Securing the foundations
European powers of construction 2009

Contents

Introduction

Deloitte is pleased to present *European powers of construction (Epoc) 2009*, our seventh annual publication which identifies the 100 largest European construction companies by construction revenue and provides insights into the current marketplace.

The data for this publication has been collated using public sources such as company annual reports and websites, Amadeus, Datamonitor, Euroconstruct, Factiva, Mergerstat and Onesource. Alongside our analysis of this data, we provide commentary from Deloitte industry specialists throughout Europe.

Setting the scene – Infrastructure and the economy

Following the onset of the 2008 credit crunch, 2009 has been marked by recession. Popular press reports suggest that the construction sector has been hit harder than most.

However, the construction sector is diverse and provides comprehensive support services to a range of customers in numerous markets around the globe. Utility networks demand ongoing maintenance and improvement; and renewable and carbon capture technologies, water management and energy security are emerging areas for construction companies to generate revenue in the longer-term. Additionally, accelerated government spending has assisted the prevention of a more serious downturn in the sector to date. As such, trading during the recession is tough and will undoubtedly remain competitive in 2010. Beyond 2010, much will depend on how the public sector reacts, as much as the recovery of the private sector.

Leaders of the pack

French company VINCI continues to lead the pack – topping the 100 largest European construction companies with FY08 construction revenues of over €30bn (compared to €26bn in FY07). The UK continues to dominate the top 100, with more companies listed than any other country. In fact, roughly a quarter of all companies listed are headquartered in the UK. However, France dominates the top 10 in terms of construction revenue, with three companies listed, followed by Germany, which has two. No other country has more than one company in the top 10, although if total revenue were to be taken into account (as demonstrated in the top 30 listed on page 12) Spanish companies come to the fore.

Overall, 45 companies reported construction growth during the year, compared to 75 companies for the same period last year. STRABAG of Austria reported the largest growth, generating a further €3bn of construction revenues.

Meet the senior executives

An important regular feature of *Epoc* is our interviews with senior industry executives across Europe. This year we spoke to Joachim Müller, Chief Financial Officer (CFO) of Bilfinger Berger; Marcelino Fernandez Verdes, President and Chief Executive Officer (CEO) of Dragados (ACS Group); Antonio Mota, Chairman of Mota-Engil; and David Mackey, President and CEO of P Elliot & Co. We would like to thank them for their contributions and think you will agree that they provide an interesting insight into their organisations.

Expert view from Deloitte

Although the infrastructure sector has been supported by government spending, it has also been marked by the downturn in market liquidity. In reviewing the impact of the downturn, *Epoc 2009* includes a range of articles on current industry themes and trends:

Different geographies, similar problems and responses

In assessing the impact of the recession, the views of small- and medium-sized firms provide a useful insight into the extent of the downturn. Having spoken to a number of such companies across Europe, reactions to the economic situation were not dissimilar and recurring themes emerged. With respect to actions taken, a mix of risk management, working capital management, cost controls, staff retention and training appear to be the main themes identified by businesses. However, the key risk for the industry may actually be price reductions, as rival businesses seek to maintain their staff utilisation at the expense of profit margins. Therefore, customer loyalty and management are becoming increasingly important factors for businesses to maintain their market position.

Survival of the fittest – The view of an insolvency practitioner

In a market so competitive that even insurance cover for construction companies has, on occasion, been at risk of being withdrawn, the focus on management guiding businesses through the current troubled economic waters is critical. From past experience, there are two main areas that a construction company must excel in during a recessionary slump if they are to survive. First, they must focus on cash collection/working capital, and second, they must ensure strong corporate governance and risk management.

Working capital management – A consultant's response

The impact of the recession has focused companies' attention on maintaining profit margins. Whereas in a boom, better margins might be generated through organic growth and expansion, recessions emphasise the importance of good internal control – and in particular the management of working capital. The key drivers to achieving good working capital in this market include managing customer payments, accounts payable and inventories. It is by managing these three areas effectively that construction companies can ensure their liquidity is good; provide transparency to banks (a critical consideration as lending is still patchy); and ensure a competitive edge within the industry.

