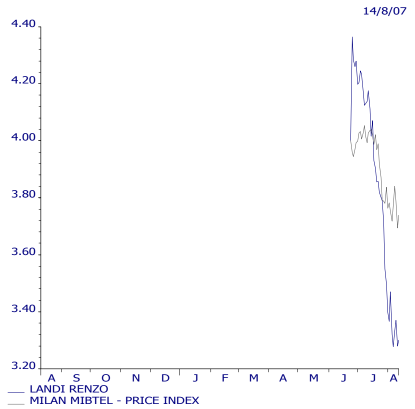
MEDIOBANCA SECURITIES

Landi Renzo

14 August 2007 | **Industrials** | **Initiating Coverage**

Price: € 3.30 Target price: € 4.10

Outperform



Source: DATASTREAM

	2005	2006	2007E	2008E	2009E
EPS Adj. (€)	0.11	0.17	0.17	0.23	0.27
DPS (€)	-0.05	-0.05	0.00	0.00	0.00
BVPS (€)	0.33	0.44	0.91	1.07	1.26
EV/Ebitda(x)	0.1	0.2	8.8	6.7	5.3
P/E adj (x)	nm	nm	19.5	14.6	12.4
Div.Yield(%)	nm	nm	0.0	0.0	0.0
FCF Yield(%)	nm	nm	2.2	3.3	7.2

Source: Mediobanca Securities

Market Data

Market Cap (€ m)	382
Shares Out. (m)	113
Main Shareholder (%)	Stefano Landi (59)
Free Float (%)	41.0
52 week range (€)	4.365-3.2775
Rel Perf vs Mibtel (%)	
-1m	-10.8%
-3m	
-12m	
21dd Avg. Vol. ('000)	430
Reuters/Bloomberg	LR.MI / LR IM

Key Financial Data - 2006 (€m)

Turnover	139
EBITDA	30
EBIT	27
Net Profit	17
Shareholders' Funds	44
Net Debt (-)Cash (+)	-7
Gearing %	16.9%

In Gas we trust

Global leader in alternative fuel engine systems

Landi Renzo manufactures Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) alternative fuel systems for cars and light commercial vehicles. In its referring market Landi is global leader with a 23% market share. Landi has subsidiaries in seven countries and sells its product in six continents.

The market is at a turn point…

The alternative fuel systems market has grown significantly in 2004-2006 (10.6% CAGR), and it is expected to record a global 2006-2012 CAGR of 17.9%. Main drivers for the outstanding growth are: 1) growing environmental sensitivity; 2) favourable regulations; 3) public incentives; 4) financial saving for customers; 5) lack of cheaper available alternatives.

…and Landi should be able to ride the wave

Landi should be able to exploit the good market conditions thanks to 1) technological leadership (R&D and quality), 2) a top-ten countries approach and 3) its business model (outsourcing of production, with testing and R&D kept in house). We expect high turnover growth, with better profitability and outstanding cash generation. Even if H1 07 results were below full year growth estimates, we still believe in Landi's short and long term growth potential.

Outperform rating, TP at €4.1ps (+24.2% upside)

Our valuation is based on 1) peers analysis, 2) ROCE analysis and 3) Discounted Cash Flow analysis. We set our TP for Landi Renzo at €4.1ps (24.2% upside), that is the average value coming up from the methods used. Our rating on the stock is Outperform.

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Contents

Executive summary

Short profile

Landi Renzo S.p.A. manufactures Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) alternative fuel systems for cars and light commercial vehicles (LCV). Landi Renzo has productive plants located in Italy, Brazil (serving Latin America) and soon in Pakistan. The Company also has distribution centres located in China, Netherlands (Eurogas, serving Northern Europe) and Poland (serving Eastern Europe). In 2006, Landi had 396 employees worldwide.

Competitive positioning

Landi Renzo is among the market leaders in most countries in which it operates, with its presence strongest in Italy, Germany, Russia, Pakistan and China. Landi has an 11.7% market share in the LPG market, which is bigger, more widespread and much more fragmented; the group is easily market leader in CNG systems, with a market share of 38.5%. In the OEM market, Landi is market leader with a 39.5% share, and has a consolidated relationship with many major car makers, mainly in Europe and Asia. In the AM market, by definition more fragmented and with a much broader range of products (and quality), the company has a very high market share of 19.7%.

Market outlook

There is no correlation between the development of a country's economy and the penetration of alternative fuels, so the main markets for LPG and CNG fuel systems are fairly heterogeneous by their location and characteristics. Most markets have a medium/high level of consolidation (we consider a market as consolidated when the three main players have a market share higher than 40%).

According to a study by Frost & Sullivan (F&S), in 2006, 2.9m alternative fuel systems were sold worldwide: 1.72m LPG kits and 1.22m CNG kits (in 2004, the number of kits sold totalled 1.47m and 928k respectively, that is 2.4m total), with a '04-'06 CAGR of 10.6%. Assuming that manufacturers sell a system to the distributor at an average price of €180-220 (€450-550 in developed markets, €80-120 in emerging markets), we can estimate an annual global market aggregate turnover of some €550-650m, of which 60% (€330-390m) relates to LPG, and 40% (€220-260m) to CNG systems. The outstanding recent growth in the alternative fuel systems market has been driven by many concomitant factors that, together, are providing exceptional momentum. All country markets grew, and all players recorded high sales growth. We can summarise these factors as: 1) growing environmental sensitivity; 2) favourable regulations; 3) public incentives; 4) financial saving for customers; 5) lack of cheaper available alternatives. All this considered, we believe that the market's bullish expectations are sustainable. The study projects a global market 2006-2012 CAGR (LPG+CNG) of 17.9%.

Key success factors

The key features of Landi Renzo's business model are: 1) the outsourcing of most phases of production, with 100% of R&D, testing and packaging carried out in-house; 2) a top-ten countries approach; 3) a focus on R&D; 4) attention to quality (of products and suppliers), and; 5) the offering of related services (training courses, loyalty programmes for distributors and after-sales assistance).

Financials

After three stagnant years in terms of revenues and negative profitability in 2004-2006, Landi's turnover grew by a CAGR of 46.7%, from €64.5m to €138.7m in 2006. Profitability also increased considerably, especially in 2005, thanks to the large economies of scale that Landi was able to exploit (EBITDA margin up from 13.9% to 21.0%). In 2004 Landi generated cash of €8.7m, while in 2005 it burned cash of €4.1m, due to some investments and a €5m dividend. We believe 2004-06 could be considered a turning point for Landi, and we believe that high growth rates are likely to be seen in the future, thanks to favourable market conditions and the ability of the Company to maintain or increase its market share. Land generates cash, and should be in a cash positive stance from 2007 on.

Still confident on 2007FY targets

H1 07 on the contrary was weak. However Landi's management confirmed they will be able to achieve the 2007FY target hinted during the IPO road show (+18-20% YoY revenues growth).
We also are confident on Landi's growth potential, and an accurate description of growth catalysts is detailed in the financial paragraph.

Landi Renzo - P&L and debt figures 2006-2011E

	2006	2007E	2008E	2009E	2010E	2011E	06-'11CAGR
Revenues	138.7	167.1	204.9	233.2	269.3	313.0	17.7%
EBITDA	30.3	37.5	48.4	57.6	66.4	76.5	20.3%
EBITDA margin	21.8%	22.4%	23.5%	24.6%	24.6%	24.4%	
EBIT	27.5	33.1	42.5	49.9	57.9	67.1	19.6%
EBIT margin	19.8%	19.8%	20.7%	21.4%	21.5%	21.4%	
Net Profit	16.7	19.6	26.1	30.7	36.0	41.9	20.2%
FCF	-5.1	61.3	5.6	18.5	20.9	24.1	
Net Debt (cash)	7.4	-53.9	-59.5	-77.9	-98.9	-123.0	

Source: Mediobanca Securities

Valuation

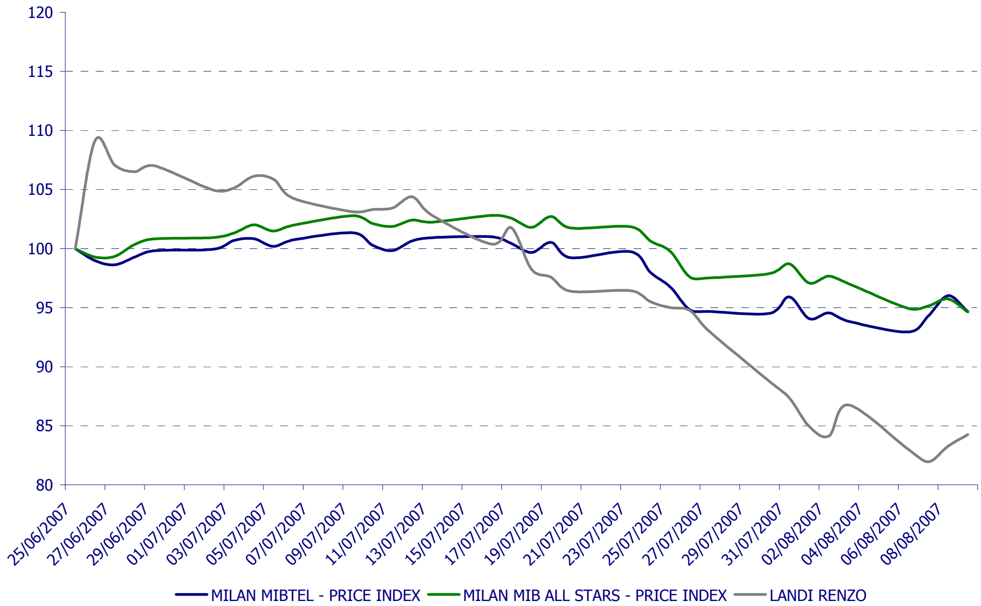
Our valuation is based on 1) peers analysis, 2) ROCE analysis and 3) Discounted Cash Flow analysis. We set our TP for Landi Renzo at €4.1ps (24.2% upside), that is the average value coming up from the methods used. Our rating on the stock is Outperform.

Valuation

Stock market performance so far

After an initially positive trend, with peak at €4.36ps, the recently listed Landi stock has gradually retreated, with the price coming down to €3.28, underperforming both the weak Italian stock market and the STAR segment.

Landi stock performance vs MIBTEL and STAR segments



Source: Mediobanca Securities, Datastream

Reasons for the weak performance

It should be noted that this underperformance was coupled with very low volumes traded, as the number of shares traded on the first day is still higher than the sum of all volumes traded in the following 30 days. In our view there are three main reasons for this poor performance:

1. market momentum has been tricky: all the main indexes have been weak, and almost all the stock prices of recent Italian IPO deals have been suffering;
2. rumours of weak H1 07 results circulated immediately after the IPO; these proved well-founded, as Landi reported Y.o.Y. growth of just 4.4% in H1, against 20% estimated for the full year; the company has again stated it is confident that full-year targets can be achieved;
3. lack of newsflow from the company, regulators and sector associations shifted investor attention elsewhere.

We have approached valuation of Landi Renzo using three different methodologies:

1. peers analysis, delivering a fair equity value per share of €4.0 using the EV/EBITDA 2008 multiple, and €3.5 using the P/E 2008 multiple;
2. ROCE analysis based on a peers' EV/CE multiples regression, which delivers a value of €4.5 per share;
3. discounted cash flow analysis, which delivers a fair equity value of €4.2 per share.

The above mentioned methods deliver a valuation in the €3.5-4.5 per share range, with an average value of €4.1 per share.

Value per share with different methods used

Valuation method	Equity value (€m)	Value per share (€)
EV/EBITDA	446.3	4.0
P/E	384.5	3.5
DCF	466.7	4.2
ROCE (EV/CE multiple)	507.3	4.5
Average		**4.1**

Source: Mediobanca Securities

Our target price for Landi Renzo is €4.1 per share, i.e. the average value deriving from the methods used. Our rating on the stock is Outperform (24.2% upside).

1 - Peers' Analysis

Before commencing with the analysis, it should be noted that the peers' method does not appear to be reliable as a method for valuing Landi Renzo, as:

1. Landi has only one genuine listed peer, i.e. Fuel System Solution (Nasdaq: @FSYS), whose recent equity story has been impacted by major events (see next section);
2. Many different baskets of peers could be set up: Landi's business is a mixture of car component making, pure technology design, alternative energy research, and so forth.

One real peer, under investigation: Fuel System Solution

Fuel System Solution owns the Italian BRC, which is the second player worldwide after Landi in the production of LPG/CNG conversion kits, but which also operates through another brand (Impco) that produces other low-tech car components, recording lower margins and growth rates than Landi. Moreover, FSS reported net losses in 2004 and 2005, and its bottom line is only expected to return to the black in 2006.

FSS was recently put under investigation by Nasdaq for fraud linked to previous stock option schemes. FSS also delayed the filing of its annual 10-K report, resulting in a 20% slump in the stock price on 13-16 March, which it has failed to recover in the following months. The investigation ended on 27 July 2007, when FSS said a restatement of its previous accounts would be necessary in order to avoid a forced delisting from Nasdaq, along with a fine to be paid. On the back of this news the stock price recovered, rising swiftly from \$18.0 ps to \$21.0 ps. At the time of the Landi IPO, FSS reflected a multiple of 8.5x EV/EBITDA 2008. This has now recovered to 10.3x.

Other peers selection

Due to the lack of listed comparables, we selected a basket of peers on the basis of:

- a preliminary selection of sectors that could be comparable to Landi's;
- a sales/CE-EBIT margin analysis, in order to keep only the companies closest to Landi in terms of return on capital and asset turnover in the basket.

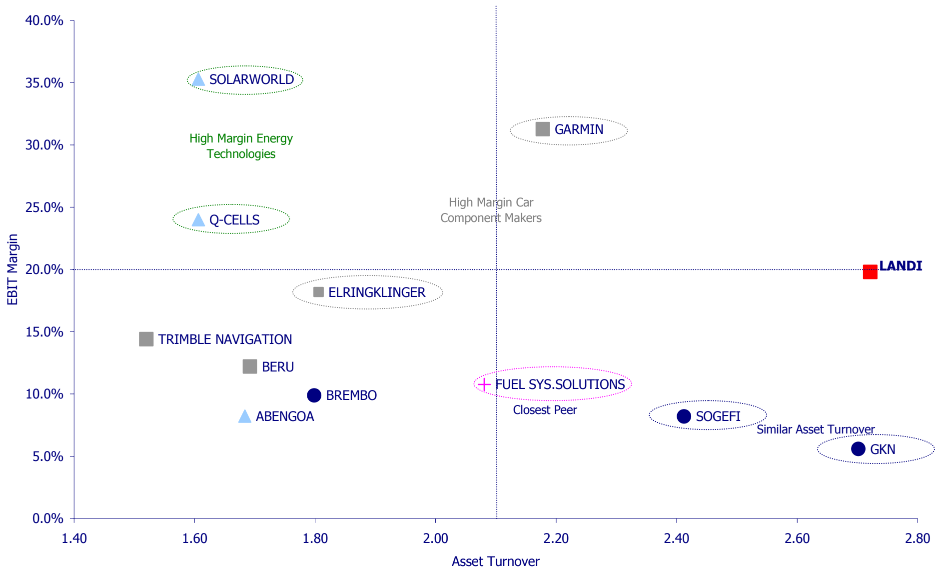
First, we selected several businesses comparable to Landi's, namely:

1. pure European car component makers (Brembo, Sogefi, Valeo, Faurecia, GKN);
2. high growth/high margin car component makers (Garmin, Trimble, Beru, Elring Klinker);
3. "enabling technologies", ie companies involved in the development and manufacturing of alternative energy systems (Solarworld, Abengoa, Q-cell).

These companies are different in terms of profitability, size, products, markets and business model. First, we grouped them on the basis of profitability (EBIT margin) compared to their asset turnover (sales/CE ratio) in order to identify companies similar to Landi. We can note that:

- among group 1, Sogefi and GKN have an asset turnover similar to Landi's (but lower profitability);
- among group 2, only Garmin has a high asset turnover, but does have higher profitability; we also keep Elring Klinger in the basket, as its profitability is similar to Landi's;
- among group 3, Q-Cells and Solarworld (the former in particular) have similar profitability to Landi's, so we only excluded Abengoa at the time of the IPO; we now exclude also the other two companies from our basket, as they are now trading at significantly higher multiples than those as of 4 May 2007 (IPO report date).

Clusterisation of comparables



Source: Mediobanca Securities, Datastream

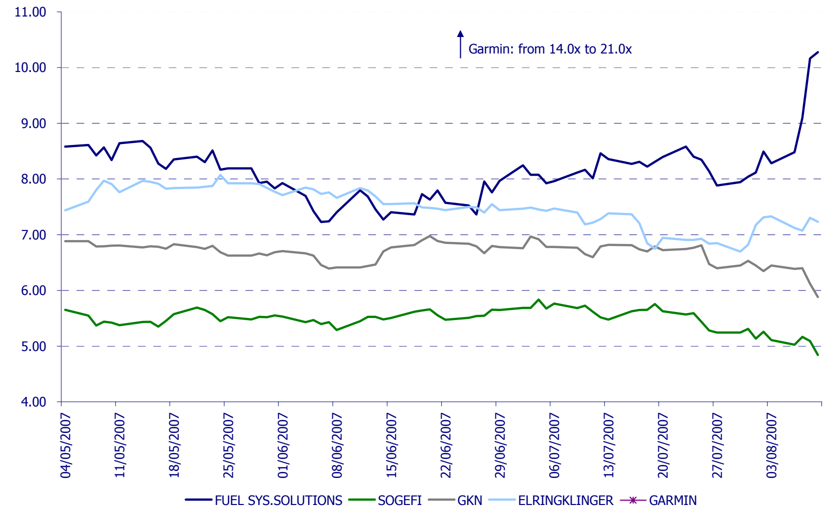
As a result, this is the basket of companies we use for the peers' comparison:

1. **Fuel Systems Solutions (US)** provides advanced alternative fuel systems technology and components for internal combustion engines. The company's products enable these engines to function using environmentally-friendly gaseous fuels such as propane, natural gas, and biogas. Fuel Systems is a supplier to original equipment manufacturers and the aftermarket; it is Landi Renzo's closest peer in terms of business, products and addressed markets;
2. **Sogefi (Ita)**, through its subsidiaries, manufactures automobile parts. The company produces filters under the Filtrauto, PBR, Fram, Arto, FIAAM, Cooper, Purflux, Tecnocar and Crosland brands, and automobile and truck suspension components;
3. **GKN (UK)** is a leading global supplier to the world's automotive, off-highway and aerospace manufacturers. GKN provides technology-based, highly engineered products to major manufacturers of light vehicles, agricultural and construction equipment, aircraft and aero engines;
4. **Garmin (US)** provides navigation, communications, and information devices, most of which are enabled by Global Positioning System (GPS) technology. The company designs, develops, manufactures, and markets hand-held, portable, and fixed mount GPS-enabled products and other navigation, communications, and information products under the GARMIN brand name;
5. **Elring Klinger (Ger)** manufactures and distributes original equipment and replacement parts for automobiles. The company makes cylinder-head gaskets, seals, modules, elastomer gasket systems, and shielding systems;

No downturns in peers' recent market performances

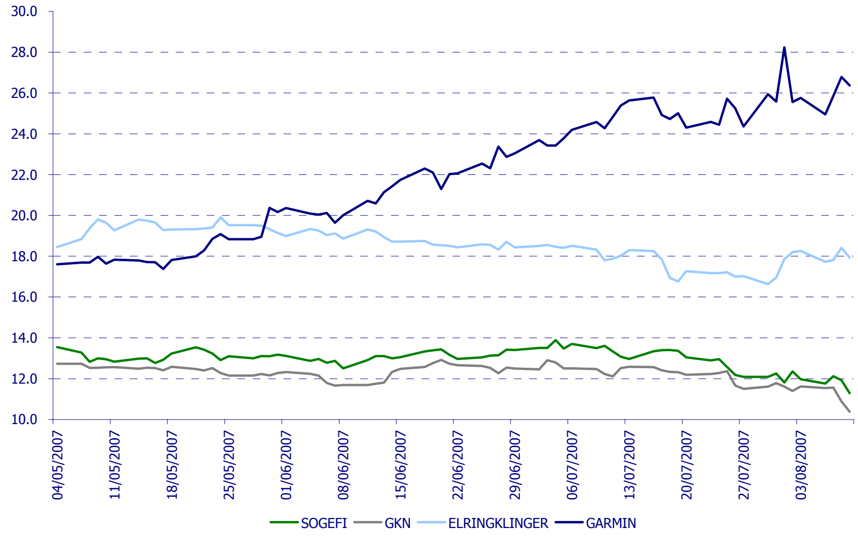
None of Landi's peers considered here have shown major changes in their EV/EBITDA and P/E 2008 multiples. Following the announcement of its voluntarily restating its 1996-2006 accounts, Fuel System Solution stock also made up ground against the Nasdaq Index. Garmin, too, performed extremely well, coming on the back of strong H1 results and a subsequent increase in the full-year estimates.

