



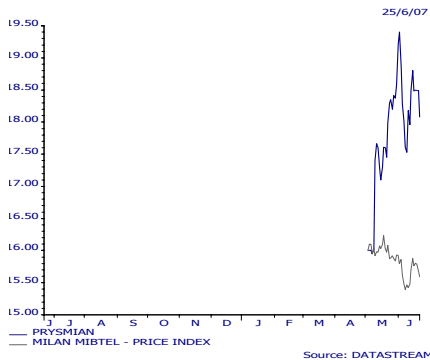
25 June 2007

Industrials

Initiating Coverage

Price: € 18.0 Target price: € 20.5

**Outperform**



	2006	2007E	2008E	2009E
<b>EPS Adj. (€)</b>	0.49	0.90	1.15	1.33
<b>DPS (€)</b>	0.00	0.27	0.35	0.40
<b>BVPS (€)</b>	0.84	1.64	2.52	3.50
<b>EV/Ebitda(x)</b>	4.8	8.8	8.4	7.5
<b>P/E adj (x)</b>	36.6	20.2	15.7	13.7
<b>Div.Yield(%)</b>	0.0	1.5	1.9	2.2
<b>FCF Yield(%)</b>	22.1	3.4	5.3	6.2

Source: Mediobanca Securities

## Electrifying company

### Market Data

Market Cap (€ m)	3,265
Shares Out. (m)	180
Main Shareholder	GS Group 54%
Free Float (%)	46.0
52 week range (€)	19.4-15.95
Rel Perf vs Mibtel (%)	
-1m	5.9%
-3m	n.a.
-12m	n.a.
21dd Avg. Vol. ('000)	475
Reuters/Bloomberg	PRY.MI / PRY.IM

### Global leader in energy and telecoms cables

We initiate our coverage of Prysmian with an OUTPERFORM rating and target price of €20.5 per share (+14% potential upside).

Prysmian operates in the energy and telecommunications cable businesses, with FY 06 sales of €5bn. The company is world leader in the energy cable market, along with Nexans, both of which have a market share of 6.8%, and is the second player in the TLC cable market after Corning. Prysmian runs 54 plants, has subsidiaries in 34 countries and employs 12,143 people. The company's products are sold worldwide.

### A successful turnaround and impressive 2004-2006 performance

Prysmian has undergone a major restructuring process, which led to a dramatic improvement in performance in the 2004-2006 period: revenues grew 47%, adjusted EBITDA posted 96% growth, and adjusted EBIT more than tripled. Moreover, Q1 07 results confirmed this trend and to some extent exceeded our expectations.

### Key Financial Data - 2006 (€m)

Turnover	5,007
EBITDA	371
EBIT	258
Net Profit	89
Shareholders' Funds	151
Net Debt (-) Cash (+)	-879
Gearing %	516.0%

### Sustainable profitable growth ahead

Prysmian is profitable and well-managed, and we believe the company intends to maintain market share in every segment while continuing to grow in high-value added segments on the back of its: i) effective market segmentation; ii) ongoing product and process innovation; iii) best in class financials. This should lead to a 20% EBIT CAGR 06-09 and to cumulative OpFCF of €1,127m (EBITDA – Capex – WC needs), average 6.5% of sales, with an EBITDA conversion ratio of some 78%.

## **Contents**

---

<b>Executive summary</b>	<b>3</b>
<b>Valuation</b>	<b>5</b>
<b>Prysmian: company overview</b>	<b>14</b>
<b>Company mission: profitable growth</b>	<b>17</b>
<b>Main growth drivers: more of the same</b>	<b>19</b>
<b>Success factors</b>	<b>23</b>
<b>SWOT analysis</b>	<b>25</b>
<b>Porter's "Five forces" model</b>	<b>27</b>
<b>Financials</b>	<b>28</b>
<b>Appendix A: The cable market</b>	<b>35</b>
<b>Appendix B: Historical and projected financials</b>	<b>46</b>
<b>Appendix C: Historical milestones</b>	<b>53</b>
<b>Appendix D: The reference market</b>	<b>55</b>

## Executive summary

### Prysmian: short profile

Prysmian operates in the energy and in the telecommunications cable industries (sales of €5bn in FY 06). In the energy market the company is active in three segments: utilities, industrial and trade & installers; in the telecom cable market, Prysmian operates in the copper and optical cable segments. The company operates 54 plants and has subsidiaries in 34 countries with 12,143 employees. Prysmian's products are sold worldwide.

### Market positioning and strategy

Prysmian, together with Nexans, is the world leader in the energy cable market (6.8% market share each), and the second player in the TLC cable market (just behind Corning). Prysmian's focus is on profitable growth, and the rationale for Prysmian's current market positioning is consistent with the company's mission. This may be summarised as: maintaining its market share in all segments, consolidating its presence in the most competitive of these, and expanding its operations in those where it can leverage its core competencies and global scale.

### Success factors

We believe the main factors that could contribute to Prysmian achieving its mission are:

- **Effective market segmentation:** Prysmian has succeeded in efficiently segmenting its reference market in terms of value added and geography, and in developing differentiated strategies to maximise performance in each segment;
- **Continuous product and process innovation:** Prysmian is a highly innovative company that has continued to develop high value-added, innovative products. In our view, these offer a distinct competitive advantage, easing the price pressure coming from less specialised players. At the same time, process innovation has led to improved product performance (e.g. AFUMEX, AirGuard) and kept industrial costs under control.
- **Best in class financials:** The company pays careful attention to managing its finances. Both from an operational (EBITDA margin) and a financial (cash conversion rate, ROCE) point of view, we believe that Prysmian is the best performer among comparable companies.

### Main growth drivers

We see no major discontinuities in Prysmian's future: the company is profitable, well-managed and has already undergone a thorough restructuring. We believe that the company will continue to leverage the above-mentioned success factors.

Prysmian's key future growth drivers are:

1. **High value-added segments:** Prysmian intends to focus on the most global and value-added segments, while managing the more commoditised production for cash;

2. **Moving from products to systems:** the company could increase its profitability by increasing the breadth of its offering, aiming to provide turnkey solutions to its customers.

### 2007-09 expected financials

In a nutshell, our forecasts for the trend in Prysmian financials in the 2007-09 period are as follows:

- **EBIT: 19.9% 06-09 CAGR**, due to i) strong operating leverage; ii) cost efficiencies; iii) focus on value-added businesses; iv) disposal of less profitable businesses. It is worth noting that group EBIT in FY 06 was affected by corporate costs that explain the difference between divisional and group CAGR;
- **39% Net profit CAGR**, assuming a declining cost of debt and a drop in the tax rate from 37% to 35%.
- **€1.127m cumulative OpFCF** (defined as EBITDA – Capex – WC needs), i.e. an average 6.5% of sales, with an EBITDA conversion ratio of some 78%.

#### Prysmian 2007-09 expected financials (reported and adjusted)

	2006	2007E	2008E	2009E
<b>Turnover</b>	<b>5,007</b>	<b>5,010</b>	<b>5,235</b>	<b>5,467</b>
Turnover growth (%)	33.8%	0.1%	4.5%	4.4%
<b>EBITDA</b>	<b>371</b>	<b>471</b>	<b>481</b>	<b>520</b>
EBITDA margin (%)	7.4%	9.4%	9.2%	9.5%
<b>EBITDA Adj.</b>	<b>407</b>	<b>449</b>	<b>491</b>	<b>530</b>
EBITDA Adj. margin (%)	8.1%	9.0%	9.4%	9.7%
Depreciation & Amortization	-113	-71	-73	-75
<b>EBIT</b>	<b>258</b>	<b>400</b>	<b>408</b>	<b>445</b>
EBIT margin (%)	5.2%	8.0%	7.8%	8.1%
<b>EBIT Adj.</b>	<b>330</b>	<b>378</b>	<b>418</b>	<b>455</b>
EBIT Adj. margin (%)	6.6%	7.5%	8.0%	8.3%
Pre-tax Profit	147	248	328	377
<b>Net Profit</b>	<b>89</b>	<b>161</b>	<b>208</b>	<b>239</b>

Source: Prysmian, Mediobanca Securities

### OUTPERFORM, target price of €20.50 per share

Our valuation, based on both a multiples and DCF analysis, delivers a fair value of €20.5 per share. We therefore initiate our coverage of Prysmian with an OUTPERFORM rating and a target price of €20.5 per share (+14% potential upside).

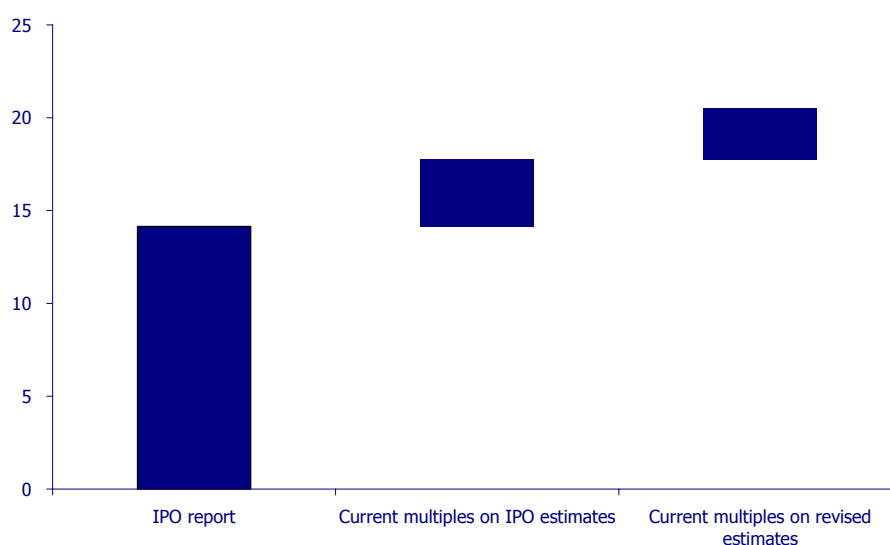
We believe the valuation of the company could further increase should the company prove able to sustain its strong Q1 07 performance in the next quarters. A further potential upside could come from the management's decision to maintain an efficient financial structure.

## Valuation

We initiate our coverage of Prysmian with an OUTPERFORM rating and a target price of €20.5 per share (+14% potential upside). We note that our target price is higher than as set out in our IPO report (€14.2 per share, published on 23 March 2007) due to:

1. a strong re-rating of Prysmian's peers, which since March has further inflated the industry's average multiples. This effect accounts for an average additional €3.6 per share to our fair equity value;
2. very strong Q1 07, both for Prysmian and comparable companies, which led us to adopt a more aggressive outlook for the cables market for 2007 and 2008. This effect adds up to further €2.7 on our Prysmian valuation.

### Prysmian: from IPO valuation to new target price



Source: Mediobanca Securities

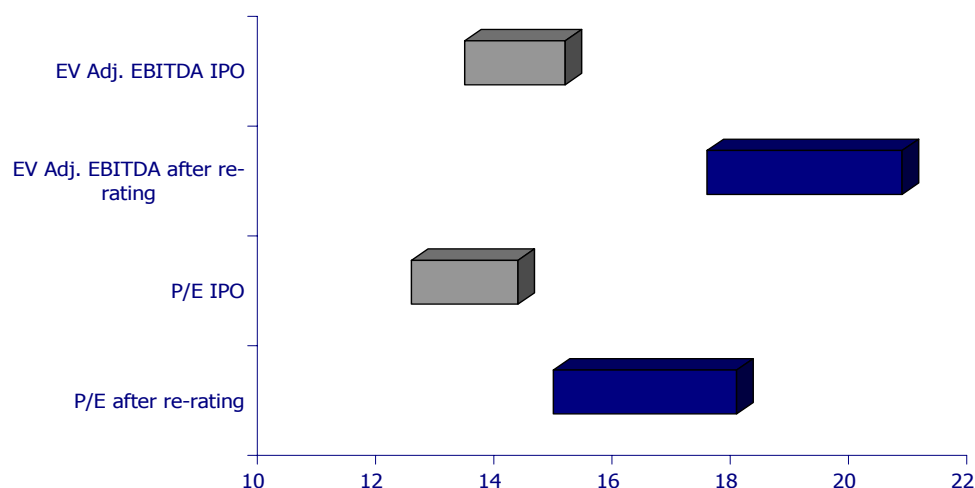
These two factors are analysed in depth in the following section.

### 1. Multiples expansion

Since the beginning of the IPO process (mid-March), a positive industry outlook has led to a general re-rating of our cable companies peer group. We believe that the imminent listing of a global leader such as Prysmian has also increased the industry's speculative appeal. This process implied an inflation of multiples that, all else being equal, pushed our fair value upwards.

The graph below shows the impact of multiples inflation on our Prysmian valuation. The grey bars represent the IPO fair equity value ranges, while the blue ones identify the same ranges derived by applying the new (higher) multiples to the estimates contained in our IPO report.

**Multiple inflation impact on our IPO valuation**



Source: Mediobanca Securities

More specifically, maintaining our IPO estimates, our fair value per share (based on E.V. Adj./EBITDA multiples) moved from the €13.3-€15.0 range (based on the average peers' multiple at the lower end and on the maximum multiples among peers at the top) to €17.4-€20.7 per share.

**Prysmian fair value per share E.V. Adj./EBITDA – IPO report**

	2007 mean	2007 max	2008 mean	2008 max
E.V. Adj. /EBITDA multiple	8.2x	8.6x	6.9x	7.4x
Implied price per share (€)	14.0	15.0	13.3	14.7

Source: Mediobanca Securities, IBES

**Prysmian fair value per share E.V. Adj./EBITDA – IPO estimate on current multiples**

	2007 mean	2007 max	2008 mean	2008 max
E.V. Adj. /EBITDA multiple	9.7x	10.7x	8.4x	9.7x
Implied price per share (max)	17.5	17.4	19.9	20.7

Source: Mediobanca Securities

In the same way, taking into account the P/E multiple, the fair value range in our IPO report was €12.40-€14.20, while, after the re-rating, it increased to €14.8-€17.9 per share.

**Prysmian multiple evaluation: P/E 2007 and 2008 – IPO report**

	2007 mean	2007 max	2008 mean	2008 max
Prysmian P/E multiple	14.6x	15.2x	12.3x	12.9x
Prysmian net profit	153	153	199	199
<b>Equity value</b>	<b>2,229</b>	<b>2,321</b>	<b>2,442</b>	<b>2,561</b>
Fair value per share (€)	12.4	12.9	13.6	14.2

Source: Mediobanca Securities, IBES

**Prysmian fair value per share P/E – IPO estimate on current multiples**

	2007 mean	2007 max	2008 mean	2008 max
Prysmian P/E multiple	17.5x	18.7x	15.0x	16.3x
Prysmian net profit	153	153	199	199
<b>Equity value</b>	<b>2,665</b>	<b>2,852</b>	<b>2,980</b>	<b>3,229</b>
Fair value per share	14.8	15.8	16.6	17.9

Source: Mediobanca Securities

All in all, then, our fair value increased from €14.15 per share (average between €13.3 and €15 per share) to €17.75 per share (between €14.8 and €20.7).

## 2. Estimates revised upwards

After the release of strong Q1 07 results, we have revised our estimates on Prysmian upwards. Applying current peers' multiples to the "new" Prysmian, we obtain a fair value per share in the €18.1-€21.4 per share range.

**Prysmian: old versus new estimates FY 07 and FY 08**

	2007E			2008E		
	Old	New	%Chg	Old	New	%Chg
Energy	4,470	4,525	1.2%	4,662	4,733	1.5%
TLC	580	585	1.0%	595	606	1.9%
Interdivisional adjustments	(99)	(100)	1.2%	(103)	(105)	1.6%
<b>Total revenue</b>	<b>4,951</b>	<b>5,010</b>	<b>1.2%</b>	<b>5,153</b>	<b>5,235</b>	<b>1.6%</b>
<b>EBITDA Adj.</b>	<b>427</b>	<b>449</b>	<b>5.1%</b>	<b>477</b>	<b>491</b>	<b>3.0%</b>
Margin %	8.6%	9.0%	0.3%	9.3%	9.4%	0.1%
<b>EBITDA Reported</b>	<b>409</b>	<b>471</b>	<b>15.1%</b>	<b>467</b>	<b>481</b>	<b>3.0%</b>
Margin %	8.3%	9.4%	1.1%	9.1%	9.2%	0.1%
<b>EBIT</b>	<b>338</b>	<b>400</b>	<b>18.3%</b>	<b>394</b>	<b>408</b>	<b>3.6%</b>
Margin %	6.8%	8.0%	1.2%	7.6%	7.8%	0.2%
<b>Pre-tax profit</b>	<b>246</b>	<b>248</b>	<b>1.2%</b>	<b>314</b>	<b>328</b>	<b>4.5%</b>
<b>Net Profit</b>	<b>153</b>	<b>161</b>	<b>5.7%</b>	<b>199</b>	<b>208</b>	<b>4.5%</b>

Source: Mediobanca Securities

Despite the upwards revision, we believe our expectations regarding Prysmian's growth targets are relatively conservative: we forecast Prysmian's revenues growth to be slightly below its Tier I peers' average in 2007 (due to the disposal of the rod business) and also in 2008.

