Dresdner Kleinwort

Initiating coverage

25 February 2008

Hold

Current	€16.7
Target	**€16.2**

Current price equivalent
US$24.8

Market cap
€3,233m
US$4,801m

52-week high/low
€26.3/€14.7

Price performance	1M	3M	12M
Price (€)	15.1	18.0	22.0
Absolute (%)	10.6	-7.1	-23.9
Rel market (%)	9.4	2.5	-2.9
Rel sector (%)	2.2	0.8	-5.1
EPS change	**1M**	**3M**	**12M**
IBES EPS (%)	-0.3	1.1	7.3
Sector EPS (%)	0.2	0.2	8.1
Market EPS (%)	0.0	-1.5	-4.5

Source: DKIB Research, Thomson IBES

Reuters	Bloomberg
BZU.MI	BZU IM Equity

Research Analysts
Marco Opipari
+39 02 7240 2580
marco.opipari@dkib.com

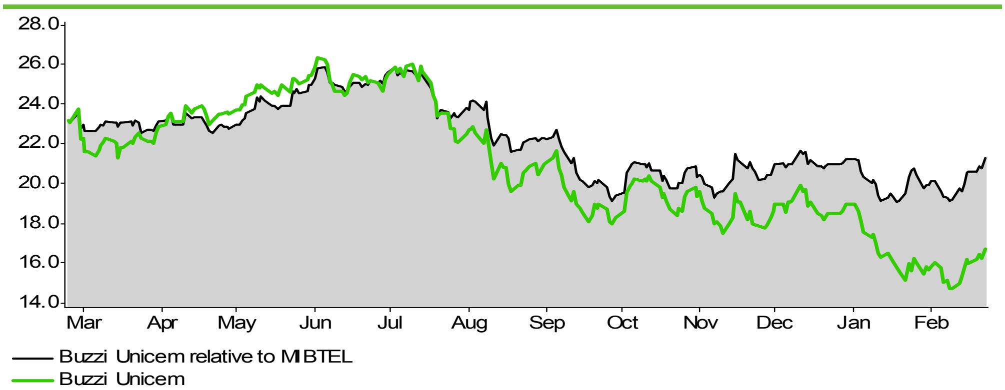
Buzzi Unicem

Weakness in the US and Italy will offset growth in Eastern Europe

Following three years of strong growth, we expect EBITDA to weaken by 2% (vs +3% for the peer group). In the next two years, cash flow should be fully utilised to fund a sweeping investment plan to 2012 (€2.7bn in five years) to expand cement capacity by 20%, triggering ROCE dilution. Nevertheless, the group will retain best-in-class leverage conditions. The stock is fairly valued, in our view (TP €16.2). Hold.

- **Unfavourable earnings momentum:** Despite growing exposure to the emerging markets since the consolidation of Dyckerhoff (2004), Italy and the US are expected to account for more than half of Buzzi Unicem's EBITDA in 2007. The weakness of these markets in 2008 should widely offset robust growth forecasts for Eastern Europe and trigger a slight decrease in EPS (-3% vs +3% of peer group).
- **ROCE dilution due to a challenging capex plan:** To fully exploit the upside potential of cement demand in Eastern Europe and strengthen its operating structure in the US and Mexico, the group plans to invest €2.7bn in over the next five years, including €1.5bn of expansion capex, which we estimate should trigger ROCE dilution in 2008-09.
- **Best-in-class leverage conditions:** With a Net Debt/EBITDA ratio of 0.6x, Buzzi Unicem has the lowest leverage ratio within the cement sector. The group's financial structure should remain strong, despite the implementation of a sweeping investment plan in 2008-12.
- **Fair valuation:** The shares have lost 33% in the last eight months, underperforming the European sector by 9% and broadly discounting the fact that earnings growth appears to have come to an end. Group multiples are at a slight premium to both the peer group and to historic ratios. We have used three methods, including a DCF valuation, to derive our price target of €16.2, which is substantially in line with current levels.

Price relative



Source: RIMES

Year to end Dec	Sales €m	EBITDA margin %	Operating margin %	Net income €m	Dil EPS excl except €	P/E x	EV/ EBITDA x	FCF Yield %	Yield %
2006	3,205	28.6	22.4	350	1.81	9.2	5.2	12.4	2.4
2007E	3,496	28.1	22.6	418	1.87	8.9	4.7	8.3	2.4
2008E	3,514	27.5	21.5	374	1.81	9.2	5.0	2.1	2.4
2009E	3,635	27.2	20.9	376	1.82	9.1	4.9	2.3	2.4

Source: Company data, Dresdner Kleinwort Research estimates

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Introduction

We initiate coverage of Buzzi Unicem with a Hold rating. Our neutral view is based on the following key points:

Unfavourable earnings momentum

Italian cement stocks have underperformed their competitors over the past year

Although the stock has dropped by 33% over the last eight months, underperforming the DJS CNS&MT index by 9%, it trades at a 5% premium to the peer group in terms on 2008E EV/EBITDA multiples (5.0x vs. 4.8x). The following table shows that all Italian cement stocks have underperformed the peer group at 6M, 8M (the sector's worst-performing period) and 1Y periods.

Historical performance of cement stocks

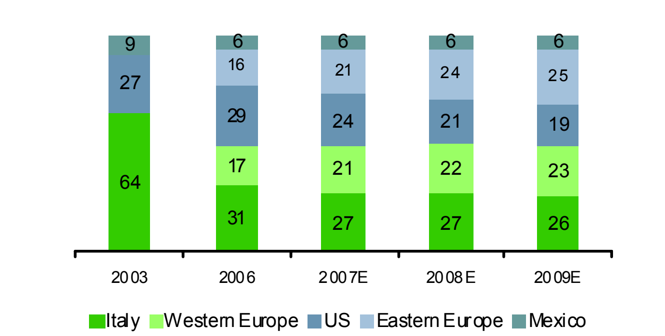
(%)	1M	3M	6M	8M	1Y	2Y	3Y
CEMENTIR HOLDING ORD	7.6	4.9	(31.8)	(42.1)	(31.2)	9.3	43.0
ITALCEMENTI ORD	4.4	6.6	(23.6)	(42.3)	(43.5)	(20.1)	1.4
CIMENTS FRANCAIS ORD	5.8	(1.6)	(26.3)	(39.6)	(36.5)	(12.3)	41.1
CIMPOR ORD	8.2	(4.9)	(14.4)	(18.3)	(14.6)	13.2	31.3
CRH ORD	13.8	15.8	(13.8)	(30.1)	(23.0)	(4.2)	19.0
DYCKERHOFF ORD	12.5	0.6	(13.2)	(21.7)	(4.6)	9.6	(3.0)
HEIDELBERGCEMENT ORD	9.8	(8.7)	2.2	(7.3)	(9.3)	25.7	112.0
LAFARGE ORD	4.4	12.8	5.0	(12.3)	(1.5)	25.7	46.5
TITAN CEMENT R ORD	(1.8)	0.0	(17.7)	(30.8)	(34.9)	(20.1)	6.4
HOLCIM ORD	4.0	(6.6)	(9.0)	(19.7)	(15.9)	8.6	39.2
CEMEX CPO ORD	28.5	6.6	(9.4)	(29.0)	(25.9)	(3.3)	42.4
PEER GROUP MEDIAN	7.6	0.6	(13.8)	(29.0)	(23.0)	8.6	39.2
DJS 600 CONSTR & MAT EUR PR	8.4	(7.9)	(13.8)	(24.0)	(18.8)	9.5	45.7
BUZZI UNICEM SPA	10.6	(7.1)	(16.0)	(33.4)	(23.9)	2.5	33.3

Source: Reuters

Buzzi Unicem's exposure to emerging markets is growing sharply…

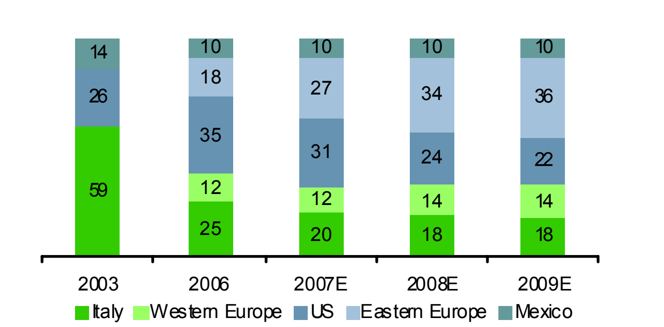
The main reason for this underperformance is that Italian cement producers are more dependent on the domestic and other mature markets than their international competitors. This was particularly true some years ago. In the last decade, Italian cement companies have widened their geographical diversification and will further boost it in the future. As regards Buzzi Unicem, the graphs below show the virtuous trend in its geographical diversification. The weight of the Italian market on consolidated EBITDA fell from 59% in 2003 to 25% in 2006 and should drop further to 18% in 2009, when exposure to the emerging markets (Eastern Europe and Mexico) should reach 46%.

Buzzi Unicem sales by region (%)



Source: Company data, Dresdner Kleinwort Research

Buzzi Unicem EBITDA by region (%)



Source: Company data, Dresdner Kleinwort Research

…but more than 50% of 2007E EBITDA in Italy and the US which should be penalised by weaker demand and a negative forex effect in the years ahead

Nevertheless, we estimate more than 50% of Buzzi Unicem's 2007 EBITDA will be generated in Italy and the US, which should see poor demand in the next two years. Moreover, the USD exchange rate should have a negative impact on 2008 US sales and results when converted into Euros (-5% assuming €/$ at 1.44).

Owing to heavier exposure to the emerging markets, the estimated improvement in Eastern Europe's 2008 EBITDA (+€50m) will only offset the forecast weakening in the contribution for Italy and the US (-€18m and -€70m, respectively) and limit the deterioration of group's EBITDA to 2% in 08E. All in all, after three years of robust revenue and profit growth, we expect Buzzi Unicem to report a poorer performance in the two years ahead (we estimate EPS growth of -3% and +1% in 2008 and 2009, respectively).

EBITDA and EPS momentum of cement stocks

	EBITDA growth (%)		EPS growth (%)	
	2008E	2009E	2008E	2009E
Cementir	3.1	5.8	(1.3)	1.6
Italcementi	1.9	5.1	2.6	8.2
Ciments Francais	1.7	6.2	2.4	10.0
Cimpor	9.7	7.6	8.5	11.6
CRH PLC	5.3	5.6	3.1	5.5
Dyckerhoff Ag	(19.2)	5.7	(36.1)	6.1
HeidelbergCement	17.1	26.1	24.6	20.4
Lafarge	10.4	14.2	12.7	19.4
Titan Cement Company	2.0	10.9	(1.2)	10.4
Holcim	2.6	7.7	8.6	10.0
Cemex	20.9	11.2	5.3	27.0
Median	3.1	7.6	3.1	10.0
Buzzi Unicem	(1.8)	2.5	(2.8)	0.6

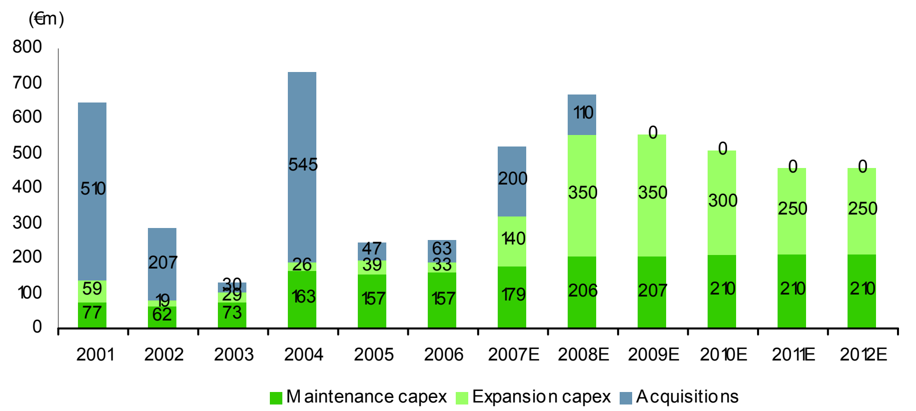
Source: Dresdner Kleinwort Research for Buzzi Unicem, IBES for the peer group

ROCE dilution due to a challenging capex plan

€2.7bn of capex and acquisitions in the next five years

Buzzi Unicem should implement a €2.7bn investment plan in the next five years, including expansion capex of €1.5bn and acquisitions of €0.1bn (35% of two Algerian companies). The group should boost its cement capacity in Russia by 130% to 5.6m tons, in Ukraine by 50% to 4.5m tons (plus 0.9m tons of replacement), in the US by 17% to 11.7m tons (plus 1.8mt of replacement) and in Mexico by 26%.

Buzzi Unicem: accelerating on capex

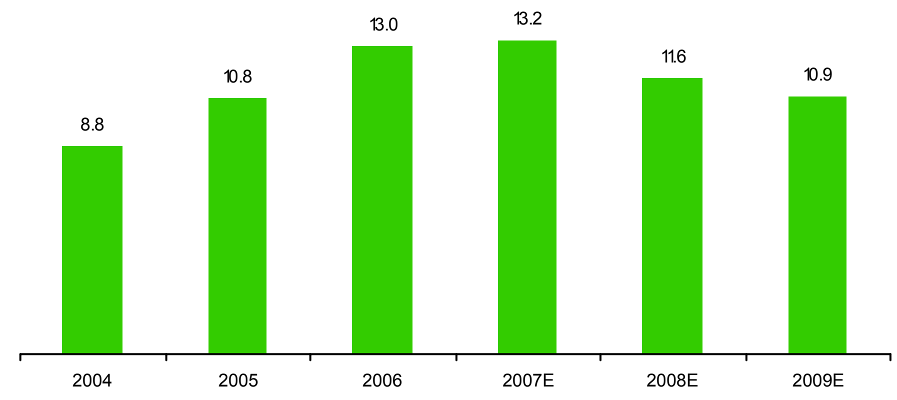


Source: Company data, Dresdner Kleinwort Research estimates

The expansion capex will initially have a negative impact on ROCE

These investments are aimed at fully exploiting the upside potential of cement demand in Eastern Europe (Russia and Ukraine in particular) and to consolidate the group's operating structure in the US and Mexico. Nevertheless, we estimate this expenditure will trigger ROCE dilution from more than 13% in 2007E to less than 11% in 2009E; the expansion capex should translate into a higher return in the longer term, when it is partially depreciated, while its short-term impact on ROCE should be negative.

