

Tough talking as OTE returns to the market

EVEN for the versatile Greeks, the public transformation of Petros Lambrou from right-hand man and close confidant of the deceased Greek socialist prime minister, Andreas Papandreu, to tough-talking international businessman is nothing short of miraculous.

But his undoubted ability and commercial acumen have served him well. At one stage he was responsible for the strategic organisation of Papandreu's mass rallies, for which the radical leader became famous. But Lambrou escaped the chop from Papandreu's moderate successors, an exception among the dead prime minister's aides.

The more obvious reason is the success that Lambrou and his managers have scored in turning Greece's gigantic yet cumbersome state-owned Hellenic Telecommunications Organisation (OTE) into a private company.

Before his arrival in 1993 it could take many months, if not years, to get a phone installed, transferred or repaired. Today the repair service not only works 16 hours a day, it also works at weekends. Phones are installed between ten to 30 days after an order, a revolution in Greece. There is still much to do. OTE has yet to introduce a mobile phone system despite the arrival of two competing internationally run systems in 1994.

Apart from adapting to EU dictates to liberalise by 2001, OTE is about to embark on what Lambrou hopes will be a second successful sell-off of shares. It aims to raise more than Dr300 million (\$1.2 billion).

Lambrou, 49, is managing director and chief executive of OTE, by far the largest and most profitable corporation in the Balkans. He says his primary tasks are to modernise it to face competition, to expand into the Balkans, eastern Europe and the Middle East, to secure a stronger position, and to supervise privatisation.

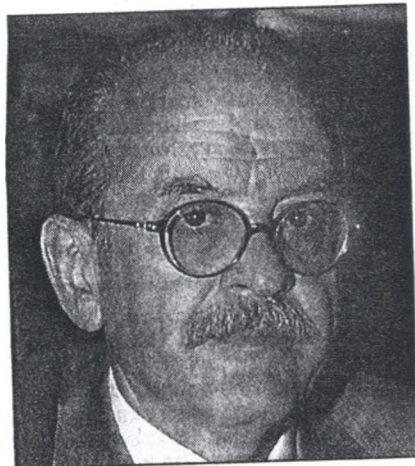
A near ten per cent tranche of OTE's shares was sold last year through the Athens stock exchange, but the second tranche of around 12 per cent will be sold via the UK and the US as well as Athens. Meanwhile, the massive task has rendered Lambrou moody, evasive, and averse to being photographed. Yet he is supremely confident of OTE's success.

The Greek telecoms group is to sell a second tranche of shares on the back of last year's profit of \$1.2bn, reports

Paul Anastasi in ATHENS

"We already dominate the Balkans in terms of infrastructure, bulk, modernisation and turnover, and feel we can maintain this dominant position," he says. "We can participate on an equal basis in international alliances that are developing in telecommunications and which will be completed by 2000. We will continue to dominate the Greek market, and will play a role in the markets of eastern Europe and the Middle East. We enjoy considerable advantages due to our geographic position on the crossroads of eastern and western Europe, the Middle East and North Africa. We plan to make good use of that position."

Despite Lambrou's tough talk, he is cordial enough to concede that much of OTE's success is due to his staff. Among them are the OTE president, Dimitris Papoulias, 58, who holds a PhD from Oxford University, a patriarchal figure who admits to feeling just



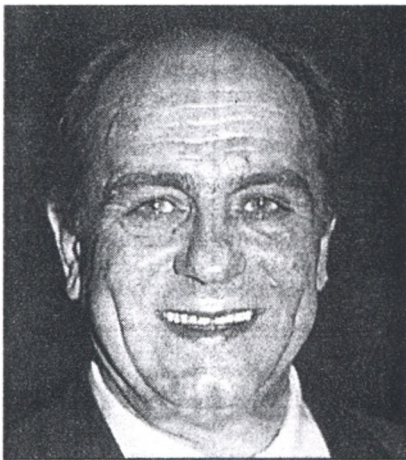
Papoulias: holding OTE reins tight

held from 11 to 13 June. The Greek government sold its first tranche of OTE shares in April last year. The shares' drachma value has risen 67 per cent, and just over 55 per cent in dollar terms, although this represents a small underperformance against the Athens exchange composite index.

