ABN·AMRO

Produced by: ABN AMRO Bank NV

Tuesday 18 September 2007

Initiation of coverage

Saipem

Look out for the cash flows

Saipem is the largest and most diversified European oil services firm and has a strong operational track record. We expect 2006-09 earnings CAGR of 26.9%, driven by a record order backlog with improved margins and strong near-term order intake prospects.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (€m)	4528	7517	9415	10436	11240
EBITDA (€m)	564.0	829.0	1122	1397	1639
Reported net profit (€m)	255.0	384.0	530.8	671.6	784.6
Normalised net profit (€m)	255.0	384.0	530.8	671.6	784.6
Normalised EPS (€)	0.58	0.87	1.20	1.52	1.78
Dividend per share (€)	0.19	0.29	0.37	0.46	0.54
Dividend yield (%)	0.67	1.03	1.29	1.64	1.91
Normalised PE (x)	48.9	32.5	23.5	18.6	15.9
EV/EBITDA (x)	23.6	16.6	12.8	10.4	8.67
EV/invested capital (x)	4.95	4.40	3.50	3.05	2.80
ROIC - WACC (%)	3.37	7.44	10.6	9.64	9.49

Accounting Standard: IFRS ***year to Dec, fully diluted***
Source: Company data, ABN AMRO forecasts

Undisputed leader in frontier provinces

The company's biggest strengths in the onshore sector are its construction capabilities coupled with its engineering and project management competencies. That is why, in our view, Saipem has an unrivalled position as a contractor of choice for large, complicated frontier developments, where health and safety issues often preclude local contractors from bidding.

Significant expected margin improvement

We believe there is substantial margin improvement potential on the offshore installation side, given the increasingly tight construction vessel market that is growing rapidly. Similarly, the offshore drilling division is on the brink of a major uplift in profitability, in our view, driven by the steep increase in the fleet's average day-rates as new contracts signed now reflect market rates. We expect EBIT margins in offshore construction and offshore drilling to increase from 9.4% to 13.6% and from 28.2% to 41.2% respectively, between 2006 and 2010F.

Strong market backlog

Positive near-term news flow re mega-contract awards (USAN and Nord Stream, etc) should lead to forecast upgrades, in our view. We estimate the current market backlog in onshore (excluding drilling) and offshore (including trunklines, conventional platforms and SURF, but excluding drilling and FPSOs) is worth US$27bn-47bn+ for projects to be executed over the next three years. This does not include potential variation orders, contract extensions and smaller projects below US$100m.

Valuation and recommendation

Saipem currently trades at a 2008F PE of 18.6x, declining sharply to 15.9x in 2009F. We believe Saipem's 2007-10F capex programme (cumulative cash outlay of €3.42bn) should lead to free cash flow generation per year in excess of €1bn from 2010/11. We initiate at Buy with a €32.4 DCF-based target price for 15% potential upside.

Important disclosures and analyst certifications regarding companies can be found in the Disclosures Appendix.
Priced at close of business 17 September 2007.

250 Bishopsgate, London, EC2M 4AA, United Kingdom

Buy
Absolute performance

n/a
Short term (0-60 days)

Neutral
Market relative to region

Oil Equipment, Services & Distribution
Italy

Price
€28.27

Target price
€32.40

Market capitalisation
€12.58bn

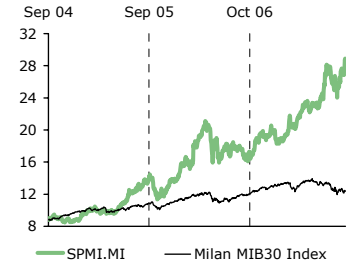
Avg (12mth) daily turnover
€85.54m

Reuters	Bloomberg
SPMI.MI	SPM IM

Asset allocation

Equities	Overweight
Cash	Neutral
Bonds	Underweight

Price performance	(1M)	(3M)	(12M)
Price (€)	25.0	23.6	16.2
Absolute %	13.0	19.9	74.2
Rel market %	13.3	30.1	67.6
Rel sector %	7.1	16.4	61.2



Stock borrowing: n/a
Volatility (30-day): 40.35%
Volatility (6-month trend): ↑
52-week range: 29.04-15.97
Milan MIB30 Index: 39397.00
Europe Oil & Gas: 282.14

Source: ABN AMRO, Bloomberg

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€1bn FCF from 2010/11F

Saipem is the largest and most diversified European oil-field services company. It had a record order backlog of €13.3bn at the end of June and significant short- to medium-term order intake prospects.

Oil and gas industry dynamics

Demand for Saipem's services has been strong since 2004/05

Saipem's business depends on exploration and production capex levels, which are cyclical in nature. Continued high oil prices have led to strong demand for Saipem's services since 2004/05, as a result of a progressive increase in investment in onshore and offshore exploration and production by major oil companies. This trend is reflected in the higher number of tender invitations received by the company, as well as the rising level of its order backlog.

High level of tenders should lead to major project awards in 2H07 and 1H08

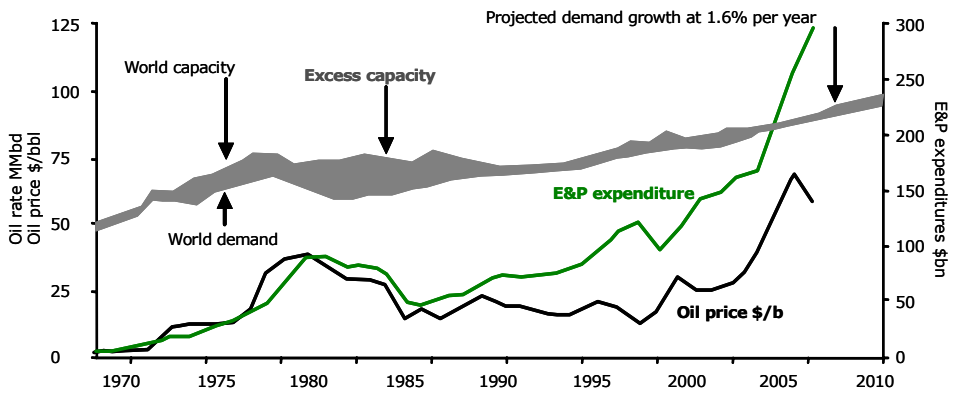
The high level of bids outstanding, particularly in West Africa, should lead to major project awards in the latter part of 2007 and the early part of 2008, a delay over what was expected a few quarters ago. However, fundamentals remain strong and delays in project awards are only a reflection of the tight supply/demand situation in the industry. We believe the current backlogs of the major players combined with the short term order intake prospects provides three to five years of topline and earnings visibility for the sector.

Oil prices are high. Upward revisions in estimates of long-term oil prices and consequently the hurdle prices for undertaking investments have led to increasing exploration and production activity. In addition, major oil companies have downgraded their estimates of proven reserves and for most companies, current production is lower than target production.

Oil and gas investment expected to be strong beyond the end of the decade

US oil services company Schlumberger stated at a recent investor conference that it expects oil and gas investment to be strong beyond the end of the decade, in line with our thinking. It is an upwardly revised view compared with its expectations a few years ago.

Chart 1 : Oil demand and E&P expenditure



Source: Schlumberger, BP Statistical review, IEA, OPEC (data revised January 2007)

Over the past three years OECD oil demand was fairly inelastic to price, and therefore the main element affecting demand at the margin has been the developing

economies. A drop in their demand would probably have a serious effect on commodity prices.

The rise of the oil services companies

Over the past 20 years, there has been a gradual trend to increase R&D, engineering, construction and installation, etc outsourcing by oil companies. Oil companies have been under cost and efficiency pressures over this period due to low oil prices, and the oil service sector brings several advantages.

- Intense service company competition and economies of scale lead to the lowest possible development costs at the same time as continual technological advances, a situation unlikely to occur if oil companies kept such operations in-house.
- Using a third party creates accountability and allows for penalty/reward structures that might otherwise be hard to achieve.
- Using an external company brings in a wealth and diversity of industry experience that would be expensive to obtain and retain within any single oil company.
- An integrated oil company is in the business of selling energy to consumers and thus is exposed to commodity prices. It does not need also to be exposed to the risk of having underutilised capital-intensive assets such as drilling rigs and installation vessels on its balance sheet. Using service companies effectively allows it to outsource capital employed and project management risk.

A significant chunk of the technological innovation now takes place within oil services companies

But outsourcing of key capabilities has also led to weaknesses. International oil companies (IOCs) dominated energy supply in the 20th century but now face challenges that threaten to curb their influence and erode their market share, in particular, restricted access to conventional oil and gas reserves, growing resource nationalisation and the need to reduce carbon emissions. It is true that IOCs have experience in operating complex projects in harsh environments and have developed highly efficient production systems. But a significant chunk of the technological innovation now takes place within oil services companies. US company, Halliburton, said recently that it now derived one-third of its revenues from products that were not in the market three years ago. IOCs still have the edge in understanding the markets (although major oil services companies are increasingly global themselves and have built relationships with national oil company (NOC) representatives at senior management level) and via their presence in every stage of the energy value chain and the development of integrated operations. However mature NOCs such as Saudi Aramco have downstream interests in several countries around the world and Gazprom is using upstream access in Russia as a bargaining chip to secure downstream assets elsewhere.

From a top-down perspective, it seems there is no likely shortage of oil services work in the foreseeable future

From a top-down perspective, it seems to us that there is no likely shortage of oil services work in the foreseeable future. We believe we are at a point in the cycle where momentum is extremely positive, with healthy tension between supply and demand. Visibility extends into 2010-12, especially for large onshore downstream and (deepwater) offshore projects.

The challenge the oil service companies face longer term is pressure on margins from competition

The challenges the oil service companies face are pressure on margins from competition within the sector (although less so now than a few years ago, given the lack of global capacity), being able to identify new industry trends and having the technical ability and flexibility to react quickly enough to take advantage of them. They also need financial flexibility. We believe some of these dynamics will lead to industry consolidation, also driven by the increasing complexity, risk and size of new development projects.

The new contracts set out more favourable terms for the oil services companies

A few years ago, a shift of power towards oil companies occurred as a result of the lump-sum engineering, procurement, construction (EPC) contract model. This has restrained significant margin improvement. Currently, it appears that some power is shifting back to the oil services companies. The new frame contracts that are being negotiated for the more recent projects set out more favourable terms for the oil services companies. However, the transfer of value from the oil companies to the oil services companies is still small, in our view.

Potential consolidation among the oil majors could accelerate consolidation among oil services companies

In addition, emerging competition from low-cost countries for more conventional projects should continue to increase the focus on the high-end range of the business (technological niches, mega-projects) and continue to enhance Saipem's low-cost engineering and manufacturing centres. Low-cost country competition should also encourage consolidation among the European players so as to maintain their leadership positions. In addition, potential consolidation among the oil majors (driven by increased pressure from NOCs in the race for access to reserves, etc) could accelerate consolidation among oil services companies as well, in our view.

We expect consolidation to be driven by several factors:

- the need to extract further economies of scale;
- to achieve better negotiating positions compared with the oil majors (pricing power);
- the necessity to service ever-increasing contract sizes better;
- to be at the forefront of new technology developments (greater resources available for R&D or pooling of capabilities); and
- to diversify the project portfolio (a big project with cost overruns and execution problems could put some companies in the sector into serious financial difficulties).

Saipem investment considerations

Saipem is the most diversified European oil field services company

Saipem is 43% owned by ENI of Italy. It is the largest by market cap and most diversified of the European oil services companies, exposed to the upstream and downstream, on-shore and offshore sectors, that generate earnings that are not necessarily correlated. Risk is therefore reasonably well spread, in our view. The construction business is late cycle and the company's current order backlog of €13.3bn (end of June), combined with the outstanding tender activity provide top-line and earnings visibility beyond 2010.

We believe the geography and topography of future projects (non-OECD, big size, local content, etc) matches Saipem's geographic footprint, experience and capabilities (estimation, cost control, project management, technological edge).

In our view, the company's **key investment considerations** are as follows:

Strong track record, well established technical and financial reputation, undisputed leader in onshore and offshore pipe-lay and in frontier provinces (technologically challenging projects in remote areas);

- Very strong in local content provision, with yards in West Africa (Nigeria, Gabon and Angola), North Africa (Algeria), South America (Peru), South-east Asia (Indonesia), Kazakhstan and Azerbaijan, but weaker positions in the GoM and North Sea (traditionally more commoditised shallow water markets);
- High barriers to entry in offshore construction (42.5% of revenues), especially in SURF, with only four main deepwater players: Saipem, Technip, Acergy and

Subsea 7. Enabling-vessel capacity is scarce and key to winning contracts (and Saipem has the market leading rigid pipe-lay and heavy-lift fleet), but the main differentiating factor is years of accumulated expertise, which can't be replicated by a new entrant;

- High tender success rate. We estimate Saipem's historical tender success rate is about 30%. However, depending on the project and geography, we believe Saipem's chances of success can be higher, especially in offshore and onshore pipe-lay;
- Positive near-term news flow re mega-contract awards (USAN and Nord Stream, etc) should lead to forecast upgrades, in our view. We estimate the current market backlog in onshore (excluding drilling) and offshore (including trunklines, conventional platforms and SURF, but excluding drilling and FPSOs) is worth US$27bn-47bn+ for projects to be executed over the next three years. This does not include potential variation orders, contract extensions and smaller projects below US$100m. We have counted the very large projects as US$1bn per project (although they could be much larger, but will most certainly be executed in a consortium);
- Strong margin-improvement potential. We believe there is substantial margin-improvement potential on the **offshore installation** side, given the increasingly tight construction vessel market in a market that grows at a very rapid pace. The projects on which the company is working currently and, more important, those currently in the pipeline, have been negotiated on the basis of better terms than those completed in prior years. We expect EBIT margins to improve by more than 4.2ppt between 2006 and 2010F, from 9.4% to 13.6%.

Similarly, we believe the **offshore drilling** division is also on the brink of a major uplift in profitability, driven by the steep increase in the fleet's average day-rates as new contracts signed now reflect market day rates. The lag effect was due to the multi-year nature of contracts currently in place and options to those contracts that were exercised by clients, given that rates were more favourable (for clients) than prevailing spot rates. We expect EBIT margins to improve by 13ppt between 2006 and 2010F, from 28.2% to 41.2%.

In **onshore construction**, the company will continue to increase the contribution of Snamprogetti's profitability to Saipem's previous group margins. The combination of Snamprogetti's engineering skills and Saipem's construction expertise could actually show results earlier than management's previous road-map. As such, segmental margins should reach 5% in 2007 and could be as high as 6% in 2008, although we are currently slightly more cautious, given the complexity of some of the projects currently being executed. In addition, expected cost synergies of €15m in 2007 and €30m in 2008 could be higher, in line with 2006, where actual cost synergies totalled €9m (vs €5m expected). We expect EBIT margins to improve by 1.7ppt between 2006 and 2010F, from 4.4% to 6.1%.

- Strong expected free cash flow generation. Saipem's current significant 2007-10 capex programme should lead to free cash flow generation per year of in excess of €1bn from 2010/11. On our forecasts, Saipem's free cash flow yield should be much higher (2-4ppt, depending on the forecast year) than Technip's from 2010, at about 10%, slightly higher than Acergy and 1-1.5ppt higher than Subsea 7.

Investment conclusion

Oil services companies benefit from a strong oil price (and thus increased oil company capex), but are considerably less exposed to political risk, as are the oil majors. A wave of asset nationalisations has recently swept through Latin America (Venezuela and Ecuador, oil assets; Bolivia, gas assets) and Russia. We believe the

oil price should remain strong medium term given low gasoline stocks and concern over supply disruptions in Nigeria, Iran and other parts of the Middle East.

Saipem's business is, in our opinion, not driven by short-term volatility in oil and gas prices. This is in contrast to the US services sector, which is exposed to capex associated with the early stage of a field's life (eg exploration, discovery and onshore US gas drilling activity), and, thus, results in revenue streams geared towards short-term oil and gas prices. While US companies concentrate on drilling and completing wells to the wellhead, Saipem is focused on infrastructure construction above the wellhead (pipe-lay, flowlines, risers, platforms) and onshore pipe-lay and gas processing plants (LNG [Liquefied Natural Gas], GTL [Gas to Liquids], etc). This is a late cycle activity. It benefits also from maintenance, inspection and replacement capex and has a small presence in the platform/subsea structures decommissioning market.

Large deepwater projects or a complicated onshore development can cost several billion US$ and have an NPV to the client (the oil and gas company) based on a 10- to 15-year horizon. Such investment decisions are driven by an oil company's internal long-term forecasts of commodity prices and rarely get changed by perceived short-term peaks and troughs in the oil and gas price. The Blue Stream deepwater pipe-lay project that Saipem completed in 2002 was approved when the oil price stood at US$10/bbl. In addition, given the increasing role of the national oil companies, major investment decisions are also driven by political considerations, such as energy independence and security.

While the market seems to discount some of the cyclical sector upswing, we believe Saipem also offers a company-specific earnings story, especially in 2008 and 2009 and beyond. We expect to see an acceleration of profitability growth at Saipem due to better margins on new contracts as well as a very large capex programme incorporating construction (large diameter pipe-lay) and drilling (Saipem 12000) vessels, new rigs, fleet maintenance, local content and two new FPSOs. We estimate this substantial 2007-10F capital outlay of €3.42bn (after €605m in 2006) should allow the company to generate free cash flow of in excess of €1bn from 2010/11F.

Fundamentally sound

We value Saipem at €32.4 per share based on a DCF analysis, putting it on a 2008F PE of 21x and a 2009F PE of 18x. Our forecasts yield a 2006-09F earnings CAGR of 26.9% and do not include potential mega-project awards.

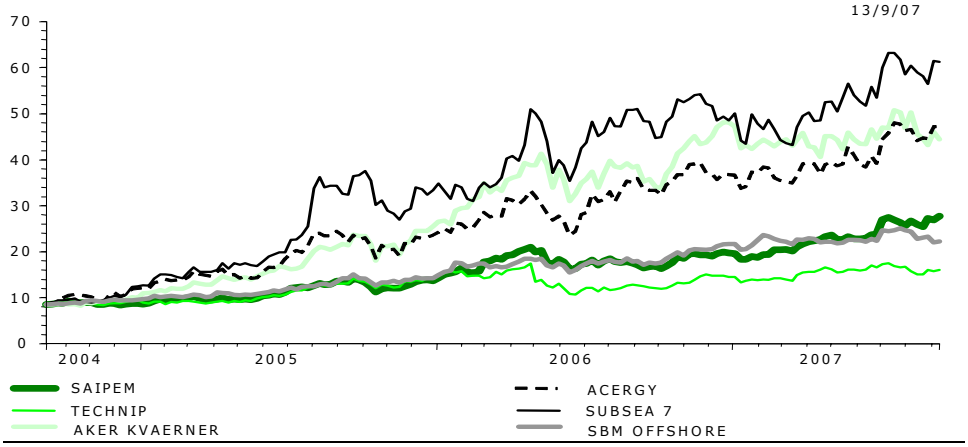
Historical share-price performance

As mentioned in previous notes, we reckon the drivers for share-price performance of the European oil services companies, and in particular the contractors, such as Saipem, are as follows:

- **Backlog and contract news flow:** Order backlog is the most obvious indicator of future revenue growth and earnings growth. The announcement of a large contract or a failure to secure a contract that was widely expected has a direct impact on the backlog and the share price.
- **Offshore and onshore development expenditure:** Platforms, platform topsides, sub-sea installations, pipelines, refineries, LNG, GTL and petrochemical plant projects (ie industry capex post service, drilling and completion of wells) all feed through to engineering and construction companies' revenues.
- **Margins:** A trend of declining margins is unlikely to be rewarded by the market. Some larger projects can have an initial negative impact on margins as profitability is back-end–loaded. However, accounting policies vary slightly among the main players.
- **Oil prices:** Major on- and/or offshore contractors Saipem, Technip, Acergy and Subsea 7 are not geared to oil company short-term capex decisions, in our view (although Technip does benefit slightly from shallow water activity in the GoM and the North Sea and Saipem from its drilling activities). However, high oil prices affect investor sentiment and the US sector, both of which should drive European services share prices higher.

Saipem's share price has underperformed the pure offshore contractors due to the company's lower margin onshore downstream activities and near-term investment programmes, which mask its longer term significant cash-generation potential.

Chart 2 : Saipem share price performance vs peers



Source: Datastream

As mentioned in previous notes, we expect continued strength of the oil services cycle until beyond the end of the decade. Hence, we believe oil services stocks will continue to outperform in the coming years. This could be helped, in our view, by much-needed consolidation, which may be accelerated by possible big oil company mergers.

We expect continued strength of the cycle until beyond the end of the decade

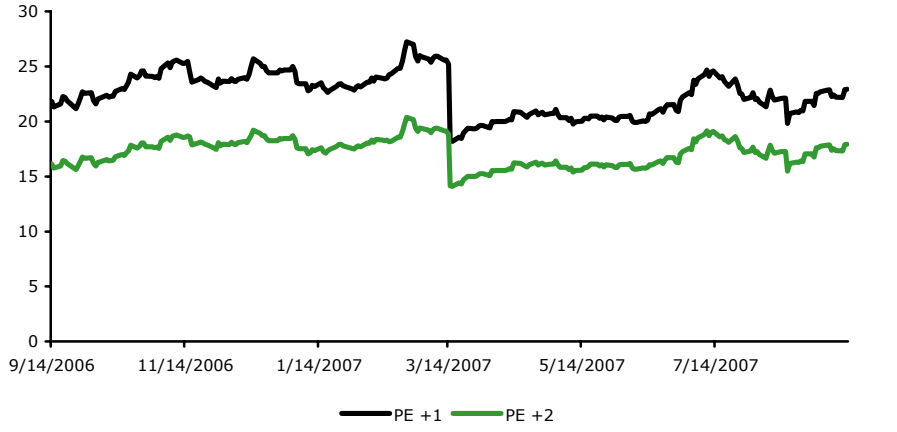
Chart 3 : Saipem 10-year daily PE evolution

Source: Datastream

Saipem's average 10-year PE is 21.7x (slightly lower than its direct peer, Technip, on 25.5x). Over the period, it peaked at 47.4x in October 2000 and troughed at 9.6x in April 1999 (after the Asian crisis). Over the past year, its average one-year forward PE was 22.6x, while the two-year forward PE was 17.2x. The sharp drop in March 2007 was due to significant forecast upgrades after the company reported FY06 results.

Saipem's average 10-year PE is 21.7x, lower than Technip's, at 25.5x

Chart 4 : One-year and two-year forward PE evolution



Source: Datastream

We believe that 2007 and 2008 are not peak years and that the sector has entered a multi-year phase of high earnings prospects. As such, we believe that there is room for one-year and two-year forward PE multiple expansion from the current levels. Given that contract terms have shifted in favour of the oil services companies during 2005 and more substantially in 2006 and 2007, we believe that there is further upside potential ahead (higher margin, lower risk backlog).

Saipem valuation

We value Saipem at €32.4 per share using a DCF valuation cross-checked against current market multiples of peer group companies.

We value Saipem at €32.4 per share

DCF valuation

Our industry analysis suggests that there is strong potential for medium-term growth in all of Saipem's three main divisions.

We use a discount rate of 8.5%, based on a beta of 1, a global equity risk premium of 5%, a risk-free rate of 4.25% (current 10-year government bond yield), a gearing level of 30% (debt to capitalisation), a credit risk premium of 0.7% and a perpetuity growth rate of 3% (including a 2% inflation assumption).

Table 1 : Saipem – DCF valuation

Assumptions								
WACC	8.5%							
Terminal value growth	3.0%							
€m		**2007F**	**2008F**	**2009F**	**2010F**	**2011F**	**2012F**	**2013F**
Unlevered free cash flow		-425	76	502	949	1,133	1,190	1,228
PV of cash flow to 2013F	2,921.5							
PV of terminal value	12,877.4							
Enterprise value	**15,799.0**							
Net (debt)/cash	-2,026.0							
Pension liabilities	-169.0							
Deferred tax asset	47.0							
Minorities*	-69.3							
Associates*	522.7							
Equity value	**14,104.4**							
Number of shares (m)	435.3							
Target price (€)	**32.4**							
Current price (€)	28.3							
Upside/(downside)	**14.6%**							

Source: ABN AMRO forecasts, price as at COB 17 September 2007; minorities and associates valued at PE of 22x

The company has book value pension obligations of €169m, which we assimilate to debt and subtract from the EV. They mainly relate to Italy, Norway, the UK and France. We have valued associates at €523m (PE of 22x), although management announced that they expect €700m from their disposal programme (mainly associates contribution).

We apply a 29.5%-31% tax rate to our cash flow estimates. Saipem has a deferred tax asset of €47m on the balance sheet, which we add to our EV.