Post-tax ROCE (%): dilution expected ahead



Source: Dresdner Kleinwort Research estimate

Strong balance sheet

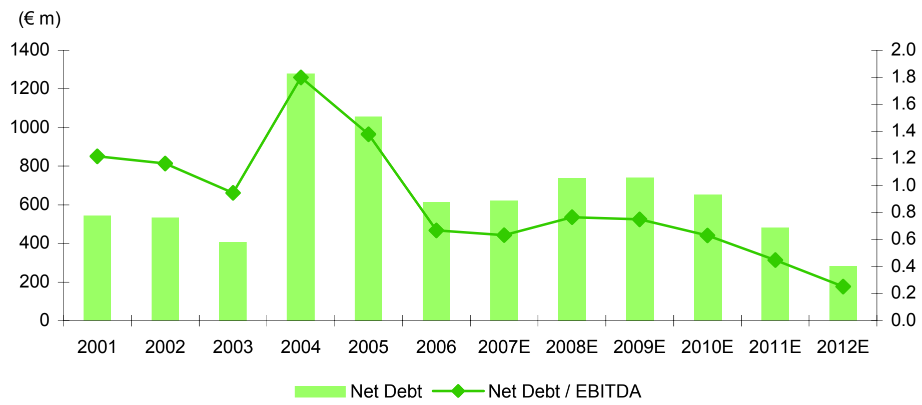
Despite a five-year €2.7bn investment plan, Buzzi Unicem's leverage conditions will remain healthy and better than its peers.

Net debt/EBITDA comparison: Buzzi Unicem is best in class

	Net debt/EBITDA		
	2007E	2008E	2009E
Cementir	1.5	1.2	0.7
Italcementi	1.6	1.5	1.4
Ciments Francais	1.2	1.0	0.8
Cimpor	2.0	1.8	1.4
CRH PLC	1.9	1.7	1.4
Dyckerhoff Ag	0.8	0.8	0.4
HeidelbergCement	4.5	3.4	3.0
Lafarge	2.0	2.4	2.2
Titan Cement Company	1.0	0.8	0.5
Holcim	1.8	1.6	1.3
Cemex	4.0	3.1	2.6
Median	1.8	1.6	1.4
Buzzi Unicem	0.6	0.8	0.7

Source: Dresdner Kleinwort Research estimates, RIMES

Leverage conditions will remain healthy



Source: Company data, Dresdner Kleinwort Research estimates

Fair valuation

We believe that Buzzi Unicem is fairly valued: €16.2 target price

After declining by 33% in the past eight months, we believe that the stock is now fairly valued, being substantially in line with our target price of €16.2.

€17.9 DCF valuation

Our DCF valuation of €17.9, offering a 7% upside potential, is not supported by the peer group and historical multiples analyses.

€15.7 peer group comparison

Looking at the median multiples 2008E and 2009E of the peer group, Buzzi Unicem currently trades at a 12% premium on EV/EBITDA and is substantially in line on EV/EBIT and P/E. Our peer group analysis offers a valuation of €15.7 per share, 6% lower than the current share price.

€14.9 historical multiple analysis

The historical multiples valuation is lower, considering that the stock currently trades at an approximate 10% premium to the median EV/Sales (1.38x vs. 1.25x), EV/EBITDA (5.0x vs. 4.6x) and P/E (9.2x vs. 8.3x) of the last decade. Applying the median of the historical multiples, we obtain a valuation of €14.9, 11% below the current price.

Our €16.2 target price is a blended average of the three valuation methods.

Buzzi Unicem at a glance

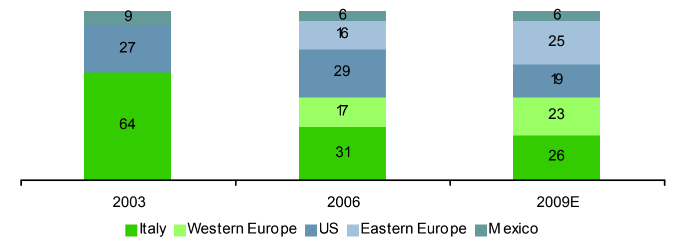
Company description

- International group specialising in cement, ready-mix concrete and aggregates, controlled by the Buzzis
- 2nd cement maker in Italy and Germany and Europe's 5th player; it also operates in the US and Mexico
- It owns 35 cement plants with 39.2mt cement capacity and 523 ready-mix concrete plants in 11 countries
- Employs more than 11,000 staff

Investment case

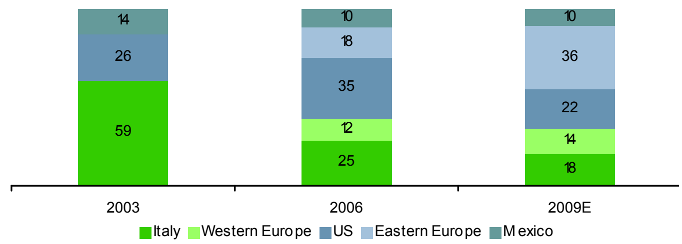
- 2008-09 lower demand in the US and Italy should offset strong growth forecasts for Eastern Europe
- Expansion capex of €1.5bn will enable the group to boost cement capacity by 20% before 2012 without penalising financial conditions, but ROCE should be diluted in the following two years
- After dropping more than 30% since last June, the stock is now fairly priced, in our view

Buzzi Unicem sales by region (%)



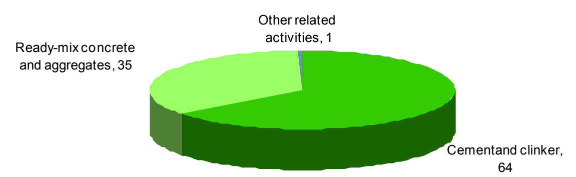
Source: Company data, Dresdner Kleinwort Research

Buzzi Unicem EBITDA by region (%)



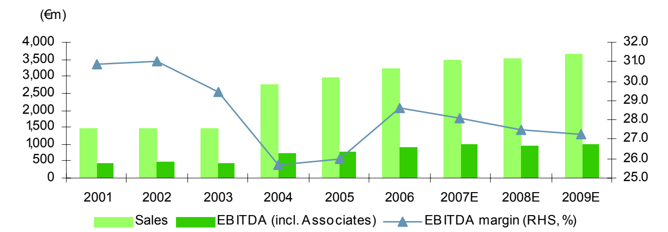
Source: Company data, Dresdner Kleinwort Research

Sales by business (%), 2006



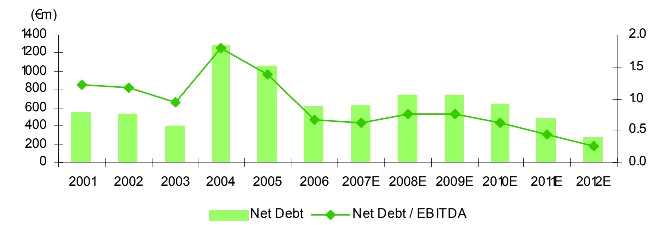
Source: Company data

Sales & EBITDA development



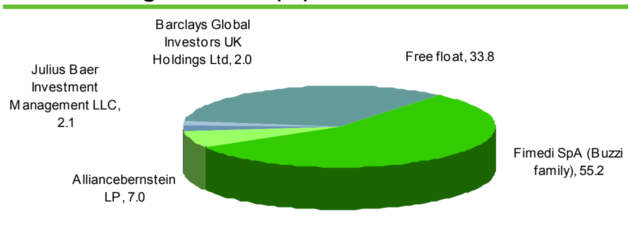
Source: Company data, Dresdner Kleinwort Research

Leverage conditions to improve from 2010 onwards



Source: Company data, Dresdner Kleinwort Research

Shareholding structure (%)



Source: Consob

Strengths / opportunities

- Family-owned group with long-term view of the business focused on sustainable growth
- Widening geographical diversification of revenues and growing exposure to the emerging markets
- Strong cement price/volume trend in Eastern Europe
- 25% of new capacity in the next five years without affecting leverage conditions

Weaknesses / threats

- Weak demand forecast in 2008-09 in the US and Italy, which account for more than 50% of EBITDA '07E
- CO_2 emission rights balance to turn from a surplus in 2006 into a deficit in 2008: EBITDA to weaken by €40m
- The current trend shown by energy costs and the USD is weighing on operating results
- Low level of thermal substitution with alternative fuels

Valuation

We have used three valuation methodologies to derive our price target of €16.2, which is substantially in line with the current share price. We believe that the increasing geographical diversification of the group should limit the risks related to the cyclical nature of the cement business. Our DCF valuation would offer 7% upside potential, but the current multiples are at a slight premium to the peer group and to the historical median. We initiate coverage of the stock with a Hold rating.

DCF Valuation

€17.9 DCF valuation

Our DCF valuation of €17.9, which implies upside potential of 7% to the current price, is based on the following assumptions:

- 9.2% WACC, resulting from a capital structure 20% debt (Kd 5.0%), 80% equity (Ke 10.2%).

WACC calculation

	(%)
Gross cost of Debt	6.9
Tax shield	(1.9)
Net cost of Debt	5.0
Debt weight	20
Risk free rate	4.3
Market Premium	4.7
Size differential	0.3
Risk Differential	0.9
Cost of Equity	10.2
Equity weight	80
WACC	9.2

Source: Dresdner Kleinwort Research

- For the years 2008 to 2009, we have made analytic cash flow estimates. Between 2010 and 2016 we have assumed a 3% annual growth rate in NOPAT, with net invested capital increasing by an average of €223m per year in the period 2010-2012 (based on the group's long-term investment plan) and €154m per year between 2013 and 2016. Under our model, operating ROCE decreases from 18.3% in 2008E to 13.8% in 2016E.

Discounted free cash flows

(€m)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBIT	738.4	742.5	764.7	787.7	811.3				
(%) growth	(5.2)	0.6	3.0	3.0	3.0				
Taxes	252.5	253.2	260.8	268.6	276.7				
(%) Effective Tax Rate	34.2	34.1	34.1	34.1	34.1				
Equity in earnings of associates (excluding write-down)	15.4	17.6	18.1	18.7	19.2				
NOPAT	501.3	506.9	522.1	537.8	553.9	570.5	587.6	605.3	623.4
(%) growth	(1.2)	1.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Depreciation & Amortisation	211.9	230.0	250.0	270	285				
(Capex)	(556.8)	(558.3)	(510.0)	(460.0)	(460.0)				
(Delta NWC)	(17.0)	(25.0)	(14.3)	(14.8)	(15.2)				
Equity investments	(110.0)	(0.0)	0.0	0.0	0.0				
Change Adjusted Net Invested Capital	464.8	348.9	274.3	204.8	190.2	116.9	136.6	162.6	198.2
Unlevered Operating Free Cash Flow	29.3	153.6	247.7	333.0	363.7	453.6	451.0	442.7	425.2
(%) growth	(81.0)	423.9	61.3	34.4	9.2	24.7	(0.6)	(1.8)	(4.0)
Marginal operating ROCE (%)	(1.8)	1.4	4.9	6.5	8.2	14.2	12.5	10.8	9.2
Operating ROCE (%)	18.3	16.1	15.1	14.5	14.2	14.1	14.1	14.0	13.8
WACC (%)	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Periods	0.36	1.36	2.36	3.36	4.36	5.36	6.36	7.36	8.36
Discounting factor	0.97	0.89	0.81	0.75	0.68	0.63	0.57	0.52	0.48
Unlevered Discounted FCF	28.4	136.4	201.5	248.1	248.2	283.6	258.4	232.3	204.4
Cumulated DCF	28.4	164.8	366.3	614.4	862.7	1,146.3	1,404.7	1,637.0	1,841.4

Source: Dresdner Kleinwort Research

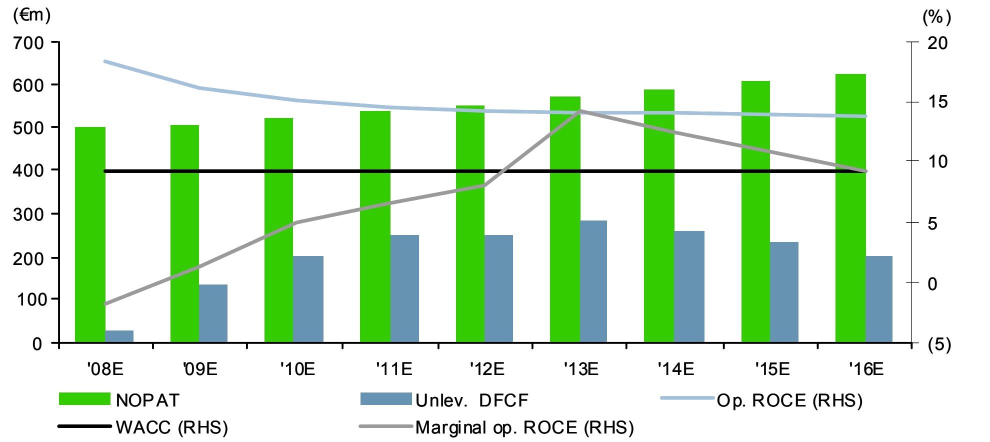
► The terminal value is calculated as 2016E NOPAT/WACC.

DCF valuation

	€m	€ per share	As % of Equity Value
Discounted cash flows (2008E-2009E)	165	0.8	4
Discounted cash flows (2010E-2016E)	1,677	8.2	46
Discounted terminal value	3,272	15.9	89
Enterprise value	5,113	24.9	139
Financial assets 2007E (excluding associates)	189	0.9	5
NFP' 2007E	(621)	(3.0)	(17)
Employee benefits 2007E	(311)	(1.5)	(8)
Total equity value	4,370	21.3	119
Minorities	(690)	(3.4)	(19)
Shareholder's equity value	3,680	17.9	100

Source: Dresdner Kleinwort Research

DCF model at a glance



Source: Dresdner Kleinwort Research

Sensitivity analysis as a function of EBITDA CAGR 08E-09E and WACC variables: under a worst case scenario the stock is fairly valued

In the table below we have also undertook a sensitivity analysis of our valuation as a function of different EBITDA growth in 2008-09E and WACC variables. Our base case assumes 0% EBITDA CAGR in this period and a 9.2% WACC. The sensitivity of the valuation to the EBITDA CAGR (2008-09E) and WACC variables is high: each percentage point change in the EBITDA CAGR in the two years impacts the valuation by 4% and any 50bp WACC deviation impacts valuation by approx 8%. Even assuming a worst-case scenario of 9.7% WACC and -2.0% EBITDA CAGR (2008-09E), the price target would be only slightly lower than the current share price, on our estimates.

Sensitivity analysis

			EBITDA CAGR 2008E-09E (%)
	(2.0)	0.0	2.0
WACC (%)			12- month target price (€)
9.7	15.4	16.6	17.8
9.2	16.6	17.9	19.2
8.7	18.0	19.4	20.8

Source: Dresdner Kleinwort Research estimates

Peer group analysis

The €15.7 per share valuation based on peer group ratios is 6% lower than the current share price

The peer group comparison shows that Buzzi Unicem trades currently at a slight premium to peer multiples, on average, and with a 12% premium to average EV/EBITDA in 2008-09E. On a P/E basis, the stock trades substantially in line with the median of competitors, although it should trade above it due to a lower gearing ratio (net debt/EBITDA of 0.6x vs the sector median of 1.8x). By calculating the simple average of the target derived from the EV/EBITDA, EV/EBIT and P/E multiples for 2008 and 2009E sector median, we obtain a relative fair value of €15.7.