EV/EBITDA 2008 multiple of Landi's peers since the IPO



Source: Mediobanca Securities, Datastream

P/E 2008 multiple of Landi's peers since the IPO



Source: Mediobanca Securities, Datastream

...and Landi is trading at discount vs. peers' median and vs. Fuel System Solution

After selecting the basket, we ran a multiples analysis, taking into consideration an unleveraged multiple (EV/EBITDA 2007-08) and a leveraged one (P/E 2007-08).

Landi Renzo – Final basket of peers selected

	Market Cap (€m)	EV/EBITDA			P/E	
	Current	2007	2008	2009	2007	2008
FUEL SYS.SOLUTIONS ($)	323.5	11.5	10.3	9.3	-	-
SOGEFI	693.8	5.4	5.1	4.6	12.4	12.1
GKN	2,425.5	6.5	5.9	5.4	12.0	10.4
ELRINGKLINGER	1,287.9	8.8	8.0	7.1	21.1	17.9
GARMIN ($)	22,166.7	25.5	21.3	21.1	30.7	26.4
Mean	**-**	**11.6**	**10.1**	**9.5**	**19.1**	**16.7**
Median	**-**	**8.8**	**8.0**	**7.1**	**16.8**	**15.0**
Landi	**379.1**	**8.7**	**6.6**	**5.2**	**19.3**	**12.5**
Discount vs. Median		-1.6%	-17.4%	-26.2%	15.4%	-17.0%
Discount vs. FSYS		-24.4%	-35.7%	-44.0%	n.d.	n.d.

Source: Mediobanca Securities

Due to the gap between the highest and lowest multiples (21.3x vs 5.1x for EV/EBITDA 2008, 26.4x and 10.4x for P/E 2008), we prefer the median value to the mean value for our valuation. Landi is currently trading at a 17.4% discount to the median value and some 35.7% versus Fuel System Solution (which is less profitable and growing slower).

Landi Renzo – Peers' multiple valuation

(€m)	2008E	(€m)	2008E
EV/EBITDA target (x)	8.0x	P/E target (x)	15.0x
EBITDA	48.4	Net Profit	26.1
Implied EV	386.9		
Net Debt (Cash) 2008E	(59.5)		
Equity	446.3	Equity	391.9
Value per share (€)	**4.00**	**Value per share (€)**	**3.50**

Source: Mediobanca Securities

Non-listed peers

It could be useful to have a brief look at Landi Renzo's main competitors, even if they are not listed and are smaller in size (BRC, Lovato and Tartarini). We note that:

1. these players are among the top ten operators in the sector, despite their size;
2. they are all based in Italy;
3. they recorded 2004-2005 YoY growth rates similar to Landi Renzo, exploiting the market trend of that year;
4. they are much less profitable than Landi, which in 2005 recorded an EBITDA margin of 20.8%, except BRC, the best performing arm of the Fuel System Solutions group;
5. they more or less have the same business model as Landi, with low capital employed (often negative) and low levels of debt;

Landi Renzo's main non-listed peers

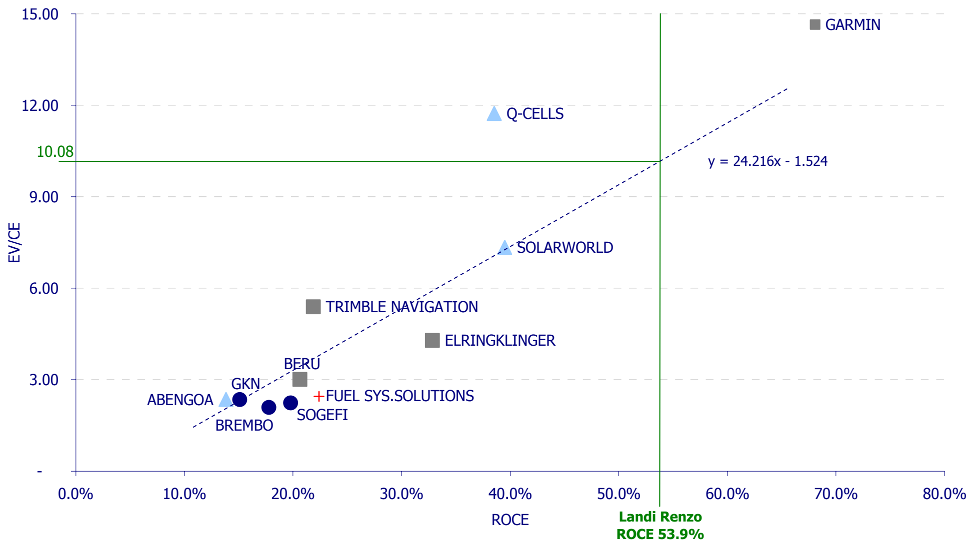
(€m)	BRC		Lovato		Tartarini	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**
Sales	**47.7**	**76.4**	**26.7**	**34.7**	**14.8**	**22.0**
YoY chg		60.0%		30.0%		49.1%
EBITDA	5.2	12.6	2.8	4.5	1.0	2.4
EBITDA margin	11.0%	16.5%	10.3%	12.8%	6.7%	10.9%
D&A	-1.2	-2.5	-1.3	-1.0	-0.4	-0.5
EBIT	**4.1**	**10.1**	**1.4**	**3.5**	**0.5**	**1.9**
EBIT margin	**8.5%**	**13.2%**	**5.4%**	**10.0%**	**3.7%**	**8.8%**
Pre tax	3.0	12.5	0.8	3.2	0.7	2.1
Net Profit	1.0	7.0	0.5	1.6	0.9	1.2
Capital Employed	26.8	25.9	6.1	-0.8	3.9	-0.7
Net Debt	5.6	-0.8	3.4	-4.9	1.9	-4.0
Equity	21.3	26.7	2.7	4.1	2.0	3.3
D/E	26.2%	-3.1%	127.6%	nm	92.9%	nm
ROCE	15.2%	39.0%	23.7%	nm	13.9%	nm

Source: Mediobanca Securities, CERVED, Companies data

2 - ROCE Analysis

As we have already explained, one of the key factors behind Landi Renzo's success is its low capex requirement compared to other industrial companies. This feature is reflected in a ROCE (pre-tax) that is much higher than most of its peers.

EV/CE – ROCE (pre-tax) analysis



Source: Mediobanca Securities, Datastream

The trend line (y = 24.216x – 1.524) obtained with the full basket of peers considered, delivers a fair EV/CE ratio for Landi of 10.1x, which (given 2007E cash of €53.9m) translates into an equity value of €507.3m, and a €4.5ps valuation.

Landi Renzo – ROCE valuation (€m)	
ROCE (pre tax, 2006)	53.9%
EV/CE multiple	10.10x
CE 2006	51.0
EV	514.7
Net Debt (Cash) 2007E	-53.9
Equity value	**568.6**
Value per share (€)	**5.00**

Source: Mediobanca Securities

3 - DCF analysis

On the basis of the FY 2007 expected net cash figure (€53.9m), our three-stage DCF delivers a fair equity value of €466.7m, calculated on the basis of:

1. cumulated cash flow until 2011 of €85.8m:

Landi Renzo - Discounted cash flow analysis 2006-2011

(€m)	2006	2007E	2008E	2009E	2010E	2011E
NOPLAT	17.1	20.5	26.3	30.9	35.9	41.6
D&A	2.9	4.4	5.9	7.7	8.5	9.4
Capex	-10.0	-10.0	-12.0	-5.5	-6.0	-6.5
Delta WC	-10.0	-5.6	-7.3	-5.5	-6.9	-8.3
Cash flow to the firm	-0.0	9.3	12.9	27.6	31.6	36.3
Time adjustment	-	1.0	2.0	3.0	4.0	5.0
Discount factor	1.000	0.915	0.837	0.766	0.701	0.641
Discounted cash flow to firm	**-0.0**	**8.5**	**10.8**	**21.1**	**22.1**	**23.3**
Cumulated cash flow		**8.4**	**19.3**	**40.4**	**62.5**	**85.8**

Source: Mediobanca Securities

2. terminal value of €327.1m, on the basis of a 2.0% perpetual growth rates "g" and a 1.2x value of the Beta, giving origin to a 9.3% WACC.

DCF valuation and WACC calculation

DCF valuation		WACC	
PV of future cash flows	85.8	Risk free rate	4.50%
PV of Terminal value	327.1	Equity Risk Premium	4.0%
Enterprise value	**412.8**	Beta	1.20
Long Term growth rate	2.00%	**Cost of equity**	**9.3%**
NFP @ Dec 07E	(53.9)		
EQUITY Value	**466.7**	**Net Cost of debt**	**3.7%**
Value per share (€)	**4.15**	Leverage	0.0%
		WACC	**9.3%**

Source: Mediobanca Securities

Therefore, our DCF valuation delivers an equity value of €4.15 per share.

Market overview

Landi Renzo produces alternative fuel conversion systems for automotive engines. The two main alternative fuels currently used in the automotive industry (and produced by Landi Renzo) are Liquefied Gas Petroleum (LPG) and Compressed Natural Gas (CNG). The conversion of these two kind of fuels requires both common and different components, which include tanks, wires, pressure reducers, electronic control units (ECUs), filters and injectors. Landi Renzo acts as a systems provider, but it mainly focuses on the production of the components with a higher technological content (i.e. reducers, ECUs and injectors), and purchases the remaining parts. For this reason, hereafter we do not include tanks when we refer to the "market" (whether LPG or CNG).

Market features

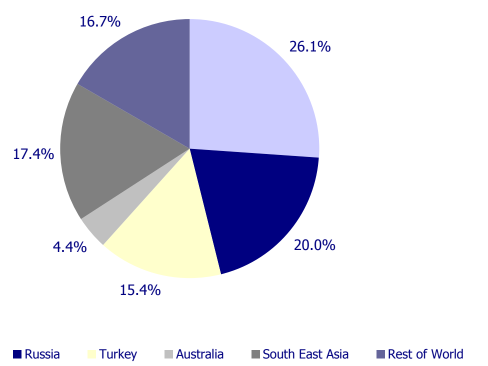
Interest in alternative fuels (LPG and CNG) has recently increased sharply worldwide, as a result of the greater focus on the environment and concerns about global warming. In any case, the market trends in conversion kits vary considerably between different geographical areas and between Original Equipment Manufacturers (OEM)/After Market (AM) channels, so as well as a general view on market size and competitive structure, the outlook must also be broken down by area and by channel.

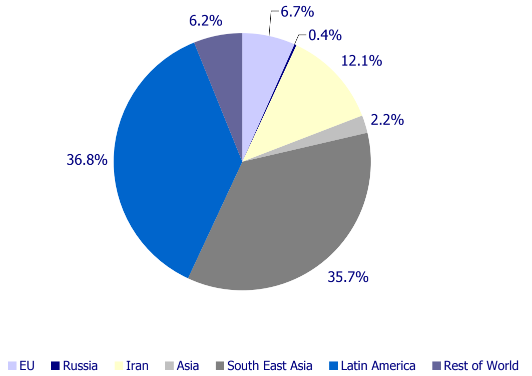
In 2006, 2.9m alternative fuel systems were sold worldwide: 1.72m LPG kits and 1.22m CNG kits (in 2004, the number of kits sold totalled 1.47m and 928k respectively, 2.4m kits in total, that is a '04-'06 CAGR of 10.6%). Assuming that manufacturers sell a system to the distributor at an average price of €180-220 (€450-550 in developed markets, €80-120 in emerging markets), we can estimate an annual global market aggregate turnover of some €550-650m, of which 60% (€330-390m) relates to LPG, and 40% (€220-260m) to CNG systems. Frost & Sullivan expect the market to grow at a 2006-2012 CAGR of 17.9%, with CNG growing faster than LPG (CAGR of 22.3% and 14.2% respectively in the same period).

1 - Breakdown by geographical area

The main markets for alternative fuel systems are Europe (with Russia and Turkey deserving a separate mention), South-West Asia and Latin America. Depending on the legislation, gas availability and customer attitudes in the country in question, each area (and each country in the area) has a different approach to LPG/CNG conversions.

Geographical breakdown by area of LPG and CNG kits sales in 2006





Source: Mediobanca Securities, Frost & Sullivan

Europe. In 2006, the four main European countries in this market (that is Italy, France, Germany and Poland) generated a 26.1% share of total LPG market revenues, but only 6.7% of CNG. The penetration of alternative fuels in some developed countries is relatively high (Italy, Germany), while in other European countries (namely France and Spain), penetration is extremely low or nil. In Italy, 72% of kits sold in 2006 (219k units, the sixth country in the world) were LPG, and we can estimate that LPG has a similar share of penetration in the market. The same penetration rate can be observed in Germany (with lower volumes, 116k units sold in 2006), while in Poland, CNG penetration is almost nil, but the LPG market is the seventh largest in the world (180k kits sold in 2006).

Russia and Turkey. These countries are among the major kit purchasers, ranked 2nd and 5th respectively for kits sold worldwide in 2006, with 350k and 250k units respectively (20% and 15% of total LPG sales respectively). Conversions are almost completely represented by LPG (98% in Russia, 100% in Turkey).

South-West Asia. This region, which in our analysis includes Iran, Pakistan, India and Bangladesh, represented 17.4% of LPG and 35.7% of CNG world sales in 2006. Thanks to the large availability of natural gas and an historical cultural habit of using CNG engines, Pakistan is today the world's largest market for alternative fuels (13.1% global share). LPG is also quite widespread, representing 31% of kits sold in 2006. India is also among the biggest markets, but unlike Pakistan there are no large gas extraction plants, and LPG represented 66% of kits sold in 2006. In Iran, where Landi Renzo is planning to open a subsidiary, CNG penetration is high, and no LPG kits were sold in 2006. Ths situation is similar in Bangladesh.

Latin America. This region, mainly driven by Brazil and Argentina, was the biggest purchaser of CNG conversion kits in 2006, with a 36.8% share. No LPG kits were sold, as LPG is only used by fleet (buses and trucks), and in some countries (such as Brazil) is forbidden for private use, because of the low quality that has caused several accidents and explosions in the past[1].

Breakdown by country of LPG and CNG kits sold in 2006

(000 units)	Total kits sold	o/w LPG	% LPG	o/w CNG	% CNG
Italy	219.0	159.9	73.0%	59.1	27.0%
France	16.0	16.0	100.0%	-	0.0%
Germany	116.5	93.2	80.0%	23.3	20.0%
Poland	180.0	180.0	100.0%	-	0.0%
Russia	350.0	346.5	99.0%	3.5	1.0%
Turkey	250.0	250.0	100.0%	-	0.0%
Iran	147.0	-	0.0%	147.0	100.0%
Pakistan	385.0	119.4	31.0%	265.6	69.0%
India	272.4	179.8	66.0%	92.6	34.0%
Bangladesh	77.0	-	0.0%	77.0	100.0%
China	28.0	1.4	5.0%	26.6	95.0%
Brazil	260.0	-	0.0%	260.0	100.0%
Argentina	150.0	-	0.0%	150.0	100.0%
LA others	38.0	-	0.0%	38.0	100.0%
Australia	75.0	75.0	100.0%	-	0.0%
ROW	375.1	300.8	80.2%	74.3	19.8%
TOTAL	**2,939.0**	**1,722.0**	**58.6%**	**1,217.0**	**41.4%**

Source: Mediobanca Securities, Frost & Sullivan

[1] Frost & Sullivan

2 - Penetration channels

Companies operating in the alternative fuel system market (hereafter "components manufacturers" or "CMs") can reach the final user through two channels: Original Equipment Manufacturers (OEM), in which we include "0 Km vehicles", that is vehicles in which the kit is installed by the car dealer, and the Aftermarket (AM). In both cases, there are three phases in the value chain, namely manufacturing, distribution and installation: subjects involved are either CM-OEM-car dealer (OEM channel) or CM-retailer-garage (AM channel).

OEM. There are two ways in which the CM could act in partnership with an OEM:

1. Component supplier: the CM supplies one or more components to the OEM (for example only the reducer or the injector), which arrange internally the components and the homologation of the full conversion system;
2. Full system supplier: the CM provides the whole conversion kit to the OEM, that is a system already engineered by the CM adapted to the OEM's requirements (such as exit pressure of the gas or injection parameters).

In this second case, the R&D functions of the CM and the OEM often work jointly, with greater input from the CM, which we believe is more than compensated by the strong collaboration relationship that could develop between the parties; moreover, a relationship with an OEM is clearly also a boost for the AM market, as car owners of a certain model are likely to ask the installer for the same system (i.e. the same brand) that the OEM installs in its new vehicles of the same model.

