

Opportunities of Austrian Construction Companies in Central and Eastern Europe

A Master's Thesis submitted for the degree of
"Master of Business Administration"

supervised by
Dr. Harald C. Klien

Quintin Michael Althann

0828537

Vienna, April 12th 2010

Affidavit

I, **QUINTIN ALTHANN**, hereby declare

1. that I am the sole author of the present Master's Thesis, "The opportunities of Austrian Construction Companies in Central and Eastern Europe ", 89 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and
2. that I have not prior to this date submitted this Master's Thesis as an examination paper in any form in Austria or abroad.

Vienna, 04.06.2010

Signature

Table of Contents

<i>List of abbreviations</i>	3
<i>Abstract</i>	4
<i>I. Introduction</i>	5
I.i Work Procedure.....	5
I.ii The Construction Industry in the current economic crisis	6
I.iii Eastern European Construction Industry	8
I.iv Austrian Construction Market	12
I.v Opportunity Eastern Europe	12
<i>II. Company Analysis</i>	14
II.i STRABAG SE.....	14
II.ii Allgemeine Baugesellschaft – A. Porr Aktiengesellschaft.....	17
II.iii Alpine Bau GmbH.....	19
II.iv Swietelsky	21
II.v Habau	23
<i>III. Country Reports</i>	26
III.i Ukraine	26
III.ii Bosnia & Herzegovina	30
III.iii Serbia	32
III.iv Croatia	35
III.v Czech Republic.....	38
III.vi Slovakia.....	41
III.vii Slovenia.....	44
III.viii Hungary	46
III.ix Russia	49
III.x Belarus	53
III.xi Poland	56
<i>IV. Facts about the construction industry</i>	60
<i>V. Opportunities for each company in each country</i>	65
V.i Strabag Opportunities.....	65
V.ii Porr Opportunities	69
V.iii Alpine Bau Opportunities.....	72
V.iv Swietelsky opportunities	74
V.v Habau Opportunities.....	77
<i>VI. Conclusion</i>	80

VI.i Strabag	80
VI.ii Porr	81
VI.iii Alpine	81
VI.iv Swietelsky.....	82
VI.v Habau	83
<i>VII. Bibliography</i>	85
<i>VIII. List of figures</i>	88

List of abbreviations

B&H	Bosnia & Herzegovina
CEE	Central Eastern Europe
CEO	Chief Executive officer
CPI	Corruption Perceptions Index
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes depreciation and amortization
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
EU 27	The EU 27 member countries (2010)
FDI	Foreign direct investment
FX	Foreign exchange
GDP	Gross domestic product
IMF	International Monetary Fund
M&A	Mergers & Acquisitions
PLN	Polish Zloty
PPH	PORR Projekt and Hochbau AG
PPP	Public–private partnership
PS	PORR Solutions Immobilien and Infrastrukturprojekte GmbH
PTU	PORR Technobau and Umwelt AG
PWC	PricewaterhouseCoopers
RZB	Raiffeisen Zentralbank
SEE	South Eastern Europe
UAE	United Arab Emirates
yoy	Year Over Year

Abstract

The European construction industry is the biggest industrial employer in Europe. It is of major importance for the European economy. Around 50 million workers depend directly or indirectly on the construction sector.

Austrian construction companies play a major role in the construction industry in Central and Eastern Europe and there are a lot of opportunities through Mergers & Acquisitions to increase their involvement and even more, their share in the market.

This study analyses the different markets in Eastern Europe and tries to find out different opportunities for the Austrian construction players to expand further to the East. The study clearly shows that there are a lot of opportunities in almost every Eastern European country. Some are more risky than others, but there are opportunities which should not be overlooked. The crisis has not affected the construction industry as hard as others, because of the strong support by the states and international institutions, which is obviously a big advantage.

The work includes an analysis of the five biggest Austrian construction companies and an analysis of the Eastern European markets and especially their construction market and a conclusion.

The charts and descriptions explain and support the arguments why any given country could be attractive for one of the Austrian players.

I. Introduction

Purpose of this paper:

The construction industry is one of the major industries in the world and plays a more and more important role in our economy. Austrian construction companies have developed well in the recent past and became among the top construction companies in Europe. But there is still a lot of potential for construction companies in Europe and especially in Eastern Europe.

The purpose of this paper is to analyze the five biggest Austrian construction companies and their activities in Eastern Europe. In which fields are they active and which activities are they offering in Austria, but not in specific countries in CEE? Further the paper will analyze their M&A and growth strategy concerning Eastern Europe. The five Austrian companies are present in most of the Eastern European countries, but in some there is still very little activity. Why is that and are there still opportunities for Austrian companies to do more business or even achieve an acquisition? To understand if there are possible acquisition targets one first needs to precisely analyze the acquisition criteria of Austrian construction companies in order to find some possible targets. Where does the author see potential for Austrian construction companies to expand their business?

M&A activity can help to quickly gain higher market share.

1.1 Work Procedure

The author started this research paper with defining the construction industry. The definition of the construction industry should clarify the term construction industry. There are several different definitions of the construction industry. For the purpose of this paper, if not stated other, the definition of the Nace Rev 2 code, a statistical classification of economic activities in the European Community, is applied: 41. Construction of buildings, 42. Civil engineering and 43. Specialized construction activities. These are the main classifications as well as all subgroups (Subgroups are shown in the Appendix). The construction companies mentioned in this paper are all part of at least one of these categories.

The geographic focus of this paper is Central Eastern Europe. The following countries are included and analyzed in this research paper:

Austria, Czech Republic, Poland, Belarus, Russia, Ukraine, Slovakia, Hungary, Slovenia, Croatia, Bosnia & Herzegovina (“B&H”) and Serbia.

Once the author has found the definition and the geographic focus of the study one could start gathering information from various sources: books, magazines, newspapers, interviews, articles, statistical offices, etc.

Some more important terms, which are important to understand this paper:

- Paved roads: are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones.
- Railway electrification system: supplies electrical energy to railway locomotives and multiple units so that they can operate without having an on-board prime mover.

The author has used different factors and parameters to determine the potential and possibilities for construction companies in Eastern Europe. Gathering data in this industry in Eastern Europe is quite difficult and the reliability is often not verifiable. That’s why the data used in this study, as for instance the corruption index or road density, are very broad data, but data which is available from different reliable sources in all countries.

1.ii The Construction Industry in the current economic crisis

In general one must say, that the construction industry has got off “with a slap on the wrist” during the current economic crisis. Construction activity has suffered a contraction, but not as dramatic as most other industries. This is partly because the industry is strongly supported by state funded infrastructural economic climate improvement programs and high order back logs.¹

The construction industry is facing various challenges, which are later illustrated to better understand what the most important current issues are. Through the opening of the market and globalisation, competitive pressure gets stronger constantly. For instance, during public tenders construction companies from all over the world sometimes compete against each other in CEE. Project sizes are getting bigger and bigger, which sometimes makes it difficult to apply for tenders alone. The number of services and activities offered by construction companies is getting larger which is

¹ Bruckberger Hans-Jörg: Bauindustrie lebt von der (öffentlichen) Hand im Mund, 16th Feb. 2010

again a big challenge on the one hand, but also a diversification of risk on the other hand. You need to keep an eye on every business field. The increase in services (e.g. facility services) has also led to an increase in M&A activities.² Thus, for instance, Strabag bought the German real estate service subsidiary of Telecom Germany, De TeImmobilien.³

Experts in the construction industry believe that in the near future there will be a few very big players and some specialized small players in niche segments.⁴ But there are also factors, which cannot be controlled which still have a great influence. Long winters or unfavourable weather conditions do have a great impact on the production output.⁵

In terms of M&A activity it is important to mention, that hostile takeovers are very rare these days. According to the M&A Database Zephyr there was only 1 hostile takeover in the construction industry (NACE Rev. 2 Code: 41 - Construction of buildings, 42 - Civil engineering, 43 - Specialised construction activities) in the last ten years in Eastern Europe. In total there were 91 hostile takeovers around the world in the last decade. From the author's point of view hostile takeovers do not make much sense in the construction industry especially in CEE, because the success of the business very much depends on the management, its know - how and network. In a hostile takeover you might lose these rather important assets.

The M&A activity is expected to focus on rather smaller deals that do not require large amounts of capital. Further the author supposes that strategic buyers will be the driving force in terms of M&A activity. As the graph below shows deal values remain depressed!

² PWC Engineering & construction viewpoints. <http://www.pwc.com/gx/en/engineering-construction/issues-trends/construction-viewpoints.jhtml> - accessed on: 15th February 2010

³ Strabag kauft Tochterfirma der Deutschen Telekom. <http://diepresse.com/home/wirtschaft/international/400874/index.do> - accessed on: 24th January 2010

⁴ PWC, Engineering & construction viewpoints. <http://www.pwc.com/gx/en/engineering-construction/issues-trends/construction-viewpoints.jhtml> - accessed on: 15th Feb. 2010

⁵ Porr: 3rd Quarter Report 2009, p. 4

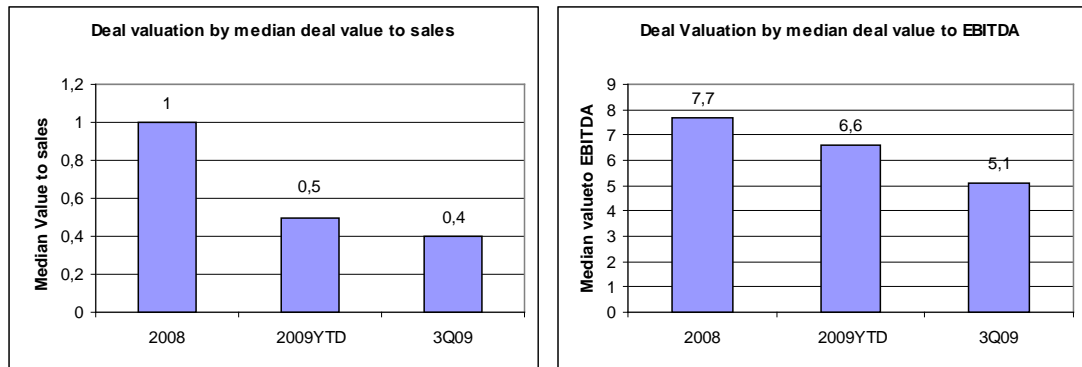


Figure 1

Source: PWC (2009): Engineering Growth

In 2008 there was a sales multiple of approx. 1x sales. In the 3rd quarter of 2009 the sales multiplier was down to 0,4x (-60%). When comparing the EBITDA multipliers they were reduced from 7,7 x EBITDA to approx. 5,1 x EBITDA. This could mean that many of the deals in the market were acquisitions of distressed companies.⁶

1.iii Eastern European Construction Industry

The European Construction Industry is the biggest industrial employer in Europe. In the EU (EU-27) almost 50 million workers depend directly or indirectly on the construction sector. In 2008 the estimated construction investment was approx. EUR 1.305 billion. In the EU there are approx. 3 million enterprises of which 95 % are SMEs with fewer than 20 and 93 % with fewer than 10 employees.⁷ In Austria there are approx. 7.400 companies in the construction industry. Around 5.700 companies have less than 10 employees and only 31 companies more than 250 staff.⁸

The following chart shows the decrease in the total amount of invested capital in commercial real estate in CEE, Austria and Germany. Total investments in Commercial Real Estate decreased by over EUR 5 bn in CEE from 2007 and 2008.

⁶ PWC (2009): Engineering Growth

⁷ European Construction Industry Federation: Construction in Europe. <http://fieec.eu> – accessed: on 18th Nov. 2009

⁸ Frühmann Irina: 5726 Kleinbaufirmen: So viele gibt's und s geht es ihnen. Wirtschaftsblatt, 10th Dec. 2009

Invested Capital in commercial Real Estate			
Year/bn€	CEE	Austria	Germany
2005	5.8	1.7	42.2
2006	12.7	2.0	50.0
2007	14.5	2.8	55.0
2008	9.2	2.0	19.7

Source: CBRG, IRG

Figure 2

In Eastern Europe not only the construction industry, but others as well were hit hard during the crisis, but experts are still positive about the future development of these markets. Russia for instance is still seen as a country with an enormous potential.⁹ Mr. Peter Havlik (Vizechef Wiener Institutes for Internationale Wirtschaftsvergleiche (wiw)) believes that in 2010 all Eastern European Countries will show economic growth except Bulgaria and the Baltic States.¹⁰

Investment and domestic consumption, with the exception of the Czech Republic, Poland and Slovakia, fell in the downturn. The Macroeconomic outlook from the World Bank is that the future growth of the EU 10 will most likely be lower than in pre-crisis years. It is expected that the EU 10 approx. will grow by around 1 % in 2010 compared to – 4.2 % in 2009. But this growth can seem pessimistic, because low interest rates and pent-up demand and low inventory levels could boost the economy more strongly than expected.¹¹ The main drivers of GDP growth will depend on the level of the previous overheating, the health of the local banking sector and the flexibility of the local policy response.

According to Unicredit the global economy is recovering faster than anticipated and the improvement in the Euro zone should quickly be transmitted to the CEE. The strong German recovery should have a positive impact in Hungary, Czech Republic and Slovakia. But Poland will for now be the outperformer. Poland successfully avoided recession and had a growth of 1,5 % in 2009. But regarding Poland, Unicredit still believes that Poland reflects the late cycle nature and that it soon will turn into underperformance beginning in 2010. Hungary, Bulgaria, Romania, Croatia and Serbia are also expected to stay in a recession in 2010.¹²

⁹ Germany Trade & Invest: Durchwachsene Aussichten für die Bauwirtschaft in Osteuropa. <http://gtai.de> – accessed on: 12th Nov. 2009

¹⁰ Eigruber, Sissi: Verhaltene Aussichten für Osteuropa im Jahr 2010. Wirtschaftsblatt 14th Dec. 2009

¹¹ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/index.html> – accessed on: 11th January 2010

¹² UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 2-10

The impact of the financial crisis since the collapse of Lehman Brothers in September 2008 and the tightening of lending conditions have impacted the construction industry significantly. This tightening was mainly due to balance sheet constraints and weak future economy expectations, but also the ability to access market financing hampered the credit situation. In most Eastern European countries domestic credit growth has declined sharply since 2008 – in the majority countries it even turned negative. Local banks or domestically owned banks have faced difficulties such as the liquidity in the Interbank Market drying up or in some cases even drying out.¹³ According to the 12th Annual Global CEO Survey done by PWC, more than three quarters of engineering and construction CEOs anticipate, that the difficulties the global banking system is currently experiencing will increase the cost of credit and restrict access to finance.¹⁴

The construction industry has not faced the crisis directly at the same time as most other industries. The construction industry is working with historically high order backlogs and therefore does not feel the full effects now, but most probably will face a real crisis in the second quarter of 2010.¹⁵ Strabag CEO Haselsteiner is not very optimistic about the development in the construction sector for 2010 and 2011.¹⁶

But the crisis alone is not the only challenge in the construction industry. Global greenhouse gas emission is a heavily discussed topic in the last months and years. The climate change we are facing today is a global challenge and everyone has to contribute in order to slow down global warming. We are facing today a huge energy efficiency gap in the EU 10 and large investments will be needed for infrastructure and housing. Here it comes back to the construction industry. Infrastructure investments have increased in the last months as budgets have benefited from strong growth and EU funds availability. For instance, the number of flats in panel buildings built between 1950 – 1990 in Poland amounted to around 5.5 million. Here is a high potential for construction companies. The construction industry will be able to play a major role in making the built environment more sustainable.¹⁷

¹³ World Bank: EU 10 Regular Economic Report, October 2009, p. 12

¹⁴ PWC (2009): International Mobility in the engineering & Construction Industry, pp. 1-2

¹⁵ Porr: Third Quarter report 2009, pp. 2-4

¹⁶ Bruckberger Hans-Jörg, Bauindustrie lebt von der (öffentlichen) Hand im Mund. Wirtschaftsblatt, 14th Feb. 2010

¹⁷ World Bank: EU 10 Regular Economic Report, October 2009, p. 62

Corruption is another very big issue when talking about Eastern Europe and especially about the construction industry. According to a PWC research paper the Engineering and Construction companies face a disproportionately higher risk of being involved in corruption. Why is that? The business model of construction companies exposes them to a high risk of corruption, because they are involved in one-off long term contracts often for the public sector. Government officials are particular risks, because they have the ability to award valuable contracts. Austrian construction companies need to consider this. The exposure to corruption cannot be avoided, but it can be managed.¹⁸

The M&A market in CEE was pretty much down to almost zero in 2009. The activities in terms of M&A of Austrian companies were down by 97 %. The Volume was only EUR 57 m. This is the level we had 1996. In 2009 Western Europe was preferential, but this will change again. One of the reasons is the credit crunch which hit CEE very badly.¹⁹

The following graph is an indicator of how much potential there is in each country. Austria has by far the highest GDP out of the chosen countries. Reaching the level of Austria or the EU average level will be difficult, but as the graph indicates the gap is getting slightly smaller. But still a lot has to be done by the states to improve the economic situation. B&H and the Ukraine do have the lowest GDP per capita of the mentioned countries.

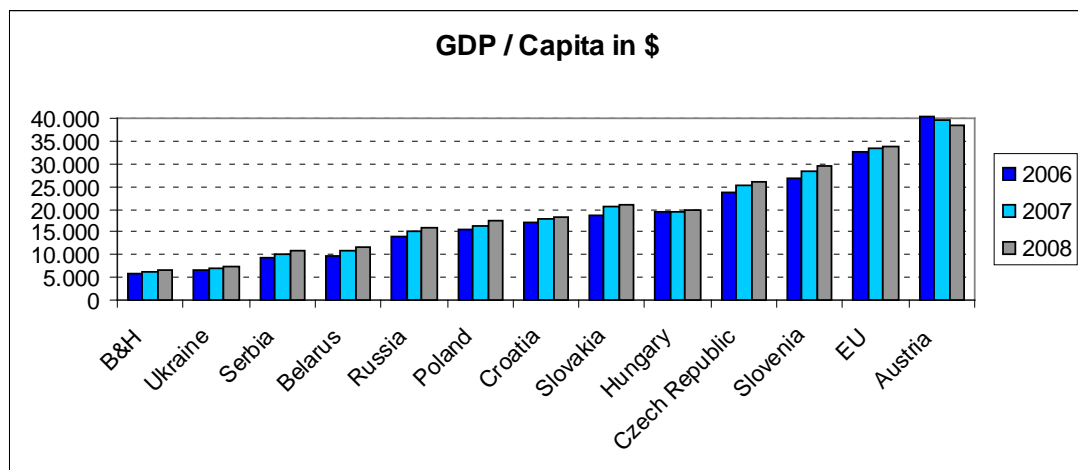


Figure 3
Source: Worldbank

¹⁸ PWC (July 2009): Corruption prevention in the Engineering & Construction industry, pp 1-2

¹⁹ Wirtschaftsblatt: M&A-Markt in CEE ist 2009 eingebrochen, 13th January 2009

1.iv Austrian Construction Market

When comparing the Austrian companies in the construction industry to others in Europe only Strabag can keep up. In terms of construction output Strabag is ranked number 5, Porr 26, Swietelsky 50 and Habau 90. Alpine is part of Fomento de Constr. Y Contratas and they are ranked number 10.²⁰

As one can experience all over Europe, in Austria private housing is going down and positive impulses only come from industrial building and infrastructure projects. The revenue of the construction industry in 2007 was EUR 26.5 bn (+7.3 %). The growth was lower than in 2006 (+17.7 %), but 2006 was an all-time high and therefore one cannot really compare it with that year. In terms of the Austrian construction sector building construction is the biggest segment. As just mentioned before, this sector is losing its dynamic and the major sector is more and more the sector of civil engineering. In this sector especially bridge building and alpine road construction could show strong growth rates. The biggest part in the Austrian construction sector is the public authorities with infrastructure projects in road construction.

