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Regional Feedback on the Economic Downturn - Impact, Risks and Opportunities

Europe / UK

ECRI Sponsors Meetings
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- **COMMON THEMES/ EXPERIENCES**

  - **Quality / repeat Clients key in a crisis market**
  - **Diversification: Geographic, Clients, Business Line (Refining, Power, Infrastructure, etc.)**
  - **Clients take advantage of the reduced investment costs in the softer market**
  - **Large investors coming back to market, but trying to time the market, so unclear when investment will occur**
  - **Banking / Financing environment slowly improving**
  - **Number of inquiries from potential clients up in 2009 relative to end of 2008**
  - **Contractors working to lower OH costs, and optimize Human Resources w/o losing know-how**

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- TECNICAS REUNIDAS
  - Repeat customers proving key in the downturn
  - Expanded Client base providing stability, especially in key Geographic Areas:
    - Middle-East: ARAMCO → ARAMCO, SABIC, ADNOC, KOC, PDO
  - Expanding Geographically in our Power Business:
    - Expanded from primarily nationally based projects and customers to international customers: France, Holland, Saudi Arabia
  - Backlog healthy: Diversified by Customer, Geography, Business Type
  - Difficult and different market
    - Cautious and Prudent – maintain low OH structure (scalable: 1) cost structure, increase and decrease human resources as required w/o losing technology capacity)
    - Working with our Clients and Suppliers to lower our costs (market changed) from Supplier
    - Procurement teams must be efficient – must know pulse of supplier markets, and provide efficient pricing so we can serve our Customers
    - Adapting to our Customer needs (temporary procurement open book estimates as E&M up to 60% of price)

    ……but many reasons to be Optimistic

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- TECNICAS REUNIDAS (cont.)

  - Summary
    - Healthy backlog with projects that span until 2012
    - Expanded client base will allow access to a larger share of the market
    - Large and diversified bidding pipeline in:
      - Refining
      - Upstream & Gas
      - Power
    - Execution under less stressed conditions
    - Strong Balance Sheet position an asset

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- **FOSTER WHEELER**

  - **Markets seem to be returning to normal but with lower levels of activity than preceding years**

  - **"Green energy" projects are still being planned but proceeding very slowly**

  - **Power sector still at low levels of activity**

  - **Still some delay/cancellation of large projects – but no worse than normal?**

  - **2009 seems better than had been feared – largely due to the oil price recovery and National Oil Companies continuing to invest / plan investments**

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- SKANSKA

  ■ The financial crisis (that commenced Sep08) lead to an immediate top management and group wide attention to:
  - cashflow and credit risks on clients and subs
  - review of all relevant conditions of contract including security arrangements in contracts
  - quality of clients are fundamental - if they are good, then their banks support them through difficult times.
  - Regular tracking of aforementioned issues

  ■ In many of our markets the residential and commercial developments are "stone dead".
  - Number of new projects/orders has decreased radically
  - However, larger projects stretch over a longer time and therefore effects are not felt immediately.
  - Effects has also been mitigated by price pressure on subcontractors and suppliers that improve margins on existing contracts.
  - Unfortunately Skanska has been forced to lay off people.

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- **SKANSKA (cont.)**

  - **Work within infrastructure sector are much less impacted.**
    - **Planned or already started public civil works projects largely unaffected.**
    - **Stimulus funded projects have to be shovel ready, therefore small, and more suited for second tier contractors.**
    - **There is limited possibility for a construction company to move resources from building works to civil works.**
    - **This said, even civil works are affected by downturn in commercial and residential developments as it means reduction in connected infrastructure such as foundations, roads etc.**

  - **Developments within PPP seems quite unaffected after the first shock on the financial markets and total dry up of funding.**
    - **Projects are long term and governments, particularly the UK government, has expressed that it will fund shortfall in financing, which had a positive effects on banks willingness to lend.**
    - **Many large developers are in problem and prices on assets has been falling. Possibly an opportunity to buy at reasonable prices but once again - equity is more scarce.**

  - **In waiting for an increased demand for residential and commercial developments, and to take advantage of lower prices on land, clearly now is the time to buy land for development when times get better.**

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- **LITWIN**

  - **Litwin performs LSTK / EPC projects for the offshore / onshore oil & gas, chemical & petrochemical, energy & environment industries worldwide.**

  - **The impacts of the current economic downturn on the Litwin activities:**

  - **General Trend - The EPC contracts in our 3 business units (oil & gas - energy & environment - industries & services) ask for bonding which is becoming rare resource during this crisis period. This fact would lead Litwin to focus its marketing efforts on Engineering Services instead of big EPC contracts.**

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- **LITWIN (cont.)**
  - **Organizational impacts (optimization)**
    - **Merging the engineering departments (one per business unit) into one common engineering department .**
    - **Elimination of some luxury activities (participating to the overhead)**
  - **Impacts on marketing / project execution**
    - **better targeting of future projects (reducing marketing / proposal costs, ...)**
    - **reinforcement of our project review process:**
      - **tighter control of the project cash flow (per project)**
      - **deeper investigation on the financial status of suppliers**
      - **optimal use of internal resources versus external contract staff**

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LURGI

Market

- Few major investments/ project developments in the chemical industry still shelved. Production capacities still substantially reduced.
- Clients becoming inflexible – negotiation power of contractor diminishing
- Financial problems/ insolvencies in the vendor/ subcontractor field
- Low cost competition

Company

- Fair order backlog
- Successful acquisition of midsize to large engineering projects in 2009
- Strenghtening procurement in low cost countries by focusing on schedule and quality control
- Keeping strong cash position
- Organisational optimization
  - substantial reduction of Freelancers
  - reorganization of global functions / strengten local centers
  - sensitive project selection process
  - further strenghtening of cash and receivable management
  - tighten contract management

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