**Prysmian versus peers: P&L trend**

	Sales Growth		EBITDA Growth		EBIT Growth		Net Income Growth	
	2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
<b>Prysmian</b>	0%	4%	10%	9%	14%	11%	81%	29%
<b>TIER I</b>								
General Cable	16%	7%	51%	11%	58%	17%	76%	15%
Draka Holdings	8%	7%	27%	16%	39%	22%	50%	22%
Nexans	1%	3%	30%	10%	27%	10%	36%	12%
<b>Mean</b>	<b>8%</b>	<b>6%</b>	<b>36%</b>	<b>12%</b>	<b>42%</b>	<b>16%</b>	<b>54%</b>	<b>16%</b>

Source: IBES, Mediobanca Securities

Prysmian's profitability, however, should continue to remain significantly above its peers' average. Margins are expected to grow for all the main industry players, and General Cable seems to be the most profitable among Prysmian's peers: IBES estimates on GC have been revised upwards and assume an EBITDA margin above 10% in both 2007 and 2008 (versus 8.7% and 9.4% respectively in March 2007).

**Prysmian Versus Peers: EBITDA and EBIT margin**

	EBITDA margin			EBIT		
	2006	2007E	2008E	2006	2007E	2008E
<b>Prysmian</b>	8.1%	9.0%	9.4%	6.6%	7.5%	8.0%
General Cable	7.8%	10.2%	10.5%	6.4%	8.8%	9.6%
Draka Holdings	5.7%	6.8%	7.3%	3.6%	4.6%	5.3%
Nexans	4.5%	5.8%	6.2%	3.3%	4.2%	4.4%
<b>Mean</b>	<b>6.0%</b>	<b>7.6%</b>	<b>8.0%</b>	<b>4.4%</b>	<b>5.9%</b>	<b>6.5%</b>

Source: IBES, Mediobanca Securities

The consensus on peers' performance has improved after Q1 07 releases. Both General Cable and Nexans posted extremely positive results both in terms of top-line organic growth and profitability.

Peers' multiples are shown in the table below. Note that:

- market capitalization is considered on a fully-diluted basis;
- net debt takes into account the impact of the dilution (e.g. it has been reduced by the expected cash-in relating to the warrant conversion);
- EV has been adjusted to include minorities, unfunded pension funds, deferred tax assets and peripheral assets.

## Prysmian peers multiples analysis (on new Prysmian estimates)

	P / E (on outs shs)		E.V. Adj./EBITDA		E.V. Adj./OPFCF	
	2007E	2008E	2007E	2008E	2007E	2008E
<b>Prysmian</b>	20.7x	16.1x	9.2x	8.2x	12.8x	10.5x
<b>TIER I</b>						
General Cable	18.7x	16.3x	10.7x	9.7x	17.3x	13.7x
Draka Holdings	17.5x	14.3x	9.2x	7.7x	17.6x	12.1x
Nexans	16.2x	14.5x	9.1x	7.9x	n.m.	n.m.
<b>Mean</b>	<b>17.5x</b>	<b>15.0x</b>	<b>9.7x</b>	<b>8.4x</b>	<b>17.5x</b>	<b>12.9x</b>
Median	17.5x	14.5x	9.2x	7.9x	17.5x	12.9x
Min	16.2x	14.3x	9.1x	7.7x	17.3x	12.1x
Max	18.7x	16.3x	10.7x	9.7x	17.6x	13.7x

Source: IBES; Mediobanca Securities

In terms of multiples to be taken into account for the peers' valuation, EV Adj./EBITDA is the most widely adopted in the cables sector. On the other hand, the comparison with P/E, especially in FY07 could be misleading, due to the presence of non-recurring negative items in Prysmian's P&L.

Prysmian boasts strong margins and best in class financials. On the other hand, the company has undergone a major restructuring process, so: i) we expect the company to grow slightly less than its comparables and ii) the stock has limited turnaround appeal versus Nexans. All in all, we believe that Prysmian should trade in line with the best among its peers, i.e. General Cable. General Cable is the most similar to Prysmian both in terms of margins (see above) and ROCE, which stood at 28% for Prysmian in 2006 and 26.2% for General Cable.

Conversely, Nexans, which is probably the most comparable peer from an industrial point of view, is not the best for a comparison in a multiples analysis, due to its lower margins and less efficient cost structure.

**EV Adj./EBITDA.** We derived our fair value considering the General Cable multiples. We believe this is consistent with Prysmian's growth/profitability profile. We deducted net debt, minorities as recognised at book value and employees' benefit obligations from the EV Adj., obtaining a fair value for Prysmian of €18.1-€21.4 per share.

## Prysmian multiple evaluation: EV Adj./EBITDA

	Mean		Max	
	2007	2008	2007	2008
Prysmian EV Adj./EBITDA multiple	9.7x	8.4x	10.7x	9.7x
Prysmian EBITDA	449	491	449	491
<b>EV Adj.</b>	<b>4,346</b>	<b>4,144</b>	<b>4,799</b>	<b>4,749</b>
Net Financial Debt as of year start (€ mn)	(879.1)	(798.2)	(879.1)	(798.2)
Minorities book value (€ mn)	(21.6)	(21.6)	(21.6)	(21.6)
Employees benefits obligations	(127.6)	(127.6)	(127.6)	(127.6)
Deferred tax assets	31.0	31.0	31.0	31.0
Peripheral assets	21.3	21.3	21.3	21.3
<b>Equity Value</b>	<b>3,370</b>	<b>3,249</b>	<b>3,823</b>	<b>3,854</b>
<b>Implied price per share</b>	<b>18.7</b>	<b>18.1</b>	<b>21.2</b>	<b>21.4</b>

Source: IBES, Mediobanca Securities

Our multiples valuation therefore delivers a fair value of €20.50 per share, which is basically confirmed by our DCF analysis.

In our view it could be useful to cross-check our E.V. Adj./ EBITDA with **EV Adj./OpFCF**, in order to give visibility on Prysmian's more efficient NWC management and investment policy. We derived our fair value considering the average of peers (excluding from our analysis Nexans, which is unlikely to generate enough Operating Free Cash Flow to be a relevant term of comparison), and obtained a fair value for Prysmian between €22.5 and €26.2 per share.

**Prysmian multiple evaluation: EV Adj./FCF (peers' average)**

	<b>2007</b>	<b>2008</b>
Prysmian EV Adj./OPFCF multiple	17.5x	12.9x
Prysmian OPFCF	325	382
<b>EV Adj.</b>	<b>5,683</b>	<b>4,943</b>
Net Financial Debt as of year start (€ mn)	(879.1)	(798.2)
Minorities book value (€ mn)	(21.6)	(21.6)
Employees benefits obligations	(127.6)	(127.6)
Deferred tax assets	31.0	31.0
Peripheral assets	21.3	21.3
<b>Equity Value</b>	<b>4,707</b>	<b>4,048</b>
<b>Implied price per share</b>	<b>26.2</b>	<b>22.5</b>

Source: IBES, Mediobanca Securities

We are not including for the time being those really aggressive results in our valuation, but we believe they support our positive view on the stock.

## Discounted Cash Flow Analysis

Our three-stage DCF model (rolling WACC and fixed WACC) delivers a fair value in the €17.5-€19.7 per share range. The main assumptions used in our model are described below:

- **Explicit period until 2009:** for 2006-2009, we have estimated a revenues CAGR of 3.0% (net of metal and FX effects), an EBITDA CAGR of 12.7%, and an EBIT CAGR of 19.9%.
- **2010-2016**, which embeds the following assumptions:
  - Revenues growth of 3% per annum;
  - Flat EBITDA margin of 10% (same as in 2010);
  - D&A growing as capex increases.
- **Terminal value**, calculated with a long-term growth rate of between 2% and 3%. Note that adopting an average 2.5% "g" generates an exit multiple of 9.3x EV/EBITDA 07;
- **WACC** of between 5.3% and 9.2%. Note that our DCF base case derives from a risk-free rate of 4.5%, equity risk premium of 4.0%, and beta of 1.18 (obtained using peers' unlevered beta).

**Prysmian WACC calculation**

	<b>2007</b>	<b>2016</b>
Free risk rate	4.50%	4.50%
Stock beta	1.18	1.18
Market risk premium	4.00%	4.00%
Cost of Equity	9.22%	9.22%
% MP	28.31%	100.00%
Cost of Debt (gross)	6.20%	4.70%
Tax rate	34.2%	35.00%
Cost of Debt (net)	4.08%	3.06%
% MT	71.69%	0.00%
<b>WACC</b>	<b>5.56%</b>	<b>9.22%</b>

Source: Mediobanca Securities

To calculate the fair equity value of Prysmian we assumed:

- FY 2006 net debt of €879m;
- a €128m negative adjustment to the net debt to reflect non-Italian pension liabilities;
- minority interests worth €22m;
- financial assets of €21m and deferred tax assets worth a total €31m.

**Prysmian DCF (rolling WACC)**

Perpetual Growth Rate	2.50%
WACC	9.22%
Terminal Value as of 31/12/16	5,207.1
Discounting Rate of Terminal Value	0.47
<b>Discounted Terminal Value</b>	<b>2,450.1</b>
<b>Cumulated DFOCF</b>	<b>1,857.7</b>
Financial assets as of 31/12/06	21.3
Deferred tax assets	30.9
<b>Enterprise Value (€ mn)</b>	<b>4,360.1</b>
Net Financial Debt as of 31/12/06 (€ mn)	(879.1)
Minorities book value (€ mn)	(21.6)
Employees benefits obligations	(127.6)
<b>Equity Value (€ mn)</b>	<b>3,331.8</b>
<b>Value per share (€)</b>	<b>18.51</b>

Source: Prysmian, Mediobanca Securities

Taking into account the foregoing assumptions and "weighting" them in accordance with a sensitivity analysis (terminal growth rate between 2% and 3%), we calculate a fair value of €17.5-€19.7 per share.

**Prysmian: DCF Analysis (rolling WACC): fair value per share (€)**

WACC	Terminal growth rate		
	2.0%	2.5%	3.0%
<b>8.72</b>	18.4	19.6	21.0
<b>9.22</b>	17.5	18.5	19.7
<b>9.72</b>	16.7	17.6	18.6

Source: Mediobanca Securities

Assuming, as we did in our IPO report, that Prysmian can maintain an efficient financial structure in the medium term (e.g. by increasing dividend payout ratio), we use a fixed WACC of 8.4% (corresponding to a D/E ratio of 15%) from 2011 on. By applying the same average cost of capital to our terminal value, we obtain a fair value per share in the €19.1-€21.8 range, considerably higher than before.

**Prysmian: DCF Analysis (fixed WACC) (€m)**

<b>Perpetual Growth Rate</b>	<b>2.50%</b>
WACC	8.42%
Terminal Value as of 31/12/16	5,908.0
Discounting Rate of Terminal Value	0.46
<b>Discounted Terminal Value</b>	<b>2,729.7</b>
<b>Cumulated DFOCF</b>	<b>1,903.9</b>
Financial assets as of 31/12/06	21.3
Deferred tax assets	30.9
<b>Enterprise Value</b>	<b>4,685.8</b>
Net Financial Debt as of 31/12/06	(879.1)
Minorities book value	(21.6)
Employees benefits obligations	(127.6)
<b>Equity Value</b>	<b>3,657.5</b>
<b>Value per share (€)</b>	<b>20.32</b>

Source: Prysmian, Mediobanca Securities

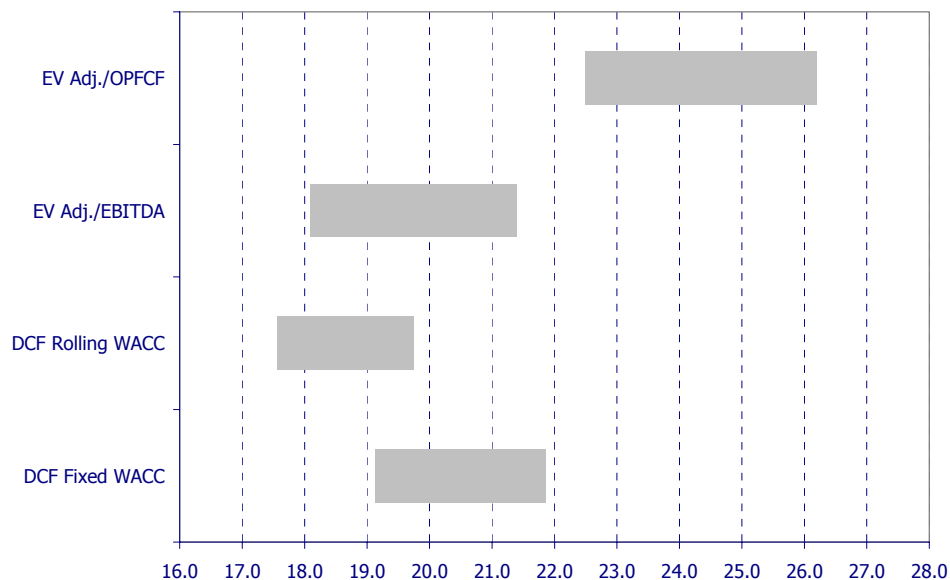
**Prysmian: DCF Analysis (fixed WACC) fair value per share (€)**

WACC	Terminal growth rate		
	2.00%	2.50%	3.00%
<b>7.92%</b>	20.3	21.7	23.5
<b>8.42%</b>	19.1	20.3	21.8
<b>8.92%</b>	18.1	19.2	20.4

Source: Mediobanca Securities

The chart below summarises the results of our different valuation methods.

**Prysmian value chart (fair equity value, €)**



Source: Mediobanca Securities

Summarizing, our valuation, based on both a multiples and DCF analysis, delivers a fair value of €20.5 per share. We therefore initiate our coverage of Prysmian with an OUTPERFORM rating and a target price of €20.5 per share (+14% potential upside).

We believe the valuation of the company could further increase should the company prove able to sustain its strong Q1 07 performance in the next quarters. A further potential upside could come from the management’s decision to maintain an efficient financial structure.

## Prysmian: company overview

In FY 2006 Prysmian generated sales of some €5bn, with an adjusted EBIT of approximately €330m (Adj. EBIT margin at around 6.6%) by manufacturing, marketing and selling cables (mainly energy cables) worldwide.

Prysmian has been historically active in both the energy and in the telecom cable segments, which in FY 06 accounted for some 89% and 11% of its sales respectively.

The group has been in business as a unit of the old Pirelli Group since 1879. It has been growing organically for more than a century, by broadening its product range and establishing an international foothold.

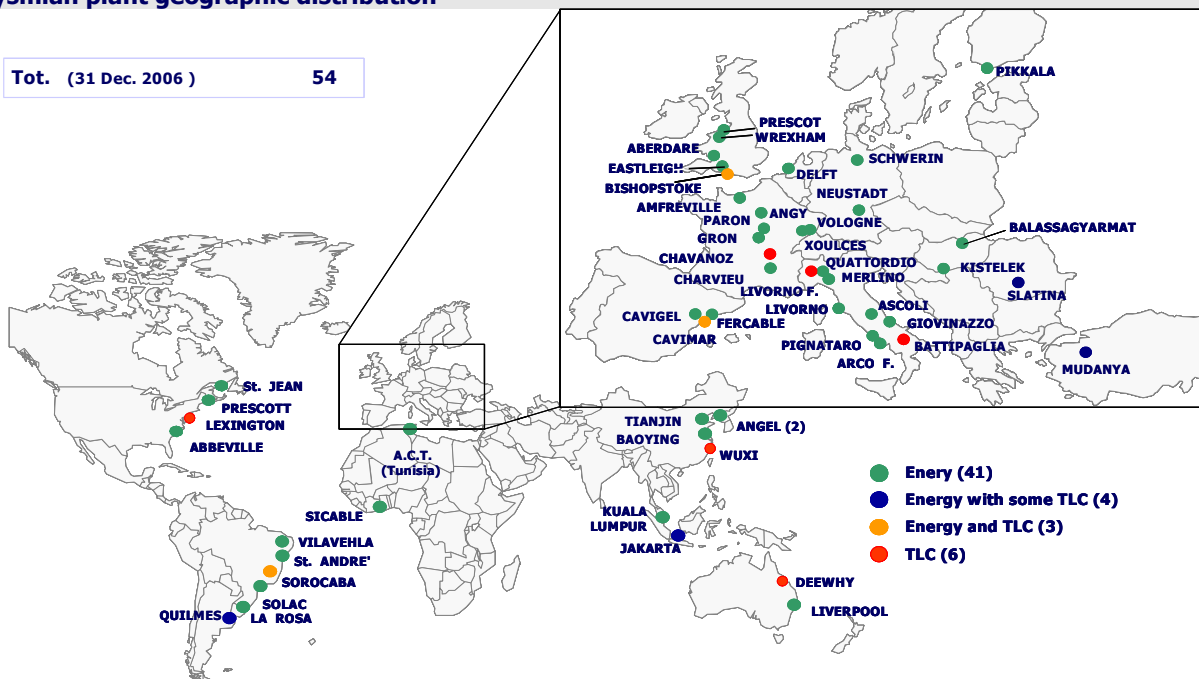
In 2005 the Pirelli Group sold its Energy and Telecom Cable divisions to Prysmian Srl, a subsidiary of Prysmian (LUX) Sarl, which is in turn controlled by the Goldman Sachs Group. After less than two years from the acquisition, Prysmian has gone public on 6 June 2007.