Tax losses can be carried forward for up to five subsequent periods in Italy. However, losses suffered in the first three years of a company can be carried forward without time limit. Tax losses on foreign companies can be carried forward on average for more than five years and for a substantial part without time limit. Tax recovery corresponds to a tax rate of 33% for Italian companies and to an average tax rate of 29% for foreign companies. Tax losses amounted to €398m at the end of 2006, of which €326m are without time limit.

Table 2 : Saipem – DCF-implied target price multiples

€ m	**2007F**	**2008F**	**2009F**	**2010F**
Sales	9,415	10,436	11,240	11,828
Growth (%)		10.8%	7.7%	5.2%
EV/Sales (x)	**1.7**	**1.5**	**1.4**	**1.3**
EBITDA	1,122	1,397	1,639	1,771
Growth (%)		24.5%	17.3%	8.0%
EV/EBITDA (x)	**14.1**	**11.3**	**9.6**	**8.9**
Earnings	531	672	785	850
Growth (%)		26.5%	16.8%	8.3%
P/E (x)	**26.6**	**21.0**	**18.0**	**16.6**

Source: ABN AMRO forecasts

Our valuation yields a one-year forward PE multiple of 21x, below its 22.6x one-year forward multiple seen over the last year, although, as mentioned before, we do not expect our forecasts to be at the peak in that year.

We forecast 2006-09 earnings CAGR of 26.9%, on revenue growth of 14.4% over the same period (incl. Snamprogetti). We have forecast group EBITDA margins to peak in 2010F, at 15% (vs 11% in 2006), given current tender activity visibility. We believe this could be conservative. The current strong up-cycle might well extend beyond 2010, in which case our forecast would be revised upwards.

We forecast margins to peak in 2010, but this could be conservative

Peer group valuation

We compare the valuation multiples of Saipem to those of its immediate European oil services peers, including the seismic companies given their exposure to the same E&P capex cycle. We believe, though, that Saipem's business is less cyclical and provides greater earnings visibility (long-term contracts) and is, thus, lower-risk than the seismic business. It does not, however, enjoy the high margins that seismic companies achieve at the peak of the cycle. It is also later cycle, which explains part of the valuation discrepancy, in our view. That is, contractor multiples are higher given current forecasts are perceived to be further away from the peak, such that they have more expansion potential.

Table 3 : Peer group multiples

		P/E (x)				EV/EBITDA (x)				EV/Sales (x)			
	Share price	2006A	2007F	2008F	2009F	2006A	2007F	2008F	2009F	2006A	2007F	2008F	2009F
European oilfield services companies													
Technip (€)	57.6	29.6	22.5	18.7	16.4	9.9	8.4	7.0	6.1	0.7	0.6	0.6	0.6
Saipem (€)	**28.3**	**32.5**	**23.5**	**18.6**	**15.9**	**17.3**	**12.8**	**10.3**	**8.7**	**1.9**	**1.5**	**1.4**	**1.3**
Acergy (US$)	27.9	23.5	22.1	16.8	13.3	16.5	11.5	9.3	7.7	2.5	1.9	1.7	1.4
Tecnicas Reunidas (€)	44.8	37.7	22.4	15.9	11.9	37.7	19.2	13.0	10.5	1.9	1.1	0.8	0.7
Subsea 7 (US$)	25.8	27.7	22.5	18.1	13.4	16.4	12.0	9.6	7.3	2.6	2.1	1.8	1.5
SBM Offshore (€)	26.3	17.0	13.5	12.5	12.0	9.7	8.0	7.1	6.4	2.3	2.0	1.9	2.0
Aker Kvaerner (NKr)	149.0	25.0	17.3	14.1	12.3	13.0	10.1	8.5	7.6	0.7	0.7	0.7	0.6
Wood Group (US$)	776.4	31.1	21.6	18.5	16.2	16.1	11.7	10.4	9.4	1.2	1.0	0.9	0.8
Expro (£)	997.0	40.9	25.8	21.9	18.6	19.1	11.1	8.6	7.5	4.1	2.4	2.1	1.9
Mkt cap weighted average (excl. Saipem)		**27.6**	**20.4**	**16.7**	**14.1**	**15.4**	**10.8**	**8.8**	**7.6**	**1.8**	**1.4**	**1.2**	**1.2**
European seismic players													
CGG Veritas (€)	207.8	23.4	18.5	15.3	12.0	14.4	6.7	5.9	5.2	5.2	2.9	2.5	2.3
PGS (Nkr)	137.5	15.1	10.5	9.1	8.3	6.7	5.3	4.6	4.3	3.1	2.9	2.6	2.4
TGS-Nopec (NKr)	110.3	12.8	12.1	9.8	8.9	5.3	4.6	3.9	3.7	4.2	3.8	3.2	3.1
Fugro (€)	52.2	25.3	16.7	14.0	13.1	14.3	10.0	8.6	8.1	3.0	2.4	2.0	1.9
Mkt cap/ EV weighted average		**20.9**	**15.5**	**12.9**	**11.1**	**12.0**	**7.1**	**6.2**	**5.7**	**4.1**	**2.8**	**2.5**	**2.3**

Source: Prices at COB 17 September 2007, Company data, ABN AMRO forecasts for Saipem, Technip, Acergy, Subsea 7, SBM Offshore, Wood Group, Expro, CGG Veritas and Fugro; Bloomberg/ Reuters consensus for others

Saipem looks attractively valued versus peers, given its growth profile and cash generation potential.

Saipem enjoys a tax advantage over peers, in particular Technip. This advantage is structural and we expect it to continue. The advantage that Saipem investors have over Technip shareholders, for example, is not reflected in any pre-tax multiple, such as EV/EBITDA. In addition, some companies (such as Technip) currently have large cash positions (down-payments on large contracts), some of which is cash advances from customers for procurement (and can't be used to pay down debt) and which reduces the enterprise value (while the interest it generates is included in Technip's EBITDA). This leads us to favour the post-tax PE multiple rather than the pre-tax EV/EBITDA multiple.

Saipem enjoys a tax advantage over peers, not captured in EV/EBITDA

Table 4 : 2006-08F earnings and EBITDA growth

				EBITDA margin (%)			
European oilfield services companies	**2006-08F earnings growth**	**2006-08F PEG**	**2006-08F EBITDA growth**	**2006A**	**2007F**	**2008F**	**2009F**
Technip	26%	1.14	19%	6.9%	7.7%	8.6%	9.1%
Saipem	**32%**	**1.01**	**30%**	**11.0%**	**11.9%**	**13.4%**	**14.6%**
Acergy*	18%	1.29	33%	14.9%	16.5%	17.8%	18.8%
Tecnicas Reunidas	54%	0.70	70%	4.9%	5.8%	6.5%	6.9%
Subsea 7	24%	1.17	31%	16.0%	17.2%	18.6%	20.6%
SBM Offshore	17%	1.02	17%	24.1%	25.1%	26.6%	31.1%
Aker Kvaerner	33%	0.76	24%	5.8%	6.8%	7.7%	8.1%
Wood Group	30%	1.05	24%	7.7%	8.4%	8.8%	9.0%
Expro	37%	1.11	49%	21.7%	21.6%	23.9%	24.9%
European seismic players							
CGG Veritas	46%	0.51	57%	35.9%	42.6%	43.3%	44.1%
PGS	29%	0.52	21%	46.9%	54.2%	55.8%	56.3%
TGS-Nopec	15%	0.88	16%	79.9%	82.9%	81.6%	84.3%
Fugro	34%	0.74	29%	20.6%	23.5%	23.8%	23.2%

*Source: Company data, ABN AMRO forecasts for Saipem, Technip, Acergy, Subsea 7, SBM Offshore, Wood Group, Expro, CGG Veritas and Fugro, Bloomberg/ Reuters consensus for others, *EBITDA margins excluding associates*

We believe investors should value higher earnings growth (momentum) and free cash generation above higher ROCE. The companies in the sector have different capital intensities and several of them (such as Saipem) are currently in the middle of executing significant capex plans. This is the reason we are not using (near term) FCF yield, a measure of companies' capex efficiency, but currently negative for some of them (Saipem and Subsea 7).

Table 5 : Saipem ROCE (2005A-2012F)

€ m	**2005A**	**2006A**	**2007F**	**2008F**	**2009F**	**2010F**	**2011F**	**2012F**
Capital Employed	2,863.0	3,470.0	4,431.6	5,083.4	5,419.2	5,364.1	5,142.3	4,876.1
NOPAT	282.2	426.1	593.9	738.1	848.8	906.0	924.2	936.8
ROCE	**11.2%**	**14.9%**	**17.1%**	**16.7%**	**16.7%**	**16.7%**	**17.2%**	**18.2%**
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
ROCE-WACC Spread (%)	**2.7%**	**6.3%**	**8.6%**	**8.1%**	**8.2%**	**8.2%**	**8.7%**	**9.7%**
ROCE closest peer group								
Technip	6.3%	10.4%	14.9%	16.3%	18.0%	18.5%	19.1%	18.0%
Acergy	31.7%	50.1%	36.1%	38.8%	43.4%	45.7%	46.6%	45.8%
Subsea 7	12.1%	39.3%	26.2%	21.4%	25.0%	28.1%	28.7%	29.1%

Source: Company data, ABN AMRO forecasts

After the difficult years in the first half of this decade, Acergy and Subsea 7 created value from 2004, while Technip started to create value in 2006. Acergy's ROCE is high (vs peers) given most vessels are largely depreciated and there have been substantial vessel write-downs during the market downturn in 2003. The book value of the net operating assets substantially understates their economic value, in our view (replacement value of fleet significantly higher than book value). In addition, book value does not include the value of the assets (vessels) chartered under long-term lease agreements. The ROCE declines for Acergy and Subsea 7 in 2007 and Saipem in 2008 are due to investments in new-build vessels.

Saipem has a higher ROCE than Technip to 2008F because of its higher margin onshore division and high margin drilling division, although it has higher capital intensity as well. It also pays lower tax. However, Technip's large amount of goodwill (around €2.4bn in 2006) distorts the profitability comparison somewhat.

Table 6 : Medium-term value creation, main oilfield services contractors

	Saipem	Technip	Acergy	Subsea 7
NPV of 2007-2013F FCF, m	2,921.5	1,929.2	1,786.2	1,088.0
NPV of 2007-2013F FCF/ share	6.7	18.3	9.3	7.4

Source: ABN AMRO forecasts, Technip and Saipem in €, Acergy and Subsea 7 in US$

Saipem's longer term FCF yield is higher than its immediate peers

Saipem's lower per share 2007-13F FCF NPV (vs Technip) is due to its substantial near-term investment programme. On our forecasts, Saipem's free cash flow yield should be much higher (c2-4 percentage points, depending on the forecast year) than Technip's from 2010F, at c10%, slightly higher than Acergy and 1-1.5% higher than Subsea 7.

However, share prices in the sector are driven by contract news flow and we expect several large contracts to be awarded in 4Q07, so backlog growth and order intake momentum are important variables as well.

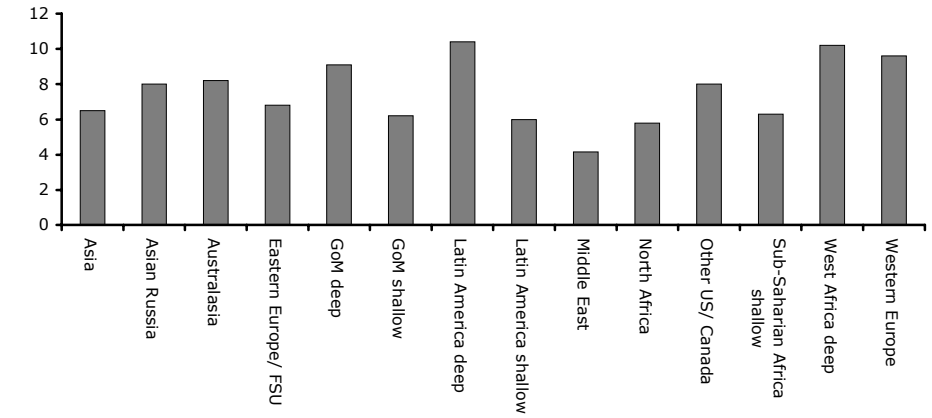
Risk to our target price and investment opinion

- Geopolitical tensions and a sharp decline in the oil price could delay or cancel some of the projects Saipem is currently working on and/or has identified as accessible market for the future. This could result in a lower backlog and therefore revenue and profits going forward.
- Slowing worldwide GDP growth and overall demand for energy could weaken market sentiment and lead to oil services stocks underperforming the market.
- The mismanagement of a project or a delay in the delivery of and/or a shortage of key equipment or materials could lead to a delay in the completion of a project and cost overruns, which could adversely affect revenues and profits of the company. A damaged reputation could lead to lesser project awards.
- Delays in ship deliveries could impact our forecasts short term.
- While we believe fundamentals are very strong in West Africa, a major delay in several major contract awards in that region would have a negative effect on expected volume growth in 2008.

However, while the deepwater projects attract all the attention because of their large budgets and complexity, there is actually a lot of shallow water work, especially in Nigeria, which has become extremely urgent, given the state of the existing infrastructure. We believe that these shallow water projects could provide a fallback position should there be large delays in deepwater work. In a nutshell, while volume assumptions would be impacted by long award delays, we expect mitigating effects from other activities.

Also, according to several studies conducted by Douglas-Westwood, the UK consultancy, despite oil prices in excess of US$70/bbl, major oil companies are still testing field developments against oil prices of about US$20 (eg, Shell and Petrobras, which mentioned their respective testing levels of US$20 and US$19 in recent strategy updates). Deepwater developments (including offshore Latin America and West Africa) have higher lifting costs per barrel than onshore developments due to increased capex and opex requirements when extracting oil in greater water depths. However, even at lifting costs of about US$10, these developments could still be profitable at lower oil prices.

Chart 5 : Global lifting costs by region, 2006 (US$/bbl)



Source: Douglas-Westwood, Energyfiles, ABN AMRO estimates

Truly global and diversified contractor

Saipem is a truly global and diversified oil & gas contractor, with a strong local presence in strategic and emerging areas, such as West Africa and FSU, Central Asia, Middle East, North Africa and South East Asia.

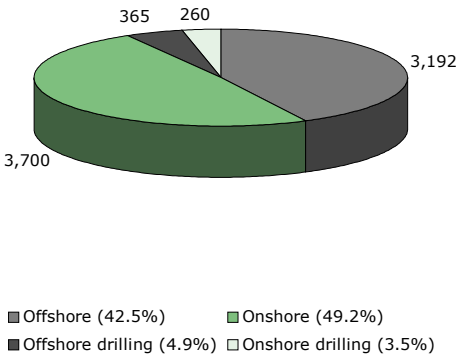
Company description

Saipem began operations in the 1950s, when it initially focused on onshore pipelaying, plant construction and drilling and was part of the ENI Group. It became autonomous in 1969, although ENI retains a c43% stake in the company. It began offering services to clients outside the ENI Group in the early 1960s and now has a customer base that includes almost all the super-majors, major national and independent oil & gas companies. Saipem was listed on the Milan Stock Exchange in 1984.

Saipem is a leader in deepwater pipeline (trunklines) and subsea structures installation, heavy lift work and, after the Snamprogetti acquisition in February 2006, also in large onshore downstream projects such as gas processing, refinery expansion and petrochemical plant construction. It is the most diversified company in our European oil services coverage universe. The company acquired Bouygues Offshore in 2002, which transformed it into an international EPIC (Engineering, Procurement, Installation, Construction) contractor with a strong offshore bias and a wide, mainly international oil company client base. Snamprogetti strengthened the company's position in onshore EPC projects, and geographically, in the Middle East. It also added national oil companies to its customer base.

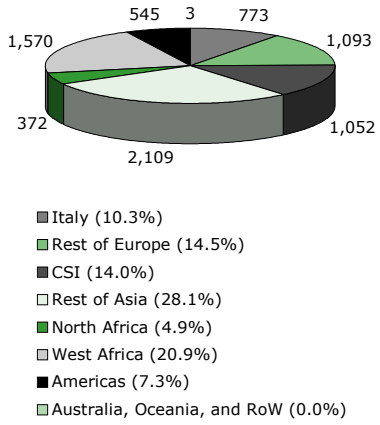
Saipem is a leader in deepwater pipeline and subsea structures installation, heavy lift and large onshore downstream projects

Chart 6 : 2006 sales by segment, €m



Source: Company data, ABN AMRO

Chart 7 : 2006 sales by geography, €m



Source: Company data, ABN AMRO

At the end of June 2007, Saipem employed more than 32,976 people (of which 7,056 engineers) comprising more than 100 nationalities.

It also has offshore and niche onshore drilling operations, which give the company some exposure to early-cycle oil company capex, the primary driver of the US oil services industry, and which peer, Technip, for example, does not really have (except to some extent, due to its shallow water activities in the GoM).

Saipem is a leader in onshore pipelines and facilities in frontier provinces (technologically challenging projects, in remote areas). Saipem's relatively small exposure to the Gulf of Mexico can be explained by its focus on more specialised/ frontier areas (where it adds more value), while the GoM market is more commoditised. We believe this is about to change though as we currently observe a greater push into deepwater areas.

Saipem has led the way in local content provision, with yards in West Africa (Nigeria, Gabon and Angola), North Africa (Algeria), South America (Peru), South East Asia (Indonesia), Kazakhstan and Azerbaijan. The company's offshore EPIC capabilities are supported by its fabrication capabilities, which encompass its wholly owned subsidiary Intermare Sarda in Italy (which fabricated the 23,000t jacket for the Sabratha platform in Libya), the Rumuolumeni yard in Nigeria, the Petromar Soyo yard in Angola, the Boscongo Pointe Noire yard in the Republic of Congo, the Kuryk yard in Kazakhstan and the Sharjah yard in the UAE. The current fabrication potential of all of Saipem's facilities is in excess of 130,000t per annum.

The geographical location (local presence) of plants, spoolbases, yards and vessels represent a competitive advantage. Countries such as Nigeria and Angola are currently tightening the legal environment making it compulsory for a large chunk of a project's equipment to be manufactured on the ground. Suppliers to the contractors are also setting up infrastructure locally. Prysmian has just opened a new umbilicals factory in Brazil and nearly 80% of the production will be used locally, mainly on jobs commissioned by Petrobras. NKT Flexibles (the 51/49 JV owned by NKT Holding and Acergy) has plans to create a Greenfield flexible pipeline plant in Asia, most likely Malaysia (as stated by the company).

Local content and job creation put oil services on good terms with local authorities

Oil services companies provide significant employment locally (for example Saipem currently employs 4,000 people in Nigeria), compared with the IOCs, which have mostly expatriate staff on the ground. This puts oil services companies in a solid negotiating position, in our view, when it comes to project awards and subsequent variation order negotiations with national oil companies. The contractors are not only making the effort to develop the oil and gas fields on time but also to bring benefits to the local economy via job creation and the transfer of technology and skills.

Heavier fixed platform structures are on a long term decline trend

Both Saipem and Technip have operations fabricating the hull structures for platforms. According to Saipem, the fixed platform market experienced some growth last year in the medium-low topside weight segment, especially in the Middle East. Medium-term activity levels are encouraging in the GoM and West Africa. The market for heavier structures contracted last year, as many players expected.

SURF capex should continue to grow even after a peak in platform capex

One of the reasons for declining heavy fixed platform spend is the rise in the number of major FPSOs (Floating Production, Storage and Offloading facilities) that are installed. They dominate in deepwater fields. An FPSO is required whenever there is no pipeline network available or where tying back to an existing platform is not possible because of the distances involved. However, as major FPSOs are installed, it becomes possible to tie back satellite fields to this existing infrastructure. The tie-back involves SURF and thus SURF capex should continue to grow even after a peak in platform capex. This is also a reason why Saipem is increasing its presence in the FPSO market, in our view. Despite it being a capital intensive business, it has EBIT margins between 10% and 20%.

Offshore construction (42.5% of 06A revenues, 50.1% of EBIT)

This business unit includes offshore construction, the leased FPSO activities and the offshore part of MMO (maintenance and repair business). In 2006, the company laid 1,514 km of pipelines and installed 120,453t of plant and equipment.

Saipem's main geographical areas are West Africa, the Caspian and the Mediterranean Sea. It has strong local content in all of these regions. The company has a major manufacturing yard in Nigeria, where it can carry out most jobs internally. In addition, the company has the only major yard in Kazakhstan.

Saipem has handled projects ranging from inter-field flowlines to major trunkline systems totalling some 23,000 km since its inception

Saipem has handled projects ranging from inter-field flowlines to major trunkline systems totalling some 23,000 km since its inception. Its *Saipem 7000* vessel has laid over 750km of 24 inch thick wall gas trunkline in water depths as deep as 2,150 metres in J-lay mode as part of the Blue Stream project in the Black Sea and 540km of 32 inch thick pipeline in S-lay mode to a depth exceeding 1,100m as part of the Green Stream project linking Libya to Italy. The company uses both the heavy lift and float-over techniques. Past projects included the 12,150t Sabratha deck combined lift in Libya, the Buzzard 11,000t combined lift in the UK and the float-over of the 21,800t deck of Lunskoye-A platform on Sakhalin II. Over the past ten years it has completed some 120 offshore construction projects, including modular deck drilling and production platforms, integrated deck platforms, wellhead and accommodation platforms, FPSOs (both new-builts delivered turnkey to the customer and tanker conversions leased to and operated for the customer), increasingly in an integrated contractor role. The company employs currently about 1,200 engineers and project managers in its offshore division.

The company started its leased FPSO activity in 1996

Saipem's track record for new-build FPSOs includes the participation to the Girassol FPSO for Elf in Angola and the Erha FPSO for ExxonMobil in Nigeria. The company started its leased FPSO activity in 1996 via its involvement in the Aquila FPSO development for ENI in 850 metres water depth offshore Italy. It was awarded the US$600m Golfinho 2 FPSO lease contract from Petrobras in Brazil in 2005 and the Gimbao FPSO lease from Sonangol in Angola (US$570m contract) last year. The Golfinho 2 FPSO was the first contract won by Saipem on a standalone basis (not part of a consortium).

For an FPSO project the company combines its design engineering skills with naval architecture (via its wholly-owned subsidiary Moss Maritime) and specialised fleet and assets engineering services. Its capabilities also incorporate its LNG chain know-how and patents for the development of floating terminals for the liquefaction of natural gas and load-onto LNG carriers, and for the offloading of LNG carriers and regasification and piping to the shore of liquefied natural gas.

Table 7 : Current leased FPSO fleet

Vessel name	Description
FPSO Firenze	Built in 1972, converted in 1996/7, max oil production 18,900bd, crude storage 550,000bbls
FPSO Mystras	Built in 1976, converted in 2002/3, max oil production 80,000bd, crude storage 1,035,000bbls
FPSO Cidade de Vitoria	Built in 1976, converted in 2005/6, max oil production 100,700bd, crude storage 1,900,000bbls
FPSO Gimboa	Built in 1977, converted in 2007/8, max oil production 60,000bd, crude storage 1,800,000bbls

Source: Company data, ABN AMRO

Saipem's leased FPSO strategy is to exploit the market potential by targeting opportunities that meet strict financial criteria. Its aim is to leverage operational synergies within the group via its EPIC competencies and fleet management expertise as well as exploit financial synergies (use its strong balance sheet and the EPIC down-payments to fund the capex phase of the leased FPSO).

Mediterranean Sea

The company's recently won **Medgaz** contract (€400m, 200km pipeline between Algeria and Spain) is still at an early stage of completion, 1% end of June, and should be at 5% by the end of the year. The project is currently scheduled for completion in 1H09.

The €270m **Burullus Gas Co** (BG Group, Petronas and the Egyptian Natural Gas Holding Company, EGAS) contract had reached 25% of project completion at the end of June and is expected to finish in the first half of 2008. This contract is for the Phase IV development of the West Delta Deep Concession in Egypt, comprising the design, engineering, procurement, construction, installation and commissioning of subsea systems for the Scarab/Saffron and Simiam fields. The work is carried out by the *Saibos FDS* and the *Normand Cutter* and should be completed by the end of the year.

The €120m **Hasdrubal** (BG Group) project in Tunesia was at a very early stage at the end of June and is expected to finish in the second half of 2008. Offshore activities will be carried out by the *Crawler*.

