

European Oil Services

**Initiation of Coverage**

1-OVERWEIGHT

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MIBTELI 28123.00

Sector View: 1 - POSITIVE

# Maire Tecnimont

Strong fundamentals, low rating  
Initiate with a 1-Overweight recommendation

In our view, Maire Tecnimont is not polished to perfection. An onerous tax rate and a financial performance that betrays its healthy financial position could be barriers for investors in a space that already includes several high-quality names. That said, the company is driven by strong operational fundamentals, has a prudent approach to business and an entrepreneurial ethos that has enabled Maire Tecnimont to become the leading global player in the engineering & construction (E&C) of petrochemicals plants, with a dominant, and growing, 30% market share. The company has particular strength in the Middle East, where it has won several major contracts. This industry-leading petrochemicals business is supported by smaller E&C businesses in the oil & gas, power and domestic infrastructure/civil engineering segments. With few exceptions, the company has historically shown good execution and delivered strong operating margins, encouraging signs for a company whose backlog has grown 140% since the end of 2005, and is now standing at EUR 4.8bn. Indeed, we would go further and suggest that the full benefits of the Maire Tecnimont combination are not fully reflected in current profitability. We value the shares at 16x 2009F P/E, a discount to the 18x base case for the sector, suggesting a price target of EUR 5.30/share. With 57% upside potential, and the shares trading at a 31% discount to the European onshore E&C peer group, we are initiating coverage with a 1-Overweight rating.



Source: Maire Tecnimont Image Bank

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January 11, 2008

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## Investment summary

Maire Tecnimont is a European-based engineering and construction company, the latest in a series that have debuted on European stock markets over recent years. All the companies face a macro environment in which the demand for their products has never been so strong, and in which the outlook for continued market strength is as long as we or the companies have seen.

*Maire Tecnimont has a bias towards petrochemicals*

Within that environment Maire Tecnimont presents a slightly different investment proposition, being biased towards petrochemicals and polymer production. While this may be distant from the pure upstream oil & gas exposure, it is ultimately directed by the same drivers. Indeed, we believe that it could represent a greater opportunity.

- Petrochemicals are purely a mechanism for host nations to monetise their native gas resources. Whether a pipeline is built, gas is liquefied or it is converted into a final product, the processes are designed to take an in situ stranded resource to market. The petrochemicals segment has the advantage that unlike pure gas marketing, it does not need a long-term agreement with a single off-take point to make it go ahead.
- The demand for petrochemicals, and ultimately the construction of plants to satisfy the demand, is forecast to grow at two to three percentage points faster than global GDP. This is faster than the growth in demand for oil and energy, which typically grows at half the rate of GDP.
- The cost benefit of scale associated with new petrochemical facilities ultimately means that production has to migrate to the new large-scale areas of production, just as chemical plants were originally integrated with refineries. This will see a large number of major units built over the coming years, with few other areas being able to compete.
- Tecnimont deals directly with government-related organisations. Unlike in the offshore world where the intermediary is an International Oil Company, there is less scope for dual rounds of price negotiations. Many companies have observed that the new Middle Eastern client base that has emerged over the past decade is tough but ultimately fair, which has the advantage of being likely to proceed with a project once it has said that it will do so.
- Petrochemical processes are often associated with the client in question. Technologies are held closely by the chemical companies in question and are tightly licensed. Hence, once a plant design has been agreed, the number of qualified competitors in the construction phase is limited, a situation very similar to the close-knit LNG liquefaction community.

In addition, the full benefits of the Maire Tecnimont combination are only just beginning to be felt. While Maire has a strong technical background, its internationalisation is in its formative years. The combination with Tecnimont should enable geographic references in Tecnimont's core areas to be used for the benefit of Maire.

While the company has produced, and continues to produce, highly competitive margins, it is far from perfect below the EBITDA line. Losses on derivatives positions (taken to hedge margins from currency effects) have thus far been put through the financials line and not through revenues, betraying a very healthy cash-positive balance sheet. More crucially, an onerous tax rate that stood at 50% in 2006, in part due to an extremely cautious provisioning policy, presents an opportunity for optimisation.

In this scenario, we believe Tecnimont faces a bright future. With a 30% global market share in polyolefin production it has a strong track record. This has already borne fruit, with a 140% increase in backlog since the end of 2005, to almost EUR 5bn. This is a strong backlog with over 90% of 2008 revenues in hand versus our current forecast. We expect to see 20% per annum earnings growth over the 2007-2010 period, and with highly competitive margins and returns above 20%, we believe that Tecnimont compares well with its peers.

In valuing the company's shares, we prefer a P/E-based methodology, using 16x 2009F P/E to arrive at a EUR 5.30/share price target. With 57% upside potential, we are initiating coverage with a 1-Overweight rating. We have also presented the outcomes of a number of other valuation methodologies at the back of this report.

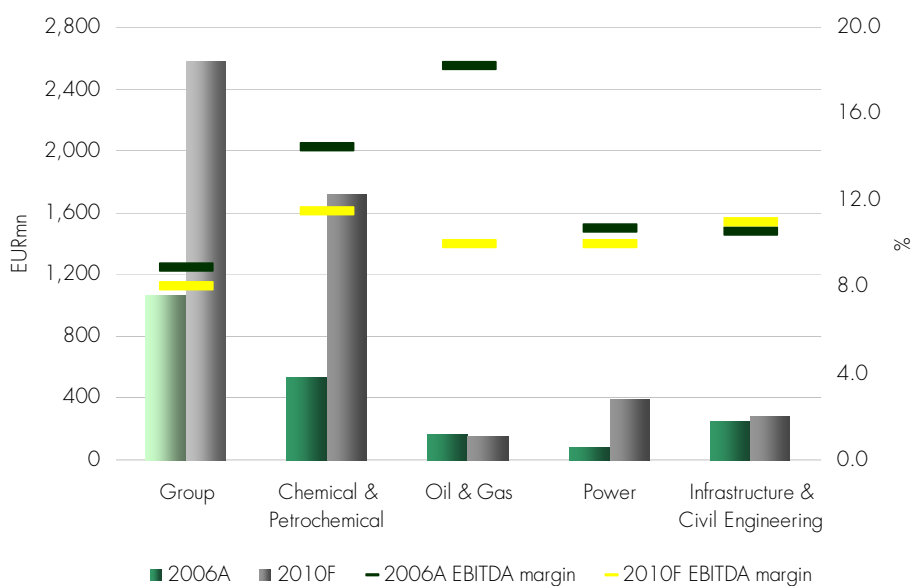
## Company introduction

Maire Tecnimont is currently the largest global operator in the engineering and construction (E&C) of polyethylene and polypropylene manufacturing plants, with 30% market share. The company also has a sizeable market share in building LNG re-gasification plants as well as a significant presence in Italy for the design and construction of combined cycle electric generation plants and of complex infrastructure and civil engineering projects.

The company was formed by the Maire Group, itself established in 1991, which acquired Maire Engineering and Tecnimont in February 2004 and October 2005, respectively. Maire Tecnimont now works through these two operating companies and has a global footprint with subsidiaries and engineering centres in Italy, France, Germany, Brazil and India, and representative offices in more than 30 countries worldwide. As of June 2007, the company employed over 3,300 people.

Group revenues in 2006 of EUR 1.1bn with an 8.9% EBITDA margin

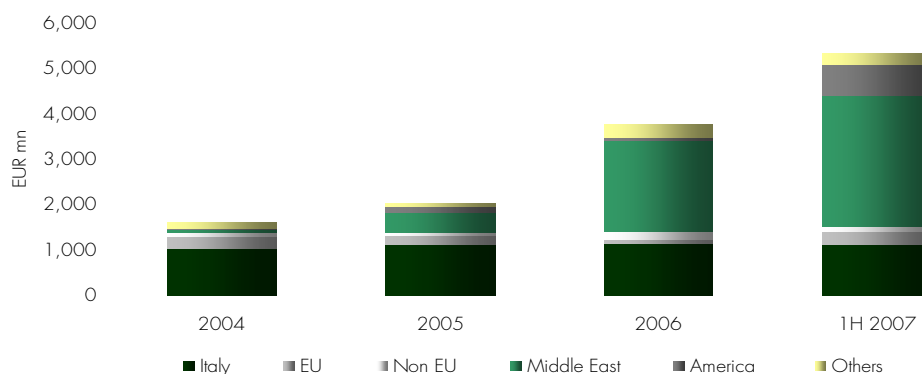
### Maire Tecnimont at a glance



Source: Company data, Lehman Brothers estimates

Strong exposure to the Middle East

### Maire Tecnimont's backlog by geography



Source: Company data, Lehman Brothers estimates

## Two divisions, four sectors

Maire Tecnimont has two divisions – Maire Engineering and Tecnimont – each operating in two distinct business regions. In total, the company works throughout the downstream energy chain and has diversification via exposure to infrastructure and civil engineering.

### The four divisions of Maire Tecnimont

TECNIMONT		MAIRE ENGINEERING	
Chemicals & Petrochemicals	Oil & Gas	Power	Infrastructure & Civil Engineering
<p>Designs and builds complex petrochemical plants (polyethylene, polypropylene, ethylene oxide, ethylene glycol, PTA, ammonia and fertilizers)</p>	<p>Field of activity covers oil refinery units and the entire "gas chain": gas/oil separation, gas treatment, liquifaction, transport, storage, regasification, compression and pumping stations</p>	<p>Execution capabilities in EPC projects for power plants, specialised know-how in gas turbines inherited from Fiat Avio: simple and combined-cycle PP, cogeneration, re-powering to CCPP, systems of transformation and transmission of energy for civilian and industrial use and district heating systems</p>	<p>Development of infrastructure on the base of the ability to combine specialised competences that include planning and realizations. Operations highly specialised in re-qualification of industrial sites and realizations of houses, offices, sport complexes, hospitals, and complexes for the service industry</p>
<ul style="list-style-type: none"> <li>- Polyolefins</li> <li>- Polymers</li> <li>- Ethylene Oxide &amp; Ethylene Glycols</li> <li>- PTA, LAB</li> <li>- Ammonia &amp; Urea</li> <li>- Other Basic Chemicals</li> </ul>	<ul style="list-style-type: none"> <li>- Refinery Units</li> <li>- LNG Regasification, Storage &amp; Receiving terminals</li> <li>- Oil &amp; Gas Gathering and Separation</li> <li>- Gas &amp; Liquid Pipelines</li> <li>- Reservoir &amp; Production Engineering</li> </ul>	<ul style="list-style-type: none"> <li>- Combined cycles</li> <li>- Conventional thermal plants</li> <li>- Renewable energy</li> <li>- Cogeneration</li> </ul>	<ul style="list-style-type: none"> <li>- Railways &amp; Urban Transport Solutions</li> <li>- University Campuses</li> <li>- Hospitals</li> <li>- Facilities Management</li> <li>- Roads &amp; Highways</li> <li>- Industrial Buildings</li> </ul>

Source: Company data, Lehman Brothers research

### Tecnimont – Chemical & petrochemical and oil & gas

*Tecnimont accounts for 75% of revenues*

The Tecnimont division accounts for ca. 75% of revenues. It is a leading international E&C company operating worldwide in the chemicals, petrochemicals, oil & gas, energy and related sectors of the process plant industry. Tecnimont provides the full range of engineering, procurement and construction services, from feasibility studies and conceptual design to the construction of highly sophisticated industrial complexes on a turnkey basis.

Tecnimont has a long stand-alone track record, being formed in 1973 as a spin-off of the engineering division of Montedison. It inherited extensive experience and capabilities from the founders of Montedison, Montecatini and Edison, which had pioneered the development of the Italian chemical, petrochemical and energy industries over the past century. The business was acquired 100% by Maire Engineering in October 2005 for EUR 180mn.

*30% market share in polyolefin plant production*

Today, Tecnimont is a world leader in the polyolefin sector: it has designed and built over 120 polypropylene and polyethylene plants worldwide. Over the last six years it has been responsible for building 30% of the world polyolefin production capacity. The company also has EPC experience in many other sectors, including oil & gas, chemical, intermediates and fertilisers.

22% market share in LNG re-gasification

In oil & gas, Maire Tecnimont has been active in the Italian and international oil & gas market since the 1960s and is one of the principal operators globally in the construction of re-gasification terminals for LNG, with a 22% market.

Overall, since its foundation, the company has implemented more than 350 industrial plants worldwide. Together with its major subsidiaries, Sofregaz in France specialising in the field of natural gas processing and LNG receiving terminals, and Tecnimont ICB, the Indian engineering company, it has successfully handled more than 1,500 projects worldwide.

Engineering activity is carried out mainly at the Milan headquarters, at the Paris-based company Sofregaz specialising in natural gas, in the Indian E&C company Tecnimont ICB, and at two centres in Brindisi, Italy, and in Salzgitter, Germany, which are the centres of excellence for polymer chemistry. All the engineering centres are linked to Milan through a global communication network that enables information to be exchanged and applications to be shared. As at 1H 07, Tecnimont had 2,616 employees (of which approximately 1,400 were university graduate engineers), 17 subsidiaries and 7 branches with representative offices in the most strategic countries.

#### Tecnimont's expertise

Plant types	Track Record	Key features
Polyolefin Plants	30% global market share in the last decade	Global leadership and relationships with Basell and Borealis
LNG Receiving Terminals	Significant experience in executing LNG terminals	Sofregaz is specialised in the design and construction of natural gas projects
MEG, PTA, IAB	Strong execution capabilities	Alliances with top suppliers and technologies
Fertiliser	Strong execution capabilities	Alliances with top suppliers and technologies

Source: Company data, Lehman Brothers research

#### Maire Engineering – Power and infrastructure & civil engineering

Maire Engineering accounts for 25% of revenues

The company's smaller Maire Engineering unit (ca. 25% of revenues) is involved in the design and construction of civil and industrial works, territorial redevelopment projects, large-scale transport infrastructure and power plants. It is also specialised in the recovery and renovation of buildings of historical and artistic value and in the field of environmental impact analysis. At the 1H 07 stage, Maire Engineering had 678 employees (of which 180 were university graduate engineers).

Maire Engineering began in the 1930s as a division of the FIAT Group devoted to designing and building industrial plants. Throughout the 20th century, the group designed and constructed industrial facilities and infrastructure projects in Italy and played an important role within the FIAT Group during the reconstruction years after World War II. The company was spun out into a separate entity in 1972 and called FIAT Engineering S.p.A. As a stand-alone company, FIAT Engineering continued to build and develop industrial projects and in 2001 it acquired from FIAT Avio S.p.A., the latter's division devoted to the design and construction of electrical power plants. In 2003, Maire Group acquired FIAT Engineering and subsequently changed its name to Maire Engineering.

### Strategy – expansion in global and product terms

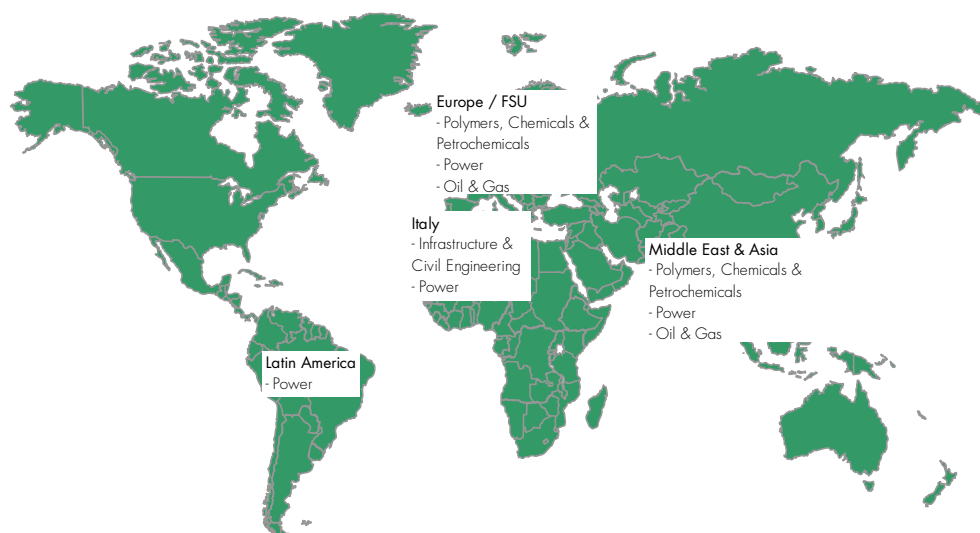
Maire Tecnimont has been formed by an entrepreneurial management team who have created an engineering company operating on a global scale. The integration process of the businesses is still ongoing and the group aims to grow by exploiting post-integration synergies while continuing to satisfy clients in terms of quality, timing and pricing. The group's strategic business plan hinges on enhancing profitability by growing business volumes, reducing the cost base and expanding the product portfolio.

Within this framework the company is keen to expand, both internationally and in terms of products offered. It is expected that the geographic experience of Tecnimont will serve as a reference to aid the internationalisation of the Maire Group's brand. We would expect to see further acquisitions as the company evolves with moves into new countries, especially in the Middle East and Latin America.

#### A young management team

We see this as an exciting prospect, driven by an invigorated young management team. The key to us is age; the founder and CEO, Fabrizio di Amato, is just 44 years old, while the senior management team averages less than 48 years of age.

### Establishing a global footprint



Source: Company data

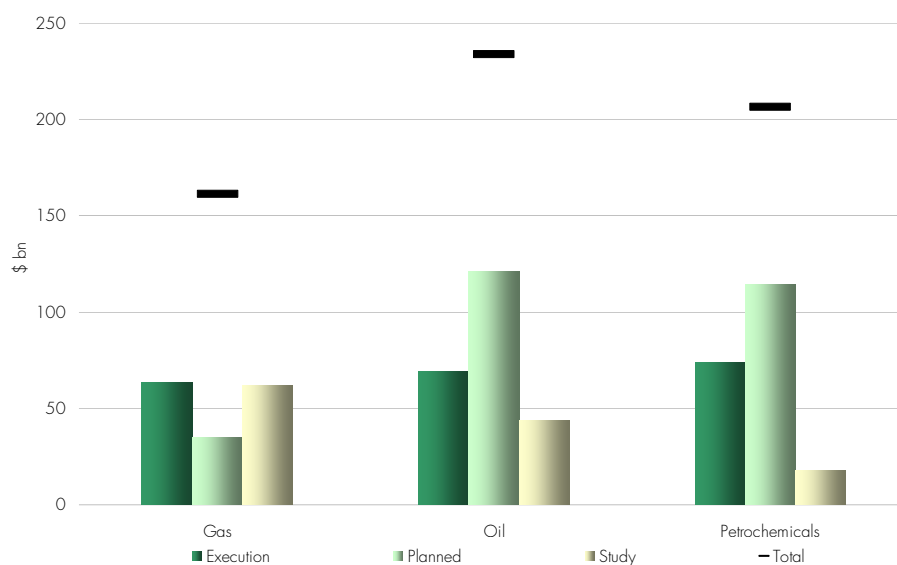
## Market outlook and drivers – construction demand rising at 6%-7% pa

The plant engineering and construction market continues to rise. In 2006, according to European Industrial Forecasting Ltd., adjusted for cost inflation using CEPCI inflation index, the global market for plant engineering in Maire Tecnimont's core sectors of chemical & petrochemical, oil & gas and power was estimated at ca. \$460bn and is expected to grow annually on average at 6.4% before cost inflation. This growth will be driven by production plant investment in emerging markets (such as Brazil, Chile, India, China, Saudi Arabia, United Arab Emirates and Iran), where growth is expected to be 7.6%.

*Two-thirds of the \$600bn investment in the Middle East is not yet awarded*

Indeed, if we are to look at the Middle East alone, the Sentinel database (via Pipeline Dubai magazine) contains nearly \$600bn of projects planned in the Middle East alone in the petrochemicals and oil & gas field. Of this only a third is in the execution phase and nearly half is in the planning or bidding stage. It appears to us that even though growth has been very strong in recent years, there is still scope for further market expansion.

### Middle Eastern spending



Source: Pipeline Dubai Magazine

Within the market not only the number of plants continues to rise, but the scale of plants continues to grow, both in terms of capacity and price, pushing the market towards those contractors that can handle the very biggest of plants.

*The sizes of plants limits the number of contractors*

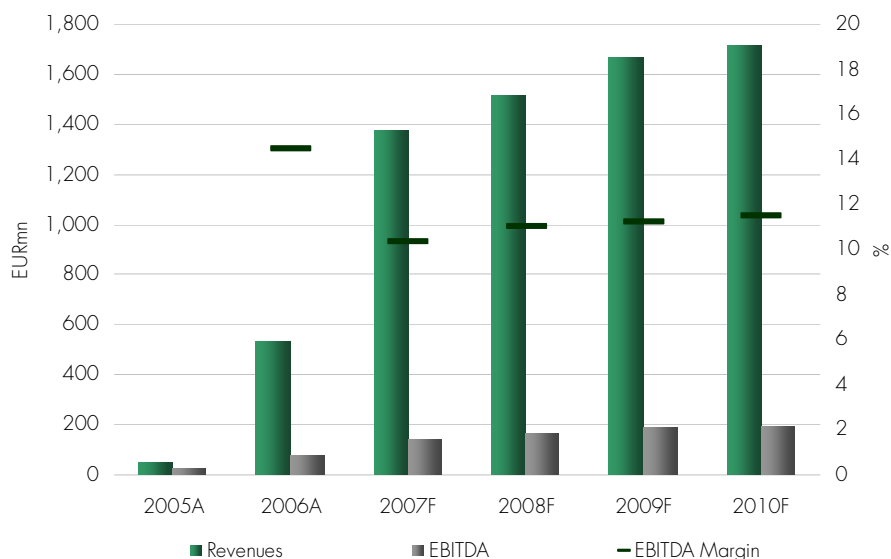
In particular, in the chemical & petrochemical sector, Maire Tecnimont's core area, the maximum annual production capacity of polymerisation production lines has increased from 100,000 tpa (tonnes per annum) during the 1980s to 550,000 tpa for polyethylene and 450,000 tpa for polypropylene today. In the power sector, the size of the plants being built has increased from ca. 30MW-40MW of installed capacity at the beginning of the 1990s to 800MW today.