Valuation ratios: Buzzi Unicem trades in line with peer group on average 08E-09E multiples

	Currency	Share price (closing) 21 Feb 08	Net Debt/EBITDA 2007E	EV/EBITDA (x) 2007E	EV/EBITDA (x) 2008E	EV/EBITDA (x) 2009E	EV/EBIT (x) 2007E	EV/EBIT (x) 2008E	EV/EBIT (x) 2009E	PER (x) 2007E	PER (x) 2008E	PER (x) 2009E
Cementir	EUR	6.1	1.5	5.2	4.8	4.1	7.0	6.7	5.6	8.0	8.2	8.0
Italcementi	EUR	13.5	1.6	4.2	4.1	3.9	6.1	6.0	5.6	9.4	9.1	8.5
Ciments Francais	EUR	104.4	1.2	4.4	4.2	3.9	6.1	5.8	5.1	8.5	8.3	7.6
Cimpor	EUR	5.7	2.0	7.0	6.3	5.6	9.5	8.6	7.4	12.7	11.7	10.5
CRH PLC	EUR	26.0	1.9	6.8	6.3	5.8	9.2	8.5	7.7	10.1	9.8	9.3
Dyckerhoff Ag	EUR	42.8	0.8	3.9	4.7	4.1	5.0	6.4	5.7	6.2	9.7	9.1
HeidelbergCement	EUR	105.0	4.5	9.7	7.8	6.5	12.4	10.5	8.1	12.1	9.7	8.1
Lafarge	EUR	115.4	2.5	6.5	6.0	5.5	8.5	7.7	7.1	10.4	9.2	7.7
Titan Cement Company	EUR	30.0	1.0	3.9	3.6	3.0	4.9	4.6	3.8	10.2	10.3	9.3
Holcim	CHF	106.0	1.8	3.5	3.3	2.9	4.5	4.5	3.9	11.2	10.3	9.4
Cemex	MXN	29.9	4.0	8.7	6.9	6.1	14.3	9.6	9.7	8.3	7.9	6.2
Median			1.8	5.2	4.8	4.1	7.0	6.7	5.7	10.1	9.7	8.5
Buzzi Unicem	EUR	16.7	0.6	4.8	5.0	4.9	5.6	6.4	6.4	9.0	9.2	9.2
Premium/Discount to median (%)				(8)	5	19	(21)	(3)	12	(11)	(5)	8

Source: Dresdner Kleinwort Research estimates, RIMES

Historical multiples analysis

€14.9 valuation based on the historical multiples of the stock

The comparison between group's 2008E and historical multiples shows that Buzzi Unicem currently trades at a 10% premium to the historical median. Although the current 9.2x P/E and 5.0x EV/EBITDA on 2008 appear to be low in absolute terms, Buzzi Unicem's past multiples are clear evidence that a double-digit P/E or a higher than 5x EV/EBITDA constitute an exception. Applying the median of the historical multiples to the estimates for 2008 we would obtain a target of €14.9.

Buzzi Unicem's multiples trading ranges based on historical share prices: in line with the historical median

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007E	Median	2008E	Premium/(Discount) to median (%)
High P/E	**6.5**	**14.5**	**8.3**	**8.6**	**5.9**	**8.1**	**10.9**	**10.5**	**12.1**	**14.1**	**9.6**	**9.2**	**(4)**
P/E	4.8	11.8	7.0	6.5	4.8	5.8	9.8	9.6	10.1	11.6	8.3	9.2	11
Low P/E	3.2	8.5	6.1	4.6	3.4	3.7	8.5	8.4	7.3	9.4	6.7	9.2	37
High EV/ sales	1.4	1.5	1.2	1.6	1.3	1.4	1.2	1.2	1.5	1.6	1.40	1.38	(2)
EV/ Sales	1.4	1.5	1.1	1.4	1.2	1.1	1.2	1.2	1.3	1.4	1.25	1.38	10
Low EV/ sales	1.0	1.0	1.0	1.1	0.9	0.8	1.1	1.1	1.1	1.2	1.05	1.38	31
High EV/ EBITDA	5.5	5.2	4.1	5.3	4.3	4.7	4.8	4.7	5.3	5.7	5.0	5.0	0
EV/ EBITDA	5.4	5.0	3.7	4.4	3.8	3.7	4.6	4.5	4.6	4.9	4.6	5.0	10
Low EV/ EBITDA	3.9	3.5	3.2	3.6	3.1	2.8	4.3	4.2	3.8	4.2	3.7	5.0	36

Source: Dresdner Kleinwort Research estimates

Valuation conclusion

The three valuation methods point to an average fair value of €16.2

Our target price of €16.2 is derived from the simple average of the above-mentioned valuation methods (DCF, peer group and historical multiples). We rate the stock a Hold failing an upside to our target price, which is based on below-consensus 2009 estimates (-3% EBITDA, -4% EBIT and -8% net profit). Although the stock is not defensive due to the cyclicality of the cement business, growing geographical diversification in areas with different economic trends should limit its risk profile.

Target price of €11.3 for savings shares, applying a 30% discount to ordinary shares

As regards savings shares, which do not grant voting rights and offer an additional dividend of €0.024 per share, we derive our target price of €11.3 on the basis of a 30% discount to ordinary shares, in line with the average for the past 12 months. Savings shares carry a dividend yield of 3.6%, which is not particularly attractive for a non-voting share.

Company and markets overview

Buzzi Unicem is an international multi-regional group specialising in cement (64% of net sales in 2006), ready-mix concrete and aggregates. The group is the second-largest cement maker in Italy (16% market share) and Germany (15% market share) and Europe's fifth player (5% market share). It also operates in the US (8% market share) and Mexico (6% proportional market share). The emerging markets weight on group's revenues should reach 31% in 2009, up from 22% in 2006.

Historical group

More than a century of history with three groups: Buzzi, Unicem and Dyckerhoff

Buzzi Unicem is an Italian company controlled by the Buzzi family (55.2% of the ordinary shares) whose history goes back more than a century. The group has seen robust growth in the past decade: its cement capacity, about 4m tons in 1998, jumped to 15m tons in 1999 due to the merger with Unicem (Italy's second-largest cement group behind Italcementi) to achieve 39m tons in 2007 following the consolidation of Dyckerhoff (Germany's No. 2 cement producer close behind HeidelbergCement) beginning in 2004.

Buzzi Cementi history

- 1907-1964: Italian cement group active on the domestic market
- 1965: One of the first Italian cement producers to tap into the ready-mix concrete sector
- 1979: The group expands abroad through a venture to take over Alamo Cement (US)
- 1981: Buzzi Cementi purchases a large shareholding in Corporaciòn Moctezuma (Mexico)
- 1993: The group acquires a majority stake in Alamo Cement and raises its holding in Corporaciòn Moctezuma to 50%
- 1997: Buzzi signs an agreement with IFI/IFIL to take over 21% of Unicem

Unicem history

- 1872-1978: Italian cement producer operating at a national level
- 1979-1982: Unicem makes several acquisitions in the US (River Cement, Hercules Cement and Signal Mountain)
- 1987: The group diversifies into the ready-mix concrete, expanded clay and concrete engineering businesses
- 1995: It gains full control of its US operations

Dyckerhoff history

- 1864-1955: German cement producer active on the domestic market
- 1956: The group starts operations in the ready-mix concrete business
- 1963-2000: Dyckerhoff pursues international expansion (Spain, Luxembourg, North America, former DDR, Russia, Poland, the Czech Republic and Ukraine)
- 2003: The group sells its operations in Spain

Buzzi Unicem history

- 1999: Buzzi Cementi merges with Unicem and changes its name to Buzzi Unicem
- 2001: The group acquires 34% of Dyckerhoff's ordinary shares
- 2002: Buzzi increases its interest in Dyckerhoff to 44% of ordinary shares
- 2003: The group assumes control of both Dyckerhoff's share classes

- 2004: First-time consolidation of Dyckerhoff
- 2007: Buzzi lifts its stake in Dyckerhoff to 96.4% of ordinary shares and 88.4% of the total capital through a public tender offer.

International multi-regional operating structure

Buzzi Unicem's operating structure

	Total	ITA	GER	LUX	NETH	POL	CZE/SK	UKR	RUS	USA	MEX
Cement plants	35	12	5	1	-	1	1	2	1	10	2[1]
Grinding plants	6	1	3	1	-	-	-	-	-	1	-
Cement capacity (mt)	39.2	10.4	7.2	1.0	-	1.6	1.1	3.0	2.4	10.0	2.5[2]
Cement sales in 2006 (mt)	33.3	8.6	5.1	0.9	-	1.4	0.9	2.3	2.3	9.8	2.1[2]
Cement market share (%)	NA	16	15	NA	-	9	17	17	4	8	6[2]
Ready-mix concrete plants	523	181	108	-	23	33	81	5	-	56	36[1]
Aggregate quarries	33	20	-	-	2	-	7	-	-	3	1[1]
Terminals	40	8	-	-	-	2	-	3	-	27	-

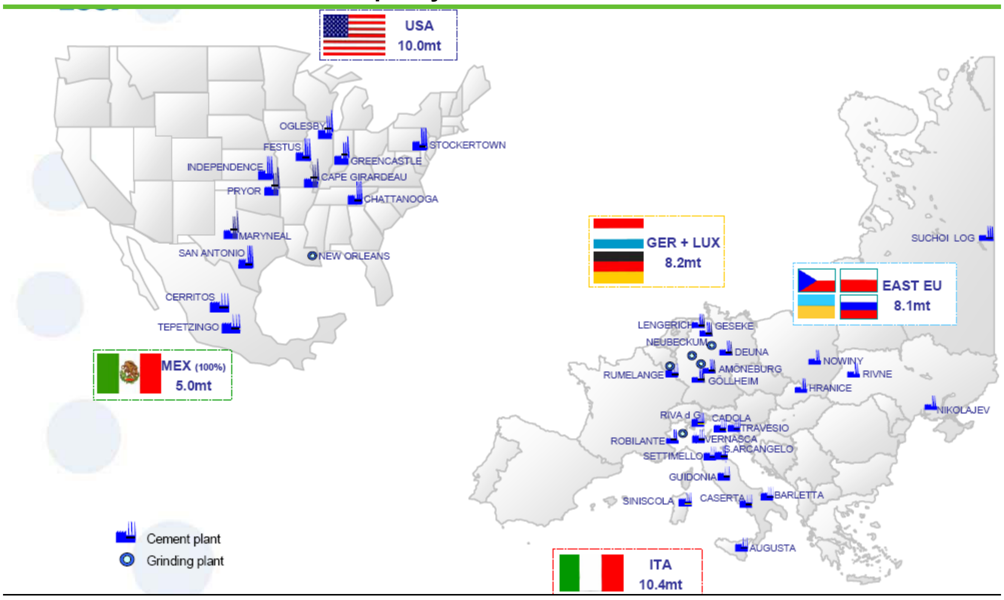
[1] Figures at 100%
[2] Figures at 50%
Source: Company data

Five geographical areas of presence: Italy, the US, WE, EE and Mexico

Buzzi Unicem is an international multi-regional group, active in five geographical areas: Italy, the US, Western Europe (Germany, Luxembourg and the Netherlands), Eastern Europe (Poland, the Czech Republic, Slovakia, Ukraine and Russia) and Mexico.

Cement, ready-mix concrete and aggregates production and distribution are mainly carried out locally. This is why the group owns cement capacity and/or ready-mix concrete plants in each of the countries where it has a presence. Its current operating structure comprises 35 cement plants and six grinding plants, with a cement capacity of 39m tons (considering only 50% of the capacity of Corporaciòn Moctezuma, the Mexican joint-venture formed with Spanish Cementos Molins), 523 ready-mix concrete plants, 33 aggregate quarries and 40 terminals.

Buzzi Unicem's locations and capacity



Source: Company Data

Sales and EBITDA breakdown: emerging markets on the up, Italy on the down

Virtuous dynamics of sales and EBITDA: emerging markets on the up, Italy on the down

Looking at past and forecast trends in Buzzi's sales, two positive dynamics emerge as a direct consequence of the Dyckerhoff acquisition:

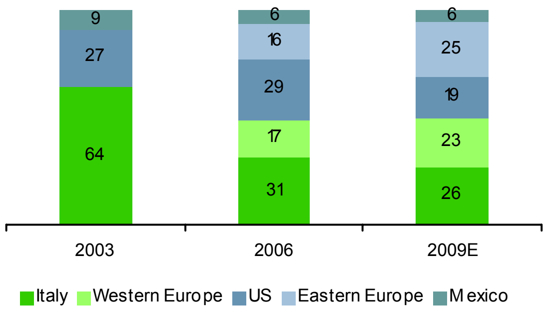
- The decreasing weight of the Italian market from 64% of consolidated sales in 2003 to 31% in 2006 to 26% forecast for 2009.

- The increasing weight of emerging markets (Eastern Europe and Mexico) from 9% of consolidated sales in 2003 to 22% in 2006 to 31% estimated for 2009.

These virtuous dynamics are even more evident if we look at the EBITDA breakdown by region:

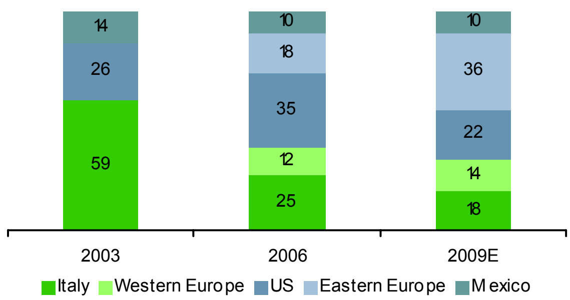
- The weight of the Italian EBITDA fell from 59% in 2003 to 25% in 2006 and is projected to drop to 18% in 2009.
- The weight of emerging markets' EBITDA rose from 14% in 2003 to 28% in 2006 and should jump to 46% in 2009.

Buzzi Unicem sales by region (%)



Source: Company data, Dresdner Kleinwort Research

Buzzi Unicem EBITDA by region (%)



Source: Company data, Dresdner Kleinwort Research

Italy: at the beginning of a negative cycle

Industry structure: fragmented and very competitive

Second-largest player in Italy

Buzzi Unicem is Italy's second-largest cement player behind Italcementi, owning a cement capacity of 10.4mt. It operates a network of 12 cement, 1 grinding and 181 ready-mix concrete plants.