Cost reduction and employee expenses

Cost reduction during a recession is an important technique for ensuring liquidity and stabilising working capital. With market movements empowering buyers and encouraging more high-risk contracting strategies, managing cost is key to ensuring sustained profitability until the market recovers. However, the implementation of this cost management, as well as deciding how it should be managed and focused, will distinguish whether it will succeed in best preparing a business for eventual recovery.

Financing PPP/PFI opportunities across Europe

The importance of increasing public spending during a recession to bolster and maintain construction companies should not be underestimated. As private finance initiatives (PFIs) and public-private partnerships (PPPs) have sustained construction company growth and sector employment over the past few years, it is significant that these projects have not suffered the same regression as say house-building. However, there is an ongoing struggle in the PPP/PFI market between the positive effects of increased public sector commitment and spending, versus the negative effects of the financial crisis and the unavailability of credit. Overall however, it appears that the increase in public spending has protected the sector.

Country profiles

In this section of *Epoc,* we present key data on market statistics, trends, top construction companies, the PPP/PFI market, and merger and acquisition (M&A) activity on a country-by-country basis.

Finally …

We hope that you find *Epoc 2009* about trends, perspectives and analysis of the past year in the construction sector of interest, and welcome your thoughts or questions about any of the topics covered.

Jack Kelly
Partner
Deloitte – UK

Leaders of the pack: Europe's top 10

Ranking	Company	Country	Latest year financials: FY end	Sales (€m)	Construction revenue (€m)	Net income: Total (€m)	Net income: Group (€m)
1	VINCI SA	France	Dec 08	33,930	29,149	1,699	1,591
2	Bouygues SA	France	Dec 08	32,713	24,771	1,686	1,501
3	HOCHTIEF AG	Germany	Dec 08	21,643	21,643	342	175
4	Skanska AB	Sweden	Dec 08	15,218	15,218	326	320
5	STRABAG SE	Austria	Dec 08	13,743	13,743	166	157
6	Balfour Beatty Plc	UK	Dec 08	12,008	12,008	248	248
7	Eiffage SA	France	Dec 08	13,226	11,358	368	301
8	Bilfinger Berger AG	Germany	Dec 08	10,742	10,742	204	200
9	Koninklijke BAM Groep NV	Netherlands	Dec 08	9,264	9,264	166	162
10	Fomento de Construcciones y Contratas SA (FCC)	Spain	Dec 08	14,016	7,744	396	337
11	Activ. de Construc. y Servicios SA (ACS)	Spain	Dec 08	16,010	6,625	2,640	1,805
12	Carillion Plc	UK	Dec 08	6,590	6,590	141	137
13	NCC AB	Sweden	Dec 08	5,924	5,924	188	187
14	Koninklijke VolkerWessels Stevin NV	Netherlands	Dec 08	5,393	5,393	143	142
15	Laing O'Rourke	UK	N/A	N/A	N/A	N/A	N/A
16	Grupo Ferrovial SA	Spain	Dec 08	14,126	5,155	-1,650	-838
17	Barratt Developments Plc	UK	Jun 08	4,500	4,500	109	109
18	Taylor Wimpey Plc	UK	Dec 08	4,420	4,307	-2,329	-2,331
19	Sacyr Vallehermoso SA	Spain	Dec 08	5,380	4,241	-246	-256
20	YIT Oyj	Finland	Dec 08	3,940	3,940	134	133
21	Heijmans NV	Netherlands	Dec 08	3,638	3,638	-34	-34
22	ACCIONA SA	Spain	Dec 08	12,665	3,592	655	464
23	Peab AB	Sweden	Dec 08	3,571	3,571	113	113
24	Morgan Sindall Plc	UK	Dec 08	3,225	3,225	57	57
25	Obrascon Huarte Lain SA (OHL)	Spain	Dec 08	4,009	3,215	183	151
26	PORR Group	Austria	Dec 08	3,183	3,183	38	23
27	Kier Group Plc	UK	Jun 08	3,005	3,005	61	60
28	IMPREGILO SpA	Italy	Dec 08	2,867	2,867	168	168
29	Lemminkainen Oyj	Finland	Dec 08	2,482	2,482	64	56
30	Galliford Try Plc	UK	Jun 08	2,365	2,365	54	54
31	Newarthill Ltd	UK	Oct 08	2,299	2,299	44	43
32	TBI Holdings BV	Netherlands	Dec 08	2,279	2,279	48	48
33	Persimmon Plc	UK	Dec 08	2,228	2,228	-791	-791
34	Koninklijke Boskalis Westminster NV	Netherlands	Dec 08	2,142	2,142	250	249
35	BESIX Group	Belgium	Dec 08	2,091	2,091	75	75
36	Veidekke ASA	Norway	Dec 08	2,392	2,065	75	74
37	ENKA Insaat ve Sanayi AS	Turkey	Dec 08	4,734	1,902	451	405
38	Van Oord NV	Netherlands	Dec 08	1,896	1,896	190	190