## Chemical & petrochemical

The scale of the chemical & petrochemical (C&P) business has grown strongly, largely through the acquisition of Tecnimont, and now accounts for over 70% of revenues and nearly 80% of EBITDA pre G&A. This is supported by a backlog at the end of 3Q 07 of EUR 3.1bn, representing 64% of the total backlog.

Rapid growth in 2007...

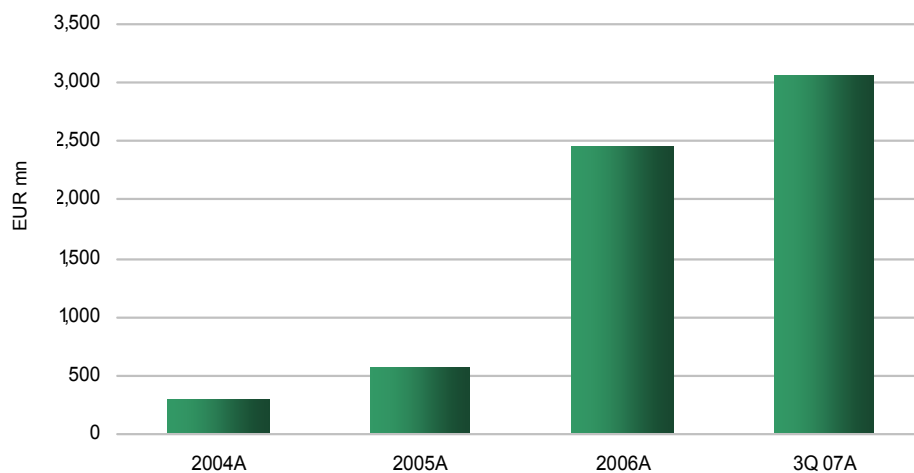
### Chemical & petrochemical revenues



Source: Company data, Lehman Brothers estimates

...driven by large backlog additions

### Chemical & petrochemical backlog evolution



Source: Company data

The company is actively involved in all stages of construction, from feasibility studies to the design, construction and commissioning of plants for the chemical and petrochemical industry. Particular strength is in the field of polyethylene and polypropylene, ammonia, urea and fertilisers. For example, the group has a 30% global market share by installed capacity for polyethylene and polypropylene plants over the past six years and has built more than 120 plants.

*Strong technology base*

A key reason for the dominant market share of Tecnimont in polyolefins is its strong technological positioning. The company does not possess proprietary technologies nor does it have exclusivity with any technology licensor, but it does have long-standing licence agreements with key clients such as Basell, Chevron, Exxon and Borealis for polyolefins and other process offerings. Tecnimont is a pre-qualified polyolefins contractor for most of the clients with which it seeks to work, tending to see just two or three competing bids per project – this is unsurprising given that licensors only tend to license process know-how to two or three EPC companies. Historically, Tecnimont has shown strength in the bidding process. In 2006, the company was able to grow its C&P backlog five-fold to EUR 2.5bn, losing out on only one contract for which it bid. More recently, of the eight polyolefins projects for which the company has bid in 2007, it has lost only one, for a plant in Poland. Licensors are keen to employ contractors who will best be able to demonstrate the benefits of their technologies by quickly and efficiently constructing the associated plant, and Tecnimont has clearly built a reputation as one of the leading operators in the industry.

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**Tecnimont process technologies and partners**

<b>Polymers</b>	<b>Partner</b>	<b>Origin of partner</b>
Polypropylene	Basell Polyolefine	Italy
LLDPE / HDPE	Borealis	Denmark
	Basell Polyolefine	Germany
LDPE	Exxon	USA
	Basell Polyolefine	Germany
HDPE	Chevron Phillips	USA
	Mitsui Chemicals	Japan
	Basell Polyolefins	Germany
PMMA	Repsol	Spain
Polystyrene (EXPS-HIPS-GPPS)	Polimeri Europa	Italy
ABS	Polimeri Europa	Italy
<b>Chemicals and other petrochemicals</b>	<b>Partner</b>	<b>Origin of partner</b>
Steam Cracking	Stone & Webster	USA
Ethylene Oxide and Ethylene Glycols	Scientific Design	USA
	Shell	The Netherlands
Acrylonitrile	Ineos	UK
Purified Terephthalic Acid (PTA)	Dow Italia	Italy
Pyrolysis Gasoline	Axens	France
Hydrotreating	Nippon Zeon	Japan
Butadiene Extraction		
Dicyclopentadiene	Axens	France
Butene-1 From Ethylene	Axens/Sabic	France
Dimerisation Aromatics (Btx) Extraction	Uop	USA
	Axens	France
Propane/Isobutane Dehydrogenation	ABB Lummus	USA
	Uop	USA
Acetone Cyanohydrin & Mma	Repsol	Spain
Phenol/acetone	Uop	USA
Lab	Uop	USA
Ammonia	KBR	USA
Urea	Stamicarbon	The Netherlands
Urea granulation	Uhde Fertiliser Technology	The Netherlands

Source: Company data, Lehman Brothers research

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An example of the strength of Tecnimont's licensing position is its relationship with Basell, which has resulted in it working on the construction of 57 out of a total of the 90 plants in existence worldwide that have been built using Basell technology. Basell is the market leader in the sector with a market share well over 10%, twice that of the nearest competitor.

Due to the demand for access to proprietary technologies, the chemicals and fertiliser sectors have significantly lower levels of competition than in the more commodity-type field of oil & gas or refining. In the petrochemical sector the group competes with the likes of Technip, Tecnicas Reunidas, Samsung Engineering & Construction, Daelim, GS Engineering & Construction and SK Engineering & Construction. In the chemicals and fertiliser field, the company's main competitors are Saipem, Uhde, Daelim, Zimmer and Toyo.

As with the more traditional oil & gas sector with which investors are more accustomed, finding reliable sources of future market expectations is a difficult task. We are confident that petrochemicals demand is growing and with it the demand for the construction of new plants, many in areas of feedstock availability or close to growing demand centres such as India, China and the rest of Asia.

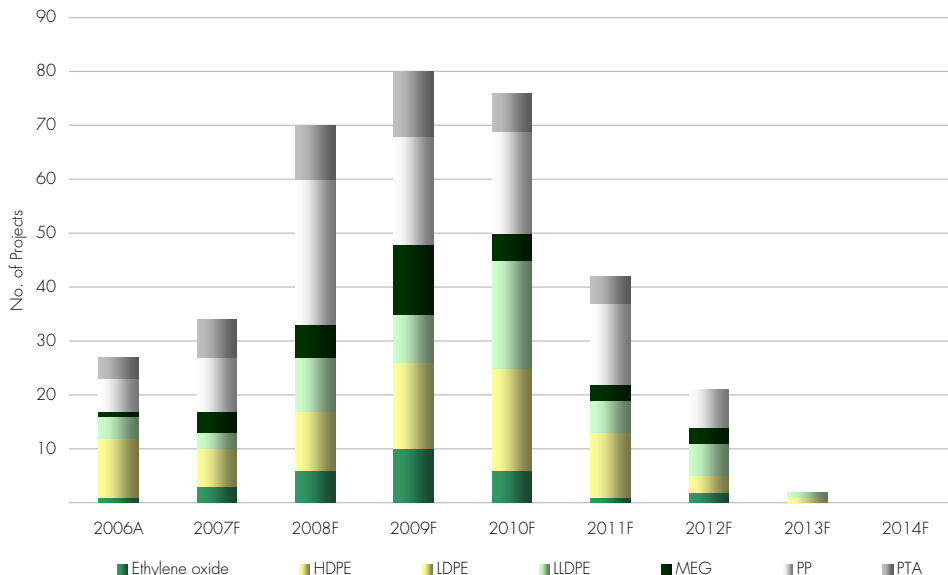
*The rate of growth of petrochemical demand is twice that of oil*

According to ExxonMobil (*Hydrocarbon World, 2007*), the demand for chemicals is growing at two to three percentage points above the world GDP rate of growth. With a growth rate of 5%–6% pa, it is triple the global demand growth rate for energy, which tends to grow at half the rate of GDP growth. This will be coupled with a shift in demand, such that Asia accounts for 50% of global demand by 2015.

In the medium term, we can more accurately forecast the expected growth in capacity. Using the ICIS database we see a large number of projects in varying stages of implementation. Within this dataset, we have taken a bottom-up view on announced projects for polyolefins (polypropylene & polyethylene), MEG, PTA and ethylene oxide, related to plants offered by Maire Tecnimont. The 352 plants included represent almost 140mtpa of capacity coming on-stream between 2006 and 2014; equivalent to a 75% expansion on the installed base-load capacity, a result of the much larger scale of new plants.

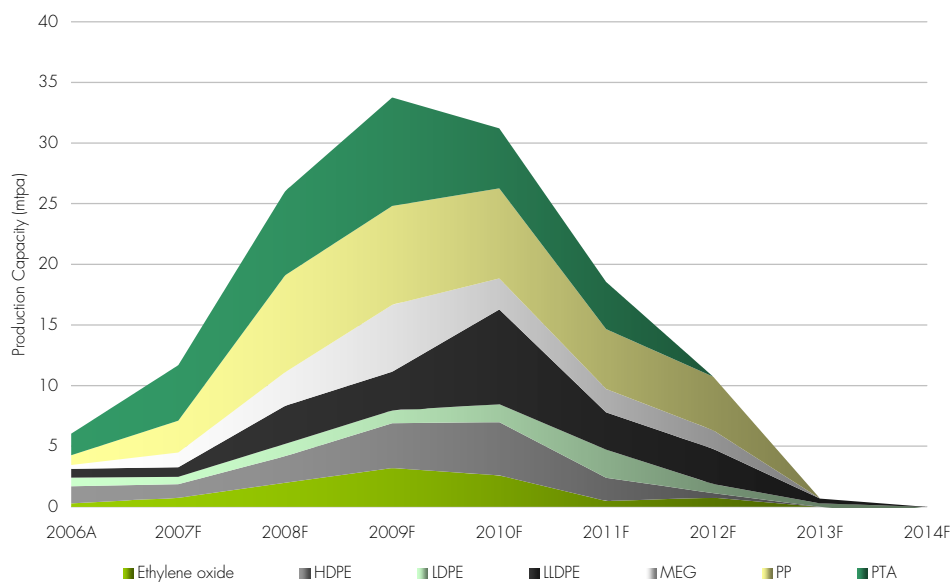
352 plants representing a 75% increase in base-load capacity

### Announced projects at varying stages of implementation, 2006-2014



Source: ICIS database, September 2007, Lehman Brothers estimates

### Incremental capacity from announced projects, 2006-2014, mtpa

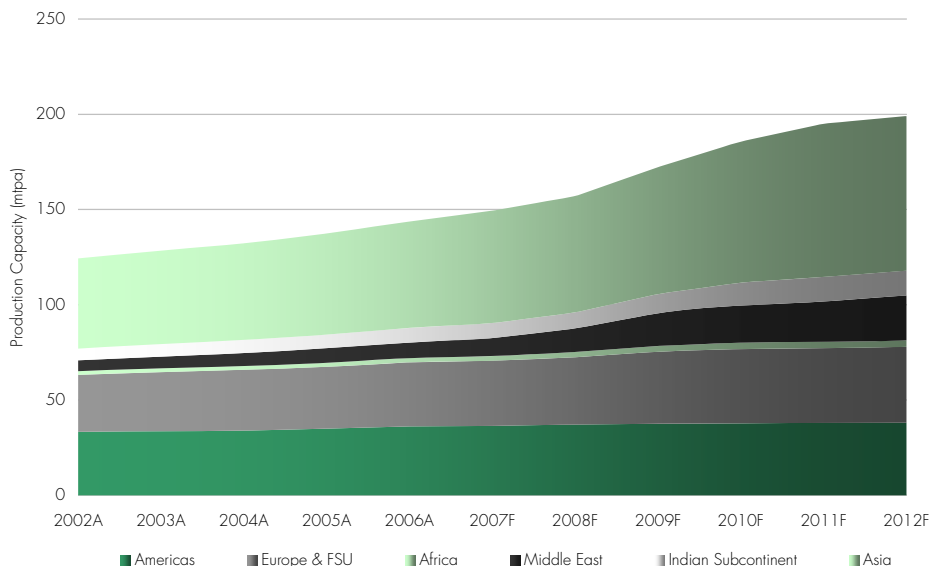


Source: ICIS database, September 2007, Lehman Brothers estimates

Polyolefin capacity growing at 5%–6% per annum

If we narrow the analysis down to just polyolefins, Tecnimont’s core area of expertise, we can see the regional shift in capacity. The global capacity, according to CMAI Global, is forecast to grow to 199mtpa by 2012, from 144mtpa in 2006, a 5.6% pa growth rate. Of this, Asia, India and the Middle East are expected to account for 46%, 10% and 28% of the increase, respectively.

### Global polyolefin capacity



Source: CMAI Global, Lehman Brothers estimates

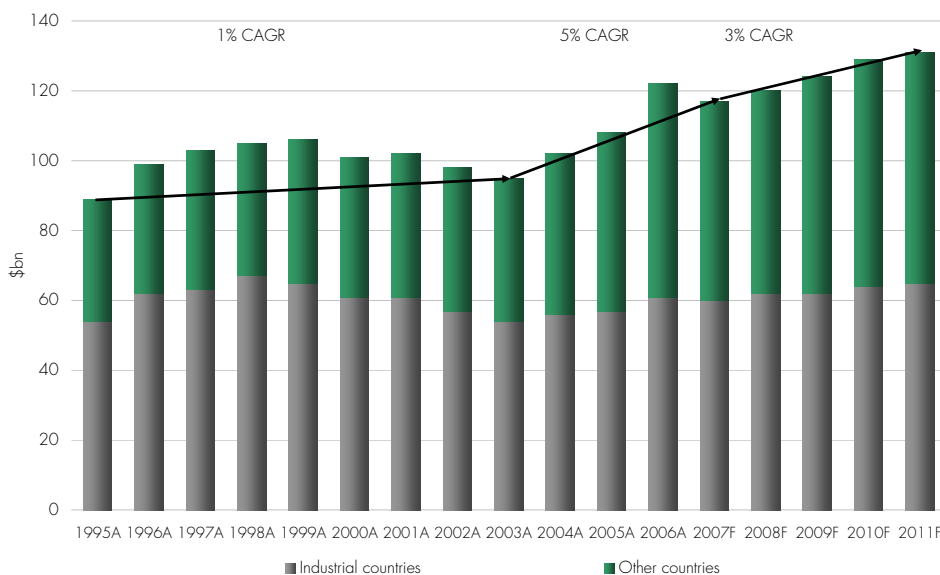
Total spending is ca. \$50bn pa

There is a range of methodologies for converting capacity increases into a US dollar market size, all of which give differing absolute answers, but similar trends. Simply we could assume that plants cost typically \$1,000mn, or \$2,000/tonne for a 0.5mtpa plant. For the 352 plants we identified earlier, this would amount to a spending of \$350bn or \$50bn pa.

Independent market estimates are hard to find and vary in quality. European Industrial Forecasting Ltd. expect the entire chemical and petrochemical construction market to be \$117bn in 2007 and to grow at 2.9% pa out to 2011.

### The global chemicals & petrochemicals market

The market turned in 2004, largely through the start of activity in the Middle East



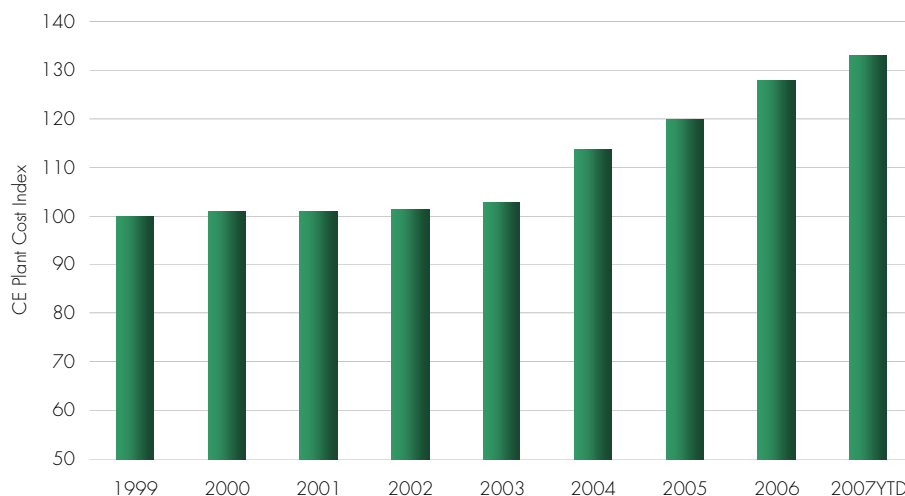
Source: European Industrial Forecasting Ltd. forecast (2006), Lehman Brothers estimates

However, this forecast looks anomalous to us, not least because all market participants in the construction universe with whom we have spoken believe that the market is showing nearly double-digit annual growth at present, and is not declining in 2007. This is on top of a current peak in expected new capacity additions in 2009.

In addition, since 2004, we have seen cost inflation in the market, largely a result of metal prices more than doubling and tightness within the global supply chain. Indeed the Chemical Engineering Plant Cost Index (CEPCI), which tracks process plant construction costs across time and has such wide acceptance that even construction contract cost-escalation clauses are indexed to it, shows that there has been 8% pa cost inflation since 2003. This itself is lower than we would have initially expected. If we assume the 2.9% growth rate in the market expected over the 2007-2011 period has been indicative of the market over the near past, then economies associated with plants increasing in size, would appear to have been reducing costs by 6% pa. If underlying growth has been faster, which we would intuitively have believed, then the plant scale effect could have been greater.

#### CEPCI (CE Plant Cost Index) rebased 1999

*8% pa unit cost inflation since 2003*



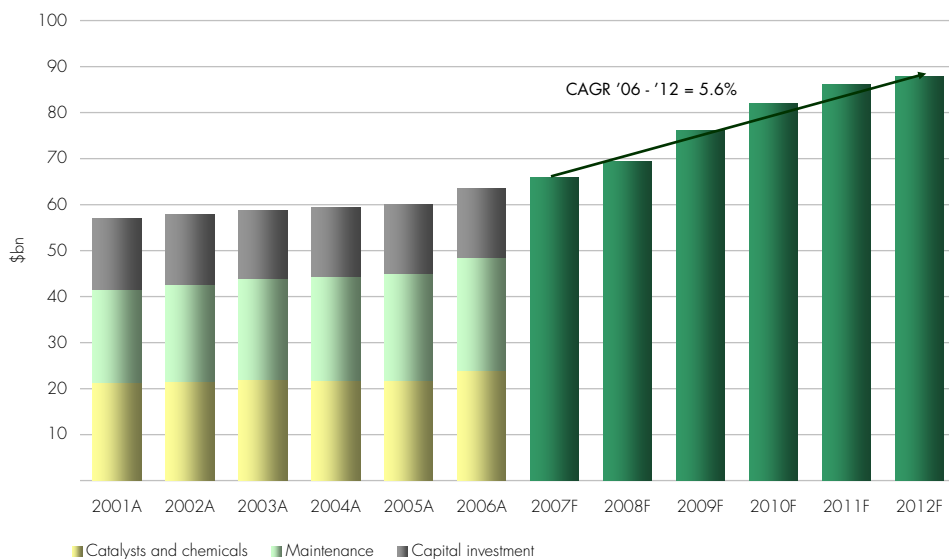
Source: Chemical Engineering, June 2007

The above estimates apply to the entire chemicals and petrochemicals market. Maire Tecnimont's target market is only a portion of this. If we assume that it has 30% market share then we would estimate a target market of \$10bn, one-tenth of the overall market.

*We estimate a 38% increase in market size by the end of the decade*

For further granulation of the petrochemicals only market size, we can look at IFP (Institut Français du Pétrole) petrochemical panorama outlook of 2007, which puts the estimated total spend on petrochemicals plants at \$64bn in 2006. This is a subset of the data displayed above and correlates to the global petrochemicals volume outlook we showed earlier. In this framework, the investment in new plants makes up roughly 25% of the total capital expenditure, or \$16bn pa, with maintenance and catalyst/chemical costs accounting for the rest of the capex. It seems sensible to us to assume that cost inflation can be largely offset by plant size efficiency, as the next step change in plant size is not imminent, and cost inflation concerns are less now than they were over the past few years. In this case we estimate that the market will grow at the same rate as the polyolefin demand growth expectations, up by 38% by the end of the decade.

Petrochemical plant investment (forecast at polyolefin demand growth rate)

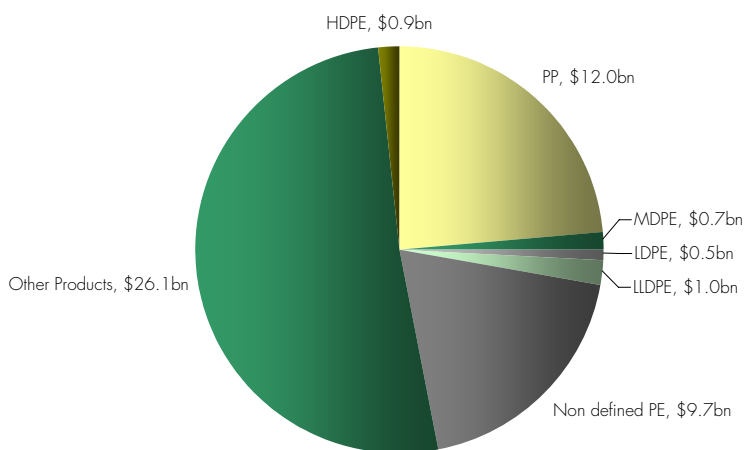


Source: IFP Panorama 2007, HPI Market data, Lehman Brothers' estimates

From the above chart, we see that plant capex is around 25% of overall spending. At this rate expenditure over the 2007-2011 period would be ca. \$75bn. We can correlate this to the Global PP Industry Report of 2006, which predicted that investment in polymer manufacturing plants alone is forecast to be approximately \$50.9bn over the 2007-2011 period, a similar order of magnitude. Of this, almost 50% of the identified planned investment will be carried relative to polypropylene and polyethylene plants, which indicates a sustained demand for the Tecnimont's core polyolefin offering.