West Africa

The **Akpo** FPSO offshore Nigeria that Saipem and Technip are building in association with Hyundai Heavy Industries for Total is due to start producing in 4Q08. Akpo will be the biggest FPSO in the world (310m long and 61m wide) and anchored in 1,325m water depths. The weight of the topsides (more than 17 modules) will amount to 37,000t. It will have a storage capacity of 2mbbl of oil and include two processing trains to separate gas and water. It will be producing 225,000b/d. The project had an original contract value of €800m and was 50% complete by June 2007. The vessels used are the *Saibos FDS*, *Saipem 3000*, *S 355* and the *Bar Protector*. The job includes a subsea system (22 oil production wells, two gas injection wells, 20 water injection wells, 10 manifolds), a production and injection network (thermally insulated production flow loops and steel catenary risers as well as gas and water injection lines), an umbilical network, a gas export pipeline to Amenam AMP2 platform (147km), an oil loading terminal and an FPSO mooring system.

The execution of the US$420m **Gbaran/Ubie** project for Shell is ongoing and expected to be completed at the end of 2008. This is an EPC contract for the laying of 340km of pipelines and flowlines as well as composite fiber optic and high voltage electrical cables connecting the Gbaran oil and gas field in Bayelsa State (Niger delta) with the central processing facility in that area.

The CNR International (**Olowi**) project for Chevron (contract value in excess of €200m) was at a very early stage (1%) of completion at half-year. It is expected to be completed in 1H09. This is an EPIC type project for the development of the Olowi field in Gabon, comprising three wellhead towers, a support platform and the installation of interconnecting pipeline, riser and umbilical systems between the wellhead towers and the FPSO. The marine activities will be mainly carried out by the *Castoro 2* and the *Saipem 3000* in 2Q09.

The company is involved in a number of smaller projects with a contract value of below €200m, such as the EPIC contract from ENI for the **Awa Paloukou** (Republic of Congo) field platform and associated pipelines. The platform was built at the Intermare Sarda fabrication yard in Sardinia and installed by the *Saipem 3000*.

In Angola, Cabinda Gulf Oil Company has awarded Saipem with the EPIC contract for the Flare and Relief Modifications Project in the Angolan offshore Block 0, aimed at eliminating routine gas flaring. We estimate this contract could be worth €150-180m.

Offshore activities will mainly be performed by the *Saipem 3000* between 2Q and 4Q08.

The company also won last year from Sonangol the contract for the provision and operation of an FPSO unit for the development of the **Gimboa** field, located in Block 4/05 offshore Angola in 700 metres water depth, as mentioned above.

Caspian Sea

The company is currently carrying out four projects (three construction, one drilling) in Kazakhstan (**Kashagan** field). However, due to cost overruns and delays, the client is revising the full design of the project, and negotiations between the oil and gas company consortium (ENI, ExxonMobil, Shell, Total, ConocoPhillips and Inpex) and the Kazakh government over increased ownership (from 8.3% currently) of the project by the Kazakh national company KazMunaiGas (KMG) are still ongoing. Saipem's main project is the trunkline connecting the artificial wellhead island to the shore, which seems to be less affected by the scope renegotiation. The other projects comprise the installation of the base (pipelines and flares, etc) for the next artificial island. The company has won the preliminary phase (€100m) of the hook-up and commissioning of equipment and vessels but that project could well be worth in excess of €1bn if the company is awarded the installation phase as well, which we believe is very likely, given its local content, local vessel capacity and expertise on the previous jobs there.

Saipem created a 50/50 joint venture with local ERC Holding (ERSAI), responsible for offshore fabrication (Kuryk yard has a capacity of 20,000t per year), engineering and maritime/logistics support as well as the operation of the Kuryk yard and the offshore construction barge *ERSAI 1*.

The drilling contract has a duration of approximately five years in Block D of the Kashagan field.

The Kashagan field development necessitated the maximisation of local content given the lack of infrastructure and vessel/ barges in the region. Weather conditions are very harsh (winter freezing temperatures below -20C) and there are environmental restrictions (State Natural Reserve Zone). Waters are very shallow, from 4m in Kashagan East to close to nil near the shore, leading the company to develop innovative solutions for pipelaying & construction (using very-shallow-water barges).

Risk factor was estimated at 20% to 25% of the tender prices

AgipKCO (ENI) has recently delayed the award of the last major fabrication contract for stage one. The contract was for at least two innovative drilling barges. Initial bids submitted by two partnerships led by Technip and Keppel Fels last year were apparently two high. The company now considers a reimbursable commercial package which would eliminate the risk factor priced in by the bidders (placing the risk on the client instead) and estimated at between 20% and 25% of the prices quoted by the bidders. The value of the planned contract under a lump-sum arrangement was in excess of US$500m, according to *Upstream* (the international oil & gas newspaper).

On the Azerbaijani side of the Caspian Sea the company is working on a couple of contracts that should be completed in the first half of 2008.

South East Asia

The company is currently working on the **Blacktip** Development Project (for ENI Australia), located in the Bonaparte Basin in Australia, a project that should be finished in 2H08 (108km export pipeline system to be laid by the installation vessel *Castoro Otto*).

Saipem is also executing a number of smaller pipelay projects in the region worth US$480m and awarded in 2006. Chinese Petroleum Corp has awarded Saipem an EPIC-type contract for the **Taishung/Tungshiao/Tatan** pipeline, off the coast of Taiwan, comprising engineering, part procurement, pipelaying, testing and pre-commissioning for a pipeline provided by the client. PTT Public Co (Petroleum Authority of Thailand) and Trans Thai-Malaysia have awarded Saipem with the new **PTT-TTM** (Trans Thai-Malaysia) gasline project (275km, US$200m), which comprises engineering, transport and installation of a pipeline provided by the client. Saipem is also currently laying 36 km of pipelines in the area between Thailand and Malaysia on behalf of Kencana HL. The *Semac 1*, *Castoro 8* and *Castoro 10* are currently carrying out these contracts which are expected to be completed by year-end.

North Sea

The North Sea has seen strong growth in the small and large diameter pipeline segments last year.

According to *Upstream*, Saipem is well placed to get the Nord Stream contract

Saipem is working on smaller projects in the North Sea (Total (**Dunbar** and **Alwyn** platforms in the UK)), Maersk Olie (**Halfdan** Northeast Phase 3 Sealines project in Denmark), Talisman Energy (**Tweedsmuir** Subsea project in the UK), Nexen (subsea development of **Ettrick** field), but could become bigger in the trunkline segment if it is awarded the Nord Stream and/or Troll contracts. *Upstream* has recently reported that Saipem is set to land the 'at least US$2bn' Nord Stream contract (length of 1,200km), led by Gazprom. It quotes industry sources claiming that the final contract details are set to be hammered out by the end of December. The Total and Maersk contracts encompass pipe-laying carried out by the *Castoro Sei* in 3Q and 4Q07.

In June 2006, Total Norge E&P AS awarded Saipem with a contract for the decommissioning of sealines associated with the central complex of the **Frigg** field, located 230km north west of Stavanger, Norway. The contract comprises the removal and transport of seven large platforms. The main vessel used is the *Saipem 7000*.

According to the latest decommissioning forecast by the UK's Department of Business, Enterprise & Regulatory Reform (DBERR), 19 installations (fixed platforms, floaters and subsea facilities) could be decommissioned next year in the UK sector of the North Sea alone. Activity could remain at an average 18 installations per year from 2009 to 2014, before peaking at an annual 30 or more in 2015 to 2018 (of which 72 fixed platforms in that period). The UK decommissioning market has been estimated by ODU (Offshore Decommissioning Unit of the DBERR) at £12bn (in 2006 prices). Annual price inflation has been running at 10-20% over the last two years.

Gulf of Mexico

The GoM is the world's main market for small diameter pipes

The company has only a small exposure to the GoM, the world's main market for small diameter pipes. Last year it was awarded a contract by Devon Energy for the decommissioning of three platforms in the US, following damage caused by Hurricane Rita. Work began in August 2006 and is carried out by the *S355* vessel.

Brazil

In August last year, Companhia Mexilhao do Brasil awarded Saipem with a contract for the transport and installation of the offshore structures (jacket, piles and topside modules of the PMXL-1 platform weighing about 24,000t) related to the Petrobras Mexilhao field development (Santos Basin). The contract is carried out by the *Saipem 7000* and will take place in 1H09.

Vessel fleet

The company's fleet is heavily geared towards pipe-lay and heavy lift capabilities

The company's fleet is heavily geared towards pipe-lay and heavy lift capabilities. It commissioned in mid-April a major league pipe-layer, the *Castoro 15*, a US$800m newbuild laybarge. It also has a drilling fleet and a fleet of 10 highly sophisticated and technologically advanced remotely operated vehicles (ROVs), which carry out complex deep-water pipeline maintenance and repair work.

Table 8 : Saipem construction and pipe-lay fleet

Vessel name	Ownership	Delivery	Description
Saipem 7000	Yes	In operation	Semi-submersible J-lay pipe-lay vessel (up to 32"), water depth capability to 3,000m. Lifting capacity of 14,000t. 198m long, 87m wide. Dynamic positioning.
Saipem FDS	Yes	In operation	Multi-purpose monohull J-lay pipe-lay vessel, up to 2,100m water depths and crane lifting capacity of 600t, 163.5m long, 30m wide. Dynamic positioning.
Castoro Sei	Yes	In operation	Semi-submersible large diameter pipe-lay vessel, water depth capability of up to 1,000 metres. 143.5m long, 64.5m wide.
Castoro Otto	Yes	In operation	Large diameter (up to 60") pipe-lay vessel and crane lifting capacity of 2,200t. 191.4m long and 35m wide.
Saipem 3000	Yes	In operation	Flexible pipe-lay vessel, installation of umbilicals, mooring systems and deepwater subsea structures, crane with lifting capacity of up to 2,200t, 162m long, 38m wide.
Semac 1	Yes	In operation	Deepwater semi-submersible large pipe-lay barge, 148.5m long (188.1m incl. truss), 54.9m wide
Castoro II	Yes	In operation	Large diameter (up to 60") pipe-lay and crane with lifting capacity of 2,200t. 135m long, 32.4m wide.
Castoro 10	Yes	In operation	Trench/ large diameter pipe-lay (up to 60") barge in shallow water. 139m long, 30m wide.
S 355	Yes	In operation	Pipe-lay barge (up to 45") and crane with lifting capacity of 600t. 108m long, 30m wide.
Crawler	Yes	In operation	Large diameter (up to 60") pipe-lay and crane with lifting capacity of 540t. 150.5m long and 34.3m wide.
SB 230	Yes	In operation	Work and pipe-lay/accomodation barge. 70m long, 22.8m wide.
Castoro XI	Yes	In operation	Heavy duty cargo barge
Castoro 9	Yes	In operation	Launch cargo barge, 5,000t capacity
Castoro 14	Yes	In operation	Heavy duty cargo barge
S42	Yes	In operation	Launch cargo barge, 8,000t capacity
S44	Yes	In operation	Launch cargo barge, 30,000t capacity
S45	Yes	In operation	Launch cargo barge, 20,000t capacity
S 600	Yes	In operation	Launch cargo barge, 30,000t capacity
SB 103	Yes	In operation	Lightweight cargo barge
New pipe-laying vessel	Yes	2Q2010	Large diameter pipe-lay vessel, main crane lift capacity 600t, 290m long, 39m wide.

Source: Company data, ABN AMRO

In addition the company has a fleet of **nine dive support and subsea construction vessels**, such as the 127.5m long *Normand Cutter* (subsea construction and umbilical lay vessel). The *Far Marvel,* a 121.5m long subsea support vessel, is currently under construction.

The *Saipem 7000* has a very strong backlog up to at least the third quarter 2009, sustained by a number of reasonably sized jobs in the North Sea, Mexilhao in Brazil, MEDGAZ in the Mediterranean and the Frigg decommissioning job in the North Sea. It could however thereafter be deployed to the West Africa region to provide additional capacity to the *FDS* and *Saipem 3000* in case a big contract (Usan FPSO and/or the SURF contract, etc) were awarded to the company.

The *Saipem 7000* has a very strong backlog up to at least the third quarter 2009

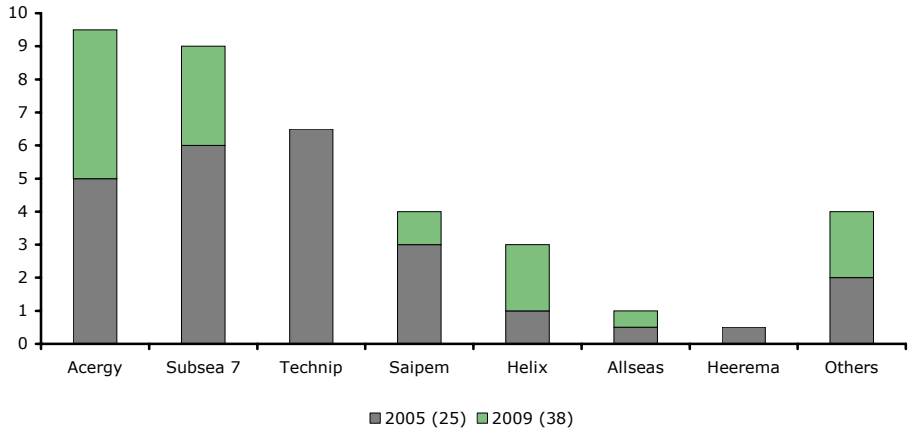
Table 9 : Saipem Caspian fleet

Vessel name	Ownership	Delivery	Description
Castoro 12	Yes	In operation	Shallow water pipe-lay (up to 40") barge. 101m long, 29m wide.
Ersai 1	50%	In operation	Pipe-lay barge. 140.5m long, 42.6m wide. Depth 8.4m, max lifting capacity 800t.
Saipem TRB	Yes	In operation	Post-trenching and back-filling barge for up to 40" diameter pipes in ultra-shallow waters (1.4 metres)
TRB tenders	Yes	In operation	4 post trenching/ backfilling crafts
Ersai 400	50%	Under construction	Accommodation barge. 111m long, 16.2m wide.

Source: Company data, ABN AMRO

Competitor Acergy forecasts 50% capacity growth in the global SURF fleet (pipelay, flexlay and construction vessels), from 25 units in 2005 to 38 units in 2009. Clearly oil service companies' entire vessel fleets of the players listed in the chart below are much larger. Acergy lists only the very large vessels involved in major projects (those that allow a contractor to win a project) because all vessels in one category do not necessarily have the same characteristics. This is particularly true for more recent ones, for which technological advances have been significant. After an operator has managed to put together the funding (which can be quite significant), building a ship is not complicated. The real bottlenecks are access to high-quality engineers and experienced ship crews. The highest barrier to entry is track record, in our view.

Chart 8 : Number of major 'contract-winning' SURF vessel units



Source: Acergy, Others include Aker MC, Clough and SBM Offshore

Offshore construction vessels vary greatly in specification and capabilities. A typical SURF vessel would be c150m in length, have a 300-400t crane and accommodation for a crew of c150. The table above does not include substantially larger trunkline vessels, such as Saipem's *Saipem 7000* and Heerema's *Balder*, etc. Those are however also involved in the same field development projects and may occasionally do SURF-like work. Smaller SURF vessels such as Technip's *Wellservicer* and Saipem's *Normand Cutter* for example are also not included in our view. Below, we have tried to put together a more complete list of important vessels owned or chartered by the major subsea contractors.

Table 10 : Major global SURF (incl. pipelay) contractors' fleet

Contractor	Fleet at end of 2006	Additions by 2010
Subsea 7	Skandi Navica	Seven Seas
	Toisa Polaris	Skandi Seven
	Toisa Perseus	Seven Atlantic
	Skandi Neptune	
	K3000	
	Lochnagar	
	Seven Oceans	
	Normand Seven	
Acergy	Acergy Polaris	Sapura 3000
	Acergy Falcon	Polar Queen
	Acergy Eagle	Skandi Acergy
	Acergy Discovery	Newbuild DSV
	Acergy Condor	
	Acergy Piper	
	Pertinacia	
	Toisa Proteus	
Technip	Deep Blue	DSV DP II (construction) vessel, TBN*
	Deep Pioneer	New rigid pipelay vessel, TBN*
	Sunrise 2000	Seamec Princess (DSV upgrade for India construction work)
	Venturer	
	Constructor	
	Apache	
	Orelia	
	Wellservicer	
	Normand Pioneer	
Allseas	Lorelay	Audacia
	Solitaire	
Aker Marine Contractors	Boa Deep C	Boa Sub C
Helix	Q4000	Caesar
	Midnight Express	
	Intrepid	
Heerema	Balder	
	Thialf	
	Hermod	
SBM Offshore	Normand Installer	
Clough	Normand Clipper	
Global Industries	Chickasaw	Global 1200
J Ray McDermott	DB50	
	DB27	

**TBN= to be named*

Source: Company data, ABN AMRO

According to Infield Systems, some US$10.3bn worth of new vessels are in construction, design or planning phase for the top 50 vessels in prospect (See Appendix), and a further US$7.5bn is likely against the next 100 vessels that complete the list (smaller vessels).

The wave of generic support vessels could lead to over-capacity in 2010…

While expensive and sophisticated vessels at the top end of the vessel market (pipelay, heavy lift and diving support vessels) should be in good shape as long as current demand expectations hold up, the wave of generic support vessels could lead to over-capacity in 2010. Acergy's CEO Tom Ehret has recently stated in the press that the company is only just getting a return on its vessels (standalone). Returns come from the company's engineering and turnkey capabilities that the large global contractors bring to the table. In the mobile rig market, new entrants were able to achieve healthy profits on speculative newbuilds given that the rig market is more straightforward than the construction market. Wells are drilled in more or less the same way and oil companies are happy to sign multi-year charters at high prices in

order to secure sufficient rig capacity. The subsea construction market is, however, very different in that it is very differentiated and most of the time, the work is quite bespoke and solutions are developed ad hoc on each project.

...but delivery schedules are likely to slip, and...

Access to qualified resources is another problem for the vessels in the pipeline. Delivery schedules might well slip due to supply chain problems (thrusters, gear boxes, etc) and shortages of design and engineering capacity and yard availability around the world.

...know-how and expertise accumulated by the major contractors is a major competitive advantage

The know-how and expertise accumulated by the major contractors is a major competitive advantage in deepwater and ultra-deepwater environments, where complex solutions have to be developed on a project-by-project basis. Consolidation among leading oilfield services companies would substantially increase that position, in our view.

Hence, the current tight supply/demand balance is likely to be maintained until at least the end of the decade

Acergy expects the current tight supply/demand balance to be maintained until at least the end of the decade. In addition, the increase in supply appears higher in the smaller vessels category (such as platform support vessels [PSVs] and anchor handling Tug/Supply vessels [AHTS]), which is not a key differentiating factor in our view. According to research done by R.S. Platou Offshore, there were 90 large PSV (400+ dwt [dead weight tons]) in service in June 2007 and 69 (400+ dwt) PSVs under construction up to 2011. In addition, there were 91 AHTS vessels in service in June 2007 and 64 under construction up to 2011.

The offshore industry also experiences a growing maintenance problem worldwide due to ageing infrastructure

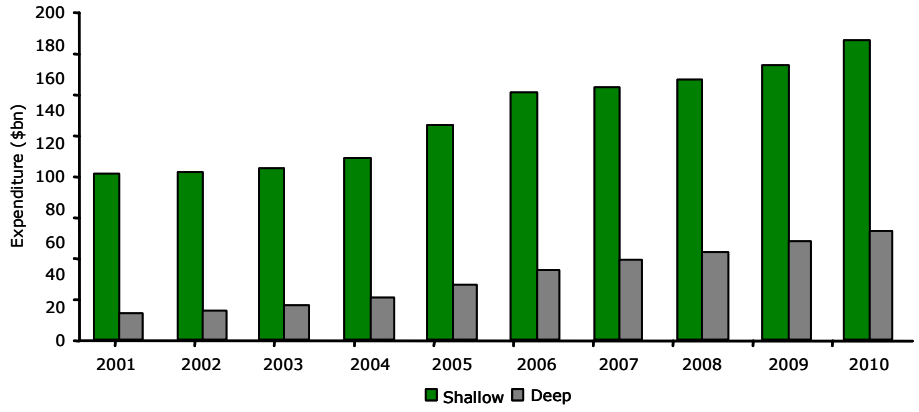
However, as the offshore industry moves into deeper water and outer areas where special capacity is required to service larger and more complex operations and rigs in harsher conditions, there is a need for increasingly large PSV and AHTS vessels. In addition, the offshore industry also has a growing maintenance problem worldwide due to ageing and corrosion the need for repair and renewal of drilling units, installations and pipelines is acute. Such work, including remedial work after hurricane damage in the US in recent years we believe will require a large number of special offshore support vessels.

The multi-role support vessels (MRSV), which are utilised in the installation, light construction, inspection and maintenance of subsea equipment related to the development of oil and gas offshore, can be divided into the following service categories: pipelay vessels, dive support vessels, heavylift/derrick barges, offshore construction vessels, seismic support vessels, survey vessels and ROV support vessels. MPSVs are vessels with PSV hull but with extra features. Those include typically helideck, crane, extra accommodation, moonpool, ROV hangar, etc. A number of PSVs (especially the larger ones, ie, 4,000+ dwt) have been converted into light construction/subsea vessels or Multipurpose Field & ROV Support Vessels (MFRSV). Because they have under-deck supply capacities, they have the ability to work as supply vessels as well.

In mature markets such as the North Sea and to some extent the GoM (shallow water), SURF activities should mainly focus on maintenance and marginal field developments supported by an increasing number of infield flowlines. Brazil, West Africa and South East Asia are strong growth emerging markets, mainly for deepwater activity.

As mentioned above, offshore will account for an increasing proportion of oil supply and consequently deepwater oil and gas industry expenditure is expected to grow significantly.

Chart 9 : Growing deepwater expenditure



Source: Douglas-Westwood, The World Offshore Oil and Gas Forecast

Market outlook

A leading indicator of growth in the **SURF market** is the number of subsea trees scheduled to be installed in any given year. The fastest-growing segment is water depths between 1,000m and 2,000m , highlighting a clear trend towards increasing deepwater exploration. The number of shallow water trees appears to have reached a plateau, although this could be because of lesser project visibility.

Table 11 : Global subsea tree installation forecast by water depth

	2002-04	2005-08	2009-12
> 2,000m	5	10	25
1,000-2,000m	50	130	190
300-1,000m	80	110	130
< 300m	110	130	115
Total	**245**	**380**	**460**
Growth %		*51%*	*21%*

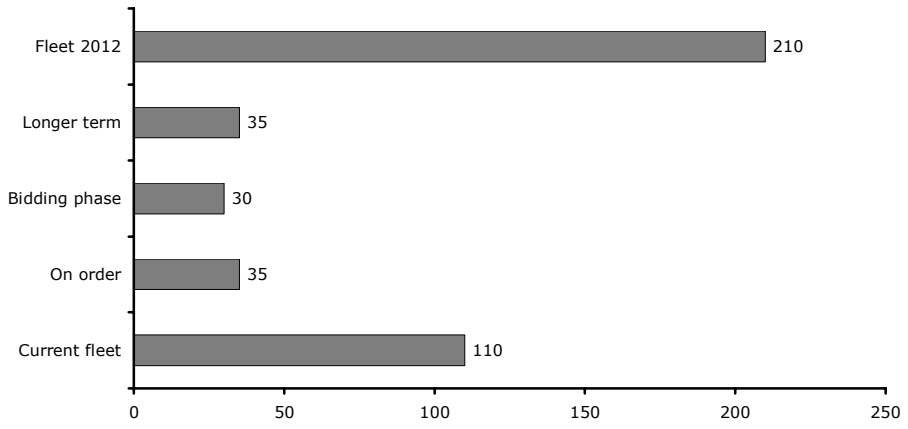
Source: Acergy

Average SURF project size is currently about US$200m-300m, but projects are tending to get larger. As illustrated above, we expect significant subsea construction activity over the next few years. Oil services company Aker Kvaerner estimates more than 15,000km of umbilicals need to be installed by 2011.

Aker Kvaerner estimates more than 15,000km of umbilicals need to be installed by 2011

In addition, the FPSO market is growing fast. About 35 FPSOs have already been ordered and another 60-70 could enter the market over the next few years.

Chart 10 : Number of available floating production, storage and offloading units



Source: Quest, International Maritime Associates, Aker Kvaerner estimates

According to Saipem, taking into account all leased contracts signed in 2006 and due to begin installation mainly in 2008, the Asia Pacific market leads the way in terms of number of contracts, followed by Brazil.

The **trunkline market** comprises the installation of large-diameter oil and gas pipes over long distances using large pipelay barges. Trunkline projects are typically based on large contracts. The segment also benefits from the need to replace pipelines (20-30 year life expectancy), especially in the North Sea. Competitor Acergy expects the trunkline market to grow steadily over the next few years and estimates the average market value in each year between 2008 and 2012 being at least three times greater than in 2006. However, there is currently limited visibility beyond 2012, as the trunkline market is characterised by a small number of very large projects, each of which are subject to start time changes due to a number of political, environmental and economic factors.