We believe that critical factors for success in the OEM channel are: 1) product quality (rather than price); 2) reliability of components; 3) flexibility of products (to satisfy OEM's requirements) and; 4) proximity to OEM plants.

In 2006 the OEM channel represented only a 15% share of total market sales, but, as we will see later in this note, this share is expected to increase considerably.

AM. CM's products are sold to a series of retailers usually widely distributed through the territory, which deal with the CM's area manager. Then, retailers re-sell single components or full systems to installers, namely garages and mechanics.

Success factors in the AM segment are, in our opinion: 1) good quality/price ratio; 2) establishment of long-term relationships with retailers and installers (through loyalty programs or prizes); 3) capillarity distributing network; 4) strong marketing to final customers and; 5) good after-sales assistance services.

In 2006, some 85% of sales derived from the aftermarket channel.

3 - Competitive structure & players

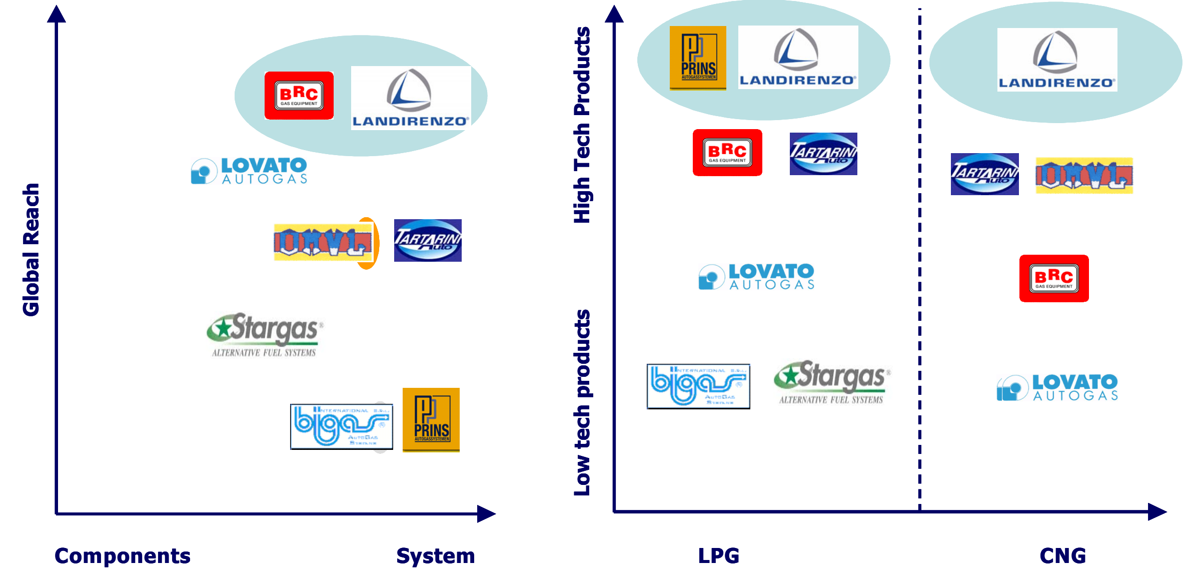
The global LPG and CNG alternative fuel systems market is quite consolidated, as the three main players together have a 50% market share[2]:

- Landi Renzo is market leader with a 23% share;
- BRC (Italy) is ranked second with a 17.5% share in LPG/CNG conversion, and it is part (with IMPCO) of Fuel System Solution, which also manufactures other components such as tanks;
- Lovato (also Italian) is third in the market with a 9.5% share.

In some countries, the market is dominated by one single player (Landi Renzo in Pakistan and Pressos in Brazil holding more than a 45% market share), while other countries could definitely be defined as consolidated (Italy, France, Turkey). In others, there are a lot of small local players in as market could be described as fragmented (Russia, India, China, Germany). Moreover, market players vary according to size, localization, strategy and product range. We can segment the market by:

1. LPG/CNG: CMs could be active in both fuel systems (Landi Renzo, BRC, Lovato) or in only one (Prins, OMVL);
2. Geographical reach: some players (Landi Renzo, BRC, Lovato) operate globally, distributing products in more than two continents, while other players (Prins, Tartarini) have a more local approach;
3. Components or systems supplier: some CMs specialise in some components of the kit (Lovato, Stargas), while other CMs act as full-system suppliers (Landi Renzo, Prins);
4. Technologic level: some players prefer to address the low end of the market, with lower quality and priced products (Lovato, BRC in CNG), while other players pay more attention to R&D, quality and high-end technology (Landi Renzo and Prins).

Market operators by product, global reach and technology level



Source: Mediobanca Securities, Company data

2 Source: Frost & Sullivan

Recent market trends: outstanding growth...

In the recent past (2004-2006), the alternative fuel system market recorded a CAGR of 10.6%, moving from 2.4m to 2.9m units sold worldwide. The main trends are:

1. CNG has grown more than LPG: the number of CNG kits sold rose from 928k in 2004 to 1,217m in 2006 (14.5% CAGR), while the number for LPG increased from 1.4m to 1.7m (8.1% CAGR). The CNG share of total alternative fuel kits sold rose from 38.7% to 41.4% in the same period;
2. In the **LPG** market, Germany, Pakistan[3], Australia and India recorded the highest CAGRs (128%, 54.3%, 53.1% and 39.9% respectively). Among the main markets, only Poland and China recorded negative growth, but the Polish decrease was considerably higher in volume terms (from 330k in 2004 to 180k units sold in 2006, -42% last year). The CAGR for the European market in 2004-2006 CAGR was 6.4%, vs. 43.5% for Asia;
3. In the **CNG** market, Germany was by far the fastest growing country (+239% CAGR, from 2k to 29k units sold), followed by India (69.6% CAGR) and China (29.9% CAGR). Asia recorded a CAGR of 23%, and is still the leading region in volume terms, while Latin America (second in volumes terms) grew at a CAGR of 6.1%, and Europe at a CAGR of 39.8%.

Geographic breakdown by product of world markets

	LPG kit sales (000)			CNG kit sales (000)			Total kit sales (000)			
Country	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**	**`04-`06 CAGR**
Asia & Pacific	**182.0**	**241.0**	**375.0**	**402.0**	**514.0**	**608.0**	**584.0**	**755.0**	**983.0**	**29.7%**
China	8.0	2.0	1.0	16.0	20.0	27.0	24.0	22.0	28.0	8.0%
Bangladesh	-	-	-	50.0	62.0	76.0	50.0	62.0	76.0	23.3%
India	92.0	134.0	180.0	32.0	59.0	92.0	124.0	193.0	272.0	48.1%
Pakistan	50.0	63.0	119.0	198.0	248.0	266.0	248.0	311.0	385.0	24.6%
Iran	-	-	-	106.0	125.0	147.0	106.0	125.0	147.0	17.8%
Australia	32.0	42.0	75.0	-	-	-	32.0	42.0	75.0	0.0%
Latin America	**-**	**-**	**-**	**398.0**	**381.0**	**448.0**	**398.0**	**381.0**	**448.0**	**6.1%**
Brazil	-	-	-	184.0	206.0	260.0	184.0	206.0	260.0	18.9%
Argentina	-	-	-	184.0	140.0	150.0	184.0	140.0	150.0	-9.7%
Others	-	-	-	30.0	35.0	38.0	30.0	35.0	38.0	12.5%
Europe	**937.0**	**1,040.0**	**1,060.0**	**44.0**	**61.0**	**86.0**	**981.0**	**1,101.0**	**1,146.0**	**8.1%**
Italy	125.0	137.0	160.0	37.0	49.0	58.0	162.0	186.0	218.0	16.0%
France	10.0	12.0	16.0	-	-	-	10.0	12.0	16.0	0.0%
Germany	18.0	31.0	94.0	2.0	7.0	23.0	20.0	38.0	117.0	141.9%
Poland	330.0	310.0	180.0	-	-	-	330.0	310.0	180.0	0.0%
Russia	254.0	300.0	345.0	5.0	5.0	5.0	259.0	305.0	350.0	16.2%
Turkey	200.0	250.0	265.0	-	-	-	200.0	250.0	265.0	0.0%
ROW	**352.0**	**327.2**	**285.4**	**84.0**	**81.5**	**74.5**	**436.0**	**408.7**	**359.9**	**-9.1%**
USA	0.0	0.2	0.4	-	0.5	1.5	0.0	0.7	1.9	
Others	352.0	327.0	285.0	84.0	81.0	73.0	436.0	408.0	358.0	-9.4%
TOTAL	**1,471.0**	**1,608.2**	**1,720.4**	**928.0**	**1,037.5**	**1,216.5**	**2,399.0**	**2,645.7**	**2,936.9**	**10.6%**

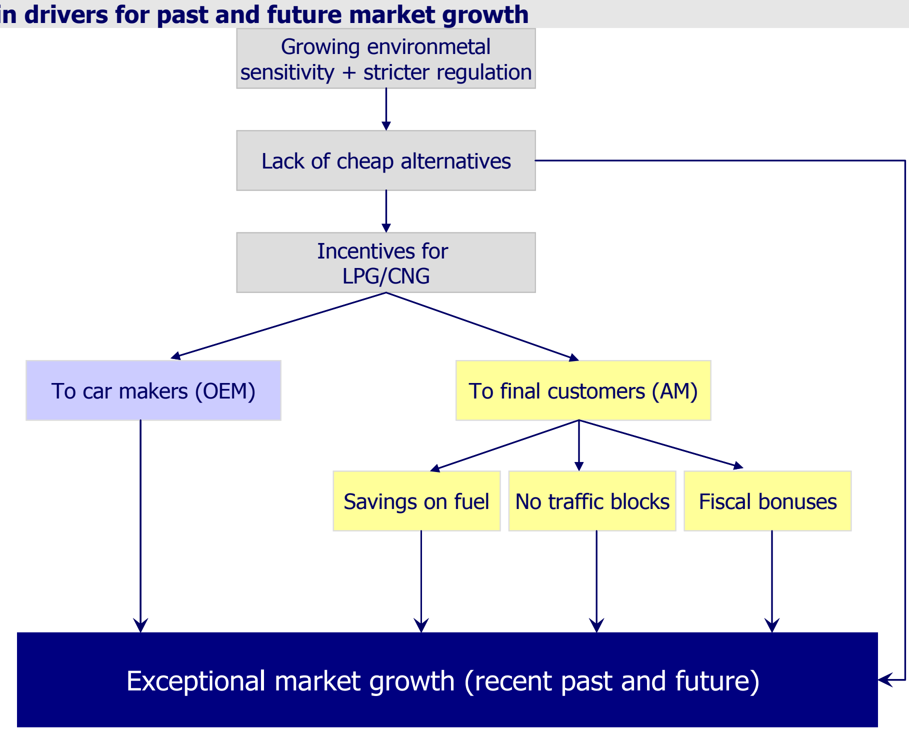
Source: Mediobanca Securities, Frost & Sullivan

3 In Pakistan the LPG conversion market is for the largest part illegal; this consideration should be taken into account analyzing the sales data in Frost & Sullivan's research.

...driven by several factors...

The outstanding recent growth in the alternative fuel systems market has been driven by many concomitant factors that, together, are providing exceptional momentum. All country markets grew, and all players recorded high sales growth. We can summarise these factors as: 1) growing environmental sensitivity; 2) favourable regulations; 3) public incentives; 4) financial saving for customers; 5) lack of cheaper available alternatives.

Main drivers for past and future market growth



Source: Mediobanca Securities

1) Growing environmental sensitivity...

Global warming, limited oil deposits and most of all damages to public health due to high pollution in urban centres are of increasing concern to public authorities but also to industrial companies and citizens. Alternative fuels such as LPG and CNG in auto traction significantly reduces harmful vehicle emissions such as carbon dioxide (CO_2), carbon monoxide (CO), nitrogen oxide (NOx) and particulate matter (PM10). In details:

- **LPG**: CO_2 emissions are some 10% lower than gasoline, and it offers significant improvements in CO, NOx and PM10 emissions;
- **CNG**: CO_2 emissions are some 20% lower than gasoline, CO and NOx emissions are much lower and there is no PM10 emission at all[4].

The media has also increased its focus on environmental matters, pushing up demand for environmentally-friendly means of transport.

4 Source : Mediobanca Securities

2) …leading to new stricter regulation…

In response to such sensitivity, since 1998 all developed countries have begun to issue regulations affecting most industrial sectors (automotive included), in order to limit energy waste, harmful emissions and preserve natural resources. Examples of such regulation or initiatives include:

- The Kyoto Protocol, which (among other rules) forces developed countries to reduce greenhouse gases by 6.5% by 2010;
- EU Parliament (together with a strict timetable for OEM as regards emission standards for Euro I-V categories) approved the 2003/30CE directive that sets a 20% target for vehicles using alternative fuels by 2020;
- The EU Commission will propose legislation to make European carmakers reduce the average CO2 emissions of new vehicles to 130g/km by 2012 on average. This means that an OEM has two choices:
    a. produce smaller and less powerful models, to smooth the impact of its high-end models, or;
    b. produce models with alternative fuels and lower emissions.
- For some OEMs, solution a) is the most feasible, as they are already present in the low end A-B-C segments, but other car makers (namely German ones) could prefer solution b), to preserve their brand image in higher segments;
- Many countries (India, Pakistan, Russia) are forcing the conversion of all public fleet (buses, taxis) to alternative fuels;
- Many countries are collaborating with OEM or fuel producers (Gazprom in Russia) to boost and provide incentives to research and the use of alternative fuels;
- Some countries control gas prices (in Russia it may not exceed 50% of petrol costs);

We will review regulation country by country in the "Future outlook" section, as we believe this is a crucial point for market development.

3) …that jointly with lack of cheap alternatives in the short term…

Besides LPG and CNG, some other technologies are available in the auto traction sector, or will become so in the future. We believe that in the short term, that is 3-8 years, the real "substitute" product could be ethanol, while thereafter, hydrogen gas and hybrid could penetrate the market.

Outlook for present and future alternative fuel technologies: pros and cons

	Gas (CNG, LPG)	Biodiesel / Bioethanol (1st and 2nd generation)	Gas to Liquid / Coal to Liquid	Hydrogen / Fuel Cell	Hybrid Technology
Environmentally Friendly	✓	✗/✓	✓	✓	✓
Availability of Technology	✓	✓	✓	✗	✓
Affordability	✓	✓	✗	✗	✗
Short Term Outlook	✓	✓	✗	✗	✗
Long Term Potential	✓	✓	✗	✓	✓
Infrastructure	✓	✗	✗	✗	✓
Public Perception	✓	✓	✗	✓	✓

Source: Mediobanca Securities, Company Data

In the short term ethanol and bio diesel are the only alternatives to LPG/CNG

Ethanol**.** Brazil has the largest national ethanol fuel industry, with almost 50% of cars able to use ethanol as fuel (ethanol only engines and flex fuel engine). We believe the reason is that ethanol for fuel use is obtained by fermenting sugar or cereal grain, and its production is therefore linked to agricultural availability. The pros of ethanol are:

1. technology is already available;
2. it has low emissions, similar to CNG[5], as regards some pollutants;
3. there is no danger of explosions if the kit is installed improperly.

Ethanol also has some cons, namely:

1. its price is much more volatile than that of petrol and gas, as it is linked to agricultural seasonality;

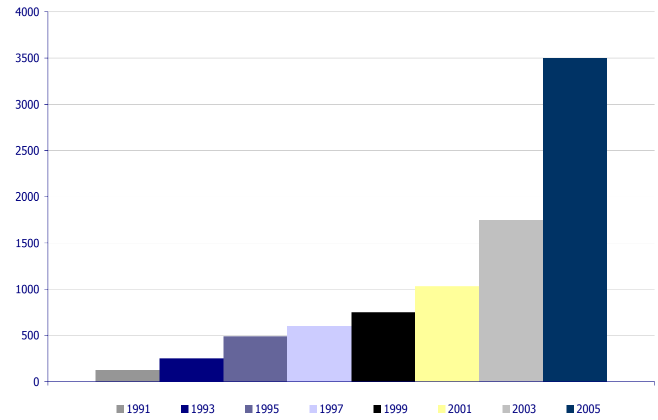
5 Source: AEAT – "Ethanol Emission Testing". Please see also note 7

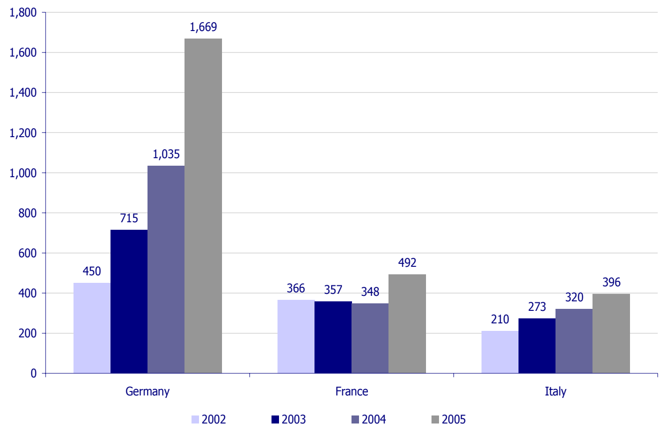
2. it is not so common in developed countries (only the US has part of its public fleet using ethanol mixed with petrol as fuel, so there is not enough infrastructure to support growth;
3. if its use increases, with many countries becoming importers, its price is destined to increase considerably, meaning that it will no longer represent a cheaper alternative: for example, the amount of ethanol needed to run cars in the US is greater than its own farmland could produce, even if fields used for food were converted into cornfields;
4. there is no common view on its real environment friendly feature[6].

Moreover, there is not unanimous consensus that it is actually environmentally friendly, as some scientists calculate that ethanol production takes nearly as much energy (through natural gas based fertilizers, farm equipment, transformation from corn or other materials, and transportation) as the ethanol itself produces when put to work.

Biodiesel. Biodiesel refers to a diesel-equivalent, processed fuel derived from biological sources (such as vegetable oils), which can be used in unmodified diesel-engine vehicles. Some researches[7] are extremely bullish about future global growth in the biodiesel market, as the graph shows. According to the research, it is possible that biodiesel could represent as much as 20% of all on-road diesel used in Brazil, Europe, China and India by the year 2020.

Biodiesel market consumption growth in the past (million litres) and details of Germany, France and Italy





Source: Mediobanca Securities, Frost & Sullivan

Although Europe currently represents 90% of global biodiesel consumption and production, the US is now ramping up production at a faster rate than Europe, and Brazil is expected to surpass the US and European biodiesel production by the year 2015. We would be somewhat more cautious about the development of this kind of alternative fuel. In fact, biodiesel produces between 10% and 25% more nitrogen oxide than petrodiesel, and many important countries (such as France, Italy, UK and Russia) lack availability and refuelling stations.