\$51bn of polymer capex expected over the 2007-2011 period

2007F-2011F global polymer plant investment (total \$51bn)



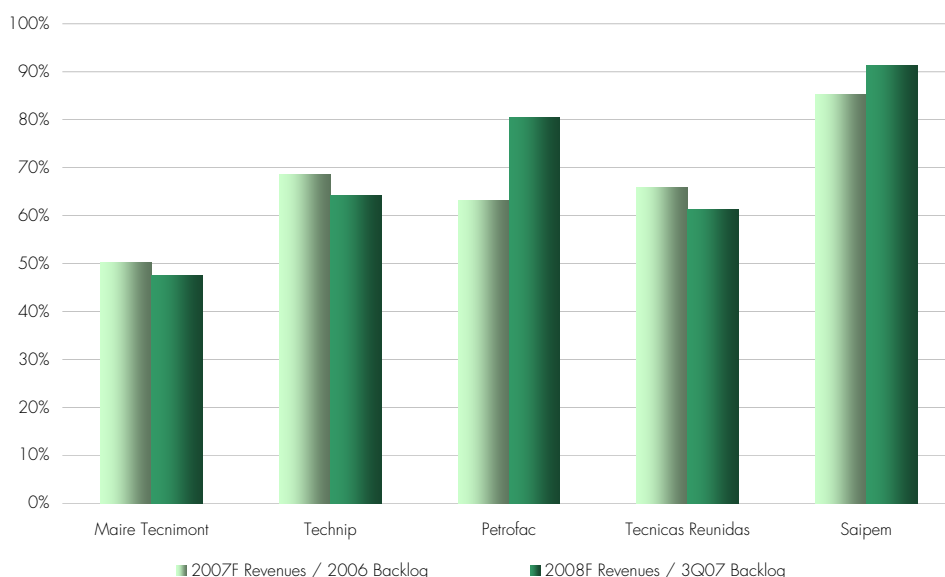
Source: Global PP Industry Report 2006

Company aims to move into new product lines

Tecnimont aims to capitalise on the market expansion described above. Not only will this involve a continued push to maintain, if not grow, its positioning in polyolefins, but will include a move into other areas. The group intends to invest in know-how to develop further plant engineering capabilities for purified terephthalic acid (PTA), ethylene oxide (EO), mono ethylene glycol (MEG), acrylonitrile butadiene styrene (ABS), fertilisers, polystyrene and aromatics, including exploring potential acquisitions in this space. This will also involve aggressively strengthening its commercial presence in India, where it has rapidly built the largest engineering capacity of any of its peers, as well as North Africa and Nigeria, in order to meet the new global footprint of capacity that is emerging.

**Model drivers and forecast:** The C&P division has significant backlog growth in 2006 and 2007 y-t-d, increasing more than sixfold to EUR 3.1bn, for scale a similar size to Tecnicas's group backlog, twice that of Petrofac's E&C division and half that of Saipem's and Technip's onshore units. While spot backlog numbers can be misleading, the scale of the backlog confidently enables us to predict revenues in excess of EUR 1.5bn in 2008, a 10% uplift on top of a doubling in 2007. Indeed, we would expect this to be conservative. Tecnimont is the only company for which we predict the ratio of 2008F revenues/1H 07 backlog to be lower than the ratio of 2007F revenues/end 2006 backlog. This may be due to the timing of awards during the year for the individual companies, such that Tecnimont is more "in-hand" at present, but it does highlight the conservatism in our forecast.

#### Onshore backlog to year forward revenues – Maire Tecnimont the most "in-hand"



Source: Company data, Lehman Brothers estimates

Beyond 2008, we have assumed a growth rate of 10% in 2009 as the current backlog is executed, just ahead of the trend 5.6% pa growth in petrochemicals demand. For 2010, we have assumed a conservative 3% increase, in-line with low end of estimated trend growth rates for overall chemical and petrochemical plant demand.

Given the limited number of competitors and the track-record of Maire Tecnimont, the company has consistently shown impressive EBITDA margins in its C&P division, above 10% and above 40% at peak, highlighting the ability of contingency release to significantly increase reported profitability. This may be inflated by better than the normal disclosure below the EBITDA line. For 9 months up to 3Q 07, the company delivered 10.0% margins, lower than the 19.8% a year ago as there were no contingency releases. We have assumed a slight improvement to this level as a base for forecasting.

#### Summary financials – chemical & petrochemical

EUR mn	2005A	2006A	2007F	2008F	2009F	2010F
<b>Net operating revenues</b>	<b>46.3</b>	<b>538.1</b>	<b>1,375.0</b>	<b>1,512.5</b>	<b>1,663.7</b>	<b>1,713.7</b>
<i>Growth y-o-y., %</i>		1,062%	156%	10%	10%	3%
<b>EBITDA</b>	<b>21.3</b>	<b>77.7</b>	<b>142.4</b>	<b>166.4</b>	<b>186.3</b>	<b>197.1</b>
<i>EBITDA margin, %</i>	46.0%	14.4%	10.4%	11.0%	11.2%	11.5%
<b>Backlog</b>	<b>548</b>	<b>2,450</b>	<b>3,065*</b>	-	-	-
<i>Chemical &amp; petrochemical, %</i>	27%	65%	65%	-	-	-
<i>Growth y-o-y., %</i>	85%	347%	0%	-	-	-

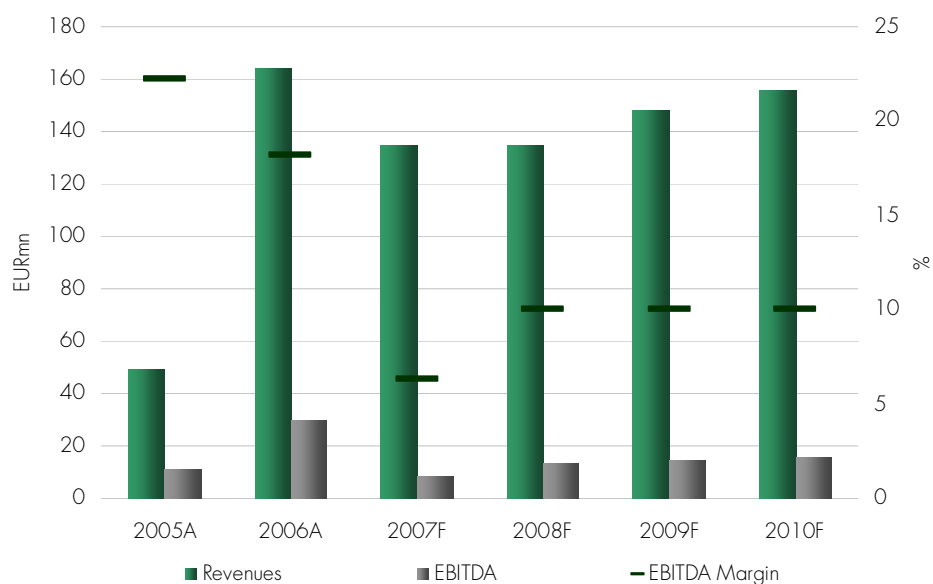
\* 3Q 07 backlog

Source: Company data, Lehman Brothers estimates

#### Oil & gas

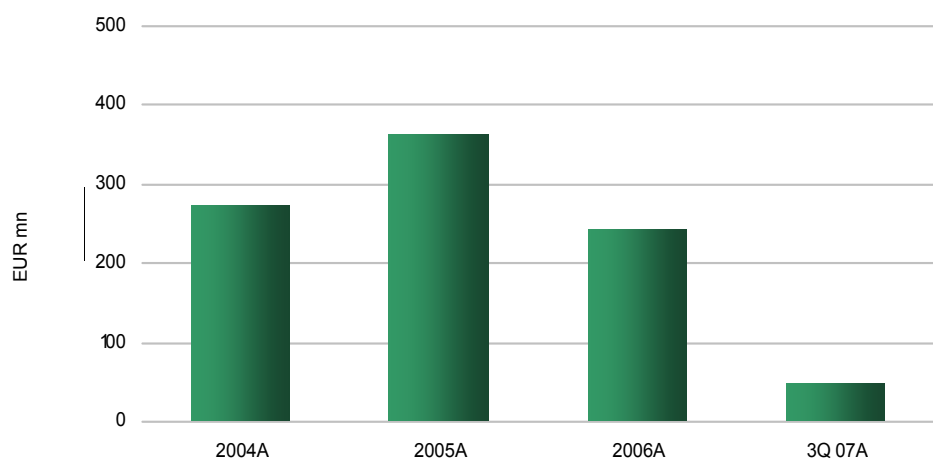
The oil & gas division constructs treatment plants for oil & gas, plants for the recovery and separation of the heavy components of natural gas, gas storage facilities (both surface based and underground) and facilities for the liquefaction and re-gasification of natural gas. The division is not major, it accounted for less than 8% of revenues at 3Q 07 and had a backlog of just EUR 48mn, representing only 1% of the group total. This has largely been through choice. The lower levels of competition in the chemicals sphere and higher margins on offer have led to a focusing on the potentially more lucrative market.

### Oil & gas revenues



Source: Company data, Lehman Brothers estimates

### Oil & gas backlog evolution



Source: Company data, Lehman Brothers research

*Falling backlog as the company focused on petrochemicals plants. All the current backlog is in LNG*

Historically, Maire Tecnimont has had a presence in this segment in Italy from the 1960s. It has since internationalised, particularly through its Sofregaz subsidiary, which has completed more than 80 re-gasification terminals for liquefied natural gas. In the last four years, in particular, the group has an assigned 22% market share of re-gasification plant projects.

The company's main competitors are the usual suspects: for LNG receiving terminals they are Saipem, Fluor, Bechtel, Kellogg Brown & Root (KBR) and Japan Gas Corporation (JGC); while its competitors for onshore oil & gas infrastructure construction are Saipem, JGC, Chiyoda, Hyundai, Tecnicas Reunidas and Technip.

The macro environment in the upstream segment should be particularly supportive in the medium to long-term. Reserve replacement has been picking up over the past three years (although still just short of 100% in 2006) and Tecnimont could benefit from the spending that will be necessary to bring these reserves on stream. Four years of 10%–20% oil industry capital growth might suggest that we are nearing the top of the capital spending cycle; however, most of the increase is attributable to cost inflation, not to increased workload. On an adjusted-for-inflation basis, the IEA believes that real spending has only increased by 30%, the other 120% going directly to oil services companies and their suppliers. Thus, we fully expect to see double-digit capex growth again this year and then 7%–10% pa beyond.

### Global upstream capex and cost inflation

*Of the 150% capex increase since 2000, the vast majority is cost inflation*

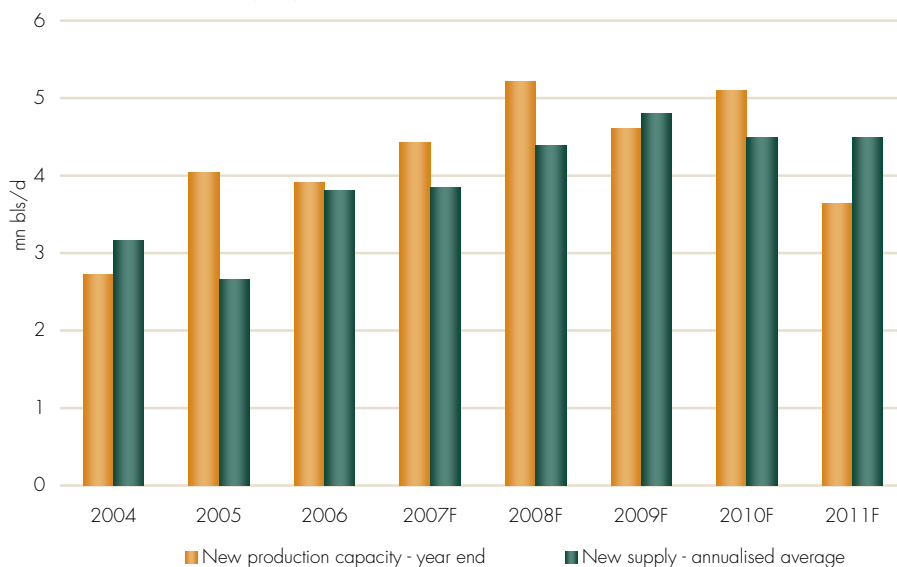


*Source: IEA World Energy Outlook 2006, Lehman Brothers estimates*

The insufficiency of historical spending is made even more evident when we consider incremental supply expectations over the next few years. Our proprietary upstream projects database suggests an average incremental supply of 4.5mn bls/day for every year out to 2011F. When we consider that oil companies are talking of decline rates in the region of 3%–6%, this would suggest that there is only just enough new supply coming to combat decline rates, let alone growing demand.

Today we can see peak incremental supply of just 5mn bls/d, which we expect to occur in 2009

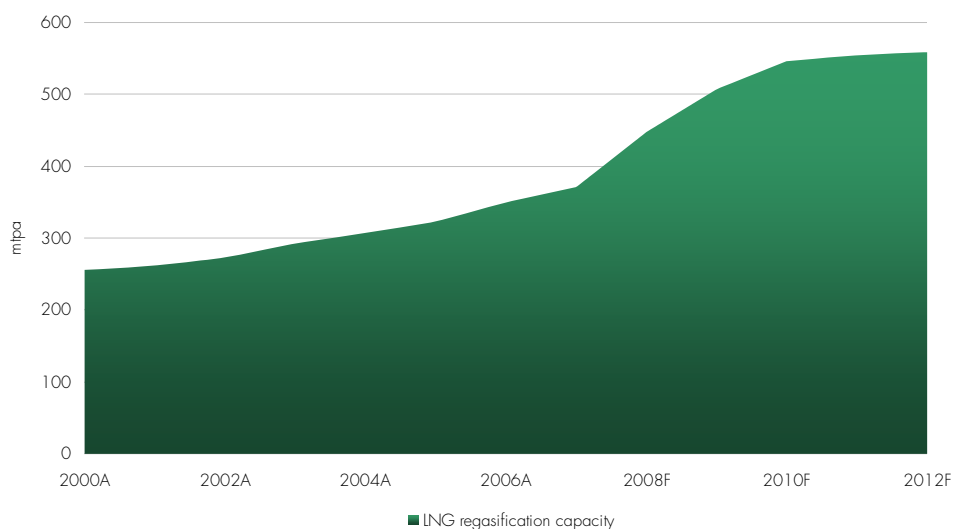
### Incremental global oil projects



Source: Lehman Brothers estimates

An increasing amount of this spend is expected to be directed to developing infrastructure for LNG. On a global basis, according to PIRA, re-gasification capacity is set to increase by 9% pa from 2007 to 2012. With its track record, via Sofregaz, Tecnimont is in a strong position to benefit from the ambitious plans to expand re-gasification capacity globally. For example, it is currently executing both a EUR 224mn project in France (Fos LNG) and a EUR 111mn contract in China (Shenzen).

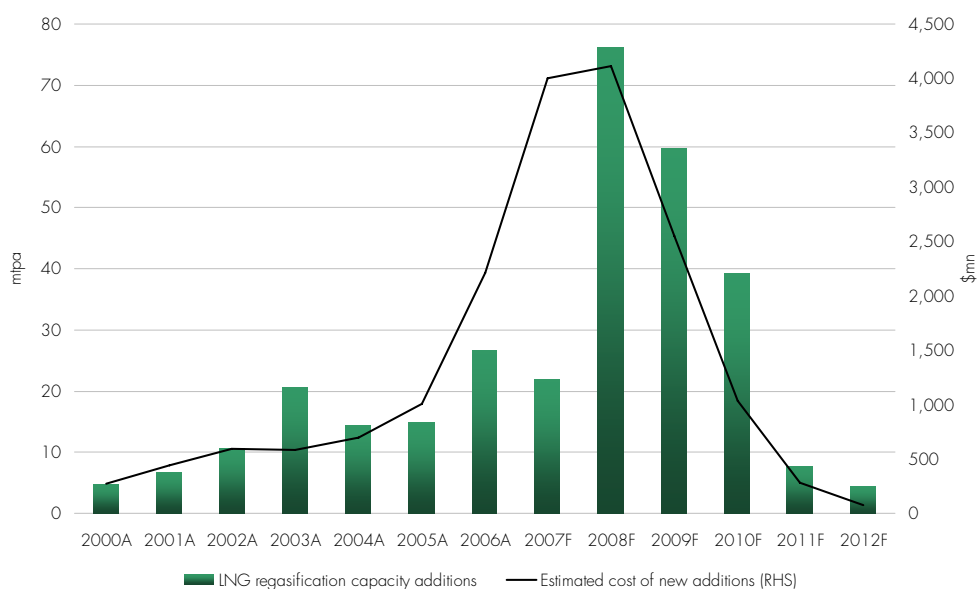
### Ramp-up of re-gasification capacity



Source: PIRA

In order to estimate the global spending required, we have based our assumptions off a current average cost of ca. \$70/tpa, based on the cost for Fos LNG in France (8.25 mtpa, EUR 447mn) and Sabine Pass in the US (15mtpa, \$1,000mn) plant size. On this basis, we forecast spending of close to \$11bn on increasing re-gasification capacity over the 2007-2012 period. In the graph below, we have costed projects to a three year construction market on a 25%:50%:25% revenue recognition curve and for historical costs assumed that re-gasification terminals have seen the same cost inflation/deflation pattern as has been prevalent in the liquefaction market (source: BG Group).

### Current visible LNG re-gasification construction market

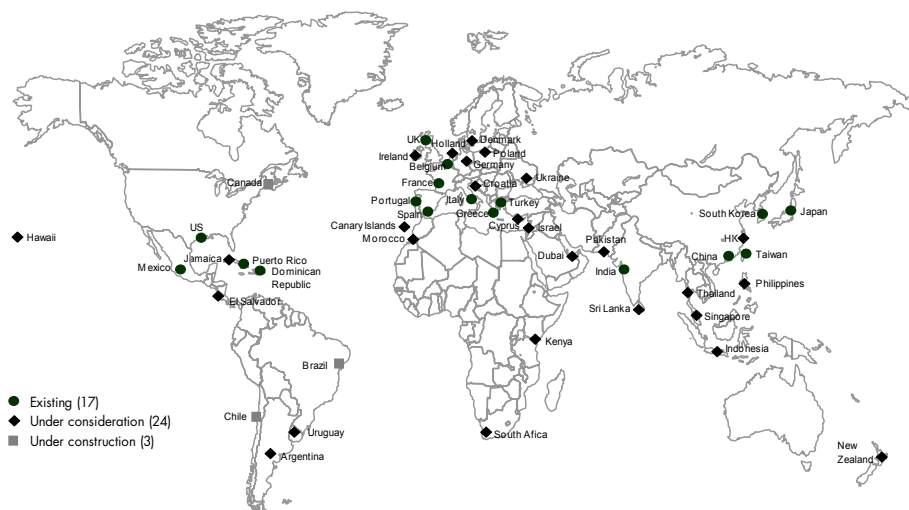


Source: PIRA, BG Group for inflator/deflator, Lehman Brothers estimates

This is not a short-term phenomenon as the chart above may imply, which only represents current projects under execution or firm planning. BG Group believes that there are 24 countries considering importing LNG, compared with the 17 with current capacity and three new countries that are in the construction phase. Ultimately, these decisions take time and construction, in our opinion, always takes longer than originally expected. But, as we move towards a global liquid LNG market, away from a contract-related business towards a fungible spot market, we can only see an increase in installed LNG re-gasification capacity.

## Global re-gasification expansion

More new countries are planning to import LNG than currently do



Source: BG Group

Indeed if future options are priced into the future market, Douglas-Westwood (*The World LNG & GTL Report, 2007*) estimates that \$26.5bn is to be spent on the construction of 66 trains over the 2007-2011 period.

**Model drivers and forecast:** The oil & gas division, albeit small, has seen backlog decline in 2006 and 2007 y-t-d, as the company focused on larger petrochemical projects. That said, the company still believes that it can and will grow in the sector.

Modelled zero growth in 2008 and just 10% in 2009 followed by 5% pa thereafter

For modelling purposes, we have assumed no growth in 2008, and beyond that just 10% in 2009 followed by 5% pa thereafter. This is a conservative approach. The company has executed projects in the EUR 200mn-600mn range, and just one major project award would materially change the outlook for the sector.

Current results marred by the Fos LNG project

Current EBITDA margins are unappealing, in our view, the company recorded a loss of (3.6)% in 1H 07, largely a result of a EUR 4mn loss on the Fos LNG project as a consequence of difficult labour conditions and freak weather conditions. This is now believed to be fully provisioned and the division has since returned to profit in 3Q 07. Historically the company has produced exceptional margins, recording as high as 22% as contingencies are released. As in chemical & petrochemical this can only highlight the conservative and cautious nature of management. For modelling purposes, we have assumed a lower 6.3% EBITDA margin for 2007 and raised this to 10% for further out years in line with the other businesses.