### Prysmian group structure

Prysmian SpA's majority stake (54%) is controlled by Prysmian (LUX) II Sarl, which is indirectly controlled by the Goldman Sachs Group. Management and certain directors indirectly hold a 8.1% minority stake. Prysmian (LUX) II Sarl holds a 100% stake in Prysmian Cavi e Sistemi Energia Srl and Prysmian Telecom Srl..

Prysmian operates 54 plants and has subsidiaries in 34 countries with 12,143 employees. Of these 54 plants, 41 are used in the energy cable business, 6 in the telecom cable segment and 7 are shared between the two divisions.

### Prysmian plant geographic distribution



Source: Prysmian, Mediobanca Securities

**The market positioning of Prysmian**

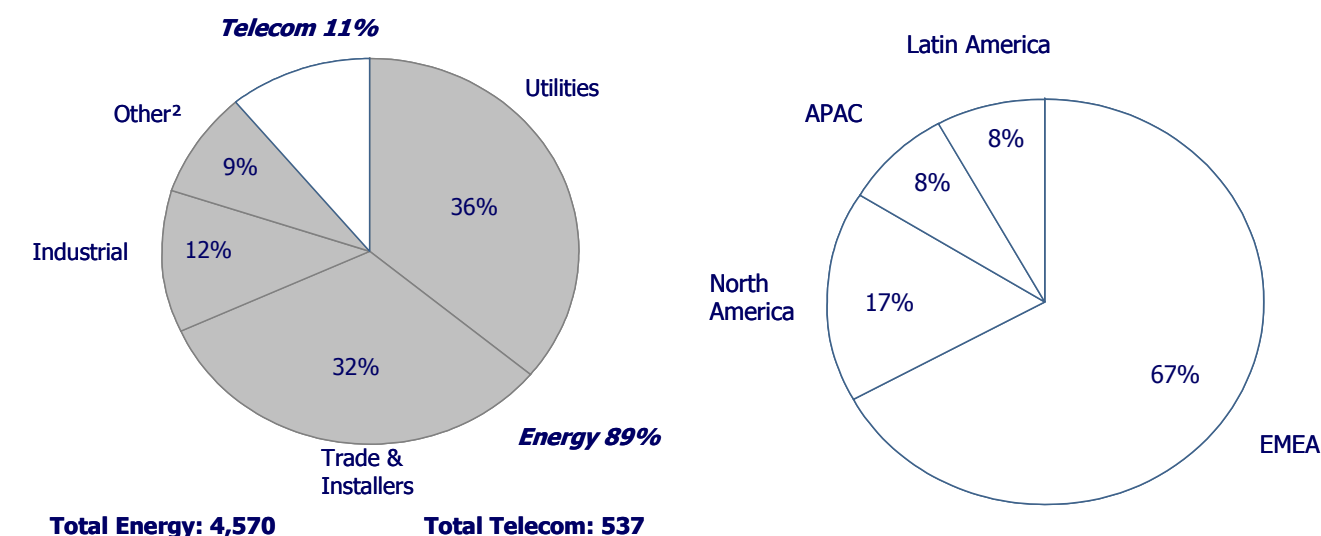
Prysmian posted over €5bn sales in 2006, of which €4.5bn were generated by the Energy Division and €0.5bn by the Telecom Division. The graph below shows a breakdown of Prysmian’s revenues by business area.

The company has an established presence worldwide, though the great majority of Prysmian’s revenues are generated in the EMEA region, as summarized in the following graph.

**Prysmian 2006 revenues breakdown by business area and by geography**

100% = 5,007<sup>1</sup>

100% = 5,007<sup>1</sup>



Source: Prysmian, Mediobanca Securities

**Energy cables**

Prysmian’s global share in the energy cable market is about 7%, and the company is the number one player worldwide, together with Nexans.

- In the **high voltage** and extra high voltage segments Prysmian boasts a consolidated position in Europe, in North America and in LATAM. Moreover, Prysmian has established consolidated relationships with the major utilities incumbent companies (EdF, Endesa, Enel...);
- Prysmian is one of the main players in the **submarine** segment and is currently a partner in some of the most important projects, including Neptune, Sa.Pe.i, GCC. Prysmian holds the record for the deepest and the longest submarine cable connections;
- In the **power distribution** segment Prysmian holds a consolidated position in Europe, North America and Australia;
- As far as the **industrial** segment is concerned, the company is active worldwide and has built a strong position in the infrastructure and machinery sub-segments (focusing on OGP, Crane, Mining, Rail and Marine);
- Prysmian has a strong competitive position in Canada, LATAM, Europe and Australia in the **trade & installers** business.

**Telecom cables**

Prysmian operates in both the copper and the optical telecom cable markets.

- In the **TLC copper** segment the company has a consolidated position in LATAM, Australia, France and Italy;
- In the **optical** segment Prysmian is the second player worldwide after Corning.

Given that the energy cable market operates on a local for local basis, cable companies need to have installed capacity close to the target market. This is also true for TLC copper cables, while optical cables, due to relatively limited logistics costs, do not suffer from this limitation.

## Company mission: profitable growth

The rationale for Prysmian's current market positioning is consistent with the company's mission. We can summarize this as maintaining its market share in every segment, consolidating its presence in the most competitive areas, and expanding it in those segments in which the company can leverage its core competencies and global scale.

In short, we believe Prysmian's target should be to i) benefit from market growth in both the energy and telecom cable sectors, focusing on the highest value added segments and ii) outperform the main competitors in terms of operative and financial efficiency.

Prysmian's strategy is not new, and in fact has been "the" strategy since the early '00s. This is the outcome of the continuous refining of a business model that has included some big discontinuities, of which the most important are:

1. Utilities deregulation and privatization (mid '90s);
2. The bursting of the internet bubble (2001);
3. Copper price rally (2005-2006).

### 1. Utilities deregulation and privatization (mid '90s)

After a period of solid growth in the first half of the '90s, the energy cable industry suffered a demand contraction following the wave of utilities deregulation and privatization. Management in the industry, therefore, opted to reduce capex and to focus on cash generation, and the result was market stagnation.

Prysmian reacted aggressively to this market downturn by acquiring businesses sold off by other industry players. From 1998 to 2001 Prysmian acquired the cable divisions of Siemens, NKF, MM and BICC.

### 2. The bursting of the internet bubble (2001)

The telecom cable industry experienced strong growth from the beginning of the '90s. Telecom incumbents and alternative operators increased investment in order to expand their networks to accommodate the expected huge increase in demand for internet services. After the bubble burst, the excess of transmission capacity and the simultaneous lack of demand resulted in a severe market decline.

This discontinuity obliged Prysmian to put in place a large-scale restructuring process, that lead to: i) a refocusing on core products and the disposal of less profitable business lines; ii) the closure of 11 plants and the rightsizing of the labour force. It is worthy to note that Prysmian has been among the first and only to restructure in time.

### **3. Copper price rally (2005-2006)**

In 2005 and 2006 the price of copper (which accounts for some 50% of the total cost of materials for energy and TLC copper cables) recorded a dramatic increase, jumping from the 2005 average price of €2.97/lb to €5.3/lb in 2006.

This price increase impacted significantly on industry requirements in terms of net working capital.

Prysmian devoted great efforts to improving its NWC management and achieved an impressive NWC/sales ratio of 8.8% in FY 06 (compared to 13.1% in FY 05).

Last but not least, we note that the company's mission is also consistent with the covenant imposed by the market outlook: we have seen before that cable market is expected to post sound growth over the next years: i) the energy cable market should grow 3.6% CAGR in the period 06-09 thanks to the strong increase in utilities capex and the growth of industrial applications; ii) optical cable market expansion should be triggered by increased broadband demand worldwide.

## Main growth drivers: more of the same

We see no major discontinuities in Prysmian's future: the company is profitable, well-managed and has already undergone a deep restructuring phase. For these reasons, we believe that the company's motto as far as strategic development is concerned should be "more of the same".

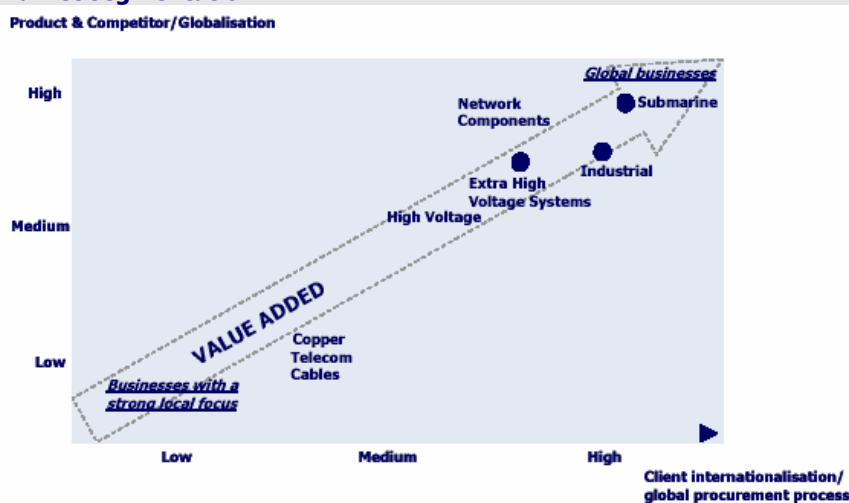
We believe that it is worth emphasizing that Prysmian's future growth relies mainly on the following key drivers:

1. Focus on high value added segments;
2. Moving from product to system

### 1<sup>st</sup>: Focus on high value added segments

The global cable market segments can be analyzed in terms of **value added** and roughly divided into two main clusters: low value added (commodity and local segments) versus high value added (specialty and global segments). This dichotomy is shown in the diagram below.

#### Cable market segmentation



Source: Prysmian, Mediobanca Securities

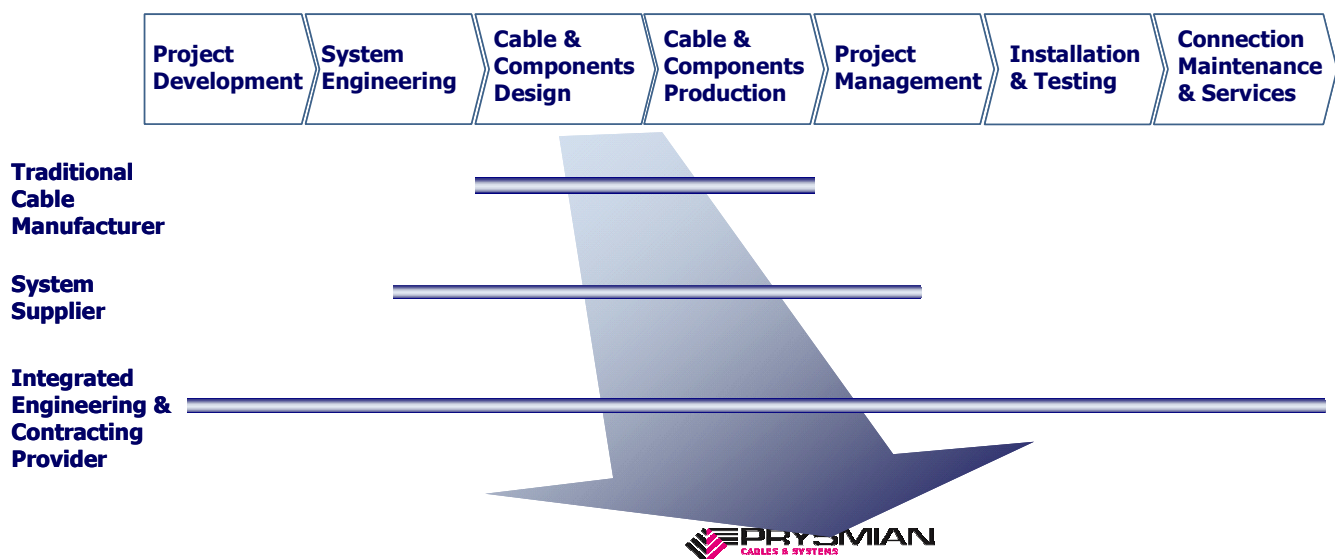
Prysmian intends to focus on the most global and value-added segments, while managing for cash the more commoditized production.

### 2<sup>nd</sup>: Moving from product to system

The high value added segments Prysmian intends to target are characterized by a high degree of complexity. In particular, in the transmission segment (HV, EHV and Submarine), Prysmian could increase its profitability by increasing the width of its offering, aiming at offering turnkey

solutions to its customers. The company can in fact leverage its competencies to provide, besides traditional cable manufacture, expansion towards project development and engineering (integrating upwards in the value chain), as well as maintenance and other services (integrating downwards in the value chain).

**Prysmian moving from product to system**



Source: Prysmian, Mediobanca Securities

**Growth outlook by geographic market/segment**

Regarding the **geographic markets** in which the company operates, we expect Prysmian to grow in the entire EMEA and LATAM markets and to focus on the Middle East and Russia high growth segments.

As far as market share in single **segments** is concerned, we believe the company should acquire market share in the transmission, industrial and optical cables segments. This is coherent with Prysmian’s strategy: we expect these segments to be the most profitable in future. On the other hand, we do not expect any significant erosion of current market shares in all other segments.

Prysmian’s expected growth in these segments could imply a production capacity issue. For this reason the company is investing to face this threat:

- In **HV** cables the saturation is currently close to 100% of capacity; however, Prysmian is removing bottlenecks on capacity and the positive effect should be evident from H1 07 onwards;
- **Submarine** segment capacity is fully booked to 2008, but Prysmian has recently opened another production line in Arco Felice plant, increasing production capacity of +50%. Moreover, Prysmian is one of the two only cable companies to own a cable-laying vessel;
- In **Telecom cables**, the company is planning to cope with the increasing demand by expanding its operations in China.

The main growth drivers by segment are presented below:

**Utilities**

- Expanding its presence in HV and EHV segments in the US, China and Middle East while increasing production capacity (current capacity is fully saturated for the whole of 2007);
- Focusing on capacity increase to accommodate the expected growth in the submarine business (+50% coming from the new production line in Arco Felice);
- Expanding in the power distribution segment thanks to continuing innovation and increased level of customer service.

Prysmian does not operate, as seen above, in the overhead lines market. We believe this is not an issue, given the increasing tendency of utilities companies to prefer underground lines. This is for a number of reasons:

- **Safety:** Underground lines are safer not being exposed, among other things, to extreme weather conditions;
- **Flexibility:** Underground cables can be deployed in a variety of situations in which overhead lines would not be feasible (e.g. airports);
- **Environmental factors:** Overhead lines cause some electromagnetic emissions (EMF) as well as visual impact problems.

**Trade & installers**

- Focusing on high end products and trimming selectively the low end;
- Exploiting channel or market specificities and focusing on marketing policies;

**Industrial**

- Growth in the "Priority 5" segments (crane, mining, rail & rolling stock, marine and OGP), in selected niches and increasing automotive volumes;

**Telecom**

We believe Prysmian could grow in the optical cable segment by:

- Devoting great attention to maintaining business relationships with the major incumbent players: the most important market growth driver for optical cables is represented by the capex plans of PTT to deploy FTTx.
- Increasing, at the same time, cooperation with system integrators who are currently building turnkey telecom networks in emerging markets.

Prysmian should be able to apply a premium price on the back of: i) higher fibre quality, which is of primary importance in mission critical applications; ii) ease and inexpensiveness of installation.

As far as copper telecom cables are concerned, we expect Prysmian to follow its general strategic approach by concentrating on countries in which the company already has a foothold.

## What about growth by acquisitions?

Prysmian recently acquired Angel, a Chinese company active in the industrial segment and covering all of the "Priority Five" applications. The size of the acquired company is not likely to impact materially on Prysmian's accounts, but we believe the acquisition has a strategic importance in terms of establishing a foothold in fast-growing Eastern markets.

As far as further M&A expansion is concerned, we believe Prysmian could use part of the relevant cash flow the company should generate to fund an M&A expansion. Moreover, the recently renegotiated financial structures assure the necessary flexibility in terms of balance sheet to fund possible expansion. As far as targets, we believe Prysmian could focus on small target companies operating in high added value market niches. Each transaction could be worth some €80m-€100m and a special attention should be devoted into acquiring companies active in geographic markets on which Prysmian has no or limited reach, such as China and India. We believe that also consolidation among large players could be possible, though some antitrust issues might arise.

## Success factors

We believe Prysmian should be able to achieve its profitable growth target leveraging on:

- Effective market segmentation;
- Product and process innovation;
- Best in class financials.

### Effective market segmentation

Prysmian has succeeded in efficiently segmenting its reference market in terms of value added and geography and in developing differentiated strategies to maximize performance in each segment. From the late '90s, the company has continuously redefined its activities and, consequently, its perimeter, by acquiring and disposing of businesses in order to accommodate its strategy.