Italian cement producers

Groups	Number of plants	Share of domestic production in 2006 (%)
Italcementi	29	27.9
Buzzi Unicem	13	17.3
Colacem	9	14.2
Cementir	4	7.2
Holcim	3	5.9
Cementi Rossi	4	5.3
Sacci	4	3.6
Cementizillo	2	2.4
Lafarge Adriasebina	2	2.4
Cal.me	3	1.5
Monselice	1	1.4
Cementi Moccia	1	1.1
Cementi della Lucania	1	0.4
Other companies	16	9.4
Total	92	100

Source: AITEC, Company data

Characteristics of the Italian cement industry

The Italian cement industry has the following long-time structural characteristics:

- Widespread distribution throughout the country of Buzzi Unicem's production apparatus with a consequent sharp reduction in transportation costs and considerable marketing advantages.
- Less concentrated market (with the number of companies rising further in 2006 from 26 to 28) compared with the average number of companies operating in other European markets, where mergers and acquisitions have led to greater concentration.
- Cement operators range from large international groups to small and medium-sized companies active at a national or even local level.

- Leading-edge technology, which assures above-standard product quality. Over the past fifteen years the implementation of efficiency measures has prompted the closure of ageing and less efficient plants and the replacement of energy-wasting production technologies ("wet way") with more efficient technologies (either "dry way" or "semi-dry way").
- Special attention to safeguard the environment.

Market trends: weakness expected ahead

1999-2004: the golden years of the Italian cement market

The Italian cement market went through a golden age between 1999 and 2004, at a time when demand grew at a CAGR of 5.0%, driven by heavy investments in construction, both residential (36% of domestic consumption) and non-residential/public works (34%/30%). This period coincided with stronger capacity utilisation, higher prices and profits and hence a sharp increase in imports, whose weight on domestic production jumped from 3.3% in 1998 to 10.8% in 2004.

2005-2007: demand slows down

In 2005 and 2006 demand slackened (-0.7% and +1.8% respectively) due to weak investments in non-residential/public works (-3.6% in 2005 and +0.6% in 2006 in real terms) and is expected to soften by 1% in 2007 to reflect the residential market downturn in H2 and the gradual completion of some public works, without adequate new starts to keep up volumes.

We have a negative outlook for 2008-2009 demand

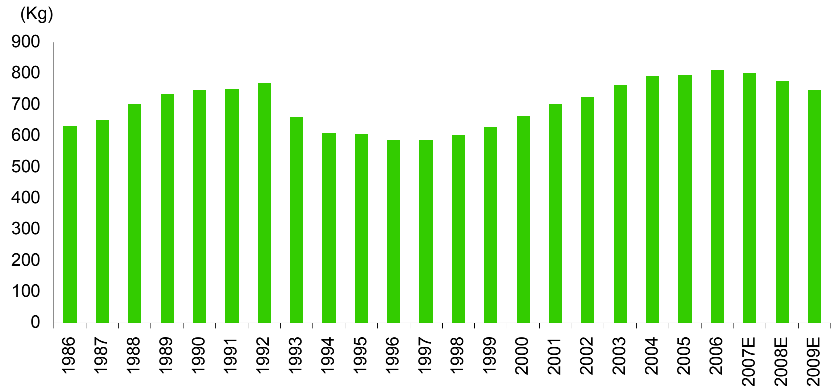
What will happen in the years ahead? We think that the current negative trend of investments in construction will extend into the next few years due to the following key reasons:

- The low level of interest rates inflated a residential bubble in the period 2003 to 2006, at a time when the residential sector grew at a real CAGR of 4.0%, compared to a 0.8% GDP CAGR in the same period. In our opinion, the residential bubble will take some time to deflate.
- Slowing economic growth should penalise the non-residential segment in 2008.
- In the public works segment, the balance between initiations and completions remains negative and an inversion of the negative cycle started in 2005 is unlikely to materialise in 2008.

The per capita cement consumption cycle confirms our expectations for poor demand in the next two years

There is another factor that points to potentially weak demand in the Italian cement market: the country's per capita cement consumption reached 813kg in 2006, 51% above the European average (27% in 1999), 39% above the 1997 level (3.7% CAGR) and 18% higher than the average since 1986 (691kg). Per capita consumption is cyclical, as proven by the fact that during the 1992 peak it was only 5% lower than in 2006. Demand has already started to soften and is expected to keep falling in the next two to three years before hitting the bottom.

Italian cement consumption per inhabitant



Source: AITEC, Dresdner Kleinwort Research

We forecast flat sales and lower margins in Italy

Improving results during the 'golden years' of 1999-2004

Over the past few years, Buzzi Unicem's results from the Italian market have reflected the local market trend. During the 'golden years' of 1999 to 2004, cement sales grew at a CAGR of 7.9%, with the EBITDA margin improving from 21.5% to 37.7%. Ready-mix concrete and aggregates sales rose at a CAGR of 11.4% with a flat EBITDA margin, 9.1%. Total EBITDA margin reached 25.7% in 2004.

Disappointing performance in 2005: sales -9%, EBITDA -23%

2005 was a tough year for the group in its domestic market due to sluggish demand for cement, which dragged cement prices lower (-4.3% y/y), and to a narrowing market share, which reflected a more price-oriented marketing policy: cement volumes dropped by 2.9%, cement revenues declined by 4.6% and the EBITDA margin worsened by almost eight percentage points to 29.9%%. In the ready-mix concrete and aggregates business, group's volumes shrank by 3.2%, revenues eased by 1.0% and EBITDA margin weakened by almost two percentage points to 7.3% on higher transportation and raw material costs. Sales on the Italian market lost 8.9% and the EBITDA margin softened by four percentage points to 21.6%.

Short-lived sales and margin improvement in 2006

In 2006, the group benefited from a more favourable market environment and managed to increase cement volumes and prices by 2.1% and 8.7%, respectively, with a positive impact on cement revenues (+10.9%) and EBITDA margin (+two percentage points at 32.1%). In the ready mix concrete and aggregates sector, sales volumes gained 1.2% and revenues 3.6%, with the EBITDA margin flat at 7.3% due to surging fuel costs. Italian sales grew by 6.8% and the EBITDA margin improved by almost two percentage points to 23.5%.

9M 07: Sales -2%, EBITDA -12%

9M 2007 cement volumes inched up 1.7%, thanks to the carry-over from a very positive start to the year, and prices rose slightly (+0.6%) though not enough to offset stubbornly higher costs. Ready-mix concrete volumes were more negatively affected by the drop in demand, down 8.9% in 9M 2007, also due to the disposal to SACCI of five business lines (5.7% of revenues). In 9M 2007, overall Italian net sales came to €730m, -2.1%, and EBITDA margin weakened from 23.3% in 9M 2006 to 21.0%.

Q4 2007 particularly weak; we forecast flat sales and the weakest EBITDA margin for the past decade between 2008 and 2009

Q4 2007 cement demand was weak (-10%) due to the downturn of the residential market, the negative trend of the public works sector and a tough comparison with Q4 2006, which benefited from mild weather conditions. 2007 ready-mix concrete volumes dropped by 10.9%. Full-year revenues fell by 4.2% to €961m (-10.3% in Q4 2007) and EBITDA margin (which has yet to be disclosed by the group) should weaken by more than three percentage points to 20.2%. In the next two years, we estimate revenues should be flat and the EBITDA margin should worsen by two percentage points (18.2%).

Buzzi Unicem - Italian sales and margins

(€m)	2000	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E
Sales	754.9	818.7	875.2	938.3	1,031.8	939.6	1,003.9	961.4	961.1	962.6
YoY growth (%)	14.6	8.5	6.9	7.2	10.0	(8.9)	6.8	(4.2)	(0.0)	0.2
% of consolidated sales	56.6	56.6	59.2	64.2	37.2	31.8	31.3	27.5	27.4	26.5
EBITDA	187.6	220.3	248.0	257.3	266.5	203.3	235.8	193.8	175.7	175.2
YoY growth (%)	27.9	17.4	12.6	3.8	3.6	(23.7)	16.0	(17.8)	(9.3)	(0.3)
EBITDA margin (%)	24.8	26.9	28.3	27.4	25.8	21.6	23.5	20.2	18.3	18.2

Source: Company data, Dresdner Kleinwort Research

Western Europe: cement consumption has hit rock bottom in Germany

Buzzi Unicem operates through the Dyckerhoff group in Germany, Luxembourg and, beginning in 2007, in the Netherlands.

Germany (15% of 2007 turnover, 9% of 2007E EBITDA)

Second-biggest player in Germany

The Dyckerhoff group (including the subsidiary Deuna Zement) is Germany's number two cement producer behind HeidelbergCement. It has a cement capacity of 7.2m tons, a market share of about 15% and operates a network of five cement, three grinding and 108 ready-mix concrete plants.

Characteristics of the German cement industry

There are some similarities and differences between the German and Italian cement industry.

- In Germany, production facilities are less widespread over the country than in Italy, considering that Germany is 19% larger and that the number of cement plants is 37% lower (58 vs 92). This is mainly due to the fact that Germany's per capita cement consumption (346 Kg in 2006) is 57% lower than in Italy.
- In spite of the still large number of companies, a consolidation process is under way in the sector: German cement groups decreased from 25 in 2003 to 22 in 2006, with the top-six players controlling approximately 80% of the market.
- Cement operators range from large international groups to small and medium-sized companies active at a national or even local level.
- The German cement industry uses state-of-the-art technology. As in the case of Italy, the "dry way" technology replaced the "wet way" process with a major advantage in terms of production efficiency due to the massive usage of non-conventional fuels (50% of total fuel consumption vs Italy's 4%).
- Special attention to safeguard the environment.

Demand rebounds in 2006 (+6.9%) after a ten-year downtrend…

The decade-long downtrend of the German construction industry, which was briefly halted in 1999, came to an end in 2006, at a time when housing demand (33% of total consumption) received a boost by news that the VAT rate would be lifted, that a new regulation for capital gains on speculative purchases of real estate would be applied in 2007 and by government subsidies for new housing. Furthermore, the non-residential (32% of total consumption) and civil engineering markets (35%) profited by the strong revival of the German economy. According to BDZ data, the country's cement consumption increased by 6.9% in 2006.

…but consumption weakens again in 2007

The same factors that favoured the housing sector in 2006 weighed on 2007. Cement demand was buoyant in Q1 (+28% y/y) due to warmer-than-usual weather, but slackened in Q2 and Q3 (around -10% y/y). For the full year, we expect demand to drop by ca. 5%.

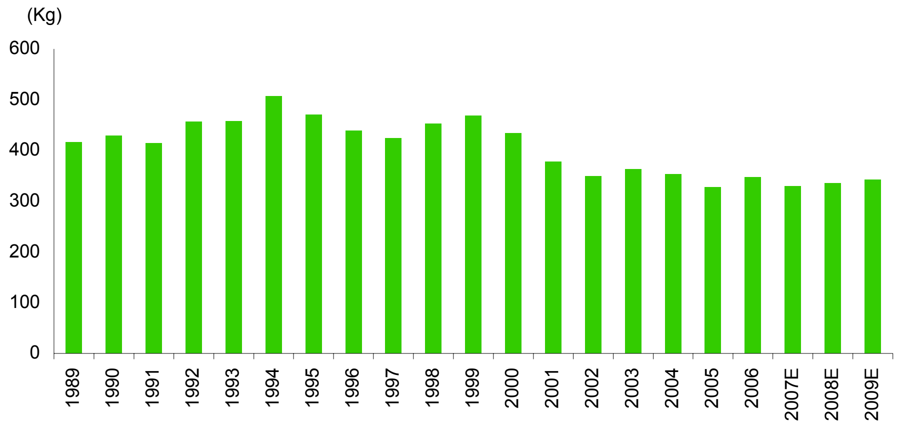
The public works sector should bolster demand in the 2008 to 2009 period

We retain a positive outlook for the public works business in 2008 and 2009, whose positive cycle started in 2006 and is estimated to extend into the coming years. Under our forecasts, investments in commercial and public construction will remain buoyant and investments in residential construction will recover slightly. All in all, our projection for 2008 to 2009 is for an approximate 2% increase in cement consumption per year.

Germany's cement consumption per inhabitant at its long-time low

Looking at cement consumption per inhabitant, Germany plunged to its long-time low of 328kg in 2005, 36% below the European average (509kg) and 35% below the 1994 peak (507kg). Our forecast for 2007 (330kg) is substantially in line with the 2005 level and could represent the starting point for a medium-term recovery, considering that average consumption since 1989 has been 25% higher (412kg).

Germany's cement consumption per inhabitant



Source: BDZ, Dresdner Kleinwort Research

In the period 2004-2006, Germany's Dyckerhoff saw weak volumes but a sharp improvement in prices and margins

Dyckerhoff's cement sales volumes fell 12% between 2004 and 2006, underperforming the market, which gave up only 4% in the same period. This was due to two key factors:

- The group mainly focused on boosting margins and increased cement prices by 44% in three years (after the 2002-2003 price war), more than the market average.
- In 2006, the company failed to profit by the surge in market demand due to a poor presence in southern regions (Bavaria and Baden-Wurttenberg), where the pace of demand was stronger than elsewhere.

Although like-for-like revenue CAGR stood at just 3.3%, the EBITDA margin came in at 13.3%, up from from 1.2% in 2003.

Exports drive 2007 sales volumes. EBITDA margin improves further

Notwithstanding the steep fall in cement demand starting from Q2 2007, Dyckerhoff's sales volumes generated by the German plants added 6.8% in 9M 2007 and 4.1% in the full year, due to growing exports to neighbouring countries. Nine-month sale prices recovered further ground (+7.7% in 9M 07and +9% for the full year) and like-for-like revenues rose by 14.1% (+10.4% in the full year), with the EBITDA margin improving from 12.8% in 9M 2006 to 15.9%. In spite of the sharp rebound staged over the last few years, German cement prices are still low compared with Italy, where they are 15% higher.

2008-2009 revenue CAGR should come to 6% and EBITDA margin should improve to 18%

For the next two years, we forecast a 2% sales volume CAGR and a further upturn in sale prices (+5% in 2008 and +3% in 2009), which should drive the EBITDA margin to 18%, up 1.3 percentage points. We believe that our projections are not aggressive, considering that Dyckerhoff's German plants could boost exports to Poland, where cement demand is intensifying and capacity utilisation is nearing 100%.