6 Some researchers affirmed that ethanol needs high energy consumption for its production. There is also evidence that ethanol has higher emissions than other alternative fuels as regards some pollutants

7 For example "Biodiesel 2020: a global market survey"

In the long term hybrid and hydrogen engines could penetrate the market

Hybrid (petrol or gas + electric engine). Another environmentally-friendly solution in the car industry is hybrid technology, that is one or more electric engines coupled with a normal engine (often acting as a recharger). This technology does not represent a real substitute for LPG/CNG, because the recharging engine could be a LPG/CNG engine or a petrol engine converted into LPG/CNG.

Hydrogen. In the long term, that is at least 8-10 years, hydrogen technology could significantly penetrate the car engine market, as many people are hoping. The main problem that prevents this technology from expanding is the volatility of hydrogen, which implies high-cost components and instable engines, but also its production and its distribution created problems for hydrogen penetration. Hydrogen could be used either in liquid or gaseous form. Liquid hydrogen engines have already been developed (for example by BMW), but at very high cost. Gaseous hydrogen, on the contrary, has not yet been implemented due to its volatility, but if manufacturers' R&D departments manage to control it, the components of the engine should not be very different from the current CNG (that is a gas) technology, so CNG system manufacturers could also be able to produce hydrogen systems.

4) …translates into incentives for LPG/CNG customers…

Clearly, regulation is much more effective if citizens are also provided incentives to buy cars running on alternative fuels. This kind of incentive could be in the form of:

a. a cash discount to buy a conversion kit;
b. tax exemptions or fiscal bonuses;
c. access to restricted areas (town centres) or permits during traffic-block days.

Again incentives to customers country by country are reviewed in more detail in the next section.

5) …increasing savings already deriving from the use of alternative fuels

CNG has another immediate advantage for customers: the price per 10 km run is much lower than petrol or diesel (CNG=€0.35 vs. petrol=€1.23 and diesel=€0.79). The same is true for LPG with respect to petrol, while the cost is more or less the same of diesel (LPG=€0.78).

Analysis of money saved using an alternative fuel (developed countries)

	Petrol	Diesel	LPG	CNG
Cost for 1Lt/Kg (€)	1.23	1.13	0.65	0.58
Consumption to run 10Km (Lt or Kg)	1.00	0.70	1.20	0.60
Total cost to run 10Km	1.23	0.79	0.78	0.35
Saving compared to petrol	-	-35.7%	-36.6%	-71.7%
Km run with 1 €	8.13	12.6	12.8	28.7
Additional Km with 1 €		4.5	4.7	20.6
Cost of kit* (€)	No kit	No kit	1,300	1,500
Full amortization vs. petrol after (Km)			28,900	17,000
Full amortization vs. diesel after (Km)			>1m	33,800
Money saved in car life vs. petrol (200k Km)			7,700	16,140
Money saved in car life vs. diesel (200k Km)			-1.080	7,360

* No incentive or fiscal bonus included
Source: Mediobanca Securities, Company Data, Other Industrial Sources

Looking at the price paid by a customer for the conversion in the aftermarket of a developed country, we note that a CNG kit offers savings against petrol after 17,000 km and against diesel after 33,800 km. LPG only saves on costs compared to petrol, while it does not offer savings compared to diesel, as the cost of the kit is not amortised assuming a car life of 200,000 km. Note that our analyses do not include any incentive or fiscal bonus, which would obviously have a positive impact on savings offered by LPG/CNG.

Cost saving has a greater relevance for customers on emerging markets, and this is one of the reasons why certain areas (namely South-West Asia, Latin America and Eastern Europe) are recording faster growth rates (together with a need for less pollutant vehicles and the presence of natural gas deposits).

…that should continue to drive the market up in the future

As we said previously, all these factors should give rise to a strong growth momentum for the LPG/CNG market, and allow for further growth in the future. Before a brief trends analysis by product, channel and area, we would like to summarise what we believe are the main threats for the market.

Threats not likely to have much effect…

We believe that the main threats for the LPG/CNG market are not likely to have much effect, at least in the near future. We think the following are threats: 1) customer reluctance to change and; 2) lack of infrastructure and critical mass.

Customer reluctance The final customers' main concerns about alternative fuels are, in our opinion:

1. Loss of performance;
2. Loss of space in the trunk;
3. Danger of explosions;
4. Impossibility of entering public underground car parks;
5. lack of refuelling stations.

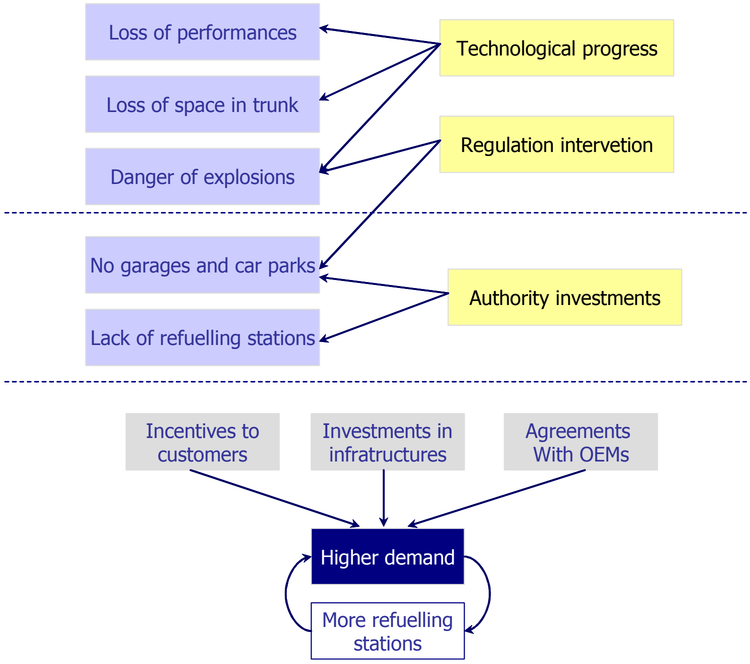
We believe that issues 1), 2), 3) and 4) were real issues a few years ago, when alternative fuel technologies were not so well developed. In fact, nowadays:

1. the performances of LPG and CNG engines are no more than 5-10% lower than petrol engines if converted, and very similar to petrol engines if already designed and installed by the OEM;
2. the loss of space is becoming increasingly insignificant, and there is no loss at all if the system is implemented by the OEM;
3. product quality and security are much higher than in the past, and kits can now be considered fully safe;
4. many car parks now allows LPG/CNG car entry, if the homologation of the system is recent enough; it is up to public authorities to recognise that the safety of LPG/CNG systems has increased, and perhaps reconsider the restrictions on entering certain car parks.

We believe that these four issues are now more related to customers' "psychological" attitude rather than real technical problems, and that incentives and cultural teaching could smooth their impact on the market.

Lack of infrastructure and critical mass This issue can also be resolved by the authorities, through incentives to customers, investment in infrastructure, and agreements with OEMs and fuel distributors. An increase in the number of refuelling stations would eliminate the fifth customer concern, leading to higher demand for further LPG/CNG systems and hence further refuelling stations. Moreover, there is no danger of shortages or price fluctuations.

Main concerns about alternative fuels and their possible resolution



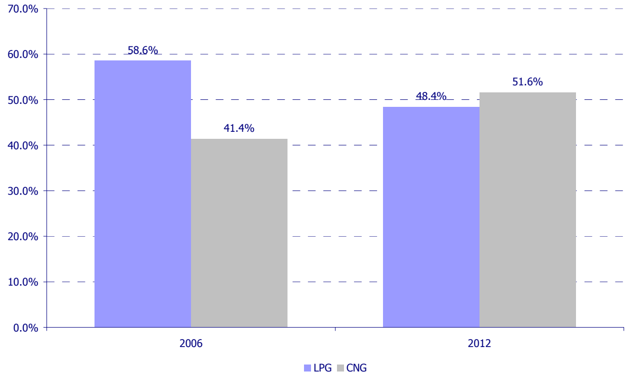
Source: Mediobanca Securities

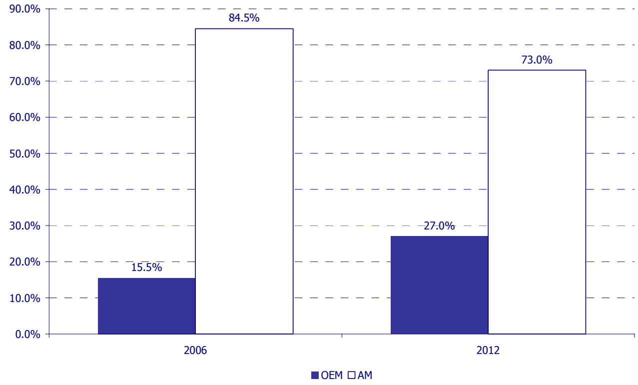
…so this is what we expect!

All this considered, we believe that the market's bullish expectations are sustainable. A study by Frost & Sullivan (F&S) projects a global market 2006-2012 CAGR (LPG+CNG) of 17.9%. In such a favourable context, we believe that:

1. **CNG should grow more than LPG**: F&S expects CNG share to rise from 41.4% in 2006 to 51.6% in 2012. This is due to the plans of some governments to reduce dependence on oil derivatives (Latin American countries, India, Pakistan) focusing their incentives on CNG, together with the already mentioned greater economic advantages CNG offers customers;
2. **OEM should grow more than AM**: OEMs, especially in developed countries, are now beginning to focus their R&D efforts on reducing emissions and creating environmentally friendly engines. One available and relatively cheap solution is the installation of LPG/CNG kits during the production process, in collaboration with a specialist manufacturer. This is the reason why F&S is expecting the OEM share to reach 27% in 2012 (vs. 15% as of 2006);

LPG/CNG and OEM/AM market trends 2006-2012





Source: Mediobanca Securities, Frost & Sullivan

Note: it is clear that the development of alternative fuels worldwide has no correlation with usual macroeconomic data (such as GDP) nor, as we may imagine, directly proportioned to the number of cars in the country. As we said above, the top consumers include emerging/poor countries (Pakistan, Iran, Brazil), and the absence of certain developed countries (Spain, France, Japan, the US) is also obvious. LPG and CNG use is linked to specific conditions such as customer habits, gas availability and governments' previous attention to environmental issues.

Correlation between alternative fuels development and macroeconomic data

Country	2006 GDP Growth %	2006 GDP per capita (000$)	No. of vehicles (000 units)	2006 LPG+CNG Sales (000 units)
Italy	1.6%	30.7	39,089	27.0
France	2.0%	30.7	36,298	77.0
Germany	2.2%	31.0	49,223	272.4
Poland	5.3%	14.8	14,723	385.0
Russia	6.6%	12.1	30,387	147.0
Turkey	5.2%	9.1	14,400	75.0
Iran	5.0%	8.6	5,400	260.0
Pakistan	6.5%	2.8	6,050	150.0
India	8.5%	3.7	83,000	38.0
Bangladesh	6.1%	2.3	n.a.	219.0
China	10.5%	7.6	25,000	16.0
Brazil	2.8%	9.1	34,650	116.5
Argentina	8.5%	15.9	n.a.	180.0
USA	3.4%	43.4	205,000	350.0
Australia	2.8%	32.9	14,000	250.0
Correlation with 2006 LPG+CNG sales	**-25.4%**	**32.8%**	**25.0%**	

Source: Mediobanca Securities, CIA world factbook, IMF

For these reasons we believe that, given the peculiarities of each country market, a brief description of country trends (2006-2012 growth by channel and by product) and of the main drivers and restrictions could be useful (Appendix 5).

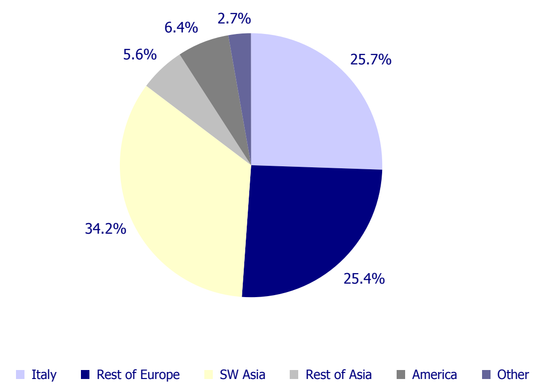
Company Overview

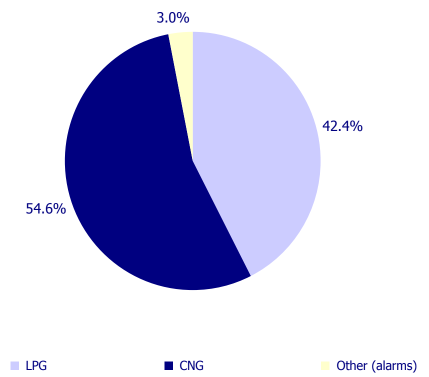
Landi Renzo SpA ("Landi" or "the company" or "the group") manufactures Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) alternative fuel systems for cars and light commercial vehicles (LCV). The company started works in 1954, and has maintained technological leadership in its sector since then. We believe the alternative fuel systems market is now at a turning point, as evidenced by Landi's recent growth. Specifically:

- in 2006 Landi generated revenues of €138.7m vs. €92.3m in 2005 (+50.3% YoY) and €64.5m in 2004 (2004-06 CAGR of 46.7%)[8];
- EBITDA rose from €8.9m in 2004, to €19.4m in 2005 and €30.3m in 2006 (2004-06 CAGR of 84.3%), with an increase in the EBITDA margin from 13.8% in 2004 to 21.8% in 2006;
- net profit grew at a CAGR 2004-06 of 127.1%, from €3.2m to €16.7m.

Landi Renzo has a global market share of 23% in its reference market. In 2006, the LPG segment accounted for 42.4% of turnover, the CNG division for 54.6%, while the remaining 3% was represented by an ancillary business (car alarm systems).

Geographical breakdown by area of LPG and CNG kits sales in 2006





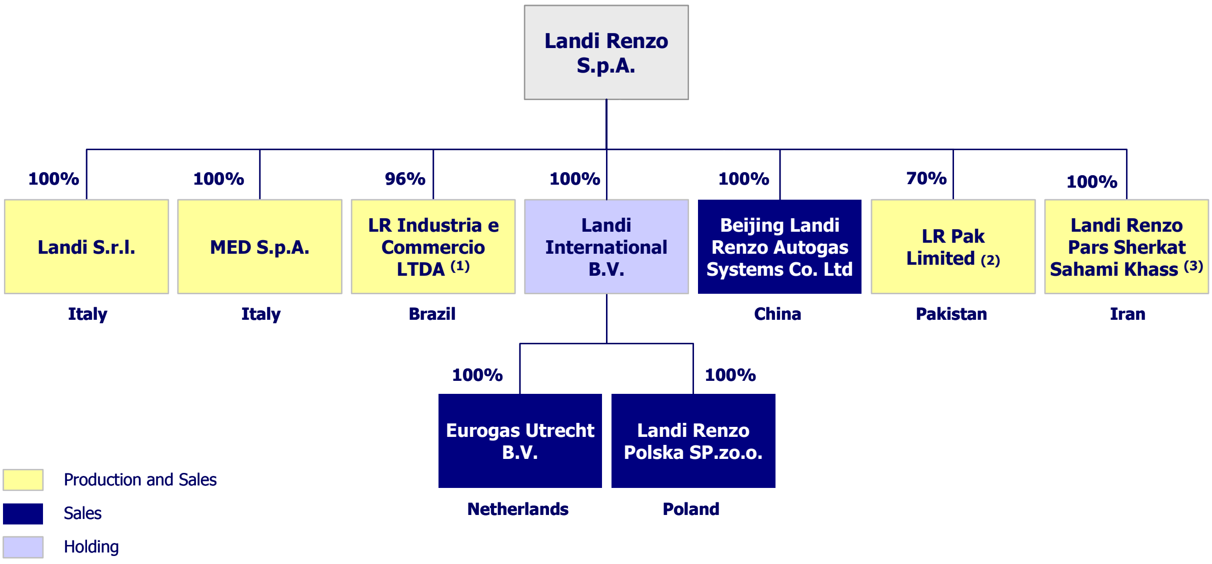
Source: Mediobanca Securities

[8] all 2004 information was prepared under Italian GAAP, while all 2005 and 2006 information is prepared under IFRS.

Group structure

Landi Renzo SpA is a holding company that directly controls subsidiaries in seven countries spread all over the world. It holds shareholdings of 100% in all these subsidiaries, except 4% held by minorities in Brazil and 30% held by minorities in Pakistan.

Landi Renzo Group structure



(1) Remaining 4% stake is owned by local partners
(2) Remaining 30% stake is owned by local partners
(3) Landi Renzo committed to transfer a 25% stake to Iranian company Iran Carburettor

Source: Mediobanca Securities, Company data

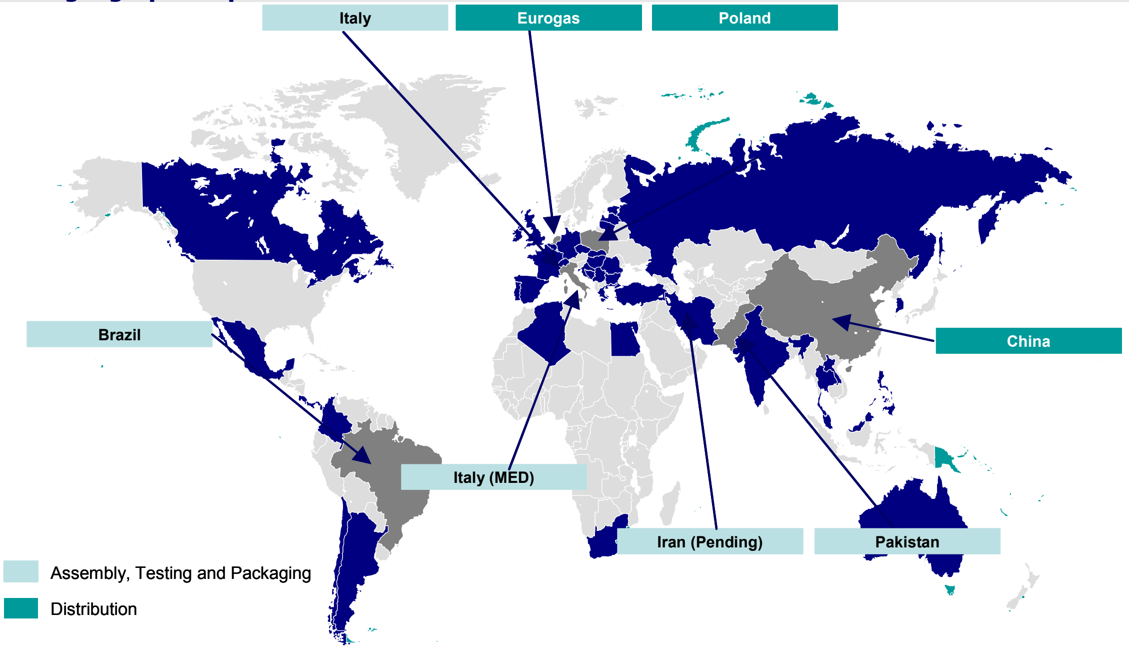
In 2006, it had 396 employees worldwide, but we expect 40-50 new hirings over the next few years.

