 | 9.81 | 9.81 | 7.76 | 7.76 | 5.72 | | | |
| Mobilkom Austria | -23.7% | -23.7% | -29.1% | -29.1% | -19.8% | -19.8% | -3.2% | -3.2% | 0.0% | | | |
| TMO | -19.0% | -19.0% | -22.8% | -22.8% | -25.7% | -25.7% | -29.5% | -29.5% | -18.5% | | | |
| One | -18.0% | -18.0% | -21.5% | -21.5% | -24.1% | -24.1% | -27.5% | -27.5% | -25.1% | | | |
| 3 Austria | -21.9% | -21.9% | -25.6% | -25.6% | -29.4% | -29.4% | -34.6% | -34.6% | -41.7% | | | |
| UK (£/min) | | | | | | | | | | | | |
| Vod, O2 (900 / 1800MHz operat | 6.63 | 5.70 | 5.70 | 5.70 | 5.70 | 5.69 | 5.69 | 5.69 | 5.69 | 5.72 | 5.72 | 5.72 |
| FT, TMO (1800MHz operators) | 7.31 | 6.20 | 6.20 | 6.20 | 6.20 | 6.03 | 6.03 | 6.03 | 6.03 | 5.89 | 5.89 | 5.89 |
| 3 UK | 11.00 | 9.10 | 9.10 | 9.10 | 9.10 | 8.00 | 8.00 | 8.00 | 8.00 | 7.29 | 7.29 | 7.29 |
| Vod/O2 | 17.8% | -14.0% | -14.0% | -14.0% | -14.0% | -0.2% | -0.2% | -0.2% | -0.2% | 0.5% | 0.5% | 0.5% |
| FT/TMO | 15.8% | -15.2% | -15.2% | -15.2% | -15.2% | -2.8% | -2.8% | -2.8% | -2.8% | -2.3% | -2.3% | -2.3% |
| 3 UK | | -17.3% | -17.3% | -17.3% | -17.3% | -12.1% | -12.1% | -12.1% | -12.1% | -8.8% | -8.8% | -8.8% |
| Italy (€/min) | | | | | | | | | | | | |
| TI, Vod | 11.2 | 11.2 | 9.8 | 9.8 | 9.8 | 9.8 | | | | | | |
| Wind | 11.2 | 11.2 | 9.8 | 9.8 | 9.8 | 9.8 | | | | | | |
| 3 Italia | 18.8 | 18.8 | 16.5 | 16.5 | 16.3 | 16.3 | | | | | | |
| TI, Vod | -7.4% | -7.4% | -12.5% | -12.5% | -12.5% | -12.5% | | | | | | |
| Wind | -7.4% | -7.4% | -12.5% | -12.5% | -12.5% | -12.5% | | | | | | |
| 3 Italia | 0.0% | 0.0% | -12.5% | -12.5% | -13.6% | -13.6% | | | | | | |
| Spain (€/min) | | | | | | | | | | | | |
| TEM | 11.14 | 10.31 | 10.31 | 9.48 | 9.48 | 8.66 | 8.66 | 7.83 | 7.83 | 7.00 | | |
| Vod | 11.35 | 10.48 | 10.48 | 9.61 | 9.61 | 8.74 | 8.74 | 7.87 | 7.87 | 7.00 | | |
| Amena | 12.13 | 11.1 | 11.1 | 10.08 | 10.08 | 9.05 | 9.05 | 8.03 | 8.03 | 7.00 | | |
| TEM | -6.9% | -13.9% | -13.9% | -14.9% | -14.9% | -16.0% | -16.0% | -17.4% | -17.4% | -19.2% | | |
| Vod | -7.0% | -14.2% | -14.2% | -15.3% | -15.3% | -16.6% | -16.6% | -18.1% | -18.1% | -19.9% | | |
| Amena | -7.8% | -15.6% | -15.6% | -16.9% | -16.9% | -18.5% | -18.5% | -20.3% | -20.3% | -22.7% | | |
| Belgium (€/min) | | | | | | | | | | | | |
| Proximus | | 8.48 | 8.48 | 8.48 | 8.48 | | | | | | | |
| Mobistar | | 12.1 | 12.1 | 12.1 | 12.1 | | | | | | | |
| Base | | 13.04 | 13.04 | 13.04 | 13.04 | | | | | | | |
| Proximus | | | | | | | | | | | | |
| Mobistar | | | | | | | | | | | | |
| Base | | | | | | | | | | | | |
| France (€/min) | | | | | | | | | | | | |
| FT, SFR | 7.50 | 7.50 | 7.50 | 7.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | | |
| Bouygues | 9.24 | 9.24 | 9.24 | 9.24 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | 8.50 | | |
| FT, SFR | -21.1% | -21.1% | -21.1% | -21.1% | -13.3% | -13.3% | -13.3% | -13.3% | 0.0% | 0.0% | | |
| Bouygues | -17.8% | -17.8% | -17.8% | -17.8% | -8.0% | -8.0% | -8.0% | -8.0% | 0.0% | 0.0% | | |

Source: Company data, Morgan Stanley Research

March 31, 2008
Telecommunications Services

Exhibit 8

Announced European MTRs, 2007-2009 (Part 2)

| | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 | 2Q09 | 3Q09 | 4Q09 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|
| Greece (€/min) | | | | | | | | | | | | |
| Cosmote, Vod | 11.1 | 10.7 | 10.2 | 9.8 | 9.3 | 8.9 | 8.4 | 8.0 | | | | |
| TIM | 11.6 | 11.1 | 10.6 | 10.1 | 9.6 | 9.0 | 8.5 | 8.0 | | | | |
| Q-Telecom | 15.7 | 15.1 | 14.3 | 13.4 | 12.6 | 11.7 | 10.9 | 10.0 | | | | |
| Cosmote, Vod | -23.4% | -11.1% | -14.8% | -15.4% | -16.0% | -16.7% | -17.4% | -18.2% | | | | |
| TIM | -22.8% | -11.1% | -15.2% | -16.3% | -17.4% | -18.7% | -19.6% | -20.6% | | | | |
| Q-Telecom | -19.3% | -11.1% | -16.1% | -18.1% | -20.2% | -22.6% | -23.9% | -25.4% | | | | |
| Netherlands (€/min) | | | | | | | | | | | | |
| KPN/ Vodafone | 11.0 | 11.0 | 10.0 | 10.0 | 10.0 | 10.0 | 9.0 | 9.0 | 9.0 | 8.0 | 7.0 | |
| Orange/ T-Mobile | 10.63 | 10.63 | 11.4 | 11.4 | 11.4 | 11.4 | 10.4 | 10.4 | 10.4 | 10.4 | 8.1 | |
| KPN/ Vod | 0.0% | 0.0% | -9.1% | -9.1% | -9.1% | -9.1% | -10.0% | -10.0% | -10.0% | -20.0% | -22.2% | |
| Ora/ TMO | -14.3% | -14.3% | 7.2% | 7.2% | 7.2% | 7.2% | -8.8% | -8.8% | -8.8% | -8.8% | -22.1% | |
| Finland (€/min) | | | | | | | | | | | | |
| TeliaSonera | 6.6 | 6.6 | 6.6 | 6.6 | 5.1 | 5.1 | 5.1 | 5.1 | | | | |
| Elisa | 7.0 | 7.0 | 7.0 | 7.0 | 5.1 | 5.1 | 5.1 | 5.1 | | | | |
| DNA | 8.2 | 8.2 | 8.2 | 8.2 | 6.0 | 6.0 | 6.0 | 6.0 | | | | |
| TeliaSonera | -2.9% | -2.9% | -2.9% | -2.9% | -22.7% | -22.7% | -22.7% | -22.7% | | | | |
| Elisa | -16.7% | -16.7% | -16.7% | -16.7% | -27.1% | -27.1% | -27.1% | -27.1% | | | | |
| DNA | -25.5% | -25.5% | -25.5% | -25.5% | -26.8% | -26.8% | -26.8% | -26.8% | | | | |
| Sweden (SKr/min) | | | | | | | | | | | | |
| TeliaSonera | 0.59 | 0.59 | 0.59 | 0.59 | 0.58 | 0.58 | 0.58 | 0.58 | | | | |
| Tele2 | 0.51 | 0.51 | 0.51 | 0.51 | 0.48 | 0.48 | 0.48 | 0.48 | | | | |
| TeliaSonera | -3.5% | -3.5% | -3.5% | -3.5% | -2.0% | -2.0% | -2.0% | -2.0% | | | | |
| Tele2 | -16.4% | -16.4% | -16.4% | -16.4% | -5.0% | -5.0% | -5.0% | -5.0% | | | | |
| Denmark (DKK/min) | | | | | | | | | | | | |
| TDC | 0.84 | 0.72 | 0.72 | 0.72 | 0.72 | 0.62 | 0.62 | 0.62 | 0.62 | | | |
| TeliaSonera | 0.84 | 0.72 | 0.72 | 0.72 | 0.72 | 0.62 | 0.62 | 0.62 | 0.62 | | | |
| TDC | | -14% | -14% | -14% | -14% | -14% | -14% | -14% | -14% | -14% | | |
| TeliaSonera | | -14% | -14% | -14% | -14% | -14% | -14% | -14% | -14% | -14% | | |
| Norway (NOK/min) | | | | | | | | | | | | |
| Telenor | 0.65 | 0.65 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.50 | 0.50 |
| TeliaSonera | 0.91 | 0.91 | 0.70 | 0.70 | 0.70 | 0.70 | 0.60 | 0.60 | 0.60 | 0.60 | 0.50 | 0.50 |
| Tele2 | 1.155 | 1.155 | 1.00 | 1.00 | 1.00 | 1.00 | 0.85 | 0.85 | 0.85 | 0.85 | | |
| Telenor | -35.6% | -35.6% | -34.1% | -34.1% | -7.7% | -7.7% | 0.0% | 0.0% | | | | |
| TeliaSonera | | | | | -23.1% | -23.1% | -14.3% | -14.3% | | | | |
| Tele2 | | | | | -13.4% | -13.4% | -15.0% | -15.0% | | | | |
| Portugal (€/min) | | | | | | | | | | | | |
| TMN | | | | | 8.00 | 7.50 | 7.00 | 6.50 | | | | |
| Vodafone | | | | | 8.00 | 7.50 | 7.00 | 6.50 | | | | |
| Optimus | | | | | 9.60 | 9.00 | 8.40 | 7.80 | | | | |
| TMN | | | | | | | | | | | | |
| Vodafone | | | | | | | | | | | | |
| Optimus | | | | | | | | | | | | |

