

## Company Focus

27 November 2007 | 48 pages

# Seat Pagine Gialle SpA (PGIT.MI)

 Target price change   
 Estimate change 

## How Low Can It Go?

- Potentially Lower, in Our View** — While we downgrade our forecasts by 3%-7% and are below consensus, there is still risk to near-term profits from additional investment. Disruption in sales and additional investment make the 2008-2010 plans look, if not tippy, then at least optimistic. Finally, Seat's debt covenants cap dividends meaning ST cash returns won't support the shares.
- 2008-10 Plan: A Lower Base...** — On the back of a slower revenue growth in Italy, extra investment in Thomson and disruption at Europages, we downgrade our 2007E EPS by c.3%. We expect Seat to miss 2007E guidance. Immediately this lowers the base off which the group's 2008-2010 industrial plan is based.
- ...and Shallower Growth Profile** — The risk we see is that Seat's investment in customer acquisition takes time to bear fruit, slowing the growth profile of the Italian business. At the same time, investment in direct sales within Europages is clearly more disruptive (and costly) than anticipated. We still forecast revenue/EBITDA CAGR of 4%-5%, but this now includes *Wer Liefert Was?*.
- Deferred Support from Corporate Action** — We see no imminent relief from corporate action as the group's capital structure is inconsistent with a recap or LBO. By 2009E, however, we estimate the group could return €0.18 per share.
- Retain Hold on Seat; Yell Our Preferred Directory Name** — We believe the c.30% fall since June discounts the EPS risk, even if the lack of yield suggests we are yet to reach a floor. We think Yell has a better EPS outlook and a more attractive valuation.

<b>Hold/Medium Risk</b>	<b>2M</b>
Price (27 Nov 07)	€0.32
Target price	€0.32
	<i>from €0.49</i>
Expected share price return	0.9%
Expected dividend yield	4.3%
<b>Expected total return</b>	<b>5.3%</b>
Market Cap	€2,637M
	US\$3,924M

### Price Performance (RIC: PGIT.MI, BB: PG IM)



### Seat Pagine Gialle SpA (EUR)

Year to 31 Dec	2005A	2006A	2007E	2008E	2009E
Sales (€M)	1,424.6	1,460.2	1,472.5	1,557.2	1,642.7
Net Income (€M)	305.7	256.2	262.3	272.2	261.5
Diluted EPS (€)	0.04	0.03	0.03	0.03	0.03
Diluted EPS (Old) (€)	0.04	0.03	0.03	0.03	0.03
PE (x)	8.5	10.4	10.2	9.8	10.2
EV/EBITDA (x)	10.0	9.9	9.0	8.7	7.9
DPS (€)	0.00	0.01	0.01	0.01	0.01
Net Div Yield (%)	0.0	1.6	4.3	4.3	4.3

See Appendix A-1 for Analyst Certification and important disclosures.

### Thomas A Singlehurst, CFA<sup>1</sup>

+44-20-7986-4051  
 thomas.singlehurst@citigroup.com

Rogan Angelini-Hurl<sup>1</sup>

Marc L Sugarman<sup>1</sup>

Catherine T O'Neill<sup>1</sup>

Ruchi Malaiya<sup>1</sup>

Andrew M Simms<sup>1</sup>

Citi Investment Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Non-US research analysts who have prepared this report are not registered/qualified as research analysts with the NYSE and/or NASD. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

<sup>1</sup>Citigroup Global Markets Ltd

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
<b>Valuation Ratios</b>					
P/E adjusted (x)	8.5	10.4	10.2	9.8	10.2
EV/EBITDA adjusted (x)	10.0	9.9	9.0	8.7	7.9
P/BV (x)	2.7	2.5	2.4	2.4	2.2
Dividend yield (%)	0.0	1.6	4.3	4.3	4.3
<b>Per Share Data (€)</b>					
EPS adjusted	0.04	0.03	0.03	0.03	0.03
EPS reported	0.02	0.01	0.01	0.01	0.02
BVPS	0.12	0.12	0.13	0.13	0.14
DPS	0.00	0.01	0.01	0.01	0.01
<b>Profit &amp; Loss (€M)</b>					
Net sales	1,425	1,460	1,472	1,557	1,643
Operating expenses	-1,004	-1,058	-1,040	-1,117	-1,096
<b>EBIT</b>	<b>420</b>	<b>402</b>	<b>433</b>	<b>440</b>	<b>547</b>
Net interest expense	-261	-246	-249	-241	-233
Non-operating/exceptionals	4	0	-3	0	0
<b>Pre-tax profit</b>	<b>164</b>	<b>156</b>	<b>181</b>	<b>199</b>	<b>314</b>
Tax	-25	-74	-85	-93	-151
Extraord./Min.Int./Pref.div.	-7	-2	-7	-7	-7
<b>Reported net income</b>	<b>132</b>	<b>80</b>	<b>89</b>	<b>99</b>	<b>156</b>
Adjusted earnings	306	256	262	272	261
Adjusted EBITDA	627	611	656	672	715
<b>Growth Rates (%)</b>					
Sales	1.3	2.5	0.8	5.8	5.5
EBIT adjusted	1.7	-2.7	4.8	1.2	6.4
EBITDA adjusted	2.0	-2.4	7.3	2.5	6.3
EPS adjusted	7.2	-18.2	2.4	3.8	-3.9
<b>Cash Flow (€M)</b>					
<b>Operating cash flow</b>	<b>602</b>	<b>538</b>	<b>610</b>	<b>589</b>	<b>548</b>
Depreciation/amortization	194	195	212	221	156
Net working capital	13	-59	-5	-17	-21
<b>Investing cash flow</b>	<b>-52</b>	<b>-61</b>	<b>-213</b>	<b>-93</b>	<b>-61</b>
Capital expenditure	-46	-48	-55	-83	-51
Acquisitions/disposals	-8	-1	-158	-10	-10
<b>Financing cash flow</b>	<b>-486</b>	<b>-371</b>	<b>-469</b>	<b>-506</b>	<b>-554</b>
Borrowings	-235	-144	-120	-163	-219
Dividends paid	0	-25	-115	-115	-115
<b>Change in cash</b>	<b>64</b>	<b>106</b>	<b>-71</b>	<b>-10</b>	<b>-67</b>
<b>Balance Sheet (€M)</b>					
<b>Total assets</b>	<b>5,317</b>	<b>5,227</b>	<b>5,156</b>	<b>5,027</b>	<b>4,875</b>
Cash & cash equivalent	202	308	237	227	160
Accounts receivable	670	669	671	680	690
Net fixed assets	50	50	57	73	74
<b>Total liabilities</b>	<b>4,317</b>	<b>4,152</b>	<b>4,030</b>	<b>3,858</b>	<b>3,628</b>
Accounts payable	293	293	291	282	271
Total Debt	3,741	3,613	3,494	3,330	3,111
<b>Shareholders' funds</b>	<b>1,000</b>	<b>1,075</b>	<b>1,126</b>	<b>1,169</b>	<b>1,247</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	44.0	41.9	44.5	43.2	43.5
ROE adjusted	33.4	25.1	24.3	24.3	22.3
ROIC adjusted	12.2	11.2	11.7	11.9	11.7
Net debt to equity	354.0	307.3	289.4	265.5	236.7
Total debt to capital	78.9	77.1	75.6	74.0	71.4

For further data queries on Citigroup's full coverage universe please contact CIR Data Services Europe at CitiResearchDataServices@citigroup.com or +44-207-986-4050



## Contents

<b>How Low Can It Go?</b>	<b>4</b>
<b>A Directory-Relative View</b>	<b>5</b>
<b>Seat PG: Cracks Appearing at the 9M</b>	<b>10</b>
<b>Revisiting the Company's Industrial Plan</b>	<b>15</b>
<b>So What Next on the Shareholder Structure?</b>	<b>17</b>
<b>Valuation: How Low Can Seat Go?</b>	<b>19</b>
<b>9M Results vs. Expectations</b>	<b>25</b>
<b>Financial Forecasts</b>	<b>28</b>
<b>Appendix A-1</b>	<b>45</b>

## How Low Can It Go?

Figure 1. Seat PG – A Lower Base...

	2007E	2008E	2009E
<b>Sales</b>			
Old Forecast	1,514	1,594	1,683
New Forecast	1,472	1,557	1,643
% change	-2.7%	-2.3%	-2.4%
<b>EBITDA</b>			
Old Forecast	670.7	688.1	733
New Forecast	655.8	672.1	714.6
% change	-2.2%	-2.3%	-2.6%
<b>Adjusted EPS (€)</b>			
Old Forecast	0.032	0.034	0.033
New Forecast	0.031	0.032	0.031
% change	-2.9%	-6.0%	-6.7%

Source: Citi Investment Research

Figure 2. ...a Shallower Growth Profile...

	Guidance 2007E-10E CAGR	Citi Forecast 2007E-10E CAGR
<b>Italy</b>		
Total Print	'Inflation-plus'	3.3%
Online	15%-20%	14.9%
Voice	'Mid-single digit'	5.0%
Total Revenues	5.5%-6.5%	5.2%
EBITDA	4.0%-5.0%	4.6%
<b>Seat PG (inc.WLW acquisition)</b>		
Total Revenues	4.5%-5.5%	5.4%
EBITDA	4.0%-5.0%	4.6%

Source: Company Reports and CIR

Figure 3. ...and Limited Yield Support

	Dividend Yield		
	2007E	2008E	2009E
Eniro	7.3%	7.8%	8.4%
Seat Pagine Gialle	4.2%	4.2%	4.2%
Yell Group	4.8%	5.5%	6.2%
European Directories	5.1%	5.9%	6.3%

Source: Citi Investment Research

The shares of Seat Pagine Gialle are down c.30% since the beginning of July. While earnings have also been revised downward – by 3%-7% – the group has also seen a significant derating.

The principal aim of this report is to address whether the current share price (and valuation) represents a floor and if there is scope to become more positive on Seat in the near term.

Our analysis suggests that it is *still too early* to be buyers of the shares and that Seat could yet track lower. There are three reasons:

- **Risk to near-term forecasts:** The group saw a reversal of improving trends in the 3Q – even if it is explainable by phasing and/or a lack of ‘hunter’ sales people. We anticipate extra investment in 2007E to turn this around, and that the group will miss its 10% EBITDA growth target (Citi 7.3%). Near-term pressures lower the base off which the 2008-2010 industrial plan is based.

- **Shallower growth medium-term:** We are much more sanguine than consensus on the general structural pressures facing directories. That said, disruption in the salesforce in Italy, the UK and at Europages, plus additional investment to resolve this, suggests that the growth trajectory of Seat, while still positive, is shallower than we previously thought. On our forecasts, Seat will still hit its 2008-2010 projections, but less convincingly. Once again we see downside risk for consensus.

- **Lack of relative valuation support:** EV/EBITDA for Seat is comparable to other directories, but with the debt covenants capping the dividend at just €0.014 (4.2% yield) in the medium term, there is no obvious yield support for equity shareholders. The prospect of a 2009E recap or secondary LBO may help, but two years is a long time to wait.

Turning this round, we think there are at least two things we would need to see before being more positive on the shares, neither of which are likely near-term:

- **Evidence that the 3Q trends were just a blip (i.e. upward pressure to earnings):** In particular we would need to see that both print and online in Italy had seen a rebound going into 2008. Unfortunately, we are not likely to get clarity on this until the group’s FY results in March of 2008 – and even this may be too early, as investment in sales is unlikely to kick in until the 2H.

- **Evidence of upside from corporate action:** We think a recap/secondary LBO or a sale to a third party is unlikely near term because of the prepayment penalties on the group’s HY debt and because of the move back to a standard P&L/cash tax rate. If the management or controlling shareholders can sidestep having to pay a premium to refinance the HY debt, or if financial engineering can extend the tax benefit, then this could make near-term corporate action more attractive. We think this unlikely and see 2009E as the earliest date for a reassessment of the group’s capital structure.

While keeping our Hold rating on Seat, we lower our price target to €0.32 (from €0.49) and see no rush to get involved. Within a directory context, we prefer Yell, which offers a better earnings outlook and a more attractive valuation.

## A Directory-Relative View

The two criteria that we argue are preconditions for performance for Seat also apply more generally to the Yellow Pages Directory peer group, in our view. On this basis, we believe Yell (YELL.L - £3.96; 1M) is the most attractive of the directory groups under our coverage over the next 6-12 months, as it has the most scope for EPS upgrades, attractive relative valuation and a solid and increasing dividend yield.

Controversially, Eniro (ENRO.ST - SKr69.25; 2M) is our second most 'preferred' name. While we have concerns over the longer-term structural positioning of Eniro, in particular the sustainability of basic listings and the effect of increased online competition, we think forecasts are sustainable in the next 6-12 months. Near-term dividend yield is strong, but corporate action following the recent shareholder return is unlikely.

Seat Pagine Gialle is our least preferred directory publisher, for now. We believe additional investment may further erode consensus forecasts (note our forecasts are below already consensus) and, while the group should hit its guided revenue/EBITDA growth projections, this is likely to be back-end loaded with the strongest growth coming through in 2009-2010E. Finally, while we see scope for a recap/secondary LBO on a two-year view, the near-term dividend yield (c.4.2%) is unexciting.

**Figure 4. European Yellow Pages Directories – Citigroup Coverage Universe**

Company	Rating	Share Price	Price Target	ETR
Yell Group	1M	396p	544p	42.1%
Eniro	2M	SEK69.25	SEK81.00	24.5%
Seat Pagine Gialle	2M	€ 0.316	€ 0.319	3.4%

Source: Citi Investment Research

### Earnings Outlook

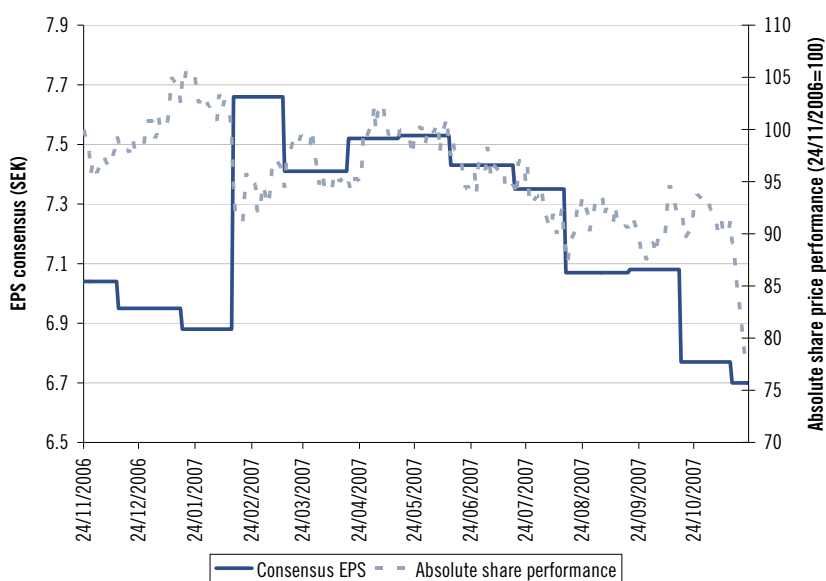
Given the poor share price performance of all of the directory groups in 2007 (and significant derating in at least one instance), we think evidence of earnings momentum, or at the very least earnings sustainability, is a *sine qua non* for investment in the sub-sector. While there has been pressure across the board YTD, we argue that the earnings outlook differs for each of the major publishers over the next 6-12 months:

#### Eniro<sup>1</sup>

In the medium-term we still have concerns over usage trends (shift from print to online) and increasing competition (especially from hitta.se in Sweden). However near-term Eniro's earnings are secure in our view given price rises, strong online growth and cost control. Given the strong correlation between earnings revisions and share price, we see some scope for a rerating for the group.