Geographical presence and competitive positioning

Landi sells its products in six continents (the blue areas in the chart below), but its geographical positioning is strongly rationalised: the group has a plant or a distribution centre in all the main world markets:

1. its production plants are located in Italy, Brazil (serving Latin America) and soon in Pakistan (the region of South-East Asia is currently served directly by Italy). The group is also interested in opening a plant in Iran;
2. distribution centres are located in China, Netherlands (Eurogas, serving Northern Europe) and Poland (serving Eastern Europe).

Landi Renzo: geographical presence



Source: Mediobanca Securities, Company data

As we have said, there is no correlation between the development of a country's economy and the penetration of alternative fuels, so the main markets are fairly heterogeneous by their location and characteristics. Most markets have a medium/high level of consolidation (we consider a market as consolidated when the three main players have a market share higher than 40%).

Competitive positioning

By area. Landi Renzo is among the market leaders in most countries in which it operates, with its presence strongest in Italy, Germany, Russia, Pakistan and China.

LPG/CNG markets: level of consolidation

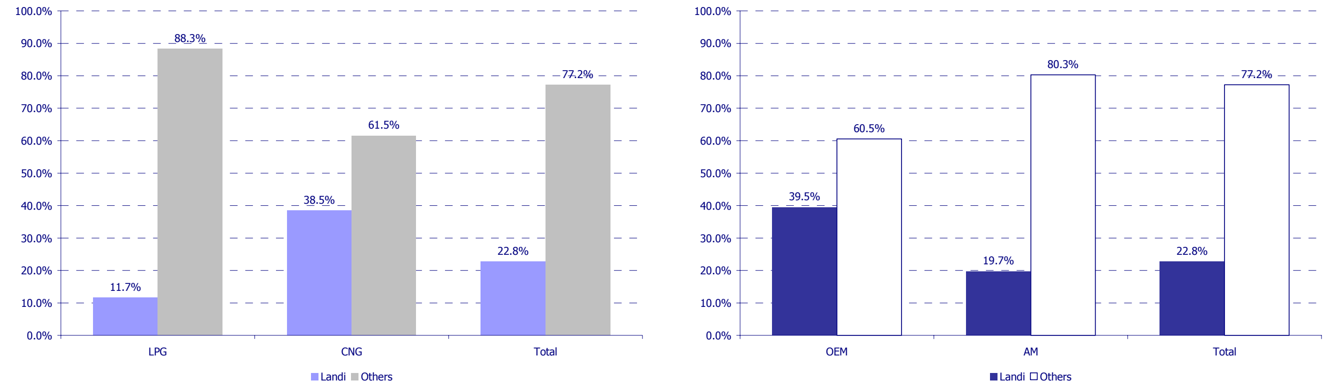
	Consolidation	Main 3 players market share	Landi's Pos. in LPG	Landi's Pos. in CNG	Landi's overall mkt share
Italy	High	67.0%	#1	#1	35.0%
France	High	86.7%	Weak	Weak	<10%
Germany	Medium	49.0%	#2	#1	11.7%
Poland	Medium	48.0%	#4	-	11.0%
Russia	Medium	47.3%	#2	-	17.7%
Turkey	High	80.0%	Weak	-	n.a.
Iran	Low	n.a.	-	Good	20.0%
Pakistan	High	71.4%	#1	#1	49.0%
India	Medium	47.7%	#3	#3	10.1%
Bangladesh	High	n.a.	n.a.	#1	56.8%
China	High	60.8%	#2	#2	22.0%
Brazil	High	84.0%	-	#3	20.0%
Argentina	Medium	55.0%	-	Weak	5.0%
World	Medium	50.0%	#1	#1	23.0%

Source: Mediobanca Securities, Frost & Sullivan, Company data

By product. Landi has an 11.7% market share in the LPG market, which is bigger, more widespread and much more fragmented; the group is easily market leader in CNG systems, with a market share of 38.5%.

By channel. In the OEM market, Landi is market leader with a 39.5% share, and has a consolidated relationship with many major car makers, mainly in Europe and Asia. In the AM market, by definition more fragmented and with a much broader range of products (and quality), the company has a very high market share of 19.7%.

Landi Renzo's market share by product and by channel (2006)



Source: Mediobanca Securities, Frost & Sullivan, Company data

By Brand. Landi Renzo operates through three brands, namely Landirenzo, Landi and Eurogas. Each brand has a different market approach (according to client, geography, technology), as summarised in the table below.

Positioning of Landi Renzo's three brands

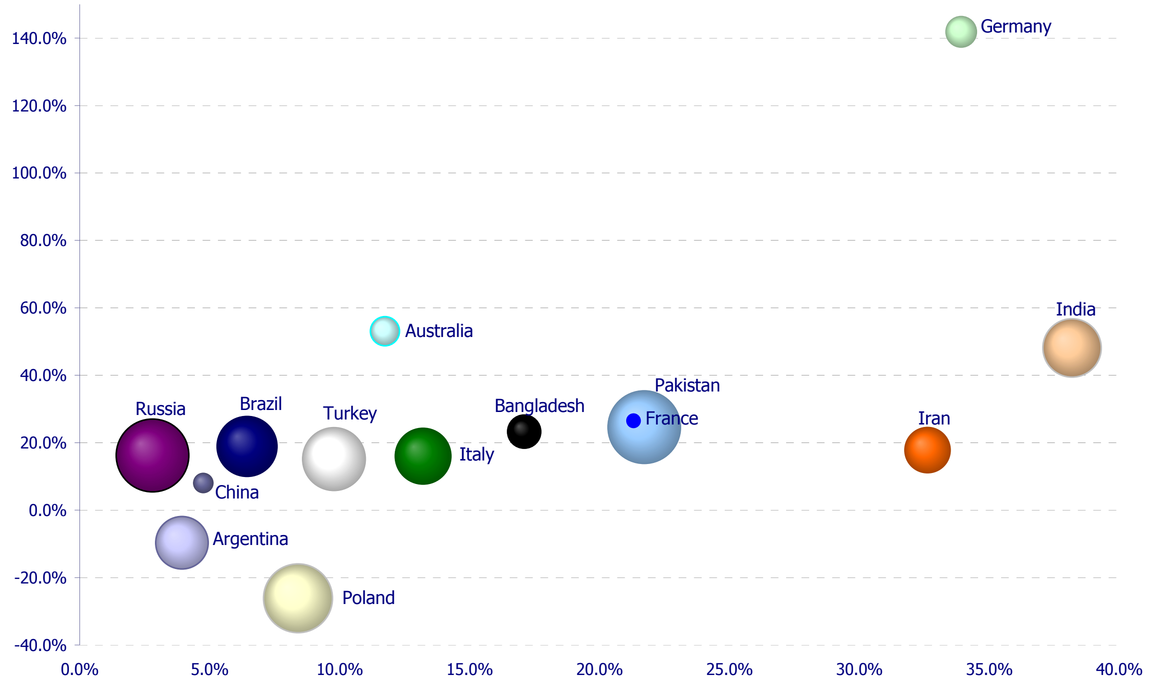
	Geographic Footprint	Product	End Markets	Positioning
LANDIRENZO	Worldwide	CNG LPG	Aftermarket OEM	Premium
EUROGAS Autogas Systems	Western Europe	LPG	Aftermarket OEM	High end
LANDI AUTO GAS EQUIPMENT	Italy Eastern Europe	LPG	Aftermarket	Mass market

Source: Mediobanca Securities, Company data

How is Landi Renzo positioned in interesting markets?

We tried to understand what are the most interesting country market for alternative fuel system makers, by placing them in a chart indicating recent growth (vertical axis), expected 2006-2012 CAGR (horizontal axis) and size (bubbles).

Map of country markets by size (bubbles), recent (vertical axis) and expected growth (horizontal axis)



Source: Mediobanca Securities, Frost & Sullivan

The figure shows that:

1. The market expected to grow at an higher rate is India, followed by Germany and Iran. India is also quite big with respect to others. Landi is quite well positioned in India, thanks to its presence in Pakistan, but opening a plant or a distributive centre in that country could be a rational move. Landi is already planning to open a plant in Iran (it should be operative from H2 07), while in Germany its penetration stands at 11.7% with upwards trend;
2. The biggest market is Pakistan, that is also expected to record >20% CAGR in 2006-2012 period and is therefore very interesting. Landi is by far leader in this country with a 49% market share;
3. Italy, Turkey and Poland are similar in size (among top 5 countries) and in expected growth (8-13% '06-'12 CAGR); Landi is leader in Italy and well positioned in Poland, but almost absent in Turkey;
4. Big markets such as Russia, Brazil and Argentina are somehow more mature;
5. Smaller markets (France, Bangladesh) can also be considered as interesting.

As a result, we reckon that Landi is very well positioned to exploit the various market growth trends.

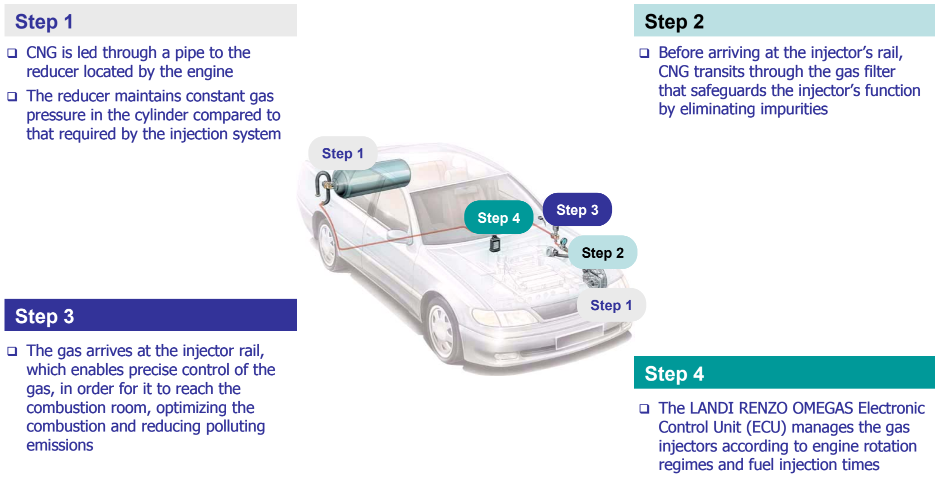
Product portfolio

Landi Renzo acts as a full system supplier, both in the OEM and AM channels. With some slight differences between LPG and CNG and depending on the original engine (injection, mixer based, carburettor), a conversion kit comprises:

1. tanks, pipes and filters;
2. pressure reducers and vaporiser (LPG);
3. valves / electrical valves;
4. injectors;
5. electronic control unit;
6. switches;
7. air/fuel mixers.

This is an example of how a CNG conversion system works:

How a kit conversion kit works



Source: Company data

Landi's product portfolio includes all these components except those with a lower technological content, that is tanks, pipes and filters.

Landi Renzo product portfolio

Engine type	Component	CNG	LPG
Multipoint Injection	Pressure Reducer	NG1 or NG2	IG1, LI02
	Electronic Control Unit	OMEGAS Plus ECU	OMEGAS Plus ECU
	Injector Rail	GI	GI
	Switch	OMEGAS Switch	OMEGAS Switch
Mixer Based System	Pressure Reducer	TN1b or CN04	SE81, EC04
	Electronic Control Unit	V05, LC01, LCS Plus, LCS/2 ECUs	V05, LC01, LCS Plus, LCS/2 ECUs
	Injector Rail	Stepper Motor Actuator, Air/Fuel Mixers	Stepper Motor Actuator, Air/Fuel Mixers
	Switch	V05, LC01, LCS Plus, LCS/2 Switch	V05, LC01, LCS Plus, LCS/2 Switch
Carburettor Vehicles	Pressure Reducer	TN1a, TN1b, CN04	SE81, Renzomatic
	Injector Rail	Mixers, Petrol solenoid valve	Mixers, Petrol solenoid valve
	Switch	094, 100 families	094, 100 families

* All systems are also made up of tanks, pipes and gas filters, which Landi Renzo does not manufacture

Source: Mediobanca Securities, Company data

As we will discuss below in the paragraph on the business model, Landi does not internally manufacture all components, but is responsible for the assembly of some components, as well as all testing and packaging. Landi Renzo is also involved in the installation process, as it organises training courses and seminars for installers, and using its expertise, can also help installers or OEM technicians to optimise and enhance engine performance after conversion. Moreover, Landi also has a highly developed after-sales assistance services.

Key features of the business model

The key features of Landi Renzo's business model are: 1) the outsourcing of most phases of production, with 100% of R&D, testing and packaging carried out in-house; 2) a top-ten countries approach; 3) a focus on R&D; 4) attention to quality (of products and suppliers), and; 5) the offering of related services (training courses, loyalty programmes for distributors and after-sales assistance).

Outsourcing vs. in-house activities

The three phases of the production process are: assembly, testing and packaging. According to the management, Landi only assembles internally the NG models of injectors and reducers for CNG systems, meaning that around 90% of assembly (reducers and injectors) is outsourced. In contrast, the delicate phase of testing is completely carried out in-house.

The pros of outsourcing are:

1. <u>Flexibility in production</u>: Landi Renzo can easily increase or decrease its final output by creating or closing new contracts, without concerns that plant and machinery will not be fully utilised;
2. <u>Lower fixed costs</u>: outsourcing production is reflected in a higher level of variable costs;
3. <u>Lower capex requirement</u>: Landi Renzo can concentrate its financial resources on R&D rather than on industrial investments.

The cons, on the other hand, are:

1. <u>Substitution risk</u>: even if every individual supplier of Landi is responsible for a single part of the whole assembly process, the risk of unauthorised copies is higher;
2. <u>Longer testing phase</u>: the group needs to spend longer testing all the components supplied, given its strong focus on the quality of its final products.

Top-countries approach

In a market that grew at a CAGR of 10.6% in 2004-2006, Landi Renzo recorded a revenues CAGR of 46.7% in the same period. Growth was mainly driven by the introduction of new premium price products, but we believe that it was also due to Landi Renzo's strong presence in the fastest-growing markets. In the 2004-2006 period, Landi Renzo decided to concentrate its expansion efforts in the countries with the highest volumes or the best growth forecasts, regardless of their geographical positioning. Germany, India, Pakistan and Brazil were the best performers, and Landi's market share is high in those countries. Germany, India, Pakistan and Iran (where Landi is planning to open a plant) are expected to be among the markets with the highest growth, so Landi should continue to benefit from this "top-countries approach". Landi also has a plant or distribution centre in many other mature markets (for example, Italy and Poland).

Strong focus on R&D

Landi's focus on research and development is demonstrated by the number of employees working in the R&D department (74 out of a total 396) and by R&D expenses (an average 3.5% of sales). The R&D department is among the most advanced in the sector, and represents the qualitative standard for other operators. Because of its work in R&D, Landi is recognised as the technological leader in its markets, which justifies the price premium of its products vs. its competitors'. Landi is owner of 41 patents (expiring on average in 2018), and produces more than 165 different products.

As an example of Landi's technological advantage over its peers, note that the company has developed the first electronic reducer, considered a revolutionary product. This reducer will be on the market in 2008, and will allow a price premium of some 20% on the whole LPG/CNG system. Another example is the new self-calibrating ECUs, which may considerably reduce the time spent calibrating spent by installers (thus boosting their loyalty to Landi products).

Attention to quality

Besides R&D, we believe Landi also sets the quality standards in the industry. Landi and MED were the first companies in the gas sector to achieve the important ISO/TS 16949 certificate, which requires higher qualitative standards than ISO 9001. Moreover, 200 out of the company's 450 domestic installers and distributors are ISO 9001 certified. This certification focuses on two aspects, namely: 1) the absence of faults in the components, and 2) the ability of the company to satisfy customer requests. This is why Landi tests 100% of its components at its plants, and promotes product co-development with OEMs and long-term programming.

Related services

Besides production and distribution, Landi Renzo also provides a range of related services to its clients, both distributors and installers. Specifically, these are:

1. Training courses for installers. In order to improve final performance, it is important that the kit is installed properly. Landi organises courses for installers and mechanics, thus increasing their loyalty towards the brand;

2. After-sales assistance. Landi has a department dedicated to after-sales assistance, both to installers and final customers. Using internet technology, Landi's operators are also able to act directly on the parameters of an ECU linked to a PC in another part of the world.

Next steps

In a market that has boomed in the recent past and is expected to keep growing at a similar pace, Landi Renzo has shown its potential by registering rapid growth and gaining market share in almost all countries. We consider Landi as extremely promising, but we reckon that the company still has to full exploit the great market opportunities ahead. It will have to face a lot of challenges, but we believe that Landi should be able to achieve its goals. We think that to be successful, in the near future, Landi Renzo must: 1) maintain technological leadership, possibly entering new alternative fuels segments, 2) increase its presence in the OEM channel, 3) retain its market share in AM and 4) further international expansion.

1) Maintain technological leadership…

Landi Renzo's main strength is the technological leadership it has enjoyed over its competitors since its formation. We believe Landi should be able to maintain this advantage, with strong investment in R&D and by closely monitoring new possible substitution technologies that emerge. As regards new alternative technologies for engines, we believe that Landi Renzo still has a competitive advantage over its peers.

Hybrid engine: complementary, not substitutive. Hybrid engines likely do not represent a significant threat, as their petrol engine can easily be converted into a LPG/CNG one. Moreover, after the LPG/CNG conversions, the engine has even lower emissions than before. Landi Renzo has recently converted (without any major issues or complications) the Toyota Prius hybrid model.

Hydrogen: ready to be the leader. Liquid hydrogen technology is currently too expensive and does not represent a threat in the short term. Hydrogen gas is, for the time being, too volatile. Once researchers manage to control its volatility, however, the conversion would require a technology very similar to current CNG technology, so Landi will then probably represent the technological benchmark.

Conversion of diesel: already in the pipeline. Currently, the diesel car market is not considered as addressable, as conversion costs are too high and therefore not economical for the customer. However diesel conversion is possible and the Company is already researching a cheaper conversion technique, and does not rule out entering the diesel market in the future.