Source: Company data, Morgan Stanley Research

Telecom Peer Comparable Multiples

| | Rating | Curr. | Price 27-Mar | Price Target | Implied Upside (%) | Total Return (%) | Mkt Cap LC mn | Mkt Cap EUR mn | Ppt EV / Ppt EBITDA | | | | Modelware P/Eadj lic. Amort | | | | Adjusted FCFE Yield (%) | | | | Dividend yield (%) | | | |
|---|--------|-------|-----------------|-----------------|-----------------------|------------------|------------------|-------------------|---------------------|------------|------------|------------|-----------------------------|-------------|------------|------------|-------------------------|------------|-------------|-------------|--------------------|------------|------------|------------|
| | | | | | | | | | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e |
| Belgacom | U | EUR | 28.4 | 33.0 | 16 | 24 | 9,420 | 9,420 | 7.1 | 5.9 | 5.6 | 5.3 | 7.9 | 10.2 | 10.3 | 10.1 | 13.4 | 9.8 | 9.9 | 10.9 | 7.7 | 7.8 | 7.8 | 7.9 |
| Bouygues | E | EUR | 41.16 | 58.00 | 41 | 44 | 13,871 | 13,871 | 6.5 | 4.6 | 4.0 | 3.6 | 9.2 | 8.3 | 7.9 | 7.6 | 7.3 | 7.7 | 10.9 | 14.2 | 3.2 | 3.5 | 3.9 | 4.3 |
| BT Group | E | GBP | 2.16 | 2.65 | 23 | 30 | 18,263 | 23,419 | 4.3 | 3.9 | 3.6 | 3.3 | 9.4 | 9.2 | 8.8 | 8.7 | 7.5 | 8.9 | 11.4 | 13.2 | 7.2 | 7.3 | 7.7 | 7.8 |
| Deutsche Telekom | E | EUR | 10.8 | 14.5 | 34 | 41 | 47,110 | 47,110 | 6.0 | 4.7 | 4.3 | 3.9 | 11.0 | 11.0 | 10.1 | 9.7 | 12.0 | 12.1 | 14.9 | 17.5 | 7.2 | 7.7 | 8.1 | 8.8 |
| Fastweb** | E | EUR | 19.55 | 30.00 | 53 | 53 | 1,555 | 1,555 | 6.7 | 5.2 | 4.7 | 3.9 | 19.1 | 12.8 | 18.6 | 13.9 | NM | 5.9 | 11.4 | 18.4 | 0.0 | 0.0 | 0.9 | 2.5 |
| France Telecom | O | EUR | 21.42 | 28.00 | 31 | 37 | 59,203 | 59,203 | 6.1 | 5.2 | 4.7 | 4.2 | 13.0 | 11.1 | 10.1 | 9.5 | 10.8 | 9.8 | 10.7 | 11.5 | 6.1 | 6.5 | 6.8 | 7.0 |
| Iliad** | O | EUR | 63.74 | 81.00 | 27 | 28 | 3,688 | 3,688 | 9.4 | 6.6 | 5.8 | 5.1 | 27.1 | 20.8 | 17.2 | 16.0 | NM | 1.3 | 3.4 | 5.1 | 0.5 | 0.8 | 1.3 | 1.8 |
| KPN | O | EUR | 11.0 | 15.0 | 36 | 41 | 20,302 | 20,302 | 6.9 | 5.6 | 5.2 | 4.7 | 7.5 | 10.9 | 10.2 | 9.5 | 19.5 | 11.3 | 10.8 | 12.8 | 4.6 | 5.0 | 5.6 | 6.1 |
| Neuf Cegetel* | E | EUR | 34.8 | 38.0 | 9 | 11 | 7,262 | 7,262 | 11.7 | 8.6 | 7.1 | 6.1 | 30.4 | 15.8 | 12.9 | 14.2 | 1.7 | 5.8 | 8.6 | 9.3 | 1.8 | 2.6 | 3.4 | 3.4 |
| OTE | O | EUR | 17.7 | 26.0 | 47 | 51 | 8,673 | 8,673 | 8.8 | 6.3 | 5.3 | 4.8 | 19.4 | 11.8 | 10.8 | 10.7 | NM | NM | 13.1 | 15.2 | 4.0 | 4.6 | 5.5 | 6.1 |
| Portugal Telecom | U | EUR | 7.4 | 8.5 | 15 | 21 | 8,201 | 8,201 | 6.3 | 6.3 | 5.4 | 4.8 | 11.1 | 13.6 | 10.2 | 9.2 | 10.4 | NM | 10.0 | 14.2 | 6.4 | 7.8 | 7.8 | 8.2 |