0 construction companies

	Previous year financials						
				Net income			
Minority interests (€m)	FY end	Sales (€m)	Construction revenue (€m)	Total (€m)	Group (€m)	Minority interests (€m)	Present in
108	Dec 07	30,874	26,301	1,578	1,455	123	Europe, Africa, Asia Pacific, North America
185	Dec 07	29,588	21,802	1,593	1,376	217	Europe, Africa, America, Asia Pacific
167	Dec 07	18,773	18,773	341	141	200	Europe, Africa, America, Asia Pacific, Australia
6	Dec 07	15,431	15,431	446	443	3	Europe, America
9	Dec 07	10,746	10,746	207	170	37	Europe, Africa, America, Asia Pacific
0	Dec 07	11,007	11,007	222	222	0	Europe, America, Asia Pacific
67	Dec 07	12,596	10,762	1,090	1,000	90	Europe
4	Dec 07	9,222	9,222	140	134	6	Europe, Africa, America, Asia Pacific, Australia
4	Dec 07	9,322	9,322	351	349	2	Europe, Asia Pacific
59	Dec 07	13,423	6,922	920	738	182	Europe, America
835	Dec 07	15,345	7,389	2,122	1,551	571	Europe, Africa, America, Asia Pacific
4	Dec 07	5,809	5,809	116	112	4	Europe, America, Asia Pacific, Caribbean
1	Dec 07	6,313	6,313	243	243	0	Europe
1	Dec 07	4,828	4,828	145	146	-1	Europe, America
N/A	Mar 08	5,297	5,297	97	96	1	Europe, Asia Pacific
-812	Dec 07	14,630	5,202	838	734	104	Europe, America
0	Jun 07	4,478	4,478	439	439	0	Europe
2	Dec 07	6,209	5,978	-289	-291	2	Europe, America
10	Dec 07	5,237	4,340	950	946	4	Europe, America
1	Dec 07	3,707	3,707	228	225	3	Europe
0	Dec 07	3,746	3,746	56	56	0	Europe
191	Dec 07	7,953	3,639	1,012	950	62	Europe, America, Asia Pacific, Australia
0	Dec 07	3,616	3,616	88	88	0	Europe
0	Dec 07	3,108	3,108	58	58	0	Europe
32	Dec 07	3,764	3,648	175	140	35	Europe, America
15	Dec 07	2,744	2,744	31	22	9	Europe
1	Jun 07	3,128	3,128	83	82	1	Europe, Asia Pacific, Caribbean
0	Dec 07	2,533	2,533	40	41	-1	Europe, Africa, America, Asia Pacific
8	Dec 07	2,174	2,174	81	73	8	Europe
0	Jun 07	2,099	2,099	64	64	0	Europe
1	Oct 07	2,681	2,681	48	48	N/A	Europe
0	Dec 07	2,222	2,222	89	89	N/A	Europe
0	Dec 07	4,439	4,439	608	608	0	Europe
1	Dec 07	1,882	1,882	207	204	3	Europe, Africa, America, Asia Pacific, Australia
0	Dec 07	1,560	1,560	52	52	0	Europe, Asia Pacific, Caribbean
1	Dec 07	2,505	2,256	124	123	1	Europe
46	Dec 07	3,847	1,511	450	418	32	Europe, Africa, Asia Pacific
0	Dec 07	1,652	1,652	164	164	0	Europe, America, Asia Pacific, Australia