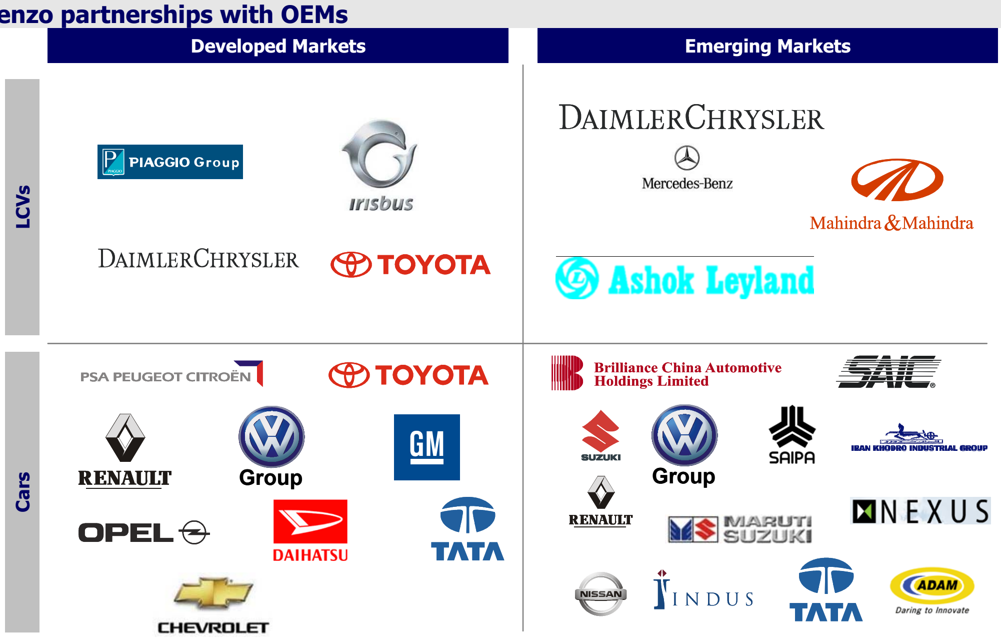
The company's technological leadership is enhanced in the near future thanks to the new self-calibrating ECU and electronic reducer mentioned above.

2) …thereby enhancing the OEM channel…

Landi already has a strong relationship with OEMs. Some models covered by Landi are, for example:

1. In **Italy**, Volkswagen, Daihatzu, Renault, Tata and Opel LPG/CNG models have a Landirenzo kit;
2. In **Poland**, all Skoda models;
3. In **Netherlands**, all Renault models, , C3 and Berlingo PSA models;
4. In **Germany**, Zafira and Astra Opel models;
5. Suzuki models in **Pakistan**, Chery in **China**, Maruti and Tata in **India**.

Main Landi Renzo partnerships with OEMs



Source: Mediobanca Securities, Company data

The OEM channel could represent both an opportunity and a threat for Landi. It could be an opportunity because:

- according to Frost & Sullivan, the OEM channel should grow at a faster pace than the aftermarket, reaching a 27% share of the total kits market;
- a close relationship with OEMs enables Landi to reduce competitive pressure. We believe that the best way for component makers to further their relationship with OEMs is to co-develop products, i.e. by co-operating in the research and development of customised products. This will forge a strong link between the component makers and the OEM on the specific product, hence the OEM is less willing to change its suppliers;
- the OEM channel could boost the aftermarket. It is likely that a customer would ask its kit installer for the same system installed in its car model by the car maker;
- Landi is currently covering only some of the major car makers, and with the IPO, now has the opportunity to increase its visibility in the market, attracting new OEMs (Fiat and Ford are potential short-term targets);

- one of Landi's main opportunities is fleet, ie taxis, public trucks and buses, especially in emerging countries where these vehicles are old and polluting (for example India). Fleet renewal is included in the OEM channel.

However, we also believe there are some threats, because:

- in order to protect itself from competition from low-cost countries, Landi has to maintain its leading position in terms of quality. This means investing significant capital in R&D, as mentioned before;
- Landi often has opened facilities near car makers' plants, to reduce transport and logistics costs (for example with Renault in Iran). This could represent both a great success factor and a threat, in the event that the relationship is broken off or other problems emerge;
- even if the difference is not great, as Landi acts as a system supplier, we reckon that the OEM channel could be less profitable than AM, and the competitive pressure and purchasing power of OEMs is often higher than that of distributors.

10-20 years term: from niche to commodity? We expect the share of Landi's turnover represented by the OEM market to rise from 29.7% in 2006 to 49.7% in 2011. If this figure is confirmed, OEMs could clearly play a key role in transforming Landi from a small technology operator into an important medium-cap car component maker. From another perspective, nevertheless, the forecast diffusion of alternative fuel conversion kits could transform Landi's product into a commodity in the very long term (15-20 years at least). Components like disk brakes, air-bags, ABS or car audio systems had similar growth trend in the past and then became commodities. Everybody knows that OEMs are likely to make rather than to buy this kind of component. This would probably mean an increase in volumes, but 1) a decrease in margins and 2) an increase in competition. It is up to the company to preserve its market share in these conditions, (again) through its technological leadership. As an example, we can mention an important Italian component maker, Brembo, which initially exploited the boom of disk brakes and then was able to preserve its technological advantage by becoming undisputed leader in higher-end car segments.

3)...without losing AM brand power…

Against this backdrop, it is in any case very important that Landi does not lose market share in its country aftermarkets, in a phase of booming growth. We do not believe it will, given its technological leadership. The aftermarket represents some 85% of the whole market, and 79.8% of Landi Renzo's turnover, but we expect this share to drop to 50.3% in 2011.

Vertical integration? The distributors market is extremely heterogeneous by country, and often also in different regions of the same country (for example in Brazil, where the Rio de Janeiro region is fragmented, while the Sao Paulo region is concentrated). Mono-brand distributors are rare, so loyalty programmes could be ineffective, and in addition, distributors are also very profitable. This is the reason why another possible strategy of Landi could be downwards vertical integration, that is a disintermediation of distributors by gaining direct control of some installers. According to the management, such a project was discussed in 2005 and then dropped. Now that many installers are ISO 9001 certified and have greater ties with Landi, we believe that direct control could have a strong rationale.

4) ...expanding into new markets…

Landi has recently expanded into two emerging markets:

1. In **Pakistan** plans to build a new production plant, with production scheduled to start in June 2007. Pakistan is one of the most mature countries in alternative fuel systems, and Landi already has a 49% market share, but all products sold there were imported from Italy. The new plant therefore a strong rationale, also given the low labour costs (average yearly salary of €7-8k) and expected profitability;
2. Although the political situation is obviously complicated, Landi decided to open a subsidiary in **Iran,** one of the most promising markets, which should be very profitable. The plant is not on stream yet, but it should start in the second half of the year on in early 2008.

Besides the new plants in Pakistan and Iran, Landi could decide to expand its production activity in other countries. India, for example, could represent a great growth opportunity, also given its current market size. In the event of exceptional growth in Europe, some plants in Eastern Europe also represent good opportunities.

5) ...and with an acquisition in the pipeline

During the H1 results conference call, Landi's management confirmed that two-three target companies are being analysed, in order to use the IPO proceeds (some €48m) in an external expansion as promised. Landi could either buy a competitor (in order to gain market share in certain markets or to build connections with new clients) or another player in its value chain or active in a complementary business.

2004-2006 financials: accelerating growth

After three stagnant years in terms of revenues and negative profitability (in 2001 Landi generated revenues of €46m and EBITDA of €8m, while in 2003, revenues came in at €47m, with EBITDA of only €2.4m, partly due to losses of the acquired MED), Landi Renzo's results have boomed since 2004. In 2004-2006, Landi's turnover grew by a CAGR of 46.7%, to €138.7m in 2006. This growth can be seen all over the world, with Asia registering the lowest growth, at a CAGR of 32.7%. The reasons for such growth have been explained in the note, but we should remember that the market grew at an average CAGR of 10.7%, so Landi Renzo was able to gain relevant market share (from 12.9% in 2004 to 22.8% in 2006).

Landi Renzo – 2004-2006 revenues breakdown

(€)	2004A ITA GAAP	2005A IFRS	2006A IFRS	2004-2006 CAGR
Revenues	**64.5**	**92.3**	**138.7**	46.7%
YoY %	32.1%	43.1%	50.3%	
Italy	17.1	24.8	35.6	44.3%
YoY %		45.3%	43.4%	
Rest of Europe	19.5	27.2	35.3	34.6%
YoY %		39.8%	29.6%	
SW Asia*	17.5	27.0	47.4	64.7%
YoY %		54.4%	75.6%	
Rest of Asia	4.4	5.3	7.8	32.7%
YoY %		19.8%	46.9%	
Latin America	3.9	5.7	8.9	50.4%
YoY %		44.4%	56.6%	
Other	2.1	2.3	3.7	34.4%
YoY %		9.8%	64.5%	

* Defined here as Turkey, Pakistan and Iran.

Source: Mediobanca Securities, Company Data

Profitability also increased considerably, especially in 2005, thanks to the large economies of scale that Landi was able to exploit (EBITDA margin up from 13.9% to 21.0%). In the following year, the same margin was up only 0.9%: this was due to one-off expenses and fixed costs relating to the rising sales volumes Landi had to sustain. The EBIT margin trend followed the same trend, which rose from 9.7% in 2004 to 18.3% in 2005 and 19.8% in 2006 respectively. In 2004 Landi generated cash of €8.7m, while in 2005 it burned cash of €4.1m, due to some investments and a €5m dividend.

Landi Renzo – 2004-2006 profitability and debt

(€)	2004A	2005A	2006A	2004-2006 CAGR
EBITDA	8.9	19.4	30.3	84.3%
EBITDA margin	13.8%	20.8%	21.8%	
EBIT	6.2	16.9	27.5	109.8%
EBIT margin	9.7%	18.3%	19.8%	
Financial items	-0.6	0.1	-0.6	
Pre Tax Profit	5.7	17.0	26.9	117.9%
Net Profit	3.2	11.1	16.7	127.1%
Net Financial position	-11.0	-2.3	-7.4	

Source: Mediobanca Securities, Company Data

H1 2007: was it disappointing?

According to Landi's management and also to our estimates, the Company should record a YoY revenues growth of some 18-20% in 2007FY vs. 2006FY. It is clear that recently reported H1 results (+4.4% revenues YoY) were badly welcomed by the whole market.

What we would like to underline is that Landi's management has never promised a constant growth at +18-20% YoY in each quarter. We also reckon that;

- Landi's business is characterised by low volumes in absolute terms: Landi sold some 670k kits in 2006, all over the world. It is clear that a temporary crises in one specific area or a delay in an agreement on a OEM contract could significantly affect a quarter result. From another point of view, an important contract with an OEM or a sudden positive market trend (such as that expected in Iran in H2 07, see below), could have a positive (and more than compensating) impact on the following quarters;
- the management is still much confident on the 2007FY target achievement, for many reasons.

Still confident on 2007FY targets achievement..

During H1 results conference call, Landi's management confirmed a 18-20% YoY revenues growth, for several reasons:

1. In the first half 2007 Landi did not lose market share anywhere except in Brasil, while it gained significant market shares in Italy. Overall we confirm our estimate of a worldwide market share increase for the full year;
2. IRAN revenues should boom in H2, thanks to orders already taken in July with Iran Khodro (main Iranian OEM). In this country, the government is limiting the pro capite fuel to 3 litres a day: this means that car makers' production is now 100% oriented to natural gas vehicles. Moreover, a project with Renault will start in October; as a result, Iran H2 revenues should come up around 2.5 times those of H1;
3. In PAKISTAN, the aftermarket contraction in H1 was due to the lack of expertise in the installation of conversion kits on newly imported Euro3 cars. Landi organized training courses and teachings to its installers to solve this problem. Contracts with OEMs should also begin. We anyway do not expect a revenues YoY growth in this country;
4. In BRASIL the aftermarket contraction should be over, as ethanol price is increasing. In any case, Landi expects significant improvements in other South American countries, such as Peru and Venezuela (this last country was not yet included in the estimates);
5. In ITALY and EUROPE revenues should enjoy the seasonality effect; contracts and projects with OEMs are also in negotiation; new products should be introduced, with a market share increase and margins improvement; in GERMANY, a contract with Opel in the LPG line was already signed (for an amount around €1-1.5m);
6. In CHINA the market has a huge potential. We expect market volumes in the 100-150k kits range in 2008, vs.28k in 2006; Landi expects €4m revenues in 2007, and €10m in 2010 in China;
7. ETHANOL and OIL prices are growing and/or at their peak.

We broadly confirm our 2007FY estimates

For the time being, we still believe on Landi's huge growth potential and we are not worried about the weak H1 results.

To achieve growth targets, Landi should reach some €90m revenues in H2, that is some +37% YoY (H2 07 vs. H2 06). This is still possible thanks to already signed contracts with OEMs, a recover of the aftermarket in South West Asia and a growing attention to environment in Europe. Good news could come from regulation in the US, in China and in Europe as well.

Moreover, we underline that H1 07 confirmed that Landi's profitability is improving (EBITDA grew 10.3% vs. 4.4% growth of revenues) thanks to an efficient cost structure (fixed costs only represent 20% of revenues) and the expansion in low cost countries.

2006-11: sustainable pace of growth

We believe 2004-06 could be considered a turning point for Landi, and we believe that high growth rates are likely to be seen in the future.

Revenues outlook by area

We expect Landi to record high growth rates in volumes in various geographic areas, varying according to pace and price trends.

Italy and Europe

In **Italy** we are estimating a 15.5% overall revenues 2006-11 CAGR, deriving from strong growth in volumes (14.3% CAGR) and basically flat prices. Our assumptions for Italy are:

1. <u>Volumes</u>: we expect Landi to grow 30% more than the market, thanks to the introduction of new products in 2007 and 2008, with growth gradually realigning with that of the market in the next few years;
2. <u>Prices</u>: we project a growth rate in line with that estimated by Frost & Sullivan, based on an initial MB estimate that is higher than the average market price due to Landi's better quality.

In the **Rest of Europe** (Germany being the largest market), we are making these assumptions:

1. <u>Volumes</u>: we again expect Landi to grow 30% more than the market, thanks to the introduction of new products in 2007 and 2008. Growth will then realign with that of the market in the next few years, at 14.2% for LPG and 12.2% for CNG;
2. <u>Prices</u>: we project a growth rate in line with that estimated by Frost & Sullivan, based on an initial MB estimate (€322.8) that is higher than the average market price due to Landi's better quality. The final CAGR is around 0%.

Landi Renzo 2006-2011 volumes, prices and revenues trends: Italy and Europe

Italy	**2006A***	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**06-'11 CAGR**
Volumes (LPG+CNG)	72.7	87.2	104.6	117.6	132.4	149.3	15.5%
YoY chg.		20.0%	20.0%	12.4%	12.6%	12.7%	
Average kit price (€)	466.6	458.2	454.6	446.6	460.1	476.1	0.4%
YoY chg.		-1.8%	-0.8%	-1.8%	3.0%	3.5%	
Revenues (€m)	**35.6**	**41.7**	**49.3**	**54.3**	**62.8**	**72.9**	**15.4%**
YoY chg.		17.1%	18.4%	10.1%	15.5%	16.2%	
Rest of Europe							
Volumes (LPG+CNG)	101.9	117.6	137.7	163.8	195.8	234.9	18.2%
YoY chg.		15.4%	17.1%	19.0%	19.5%	20.0%	
Average kit price (€)	322.8	309.4	304.0	303.6	302.2	301.8	-1.3%
YoY chg.		-4.2%	-1.7%	-0.1%	-0.4%	-0.1%	
Revenues (€m)	**35.2**	**38.8**	**44.4**	**52.3**	**61.8**	**73.5**	**15.9%**
YoY chg.		10.3%	14.2%	17.9%	18.1%	19.1%	

* 2006 prices are Mediobanca estimates. Volumes are estimated on the basis of prices.

** Revenues may also include vehicles alarm systems, although these will not be significant.

Source: Mediobanca Securities, Frost & Sullivan

South-West Asia and other Asian countries

SW Asia, which is defined as Turkey, Iran and Pakistan, could be considered a mature market for alternative fuels. We are estimating an overall revenues 2006-11 CAGR of 19.3%, which mainly derives from volumes and basically flat prices. Our assumptions for SW are:

1. Volumes: we expect Landi to grow at double the market rate (10% overall), thanks to two new plants in Iran and Pakistan (the former is still awaiting approval, while the latter should be operational from June 2007) in 2007 and 2008, and gradually realign with the market growth rate in the following years;
2. Prices: there are no major hints on price trends in the region, so we prefer to conservatively assume flat prices (at €120 per kit).

In the **Rest of Asia** (India, China, Bangladesh), we are making the following assumptions:

1. Volumes: we assume Landi will grow 30% more than the market (expected to grow by 24.7% in LPG and 33.7% in CNG). Landi's penetration in China and India could represent a strong opportunity in the future;
2. Prices: again we assume flat prices at €150.

Landi Renzo 2006-2011 volumes, prices and revenues trends: Asia

SW Asia	**2006A***	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**06-'11 CAGR**
Volumes (LPG+CNG)	395.0	531.5	715.4	787.6	867.2	954.8	19.3%
YoY chg.		34.6%	34.6%	10.1%	10.1%	10.1%	
Average kit price (€)	120.0	120.0	120.0	120.0	120.0	120.0	0.0%
YoY chg.		0.0%	0.0%	0.0%	0.0%	0.0%	
Revenues (€m)	**47.4**	**63.8**	**85.9**	**94.5**	**104.1**	**114.6**	**19.3%**
YoY chg.		34.6%	34.6%	10.1%	10.1%	10.1%	
Rest of Asia							
Volumes (LPG+CNG)	52.0	57.2	62.9	82.9	109.3	144.3	22.6%
YoY chg.		10.0%	10.0%	31.8%	31.9%	32.0%	
Average kit price (€)	150.0	150.0	150.0	150.0	150.0	150.0	0.0%
YoY chg.		0.0%	0.0%	0.0%	0.0%	0.0%	
Revenues (€m)	**7.8**	**8.6**	**9.4**	**12.4**	**16.4**	**21.6**	**22.6%**
YoY chg.		10.0%	10.0%	31.8%	31.9%	32.0%	

* 2006 prices are Mediobanca estimates. Volumes are estimated on the basis of prices.

** Revenues may also include vehicles alarm systems, although these will not be significant.

Source: Mediobanca Securities, Frost & Sullivan

Latin America and ROW

In **Latin America**, the market is almost 100% CNG. Even if it could be considered a mature market for alternative fuels, it should continue to record interesting growth rates. We estimate a and overall revenues CAGR 2006-12 of 19.9%, resulting from both volumes and price increases. Our assumptions for LA are:

1. Volumes: volumes should basically follow the market trend (10.0% 2006-11 CAGR), as Landi does not have a strong position and competition of ethanol is still high;
2. Prices: we are assuming price increases as the governments are pushing for a renewal of old kits, in an effort to improve their safety. We believe prices could grow yearly 14% from the current €170 to €325 in five years.