The trunkline market is characterised by a small number of very large projects

Saipem, Acergy and Allseas are the three main players in this field. Given the award delays of the large Nord Stream project we believe it is possible that two or three contractors will be working on the job, although Saipem is likely to be the lead contractor. It is now likely to be awarded in 2H07 for execution in 2H09 until 2011 (two pipelines). We expect the US$400m Statoil Troll pipeline contract to be awarded before the end of the year and believe Saipem and Acergy stand each a good chance to win a big part of the project.

Saipem, Acergy and Allseas are the three main players in this field

The South Stream project is at an earlier stage. Saipem is currently carrying out a pre-feasibility study and management stated that it is still premature to give guidance of how much it would cost to lay 900km of pipeline over the Black Sea at water depths that could reach 2,000-2,200 metres. Gazprom and ENI are currently envisaging a pipeline diameter of 33 inches, which makes Saipem the very likely winner, in our view, given that others do not have the vessels capable of laying such large diameter pipes in such water depths (*Saipem 7000* and Heerema's *Balder*). However, neither the cost nor the timing of the project have currently been determined.

Saipem is currently carrying out a pre-feasibility study on the South Stream project

Saipem is also currently undertaking **decommissioning** work on the Frigg field in the North Sea. Prior to that, it had carried out a couple of other decommissioning jobs which actually turned out to be riskier than installation. As such, development projects have clear priority over decommissioning jobs, according to management. The company will, however, continue to look at the decommissioning market, especially for fill-in work. Allseas recently commissioned a US$1.7bn catamaran vessel (Pieter Schelte) with a lifting capacity of 48,000t for the big platform decommissioning market, which it estimates at about 30 (big platforms).

Saipem will continue to look at the decommissioning market, especially for fill-in work

Onshore construction (49% of 06 revenues, 27.4% of EBIT)

After the acquisition of Snamprogetti in February 2006, Saipem has become a strong player in engineering, on top of its very strong construction capabilities. The company has a strong presence in Saudi Arabia, where it is executing most projects for Saudi Aramco (the biggest client representing 16% of the backlog), West Africa (Nigeria) and North Africa (Algeria).

After the acquisition of Snamprogetti, Saipem has become a strong player in engineering

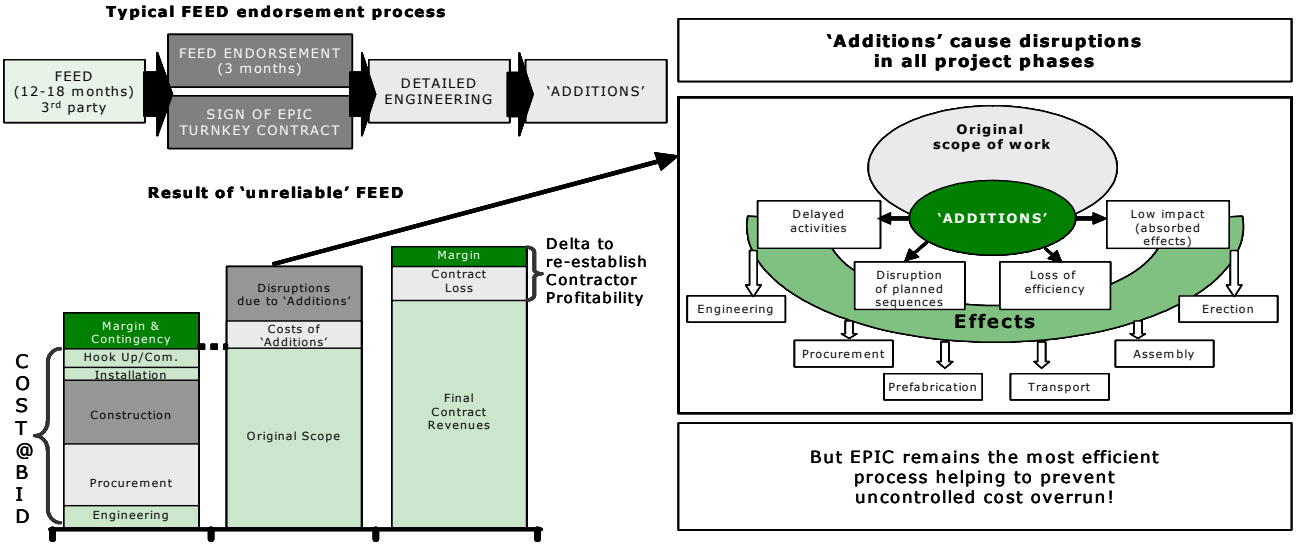
Saipem has bought Snamprogetti from ENI for an EV of €485m (€680m consideration, minus €195m of cash) in order to improve its positioning in onshore oilfield engineering & construction. Snamprogetti filled a weakness in Saipem's portfolio which now allows it to competitively bid for the world's largest onshore contracts. Snamprogetti is particularly strong in gas monetisation facilities, such as LNG and GTL.

Prior to joining Saipem, Snamprogetti had completed an extensive portfolio of large scale contracts dating back 50 years. It had 4,300 employees, 2,800 of which were engineers (compared to slightly less then 4,000 engineers for Saipem, out of c22,000 employees at the time of the acquisition). Snamprogetti was active in LNG liquefaction and regasification plants, chemical plants, petrochemical plants and refineries, pipelines (onshore and offshore) and oil sands infrastructure with focus on EPCM (engineering, procurement and construction management) of complex facilities. Contracts at the time of the acquisition included the **Gasco** Third NGL (Natural Gas Liquids) train and the **Adco** Bu Hasa oil facilities development (both Abu Dhabi), **Ras Laffan** LNG train 5 (50% JV with Chiyoda) in Qatar, **Train 5 and 6 for NLNG** in Nigeria (with the TSKJ consortium), **Escravos** Gas-to-Liquids (JV with KBR) for Chevron in Nigeria, **Khursaniyah** oil production facilities for Saudi Aramco in Saudi Arabia and oil sands treatment plants for Canadian Natural Resources Ltd (CNR) in Canada.

Saipem had an indemnity clause that allowed it to claim any losses from contracts that Snamprogetti had when it was purchased by Saipem in early 2006 from ENI, subject to a cap of €135m. As such the Escravos (Nigeria, Chevron, JV with KBR) provision of €58m taken soon after the Snamprogetti acquisition gave rise to a claim from ENI for the same amount. The provision had to be taken because of poor front end engineering and design (FEED), whereas the vast bulk of Snamprogetti's backlog was in the Middle East, where it receives high quality FEED supplied by clients.

In the chart below Saipem outlines that contractor troubles stem from unbalanced risk/reward and the importance of reliable FEED prior to signing the contract.

Chart 11 : EPIC contract risk



Source: Saipem

There are numerous areas where we see margin improvement potential from that acquisition: redundancy of some facilities, duplication of management layers, transition of Sanmprogetti to an efficient, profitability-orientated culture (was previously 100% owned by ENI). Saipem excels in risk management and project management. The company is unrivalled in the development of frontier onshore projects that demand the highest health and safety standards and require innovative solutions to logistical, technical and environmental problems (Karachaganak, Sakhalin, Kashagan, etc). However, those projects are infrequent compared to the lower risk, lower margin downstream contracts (gas processing, refinery expansion and petrochemical plants) that rival Technip is mainly working on.

Saipem is unrivalled in the development of frontier onshore projects that demand the highest health and safety standards and require innovative solutions to logistical, technical and environmental problems

Snamprogetti widened Saipem's client base

Snamprogetti improved the group's resilience in relation to the business cycle and widened its client base. Before the acquisition, Saipem's backlog (as at end of 2005) was dominated by majors and super-majors (60%), while Snamprogetti's was geared towards national oil companies (55%).

Onshore pipeline construction is far simpler than offshore pipeline laying and hence lower barrier to entry (and has lower profitability). As mentioned above however, Saipem has managed to carve out a more profitable niche for itself by specialising in pipeline and associated infrastructure construction work (pumping stations, oil/gas separation plants, oil & gas processing facilities) in frontier provinces and where environmental conditions are harsh.

Saipem's onshore division now offers a complete range of services

Saipem's onshore division now offers a complete range of services, from project definition and execution services; from feasibility and front end studies to design, engineering, procurement and field construction. It is a one-stop shop for the largest and most complex onshore projects on a global basis.

Upstream oil and gas production and processing

In this segment Saipem's integrated solutions range from upstream engineering to turnkey delivery of complex facilities, including onshore production, gas treatment and processing plants, pumping and compression stations and terminals. A major project was the completion of the Qatif Central Producing Facility for Saudi Aramco.

Liquefied natural gas (LNG)

Snamprogetti has a strong presence in the LNG market, with nine base-load trains built in the past ten years in Nigeria and Qatar for a total production capacity of over 35mt per annum. Its wholly-owned subsidiary Technigaz is also a major player in the market, especially in onshore and offshore LNG import and export terminals (Gravity Base Structure, FPSO for LNG). The company is also a player in the LNG transport market via GTT and Moss Maritime, which develops sea transportation technologies (spherical and membrane tanks respectively), although we believe that GTT is not a core business and could be sold as part of the company's recently announced €700m disposal programme.

Land pipelines

The company ranks among the largest contractors in the world in land pipeline design and construction, having laid 62,000km of pipelines on five continents. Snamprogetti has added the expertise and experience generated by the design of over 75,000km of onshore and 23,000km of submarine pipelines, often in conjunction with pipelaying by Saipem.

On the Sakhalin II project in Russia, the company is currently managing the engineering, procurement and construction of an 800km onshore twin pipeline.

Oil refining

Snamprogetti has designed and built 37 greenfield refineries and more than 500 process units. It has more recently focused on hydro-cracking, hydro-conversion, and residue gasification process units.

Gas monetisation into chemicals

Using proprietary and third-party technologies (Dow Chemicals, Univation, Polimeri Europa), Sanmprogetti has designed and built more than 400 plants worldwide to produce chemicals from natural gas (such as methanol and ammonia).

The company is currently working on a GTL complex for Chevron in Nigeria, which will produce premium diesel and gasoline from natural gas.

Power

The company has designed and built more than 40 power plants in recent years. Its experience comprises cogeneration and combined cycle units and conventional coal, oil and gas-fired power stations.

Infrastructures and environmental activities

Through Snamprogetti, the company plays a significant role in the design and execution of a large-scale civil infrastructure project, the Italian high-speed railway track system between Milan and Bologna. It also offers integrated environmental remediation services (soil and ground water) for contaminated sites of all types, both decommissioned and operational.

Major contract awards in 2006

The company won several major onshore accounts in 2006. The most important are listed below.

Table 12 : Major onshore contract awards in 2006

Date	Awarded by	Amount	Description
May-06	Saudi Aramco	cUS$1,340m	Lump sum turn key EPC contract for the gas-oil separation plant **Khursaniyah** Program Utilities in Saudi Arabia. The work includes utilities, producing facilities and two separation trains with a total capacity of 500,000 bpd.
May-06		**three EPC contracts worth US$425m**	
	Canaport LNG Limited Partnership		EPC contract for the design, engineering, construction, testing, commissioning, start up and initial operation of the **Canaport LNG** receiving terminal. The terminal is scheduled to enter operations in 4Q08.
	Saudi Aramco		Two turnkey EPC contracts for the seawater supply pipeline system for the **Khurais** and **Ghawar** fields. The work comprises the installation of 430km of onshore pipelines and is expected the finish in 2H08.
Jul-06	ENI	€500m+	Exclusive provider of all ordinary and extraordinary maintenance services in Italy until 1Q2012 (onshore and offshore).
Sep-06		**two contracts worth US$1,420m**	
	Saudi Aramco		Lump sum turn key EPC contract for the gas-oil separation plant for the **Khurais** field. The contract encompasses the engineering, procurement and construction of four separation trains, including Plant Inlet Facilities. It is expected to be completed in 2Q09.
	Peru LNG		Saipem (in conjunction with Constructora Norberto Odebrecht (CNO) won a contract to develop Marine Export Facilities at the **Pampa Melchorita** LNG facility. The contract encompasses the engineering, procurement and construction of a 1,350 meter approach trestle, LNG carrier loading facilities and approach channel and an 800 meter offshore breakwater. The project should be completed end of 2009.
Dec-06		**two contracts worth €255m**	
	DBP Group		Lump sum turn key contract for stage 5-A of the expansion of the **DBNGP** pipeline, built by Saipem in the 1980s and which runs from Dampier to Bunbury. The work is expected to be completed in 1Q08.
	Qatar Shell Limited		Engineering, procurement, construction and commissioning of the Effluent Treatment Plant that will treat the water coming out of the two-train **Pearl GTL** complex in **Ras Laffan**. The project will be completed in two phases, expected to finish in the middle of 2009 and the middle of 2010 respectively.

Source: Company data, ABN AMRO

Market outlook

Gas reserves are more than sufficient to meet projected increases in demand to 2030, according to IEA. Proven reserves amounted to 180tcm at the end of 2005, equal to 64 years of supply at current rates according to Cedigas (40 years if production grows at 2% pa, as forecast by IEA). Close to 56% of these reserves are in Russia, Iran and Qatar. Gas reserves in OECD countries represent less than one-tenth of the world total.

Close to 56% of gas reserves are in Russia, Iran and Qatar

If gas is cooled down to -160C, it condenses to a liquid and can be transported as liquefied natural gas (LNG). Alternatively, it can be converted into a clean product such as diesel or gasoline (ie liquid at room temperature) via a GTL plant. This provides another method of monetising gas reserves.

LNG appears set to play an increasingly important role in global gas transportation over the next 20-25 years

LNG has huge growth potential. Technological developments and lower production and transport costs have made the development of remote gas resources a reality. According to Saipem, the number of new LNG projects will continue to rise steadily over the next few years. Apart from an increase in natural gas demand, the reasons for the growth in LNG developments are its flexibility, the constant cost reduction due to economies of scale (the capacity of new trains (liquefaction and purification facilities) currently under design has almost doubled in recent years); and the accumulated expertise of the various sector players in terms of technology, construction and financing. The cost reduction affecting each key element of the production chain (liquefaction, transport and regasification) allows LNG to be transported over ever increasing distances.

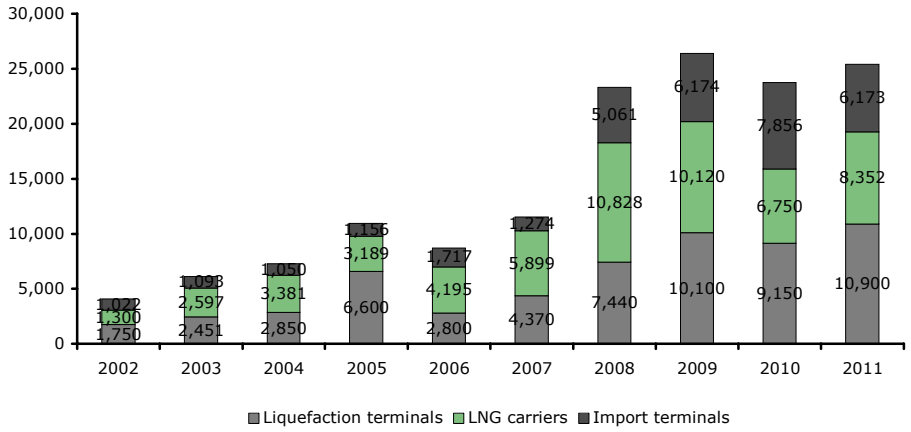
LNG accounts for nearly 70% of the increase in inter-regional trade

Pipelines remain the principal means of transporting gas in North America, Europe and Latin America. However, LNG appears set to play an increasingly important role in gas transportation worldwide over the next 20-25 years, mainly by supplying the Asia Pacific and the Atlantic Basin markets. According to Exxon Mobil, LNG capacity needs to increase significantly to cope with rapidly rising demand. LNG accounts for nearly 70% of the increase in inter-regional trade. Exports of LNG should grow from 90bcm in 2004 to 150bcm in 2010 and 470bcm in 2030. Much of the new liquefaction, shipping and regasification capacity that is due to come on stream in 2010 is either already being built or is at an advanced planning stage. Total liquefaction capacity worldwide would double between end-2005 and 2010, from 178mtpa (242bcm) to 345mt (470bcm) if all projects under development were completed on time, according to the IEA. However, it seems more likely to us that some will be delayed.

Douglas-Westwood expects strong growth in LNG capital expenditure totalling US$110bn over the 2007-11 period

UK consultancy Douglas-Westwood expects strong growth in LNG capital expenditure totalling US$110bn over the 2007-11 period, compared to US$37.2bn for the previous five-year period (2002-06). Of that, US$42bn should be spent on the construction of a total of 27 new liquefaction trains, US$26.5bn on 66 import terminal developments and US$42bn on new-build LNG carriers. Declining gas production creates the need to build new import terminals in the US and many parts of Western Europe.

Chart 12 : LNG project capital expenditure forecast (2002-11), US$m



Source: Douglas-Westwood, July 2007

Thanks to technological developments, **GTL** might become a viable alternative to the development of remote natural gas fields or a diversification in the methods of gas field development in countries particularly rich in reserves (such as Qatar), especially for those final markets that require large quantities of middle distillates (Europe and Asia). However, these plants are still very costly and their profitability is strongly dependent on the natural gas price. That's why they need to be located in areas where the cost of natural gas is low (Middle East, North and West Africa and Latin America) and/or demand is strong (eg China). GTL is the most capital-intensive of all the oil production projects at almost US$84,000/bbl of capacity (USD$24bn in investment to add 280kb/d by 2010), according to IEA.

GTL plants are still very costly and their profitability is strongly dependent on the natural gas price

The IEA expects GTL plants to emerge as a significant new market for gas. It projects global GTL demand for gas will increase from 8bcm in 2004 to 29bcm in 2010, 75bcm in 2015 and 199bcm in 2030. Much of the gas used by GTL plants is for the conversion process, which is extremely energy-intensive. The long-term rate of increase in GTL production is dependent on reduced production costs, lower energy intensity, the ratio of gas to oil prices, the premium available for high-quality GTL fuels over conventional products and the economics of LNG projects, which compete with GTL for use of available gas.

GTL is still only a small area of oil and gas investment. There are three existing GTL plants in operation, in Qatar (Qatar Petroleum, Chevron and Sasol), Malaysia (Shell) and South Africa (PetroSA). Several more projects are currently in the pipeline (Chevron/Nigerian National Petroleum Corp in Nigeria, Shell/QP in Qatar and Sonatrach in Algeria).

The **refinery** sector has strongly recovered in 2006 as a result of an increase in demand and a reduction in spare capacity due to insufficient investment in recent years and the impact of new environmental regulations. Another key element is the change in types of crude oil available on the market, with growing quantities of low-grade, sulphur-rich and very heavy crude oil or oil obtained from the development of tar sands from Canada and Venezuela. Existing refineries will need to be adapted or new ones (resid hydro-cracking or coking) need to be build to treat the increasing quantities of these crudes.

Existing refineries will need to be adapted to treat the increasing quantities of heavier crude oils

Offshore drilling (5% of 06 revenues, 17.2% of EBIT)

Saipem operates both in shallow and deep water using jack-ups and semi-submersible units. The company's state-of-the art fleet includes the ultra-deepwater DP drillship *Saipem 10000*, which has drilled offshore Gabon in water depths of 2,791 metres and the fourth generation semi-submersible drilling unit *Scarabeo 5*.

In offshore drilling, Saipem is currently particularly active in West Africa (one drilling ship is working for Total in Angola and one semi-submersible for Exxon in Nigeria), in Egypt (one semi-submersible and one jack-up) and in Saudi Arabia (several jack-ups). The company's policy is to chase projects that have synergies with its onshore and offshore construction activities. Since inception, the company has drilled over 6,400 wells, 1,600 of which were offshore. In 2006, the company drilled 75 wells.

Saipem's policy is to chase projects that have synergies with its onshore and offshore construction activities

Vessel fleet

Saipem's current offshore fleet includes four rigs capable of drilling in water depths around 4,500ft or deeper and three semi-submersibles that have shallower water depth ratings and four jack-ups that earn much lower day rates. In general, the greater the water depth of a drilling rig, the higher the day rate it can command. Jack-ups have a water depth limit of around 300 feet.

Its current offshore fleet includes four rigs capable of drilling in water depths around 4,500ft or deeper

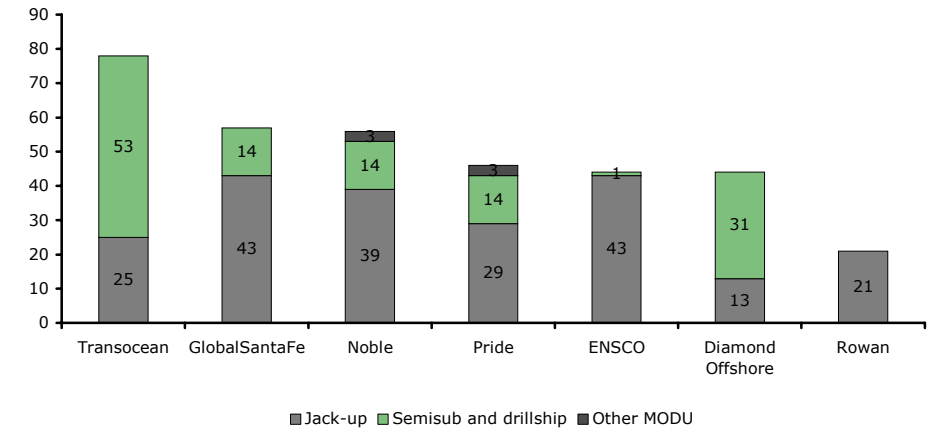
Table 13 : Saipem drilling vessel fleet

Vessel name	Ownership	Delivery	Description
Saipem 10000	Yes	In operation	Ultra-deepwater drillship, 3,000m water depth, dynamically positioned
Saipem 12000	Yes	1Q2010	Ultra-deepwater drillship (3,600m water depth), dynamically positioned, 228m long and 42m wide. Cost US$660m.
Scarabeo 8	Yes	3Q2009	Semi-sub drilling rig, up to 3,000m water depth, dynamically positioned
Scarabeo 5	Yes	In operation	Semi-sub drilling rig, 1,900m water depth, dynamically positioned
Scarabeo 6	Yes	In operation	Semi-sub drilling rig, 550m water depth
Scarabeo 7	Yes	In operation	Semi-sub drilling rig, 1,500m water depth
Scarabeo 3	Yes	In operation	Semi-sub drilling rig, 545m water depth
Scarabeo 4	Yes	In operation	Semi-sub drilling rig, 545m water depth
Perro Negro 2	Yes	In operation	Jack-up (self elevating drilling platform), 100m water depth
Perro Negro 3	Yes	In operation	Jack-up, 100m water depth
Perro Negro 4	Yes	In operation	Jack-up, 50m water depth
Perro Negro 5	Yes	In operation	Jack-up, c100m water depth
Saipem TAD	Yes	Under construction	Tender assisted drilling barge, 150m water depth

Source: Company data

The chart below shows the world's largest drilling companies. Saipem is a relatively small player in the world of drilling contractors.

Chart 13 : Largest offshore rig fleet, Feb 2007



Source: ODS Rigpoint, Feb 2007, Note: excludes ownership of barges, MOPUs, platform rigs, land rigs, equity ownership position, cold-stacked rigs and new rig construction. Transocean: excludes a drillship utilised in a research mode, MODU=Mobile Offshore Drilling Unit, MOPU=jack up drilling rig converted into a production unit

Drilling vessels

Saipem recently commissioned (from Samsung) a new drilling vessel, the *Saipem 12000*, to be delivered in 1Q10. The company needed to demonstrate that it could secure a new state-of-the-art vessel in order to be able to participate in important tender offers. As mentioned previously, Saipem has secured a letter of intent from Total for a five-year charter, starting 2010 (subject to approval by Total's partners). This contract will allow the company to recoup the entire cost of the vessel (day rates are cUS$500,000 for 365 days/year).

The company has currently only one drilling vessel, the *Saipem 10000* which is operating at a day rate of US$250,000 for Total in Angola until July 2009. In 3Q09 it will start a three-year contract with ENI (for worldwide drilling operations) until mid-2012 at a day rate of US$360,000. This rate is a blended rate of US$250,000 (18-month extension option that ENI exercised as part of a previous charter contract) and US$500,000 (current market rates) for the remainder of the contract. The company values the new contract with ENI at 'in excess of US$390m'.

Semi-submersible rigs

The *Scarabeo7* is currently working under contract with Exxon in Nigeria at day rates of US$130,000 up until 1Q08, when it will start a new three-year contract with ENI (for drilling off the coast of Indonesia) at day rates above US$400,000.