						Latest year financials	
						Net income	
Ranking	Company	Country	FY end	Sales (€m)	Construction revenue (€m)	Total (€m)	Group (€m)
39	Spie Batignolles SA	France	Dec 08	1,866	1,864	35	34
40	ELLAKTOR SA (formerly Hellenic Technodomiki TEB SA)	Greece	Dec 08	1,913	1,751	139	95
41	Bovis Lend Lease Ltd	UK	Jun 08	1,700	1,700	3	3
42	Keller Group Plc	UK	Dec 08	1,515	1,515	96	90
43	MT Højgaard AS	Denmark	Dec 08	1,499	1,499	35	35
44	Astaldi SpA	Italy	Dec 08	1,467	1,467	45	42
45	Mota-Engil SGPS SA	Portugal	Dec 08	1,869	1,467	40	31
46	Implenia AG	Switzerland	Dec 08	1,463	1,463	27	26
47	Bellway Plc	UK	Jul 08	1,455	1,455	34	34
48	Ballast Nedam NV	Netherlands	Dec 08	1,426	1,426	24	24
49	Interior Services Group Plc (ISG)	UK	Jun 08	1,405	1,405	13	13
50	SWIETELSKY Baugesellschaft	Austria	Mar 08	1,333	1,333	28	28
51	The Miller Group Ltd	UK	Dec 08	1,325	1,325	-189	-189
52	Interserve Plc	UK	Dec 08	2,914	1,309	73	69
53	Max Bögl Bauunternehmung GmbH & Co KG	Germany	Dec 08	1,300	1,300	N/A	N/A
54	Wates Group Ltd	UK	Dec 08	1,290	1,290	43	43
55	FAYAT	France	Sep 08	2,330	1,281	N/A	N/A
56	John Sisk & Son (Holdings) Ltd	Ireland	Dec 08	1,276	1,276	17	17
57	Costain Group Plc	UK	Dec 08	1,261	1,261	23	23
58	JM AB	Sweden	Dec 08	1,261	1,261	84	84
59	Strukton Groep NV	Netherlands	Dec 08	1,249	1,249	14	14
60	Grupo Isolux Corsán SA	Spain	Dec 08	3,076	1,231	90	91
61	Polimex-Mostostal SA	Poland	Dec 08	1,215	1,212	40	34
62	KAEFER Isoliertechnik GmbH & Co. KG	Germany	Dec 08	1,200	1,200	N/A	N/A
63	Metrostav AS	Czech Republic	Dec 08	1,181	1,181	30	30
64	Aldesa Construcciones SA	Spain	Dec 08	1,148	1,148	25	24
65	Bowmer & Kirkland Ltd	UK	Aug 08	1,132	1,132	38	38
66	Rok Plc	UK	Dec 08	1,280	1,129	-19	-19
67	Constructora San Jose SA	Spain	Dec 08	1,350	1,107	-69	-46
68	TREVI Group	Italy	Dec 08	1,050	1,050	77	77
69	GOLDBECK	Germany	Mar 08	1,040	1,040	73	72
70	Dura Vermeer Groep NV	Netherlands	Dec 08	1,014	1,014	8	8
71	J&P – AVAX SA	Greece	Dec 08	991	991	25	21
72	GRUPO COMSA	Spain	Dec 08	1,389	909	42	57
73	Shepherd Building Group Ltd	UK	Jun 08	908	908	21	21
74	The Berkeley Group Holdings Plc	UK	Apr 09	889	889	109	109
75	E Pihl & Søn AS	Denmark	Dec 08	870	870	3	3
76	Koop Holding Europe BV	Netherlands	N/A	N/A	N/A	N/A	N/A