No doubt that the Eastern European market is of major importance for the Austrian players, but still the Austrian market must not be forgotten, as it is still a major market. There is still a lot to be done in the segment of road infrastructure. According to the federal ministry, investments to the amount of EUR 17.3 bn are budgeted for the period after 2010.²¹ Governments are often the biggest customers. And just in these days as debt markets recover, government backed infrastructure projects may prove a more attractive lending provisions, than other private sector projects.²²

1.v Opportunity Eastern Europe

No doubt that the CEE market is a great opportunity for Austrian countries. In Austria there is a saying: “We are the door to CEE”. Vienna is the closest capital to the CEE market, even further East than Prague. But CEE is not only an opportunity it is also a big risk which needs to be considered. The market size is often an obvious motivation to expand into Eastern Europe, but also the lower labor cost, e.g. in

²⁰ Wirtschaftsblatt: Europas Bau-Ranking: Strabag Nummer fünf, 13th January 2010

²¹ Bundesagentur für Aussenwirtschaft: Österreich Bauwirtschaft 2007

²² PWC (2009): International Mobility in the engineering & Construction Industry, pp. 1-2

Slovenia labor costs are almost half compared to Austria, in Hungary labor costs are approx 1/5th compared to Austria.²³

Cheaper labor costs are obviously very attractive, but what needs to be considered is that the quality and productivity keeps up. A big opportunity for Austrian companies is their experience and high technical standards, which make them advantageous compared to some other eastern European construction companies.²⁴

Lower production costs and cheaper land are further motivation factors. But what need to be analyzed very carefully are other economic factors, as for instance: How stable is the currency? How strong is the currency risk? How stable is the political situation and what can happen if the political situation turns?

Corruption is a big issue in some countries. But also the distance to the home market can be very important. What is the current financial situation of the country and how hard were they affected by the crisis? Cultural differences also need to be considered. Not every country has the same mentality. The cultural fit needs to be analyzed.

²³ Marketing im Mittelstand: <http://www.marketing-im-mittelstand.com/websrv/zcPDFgen/zcPDFgen.php?docType=pa&docID=73431> – accessed on: 10th Jan 2010

²⁴ Mittelstandswissen Pro GmbH: Standort Europa.

II. Company Analysis

II.i STRABAG SE

STRABAG is one of the trade names of Strabag SE. It is one of the leading European construction companies in Europe and active all over the world. The company employs around 73.000 staff in more than 500 locations. The company group generated revenue of EUR 12.2 bn in 2008. Strabag as well is listed on the Vienna Stock Exchange, where 23 % are in free float. The other owners of Strabag are the Haselsteiner Familien Privatstiftung (25 %), Rasperia Trading LTD (Oleg Deripaska) (25 %), Uniqua (13,7 %) and the rest free float. Mr. Deripaska should help Strabag further establish on the Russian market. Strabag for instance was granted a project around the Olympic Games in Sochi, the company received a contract to rebuild one of the airports.

The management structure of Strabag is designed in the way, that the CEO, Mr. Haselsteiner, is at the top and then followed by two boards of directors for each business line. Mr Haselsteiner was named by SOLID as the most powerful manager in the construction industry in Austria.

STRABAG SE unites several big names in the construction industry under one roof. The main brands are Dywidag, Helit + Woerner, Strabag, Zublin, Möbius and many more.

Strabag activities are divided into three major lines of business:

Building Construction & Civil Engineering: Activities include in this field power plant construction, commercial- industrial and residential buildings and major bridge works. The segment achieved revenues of more than EUR 5 billion in 2008 which is a plus of 9 % compared to 2007. Russia (+83 %) and Slovakia (+55 %) performed really well. The proportional contribution of the segment to the overall group output volume fell from 50 % to 42 %, because the transportation infrastructure group has shown high growth through acquisitions.²⁵ In the first half of 2009, revenue

²⁵ Strabag SE, Annual Report 2008, pp. 7 - 56

decreased by 6 % compared to 2008, but EBIT increased by 574 %. This significant rise is especially due to the great performance in Germany.²⁶

Transportation Infrastructures: Services include all activities in the road and railway construction and civil engineering sector (e.g. sports and leisure facilities). As just mentioned this business line grew by 23 % to EUR 5.5 billion due to acquisitions in Germany. Big projects in Poland and Hungary further supported the revenue growth. Fluctuating raw material prices have influenced EBIT negatively. In this business field as well Strabag invested in sand and gravel facilities (e.g. in Russia and Czech Republic).

In the first half of 2009 revenue increased by 13 % and EBIT decreased by 121 %. Especially in Poland competition is really high and profit margins are expected to decrease in 2010.

Special Divisions & Concessions: This segment comprises tunneling, ground engineering, project development and PPP projects. This business line achieved revenues of approx. EUR 1,4 billion in 2008. This business line is rather small; apart from Hungary (122 m). The business in this field is usually very volatile due to large scale projects. Thus for instance revenue increased by over 140 % compared to 2007. In the first half 2009 revenue increased by 89 % and EBIT by 209 %.

All three business lines together cover the entire value-added chain in the construction industry.

The Strabag SE operates subsidiaries all over the world: Belgium, Bulgaria, Chile, China, Denmark, Italy, Canada, Croatia, Libya, Malaysia, Montenegro, Netherlands, Oman, Poland, Portugal, Qatar, Rumania, Russia, Saudi Arabia, Sweden, Switzerland, Serbia, Slovakia, Slovenia, Czech Republic, Ukraine, Hungary and UAE.

Germany is by far the biggest market for Strabag (revenues of more than EUR 5 billion in 2008). In Eastern Europe because of size & GDP the Czech Republic, Poland and Hungary are most important. This might change a little bit in 2010 and 2011, because Hungary was hit very hard during the crisis and private investments

²⁶ Strabag SE, Half Year Report 2009, pp. 10 - 15

have dropped significantly. On the other hand the Czech Republic is still performing well.²⁷

Financial Performance:

Total Revenue in 2008 was EUR 12.2 billion compared to EUR 10 billion the previous years. EBIT Margin (% of revenue) decreased from 3.2 % to 2.2 %. Cash flow from operating activities increased by almost EUR 200 m to EUR 690 m. The first half year in 2009 Strabag performed well and could increase revenue by 8 % and the EBITDA by 19 %. As the chart below shows the share price fell dramatically. Standard & Poors rates Strabag BBB- with a stable outlook.²⁸



Figure 4

Strabag has been very active in acquisitions in the past. In 2008 they acquired companies in Italy, Sweden, Switzerland and Germany. Further they increased its stack in the M5 motorway concession in Hungary to 100 %.²⁹ At the beginning of 2010 Strabag plans to take over the Czech company Viamont DSP. With this acquisition Strabag plans to focus more on railways than on road networks.³⁰ Strabag has started to invest in railway logistics to secure independence in the transportation segment.

²⁷ Strabag SE, Annual Report 2008, pp. 7 - 23

²⁸ Strabag SE, Half Year Report 2009, p. 2

²⁹ Strabag SE, Annual Report 2008, p. 27

³⁰ Himmelbauer Leo: Die Taschen voller Geld..., Wirtschaftsblatt, 13th January 2010

Due to the financial crisis Oleg Deripaska came under big pressure and could not pay back the interest of his loan to buy the Strabag shares. Deripaska transferred the shares to the other Strabag owners and therefore received a call option to buy back the shares at a later stage. At the end of 2009 the call option was extended until the end of 2010.³¹

Acquisition Rationale: not present in Belarus which offers a lot of opportunities

II.ii Allgemeine Baugesellschaft – A. Porr Aktiengesellschaft

The Allgemeine Baugesellschaft – A. Porr Aktiengesellschaft (“PORR”) is one of the biggest construction companies in Austria and operates in several European countries. The company, headquartered in Vienna, was founded in 1869 and has been in the construction business for 140 years. It is one of the oldest companies listed on the Vienna Stock Exchange and currently employs around 12.000 staff.³² In the “SOLID Manager” ranking Wolfgang Hesoun, the CEO of Porr, was recently ranked the second most powerful man in the construction industry in Austria.³³ The shareholders of PORR AG are the B&C Baubeteiligungs GmbH, the Ortner Beteiligungsverwaltung GMBH, the Renaissance Group (Turkey), approx, 13 % are in free float, 10 % is owned by the Vienna Insurance Group and the rest by a few other smaller shareholders. Shareholding is considered unstable which might influence their M&A activities.

The Porr AG acts as a holding company and consists of more than 400 subsidiaries with the main focus in the following fields:

Civil Engineering is mainly operated by PORR Technobau and Umwelt AG (“PTU”): PTU is the Porr Groups specialist in the fields of structural engineering, tunneling, power plant construction, railways, logistics, bridge construction, environmental technology, pipeline construction, etc. total production output amounted to EUR 1.3 billion. PTU has invested a lot in landfill stone and gravel pits as well as concrete mixing plants. This segment is with over 40 % of total production output the key driver in Porr Group.

³¹ Strabag SE: <http://www.strabag.com> - accessed on: 17th Dec. 2009

³² Porr: <http://www.porr.at> - accessed on: 17th January 2010

³³ Solid: Manager Ranking, <http://www.solidbau.at/manager-ranking/uebersicht> - accessed on: 4th March 2010

Building construction work is carried out by PORR Projekt and Hochbau AG (“PPH”): PPH is the specialist within the Porr Group when it comes to offices, hotels, universities, apartments and industrial plants. In 2008 total output was a little bit above EUR 900 m. This sector was hit significantly during the crisis due to a drop in private investments.

TEERAG-ASDAG AG is responsible for **Road construction**. Porr AG is the majority owner of Teerag Asdag AG and it is one of the leading road construction companies in Austria. The range of services includes asphalt surfacing of pavements, country roads, etc. More than half of its revenues (2008 Total EUR 960 m) are generated from road construction. Teerag mainly achieves its revenues in Austria and the neighboring countries.

Project development & Estate is carried out by PORR Solutions Immobilien and Infrastrukturprojekte GmbH (“PS”): This subsidiary is the project development team. It deals with everything related to real estate and infrastructure project development.

The main focus of the Porr Group is on the selective acquisition on high margin projects, especially large scale infrastructure projects in civil engineering and in building infrastructure. Geographically there is a strong focus on Eastern Europe. Hungary is the most important market for Porr besides its home market; from 2007 to 2008 revenue grew by almost 80 %.

Financial Performance:

From 2007 to 2008 Porr was able to increase its revenue by 20 % to EUR 3.183 m. This can be primarily explained by the organic growth of the group’s business in the new target markets. The group’s operating income increased by 32 % to EUR 47.2 m. Cash flow from operating activities increased from EUR 44 m to EUR 52 m and cash flow from investing activities nearly doubled to EUR 86 m. Liquid funds at December 31st amounted to EUR 88 m.³⁴

Given the hard crisis in 2009 Porr performed well for the first three quarters, but still as mentioned in the introduction the construction industry will most probably feel the

³⁴ Porr: Annual Report 2008, pp. 4 -24

hardest hit in 2010. In 2009 Germany was the biggest foreign market for the Porr Group. Hungary and Slovakia were challenged hard, as some of the projects from the public sector could not be realized, because of the crisis. On the other hand Serbia and Montenegro performed well.

The outlook of Porr to a great extent depends on the stimulus packages of the different countries. Especially the civil engineering and road construction will be able to profit from these packages.

The Porr Group is currently active in Austria, Bosnia and Herzegovina, Bulgaria, Switzerland, Czech Republic, Germany, Hungary, Croatia, Montenegro, Macedonia, Poland, Romania, Serbia, Slovenia, Slovakia and Ukraine.

In 2009 an increase in share capital was issued as part of a nonpublic offering to strengthen its equity base. The Turkish Renaissance group acquired 10,22 %. This opened up ways into new markets, for instance into the Middle East and Asia. A bond totaling EUR 100 m was issued as well.³⁵

Two years ago, PS, during a privatization process, took over 32 small hydro power plants in Poland together with a renowned partner to strengthen its position in the energy market. At the beginning of 2008 Porr bought Alusommer GmbH, aluminum window manufacturer from Wirtschaftsservice Burgenland AG.³⁶ Lately Porr together with Strabag and Alpine jointly gained a contract to renew the Slovakian railway system. Total volume is approx. EUR 290 m. Instead of this no major investments were made in 2009, only investments such as replacing and buying new construction machinery were made.³⁷

Acquisition Rationale: especially in Belarus and Russia where they are not active

II.iii Alpine Bau GmbH

ALPINE is the second largest construction group in Austria. Founded in 1965 the company employed 28 people. In 1985 Alpine started to expand abroad and established a subsidiary in Germany. Today more than 15.000 staff is employed. Until 2007 the company was called ALPINE Mayreder BAU GmbH. After the Spanish company FCC (Fomento de Construcciones y Contratas) obtained 80 % of

³⁵ Porr: 3rd Quarter Report 2009, pp. 2 - 6

³⁶ Bureau van Dijk: Zephyr Database, 17th Jan. 2010

³⁷ Porr: 3rd Quarter Report 2009, pp. 2 - 6

the company in 2006 it was renamed ALPINE Bau GmbH. In terms of turnover and profitability FCC is Spain's largest construction and service industry group. The other 20 % of Alpine is owned by Ing. Dietmar Aluta-Oltyan Dietmar. Mr. Aluta became an executive at the age of 24 at Alpine. He still seems to be the driving force at Alpine.³⁸

The services offered by Alpine in Austria and overseas cover traffic route engineering, rail construction, bridge construction, underground construction, foundation engineering, sports facility construction, power station construction, environmental engineering, foundation engineering, project finance, resources (service and information centre), etc.

Alpine became one of the leading providers of special underground constructions in entire Europe. In this segment Alpine has locations in Austria, Germany, Czech Republic and Poland.

Breaking down the total construction output by segment one can find out that the civil engineering segment is by far the biggest (EUR 1.9 bn, second is the building construction segment (EUR 1.1 bn) and the rest is for other construction sectors (supply and disposal of water, waste water, etc.) and Telecom over ground wires (approx. EUR 520 m).

Alpine used the year 2009 for consolidation and thereby further increased the group's profitability. The long term plan of the company is to achieve EUR 3.9 billion in construction output by 2010, which would be an increase of 50 % compared to 2006. Alpine performs almost all of its services using company resources. Only 20 % of its work is subcontracted. In order to keep this level, Alpine tries to secure and increase its knowledge through further acquisitions. They try to do as much as possible from in-house capacity and stay independent.

Financial Performance

In 2008 Alpine could increase its construction output in CEE and SEE by 49 %. In Austria, Germany and Switzerland total output increased by 21 %. Total construction output in 2008 was EUR 3.5 billion. Net Profit increased by EUR 6 m to EUR 36 m in 2008 and cash generated from operating activities improved by over EUR 110 m to EUR 150 m. Total cash and cash equivalents at the end of 2008 were EUR 257 m.

³⁸ Alpine: <http://www.alpine.at/> - accessed on: 19th Jan. 2010

The group maintains a full network of subsidiaries in Austria and Germany and continuously expands its market position in CEE and SEE countries. Alpine maintains subsidiaries in CIS Countries, in Asia and Arabic countries. Alpine works on projects in more than 27 countries across the globe: Albania, Bosnia and Herzegovina, Bulgaria, China, Croatia, Czech Republic, Germany, Greece, Hungary, India, Macedonia, Montenegro, Netherlands, Poland, Romania, Russia, Switzerland, Serbia, Singapore, Slovakia, Slovenia, Sweden, Turkey and United Arab Emirates. Germany is besides Austria the biggest market for Alpine. Total construction output in Germany amounted to approx. EUR 580 m.³⁹

In the beginning of 2009 Alpine Bau GmbH acquired the Beton and Monierbau GmbH in Austria. The company specializes in underground construction and tunneling.⁴⁰ Recently Alpine gained a contract, Volume EUR 30 m, to build a highway in Serbia. More projects in Serbia are said to be coming.⁴¹

Acquisition Rationale: a lot of opportunities in the underground construction segment all over Eastern Europe

II.iv Swietelsky

Swietelsky Baugesellschaft m.b.H., is with a revenue of EUR 1.3 bn one of the largest Austrian construction company. The company was founded in 1936 and today employs more than 6.000 employees. In 1962 the company established the first subsidiary abroad in Munich, Germany. After the fall of the Iron Curtain Swietelsky created subsidiaries in most of the Eastern European countries.

The company is currently owned by several shareholders across the world. The major shareholders come from the US, UK and Austria.⁴²

The activities of Swietelsky cover all aspects in the field of the construction industry: railroad construction, tramway & subway construction, road construction, civil and underground engineering, bridge building, tunneling, structural engineering, environmental technologies, property development, etc. Swietelsky also covers the

³⁹ Alpine: Annual Report 2008, pp. 49-80

⁴⁰ Bureau van Dijk: Zephyr Database, 18th Dec. 2009

⁴¹ Wirtschaftsblatt: Alpine baut Autobahnstück um 30 Mio. € 14th January 2010

⁴² Swietelsky: <http://www.swietelsky.at> – accessed on: 17th Dec. 2009

main activities in the building construction segment. The biggest segment is the special construction division (special underground constructions). Building construction and civil engineering are more or less the same size.⁴³ With its focus on the special underground construction works (e.g. underground railway line, etc.) they have differentiated compared to their competitors.

Different to the other companies Swietelsky does not offer all of its services in each country. The activities in the countries are shown below:

Construction work in division	Austria	Germany	Hungary	Czech Rep.	Other Countries
Building construction	x	x	x	x	x
Transportation infrastructures	x	x		x	
Tunnel construction	x				
Road construction	x	x	x	x	x
Railway construction	x	x	x		x
Civil engineering	x	x	x	x	x

The segment "other countries" contains Romania, Croatia, Slovakia, Poland and Great Britain.