The *Scarabeo 6* is working in Egypt on the Burullus field until the end of 2007 at day rates of US$200,000. It will then work at a US$300,000 day rate for the Burullus Gas Company, as part of a two-year contract extension.

The *Scarabeo 5* is currently working under contract for Statoil (for drilling activities in the Norwegian part of the North Sea) at day rates of US$190,000 until the end of the year. After that, the new contract (US$460m, awarded in May 2006) with Statoil, which will begin in 3Q07, will be at day rates of US$400,000 until the end of 2010. The *Scarabeo 5* has been working continuously since 1990 in the Norwegian sector of the North Sea.

The *Scarabeo 4* is operating in Egypt (for IEOC, a partnership between ENI and the Egyptian national oil company) until the end of the year at day rates of US$ 140,000. After that the new rate is US$250,000 per day until the end of 2011.

The *Scarabeo 3* is currently working for Addax Petroleum in Nigeria at day rates below US$200,000 until the end of 1Q08. From 2Q08 to mid-2009 it will work for the same client at day rates of US$280,000.

The combined value of the new contracts for the *Scarabeo 7* and *3* is US$530m.

In October 2006, Saipem was awarded a five-year contract by ENI Norge for the charter of the newbuild *Scarabeo 8,* worth US$840m. The contract covers drilling operations in the North Sea and will be executed between 3Q09 and 3Q2014. ENI Norge has the option to extend the contract for a further two years. Saipem estimates that the total cost for the *Scarabeo 8* (including purchase and installation of the drilling equipment) is €490m.

Saipem was awarded a five-year contract by ENI Norge for the newbuild Scarabeo 8, worth US$840m

Jack-ups

The *Perro Negro 2* and *5* are currently operating in Saudi Arabia at day rates above US$50,000. The *Perro Negro 4* is operating in Egypt at day rates of US$50,000 until the end of 2009 and the *Perro Negro 6* is operating in India at day rates of US$60,000 until the end of 2007. The company has an option to extend for another six months.

We believe Saipem is interested in buying other vessels in the market if demand continues to be strong. Given the amount of generic capacity currently being commissioned for delivery over the next three years and the lack of experienced crews to operate the vessels or rigs, we think the company might be able to buy them at a reasonable price.

The high operating leverage of the business will be apparent in 2008 and beyond as new contracts, negotiated at higher rates will come into effect. While we forecast substantial margin improvement, growth could be more significant still if all contracts were signed at current market rates. This is, however, not likely to be the case, as Saipem prefers long-term contracts in order to have its fleet (drill ships and semi-submersibles) operating at high utilisation rates.

The high operating leverage of the business will be apparent in 2008 and beyond

According to the CFO, about 90% of the fleet (*Saipem 10000* and *12000*, *Scarabeo 3, 4, 5, 7, 8,* etc) is contracted out for the next three to five years. Those contracts also have multi-year renewal options.

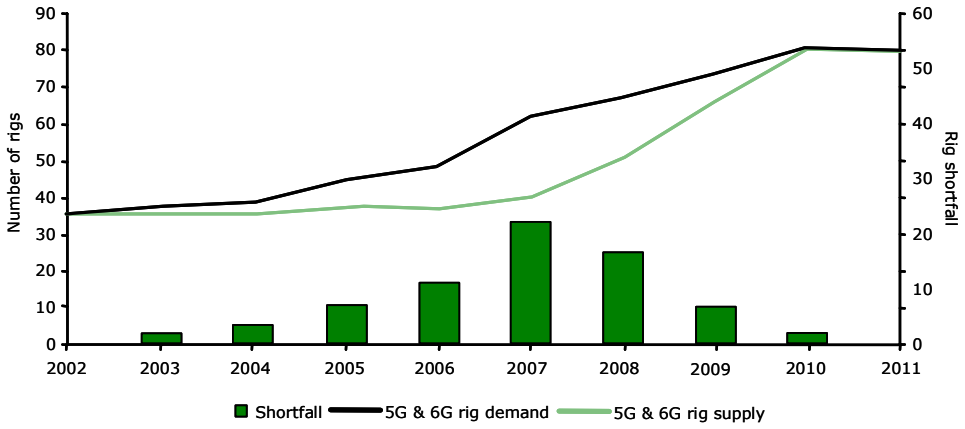
90% of the fleet is contracted out for the next three to five years

Market outlook

Rig shortage will continue to exist until at least 2011

While demand is strong there are numerous constraints on the supply side. According to Douglas Westwood, new rigs entering the market could gradually narrow the supply/demand imbalance, but a shortage will continue to exist until at least 2011.

Chart 14 : Offshore rig shortfall likely to continue



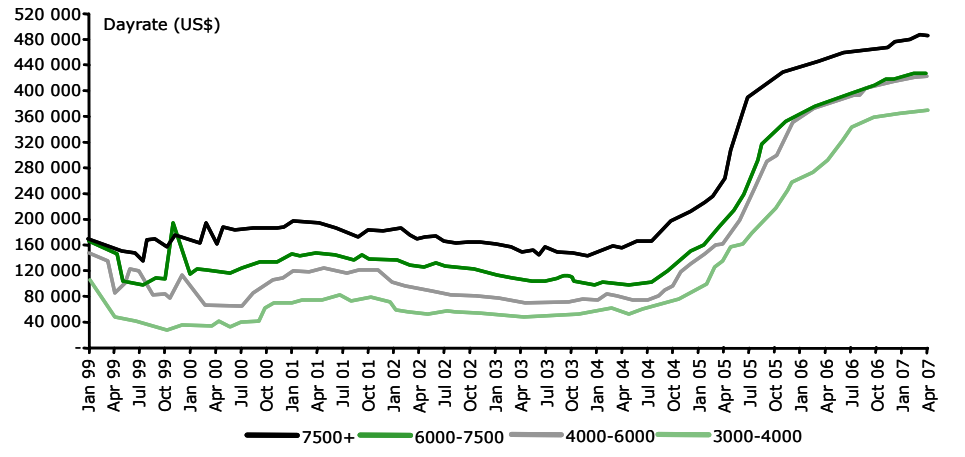
Source: Douglas Westwood, 'The World Offshore Drilling Business, May 2007

Offshore drilling rigs being built currently are having no trouble lining up contracts, and the utilisation of the existing rig fleet is at healthy levels. More drilling means more discoveries, which ultimately should mean more platforms, templates, pipelines and umbilicals to be installed.

Rig-utilisation rates are high and shortages of labour and local content requirements are putting upward pressure on vessel day rates

It is generally accepted in the industry that there could be constraints on the supply side to meet world demand forecast by the IEA up to 2030. The easy oil has been found. Greater activity is required to extract each barrel, and coupled with the need to offset the decline from existing wells (as discussed above) we believe this provides a solid long-term growth environment for oil services companies. Costs are therefore likely to remain high in the foreseeable future, which encourages increased drilling activity. However, again, rig-utilisation rates are high and shortages of labour and local content requirements are putting upward pressure on vessel day rates, which recently reached around US$550,000 (ultra-deepwater rigs).

Chart 15 : Worldwide deepwater drilling unit day rates by water depth segment



Source: Seadrill, Fearnlay Offshore

This has encouraged some operators, such as BP, to enter into a five-year US$900m drilling contract with Transocean commencing in 3Q10 (which may be extended to seven years at BP's discretion on or before 31 March 2008, and would then be worth

US$1.16bn) to lock in long-term rates and secure vessels, so as not to be caught off guard by potentially even higher future spot rates.

Onshore drilling (3.5% of 06 revenues, 5.3% of EBIT)

During the past 20 years in Italy, Saipem has drilled more than 40 onshore HP/HT (high pressure/ high temperature) wells deeper than 6,000 metres. In 1999, the company reached a depth of 8,012 metres on the island of Gozo (Malta). The company currently operates a fleet of more than 40 onshore drilling and workover (rig used for well maintenance activities) rigs in Saudi Arabia, North Africa (Algeria), Kazakhstan, Latin America (Peru, Venezuela) and Italy.

Drilling projects have opened the door to construction project awards in the past

Saipem is strong in areas where it also has a construction presence. This allows it to offer a wider range of services to its clients (often one service offering opens up the door to others as the client relationship develops) and exploit synergies (more revenues spread over the same fixed cost base). The company started offering onshore drilling services to Saudi Aramco, then put in offshore rigs, started to work on onshore construction projects and is now likely to land also offshore construction jobs. The same happened in Algeria (first it was awarded onshore drilling projects and now the Medgaz offshore pipeline project).

We expect Saipem to continue buying new or fairly new drilling rigs from local operators, particularly in South America (now 24 drilling rigs in South America). Day rates are not comparable to offshore drilling but margins are very good (albeit below offshore).

Average rig utilisation in 1H07 was 97%

Average rig utilisation in the first half 2007 was 97% (vs 92% in 1H06). Rigs were located as follows: 13 in Peru, 10 in Venezuela, nine in Saudi Arabia, five in Algeria, two in Italy, one in Egypt, one in Kazakhstan and one in Ecuador. In addition, five third-party rigs were deployed in Peru, three rigs by joint venture company SaiPar and two third-party rigs in Kazakhstan.

In 3Q06 Saipem won thirteen new contracts worth US$280m for the charter of onshore drilling rigs for periods ranging between four months and five years.

Market outlook

Activity is particularly strong in Latin America, North Africa and the Middle East

According to Saipem, activity is particularly strong in Latin America (Argentina and Venezuela), North Africa (Algeria and Egypt) and the Middle East (Saudi Arabia). Last year growth was more restrained in Asia Pacific, while Europe plateaued at the levels of the previous year, a slowdown in the declining trend observed in recent years.

Client profile

Saipem's client breakdown is roughly 40% international oil companies, 40% national oil companies and 20% independents.

Saudi Aramco is the biggest client; ENI is second

Saudi Aramco is Saipem's biggest client, representing 16% of the backlog. Algerian national oil company Sonatrach represents more than 5% of the backlog and Sonangol and Petrobras are also significant clients. ENI is the second-largest client, representing 10-15% of the current backlog.

Supplier concentration

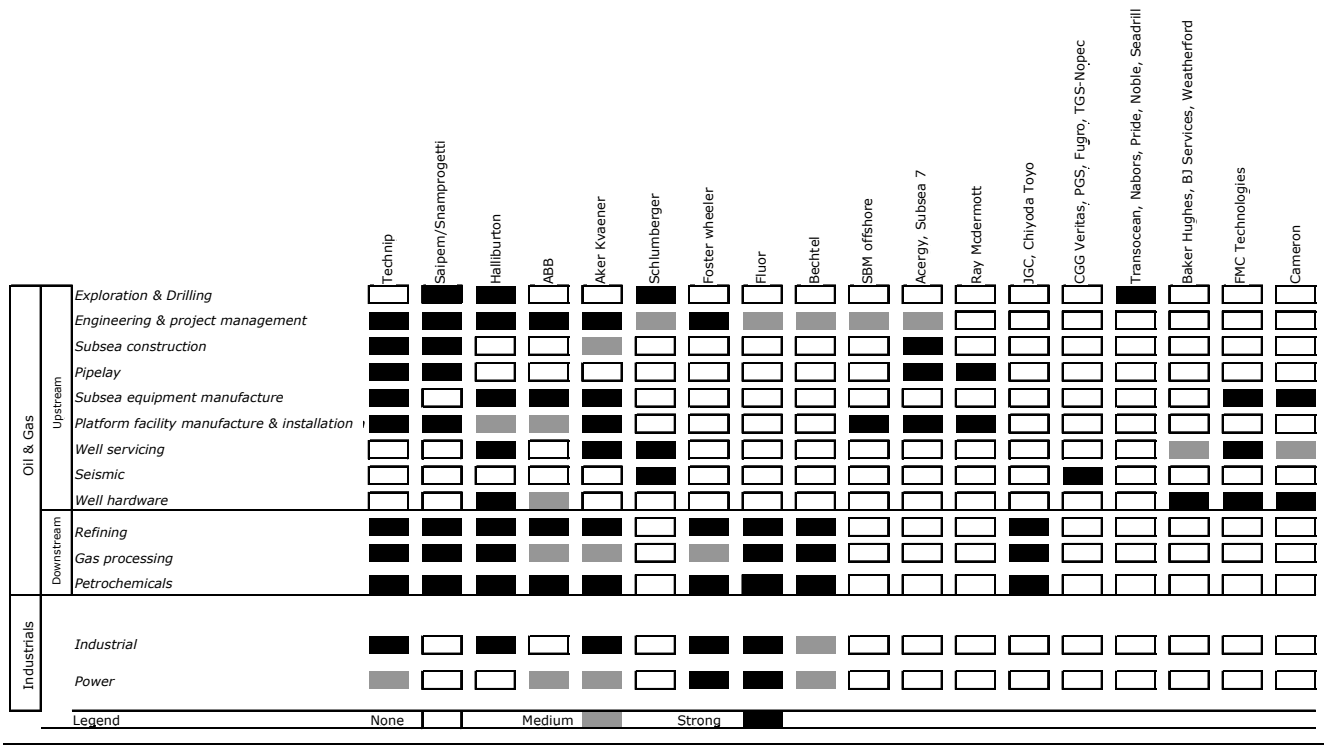
The company has a broad range of suppliers. On some large trunkline jobs the pipeline procurement is done by the client, rather than Saipem.

Competitive environment

It appears that none of the companies active in the oil services sector has the technical capabilities or the capacity to execute the whole range of offshore and

onshore-downstream projects in the oil and gas and petrochemicals industry. According to Technip, more frequently clients seem to prefer to deal with companies that have integrated capabilities and thus are able to manage a whole field development project. This has led to joint bidding on projects and we think this could lead to further alliances/joint ventures among the main competitors or even M&A activity. Saipem is the most diversified European oil services company, with a balanced mix of engineering and construction skills, in both in on-shore and off-shore (it has though also some functional and geographical gaps). This has allowed it in the past to win a bigger share of wallet from a client and to better absorb local infrastructure costs.

Chart 16 : Main global oil services players by market



Source: ABN AMRO, note: Subsea 7 does not provide platform facility manufacture & installation

In **offshore construction**, Saipem's main competitors in its core market are Technip, Acergy and Subsea 7 (although Saipem has a smaller presence in the North Sea and the GoM). The only pure play subsea contractors are Subsea 7 and Acergy. Helix, Heerema, Allseas, Aker Kvaerner, Global Industries, J Ray McDermott and SBM Offshore compete in some more specific areas. FMC and Cameron are suppliers.

The **onshore-downstream** segment is the most competitive and most companies are to various degrees integrated. The main peers are the US companies Kellog Brown & Root (KBR, Halliburton), Bechtel, Fluor Daniel, Jacobs, Foster Wheeler, the Japanese companies JGC, Chiyoda and Toyo; the European companies ABB (Lummus, now sold to Texas based engineering & construction company CB&I), Technip, Lurgi, Linde, Krupp Uhde; and the South Korean companies Samsung, Hyundai and Daewoo. In addition, several smaller local companies in emerging countries are also active in this space.

The main competitors in the design and installation of **surface offshore oil and gas facilities** are J. Ray McDermott (which together with Technip holds the exclusive rights to the SPAR concept), Technip, Halliburton, Aker Kvaerner and ABB and in terms of manufacturing (only), the three big South Korean companies Hyundai, Daewoo and Samsung.

Technip is the world leader in the design and manufacturing of **flexible pipes** used in offshore installations. Its main peers are Wellstream and NKT Cable (51% held by NKT Holding and 49% by Acergy). In **rigid pipes**, British Steel, Mannesmann Roehrenwerke, Tenaris and Vallourec are the main competitors. Saipem's strength is clearly in rigid pipeline installation, onshore and offshore.

The main competitors in **umbilical cables** are Multiflex (a subsidiary of Oceaneering International), Nexans and Aker Kvaerner, and increasingly, we believe, Prysmian.

As mentioned above, competitors are teaming up on big projects because multiple competencies are needed at the same time that might not be available within any given company, eg production capabilities, engineering skills, pipe and cable laying capabilities, as well as local presence. The geographical location of key assets (such as production plant) is a key driver for pitching together in a consortium.

Table 14 : Estimated market shares (major players), SURF market

	Northern Europe	Africa	North America	Latin America	Asia
Acergy	30%	35%	Circa 5%	29%	7%
Subsea 7	30%	14%	38%	Small	3%
Technip	30%	20%	Circa 5%	35%	3%
Saipem	Small	28%	Circa 5%	28%	Small

Source: Acergy, ABN AMRO estimates; other players in North America include Helix, McDermott and Horizon (about 5% each) and in Asia: Allseas, Helix, SBM Offshore as well as local players

The above market share estimates are not scientific and reflect the projects that are currently being executed. We believe for example that Subsea 7's presence in Latin America will become much more important over the next couple of years, as the company has some key vessels under long term contract with Petrobras and is also currently executing a contract for Shell (US$275m BC10 EPIC project, Campos Basin). Procurement in the region is dominated by Technip.

Subsea 7 is focusing on intra field developments with rigid pipe diameters of 16" and less. The company believes the regional positions in the targeted segments are therefore much stronger than indicated by average global market shares. It is the clear market leader in SURF in the UK by revenues and has a strong position in Norway. The North Sea is a more crowded place and Saipem is one of the players, but not dominant. It could become stronger in the region though if it were to win part of the Troll and/ or Nord Stream contracts. Saipem is currently the only company that can lay pipes in water depths of 2000m (*Saipem 7000* vessel). That is why Saipem will be the likely winner (lead contractor) of the South Stream (Black Sea) project for Gazprom, but Acergy and Allseas could get a part of the contract in shallower water. The relationship between Saipem and Gazprom is very good, Saipem having successfully installed the Blue Stream pipeline and has been carrying out FEED work on the Nord Stream project for Gazprom. Saipem has also commissioned a new pipelay vessel for that job, so the likelihood of it being the lead contractor on Nord Stream is high, in our view. We believe the value of the project for the installation of the two pipelines is US$3bn (US$1.5bn for each pipeline), based on industry data.

Smaller projects (less than €10m-20m) are not included in the backlog, but can be very high margin (ie 20% or so for SURF project in the North Sea).

North Sea margins are quite high given that the market poses little uncertainty and is quite stable. Hence, there is little risk regarding too-low estimates in terms of the quantities of material that are needed to complete the job. Weather problems are well known.

The main players' market shares in Asia are very low currently because of still relatively limited deepwater activity. We expect their market shares to increase

significantly over the next few years, as the deepwater market develops. Subsea 7 has a JV with Technip in Asia.

We see Acergy making smaller bolt-on acquisitions, such as the Nigerian engineering company it recently bought, given the importance of human resources and local content. We also expect the company to set up joint ventures with local players in India, China, Vietnam and Indonesia. The build-up of infrastructure in Brazil is already under way.

Saipem is the undisputed leader in the trunkline market in the Mediterranean Sea and is also the leader in the Caspian Sea (it only has manufacturing yard and vessel fleet there) and it is extremely well positioned in West Africa (we estimate Technip, Acergy and Saipem each have more or less a third of the market), but still has a relatively small presence in Brazil (but two new onshore drilling rigs have started to operate there in September). This is due to the fact that Petrobras tends to use flexible solutions (where Technip, Acergy and Subsea 7 are strong), while Saipem is the leader in fixed pipe installation.

Saipem has only a very small presence in the Gulf of Mexico, as mentioned previously.

Oil field services sector consolidation

We believe there is a clear rationale for M&A in the sector, which would drive earnings growth via cost synergies (asset pooling outside of core territories, R&D efforts, reduced vessel transit times, real estate, administration and increased pricing power. It would also increase company resilience in case of an oil price collapse.

Combining engineering and R&D efforts

The substantial databases and test results carried out during the companies' entire history, combined with lessons learned on various projects around the world (often in harsh conditions, where solutions have to be developed on a project-by-project basis) would increase the competitive advantage of a merged company. This is particularly relevant for deepwater and ultra-deepwater field developments and will become increasingly important going forward, especially for developments located in the Arctic. It would raise barriers to entry even further and would likely keep new entrants with generic vessels out of the market, further increasing existing players' pricing power.

Combining engineering and construction skills

The combination of engineering and construction skills leads to inceased expertise on project feasibility studies and the ability to better assess a project from the outset. It would also, to some extent, avoid paying a 'construction margin' to sub-contractors. In addition, the combination of heavy-lift and trunkline installation skills with SURF capabilities would be a powerful proposition to clients on contracts that involve both tasks.

Changing client base

Major oil companies have access to less than 25% of the world's oil reserves, the remainder being controlled by national oil companies

The Seven Sisters (Esso, Mobil (now ExxonMobil), Chevron, Texaco, Gulf Oil (now ChevronTexaco), Shell, BP) have reduced to four, via mergers, and together with Total, their capital expenditure has shrunk from 34% of global spending in 1990 to 26% in 2006, according to Offshore magazine, while overall spending has more than doubled from US$100bn in 1990. IOCs have access to less than 25% of the world's oil reserves, the remainder being controlled by the national oil companies (NOCs). The new club includes Saudi Arabia's Aramco, Russia's Gazprom, China's CNPC, Iran's NIOC, Venezuela' PdVSA, Brazil's Petrobras and Malaysia's Petronas. They now

control almost a third of the world's petroleum production, while the 'old' Seven Sisters barely produce 10% of the world's output.

NOCs are now much less dependent on IOCs to develop their resources

Traditionally IOCs provided the petroleum technology, project management skills and capital to develop new oil and gas fields. Today, NOCs have ready access to capital markets and strong cash flows. And importantly, because IOCs outsourced oil-field R&D following the mid-1980s industry recession, the service companies replaced them and are now the primary technology and solutions suppliers, putting NOCs at level playing field with IOCs. NOCs are now much less dependent on IOCs to develop their resources. However, to capitalise on these opportunities, oil services companies need to open up facilities (engineering centres, installation/ fabrication yards, etc) closer to their clients and broaden their product and service offering. M&A should help facilitate that expansion. Oil services companies are already now shifting assets, training and research centres and relatively senior management talent to areas such as West Africa, Brazil and increasingly South East Asia.

There has been a lot of speculation over the past year about Saipem being interested in buying Technip. In our opinion, a merger between Technip and Saipem would not be looked at very favourably by large clients such as Exxon, Total, Chevron and BP, especially in Africa, where market dominance would be substantial (although one could envisage that some procurement synergies could be passed on to the client). However, a combined entity would still be very small compared to the oil majors. Such a move would likely encourage further consolidation in the sector and the majors could even look to help create other competitors.

Technip has more of an engineering culture (and is strong in procurement), while Saipem has a strong focus on construction (which Technip mainly sub-contracts). It would give the combined group 70% market share in flexible pipes (all Technip), a broader geographical focus, a strong SURF presence in the North Sea, West Africa and Brazil, a strong presence in umbilicals and a very strong position in LNG.

Saipem currently has higher profitability at the group level due to its drilling activities (in which Technip has no presence) and much better margins in the onshore segment. Offshore margins in comparable segments are similar. Saipem and Technip are both involved in similar deepwater construction activities, although Technip is biased towards SURF (flexible pipes) work, whereas Saipem is more focused on heavy lift and trunkline installations. The onshore divisions, however, are different. The contracting business mix leads to significantly different margins. Both companies put very little capital at risk in the onshore divisions. They only invest in human capital, including designers, project managers and procurement.

A merger between Acergy and Subsea7, for example, to create a deepwater subsea construction champion, would, in our view, lead to a very strong position in the North Sea. We expect a combination would probably need to sell some vessels. However, any deal involving Subsea 7 would need to be friendly, given Siem Industries' 45% voting rights ownership.

Forecasts and assumptions

Given Saipem's healthy order backlog, we expect 2006-09F EBIT CAGR of 26.8% on revenues up 14.4% over the same period, with marked improvements in offshore construction and drilling.