	Previous year financials						
				Net income			
Minority interests (€m)	FY end	Sales (€m)	Construction revenue (€m)	Total (€m)	Group (€m)	Minority interests (€m)	Present in
1	Dec 07	1,518	1,518	39	38	1	Europe
44	Dec 07	915	810	139	130	9	Europe, Asia Pacific
0	Jun 07	1,754	1,754	11	11	N/A	Europe, Asia Pacific
6	Dec 07	1,404	1,404	83	79	4	Europe, America, Asia Pacific
0	Dec 07	1,572	1,572	31	31	0	Europe, America
3	Dec 07	1,271	1,271	38	38	0	Europe, Africa, America, Asia Pacific
9	Dec 07	1,402	1,049	108	98	10	Europe, Africa, America
1	Dec 07	1,449	1,449	15	15	0	Europe, Asia Pacific
0	Jul 07	1,990	1,990	245	245	0	Europe
0	Dec 07	1,270	1,270	27	27	0	Europe
0	Jun 07	1,225	1,225	11	11	0	Europe
0	Mar 07	1,277	1,277	26	26	0	Europe
0	Dec 07	1,925	1,925	85	85	0	Europe, Asia Pacific
4	Dec 07	3,023	1,439	73	69	4	Europe, Asia Pacific
N/A	Dec 07	1,020	1,020	N/A	N/A	N/A	Europe, Asia Pacific
0	Dec 07	1,432	1,432	38	38	0	Europe
N/A	Sep 07	2,180	2,180	101	101	N/A	Europe, Asia Pacific
0	Dec 07	1,402	1,402	32	32	N/A	Europe
0	Dec 07	1,291	1,291	24	24	0	Europe
0	Dec 07	1,376	1,376	180	180	0	Europe
N/A	Dec 07	1,145	1,145	15	15	N/A	Europe
-1	Dec 07	2,173	1,107	87	87	0	Europe, Africa, America, Asia Pacific
6	Dec 07	984	983	30	26	4	Europe
N/A	Dec 07	1,136	1,136	40	35	5	Europe
0	Dec 07	1,002	1,002	25	25	0	Europe
1	Dec 07	1,152	1,152	29	29	0	Europe, America
0	Aug 07	1,224	1,224	38	38	0	Europe
0	Dec 07	1,286	1,148	29	29	0	Europe
-23	Dec 07	1,560	1,208	57	34	23	Europe
N/A	Dec 07	817	817	58	58	N/A	Europe
1	Mar 07	757	757	28	28	0	Europe
0	Dec 07	1,063	1,063	19	19	N/A	Europe
4	Dec 07	683	683	25	25	0	Europe
-15	Dec 07	1,213	1,081	N/A	N/A	N/A	Europe, Australia
0	Jun 07	1,011	1,011	48	48	N/A	Europe
0	Apr 08	1,458	1,458	203	203	0	Europe
0	Dec 07	814	814	12	12	0	Europe
N/A	Dec 07	862	862	10	10	N/A	Europe

Ranking	Company	Country	FY end	Sales (€m)	Construction revenue (€m)	Net income Total (€m)	Net income Group (€m)
			Latest year financials				
77	Redrow Plc	UK	Jun 08	823	823	-177	-177
78	TEIXEIRA DUARTE Engenharia e Construcões SA	Portugal	Dec 08	1,291	793	-413	-347
79	Svevia (formerly Vägverket Produktion)	Sweden	Dec 08	782	782	7	7
80	Lindner Holding KGaA	Germany	Dec 08	773	773	25	13
81	Willmott Dixon Holdings Ltd	UK	Dec 08	750	750	10	10
82	Pizzarotti & C. SpA	Italy	Dec 08	748	748	12	12
83	House-Building Combine No 1	Russia	N/A	N/A	N/A	N/A	N/A
84	Mosmetrostroy	Russia	Dec 08	736	736	-2	-2
85	Gama Holding	Turkey	Dec 08	899	735	47	47
86	Grupo Soares da Costa SGPS SA	Portugal	Dec 08	835	726	8	8
87	Destia Oy	Finland	Dec 08	717	717	10	10
88	Societa Italiana per Condotte D'Acqua SpA	Italy	Dec 08	717	717	3	3
89	Per Aarsleff AS	Denmark	Sep 08	716	716	28	28
90	HABAU Group	Austria	Mar 08	708	708	12	12
91	BAUER Aktiengesellschaft	Germany	Dec 08	1,455	701	107	104
92	Ploder Uicesa SA	Spain	Jun 08	697	697	7	7
93	Crest Nicholson Plc	UK	Oct 08	689	689	-660	-660
94	Salini Costruttori	Italy	Dec 08	679	679	20	20
95	LEONHARD WEISS GmbH & Co KG	Germany	N/A	N/A	N/A	N/A	N/A
96	Itinera SpA	Italy	Dec 08	675	675	N/A	N/A
97	Monarch Realisations 2 Ltd (formerly McCarthy & Stone (Developments) Ltd)	UK	N/A	N/A	N/A	N/A	N/A
98	Köster Holding	Germany	N/A	N/A	N/A	N/A	N/A
99	Countryside Properties (UK) Ltd	UK	N/A	N/A	N/A	N/A	N/A
100	Cmc di Ravenna	Italy	Dec 08	633	633	9	9