A further benefit deriving from the company's global presence and high level of differentiation is strong resilience to fluctuations that could affect a certain geographical or product market.

This effective segmentation strategy coupled with the company's scale have historically made Prysmian a leading company in the cable industry and specifically in its reference market.

### Focus on product and process innovation

Prysmian is a strongly innovative company: in 2006 the company registered 258 new patents (out of a total of more than 3,000 patents overall) and employs more than 320 resources in R&D.

The company focuses both on product and process innovation:

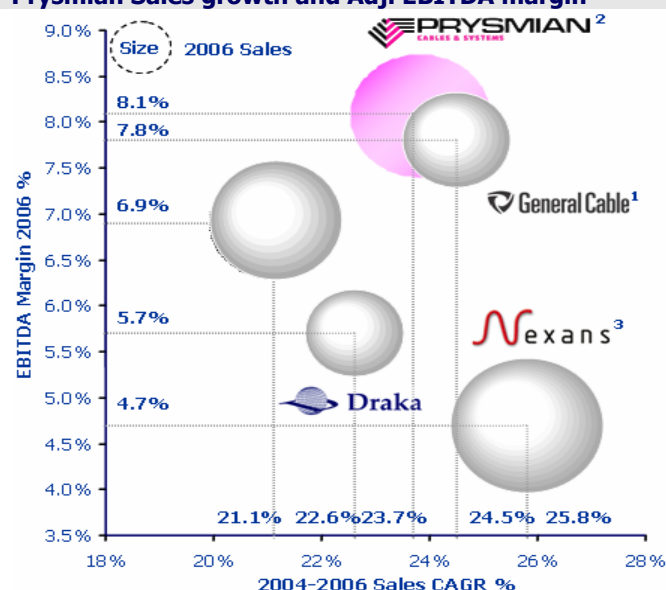
- **Product** innovation: Prysmian aims at satisfying the main market needs: performance, ease of installation, environmental and safety compliance. The company has continued to develop high value added, innovative products that could represent a distinct competitive advantage, easing the pressure on price coming from less specialized players.
- **Process** innovation: this allows Prysmian to increase its products' performance (e.g. AFUMEX, AirGuard) and to reduce industrial costs. Prysmian has launched more than 1000 projects in 2006 to increase design, material and labour efficiency in all of company's plants. We expect the company's efforts in this direction to continue in the future. According to the company, those improvements allowed for €50m savings in FY 06 and we believe a similar threshold could be achieved in FY 07.

## Best in class financials

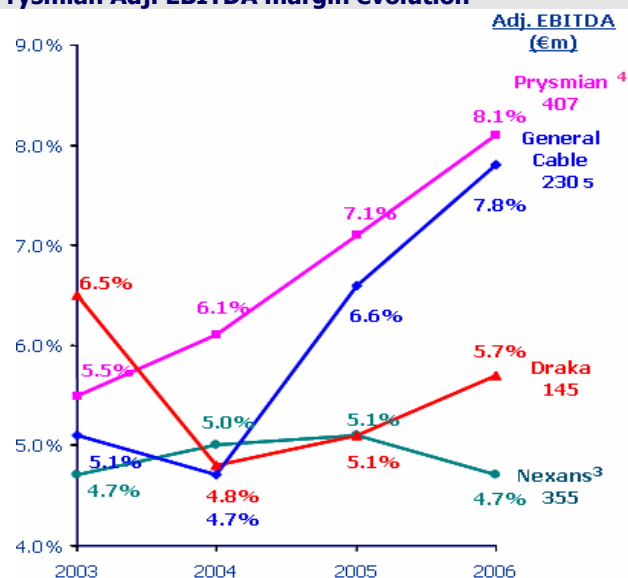
The company is extremely careful in managing the company accounts, both from an operational and a financial point of view:

- Prysmian boasts an unmatched mix of growth and margin improvement, and we expect the company to maintain this performance in the future.

**Prysmian Sales growth and Adj. EBITDA margin**



**Prysmian Adj. EBITDA margin evolution**



Source: Publicly available information from companies' filings, except where stated.

Note: Not all companies calculate Adj. EBITDA identically, therefore data may not be comparable.

1 Excluding the contribution of Silec and other assets acquired over the period.

2 Excluding the impact of Enamelled and Pirelli Broadband Solutions businesses, disposed in September 2004 and demerged in January 2005, respectively.

3 For the sake of consistency, Nexans margins calculated at current metal prices. The ball in dotted line represents Nexans excluding the Electrical Wires segment, net of intereliminations.

4 2003 figures from Pirelli Group Annual Report.

5 USD/€ = 0.803.

- Prysmian implemented significant rightsizing and improved labour force efficiency, achieving the best Adjusted EBITDA/Employee ratio (27.2) in 2006 among its peers.
- Prysmian boasts the best cash conversion rate (defined as EBITDA-Capex/EBITDA) in the industry (78% together with General Cable), followed by Draka (61%) and Nexans (52%).
- The company proved to be quite effective in managing its ROCE, through carefully monitoring its capex and minimizing net working capital. This allowed the company to carefully select investment opportunities and to evaluate the disposal of businesses generating less cash.

### Prysmian - ROCE Evolution

	2004	2005	2006	2007	2008	2009
EBIT Adj.	107.4	117.3	330.0	356.1	403.9	434.1
ROCE	11.4%	10%	28%	29%	32%	31%

Source: Prysmian, Mediobanca Securities

## SWOT analysis

Summing up, we believe that the main strengths / weaknesses of Prysmian are as follows:

### Strengths

- **Strong competitive position** - Prysmian holds a favourable position under many respects:
  - Active in the most value added market segments;
  - High-quality and differentiated product portfolio;
  - Worldwide presence and global scale.

These factors contributes to ensuring Prysmian's profitability and resilience.

- **Effective cost structure** – the company has completed a successful restructuring phase thanks to an experienced and committed management team.
- **High entry barriers:** the most high-value added segments in which Prysmian is active are characterized by high entry barriers due to: of i) size; ii) capital needs (fixed assets and net working capital); iii) long standing relationships with utilities companies

### Weaknesses

- **Exposure to copper price fluctuations** – Copper price variations are generally transferred to customers. However, copper price dynamics impact both net working capital and business lines in which metal hedging is not possible (e.g. T&I). If the price of copper increases, T&I revenues are likely to increase to the detriment of net working capital; on the other hand, a decreasing price scenario causes a reduction of net working capital and a revenue loss in T&I business.
- **Fibre price erosion**– Fibre price peaked in 2001: according to management, it reached some \$55 per km of fibre. After the bubble burst, the price of optical fibre fell dramatically and has further decreased to circa \$10 per km since then. Price erosion has been determined by the overcapacity that was installed before 2001 and whose exploitation, though increasing, continues today, determining the current deflation scenario. The situation, however, should improve from 2009 onwards, when the fibre market is expected to reach 2001 levels in terms of volumes, thus absorbing excess production capacity and stabilizing the price of fibre.

### Opportunities

- **Strong innovation** – we believe Prysmian could leverage its strong R&D competencies and in particular P-Laser technology. However, we believe this technology could fully impact on Prysmian's business only from 2009 onwards.
- **Massive FTTH deployment**– If TLC incumbents decide to invest in an extensive FTTH network, optical cable demand is likely to increase dramatically. We believe, however, that the main revenue stream for Prysmian in such a scenario could come from connectivity components. This is one of the main reasons why Prysmian is continuing to invest in developing a standard FTTx system solution.

### Threats

- **Market performance below expectations** – Prysmian's revenues are related to macroeconomic trends (as for energy cables) and to broadband diffusion (as for telecom cables).

More specifically, concerning the energy cable business, Prysmian could be impacted by a contraction of the residential building market.

Regarding the telecom business, we believe that the company could suffer from a contraction in the PTT capex plan that could be determined by: i) the current financial distress of some European TLC companies; ii) a regulatory scenario discouraging the deployment of an extensive optical network;

- **Currency exchange fluctuation** - Prysmian operates a multicurrency business and it is thus exposed to exchange rate fluctuations that could affect the company's profitability; however, the FX risk is quite marginal, given the local for local nature of the business and the effective hedging policy the company has put in place. The company major exposure is on the US dollar;
- **Antitrust litigations** - Prysmian is currently under investigation from antitrust authorities in France (a notice of objection has been received) and Australia (no notice of objection has been received so far). We believe, however, that these litigation not to be a real concern for Prysmian, since Pirelli Group would be held responsible for any possible antitrust violation.

## Porter's "Five forces" model

We believe the analysis of the competitive position of Prysmian through Porter's "Five Forces" Model could provide the reader with some useful insights.

### Suppliers

Prysmian is not dependent on a single raw material provider. More specifically, regarding metals:

- The main three copper suppliers cover 24% of the company's total needs;
- The main three aluminium suppliers cover 43% of the company's total needs.

Historically there has been no raw materials shortage risk, and we believe this will not materialize in the future.

### Customers

- Prysmian is not dependent on any of its major clients: the largest accounts for only 3% of revenues;
- The company is not dependent on any specific country demand: France, the largest single market in the EMEA, generated less than 12% of sales;
- In the cable industry, however, it is strategic to maintain close relations with key clients such as utilities companies and telecom incumbents.

### Potential entrants

As explained above, the cable market structure can be roughly divided into commodity and specialty cables. Prysmian's strategy focuses on the latter, and we believe the considerable capital intensity and know-how necessary to compete successfully in the high value-added cable segments constitute a high entry barrier. In the less sophisticated market segment, however, a certain pressure on prices could come from emerging countries' local players.

### Competitors

We have already addressed this issue in the "Valuation" section.

### Substitute products

We believe that at the moment there are no possible substitutes for cables in any the energy cable industry segments. In the telecom cable industry, on the other hand, potential wireless substitutes for providing high speed broadband connections to final users (such as Wi-Max) could reduce the appeal of cable-based solutions (both xDSL and FTTx) in the coverage of the "last mile" in certain areas. We believe, however, that such technologies do not represent a material threat for Prysmian, since the "last mile" does not constitute the bulk of the company's telecom business.

## Financials

### Business model key drivers

As for all industrial players, Prysmian's top-line growth is driven by the combined effect of:

- **Price/Mix changes:** i.e. the combination of the changes in official price lists of the cables available for sale and the change in the mix of cables sold.
- **Volumes:** the combined effect of global market growth and of Prysmian market share;
- **Exchange rates:** Prysmian, being a global player, has a multicurrency exposure that may impact on its financials. However, the company has adopted an effective hedging policy to offset the impact of exchange rate fluctuations.

As far as Prysmian's cost structure is concerned, it should be noted that:

- **Fixed costs** totalled €420m in FY 06, 8.4% of sales (and 9% of total operating costs including depreciation charges). Broadly, they consist of labour costs (55%) and other costs (SG&A represent the remaining 45%). Of €420m, €71m are generated by the Telecom Division, €338m are generated by Energy Division and €11m are corporate fixed costs. Fixed costs have remained broadly stable over time, moving from €417m in 2004 to €420m in 2006.
- **Variable costs** are slightly less than 83% of sales (and 89% of total operating costs including depreciation charges) and basically consist of metals (copper, aluminium, lead) and other raw materials.

This means that Prysmian's Euro-denominated EBITDA and EBITDA margin is not only driven by commercial variables (volumes, price/mix, efficiencies) but also by almost "unmanageable" variables such as exchange rates and the trend in raw materials prices. However, we should stress that:

- **Exchange rates** – As regards transaction risks, the company has currently hedged its only significant exposure, to the US\$. We believe, however, that as Prysmian's business is mainly local for local, exchange rates should not be considered a big issue. Company policy prescribes that no hedge on the translation risks has to be secured: Prysmian is therefore exposed to the impact of currency fluctuations on its subsidiaries' balance sheets, especially relating to the US dollar, the Canadian dollar, the Australian dollar and the Brazilian Real.
- **Raw materials** – Prysmian is normally in a position to pass fluctuations in metal prices on to customers. This holds especially true for frame and predetermined delivery date contracts. As for spot contracts (e.g. in the T&I business), hedging is based on forecast volumes rather than orders. Pricing is managed through price lists that are however adjusted with some delays. This time lag is likely to be shorter the less competition there is, while in competitive markets, lengthy adjustments need to be made.

## Q1 07 results

Prysmian posted a strong Q1 07. Revenues rose 8.9% YoY to €1.2bn.

Energy sales were up 7.9% to €1.1bn; however, on a like-for-like basis (i.e. net of: i) metal price effects; ii) FX effects; iii) the disposal of the Prescott plant in the UK), Prysmian's Energy division posted 8.2% YoY growth.

The Telecoms division posted revenues of €151m, +19.8% YoY (+14% on a like-for-like basis, net of FX and metal price effects).

The strong operating leverage and improvement in the product mix contributed to outstanding growth at adjusted EBITDA level, +45% to €116m in Q1 07, from €80m in Q1 06, almost equally divided among the divisions. Moreover, reported EBITDA has also been positively affected by the €40m purchase price adjustments related to the acquisition of Pirelli & Systems divisions from Pirelli & C. SpA completed in July 2005. The adjusted EBITDA margin was 9.6%, well above the positive 8.1% posted in FY 06, while the reported EBITDA margin was 12.6%.

Reported EBIT was €135m, more than double YoY (+160%), with a 11.2% margin. The outstanding result is mainly due to the completion of the Pirelli brand amortisation in FY 06.

Pre-tax profit came out of €71m, +86.8% YoY; note, however, that Prysmian had some €59m of extraordinary bank fees related to the new financing structure put in place after the IPO.

### Prysmian Q1 07 results (€m)

	Q1 07	Q1 06	% Chg
Energy	1,081	1,002	7.9%
Organic growth			8.2%
TLC	151	126	19.8%
Organic growth			14.0%
Interdivisional adjustments	-27	-21	
<b>Total revenue</b>	<b>1,205</b>	<b>1,107</b>	8.9%
Energy	111	73	52.1%
TLC	14	10	40.0%
Corporate	-9	-3	
<b>EBITDA Adj.</b>	<b>116</b>	<b>80</b>	45.0%
Margin %	9.6%	7.2%	
Energy	110	71	54.9%
TLC	14	10	40.0%
Corporate	28	-3	
<b>EBITDA Reported</b>	<b>152</b>	<b>78</b>	94.9%
Margin %	12.6%	7.0%	
<b>Reported EBIT</b>	<b>135</b>	<b>52</b>	159.6%
Margin %	11.2%	4.7%	
<b>Pre-tax profit</b>	<b>71</b>	<b>38</b>	86.8%
<b>Net Profit</b>	<b>49</b>	<b>22</b>	122.7%

Source: Prysmian, Mediobanca Securities

Prysmian managed to keep a 10.6% NWC/sales ratio in Q1 07, despite the negative seasonality that typically affects the first quarter (13.3 in Q1 06 %).

Net debt was €899m, a slight YoY improvement (-€29m) despite the increase in metal prices and the distribution of €141m to shareholders.

The table below compares Q1 07 and FY 06 in terms of organic growth and profitability.

**Q1 07 versus FY 06: increased profitability**

	<b>Q1 07</b>	<b>FY 06</b>
<b>Organic growth</b>	8.7%	9.3%
<b>Adjusted EBITDA margin</b>	9.6%	8.1%
<b>Profit margin</b>	4.1%	1.8%

Source: Prysmian, Mediobanca Securities

Although Prysmian posted similar growth in Q1 07 and FY 06, the company has become significantly more profitable.

**Expected trend in 2007-09**

After a positive Q1 07, we are revising our estimates on Prysmian upwards. Npte however that, given the limited visibility on the T&I and Industrial backlog (some three months) and future sales trend, we have taken a conservative stance. For this reason, should the company repeat its strong Q1 07 performance in the next few quarters, we do not rule out the possibility of a further revision of our FY 07 and FY 08 estimates.

In short, our new forecasts for Prysmian’s financials in the period 2007-09 are as follows:

**Prysmian 2007-2009: change in estimates**

	<b>Energy</b>			<b>TLC</b>			<b>Group</b>		
	<b>Old</b>	<b>New</b>	<b>Chg</b>	<b>Old</b>	<b>New</b>	<b>Chg</b>	<b>Old</b>	<b>New</b>	<b>Chg</b>
Revenue CAGR 06-09 (%)	2.2%	2.7%	<b>0.5%</b>	4.4%	5.3%	<b>0.8%</b>	2.4%	3.0%	<b>0.6%</b>
EBIT CAGR 06-09 (%)	14.0%	15.9%	<b>1.9%</b>	14.0%	15.9%	<b>1.9%</b>	18.0%	19.9%	<b>1.9%</b>
EBIT margin 2009E (%)	7.7%	7.9%	<b>0.3%</b>	8.2%	8.5%	<b>0.2%</b>	7.9%	8.1%	<b>0.3%</b>
Cum. 2007-09 OpFCF (defined as Ebitda-Capex-WC needs)(€m)							1,010	1,127	<b>117</b>

Source: Mediobanca Securities

We assume relatively stronger top-line growth that implies, thanks to operating leverage, a more than proportional increase in profitability.