<sup>1</sup> See *Eniro: Earnings Relief*, Citigroup Investment Research, 31 October 2007

Figure 5. Eniro – Share Price Has Correlated Well With Earnings Revisions, 2007



Source: Datastream and Citi Investment Research

## Yell Group<sup>2</sup>

We believe the 1H results (published in November) give some indication of the magnitude of the risks for Yell, and while it may be too early to call the all-clear, we believe there is some scope for optimism on the EPS outlook.

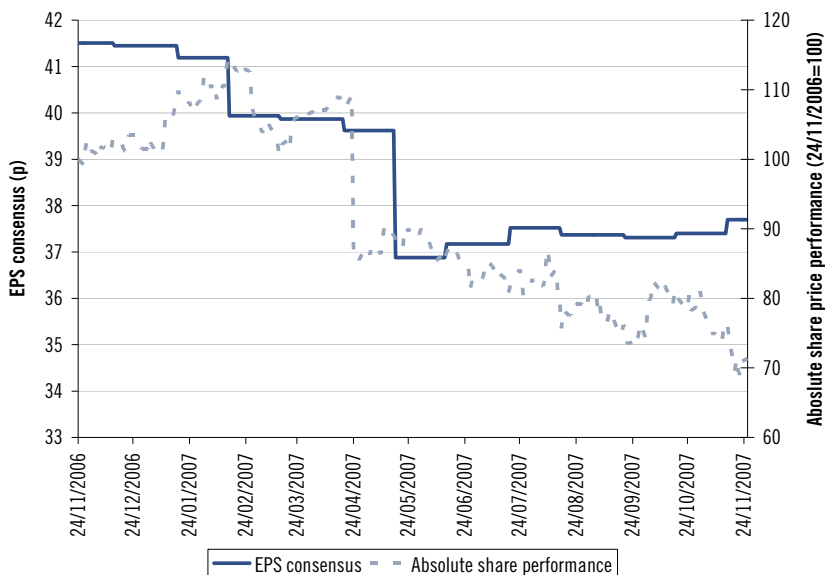
- On the **US organic growth** front, the 2Q does indeed look like it will be the nadir in 2007. With a meaningful reduction in launch intensity, the first-time impact of remedial actions and an increased impact from launch and internet growth, the group should see an acceleration in organic growth in the 2H. Indeed, we argue that the group's 3.0% is too conservative.
- On the **cycle**, all the key health checks came out positive. Order cancellations have remained steady, as has bad debt expense – an uptick in both would be a clear sign of an uptick in nervousness/insolvencies. In addition, Yell's lower overall exposure to national advertising in this context should probably be seen as a positive (7% of revenues vs. c.15% for the main incumbents).
- On **cannabilisation**, it is encouraging to see the group show strong internet growth across the UK/US businesses. Importantly the group's plan to bring online ARPA into line with print levels seems to be working. We also note that overall customer numbers are relatively stable.

<sup>2</sup> See *Yell Group: Climbing the Wall of Worry*, Citigroup Investment Research, 7 November 2007

- On **rates**, we note that 96% of the group’s debt is swapped into fixed rates until 2009, with a further 50% hedged through to 2011, limiting the overall impact of rising rates.
- Even on the **Spanish organic growth**, we are not overly concerned. The process of removing customers with a high default rate may impact near-term revenue growth, but makes the business more predictable and barely impacts profitability. Seat Pagine Gialle has carried out a similar programme in Italy with a degree of success. Most encouragingly we note that Yell has not altered its absolute revenue/profit guidance for 2008/2009. By 2010 this impact should have played out.

On the back of all this, we think underlying forecasts are sound. We think upside to forecasts comes from the US and the UK and, in terms of timing, the group may be able to show some evidence of this at the 3Q results on 7 February 2008. Note that the group is also due to host an investor day on 7 December.

**Figure 6. Yell – Since May There Has Been A Disconnect Between EPS and the Share Price**



Source: Datastream and Citi Investment Research

### Seat Pagine Gialle

As we argue in this report, we believe earnings upgrades are unlikely in the near-term. Indeed, there may yet be risk to 2007-2008E forecasts on the back of additional investment. Note that our forecasts are 1.5%-3.0% below consensus at the EBITDA level.

## Corporate Action/Yield Support

With valuation below trough levels on most metrics, we look for evidence of what might constitute a 'floor' value for the directory names. Our conclusion is that the best hope for support comes either from the dividend yield or from the scope for some form of corporate action, in particular recaps/secondary LBOs.

On the dividend yield front, it is worth noting that the media sector is now at a yield premium relative to the market and within this the directories are one of the highest yielding sub-sectors. Clearly this discounts the chances of a dividend cut, but as we show in the chart below, it is worth noting that the directories have relatively decent dividend cover (FCF Yield/Dividend Yield), even if net debt/EBITDA is quite high.

Going through the prospects for each directory publisher in turn:

### Eniro

Eniro has a very high dividend yield at the current share price (7.8% in 2008E), however at the same time the group has the lowest dividend cover of the three European Directories companies we follow and arguably the least scope for shareholder accretive corporate action near-term, having just completed a material cash return (SEK2bn).

### Seat Pagine Gialle

Seat has the lowest dividend yield of its peers (4.2%), given the cap imposed by the group's debt covenants. In addition we see limited scope for a recap or secondary LBO before 2009E reflecting the pre-payment penalties on the group's High Yield debt. While we believe the group should be able to return significant amounts of capital by that stage – we estimate as high as €0.18 per share – this could still be at least two years away.

### Yell Group

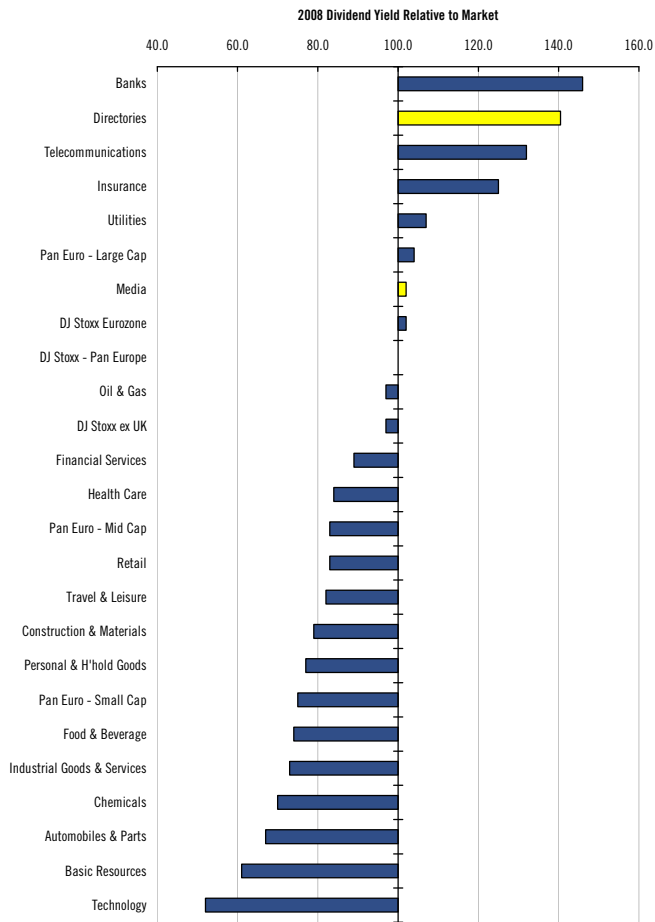
Yell has the best prospects for cash returns in our view. In the near-term the group offers a decent dividend (5.5% in 2008E) with decent cash coverage. In the medium term we see the potential for significant cash returns.

By March 2009E, we estimate the group will be on c. 4.2x net debt/EBITDA vs. its target level of 4.0x. This means that for the 2010E financial year (2009E calendar year) the group should be able to accelerate its cash returns whilst keeping within its financial leverage targets.

By CY2010E, we estimate that the group will be able to return an additional £375m per annum, equivalent to c. 12% of the current market cap.

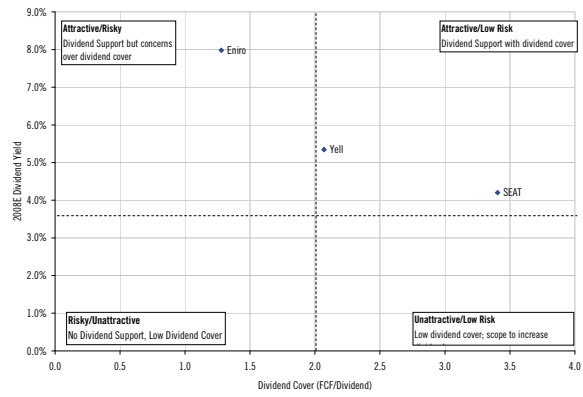
Using a similar recap/secondary LBO model to the one we use for Seat Pagine Gialle below, moving back up to 6.25x in CY2010E could lead to a cash return of around 345p, nearly 90% of the market cap.

Figure 7. Media & Directories Are At A Yield Premium to the Market in 2008



Source: Citi Investment Research

Figure 8. European Directories: Dividend Yield vs. Dividend Cover, 2008



Source: Citi Investment Research

## Seat PG: Cracks Appearing at the 9M

Seat Pagine Gialle's 9M results raised very serious questions about the group's prospects, not only for the remainder of 2007 but also for the medium term.

In the short-term, it is far from a done deal that the group will be able to achieve its 2007 guidance given potential additional investment in Europages and Thomson in the UK. This raises concerns over the 'base' off which the 2008-2010 industrial plan is predicated.

A further concern is the run rate of growth going into 2008. Overall, Italian print is progressing satisfactorily, even though the 3Q saw a slight pullback in print growth YTD (down 1.2% at the 9M vs. down 0.9% at the 1H). More worryingly, Italian online growth has slowed as well, with the 9M up 14.7% vs. up 26.5% at the 1H. The 3Q actually saw negative growth YoY as the group has been trying to even out the seasonality of this business.

**Figure 9. Seat Pagine Gialle SpA – 2008-2010 Guidance (Year-end December, €m)**

	Guidance 2007E-2010E CAGR
<b>Seat Pagine Gialle S.p.A. (Italian Business)</b>	
<i>Yellow and White Pages</i>	<i>'Inflation-like'</i>
<i>New Local Directories</i>	<i>'Strong double digit growth'</i>
<i>Total Print</i>	<i>'Inflation-plus'</i>
<i>Online</i>	15%-20%
<i>Voice</i>	<i>'Mid-single digit'</i>
Total Revenues	5.5%-6.5%
EBITDA	4.0%-5.0%
<b>Seat Pagine Gialle Group</b>	
Total Revenues	4.5%-5.5%
EBITDA	4.0%-5.0%
Source: Company Reports	

Outside of Italy, the group delivered results materially below expectations (vs. Citigroup and consensus) at Europages, where the shift to online is ironing out the historic seasonality of revenues (distorting YoY comparisons) and where issues in France have disrupted growth *and* margins. Thomson, while in line with expectations, also needs to see a material turnaround in prospects for next year, with the bulk of the growth – worryingly – expected to be 2H-weighted.

As always the group had very good explanations why the divisions are performing as they are, and in reiterating its guidance clearly remains upbeat about the medium-term prospects.

## Salesforce Concerns Are the Common Denominator

The interesting thing, in our view, was that all the explanations for Seat's poor 3Q performance centred on the performance of the respective sales forces:

- In Italy (both print and online), the group's disinvestment in salesforce has impacted new customer acquisition, so the group is investing in more salesforce to reinvigorate top-line growth. On top of reorganising the regional structure of the sales operations, the group is planning to hire up to 150 'hunter' salespeople to focus on customer acquisition, as well as a further 100 people to focus on local sales.
- In the UK (Thomson), the salesforce is moving from selling a single product (print) to selling multi-products (print, Thomson online and third-party sales).
- At Europages, the group faces a major challenge in monetizing its usage, especially in France. The additional challenge of moving from a third-party sales agreement (with PagesJaunes) has disrupted revenue growth and requires increased investment.

While data is not readily available for some of the more niche businesses, this raises the question of whether the group's planned investment will genuinely make a return.

To assess this we look at revenue per salesperson as a metric to gauge Seat's overall efficiency, and also as a potential guide as to how much Seat might hope to make in revenue terms on the back of its investment.

## Seat Salesforce Already Very Efficient Compared to Peers

We look at Revenues Per Salesperson as a basic measure of salesforce efficiency. We show figures for directories across Europe and North America in the table below.

The interesting thing from this analysis is the wide disparity across countries, with broadly comparable GDP per capita. Perhaps the causality is due more to the competitive position of the respective company: it is interesting to note that the markets which are dominated by strong incumbents (Italy, Spain and the US) all have very high revenue per salesperson. Although we don't show it in this chart, these companies tend to have the highest average margin as well.

On the positive side, clearly an investment in salesforce should yield a higher return. Straight-lining the additional sales capacity into more revenue would suggest an absolutely huge incremental return. While the incremental sales people are unlikely to bring in over half a million euros in revenue each, the renewed focus on new customers should attract advertisers to print and online.

Overall we are happy with the prospect of c.2.0% print revenue growth in Italy for 2008E, accelerating to 4.0% in 2009/2010E. Similarly, we give the company the benefit of the doubt in our forecast of 10.0%-20.0% online growth over 2008-2010.

In both cases, we assume that the robust revenue growth comes at the expense of lower margins and, consequently, lower EBITDA growth – instead of assuming that the company beats its 4.0%-5.0% EBITDA CAGR for 2008-2010, we now assume the group delivers growth of c.4.6%.