Figure 5

Source: www.swietelsky.com

Swietelsky sees its strategy more in the continuing prosperity of the company rather than in further expansion. But still Swietelsky will try to minimize risks by diversifying through different markets, services and products.

Financial Performance:

In 2008 the company could achieve revenues of EUR 1.33 billion, an increase of EUR 50 m compared to the previous year. Pretty much half comes from Austria and half from abroad. EBT in Austria stayed more or less the same at EUR 16.4 m. In Austria the company could achieve a Cash Flow of EUR 16.2 m compared to EUR 22.3 m the previous year.⁴⁴

In terms of productivity Swietelsky achieved a coefficient of 1.93 (profit in ordinary activities / total production output). Nearly all construction companies in Austria increased the number of employees. Only Swietelsky reduced the number by around 0.7 %.⁴⁵

⁴³ Swietelsky: <http://www.swietelsky.at> – accessed on: 17th Dec. 2009

⁴⁴ Swietelsky: Annual Report 2008, pp. 24 - 29

⁴⁵ Frühmann Irina: Studie: So profitabel arbeiten die Baukonzerne. Wirtschaftsblatt, 19th Oct. 2010

The company today owns several branches and subsidiaries in Austria and abroad: Croatia, Czech Republic, Germany, Hungary, Italy, Poland, Romania, Serbia, Slovakia, Switzerland and the UK. The key markets for the company are Austria, Czech Republic (EUR 153 m) and Hungary (EUR 170 m).

In 2006 the company founded SWIETELSKY d.o.o. in Belgrade. In 2007 Bahnbau Petri Hoch- and Tiefbau GesmbH & Co. KG was acquired. In some projects Swietelsky works together with one of the other construction companies. Recently Alpine and Swietelsky gained a contract for the modernisation of the Bosnian railway system (Volume approx. EUR 85 m).⁴⁶

Acquisition Rationale: opportunities especially in the special (underground) construction segment

II.v Habau

Habau Hoch und Tiefbaugesellschaft m.b.H. is an interesting niche player in the construction industry in Austria specialized in civil engineering and pipeline construction. Compared to the other companies in this study Habau is rather small, but still of an important size for Eastern Europe. HABAU Group is a family owned construction company with a very successful and long history. Currently the group employs approx. 3.600 employees. The company is owned by the Halatschek Holding (80%) which is controlled by the Halatschek Family, and by the Heindl Holding which is controlled by the Heindl Family. Over the years the company has grown continuously through the foundation of new companies and the acquisition of others. During its history the company has expanded its range of services to become a complete construction provider. The first foreign subsidiary was created in 1989 in Germany.⁴⁷

Today the ranges of services of the different business fields of Habau include:

Building Construction: Services in this business field include: planning and energy consulting, general contracting, construction of industry & commercial facilities, apartment construction, revitalisation & restoration, construction of private houses, public buildings.

⁴⁶ Swietelsky: <http://www.swietelsky.at> - accessed on: 17th Jan. 2010

⁴⁷ Habau: <http://www.habau.at/> - accessed on: 18th Feb. 2010

Civil Engineering: railroad & road construction, asphalt paving, tunneling, concrete engineering and special civil engineering, etc.

Pipeline Construction: transport and storing systems, underground storage, water pipe systems, district heating network systems, etc.

Prefabricated Construction: slabs (e.g. pre-stressed hollow concrete slab, TT slabs), walls, pre-cast clinker elements, etc.

The focus of Habau not only lies on the Austrian and German market, but also Central and Eastern Europe will play a major role in the future. Western Europe does not play a major role in Habau's strategy.⁴⁸ According to the Wirtschaftsblatt Habau is planning to expand both in Austria and in Central Eastern Europe.

Financial Performance:

In the year 2008/09 the company was able to increase revenues from EUR 160 m to over EUR 200 m. The profit for the year more than doubled to almost EUR 8 m and the net profit increased from EUR 23.1 m to EUR 27 m. The return on sales increased to 5 %.

Habau is mainly active in CEE: Austria, Germany, Poland, Hungary, Slovak Republic, Croatia, Belarus, Russian Federation, Czech Republic, Great Britain, Romania, Lithuania and Kazakhstan. All of the offered services by Habau are available via each of their branches in practically all locations in Central and Eastern Europe. In Eastern Europe Habau mainly focuses on pipeline constructions. In Poland they are also active in the road segment.⁴⁹

In 2008 Habau purchased the companies Karl Seidl, Brunn/Gebirge and ÖSTU-STETTIN, Leoben in Austria. Through this acquisition Habau was able to increase its services and offer tunnel constructions as well. The same year the company established a HELD & FRANCKE-subsiary in Budweis, Czech Republic. In 2007 they purchased the company Hans Holzner Baugesellschaft mbH, Rosenheim, Germany and established a new subsidiary in Romania. In 2006 no new acquisitions or establishments were made. From this one can see that Habau is continually

⁴⁸ Fröhmann Irina: Habau greift nach Mitbewerber. Wirtschaftsblatt, 21.01.2008

⁴⁹ Habau: Annual Report, Lagebericht 2008, pp. 1-2

growing and only does on average one acquisition or establishment of a new subsidiary a year.⁵⁰

As stated in the Wirtschaftsblatt (19.10.2009) Habau was, compared to the other construction companies, the most productive (profit in ordinary activities / total production output) company in Austria in this sector. The big German companies have performed even better in terms of productivity than Habau.⁵¹

Acquisition Rationale: focus on medium sized niche players (pipeline construction) in CEE

Before starting with the country reports the table below lists the countries included in this study according to the Corruption perception index. The definition of the CPI by Transparency International is as follows: “The Transparency International Corruption Perceptions Index ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, a poll of polls, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions”. Figure 6 clearly shows that there could be difficulties in some countries.

Corruption Perceptions Index 2009				
Rank	Country/Territory	CPI 2009 Score	Surveys Used	Confidence Range
16	Austria	7,9	6	7.4 - 8.3
27	Slovenia	6,6	8	6.3 - 6.9
46	Hungary	5,1	8	4.6 - 5.7
49	Poland	5	8	4.5 - 5.5
52	Czech Republic	4,9	8	4.3 - 5.6
56	Slovakia	4,5	8	4.1 - 4.9
66	Croatia	4,1	8	3.7 - 4.5
83	Serbia	3,5	6	3.3 - 3.9
99	B&H	3	7	2.6 - 3.4
139	Belarus	2,4	4	2.0 - 2.8
146	Russia	2,2	8	1.9 - 2.4
146	Ukraine	2,2	8	2.0 - 2.6

Source: Transparency International

Figure 6

⁵⁰ Habau: <http://www.habau.at/> - accessed on: 2nd February 2010

⁵¹ Frühmann Irina: Studie: So profitabel arbeiten die Baukonzerne. Wirtschaftsblatt, 19th Oct. 2010

III. Country Reports

III.i Ukraine

Ukraine				
Area (km ²)	603.700			
Long-term foreign currency credit rating (S&P)	CCC+			
Tax rate (effective)	stable			
Construction sector's share of GDP (2008)	25%			
Industry, value added (% of GDP)	3,9%			
Time required to start a business (days)	37,0%			
	27			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	123,4	83,5	91,5	126,6
Population (mn)	46,4	46,1	45,8	45,5
GDP (real, yoy)	2,1%	-14,0%	2,0%	4,0%
Unemployment rate	6,4%	10,5%	9,4%	8,2%
Industrial output (real, yoy)	-3,1%	-20%	7,5%	5,1%
FDI (inflow, % of GDP)	5,8%	3,8%	4,4%	5,2%

Source: Unicredit, Worldbank

Figure 7

With a population of approx. 46 m inhabitants and a size of almost 604.000 km² the Ukraine is one of the biggest countries in Eastern Europe. The Ukraine has appeared in the news a lot in the last months for political reasons. At the beginning of January presidential elections will take place. This will bring up some new challenges. If the newly elected president calls for new parliament elections it will take some time until the new budget is decided. The problem is that a functioning government and an agreed-on budget are the key to receive any further payments from the IMF. The agreed-on budget can easily take until summer 2010 which can be a big challenge for the country.

The Ukraine went through big difficulties at the end of 2008 and 2009. According to Dimitry Gourov from UniCredit Ukraine the worst is behind them.⁵² Industrial output was down -20 %, GDP was down -14 % and unemployment rose to over 10%. Unicredit expects industrial output to increase by 7.6 % in 2010. The real recovery of the country will only take place once recapitalization of the banks has taken place.⁵³

⁵² Reidl Patrizia: Ukraine: Kein Staatsbankrott aber das Risiko bleibt. Wirtschaftsblatt, 12th Jan. 2010

⁵³ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research pp. 44-45

The banking sector development together with the government infrastructure development is the main driver in the construction industry.

The pipeline construction sector is quite big in the Ukraine. There are over 33.000 km of gas pipelines and approx. 4.500 km oil pipelines. This sector could be an opportunity for Austrian companies.⁵⁴

Strengths / Opportunities

- Improving current account balance
- Significant national bank FX reserves (approx. EUR 18 billion)
- Significant spare capacity
- Little credit availability which could be an advantage for foreigners
- Infrastructure development regarding EURO 2012

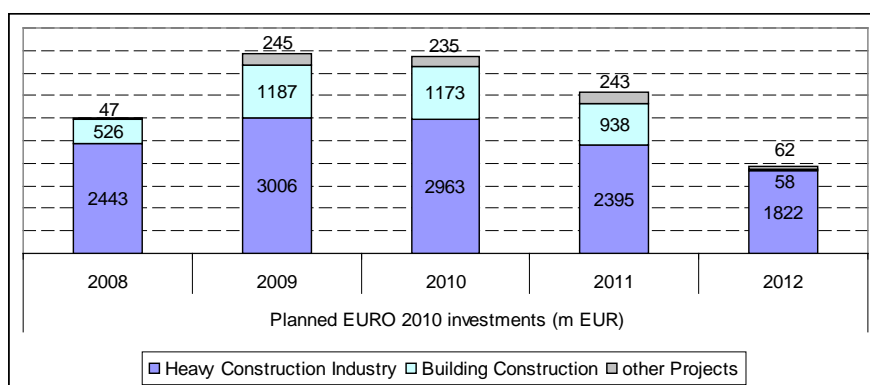


Figure 8
Source: PMR Publications: Euro 2012 Ukraine

Weaknesses/Threats

- Rising non-performing loans ratios
- Political risks (non stable)
- Fiscal deterioration and lack of reform
- High unemployment rate
- Rising prices of power resources⁵⁵
- Moratorium on land purchases
- Non-transparent system of land distribution

⁵⁴ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html> - accessed on: 5th Dec. 2009

⁵⁵ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, p. 44-45

Market Players

Most of the construction companies, and maybe other as well, do not have a clear and transparent corporate structure. This makes it quite complicated to analyse the companies.

Ukravtodor (OJSC Highways of Ukraine) is one of the major construction companies in Belarus. Ukravtodor is the recipient of all budget allocations for road building. The company then distributes the contracts to different construction companies, mainly to its subsidiary “Highways of Ukraine”. The main activity is in the heavy construction segment (highways and bridges). For big construction projects Ukravtodor does not have the needed technology and machinery and therefore organizes tenders for such projects (for example construction of “Kiev-Odessa Highway”) The subsidiary, Highways of Ukraine achieved a revenue of EUR 489 m in 2008. Figures for 2009 are expected to be much lower (approx. EUR 300 m). EBIT was EUR -5 m in 2008. The company very much depends on politics.⁵⁶

Acquisition Rationale: At the moment the plan will be to liquidate the company by the end of 2011 and create 26 separate regional state road building companies. An acquisition of this company would be really risky, because it is only worth something with the government contracts.

Zoloti Vorota is a large Ukrainian construction corporation. The corporation has a diversified business and consists of separate entities. In total sales the company reached EUR 300 m in 2007. The corporation unites several different business fields: road building and residential premises construction, real estate development and construction materials manufacturing businesses. Road building and real estate development are the main activities. The Corporation is responsible for approx. 10 % of road building activities in the Ukraine in 2006. The company is owned by two individuals.

Acquisition Rationale: Due to the current crisis in finance trouble (Net Profit EUR - 10 m), but still an acquisition would be very risky

⁵⁶ Kotsiuba and Ostapenko (2009): Construction Services- The Goal is Growth, Sokrat, pp. 3-11

OJSC Holding Kyivmiskbud is one of the largest multi-functional construction companies in the Ukraine. The holding consists of 95 companies of which 38 are open joint stock companies, 6 subsidiaries and 51 companies that are affiliated members. The company is owned by the city of Kyiv. It was planned to sell the business to investors. Due to a dispute in Kyiv the sale was stopped and it is expected that in the long run it will be for sale again. But this depends heavily on the political situation. In 2008 revenues amounted to EUR 366 m. According to Igor Kotsiuba, due to the new President and Cabinet of Ministers, privatizations will take place no earlier than in the second half of 2010 or even in the beginning of 2011. This is obviously an opportunity for competitors. There is no law that limits the participation of foreign investors in such companies, so this could be of interest for the Austrian players.⁵⁷

Acquisition Rationale: company is planned to being sold, but as well very risky

There are several major risks which need to be considered when entering the Ukrainian market. There have been several M&A Activities in the last years in the Ukrainian construction market, but mainly national deals.⁵⁸ For instance the Euro2012 strengthened government ambitions to invest in road constructions etc. Sokrat, a local investment banking company still believes that even after the Euro2012 the government will keep up the high level of investments in the construction sector. For Austrian companies with their latest technology this market can be a great opportunity. Furthermore, Deloitte sees a strong increase in the commercial property sector, as office and retail space/capita is at the lower end in Europe.⁵⁹

⁵⁷ Kotsiuba and Ostapenko (2009): Construction Services- The Goal is Growth, Sokrat, pp. 12-16

⁵⁸ Bureau van Dijk: Zephyr Database, 24th Jan. 2010

⁵⁹ Deloitte: European powers of construction 2009, pp. 82-84

III.ii Bosnia & Herzegovina

Bosnia and Herzegovina				
Area (km ²)	51.129			
Long-term foreign currency credit rating (S&P)	BBB stable			
Tax rate (effective)	10,0%			
Construction sector's share of GDP (2008)	5,4%			
Industry, value added (% of GDP)	N/A			
Time required to start a business (days)	60			
	2008	2009e	2010f	2011f
GDP (EUR bn)	12,6	12,2	12,2	12,6
Population (mn)	3,9	3,9	3,9	3,9
GDP (real, yoy)	5,4%	-3,0%	-1,0%	0,8%
Unemployment rate	6,3%	9,3%	12,8%	12,6%
Industrial output (real, yoy)	10,8%	-2,7%	0,0%	1,9%
FDI (inflow, % of GDP)	5,7%	2,1%	4,2%	5,1%

Source: Unicredit, Worldbank

Figure 9

Bosnia & Herzegovina is a rather small country with almost 4 m inhabitants. The country has a rough history and is trying to get settled at the moment. The political environment is problematic and the EU accession plan is still challenging. The elections in October 2010 could complicate things even further. Demand has been really weak in the past and is expected to stay like this for 2010. The economic growth is expected to be negative (GDP forecast – 1%) and FDI will remain weak. The currency has a fixed exchange rate with the Euro (Exchange rate to the Euro is 1,96). This limits the scope for monetary policy.

An extremely high unemployment rate (42 % in September 2009) is a major issue in this country, which explains partly why the outlook for private consumption is weak.⁶⁰

The number of people employed in the construction industry in B&H is less than the European average. There is no doubt a big potential in the construction industry in this country. After the war in 1992 the priority was given to repair and renovation of existing buildings and infrastructure. The demand for new buildings was always there, but was put aside for the time being. Through the development of the banking sector the funding became easier.⁶¹

⁶⁰ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 32-34

⁶¹ EC Obnova Programme: Construction Industry. Foreign Investment Promotion Agency of B&H 2002

Strengths / Opportunities

- Upcoming infrastructure projects (highways)⁶²
- Strong support from EU and IMF
- Foreign-owned banks support their local subsidiaries

Weaknesses / Threats

- Weak domestic demand
- Dependence on commodities and steel exports
- Fractional political situation – could delay EU accession⁶³
- Slow administration
- Very high corruption level⁶⁴

Market Players

Sirbegovic Grupa generated revenues of approx. EUR 40 m in 2007 and is one of the leading local construction companies in B&H. Besides Sarajevo the group has further offices in Belgrade (Serbia), Zagreb and Split (Croatia), and Ptuj (Slovenia - EU). The company is experienced in all aspects of project management, design and construction.

Acquisition Rationale: family owned business and one of the leading construction companies

Hidrogradnja d.d. revenue is already significantly smaller (revenue of EUR 15 m in 2007). The company is partly owned by the state (67 %) while small shareholders own the other 33%.⁶⁵ The company is active in all sectors of the construction industry and currently employs approx. 1.400 staff. The company not only works on projects in B&H, but also in Croatia and Greece.

Acquisition Rationale: majority is still owned by the state. Martina Suman, an M&A consultant from Bosnia suggested that in her opinion it is preferable to acquire a young construction company (e.g. Sirbegovic, Hering) or establish a subsidiary than to acquire a privatized company.

⁶² Suman Martina, Personal Interview. 27th November 2009

⁶³ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 32-34

⁶⁴ Suman Martina, Personal Interview. 27th November 2009

⁶⁵ Buerau van Dijk: Amadeus Database, 17th Jan. 2010

GP Hering is a construction company founded in 1995 and is mainly active in the field of civil engineering.

Acquisition Rationale: Stock listed company⁶⁶

There are several smaller companies in the construction sector as well. In the current situation most of them are searching for a strategic partner. For instance, the construction company Vranica (Revenue EUR 17 m) is for sale. The company had big difficulties in 2008 and 2009 due to bad management and the global crisis.⁶⁷

The biggest opportunities for foreign companies are probably highway constructions. B&H is planning to build a highway from Luke Ploče (South Border whit Croatia) to Bosanski Brod (North Border whit Croatia). According to the Wirtschaftsblatt, Strabag is facing some difficulties in Bosnia, because they have difficulties getting the financing ready in time.⁶⁸ Alpine and Porr do have a subsidiary in Bosnia. Strabag is only active on projects in Bosnia, but does not have its own location.