| Swisscom | E | CHF | 344.25 | 423.00 | 23 | 28 | 17,832 | 11,336 | 7.6 | 5.8 | 5.4 | 4.9 | 9.0 | 9.1 | 9.2 | 8.8 | 10.4 | 9.5 | 11.4 | 14.0 | 5.2 | 5.2 | 5.2 | 4.9 |
| Tele2 | O | SEK | 111.8 | 161.0 | 44 | 47 | 49,755 | 5,295 | 8.3 | 7.4 | 5.9 | 5.2 | NM | 18.6 | 14.4 | 12.7 | 1.3 | 5.0 | 6.2 | 10.3 | 2.8 | 2.8 | 2.8 | 2.8 |
| Telecom Italia (Ords) | U | EUR | 1.35 | 1.60 | 18 | 24 | 24,213 | 24,213 | 7.1 | 5.4 | 5.5 | 5.2 | 11.0 | 9.7 | 10.1 | 9.6 | 8.2 | 9.2 | 9.9 | 10.8 | 5.9 | 5.9 | 5.9 | 6.2 |
| Telecom Italia (Savs) | E | EUR | 1.1 | 1.45 | 38 | 46 | 24,213 | 24,213 | 7.1 | 5.4 | 5.5 | 5.2 | 8.6 | 7.6 | 7.9 | 7.5 | 10.5 | 11.8 | 12.7 | 13.9 | 8.6 | 8.6 | 8.6 | 9.0 |
| Telefonica | O | EUR | 18.67 | 25.50 | 37 | 40 | 88,851 | 88,851 | 6.6 | 5.4 | 4.8 | 4.2 | 8.9 | 9.6 | 8.5 | 8.0 | 10.8 | 9.3 | 11.8 | 14.0 | 3.1 | 4.0 | 5.4 | 6.2 |
| Telekom Austria | E | EUR | 13.4 | 22.3 | 66 | 72 | 6,075 | 6,075 | 7.1 | 5.0 | 4.5 | 4.2 | 11.1 | 10.6 | 9.1 | 8.3 | 12.2 | 13.8 | 15.0 | 17.5 | 5.6 | 5.6 | 6.6 | 7.2 |
| Telenor | E | NOK | 96.8 | 129.0 | 33 | 37 | 165,125 | 20,429 | 7.3 | 5.2 | 4.6 | 4.1 | 10.6 | 10.0 | 9.4 | 8.7 | 5.4 | 5.8 | 9.1 | 11.3 | 3.5 | 4.1 | 6.0 | 6.5 |
| TeliaSonera | O | SEK | 48.0 | 65 | 35 | 39 | 215,520 | 22,935 | 5.4 | 4.8 | 4.2 | 3.6 | 11.3 | 10.3 | 9.5 | 8.8 | 6.8 | 9.0 | 11.0 | 12.9 | 3.8 | 4.7 | 5.0 | 5.5 |
| Vodafone | U | GBP | 1.57 | 1.70 | 8 | 13 | 83,445 | 106,999 | 5.9 | 5.3 | 4.9 | 4.4 | 11.1 | 10.1 | 9.8 | 9.5 | 7.5 | 8.2 | 10.0 | 12.3 | 4.6 | 5.0 | 5.2 | 5.3 |
| Total Average for the Telecoms Sector * | | | | | 32.1 | 37.3 | | | 6.7 | 5.4 | 4.9 | 4.5 | 10.6 | 10.7 | 9.8 | 9.2 | 9.6 | 9.4 | 11.1 | 13.3 | 5.3 | 5.7 | 6.1 | 6.4 |
| Total Weighted Average for Telecoms sector * | | | | | 27.5 | 32.7 | | | 6.4 | 5.2 | 4.8 | 4.3 | 10.4 | 10.1 | 9.5 | 9.0 | 9.6 | 9.3 | 11.4 | 13.3 | 5.2 | 5.6 | 6.2 | 6.6 |
| TEF O2 Czech | O | CZK | 513.0 | 680 | 33 | 42 | 165,232 | 6,482 | 5.9 | 4.9 | 4.1 | 3.5 | 18.8 | 17.7 | 15.3 | 12.8 | 9.2 | 11.6 | 13.1 | 14.6 | 9.7 | 7.1 | 5.5 | 6.4 |
| TPSA** | O | PLN | 22 | 28 | 28 | 35 | 29,830 | 8,451 | 4.7 | 4.1 | 3.5 | 2.8 | 13.3 | 13.2 | 12.7 | 10.9 | 12.1 | 13.9 | 15.7 | 18.3 | 6.9 | 7.3 | 7.8 | 8.3 |
| Cable & Wireless** | E | GBP | 1.45 | 1.90 | 31 | 36 | 3,551 | 4,553 | 6.3 | 4.6 | 3.9 | 3.4 | 18.0 | 12.8 | 11.6 | 7.6 | 0.1 | 5.5 | 8.4 | 11.5 | 5.2 | 5.9 | 6.5 | 7.2 |
| Colt** | E | EUR | 1.66 | 1.66 | 0 | 0 | 1,452 | 1,452 | 5.6 | 5.1 | 4.7 | 4.2 | 36.9 | 28.6 | 23.3 | 17.6 | 2.6 | 0.9 | 2.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 |