### Summary financials – oil & gas

EUR mn	2005A	2006A	2007F	2008F	2009F	2010F
<b>Net operating revenues</b>	<b>49.4</b>	<b>164.1</b>	<b>134.6</b>	<b>134.6</b>	<b>148.1</b>	<b>155.5</b>
<i>Growth y-o-y, %</i>		232%	(18%)	0%	10%	5%
<b>EBITDA</b>	<b>11.0</b>	<b>29.9</b>	<b>8.5</b>	<b>13.5</b>	<b>14.8</b>	<b>15.5</b>
<i>EBITDA margin, %</i>	22.3%	18.2%	6.3%	10.0%	10.0%	10.0%
<b>Backlog</b>	<b>362</b>	<b>242</b>	<b>48*</b>	-	-	-
<i>Oil &amp; gas, %</i>	18%	6%	4%	-	-	-
<i>Growth y-o-y, %</i>	33%	(33)%	0%	-	-	-

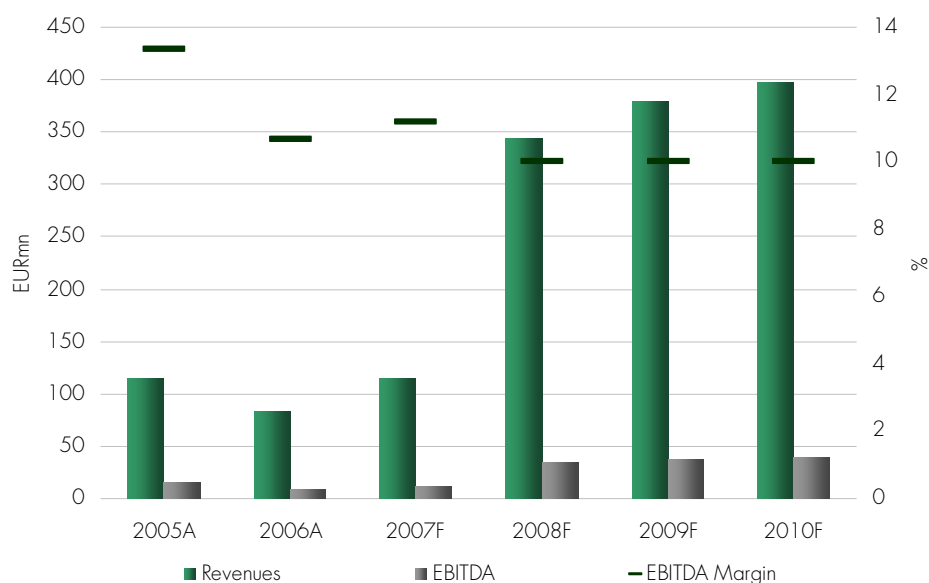
\* 3Q 07 backlog

Source: Company data, Lehman Brothers estimates

### Power

The power business, which designs and builds generation capacity, waste-to-energy facilities, remote heating systems and energy transformation and transmission systems, accounted for 8% of revenues in 2006, with backlog that had fallen to just EUR 85mn, but has since rebounded with, among other awards, two ca. \$500mn contracts in Chile (Endesa and Colbun) to nearly EUR 800mn, making 16% of the group total.

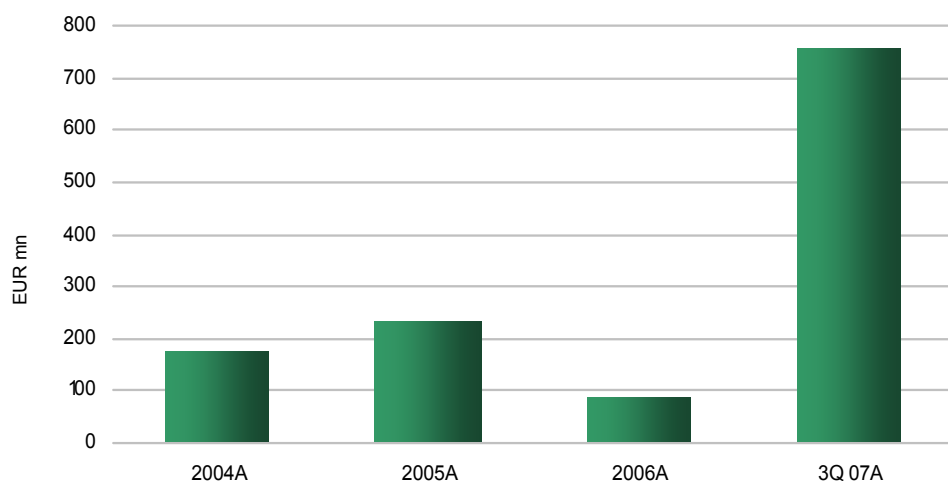
### Power revenues



Source: Company data, Lehman Brothers estimates

### Power backlog evolution

Sharp up-tick in backlog in 2007



Source: Company data

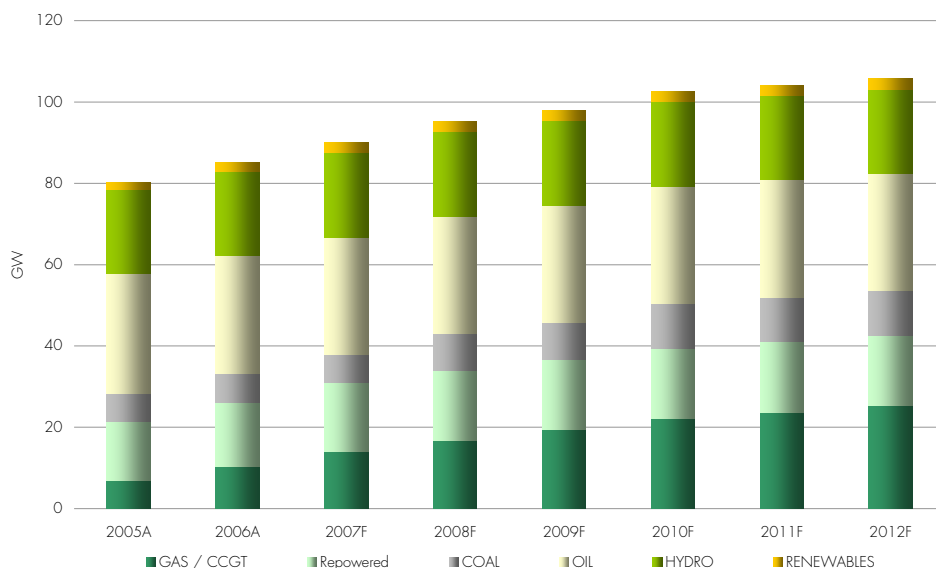
Historically, the company has been strong in Italy following the acquisition of FIAT Avio in 2001, which provided significant know-how in the installation and commissioning of gas turbines. The business has since continued to internationalise, with moves particularly into Latin America. To date, Maire Tecnimont has constructed 18 power generators in Italy and 11 abroad, representing a total installed power capacity in excess of 6,800MW. In Italy, the group is the number-three builder behind Ansaldo Energia and Enelpower, with 10% market share (based on combined cycle plants completed or under construction in Italy between 2000 and 2007).

Recent success in Chile

The business model is to continue to develop internationally. Perhaps this sector is one where the Maire Tecnimont combination can have a profound effect. Tecnimont has engineering presences in countries where Maire has none. The combination should enable a pull through of work. For example, the company is executing a \$415mn coal power plant for Endesa in Coronel, Chile, a region in which Maire had few references. However, Maire Tecnimont had been present successfully nearby over the 1997-1999 period, an experience which enabled Maire Tecnimont to win the contract.

For the historical core Italian market, Lehman Brothers utilities team expects the installed power base to increase by 18% over the 2007-2012 period to 106GW, with 11GW of the 16GW increase expected to come from CCGT plant (combined cycle gas turbine plants) and areas in which the company has significant references having completed the EUR 81mn (Maire Tecnimont's portion of a EUR 181mn contract), 800MW, Altomonte plant in 2005 and the EUR 230mn, 800MW Piacenza plant in 2006.

### Power generation capacity in Italy

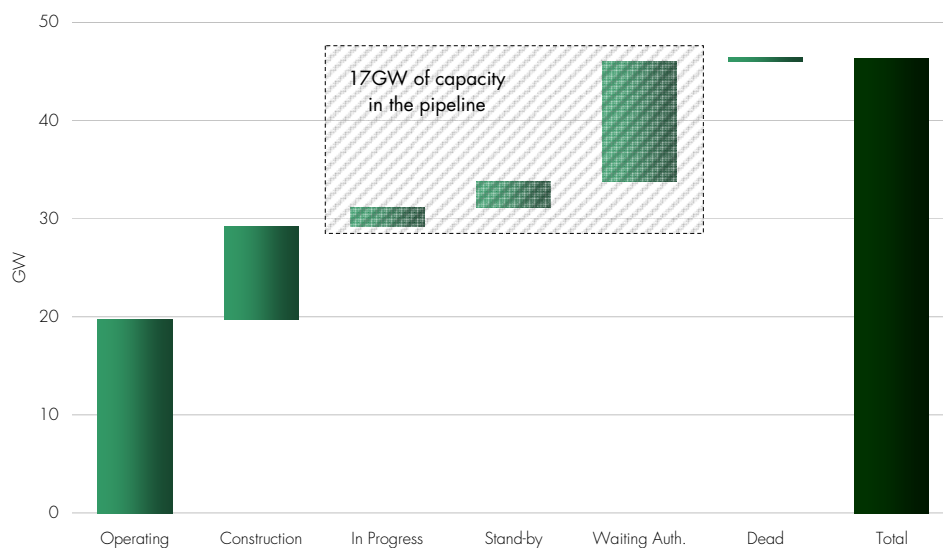


Source: Lehman Brothers estimates

Within this scenario, Lehman Brothers utilities team expects installed CCGT capacity to reach 25.3GW by the end of 2012; however, there is significantly more capacity postulated that is either on standby for development or awaiting authorisation. Some of this may never arrive owing to planning concerns, but it shows the longer-term potential of the market.

Italian capacity set to grow

### CCGT capacity in Italy



Source: Minister of Production Activities, March 2007, Lehman Brothers estimates

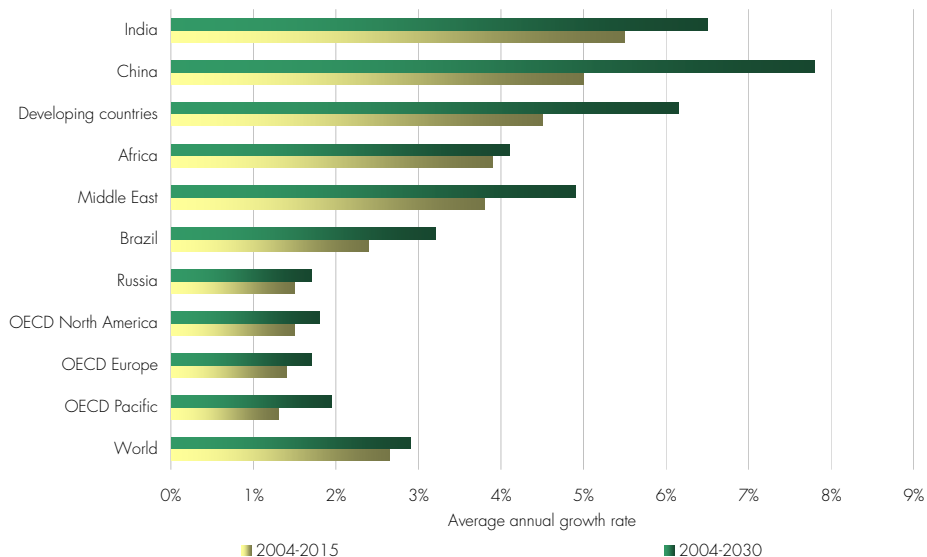
Global power demand is forecast to grow at 2.6% pa on average over the next 25 years

On a global basis, according to the International Energy Agency (IEA), the demand for power is expected to grow at 2.6% pa over the 2006-2030 period, with stronger growth of 3.3% pa over the 2005-2015 period and a slowdown to 2.1% pa thereafter. This is driven by electricity moving to a 21% share of the total energy complex from an estimated

16% in 2004. As with the demand for petrochemicals, and in line with Tecnimont's internationalisation plans, the growth is expected to be fastest in India (5.4% pa) and China (4.9% pa).

Brazil is expected to be the third-fastest-growing country

### Global electricity demand growth

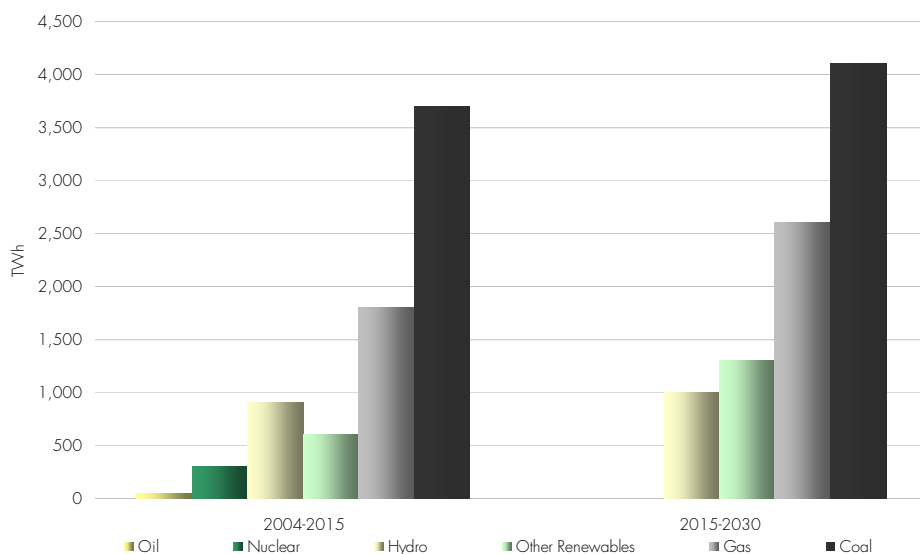


Source: IEA World Energy Outlook 2006

Coal expansion is largely in India and China. The rest of the world is focused on gas and hydro/renewables

Within this the fastest growth areas are expected to be coal and gas capacity, both areas in which Maire Tecnimont has references, and driven by the resource availability in India and China. Combined, both countries should account for 60% of the incremental coal-fired capacity.

### Incremental electricity supply sources



Source: IEA World Energy Outlook 2006

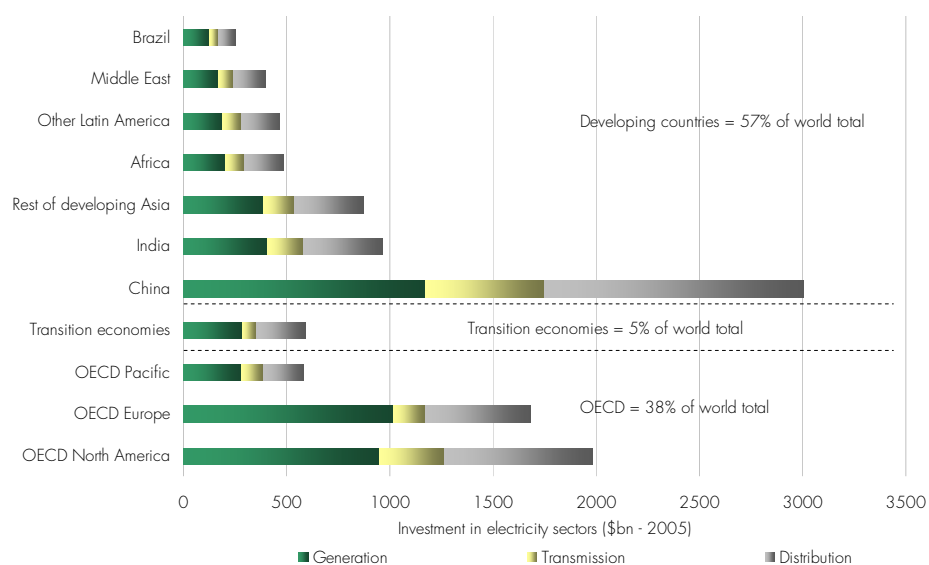
In terms of capital, the IEA expects total investment in the electricity sector to be \$11tn over the 2005-2030 period, 57% of which is expected to come from developing countries, 5% from transition economies and 38% from the OECD countries.

Ex-Italy the principal market for Maire Tecnimont has been Brazil, with the recent emergence of Chile. This work has been in traditional CCGT work, with a more recent move into renewable, hydroelectric power.

Brazil to invest \$250bn over the next 25 years

In Latin America, the IEA expects investment in power to amount to more than \$700bn over the next 25 years. In particular Brazil, the power division's core non-domestic market, is expected to account for \$250bn of this, leading to a near doubling of installed capacity. This will make Brazil the third-highest-spending market ex the OECD countries.

### Electricity generation spend over the 2005-2030 period

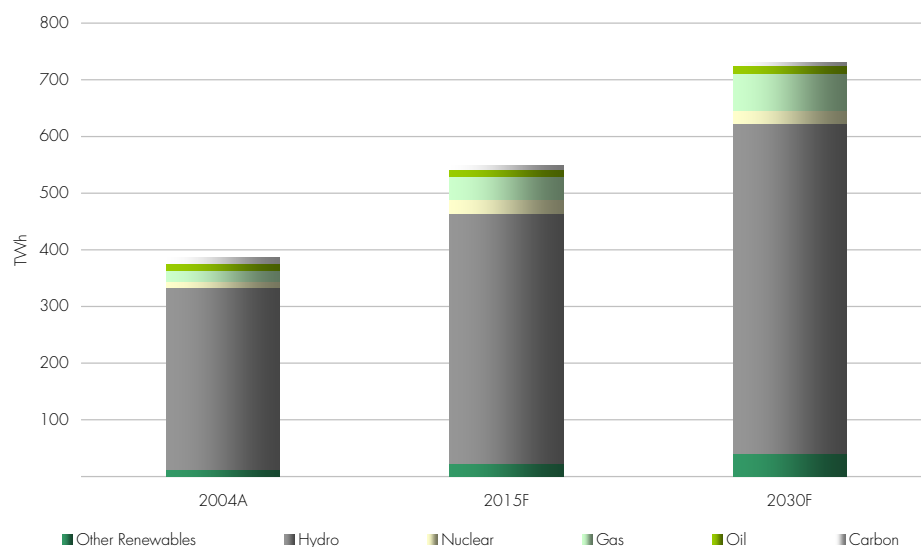


Source: IEA, World Energy Outlook, 2006

In Brazil, the bulk of the growth is expected to come from hydroelectric power, which already accounts for over 80% of capacity and is expected to grow by 80%. However, the fastest-growing field is expected to be gas-based, which is likely to more than triple and move to 8% of total capacity from just 4%.

Hydroelectric power is dominant in Brazil

### Electricity generation by source in Brazil



Source: IEA, World Energy Outlook, 2006

Consistent margins above 10%

**Model drivers and forecast:** The decline in backlog in the power division in 2006 led to an 18% decrease in revenues y-o-y in 1H 07. However, the sharp intake in backlog with the recent projects in Chile should reverse this in 2H 07 as seen from y-o-y revenues at the 9-month stage up 25%. We expect this to then continue into 2008, as the two main projects are executed. Beyond 2008, we have assumed the same growth rate as for the other divisions, oil & gas excepting. We feel this is a conservative approach as it in no way factors in the possibility that the Maire Tecnimont merger will enable the international presence of Tecnimont to develop the skills of the Maire group.

The power division has consistently delivered EBITDA margins above 10% and we see no reason for this to cease.

### Summary financials – Power

EUR mn	2005A	2006A	2007F	2008F	2009F	2010F
<b>Net operating revenues</b>	114.2	83.5	114.8	344.3	378.7	397.6
Growth yoy, %		(27)%	37%	200%	10%	5%
<b>EBITDA</b>	15.2	8.9	12.8	34.4	37.9	39.8
EBITDA margin, %	13.3%	10.7%	11.2%	10.0%	10.0%	10.0%
<b>Backlog</b>	229	85	757*	-	-	-
Power, %	11%	2%	15%	-	-	-
Growth yoy, %	32%	(63)%	0%	-	-	-

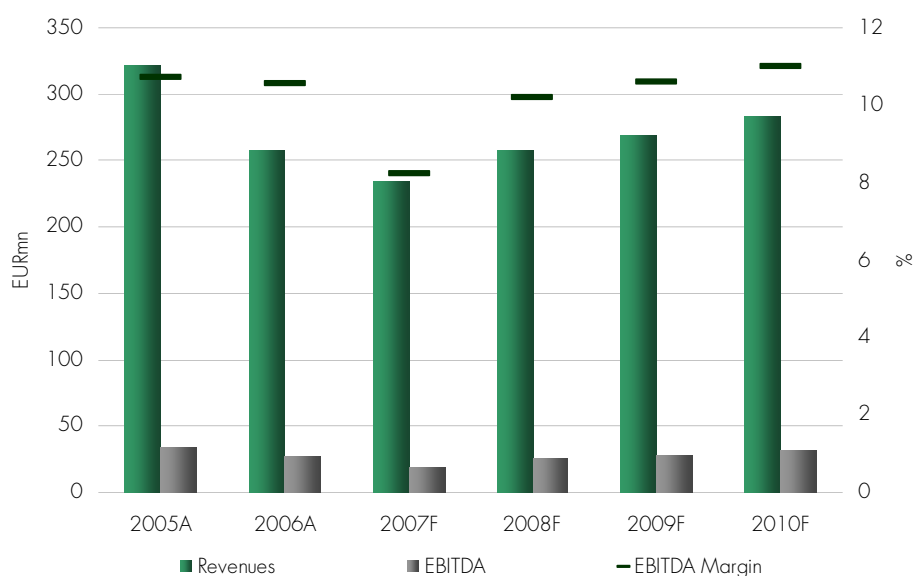
\* 3Q 07 backlog

Source: Company data, Lehman Brothers estimates

## Infrastructure & civil engineering

The infrastructure & civil engineering (I&CE) division designs and builds civil engineering projects (large infrastructure, such as motorways, railways, tunnels and bridges), buildings and other installations for industrial, commercial and service activities, in addition to designing and constructing public buildings, such as schools, offices, universities and hospitals. The backlog at the end of 3Q 07 in the I&CE business was EUR 922mn, representing 19% of total backlog. The division has been the second largest in the group since the Tecnimont acquisition, representing 24% of revenues in 2006, and we expect that it will still be contributing close to 20% of revenues by the end of the decade.