Historical performance

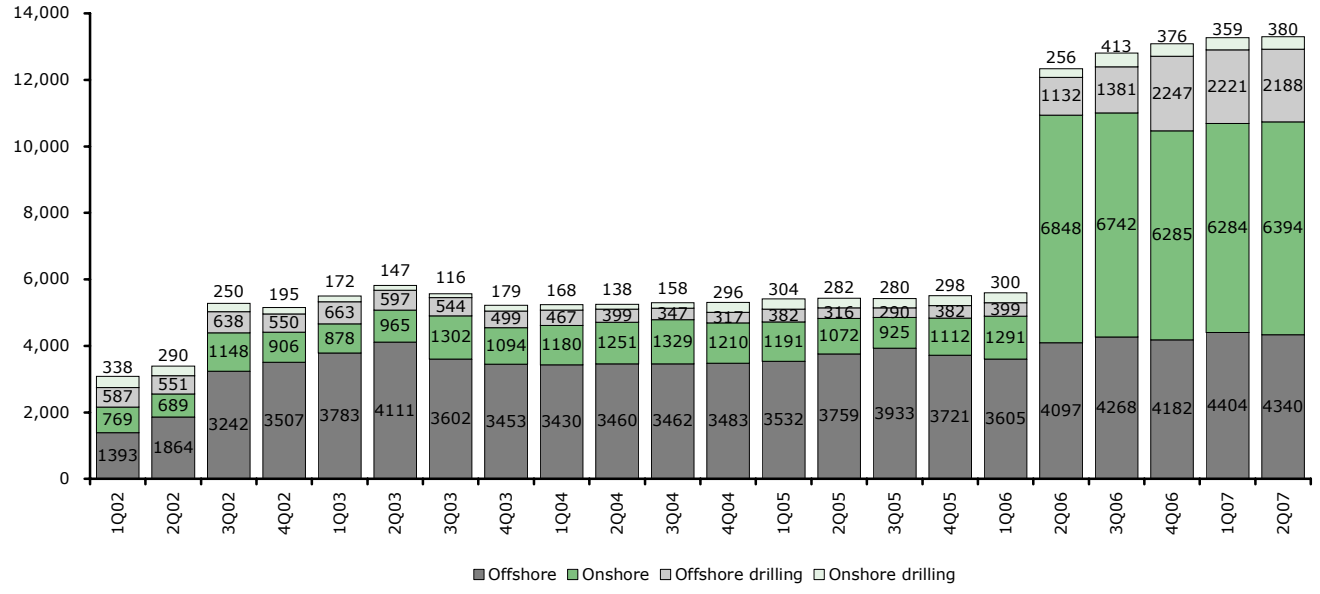
We believe it is becoming increasingly difficult to forecast quarterly results accurately for the oil services companies (including Saipem). This is due to unpredictable provision (contingency) releases on the portfolio of projects as well as the various stages of development of the mega-projects, for which the timing of revenue and profit recognition can have a material impact. Saipem has a policy of linear margin recognition (same mark-up on costs incurred) over the life of a project. However costs are highest in the installation & construction phase, leading to a stronger absolute amount of profit being recognised during that phase. The mix between procurement, engineering, construction and installation activities can vary considerably from quarter to quarter and this has an impact on group margins (given the margin discrepancies of the various activities).

Saipem has a policy of linear margin recognition over the life of a project

The order backlog is still the best indicator of future revenue growth, in our view. It appears that Saipem's backlog was fairly stable during the 3Q02 to 1Q06 period. Growth, excluding acquisitions, has recently picked up though.

The order backlog is the best indicator of future revenue growth

Chart 17 : Historical quarterly evolution of order backlog (€m)



Source: Company data, ABN AMRO Note: FPSO and MMO backlogs have been retroactively classified into Offshore, LNG is included in the Onshore backlog

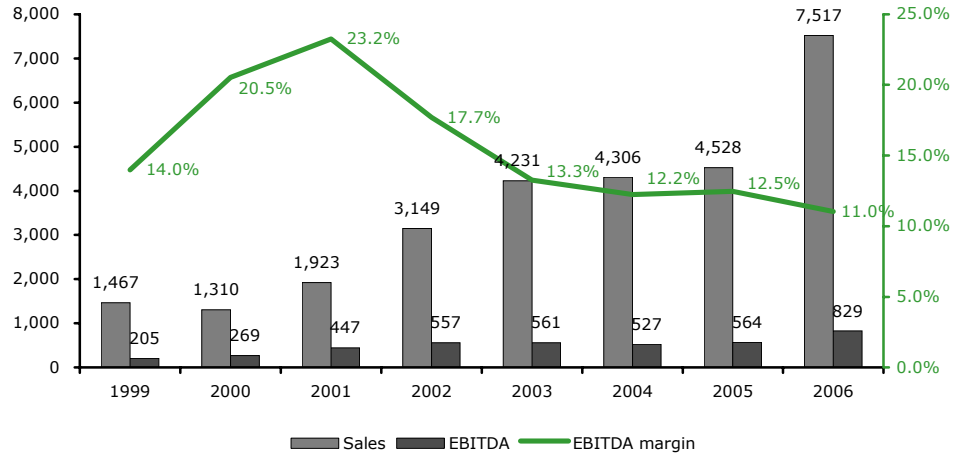
Saipem had acquired Bouygues Offshore in July 2002 for c€1bn. Bouygues's backlog totalled €1,969m at the end of September 2002, of which €1,292m in offshore construction (vs €1,701m for Saipem standalone (excl. FPSO), €328m on onshore construction (vs €544m for Saipem standalone), €276m in LNG and €73m in MMO.

Snamprogetti is included in the backlog since 2Q06, where it contributed €5,237m (vs €7,096m for Saipem standalone), all in onshore downstream.

Revenues were up 66% to €7.52bn in FY06, from €4.53bn in 2005 due to the acquisition of Snamprogetti, which added €2.29bn in FY06 (or 50.6% of the yoy growth). EBIT increased 39.2% for Saipem standalone to €508m (from €365m the year before) and 64.1% to €599m including Snamprogetti. The strong standalone increase in profitability was driven by an 80% increase in drilling EBIT, a 69.8% increase in onshore and a 24.5% increase in offshore.

Drilling activities have experienced the steepest operating leverage

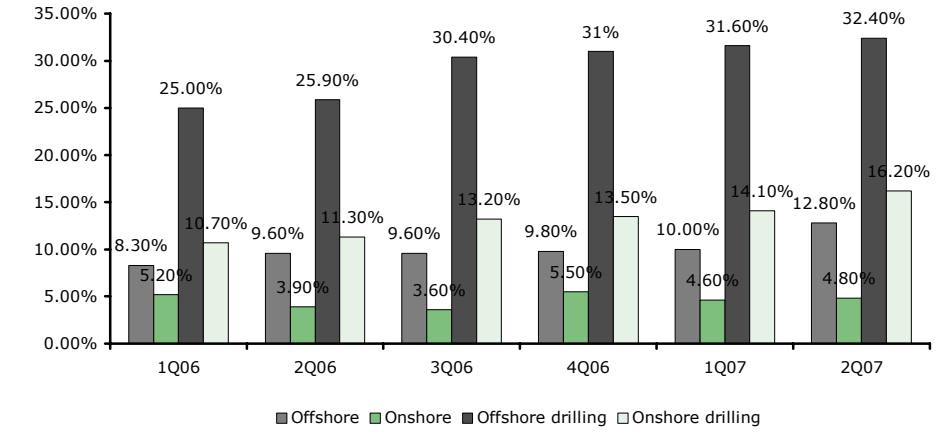
Chart 18 : Historical sales and EBITDA margin evolution, €m



Source: Company data, ABN AMRO, Note: EBITDA margin in 2002 for Saipem standalone was 20.5%

Saipem's offshore margins have been coming off a peak since 1Q02 when it benefited from the high margins of the Blue Stream project (for which it was the sole contractor with the technical capabilities to execute the deepwater pipeline work). Its group margins also declined after the integration of Bouygues Offshore and as a result of unfavourable contract terms and conditions in 2002-04, which impacted the whole industry. Group margins again declined after the acquisition of Snamprogetti, given the lower onshore construction margins, despite significant margin increases in the other divisions.

Chart 19 : Historical quarterly EBIT margin evolution (1Q06 to 2Q07)



Source: Company data, ABN AMRO

Saipem's quarterly EBIT margin evolution highlights continued solid margin development in offshore construction (incl. FPSO) and offshore- and onshore drilling. Onshore construction is more volatile. As mentioned above, Saipem has a flat margin recognition policy (same mark-up allocated to costs when incurred), whereas peers such as Technip for example have a more conservative approach, where margins are back-end loaded (ie no profit recognition during early stage engineering phase). For Technip, a large contract is therefore dilutive (revenues booked with no corresponding profits) in the early stage of completion, whereas the margin will peak

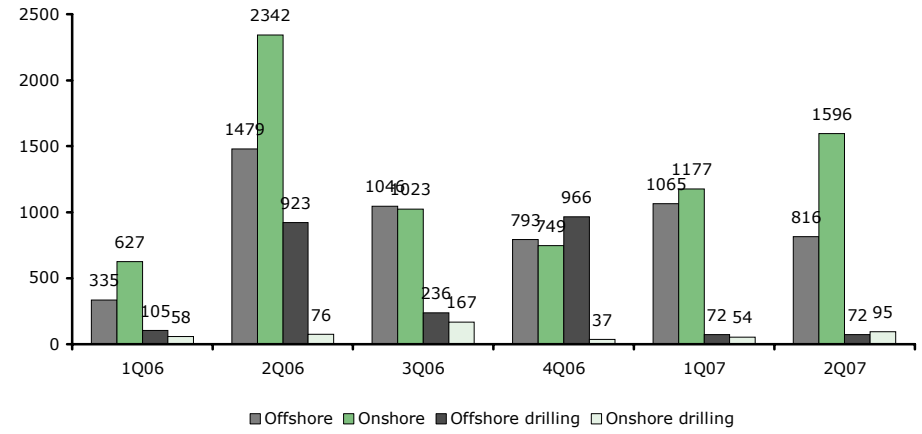
Saipem's quarterly EBIT margin evolution highlights continued solid margin development in offshore construction and offshore- and onshore drilling

towards the later stage, when it becomes clearer that the expected margins will in fact be realised. As a result, for Technip, higher (than normal) margins (at group level) can only be achieved when a large portion of current contracts are in the later stages of completion, which implies a backlog life that is becoming shorter (higher backlog maturity).

Current and forecast performance

The company won €10,962m worth of contracts in 2006. 2Q06 was particularly strong, with €4.82bn worth of wins. New contracts awarded in 1H07 totalled €4.95bn, slightly down on the same period last year at €5.78bn.

Chart 20 : Historical contract awards by segment (1Q06-2Q07)



Source: Company data, ABN AMRO

The most significant contract wins in the first half 2007 (worth circa €2.7bn) are listed in the table below.

Table 15 : Major contracts awarded in 1H07

Country	Awarded by	Description
Onshore		
Saudi Arabia	Saudi Aramco	EPC contract for the expansion of the Quarayyah Sea Water Plant facilities within the Khurais field. This contract began on a reimbursable basis in 2Q06 and has now been converted in a lump sum turn-key (LSTK) contract. The work is expected to be completed by 4Q08
Tunisia	SCOGAT	EPC contract for the expansion of the existing Trans-Tunisian gas pipeline, which forms part of the Algeria-Italy gas transport system. The contract is expected to be completed by 2Q08.
Saudi Arabia	Saudi Aramco	Turn-key contract for the water injection pump station facilities within the onshore Khurais increment programme carried out in 50/50 JV with SNC-Lavallin and Saipem. Work is expected to finish in 2H08
Pakistan	Engro Chemical Pakistan Limited	Contract for technology, licensing, engineering, procurement and supervision for an Ammonia and Urea plant in Daharki.
Algeria	Sonatrach	Saipem is lead contractor in a consortium that will carry out an EPC contract for an oil treatment and stabilisation plant located in Hassi Messaoud. The contract value is approximately €950m, of which €700m for Saipem.
Offshore		
Algeria	Sonatrach-led consortium	EPIC contract for the installation of a marine pipeline (24", 208km long) system for natural gas transportation from Algeria to Spain. The contract was awarded by a consortium led by Sonatrach (36%), CEPSA (20%), Iberdrola (20%), Endesa (12%) and Gaz de France (12%). The pipeline will be laid in max water depth of 2,160m and mainly be carried out by the *Saipem 7000* and partly by the *Castoro Sei* during 2008.

Source: Company data, ABN AMRO

Current backlog

Saipem's backlog reached a record €13.3bn in 1H07

At the end of June 2007, Saipem's backlog reached a record €13.3bn. This does not include the letter of intent from Total for the five-year charter (plus the option for a further two years) of the newbuild drillship *Saipem 12000* for operations in West Africa, which we estimate at US$900-1,000m and which will start in 2010 (upon delivery of the vessel). In addition, it does not include the following contracts awarded to Saipem in July 2007.

Table 16 : Saipem – July 2007 contract awards

Country	Awarded by	Description
Onshore		**two contracts worth US$230m**
Kazakhstan	AgipKCO	Contract awarded to Saipem and Aker Kvaerner for the Kashagan field development in the Caspian Sea. The contract includes hook-up and commissioning of the offshore facilities as well as for the in-shore completion to be executed in the Kuryk yard. The contract is worth c€100m.
Egypt	Petrobel	Contract awarded to the Saipem and PMS consortium for the laying of a 32" pipeline connecting the El-Gamil gas processing plant with an existing platform located in the Denise Pliocene gas field located 60km off the coast of Egypt in water depths of up to 85 metres. The marine activities will be executed by the Crawler in 2H07.
Onshore		**contract worth cUS$210m**
Nigeria	Shell	Contract for the construction, installation and commissioning of a 30-inch onshore pipeline system in Bayelsa and Rivers States connecting the San Bartholomew Manifold to the Cawthorne Channel junction Manifold Trunkline (46km). It also comprises the de-commissioning of the existing 28-inch pipeline and related facilities. Work is expected to complete in 3Q08
Drilling		**four contracts worth US$510m**
Egypt	IEOC (Intl Egyptian Oil Company)	Contract for the use of the Scarabeo 4 off the coast of Egypt for 28 months with work commencing in 4Q07
Nigeria	Addax Petroleum	Scarabeo 3 1-year charter extension for use off the coast of Nigeria
Saudi Arabia	Saudi Aramco	Three-year contract extension from 2H07 for the charter of five onshore rigs that have been operating in Saudi Arabia on behalf of Saudi Aramco since 2000
Saudi Arabia	ENI Repsa	Charter of a new onshore rig for a period of 12 months in 1Q08

Source: ABN AMRO

Hence 3Q should again be a good quarter for order intakes. 4Q could even be better if the Nord Stream contract and West African contract awards materialise.

As mentioned above, Saipem's underlying backlog has been fairly stable up until the beginning of 2006 and has substantially accelerated in offshore drilling during 2006. After the Snamprogetti acquisition, Saipem's backlog is dominated by onshore construction awards.

Table 17 : Historical evolution of backlog

	2001	2002	2003	2004	2005	1H06	2006	1H07
Offshore construction	1229	3276	3265	3303	3721	4097	4182	4340
Leased FPSO	184	170	142	117				
MMO		61	46	63				
Onshore construction	577	906	1094	1210	1112	6848	6285	6394
Offshore drilling	546	550	499	317	382	1132	2247	2188
Onshore drilling	317	195	179	296	298	256	376	380
Total	**2853**	**5158**	**5225**	**5306**	**5513**	**12333**	**13090**	**13302**
% growth		80.8%	1.3%	1.6%	3.9%		137.4%	7.9%
Year-end revenues	1923	3149	4231	4306	4528		7517	
Backlog in years of revenues (x)	1.5	1.6	1.2	1.2	1.2		1.7	

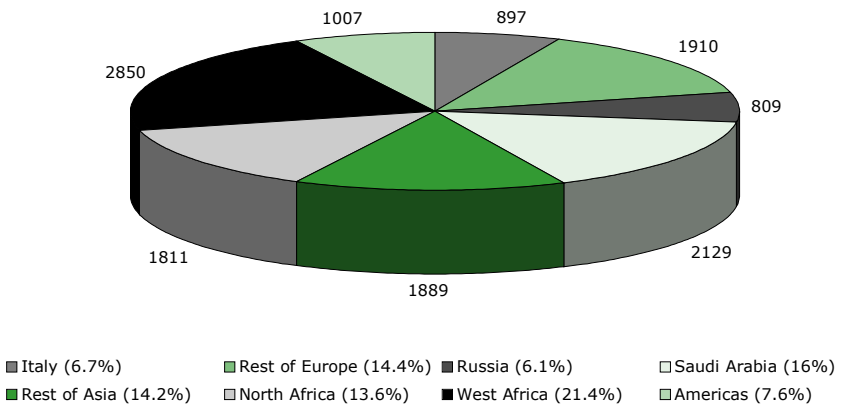
Source: Company data, ABN AMRO

In terms of second-half 2007 execution, the company will realise €1,394m of the offshore backlog, €2,116m of the onshore backlog, €173m of the offshore drilling backlog and €115m of onshore drilling backlog. This corresponds to a total of €3.8bn of revenue, versus our second-half assumption of €4.68bn, which we believe the

company will achieve quite comfortably given that the current backlog does not include smaller contracts, potential variation orders and extensions and new contracts won in 2H07.

The current backlog is well diversified geographically, with the main exposure to Africa (35%), particularly West Africa with €2.85bn. The biggest single country exposure is Saudi Arabia, with 16% of the backlog.

Chart 21 : Geographical exposure of backlog as at 1H07, €m



Source: Company data, ABN AMRO

Developments in 1H07

First-half results were strong but some of the significant improvement of 50% at EBITDA level and 68% at EBIT level was due to consolidation of Snamprogetti, which was integrated in 2006 only from April onwards. Nevertheless, profits increased significantly on the offshore side (by far the biggest earnings contributor). However, the margin in offshore was also boosted by €20m of contingency provision releases associated to contracts which were completed or close to completion. This is nevertheless an indication of the efficient execution of some projects. This has to do with finding the right balance between operational decentralisation and centralisation of risk assessment and management. Risk management needs to be centralised, according to the company. This has been echoed by recent comments from Acergy and Subsea 7, which are in the process of putting in place various quality-related initiatives, the successful outcome of which could add a percentage point or two to the group margin, in our view.

Also, contingency provisions are operating items as they are related to the execution of contracts and have depressed profitability in a previous period, when they were taken. We therefore consider them as operating items.

In addition, and we have mentioned this in previous sector notes, having key capabilities such as engineering, construction and fabrication in-house, coupled with a strong local presence, contributes to a better risk assessment and project cost evaluation from the outset, and thus ultimately leads to higher margins, in our view. That's why the company invested (and will continue to invest) in cost-effective yards such as those already located in Nigeria, Angola and Kazakhstan.

2Q07 EBITDA margin in the Offshore division reached 16.9%, which compares to Acergy at 16.5%, Subsea 7 at 16.9% and Technip at 16.9% (SURF and Offshore facilities). Excluding the contingency release, EBITDA margins would have been 14.7%, well in the range of the subsea contractors as Saipem reports lower margin FPSO lease activities within Offshore.

Capex was €605m in 1H07, about half of the announced full-year 'close to €1.3bn' figure, of which €850m is invested in new vessels (including the new pipe-lay vessel and two deepwater drilling units) and the maintenance and upgrade of the existing fleet. About €110m will be invested on specific projects and €70m will be invested in local content (West Africa and Kazakhstan). Finally, €250m will be invested in the completion of a new FPSO.

Saipem sold the French onshore (industrial plant) maintenance company Camom (dating from Bouygues Offshore acquisition) to Eiffage for a total consideration of €47m and a trailing PE of over 20x, according to data provided by the company. Saipem remains confident that it will reach its stated €700m disposal proceeds target, although timing of those disposals could well slip into 2008, in our view. Hence, we have not yet accounted for those disposals in our forecasts and continue to show contribution from associates in our P&L assumptions over the forecast period. According to the company, Saipem should realise around a €350m capital gain on those planned disposals.

The company has announced that it plans to dispose of a certain number of non-core assets, including engineering company GTT (Gaztransport et Technigaz), which specialises in the design of LNG trains and is accounted for under the equity method. Other disposal candidates include Venezuelan company Fertlizantes Nitrogenados de Oriente SA and several smaller companies included in the associates line.

The sale of those assets would imply that the bulk of the company's income from associates/ investments would disappear. We reckon GTT accounts for about €20-25m.

Guidance revised upwards

Saipem has revised its FY07 underlying net profit growth guidance from at 'least 20%' to 'at least 30%' end of July (this excludes exceptional items, such as asset disposals). This was motivated by a stronger-than-expected market and also better-than-expected execution efficiency on several larger projects (contingency provision releases).

Saipem has revised its FY07 net profit growth guidance from at 'least 20%' to 'at least 30%'

Current tender activity and order intake prospects

As for the other oil services companies in our coverage universe, Saipem is currently taking part in a significant amount of tender offers. While bidding activity is very high, we believe that Saipem is pursuing a long list of projects (large and small) in its areas of strength (geographical presence, technical capabilities and human resources and vessel capacity). In most cases it is quite clear from the outset whether a project can be won or not. A lot depends on the relationship with the client. As such, we believe that Saipem's average tender success rate is c30%. Its success rate should be higher in geographical areas such as the Caspian Sea and West Africa (onshore and offshore) and Saudi Arabia and Algeria (onshore) as well as in large offshore pipe-lay projects, where it is the undisputed leader.

Offshore construction

As outlined in previous sector notes, we have compiled a list of projects from various industry sources that we expect will be starting in 2007-09. While this list is probably not exhaustive, we believe it gives a good indication of the offshore market in which Saipem (and Technip and Acergy and, to some extent, Subsea 7) is operating. Although the larger projects grab all the headlines, there is actually strong momentum in smaller projects around the world. We have counted close to 30 projects that fall into the US$100m-250m category, of which nine are in the Asia Pacific region (Malaysia and Australia), eight are in West Africa (Nigeria and Angola), six are in the North Sea (Norway and UK), one is in Egypt, one is in Brazil, one is in Azerbaijan and one is in East Canada. The following table (and including the smaller

The offshore projects we have compiled point to a potential market backlog of US$2.15bn-4.5bn in 2007, US$12.6bn-23.24bn in 2008 and US$2.2bn-3.5bn in 2009

projects mentioned above) points to a potential market backlog of US$2.15bn-4.5bn in 2007, US$12.6bn-23.24bn in 2008 and US$2.2bn-3.5bn in 2009. We have counted the very large projects as US$1bn per project (the projects could be worth well above that, but will most certainly be executed in a consortium). If we assume a conservative tender success rate of 30% for Saipem, this would yield order intake prospects on top of the current order backlog of US$ 0.65-1.4 bn in 2007, US$ 3.8-7bn in 2008 and US$ 0.66bn-1.1bn in 2009.

Table 18 : Future expected offshore project awards

Country	Main client	Market segment	Start year	End year
Contract size US$1bn+				
Nigeria	Chevron	Conventional	2008	2010
Angola	Total	SURF	2008	2011
Angola	BP	SURF	2008	2010
Nigeria	Chevron	Trunklines	2008	2010
Russia – Norway	Nord Stream	Trunklines	2009	2011
Contract size US$500m-1bn				
Angola	BP	SURF	2008	2010
Nigeria	Shell	SURF	2008	2012
Angola	BP	SURF	2008	2011
Nigeria	Shell	Conventional	2009	2011
Nigeria	Chevron	Conventional	2008	2010
Angola	ExxonMobil	SURF	2007	2010
Nigeria	Chevron	Conventional	2007	2009
Nigeria	ExxonMobil	Conventional	2008	2010
Malaysia	Shell	SURF	2008	2010
Norway	Statoil	Trunklines	2007	2011
Canada East	EnCana	Trunklines	2008	2009
Brazil	Petrobras	SURF	2008	2009
Contract size US$250m-500m				
Nigeria	Chevron	Conventional	2008	2010
Angola	BP	SURF	2008	2010
Nigeria	Chevron	Conventional	2008	2010
Italy	Electricity Gas	Trunklines	2008	2010
Nigeria	Total	Conventional	2008	2010
Nigeria	ExxonMobil	Conventional	2007	2008
Nigeria	Shell	Conventional	2009	2011
Nigeria	Shell	Conventional	2009	2012
Angola	BP	SURF	2008	2010
Nigeria	Shell	SURF	2008	2010
Nigeria	ExxonMobil	Conventional	2008	2009
Nigeria	Total	Conventional	2008	2009
Nigeria	Total	Conventional	2008	2009
Egypt	BG Group	SURF	2008	2009
Brazil	Petrobras	SURF	2008	2012

Source: Upstream, various industry sources, ABN AMRO estimates, July 2007

The company's 2Q07 presentation outlines a number of trunkline contracts where management believes that Saipem stands a very good chance of winning the bidding process, given its solid track record and market leading pipe-lay vessel fleet.