* Averages do not include Fastweb, Iliad & Neuf Cegetel

**These stocks have a V flag to denote volatility

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

| Accounting method | FCFE Yield (%) | | | | Adj Unlevered FCF (%) | | | | Modelware EV / EBITDA | | | | Share Buyback (%) | | | | EV/OpFCF | | | | |
|---------------------------------|----------------|-------------|-------------|-------------|-----------------------|------------|------------|------------|-----------------------|------------|------------|------------|-------------------|------------|------------|------------|------------|-------------|-------------|------------|------------|
| | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | |
| Belgacom | IFRS | 15.4 | 11.1 | 10.3 | 10.0 | 8.8 | 7.7 | 7.4 | 7.8 | 7.1 | 6.2 | 6.4 | 6.4 | 0.7 | 2.1 | 2.2 | 2.2 | 9.8 | 8.9 | 9.3 | 9.5 |
| Bouygues | IFRS | 7.3 | 7.5 | 10.1 | 12.7 | 5.7 | 7.8 | 10.6 | 14.2 | 6.0 | 4.3 | 3.8 | 3.5 | 0.0 | 0.0 | 0.0 | 0.0 | 11.9 | 8.8 | 7.4 | 6.7 |
| BT Group | IFRS | 7.5 | 8.2 | 9.7 | 10.2 | 7.9 | 8.7 | 10.3 | 11.5 | 4.3 | 4.2 | 4.0 | 3.9 | 8.7 | 6.1 | 0.0 | 0.0 | 9.7 | 9.0 | 8.2 | 7.7 |
| Deutsche Telekom | IFRS | 13.8 | 13.2 | 13.4 | 13.9 | 7.1 | 8.6 | 10.2 | 11.5 | 5.8 | 4.8 | 4.6 | 4.5 | 0.0 | 0.0 | 0.0 | 0.0 | 8.6 | 7.4 | 6.8 | 6.6 |
| Fastweb** | IFRS | NM | 4.9 | 9.6 | 15.3 | NM | 4.5 | 7.6 | 12.1 | 6.7 | 5.7 | 5.2 | 4.4 | 0.0 | 0.0 | 0.0 | 0.0 | 86.3 | 20.3 | 11.7 | 8.0 |
| France Telecom | IFRS | 11.0 | 13.2 | 13.8 | 14.3 | 7.7 | 7.9 | 8.5 | 9.3 | 6.1 | 5.4 | 5.1 | 4.8 | 0.0 | 0.0 | 0.0 | 0.0 | 9.9 | 8.7 | 8.2 | 7.7 |
| Iliad** | IFRS | NM | 1.3 | 3.3 | 5.0 | NM | 1.6 | 3.8 | 5.8 | 9.9 | 7.1 | 6.3 | 5.6 | 0.1 | 0.0 | 0.0 | 0.0 | 47.5 | 27.2 | 16.2 | 12.2 |
| KPN | IFRS | 20.5 | 10.7 | 9.6 | 10.6 | 13.0 | 8.7 | 8.2 | 9.3 | 6.9 | 5.8 | 5.5 | 5.2 | 7.2 | 5.1 | 5.4 | 5.6 | 10.4 | 9.1 | 8.7 | 8.2 |
| Neuf Cegetel* | IFRS | 2.2 | 6.6 | 8.8 | 8.9 | 1.7 | 5.7 | 8.5 | 9.6 | 11.7 | 8.7 | 7.4 | 6.7 | 0.0 | 0.0 | 0.0 | 0.0 | 29.2 | 17.3 | 12.3 | 11.1 |
| OTE | IFRS | NM | NM | 12.0 | 13.1 | NM | 0.8 | 9.7 | 11.3 | 8.8 | 6.1 | 5.6 | 5.3 | 0.0 | 0.0 | 0.0 | 0.0 | 18.0 | 11.5 | 9.2 | 8.2 |
| Portugal Telecom | IFRS | 10.4 | NM | 8.5 | 10.8 | 6.9 | NM | 6.5 | 8.3 | 5.8 | 5.4 | 5.1 | 4.8 | 16.3 | 12.0 | 0.0 | 0.0 | 9.8 | 11.6 | 8.9 | 7.8 |
| Swisscom | IFRS | 10.4 | 9.0 | 10.2 | 11.7 | 6.2 | 7.1 | 8.4 | 10.3 | 7.6 | 6.0 | 5.8 | 5.5 | 0.0 | 0.6 | 1.5 | 5.0 | 13.9 | 10.8 | 10.4 | 9.3 |
| Tele2 | IFRS | 1.3 | 5.0 | 6.2 | 10.3 | 1.9 | 4.4 | 5.7 | 9.4 | 9.4 | 7.7 | 6.5 | 5.8 | 0.0 | 12.3 | 0.0 | 0.0 | 37.3 | 17.1 | 13.7 | 9.1 |
| Telecom Italia (Ords) | IFRS | 15.1 | 12.1 | 12.7 | 12.4 | 4.2 | 6.1 | 6.6 | 7.2 | 6.6 | 4.9 | 4.9 | 4.8 | 0.0 | 0.0 | 0.0 | 0.0 | 12.6 | 8.7 | 8.3 | 7.9 |
| Telecom Italia (Savs) | IFRS | 19.4 | 15.5 | 16.2 | 15.9 | 4.2 | 6.1 | 6.6 | 7.2 | 6.6 | 4.9 | 4.9 | 4.8 | 0.0 | 0.0 | 0.0 | 0.0 | 12.6 | 8.7 | 8.3 | 7.9 |
| Telefonica | IFRS | 11.2 | 11.5 | 11.5 | 12.0 | 8.0 | 8.2 | 10.1 | 12.0 | 6.5 | 5.5 | 5.1 | 4.7 | 2.8 | 2.3 | 0.0 | 0.0 | 9.3 | 8.2 | 7.2 | 6.6 |
| Telekom Austria | IFRS | 12.2 | 13.1 | 13.3 | 14.3 | 6.6 | 9.4 | 10.1 | 11.4 | 7.1 | 5.2 | 4.9 | 4.7 | 5.4 | 0.0 | 5.1 | 6.2 | 12.7 | 8.8 | 8.5 | 8.0 |
| Telenor | IFRS | 9.8 | 4.5 | 7.6 | 9.2 | 4.3 | 6.0 | 8.9 | 11.0 | 8.7 | 6.7 | 6.2 | 6.0 | 0.0 | 0.0 | 0.0 | 0.0 | 31.1 | 21.4 | 15.2 | 13.1 |
| TeliaSonera | IFRS | 2.8 | 5.1 | 7.1 | 7.6 | 7.6 | 9.4 | 11.9 | 14.5 | 8.2 | 6.4 | 6.0 | 5.7 | 0.0 | 0.0 | 0.0 | 0.0 | 18.0 | 15.4 | 13.6 | 12.8 |
| Vodafone | IFRS | 6.1 | 6.5 | 6.9 | 8.0 | 7.3 | 7.8 | 9.4 | 11.6 | 6.6 | 5.9 | 5.7 | 5.4 | 0.0 | 0.0 | 0.0 | 0.0 | 12.5 | 11.3 | 12.6 | 11.1 |
| Total Average * | | 10.9 | 9.7 | 10.5 | 11.6 | 6.7 | 7.2 | 8.8 | 10.5 | 6.9 | 5.6 | 5.3 | 5.1 | 2.4 | 2.4 | 0.8 | 1.1 | 14.6 | 10.9 | 9.7 | 8.7 |
| Total Weighted Average * | | 10.8 | 10.1 | 10.9 | 11.6 | 6.9 | 7.6 | 9.2 | 10.8 | 6.6 | 5.5 | 5.2 | 5.0 | 1.2 | 1.0 | 0.4 | 0.5 | 12.4 | 10.0 | 9.4 | 8.6 |
| TEF O2 Czech | IFRS | 8.3 | 9.7 | 10.2 | 10.4 | 9.1 | 11.8 | 14.1 | 16.7 | 6.4 | 5.9 | 5.4 | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | | | | |
| TPSA** | IFRS | 12.1 | 12.5 | 12.2 | 12.1 | 11.1 | 13.2 | 15.4 | 18.8 | 4.7 | 4.5 | 4.4 | 4.2 | 2.3 | 3.3 | 3.5 | 5.0 | | | | |
| Cable & Wireless** | IFRS | 0.9 | 4.7 | 6.8 | 9.1 | 5.3 | 18.5 | 24.9 | 31.5 | 5.6 | 4.8 | 4.4 | 3.6 | 0.0 | 0.0 | 0.0 | 0.0 | 17.1 | 11.8 | 9.8 | 6.7 |
| Colt** | IFRS | 2.6 | 0.9 | 2.0 | 4.0 | 1.8 | 0.7 | 1.3 | 2.5 | 5.6 | 5.1 | 4.7 | 4.2 | 0.0 | 0.0 | 0.0 | 0.0 | 92.7 | 151.1 | 44.3 | 23.3 |

* Averages do not include Fastweb, Iliad & Neuf Cegetel

**These stocks have a V flag to denote volatility

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

March 31, 2008
Telecommunications Services

| | EBITDA Margin (%) | | | | Capex to sales (%) | | | | OPFCF Margin (%) | | | | Consol Net Debt/EBITDA ex assoc | | | | ROIC | | | |
|---------------------------------|-------------------|-------------|-------------|-------------|--------------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|---------------------------------|-------------|-------------|-------------|------------|------------|------------|------------|
| | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e | 2007 | 2008e | 2009e | 2010e |
| Belgacom | 33.5 | 33.2 | 32.5 | 32.1 | 9.3 | 10.0 | 10.3 | 10.4 | 24.2 | 23.2 | 22.3 | 21.7 | 0.6x | 0.6x | 0.7x | 0.8x | 6% | 4% | 4% | 3% |
| Bouygues | 12.5 | 12.2 | 12.7 | 12.3 | 5.7 | 5.7 | 5.5 | 5.1 | 6.8 | 6.6 | 7.2 | 7.2 | 0.9x | 0.7x | 0.4x | 0.1x | 16% | 15% | 15% | 14% |
| BT Group | 28.1 | 28.3 | 29.1 | 29.6 | 15.7 | 15.3 | 14.9 | 14.7 | 12.3 | 13.0 | 14.2 | 14.8 | 1.4x | 1.5x | 1.4x | 1.3x | 18% | 17% | 17% | 17% |
| Deutsche Telekom | 30.9 | 31.5 | 32.1 | 32.3 | 10.1 | 10.9 | 10.4 | 10.3 | 20.8 | 20.7 | 21.7 | 21.9 | 2.2x | 2.2x | 2.0x | 1.8x | 5% | 5% | 5% | 6% |
| Fastweb** | 32.4 | 30.5 | 31.0 | 31.8 | 29.9 | 21.9 | 17.3 | 14.4 | 2.5 | 8.6 | 13.7 | 17.3 | 2.5x | 2.7x | 2.3x | 1.7x | 2% | 2% | 2% | 3% |
| France Telecom | 34.5 | 34.5 | 34.5 | 34.4 | 13.2 | 13.0 | 13.0 | 12.9 | 21.3 | 21.5 | 21.5 | 21.4 | 2.1x | 2.0x | 1.7x | 1.5x | 6% | 6% | 7% | 7% |
| Iliad** | 36.0 | 36.5 | 36.9 | 37.8 | 28.5 | 27.0 | 22.6 | 20.3 | 7.5 | 9.5 | 14.3 | 17.6 | 0.2x | 0.1x | 0.0x | -0.2x | 33% | 30% | 30% | 28% |
| KPN | 39.5 | 35.0 | 34.9 | 35.3 | 13.4 | 13.0 | 12.8 | 12.6 | 26.2 | 22.0 | 22.1 | 22.6 | 2.2x | 2.0x | 2.0x | 2.0x | 13% | 14% | 14% | 15% |
| Neuf Cegetel* | 21.2 | 24.3 | 26.0 | 26.4 | 12.7 | 12.1 | 10.4 | 10.6 | 8.5 | 12.2 | 15.5 | 15.8 | 1.3x | 0.7x | 0.2x | -0.2x | 8% | 11% | 14% | 16% |
| OTE | 35.4 | 36.1 | 37.3 | 37.0 | 18.0 | 16.8 | 14.8 | 13.1 | 17.3 | 19.3 | 22.5 | 23.9 | 1.9x | 2.0x | 1.7x | 1.5x | 10% | 9% | 10% | 10% |
| Portugal Telecom | 37.3 | 35.9 | 36.4 | 37.4 | 15.2 | 19.3 | 15.3 | 13.7 | 22.1 | 16.5 | 21.2 | 23.7 | 2.1x | 2.7x | 2.5x | 2.3x | 16% | 13% | 12% | 13% |
| Swisscom | 40.2 | 38.7 | 38.2 | 38.0 | 18.3 | 17.4 | 16.9 | 15.5 | 22.0 | 21.2 | 21.2 | 22.5 | 2.2x | 2.1x | 1.9x | 1.9x | 15% | 11% | 10% | 10% |
| Tele2 | 15.3 | 18.6 | 20.6 | 21.7 | 11.9 | 10.7 | 11.7 | 9.2 | 3.4 | 8.0 | 8.9 | 12.5 | 0.8x | 1.5x | 1.1x | 0.7x | NA | 8% | 10% | 11% |
| Telecom Italia (Ords) | 37.1 | 40.1 | 38.3 | 38.2 | 17.6 | 17.2 | 15.5 | 15.0 | 19.5 | 22.9 | 22.8 | 23.2 | 3.2x | 2.9x | 2.8x | 2.7x | 6% | 6% | 6% | 6% |
| Telecom Italia (Savs) | 37.1 | 40.1 | 38.3 | 38.2 | 17.6 | 17.2 | 15.5 | 15.0 | 19.5 | 22.9 | 22.8 | 23.2 | 3.2x | 2.9x | 2.8x | 2.7x | 6% | 6% | 6% | 6% |
| Telefonica | 40.4 | 38.9 | 39.5 | 39.9 | 12.1 | 12.5 | 11.5 | 10.9 | 28.4 | 26.3 | 28.0 | 28.9 | 1.8x | 1.6x | 1.3x | 1.1x | 15% | 16% | 18% | 19% |
| Telekom Austria | 37.6 | 38.2 | 38.4 | 37.8 | 16.6 | 15.5 | 16.3 | 15.6 | 21.0 | 22.7 | 22.1 | 22.2 | 2.5x | 2.1x | 2.0x | 2.0x | 10% | 9% | 10% | 11% |
| Telenor | 31.3 | 32.2 | 32.4 | 32.5 | 20.6 | 20.1 | 16.3 | 14.2 | 10.7 | 12.1 | 16.1 | 18.3 | 1.5x | 1.2x | 1.1x | 1.0x | 25% | 22% | 22% | 22% |
| TeliaSonera | 32.2 | 32.0 | 31.5 | 31.2 | 14.0 | 14.8 | 12.8 | 12.2 | 18.2 | 17.2 | 18.7 | 19.0 | 1.1x | 1.4x | 1.2x | 1.1x | 15% | 15% | 15% | 15% |
| Vodafone | 37.3 | 36.4 | 35.6 | 35.3 | 13.5 | 13.2 | 15.6 | 13.5 | 23.8 | 23.2 | 20.0 | 21.8 | 1.7x | 1.4x | 1.3x | 1.1x | 4% | 5% | 5% | 5% |
| Total Average * | 33.0 | 33.1 | 33.1 | 33.1 | 14.3 | 14.3 | 13.5 | 12.6 | 18.7 | 18.8 | 19.6 | 20.5 | 1.8x | 1.8x | 1.7x | 1.5x | 12% | 11% | 11% | 11% |
| Total Weighted Average * | 35.0 | 34.9 | 34.7 | 34.7 | 13.7 | 13.7 | 13.3 | 12.5 | 21.3 | 21.2 | 21.4 | 22.2 | 2.0x | 1.8x | 1.6x | 1.5x | | | | |
| TEF O2 Czech | 43.9 | 43.3 | 44.1 | 43.7 | 14.2 | 13.1 | 12.8 | 11.6 | 29.8 | 30.2 | 31.3 | 32.2 | 0.1x | 0.0x | -0.3x | -0.5x | 9.9% | 11.3% | 14.0% | 17.8% |
| TPSA** | 42.3 | 42.5 | 42.0 | 42.0 | 20.2 | 15.4 | 15.2 | 15.0 | 22.2 | 27.1 | 26.8 | 27.0 | 0.6x | 0.6x | 0.5x | 0.5x | 10.1% | 11.4% | 12.2% | 14.5% |
| Cable & Wireless** | 17.3 | 19.8 | 21.3 | 25.3 | 11.2 | 11.4 | 11.2 | 11.2 | 6.0 | 8.4 | 10.1 | 14.1 | -0.8x | -0.6x | -0.5x | -0.4x | 13% | 18% | 18% | 25% |
| Colt** | 16.5 | 17.6 | 18.5 | 19.6 | 15.5 | 17.0 | 16.5 | 16.0 | 1.0 | 0.6 | 2.0 | 3.6 | 0.1x | 0.1x | 0.0x | -0.2x | 5% | 6% | 7% | 8% |