III.iii Serbia

Serbia				
Area (km²)	102.713			
Long-term foreign currency credit rating (S&P)	BB- stable			
Tax rate (effective)	10%			
Construction sector's share of GDP (2008)	3,7%			
Industry, value added (% of GDP)	28%(2007)			
Time required to start a business (days)	23			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	34	31,0	31,4	32,9
Population (mn)	7,4	7,3	7,3	7,3
GDP (real, yoy)	5,5%	-3,2%	-0,5%	1,3%
Unemployment rate	18,0%	18,5%	19,0%	18,2%
Industrial output (real, yoy)	1,1%	-12,8%	0,0%	1,6%
FDI (inflow, % of GDP)	5,3%	4,8%	5,6%	6,8%

Source: Unicredit, Worldbank

Figure 10

In terms of size and population Serbia is similar to Austria. From 2003 to 2006, Serbia was part of the "State Union of Serbia and Montenegro." This union was the successor to the Federal Republic of Yugoslavia (SRJ). In June 2006, following the

⁶⁶ Suman Martina, Personal Interview. 27th November 2009

⁶⁷ Suman Martina, Personal Interview. 27th November 2009

⁶⁸ Depolo Tamara: Strabag hält am Bosnien-Projekt fest. Wirtschaftsblatt, 16th January 2010

referendum in Montenegro, the National Assembly of Serbia declared the "Republic of Serbia". Serbia's political climate since the fall of Milošević remained tense. Serbia is not yet part of the European Union, but talks have already started. There is still not a common way, but the accession towards the European Union has forced the parties to find more common ground.

Unicredit expects that the GDP will still be negative in 2010 although the government is seeking to boost the economy. But effects will take time.

The construction sector is considered to be one of the main drivers of Serbian economic development. It accounts for approx. 11 % of employment. In the last years (except 2009) the industry experienced strong growth rates as a result of increased activities in the field of civil engineering, but also in the housing sector. The national investment plan was the main driver behind that.⁶⁹ The constructions sector is set for a 15 % plus contraction this year. In the third quarter in 2009 the value of construction work rose by 10,2 %.

Strengths / opportunities

- EU succession talks
- Strong IMF support⁷⁰
- High growth potential in the construction sector (especially around major cities)
- Favourable tax regime (personal income tax 12 %, corporate tax 10 %, VAT 18 %)⁷¹
- Favourable geographic location
- A lot of investment incentives (e.g. for the creation of new jobs, ..)

Weaknesses/Threats

- High unemployment rate (19 %) → weak demand
- Decrease in foreign capital inflow due to the crisis⁷²
- A clear economic policy is missing to attract further foreign investments

⁶⁹ Matijas Darko: Construction Sector- Building of Profit 2008. 29th January 2010

⁷⁰ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 40-41

⁷¹ Serbian Investment and Export Promotion Agency www.siepa.gov.rs – accessed on: 9th Feb. 2010

⁷² UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 40-41

Market Players

The three major players mentioned below accounted for about 50 % of the total operating revenues of the top 25 construction companies in Serbia. According to the *Wirtschaftsblatt* a lot of highway projects will come up in 2010. The state was able to gather enough credits for new highway projects.⁷³

The state-owned company **Roads of Serbia** (Putevi Srbije) with revenues of about EUR 302 m it is the biggest construction company. The company had a growth of 20 % in comparison to 2006. PE Roads of Serbia recorded some of the highest losses in the economy of Serbia with the record negative EBITDA of EUR 18 million.

Acquisition Rationale: severe financial situation, but according to Darko Matijas, a local investment banker, not going to be privatized soon

The second largest company is **PZP Nis**, which recorded consolidated revenues of almost EUR 280 m, with an EBITDA margin of almost 15 % (EUR 41 m). PZP Nis is dominant with nearly 5,000 employees, the highest in the sector. The company was developed through a takeover of PZP Belgrade, PZP Vranje, PZP Kragujevac and Novi Sad-based Vojvodinaput-Backaput.

Acquisition Rationale: very profitable company with a good standing on the market

The third place belongs to **Energoprojekt Holding**, which through a network of its dependent enterprises, regional representative offices and subsidiaries manages activities in 24 countries on four continents. Energoprojekt Holding recorded revenues of about EUR 210 m, maintained growth over the last two years at about 26 %. Energoprojekt's stock has been traded on the Belgrade Stock Exchange since 2001. The Austrian Raiffeisen Zentralbank holds a 2,7 % stake in the company.⁷⁴

Acquisition Rationale: company is stock listed and RZB is already holding a stake

It is important to mention the company Europark. It is the company with the highest EBITDA margin of 51.6 %, and it appeared on the list for the first time this year.

⁷³ Depolo Tamara: Kroatiens Regierung halbiert den Autobahnbau, *Wirtschaftsblatt*, 15th Dec.2009

⁷⁴ Energoprojekt: <http://eng.energoprojekt.rs/index.php?pageid=18> - accessed on: 18th Feb. 2009

This enterprise deals with maintenance and protection of public roads, green surfaces and other public utilities maintenance.

Taking into consideration the relatively low development level of the construction sector in comparison to the neighbouring countries, we can expect two-digit growth in this sector in the upcoming period, which is a chance for further growth of enterprises in the sector as well. A lot of infrastructure projects (roads) will come up in the next years. For these projects Serbia is supported by the Worldbank, EBRD and EIB. Alpine Bau is already aggressively fighting for contracts for the road infrastructure projects. Only Habau, from the top five players does not have a subsidiary in Serbia.

According to the Serbia Investments and Export Promotion Agency great opportunities are in the field of civil engineering and in the field of housing construction. The planned investments in infrastructure and energy projects in Serbia and neighbouring countries offer big potential for construction companies.

Mr. Dragan Kovacevic the CEO and owner of Multicon Engineering explained in an interview that he believes that in Serbia the trend goes into deeper specialization rather than offering many different services. For him this is a key aspect to stay profitable in the Serbian market.⁷⁵

III.iv Croatia

Croatia				
Area (km²)	56.594			
Long-term foreign currency credit rating (S&P)	BBB			
Tax rate (effective)	negative			
Construction sector's share of GDP (2008)	20%			
Industry, value added (% of GDP)	8,3%			
Time required to start a business (days)	28,0%			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	22			
Population (mn)	47,4	45,0	45,7	47,8
GDP (real, yoy)	4,4	4,4	4,4	4,4
Unemployment rate	2,4%	-6,0%	-1,0%	1,3%
Industrial output (real, yoy)	8,4%	9,4%	10,0%	9,6%
FDI (inflow, % of GDP)	1,6%	-8,8%	0,4%	2,4%
	6,8%	2,7%	3,7%	4,7%

Source: Unicredit, Worldbank

Figure 11

⁷⁵ Serbian Investment and Export Promotion: Agency www.siepa.gov.rs – accessed on: 9th Feb. 2010

Croatia was one of the wealthiest republics in Yugoslavia. In the 90s the economy suffered very badly and in 2000 the Croatian economy started to improve slowly. This was mainly due to an increase in tourism which was missing before, because of the war. Between 1993 and 2007 around EUR 17.6 billion were invested by foreign companies (mainly Austrian, German and Dutch companies) in Croatia. But still today the country is facing a lot of problems. The unemployment rate is very high and there is a growing trade deficit. Because of its dependence on tourism there is a high stability risk in the economy.

The most important import and export partners are Italy, Germany and B&H. Approx 5,5 % of the imports come from Austria. Total exports were down -15 % in 2009 and are expected to decrease another 6 % in 2010.⁷⁶ GDP is expected to grow from 2009 through 2013 on average 1,5 %. The rising unemployment rate and the small expected wage increases hamper private consumption. Another negative effect is the increase in gas prices by 15 % at the beginning of 2010.⁷⁷

The construction industry was not that hard affected by the crisis. A lot of projects in the segment of railways and in the field of special constructions (waste management) will come up in the next years. Roadway, especially highway, projects have slowly come to an end, because the transport infrastructure is quite well developed and this affects Strabag and Alpine Bau, who are very active in Croatia in this segment, seriously. Both companies employ over 1.000 employees in their Croatian subsidiaries.⁷⁸

Strengths / Opportunities

- Accession process to the EU should accelerate fiscal and structural reform
- Special Tax exemptions under certain conditions for foreign investors
- High demand for retail space⁷⁹

⁷⁶ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/hr.html> - accessed on: 23rd Feb. 2010

⁷⁷ Deloitte: European powers of construction 2009, p 39

⁷⁸ Depolo Tamara: Kroatiens Regierung halbiert den Autobahnbau, 15th Dec. 2009

⁷⁹ Deloitte: European powers of construction 2009, pp. 39 - 40

Risks / Weaknesses

- Corruption (Croatia is ranked 66 in the Corruption Perceptions Index 2009)⁸⁰
- High unemployment rate
- High foreign debt
- Reliance on tourism
- 2009 tax increases adversely affected domestic demand⁸¹

Market Players

The joint stock company **Konstruktor-Inzenjering D.D.** is one the biggest construction companies in Croatia. The company achieved revenues of almost EUR 300 m in 2008 and is profitable. The company specialises in civil engineering and energy construction projects. The company also operates as a building contractor in utility, residential, industrial and cultural projects. In the past the company has been acquisitive and acquired a company in 2003 and 2004.⁸²

Acquisition Rationale: too big in days of crisis

Technika dd is one of the leading construction companies specialized in building construction, recognized on the domestic and world market. The company has been active for 60 years and employs around 1.400 people. Total revenue amounted to approx. EUR 215 m and Net Income was approx. EUR 4 m.⁸³

Acquisition Rationale: stock listed company

Viadukt is as well a joint stock company and is one of the major construction companies in Croatia. The company started as a specialist in bridge construction, but now offers various services and activities in the construction sector. The company's revenues are approx. EUR 220 m.⁸⁴

Acquisition Rationale: difficult target since a lot of shareholders do already come from Germany and Hungary

⁸⁰ Transparency International: Corruption Perceptions Index 2009, http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table - accessed on: 8th Jan 2010

⁸¹ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 30 - 32

⁸² Konstruktor-Inzenjering D.D: www.konstruktor-split.hr – accessed on: 18th January 2010

⁸³ Technika dd: www.tehnika.hr – accessed on: 18th January 2010

⁸⁴ Viadukt: www.viadukt.hr – accessed on: 18th January 2010

Osijek Koteks. D.D. is a joint stock company with a revenue of over EUR 200 m in Croatia. The company is specialized in the construction of housing projects and public facilities. The company is held by private individuals.⁸⁵

Acquisition Rationale: owned by private individuals

In Croatia for public construction projects bigger than EUR 7 m only companies with more than 300 employees are allowed to take on such contracts. Here is a big opportunity for foreign companies. Also for bigger projects foreign companies can participate in tenders. Thus for instance Strabag built parts of the highways from Zagreb to the coast. In February in 2008 Strabag acquired Pomgrad Inzenjering, which is a sports specialist.⁸⁶

III.v Czech Republic

Czech Republic				
Area (km²)	78.867			
Long-term foreign currency credit rating (S&P)	A stable			
Tax rate (effective)	20%			
Construction sector's share of GDP (2008)	6,6%			
Industry, value added (% of GDP)	38,0%			
Time required to start a business (days)	15			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	147,9	138,0	144,8	154,2
Population (mn)	10,4	10,5	10,5	10,6
GDP (real, yoy)	2,5%	-3,9%	1,6%	2,4%
Unemployment rate	5,5%	8,1%	9,5%	9,5%
Industrial output (real, yoy)	-1,5%	-12,5%	5,5%	5,0%
FDI (inflow, % of GDP)	5,0%	2,2%	2,4%	3,1%

Source: Unicredit, Worldbank

Figure 12

The global economic crisis did not stop in the Czech Republic. Although it was not hit as hard as other countries effects can be felt. The recovery from the crisis will still take some time. GDP growth in 2007 was up 6.1 %, but now a 1.6 % growth is expected. Household demand and private investments will remain weak. FDI is as well expected to decline sharply in 2010. When deciding on the new budget it was finally agreed to increase spending on public sector wages, social spending and farm

⁸⁵ Osijek Koteks. D.D.: www.osijek-koteks.hr – accessed on: 18th January 2010

⁸⁶ Deloitte: European powers of construction 2009, p. 42

subsidies. This additional spending will lead to an increase in public sector deficit of 0.4 % in 2010. The private sector will be much lower in 2010.⁸⁷

The construction industry accounts for 7 % of GDP and 9 % of workforce. This shows how important this industry is. To support the industry the ministries have decided to reduce VAT from 9% to 6% temporarily (for two years).

The table shows the forecasts of Euroconstruct in the different segments in the Czech Republic. It shows that the civil engineering market seems to be the segment with the highest growth.

in m €	2008	2009	2010	2011	2012
Total Construction Outp.	23	22	22	22	21
Total Building Outp.	13	11	10	10	10
Total civil engineering Outp.	10	11	12	12	13

Figure 13

Source. Euroconstruct, November 2009

Similar to the other Eastern European countries infrastructure projects are the main drivers in the construction sector in the Czech Republic. Between January and August 2009 constructing output declined by 3,5 %.

Construction companies are forced to keep their margins as low as possible to be able to offer the lowest possible price in order to win new contracts. In the past building construction played a major role, because buildings were rather built new than renovated.⁸⁸

According to Zephyr⁸⁹ the Czech construction sector showed only 6 deals in 2009. A lot of Austrian companies are already active in the Czech Republic. Strabag and Porr are amongst the biggest construction companies in this country.

Strengths / Opportunities

- External financing at comfortable levels
- Flexible monetary policy
- Low vulnerability of financial sector
- Foreign exchange reserves
- Neighbouring countries (Germany, Poland, Austria)

⁸⁷ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 14 -16

⁸⁸ PMR Publications: Central European Construction Review 30th Oct. 2009, pp. 2-6

⁸⁹ Buerau van Dijk: Zephyr Database, 17th Feb. 2010

Risks / Weaknesses

- Sharply weakening FDI inflow
- Private consumption set to slow
- Interim government lacking political mandate
- Be aware to check for restitution claims

Market Player

The main volume of public construction orders was given to the French Vinci Group, Metrostav (DDM Group), Skanska and Strabag (Revenues 2008: approx. EUR 1 bn).⁹⁰ But there are several others very big construction companies as well, for instance: Porr, Grupo OHL, etc. Strabag is already one of the largest construction companies in the Czech Republic. They are mainly involved in road projects.

Skanska is the one of the largest development and construction companies in the world and the largest in the Czech Republic. Revenues from the Czech Republic and Slovakia amounted to approx. EUR 1.4 billion.⁹¹

Acquisition Rationale: difficult as it is one of the world leaders in this sector

DDM Group is a group of construction companies in Europe. The principal companies of the DDM Group are the companies Doprastav JSC., Bratislava and Metrostav JSC., Prague. Metrostav had revenues in 2008 of EUR 1,2 billion and a Net Income of EUR 30 m. Metrostav acquired in March 2009 a Czech construction company.⁹²

Acquisition Rationale: great market share in the Czech Republic and Slovakia

Vinci (Eurovia): Eurovia is a subsidiary of the French VINCI Group which is a world leader in construction and maintenance of transport infrastructure. In 2006 revenues in the Czech market amounted to approx. EUR 900 m.

Acquisition Rationale: difficult as it is one of the world leaders in this sector

⁹⁰ PMR Publications: Central European Construction Review 30th Oct. 2009, p. 3

⁹¹ Skanska: www.skanska.cz – accessed on: 24th January 2010

⁹² Deloitte: European powers of construction 2009, p. 42

The Czech market is a well developed market. The construction market was more or less divided up among several foreign global companies. The Czech market was one of the first markets to be penetrated by foreign companies. Opportunities are there, but a lot of competition. Michal Lobkowicz, the former foreign minister of the Czech Republic, explained that due to the strong competition he would see greater potential in the facility management segment. As for instance Strabag is already active in this segment it could be a great opportunity. Habau entered the market in 2009.⁹³

III.vi Slovakia

Slovakia				
Area (km²)	49.035			
Long-term foreign currency credit rating (S&P)	A+ stable			
Tax rate (effective)	19%			
Construction sector's share of GDP (2008)	8,7%			
Industry, value added (% of GDP)	41,0%			
Time required to start a business (days)	16			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	64,8	63,1	65,9	70,1
Population (mn)	5,4	5,4	5,4	5,4
GDP (real, yoy)	6,2%	-5,0%	2,6%	3,8%
Unemployment rate	9,6%	11,8%	13,0%	12,6%
Industrial output (real, yoy)	6,7%	-14,5%	5,0%	7,0%
FDI (inflow, % of GDP)	2,5%	1,8%	2,7%	2,2%

Source: Unicredit, Worldbank

Figure 14

In the beginning of 2009 Slovakia was hit really hard by the crisis. The economy dropped by 10 % in the first quarter of 2009. Slovakia reacted well to the crisis but, still suffered a lot. But the economy is still down 6 % below its pre-crisis level and construction is down 15 %. Rising unemployment is bringing up further difficulties. Approx. 5 % of the newly unemployed are about to lose the financial support of unemployment benefits. This will have an impact on private consumption. The government is expected to boost the economy through highway construction spending.⁹⁴ The construction confidence indicator has also shown some

⁹³ Habau: <http://www.habau.at/> - accessed on: 12th February 2010

⁹⁴ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 28 - 29

improvements; in October 2009 the indicator rose by 5 to - 57.5 p.p. But this is still 26.5 p.p. below the average.⁹⁵

Slovakia very much depends on the German and Czech economy. Both countries are the most important export and important partners of Slovakia. 5,9 % of the exports go to Austria and approx. 5 % of the imports come from Austria.

Before the crisis the government successfully helped facilitate a foreign investment boom with business friendly policies such as labour market liberalization and a 19 % flat tax.⁹⁶ In January the construction output changed from September 2008 to Sept. 2009 was -25.6 %. In August the level went back to -0,2 %. It showed a significant increase, but was far away from pre crisis levels.

in m €	2008	2009	2010	2011	2012
Total Construction Output	6	6	6	6	7
Total Building Outp.	5	4	4	4	4
Total civil engineering Outp.	2	2	2	3	3

Figure 15

Source. Euroconstruct, November 2009

According to data provided by Euroconstruct the civil engineering segment will also be the segment with the strongest growth in the coming years.

Strengths / Opportunities

- Banking sector is in good shape
- Increased FDI interested due to euro adoption
- Flat Tax of 19 %
- Geographic location

⁹⁵ PMR Publications: Central European Construction Review. 30th Oct. 2009, p. 15

⁹⁶ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/lo.html> - accessed on: 13th Feb. 2010

Risks / Weaknesses

- Very much dependent on world trade as industry is the main engine of growth
- Corruption is likely on the rise
- Dependence on Russia for Gas⁹⁷
- High unemployment rate

Market Players

Slovakia is basically occupied by the same players as the Czech Republic. The biggest players are the DDM Group (Doprastav Group), Strabag (Strabag had revenues of over EU 550 m in 2008 and is among the top 3 players) and Colas.

The Colas Group is an international construction group with representatives in more than 40 countries worldwide and about 56 000 employees. The COLAS Group in Slovakia is represented by three companies: Inžinierske stavby, a. s.(Inc.), Cesty Nitra, a.s. (Inc.) and IS-LOM, s. r. o. (Ltd.) Maglovec.

There is a huge potential in the Slovakian railway segment. In the past only very little was investment to maintain and renew the railway network. To be able to participate in the European transport market Slovakia needs to renew most of its tracks. Not even 50 % of the railway network is electrified.