Figure 10. Revenue per Salesperson Across Western Europe/North America, 2006 (€)

	Number of sales personnel (2006)	Revenue (€m)	Revenue per salesperson (€'000)
<b>Seat</b>			
Italy	1757	1,077.5	613.3
<b>Eniro</b>			
Norway	577	85.9	148.9
Sweden	802	235.2	293.2
Finland	307	46.9	152.8
Denmark	249	47.8	191.9
Poland	709	42.7	60.2
<b>Yell</b>			
UK	2,108	1,025.5	486.5
US	6,300	1,303.9	207.0
Spain	700	539.0	770.0
<b>Idearc (US)</b>	3,000	2,567.2	855.7
<b>RH Donnelly (US)</b>	1,900	1,511.2	795.4
<b>Average</b>			<b>415.9</b>

Source: Company Reports

Outside of Italy, we also look for quite a sharp improvement in trend:

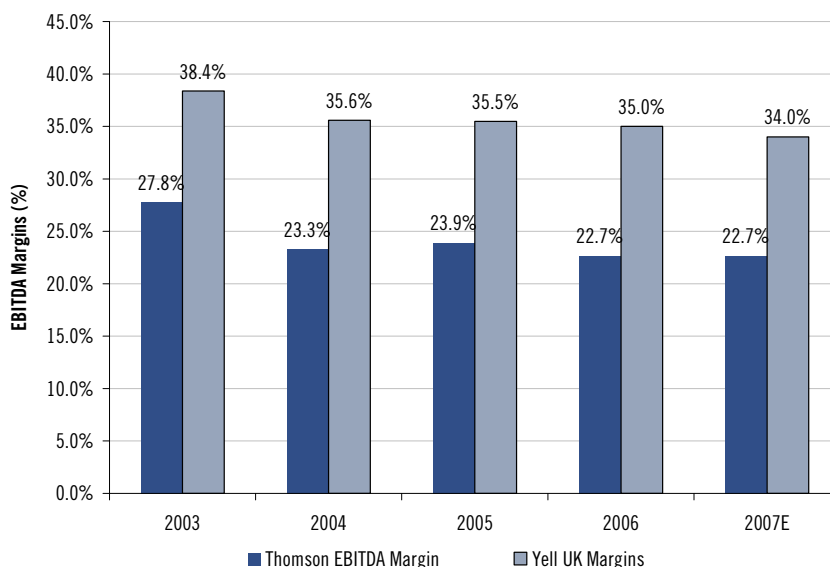
### Thomson

Having delivered revenues down 7.6% at the 9M, we forecast the FY down 7.0%. For next year, however, we actually assume the group will be able to deliver revenue growth of 3.5%. This is driven by two factors:

- **Regulatory easing in the print market** – As of April 2008, the regulated price cap on Yell, the UK market leader, will be moved to RPI-0% vs. RPI-6%. As a price taker in the market, Thomson, along with BT, has suffered as a result of this price cap as much as the incumbent, at least in terms of margins (see figure below). Yell UK is setting its rate card at RPI-1% for the financial year ending March 2009.
- **First time impact of Google deal in Online** – We estimate that online growth will accelerate again in 2008E on the back of the recently announced deal with Google. While the details of the arrangement have not been published, we assume that Thomson is simply adding Google's services to its third-party offering for SMEs. This will drive higher revenues, but also higher pass-through costs.

One caveat is the timing of the pick-up. On account of the increased number of products being sold by the salesforce – Thomson’s own online offering, third-party products *and* print – the company expects a slow buildup as the salesforce becomes more expert at pushing (and ultimately selling) the expanded offering. This suggests a gradual buildup through the year as the salesforce’s familiarity with the product increases. In a financial context, 2H-weighted growth always feels risky.

**Figure 11. EBITDA Margins in the UK: Yell UK (Printed) vs. Thomson**



Source: Company Reports and Citi Investment Research

### Europages

There are three major factors impacting the Europages business going into 2008:

- **Completing the move from print to online** – One of the reasons cited for the disastrously poor revenue performance from Europages at the 9M is the gradual move to an online-only model. In an online model, revenues are recognised evenly across the year, whilst in a print model the revenues are recognised as and when a book is published.

In Europages’ case, all of the books are published by the end of the 3Q, so the 9M revenue base historically has been equal to the FY level. As the business shifts to e-only (to be completed by 2008E), this will cease to be a factor, but in the meanwhile could lead to distortions to YoY growth.

- **Monetising usage in France** – One of the oddities of the Europages business is that monetization of usage in Italy seems to be much higher than in France, Spain and Germany. As we discuss below, the acquisition of *Wer Liefert Was?* (WLW) will help in Germany, but France and Spain remain an unresolved issue.

In France, Seat's first action has been to move from a third-party distribution agreement to a direct sales approach. In this case, Seat cancelled the original agreement with PagesJaunes, which as well as entailing investment has materially disrupted sales (c.2,000 customers lost). A similar process in Spain, where Europages has a sales agreement with Yell Publicidad, could be equally disruptive.

**Figure 12. Europages – Usage and Approximate Revenue, 2006 (€)**

	Number of Visits (mn)	Revenues (€m)	Revenue per Visit (€)
Italy	3.4	20.0	5.88
France	3.6	2.7	0.75
Spain	3.3	2.5	0.76
Germany	2.2	0.3	0.14
China	1.1	0.3	0.27
<b>Europages Group</b>	<b>13.6</b>	<b>25.8</b>	<b>1.90</b>

Source: Company Reports

- **Integration of *Wer Liefert Was?*, acquired from Eniro in October 2007** – Seat announced the acquisition of WLW from Eniro in the 3Q. WLW is an online B-to-B directory company operating principally in Germany, but also in other German-speaking territories including Austria and Switzerland. Along with the investment in a direct salesforce in 2007, the acquisition of WLW should help Europages monetize its usage in the German-speaking markets.

Putting all these factors together, we now assume a c.20% decline in organic revenues in 2007, followed by a rebound of 0%-5% in 2008. The reported numbers, however, are distorted by the inclusion of WLW for the first time – which almost doubles the revenue/EBITDA contribution in 2008E.

## Revisiting the Company's Industrial Plan

The 9M results and outlook pose two challenges to Seat's industrial plan, published in May of this year.

- First, in our downgrade of 2007E numbers, which we believe will be broadly representative of consensus, the group's growth projections will be starting from a lower base.
- Second, based on the outlook commentary, especially for Italian online and Europages, it looks like the gradient of growth will be shallower than we had anticipated, if not in revenue terms then certainly in EBITDA terms, because of the extra investment in staff.

We show these effects in the twin charts below.

Note all of these changes *include* the impact of WLW, which was acquired for €148m of EV as of October 2007. If anything, on an underlying basis, the overall EBITDA growth profile would be marginally worse.

Figure 13. 2007E Downgrades Mean A Lower Base...

	2007E
<b>Sales</b>	
Old Forecast	1,514
New Forecast	1,472
% change	-2.7%
<b>EBITDA</b>	
Old Forecast	670.7
New Forecast	655.8
% change	-2.2%
<b>Adjusted EPS (€)</b>	
Old Forecast	0.032
New Forecast	0.031
% change	-2.9%

Source: Citi Investment Research

Figure 14. Concern Over Outlook Means a Shallower Gradient of Growth

	Guidance 2007E-2010E CAGR	Old Citigroup Forecast 2007E-2010E CAGR	New Citigroup Forecast 2007E-2010E CAGR
<b>Seat Pagine Gialle S.p.A.</b>			
Yellow and White Pages	'Inflation-like'	c.4.0% inc. Local Directories	c.4.0% inc. Local Directories
New Local Directories	'Strong double digit growth'		
Total Print	'Inflation-plus'	3.9%	3.3%
Online	15%-20%	14.9%	14.9%
Voice	'Mid-single digit'	5.0%	5.0%
Total Revenues	5.5%-6.5%	5.7%	5.2%
EBITDA	4.0%-5.0%	5.5%	4.6%
<b>Seat Pagine Gialle Group</b>			
Total Revenues	4.5%-5.5%	5.3%	5.4%
EBITDA	4.0%-5.0%	5.2%	4.6%

Source: Company Reports and Citi Investment Research

A further concern is what this does to FCF, the main building block for cash-based valuation. As we highlighted in our report of June 2007<sup>3</sup>, one of our concerns on the group was that the benefit of growing profitability is entirely wiped out by a rising cash tax rate (historically the group has paid little or no cash tax on account of a favourable revaluation of the group's client database).

This phenomenon is still a concern, indeed because of the marginal reduction in our forecasts of profits, we anticipate the group to see declining equity FCF 2010E on 2007E. Note that this forecast is still consistent with the group's overall guidance on FCF generation issued at the time of the new industrial plan in May.

<sup>3</sup> See *Seat Pagine Gialle: Risks vs. Returns*, Citigroup Investment Research, 21 June 2007

Figure 15. Seat Pagine Gialle – FCF Estimates (Year-end December, €m)

	2007E	2008E	2009E	2010E	2011E	2012E
<b>Equity FCF</b>						
<b>EBITDA</b>	<b>655.8</b>	<b>672.1</b>	<b>714.6</b>	<b>750.6</b>	<b>787.8</b>	<b>827.1</b>
less capex	-54.6	-83.1	-51.1	-53.7	-55.3	-57.9
less chg. in working capital	-4.6	-17.4	-21.4	-20.5	-20.9	-22.1
less cash interest	-233.7	-226.4	-218.2	-211.3	-201.7	-209.6
less cash tax	-35.0	-60.0	-140.0	-193.9	-205.0	-225.0
less minorities	-6.7	-6.8	-7.1	-7.3	-7.8	-8.1
add/less other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Equity Free Cash Flow</b>	<b>321.2</b>	<b>278.5</b>	<b>276.9</b>	<b>263.9</b>	<b>297.1</b>	<b>304.3</b>
% conversion	49.0%	41.4%	38.7%	35.2%	37.7%	36.8%
% change	16.2%	-13%	-0.6%	-4.7%	12.6%	2.4%

**Operating FCF (Co. Def.)**

<b>EBITDA</b>	655.8	672.1	714.6	750.6	787.8	827.1
Gains on op. assets & liabs	0.0	0.0	0.0	0.0	0.0	0.0
Decrease in op. working cap.	-4.6	-17.4	-21.4	-20.5	-20.9	-22.1
(Decrease) in non-cur-liabs	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	-54.6	-83.1	-51.1	-53.7	-55.3	-57.9
(Gains) on disposals	3.4	0.0	0.0	-4.0	-4.8	-5.8
<b>Operating free cash flow</b>	<b>600.0</b>	<b>571.6</b>	<b>642.1</b>	<b>672.4</b>	<b>706.8</b>	<b>741.3</b>
% change	19.7%	-4.7%	12.3%	4.7%	5.1%	4.9%
% conversion	91.5%	85.0%	89.9%	89.6%	89.7%	89.6%

Source: Citi Investment Research

Figure 16. Cash Flow Guidance, 2008-2010E (Year-end December, €m)

	Guidance 2008E-2010E Cumulative	Old Citigroup Forecast 2008E-2010E Cumulative	New Citigroup Forecast 2008E-2010E Cumulative
Capex	190-200m	189.9m	187.9m
Operating Cash Flow	1.8-1.9bn	1,945m	1,886m
Net Interest Expense	'Decreasing with deleverage'	232m - 210m	241m - 225m
Free Cash Flow	0.8-0.9bn	891m	819m

Source: Company Reports and Citi Investment Research

In conclusion, while we think the essence of the group's industrial plan is still intact, the story does look less exciting both in terms of growth and absolute levels. This once again brings the focus back onto capital/shareholder structure, which is the only source of excitement into the medium term.

## So What Next on the Shareholder Structure?

Having announced that it was considering 'options' to 'maximise the value of their investment' in May, the consortium of shareholders that control Seat (VCs) announced in October that it had given up pursuing a sale.

As we argued in our note in June, this shouldn't have been a surprise. It was (and is still) unclear what benefits there would be for a sale to, or merger with, a (trade) third party. In Italy a deal would potentially fall foul of media ownership regulation, while any cross-border deal would be characterized by a profound lack of synergies.

At the same time, a recap or secondary LBO seemed very unlikely because of the expensive prepayment penalties on its high yield debt and the unsustainability of the group's low cash tax rate. The credit crunch over the last few months has only compounded this.

We now see only two alternatives for the VCs that control Seat.

### Option #1: Sell the Shares in the Market

One of the things that is easy to forget with Seat is just how little net cash was invested by the VCs in order to get control of the business. As we show in the figure below, the VCs net investment in the business (for its 50.5% stake) was c.€75m.

Figure 17. Timing of Key Events and Estimated Cash Flows for VCs (€m)

	June 2003	Sept 2003	Apr 2004	Apr 2004	May 2006	May 2007	Now
Cash Flow	-3,030.0	-49.3	804.0	2,200.6	21.4	43.4	1,376.6
% of share capital	61.5%	1.0%	-12.0%				50.5%
Implied Market Cap	4,927	4,927	6,700				2,726
Implied EV	5,650						6,087
Type of Transaction	Initial Consideration	Tender Offer	Sale of stake to Lehman	Special dividend	Dividend	Dividend	Sale based on current market cap

Source: Company Reports and Citi Investment Research

Given the invested capital is so low, it is still the case that the VCs would make a handsome IRR on their initial investment (greater than 10%) even if the shares were to fall another 10%-15%. We show the IRR calculations in the charts below.

Figure 18. VCs' IRR Based on Sale at Today's Share Price

	2003	2004	2005	2006	2007	2008
Cash Outflow/Inflow	-3,079.3	3,004.6	0.0	21.4	1,420.0	
IRR	22.9%					

Source: Citi Investment Research

Figure 19. Sensitivity of IRR to Variations in Share Price

	Seat Pagine Gialle Share Price						
	0.291	0.306	0.322	0.3338	0.355	0.373	0.391
IRR at different prices	21.4%	22.1%	22.9%	23.6%	24.4%	25.1%	25.9%

Source: Citi Investment Research

It is not our core view that the VCs will sell their stake in Seat Pagine Gialle on the public markets, but this analysis shows that to do so would not be inconsistent with making a handsome return – even at these levels. Indeed, if there are really no other options, then if it were done, it would best be done quickly.

### Option #2: Wait Until 2009

There is still another option, namely to wait until 2009, which is an important year because we believe a recapitalization or secondary LBO will begin to look more attractive again. There are three reasons for this:

- **The re-leverage opportunity will be all the more significant.** By the end of 2009E we forecast net debt/EBITDA of 4.13x. If by that stage the credit crunch has passed, we think the group should be able to move back up to 6.25x.
- **As of 2009E EBITDA will be higher and the group's prospects should look better.** At this point, the group will be halfway through implementing the 2008E-2010E industrial plan. At this stage, we would expect the group to have returned to growth within Italian printed directories, and we would expect a somewhat sharp rebound in Thomson on the back of restructuring and the first impact of a deregulated market.
- **In April 2009E Seat PG can call its High Yield bonds at 104 vs. their face value of 100.** At this stage, therefore, the 'makewhole' premium would be only c.€52m vs. nearly double that now.

Figure 20. The Potential Return From Re-Leverage Will be Larger in 2009E...

2009E EBITDA	714.6
2009E Net Debt	2,951
2009E Net Debt/EBITDA	4.13
Projected Net debt/EBITDA multiple	6.25
<b>Releverage Potential</b>	<b>1,515</b>
<b>Per share (€)</b>	<b>0.179</b>

Source: Citi Investment Research

Figure 21. ...and the Cost of Re-Leverage will be Lower

Gross Amount of HY Bonds (A)	1,300
Face Value (B)	100.0
Cost as per Call Option Agreement ('C')	104.0
Current Price	108.4
<b>Additional Cost of Refinancing in 2009E (=A*(C/B)-A)</b>	<b>52</b>

Source: Citi Investment Research

On balance we think that this is the most likely scenario, which means that corporate action of any sort is unlikely near-term.