Buzzi Unicem - German sales and margins

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	501.9	486.4	480.0	515.0	551.1	578.6
YoY growth (%)	(6.3)	(3.1)	(1.3)	7.3	7.0	5.0
% of consolidated net sales	18.1	16.5	15.0	14.7	15.7	15.9
EBITDA	60.1	61.3	64.0	85.8	99.2	104.1
YoY growth (%)	235.9	2.0	4.4	34.0	15.6	5.0
EBITDA margin (%)	12.0	12.6	13.3	16.7	18.0	18.0

Source: Company data, Dresdner Kleinwort Research

BeNeLux (7% of 2007 turnover, 3% of 2007E EBITDA)

The only cement producer in Luxembourg

Dyckerhoff, through the subsidiary Ciments Luxembourgeois, is the only cement producer in Luxembourg, with a cement capacity of 1.0m tons from a single cement plant. Following the corporate restructuring plan launched by Dyckerhoff in the ready-mix sector, Buzzi Unicem has been operating in the Netherlands since early 2007 through the 100%-controlled new subsidiary Basal, which specialises in the ready-mix concrete (23 plants) and aggregates (two quarries) businesses.

Luxembourg's cement market has very high per capita consumption

Luxembourg is a very small market, with cement consumption of about 0.5m tons, accounting for 50% of the cement capacity of the group, which exports a large part of its production (mainly in Germany and the Netherlands). Luxembourg's per capita cement consumption was the highest in Europe until 2004 (1,221kg), but now it ranks second behind Spain after dropping 8% in the period 2005 to 2006.

Cement revenues have been driven by exports

Over the past few years, sales generated by the Luxembourg-based plant have been driven by exports (+17.8% in 2005, +6.4% in 2006 and +29.3% in 9M 2007). Between 2004 and 2006, the group saw like-for-like revenue CAGR of 8.4% (the disposal of the ready-mix concrete subsidiary Eurobeton slashed 2006 revenues by 43%) and the EBITDA margin in the cement business improved from 15.3% in 2003 to 25.5% in 2006. 9M 2007 cement prices increased by 5.5% and revenues by 22.4%. Ready-mix concrete volumes amounted to 0.7m cubic meters, with net sales at €101m and EBITDA margin at 4.9%.

Cement volumes should accelerate in 2009, thanks to new capacity (0.4m tons)

In Luxembourg, the positive trend followed by Dyckerhoff's industrial operations temporarily slowed down in Q4, when full-year revenues were up just 10% (€92m). Given that the Luxembourg-based plant is now working near full capacity, cement volumes should edge up in 2008 (+2%). We predict stable sales volumes in 2009 with a significantly higher weight of cement vs. clinker, thanks to 0.4m tons of grinding capacity extension. We assume cement EBITDA margin substantially flat at around 25% in 2008 and 2009.

Buzzi Unicem - Sales and margins in Luxembourg

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	135.7	146.2	83.6	91.7	95.4	110.6
YoY growth (%)	9.8	7.7	(42.8)	9.7	4.0	16.0
% of consolidated net sales	4.9	5.0	2.6	2.6	2.7	3.0
EBITDA	26.6	27.8	21.3	23.1	23.9	27.1
YoY growth (%)	20.4	4.5	(23.4)	8.3	3.8	13.2
EBITDA margin (%)	19.6	19.0	25.5	25.1	25.1	24.5

Source: Company data, Dresdner Kleinwort Research estimates

Buzzi Unicem - Sales and margins in the Netherlands

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	-	-	-	141.0	146.6	151.0
YoY growth (%)	-	-	-		4.0	3.0
% of consolidated net sales	-	-	-	4.0	4.2	4.2
EBITDA	-	-	-	7.3	7.6	7.9
YoY growth (%)	-	-	-		4.5	3.0
EBITDA margin (%)	-	-	-	5.2	5.2	5.2

Source: Company data, Dresdner Kleinwort Research estimates

Eastern Europe: Russia is the outstanding market

Buzzi Unicem operates through the Dyckerhoff group in Poland, the Czech Republic/ Slovakia, Ukraine and Russia.

Poland (4% of 2007 turnover, 6% of 2007E EBITDA)

The fourth-largest cement producer in Poland

Dyckerhoff, through the subsidiary Cementownia Nowiny, is Poland's fourth-biggest cement producer, running close behind Lafarge, HeidelbergCement and CRH, with a cement capacity of 1.6m tons from a single plant and a market share of about 9%. In Poland, the group also operates a network of 33 ready-mix concrete plants and two terminals.

Positive turnaround of cement consumption in Poland starting from 2004, with sharp acceleration in 2006 (+21%)

After a three-year recession, the Polish construction business started to recover in 2004, when GDP growth stood at 5.4%, owing to Poland joining the EU, and investment grew by 5.1%. Cement consumption plunged by 23% during the period 2001 to 2003, but jumped 33% in the subsequent three years, breaching the level achieved in 2000. In particular, the construction industry grew by 13.5% in 2006, thus confirming the fastest-growing sector in the Polish economy, and cement consumption rose by an outstanding 21% to 14.8m tons (382kg per capita, 29% below the European average).

Public works and housing sectors should drive cement demand in the future

EU funds should support infrastructure investment and government plans should bolster the housing sector. According to Cembureau estimates, cement demand in Poland should pick up by 12-15% in 2007 to 16.5-17m tons and by 4-7% in 2008 to 17.6m tons (460kg per capita).

Cement prices started to recover in 2006, with a jump in 2007

Poland's cement prices were low between 2004 and 2005 but started to rise in 2006 due to the sharp uptake in demand: average unit prices in local currency grew by 6.9% (plus 3.3% currency effect) in 2006 and by 19% (plus 2.2% currency effect) in 9M 2007.

Dyckerhoff 's sales and margins in Poland were very strong in 2006 and 9M 2007…

Dyckerhoff's Polish sales in Euros gained 12% in 2005 (-4.4% cement volumes and +13% forex effect), 39% in 2006 (+27% cement volumes) and 38% in 9M 2007 (+11% cement volumes). The EBITDA margin improved sharply as well, from 28.2% in 2004 to 35.8% in 2006 and 37.5% in 9M 2007.

…but we expect EBITDA margin to weaken from 2008 failing CO_2 surplus emission rights

For the year 2007, with 29% sales growth to €143m, we forecast an EBITDA margin at around 38%, mainly reflecting a 19% rise in cement prices. Considering that Poland's capacity utilisation stands at around 94%, there is no room for robust revenue growth in the years ahead. 2008 and 2009 revenue CAGR should come to 6%, mainly led higher by sales prices. Our EBITDA margin projections are conservative (31% in 2008 and 2009), as Polish operations should be penalised by the lack of CO_2 surplus emission rights from 2008 onwards.

Buzzi Unicem - Sales and margins in Poland

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	70.9	79.3	110.4	142.7	155.5	160.2
YoY growth (%)	(1.5)	11.8	39.2	29.3	9.0	3.0
% of consolidated net sales	2.6	2.7	3.4	4.1	4.4	4.4
EBITDA	20.0	22.9	39.5	54.3	48.2	49.7
YoY growth (%)	(16.0)	14.5	72.5	37.6	(11.3)	3.0
EBITDA margin (%)	28.2	28.9	35.8	38.1	31.0	31.0

Source: Company data, Dresdner Kleinwort Research

The Czech Republic and Slovakia (6% of 2007 turnover, 7% of 2007E EBITDA)

The No.4 cement producer in the Czech Republic

Dyckerhoff, through the subsidiary Cement Hranice, is the No.4 cement producer in the Czech Republic behind HeidelbergCement, Holcim and Lafarge, with a cement capacity of 1.1m tons from a single plant and a market share of about 17%. In the Czech Republic and Slovakia, the group also runs a network of 81 ready-mix concrete plants and seven aggregate quarries.

Cement consumption resumes upward trend from 2006

Czech cement consumption was very strong in 2004 (+5.7%), thanks to the 9% rise in construction investments. Demand for cement weakened by 3% in 2005 owing to the negative impact of VAT (up from 5% to 19% in May 2004) on construction works (except for housing). Cement consumption resumed its upward trend in 2006 (+8.9%), which extended further into 2007. 2006 per capita cement consumption in the Czech Republic was 476kg, 11% below the European average.

Positive outlook for demand in the Czech Republic between 2008 and 2009

According to Cembureau forecasts, the Czech construction industry will see 4-5% growth until 2009. The surge in construction demand is prompted by differing factors, notably continued highway development and the construction of trade, logistics and administrative centres. Mortgage credit offered by both the government and financial institutions, which should underpin growth in the residential sector for the local middle-class, also plays a crucial role.

2005 and 2006 margins led higher by CO2 surplus emission rights

Dyckerhoff's sales in Euros in the Czech Republic and Slovakia increased by a 20% CAGR in the period 2004 to 2006, also driven by the Czech Koruna appreciation (+13%) against the euro. In this area, the concrete business accounts for more than 40% of EBITDA. The EBITDA margin profited by about €6m per year of income from emission rights in 2005 (36.3%) and 2006 (33.9%).

2008 and 2009 penalised by lower exports to Poland and the CO2 emission rights deficit

In 9M 2007, cement volumes generated from the Czech plant were up 28% (20% in the full year), partially owing to substantial exports to ready-mix concrete captive customers in Poland. In 9M 2007, revenues rose by 26% but the EBITDA margin worsened from 37.8% to 32.9% due to the lack of surplus emission rights. Full-year revenues gained 18% to €216m while the EBITDA margin should remain at around 33%. Sales volumes should shrink between 2008 and 2009 amid lower exports to Poland, and margins should soften, owing mainly to the estimated emission rights deficit.

Buzzi Unicem - Sales and margins in the Czech Republic and Slovakia

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	117.1	147.3	182.4	215.9	207.3	213.5
YoY growth (%)	11.0	25.8	23.8	18.4	(4.0)	3.0
% of consolidated net sales	4.2	5.0	5.7	6.2	5.9	5.9
EBITDA	37.4	53.5	61.8	70.5	53.9	55.5
YoY growth (%)	3.6	43.0	15.5	14.0	(23.5)	3.0
EBITDA margin (%)	31.9	36.3	33.9	32.6	26.0	26.0

Source: Company data, Dresdner Kleinwort Research

Ukraine (5% of 2007 turnover, 6% of 2007E EBITDA)

One of the leading cement makers in Ukraine

Dyckerhoff, through the subsidiaries Volig and Yugcement, is one of the leading cement makers in Ukraine together with HeidelbergCement, Lafarge, Eurocement and CRH, with capacity of 3.0m tons from two plants and a market share of about 17%. The group also operates a network of five ready-mix concrete plants and three terminals.

Cement consumption doubled between 2002 and 2006…

Ukraine is a fast-growing market for the cement and construction industry: cement consumption doubled from 6m tons in 2002 to 12.3m tons in 2006, when per capita consumption amounted to 260kg, less than half the European average. The buoyant trend in demand extended into 2007 and is expected to persist into the years ahead due to still low per capita consumption.

…and favoured a sharp recovery in sale prices

The demand pattern favoured a sharp recovery in cement prices, which almost doubled between 2004 and 2006 in local currency and Euros terms.

Dyckerhoff profited by the Ukrainian market growth: 50% sales CAGR in the period 2004-2006

Dyckerhoff's cement volumes in Ukraine soared by almost 60% during the period 2004 to 2006, reaching a capacity utilisation of 76%. Revenues saw a CAGR of almost 50% per year to €107m in 2006. The EBITDA margin, which in 2003 was close to zero (due to the combined effect of subdued sale prices and low capacity utilisation), reached 14.7% in 2005 before easing to 14.3% in 2006 due to record-high inflation in energy prices.

Strong acceleration in 2007 revenues and margins

9M 2007 cement volumes were up by a further 16% and capacity utilisation neared 90%. Cement prices jumped by 72% in local currency and by 59% in Euro termss. Dyckerhoff's sales increased by 80% in Euros to €133m while the EBITDA margin improved by almost 18 percentage points to 32.7%. Full-year sales gained 67% to €179m while we expect the EBITDA margin should improve to 34.8%.

Cement capacity trapped in a capacity bottleneck in 2008

Although demand should remain robust throughout 2008, the group is currently trapped in a cement capacity bottleneck and a further 0.4m tons per year of new production capacity will not be available until 2009. Therefore, we forecast a 20% increase in 2008 sales, mainly driven by a carry-over from the 2007 price rise, and a 15% rise in 2009 revenues, helped higher by the new capacity that will enable the company to meet higher market consumption requirements. Under our estimates, the EBITDA margin will improve further in 2008 to over 40% thanks to the positive trend shown by cement prices and will slightly ease in 2009 due to the start-up of new capacity.

Buzzi Unicem - Sales and margins in Ukraine

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	46.4	72.1	107.2	179.2	215.0	247.3
YoY growth (%)	40.2	55.4	48.7	67.2	20.0	15.0
% of consolidated net sales	1.7	2.4	3.3	5.1	6.1	6.8
EBITDA	4.5	10.6	15.3	62.4	88.2	96.4
YoY growth (%)	n.m.	135.6	44.3	308.0	41.2	9.4
EBITDA margin (%)	9.7	14.7	14.3	34.8	41.0	39.0

Source: Company data, Dresdner Kleinwort Research

Russia (6% of 2007 turnover, 8% of 2007E EBITDA)

First cement producer in the Yekaterinburg region

Dyckerhoff, through the subsidiary Sukhoy Log, operates in Russia in the Yekaterinburg region (east of the Ural Mountains), where it is market leader with cement capacity of 2.4m tons from a single plant. An expansion project is being carried out at the Suchoi Log plant and is estimated to boost production capacity by 50% before the end of 2009.

A consolidated market

The Russian cement industry has reached a high level of consolidation. All major Russian cement plants have been acquired by Russian and foreign players. The Eurocement Group is by far the country's leading cement producer, followed by Siberian Cement, Lafarge and Novoroscement.

The cemenet sector enjoyed a strong recovery from 1999 after the deep recession in the nineties

Russia's cement sector started to turnaround in 1999 after suffering a prolonged recession in the nineties (as was the case with all the sectors of the Russian economy). However, the consumption level of the early nineties has yet to be reached, even if consumption more than doubled during the period 1999 to 2006. Per capita cement consumption reached 380kg in 2006, relatively low compared to the European average (536kg).

Bullish outlook for the next few years due to government-backed investment plans in housing facilities and infrastructure

The Russian government has outlined a number of national special-purpose programmes for the construction industry. In particular, the "Affordable Residential Facilities" programme aims to provide Russian citizens with new housing facilities, due to the current severe lack of houses. The national programme to initiate affordable housing targets an increase of completed floor from 44m square meters p.a. now up to 80m square meters p.a. by 2010. Another national project will be executed to roll out the country's infrastructure, above all, highways, which will push up demand for building materials, including cement. The Russian construction sector should grow by more than 20% in 2007 and improve further in the following years. We forecast low double-digit growth in cement consumption until 2010.