Conversion rates used:

Czech Republic	CZK25.09=€1	CZK27.77=€1
Denmark	Dkr7.49=€1	Dkr7.45=€1
Norway	Nkr 8.29=€1	Nkr8.02=€1
Poland	Zl3.54=€1	Zl 3.79=€1
Russia	Rb36.53=€1	Rb35.01=€1
Sweden	Skr9.7=€1	SEK9.25=€1
Switzerland	Swfr1.59=€1	Swfr1.64=€1
Turkey		$1.369=€1
UK	£0.79=€1	€1.47=£1

Note: We have considered the associate revenues where the company has listed out share of its revenues from all associates. Where the company provides the information for specific associate companies or does not give the company's share, we have not included associate company revenue.

				Previous year financials			
				Net income			
Minority interests (€m)	FY end	Sales (€m)	Construction revenue (€m)	Total (€m)	Group (€m)	Minority interests (€m)	Present in
0	Jun 07	1,232	1,232	124	124	0	Europe
-66	Dec 07	1,012	564	127	122	5	Europe, Africa, America, Asia Pacific
0	Dec 07	781	781	24	24	N/A	Europe
12	Dec 07	676	676	12	6	6	Europe
0	Dec 07	559	559	10	10	N/A	Europe
N/A	Dec 07	684	684	23	23	N/A	Europe
N/A	Dec 07	738	738	N/A	N/A	N/A	Europe
0	Dec 07	619	619	0	0	0	Europe
N/A	Dec 07	982	726	N/A	N/A	N/A	Europe, Asia Pacific
0	Dec 07	551	480	12	12	0	Europe, Africa, America
N/A	Dec 07	602	602	6	6	N/A	Europe
N/A	Dec 07	639	639	9	9	N/A	Europe
0	Sep 07	576	576	20	20	0	Europe
0	Mar 07	617	617	5	5	0	Europe
3	Dec 07	1,159	532	75	73	2	Europe, Africa, America, Asia Pacific, Australia
N/A	N/A	N/A	N/A	N/A	N/A	N/A	Europe
0	Oct 07	595	595	-18	-18	0	Europe
N/A	Dec 07	635	635	19	19	N/A	Europe
N/A	Dec 07	675	675	31	31	0	Europe
N/A	Dec 07	N/A	N/A	N/A	N/A	N/A	Europe
N/A	Aug 07	671	671	119	119	N/A	Europe
N/A	Dec 07	640	640	12	12	0	Europe
N/A	Sep 07	634	634	33	33	N/A	Europe
N/A	Dec 07	598	598	7	7	N/A	Europe

VINCI maintained its number one position in 2008, with growth of 10.8% from the previous year. However, its lead was narrowed by Bouygues and HOCHTIEF, which grew 13.6% and 15.3% respectively. Skanska made up the last of the top four construction companies, as it did in *Epoc 2008*.

The wider top 10 members are consistent with those from FY07, with the only new entrant being FCC in tenth place (replacing ACS Group which is now eleventh).

STRABAG saw the highest growth in the top 10, at 27.9%, and climbed two places to be ranked fifth.

France dominates the top 10 in terms of construction revenue, with three companies listed, followed by Germany, which has two. No other country has more than one company in the top 10, although if total revenue were to be taken into account (as demonstrated in the top 30 listed on page 12) Spanish companies come to the fore.