More specifically, our new estimates for Prysmian can be summarised as follows:

- **3.0% Revenue CAGR 06-09**, with the Energy division growing at a CAGR of 2.7% and the TLC Division at a CAGR of 5.3%. This compares with expected market growth rates of 3.2% and 8.3% per annum respectively;
- **EBIT: 19.9% 06-09 CAGR**, due to i) strong operating leverage; ii) cost efficiencies; iii) focus on value-added businesses; iv) disposal of less profitable businesses. It is worth noting that Group EBIT in FY 06 was impacted by corporate costs that explain the difference between divisional and Group CAGR;
- **€1.127m cumulative OpFCF** (defined as EBITDA – Capex – WC needs), i.e. an average 6.5% of sales, with an EBITDA conversion ratio of some 78%.

**2007-09 Revenues structure & trend**

We expect Prysmian to perform better than its reference market in both the energy and TLC markets.

We have modelled our forecasts taking into account the following criteria:

- Prysmian is expected to maintain its market share in every segment of its reference market, and to increase it in the HV, submarine and industrial segments, where the company enjoys a stronger competitive position;
- As regards prices, we expect a stable outlook in the energy cable market, while in the telecom cable market we expect a flattish/slightly declining price trend in optical cables.
- Sales growth should naturally be higher (lower) when raw materials' prices are increasing (decreasing). However, as we have said, the company always tries to pass on raw material price increases (decreases) to its customers, thus pushing the price/mix driver. The outlook for copper prices is puzzling: i) copper demand should increase, especially due to the expansion of emerging economies; ii) after the 2006 rally, a correction could take place anytime. However, our estimates are based on the assumption of a fixed copper price: the main implication of this assumption is that we are not explicitly taking into account the impact of copper price fluctuations on Prysmian's NWC needs. In a price-falling scenario we would see a contraction in NWC (among other things) and improved cash generation.
- Exchange rates are assumed to be stable. However, we believe Prysmian's only significant exposure to exchange rate volatility is in US\$. At the moment we estimate the company's total exposure to be in the \$200m region, mainly due to HV and submarine segment revenues. This amount is, however, entirely hedged through derivatives.
- Our estimates for FY 08 and FY 09 are in line with the trend in cable demand expected by the company's management, so they can be considered to be conservative.

The reason why Prysmian revenues CAGR in 2006-09 is slower than market volume growth is that the group P&L is impacted by: i) in Energy, the disposal of the Prescott plant in 2006, with its negative impact on revenues of some €300m; ii) in the TLC business, the expected deflation in optical cables until saturation of installed capacity, which should take place in 2009.

In more detail, we forecast the following 2006-09 CAGR by segment.

<b>Prysmian revenues 2006-09 CAGR by segment</b>	
<b>Energy</b>	<b>Revenues CAGR 2006-09</b>
Utilities	6.1%
HV	11.0%
Submarine	12.4%
Power distribution	3.0%
Industrial	9.6%
Trade & Installers	3.0%
<b>Telecom</b>	
Optical	6.3%
Copper	4.1%
Connectivity	3.0%

Source: Prysmian, Mediobanca Securities

The strong growth forecast in **Transmission** (in both the HV and Submarine segments) is due to the expected growth in the reference market and to Prysmian's ability to expand towards project development and engineering (upwards integration in the value chain) and maintenance and other services (downwards integration in the value chain).

In the **Industrial** segment we believe that Prysmian should post strong growth thanks to a careful selection of high-growth sub-segments in the market (the so-called "Priority 5": crane, OGP, mining, marine and rail and rolling stocks).

Finally, in the **Optical** cable segment, we forecast strong revenue growth despite the ongoing price erosion, thanks to the investments put in place by TLC players in their FTTx programmes and, in general, to the expected global increase of broadband demand.

### 2007-09 operating profitability trend

We expect an increase of Prysmian's profitability due to:

- an improvement in the product mix: we believe Prysmian will succeed in expanding its activities in specialty products;
- the great attention devoted to cost containment (also through process innovation) and increases in labour efficiency.

In terms of the breakdown of profitability by division, we believe that most EBITDA growth in absolute terms will come from the energy business, while in terms of growth, the TLC business should post the best performance, thanks to solid revenue growth coupled with a good product mix.

#### Prysmian: 2006-09 EBITDA trend by division

	2006	2007E	2008E	2009E
Energy Division EBITDA	357	409	442	475
Chge %		14.6%	8.1%	7.4%
Telecom Division EBITDA	37	47	55	59
Chge %		26.5%	16.6%	9.0%
Other corporate costs	(23.0)	(6.8)	(5.5)	(4.0)
<b>Group EBITDA</b>	<b>371</b>	<b>449</b>	<b>491</b>	<b>530</b>
Chge %		21.1%	9.4%	7.9%
<b>Group EBITDA margin</b>	<b>7.4%</b>	<b>9.0%</b>	<b>9.4%</b>	<b>9.7%</b>
o/w Energy Division	7.4%	9.0%	9.4%	9.7%
Telecom Division	6.9%	8.0%	9.0%	9.5%
<b>Group EBITDA Adj.</b>	<b>407</b>	<b>449</b>	<b>491</b>	<b>530</b>
<b>Group EBITDA Adj. margin</b>	<b>8.1%</b>	<b>9.0%</b>	<b>9.4%</b>	<b>9.7%</b>

Source: Prysmian, Mediobanca Securities

## 2007-09 earnings trend

Below the EBIT line we should note that:

- Financial charges (refinancing etc.) should decrease in the period in line with the improvement in Prysmian's net financial position, with the important exception of FY 07: This year, in fact, we forecast financial charges of €151m, of which some €59m would be related to the write-down of the existing credit agreement.
- The effective tax rate should move increasingly closer to the nominal tax rate over time. We believe the company's target tax rate could be around 35%, mainly thanks to the sizeable carry-forward of fiscal losses (some €590m, of which €215m has no time limitation and €174m expiring between 2010 and 2015);
- Minorities impact on the company's net profit is quite modest: we expect minorities to increase proportionally to revenues and to reach €2.2m in FY 09.

As a result, we estimate a bottom-line CAGR of 39% for 2006-09, reaching €239m in 2009, compared to €89m in 2006.

## Balance sheet and cash flow generation

We estimate that as at 2007YE the company will have debt of €800m corresponding to:

- a) a debt/equity ratio of around 2.5x;
- b) a net debt/EBITDA ratio of 1.8x;
- c) a less than 5-year timeframe to repay the whole debt, assuming a 30% payout ratio (NFP>0 in 2012).

Net debt at the end of 2006 stood at €879m, but this was affected by the debt generated by Goldman Sachs acquisition from Pirelli in 2005.

We expect the net financial position to improve thanks to strong cash generation: in the period 2007-09 we estimate that the company will be capable of generating cumulated OpFCF (defined as EBITDA – Capex – WC needs) of €1,127m, with an EBITDA conversion ratio of 79% in FY 09 thanks to:

- An efficient **working capital on sales ratio**. In 2006 Prysmian had 65 days on Receivables, 60 days on Payables and 45 days on Inventory, and we believe that this situation is sustainable in the long run; we would stress, however, that our forecast could prove conservative against a backdrop of declining copper prices, which would reduce Prysmian's NWC needs.
- **Capex**: the company's capex was in the €80m-€90m range in the period 2004-2006 (excluding FY 05 capex of €61m), and was capable of sustaining strong growth. We assume capex will remain around €90m also in the future. It should be noted that all maintenance expenses and R&D expenses are in the P&L, while capex is dedicated to increasing efficiency and sustaining growth;
- **Financial charges** should steadily decline, thanks to the combined effect of the progressive debt reduction and to the recently renegotiated financing structure that could become effective after the IPO. This should reduce Prysmian's weighted spread over EURIBOR to 75 bps from the current 260 bps. Furthermore, should Prysmian

succeed in maintaining a NFP/EBITDA <2.0x (as we expect), the actual spread could be 49 bps. Finally, Prysmian has put in place a securitization operation worth up to €400m, which could make the company's financial structure more flexible. Moreover, the financing structure allows the company to leverage the balance sheet up to €1.9bn, leaving room to finance potential M&A deals.

**Cash flow statement 2006-2009**

	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
Cash flow from operation	360	471	481	520
WC changes	43	(36)	(20)	(23)
Paid taxes	(56)	(85)	(118)	(136)
Net capex	(69)	(88)	(89)	(90)
Financial charges	(112)	(152)	(80)	(68)
Equity changes	(141)	(18)	0	0
Others	(11)	28	11	8
<u>Change in NFP</u>	<u>13</u>	<u>121</u>	<u>136</u>	<u>149</u>

Source: Prysmian, Mediobanca Securities

Please note that as regards dividend distribution policy, the company should distribute dividends in line with the industry average in the short/medium term. We expect Prysmian to begin to distribute dividends from 2009 onwards, and have assumed a 30% payout ratio.

## Appendix A: The cable market

Prysmian operates in a portion of the whole cable market, hereafter defined as the "reference market". The reference market is identified by excluding from the total cable market the segments in which the company does not compete: i) winding wires for the energy cable sector and ii) internal telecom data and copper LAN cables for the telecom cable sector. In addition, Prysmian does not compete in certain geographic areas (further details are provided in Appendix C). Our discussion, therefore, will be limited to the aforementioned reference market.

The reference market 2005 is valued at €58bn aggregate turnover, of which €49bn (85%) is the value of the energy cable reference market and €9bn (15%) that of the telecom cable reference market.

We base our analysis of the reference market on different segmentations, on its competitive structure and on historical and expected growth rates.

**Segmentation** – The reference market comprises a wide variety of products, markets and areas: it could prove useful, then, to segment it according to those criteria.

- A first breakdown is by **product**, i.e. energy cables versus telecoms cables;
- The cable market can be analyzed by referring to the degree of **value added** (e.g. innovation and technology embedded in products). Moreover, it is possible to segment the market according to breadth of service (i.e. the degree of upwards and downwards **integration** in the value chain) that companies should provide to customers. Generally value added and integration are two sides of the same coin;
- Finally, we can divide the cable market by **geographic areas**.

**Competitive structure** – The cable market is characterized, generally speaking, by high fragmentation and competitiveness, undifferentiated players, regional competition and cost competition. However, to compete effectively in some segments (such as HV and optical cables) a considerable degree of innovation and a wide range of competencies are necessary. Consequently, there are a limited number of specialized players competing in such arenas.

**Growth rates** – The outlook for the next three years for the global reference cable market is positive. The energy cable market should grow in volume +3.6% CAGR 2005-2009, reaching 9.9 Mtons conductor sold. Telecom cable prospects are mixed: optical cables should post a strong +9.7% CAGR 2005-2009, while copper cable is expected to lose around -2.0% CAGR over the same period.

The following paragraphs examine these features in more detail:

## Cable market segmentation

The cable market may be broken down according to:

1. Product
2. Value added/integration
3. Geographic areas

### 1 - Breakdown by product

The global cable market can be divided into two primary markets: energy and telecommunications. In the energy segment, cables are used for the transmission and distribution of electrical power through the utility companies' networks and for both civil and industrial applications. In the telecom segment, cables are used to transmit video, data and voice communications.

The **energy cable** market can in turn be divided into three segments:

- **Utilities:** cables used for transmission (from generation sites to distribution systems) and distribution (transport across the distribution system) of electrical power;
- **Industrial:** cables used for different specialized industrial applications (OGP, transportation, mining, infrastructure)
- **Trade & installers:** cables used for commercial and residential construction wiring.

The **telecom cable** reference market is composed of two segments:

- **Copper:** copper telecom cables are low-technology, standard cables used in the deployment of old style telecom networks. In these types of cables information is transmitted in the form of a low voltage electric signal;
- **Fibre:** optical cables are high-technology, specialty products, mainly used in the backbone and in MAN (Metropolitan Area Network) deployment but recently used to cover also the "last mile". Data are transmitted by means of light signals.

### 2 - Breakdown by value added/integration

As far as value added is concerned, the cable market can be roughly divided into two segments:

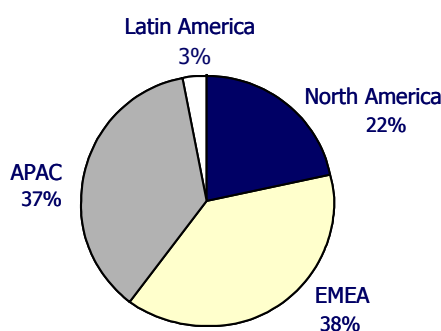
- **Commodities:** low voltage cables, building cables and copper telecom cables are standard, low-value-added products. The competition is generally on a local-for-local basis, due to i) significant transportation costs; ii) time to market issues. Production is deployed regionally and there is almost no competitive pressure from low-cost countries. Competition is based on logistics and costs.
- **Specialties:** high (and extra high) voltage, industrial cables, submarine cables, network components and optical cables and fibres are, on the contrary, high-value-added products. These products are characterized by a notable degree of innovation and diversification. Competition is on a global scale among few big players. Given the complexity of the projects in which these cables are used, there is an increasing tendency in the industry towards the offering of turnkey solutions to customers.

A further specification of this segmentation comes from the different degree of integration of competitors in the value chain. The actual cable production is in fact only a single phase in the cable market value chain. It is possible to segment the market according to breadth of service (i.e. the degree of upwards and downwards **integration**) that companies should provide to customers.

### 3 - Breakdown by geographic areas

Prysmian’s reference market (total value €58bn in FY 05) can be split into four macro-geographic areas. The biggest markets are EMEA (€22bn sales - 38%) and APAC (€21.5bn - 37%), followed by North America (€12.8bn – 22%) and LATAM (€1.7bn – 3%).

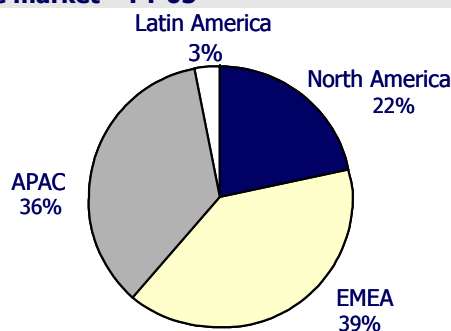
**Prysmian global reference market – FY 05**  
**100% = €58bn**



Source: Value Partners Analysis based on CRU data

If we look at the energy cable reference market we see a similar distribution (not surprisingly, given that this accounts for €49bn, 85% of the total reference market).

**Energy cable reference market – FY 05**

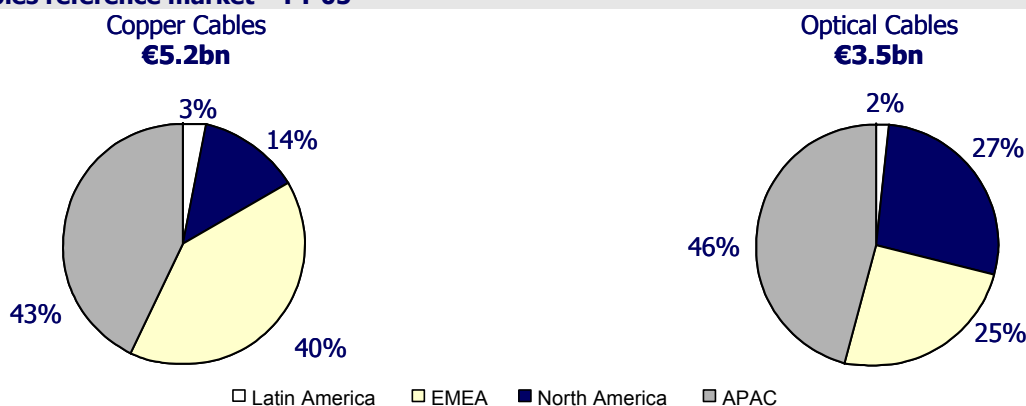


Source: Value Partners Analysis based on CRU data

However, the telecom cable reference market’s geographic distribution differs from the global market: APAC has a leading role with 46% of the optical cables market and 43% of the copper cables market. It should be noted that North America has a 27% share of optical cables (due to

higher broadband penetration rate) versus 25% for EMEA, whilst the opposite holds for the copper cable market.