OTE is the largest corporation in the Balkans, with a \$2.6bn annual turnover - equal to 2.5 per cent of total Greek gross domestic product. Its profits - a quite remarkable \$1.2bn pre-tax last year thanks mainly to its monopoly of terrestrial services - exceed those of the country's top 20 banks collectively. It has a staff of 24,500 who, according to OTE research, are getting more efficient. Each employee now services 224 phone lines, compared with 168 in 1992. Inevitably, it is the largest company on the Athens stock exchange with a capitalisation of \$9bn.

Lambrou said that last year's profit was a 23.8 per cent increase over pre-tax profits in 1995. OTE says turnover and net profits in the 1996 to 2000 period will continue to increase at about 20 per cent per year, compared with seven to eight per cent for other major western telecoms groups.

"These rates will keep us well in top position in Europe in terms of results," Lambrou said. He added that even greater profits will come from the high rate of digitalisation; it is scheduled to increase from 43 per cent of the phone network today to 90 per cent by the year 2000. This in turn will provide a better infrastructure for the introduction of other value-added services such as voice mail, call forwarding, Internet, e-mail, the introduction of mobile telephony and cable television, the creation of more subsidiary companies and participation in investments.



Lambrou: OTE's confident moderniser

at home in England as in Greece, and Christos Kazantzis, the 48-year-old general manager of finance.

The OTE shares are being sold mainly through London and New York to avoid overloading the Athens market. Shares will be sold via brokers in the UK and as American Depository Receipts (ADRs) in the US, and be quoted on SEAQ International in London and America's Nasdaq exchange. The public offering will be



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"I believe the secret to success is a change in the mindset of the staff and management, from a slow, state-run operation to a new private enterprise conglomerate capable of meeting the challenges of competition from western Europe and the US.

"That means new managerial techniques and technology, expert staff, and a change in orientation from primarily satisfying state dictates to satisfying the increasingly complex demands of customers."

Although OTE has amassed giant profits and assets due largely to its state monopoly on fixed telephony, under EU legislation it will lose this monopoly by 2002. Nevertheless, it is still attractive to investors; when it sold its first 32 million shares last year they were quickly bought by 180,000 small and medium investors and 400 institutional investors. This brought in around \$500m, split 40/60 between OTE and the government.

OTE has made it clear that it is using its considerable revenue from share sales and other sources for two purposes: first, to increase and modernise services at home in view of fierce competition in the European telecommunications market. Second, to fulfil its international projects in the Balkans, eastern Europe, the former USSR, and the Middle East.

About \$400m has already been earmarked for investments abroad. They include participation in projects in Romania, Armenia, Iran, Ukraine, Albania, Macedonia (FYR), Bulgaria, Azerbaijan, Uzbekistan and Georgia. In many of these projects OTE is co-operating with western partners such as BT, Alcatel and Siemens.

It is participating in SEA-ME-WE3, an underwater optical fibre system which will connect more than 32 coastal countries ranging from the North Sea to the Pacific, via the Atlantic, the Mediterranean, the Red Sea and the Indian Ocean. OTE claims

this will make Greece "the main international telecommunications entry point towards the Balkans, the Adriatic and the Black Sea".

Lambrou says: "OTE aims to become an international telecommunications transit centre between western and eastern Europe, the Middle East and North Africa, with influence well beyond its geographic area."

HOWEVER, Lambrou is not without his critics. The company's union, despite seeing its numbers fall from 27,000 to 24,500 since 1994, with the promise of further cuts, has still blamed Lambrou for going too slow in the privatisation process, and delaying investment at home and abroad; for instance, the union said entry into mobile telephony and cable television was supposed to happen by the end of last year, but has

not even started. There is one good reason why the union might complain - its members have received generous pay-offs and large discounts on shares.

Dimitris Spanodimos, an analyst at ABN-AMRO Hoare Govett in Athens, remains bullish: "The offering will increase the liquidity of the Greek market, render it more accessible to investors, and promote the equity culture among Greek retail investors."

But some analysts are concerned that the price should be set at a reasonable level.

One London-based analyst said: "It is an exciting and interesting company. But it should be priced sensibly; the OTE share price sometimes seems to be rising even when the rest of the market falls. That might test some investors."

For Lambrou the test will be whether investors continue to believe the story.