## Valuation: How Low Can Seat Go?

With a low likelihood of earnings upgrades in the near- to medium-term and a low probability of minority-shareholder-friendly corporate action before 2009E, at what level do Seat PG shares become interesting?

While absolute measures suggest upside to the share price (between 10% and 15%), unfortunately relative valuation offers no support either in a sector or sub-sector context. In particular we note the lack of support from a dividend, which is capped at a maximum of €115m, or €0.014 per share because of the group's debt covenants.

To be at parity with the other directories on a dividend yield, the equity would have to fall another quarter. On this basis, we think it is still too early to be stepping in to buy Seat. Indeed, this suggests that a 'floor' for the shares could still be some way below the current price.

Our new price target of €0.319 (previously €0.49) is based on an average of our DCF valuation, our SOTP and a Dividend Discount Model.

### Relative Valuation vs. Directories

With all of the directory stocks – and most European Media names – trading below historic trough valuations, there is no obvious floor for Seat in terms of either P/E or EV/EBITDA multiples.

While Seat trades broadly in line with the peer group on EV/EBITDA<sup>4</sup>, one obvious anomaly is the dividend yield.

Seat's dividend, as part of its debt covenants, is capped at a maximum of €115m until the group moves below 4.0x net debt/EBITDA. Even on our above-consensus forecasts, we don't forecast Seat moving below this level until 2010E. At the current share price, this means that the dividend yield will be at most 4.3% for the next three years.

Consequently, whilst both Yell and Eniro may see some support from the fact that they are yielding almost double the market yield (3.63%), for the dividend yield on Seat to be at parity with the peer group we would need to see the share price fall another c.25%.

A potential mitigant may be the prospect of a special dividend – as discussed above, we estimate that the group may be able to return up to €0.18 in 2009E. However, 2009E is sufficiently far away, and comfort levels on releveraging the business to above 6.0x net debt/EBITDA sufficiently low, that this also is unlikely to offer that much support *near term*.

---

<sup>4</sup> EV/EBITDA is our preferred metric for comparison as it is leverage and tax rate neutral.

Figure 22. European Directories Valuation Summary, 2007-2009E (Calendar Year)

	EV/Revenues			EV/EBITDA			P/E			Dividend Yield		
	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Eniro	3.3	3.1	2.9	9.6	9.1	8.7	10.4	9.7	9.1	7.3%	7.8%	8.4%
Seat Pagine Gialle	4.1	3.9	3.7	9.2	9.0	8.5	10.2	9.8	10.2	4.3%	4.3%	4.3%
Yell Group	3.1	2.9	2.8	9.4	8.7	8.2	10.5	9.3	8.2	4.8%	5.5%	6.2%
<b>European Directories</b>	<b>3.5</b>	<b>3.3</b>	<b>3.1</b>	<b>9.4</b>	<b>9.0</b>	<b>8.5</b>	<b>10.4</b>	<b>9.6</b>	<b>9.2</b>	<b>5.4%</b>	<b>5.8%</b>	<b>6.3%</b>

Source: Citi Investment Research

### Relative Valuation vs. Other Sectors

A further exercise is to see whether a cross-sectoral comparison yields any insight on a potential support level for directories in general and Seat in particular.

The main problem is in trying to work out which sectors would be most suitable for comparison.

While we can see major differences relative to the directories in both – principally relating to capital intensity – the most obvious comparators seem to be Telecoms and Utilities. Both are characterized by relatively defensive revenue streams and decent cash generation.

The worrying thing for Seat and the directories/media at large is that both Telecoms and Utilities trade on substantially lower EV/EBITDA multiples – Telecoms on 7.0x and Utilities on 8.4x (both on 2008E). We would argue that the FCF yield within both sectors is not as attractive as for the directories – Telecoms on 6.9% and Utilities on 10.8% (vs. directories on >10%). However, bears would argue that neither Telecoms/Utilities are facing as significant structural challenges as the directories names (shift to online etc.).<sup>5</sup>

Assuming parity on EV/EBITDA terms with the Telecom names would suggest a further 40% downside to the equity value of Seat based on our forecasts, while parity with Utilities would suggest a further 10%-15% downside.

<sup>5</sup> Note that we are much more optimistic on the structural outlook for directories given the strength of the brands, the quality of the groups' databases and the presence of a strong local sales force.

**Figure 23. Impact to Seat's Equity Valuation By Normalising EV/EBITDA to Telcos/Utilities**

	2008E
<b>Seat EV/EBITDA</b>	<b>9.0</b>
<i>of which:</i>	
Seat Net debt/EBITDA	4.1
Seat Equity/EBITDA	4.9
Utilities EV/EBITDA	8.4
Telecoms EV/EBITDA	7.0
<b>Impact to Equity/EBITDA from</b>	
Normalising to Utilities	4.3
% change to Equity	-12.1%
Normalising to Telecoms	2.9
% change to Equity	-40.9%

Source: Citi Investment Research

### Absolute Valuation

We use a DCF-based analysis to value Seat PG. Given the move to numbers and a slight reduction in our estimate of LT growth, we reduce our DCF-based fair value on Seat PG from €0.49 to €0.354 and our SOTP-based valuation to €0.3638. Meanwhile, a dividend discount model is much more cautious, suggesting a value of c.€0.24. Our new price target is a composite of these valuations.

### Group Discounted Cash Flow Analysis

For our DCF-based analysis we make the following assumptions:

- We assume a terminal growth rate of 2.0% and a CAPM-based WACC of 8.7%, even adjusting for the leverage within the group.
- Because we use a leverage-adjusted cost of capital, in our calculation of Enterprise free cash flow, we net off the impact of the tax shield on the interest charges. This is a harsh, but technically consistent, way of valuing the group.
- We take out payments to minorities through the Enterprise free cash flow. This payment is based on the minorities charge in the P&L. This is more straight-forward than capitalizing the value of the minorities and netting this off the EV.
- We assume simple net debt.

Figure 24. Seat Pagine Gialle – Enterprise Free Cash Flow for DCF-based Analysis

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Adjusted EBITDA</b>	<b>611.4</b>	<b>655.8</b>	<b>672.1</b>	<b>714.6</b>	<b>750.6</b>	<b>787.8</b>	<b>827.1</b>	<b>868.9</b>	<b>913.2</b>	<b>960.4</b>
less working capital	-58.7	-4.6	-17.4	-21.4	-20.5	-20.9	-22.1	-23.5	-24.9	-26.4
less cash tax	0.0	-35.0	-60.0	-140.0	-193.9	-205.0	-225.0	-249.8	-269.1	-269.1
less tax shield on interest	-55.0	-59.7	-60.3	-84.0	-84.8	-81.3	-84.2	-79.2	-70.4	-68.2
less capex	-48.3	-54.6	-83.1	-51.1	-53.7	-55.3	-57.9	-60.7	-63.7	-66.9
less minority dividends	-1.7	-6.7	-6.8	-7.1	-7.3	-7.8	-8.1	-8.4	-8.8	-9.1
less other (inc. Stock Options)	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Enterprise free cash flow</b>	<b>444.8</b>	<b>495.2</b>	<b>444.5</b>	<b>411.1</b>	<b>390.4</b>	<b>417.5</b>	<b>429.7</b>	<b>447.2</b>	<b>476.4</b>	<b>520.7</b>
% conversion	72.7%	75.5%	66.1%	57.5%	52.0%	53.0%	52.0%	51.5%	52.2%	54.2%
% growth	-17.3%	11.3%	-10.2%	-7.5%	-5.1%	7.0%	2.9%	4.1%	6.5%	9.3%

Source: Company Reports and Citi Investment Research

Figure 25. Seat Pagine Gialle – DCF Analysis Supports FV of €0.354

Discount rate	8.7%
LT Growth	2.0%
NPV of cashflows	2,707
Terminal Multiple	15.2
Terminal Value	7,927
NPV of Terminal Value	3,741
<b>Enterprise Value</b>	<b>6,448</b>
less Net debt/(cash)	-3,453
<b>Equity Value</b>	<b>2,995</b>
<b>Value per share</b>	<b>0.354</b>

Source: Citi Investment Research

Figure 26. Sensitivity of FY to Terminal Growth Rate/WACC

		Discount rate						
		8.2%	8.5%	8.7%	9.0%	9.2%	9.5%	9.7%
LT Growth Rate	-1.0%	0.244	0.226	0.208	0.191	0.176	0.161	0.146
	-0.3%	0.276	0.255	0.235	0.217	0.199	0.183	0.167
	0.5%	0.313	0.290	0.268	0.247	0.227	0.209	0.191
	1.3%	0.359	0.332	0.306	0.282	0.260	0.239	0.219
	2.0%	0.416	0.384	<b>0.354</b>	0.326	0.300	0.276	0.253
	2.5%	0.463	0.426	0.392	0.360	0.331	0.305	0.280
	3.0%	0.518	0.475	0.436	0.401	0.368	0.338	0.310

Source: Citi Investment Research

### DCF-based Sum-of-the-Parts

Our secondary analysis is a SOTP based on divisional DCFs of the respective divisions within Seat Pagine Gialle Group. This supports a valuation for the group of €0.33 per share. Our principal assumptions are as follows:

- Seat Pagine Gialle S.p.A. (Italian Directories): 8.7% discount rate; 1.5% LT growth
- Thomson (UK Directories): 8.7% discount rate; 1.5% LT growth
- Telegate A.G. (Pan Euro Voice based directory assistance): 8.7% discount rate; 1.5% LT growth.
- Other Activities: 8.7% discount rate; 3.0% LT growth

Figure 27. Seat Pagine Gialle – SOTP Analysis based on Divisional DCF (Year-end 2008E)

	2008 Forecasts		2008 Multiples		Value	
	Revenues	EBITDA	Revenues	EBITDA	£m	Per Share
Seat PG S.p.A.	1153.3	566.9	4.9	9.9	5,596	0.6611
Thomson	159.3	34.7	1.9	8.5	296	0.0350
Telegate A.G.	187.2	49.9	2.2	8.3	412	0.0487
Other Activities	119.2	20.5	1.0	5.9	122	0.0144
Eliminations	-61.9	0.0	0.0	0.0	0	0.0000
<b>Seat Pagine Gialle Group</b>	<b>1557.2</b>	<b>672.1</b>	<b>4.1</b>	<b>9.6</b>	<b>6,427</b>	<b>0.7592</b>
Less Telegate A.G. Minority					-90	-0.0106
Less Other Minorities					-20	-0.0023
Less Worst Case Net Debt					-3,257	-0.3848
<b>Equity Value</b>					<b>3,080</b>	<b>0.3638</b>

Source: Citi Investment Research

### Dividend Discount Model

A further valuation tool is a dividend discount model. Here we use a standard DDM model to value the flows to equity shareholders in Seat Pagine Gialle as it stands today. Based on the dividend stream as stipulated by the group's current debt covenants, we estimate that the group would be worth just €0.24 per share, indicating c.25% downside to the current share price.

Even if we assume that the group's shareholders carry out a secondary LBO in 2009E – as we discuss above – and return c.€0.18 to equity shareholders, all this does to our model is shift the return forward. The time value of money would add c.€0.05 to our valuation using this methodology.

Figure 28. Seat Pagine Gialle – FV Based on Dividend Discount Model (€m)

<b>Cost of Equity</b>	
Risk-free Rate	4.0%
Risk Premium	3.5%
Adjusted Unlevered Beta	1.0
Target Debt/Equity (Market Value)	50.0%
Levered Beta	1.5
<b>Cost of Equity</b>	<b>9.3%</b>
<b>Long Term Growth Rate</b>	<b>2.0%</b>
Explicit Forecast PV - 2007-2010	448.5
Transition to Steady State - 2011-2015	509.8
Terminal Value	1,070.0
<b>Equity value - € mn</b>	<b>2,028.3</b>
<b>Value per share</b>	<b>0.24</b>

Source: Citi Investment Research

Figure 29. Sensitivity of DDM FV to Changes in Cost of Equity/LT Growth

		Cost of Equity					
		8.3%	8.8%	9.3%	9.8%	10.3%	10.8%
<b>Long Term Growth</b>	<b>0.0%</b>	0.238	0.224	0.212	0.201	0.192	0.183
	<b>0.5%</b>	0.246	0.231	0.218	0.206	0.196	0.187
	<b>1.0%</b>	0.255	0.238	0.224	0.212	0.201	0.191
	<b>1.5%</b>	0.265	0.247	0.231	0.218	0.206	0.195
	<b>2.0%</b>	0.277	0.257	0.240	0.225	0.212	0.200
	<b>2.5%</b>	0.290	0.268	0.249	0.233	0.218	0.206
	<b>3.0%</b>	0.307	0.281	0.260	0.242	0.226	0.212

Source: Citi Investment Research

**New Price Target of €0.319 (reduced from €0.49)**

Our new price target is based on a simple average of our DCF-based fair value, our SOTP valuation and the value implied by a DDM. We note that the variance of this valuation is quite significant and that the absolute ‘floor’ value of Seat Pagine Gialle could be well below our price target. A number of metrics suggest around €0.24 as a real worst-case valuation.

At the same time, it is also briefly worth considering the risk to such a negative view on absolute valuation. Implicitly, this analysis excludes the potential positive impact a rerating of the peer group (or the wider Media sector) could have on Seat Pagine Gialle. Clearly, in this instance, the amount of financial leverage the group has would actually work in the equity shareholders’ favour.

**Figure 30. Seat Pagine Gialle - €0.319 Price Target**

Valuation Methodology	€ per share
DCF-based Valuation (€)	0.354
SOTP (€)	0.364
Dividend Discount Model (€)	0.240
<b>Average (€)</b>	<b>0.319</b>

Source: Citi Investment Research

## 9M Results vs. Expectations

The 9M results of Seat were below our expectations at all levels due to lower-than-expected online growth in Italy and lower revenues coupled with increased costs in Europages.

**Figure 31. 9M 2007 Results vs Expectations (€m)**

	9M07E	9M07A	Difference
Revenue	1031.3	996.7	-3.4%
EBITDA	446.3	426.4	-4.5%
Net Income	46.1	34.9	-24.3%
<b>Divisional Revenues</b>			
Italian Directories	765.9	748.4	-2.3%
UK Directories	105	102.2	-2.7%
DA	142.9	140	-2.0%
Other	61.7	49.3	-20.1%

NB: The difference between the divisional split and group revenue is due to intercompany eliminations

Source: Citi Investment Research and Company Reports

Taking each division in turn:

### Italian Directories

Seat's Q3 revenues were below expectations. Surprisingly, it was not print that pulled down the 9M results (vs expectation), but online.