Cement prices doubled between 2004 to 2006 and acted as the main drivers of Dyckerhoff's sales in Russia

Cement prices in local currency and Euros doubled between 2004 and 2006, and acted as the main drivers of Dyckerhoff's revenues in Russia during those years, when volumes saw a CAGR of only 6% due to capacity utilisation already exceeding 95% in 2005. The EBITDA margin improved from 24.6% in 2004 to 42.9% in 2006.

9M 2007 cement prices jumped by more than 50% but the EBITDA margin worsened due to one-off logistics costs related to the capacity expansion project

9M 2007 cement prices jumped by 54% in local currency and 51% in Euros (exceeding €90/t in Q3 2007), pushing revenues up by 48% in Euro terms. The EBITDA margin worsened to 36.9%, a decline of eight percentage points on 9M 2006. The reason for margin dilution was the dismantling and transportation cost of used machinery for the capacity expansion project in Russia (totalling €28.1m in 9M 2007). Adjusting the EBITDA margin of the period for the above-mentioned one-off charge, we estimate it should improve by almost 13 percentage points to 57.8%, by far the highest of Buzzi Unicem's geographical divisions. For the full year, the company announced +60% sales at €198, mainly thanks to 69% increase in cement prices, and we forecast an EBITDA margin of almost 40%.

36% EBITDA CAGR forecast for 2008-2009

For 2008, we forecast a 30% increase in revenues, driven by a carry-over from 2007 sharp sales price increases, with the EBITDA margin improving by 10 percentage points to 50%, reflecting the elimination of the one-off logistics costs that weighed on 2007 margins. In mid 2009 1.2m tons of new capacity will be available and we estimate a 20% increase in revenues, mainly led higher by volumes, with the EBITDA margin weakening to 47%.

Buzzi Unicem - Sales and margins in Russia

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	62.5	90.9	123.9	198.0	257.4	308.9
YoY growth (%)	27.5	45.4	36.3	59.8	30.0	20.0
% of consolidated net sales	2.3	3.1	3.9	5.7	7.3	8.5
EBITDA	15.4	33.3	53.2	78.8	128.7	145.2
YoY growth (%)	24.9	116.7	59.8	48.2	63.2	12.8
EBITDA margin (%)	24.6	36.6	42.9	39.8	50.0	47.0

Source: Company data, Dresdner Kleinwort Research

US: negative impact from the Dollar, volumes and prices in 2008

A commanding presence in the Midwest and North East of the country (18% market share)

Buzzi Unicem and Dyckerhoff merged their US businesses in January 2004, with the exception of Alamo, integrated cement, ready-mix concrete and aggregate products maker operating in Texas and fully controlled by Buzzi. The merged business (named RC Lonestar) is 51.5% and 48.5% owned by Buzzi and Dyckerhoff respectively. The Buzzi Unicem group owns 11 cement plants in the US (including one grinding facility), with a capacity of 10m tons, corresponding to a ca. 9% market share of the total US market, or 18% of the relevant markets. Although the plants spread across different regions, they are linked through a network of 27 terminals. In San Antonio, Texas, Buzzi's Alamo runs a cement plant and 56 ready-mix concrete plants, which provide an integrated network to the region, mainly in the areas of San Antonio, Corpus Christi and Austin.

Sales and margins staged a positive performance until 2006, despite modest volume growth due to capacity constraints

During 2003 to 2006, US cement consumption improved by around 18% and peaked at 122.5m tons, corresponding to 410kg per capita. On a like-for-like basis, Buzzi Unicem increased its US cement volumes in 2003 (+7.8%), slightly reduced its cement production in 2004 (-0.5%) and hit a new production record in 2005 (+3.6% net of the disposal of 50% of Glens Falls), but diluted its market share as its plants achieved full capacity utilisation (2006 cement volumes eased by 0.8%). Nevertheless, US sales and margins moved upward until 2006 owing to a steady increase in cement prices. In particular, 2005 and 2006 revenues in Euros (the forex effect was very limited) grew by 13% and 11%, respectively, while the EBITDA margin reached 35.9% in 2006, up from 28% of 2004.

2007 cement prices remained strong, but negative impact from volumes and USD

In 2007 the downturn of the housing sector, which began in 2006, prompted the first drop in US cement demand since 2002. A sharp cut in imports (about 35%) kept the US cement market in balance, allowing it to maintain good levels of production. Buzzi Unicem's 9M 2007 cement volumes declined by 4.8%, with some geographical areas, such as Texas, still moving upwards. Slack demand seldom weighed on prices, which rose by 5.5% in USD terms (but the dollar impact was negative by 8.1%). Net sales fell by 8.7% to €646m and the EBITDA margin improved from 33.7% in 9M 2006 to 34.8%. Although the currency effect was very negative in Q4 2007 (-11% y/y), volumes were substantially in line with the same quarter a year earlier, which was relatively weak: full-year sales lost 8% (€851m) and the EBITDA margin should only ease from 35.9% to 35.5%.

The gloomy outlook for the residential sector will drag down cement demand in 2008 and 2009

The US residential sector should remain in negative territory in 2008 (-19% y/y our estimate) and continue to weigh on cement consumption, which should drop by 7%. Assuming a 3% fall in cement prices and a Dollar effect of -5%, 2008 revenues should decline by 15% and the EBITDA margin should ease to 32%. The weakness of the residential sector should extend into 2009 (-4% our estimate), with cement volumes projected to narrow by 2% and prices to lose further ground. Revenues should decrease by 4% and EBITDA margin should worsen further to 31%.

Buzzi Unicem - Sales and margins in the US

(€m)	2004	2005	2006	2007E	2008E	2009E
Sales	737.4	834.8	925.1	851.3	726.9	698.1
YoY growth (%)	(5.4)	13.2	10.8	(8.0)	(14.6)	(4.0)
% of consolidated sales	26.6	28.3	28.9	24.4	20.7	19.2
EBITDA	206.4	273.0	332.0	302.6	232.6	216.4
YoY growth (%)	(15.2)	32.3	21.6	(8.9)	(23.1)	(7.0)
EBITDA margin (%)	28.0	32.7	35.9	35.5	32.0	31.0

Source: Company data, Dresdner Kleinwort Research

Mexico: a slowing market but with high margins

Buzzi and Cementos Molins jointly control Moctezuma, which owns two state-of-the-art cement plants (5m tons capacity)

Buzzi Unicem and Cementos Molins (Spain) together control 51.5% of Moctezuma's share capital (a quoted Mexican cement company, Bloomberg code CMOCTEZxMMgp, Reuters code CMOCTEZ.MX, market cap US$2.21bn), and each of them owns a 7.6% direct stake in the company. Hence, Buzzi Unicem operates in Mexico through its 33.3% direct and indirect stakes in Moctezuma. Buzzi Unicem consolidates 50% of Moctezuma. The latter operates two state-of-the-art cement plants, located in the municipalities of Tepetzingo and Cerritos. The first plant, set up in 1997-1999 (2.5m tons production capacity) is the closest to Mexico City; the second, located in the central part of the country, has production capacity of 2.5m tons. It came on stream in May 2004 and doubled its capacity in 2006. Moctezuma also runs 36 batching plants to service the ready-mix concrete market.

Few competitors, high prices and margins

Moctezuma holds a ca. 11% share of the Mexican cement market. The top two producers, Cemex and Holcim Apasco, control over 75%. The consolidated nature of the cement industry, combined with a fragmented customer base, strong demand (+6% CAGR in consumption from 2002 to 2006) and no import threat, have kept cement prices and margins at substantially high levels. Per capita cement consumption came to 360kg in 2006. Revenues in Euros saw a CAGR of 15% (21% in local currency) between 2004 and 2006, with the EBITDA margin substantially stable at about 47%, but significantly lower compared to 56% in 2000.

Cement prices weaken in 2007 and drag down margins

In 2007, the country's construction industry reported another positive performance. Moctezuma's cement sales volumes were up around 17% in 9M 2007, but prices in local currency fell (-2.6%) due to the gradual change to the sales mix from bagged to bulk cement and to distribution at a greater distance. 9M 2007 revenues were up by 7.7% to €161m, despite a negative currency effect of 8.5%, but the EBITDA margin eased by more than four percentage points to 44.7%. Full-year revenues added 7.6% (€212m) and EBITDA should be flat (€93m), with the EBITDA margin worsening at around 44% due to an average cement price decrease of 2%.

Limited volume growth in 2008-2009 due to capacity constraints

Considering that the Moctezuma's plants are already working at full capacity, we forecast stable cement volumes with revenues and margins almost flat in 2008 and 2009.

Buzzi Unicem - Sales and margins in Mexico

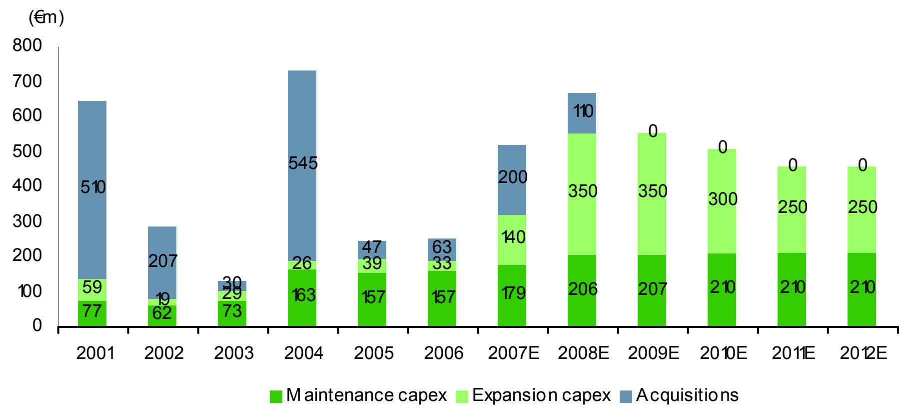
(€m)	2000	2001	2002	2003	2004	2005	2006	2007E	2008E	2009E
Sales	118.7	146.8	151.1	129.1	134.6	163.0	197.0	211.9	209.7	216.0
YoY growth (%)	n.a.	23.7	3.0	(14.6)	4.2	21.2	20.8	7.6	(1.1)	3.0
% of consolidated sales	8.9	10.1	10.2	8.8	4.9	5.5	6.1	6.1	6.0	5.9
EBITDA	66.5	75.8	73.0	61.6	63.3	76.1	92.8	93.3	92.3	95.0
YoY growth (%)	n.a.	14.0	(3.7)	(15.6)	2.8	20.2	21.9	0.6	(1.2)	3.0
EBITDA margin (%)	56.0	51.7	48.3	47.7	47.0	46.7	47.1	44.1	44.0	44.0

Source: Company data, Dresdner Kleinwort Research

Capex and equity investments

Between 2001 and 2006 the group invested €0.38bn per year on average, or 100% of its gross cash flow, while our forecast for the period 2007-2012 is €0.53bn per year, or approximately 90% of gross cash flow. In the past few years, Buzzi's investment focus has been on the Dyckerhoff acquisition and is expected to shift to expansion capex in the years ahead.

Buzzi Unicem: accelerating on capex



Source: Company data, Dresdner Kleinwort Research estimates

2001-2007: focus on Dyckerhoff acquisition

Almost 60% of total investments in 2001 to 2006 related to the Dyckerhoff acquisition

Buzzi Unicem's investment strategy between 2001 to 2006 centred primarily on the acquisition of Dyckerhoff: out of €2.3bn of total capex and equity investments for the period, €1.3bn was used to finance the buy-out of the German company, €0.7bn for maintenance capex and only €0.3bn was spent on expansion capex and other small acquisitions. 100% of the gross cash flow generated in these six years was reinvested into the group. The investment in Dyckerhoff was completed in 2007 with the purchase of another minority stake for €163m. In so doing, Buzzi Unicem gained control of 96.4% of Dyckerhoff's ordinary shares and 88.4% of the total capital. At present, Dyckerhoff accounts for nearly 50% of Buzzi Unicem's EBITDA, but we think its weight should increase further in the coming years due to strong growth expectations in Eastern Europe, despite our expectation of poor results from its forecast Italian businesses.

Our assessment of the investment in Dyckerhoff is very positive from an industrial point of view but negative in terms of value creation

The Dyckerhoff acquisition turned Buzzi Unicem into a multi-regional player and offered new growth opportunities due to a commanding presence in Eastern Europe. But was the deal value accretive for shareholders? We would say the deal has disappointed in this regard, based upon the results of an assessment made eight years after the initial investment in Dyckerhoff. The total equity investment in Dyckerhoff, also including 27.4m of Buzzi Unicem savings shares issued in 2003 for the public tender offer for Dyckerhoff preference shares and their dilutive effect on the ordinary shares, amounted to €1.9bn vs a current market value of the Dyckerhoff stake of €1.4bn. Overall, the acquisition of Dyckerhoff was very positive from an industrial standpoint but was too expensive.

2008-2012: consolidation of the industrial system

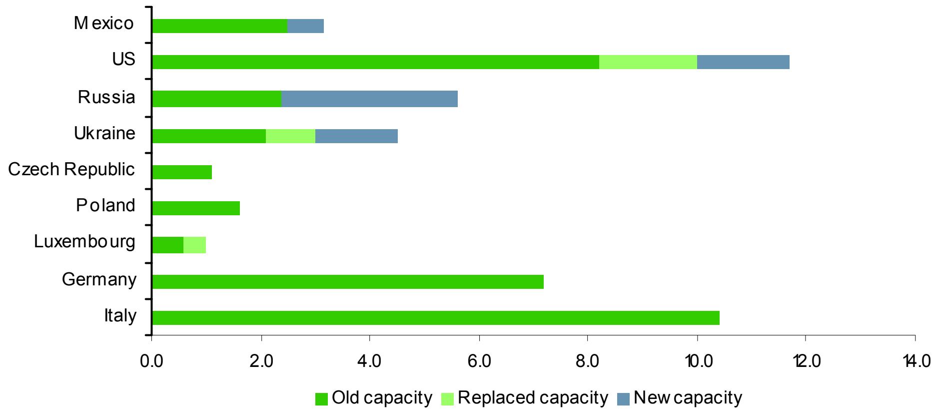
A new investment phase focused on expansion capex

Following the sharp improvement of the company's financial position at the end of 2006 compared with two years earlier (Net Debt/EBITDA at 0.7x vs 1.8x), management outlined a new investment plan aimed at strengthening the industrial system by:

- Replacing obsolete capacity with the most innovative technologies available on the market (about 2.9m tons);

- Boosting capacity by almost 20% (7.6m tons), mainly in emerging markets (5.4m tons);
- Optimising efficiency through maintenance capex.