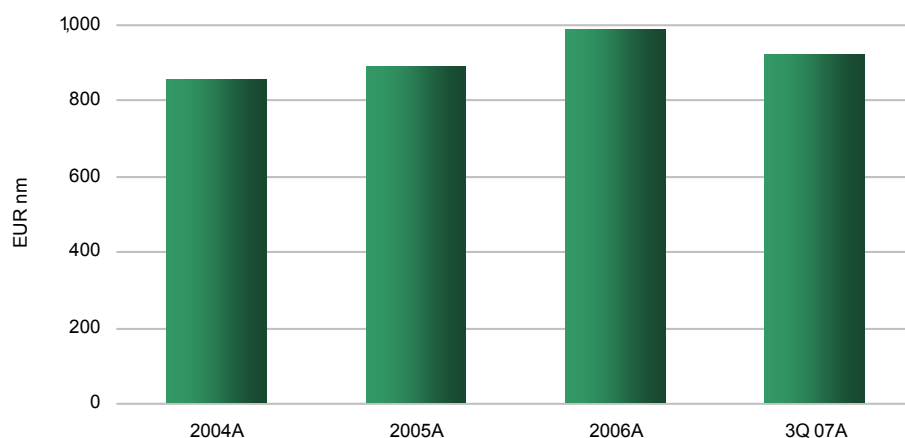
### Infrastructure & civil engineering revenues and margins



Source: Company data, Lehman Brothers estimates

### Infrastructure & civil engineering backlog evolution

*Steady backlog*



Source: Company data

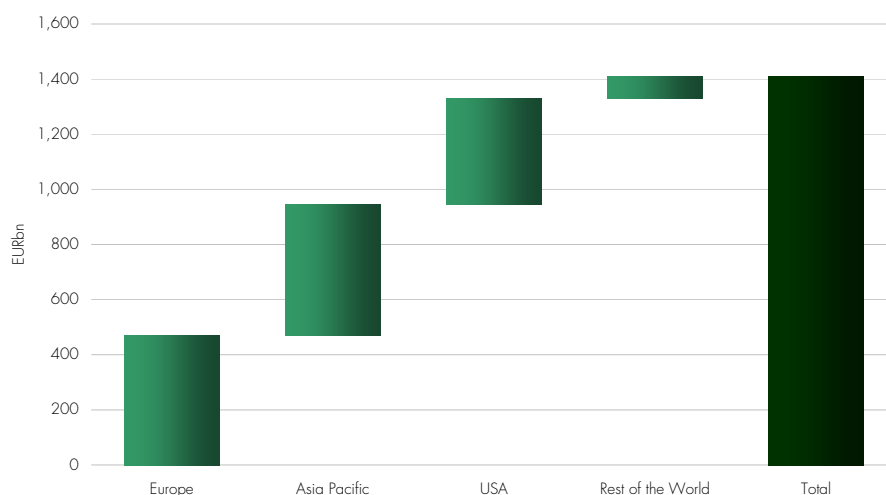
This business unit operates predominantly in Italy, where Maire Tecnimont has been certified by the Italian Ministry of Infrastructure and Transport as a qualified contractor for highly complex engineering projects. The Italian Ministry of Infrastructure and Transport has further certified that, under Italian law, Maire Tecnimont meets the requirements necessary to act as a general contractor on projects of strategic importance and of primary national interest. However, we believe Maire Tecnimont is still the number three operator in the Italian market, with the principal competitors being Coopsette, Condotte, Impregilo and Astaldi.

*Italian HSRL expertise has put the company in good stead in Saudi Arabia*

While the division holds a relatively strong position in its domestic market, the principal aim now is to develop a competitive position in foreign markets, with the Middle East as a focus area. We would expect the company to be able to leverage the existing presence and relationships of its Tecnimont division in the region to build up a presence over time. International activity has already begun with the company on the shortlist for the construction of the Mecca-Medina rail link (MMRL) in Saudi Arabia, a direct consequence of Maire's experience in developing the high-speed rail link (HSRL) in Italy as well as Tecnimont's established presence in the country. If the company were to win this contract, then it would be strategically significant as a base for future work in the area.

The global market in infrastructure & civil engineering is extremely fragmented and includes a large number of operators of varying size and capability. These range from small, family-owned construction companies to specialised engineering firms with global execution capabilities. The global infrastructure market was estimated at EUR 1,400bn in 2006 and is expected to enjoy higher levels of investment in the medium term. The increase in absolute levels of investment in infrastructure will be driven by infrastructure needs of lesser industrialised countries, sustainable investment into new European economies and infrastructure upgrades in the more developed countries. The European market, with a total current investment of EUR 471bn, is only marginally smaller than the Asia Pacific region in terms of revenue potential. However, the outlook for scope of work in the longer term is significantly stronger in Asia and the Middle East.

### 2006 global infrastructure spend

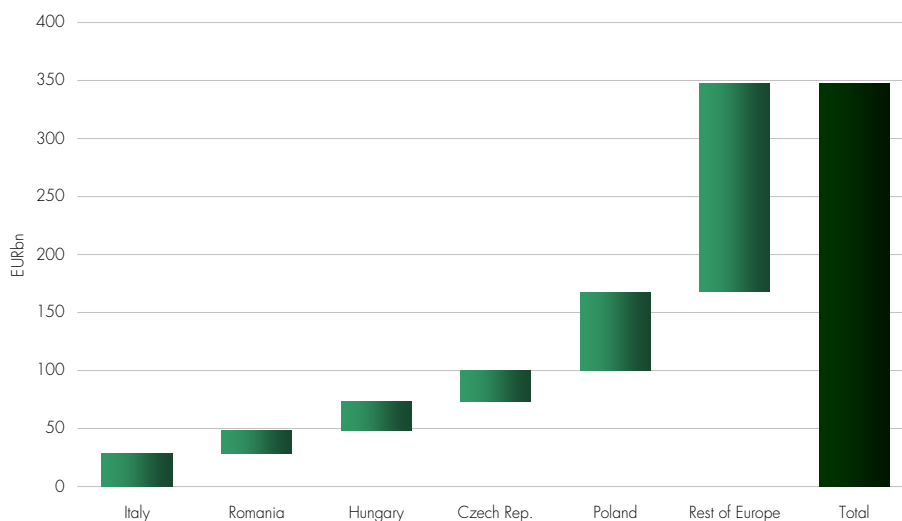


Source: 2006 – Datamonitor European Construction and Engineering

Infrastructure spending across Europe over the next six years is set to be strong. Although a substantial portion of this is targeted by the European Commission at the newer EU members, Italy is still likely to account for close to 10% of the total, at ca. EUR 30bn. Maire Tecnimont has explicitly stated the aim of partnering with local operators in Poland, Romania and Bulgaria, thus giving it even more exposure to total European spending.

### European structural funds estimated spend 2007-2013

*Bulgaria, Romania and Poland are target markets*



*Source: 2006 – Datamonitor European Construction and Engineering*

Internationally, Saudi Arabia remains the largest construction market in the Middle East, with spending boosted by a sharp increase in oil revenues. According to *Business Monitor*, overall infrastructure expenditure is set to reach over \$21bn in 2011 from ca. \$16bn for 2007. Although the major projects in the region would fall under the remit of the company's chemical & petrochemical and oil & gas divisions, current spending plans allocate \$1.2bn for the construction of 420 healthcare centres and 23 hospitals and about \$3.9bn for the establishment of 1,000 educational institutions and the maintenance of 2,000 existing ones. Maire Tecnimont's expertise in all these areas, as well as in the construction of modern railways, has been confirmed by its track record in Italy and it is therefore likely to benefit from this positive spending trend going forward as it seeks to establish a foothold in the region.

**Model drivers and forecast:** The division has seen a relatively stable backlog since 2005, although we would expect this to increase as the company continues to pursue further internationalisation. We forecast a decline in revenue growth in 2007, followed by 10% revenue growth in 2008 dropping to an average of 5% out to the end of the decade. The 20% decline in revenue in 2006 from 2005 requires explanation: the commencement of several projects already in the backlog was delayed by late fund allocation from the Italian government, which in turn resulted in a delay in the handover of the construction sites.

We believe our margin forecasts for 2007 and beyond are conservative; 8.2% for full-year 2007 compares with the 11.5% delivered in 1H 07. It is noteworthy that the company has achieved double-digit margins consistently since 2005, despite changes in the competitive bidding and contract award procedures for Italian public sector customers applying downwards pressure to margins. Beyond 2007, we forecast only small upwards movement in margins, arriving at 11.0% by the end of the decade.

*The 2006 fall-off in revenues was because of project delays in Italy owing to late fund allocation*

#### Summary financials – infrastructure & civil engineering

EUR mn	2005A	2006A	2007F	2008F	2009F	2010F
<b>Net operating revenues</b>	<b>321.8</b>	<b>257.0</b>	<b>233.6</b>	<b>257.0</b>	<b>269.8</b>	<b>283.3</b>
<i>Growth y-o-y, %</i>		<i>(20)%</i>	<i>(9)%</i>	<i>10%</i>	<i>5%</i>	<i>5%</i>
<b>EBITDA</b>	<b>34.5</b>	<b>27.2</b>	<b>19.2</b>	<b>26.2</b>	<b>28.6</b>	<b>31.2</b>
<i>EBITDA margin, %</i>	<i>10.7%</i>	<i>10.6%</i>	<i>8.2%</i>	<i>10.2%</i>	<i>10.6%</i>	<i>11.0%</i>
<b>Backlog</b>	<b>891</b>	<b>991</b>	<b>922*</b>	-	-	-
<i>Infrastructure &amp; civil engineering, %</i>	<i>44%</i>	<i>26%</i>	<i>16%</i>	-	-	-
<i>Growth y-o-y, %</i>	<i>4%</i>	<i>11%</i>	<i>0%</i>	-	-	-

\* 3Q 07 backlog

Source: Company data, Lehman Brothers estimates

## Business opportunities and challenges

The favourable macro environment detailed above presents its opportunities, but also its challenges. Over the past few years, the sector has witnessed rapidly growing volumes of work, but large backlogs will be of little comfort to investors if contract execution is poor. In today's tight construction environment, there is an ever-escalating pressure on E&C contractors to manage simultaneously backlog growth, margin progression and retention of staff. Below we address Maire Tecnimont's progress on all these fronts.

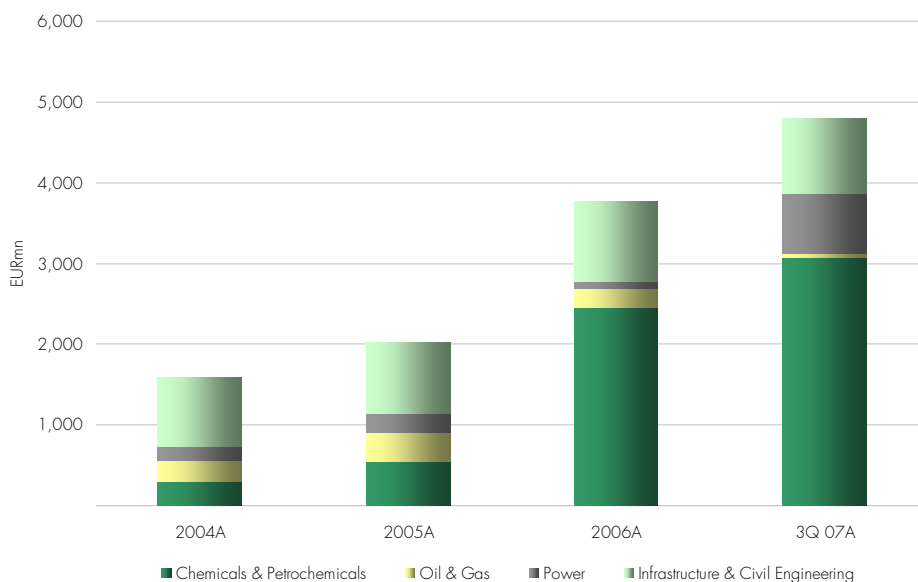
### Poised for further backlog growth

*Rapid backlog growth but further potential*

One of the most distinct features of Maire Tecnimont is its relatively large backlog, which stood at EUR 4.8bn at the 3Q 07 stage, more than three times the level at the end of 2004 and almost five times 2006 revenues. The bulk of the growth has come from the chemical & petrochemical (C&P) division, which now accounts for 64% of the group total. The level of concentration remains high, with over one-third of the C&P division's backlog sitting in the EUR 1.4bn Bourouge 2 contract, UAE, signed in April 2007. The company only includes fully signed contracts in its backlog number and so the current figure excludes the ca. EUR 500mn of Letters of Intent (LOIs) that are awaiting final confirmation.

### Significant backlog growth

*Excludes EUR 500m of LOIs*



Source: Company data

*Backlog covers 95% of the company's planned 2008 revenues*

Encouragingly, the large backlog gives the company strong visibility: it covers over 95% of the company's planned 2008 revenues and a significant portion of 2009. Of more concern is that the sudden and rapid growth would seemingly suggest a distinct step change for the company and therefore spell the possibility of heightened risk; however, it is noteworthy that the actual *number* of contracts undertaken by Maire Tecnimont has remained relatively stable, even though the scope and nominal value have increased.

Although headcount (see below) has not increased at the same rate as backlog, the additional number of engineers required to design plants and manage their construction is not directly proportional to the increase in contract sizes. Much of the increase in the nominal value of contracts is a result of industry cost inflation and therefore the real additional work is less than today's contract values might suggest.

*Expect to see an increase in the scale of plants*

Over time, we would expect Maire Tecnimont to move towards executing fewer, larger awards in its core C&P division, especially since typical plant sizes are currently 450,000-550,000tpa, four to five times as large as they were in the 1980s. Again, while this might suggest a higher-risk profile, it is a trend that the company welcomes, since it allows a more efficient resource allocation and effective use of its project management A-teams. These "A-teams" are simply flexible groups that draw on the most appropriate engineering expertise from the company's various offices around the world to take the lead on a particular contract. Currently, Tecnimont is handling 15 sizeable projects, each with its own "A-team", but it has the ability to mobilise up to 20-25 such teams. Maire has approximately 5-10 such teams currently in action but can quickly scale this up to 10-15. Overall, the current situation suggests that the possibility for further growth remains high. As the company does position itself to take on fewer, larger projects, it is worth bearing in mind that, in general, the oil services companies that have been able to sustain the highest margins in their onshore businesses are those that focus their efforts on just a few contracts and ensure that execution is of the highest standard.

*Currently bidding on EUR 2.5bn of projects*

Management insists that it has not taken on more than it can handle and, in fact, appetite for further growth remains high. Since the engineering phases of many existing contracts have completed or are nearing completion, the bulk of the group's resources is being released and is ready to deal with new work. The company is currently bidding well over EUR 2.5bn of contracts, ranging from three LNG re-gasification terminals in Europe to a petrochemical complex, power plants and refinery projects in Saudi Arabia. The company is also currently engaged in a feasibility study for Borouge 3, UAE, and remains optimistic of an eventual EPC award. Timing of awards is impossible to predict, although the outcome of most of these projects should be known within the next 12 months.

*Oil & gas has lower barriers to entry*

Thus far, the company's upstream presence has been notably small – the oil & gas division has experienced declining backlog since 2005 and is now just 4% of the total. Part of the company's strategy is to grow this segment going forward. The company also benefits from the fact that, although the barriers in its core C&P business are very high as a result of necessary technological know-how and the importance of licensing relationships, those for its oil & gas work are not as significant. As a result, key clients, such as ADNOC, are actively soliciting bids from the company for upstream work, having previously employed the company for C&P projects. Such solicitation is part of a broader trend of clients trying to encourage increased competition among contractors.

## Backlog profile

	Name	Location	Client	Contract end date	Contract value	Backlog size 30 Sep 2007
Chemical & Petrochemical	Polypropylene	Saudi Arabia	Natpet	2007	EUR 218mn	EUR 3,065mn
	Rabigh Development	Saudi Arabia	Petrorabigh	2008	EUR 606mn	
	Q-Chem II Derivates	Qatar	Q-Chem	2008	\$439mn	
	Aromatics Complex	Kuwait	Kuwait Paraxylene Production	2008	EUR 597mn	
	PDH + Polypropylene	Saudi Arabia	Sahara	2008	EUR 306mn	
	HDPE + LDPE	Saudi Arabia	Tasnee	2008	EUR 523mn	
	Polypropylene	India	Indian Oil Corp. Ltd.	2009	EUR 275mn	
	LDPE	Germany	Basell Polyolefine Gmbh	2009	EUR 195mn	
	BOROUGE 2 Expansion	UAE	ADNOC/Borealis	2010	\$1,800mn	
Oil & Gas	LNG Receiving Terminal	China	CNOOC/BP	2007	EUR 111mn	EUR 48mn
	LNG Receiving Terminal	France	GdF	2007	EUR 223.5mn	
Power	Coal Power Plant 350MW	Chile	Endesa	2010	\$415.0mn	EUR 757mn
	Coal Power Plant 350MW	Chile	Colbun	2010	\$385.7mn	
	Combined Cycle 100MW	Albania	Kesh	2009	EUR 93.8mn	
	Combined Cycle 350MW	Brazil	Furnas	2008	EUR 90.7mn	
	Combined Cycle 840MW	Italy	Edipower	2007	EUR 77.3mn	
Infrastructure & Civil Engineering	High-Speed Railway	Turin-Milan Section	CAVTOMI Consortium	2009	EUR 384mn	EUR 922mn
	High-Speed Railway	Bologna-Florence Section	CAVET Consortium	2009	EUR 494mn	
	Rail Line	Fiumetorto-Cefalù Ogliastrillo Section	RFI-Rete Ferroviaria Italiana	2012	EUR 286mn	
	Railway Line	Lamezia-Catanzaro Route	Italferr	2008	EUR 78.2mn	
	Subway Extension	Turin	Gruppo Torinese Trasporti	2009	EUR 39mn	
	Subway	Rome	Rome Metropolitan	2010	EUR 66mn	
	Rail Line	Orte-Falconara	RFI-Rete Ferroviaria Italiana	2008	EUR 2.5mn	
	Avellino City Hospital	Avellino	Asl Avellino	2010	EUR 73.7mn	
	Alba/Bra Hospital	Alba/Bra (Cn)	Asl Alba/Bra	2009	EUR 63.2mn	
	New Technogym Premises	Cesena Gambettola	Technogym	2008	EUR 38mn	
	Florence Campus	Florence	University of Florence	2009	EUR 17.6mn	
	Palazzo Ina	Rome	Assicurazioni Generali SPA	2008	EUR 10.5mn	
	New Academic Premises	Turin	University of Turin	2011	EUR 1.7mn	

Source: Company data

### Attempting to mitigate risk

Although the environment for oil services companies as a whole has improved significantly over the last few years, we continue to emphasise that the key distinction to be made among companies remains quality of execution. This becomes even more necessary for those contractors that have rapidly increased their backlogs and those that are operating almost entirely on a lumpsum turnkey basis – Maire Tecnimont falls into both of these categories.

*Significant CEO ownership gives us comfort*

We have noted over time that the best performing companies with the steadiest growth have a hands-on management with a high level of vested interest in the business. Hence, in the onshore construction world, the best margin delivery has come from Petrofac and

Tecnicas Reunidas, where the founders (who are still the CEOs) own significant stakes. Ayman Asfari and Juan Llado own 20% and 44%, respectively, of their companies. Post IPO, Fabrizio di Amato still owns 63% of Maire Tecnimont.

The company is clearly entering a new phase in its evolution and so it is vital for investors to gain confidence in its strategy for risk management. Although the company has never paid a penalty for delays on a contract, an example of what can go wrong exists in its Fos Cavaou contract, currently being executed in France – Tecnimont is working in a 50:50 joint venture with Saipem France on the EUR 447mn project via its subsidiary Sofregaz. A combination of 100km/h mistral winds, the stricture of the 35-hour French working week and the difficulty of bringing in Italian sub-contractors due to regulatory reasons (even though Tecnimont has felt let down by local ones) have all contributed to making Fos Cavaou the only loss-making contract in the backlog. The company has already recorded over EUR 4mn of provisions for the contract and this could increase to ca. EUR 7mn. Currently, negotiations are underway alongside Saipem France to resolve issues relating to the contract and potentially release some of the provisions made.

Aside from this one contract, a strong margin track record across all divisions bodes well for future contract execution. For the ca. EUR 1.4bn Borouge 2 contract, UAE, in particular, which occupies the largest share of company backlog, the company has a convincing list of reasons as to why it is confident in the project's success. Tecnimont is using the same "A-team" to manage the project as it used for the successful Borouge 1, which it completed back in 2002. It conducted extensive pre-engineering before start-up and has already placed virtually all the orders required, especially for long-lead items. Completion is targeted a full two months ahead of schedule and rather than working with one subcontractor on the project, it has decided to spread risk among a number of trusted subcontractors such that possible weakness in any one of them will not throw the only project into a critical situation.

*Stringent pre-qualification of subcontractors*

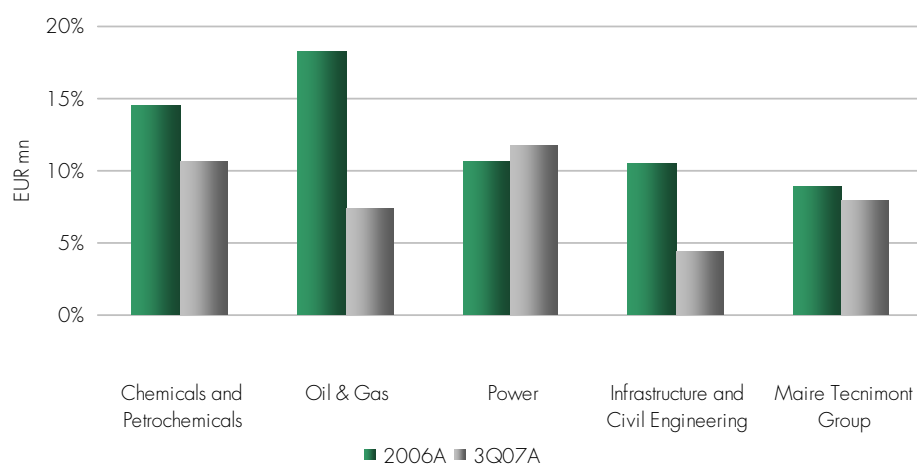
Across the sector, supplier/subcontractor risk is perhaps the biggest threat to execution and one that can quickly fall out of a company's control. All too often we have seen both onshore and offshore E&C firms suffering margin compression as a result of stretched subcontractors failing to deliver. In this context, Maire Tecnimont aims to protect itself from such risk by working only with subcontractors that have been through its own extensive pre-qualification process and each business unit has a team specifically tasked with managing such vertical relationships. Although subcontractors will be chosen depending on the specifics of a particular project, the company benefits from having worked consistently with a number of key contractors over time, such as the Consolidated Constructors Company (CCC), which has a strong footing in Qatar and UAE, and over five decades of experience in oil & gas and petrochemical projects. Currently, Tecnimont is working with the Turkish company, Gama International, on three projects in Saudi Arabia and has particularly favourable relations with local companies in Pakistan, India and Indonesia. The company is in a position today where important subcontractors are actively soliciting it for work, demonstrating its favourable reputation in its core industries.