Top 100 entrants per country

	Number of companies in top 100		Total construction revenue (€m)*		Average construction revenue per company (€m)*	
	2008	2007	2008	2007	2008	2007
UK	27	28	58,109	69,594	2,152	2,485
Spain	11	11	36,378	36,454	3,307	3,314
Netherlands	10	10	28,301	27,991	2,830	2,799
Germany	9	8	37,399	32,899	4,155	4,112
Italy	8	7	8,833	7,283	1,104	1,040
France	5	5	68,423	62,563	13,685	12,513
Sweden	5	5	26,756	27,518	5,351	5,504
Austria	4	4	18,966	15,384	4,742	3,846
Finland	3	3	7,139	6,483	2,380	2,161
Denmark	3	3	3,085	2,961	1,028	987
Portugal	3	2	2,986	1,612	995	806
Greece	2	2	2,742	1,493	1,371	746
Turkey	2	3	2,637	2,814	1,318	938
Russia	2	2	736	1,356	368	678
Belgium	1	1	2,091	1,560	2,091	1,560
Norway	1	2	2,065	2,901	2,065	1,451
Ireland	1	1	1,628	1,402	1,628	1,402
Switzerland	1	1	1,463	1,449	1,463	1,449
Poland	1	1	1,212	983	1,212	983
Czech Republic	1	1	1,181	1,002	1,181	1,002
	100	**100**	**312,130**	**305,702**		

* Only includes data where the 2007/08 information was available.

The UK continues to dominate the top 100 with 27 companies included, compared to 28 in FY07. Turkey and Norway also saw reductions in the number of their companies represented, while Italy, Germany and Portugal marginally increased theirs.

The UK has dominated the top 100 for some time in terms of the number of companies listed, however the relative fragmentation of the UK market has meant that it has not achieved commensurate revenues. For example, this year's analysis shows that the UK accounts for 18.6% of total construction revenues, compared to 21.9% for France which has only five companies in the top 100. France has also overtaken the UK as being the country with the highest proportion of construction revenues in the top 100 this year, with the UK being particularly impacted by the sharp downturn in the house-building sector.

There was considerable variation in 2008's average construction revenues. This reflected different industry structures, such as the presence of major international contractors in smaller countries, while the French and Spanish domestic markets are relatively closed to foreign companies (but allow their own contractors to have significant international operations).

The largest fall in average construction revenues was in the UK, while the largest percentage increase was seen by Greece – largely down to the significantly improved performance of ELLAKTOR during the year.

Changes in construction revenue

Of the top 100, 58 reported revenue growth, down from 74 the previous year, which reflects the impact of the challenging economic environment. Negative growth in the year was dominated by companies specialising in the house-building sector.

Within the top 10, STRABAG's 27.9% growth was attributable both to organic growth and acquisitions – with its acquisition of Kirchner in 2008 strengthening its transport infrastructure division.

VINCI's 10.8% growth was underpinned by some organic growth, as well as acquisitions including Taylor Woodrow Construction from Taylor Wimpey in the UK, and Vossler Infrastructure Services from Vossloh AG in Germany. This growth allowed the group to expand outside France, widening its geographic footprint.

Bouygues' 13.6% growth was largely organic, with no material acquisitions during 2008. In particular, its Construction and Colas divisions grew both in France and abroad. Revenues were also impacted by government stimuli in both the US and Canada, which are again expected to provide additional revenues next year.

HOCHTIEF, Germany's highest entry in the top 100, grew 15.3% in 2008 primarily through organic growth in its Americas and Asia Pacific divisions. Turner, a subsidiary in its Americas division, performed well, consolidating its position as the number one general builder in the US – having taken advantage of the expanding healthcare and education sectors. It is also well placed to take further advantage of government stimuli packages.

Eiffage, France's third largest construction company, grew 5.5% in 2008, primarily on the back of significant growth in its electrical and multi-technical installation division.

Balfour Beatty, the UK's largest construction company, saw its revenues rise by 9.1% during the year. This was achieved largely through acquisitive growth. Acquisitions included PPP business GMH Military Housing from the US' GMH Communities Trust, and construction group Dean & Dyball in the UK. The company's 2008 results also included a full-year contribution from the purchase of Centex Construction in 2007. Balfour Beatty is continuing with this strategy; announcing its intention to acquire Parsons Brinckerhoff, a professional services business based in the US, for €425m.