Buzzi Unicem: cement capacity breakdown in 2012E (mt)

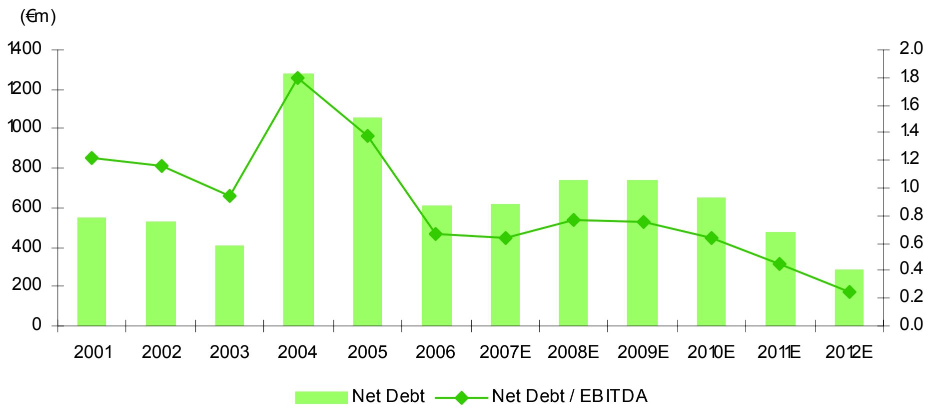


Source: Company data, Dresdner Kleinwort Research estimates

€1.5bn to build 10m tons of new capacity in five years fully financed by free cash flow and only limited additional debt in 2008-2009

Under the new investment plan, the group forecasts €1.5bn of expansion capex to build about 10m tons of nominal new capacity (about €150/t) by 2012. Considering that gross cash flow will exceed €600m a year and that maintenance capex will be around €200m a year, the plan will be fully funded by free cash flow, with only a slight deterioration of leverage conditions in 2008-2009, when the Net Debt/EBITDA ratio should hit 0.8x before declining to 0.25x in 2012 (see below….).

Leverage conditions improving from 2010 onwards



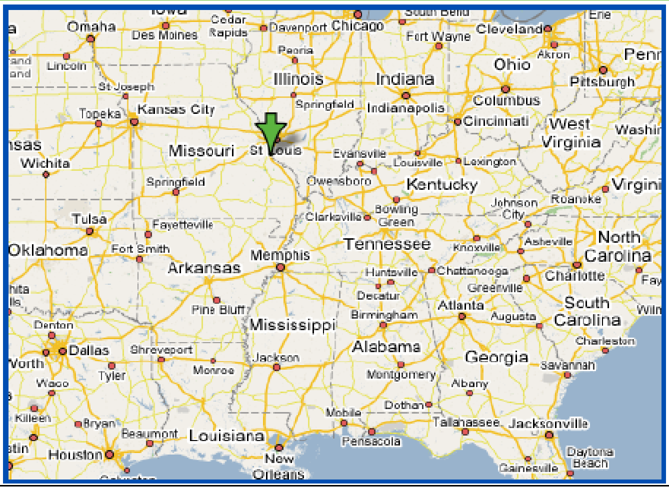
Source: Company data, Dresdner Kleinwort Research

US capacity expansion

The "River 7000" project: US$300m to build 2.3m tons of highly-efficient new capacity, of which additional 1.0m tons, starting up in H2 2008

One of the most important projects of Buzzi Unicem's investment plan is the so-called "River 7000" at the Selma plant (Missouri), which commenced in 2005. A new five-stage kiln with pre-calciner will replace the existing two dry process kilns without a preheating tower, with expected production capacity of 2.3m tons from the current 1.3m tons, at unchanged total emission levels. The group's production capacity in the US will increase by around 10% to 11.0m tons in the second half of 2008, when the plant start-up is scheduled. Located on the Mississippi river, the new Selma plant will further consolidate Buzzi Unicem's already strong position along the major Midwest water-ways, totalling 4.5m tons of highly efficient water-based capacity. The overall investment is estimated at US$300m (US$130/t) and should enable the company to achieve cost benefits of €40m/yr at full capacity from 2010.

The "River 7000" project: a very favourable location



Source: Company

Further US$220m of expansion capex in the US

Another longer-term project in the US (still subject to board approval) is aimed to further replace 0.5m tons of old capacity with 0.7m tons of new capacity. The start-up is expected into 2011-2012 and the estimated investment is around US$220m (US$180/t).

Russia capacity expansion

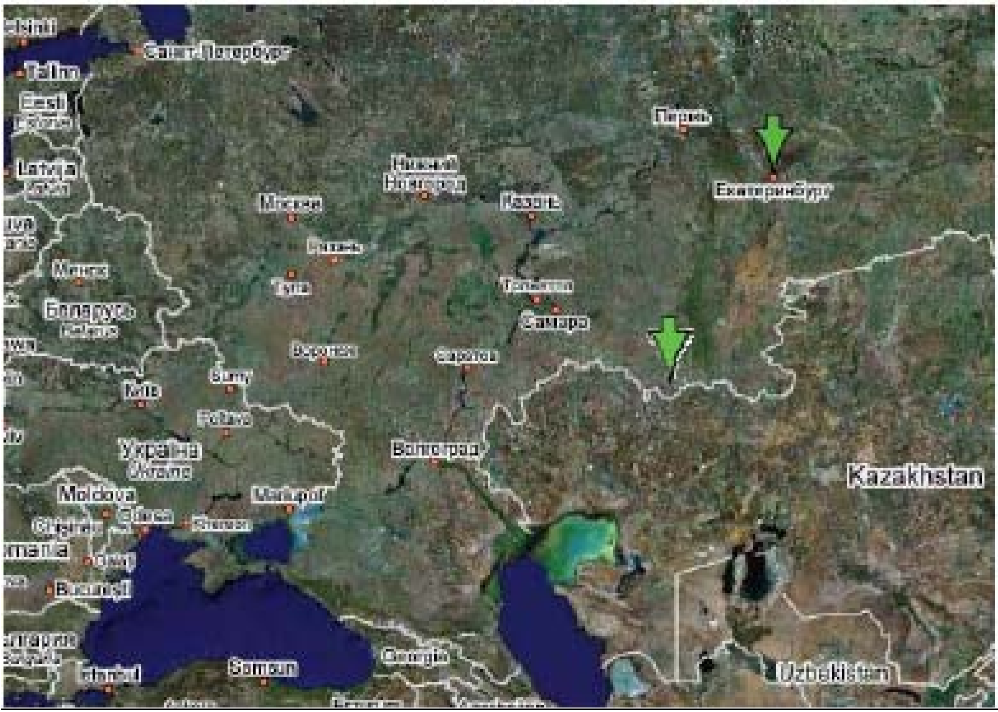
The Suchoi Log project: €150m to build 1.2m tons of additional capacity starting up into mid-2009

With the Russian plant nearing capacity utilization in 2005, the following year Buzzi Unicem launched an expansion project that will provide for the installation at Suchoi Log of a new dry-process production line, partly built with equipment and machinery from group's factories in Western Europe. A new five-stage kiln with pre-calciner will be built to accompany the four existing wet process kilns, with an expected production capacity of 1.2m tons besides the current 2.4m tons (+50% of capacity in Russia), which will enable the company to meet a growing demand in the Ural region. The start-up of the new Suchoi-Log plant is expected into mid-2009. The overall investment is estimated at €150m (€125/t) and should enable the company to achieve at least €40m/yr of incremental EBITDA at full capacity starting from 2010.

The Orenburg green-field project: €300m to build 2m tons of additional capacity close to the Kazakhstan border starting up into 2010

The second-biggest investment in Russia is related to a green-field project in the Orenburg region, about 35km from the Kazakhstan border (Volga Federal District, in the south-eastern part of European Russia). The project, to be carried out through the Russian Company ZAO Akmel (98% controlled by Dyckerhoff), will provide for the installation of a new plant with an expected production capacity of 2m tons (more than 80% of Russia's current capacity), which will service the markets to the north of the Volga/Ural region as well as those of North-West Kazakhstan up to the Caspian Sea. The new plant will have broad geographical coverage thanks to favourable transport links, with direct access to the main railroads between Moscow and Tashkent (the capital of Uzbekistan). The start-up of the new plant is expected into 2010, and the overall investment is estimated at €300m (€150/t), to be financed out of existing cash reserves and expected future internal financing. It should allow the company to achieve at least €75m/yr of incremental EBITDA at full capacity starting from 2012.

Two new projects in Russia: approaching the Kazakh market



Source: Company

Algeria privatisation: a new growth opportunity

A new equity investment of €110m for 35% of two Algerian state-owned companies with 2m tons of cement capacity

In June 2006, Buzzi Unicem won the bid to acquire, at a cost of €110m, a 35% interest in the share capital of two Algerian companies, which own the cement plants of Hadjar Soud (in the north-east of the country, approximately 30km from the important trading port of Annaba) and Sur El Ghozlane (at about 130km south of Algiers). The closing of the deal was announced at the end of 2007 and the share transfer was scheduled to be executed in January 2008, at the same time as payment. This operation falls within the privatisation plan for the cement industry undertaken by the Algerian Government, which will maintain the ownership of the remaining 65% of the share capital. Buzzi Unicem will be responsible for the management of the two plants and will be adequately represented on each board with two members out of five.

The EV/EBITDA paid (12x) is high, but margins are quite good (40% EBITDA), the plants are pretty recent and have spare capacity and the prospects for Algerian cement demand are very strong

Overall cement production capacity at the two companies exceeds 2m tons with revenues expected to total approximately €60m in 2007, generating an EBITDA margin of about 40%. The acquisition cost corresponds to approximately 12x EV/EBITDA 07, at a 140% premium to a sector average of 5x. It also corresponds to €150/t, at a 50% premium to the implicit current market valuation of Buzzi Unicem's cement capacity. Though the price paid seems to be high in relative terms, there are a number of positive factors that should be considered to properly assess the investment:

- It marks a first step towards gaining a strategic presence in the Mediterranean rim;
- The two plants are relatively recent, no major investments are required and they are very profitable;
- The locations are very favourable, with long-lasting reserves, harbour facilities and railroads available;
- The country has low labour costs with huge energy resources and no involvement into the Kyoto protocol;

- The construction sector has expanded since 2003 and cement consumption forecasts are very positive (7% CAGR between 2005-10 according to the company), thanks to robust economic growth mainly driven by high oil prices;
- Cement demand (15m tons in 2006 or 450kg per capita) exceeds production (12m tons) by 25%.

A first strategic step in the Mediterranean rim

Source: Company

Financials

2007 net sales grew by 9% to €3.5bn and EBITDA (recurring excluding associates) is forecast to improve by 7% to €972m. We expect 2008-2009 revenues to slow down (+2% CAGR) and EBITDA to be broadly flat. After peaking at 28.4% in 2006, we estimate the EBITDA margin should ease by almost two percentage points by 2009 due to higher energy costs and the shift from a positive to negative CO2 emission rights balance. The implementation of the investment programme, though aimed to fully exploit the potential of Eastern European markets and replace obsolete capacity, combined with slowing revenues and results, will trigger a sharp dilution of group ROCE in the next two years.

Profit & Loss account

P&L

(€m)	2004	2005	2006	2007E	2008E	2009E
Net sales	2,771.7	2,951.4	3,205.0	3,496.1	3,514.0	3,634.8
YoY growth (%)	89.6	6.5	8.6	9.1	0.5	3.4
Changes in inventories of finished goods and work in progress	9.9	0.2	12.8	0.0	0.0	0.0
Other operating income	96.4	97.7	120.5	110.6	62.0	64.1
Total revenues	2,878.0	3,049.3	3,338.3	3,606.7	3,576.0	3,698.9
Gains on disposal of investments	0.0	49.3	9.7	0.0	0.0	0.0
Raw materials, supplies and consumables	(1,060.3)	(1,131.1)	(1,236.5)	(1,345.2)	(1,369.0)	(1,438.8)
Services	(597.2)	(649.0)	(684.6)	(751.1)	(763.9)	(787.9)
Other operating expenses	(103.3)	(98.9)	(96.6)	(79.3)	(79.8)	(82.5)
Value added	1,117.2	1,219.7	1,330.4	1,431.0	1,363.3	1,389.6
YoY growth (%)	86.2	9.2	9.1	7.6	(4.7)	1.9
% on Net sales	40.3	41.3	41.5	40.9	38.8	38.2
Staff costs	(418.0)	(418.9)	(399.3)	(408.9)	(413.0)	(417.1)
EBITDA excluding associates	699.2	800.76	931.1	1,022.1	950.3	972.5
YoY growth (%)	61.2	14.5	16.3	9.8	(7.0)	2.3
EBITDA margin (%)	25.2	28.9	33.6	36.9	34.3	35.1
(Non recurring revenues/costs)	(3.5)	(38.9)	(21.4)	(50.0)	0.0	0.0
EBITDA recurring excluding associates	695.7	761.9	909.7	972.1	950.3	972.5
YoY growth (%)	60.3	9.5	19.4	6.9	(2.2)	2.3
EBITDA recurring margin (%)	25.1	25.8	28.4	27.8	27.0	26.8
Depreciation and amortization	(211.8)	(204.8)	(201.0)	(193.0)	(211.9)	(230.0)
Impairment losses of fixed assets	(3.1)	(21.4)	(2.2)	(0.3)	0.0	0.0
EBIT excluding associates	484.3	574.6	727.9	828.7	738.4	742.5
YoY growth (%)	51.4	18.6	26.7	13.8	(10.9)	0.6
EBIT margin (%)	17.5	20.7	26.3	29.9	26.6	26.8
EBIT recurring excluding associates	491.0	557.1	708.7	779.0	738.4	742.5
YoY growth (%)	53.5	13.5	27.2	9.9	(5.2)	0.6
EBIT recurring margin (%)	17.7	20.1	25.6	28.1	26.6	26.8
Finance costs	(133.2)	(156.5)	(44.7)	(63.8)	(73.6)	(76.8)
Equity in earnings of associates	(5.5)	(5.3)	(24.5)	11.0	15.4	17.6
of which write-down	(14.2)	(10.2)	(32.5)	0.0	0.0	0.0
EBT	345.6	412.8	658.7	775.9	680.2	683.2
YoY growth (%)	17.9	19.4	59.6	17.8	(12.3)	0.4
EBT margin (%)	12.5	14.9	23.8	28.0	24.5	24.7
EBT recurring	366.5	405.5	672.0	726.2	680.2	683.2
YoY growth (%)	22.7	10.6	65.7	8.1	(6.3)	0.4
EBT recurring margin (%)	13.2	14.6	24.2	26.2	24.5	24.7
Income Taxes	(133.8)	(117.8)	(241.2)	(281.6)	(232.6)	(233.0)
Tax Rate	38.7	28.5	36.6	36.3	34.2	34.1
Net profit	211.9	295.0	417.5	494.2	447.6	450.3
Minority interest	(36.9)	(39.5)	(67.7)	(76.6)	(73.8)	(74.3)
Net profit attributable to equity holders	175.0	255.6	349.8	417.6	373.7	376.0
Net profit Margin (%)	6.3	8.7	10.9	11.9	10.6	10.3

Source: Company data, Dresdner Kleinwort Research

Revenues should slow down in 2008-09 (2% CAGR)

After three years of high single-digit growth (2005-07E CAGR 8%), we believe revenues should fall sharply between 2008 and 2009 (2% CAGR) due to stagnant market conditions in the US and Italy and the impact of the dollar (on US and Mexican revenues). This should be offset by the strong performance expected in the Eastern European markets (particularly Russia and Ukraine).