- **Online** – Over the 9M period, online was up 14.7% on an organic basis, significantly below our expectations (c.20%). Much more worryingly, the 3Q actually saw negative revenue growth YoY (down 3.2%). According to the company, this is due to the group's plan to smooth revenue through the year eliminating seasonality, which historically at least benefited the 3Q relative to the prior quarters. Even giving Seat the benefit of the doubt on this, there is a downgrade for the FY. Guidance is now for 15% organic revenue growth for FY2007 vs. our previous forecast of 20.0%.
- **Print** – The 9M period saw a 1.2% organic decline across its print activities. Encouragingly, the rate of decline is slowing with the group edging towards flat growth; however, this isn't happening as quickly as we or the market expected with little or no contribution from new advertisers (a result of disruption in the sales force) and a drag from B2B activities (small in the mix, but down heavily). Within the core Yellow/White Pages business the group is guiding to -0.6% for the FY, we had looked for flat.

### UK Directories

There were no surprises, with the company delivering revenue for the 9M down 7.1% in line with expectations. In an FY context, this is consistent with the group's guidance of negative FY growth, a consequence of the wholesale restructuring of the group's sales force. Specifically, Thomson is moving from a sales model based purely on print to one selling multiple products, including online.

## Directory Assistance

Telegate, which is the main contributor to Seat's DA business, saw revenue for the 9M period up 5.2%, in line with expectation. The EBITDA improved due to less advertising costs, with a less competitive environment in Germany. France managed to break even in 3Q.

## Other

Europages was materially weaker than we forecast, both in terms of revenues and EBITDA. Revenues were down 21.3% in the 9M vs. our forecast of mild growth. The drivers of this were twofold:

- **Changing revenue model** - Revenues were worse than anticipated as the group continues its shift to online-only distribution of its product. This affects the seasonality of revenues, as revenues are recognised evenly across the year rather than based on when the printed books are published. From 2008, Europages will have no print products at all.
- **Issues in France** - In addition, the group cited major issues within its French business, where the group is already having trouble monetizing its usage to the same extent as in Italy/Germany. To resolve this, Europages is in the process of moving to a direct sales model, but moving away from PagesJaunes, as a third-party sales operation has caused more disruption than expected. The group estimates that it has lost c.2,000 customers during this process.

The new direct salesforce also impacted EBITDA, which was similarly lower than expected.

## Key Takeaways

- **Guidance Maintained, Just...** – While EBITDA growth guidance was not formally changed, it was narrowed. The group now expects 10% EBITDA growth in 2007E vs. its previous guidance of 10%-12%. In addition, the group introduced a caveat - this guidance is dependent on Europages and Thomson showing some improvement.

In terms of specific divisional guidance, the company is looking for print revenues in Italy just below flat due to lower inflow of new customers vs. previous guidance of flat. Online in Italy is expected to grow at 15%.

- **Change in Salesforce Strategy** – In Italy, while the group has done well on customer retention and upselling existing customers, the group has really struggled to actually grow the customer base. The group blames this on the reduced salesforce numbers (salesforce headcount down by 200 as of March 2007).

To resolve this, Seat is implementing a new salesforce organisation. The group is splitting the country into 4 homogeneous areas (rather than regions) and recruiting 100-150 'Hunters', who will be focused on acquiring new customers. This new strategy is being plugged as the key to underlying growth in 2008.

- **2008 Will Be the Year** – With FY2007 being labeled a ‘transition’ year, 2008 has been identified as the year when the group will really start to see growth across its activities, with the benefits of ‘Plan 2008-2010’ starting to come through due to early implementation from 4Q 2007.

WLW and Europages integration has started with a sales test in Germany, the Turkish JV with Dogan Media Group is operating (services planned for 2H 2008), and Telegate has accelerated the development of its online division in Germany.

The most important area, however, remains the Italian business. Here the group already has visibility into the 1Q, with 48% of the first cycle already sold indicating mild growth (2.5%) in print Yellow/White Pages. Online is also expected to benefit from increased focus on customer acquisition – all aspects of the 2008-2010 guidance (4%+ CAGR in print; 15%-20% in online) were maintained.

## Financial Forecasts

We make a number of changes to our forecasts for Seat Pagine Gialle:

- **Consolidation of *Wer Liefert Was?* (WLW):** In the 3Q the group announced the acquisition of WLW from Eniro, which will be consolidated from October 2007. In our model we integrate WLW into the Europages division and, by itself, we estimate the transaction to be earnings neutral. We note, however, that WLW does boost group revenue and EBITDA growth for the purposes of the 2008-2010 industrial plan.
- **Reduced expectations for Italian Print:** We have reduced our expectations of overall print growth in Italy for both 2007E and 2008E to -1.0% and 1.9%, respectively (from c.0% and 4%). Given the increased investment in salesforce, we also assume a mild dilution of EBITDA margins (we already anticipated a slight contraction on the back of increased investment in A&P).
- **Reduced expectations for Italian Online in 2007; 2008-2010 growth forecasts unchanged:** Based on the 9M growth, and the rephasing of revenues that has taken place over the year, we have reduced our forecast of online growth to 15.0% from c.20%. That said, given the impact of PG Visual, the planned impact of the additional salespeople and the investment in A&P, we continue to forecast 2008-2010 growth in the range of 10%-20%.
- **Lower Base for Thomson:** We now look for 2007E revenues down 7.0% in line with the 9M performance; this compares with our previous forecast of broadly flat. The driver of this change is lower print revenues. We assume EBITDA of £24.5m down YoY – in line with guidance. Looking forward, we have left our growth assumptions unchanged – we think the regulatory easing within the print market and the impact of the Google deal will drive revenue growth over the next few years.
- **Europages:** While the reported forecasts for Europages are boosted by the impact of WLW, we substantially reduce both our revenue and EBITDA forecasts given the hiatus within the French business. In underlying terms, we forecast a 20% revenue decline in 2007E, in line with the 9M results. Before the impact of WLW, we assume a mild dilution in margins, reflecting the impact of increased investment in the direct sales network in France.

On the back of all these changes, we have reduced our EPS forecasts for Seat Pagine Gialle by 3%-7% between 2007E and 2010E.

Figure 32. Seat Pagine Gialle – Changes to Forecasts (Year-end December, €m except where stated)

	2007E	2008E	2009E	2010E
<b>Sales</b>				
Old Forecast	1,514	1,594	1,683	1,769
New Forecast	1,472	1,557	1,643	1,725
% change	-2.7%	-2.3%	-2.4%	-2.5%
<b>EBITDA</b>				
Old Forecast	670.7	688.1	733	781
New Forecast	655.8	672.1	714.6	750.6
% change	-2.2%	-2.3%	-2.6%	-3.9%
<b>Adjusted PBT</b>				
Old Forecast	369.2	395.5	450	509
New Forecast	353.9	372.0	419.6	463.5
% change	-4.1%	-5.9%	-6.7%	-8.9%
<b>Adjusted EPS (€)</b>				
Old Forecast	0.032	0.034	0.033	0.037
New Forecast	0.031	0.032	0.031	0.033
% change	-2.9%	-6.0%	-6.7%	-9.0%
<b>Equity FCF per Share (€)</b>				
Old Forecast	0.037	0.035	0.036	0.034
New Forecast	0.038	0.033	0.033	0.031
% change	1.3%	-4.9%	-9.7%	-9.5%
<b>Net Debt</b>				
Old Forecast	3,078	2,875	2,657	2,540
New Forecast	3,257	3,104	2,951	2,869
% change	5.8%	8.0%	11.1%	12.9%

Source: Citi Investment Research

## Seat Pagine Gialle SpA (PGIT.MI)

27 November 2007

**Figure 33. Seat Pagine Gialle – Key Metrics, 2003-2015E (Year-end December)**

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Seat PG S.p.A. Organic Growth	1.8%	0.3%	0.2%	1.5%	2.2%	4.7%	5.7%	5.1%	5.1%	5.2%	5.2%	5.3%	5.3%
Thomson Organic Growth	0.0%	9.5%	4.1%	-1.5%	-7.0%	3.5%	6.9%	7.1%	4.6%	4.7%	4.7%	4.8%	4.9%
Telegate Organic Growth	0.0%	3.7%	4.5%	19.1%	0.6%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Total Revenue growth	0.0%	-3.4%	1.3%	2.5%	0.8%	5.8%	5.5%	5.0%	4.8%	4.8%	4.9%	5.0%	5.0%
Adjusted EBITDA growth	0.0%	2.0%	2.0%	-2.4%	7.3%	2.5%	6.3%	5.0%	4.9%	5.0%	5.1%	5.1%	5.2%
Adjusted EPS growth	1.2%	-12.1%	7.2%	-18.2%	2.4%	3.8%	-3.9%	8.0%	11.7%	5.8%	9.9%	11.2%	7.8%
Number of FTEs	5,290	4,883	4,760	5,164	5,422	5,693	5,978	6,277	6,590	6,920	7,266	7,629	8,011
Seat PG S.p.A. EBITDA margin	49.5%	50.1%	50.4%	50.3%	50.4%	49.2%	49.6%	49.6%	49.6%	49.6%	49.6%	49.6%	49.6%
Thomson EBITDA margin	27.8%	23.3%	23.9%	22.7%	22.3%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%	21.8%
Telegate EBITDA margin	19.1%	24.5%	24.6%	9.3%	28.2%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%	26.7%
Group EBITDA margin	41.4%	43.7%	44.0%	41.9%	44.5%	43.2%	43.5%	43.5%	43.6%	43.6%	43.7%	43.8%	43.8%
Group EBIT margin	22.7%	27.0%	29.5%	27.5%	29.4%	28.3%	33.3%	39.1%	39.7%	39.8%	39.9%	40.0%	40.1%
Debtor days	189.3	177.7	171.6	167.1	166.3	159.3	153.4	148.2	143.6	139.1	134.7	130.6	126.5
Creditor days	98.4	126.5	133.9	126.0	129.9	116.3	106.7	97.8	89.7	81.9	74.3	67.0	59.9
Working Capital Investment as % sales	13.1%	5.2%	0.9%	-4.0%	-0.3%	-1.1%	-1.3%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
Capex as % sales	-2.2%	-2.1%	-3.2%	-3.3%	-3.7%	-5.3%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%
FCF as % sales	35.5%	15.5%	22.6%	18.9%	21.8%	17.9%	16.9%	15.3%	16.4%	16.1%	16.6%	17.2%	18.6%
FCF as % EBITDA	85.7%	35.5%	51.3%	45.2%	49.0%	41.4%	38.7%	35.2%	37.7%	36.8%	38.0%	39.3%	42.4%
ROIC	8.6%	8.9%	10.2%	8.5%	8.6%	8.5%	7.6%	7.8%	8.4%	8.7%	9.1%	9.7%	10.1%
ROE	0.4%	9.4%	13.5%	7.6%	8.1%	8.7%	12.9%	20.7%	21.0%	20.2%	20.0%	19.9%	19.0%
Interest cover (EBITDA/Net interest expense; x)	-4.75	-2.45	-2.40	-2.48	-2.64	-2.78	-3.06	-3.32	-3.64	-3.68	-4.11	-4.87	-5.28
Net debt/EBITDA (x)	0.76	6.25	5.65	5.41	4.97	4.62	4.13	3.82	3.48	3.15	2.82	2.47	2.10
Gross Debt/EBITDA (x)	1.05	6.47	5.97	5.91	5.33	4.96	4.35	3.84	3.85	3.21	2.93	2.88	2.32

Source: Company Reports and Citi Investment Research

Figure 34. Seat Pagine Gialle S.p.A. (Italian Directories)– Financial Forecasts (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Print Revenues	883.0	859.5	834.6	801.7	793.6	808.7	840.6	873.8	908.4	944.3
% change	-1.3%	-2.7%	-2.9%	-3.9%	-1.0%	1.9%	3.9%	4.0%	4.0%	4.0%
as % of Italian Directories revenues	83.6%	81.1%	78.6%	74.4%	72.1%	70.1%	68.9%	68.2%	67.5%	66.7%
PagineGialle.it, PagineGialle Visual & Other Online	85.3	98.1	115.7	129.3	148.7	178.4	205.2	225.7	248.3	273.1
% change	19.6%	15.0%	18.0%	11.7%	15.0%	20.0%	15.0%	10.0%	10.0%	10.0%
as % of Italian Directories revenues	8.1%	9.3%	10.9%	12.0%	13.5%	15.5%	16.8%	17.6%	18.4%	19.3%
89.24.24, 12.40 & Other Voice	44.7	55.0	69.0	103.4	121.0	127.1	133.4	140.1	147.1	154.5
% change	35.5%	23.0%	25.5%	49.9%	17.0%	5.0%	5.0%	5.0%	5.0%	5.0%
as % of Italian Directories revenues	4.2%	5.2%	6.5%	9.6%	11.0%	11.0%	10.9%	10.9%	10.9%	10.9%
GialloDat@, GialloPromo, PagineGialleNAV	43.6	47.1	42.5	43.1	37.9	39.1	40.2	41.4	42.7	44.0
% change	11.8%	8.0%	-9.8%	1.5%	-12.0%	3.0%	3.0%	3.0%	3.0%	3.0%
as % of Italian Directories revenues	4.1%	4.4%	4.0%	4.0%	3.4%	3.4%	3.3%	3.2%	3.2%	3.1%
<b>Seat Pagine Gialle S.p.A. Revenues</b>	<b>1,056.6</b>	<b>1,059.7</b>	<b>1,061.8</b>	<b>1,077.5</b>	<b>1,101.3</b>	<b>1,153.3</b>	<b>1,219.5</b>	<b>1,281.1</b>	<b>1,346.4</b>	<b>1,415.8</b>
% change	1.8%	0.3%	0.2%	1.5%	2.2%	4.7%	5.7%	5.1%	5.1%	5.2%
Direct cost of sales	-473.8	-474.4	-474.3	-491.7	-502.5	-540.9	-567.1	-595.7	-626.1	-658.3
% change		0.1%	0.0%	3.7%	2.2%	7.6%	4.8%	5.1%	5.1%	5.2%
<b>Gross operating profit</b>	<b>582.8</b>	<b>585.3</b>	<b>587.5</b>	<b>585.8</b>	<b>598.7</b>	<b>612.4</b>	<b>652.4</b>	<b>685.4</b>	<b>720.3</b>	<b>757.5</b>
% margin	55.2%	55.2%	55.3%	54.4%	54.4%	53.1%	53.5%	53.5%	53.5%	53.5%
% change		0.4%	0.4%	-0.3%	2.2%	2.3%	6.5%	5.1%	5.1%	5.2%
Operating costs	-59.9	-54.5	-52.3	-43.4	-43.4	-45.4	-48.1	-50.5	-53.1	-55.8
% change		-9.0%	-4.0%	-17.0%	0.0%	4.7%	5.7%	5.1%	5.1%	5.2%
<b>EBITDA</b>	<b>522.9</b>	<b>530.8</b>	<b>535.2</b>	<b>542.4</b>	<b>555.3</b>	<b>566.9</b>	<b>604.4</b>	<b>634.9</b>	<b>667.3</b>	<b>701.7</b>
% margin	49.5%	50.1%	50.4%	50.3%	50.4%	49.2%	49.6%	49.6%	49.6%	49.6%
% change		1.5%	0.8%	1.3%	2.4%	2.1%	6.6%	5.1%	5.1%	5.2%
Operating D&A	-16.8	-17.3	-19.3	-19.7	-33.0	-40.4	-42.7	-44.8	-40.4	-42.5
as % revenues	-1.6%	-1.6%	-1.8%	-1.8%	-3.0%	-3.5%	-3.5%	-3.5%	-3.0%	-3.0%
Non-operating D&A	-194.9	-162.0	-162.1	-162.0	-162.0	-162.0	-94.5	0.0	0.0	0.0
Restructuring charges	0.0	-30.4	-10.0	-12.7	-11.2	-11.2	-11.2	-11.2	-11.2	-11.2
<b>Operating income (EBIT)</b>	<b>311.3</b>	<b>321.1</b>	<b>343.8</b>	<b>348.0</b>	<b>349.1</b>	<b>353.3</b>	<b>456.0</b>	<b>578.9</b>	<b>615.7</b>	<b>648.0</b>
% margin	29.5%	30.3%	32.4%	32.3%	31.7%	30.6%	37.4%	45.2%	45.7%	45.8%
% change		3.2%	7.1%	1.2%	0.3%	1.2%	29.1%	26.9%	6.4%	5.2%
<b>Cash Flow Forecasts</b>										
<b>Capital Expenditure</b>	<b>-18.2</b>	<b>-20.6</b>	<b>-27.6</b>	<b>-35.1</b>	<b>-44.1</b>	<b>-69.2</b>	<b>-36.6</b>	<b>-38.4</b>	<b>-40.4</b>	<b>-42.5</b>
as % of sales	-1.7%	-1.9%	-2.6%	-3.3%	-4.0%	-6.0%	-3.0%	-3.0%	-3.0%	-3.0%
% change		13.4%	34.0%	27.2%	25.5%	57.1%	-47.1%	5.1%	5.1%	5.2%
<b>Change in working capital</b>		<b>39.1</b>	<b>20.4</b>	<b>-1.7</b>	<b>-5.9</b>	<b>-13.0</b>	<b>-16.6</b>	<b>-15.4</b>	<b>-16.3</b>	<b>-17.3</b>
as % of change of sales		1272.9%	952.6%	-10.8%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
<b>Net invested capital</b>		<b>4,541.5</b>	<b>4,493.4</b>	<b>4,327.6</b>	<b>4,176.6</b>	<b>4,043.4</b>	<b>3,942.8</b>	<b>3,936.4</b>	<b>3,936.4</b>	<b>3,936.4</b>
Implied asset turnover (Sales/Net invested capital)		0.23	0.24	0.25	0.26	0.29	0.31	0.33	0.34	0.36
Pre-Tax ROIC		11.2%	11.3%	11.7%	12.2%	12.3%	14.4%	15.2%	15.9%	16.7%