In the **Rest of the World** we are making simple assumptions:

1. Volumes in line with the market;
2. Prices up by a CAGR of 5%.

Landi Renzo 2006-2011 volumes, prices and revenues trends: America and Others

America	**2006A***	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**06-'11 CAGR**
Volumes (LPG+CNG)	52.0	52.0	52.0	60.9	71.4	83.8	10.0%
YoY chg.		0.0%	0.0%	17.0%	17.3%	17.4%	
Average kit price (€)	169.2	232.6	252.9	275.1	299.1	325.3	14.0%
YoY chg.		37.4%	8.8%	8.8%	8.8%	8.8%	
Revenues (€m)	8.8	9.9	10.7	13.5	17.1	21.8	19.9%
YoY chg.		12.2%	8.1%	26.1%	27.2%	27.4%	
Others							
Volumes (LPG+CNG)	16.9	18.9	21.6	24.3	27.3	30.8	12.7%
YoY chg.		12.1%	14.1%	12.3%	12.5%	12.7%	
Average kit price (€)	218.9	229.5	241.2	252.8	264.9	277.6	4.9%
YoY chg.		4.8%	5.1%	4.8%	4.8%	4.8%	
Revenues (€m)	3.8	4.3	5.2	6.1	7.2	8.5	17.6%
YoY chg.		14.4%	19.9%	17.7%	17.9%	18.1%	

* 2006 prices are Mediobanca estimates. Volumes are estimated on the basis of prices.

** Revenues may also include alarms, although these will not be significant.

Source: Mediobanca Securities, Frost & Sullivan

A summary of revenues breakdown by area and growth rates:

Landi Renzo 2006-2011 revenues breakdown by area

By Country	**2006**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**06-'11 CAGR**
Italy	35.6	41.7	49.3	54.3	62.8	72.9	15.4%
Rest of Europe	35.3	38.8	44.4	52.3	61.8	73.5	15.8%
SW Asia	47.4	63.8	85.9	94.5	104.1	114.6	19.3%
Rest of Asia	7.8	8.6	9.4	12.4	16.4	21.6	22.5%
America	8.9	9.9	10.7	13.5	17.1	21.8	19.7%
Other	3.7	4.3	5.2	6.1	7.2	8.5	18.0%
Total	**138.7**	**167.1**	**204.9**	**233.2**	**269.3**	**313.0**	**17.7%**

Source: Mediobanca Securities

Besides the geographical breakdown, we also present a breakdown by segment and by channel. We reckon that:

1. unlike the market trends, we expect Landi to grow in LPG and CNG, broadly at the same rate (18.6% and 18.1% respectively);
2. the OEM channel should grow more than AM, in line with market trends.

Cost structure and profitability trends

Landi Renzo's EBITDA is expected to constantly improve over the next five years, and remain in the 22.0%-25.0% range. EBITDA CAGR should be higher than that of revenues, at 20.3% vs. 17.7%.

The assumptions we made are:

1. raw materials: the impact of raw materials is very low. Copper and aluminium are the main materials and their impact is lower than 8%. Landi outsources its production so its costs are made up of components already assembled by third parties. We do not expect major improvement in this cost line;
2. personnel: labour costs on sales (%) should decrease from 2006 to 2009 thanks to the new openings and continued hiring in Iran and Pakistan. We expect this cost line will fall from -8.9% in 2006 to -7.0% in 2009, then remaining constant;
3. higher capex in 2006-2008 would generate higher D&A, but without major shocks, so the EBIT line is expected to grow in line with EBITDA;
4. the tax rate should reach 38% in 2006 and we expect no improvements from this side.

As a result, net profit should grow by a CAGR of 20.2% in the 2006-2011 period, in line with other indicators.

Landi Renzo - P&L figures 2006-2011E

(€m)	2006	2007E	2008E	2009E	2010E	2011E	06-'11 CAGR
Revenues	**138.7**	**167.1**	**204.9**	**233.2**	**269.3**	**313.0**	**17.7%**
Raw materials, goods	-63.1	-75.2	-92.0	-104.5	-120.7	-140.9	
%on sales	-45.5%	-45.0%	-44.9%	-44.8%	-44.8%	-45.0%	
Services and leasing	-31.6	-40.2	-48.8	-55.0	-63.5	-73.8	
%on sales	-22.8%	-24.1%	-23.8%	-23.6%	-23.6%	-23.6%	
Personnel	-12.5	-14.4	-15.9	-16.3	-18.8	-21.8	
%on sales	-8.9%	-8.6%	-7.7%	-7.0%	-7.0%	-7.0%	
Others	-1.7	-0.3	-0.4	-0.5	-0.5	-0.6	
EBITDA	**30.3**	**37.5**	**48.4**	**57.6**	**66.4**	**76.5**	**20.3%**
EBITDA margin	**21.8%**	**22.4%**	**23.5%**	**24.6%**	**24.6%**	**24.4%**	
D&A	-2.9	-4.4	-5.9	-7.7	-8.5	-9.4	
EBIT	**27.5**	**33.1**	**42.5**	**49.9**	**57.9**	**67.1**	**19.6%**
EBIT margin	**19.8%**	**19.8%**	**20.7%**	**21.4%**	**21.5%**	**21.4%**	
Financial Items	-0.6	-1.5	-0.4	-0.3	0.1	0.5	
Pre Tax Profit	**26.9**	**31.6**	**42.1**	**49.6**	**58.0**	**67.7**	**20.3%**
Tax rate	-37.9%	-38.0%	-38.0%	-38.0%	-38.0%	-38.0%	
Net Profit	**16.7**	**19.6**	**26.1**	**30.7**	**36.0**	**41.9**	**20.2%**

Source: Mediobanca Securities

Cash generation

Landi generates cash, and from an initial net debt position of €7.4m in 2006, should reach a positive net financial position in 2007 (€53.9m, of which some €48m from the IPO right issue). From that point on, we expect Landi to generate Free Cash Flow of some €5.6m in 2008, gradually growing to €24.1 in 2011. Our main assumptions are:

1. no major changes in the working capital dynamics from 2009 on;
2. CAPEX at €10-11m in '06-'08 due to one off investments for two R&D centres (in Italy near Reggio Emilia and in China), and then a capex/sales ratio in the 2-2.4% range;
3. a dividend payout of 30% (from 2008 on) in line with other small-cap companies. The company did not give any details about its future dividend policy.

Landi Renzo – Cash flow statement 2006-2011E

(€m)	2006	2007E	2008E	2009E	2010E	2011E
Net Profit	16.7	19.6	26.1	30.7	36.0	41.9
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
D&A	2.9	4.4	5.9	7.7	8.5	9.4
Cash Flow	**19.6**	**24.0**	**32.0**	**38.4**	**44.5**	**51.4**
Delta WC	-10.0	-5.6	-7.3	-5.5	-6.9	-8.3
Delta Provisions	1.1	0.9	0.7	0.3	0.1	0.1
CAPEX	-10.0	-10.0	-12.0	-5.5	-6.0	-6.5
Dividends	-5.3	0.0	-7.8	-9.2	-10.8	-12.6
Other	-0.5	52.1*				
FCF	**-5.1**	**61.3**	**5.6**	**18.5**	**20.9**	**24.1**
Net debt (cash)	**7.4**	**-53.9**	**-59.5**	**-77.9**	**-98.9**	**-123.0**

*Of which some €48m IPO proceeds

Source: Mediobanca Securities

Appendix 1 – Hystorical milestones

1954 - Renzo Landi, father of the current CEO, founds "Officine Meccaniche Renzo Landi", producing systems for conversion of vehicles to run on gas;

1960s - Sells products directly to installers and establishes a sales network in Italy;

1963-64 - International expansion as products are exported to Europe and Asia, and subsequently to South America;

1965 - Begins to outsource manufacturing, but retains R&D activities and assembly;

1968 - Introduction of Renzomatic, a pressure reducer for LPG conversion. First product in the market to electronically control the "idle speed" condition;

1978 - Corporate reorganisation as Landi Renzo S.r.L, which controls the company's subsidiaries, is formed;

1980s - Further evolution of business model as company uses distributors to deal with end-market installers;

- Introduction of TN1, the first pressure reducer operated electronically;

1990s - Acquired 70% of Eurogas Holding BV in 1995, a Dutch company operating in the same sector. Then in 1999 it formed a Polish subsidiary, Landi Renzo Polska

2001 - Acquisition of MED S.p.A., a specialist in gas valves and car alarm systems to improve electronic capabilities

After receiving ISO 9001 certification (1996), the Company was the first in the industry to obtain ISO/TS 16949 certification for automotive high quality standards

2003 - Production facility opened in Brazil

2005 - Subsidiary opened in China

2006 - Subsidiary opened in Pakistan (includes production facility)

2007 - Planned opening of production facility in Iran

Appendix 2 – Management team

Management team

Stefano Landi - Chief Executive	❑ Started career at Landi Renzo in 1981 and CEO since 1987 ❑ Vice Chairman of Banca Fineco S.p.A ❑ Chairman of Pallacanestro Reggiana S.r.l ❑ Chairman of Board of Reggio Emilia Innovazione S.c.a r.l. ❑ Nominated amongst the top 10 executives in the automotive industry by the industry magazine Quattroruote in 2006
Paolo Cilloni - Financial Director and Investor Relator	❑ Started career at Landi Renzo in 1988 and CFO since 2005 ❑ Recently appointed Investor Relator ❑ Landi Renzo Pakistan Board member since 2006, Beijing Landi Renzo Autogas since 2005
Claudio Carnevale - Sales and Marketing Director	❑ Sales and Marketing Director of Landi Renzo since 2002, with over 15 years of experience in the automotive sector ❑ Various management positions in the automotive sector at Sagem and Texas Instruments Holland B.V. (1996 – 2002) ❑ Various management positions in the electronic division at Fiat Research Centre (“CRF”) (1989 – 1996)
Ciro Barberio - R&D Manager	❑ R&D Manager of Landi Renzo since 2003 with over 15 years of experience in the automotive sector ❑ Various management positions in Magneti Marelli SpA in Italy, France and China (1990-2003) ❑ Started career at Research Centre of Alfa Romeo Avio (1989-1990)

Source: Mediobanca Securities

Appendix 3 - Porter's Five Forces model

We believe the analysis of Landi's competitive position through Porter's Five Forces model provides some interesting insights.

1. Competitive pressure: medium/high

Landi is global market leader, and its main competitor is Fuel System (listed on the Nasdaq), which also includes the Italian player BRC. Other competitors are mainly Italian groups (Lovato, Tartarini, OMVL, Stargas) or Dutch (Prins), but a lot of local players, especially in Turkey, Russia and Latin America, also have a considerable domestic market shares. Overall, all markets are quite concentrated except some specific countries (Iran), but competitive pressures among the biggest three/four players in each market is quite high. Key success factors in developed countries are technology and quality, while in emerging countries price is also an important driver.

We have described Landi's main peers in the Valuation section.

2. Supplier's force: weak

Suppliers are small local components manufacturers, which do not have any purchasing power with regard to Landi. There is not a key supplier and raw materials costs, which are in any case not significant, are more likely to burden suppliers than Landi. Overall we believe supplier's force is weak.

3. Customer's force: medium

Customers are distributors and, from a wider perspective, installers. As regards distributors, we consider their force as weak, apart from some big distributors in some specific areas that have a higher purchasing power, which overall we do not consider to be relevant. On the other hand, installers play a key role in the final customer choice. In fact, car owners often have no preference as regards kit brands, so the installer's advice is often fundamental. This means that installers are crucial for Landi sales, and strong loyalty campaigns are needed. As a result, we believe customers' force can be considered medium.

4. New entrants threat: weak/medium

The main entry barriers are technology and brand recognition. In developed markets, these barriers are higher, as quality and security are primary issues. In emerging countries, the threat of new entrants is higher, because price is very important. In the recent past, for example, Polish manufacturer KME has entered the market with very low prices, and is actually also threatening the East German market. We believe Landi's technological level is sufficient to protect its market share, so we consider the threat of new entrants as weak/medium.

5. Substitute products threat: medium/high in the long term, but it's also an opportunity

Substitute products are basically new alternative fuel technologies. We have described this issue in the "Next step" section: hybrid engine (fuel+electricity) and hydrogen are possible substitutes, but:

3. Landi could convert the petrol part of hybrid engines into LPG/CNG without problem;
4. Hydrogen is likely to need (once its volatility is controlled) a system similar to current CNG technology, so Landi's research is already among the most advanced for this technology.

Substitute products are therefore more an opportunity than a threat.

Appendix 4 - SWOT analysis

To sum up, a SWOT analysis could be useful.

Strengths

- **Technological and qualitative leadership.** Landi's products are among the most advanced in both LPG/CNG systems. Landi is also recognised worldwide as leader in the high-quality segment and its R&D department is by far the most advanced in the sector;
- **Consolidated market position.** Landi is market leader with a 23% market share globally. This translates into high brand recognition by both customers and OEMs. Moreover Landi operates directly in seven countries, sells its products in more than 50, and could be considered a global player despite its small size (vs. other global component makers);
- **Business model.** Landi outsources some 90% of production, maintaining only the manufacture of the most delicate components, all R&D and all testing activity in-house. This allows for a more flexible structure and low fixed costs as a percentage of the total.

Weaknesses

- **Size**. Although Landi is market leader and the biggest player, it is small compared to other components makers. As the market is expected to boom, Landi could face problems resulting from a possibly insufficient company structure;
- **Refuelling infrastructure**. LPG/CNG stations are, in most countries, insufficient**;**
- **Low visibility for final customers.** We believe this is an important issue for Landi Renzo. The main reasons are:
  1. Unclear and fragmented regulation (no clarity and marketing of incentives);
  2. Customer bias as regards performance, space in trunks, explosions;
  3. Customers are not strongly motivated to transform their vehicle, and the market is more a "push" (mechanic proposing the kit to the client) than a "pull" one (the client asking for the kit).

Opportunities

- **Market trends.** After many years in which Landi was technological leader in a fairly stagnant market, apart from some countries, the sector started to boom in 2004. Driven by 1) concern for the environment, 2) regulation for OEMs and 3) the rise in petrol prices, the alternative fuels market is now at a turning point, and this is certainly a great opportunity for Landi (and other operators) to ride the expected growth. An important difference between this and other promising markets is that alternative fuels are expected to grow both in developed and in emerging countries at the same (high) growth rate;
- **New technologies (as opportunity).** If Landi is able to exploit its current technological advantage also in new emerging alternative fuels (hybrid, hydrogen), and become a supplier of the full range of alternative fuel systems, the gap with current competitors could widen;
- **Visibility for OEMs.** Now representing some 15.5% of total market sales, the OEM channel is expected to grow much faster than the aftermarket. Landi is an ideal position to develop the OEM channel, thanks to its technological leadership and the increase in brand visibility after the IPO;

Threats

- **Market trends**. This threat is probably common to all existing companies, but in this case the threat is more important. There are two threats related to market:
    a. a downturn or slowdown of growth rates would completely change Landi's scenario. If, for example, governments' commitment to environmental issues remains on paper, without strong investment in infrastructure, the penetration of alternative fuels could face difficulties. We do not see any reason for this, but forecasts of a 17.9% global CAGR are undoubtedly quite bullish;
    b. in a booming market, the company is faced with the acceleration of revenues and costs, which it should be able to manage;
- **Products becoming commodities**. As we explained, when a niche product becomes a commodity, new players generally enter the market, increasing competitive pressure. Moreover OEMs are likely to start producing conversion kits in-house to improve profitability. The only way to prevent disintermediation is strong investment in R&D, in order to maintain a market share in high quality, high-end vehicles (as Brembo does in disk brakes);
- **New technologies (as threat).** New alternative fuels could also a threat for Landi, if the company is unable to exploit its current technological advantage. Once hybrid and hydrogen represent a valid and cheap alternative to LPG/CNG, staying outside such segments could be a danger for Landi. Moreover, a fast development of electric engines or other fuel could also threat Landi's business;
- **Imitation.** Landi's products are imitable, albeit at a lower quality. Moreover, Landi's business plan may not sufficiently protect the diffusion of its expertise among suppliers.

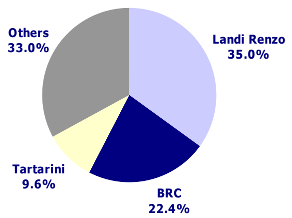
Appendix 5 – Markets descriptions

ITALY

Market Features

Units sold in 2006 (000)	218.0
Units expected in 2012 (000)	459.0
2006-2012 CAGR	13.2%
No. of vehicles (000)	39,089
Refuelling stations	601 CNG, 2170 LPG
Vehicle nos./Ref stations	14.1
LPG kit average cost (€)	1,300
CNG kit average cost (€)	1,500

Market Players



Growth Drivers and Restraints

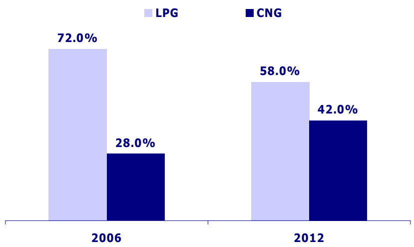
Growth Drivers:

1. EU Commission constraints
2. Tax and government incentives (€650 for AM kit)
3. Good infrastructure
4. OEM initiatives

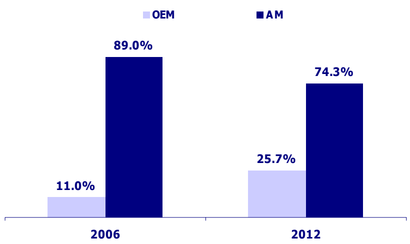
Restraints:

1. Customer habits (performance, space, danger..)
2. Conversion costs relatively high

Market breakdown by segment



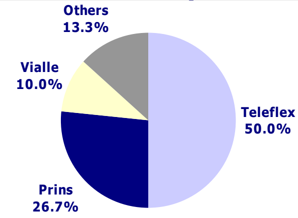
and by channel



FRANCE

Market Features	
Units sold in 2006 (000)	16.0
Units expected in 2012 (000)	51.0
2006-2012 CAGR	21.3%
No. of vehicles (000)	36,298
Refuelling stations	Only 10 CNG stations. 1830 LPG. Expanding car refuelling
Vehicle nos./Ref stations	19.62
Price trend (€)	Stable

Market Players



Growth Drivers and Restraints

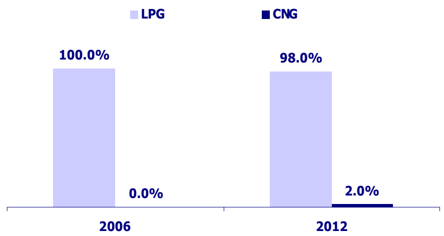
Growth Drivers:

1. Financial incentives and fiscal regimes
2. Price differential between petrol and LPG
3. Adequate LPG refuelling
4. Growing OEM participation