Table 19 : Current trunkline opportunities and track record

Project name	Diameter and length	Main challenges/ description
Track record		
Blue Stream (Russia-Turkey)	24", 2x370km	Laying along continental slopes, max water depth 2,150 metres, main vessel used *Saipem 7000*
Green Stream (Libya-Sicily)	32", 540 km	1,127 metres water depth, world record in anchored S-lay, main vessel used *Castoro Sei*
Bayu Darwin (Timor Sea-Australia)	26", 502 km	Largest and longest pipe in the Australasia region, pipes logistics, main vessel used *Semac 1*
Current opportunities		
Balearics gas pipeline- Enagas	20", 123km + 146 km	Deepwater pipe-laying (S-lay) operations
GNE (ex Troll) - Statoil (alternative routes under consideration) Norway to Continental Europe (Belgium or Holland) or to the UK	44" 1043km, or 42" 520 km	Challenging schedule - Handling of large pipes
Nord Stream - Russia-Germany gas pipeline	48" 2x 1210 km	Environmental constraints, permitting (laying in waters in the Exclusive Economic Zone (EEZ) of 5 countries (incl. territorial waters of 2 of them)), schedule and handling/ availability of large pipes. Nord Stream is due to begin operations in 2010 and will initially have a capacity to transport about 27.5bn cubic metres of gas/year. Pipelaying is scheduled to begin in July 2009 but could slip if environmental permits are not obtained in time
Galsi - Algeria-Sardinia-Italy gas pipeline (offshore stretch)	26" 280 km +32" 252 km	Deepwater (up to 2,880 metres)
Shtokman - Gazprom - Russian Barents Sea	44"/48" 2x 650 km	Environmental constraints, schedule in terms of vessel availability and handling availability of large pipes
South Stream - Russia- Bulgaria (offshore stretch)	900 km	Deepwater (up to 2,200 metres), heavy wall pipe manufacturing, laying along continental slope

Source: Company data, ABN AMRO

Several projects are however still at an early stage and appropriate funding has not yet been attracted for all of them, eg South Stream.

Onshore construction

Oil services company Technip published in its 2Q07 results presentation a substantial number of very sizeable projects to be awarded over the next twelve months. Some of the offshore projects listed in the table below are the same as those identified in the table above. On the onshore side (Gas/LNG and refining/petrochemical), Technip's assessment points to a short-term market backlog of €7.3bn-12bn+ (Technip's potential share). As its main competitor, Saipem is competing for the same projects.

Technip's assessment points to a short-term market backlog of €7.3bn-12bn+

Table 20 : Major expected project awards (next 12 months), oil services company potential share

SURF	Project size	Offshore facilities	Project size	Gas/LNG	Project size	Refining/ petrochemical	Project size
USAN (Nigeria)	€200m-500m	USAN FPSO (Nigeria)	€200m-500m	OK LNG (Nigeria)	in excess of €1,000m	Westlake Ethylene (Trinidad)	€500m-€1,000m
Paz Flor (Angola)	€500m-€1,000m	Paz Flor FPSO (Angola)	€200m-500m	Pascagoula LNG terminal (USA)	€200m-500m	CAM AHN Ammonia/ UREA (Vietnam)	€500m-€1,000m
Chinook Cascade (GoM)	€200m-500m	P-56 (Brazil)	€200m-500m	Bonny LNG Train 7 (Nigeria)	€500m-€1,000m	Cartagena hydrogen (Spain)	€200m-500m
Block 15 Gas Gathering (Angola)	€200m-500m	Ichtys field (Australia)	€200m-500m	Agx gas treatment (Qatar)	€200m-500m	Heavy oil refinery (Egypt)	in excess of €1,000m
Bonga Southwest (Nigeria)	€200m-500m	Browse (Australia)	€200m-500m	BAB gas Comp. (UAE)	€200m-500m	Melaka refinery (Malaysia)	in excess of €1,000m
White Rose extension (Canada)	€200m-500m	Bongot 4A (Thailand)	€200m-500m	El Andalus LNG ARZEU (Algeria)	in excess of €1,000m	Sines & Porto refineries (Portugal)	€500m-€1,000m
Block 31 (Angola)	€500m-1,000m	P-55 (Brazil)	€200m-500m	Adco SAS field (UAE)	in excess of €1,000m	Al Jubail refinery (Saudi Arabia)	€500m-€1,000m
Total	**€2,000m-4,500m**		**€1,400m-3,500m**		**€4,100m-5,500m+**		**€3,200m-€6,500m+**

Source: Technip, ABN AMRO

Management stated that it does not expect a decision on the US$10bn OK LNG contract before several months

According to Technip management, Technip is well placed to win a fair amount of these projects in all markets. So is Saipem, in our view. The **USAN** and **PAZ FLOR** SURF (FPSO) projects in Nigeria and Angola have both experienced slight delays but they are strategic for both countries. *Upstream* (the international oil & gas newspaper) recently reported that Total has handed over its recommendations for the PAZ FLOR project in Angola to its partner Sonangol. Apparently, the Technip-Acergy J/V is recommended to be awarded the SURF contract, while FMC would be handed the subsea production system. Within the Technip-Acergy venture it looks like Technip would get the flexible pipeline job and their installation, while Acergy would be handling riser and rigid flowlines supply and installation. According to a source close to Total, the company wants the project to be awarded by 1 October. We believe Saipem is well positioned on the Usan project.

The BONNY LNG train 7 will be the largest LNG train ever built with 8.5mtpa. The refining and petrochemical contracts are mostly related to the production of refined products in the Middle East. However, we are seeing strong momentum in smaller projects everywhere around the world. There is a large increase in infrastructure projects worldwide underpinned by the strength of the current oil and gas industry cycle.

According to *Upstream*, Abu Dhabi Company for Onshore Operations (**Adco**) will invite several shortlisted contractors in October to make a bid for the first phase of the Sahil, Asab and Shah (SAS) project, which aims to boost crude output capacity (by 60,000b/d) at the three major onshore fields through modifications to surface-handling facilities. The project involves supplying and installing compressors, pipelines and related facilities and is currently scheduled for completion in 2010. The contract should be awarded in early 2008. Technip has completed the conceptual study and masterplan, which includes an assessment of the surface production facilities and recommendations for an expansion, taking into account rising water cut and gas production requirements. Foster Wheeler has carried out the front-end engineering and design. Other contractors that could be invited are Tecnicas Reunidas, Petrofac and JGC Corporation. According to industry estimates this should eventually be a US$3bn project.

Technip believes its accessible market has increased since the end of last year, given a pickup in momentum in its various markets (as mentioned above), especially in onshore. This has allowed it to be more selective in its business development approach.

Table 21 : Order intake prospects (six months forward)

€ m	Jan-06	Jan-07	Apr-07	Jul-07
Industries	1.0	1.0	0.8	0.8
Onshore-downstream	8.6	7.8	11.0	12.2
Offshore facilities	7.1	7.7	5.6	5.3
SURF	4.3	4.9	7.8	6.2
Total	**21.0**	**21.4**	**25.2**	**24.5**

Source: Technip, July 2007

The accessible market has decreased in off-shore facilities and SURF because of the delay in major project awards in West Africa. Several of those projects involve FPSOs.

The above market does not include drilling opportunities, which should come on top of the market backlog.

Revenue growth

The company has guided towards revenues in excess of €9bn this year. This is based on the progress of projects under execution in 1H07 and expectations for the remainder of the year, despite a negative US dollar effect (70% of revenues are denominated in US$). Given the order intake prospects, we are comfortable with our medium-term revenue growth forecasts.

The company has guided towards revenues in excess of €9bn this year

Table 22 : Historical and forecast segmental revenue growth (2005A-2010F)

€m	2005A	2006A	2007F	2008F	2009F	2010F
Offshore	2,795.0	3,192.0	3,447.4	3,792.1	4,095.5	4,320.7
Onshore	1,221.0	3,700.0	5,254.0	5,779.4	6,184.0	6,462.2
Offshore drilling	302.0	365.0	410.6	501.0	561.1	617.2
Onshore drilling	210.0	260.0	302.9	363.5	399.8	427.8
Sales	**4,528.0**	**7,517.0**	**9,414.9**	**10,435.9**	**11,240.3**	**11,828.0**
Sales (% growth)	**5.2%**	**66.0%**	**25.2%**	**10.8%**	**7.7%**	**5.2%**
Offshore	*1.5%*	*14.2%*	*8.0%*	*10.0%*	*8.0%*	*5.5%*
Onshore	*10.5%*	*203.0%*	*42.0%*	*10.0%*	*7.0%*	*4.5%*
Offshore drilling	*4.5%*	*20.9%*	*12.5%*	*22.0%*	*12.0%*	*10.0%*
Onshore drilling	*32.9%*	*23.8%*	*16.5%*	*20.0%*	*10.0%*	*7.0%*

Source: Company data, ABN AMRO forecasts

The **Offshore construction division** was particularly strong in 1Q07, up 42.2% yoy to €843m (€845m in 2Q07, up 4.1% yoy) and we would expect 2H07 revenues in that division to be more or less flat on 1H07.

In **Onshore construction**, Snamprogetti will be integrated for 12 months this year, while it was consolidated in April last year.

As of 2Q07, Saipem no longer reports separate contribution from former Snamprogetti. In absolute terms, Snamprogetti is by far the largest contributor to revenues and profits but its operating margin has consistently lagged the former Saipem stand-alone business by 1-1.5% points. The division performed strongly in 2Q07, with sales up 40% yoy to €1,486m. The division should maintain a strong level of activity for the remainder of the year. Margins (including Snamprogetti) were up to 4.8%, from 3.9% a year ago. Backlog at the combined entity was €6.4bn at the end of June, slightly down from the record €6.8bn in June 2006, but still representing 15 months of activity. Historically Saipem (stand-alone) had a shorter backlog (10-15 months) than Snamprogetti (15-20 months).

Backlog at the combined entity was €6.4bn at the end of June, representing 15 months of activity

The onshore construction market is buoyant in terms of backlog and order intake. As mentioned above, Saudi Aramco recently converted the Khurais contract (awarded last year) into a full EPC contract. The whole project will be in excess of US$1bn, according to the company. In addition, the company expects order in-takes in Algeria, Nigeria and other countries in the Middle East.

In 2Q07 the **offshore drilling** division posted an EBITDA of €49m, up from €46m in 1Q07. Strong rig utilisation of 91% in 2Q07 drove profitability.

This division is on the brink of a major uplift in profitability, driven by the steep increase in the fleet's average day-rates as new contracts signed now reflect market day rates. The lag effect was due to the multi-year nature of contracts currently in place and options to those contracts that were exercised by clients, given that rates were more favourable (for clients) than prevailing spot rates.

This offshore division is on the brink of a major uplift in profitability

Scarabeo 4's day rates will rise from US$70,000 to US$160,000 from 3Q07, *Scarabeo 5*'s from US$150,000 to US$309,000 in 4Q07 and *Scarabeo 6*'s from US$60,000 to US$180,000 in 3Q07.

In addition, as mentioned above, Saipem signed a letter of intent for the *Saipem 12000* with Total for a five-year period, with a two-year extension option for drilling offshore West Africa. The letter is still subject to approval by Total's contract partners (Exxon, Statoil and Sonangol), but we see no reason why it should not be accepted. Management stated on the 2Q07 results call that it has a good relationship with all of the partners so it is very confident in terms of the approval. We believe day rates are in line with current market rates of cUS$500,000.

In 2Q07, the *Scarabeo 4*, *Perro Negro 2* and the *Scarabeo 6* underwent upgrade and maintenance works. According to the company, the *Scarabeo 3* will be subject to quite extensive maintenance and upgrade work in 2H07, possibly lasting three months. No other major rig downtime is planned for this year.

Saipem's **onshore drilling** segment focuses on niche areas, and, albeit a small part of the portfolio, nevertheless generates good profitability. Geographically, the company focuses on Saudi Arabia, Venezuela and Peru (over 60% of active rigs and more in revenues) and also increasingly Brazil. The company added two new rigs to the active fleet in 1H07, bringing the total number to 52. Two new rigs should be added before the end of the year.

EBIT margin

We expect margins to improve across all divisions given much better terms and prices on contracts that are currently in the pipeline. Due to the longevity of the construction and drilling (onshore and offshore) contracts, there is a lag effect of several years (for some) before the margin is impacted. 2008 and 2009 should therefore see significant margin improvement.

We expect margins to improve across all divisions given much better terms and prices on contracts that are currently in the pipeline

Table 23 : Saipem historical and forecast segmental EBIT margin (2005A-2010F)

€ m	2005A	2006A	2007F	2008F	2009F	2010F
Offshore	241.0	300.0	399.9	477.8	548.8	587.6
Onshore	49.0	164.0	260.1	329.4	377.2	394.2
Offshore drilling	54.0	103.0	135.5	185.4	223.3	254.3
Onshore drilling	21.0	32.0	46.9	61.8	72.0	77.0
EBIT	**365.0**	**599.0**	**842.4**	**1054.4**	**1221.3**	**1313.1**
EBIT (% Margin)	***8.1%***	***8.0%***	***8.9%***	***10.1%***	***10.9%***	***11.1%***
Offshore	*8.6%*	*9.4%*	*11.6%*	*12.6%*	*13.4%*	*13.6%*
Onshore	*4.0%*	*4.4%*	*5.0%*	*5.7%*	*6.1%*	*6.1%*
Offshore drilling	*17.9%*	*28.2%*	*33.0%*	*37.0%*	*39.8%*	*41.2%*
Onshore drilling	*10.0%*	*12.3%*	*15.5%*	*17.0%*	*18.0%*	*18.0%*

Source: Company data, ABN AMRO forecasts

In **onshore construction**, the company will continue to increase Snamprogetti's profitability to Saipem's previous group margins (Saipem's standalone margins were 4% in 2005 and 5.2% in 2006, vs 1.4% and 4% respectively for Snamprogetti). The combination of Snamprogetti's engineering skills and Saipem's construction expertise could actually show results earlier than management's previous road-map. As such segmental margins should reach 5% in 2007 and could be as high as 6% in 2008, although we are currently slightly more cautious, given the complexity of some of the projects currently being executed. 2006 actual cost synergies totalled €9m (vs €5m expected). The company further expects cost synergies of €15m in 2007 and €30m in 2008.

According to management, most contracts with Saudi Aramco (16% of total backlog) operate on a 'cost plus fee' basis during the study and procurement phases, which allows Saipem to mitigate the risk of raw material and equipment price rises. After that, after both parties are in agreement, the contract migrates to LSTK.

'Cost plus fee' contracts include a pre-agreed margin up front. In this case, procurement and construction are not invoiced on a lump-sum basis. The client is paying the supplier directly. These contracts frequently contain penalty and bonus clauses linked to performance and involve lengthy negotiations regarding the size of the project management fee. 'Cost plus fee' contracts are mainly used in the US and some parts of Europe, whereas in most other parts of the world, lump-sum contracts are common practice, mainly as a result of conditions set by the financial institutions involved in the financing of those projects.

Saipem has still a significant cost base in euros, but is hiring a significant amount of people outside of Europe, such as Nigeria (1,000 engineers out of 4,000 currently employed there), India, and in Eastern Europe, for example, Romania.

We believe that the company's euro-denominated fixed cost base is roughly €650m (operating centres, depreciation), the remainder corresponds to the sales split, roughly 70% in USD and 30% in euros.

Tax rate

We expect the tax rate to rise progressively over the next few years, given Snamprogetti's very high effective tax rate of 55% in Italy. There is now a greater balance between assets and people. Saipem has historically had a very low tax rate due to its skew towards installation (large vessel fleet). As such, Saipem has a large proportion of revenues generated from mobile vessels, which allows it to manage its tax exposure more effectively by registering the vessels in low taxation countries.

In addition, some previous tax structures look more problematic now due to changes in the tax law in countries such as Nigeria. However, we do expect the rate to peak at 31% in 2010.

Capex

The current 2007-10 capex plan includes a new pipe-lay vessel due in 2Q10. The company has taken the decision to invest in the trunkline market dominated by only three global players (Saipem, Acergy and Allseas) due to the several big projects that are currently being tendered for (Nord Stream, Troll) or expected to materialise at a later stage (South Stream).

The company's strategy is to build a strong and credible local presence in the key countries where it operates. Apart from plans to invest more significantly in Algeria (where the company recently won the MEDGAZ project, which is a pipe-lay between Algeria and Spain, and the UBTS project worth €700m), we believe the company is also looking to set up a fabrication yard in Asia, with two sites currently identified, one in the Philippines and the other one in Indonesia. The site in the Philippines is a bit further from the market (and involves transport costs) but ready to operate, while the Indonesian site is the better option from a logistical point of view. This expenditure related to the new fabrication yard is included in our capex forecasts.

Our capex forecasts also include the new drillship (*Saipem 12000*, order placed with Samsung shipyard), a deepwater deep-reach semi-sub drilling rig, an assisted drilling unit and three new onshore drilling rigs, the construction of which was sanctioned by management in the fourth quarter last year. From 2010, capex levels should decrease significantly as the current major capex expansion program will be complete. We believe the company's maintenance fleet capex is around €100m per year.

Table 24 : Saipem capex forecasts

€ m	2006A	2007F	2008F	2009F	2010F	2011F
Total capex	**605**	**1280**	**990**	**750**	**400**	**260**
Fleet	*228*	*850*	*610*	*390*	*120*	*120*
Project related	*115*	*110*	*110*	*110*	*90*	*40*
Local content	*48**	*70*	*70*	*70*	*70*	*30*
FPSO	*214***	*250*	*200*	*180*	*120*	*70*

*Source: Company data, ABN AMRO forecasts, *Kazakhstan and West Africa,** start of the conversion of the two FPSOs for Petrobras and Sonangol respectively*

Capex in 2006 included construction works (now complete) for the new operating base in Kuryk (Kazakhstan) which will be used for the fabrication of offshore structures and as a logistical base for operations in the area, as well as ongoing construction works on the new yard in Soyo (Angola), which will be used for the fabrication of structures and modules for ongoing projects.

Net debt

We forecast net debt to increase from €1.47bn in 2006 to €2.03bn in 2007, due to the capex programme mentioned above. We have not included €700m of cash inflow from potential future disposals, as announced by management. Net debt should peak at €2.17bn in 2008F and then decrease rapidly over the forecast period, given our expectation of strong cash flow generation over the forecast period. We estimate that the company should generate in excess of €1bn free cash flow from 2011F.

Table 25 : Cash flow and net debt ratio forecasts

€m	2006A	2007F	2008F	2009F	2010F
Operating cash flow (before capex)	603.0	802.3	1009.8	1198.7	1304.8
Operating cash flow growth (%)		*33.0%*	*25.9%*	*18.7%*	*8.9%*
Free cash flow	-33	-430.7	19.8	448.7	904.8
Free cash flow growth (%)		*-1205.3%*	*104.6%*	*2260.2%*	*101.6%*
Net debt/ EBITDA (x)	1.8	1.8	1.5	1.2	0.7
Net debt/ equity (%)	92.7%	101.8%	86.6%	62.2%	33.8%

Source: Company data, ABN AMRO forecasts

Financials

Table 26 : Saipem – Profit & loss

€ m	Dec-06A	Dec-07F	Dec-08F	Dec-09F	Dec-10F	Dec-11F	Dec-12F
Sales	**7,517.0**	**9,414.9**	**10,435.9**	**11,240.3**	**11,828.0**	**12,263.5**	**12,635.1**
growth%	66.0%	25.2%	10.8%	7.7%	5.2%	3.7%	3.0%
Cost of Goods Sold	(5,574.0)	(6,945.7)	(7,578.8)	(8,049.1)	(8,422.2)	(8,721.2)	(8,975.9)
Gross Profit	**1,943.0**	**2,469.2**	**2,857.2**	**3,191.3**	**3,405.7**	**3,542.3**	**3,659.2**
margin%	25.8%	26.2%	27.4%	28.4%	28.8%	28.9%	29.0%
Other operating Income	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Operating Expenses	(1,164.0)	(1,396.8)	(1,510.0)	(1,602.2)	(1,684.8)	(1,769.1)	(1,843.7)
EBITDA	**829.0**	**1,122.4**	**1,397.2**	**1,639.1**	**1,770.9**	**1,823.2**	**1,865.5**
margin%	11.0%	11.9%	13.4%	14.6%	15.0%	14.9%	14.8%
Depreciation	(230.0)	(280.0)	(342.8)	(417.8)	(457.8)	(483.8)	(507.8)
EBIT	**599.0**	**842.4**	**1,054.4**	**1,221.3**	**1,313.1**	**1,339.4**	**1,357.7**
Margin (%)	8.0%	8.9%	10.1%	10.9%	11.1%	10.9%	10.7%
Interest Expense	(709.0)	(118.7)	(125.6)	(124.6)	(115.4)	(100.2)	(82.7)
Interest Income	609.0						
Net Interest Income/ (Expense)	(100.0)	(118.7)	(125.6)	(124.6)	(115.4)	(100.2)	(82.7)
Securities Income	11						
Other	34.0	33.7	35.4	37.2	39.0	41.0	43.0
Net Financial Income/ (Expense)	**(55.0)**	**(85.0)**	**(90.3)**	**(87.4)**	**(76.4)**	**(59.3)**	**(39.7)**
Redundancy/ Reorganisation							
PBT (Headline)	**544.0**	**757.4**	**964.1**	**1,133.9**	**1,236.7**	**1,280.1**	**1,318.0**
Abnormal Exceptionals							
PBT (Reported)	**544.0**	**757.4**	**964.1**	**1,133.9**	**1,236.7**	**1,280.1**	**1,318.0**
Tax (Reported)	(157.0)	(223.4)	(289.2)	(345.8)	(383.4)	(396.8)	(408.6)
Tax Rate Reported (%)	28.9%	29.5%	30.0%	30.5%	31.0%	31.0%	31.0%
Tax (Headline)	(157.0)	(223.4)	(289.2)	(345.8)	(383.4)	(396.8)	(408.6)
Tax Rate Headline (%)	28.9%	29.5%	30.0%	30.5%	31.0%	31.0%	31.0%
Minority Interest	(3.0)	(3.2)	(3.3)	(3.5)	(3.6)	(3.8)	(4.0)
Net Income (Reported)	**384.0**	**530.8**	**671.6**	**784.6**	**849.7**	**879.5**	**905.4**
Growth (%)	50.6%	38.2%	26.5%	16.8%	8.3%	3.5%	2.9%
Margin (%)	5.1%	5.6%	6.4%	7.0%	7.2%	7.2%	7.2%
Net Income (Headline)	**384.0**	**530.8**	**671.6**	**784.6**	**849.7**	**879.5**	**905.4**
Growth (%)	50.6%	38.2%	26.5%	16.8%	8.3%	3.5%	2.9%
Margin (%)	5.1%	5.6%	6.4%	7.0%	7.2%	7.2%	7.2%
Actual Shares	435.3	435.3	435.3	435.3	435.3	435.3	435.3
Fully Diluted Shares	441.9	441.9	441.9	441.9	441.9	441.9	441.9
EPS (Reported)	**0.88**	**1.22**	**1.54**	**1.80**	**1.95**	**2.02**	**2.08**
Growth (%)	51.2%	38.2%	26.5%	16.8%	8.3%	3.5%	2.9%
EPS (Headline)	**0.88**	**1.22**	**1.54**	**1.80**	**1.95**	**2.02**	**2.08**
Growth (%)	51.2%	38.2%	26.5%	16.8%	8.3%	3.5%	2.9%
EPS (Headline), fully diluted	**0.87**	**1.20**	**1.52**	**1.78**	**1.92**	**1.99**	**2.05**
Growth (%)	50.3%	38.2%	26.5%	16.8%	8.3%	3.5%	2.9%

Source: Company data, ABN AMRO forecasts

Table 27 : Saipem – Balance sheet

€ m	Dec-06A	Dec-07F	Dec-08F	Dec-09F	Dec-10F	Dec-11F	Dec-12F
Cash and Cash Equivalents	1,322.0	765.0	625.5	872.8	1,542.3	2,388.6	3,296.3
Marketable securities	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Inventory	1,053.0	1,318.9	1,461.9	1,574.6	1,656.9	1,717.9	1,769.9
Other Current assets	776.0	971.9	1,077.3	1,160.4	1,221.0	1,266.0	1,304.4
Trade Receivables	2,929.0	3,668.5	4,066.4	4,379.8	4,608.8	4,778.5	4,923.3
Current Assets	**6,084.0**	**6,728.3**	**7,235.1**	**7,991.5**	**9,032.9**	**10,155.0**	**11,297.9**
PP&E	2,345.0	3,345.0	3,992.2	4,324.4	4,266.6	4,042.8	3,775.0
Intangible	849.0	802.0	802.0	802.0	802.0	802.0	802.0
Other Financial Fixed Assets	49.0	49.0	49.0	49.0	49.0	49.0	49.0
Affiliates and Subs (equity method)	146.0	146.0	146.0	146.0	146.0	146.0	146.0
Deferred Tax Asset	47.0	47.0	47.0	47.0	47.0	47.0	47.0
Other non-current assets	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Fixed Assets	**3,447.0**	**4,400.0**	**5,047.2**	**5,379.4**	**5,321.6**	**5,097.8**	**4,830.0**
Total Assets	**9,531.0**	**11,128.3**	**12,282.3**	**13,370.9**	**14,354.5**	**15,252.8**	**16,127.9**
ST bank debt	1,906.0	1,906.0	1,906.0	1,906.0	1,906.0	1,906.0	1,906.0
Other Current Liabilities	2,432.0	3,046.0	3,376.4	3,636.6	3,826.7	3,967.7	4,087.9
Trade Payables	2,292.0	2,870.7	3,182.0	3,427.3	3,606.4	3,739.3	3,852.5
Current Liabilities	**6,630.0**	**7,822.7**	**8,464.4**	**8,969.9**	**9,339.2**	**9,612.9**	**9,846.4**
Deferred tax liability	83.0	83.0	83.0	83.0	83.0	83.0	83.0
Provisions	348.0	348.0	348.0	348.0	348.0	348.0	348.0
Loans/ Debentures	885.0	885.0	885.0	885.0	885.0	885.0	885.0
Long Term Debt	885.0	885.0	885.0	885.0	885.0	885.0	885.0
Total Liabilities	**7,946.0**	**9,138.7**	**9,780.4**	**10,285.9**	**10,655.2**	**10,928.9**	**11,162.4**
Minority Interest	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Treasury shares	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)	(73.0)
Consolidated Reserve	142.0	142.0	142.0	142.0	142.0	142.0	142.0
P&L	1,016.0	1,420.6	1,932.9	2,516.0	3,130.4	3,754.9	4,396.5
Ordinary Share Capital	441.0	441.0	441.0	441.0	441.0	441.0	441.0
Share premium	55.0	55.0	55.0	55.0	55.0	55.0	55.0
Shareholders' Equity	**1,654.0**	**2,058.6**	**2,570.9**	**3,154.0**	**3,768.4**	**4,392.9**	**5,034.5**
Total Equity	**1,585.0**	**1,989.6**	**2,501.9**	**3,085.0**	**3,699.4**	**4,323.9**	**4,965.5**