Source: Company Reports and Citi Investment Research

Figure 35. Seat Pagine Gialle – Divisional Summary (Year-end December,

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Revenues</b>										
Print	883.0	859.5	834.6	801.7	793.6	808.7	840.6	873.8	908.4	944.3
Online	85.3	98.1	115.7	129.3	148.7	178.4	205.2	225.7	248.3	273.1
Voice	44.7	55.0	69.0	103.4	121.0	127.1	133.4	140.1	147.1	154.5
Other	43.6	47.1	42.5	43.1	37.9	39.1	40.2	41.4	42.7	44.0
Italian Directories	1,056.6	1,059.7	1,061.8	1,077.5	1,101.3	1,153.3	1,219.5	1,281.1	1,346.4	1,415.8
UK Directories	151.1	170.0	175.6	173.5	161.1	159.3	170.4	182.4	190.8	199.7
Directory Assistance	142.8	150.0	159.5	188.7	190.3	198.0	206.1	214.4	223.1	232.2
Other Activities	54.7	79.5	78.8	76.6	78.7	108.4	111.7	115.1	118.8	122.6
Eliminations	49.9	-53.4	-51.1	-56.1	-58.9	-61.9	-65.0	-68.2	-71.6	-75.2
<b>Group</b>	<b>1,455.0</b>	<b>1,405.7</b>	<b>1,424.6</b>	<b>1,460.2</b>	<b>1,472.5</b>	<b>1,557.2</b>	<b>1,642.7</b>	<b>1,724.9</b>	<b>1,807.5</b>	<b>1,895.0</b>
<b>EBITDA</b>										
Italian Directories	522.9	530.8	535.2	542.4	555.3	566.9	604.4	634.9	667.3	701.7
UK Directories	42.0	39.6	42.0	39.3	35.9	34.7	37.1	39.7	41.5	43.5
Directory Assistance	28.1	36.1	37.7	17.8	51.9	51.2	53.2	55.4	57.6	59.9
Other Activities	7.6	11.3	11.3	12.1	12.7	19.3	20.0	20.6	21.3	22.1
Eliminations	1.8	-3.4	0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Group</b>	<b>602.3</b>	<b>614.4</b>	<b>626.6</b>	<b>611.4</b>	<b>655.8</b>	<b>672.1</b>	<b>714.6</b>	<b>750.6</b>	<b>787.8</b>	<b>827.1</b>
<b>Growth/Margins</b>										
<b>Revenue Growth</b>										
Italian Directories	1.8%	0.3%	0.2%	1.5%	2.2%	4.7%	5.7%	5.1%	5.1%	5.2%
UK Directories		12.5%	3.3%	-1.2%	-7.1%	-1.1%	6.9%	7.1%	4.6%	4.7%
Directory Assistance		5.0%	6.3%	18.3%	0.9%	4.1%	4.1%	4.1%	4.1%	4.1%
Other Activities		45.4%	-0.9%	-2.8%	2.7%	37.8%	3.0%	3.1%	3.2%	3.2%
Eliminations		-207.1%	-4.3%	9.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Group</b>		<b>-3.4%</b>	<b>1.3%</b>	<b>2.5%</b>	<b>0.8%</b>	<b>5.8%</b>	<b>5.5%</b>	<b>5.0%</b>	<b>4.8%</b>	<b>4.8%</b>
<b>EBITDA Margins</b>										
Italian Directories	49.5%	50.1%	50.4%	50.3%	50.4%	49.2%	49.6%	49.6%	49.6%	49.6%
UK Directories	27.8%	23.3%	23.9%	22.7%	22.3%	21.8%	21.8%	21.8%	21.8%	21.8%
Directory Assistance	19.7%	24.1%	23.6%	9.4%	27.3%	25.8%	25.8%	25.8%	25.8%	25.8%
Other Activities	14.0%	14.2%	14.3%	15.8%	16.1%	17.8%	17.9%	17.9%	18.0%	18.0%
Eliminations	3.6%	6.4%	-0.7%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Group</b>	<b>41.4%</b>	<b>43.7%</b>	<b>44.0%</b>	<b>41.9%</b>	<b>44.5%</b>	<b>43.2%</b>	<b>43.5%</b>	<b>43.5%</b>	<b>43.6%</b>	<b>43.6%</b>
<b>EBITDA Growth</b>										
Italian Directories		1.5%	0.8%	1.3%	2.4%	2.1%	6.6%	5.1%	5.1%	5.2%
UK Directories		-5.6%	6.1%	-6.4%	-8.7%	-3.3%	6.9%	7.1%	4.6%	4.7%
Directory Assistance		28.6%	4.4%	-52.8%	191.5%	-1.4%	4.0%	4.0%	4.0%	4.0%
Other Activities		48.1%	0.0%	7.1%	4.7%	52.4%	3.3%	3.4%	3.4%	3.5%
Eliminations		-291.4%	-110.5%	-148.9%	-100.0%					
<b>Group</b>		<b>2.0%</b>	<b>2.0%</b>	<b>-2.4%</b>	<b>7.3%</b>	<b>2.5%</b>	<b>6.3%</b>	<b>5.0%</b>	<b>4.9%</b>	<b>5.0%</b>

Source: Company Reports and Citi Investment Research

Figure 36. Seat Pagine Gialle – Profit and Loss Summary (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Revenues from sales and services</b>	<b>1,455.0</b>	<b>1,405.7</b>	<b>1,424.6</b>	<b>1,460.2</b>	<b>1,472.5</b>	<b>1,557.2</b>	<b>1,642.7</b>	<b>1,724.9</b>	<b>1,807.5</b>	<b>1,895.0</b>
Raw materials and external services as % of revenues	-557.9 -38.3%	-514.7 -36.6%	-515.0 -36.1%	-568.8 -39.0%	-573.6 -39.0%	-606.6 -39.0%	-639.9 -39.0%	-672.0 -39.0%	-704.1 -39.0%	-738.2 -39.0%
Salaries, wages and employees benefits as % of revenues	-223.5 -15.4%	-209.2 -14.9%	-218.9 -15.4%	-231.8 -15.9%	-195.4 -13.3%	-229.1 -14.7%	-235.8 -14.4%	-247.3 -14.3%	-257.8 -14.3%	-268.9 -14.2%
<b>Gross operating profit</b>	<b>673.6</b>	<b>681.8</b>	<b>690.7</b>	<b>659.5</b>	<b>703.4</b>	<b>721.5</b>	<b>766.9</b>	<b>805.7</b>	<b>845.6</b>	<b>887.9</b>
% margin	46.3%	48.5%	48.5%	45.2%	47.8%	46.3%	46.7%	46.7%	46.8%	46.9%
Other valuation adjustments	-72.9	-64.7	-60.7	-47.2	-45.3	-49.4	-52.3	-55.1	-57.8	-60.8
Other income (expenses), net	1.6	-2.8	-3.5	-0.9	-2.4	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>602.3</b>	<b>614.4</b>	<b>626.6</b>	<b>611.4</b>	<b>655.8</b>	<b>672.1</b>	<b>714.6</b>	<b>750.6</b>	<b>787.8</b>	<b>827.1</b>
% margin	41.4%	43.7%	44.0%	41.9%	44.5%	43.2%	43.5%	43.5%	43.6%	43.6%
Operating D&A/Impairment as % of revenues	-34.7 -2.4%	-30.3 -2.2%	-32.4 -2.3%	-33.3 -2.3%	-49.7 -3.4%	-58.7 -3.8%	-61.8 -3.8%	-64.8 -3.8%	-58.8 -3.3%	-61.6 -3.3%
<b>EBITA</b>	<b>567.6</b>	<b>584.1</b>	<b>594.2</b>	<b>578.2</b>	<b>606.0</b>	<b>613.4</b>	<b>652.8</b>	<b>685.8</b>	<b>728.9</b>	<b>765.5</b>
% margin	39.0%	41.6%	41.7%	39.6%	41.2%	39.4%	39.7%	39.8%	40.3%	40.4%
Non-operating D&A/Impairment	-237.4	-168.8	-162.1	-162.1	-162.0	-162.0	-94.5	0.0	0.0	0.0
Non-recurring and restructuring costs	0.0	-36.0	-11.9	-14.0	-11.2	-11.2	-11.2	-11.2	-11.2	-11.2
<b>Operating income (EBIT)</b>	<b>330.2</b>	<b>379.4</b>	<b>420.2</b>	<b>402.1</b>	<b>432.8</b>	<b>440.2</b>	<b>547.1</b>	<b>674.6</b>	<b>717.7</b>	<b>754.3</b>
% margin	22.7%	27.0%	29.5%	27.5%	29.4%	28.3%	33.3%	39.1%	39.7%	39.8%
Interest expenses		-259.9	-284.8	-257.6	-265.6	-251.0	-239.8	-226.7	-228.8	-226.7
Interest income		9.0	24.2	11.4	16.9	9.6	6.6	0.4	12.1	2.0
Net interest expenses	-126.7	-251.0	-260.6	-246.2	-248.7	-241.4	-233.2	-226.3	-216.7	-224.6
Write-up (write-down) of equity investments	1.6	6.6	4.2	0.0	-3.4	0.0	0.0	4.0	4.8	5.8
Gains (losses) on disposals	-70.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Income before taxes</b>	<b>134.9</b>	<b>135.0</b>	<b>163.9</b>	<b>155.9</b>	<b>180.7</b>	<b>198.8</b>	<b>313.9</b>	<b>452.3</b>	<b>505.8</b>	<b>535.5</b>
% change	-14.7%	0.1%	21.4%	-4.9%	15.9%	10.0%	57.9%	44.1%	11.8%	5.9%
<b>Adjusted Income before taxes</b>	<b>442.4</b>	<b>339.7</b>	<b>337.8</b>	<b>331.9</b>	<b>353.9</b>	<b>372.0</b>	<b>419.6</b>	<b>463.5</b>	<b>517.0</b>	<b>546.7</b>
% change	5.5%	-23.2%	-0.5%	-1.7%	6.6%	5.1%	12.8%	10.5%	11.5%	5.7%
Income taxes	-117.3	-48.9	-25.4	-74.1	-84.9	-93.0	-151.1	-173.8	-193.9	-205.0
% tax rate on reported PBT	-86.9%	-36.2%	-15.5%	-47.5%	-47.0%	-46.8%	-48.1%	-38.4%	-38.3%	-38.3%
% tax rate on adjusted PBT	-26.5%	-14.4%	-7.5%	-22.3%	-24.0%	-25.0%	-36.0%	-37.5%	-37.5%	-37.5%
Income from discontinued operations, net	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Income pre Minorities</b>	<b>17.6</b>	<b>86.1</b>	<b>138.7</b>	<b>81.8</b>	<b>95.8</b>	<b>105.8</b>	<b>162.8</b>	<b>278.5</b>	<b>312.0</b>	<b>330.5</b>
Minority interests	-1.2	-6.1	-6.8	-1.7	-6.7	-6.8	-7.1	-7.3	-7.8	-8.1
<b>Income for the year (Net profit)</b>	<b>16.4</b>	<b>79.9</b>	<b>131.9</b>	<b>80.1</b>	<b>89.1</b>	<b>99.0</b>	<b>155.8</b>	<b>271.2</b>	<b>304.1</b>	<b>322.4</b>
<b>Adjusted net profit</b>	<b>324.0</b>	<b>284.7</b>	<b>305.7</b>	<b>256.2</b>	<b>262.3</b>	<b>272.2</b>	<b>261.5</b>	<b>282.4</b>	<b>315.3</b>	<b>333.6</b>