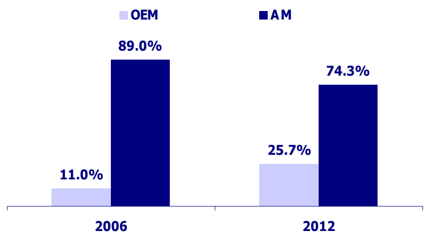
Restraints:

1. Public attitude
2. Low promotion by government and industry. Elections could be a turning point
3. Lack of critical mass

Market breakdown by segment



and by channel

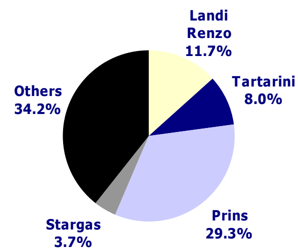


Source: Mediobanca securities, Frost & Sullivan, others

GERMANY

Market Features	
Units sold in 2006 (000)	117.0
Units expected in 2012 (000)	675.0
2006-2012 CAGR	33.9%
No. of vehicles (000)	49,223
Refuelling stations	700 CNG, 1070 LPG
Vehicle nos./Ref stations	27.3
LPG/CNG kit average cost	1,267/1,853
Price trend (€)	Stable

Market Players



Growth Drivers and Restraints

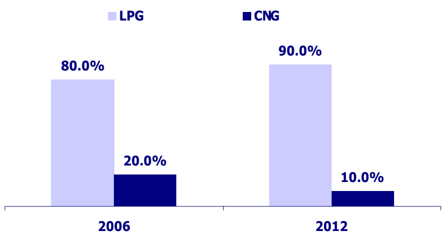
Growth Drivers:

1. Fiscal and regulatory regimes
2. Increasing refuelling infrastructure (1000 new CNG by 2008)
3. Strong lobby of alternative fuel to control emission standards
4. Proximity to mature markets (Poland)

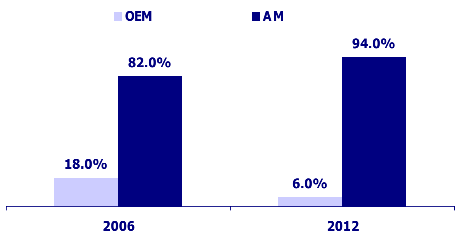
Restraints:

1. Lack of critical mass
2. New Polish entrant KME push down prices
3. Low OEM expansion due to low car sales

Market breakdown by segment



and by channel

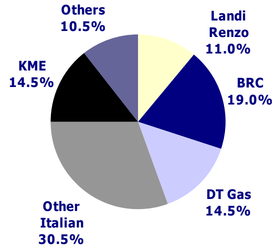


POLAND

Market Features

Units sold in 2006 (000)	180.0
Units expected in 2012 (000)	292.0
2006-2012 CAGR	8.4%
No. of vehicles (000)	14,723
Refuelling stations	6600 LPG
Vehicle nos./Ref stations	2.2
LPG/CNG kit average cost	600/800
Price trend (€)	Stable

Market Players

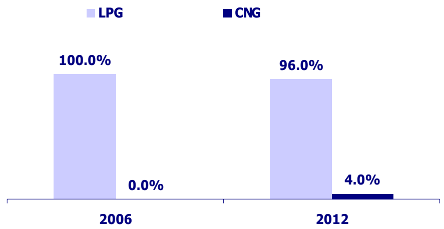


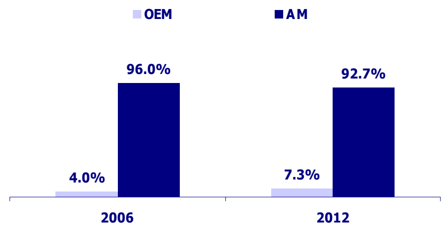
Growth Drivers and Restraints

Growth Drivers:
1. Cost savings up to 60% vs petrol
2. 6600 LPG stations
3. New and used vehicle registrations 2002-2005
4. OEM introductions of models
5. EU 67R-01 legislation

Restraints:
1. Low CNG development
2. No tax incentives
3. LPG is of low quality

Market breakdown by segment and by channel





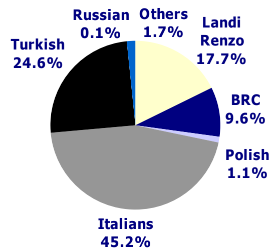
Source: Mediobanca securities, Frost & Sullivan, others

RUSSIA

Market Features

Units sold in 2006 (000)	350.0
Units expected in 2012 (000)	413.0
2006-2012 CAGR	2.8%
No. of vehicles (000)	30,388
Refuelling stations	7500 LPG, 200 CNG
Vehicle nos./Ref stations	3.9
Price trend (€)	Slightly decreasing

Market Players

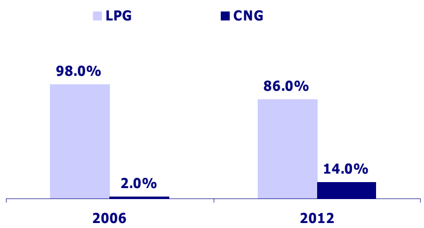


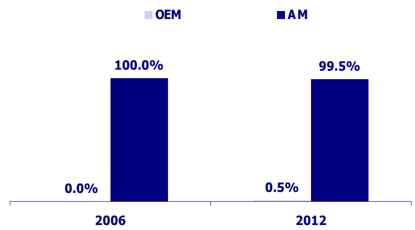
Growth Drivers and Restraints

Growth Drivers:
1. Cost savings up to 60% vs petrol
2. New and used vehicle registrations 2002-2005
3. Development of LPG refuelling
4. Increasing public awareness
5. GAZPROM initiatives

Restraints:
1. Bureaucracy
2. Low quality standards
3. Low CNG coverage
4. Low price of diesel
5. All aftermarket

Market breakdown by segment and by channel



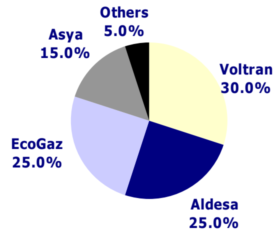


TURKEY

Market Features

Units sold in 2006 (000)	265.0
Units expected in 2012 (000)	464.0
2006-2012 CAGR	9.8%
No. of vehicles (000)	14,400
Refuelling stations	4000
Vehicle nos./Ref stations	3.6
LPG/CNG kit average cost (€)	wide range - 100 to 800/200 to 900

Market Players

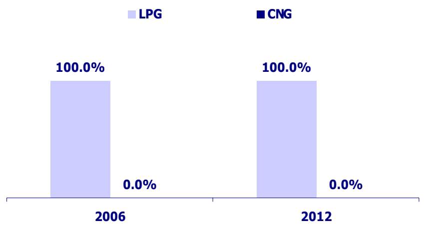


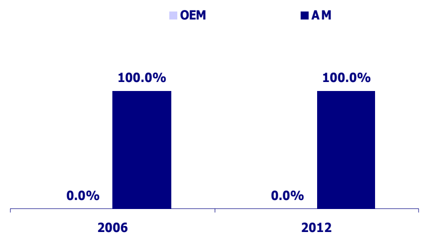
Growth Drivers and Restraints

Growth Drivers:
1. Price differential between petrol and LPG
2. Low cost of conversion
3. Investment by OEM

Restraints:
1. Unauthorised conversions
2. Uncertified refuelling stations
3. All LPG, all AM

Market breakdown by segment and by channel





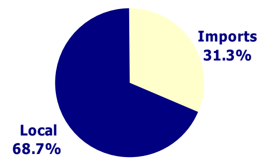
Source: Mediobanca securities, Frost & Sullivan, others

IRAN

Market Features

Units sold in 2006 (000)	147.0
Units expected in 2012 (000)	800.0
2006-2012 CAGR	32.6%
No. of vehicles (000)	5,400
Refuelling stations	152 CNG
Vehicle nos./Ref stations	35.5
Price trend (€)	Decreasing from 110 to 85

Market Players

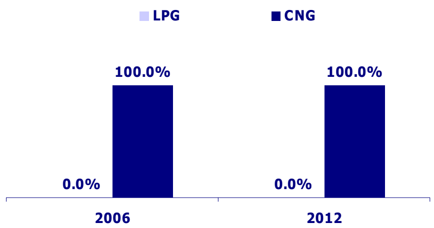


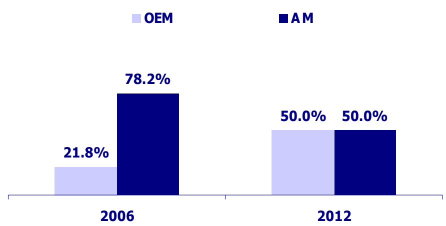
Growth Drivers and Restraints

Growth Drivers:
1. OEM initiatives
2. Booming market

Restraints:
1. Political tensions
2. All CNG
3. Low infrastructure

Market breakdown by segment and by channel



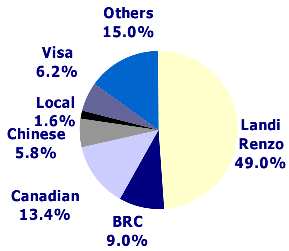


PAKISTAN

Market Features

Units sold in 2006 (000)	385.0
Units expected in 2012 (000)	1,252.0
2006-2012 CAGR	21.7%
No. of vehicles (000)	6,050
Refuelling stations	930 CNG
Vehicle nos./Ref stations	6.5
Price trend (€)	CNG from 450 to300
	LPG from 230 to 150

Market Players

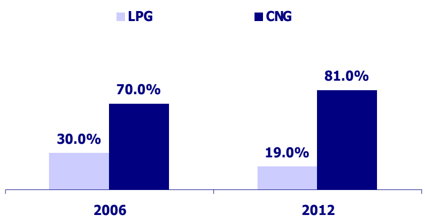


Growth Drivers and Restraints

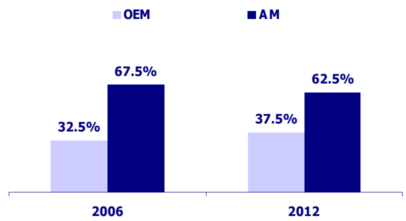
Growth Drivers:
1. Availability of natural gas
2. Govt in favour of CNG
3. No/low import duties
4. Good infrastructure for CNG

Restraints:
1. Increasing competition
2. No legislation against low quality

Market breakdown by segment



and by channel



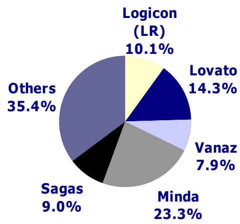
Source: Mediobanca securities, Frost & Sullivan, others

INDIA

Market Features

Units sold in 2006 (000)	272.0
Units expected in 2012 (000)	1,894.0
2006-2012 CAGR	38.2%
No. of vehicles (000)	83,000
Refuelling stations	321
Vehicle nos./Ref stations	258.6
Price trend (€)	LPG from 500 to 350
	CNG from 280 to 180

Market Players

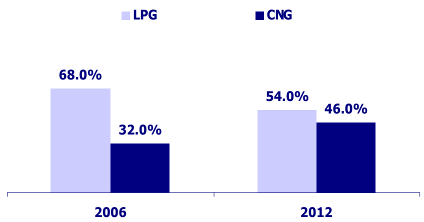


Growth Drivers and Restraints

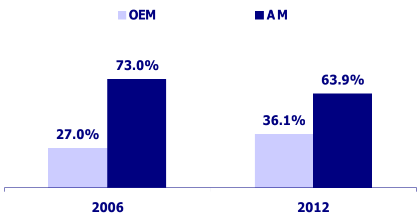
Growth Drivers:
4. Cost savings up to 50%
5. Incentive to owners of three-wheeled vehicles
6. Refuelling investment (+50% LPG, + 30% CNG by 2008)
7. Decrease in import duties from 25% to 5% to improve quality
8. OEM launching new models

Restraints:
1. Low availability of gas
2. Unorganised sector
3. Govt prefers CNG
4. Lack of refuelling stations

Market breakdown by segment



and by channel

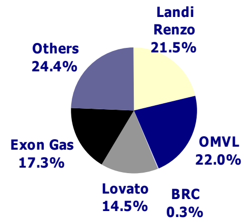


CHINA

Market Features

Units sold in 2006 (000)	28.0
Units expected in 2012 (000)	37.0
2006-2012 CAGR	4.8%
No. of vehicles (000)	25,000
Refuelling stations	278 LPG, 570 CNG
Vehicle nos./Ref stations	26.6
Price trend (€)	278 LPG, 570 CNG, decreasing

Market Players

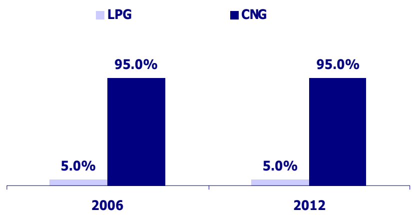


Growth Drivers and Restraints

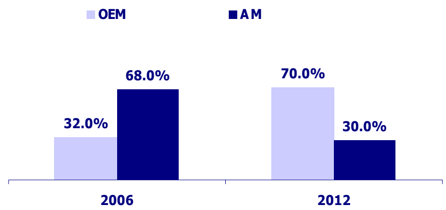
Growth Drivers:
1. Growing attention to environment
2. Stop to dependence on petrol from foreign countries
3. Infrastructure (6 new gas areas and 3 pipelines)
4. Tax breaks

Restraints:
1. Short mileage available
2. Insufficient supply
3. No regulation and no price controls
4. Cost similar to petrol- high cost of refuelling stations

Market breakdown by segment



and by channel

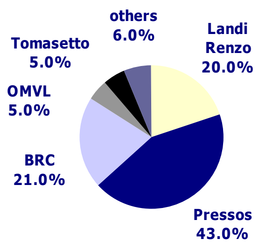


BRAZIL

Market Features

Units sold in 2006 (000)	260.0
Units expected in 2012 (000)	378.0
2006-2012 CAGR	6.4%
No. of vehicles (000)	34,650
Refuelling stations	1295
Vehicle nos./Ref stations	26.8
Price trend (€)	Increasing from 349 to 571

Market Players

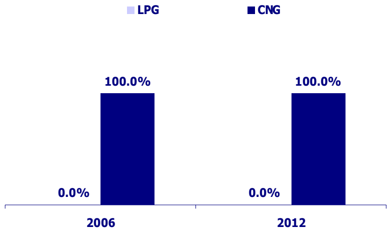


Growth Drivers and Restraints

Growth Drivers:
1. Government intends to invest in infrastructure and refuelling stations
2. Shortage of ethanol means higher prices
3. Product improvement
4. CNG used in rentals

Restraints:
1. LPG is forbidden
2. Barriers for customers (used to petrol prices and value of car is lower after conversion)
3. Installers not regulated
4. Low quality producers
5. Widespread use of ethanol

Market breakdown by segment



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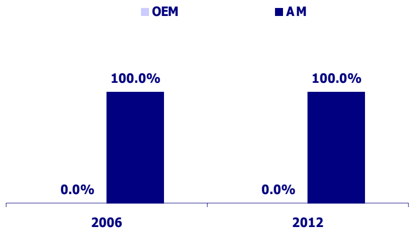

Source: Mediobanca securities, Frost & Sullivan, others

Landi Renzo

Profit & Loss account (€ m)	2005	2006	2007E	2008E
Turnover	92	139	167	205
Turnover growth %	43.1	50.3	20.5	22.6
EBITDA	19	30	37	48
EBITDA margin (%)	21.0	21.9	22.4	23.6
EBITDA growth (%)	nm	56.8	23.6	29.0
Depreciation & Amortization	-2	-3	-4	-6
EBIT	17	27	33	42
EBIT margin (%)	18.3	19.8	19.8	20.7
EBIT growth (%)	nm	62.4	20.6	28.3
Net Fin.Income (charges)	0	-1	-1	0
Non-Operating Items	0	0	0	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	17	27	32	42
Tax	-6	-10	-12	-16
Tax rate (%)	33.4	37.9	38.0	38.0
Minorities	0	0	0	0
Net Profit	11	17	20	26
Net Profit growth (%)	n.m	49.8	17.5	33.1
Adjusted Net Profit	11	17	20	26
Adjusted Net Profit growth (%)	n.m	49.8	17.5	33.1

Multiples	2005	2006	2007E	2008E
P/E Adj.	nm	nm	19.5	14.6
P/CEPS	nm	nm	15.9	11.9
P/BV	nm	nm	3.7	3.2
EV/ Sales	0.0	0.1	2.0	1.6
EV/EBITDA	0.1	0.2	8.8	6.7
EV/EBIT	0.1	0.3	9.9	7.6
EV/Cap. Employed	0.1	0.1	5.9	4.7
Yield (%)	nm	nm	0.0	0.0
FCF Yield (%)	nm	nm	2.2	3.3

Per Share Data (€)	2005	2006	2007E	2008E
EPS	0.11	0.17	0.17	0.23
EPS growth (%)	n.m	49.8	4.4	33.1
EPS Adj.	0.11	0.17	0.17	0.23
EPS Adj. growth (%)	n.m	49.8	4.4	33.1
CEPS	0.14	0.20	0.21	0.28
BVPS	0.3	0.4	0.9	1.1
DPS Ord	-0.05	-0.05	0.00	0.00

Balance Sheet (€ m)	2005	2006	2007E	2008E
Working Capital	16	26	31	39
Net Fixed Assets	25	31	24	30
Total Capital Employed	41	57	56	69
Shareholders' Funds	33	44	102	121
Minorities	0	0	0	0
Provisions	5	6	7	8
Net Debt (-) Cash (+)	-2	-7	54	59

Key Figures & Ratios	2005	2006	2007E	2008E
Avg. N° of Shares (m)	100	100	113	113
EoP N° of Shares (m)	100	100	113	113
Avg. Market Cap. (€ m)	0	0	382	382
Enterprise Value (€ m)	2	7	328	323
Labour Costs/Turnover (%)	-11%	-9%	-9%	-8%
Depr.&Amort./Turnover (%)	3%	2%	3%	3%
Prod. Ratio (Turn./Op.Costs)	1.2	1.2	1.2	1.3
Gearing (Debt / Equity) (%)	7%	17%	0%	0%
EBITDA / Fin. Charges	nm	>10	>10	>10
Cap.Employed/Turnover (%)	44%	41%	33%	34%
Capex / Turnover (%)	4%	7%	6%	6%
Pay out (%)	-45%	-32%	0%	-30%
ROE (%)	34%	38%	19%	22%
ROCE (%) (pre tax)	42%	48%	59%	61%
ROCE (%) (after tax)	28%	30%	37%	38%

Cash Flow Model (€ m)	2005	2006	2007E	2008E
Cash Earnings	14	20	24	32
Working Capital Needs	2	-10	-6	-7
Capex (-)	-4	-10	-10	-12
Financial Investments (-)	0	0	0	0
Dividends (-)	-5	-5	0	-8
Other Sources / Uses	1	1	53	1
Ch. in Net Debt (-) Cash (+)	9	-5	61	6