*Procurement aimed to be done locally*

With respect to procurement, Tecnimont focuses on conducting the majority of this close to the project site, providing flexibility in terms of quantity and scheduling of materials. Each of its operating companies has a dedicated procurement division, co-ordinated by central procurement centres in Milan and Turin. Through this arrangement, Maire Tecnimont maintains strong market knowledge and well established vendor relationships. Although the company's exposure to raw materials is high, it is largely indirect exposure, with the company mostly purchasing finished goods in its procurement process. For example, while there has been significant volatility in the price of copper, only 3% of procurement cost for a typical C&P project, which relates to electrical goods, has direct exposure to this volatility and so the actual impact on numbers is very small. The company's revenues are left exposed to FX risk, although it aims to neutralise any risk of exchange rate movements to margins. In order to minimise impact on revenues, the company issues multi-currency bids and where single-currency bids are solicited, conversion takes place at the final moment of negotiation. Finally, although many US\$ based companies might look more competitive in this area, much of Maire Tecnimont's work takes place in countries where the exchange rate is linked closely to the dollar and the construction element is almost entirely US dollar denominated.

**Expect solid margin delivery**

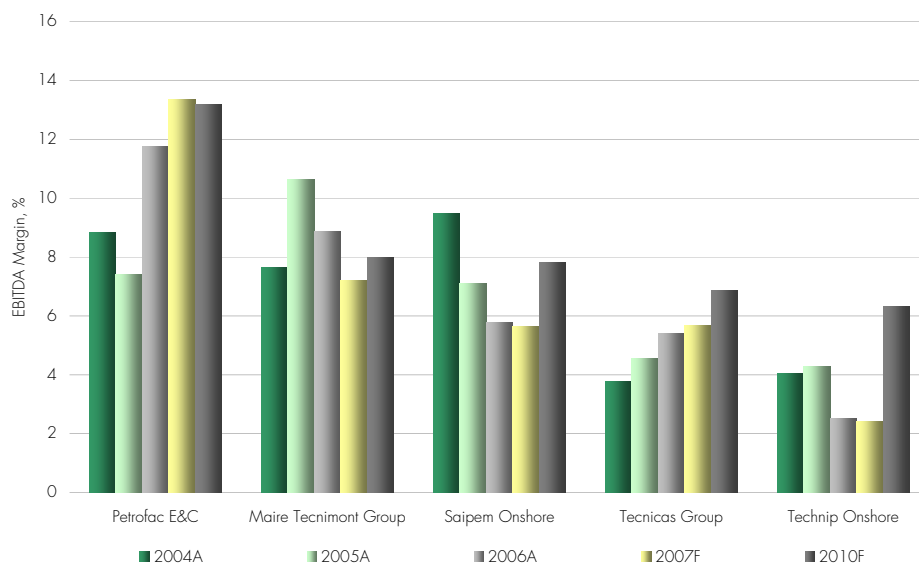
Since the Tecnimont acquisition at the end of 2005, margin delivery from Maire Tecnimont has been strong. The company delivered an 8.9% EBITDA margin in 2006, second only to Petrofac among the onshore construction companies under our coverage. For the first nine months of 2007, a 7.9% margin was achieved despite no significant contracts being completed and therefore not including release of contingencies (see later for peculiarities in margin accounting).

**Recent margin progression**

Source: Company data, Lehman Brothers research

Going forward, we assume margins slightly lower to those currently being reported to err on the side of caution. We are particularly confident of strength in the company's chemical & petrochemical business, where high barriers to entry and a strong demand outlook should help to protect margins. In this division, an EBITDA margin of over 14% in 2006 exceeded those of its peers' onshore construction businesses – we expect this trend to continue.

### Strong margins versus the peer group



Source: Company data, Lehman Brothers estimates

Peculiarly, the company books profit for the entire contract life in line with the level of costs incurred. This might suggest that periodic volatility should therefore be lower than its peers given that the norm is to wait for 20%-30% project completion before margin recognition begins. However, Maire Tecnimont's accounting policy is very conservative. The company books on a cost-to-cost basis. During engineering, only engineering margins are recorded and during procurement, margins are only booked on delivery. The net effect is to book margins later than for a direct straight-line method of accounting. As with other accounting methods, it should be noted that substantial contingency releases as contracts complete could result in significant quarterly swings.

### Growing the human resource base

*Human resource constraints a sector wide problem*

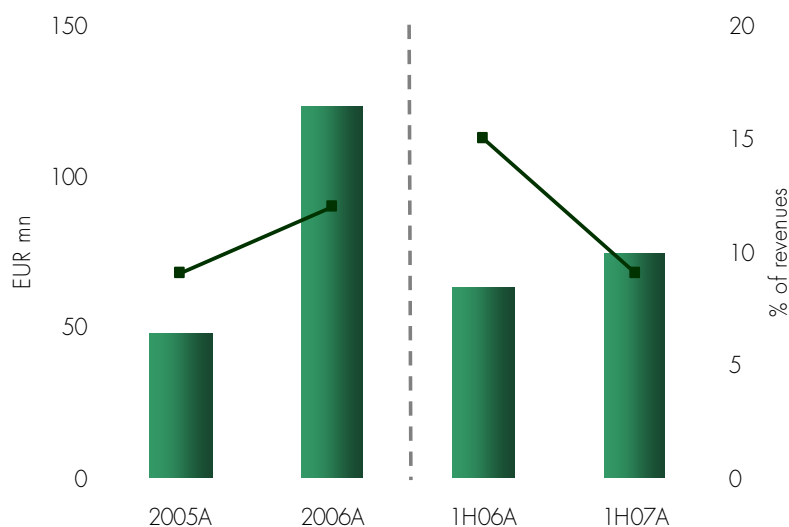
The problem of human resource constraints has repeatedly been identified not only by oil services companies, but also by the majors and independents, as the single largest challenge facing the industry. This covers not only the technical engineering personnel but, especially in the Middle East, extends to experienced manual labour. On top of labour shortages, it is the ageing of the workforce that is a problem. Industry observers have suggested that the combination of the two issues will cause a real crisis over the next five to 10 years, just the time when a number of large projects are set to come on stream. With

regards to the oil services sector, both the volume and technical complexity of work required by clients continue to rise, and so it is now, more than ever, that companies need to be focused on recruiting and retaining a quality pool of workers to execute the tougher projects that come their way. However, the current indication is that no company has thus far faced a severe setback as a result of inadequate staffing. Through a variety of initiatives, companies on the whole seem to have been able to manage their workforces reasonably well.

*Headcount to reach 4,000 by year-end 2007*

As of August 2007, Maire Tecnimont employed 3,560 people, an increase of 35% since the end of 2005, including well over 2,000 engineers and operative personnel. The overall headcount is expected to reach over 4,000 by the end of 2007. Given that backlog has increased by 160% over the same period, recruitment efforts may seem to have fallen behind. However, what makes the company comfortable with its ability to handle the increased workload is not only its significant improvement in productivity but also its division of engineering capacity between in-house and external sources. It is the latter, more flexible element that has stepped up significantly over time. Currently the company's core in-house engineers are providing 3.5mn man hours of work on an annualised basis, but further 1.5mn man hours are subcontracted, especially in low-cost areas such as India, Indonesia, Thailand and the Philippines. Such an arrangement has the added benefit of keeping personnel costs under control during busy periods. In fact, 1H 07 has shown a significant drop in personnel costs as a percentage of revenues since last year.

#### Personnel costs under control



*Source: Company data, Lehman Brothers research*

The subcontracted element of Maire Tecnimont's resource base can be increased or decreased with relative ease and gives the company the capacity to deal with additional workload. It may also help to explain why the company seems to be taking on significantly more work per employee than its peers. The key bottleneck for taking on more work is not therefore the low- to middle-ranking engineer base, but rather the ca. 30-strong project "A-teams" (described earlier) that manage large contracts from start to finish.

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**Backlog per head**

<i>Strong backlog per head</i>	Maire Tecnimont	Tecnicas	Technip Onshore	Petrofac E&C	Saipem Onshore
Employees	3,300	3,500	10,000*	3,600	16,300
Current backlog (EUR mn)	4,800	4,200	6,400	1,600	6,400
<b>Backlog per head (EUR mn)</b>	<b>1.5</b>	<b>1.2</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>

Source: Company data, Lehman Brothers estimates

\* Technip does not provide this figure; estimate based on Saipem's proportion of onshore versus group headcount.

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*50% of the workforce is in India*

More than half the company's workforce operates out of its subsidiary, TICB, in Mumbai, the largest engineering company in India. Tecnimont now has full ownership of this subsidiary, having paid EUR 70mn in December 2007 for the remaining 50% it did not own. The company describes its Mumbai resources as its "most important", but also key to its success are its European engineering "centres of excellence", located in France, Germany and Italy.

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**Global engineering centres**

Mumbai (India)	Wide range of services for the chemical, petrochemical and oil & gas sectors
Brindisi (Italy)	Specialised in polyolefin manufacturing plants based on Basell technology
Clichy (France)	Particular expertise in treatment plants for natural gas and re-gasification plants for LNG
Milan (Italy)	Specialised in installations for the chemical, petrochemical and oil & gas sectors
Rome (Italy)	Specialised in heavy and underground metropolitan rail system
Salzgitter (Germany)	Significant know-how in plants for low-density polyethylene (LDPE)
Turin (Italy)	Specialised in installations for the power sector, public and industrial buildings, metropolitan rail systems with automated guidance systems and infrastructure

Source: Company data

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## Financials

The financial statements below are built up to the EBITDA line from the drivers described in the divisional sections above, a summary of which is contained below. The non-allocated line relates to non-division-specific revenues with costs relating to general & administrative expenses. Costs are simply backed out as the difference between revenues and EBITDA.

Divisional forecasts							
EUR '000s	2004A	2005A	2006A	2007F	2008F	2009F	2010F
<b>Revenues</b>							
Chemical & petrochemical		46,330	538,139	1,374,990	1,512,489	1,663,738	1,713,650
<i>Growth y-o-y (%)</i>			1062%	156%	10%	10%	3%
Oil & gas		49,383	164,123	134,611	134,611	148,072	155,476
<i>Growth y-o-y (%)</i>			232%	(18%)	0%	10%	5%
Power		114,176	83,469	114,751	344,253	378,678	397,612
<i>Growth y-o-y (%)</i>			(27%)	37%	200%	10%	5%
Infrastructure & civil engineering		321,789	256,990	233,599	256,959	269,807	283,297
<i>Growth y-o-y (%)</i>			(20%)	(9%)	10%	5%	5%
Non allocated		5,693	17,140	40,160	30,000	30,000	30,000
<i>% of revenues</i>			1.6%	2.1%	1.3%	1.2%	1.2%
<b>Total revenues</b>	<b>497,287</b>	<b>537,371</b>	<b>1,059,861</b>	<b>1,898,111</b>	<b>2,278,312</b>	<b>2,490,295</b>	<b>2,580,035</b>
<i>Growth y-o-y (%)</i>		8%	97%	79%	20%	9%	4%
<b>EBITDA</b>							
Chemical & petrochemical		21,319	77,688	142,362	166,374	186,339	197,070
<i>Margin (%)</i>		46.0%	14.4%	10.4%	11.0%	11.2%	11.5%
Oil & gas		10,993	29,862	8,477	13,461	14,807	15,548
<i>Margin (%)</i>		22.3%	18.2%	6.3%	10.0%	10.0%	10.0%
Power		15,220	8,891	12,809	34,425	37,868	39,761
<i>Margin (%)</i>		13.3%	10.7%	11.2%	10.0%	10.0%	10.0%
Infrastructure & civil engineering		34,503	27,153	19,198	26,210	28,600	31,163
<i>Margin (%)</i>		10.7%	10.6%	8.2%	10.2%	10.6%	11.0%
Net non-allocated		(24,939)	(49,435)	(45,975)	(68,349)	(74,709)	(77,401)
<i>% of revenues</i>		5.8%	4.7%	2.4%	3.0%	3.0%	3.0%
<b>Total EBITDA</b>	<b>38,033</b>	<b>57,096</b>	<b>94,159</b>	<b>136,871</b>	<b>172,121</b>	<b>192,904</b>	<b>206,140</b>
<i>Overall margin (%)</i>		7.6%	10.6%	8.9%	7.2%	7.6%	8.0%

Source: Company data, Lehman Brothers estimates

### A few oddities below EBITDA

Below the EBITDA line there are three peculiarities to Maire Tecnimont's accounting, which on the surface appear odd, or indeed negative, but in our opinion represent a conservative and open approach to reporting that is indeed refreshing to see and could present an opportunity to investors.

**Provision for risk and charges:** Although all companies book provisions, Maire Tecnimont is the only company we have seen that explicitly states a write-down of projects on its income statement. The key to success is to have enough provisions in place at a project end. As a result, the more cautious a company, the more back-end loaded its margins become.

This provision/contingency number has long been a topic for debate among investors, with companies averse to disclosing what they are taking as a hit on specific projects. Maire Tecnimont's disclosure of a charge every quarter in its income statement is welcome news to us.

This line has been running at ca. EUR (10)mn pa for the past two years, and indeed with the Fos contract and a due diligence provision on a Saudi project in 1H 07, the run rate appears to be similar in 2007. We should take heart that the company is performing what it calls "due diligence" early in a project life. All too often, in our opinion, it has been the lack of due diligence that has led to poor results.

The flip side of the argument is that most companies take this type of provision through the EBITDA line; hence, margins for Maire Tecnimont, which appear to be relatively strong, are unduly inflated by around 5-10%. Underlying EBITDA margins are closer to the 7.7% level than the 8.9% reported level for comparison purposes for 2006. However, this is still better than all but one of its peers.

Further evidence that the provision line is normal business and exemplary of an extremely cautious management is that to date 50% of all provisions have been reversed upon receipt of payments.

**Net financial charge, despite being cash positive... for now:** As with most companies involved in construction, Maire Tecnimont has a strong cash position, being EUR 440mn cash positive. As with its peers this is largely related to pre-payments on contracts that currently amount to EUR 334mn. As long as work continues to come in, this position should continue and indeed it is required to enable bonding and guarantees to be obtained.

Despite this, the company has been recording net financial charges, as high at EUR (7)mn in 1H 07. The company is not unique in this, but it is unique for its reasoning. For example, Technip had a net cash position in 2006 of EUR 1.6bn, yet paid out EUR (64)mn in interest. This is because it counts the interest on down-payments as revenues for a contract, a relic from the days when projects were bid at or near breakeven and the profits were generated by cash management. Maire Tecnimont does not do this. Instead the loss is largely due to derivatives losses, which are booked as financial items. These are typically booked to contracts by its peers.

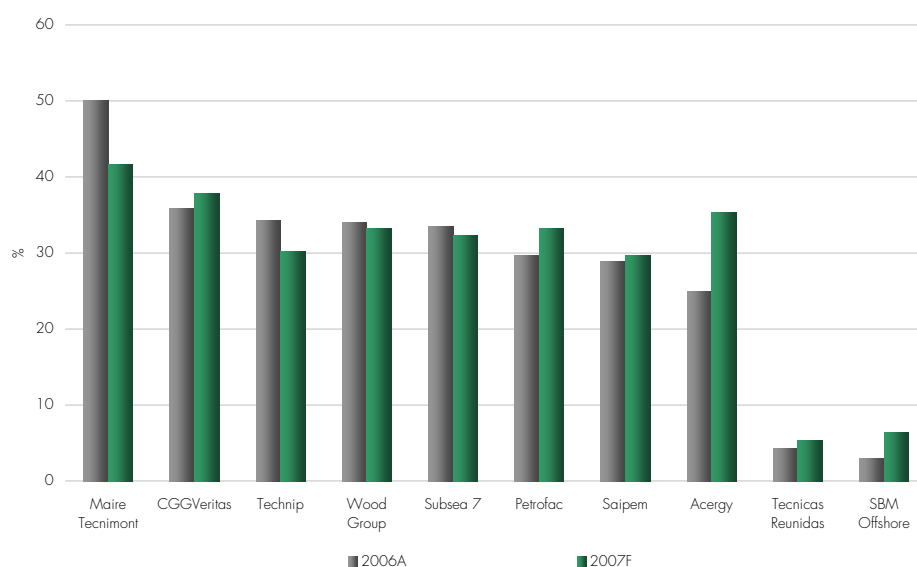
In 2006, the company booked EUR (8.2)mn of net derivative losses on top of an underlying EUR (2.4)mn net financial position. As for the provisions above, this has the effect of inflating the reported margin. Stripping both effects out would have reduced 2006 reported margins to 7.0% from 8.9% at the EBITDA level, still respectable, in our view.

From 2007, the company will cost derivative positions to contracts. The EUR (21)mn 1H 07 charge was largely generated by the early repayment of debt and this should not recur in 2H 07; hence, going forward, we expect this peculiarity to Maire Tecnimont to reverse.

**High tax rate:** At the net level, margins continue to be suppressed by an extraordinarily high tax rate, 47% in 1H 07 on the back of 48%-65% for the 2004-2006 period. This is significantly higher than its peers.

High corporate tax rate. Expect optimisation

### 2006A/2007F corporate tax rates



Source: Company data, Lehman Brothers estimates

The tax rate could be optimised. However, the rate is in part due to the company's extreme caution in provisioning of contracts. The provisions described above are non-tax-deductible and the company faces a statutory 37.5% rate. If we exclude the provision write-down, then the tax rates in 2005 and 2006 have been a more respectable 37% and 42%, respectively. That said, the company believes there is upside benefit to be gained from tax optimisation. It has joined the *Consolidato Fiscale* regime which gives a tax benefit for paying a dividend (it will do so from 2007 at a payout ratio of 27%) and allows cross-divisional losses to be offset against profits elsewhere. The company believes it can reduce its corporate rate in 2007 by five percentage points and get further benefits thereafter. Our estimates are based on a 37% tax rate pre-provisions, 40% post.

### Underlying tax rate

	2005A	2006A	2007F	2008F	2009F	2010F
PBT	38,294	61,115	118,773	158,021	181,204	196,840
Provisions	(11,362)	(12,332)	(9,898)	(10,000)	(10,000)	(10,000)
PBT pre provisions	49,656	73,447	128,671	168,021	191,204	206,840
Taxation	(18,360)	(30,603)	(49,512)	(63,608)	(72,482)	(78,736)
<b>Underlying Tax rate</b>	<b>37.0%</b>	<b>41.7%</b>	<b>38.5%</b>	<b>37.9%</b>	<b>37.9%</b>	<b>38.1%</b>

Source: Company data, Lehman Brothers estimates

<b>Income statement</b>						
EUR '000s	2005A	2006A	2007F	2008F	2009F	2010F
Chemical & petrochemical	46,330	538,139	1,374,990	1,512,489	1,663,738	1,713,650
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Power	114,176	83,469	114,751	344,253	378,678	397,612
Infrastructure & civil engineering	321,789	256,990	233,599	256,959	269,807	283,297
Non allocated	5,693	17,140	40,160	30,000	30,000	30,000
<b>Revenues</b>	<b>537,371</b>	<b>1,059,861</b>	<b>1,898,111</b>	<b>2,278,312</b>	<b>2,490,295</b>	<b>2,580,035</b>
<i>Growth y-o-y (%)</i>	8%	97%	79%	20%	9%	4%
Use of raw materials and consumables	(106,389)	(328,875)				
Costs of services	(318,112)	(495,749)				
Personnel costs	(47,400)	(123,024)				
Other operating expenses	(8,373)	(18,054)				
<b>Total costs</b>	<b>(480,274)</b>	<b>(965,702)</b>	<b>(1,761,240)</b>	<b>(2,106,191)</b>	<b>(2,297,391)</b>	<b>(2,373,895)</b>
<b>EBITDA</b>	<b>57,097</b>	<b>94,159</b>	<b>136,871</b>	<b>172,121</b>	<b>192,904</b>	<b>206,140</b>
<i>margin, %</i>	10.6%	8.9%	7.2%	7.6%	7.7%	8.0%
D&A of intangible assets	(3,363)	(7,143)	(6,582)	(7,000)	(7,500)	(8,000)
Allocation for write down of receivables	(21)	(2,771)	(1,064)	(1,100)	(1,200)	(1,300)
Provision for risks and charges	(11,362)	(12,332)	(9,898)	(10,000)	(10,000)	(10,000)
<b>Operating profit</b>	<b>42,351</b>	<b>71,913</b>	<b>119,327</b>	<b>154,021</b>	<b>174,204</b>	<b>186,840</b>
<i>margin, %</i>	7.9%	6.8%	6.3%	6.8%	7.0%	7.2%
Financial income	10,651	26,918				
Financial charges	(14,518)	(37,539)				
<b>Net financial income/(charges)</b>	<b>(3,867)</b>	<b>(10,621)</b>	<b>(425)</b>	<b>5,000</b>	<b>7,000</b>	<b>10,000</b>
Income on investments	(190)	(177)	(129)	0	0	0
Charges on investments	0	0	0	0	0	0
<b>Profit before taxes</b>	<b>38,294</b>	<b>61,115</b>	<b>118,773</b>	<b>159,021</b>	<b>181,204</b>	<b>196,840</b>
Income tax gain/(expense)	(18,360)	(30,603)	(49,512)	(63,608)	(72,482)	(78,736)
<i>Tax rate, %</i>	48%	50%	42%	40%	40%	40%
Minority interests	(383)	(439)	(2,141)	(2,570)	(2,809)	(2,910)
<b>Net income reported</b>	<b>19,551</b>	<b>30,073</b>	<b>67,120</b>	<b>92,843</b>	<b>105,914</b>	<b>115,194</b>
<i>Growth y-o-y (%)</i>	246%	54%	123%	38%	14%	9%
Basic shares outstanding, thousands	300,000	300,000	305,625	322,500	322,500	322,500
<b>EPS basic (EUR)</b>	<b>0.07</b>	<b>0.10</b>	<b>0.22</b>	<b>0.29</b>	<b>0.33</b>	<b>0.36</b>
<b>DPS (EUR)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.06</b>	<b>0.08</b>	<b>0.09</b>	<b>0.10</b>
Dividend payout ratio	0%	0%	27%	27%	27%	27%
<b>Income analysis:</b>						
EBITDA margin	10.6%	8.9%	7.2%	7.6%	7.7%	8.0%
Operating margin	7.9%	6.8%	6.2%	6.8%	7.0%	7.3%
Pre-tax margin	7.1%	5.8%	6.1%	7.0%	7.3%	7.7%
Net margin	3.6%	2.8%	3.5%	4.1%	4.3%	4.5%
Tax rate, %	47.9%	50.1%	41.7%	40.0%	40.0%	40.0%