**Telecom cables reference market – FY 05**



Source: Value Partners Analysis based on CRU data

**Global cable market competitive structure**

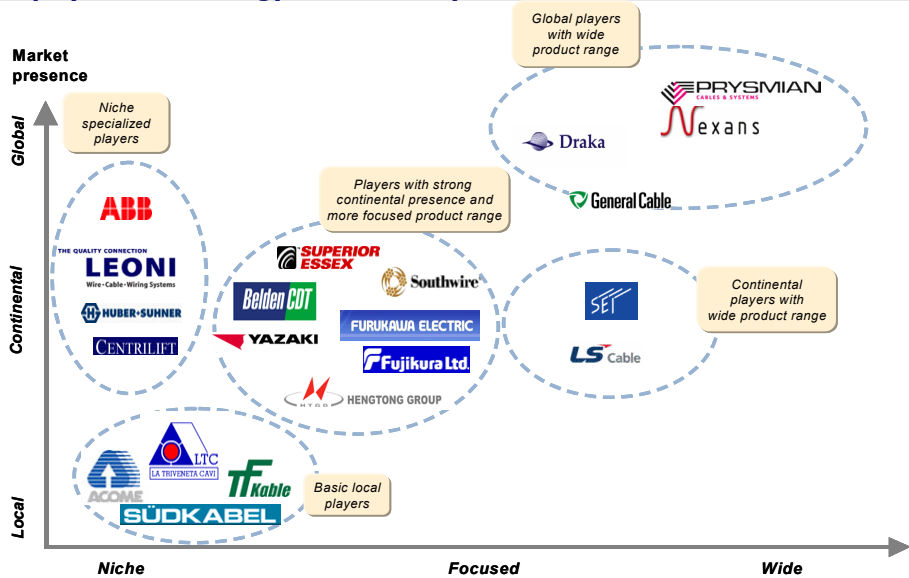
The cable market competitive structure differs considerably between the energy and telecom cable primary markets and among single markets segments.

**The energy cable market** is highly fragmented and local in the commodity segment, mainly due to i) low entry barriers; ii) high transportation costs and iii) region-specific standards compliance needs.

On the other hand, the energy cable market is concentrated and characterized by high entry barriers in the specialty segment. These barriers arise mainly because of i) the size required to manage complex projects; ii) the fact that the business is capital intensive both in terms of fixed assets and in terms of net working capital requirements; iii) incumbents enjoy long standing relationships with utilities on mission critical application.

Energy cable industry players' competitive positions can be plotted in the following diagram ranking them by product portfolio range and by global market presence: the two leading companies in terms of market share are Prysmian and Nexans, accounting for around 6.8% each. The third player's (General Cable) market share is about 3%, less than half that of the top two companies, while the fourth and last global player, Draka, has a 2.8% market share (Value Partners analysis based on CRU data, October 2006). Some 80.6% of the total market is therefore made up of players below the 2% threshold market share.

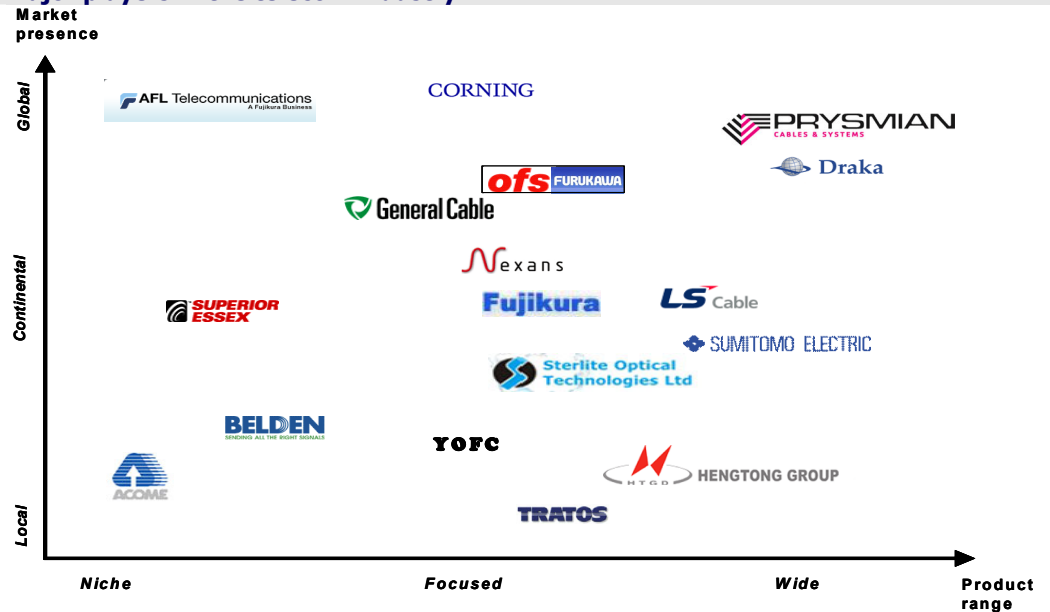
Major players in the energy cable industry



Source: Value Partners Analysis based on CRU data

In the **telecom cable market** there is a fundamental difference between the copper and fibre cable markets: the former is quite similar to the commodity energy cable market, while the latter is much more sophisticated. The copper TLC cable market is mainly local for local: in China there are thousands of small companies active in this business. The C4 concentration index in the copper TLC cable market is therefore quite low (20%), meaning that the four main players account for only 20% of the total reference market. On the other hand, the fibre cable market is more concentrated, with a C4 index of 50%.

Major players in the telecom industry



Source: Value Partners Analysis based on CRU data

## Cable market historical trend and future outlook

The reference market is expected to grow in both the energy and telecom cable segments.

- In the **energy** segment the reference market should rise from the 2005 figure of 8.6 million tons of conductor (Mtons) up to 9.9 Mtons in 2009, posting a +3.6% CAGR.
- In the **telecom** segment the optical cable market is expected to grow +9.7% CAGR in the 2005-2009 period up to 94Mkm of fibre, while the copper cable market, on the other hand, should decline steadily by -2.0% CAGR.

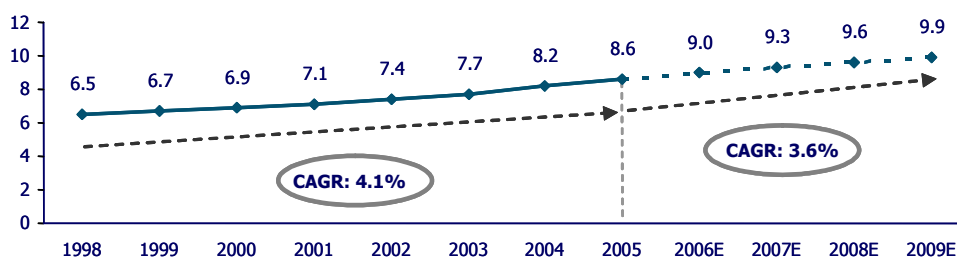
The following sections provide further details on past and expected market trends.

### Energy cable market trends

In volume terms, in the period 1997-2001 the **energy cable** market grew quite slowly, especially because of flattish sales in the utilities segment - the privatization trend that occurred in Europe and in the United States in the late '90s caused a temporary contraction of utilities investments. From 2003 on, however, we believe the utilities capex cycle has restarted. In the period 1997-2005 the overall market marked a 4.1% CAGR - mainly due to positive 2003-2005 performance.

#### Energy cables reference market evolution & forecast

Million Tons Conductor



Source: Value Partners Analysis based on CRU data

From 2005-2009 the energy cable market is expected to grow +3.6% CAGR, reaching 9.9 Mtons of conductor in 2009. Each of the energy cable market segments defined above (utilities, industrial, trade & installers) is, however, characterized by specific trends and dynamics that are addressed below.

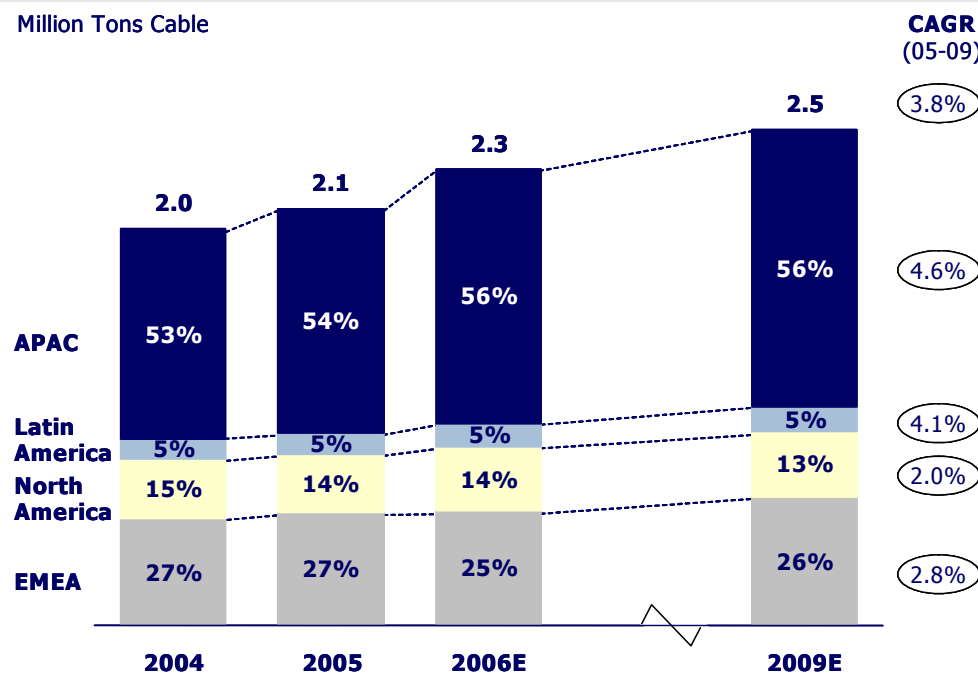
### Utilities

The utilities segment is expected to grow +3.8% CAGR in 2005-2009. The utilities segment market development is generally driven by electrical energy demand that in turn impacts on utilities companies' capex plans, both for maintenance and expansion of their networks.

The graph below shows the expected development of the utilities market, providing some indications of expected growth trends in the main geographic areas.

**Utilities covered market evolution and forecast**

Million Tons Cable



Source: Value Partners Analysis based on CRU data

From a geographic standpoint, utilities segment demand is forecast to grow worldwide.

In detail:

- **APAC:** growth should be +4.6% CAGR in the reference period thanks to strong economic growth and the subsequent need for network enhancement;
- **Latin America:** Utilities market is expected to remain quite small in size, but the economic development should boost market growth at 4.1% CAGR;
- **North America:** the infrastructure is aging and is not compliant with the 2005 Energy Policy Act, so an upgrade and an expansion are imminent;
- **EMEA:** in Europe the expansion of HV due to cross-country connections between states to i) facilitate energy exchange; ii) prevent network failures. In the Middle East and Africa areas growing transmission and distribution capacity demand due to the increase in the number of power plants and in electricity generation.

This segment can be further divided into four main sub-segments:

- **High Voltage** is expected to experience growth above market average thanks to:
  - Several countries facing increasing electricity demand and aging transmission networks that are encouraging grid expansion and modernization (e.g. US Energy Policy Act);
  - Interconnection projects in Europe and the Middle East, aimed at facilitating energy trade among countries and at increasing the security of energy supply;

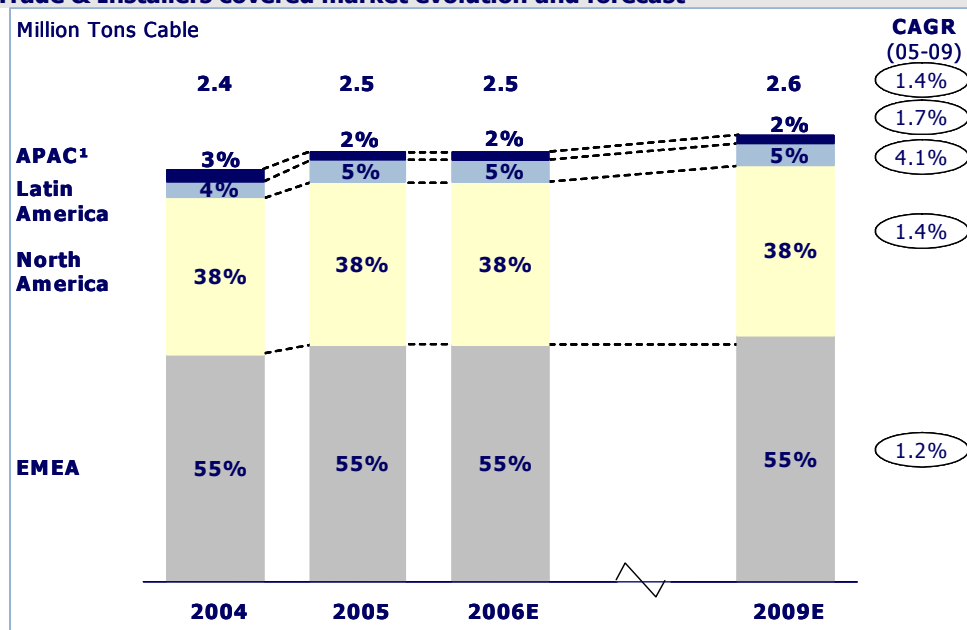
- The impact of stricter safety and reliability requirements in certain jurisdictions, which is expected to increase demand for high-end cables and for maintenance and monitoring services.
- **Submarine power systems** should outperform the market due to:
  - The need for connecting remote areas to the grid;
  - The expected increase in alternative energy production, which is typically produced far from populated centres (and potentially off-shore);
  - Submarine interconnections between countries (see above).
- **Power distribution cables** is expected to grow slightly below utilities market average, due to:
  - The increase in electricity consumption and the consequent need to expand the distribution network;
  - A focus on service quality improvements (e.g. to avoid blackouts);
  - Incentives for utilities to expand capex given by the parameterization of tariff on the invested capital.
- **Network components'** market dynamics are related to the previous three sub-segments' performance.

### Trade & installers

The trade & installers sub-segment is expected to grow +1.4% CAGR in 2005-2009. The market dynamics are generally strictly correlated to the residential and non-residential building industries which in turn depend on GDP trend. The market is mainly on a local for local basis, has low entry barriers (being less capital-intensive than Utilities) and competition is based on product range, proximity and price.

The trade & installer sub-segment should grow quite evenly worldwide, except for Latin America, where considerable expansion in the building sector should drive volumes upwards.

Trade & Installers covered market evolution and forecast



Source: Value Partners Analysis based on CRU data

<sup>1</sup> Australia only

Two factors could push the T&I segment performance above that of the building industry:

- **Safety requirements** are becoming more stringent, thus increasing the prospective demands on certain innovative products (such as low smoke, zero halogen or flame retardant cables);
- The increasing **wiring density** of new buildings and restructuring projects that is likely to boost market demand.

**Industrial**

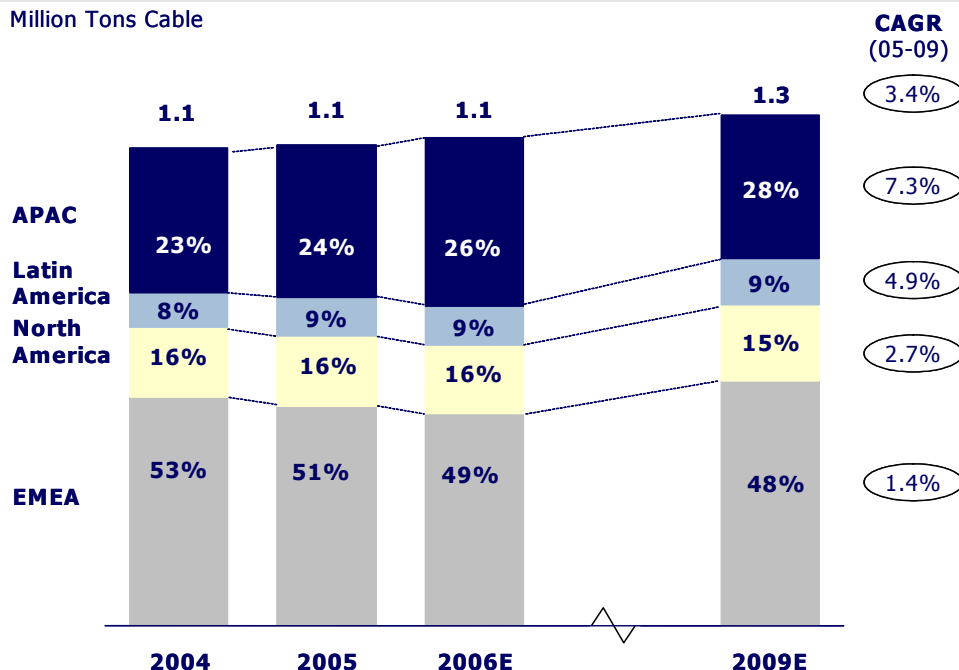
The industrial segment is expected to grow +3.4% CAGR in 2005-2009, from 1.1 Mtons of cable in 2005 to 1.3 Mtons in 2009. This sub-segment growth is driven by the outlook on specific industrial applications and is generally cyclical following GDP trends. The market is expected to grow globally, in particular in APAC (+7.3% CAGR in the period) thanks to the delocalization of OEM, and in South America (+4.9%).

In particular, we expect:

- Strong growth in the **Oil & Gas** market due to continuous company investments, especially as far as off-shore installations and the required equipment (i.e. umbilicals) are concerned;
- Good performance of the **automotive** sector due to the increasing impact of technology: electronics in the industry are becoming constantly more widespread and leading to stronger cable demand.

### Industrial covered market evolution and forecast

Million Tons Cable



Source: Value Partners Analysis based on CRU data

### Telecom cable market trends

The telecom cables trend has been influenced by the huge growth of data traffic worldwide that boosted telecom players' investments in the late '90s. Consequently, after the 2001 bubble burst, the market experienced a strong contraction (both in volume and price) due to the simultaneous presence of i) an installed overcapacity and ii) a contraction in TLC incumbent investments.