In 2008 there were no significant M&A activities in the Slovak Republic. All the major Austrian players are already present in Slovakia. There are several smaller construction companies for sale in Slovakia which could be of interest to the Austrians, but it is not seen as a priority for Austrian players to acquire more companies, because of the size of the country. However Strabag in 2008 acquired a German real estate and facility management services provider. This again shows the interest of Strabag to intensify other services as well.⁹⁸ Alpine is active in building construction in Slovakia.

⁹⁷ ReportLinker: Slovakia Business Forecast Report Q1 2010, <http://www.reportlinker.com/p0165576/Slovakia-Business-Forecast-Report-Q1-2010.html?request=news> - accessed on: 1st Feb. 2010

⁹⁸ Deloitte: European powers of construction 2009. pp. 70 - 71

III.vii Slovenia

Slovenia				
Area (km ²)	20.273			
Long-term foreign currency credit rating (S&P)	AA stable			
Tax rate (effective)	21%			
Construction sector's share of GDP (2008)	8,3%			
Industry, value added (% of GDP)	34% (2007)			
Time required to start a business (days)	19			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	37,1	34,6	35,3	36,6
Population (mn)	2	2,0	2,1	2,1
GDP (real, yoy)	3,5%	-7,8%	0,6%	1,5%
Unemployment rate	4,5%	5,8%	7,5%	7,3%
Industrial output (real, yoy)	-1,5%	-15,8%	1,8%	3,5%
FDI (inflow, % of GDP)	1,0%	-1,7%	-0,6%	30,0%

Source: Unicredit, Worldbank

Figure 16

Since 2004 Slovenia has been part of the European Union and since 2008 part of the Euro Zone. When joining the EU Slovenia enjoyed the highest GDP per capita of the new member states in the European Union, 91 % of the EU average, even higher than Portugal. Slovenia is a high income developed country. Slovenia has an excellent infrastructure, a well educated workforce and a strategic location between the Balkans and Western Europe.⁹⁹ Although it had developed that well the crisis also came to Slovenia. In 2009 the Slovenian economy faced a contraction of almost 8 %, but has clearly shown signs of recovery. For 2010 experts forecast a positive growth rate of approx. 0,6 % and a negative current account deficit.

Slovenia is an export driven economy. Because of the dependence of Slovenia on exports to other countries in Western Europe (Germany and Italy) and Southeast Europe, the recovery of Slovenia very much depends on the recovery of these countries. The slow recovery in South Eastern Europe will also have an impact on the development of Slovenia.

The construction industry is very well developed in Slovenia. Railways (1228 km) and roadways (38,709 km paved) are in good shape.

⁹⁹ CIA World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/si.html> - accessed on 9th Feb. 2010

Strengths / Opportunities

- Low public debt levels
- Membership of EU and part of Euro zone
- Rising but still low unemployment level
- Strategic location

Risks / Weaknesses

- Corporate sector relatively weak
- Lower price competitiveness
- Already well developed
- Small country¹⁰⁰

Market Players

The joint-stock company **SCT** is the largest construction company in Slovenia with a 2008 revenue of EUR 530 m. The main activities cover almost all fields in the contemporary construction industry: engineering, civil engineering and structural engineering, and specialized construction activities.¹⁰¹

Acquisition Rationale: focus should be on Vegrad d.d.

The **Primorje Group** is one of the leading construction companies specializing in the construction of highways, demanding engineering structures, especially viaducts and bridges. The company achieved a revenue of approx. EUR 330 m in 2008.¹⁰²

Acquisition Rationale: focus should be on Vegrad d.d.

VEGRAD d.d. is one of the leading construction companies in Slovenia. In 2008 revenues amounted to approx. EUR 220 m. Vegrad not only operates in Slovenia, but is also engaged in Russia as a subcontractor for employers from Austria, Russia and to a lesser extent Sweden.¹⁰³

Acquisition Rationale: Vegrad is in severe financial troubles and is shortly before insolvency

¹⁰⁰ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 30-31

¹⁰¹ SCT: <http://www.sct.si/ja.php3> - accessed on: 14th Dec. 2009

¹⁰² Primorje Group: <http://www.primorje.si/> - accessed on: 13th Dec. 2009

¹⁰³ VEGRAD d.d: <http://www.vegrad.si/si/index.php> - accessed on: 13th Dec. 2009

Two other important construction companies are Konstruktor and Energoplan Holding. Konstruktor is one of the fastest growing and biggest construction companies in Slovenia. In 2008 revenues amounted to EUR 110 m and are expected to achieve EUR 135 m by 2010. The company currently employs around 350 employees. Energoplan Holding d.o.o. operates in the field of civil engineering and complex building construction services and could achieve a revenue of approx. EUR 100 m in 2008.

In 2009 there was not one deal reported in the construction sector, in 2008 there was just one deal reported.¹⁰⁴

According to Mr. Franz Weber, M&A Consultant in Slovenia, the upcoming insolvency of Vegrad d.d. could be a great opportunity for other players to gain in market share. The Austrians are already active with all 5 major players, but an increase in market share is a great opportunity.¹⁰⁵

III.viii Hungary

Hungary				
Area (km²)	93.000			
Long-term foreign currency credit rating (S&P)	BBB- stable			
Tax rate (effective)	16% + 4% + solidarity tax			
Construction sector's share of GDP (2008)	4,6%			
Industry, value added (% of GDP)	29,0%			
Time required to start a business (days)	5			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	105,5	91,1	99,1	105,7
Population (mn)	10,1	10,0	10	10
GDP (real, yoy)	0,7%	-6,5%	-0,3%	2,7%
Unemployment rate	7,8%	9,9%	10,5%	9,5%
Industrial output (real, yoy)	-0,1%	-15,0%	3,5%	7,0%
FDI (inflow, % of GDP)	3,0%	2,0%	3,8%	3,8%

Source: Unicredit, Worldbank

Figure 17

Hungary has been a member of the European Union since 2004, but does not have the Euro yet. In April 2010 parliamentary elections will take place, which can have an impact on the budget, but no significant changes are expected.

¹⁰⁴ Bureau van Dijk: Zephyr Database, 17th Fe. 2010

¹⁰⁵ Weber Franz, Personal Interview. 16th Feb. 2010

Hungary was hit very badly by the crisis; this was partly due to the fact that Hungary had entered the crisis from an already overleveraged position. Hungary has reached an agreement with the IMF and EU for a rescue package of US\$25 billion, aiming to restore financial stability and investor confidence. The support requires some tightening of public spending. This should avoid the whole country going into bankruptcy.¹⁰⁶ Due to government spending cuts the public sector infrastructure almost stopped in 2008 due to the high fiscal debt. The construction industry hopes that through EU subsidies for infrastructure projects it can make up for some of the reduction in government spending.¹⁰⁷

Unicredit sees the global outlook of Hungary with a GDP contraction in 2010. The country's improvement out of the crisis is far behind, as we could see across the CEE region. GDP is expected to stay negative for 2010.¹⁰⁸ The EU commission is quite concerned as well about the future development of Hungary. They are in the short run not really optimistic.

The construction industry in Hungary has suffered as well. There was a 21.6 % year on year reduction in construction output in January which was reduced to a 7,2 % reduction in August. This reduction was mainly in the building construction sector (-12 %) whereas the civil engineering sector grew by almost 11 %. This was mainly due to road and railway constructions. It is expected that the construction industry will show some growth in 2010.¹⁰⁹ According to the Hungarian Online Financial Journal: "There were 25 % less construction firms established in 2009 than in 2008 and there was a 10 % yr/yr drop in this regard in January 2010". This shows how severe the current situation is on the market.

Figure 18 provides a short outlook of the development of the major segments in the construction industry.

¹⁰⁶ The Guardian: Hungary receives rescue package, with strings attached.
<http://www.guardian.co.uk/business/2008/oct/29/hungary-economy-imf-eu-world-bank> - accessed on 11th March 2010

¹⁰⁷ Deloitte: European powers of construction 2009. p. 53

¹⁰⁸ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 18-19

¹⁰⁹ PMR Publications: Central European Construction Review 30th Oct. 2009, pp. 18 - 19

in m €	2008	2009	2010	2011	2012
Total Construction Output	11	11	11	11	12
Total Building Outp.	8	7	7	7	7
Total civil engineering Outp.	3	3	4	4	4

Figure 18

Source. Euroconstruct, November 2009

Strengths / Opportunities

- Significant support from IMF and EU
- Low budget deficit in the region
- High FX reserves

Risks / Weaknesses

- High public sector debt levels (above 80 % in 2009)
- Wide external financing gap
- Rising unemployment¹¹⁰

Market Players

Austrian companies are already very active in Hungary, but due to recent developments further investments have been postponed.

Hídépítő Zrt. A subsidiary of the Vinci Group is one of the major construction companies in Hungary. The company earned revenue of approx. EUR 450 m in 2007. Its main activity is constructing bridges and other special constructions.¹¹¹

Acquisition Rationale: belongs to Vinci Group – will be difficult

Vegyépszer Zrt. is another major construction company with revenues of EUR 270 m in Hungary. The company is owned by Stelius Zrt. (75 %) and Hungarian private individuals (25 %). The company mainly deals with assembly, heavy construction and special trade contractor management.¹¹²

Acquisition Rationale: Financial Problems, but a good standing on the market

¹¹⁰ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research pp. 18-19

¹¹¹ Hídépítő Zrt., <http://www.hidepito.hu/indexFlash.html> - accessed on 11th Feb. 2010

¹¹² Vegyépszer Zrt. <http://www.vegyepszer.hu/> - accessed on 11th Feb. 2010

WING Zrt. is engaged in real estate development (office, industrial and commercial real estate) and real estate renting focusing on Budapest. Wing Zrt and STRABAG Property and Facility Services GmbH together founded STRABAG Property and Facility Services Zrt in Hungary.¹¹³

Acquisition Rationale: are already working together with Strabag - there is an existing relationship

Strabag Epito Rt acquired M5 motorway operator Alfold Koncesszios Autoplaza Zrt in 2009. In 2009 Strabag acquired a small stake (6 %) in a rail freight services company. But there were no big M&A deals in 2009 in the construction sector in Hungary. Austria is represented by the five biggest construction players in Hungary.

III.ix Russia

Russia				
Area (km²)	16.995.800			
Long-term foreign currency credit rating (S&P)	BBB			
Tax rate (effective)	negative			
Construction sector's share of GDP (2008)	20%			
Industry, value added (% of GDP)	5,7%			
Time required to start a business (days)	38%(2007)			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	1139,8	918,0	1050,4	1144,6
Population (mn)	141,6	142,0	141	140,4
GDP (real, yoy)	5,6%	-8,6%	2,7%	5,2%
Unemployment rate	6,3%	8,8%	8,0%	7,3%
Industrial output (real, yoy)	2,6%	-12,0%	3,0%	5,0%
FDI (inflow, % of GDP)	2,5%	2,3%	2,4%	2,7%

Source: Unicredit, Worldbank

Figure 19

Russia with a population of 140 m inhabitants and a size of over 17,000 Tkm² it is the biggest country in the world (13 cities with more than 1 m inhabitants www.russia.blog). After the collapse of the Soviet Union privatizations started in the 1990s. Most industries were privatized except energy and defence related industries. These privatizations are very much criticized, because often majority state owned firms were turned over to politically connected people ("oligarchs"). Some of them

¹¹³ WING Zrt., <http://www.wing.hu/wing/wing.main.page> - accessed on 11th Feb. 2010

still have a major influence on what is happening in Russia. In 2009 Russia became the export country number one for oil and natural gas and is among the top three exporters for steel. This reliance on commodity prices was very vulnerable during the crisis as oil prices sank dramatically. Billions of dollars were spent by the Central Bank to slow down the devaluation of the ruble. In the second half of 2009 some indicators showed some growth, but very slowly.¹¹⁴ Russia felt a significant GDP contraction of approx. 8.6 % and in 2010 is expected to show a growth of only 2.6 %. The most important export countries (countries Russia exports to) are the Netherlands, Italy and Germany. The most important import countries (countries Russia imports from) are Germany, China and Japan.¹¹⁵

The Russian construction industry has gone through an extreme growth in the last ten years. That for instance, Moscow is one of the most expensive cities in terms of land is nothing new today.

The construction industry was hit very hard as well. The majority of construction projects were suspended and virtually no new residential or commercial property projects have been started. A lot of bigger existing projects were put on hold. Interest rates went up to 25 % which had the effect that a lot of construction companies got into serious trouble. The total volume of buildings (million m³) completed decreased from 413 in 2007 in to around 392 in 2008. It is expected that it decreased even much further in 2009.¹¹⁶ The state plans to invest approx. EUR 13 bn in infrastructure projects.

There are free economic zones in Russia, but there is none for the construction industry. There are gambling-, innovation-, manufacturing-, tourism-, port- and old zones of the 1990s.¹¹⁷

The pipeline construction segment is very large in Russia. There are almost 160.000 km of gas pipelines and more than 70.000 km oil pipelines which need to be maintained.

¹¹⁴ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> – accessed on: 18th January 2010

¹¹⁵ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research pp. 38-39

¹¹⁶ PMR Publications: Central European Construction Review 30th Oct. 2009, pp. 38 - 39

¹¹⁷ Liuhto Kari: Special Economic Zones in Russia.
<http://www.balticseaweb.com/files/files/publications/pan/2009/Liuhto%200209.pdf> – accessed on 12th March 2010

There is still a lot to do as almost 20 % of roadways in Russia are unpaved. A lot will also be done in railways. In terms of railway km Russia is ranked number 2 of the world.¹¹⁸ Infrastructure projects will make up most construction contracts in 2010. An increase in road and railway construction expenses is expected.¹¹⁹ Privatization of public companies no longer works with the voucher systems of the 90s. Today a privatization programme for the upcoming year has been published in the official mass media. So everybody should be able to inform himself about upcoming privatization.¹²⁰

Strengths / Opportunities

- High fiscal reserves
- RUB expected to benefit from strong capital inflows¹²¹
- Market size, but still less competition
- Poor infrastructure which is a great potential, but on the other side large capital investment are needed
- Sochi 2014 Winter Olympics
- Privatizations still going on
- Cost advantage

Risks / Weaknesses

- Interpretation of laws often not easy¹²²
- Protection of property rights is weak
- Reliance on commodity prices (very vulnerable to boom and bust cycles)
- High level of corruption
- Shortage of qualified construction workforce
- High taxes
- Rules for the acquisition of public listed companies is more restrictive than in Western Europe¹²³

¹¹⁸ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> – accessed on 18th January 2010

¹¹⁹ PMR Publications: Central European Construction Review, 30th Oct. 2009, pp. 38 - 39

¹²⁰ Maxim Boycko: Privatizing Russia, Russian Privatization Center

¹²¹ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research pp. 38-39

¹²² Dohna York and Kunisch Sven: Entzückendes Mütterchen Russland oder argwöhnischer Bär?, M&A Review 11/2009, p. 498

Market Players

Stroytransgaz OJSC is one of the largest construction companies in Russia. The company is involved in oil and gas construction, industrial construction, civil construction and Electric power construction. The company employs more than 18.000 people.¹²⁴

Acquisition Rationale: acquisition difficult und risky – better a strategic partnership

Globalstroy-Engineering is a Russia-based company active within the engineering and construction industry. It is one of the largest companies in Russia. It is mainly involved in pipeline and terminal construction, in the construction, reconstruction and technical maintenance of oil refinery plants, as well as in other support activities for oil and gas operations. The company is also active in civil and structural projects, erection works, pipeline, engineering, leasing and other activities.¹²⁵

Acquisition Rationale: acquisition difficult und risky – better a strategic partnership

SU-155 is one of three major Russian construction companies and employs more than 50.000 people. In 2006 the company started to be active internationally opening plants in Europe and a representative office in Germany.¹²⁶

Acquisition Rationale: acquisition difficult und risky – better a strategic partnership

¹²³ Maxim Boycko: Privatizing Russia, Russian Privatization Center

¹²⁴ Stroytransgaz OJSC: <http://www.stroytransgaz.com> - accessed on 17th Jan. 2010

¹²⁵ Globalstroy-Engineering: <http://www.globse.com/index.php/en/jubilee> - accessed on: 17th Jan.2010

¹²⁶ SU-155: <http://www.su155.ru/> - accessed in 17th Jan. 2010

III.x Belarus

Belarus				
Area (km ²)	207.600			
Long-term foreign currency credit rating (S&P)	BB negative			
Tax rate (effective)	20%			
Construction sector's share of GDP (2008)	0,0%			
Industry, value added (% of GDP)	39,0%			
Time required to start a business (days)	31			
	2008	2009	2010	2011
GDP (2009, EUR bn)	42,8	34,2	39,2	44,7
Population (mn)	9,7	9,6	9,5	9,4
GDP (real, yoy)	10,3%	-3,5%	1,5%	4,0%
Unemployment rate	1,6%	1,6%	N/A	N/A

Source: Unicredit, Worldbank

Figure 20

Belarus has around 9.8 million inhabitants and a total area of 207.760 km². From 2000 to 2008 GDP in Belarus grew, on an average of 8 %, with a record of 11.4 % in 2004. In 2009 GDP decreased by 3.5 %, but is expected to grow 1,5 % in 2010. The development of Belarus very much depends on the development of its major business partners.

The major foreign direct investors come from Switzerland, Russia, Austria and the UK. In 2008 FDI increased by 70 %. At the moment there are 3.500 companies supported by foreign capital operating in Belarus.

The construction industry seems to have suffered less from the crisis in Belarus than other industries. It is even believed that the construction industry will be the driving force out of the crisis. The construction industry contributes about 10.4 % to the total GDP. Approx. 300.000 people are employed in the construction industry in approx. 53.000 enterprises. But the industry is controlled by the 150 companies controlled by the Ministry of Architecture and Construction.