Source: Company Reports and Citi Investment Research

## Seat Pagine Gialle SpA (PGIT.MI)

27 November 2007

**Figure 37. Seat Pagine Gialle – Per Share Data (Year-end December, €)**

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Reported EPS (€)	0.0020	0.0097	0.0160	0.0095	0.0105	0.0117	0.0184	0.0320	0.0359	0.0381
% change	-72.1%	387.2%	64.7%	-40.7%	11.2%	11.1%	57.4%	74.1%	12.2%	6.0%
<b>Adjusted EPS (€)</b>	<b>0.0393</b>	<b>0.0345</b>	<b>0.0370</b>	<b>0.0303</b>	<b>0.0310</b>	<b>0.0322</b>	<b>0.0309</b>	<b>0.0334</b>	<b>0.0373</b>	<b>0.0394</b>
% change	1.2%	-12.1%	7.2%	-18.2%	2.4%	3.8%	-3.9%	8.0%	11.7%	5.8%
<b>DPS (€)</b>		<b>0.3674</b>	<b>0.0000</b>	<b>0.0050</b>	<b>0.0136</b>	<b>0.0136</b>	<b>0.0136</b>	<b>0.0203</b>	<b>0.0203</b>	<b>0.0203</b>
% payout ratio		1064.9%	0.0%	16.5%	43.8%	42.2%	44.0%	60.9%	54.5%	51.6%
% change					171.7%	0.0%	0.0%	49.6%	0.0%	0.0%
<i>Ordinary Shares</i>	<i>8,115.2</i>	<i>8,115.2</i>	<i>8,131.0</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>	<i>8,329.3</i>
<i>Saving Shares</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>	<i>136.1</i>
<b>Total Shares Outstanding</b>	<b>8,251.3</b>	<b>8,251.3</b>	<b>8,267.1</b>	<b>8,465.4</b>	<b>8,465.4</b>	<b>8,465.4</b>	<b>8,465.4</b>	<b>8,465.4</b>	<b>8,465.4</b>	<b>8,465.4</b>

Source: Company Reports and Citi Investment Research

Figure 38. Seat Pagine Gialle – Cash Flow Statement (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Cash inflow from operating activities</b>										
<b>Income for the year</b>	<b>16.4</b>	<b>79.9</b>	<b>131.9</b>	<b>80.1</b>	<b>89.1</b>	<b>99.0</b>	<b>155.8</b>	<b>271.2</b>	<b>304.1</b>	<b>322.4</b>
Minority interests	1.2	6.1	6.8	1.7	6.7	6.8	7.1	7.3	7.8	8.1
Amortisation, depreciation and write-downs	272.2	199.0	194.5	195.3	211.8	220.7	156.3	64.8	58.8	61.6
Interest expenses, net		250.2	259.8	245.3	248.7	241.4	233.2	226.3	216.7	224.6
Cost for stock options		3.0	7.9	4.8	5.0	5.3	5.5	5.8	6.1	6.4
Income taxes for the year (adjustment to cash tax)		48.3	25.4	74.1	49.9	33.0	11.1	-20.1	-11.1	-20.0
(Gains) losses on disposal	-0.5	-10.8	-4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Write-up) write-down of assets	12.4	0.9	-0.2	0.0	3.4	0.0	0.0	-4.0	-4.8	-5.8
Change in operating working capital	191.0	73.6	13.0	-58.7	-4.6	-17.4	-21.4	-20.5	-20.9	-22.1
Change in non-operating working capital	0.0	-207.0	-28.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in non-current operating liabilities	0.0	0.5	1.7	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in non-current non-operating liabilities	0.0	-2.2	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FX adjustments and other	23.1	41.7	-4.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash inflow from operating activities</b>	<b>515.8</b>	<b>483.3</b>	<b>601.5</b>	<b>538.3</b>	<b>610.0</b>	<b>588.8</b>	<b>547.6</b>	<b>530.8</b>	<b>556.7</b>	<b>575.1</b>
<b>Cash outflow for investments</b>										
Purchase of intangibles with indefinite life	-252.6	-10.0	-7.6	-0.4	-148.0	0.0	0.0	0.0	0.0	0.0
Purchase of intangibles with finite life	-22.2	-19.0	-25.8	-34.8	-32.8	-49.9	-30.7	-32.2	-33.2	-34.7
Purchases of P,P&E	-10.1	-10.9	-20.2	-13.5	-21.8	-33.2	-20.5	-21.5	-22.1	-23.2
Other investments	-1.0	-0.4	0.0	-0.2	-10.0	-10.0	-10.0	-10.0	0.0	0.0
Proceeds from disposal of non-current assets	8.0	22.1	9.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in scope	0.0	0.0	-7.9	-13.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash outflow for investments</b>	<b>-277.8</b>	<b>-18.2</b>	<b>-51.7</b>	<b>-61.2</b>	<b>-212.6</b>	<b>-93.1</b>	<b>-61.1</b>	<b>-63.7</b>	<b>-55.3</b>	<b>-57.9</b>
<b>Cash outflow for financing</b>										
Proceeds of non-current loans		4,159.1	0.0	256.0	0.0	0.0	0.0	0.0	154.7	0.0
Repayment of non-current loans		-217.6	-234.1	-431.5	-119.6	-163.5	-219.2	-231.8	0.0	-377.1
Proceeds of current loans		0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of current loans		-528.4	-40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paid interest expenses, net		-224.8	-236.2	-223.3	-233.7	-226.4	-218.2	-211.3	-201.7	-209.6
Payment of transaction costs on loans		-129.3	-26.1	-1.5	-0.6	-0.8	-1.1	-1.2	-0.8	-1.9
Change in financial assets and financial debts		12.5	-1.0	31.1	0.0	0.0	0.0	0.0	0.0	0.0
Increase in share capital (inc.exercised stock options)	3,113.0	0.1	5.6	20.4	0.0	0.0	0.0	0.0	0.0	0.0
Paid dividends	-0.6	-3,578.4	-0.2	-24.5	-115.0	-115.0	-115.0	-172.0	-172.0	-172.0
FX adjustments and other	-3,093.5	4.8	6.3	2.4	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash outflow for financing</b>	<b>19.0</b>	<b>-502.0</b>	<b>-485.5</b>	<b>-371.0</b>	<b>-468.8</b>	<b>-505.7</b>	<b>-553.6</b>	<b>-616.2</b>	<b>-219.8</b>	<b>-760.6</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>257.0</b>	<b>-36.8</b>	<b>64.3</b>	<b>106.0</b>	<b>-71.5</b>	<b>-10.0</b>	<b>-67.1</b>	<b>-149.0</b>	<b>281.7</b>	<b>-243.4</b>
Cash and cash equivalents at the beginning of the year	-82.3	174.7	137.9	202.2	308.2	236.7	226.7	159.6	10.6	292.3
<b>Cash and cash equivalents at the end of the year</b>	<b>174.7</b>	<b>137.9</b>	<b>202.2</b>	<b>308.2</b>	<b>236.7</b>	<b>226.7</b>	<b>159.6</b>	<b>10.6</b>	<b>292.3</b>	<b>48.9</b>

Source: Company Reports and Citi Investment Research

**Figure 39. Seat Pagine Gialle – Net Debt Analysis (Year-end December, €m)**

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Cash and cash equivalents	174.7	137.9	202.2	308.2	236.7	226.7	159.6	10.6	292.3	48.9
<b>Non-current financial debts</b>										
<i>Gross amount</i>		-2,576.7	-2,349.1	-1,930.4						
<i>Transaction costs</i>		63.7	75.4	59.5						
Debts due to RBS Milan		-2,513.0	-2,273.7	-1,870.9	-1,751.3	-1,587.8	-1,368.6	-1,136.8	-891.6	-514.5
<i>Gross amount</i>				-256.0						
<i>Transaction costs</i>				1.3						
Debts via Asset-backed securities				-254.7	-254.7	-254.7	-254.7	-254.7	-254.7	-254.7
<i>Gross amount</i>		-1,300.0	-1,300.0	-1,300.0						
<i>Transaction costs</i>		52.6	47.1	41.5						
Debts due to Lighthouse International		-1,247.4	-1,252.9	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5
Debts due to other lenders		-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-400.0	-400.0
<b>Non-current financial debts</b>	<b>-105.2</b>	<b>-3,760.5</b>	<b>-3,526.7</b>	<b>-3,384.2</b>	<b>-3,264.6</b>	<b>-3,101.1</b>	<b>-2,881.9</b>	<b>-2,650.1</b>	<b>-2,804.8</b>	<b>-2,427.7</b>
<b>Current financial debts</b>										
Current portion of non-current financial debts		-171.2	-171.1	-229.2	-229.2	-229.2	-229.2	-229.2	-229.2	-229.2
Other current financial debts		-43.1	-43.2	0.0						
<b>Current financial debts</b>	<b>-529.4</b>	<b>-214.3</b>	<b>-214.3</b>	<b>-229.2</b>	<b>-229.2</b>	<b>-229.2</b>	<b>-229.2</b>	<b>-229.2</b>	<b>-229.2</b>	<b>-229.2</b>
<b>Total debts</b>	<b>-634.6</b>	<b>-3,974.8</b>	<b>-3,741.0</b>	<b>-3,613.4</b>	<b>-3,493.8</b>	<b>-3,330.3</b>	<b>-3,111.1</b>	<b>-2,879.3</b>	<b>-3,034.0</b>	<b>-2,656.9</b>
<b>Net debt/cash</b>	<b>-459.9</b>	<b>-3,836.9</b>	<b>-3,538.8</b>	<b>-3,305.2</b>	<b>-3,257.1</b>	<b>-3,103.6</b>	<b>-2,951.5</b>	<b>-2,868.8</b>	<b>-2,741.7</b>	<b>-2,608.0</b>

Source: Company Reports and Citi Investment Research

Figure 40. Seat Pagine Gialle – Net Interest Expense Analysis (Year-end December, €m)

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Cash</b>			<b>308.2</b>	<b>236.7</b>	<b>226.7</b>	<b>159.6</b>	<b>10.6</b>	<b>292.3</b>	<b>48.9</b>
<b>Gross financial debts</b>									
<i>Tranche A</i>			-1,574.1	-1,236.8	-1,073.3	-854.1	-622.3	-377.1	0.0
<i>Tranche B (redeemed June 2013)</i>			-514.5	-514.5	-514.5	-514.5	-514.5	-514.5	-514.5
<i>Tranche C (available til May 2012)</i>			217.7	0.0	0.0	0.0	0.0	0.0	0.0
RBS Bank Debt			-1,870.9	-1,751.3	-1,587.8	-1,368.6	-1,136.8	-891.6	-514.5
Asset backed securities (expire 2014)			-254.7	-254.7	-254.7	-254.7	-254.7	-254.7	-254.7
Lighthouse International Debt (due 2014)			-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5	-1,258.5
Debts due to other lenders			-0.1	-0.1	-0.1	-0.1	-0.1	-400.0	-400.0
Current portion of financial debts			-229.2	-229.2	-229.2	-229.2	-229.2	-229.2	-229.2
<b>Total financial debts</b>			<b>-3,613.3</b>	<b>-3,493.7</b>	<b>-3,330.2</b>	<b>-3,111.0</b>	<b>-2,879.2</b>	<b>-2,634.0</b>	<b>-2,256.9</b>
<b>Interest Expense</b>									
EURIBOR				4.14%	4.14%	4.14%	4.14%	4.14%	4.14%
Commercial Paper Rate				8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
<i>Tranche A (EURIBOR + 1.685%)</i>				-81.9	-67.3	-56.2	-43.0	-29.1	-11.0
<i>Tranche B (EURIBOR + 2.26%)</i>				-32.9	-32.9	-32.9	-32.9	-32.9	-32.9
<i>Tranche C (as with Tranche A)</i>				0.0	0.0	0.0	0.0	0.0	0.0
RBS Bank Debt				-114.8	-100.2	-89.1	-76.0	-62.1	-43.9
Asset backed securities (in line with commercial paper)				-20.4	-20.4	-20.4	-20.4	-20.4	-20.4
Lighthouse International Debt (8.0%)				-100.7	-100.7	-100.7	-100.7	-100.7	-100.7
Debts due to other lenders (in line with commercial paper)				0.0	0.0	0.0	0.0	-16.0	-32.0
Current portion of financial debts (EURIBOR + 2.26%)				-14.7	-14.7	-14.7	-14.7	-14.7	-14.7
Amortisation of financing costs (non-cash)				-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
<b>Interest Expense</b>				<b>-265.6</b>	<b>-251.0</b>	<b>-239.8</b>	<b>-226.7</b>	<b>-228.8</b>	<b>-226.7</b>
<b>Interest Income (EURIBOR)</b>				<b>16.9</b>	<b>9.6</b>	<b>6.6</b>	<b>0.4</b>	<b>12.1</b>	<b>2.0</b>
<b>Net Interest Expense</b>				<b>-251.0</b>	<b>-260.6</b>	<b>-246.2</b>	<b>-248.7</b>	<b>-241.4</b>	<b>-233.2</b>
% of net debt									
				7.1%	7.2%	7.5%	7.9%	8.2%	10.0%