However, the outlook for this market, as for optical cables, is now rosy. The expected demand increase for these products, (unlike in 2001) is pulled by customer needs and should therefore be more stable over time. The main growth driver is the level of large telecom companies' capex, which in turn is influenced by:

- **Internet diffusion:** the internet has been experiencing tumultuous growth in the recent past: at the beginning of 2007, over 1bn people worldwide used the internet (Source: Internet World Stats.), and this trend is expected to continue in the future.
- **FTTx development:** telecom companies are responding to ever-increasing broadband capacity demand by pushing their fibre networks up to the customers' premises.
- **Companies IT expenditure:** we expect enterprise technology spending to grow: Fortune top 1000 companies are entering the first tech. upgrade cycle since 2000.

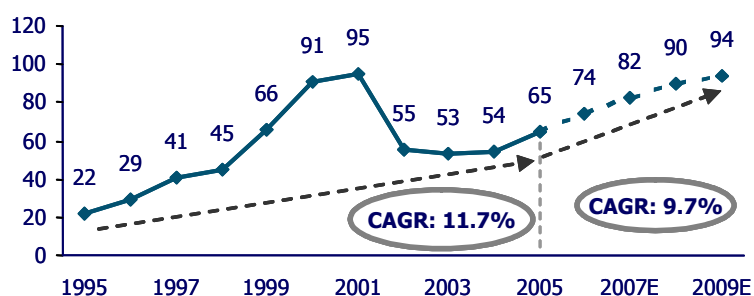
The scenario, however, is quite different in the optical and the copper cable segments.

The **optical** cable market has registered strong, steady growth, reaching a peak at 95 Mkm of fibre in 2001. After the peak, the segment experienced a dramatic downturn, leading to sharp volume reductions in 2002 and to a flattish market until 2005.

From 2005-2009 further material growth is expected (+9.7% CAGR), taking the market back to 2001 levels by 2009. The current strong demand for broadband services should sustain telecom companies' investments in optical networks, especially as far as FTTx development in the main European cities is concerned. Optical cable prices, however, have never recovered from the 2001 discontinuity, and are expected to decline slightly until 2009, and then to stabilize or increase.

**Optical cables reference market evolution and forecast**

Million Km Fibre



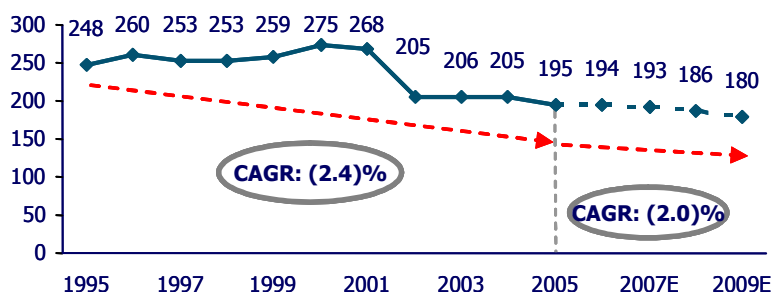
Source: Value Partners Analysis based on CRU data

The **copper** cable market, after a flattish 1995-1999 performance, has been impacted (though not as noticeably as fibre) by the telecom boom, reaching a 275 Mkm sales peak in 2000.

Following a sharp decrease in 2001 and an adjustment in the period 2002-2004, the market will probably continue to decline, posting 2005-2009 CAGR -2.0%, due to the ongoing substitution with fibre cables that is not entirely offset by the advent of innovative copper-based technological solutions such as xDSL). Notwithstanding, copper cable demand is expected to be sustained by the telecom infrastructure deployment that is taking place less developed countries, where Prysmian enjoys a strong performance.

**Copper cables reference market evolution and forecast**

Million Km Pair



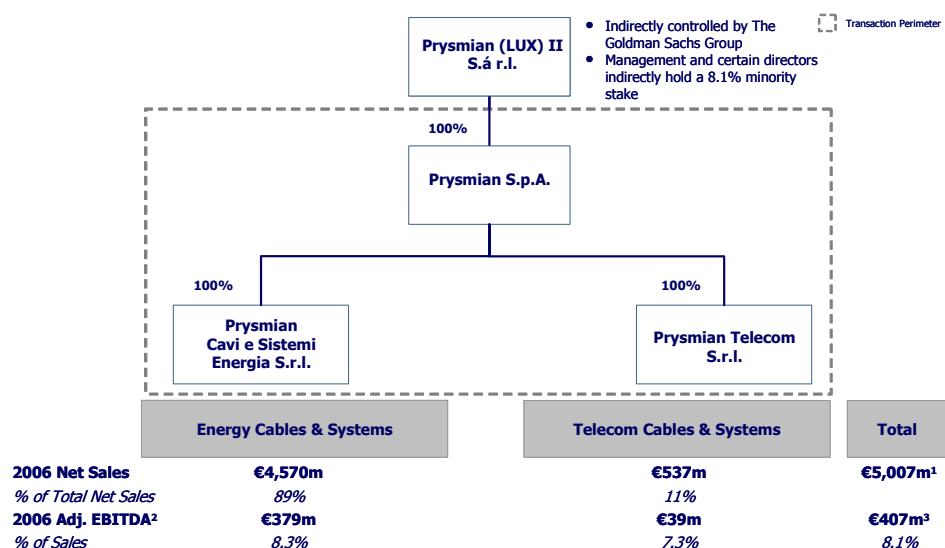
Source: Value Partners Analysis based on CRU data

## Appendix B: Historical and projected financials

Before taking an in-depth look at the historical and forecasted financial trends for Prysmian it should be underlined that the new Prysmian group is the outcome of a recent industrial and financial reorganization:

- Prysmian has undergone a deep industrial restructuring process based on i) the streamlining of the company's activities by disposing of less profitable businesses such as enamelled wires and rod manufacture, as well as disposal to Pirelli of the active fibre telecom business, now known as Pirelli Broadband Solutions (PBS) and, at the same time, ii) the closing of 11 plants in order to increase cost efficiency.
- In July 2005, Prysmian (LUX) II S.à.r.l. (a company indirectly controlled by the Goldman Sachs Group), established GSCP Athena, which in turn acquired, via two controlled companies, Pirelli Cables and Systems Telecom SpA and Pirelli Cables and Systems Energy SpA. Subsequently each of the acquired groups was merged with the controlling companies and the combined entities were renamed Prysmian Telecom and Prysmian Cables and Systems Energy respectively.

### Prysmian: Group structure post the recent re-organization



<sup>1</sup> Net of intercompany eliminations.  
<sup>2</sup> EBITDA adjusted excluding non-recurring items.  
<sup>3</sup> Including corporate fixed costs.

Source: Prysmian, Mediobanca Securities

As a consequence, the 2004-06 figures were prepared by restating the financial statements of the individual companies as follows:

- Financial statements as for FY 04 are provided on an aggregated basis, that is to present them as if the cable activities had always been managed separately from the rest of the Pirelli Group;

- FY 05 financial statements derive from the aggregation of combined accounts for the period from 1 January 2005 to 28 July 2005 (the acquisition date) and from consolidated accounts for the period from 12 May 2005 to 31 December 2005. In the period ranging from 12 May (incorporation date) to 28 July (Pirelli acquisition date) Prysmian remained idle;
- Financial statements for the period FY 06 are presented on a consolidated basis.

All financials presented by Prysmian are provided in accordance with IFRS accounting principles.

## A quick look at the historical track record

As was the case for all other industrial companies previously belonging to the Pirelli & C. group, in the early '90s the company introduced a new set of criteria based on *Value Management*, which is the creation of value as measured by EVA (*Economic Value Added*). This has meant that since then strong emphasis has been placed on all processes which enable cash flow to be maximized. These include:

- Great attention paid to general costs in order to bring down the break-even point;
- Selection of investments on the basis of potential profitability and with a policy of maintaining the investment/depreciation ratio as close as possible to unity. In the period 2001-04 this ratio stood at 1.12x;
- Maximum efficiency and integration of logistics systems to bring down working capital. The ratio between working capital and sales has thus diminished from 15% in 1999 to the current level of 8.8%.

As a result, excluding the crisis during the period 2000-2001 when Prysmian figures were heavily burdened by the "TLC bubble burst" and by the decrease of Utilities capex, the group EBIT margin has steadily improved from 2001 to date.

### Prysmian: historical EBIT and EBIT Adj. evolution and margins

	2002	2003	2004	2005	2006
EBIT	-35	43	107	117	258
EBIT margin	n.m.	1.4%	3.2%	3.1%	5.2%
EBIT Adj.	-35	43	108	171	330
EBIT Adj. margin	n.m.	1.4%	3.2%	4.6%	6.6%

Source: Mediobanca Securities

## 2004-06PF financial trends

In May 2004, Prysmian (or rather, the old Pirelli Cables business unit) disclosed a 2004-06 three-year industrial plan that set the following targets. Note that according to the 2006 figures, the above-mentioned targets have been achieved and exceeded.

### Prysmian: 2004-06 three year plan

Item	Target
Energy Revenues (CAGR 04-06)	2.0%
Telecom Revenues (CAGR 04-06)	10.0%
Energy EBIT (CAGR 04-06)	25%
Telecom EBIT (CAGR 04-06)	B/E as of 2005
Energy EBIT margin 2006YE	5.8%
Telecom EBIT margin 2006YE	5.0%
Energy OpFCF (Cumulated 2004-06) (*)	418
Telecom OpFCF (Cumulated 2004-06) (*)	27

Source: Prysmian SpA, Mediobanca Securities

(\*) OpFCF defined as EBITDA minus CAPEX

(1) EBIT 2006 adjusted to remove the one off estimated effect of about €10m in IPO costs

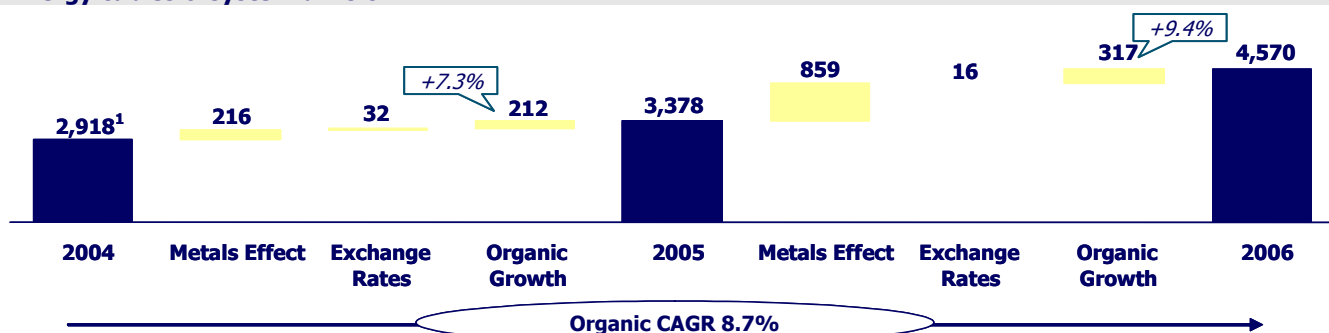
## 2004-06PF Revenue trends

In the period 2004-06PF Prysmian sales grew by some 23.7% per annum (net of disposed businesses).

In particular, sales growth was driven by:

- A brilliant +8.7% organic (net of metal price effect) CAGR in the Energy Division and a strong +9.6% organic CAGR in the Telecom Division despite the current erosion on prices;
- Impressive growth in metal prices in 2006 that contributed to boost Prysmian's top line for the Energy Division +17% CAGR and for the Telecom Division +5.3% CAGR.
- Overall non-meaningful impact of exchange rates (even though in this period these were highly volatile).

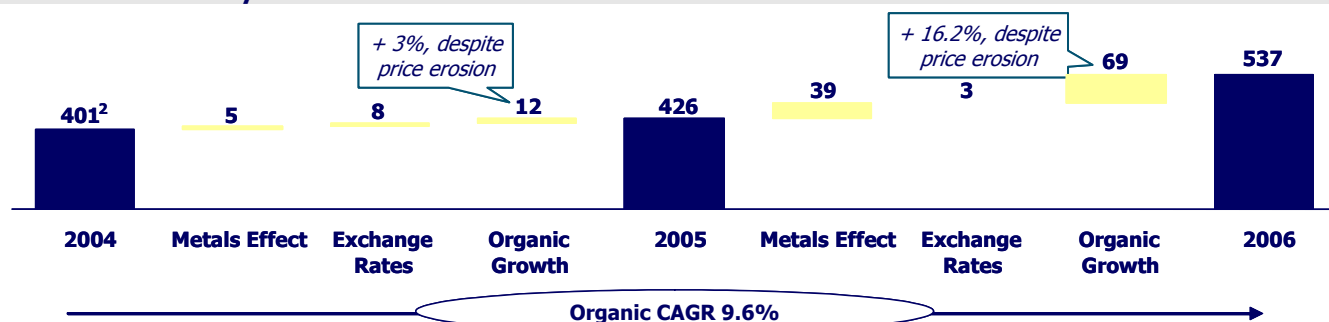
### Energy cables & system division



<sup>1</sup> Net of €69m related to the Enamelled business

Source: Prysmian, Mediobanca Securities

Telecom cables & system division



<sup>2</sup> Net of €63m related to the Pirelli Broadband Solutions

Source: Prysmian, Mediobanca Securities

2004-06 Profitability trend

At the cost structure level, the period 2004-06PF was characterised by a dichotomy between raw materials price trends and the remaining costs.

Indeed, the impact of raw materials on sales has increased progressively due to the above-mentioned price rises. The company has therefore had to work hard to increase labour efficiency and make further efficiencies in order to improve the EBITDA/EBIT margin year by year.

Reported EBITDA and EBIT evolution (2004-2006) (€m)

	2004	2005	2006
EBITDA	208	219	371
% Growth		5.4%	69.2%
EBITDA margin	6.1%	5.9%	7.4%
EBITDA Adj.	208	265	407
EBITDA Adj. margin	6.1%	7.1%	8.1%
EBIT	107	117	258
% Growth		9.2%	119.8%
EBIT margin	3.2%	3.1%	5.2%
EBIT Adj.	108	171	330
EBIT Adj. margin	3.2%	4.6%	6.6%

Source: Prysmian, Mediobanca Securities

It should be noted that the company has been affected by a number of one-off items that have altered the profitability ratio, especially in 2005. In detail:

- **Restructuring costs** (€17m in 2006) due to the closure of plants (in particular Prescott and Vologne);
- The launch of the Prysmian brand (€6m in 2006);
- IPO costs (€10m);
- **Inventories step-up** (€33m in 2005), relating to the application of Purchase Accounting (IFRS 3) following the Goldman Sachs acquisition: for such a reason, this is a non-cash one-off item;
- **TLC Submarine** (disposed in 2004) and others.

As a result, the underlying industrial EBITDA/EBIT margin is higher than that stated, as shown below:

<b>P&amp;L non recurring items 2004-2006</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Restructuring	7	4	17
Launch of Prysmian brand	-	8	6
IPO costs	-	-	10
Inventories step-up (IFRS 3) 1	-	33	-
TLC submarine (disposed in 2004)	(7)	-	1
IT Segregation and other fees	-	-	1
<b>EBITDA adjustments</b>	<b>&lt;1</b>	<b>46</b>	<b>36</b>
of which attributable to Energy Business	7	44	22
of which attributable to Telecom Business	(7)	1	2
of which Corporate Costs 2	-	-	12
Pirelli brand licence D&A	-	8	32
Goodwill reallocation	-	-	5
<b>EBIT adjustments</b>	<b>&lt;1</b>	<b>54</b>	<b>72</b>
of which attributable to Energy Business	7	52	54
of which attributable to Telecom Business	(7)	1	2
of which Corporate Costs 2	-	-	16

Source: Prysmian, Mediobanca Securities

We believe these extraordinary items will not impact on the Prysmian P&L in future, except for some restructuring costs which will still be present in 2007. We therefore forecast that non-recurring costs will decline by about -50% YoY to some €18m in 2007 and to some €10m from 2008 onwards. We estimate residual IPO costs in 2007 of about €4m (already included in the €18m). We believe the company should not divest more activities in the future.