Belarus has a very advantageous location between Western Europe and the East. Very important transit routes pass Belarus. In total there are over 81.000 km of roads and more than 5.200 bridges. Until 2015 the program the “Roads of Belarus” plan will include the building of 12 ring roads around major cities, the maintenance and modernisation of the existing infrastructure. The total volume will be around 8 bn\$. Also the existing 67 airports in Belarus need urgent redevelopment. The non-residential construction market is primarily dominated by the commercial property

market. In 2008 there were approx. 1.6 m residential buildings, and 85 % have been privatized since 1992.¹²⁷ The commercial property market is expected to increase in the future. The amount of office, retail and warehouse space is among the lowest per capita in Europe.¹²⁸

Around 300 investors are active in the FEC. To be able to operate there, a minimum investment of EUR 1 m is necessary. There are at the moment 6 different economic zones, but all of them have similar allowances:

- No income tax for the first 5 years of the company's earnings, and, after that period, 50 % tax obligatory on non FEZ areas (today a 12 % tax rate in comparison with a 24 % rate on the rest of the country)
- The opportunity to lease land for investment for 99 years, in contrast to the maximum 50 years leases permitted in FEZ areas
- No duty or VAT on imported components needed for production on condition that the final products are to be exported or sold to other FEZ residents
- No import duty imposed on products sold to partner companies located in Ukraine and Russia
- No property tax as long as the investor remains in the FEZ
- Legal stability which cannot be changed during the implementation of the business plan
- Lower employment costs than in other regions of the country
- Registration of the company in "one window" within the FEZ

Land rights in Belarus are quite complicated. All land belongs to the state and there are a set of procedures both domestic and foreign investors need to complete. There are differences between foreign and domestic entities in regard to ownership rights. The Belarusians are entitled to own or use land permanently or temporarily for a period not exceeding 10 years. Foreign companies / investors do not have the right to buy a site. This means it is less easy to lease for foreigners. Under special circumstances these privileges can be extended (use of land for up to 99 years). The biggest problem in terms of leasing for investors is that the bulk of the preparations

¹²⁷ PMR Publications: Construction Sector in Belarus 2009, June 2009

¹²⁸ Deloitte: European powers of construction 2009. p. 82

for development have to be concluded before the investor actually acquires the rights. Through an auction a foreign entity is able to rent land and this is also the only way for Belarusian citizens to purchase a site.¹²⁹

Strengths / Opportunities

- Strategic location and Free Economic Zones
- Well educated workforce
- Limited competition in many areas – possibility of becoming a pioneer
- High potential in industry due to opening up to foreign investment
- Ease of doing business in Belarus: World wide ranking improved from rank 115 in 2008 to place 85 in 2009¹³⁰
- Customs union with Russia – opportunity to enter Russian market
- State accounts for most of the investments in the economy (this helps in difficult times – keeps investments stable)¹³¹

Risks / Weaknesses

- Corruption and onerous bureaucracy (time issue)
- State interference in economy, state control of stock market
- Possibility of rising energy prices
- Dependence on other countries
- Extreme lack of transparency
- Complicated tax and customs regulations

Market Players

The construction industry is dominated by state controlled construction companies. The few medium sized private construction companies operate mostly as housing developers.

¹²⁹ PMR Publications: Construction Sector in Belarus 2009, June 2009

¹³⁰ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/bo.html> – accessed on: 12th January 2010

¹³¹ PMR Publications: Construction Sector in Belarus 2009, June 2009

SoligorskPromStroy is a Joint Stock Company in Belarus and is active in the construction of residential and non residential buildings. In 2008 revenues amounted to approx. EUR 127 m.¹³²

Acquisition Rationale: strong market position

Mapid OAO is one of the leading construction companies in Belarus and is state owned. The company has more than 700 employees. Its main aims are the production of large panels and their use for the construction of residential blocks in Minsk. According to an official Database (Amadeus) the company had revenues of around EUR 140 m in 2005.

Acquisition Rationale: strong market position

Minskpromstroj is as well an Open Joint Stock Company in Belarus. The construction company reached revenues in 2008 of over EUR 60 m.¹³³

Acquisition Rationale: listed company

III.xi Poland

Poland				
Area (km²)	322.575			
Long-term foreign currency credit rating (S&P)	A- stable			
Tax rate (effective)	19%			
Construction sector's share of GDP (2008)	7,8%			
Industry, value added (% of GDP)	30,0%			
Time required to start a business (days)	31			
	2008	2009e	2010f	2011f
GDP (2009, EUR bn)	360,2	295,3	338,4	370,7
Population (mn)	38,1	38,1	38,1	38,1
GDP (real, yoy)	4,9%	1,7%	2,3%	2,7%
Unemployment rate	9,8%	10,9%	12,3%	12,0%
Industrial output (real, yoy)	3,9%	-3,9%	4,3%	5,5%
FDI (inflow, % of GDP)	3,0%	2,3%	2,8%	2,7%

Source: Unicredit, Worldbank

Figure 21

Poland was the only EU country with a positive GDP growth of 1.7 % in 2009 and we expect a GDP growth of 2.3 % in 2010. This is really significant and shows how

¹³² Buerau van Dijk: Amadeus Database, 17th Feb. 2010

¹³³ Buerau van Dijk: Amadeus Database, 17th Feb. 2010

successful this country is.¹³⁴ The years before 2009 GDP grew annually at a rate of about 5 % due to rising private consumption, increase in corporate investments and EU Funds inflows. The most important import and export country is by far Germany. Coming to the construction industry Poland shows high potential. Poland is ranked 15 in terms of km roadways in the world. There are nearly 410 Tkm roadways, where almost 130 Tkm are unpaved know-how and experience in this sector. It could be a chance for strategic alliances. Further there are approx. 13.600 km of gas pipelines and around 1.400 km of oil pipelines in Poland.¹³⁵ In the past road construction was the driving force in the Polish construction market. In 2008 more than EUR 4 billion was invested in road projects. The Polish power engineering segment is among the European top ten power markets in terms of size. The seven largest players in the power sector had combined revenues of EUR 13.5 bn. Due to the past underinvestment in this sector it is expected that in the next 10 to 15 years around EUR 50 bn will be invested in this segment. Polimex – Mostostal and the Budimex group already try to get a foot in this industry and want to become major players in this segment.¹³⁶ This is also a great chance for Austrian players, because they already have the necessary experience.

The table provides a short outlook of the major segments in the construction industry in Poland.

in m €	2008	2009	2010	2011	2012
Total Construction Output	43	45	50	58	65
Total Building Outp.	29	28	28	30	32
Total civil engineering Outp.	14	18	21	28	34

Figure 22

Source. Euroconstruct, November 2009

¹³⁴ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 24-25

¹³⁵ CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html> – accessed on 12th January 2010

¹³⁶ PMR Publications: The Power sector in Poland will determine the future of the construction industry, January 2010

Strengths / Opportunities

- The only EU country with positive GDP growth in 2009
- Improvement in foreign trade balance
- Politically stable
- Huge upcoming investments in the power segment
- With a population of almost 40 m inhabitants Poland is very important for the retail industry. Since the 1990s this industry is growing

Risks / Weaknesses

- Weak outlook for labour market
- Strong increase of deficits and borrowing needs
- High unemployment rate¹³⁷

Market Players:

Budimex is one of the largest construction companies in Poland, operating since 40 years in Poland. The company is majority owned by the Spanish company Ferrovial Agroma. Ferrovial is one of the world's leading infrastructure groups. The company achieved a revenue of 3.4 billion PLN (approx. EUR 822 m) in 2008 and earned a Net Profit of approx. 100 m PLN: (approx. EUR 24 m) Budimex specializes in road and building construction.¹³⁸ In November Budimex acquired Budimex Dromex SA, which will bring EUR 640 m additional revenue.¹³⁹ There are rumours on the market that Ferrovial wants to sell its stake in the Polish company.¹⁴⁰

Acquisition Rationale: difficult since it is owned by Ferrovial Agroma

Polimex-Mostostal S.A. is the leader in the Polish engineering and construction sector. The company offers a wide range of construction and installation services. Polimex-Mostostal Siedlce S.A. was created out of the merger of Mostostal Siedlce and Polimex-Cekop in 2004. Today the company has sales of approx. 3.7 billion PLN.

Acquisition Rationale: with revenues of EUR 3.7 bn the company is too big

¹³⁷ UniCredit Bank AG (2010): CEE Quarterly (1Q 2010). Economics & FI/FX Research, pp. 24-25

¹³⁸ Budimex: <http://www.budimex.pl/startpage.asp> - accessed on 19th Jan. 2010

¹³⁹ Bureau van Dijk: Zephyr Database, 17th Dec. 2009

¹⁴⁰ Budimex: Analyst report, BRE Bank Securities, Oct. 2009

Skanska S.A. belongs to the Swedish Skanska group and achieved a revenue of approx. EUR 640 m in Poland in 2008. Skanska is a world leader in construction and development. In Poland Skanska is present with three companies: Skanska S.A., Skanska Property Poland, and Skanska Infrastructure Development.¹⁴¹

Acquisition Rationale: belongs to the Skanska Group

There is a great opportunity for Austrian construction companies in the power segment. Strategic alliances with the major players specialized in the power segment, but also smaller players could be an opportunity to get into the power sector. By 2015 most road construction works will have been completed and full focus will be on the power sector. There is still time for foreign investors to take on a leading role.¹⁴²

In 2009 there was some activity in terms of M&A Activity in Poland, but Austrians were not involved in the major deals.¹⁴³ For Strabag Poland is the most important market after the Czech Republic. Strabag mainly focuses on building construction, civil and environmental engineering and transportation infrastructures.¹⁴⁴

¹⁴¹ Skanska S.A: <http://www.skanska.pl/pl/> - accessed on: 10th Feb. 2010

¹⁴² PMR Publications: Growth in construction output in Poland to reach 8% in 2010, November 2009

¹⁴³ Bureau van Dijk: Zephyr Database, 4th Jan. 2010

¹⁴⁴ Strabag SE: <http://www.strabag.com> – accessed on: 22nd Feb. 2010

IV. Facts about the construction industry

There is no doubt that the Austrian companies have been really successful, since the fall of the Iron Curtain, in Eastern Europe. They are one of the major players in that part of Europe. Not all of them are active in each country. In the conclusion the author wants to show which markets offer the highest potential for the top 5 Austrian construction players. Competition is increasing and the market situation is getting tighter.

The company reports, country reports and charts & graphs will help to explain and support the suggestions in the conclusion. The following charts and graphs show different indicators of the potential in the different segments of the construction industry. The indicators such as for instance e.g. % of roads paved, etc. are just one of many which can be used to identify the potential in different countries. The selection of the indicators depends on the availability of the data for different countries, in order to be able to compare the countries and the usefulness as a benchmark.

The following table very clearly shows in which CEE countries, the top Austrian construction players are active. Croatia, Czech Republic, Hungary, Poland and Slovakia are the countries, where all five are active. Not one of the companies is active in all countries included in this research paper. There are opportunities for each player.

	Locations CEE				
	Strabag	Porr	Alpine	Swietelsky	Habau
Belarus					x*
Bosnia & Herzegovina		x	x		
Croatia	x	x	x	x	x
Czech Republic	x	x	x	x	x
Hungary	x	x	x	x	x
Poland	x	x	x	x	x
Russia	x		x		x
Serbia	x	x	x	x	
Slovakia	x	x	x	x	x
Slovenia	x	x	x		
Ukraine	x	x			

* only a joint venture

Source: Company Websites

Figure 23

X The company has a location in the specific country

The company does not have a location in this country

Figure 24 gives a short overview of the Civil engineering market regarding roads and railways in Eastern Europe and Austria.

Civil Engineering							
	size in km ²	km roads	density /km ²	% roads paved	km highways	km railways	% railway electrified
Austria	83.871	200.000	2,4	100	1.702	6.399	58
Belarus	207.600	94.797	0,5	87	n.a.	5.538	16
B&H	51.129	21.846	0,4	52	n.a.	1.032	75
Croatia	56.594	29.248	0,5	82	959	2.722	36
Czech Republic	78.867	128.512	1,6	100	657	9.620	31
Hungary	93.000	159.568	1,7	44	785	8.057	33
Poland	322.575	423.997	1,3	70	663	22.314	53
Russia	16.995.800	933.000	0,1	81	786	87.157	46
Serbia	102.713	36.875	0,4	87	498	3.379	37
Slovakia	49.035	34.761	0,7	87	296	3.622	44
Slovenia	20.273	38.709	1,9	100	579	1.288	39
Ukraine	603.700	169.491	0,3	98	n.a.	21.655	45

Source: - Europa auf einen Blick

- CIA World Fact Book

- Eurostat

Figure 24

Density of km roads/km² should give an indicator on how developed the road systems are. Austria is not surprisingly number one. In Austria there are for every

km² 2.4 km of roads. Comparing it to countries from Eastern Europe this is pretty high.

	Total construction output	Construction of buildings	Civil engineering
Austria	EUR 30 bn	EUR 22 bn	EUR 8 bn
Bosnia & Herzegovina	EUR 0.35 bn	EUR 0.2 bn	EUR 0.14 bn
Croatia	EUR 5.7 bn	EUR 3.2 bn	EUR 2.5 bn
Czech Republic	EUR 21 bn	EUR 10 bn	EUR 11 bn
Hungary	EUR 11 bn	EUR 7 bn	EUR 3,5 bn
Poland	EUR 45 bn	EUR 27 bn	EUR 18 bn
Russia	EUR 112 bn	n.a.	n.a.
Serbia	EUR 2.2 bn	EUR 1.1 bn	EUR 1.1 bn
Slovakia	EUR 5.6 bn	EUR 4 bn	EUR 1.6 bn
Slovenia	EUR 3.6 bn	EUR 1.8 bn	EUR 1.7 bn
Ukraine	EUR 5.6 bn	n.a.	n.a.

Source: - Local Statistical Offices

- GTQ

Figure 25

Figure 26 demonstrates the development of railway km in some of the Eastern European countries. Trusting the information of the local statistical offices the chart illustrates that in the past (since 1996) not many investments were made in projects to build new railway tracks. Investments have been made in railway projects. This would mean that most investments were done to change from non electrified railways to electrified tracks. Russia with more than 80 km of railways has been left out in this chart.

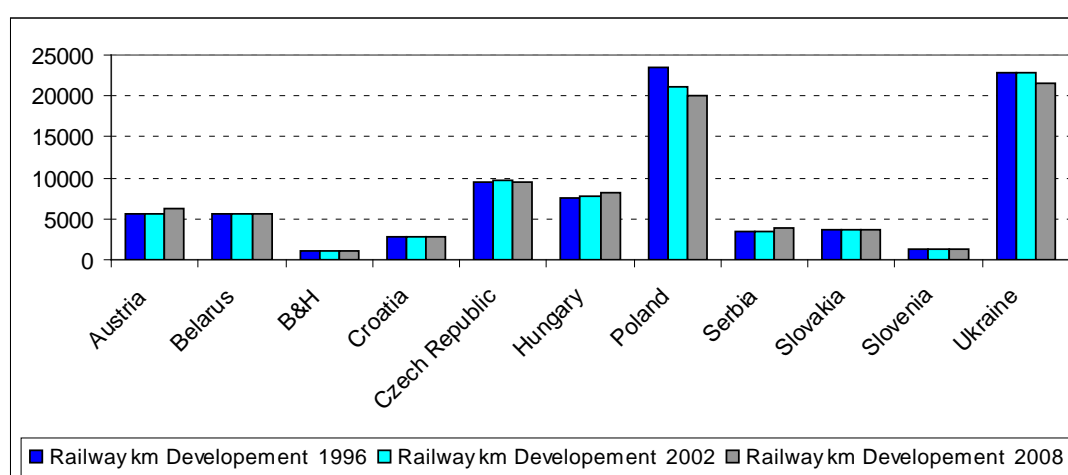


Figure 26

Source: Local Statistical Offices

The following curves illustrate the development of highway km in some of the Eastern European countries. As a benchmark Austria is as well shown. The graph shows that countries are investing heavily in new road projects (the graph only deals with newly build roads and does not differentiate between paved and unpaved). Some countries are still well behind Austria.

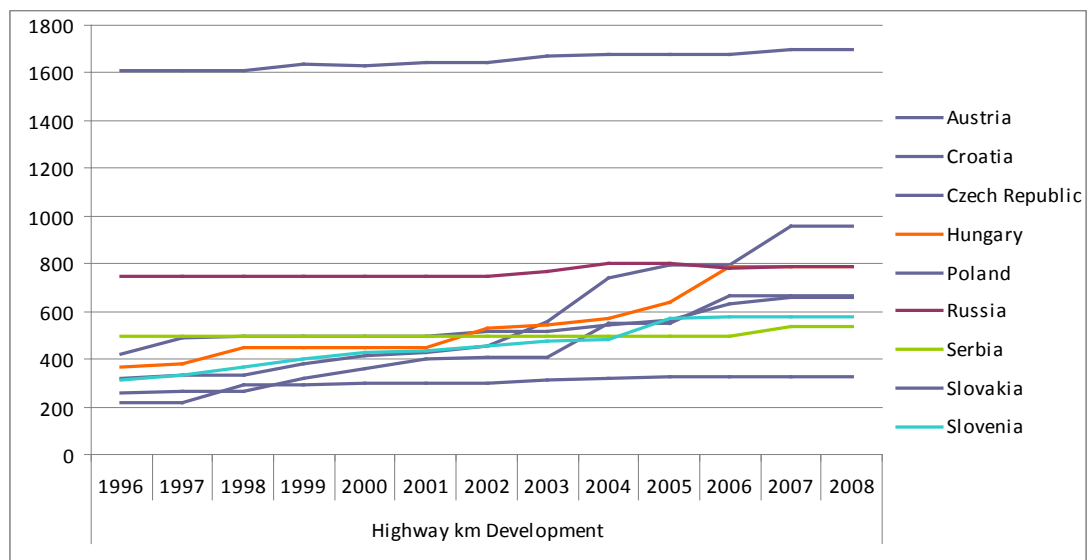


Figure 27
Source: Eurostat

The bar chart shows the motorisation rate (cars in 1.000 inhabitants) in Central Eastern Europe. Included in the chart are as a benchmark the EU 27 and the EU 15. The chart shows a clear trend of an increase in motorisation in every single country which leads to an increase in traffic and a higher demand for roads. Keeping in mind that transit traffic is not part, which can have a major impact on the traffic situation in a country. We can further see that Belarus, Russia and Ukraine had a strong increase from 1995 to 2006, but they are still far behind the rest. Slovenia, on the other hand, is already above the EU 27.

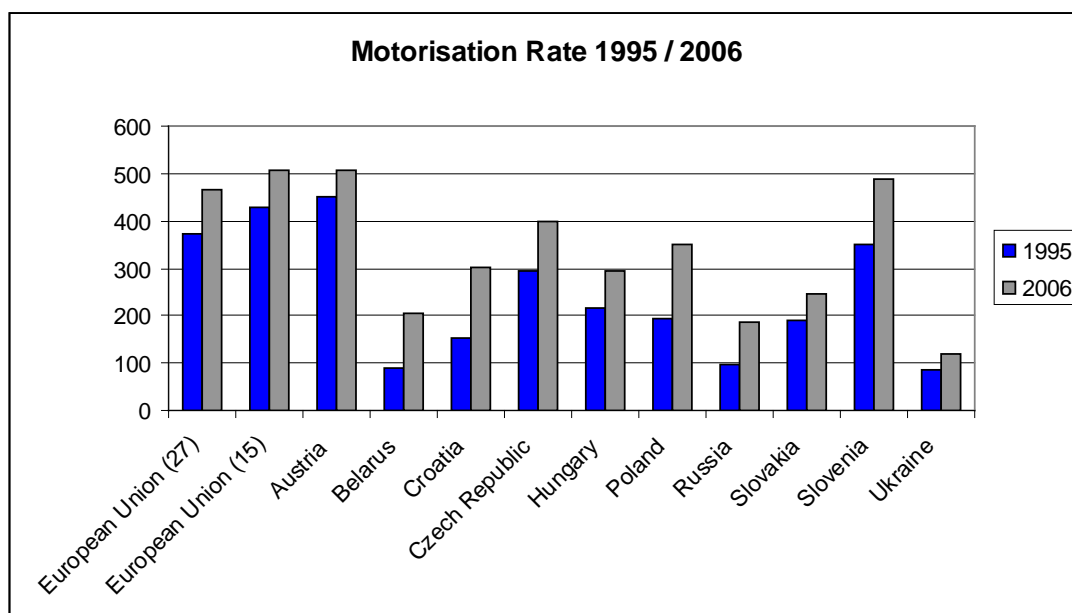


Figure 28

Source: Local Statistical Offices

V. Opportunities for each company in each country

V.i Strabag Opportunities

As shown in the chart Strabag is very active in Eastern Europe, but not yet penetrating the markets of Belarus and Bosnia & Herzegovina. Strabag is very successfully pursuing a strategy to secure the needed raw materials for its business. Strabag's investments in railway logistics should help secure independency in the transportation segment. For Strabag it is a major point for its success, being as independent as possible, not relying on others. To a certain extent one cannot avoid it, but try to keep it as low as possible.¹⁴⁵ Concerning the activities of Strabag in Eastern Europe, it is mainly active in the road construction segment and building construction. The segment special division (tunnel works, etc.) is very small in Eastern Europe. Hungary is, with a revenue of EUR 122 m, by far the biggest.

Czech Republic: Due to the competition law in the Czech Republic, Strabag will not be able to close any further major acquisitions in this country. Strabag would need to focus on organic growth. The total construction volume in 2008 was EUR 201 billion. According to statistics from Worldbank, almost 100 % of the roads are paved in the Czech Republic. Although a lot of new highways were built in the last years, there is still room for more. Strabag's heavy dependence on the road segment could be risky, and a relocation to the building construction and other civil engineering segments would be strategically of importance. In the railway segment Strabag is not that experienced and will have difficulties competing against Porr.

Poland: Poland's development during the crisis was astonishing, the only country with a positive GDP growth. Poland has the advantage that it is politically stable. Total construction volume in Poland is almost EUR 40 billion. Strabag is already number one in the road segment. It's main focus is on the road construction (75 % revenue) and building construction segment. Strabag is not active in special

¹⁴⁵ Osterhoff Friedrich: Baustoffindustrie, M&A Review 8/09/2008, p. 440

constructions as for instance tunnel works. Regarding road construction, there is still a lot of potential since only 70 % of the roads are paved. Poland showed a strong increase in motor vehicles in the past.

The Polish power engineering segment is of major importance and is a great opportunity in Poland. In the past this sector was more or less ignored and Poland is planning major investments in this area.

Hungary: Hungary has been challenged a lot during the crisis. Construction output decreased dramatically. Due to very strong support from the IMF and EU the civil engineering sector could show some growth. Road and railway construction did not show much growth during the crisis, but most other major projects have been postponed or sometimes even cancelled. Strabag reduced their activities in Hungary. Very high unemployment, high public sector debt and the wide external financing gap make Hungary a not a very attractive investment market at the moment. The total construction volume is approx. EUR 10 billion. There is a big potential in road building, as not even half of the roads are paved. Most paved roads are also West of Budapest. There is a big potential in the Eastern part of the country.

Slovakia: Slovakia's construction industry showed an above average growth over the past years. Strabag is very active in Slovakia and could achieve a good growth rate in the last years. Other than in the Czech Republic and Poland, the major segment here is the building construction segment. Road construction was not so important, but there are still opportunities. Only 85 % of the roads are paved. According to "Euro Construct" the government is further planning major investments in the high way segment. There are only 44 km of highways at the moment. This would be a great chance for Strabag to increase its market share in Slovakia. Major railway projects to renew and maintain existing tracks will come up as well.

Russia: Russia with a total construction volume of EUR 105 bn is very attractive and should not be left out. Russia was hit hard during the crisis, but Strabag believes that it will be one of the first countries to recover from the crisis. Strabag is mainly active in the building construction market. Road construction was ignored for the moment, but there are great opportunities in this segment. With over 900.000 km of roads and

a relatively low development of eastern Russia brings up a lot of potential. Due to the financial crisis lots of construction companies are in financial trouble which could be an opportunity for Strabag to buy relatively cheap and increase its market share.

The availability of project financing is difficult so a lot of projects were postponed in 2008 and 2009, but will change again. The poor infrastructure in Russia will need major investments to achieve one day a Western European standard.

Ukraine: Strabag is currently only active in the building construction segment, but not in the infrastructure segment. The total volume of construction services amounts to approx. EUR 8 bn. Due to the political risk and the unclear and untransparent corporate structures in the Ukraine it makes it extremely difficult for foreign companies. This could be the reason why there are almost no cross-boarder M&A deals, just national ones. The way the government investments work is not favourable to foreign companies. As explained earlier in the country report, Ukravtodor is the recipient of all budget allocations. It will be difficult for Strabag to get a contract from Ukravtodor. This is one reason why Strabag focuses on the building construction segment. Looking at the strengths and weaknesses of the Ukraine we can see that there is a lot of risk in the market. For the moment there is too much uncertainty in this country to really plan M&A activities. Once government is settled things could change easily. Once motorisation rate increases, there will be a high demand for new roads.

Slovenia: Slovenia is a rather small market. Strabag is mainly active in road construction and to certain extent in building projects. According to statistics 100 % of roads are paved. Competition is very high in Slovenia and the market is well developed, but there are currently only 30 km of highways.

Vegard, one of the leading construction companies in Slovenia, is in big financial trouble and this could be an opportunity for Strabag to increase its market share. It is expected that Vegrad will go into insolvency in the coming weeks.

Croatia: Croatia is not part of the EU yet, but an accession to the European Union could boost economic activity. Special tax exemptions for foreign investors are a positive sign to attract investors. Strabag mainly is active in road projects and

building construction. Croatia has approx. 28.000 Tkm roads of which 90 % are unpaved. Upcoming highway projects financed by the state will bring up new interesting projects.

Serbia: Serbia is facing some difficulties; GDP growth is expected to stay negative in 2010 and only recover in 2011. On the other hand strong support from the IMF and the favourable geographic location make the country attractive. There is a huge growth potential in the construction industry and Strabag should not miss out on this, especially road infrastructure (0,4 km/km²). In particular with Strabag expertise in the road segment there is a lot to be done. As explained before there is a significant potential to earn a high EBIDA margin. Upcoming infrastructure projects will be supported by the Worldbank, EBRD and EIB. Strabag should focus on this.

Bosnia & Herzegovina: Strabag is not active in Bosnia at the moment. The local construction market is not as well developed as in the rest of Europe. If Strabag thinks about entering this market the biggest opportunities are in road construction. Almost half of the roads are unpaved. The government has announced the building of several highways in the next five years. As Strabag does not have a location yet it could think about a merger or acquisition or maybe just a strategic alliance. Due to the crisis several small to mid-sized companies are in financial troubles. This could be an opportunity, but due to the size it is not that attractive.

Belarus: Strabag is not active in Belarus. As the data in the country report shows a very attractive country, in terms of the ranking of the ease of doing business, the country has improved significantly and there is limited competition. As mentioned earlier in the research paper there are free economic zones with certain allowances which make it extremely favourable. The poor infrastructure is for Strabag a great chance. Upcoming privatizations are opening opportunities for M&A Activity. Further competition is really low in this country. There are certain risks in Belarus which need to be considered, but from the author's perspective strengths outweigh risks and weaknesses.

V.ii Porr Opportunities

Porr is very active in Eastern Europe, but does not cover the markets of Belarus and Russia. Different to rest of Europe Porr seems to be more into energy projects in South Eastern Europe than in building - and road construction. Generally speaking there are opportunities all across Europe in the high quality construction sector.

Bosnia & Herzegovina: Porr has activities on the market, but the potential of the Bosnian market is rather limited. In 2009 the company planned to expand the energy sector into Bosnia. But there are other opportunities as well. Upcoming infrastructure projects will offer opportunities in road construction. Only 50 % of the roads are paved in B&H. Porr is not active yet in road projects in Bosnia and so could miss out on projects, but as mentioned the market is quite small and limited. The existing railways are more than 75 % electrified.

Croatia: Total output in Croatia is around EUR 18 m. According to Deloitte there is a high demand for retail space. Increasing the market position will be difficult due to the well established market position of Strabag. Porr should further focus on infrastructure projects such as tunnel works. Roads are quite well established in Croatia, but due to an increase in tourism future highway projects are planned. The graph (Figure 27) shows that a lot of investments were made to build highways.

Czech Republic: The Czech market is one of the major markets for Porr. They have a well established market position. The main overall focus was on activities in office and commercial construction. This segment will especially in minor cities bring a lot of potential. M&A activity is mainly in smaller local companies. The market is dominated by foreign players. The road and railway network is well developed. The Czech Republic has almost 10.000 km of railways. But only 30 % are electrified. We can imagine that due to the current discussions about global warming and CO2 emissions something will happen.

Hungary: On the biggest foreign market for Porr M&A Activities were almost dead in 2009 and are expected to stay low in 2010 as well. There is still a lot of potential in the market and some growth is expected in the construction industry. Porr should

try to keep its current position as there is still a huge amount to be done in infrastructure projects. There are approx. 190 Tkm roads and only 80 Tkm are paved. As mentioned in the annual report on road construction the main focus is on the Western part of Hungary. It is just a matter of time when the projects in the East will increase as well. Porr should be prepared for this. Currently the main projects are office buildings and hotel buildings.¹⁴⁶ In terms of railways there is huge potential as well.

Poland: Poland is the third most important market for Porr. Poland, with a GDP growth of more than 2 % in 2009, the country showed stability. Porr is not very active in the power segment, which offers a big potential in Poland, but this will not be the only segment with growth potential. Through its strategic location and an increase in transit traffic, a lot of infrastructure projects are planned until 2015.¹⁴⁷ In terms of road and railway km Poland is well established, but only approx. 800 km are highways and only slightly more than 50 % of the tracks are electrified.

Serbia: The main focuses in Serbia are infrastructure projects and tunnel works. Mr. Dragan Kovacevic, the CEO and owner of Multicon Engineering, explained in an interview that he believes that in Serbia the trend goes into deeper specialization rather than offering many different services. For him this is a key aspect to stay profitable in the Serbian market. Through the strong support by the EU and IMF Serbia can be very profitable. Porr already performed well in 2009 in Serbia. The main focus should be on infrastructure projects (road, bridges and railway) where they were successful already in the last year.¹⁴⁸

Slovakia: Together with the other two major construction players, Porr is renewing some of the railways in Slovakia. Slovakia needs to further invest heavily in the railway network to be able to participate in the European transport market. In the past they have missed out on this opportunity.

In Slovakia Porr could increase output by 60 %. Slovakia is a rather small country with a lot of competition. Some larger infrastructure projects will come up, but in

¹⁴⁶ Porr: Annual Report 2008, p. 83

¹⁴⁷ Virtual Poland: <http://www.virtualpolen.de/autobahnen.htm> - accessed 26th Feb. 2010

¹⁴⁸ Serbia Investment and Export Promotion Agency, Construction Industry 2009

terms of M&A Activity the last years was fairly quiet and this year started low as well. Currently the main focus is on the construction of office building. Porr is planning an asphalt mix plant which would help increase capacity and secure raw material prices. In terms of highways the state will need to invest to build more highways in order to handle the increase in traffic.

Slovenia: Slovenia is very well developed, but as the insolvency of Vegrad is coming up opportunities arise there. It could be an opportunity to increase market share. The main focus should be on railway projects. Only approx. 40 % of the railways are electrified. If Slovenia wants to increase international railway traffic huge investments are needed to secure this business.

Ukraine: Ukraine has much less competition as in the neighbouring countries of Austria and due to upcoming privatizations and little competition offers a lot of opportunities. But one has to keep in mind that in terms of cross boarder acquisition it is not very well developed. Porr is already experienced in Ukraine, but was hit hard during the crisis. A lot of projects were put on hold with Porr last year. The high level of corruption is of course a very big risk. The road density in the Ukraine does almost not exist. With 0,3 km/km² Ukraine together with Russia has the lowest in Eastern Europe. As shown in the graph earlier the motorisation rate is by far the lowest. One major issue is the distribution of infrastructure projects by the state.

Belarus: Porr is not operating in Belarus at the moment. Porr just entered the Ukrainian market and has not entered Russia and Belarus yet, but it could be a logical next step to cover almost all of Eastern Europe. As explained before Belarus offers a lot of advantages to foreign investors, but as mentioned the risks and weaknesses are substantial. Competition is still very low in the Ukraine which could offer an early mover advantage. Investment should be located in one of the free economic zones in order to be able to make use of the mentioned allowances. As only 16 % of the railways are electrified there is as well a large potential in this segment. The motorisation rate is increasing strongly and therefore new roads will be necessary to handle the traffic situation. Because of the high level of corruption and

the strong state interference a strategic alliance with a local company would be a great support.

Russia: Porr is not operating in Russia yet. Due to the size of Porr and Russia being a market of huge potential especially in terms of building construction and in terms of civil engineering. Infrastructure is not very well developed. The amount of roads which need to be maintained and the amount of newly build roads due to an increase of number of cars is enormous. Russia is already heavily investing in infrastructure projects for the Olympic Games in Sotschi. Since Strabag, Alpine and Hochtief are already active, Porr does have a lot of local competition. But in terms of market size it offers potential for many players.

V.iii Alpine Bau Opportunities

As the second biggest construction company in Austria and full portfolio of offered services in the construction segment there are a lot of opportunities for Alpine. Especially with the expertise in underground construction there is huge potential in Eastern Europe; underground construction goes hand in hand with road-, motorway or railway constructions.

Belarus: Alpine is not yet operating in Belarus. The economic situation in 2009 with a GDP contraction of 3.5 % was weak. For 2010 a growth of 1,5 % is expected. Belarus offers a huge potential all through the construction segment. Especially in the railway segment something will be done in the near future. In Belarus competition is still low, which is very rare nowadays in Europe. With the expertise and quality of Alpine it should focus on the underground segment. But there is also huge potential in the road infrastructure as there is a road density of only 0,5 km /km².

Bosnia & Herzegovina: Bosnia is still expected to show a GDP contraction of -1 % in 2010. Bosnia has shown before that the economic situation is developing well. To secure further development, further investments in infrastructure projects will be necessary. There are only approx. 1.000 km of railways and a road density of just 0.5 km/km². There is a lot of room for improvements.

Croatia: The economic situation of Croatia is not good, but joining the EU in the next few years should have a positive impact on the country. As Croatia is heavily dependent on tourism infrastructure, functioning roads and railways are of major importance. A lot has been invested in highway projects in the last years, but there is in terms of both, road and railway, a lot of potential. Only 36 % of the railways are electrified.

Czech Republic: GDP growth is expected to reach 1.6 % in 2010 which is a positive signal. Competition is very strong in the Czech market. In order to handle the increase of transit traffic and local traffic (motorisation rate is increasing) new highway projects will have to come up.

Hungary: Through the strong support by the IMF and the EU, Hungary is able to invest into major infrastructure projects, which is of course an advantage for the construction industries. The Western part of Hungary is well developed, but there is still a lot of potential in the market. Because of a rising unemployment rate we can expect that private housing demand will not increase in the next years. Focus should be on civil engineering.

Poland: Poland has performed really well in the last years. The biggest potential in the near future is in infrastructure projects. Investments in the rail segment were rather rare in the past. Here substantial investments need to be made in order to improve the railway network and to improve to electrified tracks. Over 300.000 km of roads need to be maintained or sometimes even rebuilt.

Russia: Russia is the market with highest potential in the long run. With a population of over 140 m inhabitants the civil engineering and the building construction segment need huge amounts of investments to develop the country and come closer to Western European standards. In Russia there is almost 1 million km of roads which need to be maintained or sometimes need to be rebuilt. There is a huge potential in the market. But of course there are a lot risks in the market which need to be considered. In terms of M&A an in depth Due Diligence is the key to success.

Serbia: As shown in the country report Serbia as well as B&H has shown great GDP growth rates in 2008. The current situation of high unemployment rate is a problem for the state. But the country is strongly supported by the IMF. To make use of its favourable geographic location Serbia needs to keep investing in road infrastructure, these projects are partly financed by the Worldbank, IMF and EU. (roads, highways, bridges) There is a huge potential which is an opportunity for Alpine. From an M&A perspective opportunities arose in the last two years, because many companies are in financial trouble.

Slovakia: Through the positive development of the most important economic partners of Slovakia, Germany and Czech Republic, the positive development influences as well the local market. A favourable tax rate of 19 % is always attractive for foreign investors. Future infrastructure projects do have a lot of potential for Alpine. Smaller acquisitions do come up since the crisis, because a lot of smaller companies came into financial troubles during the crisis.

Slovenia: Slovenia is very well developed. Especially major towns are close to Western European standards. There is still potential for larger shopping centres on the Slovenian market.

Ukraine: Alpine is not operating in the Ukraine. Ukraine needs to invest a lot into infrastructure projects to ensure a development in the market. Once these major investments start Alpine has a clear advantage through its expertise in the underground construction. Entering this market always bears some risks. A joint venture with a local company as an entry strategy would be good. There is almost no transparency in the country. With a local partner one can work against this.

V.iv Swietelsky opportunities

Belarus: Swietelsky is not active in Belarus at the moment. As mentioned already Belarus does offer a lot of opportunities. GDP per capita is only around \$ 12.000 compared to over \$ 40.000 in Austria. In terms of road construction and highway construction a lot needs to be done to close the gap between Western Europe and Eastern Europe. Today there are already more than 5.500 bridges which need to be

rebuilt or maintained every year. There are privatizations going on Belarus which offer opportunities to get a foot in this market. For Swietelsky with its focus on special construction work this can be a great chance. Railway construction is as well a big opportunity.

Bosnia & Herzegovina: Swietelsky does not have a subsidiary in B&H, but is working on projects in this country. Due to its small size B&H does not look very attractive. But there is still a long way of development for B&H to reach the level of its neighbouring countries. Major investments will be needed to stimulate economic growth. Swietelsky already works together with Alpine on railway projects in Bosnia. Due to ongoing privatization and the financial situation there are smaller construction companies on the market which could be of interest to Swietelsky to get a foot in the market.

Croatia: Croatia's GDP per capita increased from \$ 17.000 in 2006 to \$ 18.300 in 2008 an increase close to 10 %. They are still far behind Western European standards, but have proved in the past that the country is developing well. Future development especially in highway projects will be of major importance to secure tourism.