Source: Company data, ABN AMRO forecasts

Appendix

Table 28 : Worldwide pipeline of construction vessels under construction or firm plan

Company	Vessel name	Primary role/ class *	Status	Hull type	DP	Length (m)	Expected delivery date
Acergy	Polar Queen	Pipelay/ B	Under conversion	Ship	DP2	148	3Q 2007
Acergy	Skandi Acergy	Construction	Under construction	Ship	DP3	157	2Q 2008
Acergy	DSV Newbuild	Construction	Firm plan	Ship	DP2	120	2Q 2010
Allseas	Audacia	Pipelay/ A	Under conversion	Ship	DP3	225	3Q 2007
Allseas	Pieter Schulte**	Heavy lift/ A	Firm plan	Ship	DP3	360	4Q 2010
Cecon A/S	Pipelay 6	Pipelay/ A	Under construction	Ship	DP3	130	2Q 2009
Cecon A/S	Pipelay 7	Pipelay/ A	Firm plan	Ship	DP3	130	2Q 2009
Cecon A/S	Pipelay 9	Construction/ C	Under construction	Ship	DP3	130	4Q 2009
Coastline/ Handel	Construction 7	Construction/ B	Under construction	Ship	DP3	180	3Q 2009
Consafe Invest	SSCB Safe Lifter	Heavy lift/ B	Under construction	Semisub	DP3	90	3Q 2009
Consafe Invest	SSCB Safe Carrier	Heavy lift/ B	Under construction	Semisub	DP3	90	2Q 2010
COOEC	Pipelay 5	Pipelay/ 5	Firm plan	tba	DP3	205	3Q 2009
Deepflex	Construction 6	Construction	Under construction	Ship	DP2	120	2Q 2009
Dofcon	Construction 5	Construction	Under construction	Ship	DP2	138	3Q 2009
Emas Offshore	Lewek Champion	Construction	Under construction	Ship	DP2	142	4Q 2007
Hays Ships	Kommandor Calum	Construction/ Lift C	Under construction	Ship	DP2	80	2Q 2008
Heerema Marine	Crane/ Lay Newbuild**	Heavy lift/ B	Firm plan	Semisub	DP3	220	2Q 2010
Helix Energy	Caesar	Heavy lift/ B	Under construction	Ship	DP2	147	3Q 2007
Hornbeck Offshore	MPSV	Construction/ C	Under construction	Ship	DP3	131	3Q 2009
Jumbo Shipping	MV Fairplayer	Heavy lift/ B	Under construction	Ship	DP2	144	1Q 2008
Jumbo Shipping	Jumbo Jubilee	Heavy lift/ B	Under construction	Ship	DP2	144	3Q 2008
L&T SapuraCrest	Seabarge 2500	Pipelay/ B	Under construction	Barge		130	2Q 2009
Lewek Shipping	Accom/ crane barge 2	Pipelay/ B	Under construction	Ship		125	2q 2009
Marine Subsea	MSI Crane barge II	Construction/ Lift C	Under construction	Barge		101	1Q 2008
Marine Subsea	MSI Crane barge III	Construction/ Lift C	Under construction	Barge		101	2q 2008
Monitor Oil	SLV	Heavy lift/ A	Firm plan	Semisub	DP3	115	3Q 2009
MPU Enterprises	MPU Heavy Lifter	Heavy lift/ A	Firm plan	Semisub	DP3	92	4Q2009
Nordic Heavy Lift	Heavy lift vessel 1	Heavy lift/ A	Firm plan	Ship	DP3	180	1Q 2010
Oceanteam	North Ocean 102	Construction	Under construction	Ship	DP2	137	1Q 2008
Oceanteam	North Ocean 103	Construction	Under construction	Ship	DP2	137	3Q 2008
Petrobras	BGL-1	Pipelay/ C	Under upgrade	barge		122	4Q 2007
Saipem	Castoro 15	Pipelay/ A	Firm plan	Ship	DP3	290	1Q 2010
Saipem/ Petrobras	Crane/ pipelay 2	Pipelay A/ Lift A	Prospect	tba		tba	2Q 2010
SapuraAcergy	Sapura 3000	Pipelay/ A	Under construction	Barge	DP2	151	3Q 2007
Sea Trucks	Jascon 30	Pipelay/ A	Under construction	Barge	DP3	111	3Q 2007
Sea Trucks	Jascon 25	Pipelay/ A	Under construction	Barge	DP3	119	1Q 2008
Sea Trucks	Jascon 34	Pipelay/ A	Under construction	Barge	DP3	119	3Q 2008
Sea Trucks	Jascon 35	Pipelay/ A	Firm plan	Barge	DP3	133	3Q 2008
Sea Trucks	Jascon 18	Pipelay/ A	Under construction	Ship	DP3	150	2Q 2009
SeaMetric International	TML vessel 1	Heavy lift/ A	Firm plan	Ship	DP3	140	2Q 2010
SeaMetric International	TML vessel 2	Heavy lift/ A	Firm plan	Ship	DP3	140	2Q 2010
Seaway Heavy Lifting	Heavy lifter	Heavy lift/ A	Firm plan	Ship	DP3	183	1Q 2010
Sonasurf/ Oceanteam	Bourbon Oceanteam 101	Construction	Under construction	Ship	DP2	123	4Q 2007
Subsea 7	Seven Oceans	Pipelay/ C	Sea trials	Ship	DP2	157	2Q 2007
Subsea 7	Normand Seven	Construction	Under construction	Ship	DP2	130	3Q 2007
Subsea 7	Seven Seas	Pipelay/ B	Under construction	Ship	DP3	151	2Q 2008
Superior Offshore	Superior Achiever	Construction	Under construction	Ship	DP3	132	2Q 2008
Swiber Offshore Marine	Swiber Pipelay barge	Pipelay/ B	Prospect	Barge	DP3	tba	1Q 2009
Technip Offshore	Construction 3	Construction	Under construction	Ship	DP2	138	3Q 2008
Technip Offshore	Pipelay 8	Pipelay/ C	Firm plan	Ship		tba	1Q 2010

Source: Infield Systems (database includes more than 950 active units), Upstream July 2007, ABN AMRO
*Note: ****pipelay diameter capacity****: A=48 inch or greater, B=24-48 inch, C=under 24 inch;* ***heavy lifters' capacity****: A=over 5,000 tonnes, B=1,000-5,000 tonnes and C=under 1,000 tonnes. Firm plan=contracts are in place but first steel has yet to be cut, **Allseas Pieter Schulte accounts for US$1.7bn and Heerema's newbuild crane/ pipelay vessel for US$ 1bn.*

Recent sector publications

For more information regarding the industry outlook, please refer to:

Seismic sector

CGG Veritas: Attained critical mass in up-cycle, 27 February 2007

Oilfield services sector

Technip: Strong prospects, 24 May 2007

Acergy: Deepwater gold rush, 17 July 2007

Subsea7: Strongest order backlog in history, 21 August 2007

DISCLOSURES APPENDIX

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. This structure applies to research on Asian and European stocks published from 1 November 2005; on Australian stocks from 7 November 2006; on continental European small and mid cap stocks from 23 November 2006; and on Brazilian stocks from 18 June 2007. For UK small cap research a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%. This structure applies from 23 November 2006. For UK-based Global Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Asset allocation: The asset allocation is the responsibility of the economics team. The recommended weight (Over, Neutral and Under) for equities, cash and bonds is based on a number of metrics and does not relate to a particular size change in one variable.

Stock borrowing rating: The stock borrowing rating is the subjective view and responsibility of the ABN AMRO equity finance team: Easy implies ready availability. Moderate implies some availability. Hard implies availability is tight. Impossible implies no availability.

Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 17 Sep 2007)

	Global total (IB%)	Europe total (IB%)
Buy	696 (18)	275 (43)
Add	22 (59)	21 (62)
Hold	437 (19)	187 (41)
Reduce	2 (0)	2 (0)
Sell	95 (4)	28 (14)
Total (IB%)	**1252 (18)**	**513 (41)**

Trading recommendations (as at 17 Sep 2007)

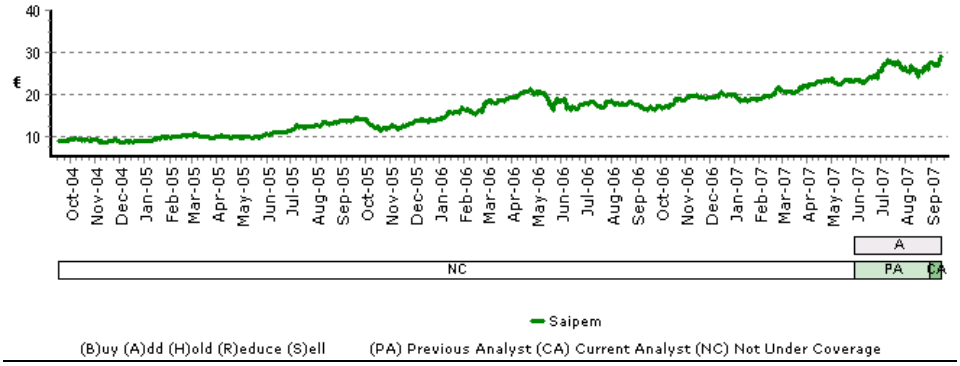
	Global total (IB%)	Europe total (IB%)
Trading Buy	10 (40)	7 (57)
Trading Sell	0 (0)	0 (0)
Total (IB%)	**10 (40)**	**7 (57)**

Valuation and risks to target price

Saipem (RIC: SPMI.MI, Rec: Buy, CP: €28.27, TP: €32.40): We value Saipem on a DCF basis. Risks include the following: 1) geopolitical tensions and a sharp decline in the oil price, which could delay or cancel existing or expected future projects; 2) slowing global GDP growth and overall demand for energy, which could weaken market sentiment and lead to oil services stock underperformance; and 3) the mismanagement of a project or a delay in the delivery/or a shortage of key equipment or materials, which could to lead project delays or cost overruns.

Saipem

Stock performance, recommendations and coverage (as at 16 Sep 2007)



Trading recommendation history (as at 17 Sep 2007)

Date	Rec	Analyst
	n/a	

Thomas Deitz started covering this stock on 30 Aug 07
Moved to new recommendation structure between 1 November 2005 and 31 January 2006

Regulatory disclosures

Subject companies: **SPMI.MI**

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SAIPEM: KEY FINANCIAL DATA

Income statement

€m	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	4528	7517	9415	10436	11240
Cost of sales	-3156	-5574	-6946	-7579	-8049
Operating costs	-808.0	-1114	-1347	-1460	-1552
EBITDA	**564.0**	**829.0**	**1122**	**1397**	**1639**
DDA & Impairment (ex gw)	-199.0	-230.0	-280.0	-342.8	-417.8
EBITA	**365.0**	**599.0**	**842.4**	**1054**	**1221**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**365.0**	**599.0**	**842.4**	**1054**	**1221**
Net interest	-54.0	-100.0	-118.7	-125.6	-124.6
Associates (pre-tax)	24.0	34.0	33.7	35.4	37.2
Other pre-tax items	0.00	11.0	0.00	0.00	0.00
Reported PTP	**335.0**	**544.0**	**757.4**	**964.1**	**1134**
Taxation	-76.0	-157.0	-223.4	-289.2	-345.8
Minority interests	-4.00	-3.00	-3.15	-3.31	-3.47
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**255.0**	**384.0**	**530.8**	**671.6**	**784.6**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	564.0	829.0	1122	1397	1639
Normalised PTP	335.0	544.0	757.4	964.1	1134
Normalised net profit	**255.0**	**384.0**	**530.8**	**671.6**	**784.6**

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

€m	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	877.0	1326	769.0	629.5	876.8
Other current assets	2224	4758	5959	6606	7115
Tangible fixed assets	1903	2345	3345	3992	4324
Intang assets (incl gw)	837.0	849.0	802.0	802.0	802.0
Oth non-curr assets	127.0	253.0	253.0	253.0	253.0
Total assets	**5968**	**9531**	**11128**	**12282**	**13371**
Short term debt (2)	1422	1906	1906	1906	1906
Trade & oth current liab	2211	4724	5917	6558	7064
Long term debt (3)	484.0	885.0	885.0	885.0	885.0
Oth non-current liab	208.0	431.0	431.0	431.0	431.0
Total liabilities	**4325**	**7946**	**9139**	**9780**	**10286**
Total equity (incl min)	1643	1585	1990	2502	3085
Total liab & sh equity	**5968**	**9531**	**11128**	**12282**	**13371**
Net debt (2+3-1)	1029	1465	2022	2161	1914

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

€m	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	564.0	829.0	1122	1397	1639
Change in working capital	-178.0	-33.0	-8.58	-4.62	-3.64
Net interest (pd) / rec	-54.0	-100.0	-118.7	-125.6	-124.6
Taxes paid	-76.0	-157.0	-223.4	-289.2	-345.8
Other oper cash items	70.0	64.0	30.5	32.1	33.7
Cash flow from ops (1)	**326.0**	**603.0**	**802.3**	**1010**	**1199**
Capex (2)	-355.0	-605.0	-1280	-990.0	-750.0
Disposals/(acquisitions)	-4.00	4.00	47.0	0.00	0.00
Other investing cash flow	-12.0	-35.0	0.00	0.00	0.00
Cash flow from invest (3)	**-371.0**	**-636.0**	**-1233**	**-990.0**	**-750.0**
Incr / (decr) in equity	-30.0	-36.0	0.00	0.00	0.00
Incr / (decr) in debt	408.0	791.0	0.00	0.00	0.00
Ordinary dividend paid	-65.0	-82.0	-126.2	-159.3	-201.5
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**313.0**	**673.0**	**-126.2**	**-159.3**	**-201.5**
Forex & disc ops (6)	14.0	-195.0	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**282.0**	**445.0**	**-557.0**	**-139.5**	**247.3**
Equity FCF (1+2+4)	-29.0	-2.00	-477.7	19.8	448.7

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, ABN AMRO forecasts

year to Dec

SAIPEM: PERFORMANCE AND VALUATION

Standard ratios

Performance	Saipem FY05A	Saipem FY06A	Saipem FY07F	Saipem FY08F	Saipem FY09F	Technip FY07F	Technip FY08F	Technip FY09F	Acergy FY07F	Acergy FY08F	Acergy FY09F
Sales growth (%)	5.16	66.0	25.2	10.8	7.71	7.21	7.00	7.02	29.4	15.0	14.8
EBITDA growth (%)	7.02	47.0	35.4	24.5	17.3	18.5	20.2	13.8	40.2	23.0	19.9
EBIT growth (%)	11.3	64.1	40.6	25.2	15.8	24.6	17.3	12.3	44.4	23.1	22.6
Normalised EPS growth (%)	8.66	50.3	38.2	26.5	16.8	31.2	20.7	13.6	10.3	32.3	27.3
EBITDA margin (%)	12.5	11.0	11.9	13.4	14.6	7.65	8.60	9.14	18.3	19.5	20.4
EBIT margin (%)	8.06	7.97	8.95	10.1	10.9	6.04	6.62	6.94	15.0	16.0	17.1
Net profit margin (%)	5.63	5.11	5.64	6.44	6.98	3.68	4.15	4.41	8.95	10.3	11.4
Return on avg assets (%)	5.42	5.91	5.98	6.52	6.82	3.87	4.42	4.74	11.4	12.9	13.8
Return on avg equity (%)	16.1	23.9	29.8	30.0	28.1	11.6	13.6	14.3	33.4	35.5	33.3
ROIC (%)	11.8	15.8	19.0	18.0	17.9	30.2	31.2	33.7	49.8	50.3	54.4
ROIC - WACC (%)	3.37	7.44	10.6	9.64	9.49	21.2	22.2	24.7	40.6	41.1	45.2
				year to Dec			*year to Dec*				*year to Nov*
Valuation											
EV/sales (x)	2.94	1.83	1.52	1.39	1.26	0.66	0.60	0.53	1.92	1.61	1.32
EV/EBITDA (x)	23.6	16.6	12.8	10.4	8.67	8.63	6.96	5.78	10.5	8.23	6.48
EV/EBITDA @ tgt price (x)	26.8	18.8	14.4	11.6	9.77	9.69	7.84	6.55	12.7	10.0	7.97
EV/EBIT (x)	36.5	23.0	17.0	13.7	11.6	10.9	9.04	7.61	12.8	10.0	7.73
EV/invested capital (x)	4.95	4.40	3.50	3.05	2.80	4.16	3.88	3.81	7.64	6.37	5.47
Price/book value (x)	7.65	7.90	6.29	5.00	4.05	2.69	2.48	2.29	7.30	5.31	3.95
Equity FCF yield (%)	-0.23	-0.02	-3.82	0.16	3.59	2.12	4.52	6.79	1.66	3.83	5.97
Normalised PE (x)	48.9	32.5	23.5	18.6	15.9	22.8	18.9	16.7	22.9	17.3	13.6
Norm PE @ tgt price (x)	56.0	37.3	27.0	21.3	18.2	25.0	20.8	18.3	27.6	20.9	16.4
Dividend yield (%)	0.67	1.03	1.29	1.64	1.91	2.19	2.64	3.00	0.68	0.90	1.15
				year to Dec			*year to Dec*				*year to Nov*

Per share data	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (m)	441.0	441.9	441.9	441.9	441.9
Reported EPS (EUR)	0.58	0.87	1.20	1.52	1.78
Normalised EPS (EUR)	0.58	0.87	1.20	1.52	1.78
Dividend per share (EUR)	0.19	0.29	0.37	0.46	0.54
Equity FCF per share (EUR)	-0.07	0.00	-1.08	0.04	1.02
Book value per sh (EUR)	3.70	3.58	4.49	5.65	6.97
					year to Dec

Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Net debt to equity (%)	62.6	92.4	101.6	86.4	62.0
Net debt to tot ass (%)	17.2	15.4	18.2	17.6	14.3
Net debt to EBITDA	1.82	1.77	1.80	1.55	1.17
Current ratio (x)	0.85	0.92	0.86	0.85	0.89
Operating CF int cov (x)	8.44	8.60	9.64	11.3	13.4
Dividend cover (x)	3.92	4.68	4.21	4.22	3.89
					year to Dec

Priced as follows: SPMI.MI - €28.27; TECF.PA - €58.35; ACY.OL - NKr157.75
Source: Company data, ABN AMRO forecasts

SAIPEM: VALUATION METHODOLOGY

Saipem – DCF valuation

Assumptions	
WACC	8.5%
Terminal value growth	3.0%

€m		2007F	2008F	2009F	2010F	2011F	2012F	2013F
Unlevered free cash flow		-425	76	502	949	1,133	1,190	1,228
PV of cash flow to 2013F	2,921.5							
PV of terminal value	12,877.4							
Enterprise value	**15,799.0**							
Net (debt)/cash	-2,026.0							
Pension liabilities	-169.0							
Deferred tax asset	47.0							
Minorities*	-69.3							
Associates*	522.7							
Equity value	**14,104.4**							
Number of shares (m)	435.3							
Target price (€)	**32.4**							
Current price (€)	28.3							
Upside/(downside)	**14.6%**							

Source: ABN AMRO forecasts, price as at COB 17 September 2007; minorities and associates valued at PE of 22x

Saipem

Company description — Buy

Saipem began operations in the 1950s, when it initially focused on onshore pipelaying, plant construction and drilling and was part of the ENI Group. It began offering services to clients outside the ENI Group in the early 1960s and now has a customer base that includes almost all the super-majors, major national and independent oil & gas companies. Saipem was listed on the Milan Stock Exchange in 1984. ENI retains a roughly 43% stake in the company though. Saipem is now a leader in deepwater pipeline installation (trunklines), heavy lift and deepwater subsea installation and, after the Snamprogetti acquisition in February 2006, also in large onshore downstream projects such as gas processing, refinery expansion and petrochemical plant construction. It also has offshore and niche onshore drilling operations, which give the company some exposure to early cycle oil company capex.

Price relative to country

Strategic analysis — Average SWOT company score: 4

Strengths — 5

Leading deepwater and conventional installation fleet. Strong management reputation (first mover to prepare for deepwater growth). Onshore activities more profitable than peers (eg Technip). Strong in local content (West Africa, Kazakhstan).

Weaknesses — 3

Some geographic gaps, such as GoM and to some extent, North Sea and Brazil (although getting stronger there) and Asia. Minor player in global drilling market. Leased FPSO market is competitive and capital intensive, although growing fast.

Opportunities — 4

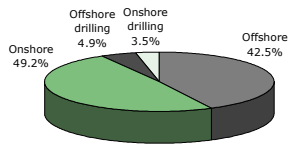
Strong technical reputation, especially in frontier areas, where oil & gas fields are likely to be increasingly developed in the future. Drilling division gives diversification throughout the oil & gas company capex lifecycle.

Threats — 3

Material and equipment cost inflation, qualified staff shortages, increased project execution risk, and a shift in the balance of power due to potential oil company mergers.

Scoring range is 1-5 (high score is good)

2006 sales breakdown



Source: Company data

Market data

Headquarters
Via Martiri di Cefalonia 67, 20097 San Donato Milanese, Italy

Website
www.saipem.com

Shares in issue
435.3m

Freefloat
57%

Majority shareholders
ENI SpA (43%), Capital Research & Mgt (5%), GE Asset Mgt (3%)

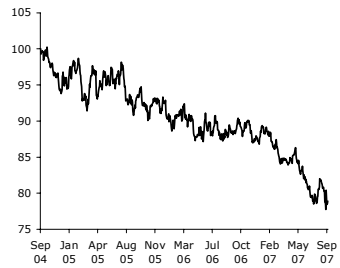
Italy

Country view — Neutral

Longer term, economic concerns persist over Italy's relative competitiveness. But the strength in the European and global economies has helped drive activity. This is important in the context of Italy's equity market, which is heavily weighted in domestically orientated Financials. With operating conditions for the Banks likely to remain benign over the coming months, and the prospect of further consolidation in this area, the Italian market should keep pace with the wider European benchmark.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Europe



Competitive position — Average competitive score: 4+

Supplier power — 4+

Saipem's suppliers of equipment and material are diversified. On some large trunkline jobs the pipeline procurement is undertaken by the client (rather than by Saipem).

Barriers to entry — 4+

Barriers to entry are high in deepwater offshore construction and installation (vessels, yards, etc). On-shore barriers increase for larger integrated projects, and particularly in frontier areas.

Customer power — 3-

Saipem has a large client base of IOCs (40%), NOCs (40%) and independents (20%). Its biggest client, Saudi Aramco, represents 16% of its current backlog. ENI represents 10-15%.

Substitute products — 4-

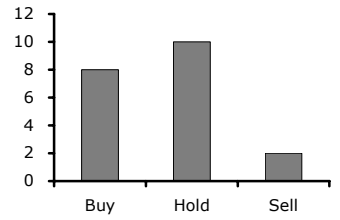
Some competitors have similar products but there are only four major global players in subsea construction (SURF), and there major players for large trunkline jobs.

Rivalry — 3+

Onshore downstream is the most competitive (although not so in frontier areas) and most companies are to various degrees integrated. Surface offshore facilities are also relatively competitive.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg