

Ring in the changes for expansion

OTE's twin priorities are digitisation and overseas acquisitions

Demetrios Papoulias, a specialist in the management of change, is putting some of his ideas into practice as chairman of OTE, Greece's partly-privatised telecommunications operator.

Prof Papoulias, a Socialist government appointee, found that his first task after moving from Athens

University to OTE was helping to persuade its 13 trades unions to lift their ideological objections to floating the company on the Athens stock exchange.

The listing of 8 per cent of OTE in 1996 was followed in May by the sale of another 12 per cent tranche "in which almost all the employees, even union leaders, took up their share allocations", he says. A third public offering is planned for next year.

The change in employee attitudes towards privatisation is making it easier to carry out a

restructuring undertaken with the help of Hay Management, the international consultants, Prof Papoulias says.

OTE's twin priorities are to complete digitisation of its network, which is behind schedule, and to acquire equity stakes in eastern European and former Soviet telecoms operators looking for strategic partners.

"The most fundamental thing about organisations is their culture, and that takes time to change. In Greece, perhaps five years or more," says Prof Papoulias. "But we have to become a significant regional operator as quickly as possible, in order to stay competitive after we lose our monopoly."

OTE's monopoly of fixed-wire telephony in Greece runs out on December 31 2000, two years after most other EU member-states. Digitisation was due to be completed in 1998 but was delayed by a long-running dispute over the award of a Dr80bn contract for digital switching equipment to two Athens-based manufacturers, Siemens Hellas and Intracom.

With 51 lines for every 100 residents, telephone penetration in Greece is close to the EU average. But only 47 per cent of the Greek network has been digitised, compared with more than 60 per cent in Poland and the Czech Republic.

Prof Papoulias says digitisation will speed up, following the appointment of Price Waterhouse, the international accountants, as advisers on procurement and should be above 80 per cent by the end of 1998.

Cosmote, the company's mobile telephony subsidiary, which Telenor of Norway holds a 30 per cent stake, is to launch Greece's third cellular network early next year. Cosmote will compete with two private GSM opera-

tors and aims to capture a 30 per cent share of a rapidly growing mobile market over the next three years.

Meanwhile, OTE is pursuing equity stakes in several east European and former Soviet telecoms companies which are seeking international investors. It has established close relationships with state operators in Bulgaria, Armenia, Georgia and Lithuania through deals to supply cardphones and laying fibre-optic cable, according to Prof Papoulias.

OTE and Stet of Italy joined forces to buy 49 per cent of Serbia Telecom, the state operator, earlier this year. OTE paid DM675m for a 20 per cent stake, its first equity participation abroad, and has sent a team of managers and technical experts to Belgrade to help modernise the Serbian network.

"It's important to be in markets with a lot of room for growth," says Prof Papoulias. "We can offer the kind of services that smaller state operators in the former Soviet Union, such as Armenia, Georgia and Lithuania, need, for example."

In Armenia, where there are only 17 telephones for every 100 residents, OTE leads a consortium bidding against Metromedia of the US for a 90 per cent stake in ArmenTel, the state operator. The OTE consortium put in a bid of \$105m and pledged to invest \$250m over the next three years in upgrading the Armenian network.

If the deal goes through, the Greek operator would acquire 51 per cent of ArmenTel, while France Telecom, the French public operator, would buy 25 per cent. Leventis, the Cypriot-owned group which holds the Coca-Cola franchise in Armenia and the European Bank for Reconstruction and Development would also become shareholders.

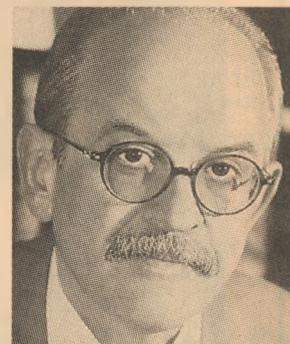
OTE is one of two bidders

for a 40 per cent strategic stake being offered in Moldtelecom, the Moldovan state operator, whose network is of a similar size to Armenia's.

BZW, the UK investment bank, and Ionian Finance, the investment banking subsidiary of Greece's state-owned Ionian Bank, are advising OTE on both bids.

Prof Papoulias says eastern European acquisitions would not contribute immediately to OTE's profits. Most earnings growth in the next three years will come through digitisation of the Greek network, which so far has increased average revenues per line by 35 per cent because calls can be time-charged.

But the slow pace of digitisation "will have an



Demetrios Papoulias: Culture takes time to change

impact, albeit a small one on 1997 earnings", he adds. At the time of OTE's secondary offering, analysts forecast a 42 per cent increase in net profits to Dr209bn on turnover up 15 per cent to Dr781bn.

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Existing Shares
Increase of
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Advisor
FINANCE

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Secondary Offering of Shares by the Hellenic Government through Public Offer in Greece and International Private Placement
Offer Size
GRD 348,954,028,000
Capital Increase of
GRD 189,899,490,000
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MAY 1997
Telenor
30% stake in
OTE
Telecommunications Organisation S.A.
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