Czech Republic: Swietelsky is active in the Czech Republic, but not offering tunnel constructions and railway constructions. Roads are well developed, but in terms of highway km the Czech Republic needs to invest further. The railway network is quite well established, but only around 26 % of the tracks are electrified. This is a big potential. Swietelsky could think about offering these services in the Czech Republic as well.

Hungary: Due to the high budget deficit of the country the Hungarian state has only limited possibilities to stimulate growth in the country. Hungary is significantly supported, but still larger investments will be missing in the next years. M&A activity did almost not exist in 2009. GDP per capita improved from \$ 14.000 in 2006 to over \$ 16.000 in 2008. Further development will come in the next years. The main focus should be on infrastructure projects.

Poland: Swietelsky is mainly active in the civil construction segment. This segment was hit hard during the crisis as investments in private housing strongly reduced. But there are still opportunities in the building segment. Opportunities in transportation infrastructure and tunnel works should also not be forgotten.

Russia: Swietelsky does not operate in Russia. The Russian market offers big opportunities in all segments. Swietelsky with its expertise in special construction works could be very successful in Russia. A joint venture with a local company would be a great chance to enter the market.

Serbia: Swietelsky is operating a subsidiary in Serbia. Through its strong support by the Worldbank, EBRD and EIB Serbia are able to invest a lot into infrastructure projects. Swietelsky with its specialization in special construction, these infrastructure projects can be very successful. Both railway and road networks need a lot of development.

Slovakia: Swietelsky is operating in Slovakia, but not offering its services in the field of transportation infrastructures, especially in the railway segment and tunnel constructions. The activities in Slovakia are rather limited and due to the strong competition not too much time should be spent on the Slovakian market. There are opportunities to buy smaller construction companies which could help increase market share.

Slovenia: Slovenia is very well developed. If we check the GDP per capita we see that Slovenia developed greatly in the past. It has almost reached EU average. Swietelsky is not operating in Slovenia. There are rather limited opportunities.

Ukraine: The Company is not active in this market. Ukraine is a very unstable country due to high political risks and a difficult economic situation. The lack of transparency is another major issue in the Ukraine. Its dependency on Russian gas makes the situation not better. Both in terms of railway and road construction a lot will be invested in the future. But due to the current situation Swietelsky should wait

until the situation shows some positive trend. For instance motorisation rate did not change a lot in the last years compared to other Eastern European countries.

V.v Habau Opportunities

Habau is still owned by private individuals and therefore very different from the others, which are either listed on the stock exchange or owned by large foreign companies. Due to its relative smaller size, compared to for instance Strabag or Porr, they face some difficulties competing in larger projects alone, for instance getting the financing together will be a challenge. But still as mentioned before Habau is the most productive construction company in Austria.

Belarus: Habau is the only construction company of the five companies included in this research work which has activities in Belarus. Habau is in a joint venture with the company Belstroijtransgas. This can have a first mover advantage, but as we saw in the country report many risks are waiting as well in this country. Forming a joint venture to spread the risk is a good way to enter the market. Habau could gain a lot of experience through such joint venture.

Bosnia & Herzegovina: Habau is not active in Bosnia. Strabag, Porr and Alpine are very active, therefore Habau would have extremely high competition, which would be very challenging for them. Furthermore, the weak domestic demand and the high level of corruption do not make the country attractive for a company like Habau.

Croatia: Croatia will soon join the EU which will have positive impact on the economy. Furthermore, Croatia offers certain tax exemptions for foreign investors which is also quite attractive. Habau is mainly active in pipeline productions in Croatia which has less competition than in the infrastructure segment. There is as well a lot of potential in upcoming infrastructure projects. In larger projects Habau would have to team up either with local companies or other Austrian players.

Czech Republic: The Czech market is quite large and full of competition. Specialising in certain niche segments would be a great opportunity. Being in direct competition with other Austrian and European construction players will be

challenging. Focusing on a niche segment which has less competition will be very attractive.

Hungary: Hungary was affected very badly in the crisis, but is supported strongly by the IM and the EU. Until now they have been mainly active in building construction in Hungary. There is still a huge potential in this segment, but future investments should be held back until the economic situations turn positive again.

Poland: Habau has been mainly active in road construction and pipe line works in Poland. Road construction also means bridge construction and Habau could focus on bridges where they do have a lot of experience. Through its great performance during the crisis the market is still very attractive, although there are some drawbacks.

Russia: Habau has been active in bridge construction projects in the past. Russia has a road density of only 0.1 km/km² and approx. 80 % of the roads are paved. There is great potential in road or better to say bridge constructions and maintenance. The country with immense natural resources also offers huge potential in pipeline constructions. A strategic partnership or joint venture, with one of the top players, Sroytranggaz OJSC or Globalstroy-Engineering would be a great opportunity.

Serbia: Habau is not active in Serbia. Entering this market would offer new opportunities in all segments of the construction industry. Since the other Austrian players are active in Serbia, Habau would face a lot of competition and due to the current economic situation not too much focus should be spent on Serbia for the moment.

Slovakia: As the other four players as well Habau is active in Slovakia. There are smaller construction companies for sale on the market, which offers an opportunity to increase market share. Competition although is very tense in Slovakia. Habau's activities on the Slovak market are very limited.

Slovenia: Slovenia is very well developed and larger infrastructure projects will come up. Due to dimension of the projects and the size of Habau, they will have difficulties competing against the top players.

Ukraine: Habau is not active in the Ukraine. Due to the political unstable situation, lack of transparency and the weak current economic situation an expansion to the Ukraine is for Habau too early. No doubt that there is a huge potential in all segments (infrastructure, buildings construction, pipeline construction, etc.), but still too early.

VI. Conclusion

The construction industry in Europe has not been as badly affected by the crisis as many other industries. One reason for this is that the European governments have tried to stimulate economic growth through government spending in the infrastructure segments. Governments are one of the greatest supporters of the construction industry. Governments are in turn very much supported by the IMF, Worldbank, EBRD and the EU. As shown in this paper most segments are facing a contraction these days, but the infrastructure segment is still showing a lot of activity and offering a lot of projects for construction companies.

VI.i Strabag

Strabag is very well established in Eastern Europe. However they do not have a subsidiary or site in Belarus and Bosnia & Herzegovina. They are very active in B&H. Since November 2009 Strabag is as well operating in Belarus. The Belarusian construction market shows a lot of opportunities due to ongoing privatizations and the low development across all segments in the construction industry. The establishment of Free Economic Zones support to attract foreign investors. In the economic zones foreign investors can profit from certain allowances, e.g. no income tax for the next five years, etc.

There are other opportunities for Strabag as well, as for instance in Slovenia due to the insolvency of Vegrad, but the prime focus could be Belarus.

In some of the other countries, for instance Poland, Strabag might have difficulties acquiring other larger companies due to competition law.

Infrastructure projects, especially road and railway projects are on the market in all countries. For instance, Strabag is currently working on a project in the railway segment together with Porr and Alpine in Slovakia. They did perform well in Slovakia. Governments have been trying to stimulate economic growth by investing in infrastructure projects. Due to the current problematic situation and the challenging future outlook, however, further expansions in Hungary might be postponed.

As soon as the Ukrainian economy shows some signs of recovery and the privatization of one of the larger construction companies, e.g. OJSC Holding Kyivmiskbud or Ukravtodor, starts Strabag should think about an acquisition in the Ukraine. For the moment it will be difficult for Strabag to get a contract from Ukravtodor. Ukravtodor is the recipient of all budget allocations and the company is only worth something, because of the government support. If Strabag takes over this company it will be worth nothing.

VI.ii Porr

Porr is not active in Belarus and Russia. Both markets have a currently underdeveloped infrastructure and a huge potential for the coming years. An acquisition through a privatized company would be a great chance to get a foot in the door of one of these markets. There are several opportunities for investors in Belarus. Foreign investors do have a kind of privileged status when investing in/or acquiring a company in Belarus (e.g. free economic zones, etc.).

A strategic alliance, to spread the risk would be another good option to enter these markets. Russia does have FEZs, but not specifically prepared for the construction industry as it is in Belarus. Russia offers as well a lot of opportunities in all segments of the construction industry. The country is still very underdeveloped, e.g. road density of 0,1 km/km². The Russian state plans to invest EUR 13 bn in infrastructure projects in 2010 which will offer a lot of opportunities. Furthermore, the Renaissance Group is already active in Russia which helps to start up in Russia. They are already experienced in the market and Alpine can profit from the know-how of the Group. A strategic alliance would be the best opportunity to gain experience and spread the risk in this market.

Porr is well established in many Eastern European countries which also offer a lot of opportunities in the future. For instance Porr, showed a good performance in Serbia. Vegrad in Slovenia should additionally be considered. Generally speaking, strong focus should be on countries with strong support from international institutions.

VI.iii Alpine

Alpine is not active in Belarus and Ukraine. The Ukrainian market is in a difficult situation and therefore it might be too early to start business in this country. The

economic instability and present weak situation (GDP down 14 % in 2009, high unemployment rate, etc.), the unstable political situation and the lack of transparency are major problems in the country. For planned privatizations Alpine, however, should be prepared. There are several construction companies in the pipeline, as just mentioned in the Strabag conclusion.

Belarus, on the other hand, offers a lot of potential due to privatization. There is big potential in all segments of the construction industry. Alpine, however, should focus on infrastructure projects, especially road construction, in this country. But also in the other countries Alpine should keep focusing on its major segment, the civil engineering business and especially on special underground constructions.

In the other Eastern European countries Alpine is quite well established and due to the stimulation packages of different states a lot of infrastructure projects are planned. Acquisition opportunities as for instance the company Vegrad in Slovenia or Vranica and Hidrogradnja d.d. should be analyzed. Hidrogradnja is owned by the state (67 %) and is planned to being privatized soon.

Due to the difficult situation in Hungary Alpine should hold back on major investments until the situation turns positive again. There is still the possibility that planned projects might be postponed.

VI.iv Swietelsky

Swietelsky is not active in Belarus, B&H, Russia, Slovenia and Ukraine, which are quite a lot of countries offering considerable opportunities for further expansion. Slovenia is very well developed in the civil engineering segment and therefore not seen as a priority country for Swietelsky. Swietelsky is working on a railway project on B&H. The country offers some opportunities due to privatizations for the company. For instance the company Vranica and Hidrogradnja d.d. are for sale at the moment..

The biggest potential is seen in Russia. The Russian market is risky, but still offers a lot of opportunities. The Ukrainian market is as well insecure at the moment, but chances to increase market share due to privatizations are in the pipeline. Swietelsky should hold back on acquisitions or larger investments in this market and wait until clear signs of recovery are shown.

Furthermore Swietelsky could increase its offerings of services in the existing countries. For instance Swietelsky should offer tunnel construction and transportation infrastructures in Eastern Europe. With an increase in services in the existing markets the company could increase its market share and strengthen its position.

Swietelsky is working together on some projects with other major Austrian construction companies, as for instance, with Alpine on some railway projects in Bosnia. This is a great opportunity to spread the risk on larger projects and share knowledge. Larger projects in the railway segment are planned in the Czech Republic, Hungary and Slovenia.

VI.v Habau

Habau is not active in Bosnia and Herzegovina, Serbia, Slovenia and the Ukraine. Apart from a possible acquisition of Vegrad in Slovenia and B&H, these are not the most attractive countries for Habau in the current situation. However, there are a bunch of smaller construction companies for sale in Bosnia which could be interesting for Habau. For instance, the company Vranica or Hidrogradnja d.d. is for sale, which could be an attractive target. The majority of companies for sale in Bosnia are in a financially difficult situation.

Entering the Ukrainian market today will be quite a big challenge. A strategic alliance could be an opportunity, but for an acquisition it might be too risky at the moment. But privatizations will come up in the next years. Habau should focus on pipeline construction projects as there is still a lot of development coming up and the existing pipelines need maintenance. With the latest technology of Habau this could be a great opportunity.

Serbia is still rather underdeveloped especially in the infrastructure segment. The road infrastructure needs a lot of development in the near future; the same is true for the railway infrastructure. Buying a stake in the listed company Energoprojekt could be an easy start in the country. Opportunities are on the market, but there is a lot of competition as well. Habau should focus on the pipeline segment in South Eastern Europe.

As Habau is already active in the road segment in Poland and further investments are planned in Poland, there is a good chance of increasing market share; pipeline projects are another opportunity for Habau in Poland.

VII. Bibliography

Alpine: Annual Report 2008, pp. 49-80

Alpine: <http://www.alpine.at/> - accessed on: 19th Jan. 2010

Bruckberger Hans-Jörg, Bauindustrie lebt von der (öffentlichen) Hand im Mund.
Wirtschaftsblatt, 14th Feb. 2010

Budimex: Analyst report, BRE Bank Securities, Oct. 2009

Budimex: <http://www.budimex.pl/startpage.asp> - accessed on 19th Jan. 2010

Bureau van Dijk: Amadeus Database, 17th Feb. 2010

Bureau van Dijk: Zephyr Database, 17th Feb. 2010

Bundesagentur für Aussenwirtschaft: Österreich Bauwirtschaft 2007

CIA World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/si.html> - accessed on 9th Feb. 2010

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/bo.html> - accessed on: 12th January 2010

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/hr.html> - accessed on: 23rd Feb. 2010

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/lo.html> - accessed on: 13th Feb. 2010

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html> - accessed on 12th January 2010

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> - accessed on 18th January 2010

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html> - accessed on: 5th Dec. 2009

CIA-The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/index.html> - accessed on: 11th January 2010

Deloitte: European powers of construction 2009, pp. 39 - 84

Depolo Tamara: Kroatiens Regierung halbiert den Autobahnbau, Wirtschaftsblatt,
15th Dec.2009

Depolo Tamara: Strabag hält am Bosnien-Projekt fest. Wirtschaftsblatt, 16th Jan 2010

Dohna York and Kunisch Sven: Entzückendes Mütterchen Russland oder argwöhnischer Bär?, M&A Review 11/2009, p. 498

EC Obnova Programme: Construction Industry. Foreign Investment Promotion Agency of B&H 2002

Energoprojekt: <http://eng.energoprojekt.rs/index.php?pageid=18> - accessed on: 18th Feb. 2009

European Construction Industry Federation: Construction in Europe. <http://fiee.eu> - accessed: on 18th Nov. 2009

Frühmann Irina: 5726 Kleinbauern: So viele gibt's und so geht es ihnen. Wirtschaftsblatt, 10th Dec. 2009

Frühmann Irina: Habau greift nach Mitbewerber. Wirtschaftsblatt, 21.01.2008

Frühmann Irina: Studie: So profitabel arbeiten die Baukonzerne. Wirtschaftsblatt, 19th Oct. 2010

Germany Trade & Invest: Durchwachsene Aussichten für die Bauwirtschaft in Osteuropa. <http://gtai.de> - accessed on: 12th Nov. 2009

Globalstroy-Engineering: <http://www.globse.com/index.php/en/jubilee> - accessed - on: 17th Jan.2010

Habau: Annual Report, Lagebericht 2008, pp. 1-2

Habau: <http://www.habau.at/> - accessed on: 18th Feb. 2010

Hídépítő Zrt., <http://www.hidepito.hu/indexFlash.html> - accessed on 11th Feb. 2010

Himmelbauer Leo: Die Taschen voller Geld...,Wirtschaftsblatt, 13th January 2010

Marketing im Mittelstand: <http://www.marketing-im-mittelstand.com/websrv/zcPDFgen/zcPDFgen.php?docType=pa&docID=73431> - accessed on: 10th Jan 2010

Konstruktor-Inzenjering D.D: www.konstruktor-split.hr - accessed on: 18th Jan 2010

Kotsiuba and Ostapenko (2009): Construction Services- The Goal is Growth, Sokrat, pp. 3-16

Liuhto Kari: Special Economic Zones in Russia. <http://www.balticseaweb.com/files/files/publications/pan/2009/Liuhto%200209.pdf> - accessed on 12th March 2010

Matijas Darko: Construction Sector- Building of Profit 2008. 29th January 2010

Maxim Boycko: Privatizing Russia, Russian Privatization Center

Mittelstandswissen Pro GmbH: Standort Europa.

Osijek Koteks. D.D.: www.osijek-koteks.hr – accessed on: 18th January 2010

Osterhoff Friedrich: Baustoffindustrie, M&A Review 8/09/2008, p. 440

PMR Publications: Central European Construction Review 30th Oct. 2009, pp. 2-39

PMR Publications: Construction Sector in Belarus 2009, June 2009

PMR Publications: Growth in construction output in Poland to reach 8% in 2010, November 2009

PMR Publications: The Power sector in Poland will determine the future of the construction industry, January 2010

Porr: 3rd Quarter Report 2009, pp. 2 – 6

Porr: Annual Report 2008, pp. 4 -83

Porr: <http://www.porr.at> - accessed on: 17th January 2010

Porr: Third Quarter report 2009, pp. 2-4

Primorje Group: <http://www.primorje.si/> - accessed on: 13th Dec. 2009

PWC (2009): Engineering Growth

PWC (2009): International Mobility in the engineering & Construction Industry, pp. 1-2

PWC (July 2009): Corruption prevention in the Engineering & Construction industry, pp. 1-2

PWC Engineering & construction viewpoints.
<http://www.pwc.com/gx/en/engineering-construction/issues-trends/construction-viewpoints.jhtml> - accessed on: 15th February 2010

VIII. List of figures

Figure 1	Deal valuation by median deal value to sales/EBITDA	p.8
Figure 2	Invested Capital in Commercial Real Estate	p.9
Figure 3	GDP/Capita in \$	p.11
Figure 4	STRABAG SE Stock Performance	p.16
Figure 5	Construction work in division	p.22
Figure 6	Corruption Perceptions Index 2009	p.25
Figure 7	Ukraine Economic Overview	p.26
Figure 8	Planned EURO 2010 investments	p.27
Figure 9	Bosnia & Herzegovina Overview	p.30
Figure 10	Serbia Economic Overview	p.32
Figure 11	Croatia Economic Overview	p.35
Figure 12	Czech Republic Economic Overview	p.38
Figure 13	Czech Construction Output	p.39
Figure 14	Slovakia Economic Overview	p.41
Figure 15	Slovakian Construction Output	p.42
Figure 16	Slovenia Economic Overview	p.44
Figure 17	Hungary Economic Overview	p.46
Figure 18	Hungarian Construction Output	p.48
Figure 19	Russia Economic Overview	p.49
Figure 20	Belarus Economic Overview	p.53
Figure 21	Poland Economic Overview	p.56
Figure 22	Polish Construction Output	p.57
Figure 23	Corporate Regional Offices in CEE	p.61
Figure 24	Civil Engineering CEE Overview	p.61
Figure 25	CEE Construction Output	p.62
Figure 26	CEE Railway km Development	p.62
Figure 27	CEE Highway km Development	p.63
Figure 28	CEE Motorisation Rate 1995/2006	p.64