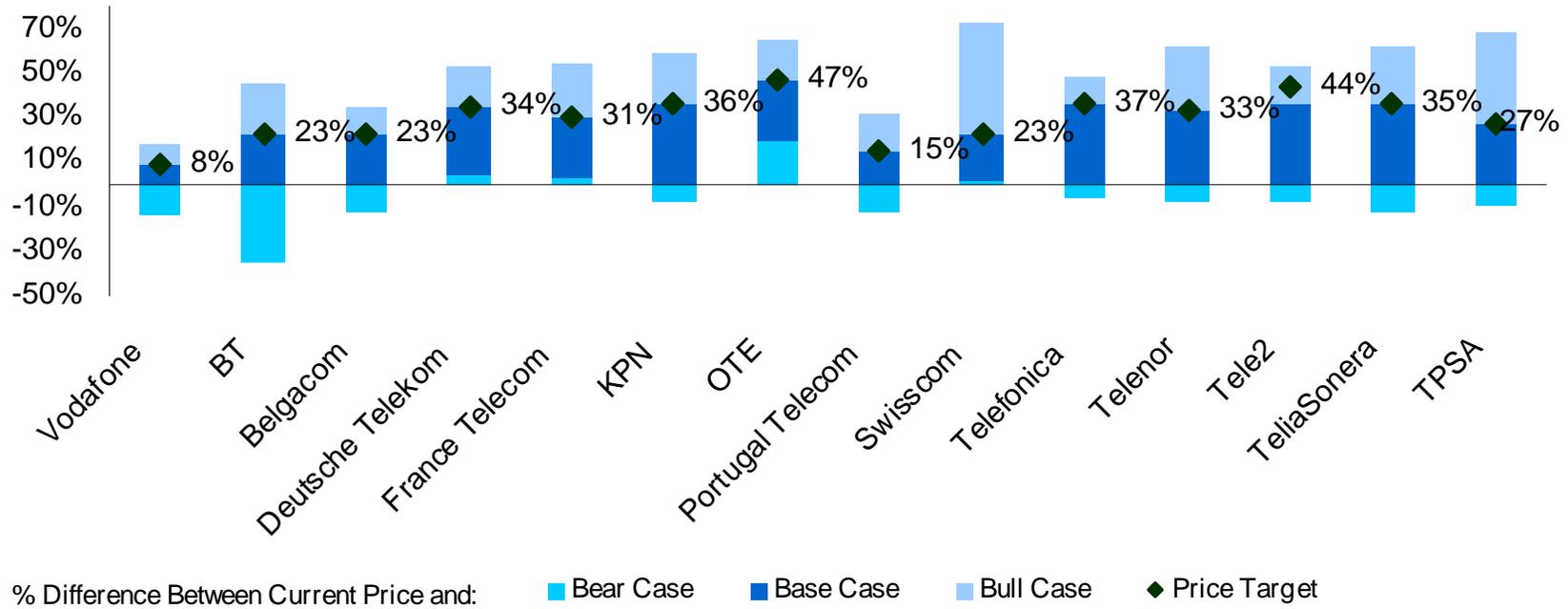
* Averages do not include Fastweb, Iliad & Neuf Cegetel