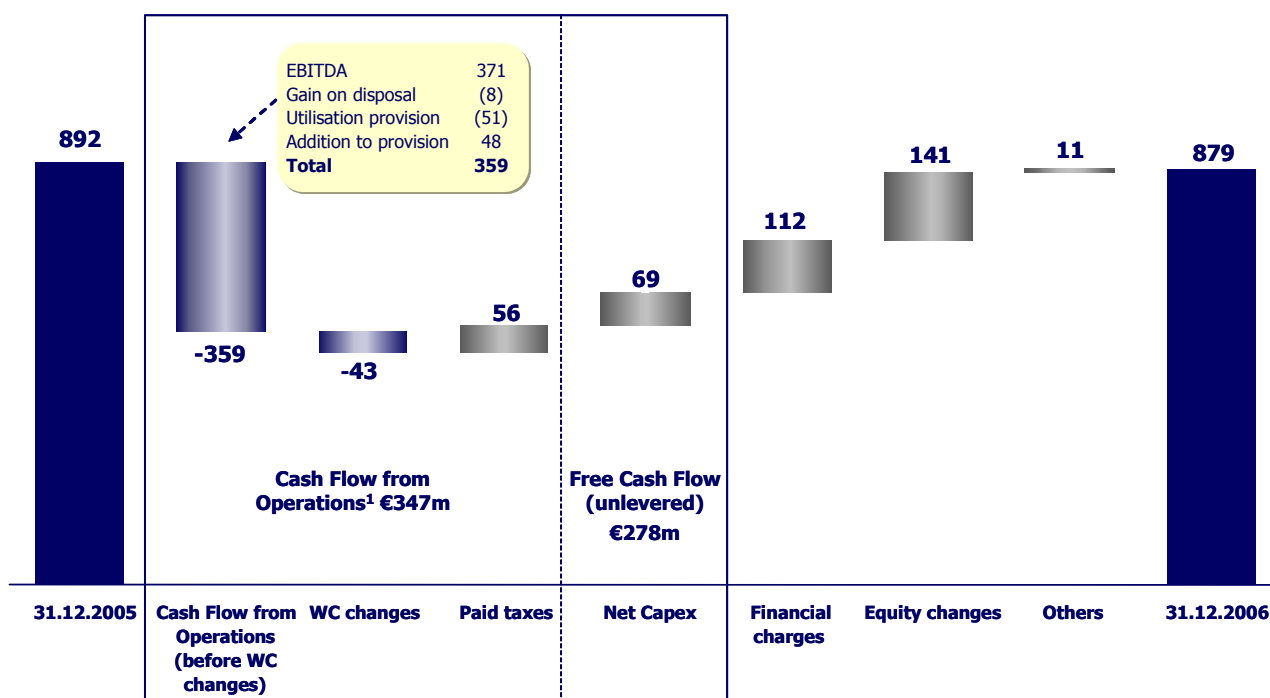
### **2005 - 2006 Net Financial Position evolution**

Prysmian net debt decreased in 2006 to €879m from €892m. We consider favourably this result, since the company managed to be cash positive despite the fact that:

- Financial charges were of €112m of, including bank fees for €23m;
- Prysmian proceeded to an equity distribution for total €141m, of which €51m are shareholders loan repayments.

This brilliant result has been achieved thanks to i) a strong cash flow generation by operation and ii) an effective net working capital management, that brought to an actual contraction of this figure (€442m in FY 06) in a copper price increasing scenario.

Net financial position change 2005-2006



<sup>1</sup> Includes €16m related to non recurring cash out.

Source: Prysmian, Mediobanca Securities

2004-06PF A look at the energy and telecom divisions

Comparing the results of the two divisions we note that the energy cable business accounts for 90.7% of group sales and also for some 88% of group EBIT (EBIT CAGR +46%), but shows a lower profitability than the telecom cable area (Energy EBIT margin of 5.5% versus TLC EBIT margin of 6.4%). This is mainly due to less D&A, since at the EBITDA level the energy division is more profitable.

In the next table we present Prysmian 2004-2006 P&L, including adjusted values for EBITDA and EBIT.

**Energy and TLC division P&L 2004-06**

<b>(€m)</b>	<b>Energy Business</b>			<b>Telecom Business</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Revenues</b>	2,987	3,378	4,570	464	426	537
Chge % YoY		13.1%	35.3%		-8.2%	25.9%
<b>EBITDA</b>	184	202	357	24	17	37
Chge % YoY		9.9%	76.7%		-27.0%	111.6%
EBITDA margin	6.2%	6.0%	7.8%	5.2%	4.1%	6.9%
<b>EBITDA Adj.</b>	191	246	379	17	19	39
Chge % YoY		28.8%	54.1%		11.8%	105.3%
EBITDA Adj. margin	6.4%	7.3%	8.3%	3.7%	4.5%	7.3%
<b>Depreciation</b>	(74.5)	(84.5)	(104.6)	(26.0)	(17.4)	(3.0)
As a % sales	-2.5%	-2.5%	-2.3%	-5.6%	-4.1%	-0.6%
<b>EBIT</b>	109	118	252	(2.0)	0.1	34
Chge % YoY		7.5%	114.3%		n.m.	n.m.
EBIT margin	3.7%	3.5%	5.5%	-0.4%	0.0%	6.4%
<b>EBIT Adj.</b>	117	170	306	-9	1	36
Chge % YoY		45.3%	80.0%		n.m.	n.m.
EBIT Adj. margin	3.9%	5.0%	6.7%	-1.9%	0.2%	6.7%

Source: Prysmian, Mediobanca Securities

## Appendix C: Historical milestones

### 1879: Foundation and establishment

The cable business was set up in 1879 when the Pirelli Group founder, Giovanni Battista Pirelli, decided to enter the energy and telegraph cables industry. In 1886 the Group started production of TLC submarine cables.

### 1902-1998: Organic growth

The Group expanded its activities internationally, opening plants in Spain, United Kingdom, Argentina and Brazil in the period 1902-1930.

In 1950, the Group was awarded the tender of the cable for Italian telephone and television infrastructure.

In the mid-'70s the Group started research on optical fibres and in 1982 Pirelli became the number one Italian producer (together with STET).

In 1988 the Group bought the Giulio Verne, the most advanced cable ship in existence (still today).

### 1998-2001: Growth by acquisitions

After more than a century of organic growth, in 1998 Prysmian adopted an acquisitions strategy, - made possible by positive market trends. The company completed four large M&A deals, acquiring businesses sold off by competitors that were willing to reduce their market exposure after utilities investment shrank due to the privatization process of the mid-'90s. Prysmian thus acquired:

- Siemens AG energy cable division (1998 – 12 plants);
- Metal Manufacturers (Australia) energy and construction cable division (1999);
- Some of BICC General business activities in Italy, Africa and Far East (2000);
- NKF energy cable division (2000), controlled by Draka.

### 2001-2004: Restructuring process

In 2001 the global cable market outlook changed: energy cable demand slowed and the telecom cable market collapsed after the internet bubble burst. As a consequence the company initiated a deep restructuring phase that led to:

- the disposal of less strategic business lines (enamelled and transposed wires),
- the closure of 11 plants, bringing the total plant count down from 63 to 52;

- A new focus on i) labour force rightsizing and fixed cost reduction; ii) effective management of NWC.

In this period Pirelli Cavi e Sistemi Spa (the holding company of the Cable and Systems Division) was split into two holding companies, one dedicated to energy and the other to the telecom business.

### **2004-today: Acquisition and IPO**

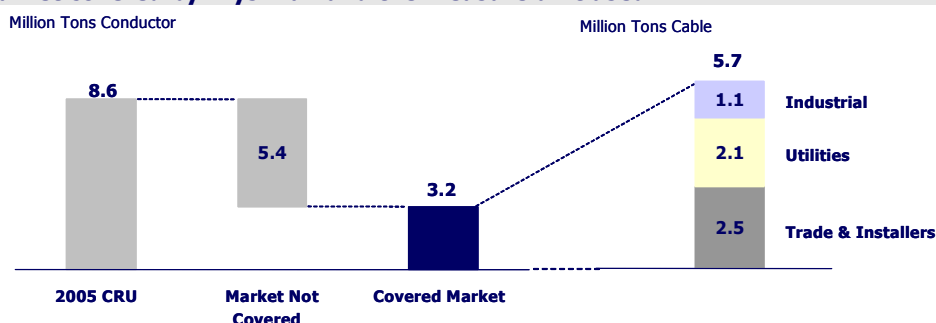
Following the intensive restructuring carried out during the previous years, the company has focused on growing its business and making it profitable. In July 2005 the Goldman Sachs Group acquired Pirelli Cable business activities through a leveraged buyout, for a total consideration of €1.4bn. After one and a half years of strong revenue growth and increasing profitability, Prysmian intends to go public in the first months of 2007.

## Appendix D: The reference market

Prysmian operates in a portion of the whole cable market, defined in the report "Reference Market". The reference market is identified by excluding from the total cable market (as covered by the CRU analysis):

- a. The **market segments** in which the company does not compete: i) enamelled wires for the energy sector and ii) internal telecom data and copper LAN cables for the telecom sector;
- b. Some **geographic areas**:
  - The energy reference market does not include Japan, Mexico, Taiwan, Korea and the Indian subcontinent. More specifically, the company has a limited presence in some Eastern European and Scandinavian countries as regards the T&I and power distribution segments, while in LATAM Prysmian operates mainly in Brazil, Argentina. In the T&I segment, the company presence in APAC is limited to Australia. Prysmian has a limited geographical focus on specific industrial applications (such as Automotive) and is absent in certain segments (e.g. elevators).

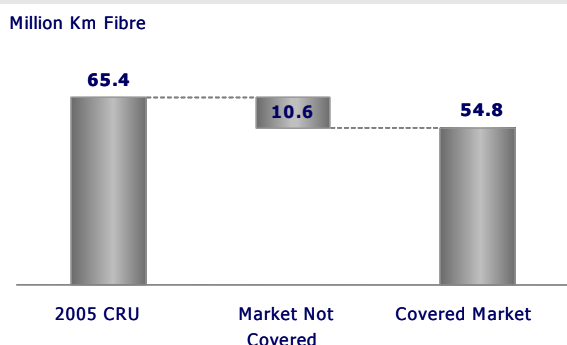
### Market covered by Prysmian and the measure unit used



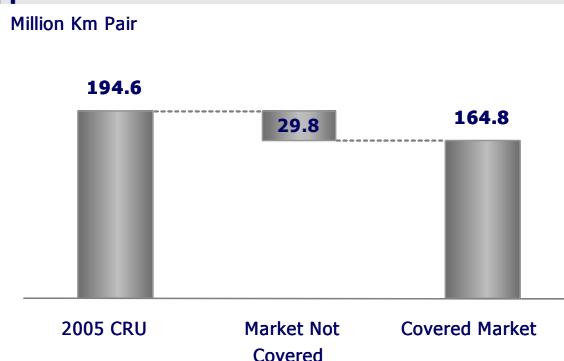
Source: Prysmian, Mediobanca Securities

- The TLC reference market excludes Japan from both the copper and fibre segments: the company does not currently operate in that country due to a perceived strong protectionist policy. The copper segment does not include US.

### Optical Cable



### Copper Cable



Source: Prysmian, Mediobanca Securities

The reference market 2005 is valued at €58bn, of which €49bn (85%) is the value of the reference cable market and €9bn (15%) that of the telecom cable reference market.

Profit & Loss account (€ m)	2005	2006	2007E	2008E
Turnover	3,742	5,007	5,010	5,235
Turnover growth %	9.9	33.8	0.1	4.5
EBITDA	219	371	471	481
EBITDA margin (%)	5.9	7.4	9.4	9.2
EBITDA growth (%)	5.4	69.2	27.0	2.2
Depreciation & Amortization	-102	-113	-71	-73
EBIT	117	258	400	408
EBIT margin (%)	3.1	5.2	8.0	7.8
EBIT growth (%)	9.4	nm	55.1	2.0
Net Fin.Income (charges)	-71	-112	-152	-80
Non-Operating Items	1	2	0	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	47	147	248	328
Tax	-45	-56	-85	-118
Tax rate (%)	94.3	38.2	34.2	36.0
Minorities	-1	-2	-2	-2
Net Profit	1	89	161	208
Net Profit growth (%)	-97.6	n.m	81.2	28.6
Adjusted Net Profit	1	89	161	208
Adjusted Net Profit growth (%)	-97.2	n.m	81.2	28.6

Balance Sheet (€ m)	2005	2006	2007E	2008E
Working Capital	490	442	478	498
Net Fixed Assets	923	875	892	908
Total Capital Employed	1,414	1,317	1,370	1,406
Shareholders' Funds	183	151	295	454
Minorities	22	19	21	22
Provisions	316	268	256	268
Net Debt (-) Cash (+)	-892	-879	-798	-662

Cash Flow Model (€ m)	2005	2006	2007E	2008E
Cash Earnings	105	204	235	283
Working Capital Needs	-364	48	-36	-20
Capex (-)	-62	-85	-88	-89
Financial Investments (-)	0	0	0	0
Dividends (-)	0	-90	0	-48
Other Sources / Uses	-87	-63	-30	11
Ch. in Net Debt (-) Cash (+)	-407	14	81	136

Multiples	2005	2006	2007E	2008E
P/E Adj.	nm	36.6	20.2	15.7
P/CEPS	nm	16.0	13.9	11.5
P/BV	nm	21.6	11.1	7.2
EV/ Sales	0.3	0.4	0.8	0.8
EV/EBITDA	4.8	4.8	8.8	8.4
EV/EBIT	8.9	6.9	10.4	9.9
EV/Cap. Employed	0.7	1.4	3.0	2.9
Yield (%)	nm	0.0	1.5	1.9
FCF Yield (%)	nm	22.1	3.4	5.3

Per Share Data (€)	2005	2006	2007E	2008E
EPS	0.01	0.49	0.90	1.15
EPS growth (%)	#VALORE!	n.m	81.2	28.6
EPS Adj.	0.01	0.49	0.90	1.15
EPS Adj. growth (%)	#VALORE!	n.m	81.2	28.6
CEPS	0.58	1.13	1.30	1.57
BVPS	1.0	0.8	1.6	2.5
DPS Ord	0.00	0.00	0.27	0.35

Key Figures & Ratios	2005	2006	2007E	2008E
Avg. N° of Shares (m)	180	180	180	180
EoP N° of Shares (m)	180	180	180	180
Avg. Market Cap. (€ m)	0	750	3,265	3,265
Enterprise Value (€ m)	1,042	1,779	4,163	4,027
Labour Costs/Turnover (%)	14%	11%	10%	10%
Depr.&Amort./Turnover (%)	3%	2%	1%	1%
Prod. Ratio (Turn./Op.Costs)	1.0	1.1	1.1	1.1
Gearing (Debt / Equity) (%)	435%	516%	253%	139%
EBITDA / Fin. Charges	3.1	3.3	3.1	6.0
Cap. Employed/Turnover (%)	38%	26%	27%	27%
Capex / Turnover (%)	2%	2%	2%	2%
Pay out (%)	0%	0%	30%	30%
ROE (%)	1%	59%	55%	46%
ROCE (%) (pre tax)	8%	20%	29%	29%
ROCE (%) (after tax)	0%	12%	19%	19%

THIS PUBLICATION IS ISSUED BY MEDIOBANCA. IT IS NOT INTENDED TO BE AN OFFER TO BUY OR SELL, OR A SOLICITATION OF AN OFFER TO BUY OR SELL, ANY SECURITIES. THE INFORMATION CONTAINED HEREIN, INCLUDING ANY EXPRESSION OF OPINION, HAS BEEN OBTAINED FROM OR IS BASED UPON SOURCES BELIEVED TO BE RELIABLE BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS ALTHOUGH MEDIOBANCA CONSIDERS IT TO BE FAIR AND NOT MISLEADING. THIS REPORT WAS PREPARED BY MEDIOBANCA - BANCA DI CREDITO FINANZIARIO SPA IN COMPLIANCE WITH THE OBLIGATIONS PURSUANT TO THE REGULATIONS FOR MARKETS ORGANISED AND RUN BY BORSA ITALIANA SPA, IN ITS ROLE AS SPONSOR TO PRYSMIAN SPA. MEDIOBANCA - BANCA DI CREDITO FINANZIARIO SPA HAS IN THE PAST TWELVE MONTHS SIGNED AGREEMENTS TO DELIVER CORPORATE FINANCE SERVICES TO PRYSMIAN SPA OR THE GROUP TO WHICH PRYSMIAN SPA BELONGS OR THE GROUP WHICH PRYSMIAN SPA HEADS UP, OR TO THIRD PARTIES RELATING TO PRYSMIAN SPA OR THE GROUP TO WHICH PRYSMIAN SPA BELONGS OR THE GROUP WHICH PRYSMIAN SPA HEADS UP. MEDIOBANCA AND ITS AFFILIATED COMPANIES, OR INDIVIDUALS CONNECTED TO THEM ARE UNDER NO OBLIGATION TO DISCLOSE OR TAKE ACCOUNT OF THIS DOCUMENT WHEN ADVISING OR DEALING WITH OR FOR THEIR CUSTOMERS. FOR FURTHER INFORMATION REGARDING QUARTERLY RATING STATISTICS AND DESCRIPTIONS, CHINESE WALL MECHANISMS PUT IN PLACE BY MEDIOBANCA AND ANY OTHER DISCLAIMERS, PLEASE REFER TO THE MB SECURITIES SECTION OF THE MEDIOBANCA WEBSITE AT [WWW.MEDIOBANCA.IT](http://WWW.MEDIOBANCA.IT). TO ACCESS PREVIOUS RESEARCH NOTES AND ESTABLISH TRENDS IN RATINGS ISSUED, PLEASE SEE THE RESTRICTED ACCESS PART OF THE MB SECURITIES SECTION OF THE MEDIOBANCA WEBSITE AT [WWW.MEDIOBANCA.IT](http://WWW.MEDIOBANCA.IT).