Margins should worsen slightly in 2008-09 due to expectations of poor cement demand in Italy and the US and to the estimated deficit in CO2 emission rights

The EBITDA margin (recurring, excluding associates) peaked at 28.4% in 2006, driven mainly by the improvement showed in the US and Russia and by the 2005-06 CO2 surplus emission rights (about €25m per year). The EBIT margin should peak at over 28% in 2007 amid eased depreciation. 2008-09 margins should edge lower due to expectations of poor cement demand in Italy and the US and the CO2 emission rights deficit, which should impact by €15m per year (Poland and the Czech Republic face the biggest challenge).

Net financial costs should increase slightly in the years ahead

Net financial costs, after hitting €156m in 2005 (of which €88m of net interest expense and €50m of net losses on forex and derivatives), dropped to €45m in 2006 (of which €73m of net interest expense and €31m of net gains on forex and derivatives), and net financial debt more than halved between 2004 and 2006 (from €1,280m to €613m). 2007-2009 net debt should increase by some €130m and net financial costs should rise €64m in 2007E to reach €77m in 2009E.

Net profit should peak in 2007E and lose 10% in 2008E-2009E

Attributable net profit, after doubling from €175m in 2004 (6.3% net margin) to €350 in 2006 (10.9% net margin), should peak to €418m in 2007E (+19% y/y), also driven by non-recurring revenues of some €50m, and then ease to approximately €375m (-10%) in the period 2008-09E. This is based on the hypothesis that the tax rate decreases from 36.3% in 2007E to slightly more than 34% in 2008-09E.

Balance sheet

Balance sheet

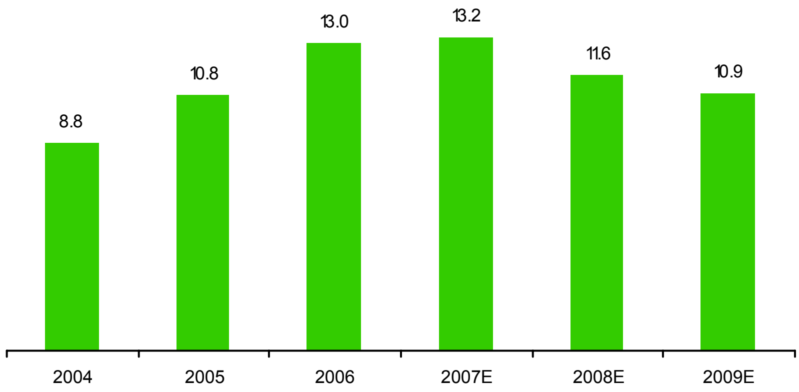
(€m)	2004	2005	2006	2007E	2008E	2009E
Trade receivables	476.2	500.6	549.6	582.4	585.3	605.5
Other receivables	113.9	95.0	67.6	76.6	77.0	79.7
Inventories	266.4	296.1	290.8	320.7	340.1	357.4
Trade payables	(270.2)	(281.3)	(311.3)	(335.9)	(341.7)	(356.7)
Other current liabilities	(253.5)	(262.8)	(242.3)	(242.3)	(242.3)	(242.3)
Net Working Capital	332.8	347.6	354.5	401.4	418.4	443.4
Goodwill	540.0	543.7	540.4	544.4	544.4	544.4
Other intangible assets	3.4	5.7	5.8	19.4	19.4	20.9
Property, plant and equipment	2,902.3	3,135.4	2,876.1	2,985.1	3,330.1	3,656.9
Financial and other non current assets	339.2	426.2	342.0	327.4	437.4	437.4
Net Fixed Assets	3,784.9	4,111.0	3,764.2	3,876.3	4,331.2	4,659.5
Risks, charges and severance funds	(1,083.2)	(1,171.7)	(1,080.8)	(1,035.1)	(1,042.3)	(1,046.8)
Net Invested Capital	3,034.5	3,286.8	3,037.9	3,242.6	3,707.4	4,056.2
Group stockholder's equity	1,466.9	1,883.9	2,099.4	2,353.0	2,648.2	2,942.1
Minority interest	287.4	346.2	326.0	268.8	320.4	372.6
Total Equity	1,754.2	2,230.1	2,425.4	2,621.8	2,968.6	3,314.6
ST financial debt	662.2	131.1	175.6	492.2	227.3	453.3
M/L T financial debt	1,504.4	1,446.1	1,145.1	883.3	1,211.1	988.0
Financial assets	(886.4)	(520.5)	(708.2)	(754.8)	(699.8)	(699.8)
Net Financial Debt	1,280.2	1,056.7	612.5	620.8	738.7	741.6
Total as Net Invested capital	3,034.5	3,286.8	3,037.9	3,242.6	3,707.4	4,056.2

Source: Company data, Dresdner Kleinwort Research

Expansion capex will drive 2008-09E net invested capital by €0.8bn, almost 90% of which to be funded through reinvested earnings

After a period of relative stability between 2004 and 2007E (€3.0-3.3bn), we believe net invested capital should see robust growth in 2008 (€3.7bn) and 2009 (€4.1bn). The increase reflects the challenging expansion capex plan (€350m per year in 2008E and 2009E) that should be implemented until 2012 (€270m per year on average from 2010E to 2012E). The investment plan will be mainly financed through reinvested earnings (total equity should gain €0.69bn during 2008-09), with a net financial debt increase of just €0.12bn forecast for 2008-09.

Post tax ROCE (%): profitability dilution in 2008E and 2009E



Source: Dresdner Kleinwort Research

ROCE dilution expected in 2008E and 2009E

With regards to profitability, the effect of the sweeping investment plan, combined with deteriorating revenues and margins will trigger a ROCE dilution. In particular, post-tax ROCE, up from 8.8% in 2004 to 13.2% in 2007, should decrease to 10.9% in 2009.

Cash flow statement

Cash flow statement

(€m)	2004	2005	2006	2007E	2008E	2009E
Initial Net Financial position	(428.2)	(1,280.2)	(1,056.7)	(612.5)	(696.9)	(801.0)
Change in scope of consolidation	246.8	(1.5)	(2.5)	-	-	-
Net profit	211.9	295.0	417.5	443.4	438.1	442.2
Depreciation, amortization and impairment charges	214.9	226.2	203.2	193.4	211.9	230.0
(Equity in earnings of associates)	5.5	5.3	24.5	(11.0)	(15.4)	(17.6)
(Gains on disposal of fixed assets)	(20.4)	(51.1)	(21.8)	(0.8)	-	-
Deferred income taxes	(92.3)	(29.8)	41.2	(24.9)	-	-
Net change in provisions and employee benefits	27.9	(26.9)	(3.6)	(10.7)	7.2	4.4
(Change in net working capital)	93.0	5.9	(64.9)	(80.0)	(2.3)	(24.9)
Cash flows from operating activities	440.4	424.6	596.1	509.3	639.6	634.2
(Purchase of intangible assets)	(3.3)	(2.3)	(2.5)	(19.7)	(6.8)	(8.3)
(Purchase of property, plant and equipment)	(177.0)	(193.3)	(188.2)	(300.0)	(550.0)	(550.0)
(Purchase of equity investments)	(541.8)	(47.4)	(63.3)	(200.5)	(110.0)	(0.0)
Proceeds from sale of fixed assets	30.5	14.4	19.3	19.2	-	-
Proceeds from sale of equity investments	10.3	82.4	26.1	21.0	-	-
Capital grants received	1.4	1.1	0.8	1.1	1.1	1.1
Dividends received from associates	7.5	8.6	9.6	8.9	15.4	17.6
Cash flows from investing activities	(672.5)	(136.5)	(198.2)	(470.0)	(650.3)	(539.6)
Free cash flow	(232.0)	288.1	397.9	39.4	(10.8)	94.5
Capital increases	206.6	11.5	81.9	2.3	3.5	-
Sale (purchase) of treasury shares	(1.3)	0.4	29.8	(2.8)	-	-
Shares issued to minority interest	2.0	-	-	-	-	-
(Dividends paid to equity holders)	(46.8)	(57.5)	(63.5)	(83.0)	(83.0)	(83.2)
(Dividends paid to minority interest)	(8.6)	(9.4)	(27.7)	(11.0)	(13.7)	(14.5)
Translation differences	(12.4)	28.5	(27.7)	(28.9)	-	-
Other cash flows	(1,006.4)	(36.6)	56.0	(0.3)	(0.0)	0.0
Change in Net Financial Position	(852.0)	223.5	444.2	(84.3)	(104.1)	(3.1)
Final Net Financial Position	(1,280.2)	(1,056.7)	(612.5)	(696.9)	(801.0)	(804.1)

Source: Company data, Dresdner Kleinwort Research

Disclosure appendix

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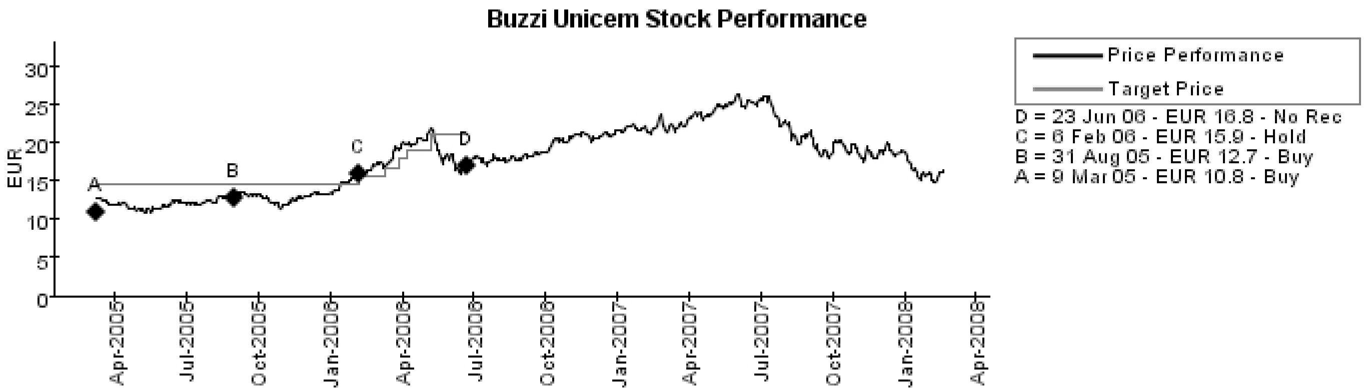

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Source: Dresdner Kleinwort Research

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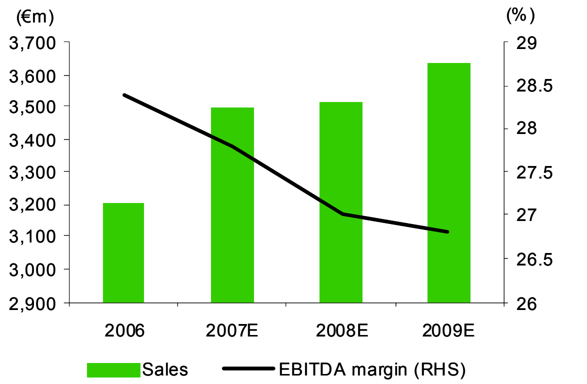
Summary financials and key valuations

Profit and loss statement

		2006	2007E	2008E	2009E
Sales	€m	3,205	3,496	3,514	3,635
EBITDA	€m	918	983	966	990
EBITDA margin	%	28.6	28.1	27.5	27.2
Operating profit incl assoc	€m	717	790	754	760
Operating margin	%	22.4	22.6	21.5	20.9
Pre-tax profit excl except	€m	672	726	680	683
Tax	€m	(234)	(265)	(233)	(233)
Tax rate	%	34.8	36.5	34.2	34.1
Net income	€m	350	418	374	376
Net income margin	%	10.9	11.9	10.6	10.3
Dil EPS excl except	€	1.81	1.87	1.81	1.82
Dil EPS growth excl except	%	40.7	3.0	(2.8)	0.6
Ave diluted no shares	m	204.7	205.5	205.5	205.5

Sales and EBITDA margin



Source: Company data, Dresdner Kleinwort Research estimates

Balance sheet

		2006	2007E	2008E	2009E
Total fixed assets	€m	3,764	3,876	4,331	4,660
Goodwill	€m	540	544	544	544
Working capital	€m	354	401	418	443
Total assets	€m	5,381	5,611	6,033	6,402
Net (debt)/cash	€m	(613)	(621)	(739)	(742)
Equity & min int	€m	2,425	2,622	2,969	3,315

Company description

- International group specialising in cement, ready-mix concrete and aggregates, controlled by the Buzzis.
- 2nd cement maker in Italy and Germany and Europe's 5th player; it also operates in the US and Mexico.
- It owns 35 cement plants with 39.2mt cement capacity and 523 ready-mix concrete plants in 11 countries.
- Employs more than 11,000 people.

Cash flow

		2006	2007E	2008E	2009E
Net capex	€m	(171)	(300)	(556)	(557)
Gross cash flow	€m	578	584	627	638
Free cash flow	€m	407	284	72	80
Dividends paid	€m	(64)	(83)	(83)	(83)

Ratios

		2006	2007E	2008E	2009E
P/E	x	9.2	8.9	9.2	9.1
P/FCF	x	8.1	12.1	47.8	42.7
P/CF	x	5.7	5.9	5.5	5.4
P/B	x	1.6	1.5	1.3	1.2
EV/ sales	x	1.5	1.3	1.4	1.3
EV/ EBITDA	x	5.2	4.7	5.0	4.9
Post tax ROCE	%	13.0	13.2	11.6	10.9
ROE	%	17.6	16.3	14.1	12.8
Net debt/ equity	%	25.3	23.7	24.9	22.4
Interest cover	x	16.0	12.4	10.2	9.9
Dividend cover	x	4.5	4.7	4.5	4.6
Equity/ assets	%	38.9	41.0	44.2	47.3
Working capital/ sales	%	11.1	11.5	11.9	12.2

Key share data

Total no. of shares	m	165.3
Free float	%	44.6
Major shareholders		
Fimedi SpA (Buzzi family)	%	55.2
Alliancebernstein LP	%	7.0
Julius Baer Investment Management LLC	%	2.1
Barclays Global Investors UK Holdings Ltd	%	2.0