**These stocks have a V flag to denote volatility

Source: Company data, Morgan Stanley Research

Exhibit 9

Updated Risk Reward Parameters



Source: Morgan Stanley Research estimates

| Stock | Price Target | Valuation Methodology | Risks |
|-------------------------------------|---------------------------|---|---|
| Belgacom | €33 | DCF-based sum of the parts. WACC 8.1%, 1% perpetual growth | 1) Overpaying for acquisitions; 2) Tough competition in fixed telephony in Belgium |
| BT | 265p | DCF: WACC 7.5% (COE 8.5%, cost of debt 8%), 1% long-term NOPAT growth; adjust terminal FCF by long-term ROIC assumption of 12.5%. | 1) Broadband growth and retail line loss; 2) Extent of cost control/continued retail and wholesale margin management; 3) Long-term capex requirements. |
| Deutsche Telekom | €14.5 | DCF-based SOTP: Domestic core – WACC 8%, terminal growth 1%; Mobile – WACC 8% in Germany, 8.4% in UK, 7.7% in US, terminal growth 1%. | 1) Changes in growth and margin outlook in the US; 2) Execution risk on restructuring; 3) Undisciplined M&A |
| France Telecom | €28 | DCF: WACC 7.8%, terminal growth 1% | 1) FTTH: regulatory uncertainty, roll-out from competitors, competitive environment worsening; 2) Execution risk on restructuring; 3) Undisciplined M&A |
| Iliad | €31 | Midpoint of DCF (WACC 8%, terminal growth 2%) an a worst case scenario on the potential 3G mobile venture (€73). | 1) Large scale fibre roll-out by FT and others; 2) Lack of access to the mobile market or overspend in potential 3G venture |
| KPN | €15 | DCF-based SOTP: Fixed – WACC 7.6%, terminal growth 1%; Dutch mobile WACC 7.6%, terminal growth 1%; German mobile – WACC 7.4%, terminal growth 1.5% | 1) Tougher competitive scenario or regulatory environment in fixed telephony in the Netherlands; 2) Greater cost cutting potential could boost LBO value |
| OTE | €26 | DCF-based SOTP: Fixed – WACC 8.7%, terminal growth 1.5%, RomTelecom 8.7% terminal growth 1.5%. Cosmote assets WACC 8.4-9.2%, terminal growth 1-4%. Telekom Serbia 2x book value | 1) Pension reform not approved 2) headcount reduction may not come about 3) real estate assets could be worth less than estimates 4) more aggressive investment plans 5) competition in Romania |
| Portugal Telecom | €3.5 | DCF-based SOTP: Domestic – discount rate 8%, growth 1%; Vivo – discount rate 12% and growth 1% | 1) Tougher regulatory environment from potential introduction of naked DSL and 4th mobile licence; 2) Top-line pressure in the domestic wireline business on the back of increased competition after the PTM spin-off |
| Swisscom | SFr 423 | DCF-based SOTP: Domestic – cost of capital 6.9%, long-term growth 1%; Fastweb – WACC 8%, growth 2% | 1) Further price pressure in the core operations (particularly Mobile); 2) Increased regulatory intervention either through unbundling or further termination rate cuts |
| Tele2 | SKr 161 | DCF: Average WACC 9% (divisional 8.3-10.7%, terminal growth 1.3% (Russia 2%, all other divisions 1%) | 1) No buyers are found for the "non-core" resale operations and Tele2 decides to discontinue these operations rather than run them for cash; 2) Increasing competition and regulation in the ongoing "core" assets |
| Telecom Italia | Ords €1.6 Savers €1.45 | DCF-based SOTP and group FCF – WACC 8.3%, perpetual growth 1.5%. | 1) Increasing competition in Italian fixed; 2) Regulatory changes such as reduced wholesale access prices |
| Telefonica | €25.50 | DCF-based SOTP – Domestic: WACC 8.2%, terminal growth 1%; Latin America: WACC 9-13%, growth 1-3% | 1) In Spain, threat of increased market share erosion from cable companies, bundled DSL and voice offers; 2) Forecasts at risk if Latin America macro environment deteriorates or competition intensifies |
| Telefonica O2 Czech Republic | CZK 680 | DCF: WACC 8.1%, terminal growth 2.0% | 1) Lower dividend payment policy; 2) Larger price declines as operators battle for market share in the Czech Republic and Slovakia and 3) Long-term regulatory intervention to curb excess returns. |
| Telenor | NKr 129 | DCF-based SOTP – Emerging markets: WACC 10-12%, terminal growth 3-5%. Nordic WACC 7.5%, growth 1% | 1) Volatility in emerging markets; 2) Weak performance in fixed line domestic operations. |
| TeliaSonera | SKr 65 | DCF-based SOTP – Domestic: WACC 7.2%, growth 1%. Add SKr 5 for 50% probability that company addresses domestic fixed cost control and leveraging | 1) Tougher trends in Scandinavian markets due to price pressure and/or regulation; 2) Lower value of Turkcell or Megafon due to lack of clear control by any party |
| TPSA | PLN 28.0 | DCF: WACC 9.7%, terminal growth rate of 1% for both fixed and mobile | 1) Upside risk: Regears to 1.5 times net debt to EBITDA; 2) Downside risk: pressure from broadband competitors and new mobile entrants |
| Vodafone | 170p | DCF: WACC 8.4%, growth 1.3% | 1) Price declines as operators battle for market share; 2) Long-term regulatory intervention to curb excess returns |

Source: Morgan Stanley Research estimates



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|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
| | Count | % of Total | Count | % of Total IBC | % of Rating Category |
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| Equal-weight/Hold | 974 | 41% | 300 | 42% | 31% |
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| Total | 2,369 | | 722 | | |

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Industry Coverage: Telecommunications Services

| Company (Ticker) | Rating (as of) | Price (03/27/2008) |
|--|------------------|--------------------|
| Frederic Boulan, CFA | | |
| Fastweb (FWB.MI) | E-V (01/22/2008) | €19.55 |
| France Telecom (FTE.PA) | O (07/30/2007) | €21.42 |
| Iliad (ILD.PA) | O-V (11/22/2007) | €63.74 |
| Neuf Cegetel (NEUF.PA) | E (10/09/2007) | €34.84 |
| Swisscom (SCMN.VX) | E (03/06/2008) | SFr344.25 |
| TPSA (TPSA.WA) | O-V (11/29/2007) | PLN21.65 |
| Nick Delfas | | |
| Deutsche Telekom (DTEGn.DE) | E (03/01/2007) | €10.82 |
| Inmarsat (ISA.L) | E-V (10/18/2007) | 429p |
| Telecom Italia (TLIT.MI) | U (05/02/2007) | €1.35 |
| Telecom Italia (TLITn.MI) | E (07/19/2007) | €1.05 |
| Vodafone Group (VOD.L) | U (03/31/2008) | 157p |
| Christopher Fremantle, CFA | | |
| BT Group plc (BT.L) | E (03/31/2008) | 216p |
| COLT Telecom Group S.A. (COLT.L) | E-V (10/05/2006) | 166p |
| Cable & Wireless (CW.L) | E-V (01/16/2008) | 145p |
| Telekom Austria (TELA.VI) | E (10/02/2006) | €13.41 |
| Luis Prota | | |
| Belgacom (BCOM.BR) | U (09/17/2007) | €28.4 |
| Cosmote (COSr.AT) | NA (11/23/2007) | €26.24 |
| KPN (KPN.AS) | O (06/15/2007) | €11.01 |
| OTE (Hellenic Telecoms.) (OTEr.AT) | O (03/14/2008) | €18.04 |
| Portugal Telecom (PTC.LS) | U (01/22/2008) | €7.4 |
| Telefonica (TEF.MC) | O (01/19/2006) | €18.67 |
| Saroop Purewal | | |
| Bouygues (BOUY.PA) | E (01/22/2008) | €41.16 |
| Tele2 (TEL2b.ST) | O (05/21/2007) | SKr111.75 |
| Telefonica O2 Czech Republic (SPTT.PR) | O (02/05/2007) | CZK514.5 |
| Telenor (TEL.OL) | E (09/17/2007) | NKr97.6 |
| TeliaSonera (TLSN.ST) | O (08/15/2007) | SKr48 |

Stock Ratings are subject to change. Please see latest research for each company.