Source: Company data, Lehman Brothers estimates

## Cash flow

EUR '000s	2005A	2006A	2007F	2008F	2009F	2010F
Net income	19,551	30,073	67,120	92,843	105,914	115,194
Minority interests	383	439	2,141	2,570	2,809	2,910
Depreciation & amortisation	3,363	7,143	6,582	7,000	7,500	8,000
Change in working capital	93,657	140,752	(58,046)	0	0	0
Other	25,875	15,379	(4,523)	0	0	0
<b>Cash flow from operations</b>	<b>142,829</b>	<b>193,786</b>	<b>13,274</b>	<b>102,412</b>	<b>116,223</b>	<b>126,104</b>
<i>Cash flow per share</i>	<i>0.48</i>	<i>0.65</i>	<i>0.04</i>	<i>0.32</i>	<i>0.36</i>	<i>0.39</i>
Capital expenditure	(1,081)	(5,722)	(4,799)	(5,000)	(5,500)	(6,000)
Dividends	0	0	0	(19,123)	(24,962)	(28,680)
<b>Net cash flow from operations</b>	<b>141,748</b>	<b>188,064</b>	<b>8,475</b>	<b>78,289</b>	<b>85,655</b>	<b>91,507</b>
<b>Non recurring items:</b>						
Acquisitions	(88,841)	2	(69,981)			
Other investing activities	19	(5,483)	(3,316)			
Share issuances	0	0	63,000			
all other items	(4,549)	59,918	58,000			
<b>Surplus/deficit</b>	<b>48,377</b>	<b>242,501</b>	<b>56,178</b>	<b>78,289</b>	<b>85,655</b>	<b>91,507</b>
<b>Free cash flow</b>						
Cash flow from operations	142,829	193,786	13,274	102,412	116,223	126,104
Capital expenditure	(1,081)	(5,722)	(4,799)	(5,000)	(5,500)	(6,000)
<b>Free cash flow</b>	<b>141,748</b>	<b>188,064</b>	<b>8,475</b>	<b>97,412</b>	<b>110,723</b>	<b>120,104</b>
<i>FCF per share</i>	<i>0.47</i>	<i>0.63</i>	<i>0.03</i>	<i>0.30</i>	<i>0.34</i>	<i>0.37</i>

Source: Company data, Lehman Brothers estimates

**Balance sheet**

EUR '000s	2005A	2006A	2007F	2008F	2009F	2010F
Cash	158,610	359,025	440,272	440,272	496,949	588,456
Other current assets	556,788	798,685				
Current liabilities	(592,363)	(1,002,260)				
Net fixed assets	11,529	13,003				
Other non-current assets	251,370	270,003				
Other non-current liabilities	(66,170)	(70,347)				
<b>Capital employed</b>	<b>319,764</b>	<b>368,109</b>	<b>424,997</b>	<b>420,427</b>	<b>472,295</b>	<b>558,892</b>
Ordinary shareholders' funds	64,237	107,085	237,205	310,925	391,771	478,368
Minorities	1,894	8,844	2,202	2,202	2,202	2,202
Short-term debt	130,542	88,734	78,322	78,322	78,322	78,322
Long-term debt	123,091	163,446	107,268	28,979	0	0
<b>Capital employed from debt</b>	<b>319,764</b>	<b>368,109</b>	<b>424,997</b>	<b>420,427</b>	<b>472,295</b>	<b>558,892</b>
Basic shares outstanding, thousands	300,000	300,000	305,625	322,500	322,500	322,500
<i>NBV per share</i>	0.21	0.36	0.78	0.96	1.21	1.48
Net debt	95,023	(106,845)	(254,682)	(332,971)	(418,627)	(510,134)
<i>Net debt per share</i>	0.32	(0.36)	(0.79)	(1.03)	(1.30)	(1.58)
<b>Ratios</b>						
RoE	35.6%	35.1%	39.0%	33.9%	30.1%	26.5%
Net debt to equity	148%	(100)%	(107)%	(107)%	(107)%	(107)%
Net debt to debt plus equity	60%	(44519)%	1457%	1510%	1559%	1606%
Return on average capital employed	8.0%	7.7%	16.4%	20.7%	22.3%	20.8%

Source: Company data, Lehman Brothers estimates

## Key risks

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Although we believe that our estimates are conservative, there are risks to our forecasts, many of which have been detailed previously. The key risks we perceive are:

**Operational difficulties:** The vast majority of Maire Tecnimont's work is lump-sum EPC contracting and, although the company has a decent track record, contracts can very quickly become loss-making for a number of reasons, including sub-contractor risk, climate risk, geopolitical risk, schedule risk and client risk. As a recent example, we have already seen the Fos Cavaou project in France enter a loss-making position. Difficulties on current and future contracts remain a possibility.

**Competition:** Although in its core chemical & petrochemical segment, Maire Tecnimont has a strong leadership position, it is possible that its 30% market share may be diluted as its peers aim to increase market share. Furthermore, in its non-core businesses and especially its oil & gas division, the company may find competition with some much more well established operators a challenge.

**Technology:** The company's success in its core business depends on strong relationships with licensors of process technologies. Should these relationships worsen or if the company's relative positioning versus its peers were to change, then this could pose a risk to future earnings.

**Currency/hedging losses:** Over 70% of revenues are denominated in Euro and exposed to currency fluctuations, although the company does endeavour to protect margins from FX movements. Previous years have seen some fairly significant losses as a result of derivatives positions and a repetition of such occurrences may present a risk to our earnings forecasts.

**Tax rate:** Although the company is aiming to reduce its tax exposure from the 50% level in 2006, it is possible that this may not materialise and therefore compress future earnings.

**Oil price:** The sector driver depends on the oil price and despite oil companies having longer-term planning horizons, there is still a correlation between short-term commodity price movements and their subsequent spending.

**Expansion could pose a challenge:** The company has rapidly grown its backlog to EUR 4.8bn and plans further growth going forward. Such rapid expansion could cause a significant strain on resources if not adequately handled, thus threatening operational performance.

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## Valuation

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We value Maire Tecnimont with a P/E-based methodology, using 16x 2009F P/E to arrive at our EUR 5.30/share price target. 16x compares with the 18x base case being used for the sector. With 57% upside potential from current levels, we are initiating coverage with a 1-Overweight rating.

Below, we have presented Maire Tecnimont's current valuations relative to the sector using a number of different valuation methodologies:

- P/E multiples
- P/E relative multiples
- PEG multiples
- EV/EBITDA multiples
- EV/EBIDA multiples
- Discounted cash flow, with sensitivity testing

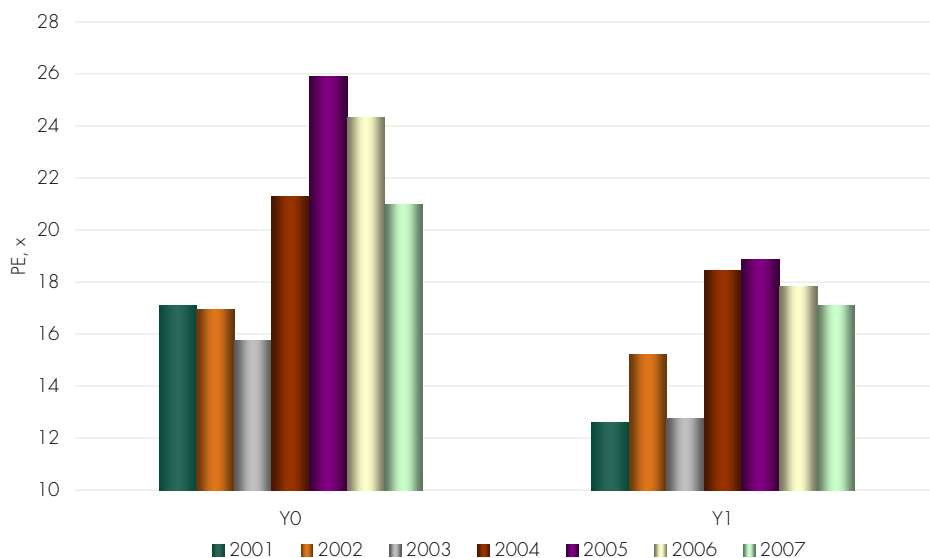
### **P/E-based analysis**

We have long argued that P/E multiples are the most appropriate way to value the oil services sector. We believe both DCF and EV/EBITDA approaches have significant drawbacks, discussed under the relevant sections below.

Historically, we can observe that after the sector re-rating in 2004, the stocks have, on average, tended to trade at an 18x year-forward multiple towards the end of each year. Over the course of the year, multiple expansion has occurred as confidence in the cycle has increased and the sector has, in valuation terms, found itself in a very similar situation to that which it experienced a year earlier.

*P/E multiples have demonstrated fairly robust historical patterns*

### Historical 1 December multiples



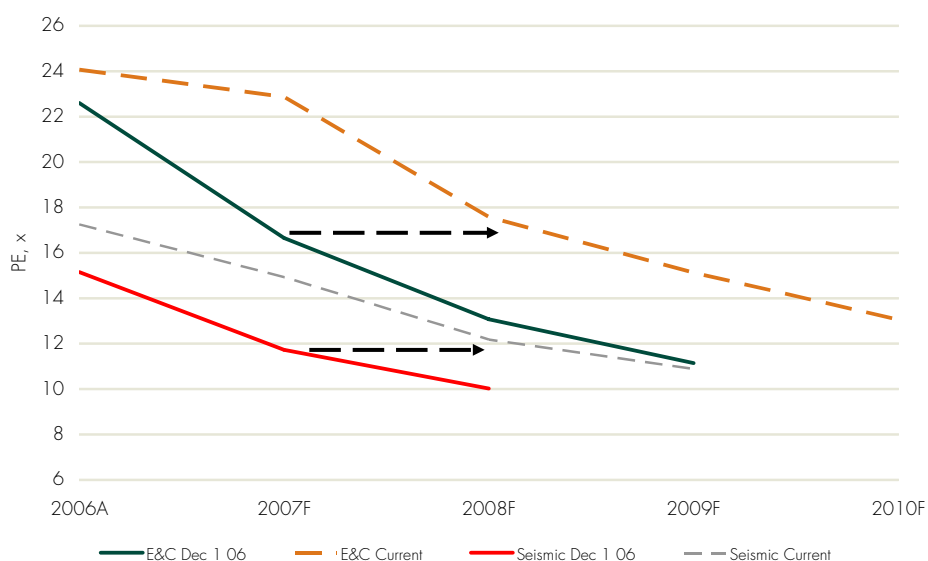
*Source: Lehman Brothers estimate YO=current year P/E, Y1 is one year forward P/E*

However, this analysis gives little attention to the particularities of the various sub-sectors within oil services. Sub-sectors have historically tended to trade at differing multiples dependent on two factors – perceived growth and visibility. We believe that the current multiple is purely a function of the stocks trading at a market multiple of the definitive visibility.

For example, a year ago, E&C companies were executing contracts extending out to 2009. Beyond that point, we expected new projects to appear, but there was no certainty until they arrived, and the stocks were trading at 10x-12x 2009F P/E. As confidence in the extended cycle has increased throughout 2007 and into 2008, companies have been winning contracts extending until 2010 and beyond, the multiples have simply expanded and today the E&C stocks are broadly trading at 11x-12x 2010F P/E. For stocks with exposure to the earlier end of the oil spending cycle, namely seismic, they have undergone a similar multiple expansion as fears over excess capacity have been allayed to an extent by all companies talking of continuing strength in the seismic environment. The stocks were trading at 10x 2008F P/E a year ago and are now trading at 10x 2009F P/E. Effectively, for all sub-sectors, the stocks trade at an average of 10x-12x the point of uncertainty which has continued to move further out in time.

Increasing visibility this year has resulted in valuations rolling over

### Rollover effect on valuation



Source: IBES for consensus, Lehman Brothers estimates

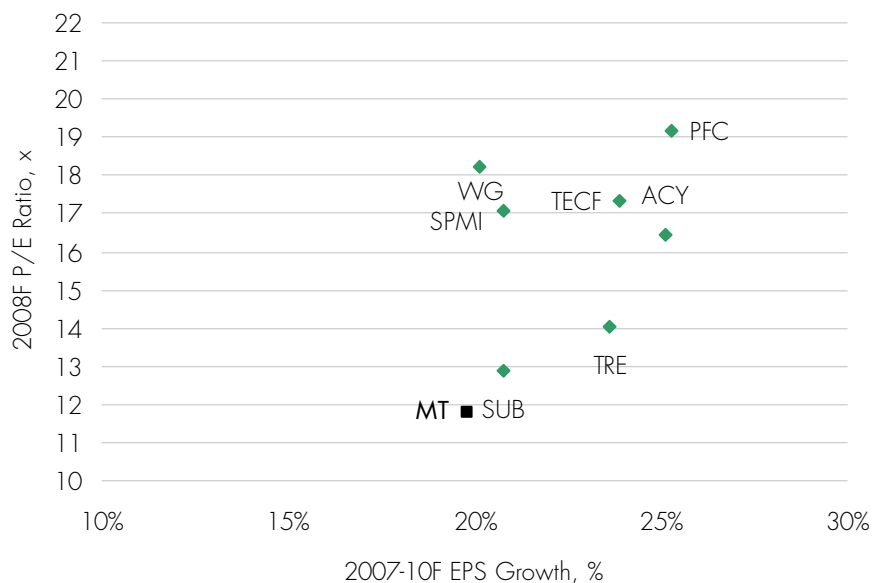
For Maire Tecnimont, there is no reason to suggest that visibility is any lower than for the E&C peer group as a whole. Indeed, its near-term visibility is much higher. Our analysis of the macro environment for the company's core markets and the long-term nature of the projects that it executes suggest that the fundamentals are likely to remain strong beyond the end of the decade. Furthermore, based on our forecasts the company is likely to demonstrate stronger-than-average earnings growth than its onshore and offshore peers.

### European E&C P/E multiples

	2007F	P/E multiples			2007F-10F Earnings CAGR
		2008F	2009F	2010F	
<b>E&amp;C onshore</b>					
Petrofac	21.3	19.2	15.8	10.8	25%
Saipem	20.4	17.1	14.0	11.5	21%
Technip	20.0	17.3	13.1	10.5	24%
Tecnicas Reunidas	21.2	14.1	12.2	11.2	24%
Wood Group	23.1	18.2	15.2	13.2	20%
<b>Average</b>	<b>21.2</b>	<b>17.2</b>	<b>14.0</b>	<b>11.4</b>	<b>23%</b>
<b>Maire Tecnimont</b>	<b>15.4</b>	<b>11.8</b>	<b>10.3</b>	<b>9.4</b>	<b>20%</b>
<b>E&amp;C offshore</b>					
Acergy	19.6	16.4	12.6	10.0	25%
Saipem	20.4	17.1	14.0	11.5	21%
SBM Offshore	14.8	14.8	13.0	11.3	9%
Subsea 7	16.8	12.9	10.8	9.5	21%
Technip	20.0	17.3	13.1	10.5	24%
<b>Average</b>	<b>18.3</b>	<b>15.7</b>	<b>12.7</b>	<b>10.5</b>	<b>20%</b>

Source: Lehman Brothers estimates

### P/E ratio versus earnings growth



Source: Lehman Brothers estimates

The European onshore E&C sector is currently trading at 17.2x and 14.0x 2008F and 2009F P/E, offering 23% earnings CAGR for the 2007-10F period. Maire Tecnimont, despite a very similar growth profile on our numbers (20% CAGR), is trading at an average 29% discount to the sector, at 11.8x and 10.3x 2008F and 2009F P/E.

### P/E relative multiple analysis

Maire Tecnimont competes not only with European but also US and Asian E&C companies. In order to derive a fair valuation range for the company relative to its global peer group, we have adjusted stock valuations for the relevant market multiples.

## P/E and P/E-relative multiples

	2007F		2008F		2009F	
	P/E	P/E rel	P/E	P/E rel	P/E	P/E rel
<b>Market multiples</b>						
UK	12.9		11.9		11.1	
US	16.8		14.6		12.9	
Europe (ex UK)	13.8		12.6		11.4	
Japan	16.8		15.2		13.9	
Australia	16.9		15.5		14.0	
<b>E&amp;C onshore (UK/Europe)</b>						
Petrofac	21.3	1.65	19.2	1.61	15.8	1.43
Saipem	20.4	1.48	17.1	1.36	14.0	1.23
Tecnicas Reunidas	21.2	1.54	14.1	1.12	12.2	1.07
Technip	20.0	1.45	17.3	1.38	13.1	1.15
Wood Group	23.1	1.79	18.2	1.53	15.2	1.37
<b>Average</b>	<b>21.2</b>	<b>1.58</b>	<b>17.2</b>	<b>1.40</b>	<b>14.0</b>	<b>1.25</b>
<b>Maire Tecnimont</b>	<b>15.4</b>	<b>1.12</b>	<b>11.8</b>	<b>0.94</b>	<b>10.3</b>	<b>0.90</b>
<b>E&amp;C onshore (US)</b>						
CBI	30.8	1.83	22.8	1.56	17.7	1.37
Fluor	32.8	1.95	25.5	1.75	21.0	1.63
Foster Wheeler	24.4	1.45	20.5	1.41	16.5	1.28
Kellogg, Brown & Root	31.1	1.85	23.5	1.61	19.3	1.49
Jacobs*	34.3	2.04	27.1	1.86	22.4	1.73
Shaw*	72.5	4.32	21.5	1.47	16.2	1.25
<b>Average</b>	<b>37.7</b>	<b>2.24</b>	<b>23.5</b>	<b>1.61</b>	<b>18.8</b>	<b>1.46</b>
<b>E&amp;C onshore (Asia Pacific)</b>						
JGC*	19.0	1.13	16.1	1.06	14.2	1.02
Chiyoda*	11.0	0.66	11.7	0.77	10.7	0.77
Worley Parsons*	38.4	2.27	29.7	1.92	24.8	1.77
<b>Average</b>	<b>22.8</b>	<b>1.35</b>	<b>19.2</b>	<b>1.25</b>	<b>16.6</b>	<b>1.19</b>

Source: Datastream, Lehman Brothers estimates for UK and European stocks

\*Multiples for these companies are adjusted for financial year end – calendar year disparity

On this measure, Maire Tecnimont is trading at an average 30% discount to its UK/Europe peers for the 2007-09F period.

### PEG-based analysis

An alternative valuation technique is to use a (P/E)/growth ratio. We forecast 20% earnings growth for Maire Tecnimont from 2007F-2010F, versus 23% for the sector and 12% earnings growth from 2008F-2010F, versus 23% for the sector. The sector average PEG ratios for the onshore E&C companies under our coverage are 0.94 and 0.83 using three-year and two-year growth figures, respectively. Although Maire Tecnimont is trading at a 17% discount based on the three-year growth, it stands at a premium for the 2008-10F period. However, we would view this largely as a reflection of our conservative assumptions for further out years.

**PEG-based analysis**

P/E Ratios	2007F	2008F	2009F	2010F	PEG (3-yr)	PEG (2-yr)
Acergy	19.6	16.4	12.6	10.0	0.78	0.58
Petrofac	21.3	19.2	15.8	10.8	0.84	0.57
Saipem	20.4	17.1	14.0	11.5	0.98	0.79
SBM Offshore	14.8	14.8	13.0	11.3	1.57	1.03
Subsea 7	16.8	12.9	10.8	9.5	0.81	0.77
Technip	20.0	17.3	13.1	10.5	0.84	0.60
Tecnicas Reunidas	21.2	14.1	12.2	11.2	0.90	1.16
Wood Group	23.1	18.2	15.2	13.2	1.15	1.05
<b>Average</b>	<b>19.7</b>	<b>16.2</b>	<b>13.3</b>	<b>11.0</b>	<b>0.98</b>	<b>0.82</b>
<b>Average (onshore E&amp;C)</b>	<b>21.2</b>	<b>17.2</b>	<b>14.0</b>	<b>11.4</b>	<b>0.94</b>	<b>0.83</b>
<b>Maire Tecnimont</b>	<b>15.4</b>	<b>11.8</b>	<b>10.3</b>	<b>9.4</b>	<b>0.78</b>	<b>1.01</b>

Source: Lehman Brothers estimates

**EV/EBITDA-based analysis**

We have long argued that EV/EBITDA is an inappropriate measure for the oil service companies in Europe, as a number of stocks used in comparison are involved in construction. In the best form, construction contracts are typically working capital positive as they receive a down payment and regular payments throughout. In our opinion, this cash should not be included within the calculation of enterprise value, purely the margin that will be generated from the cash. Some construction companies go further and count the interest generated from the cash down payments as revenues, thereby doubly benefiting in any EV/EBITDA calculation. The order of magnitude of the distortion change is significant. On 2008F multiples Technip, for example, changes from a 5.6x multiple to 8.6x, by adjusting for cash down-payments.