Source: Company Reports and Citi Investment Research

Figure 41. Seat Pagine Gialle – Balance Sheet Forecasts (Year-end December, €m)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Non-current assets</b>										
Intangible assets with indefinite life	4,557.5	3,565.0	3,574.3	3,579.0	3,565.0	3,402.9	3,308.4	3,308.4	3,308.4	3,308.4
Intangible assets with finite life	0.0	777.7	624.7	485.9	483.8	492.6	480.0	466.8	458.8	450.4
Property, plant and equipment	42.6	35.7	49.6	50.0	56.9	72.6	74.5	76.5	81.0	85.6
Equity investments	8.3	0.2	0.3	0.3	6.9	16.9	26.9	40.9	45.7	51.4
Other non-current financial assets	5.4	4.9	1.3	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Deferred tax assets	0.0	76.0	101.8	48.3	48.3	48.3	48.3	48.3	48.3	48.3
Other non-current assets	0.0	1.4	1.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>Total non-current assets</b>	<b>4,613.8</b>	<b>4,460.9</b>	<b>4,353.1</b>	<b>4,165.9</b>	<b>4,163.3</b>	<b>4,035.7</b>	<b>3,940.5</b>	<b>3,943.4</b>	<b>3,944.6</b>	<b>3,946.7</b>
<b>Current assets</b>										
Inventories	12.9	10.3	12.4	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Trade accounts receivable	754.7	684.3	669.7	668.7	671.0	679.7	690.3	700.6	711.0	722.1
Current tax assets		16.3	6.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Other current assets	266.6	81.4	70.9	66.2	66.2	66.2	66.2	66.2	66.2	66.2
Current financial assets		1.9	2.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Cash and cash equivalents		137.9	202.2	308.2	236.7	226.7	159.6	10.6	292.3	48.9
<b>Total current assets</b>	<b>1,034.2</b>	<b>932.1</b>	<b>963.9</b>	<b>1,061.6</b>	<b>992.4</b>	<b>991.1</b>	<b>934.7</b>	<b>795.9</b>	<b>1,088.0</b>	<b>855.7</b>
<b>Total assets</b>	<b>5,648.0</b>	<b>5,393.0</b>	<b>5,317.0</b>	<b>5,227.5</b>	<b>5,155.8</b>	<b>5,026.8</b>	<b>4,875.2</b>	<b>4,739.3</b>	<b>5,032.6</b>	<b>4,802.4</b>
<b>Equity of the Group</b>										
Share capital	247.5	247.5	248.0	249.9	249.9	249.9	249.9	249.9	249.9	249.9
Additional paid-in capital	4,154.1	541.8	441.9	460.4	460.4	460.4	460.4	460.4	460.4	460.4
Reserve for FX adjustments		-9.1	-8.3	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3
Reserve for transition to IFRS		-16.9	181.6	181.6	181.6	181.6	181.6	181.6	181.6	181.6
Reserve for stock options		3.0	9.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Reserve for hedging instruments/actuarial gains			-14.3	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Other reserves		3.8	-10.0	85.3	119.8	146.3	160.8	144.1	252.5	384.1
Income for the year	-32.5	79.9	131.9	80.1	89.1	99.0	155.8	271.2	304.1	322.4
<b>Total equity of the Group</b>	<b>4,369.2</b>	<b>850.2</b>	<b>980.1</b>	<b>1,057.2</b>	<b>1,100.6</b>	<b>1,137.0</b>	<b>1,208.3</b>	<b>1,307.0</b>	<b>1,448.4</b>	<b>1,598.2</b>
<b>Minority interests</b>										
Share capital and reserves	4.5	3.7	12.9	16.6	18.2	24.9	31.7	38.8	46.1	53.9
Income for the year	0.9	6.1	6.8	1.7	6.7	6.8	7.1	7.3	7.8	8.1
<b>Total Minority interests</b>	<b>5.4</b>	<b>9.8</b>	<b>19.6</b>	<b>18.2</b>	<b>24.9</b>	<b>31.7</b>	<b>38.8</b>	<b>46.1</b>	<b>53.9</b>	<b>62.0</b>
<b>Total equity</b>	<b>4,374.5</b>	<b>860.0</b>	<b>999.7</b>	<b>1,075.4</b>	<b>1,125.6</b>	<b>1,168.8</b>	<b>1,247.1</b>	<b>1,353.2</b>	<b>1,502.3</b>	<b>1,660.3</b>
<b>Non-current liabilities</b>										
Non-current financial debts	105.2	3,760.5	3,526.7	3,384.2	3,264.6	3,101.1	2,881.9	2,650.1	2,804.8	2,427.7
Non-current reserves to employees		52.9	52.8	56.8	56.8	56.8	56.8	56.8	56.8	56.8
Deferred income taxes and non-current tax debts		0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities		22.0	22.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8
<b>Total non-current liabilities</b>	<b>105.2</b>	<b>3,835.5</b>	<b>3,604.3</b>	<b>3,462.8</b>	<b>3,343.2</b>	<b>3,179.7</b>	<b>2,960.5</b>	<b>2,728.7</b>	<b>2,883.4</b>	<b>2,506.3</b>
<b>Current liabilities</b>										
Current financial debts	354.7	192.2	214.3	229.2	229.2	229.2	229.2	229.2	229.2	229.2
Trade accounts payable	229.8	274.3	292.8	292.9	290.6	281.9	271.3	261.0	250.6	239.5
Reserve for current risks and charges	95.6	60.9	50.4	39.3	39.3	39.3	39.3	39.3	39.3	39.3
Current tax payables		43.1	41.0	23.5	23.5	23.5	23.5	23.5	23.5	23.5
Payables for services to be rendered/other	488.2	127.2	114.6	104.4	104.4	104.4	104.4	104.4	104.4	104.4
<b>Total current liabilities</b>	<b>1,168.3</b>	<b>697.6</b>	<b>713.0</b>	<b>689.3</b>	<b>687.0</b>	<b>678.3</b>	<b>667.6</b>	<b>657.4</b>	<b>646.9</b>	<b>635.9</b>
<b>Total liabilities</b>	<b>1,273.5</b>	<b>4,533.1</b>	<b>4,317.3</b>	<b>4,152.1</b>	<b>4,030.2</b>	<b>3,858.0</b>	<b>3,628.1</b>	<b>3,386.1</b>	<b>3,530.3</b>	<b>3,142.1</b>
<b>Total liabilities and equity</b>	<b>5,648.0</b>	<b>5,393.0</b>	<b>5,317.0</b>	<b>5,227.5</b>	<b>5,155.8</b>	<b>5,026.8</b>	<b>4,875.2</b>	<b>4,739.3</b>	<b>5,032.6</b>	<b>4,802.4</b>

Source: Company Reports and Citi Investment Research

## Seat Pagine Gialle SpA

### Company description

Seat Pagine Gialle Group is a leading pan-European directory publishing business. Its main activities are in Italy where it is the leading publisher of Yellow & White Pages. It also has an extremely strong position in online and voice-based directory assistance. Outside Italy its principal divisions are Telegate, a pan-Euro voice-based directory assistance business, and Thomson, which is the second player in the UK directory market. In addition, the group has some exposure to direct marketing and merchandising services, as well as B2B directories and call centre services.

### Investment strategy

We have a Hold/ Medium Risk (2M) rating on Seat Pagine Gialle. While we believe the operational story at the company is improving, we see three major risks to forecasts and valuation in the near term.

- First, with a chance of increased investment in sales within the Italian business, Thomson and Europages, we see downside risk to forecasts. We already assume the group misses its 2007E 10% EBITDA growth target (we forecast 7.3%), and we now forecast a shallower growth profile than originally anticipated in the heady days of May, when the 2008-2010 industrial plan was published.
- Second, in terms of valuation, even if the group does achieve growth in operating profitability, we expect the impact of this on Enterprise FCF to be offset by rising P&L and cash tax rates. Overall we forecast flat equity free cash flow generation between 2007E and 2011E. This has the effect of holding back valuation and returns for the group.
- Third, we see limited room for a recapitalization or a secondary LBO at this stage, given low headroom for increasing leverage and expensive prepayment penalties on the group's high yield debt. In our view, the earliest a recap becomes practicable is 2009E. In the meanwhile 'doing nothing' is the most likely option for the principal shareholders, in our view. A worst case for minority shareholders would be a sale on the market by the controlling shareholders – we estimate that they would make a handsome return (>20% IRR) even after the recent share price fall.

In the absence of a strong improvement in returns, outstanding valuation or a near-term capital-structure related catalyst, we see no rush to get involved and maintain our neutral stance on the group.

### Valuation

Our price target of €0.319 is based on a simple average of our DCF-based fair value, our SOTP valuation and the value implied by a DDM. While our DCF-based analysis (2.0% LT Growth; 8.7% discount rate) and SOTP suggest a degree of absolute upside (€0.35-€0.36), dividend-based measure still suggests downside to the shares.

At the same time, it is also briefly worth considering the risk to such a negative view on absolute valuation. Implicitly, this analysis excludes the potential positive impact a rerating of the peer group (or the wider Media sector) could have on Seat Pagine Gialle. Clearly, in this instance, the amount of financial leverage the group has would actually work in the equity shareholders' favour.

## Risks

We rate Seat as Medium Risk. The risk rating on the stock is derived after consideration of an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility as a possible indicator of future stock-specific risk.

With regard to Seat, we would highlight in particular the visibility of earnings estimates and the complexity and transparency of financials as the main drivers of our Medium Risk rating. We believe the main risks that could cause the shares to deviate from our price target are related to the limited visibility concerning the following: the implementation of the 2008-2010E restructuring plan; increased competition from search engines; debt sustainability; and dividend policy. We also see some risk from the current shareholder structure. It is possible that the current majority shareholders (50.14%) could sell part or all their shares to the market.

## Eniro AB (ENRO.ST - SKr69.25; 2M)

### Valuation

Our favoured method of absolute valuation is discounted cash flow. In our analysis we use a long-term growth rate of 2.0% and CAPM-based discount rate of 9.2%. On the debt side we use 2006 year-end net debt adjusted for the SEK500m acquisition of KRAK announced in June of this year. On this basis we value Eniro at SKr81 per share.

### Risks

We rate Eniro Medium Risk. The risk rating on the stock is derived after consideration of a number of factors. These include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based upon the input of the Citigroup Investment Research quantitative research team, as a possible indicator of future stock-specific risk.

With regard to Eniro, we believe the main risk is the lack of visibility on earnings estimates in light of the restructuring plan. We are also concerned about

- Client concentration;
- Decreases in usage of the print product ;
- Increased competition online, in particular from rival online directory companies like hitta.se (owned by Schibsted).

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

## Yell Group PLC (YELL.L - £3.96; 1M)

### Valuation

To value Yell, we have applied the multiples of comparable European companies and used a DCF analysis. Averaging the valuations from our DCF and multiples analyses, we end up with a value of 544p for Yell. At our price target the group would trade on 12.8x calendar 2008E P/E, still a discount to the European Media sector, but arguably fair given the group's financial leverage.

### Risks

We rate Yell Medium Risk. A volatility analysis would imply a Low Risk rating. However, considering the industry specific and market risks, we assess the risk rating as Medium. In particular, we believe that the following risks could prevent Yell from reaching our target price:

- Price regulation in the UK
- Decreasing retention rate in the UK domestic market
- Execution in Spain and Latin America
- Management risk







# Appendix A-1

## Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

## IMPORTANT DISCLOSURES

### ENIRO AB (ENRO.ST)

#### Ratings and Target Price History - Fundamental Research

Analyst: Thomas Singlehurst, CFA (covered since December 7 2006)



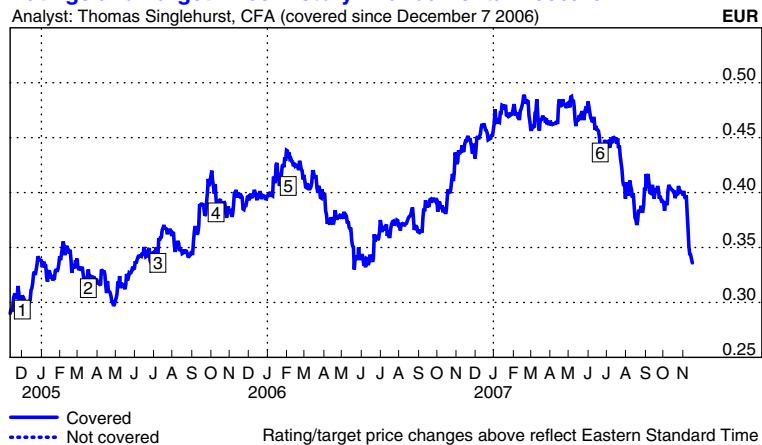
#	Date	Rating	Target Price	Closing Price
1:	18 Mar 05	1M	*89.00	80.50
2:	8 Jul 05	*2M	*98.00	87.75
3:	22 Jul 05	2M	*95.00	84.25
4:	27 Sep 05	2M	*99.00	90.50
5:	3 Feb 06	2M	*107.00	98.75
6:	4 Apr 06	2M	*101.00	88.75
7:	5 Jun 06	2M	*93.60	78.75
8:	19 Jul 07	2M	*81.00	84.00

\*Indicates change.

### SEAT PAGINE GIALLE SpA (PGIT.MI)

#### Ratings and Target Price History - Fundamental Research

Analyst: Thomas Singlehurst, CFA (covered since December 7 2006)



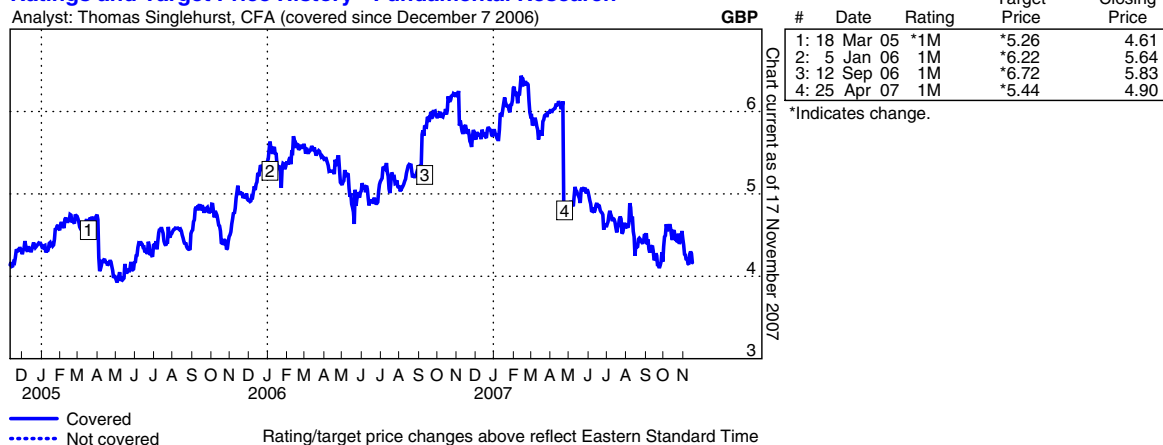
#	Date	Rating	Target Price	Closing Price
1:	2 Dec 04	2M	*0.34	0.31
2:	18 Mar 05	2M	*0.35	0.33
3:	8 Jul 05	*1M	*0.44	0.34
4:	11 Oct 05	1M	*0.46	0.39
5:	3 Feb 06	1M	*0.49	0.43
6:	21 Jun 07	*2M	0.49	0.44

\*Indicates change.

**Yell (YELL.L)**

**Ratings and Target Price History - Fundamental Research**

Analyst: Thomas Singlehurst, CFA (covered since December 7 2006)



Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Yell.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from ENIRO AB, SEAT PAGINE GIALLE SpA and Yell in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Yell.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: ENIRO AB, SEAT PAGINE GIALLE SpA and Yell.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: ENIRO AB, SEAT PAGINE GIALLE SpA and Yell.

Citigroup Global Markets Inc. or an affiliate received compensation in the past 12 months from Yell.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013. Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

**Citi Investment Research Ratings Distribution**

Data current as of 30 September 2007

	Buy	Hold	Sell
Citi Investment Research Global Fundamental Coverage (3358)	50%	38%	12%
% of companies in each rating category that are investment banking clients	53%	55%	42%

**Guide to Fundamental Research Investment Ratings:**

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

**Risk ratings**, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

**Investment ratings** are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

**Guide to Corporate Bond Research Credit Opinions and Investment Ratings:**

Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple

B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at <http://sd.ny.ssm.com/> using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

## OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 22 November 2007 05:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Yell. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at [www.citigroupgeo.com](http://www.citigroupgeo.com).)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared

by NCL and distributed by Nikko Cordial Securities Inc. or Citigroup Global Markets Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartościowych i Giełd. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at [www.citigroupgeo.com](http://www.citigroupgeo.com). Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

This Product is not intended for distribution in Poland. Any receipt or review of the Product in Poland is not authorized by the Firm.

© 2007 Citigroup Global Markets Inc. (© Nikko Citigroup Limited, if this Product was prepared by it). Citi Investment Research is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citigroup and the Umbrella Device are trademarks and service marks of Citigroup or its affiliates and are used and registered throughout the world. Nikko is a registered trademark of Nikko Cordial Corporation. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

EU1122F