Historically, adjusted EV/EBITDA multiples have been in the range of 6x-14x, with a 10-year average of 11.3x. Currently, the sector is at 9.7x 2008F adjusted EV/EBITDA.

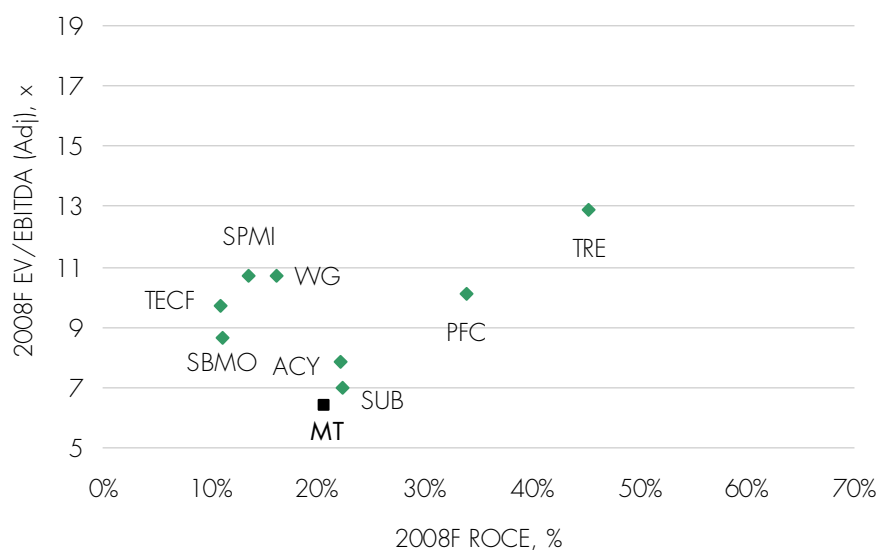
**European E&C EV/EBITDA (adj)\* multiples**

	EV/EBITDA (Adj)* multiples				2008F ROCE
	2007F	2008F	2009F	2010F	
<b>E&amp;C onshore</b>					
Petrofac	10.9	10.1	7.4	3.9	34%
Saipem	12.7	10.7	8.8	6.9	14%
Technip	9.5	8.6	7.2	6.0	11%
Tecnicas Reunidas	20.4	12.9	10.8	9.6	45%
Wood Group	12.6	10.7	9.1	8.1	16%
<b>Average</b>	<b>13.2</b>	<b>10.6</b>	<b>8.7</b>	<b>6.9</b>	<b>24%</b>
<b>Maire Tecnimont</b>	<b>8.1</b>	<b>6.4</b>	<b>5.2</b>	<b>4.4</b>	<b>22%</b>
<b>E&amp;C offshore</b>					
Acergy	9.9	7.8	6.2	4.8	22%
Saipem	12.7	10.7	8.8	6.9	14%
SBM Offshore	9.3	9.7	8.8	8.1	11%
Subsea 7	9.8	7.0	5.4	4.3	22%
Technip	9.5	8.6	7.2	6.0	11%
<b>Average</b>	<b>10.2</b>	<b>8.8</b>	<b>7.3</b>	<b>6.0</b>	<b>16%</b>

Source: Lehman Brothers estimates

\*Adjusted for cash down payments – where this is unknown, the cash level is set to 10% of shareholders' funds

## EV/EBITDA ratio versus ROCE



Source: Lehman Brothers estimates

The European onshore E&C sector is currently trading at 10.6x and 8.7x 2008F and 2009F adjusted EV/EBITDA. Maire Tecnimont, which offers a very similar return profile to the group, is trading at an average 40% discount to the sector, at 6.4x and 5.2x 2008F and 2009F adjusted EV/EBITDA.

### EV/EBIDA-based analysis

A fair criticism of using an EV/EBITDA multiple to arrive at a valuation range for Maire Tecnimont would be that it fails to account for the differing tax exposures within the sector but more importantly that it overstates Maire Tecnimont's own valuation. In 2006, the company had almost double the average tax rate within the sector, standing at 50%. Although we expect the company to achieve some fiscal optimisation going forward, we currently assume that even by the end of the decade, a significant gap will exist between its own tax burden as compared with the sector.

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**European E&C EV/EBIDA (adj)\* multiples**

	EV/EBIDA (Adj)* multiples				Tax rate
	2007F	2008F	2009F	2010F	2006A/2010F
<b>E&amp;C onshore</b>					
Petrofac	14.7	13.6	10.0	5.5	30%/29%
Saipem	18.6	13.6	11.2	8.8	29%/30%
Technip	15.0	10.7	8.9	7.4	34%/31%
Tecnicas Reunidas	31.3	13.7	11.5	10.2	4%/5%
Wood Group	18.0	14.7	12.7	11.3	34%/33%
<b>Average</b>	<b>19.5</b>	<b>13.2</b>	<b>10.9</b>	<b>8.6</b>	<b>26%/26%</b>
<b>Maire Tecnimont</b>	<b>11.1</b>	<b>10.1</b>	<b>8.3</b>	<b>7.2</b>	<b>50%/40%</b>
<b>E&amp;C offshore</b>					
Aceryg	19.5	10.8	8.5	6.3	25%/30%
Saipem	18.6	13.6	11.2	8.8	29%/30%
SBM Offshore	10.0	7.5	7.0	6.5	3%/6%
Subsea 7	15.4	9.3	7.4	5.9	34%/32%
Technip	15.0	10.7	8.9	7.4	34%/31%
<b>Average</b>	<b>15.7</b>	<b>10.4</b>	<b>8.6</b>	<b>7.0</b>	<b>25%/26%</b>

Source: Lehman Brothers estimates

\*Adjusted for cash down payments – where this is unknown, the cash level is set to 10% of shareholders' funds

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The European onshore E&C sector is currently trading at ca. 13.2x and 10.9x 2008F and 2009F adjusted EV/EBIDA, respectively. Using this methodology attributes a lower discount to Maire Tecnimont relative to the group, at just 23% on 2008F and 2009F adjusted EV/EBIDA.

### DCF-based analysis

DCF-based analysis is often problematic. For most of the companies under our coverage, the inappropriateness of DCF lies in the fact that the core competencies of many of the companies are not asset backed, rather people based, and it is possible to generate a variety of equally valid valuations, depending on terminal value assumptions. In a cyclical sector, such as oil services, it is normal to revert to a mean margin within a DCF-based evaluation. However, a determination of where and when that point will occur is somewhat arbitrary and hence leads to a range of valuations, which can vary significantly.

Our DCF-based methodology implies a fair value share price of EUR 3.98/share. This assumes long-term revenue growth of 3%, behind the 20-year average 7% growth in energy-related capex, a 40% tax rate for 2008 and beyond, as well as long-term capex growth of 3%. For the sake of conservatism, we assume that margins peak in 2012 and trend down to a terminal 7% EBITDA margin. We use a 10% discount rate which, again for the sake of conservatism, is higher than the calculated WACC of 8.0%.

## DCF-based analysis

EUR (mn)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	TV
Revenues	1,898.1	2,278.3	2,490.3	2,580.0	2,657.4	2,737.2	2,819.3	2,903.9	2,991.0	
Costs	(1,761.2)	(2,106.2)	(2,297.4)	(2,373.9)	(2,431.6)	(2,490.8)	(2,593.7)	(2,686.1)	(2,781.6)	
<b>EBITDA</b>	<b>136.9</b>	<b>172.1</b>	<b>192.9</b>	<b>206.1</b>	<b>225.9</b>	<b>246.3</b>	<b>225.5</b>	<b>217.8</b>	<b>209.4</b>	
EBITDA margin	7.2%	7.6%	7.7%	8.0%	8.5%	9.0%	8.0%	7.5%	7.0%	
Tax expense	(49.5)	(63.6)	(72.5)	(78.7)	(90.4)	(98.5)	(90.2)	(87.1)	(83.7)	
EBIDA	87.4	108.5	120.4	127.4	135.5	147.8	135.3	130.7	125.6	1,005.0
Capex	(4.8)	(5.0)	(5.5)	(6.0)	(6.2)	(6.4)	(6.6)	(6.8)	(7.0)	(55.6)
<b>Post-tax cash flow</b>	<b>82.6</b>	<b>103.5</b>	<b>114.9</b>	<b>121.4</b>	<b>129.3</b>	<b>141.4</b>	<b>128.8</b>	<b>123.9</b>	<b>118.7</b>	<b>949.3</b>

## Assumptions beyond 2010

		Disc rate	EV (EUR mn)	Price/Share (EUR)	TV Multiple
Revenue growth 2011-2015	3%	10.0%	1,092	3.98	8
Tax rate 2011-2015	40%				
Capex growth	3%				

Source: Lehman Brothers estimates

However, we can evaluate different scenarios for the future of the company, flexing for discount rate, long-term revenue growth, terminal EBITDA margin and terminal multiple. The outcomes of testing for sensitivities around these values are shown below:

## Different long-term revenue growth scenarios

EUR	Revenue growth 2011-15	Discount rate							
		8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
	0%	4.05	3.96	3.87	3.79	3.71	3.63	3.55	3.48
	1%	4.15	4.05	3.96	3.88	3.79	3.71	3.64	3.56
	2%	4.25	4.16	4.06	3.97	3.89	3.80	3.72	3.64
	3%	4.36	4.26	4.16	4.07	3.98	3.89	3.81	3.73
	4%	4.48	4.37	4.27	4.17	4.08	3.99	3.90	3.82
	5%	4.60	4.49	4.38	4.28	4.18	4.08	3.99	3.91
	6%	4.72	4.60	4.49	4.39	4.28	4.19	4.09	4.00

Source: Lehman Brothers estimates

## Different terminal EBITDA margin scenarios

EUR	Terminal EBITDA Margin	Discount rate							
		8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
	4%	3.61	3.53	3.47	3.40	3.34	3.27	3.21	3.16
	5%	3.86	3.78	3.70	3.62	3.55	3.48	3.41	3.35
	6%	4.11	4.02	3.93	3.85	3.77	3.69	3.61	3.54
	7%	4.36	4.26	4.16	4.07	3.98	3.89	3.81	3.73
	8%	4.62	4.50	4.40	4.29	4.19	4.10	4.01	3.92
	9%	4.87	4.75	4.63	4.52	4.41	4.31	4.21	4.11
	10%	5.12	4.99	4.86	4.74	4.62	4.51	4.40	4.30

Source: Lehman Brothers estimates

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**Different terminal multiple scenarios**

EUR		Discount rate							
		8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
Terminal multiple	5x	3.81	3.73	3.66	3.58	3.51	3.44	3.38	3.31
	6x	4.00	3.91	3.83	3.75	3.67	3.59	3.52	3.45
	7x	4.18	4.09	4.00	3.91	3.82	3.74	3.67	3.59
	8x	4.36	4.26	4.16	4.07	3.98	3.89	3.81	3.73
	9x	4.55	4.44	4.33	4.23	4.14	4.04	3.95	3.87
	10x	4.73	4.62	4.50	4.40	4.29	4.19	4.10	4.00
	11x	4.92	4.79	4.67	4.56	4.45	4.34	4.24	4.14

Source: Lehman Brothers estimates

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Ultimately, a DCF approach gives us a range of possibilities for share price. Any one of the outcomes is equally likely, and all the methodology does is provide us with an indication of the sensitivity of the implied share price to our assumptions. Using three sensitivity analyses, the DCF analysis implies a share price range of EUR 3.16- 5.12/share.

## Appendix A: Company history

### Deep roots: the makings of Maire Tecnimont

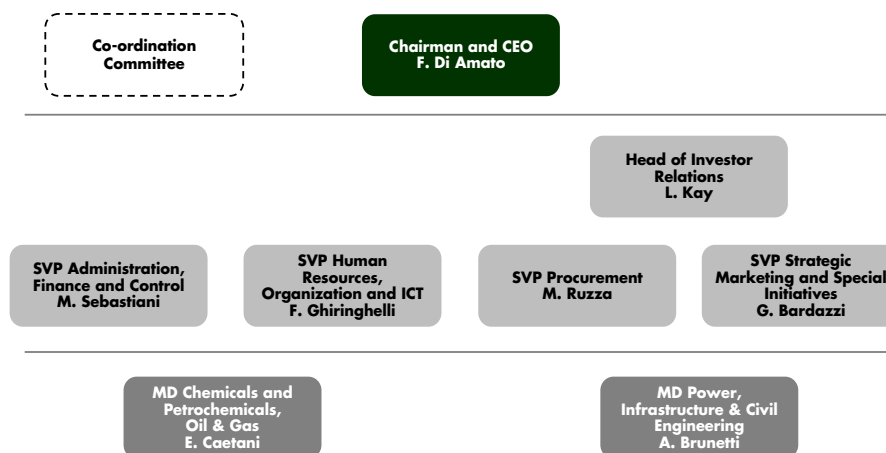
1883	Edison Electric Company started up Europe's first continuous electric power distribution station in Milan
1888	Montecatini, which became the pace-setting company in the Italian mining and chemical industry, was founded
1920s	Edison Electric Company had outstanding experience in the implementation of major works and hydroelectric power plants in Lombardy, Liguria and Piedmont
1930s	Montecatini became a chemical colossus with the production of organic dyes, pharmaceuticals, synthetic resins, plastics and mineral oils, employing over 18,000 workers Maire Engineering (Formerly FIAT Engineering) began as a division of the FIAT Group devoted to designing and building industrial plants
1950s	Edison's presence in the chemical sector grew with the creation of three petrochemical centres, at Porto Marghera, Mantua and Priolo Just four years after the laboratory tests, Montecatini began the commercial production of polypropylene
1966	Edison and Montecatini merged; the two firms' engineering and development divisions made it possible to exploit the complementary nature of their activities
1972	Maire Engineering was formed as a separate entity in 1972 and called FIAT Engineering S.p.A.
1973	Tecnimont was established as a spin-off of the engineering division of Montedison
1991	The Maire Group established by Fabrizio di Amato
1996	Acquisition of Tecnimont ICB, an Indian company that now acts as an engineering centre for Tecnimont
2000	Acquisition of SOFREGAZ in France, a French company specialising in the design and construction of facilities for the treatment of natural gas
2001	Acquisition of TPI Tecnimont Salzgitter in Germany to provide specialised expertise in the construction of facilities for the production of LDPE Acquisition of Tecnimont Brindisi in Italy to enhance expertise in the construction of polyolefin manufacturing plants based on Basell's technology FIAT Engineering acquired from FIAT Avio S.p.A., its division devoted to the design and construction of power plants
2002	Acquisition of Protecma in Italy to reinforce capabilities in the production of plants that produce energy from renewable sources
2004	Maire Engineering acquires FIAT Engineering and renames the latter to Maire Engineering
2005	Tecnimont enters Maire Tecnimont Group
2007	Maire Tecnimont initiates public offering Company acquires remaining 49% of Tecnimont ICB for \$70mn

*Source: Company data*

## Appendix B: Management

Maire Tecnimont has a relatively young management team, with an average age of about 48 years, although each has at least two decades of industry experience. For investors, the fact that the CEO and CFO cannot communicate in English may present a concern, although the heads of the individual components, Maire Engineering and Tecnimont, can speak the language. The co-ordination committee, detailed in the chart below, meets twice a month to discuss and plan operations and business strategy.

### Senior management and IR



Source: Company data

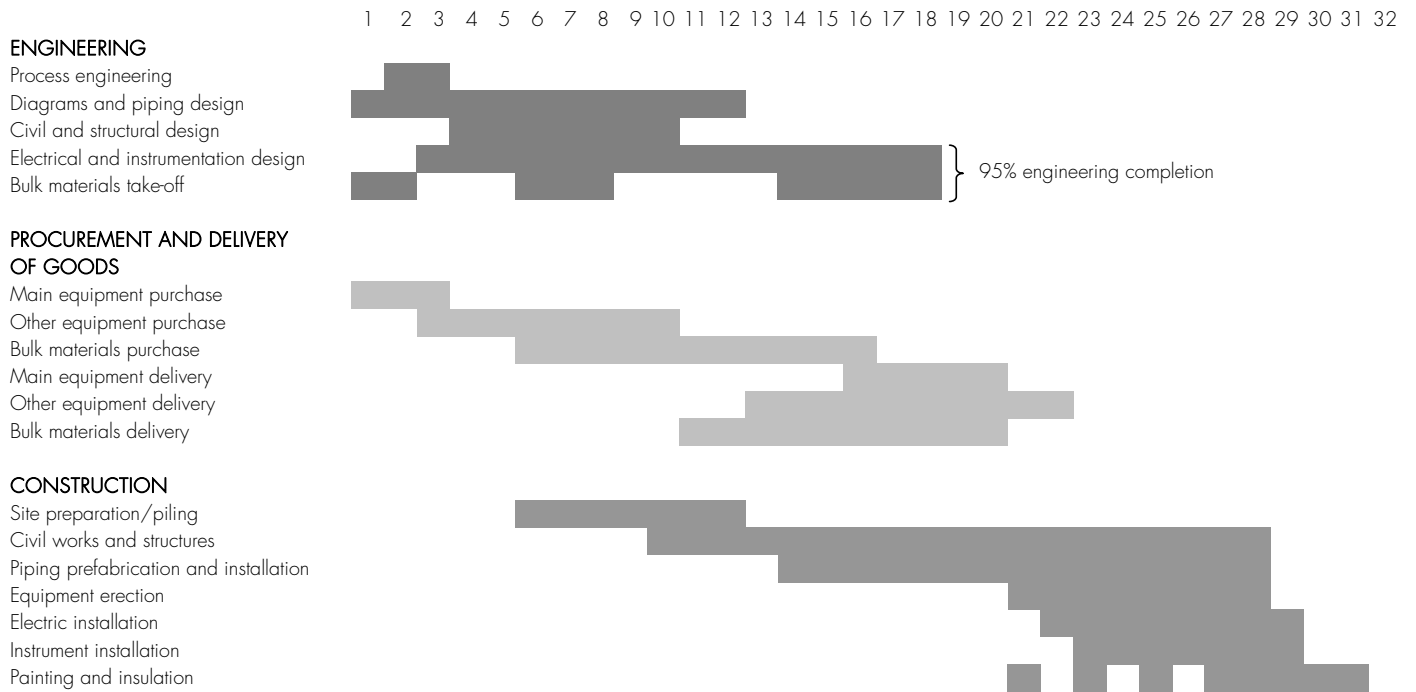
**Fabrizio Di Amato, 44, chairman & CEO:** graduated in political science at “La Sapienza” university in Rome. He began his professional career by establishing his own business, which developed into the Maire group, with activities ranging from the construction of factories and public buildings to the restoration of artistic and historic buildings. He acquired Fiat Engineering (now Maire Engineering) and Tecnimont in rapid succession in 2004 and 2005.

**Massimo Sebastiani, 50, CFO:** held positions between 1979 and 2004 at several banks including Banca di Roma, Carimonte, Rolo Banca and UniCredit. He has held senior finance positions at the Maire group since September 2004. In July 2005, he became a member of the board of directors and since May 2006, he has been senior vice president administration, finance and control for the Maire Tecnimont Group.

**Enzo Caetani, 55, head of Tecnimont:** graduated in chemical engineering in 1975 and completed a masters in advanced technology in 1976. He joined Snamprogetti in 1977 as a process engineer and spent almost 30 years with the company in a number of management roles, culminating in his role as director of operations in 2002. On 12 July 2006, he joined Tecnimont as managing director.

**Andrea Brunetti, 48, head of Maire Engineering:** graduated in mechanical engineering at Milan Polytechnic in 1985. He was with Snamprogetti from 1990 until 1995, first as a project co-ordinator and then project manager. In 1995, he joined Tecnimont where between 1997 and 1999 he was head of operations and corporate budget. Between 1999 and 2002, he was joint managing director of Tecnimont ICB and then director of project execution until 2006, when he was made executive vice president operations and engineering. Since April 2007, he has been managing director of Maire Engineering.

**Appendix C: Profile of a typical 32-month E&C contract**

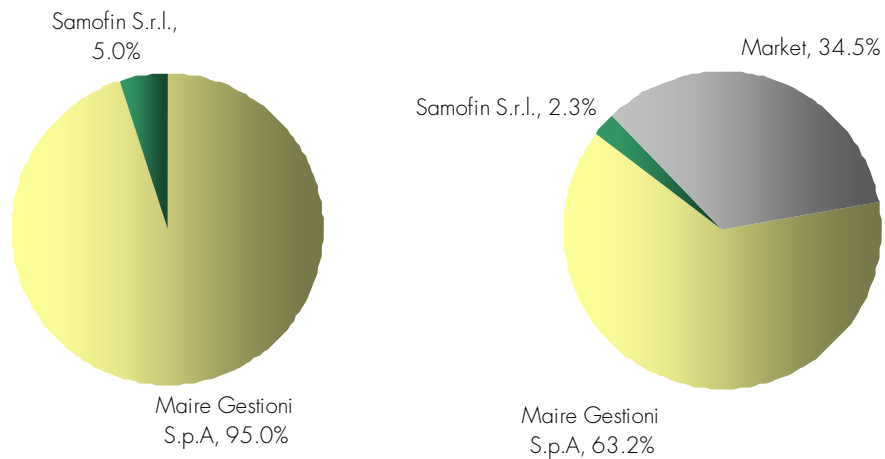


Source: *Tecnicas Reunidas*

## Appendix D: Shareholder structure

Maire Gestioni, which represents CEO Fabrizio Di Amato's interest, now holds 63.2% of the share capital of Maire Tecnimont and 2.3% is held by Samofin, representing Giovanni Malagò, a private investor. The free float is 34.5%. Maire Tecnimont consists of 322,500,000 shares. The selling shareholders are now under a 180 day lock-up period.

### Shareholder structure pre- and post-IPO



Source: Company data





**Important Disclosures**

**Rating and Price Target Chart: Maire Tecnimont**

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