Bilfinger Berger's construction revenues rose 16.5% through domestic and international growth. Skanska and Koninklijke BAM Groep remained steady, with negative growth rates of 1.4% and 0.6% respectively.

In the wider top 100, the largest revenue increase was achieved by ELLAKTOR which grew 116.3%. This was driven by increased construction activity (partly in the Middle East), and the full consolidation of the results of ATTIKI ODO which was acquired the previous year.

The biggest falls in revenue were seen in UK companies (making up seven of eight companies where construction revenue fell by more than 20%). This group is dominated by companies that specialise in house-building.

Revenue

The diversification of construction's largest companies over the years has led them to engage in an increasingly wide range of activities. As discussed previously, this has helped the larger groups to weather the effects of the decline in the wider economy.

We have ranked the 30 largest companies by total revenues for the first time this year, to reflect the impact of this trend.

The companies that have risen significantly in this listing, compared to the top 100 listing, are Grupo Ferrovial, ACS Group, ACCIONA and Grupo Isolux-Corsán of Spain; ENKA Insaat ve Sanayi of Turkey; and Interserve in the UK.

Top 30

			Latest year financials	
Ranking	Company	Country	FY end	Sales (€m)
1	VINCI SA	France	Dec 08	33,930
2	Bouygues SA	France	Dec 08	32,713
3	HOCHTIEF AG	Germany	Dec 08	21,643
4	ACS Group	Spain	Dec 08	16,010
5	Skanska AB	Sweden	Dec 08	15,218
6	Grupo Ferrovial SA	Spain	Dec 08	14,126
7	FCC	Spain	Dec 08	14,016
8	STRABAG SE	Austria	Dec 08	13,743
9	Eiffage SA	France	Dec 08	13,226
10	ACCIONA SA	Spain	Dec 08	12,665
11	Balfour Beatty Plc	UK	Dec 08	12,008
12	Bilfinger Berger AG	Germany	Dec 08	10,742
13	Koninklijke BAM Groep NV	Netherlands	Dec 08	9,264
14	Carillion Plc	UK	Dec 08	6,590
15	NCC AB	Sweden	Dec 08	5,924
16	Koninklijke VolkerWessels Stevin NV	Netherlands	Dec 08	5,393
17	Sacyr Vallehermoso SA	Spain	Dec 08	5,379
18	Laing O'Rourke	UK	Mar 08	5,297
19	ENKA Insaat ve Sanayi AS	Turkey	Dec 08	4,734
20	Barratt Developments Plc	UK	Jun 08	4,500
21	Taylor Wimpey Plc	UK	Dec 08	4,420
22	Obrascon Huarte Lain SA (OHL)	Spain	Dec 08	4,009
23	YIT Oyj	Finland	Dec 08	3,940
24	Heijmans NV	Netherlands	Dec 08	3,638

Top 30 (continued)

			Latest year financials	
Ranking	Company	Country	FY end	Sales (€m)
25	Peab AB	Sweden	Dec 08	3,571
26	Morgan Sindall Plc	UK	Dec 08	3,225
27	PORR Group	Austria	Dec 08	3,183
28	Grupo Isolux Corsán SA	Spain	Dec 08	3,076
29	Kier Group Plc	UK	Jun 08	3,005
30	Interserve Plc	UK	Dec 08	2,914

Net income in FY08

	Number of companies	Total revenue (€m)	Total net income (€m)	Average net income (%)
All	86	364,561	6,492	1.8
Major International	8	153,222	5,040	3.3
Second tier	7	71,323	2,023	2.8
Third tier	20	72,682	-1,275	-1.8
Fourth tier	51	67,334	704	1

Average net income in 2008 was 1.8%, down from 4.6% in 2007. These figures are derived from each company's entire revenues, as in some cases construction forms only part of a company's business. Excluding the results of the UK house-builders, which have had a particularly bad year, the figure is 3%.

For the major international players (with construction revenues of > €10bn), average net income was still strong at 3.3%. While this was lower than the previous year's 3.9%, it was still well above the overall average. This represents the larger more diversified players being able to negotiate the tough market conditions more effectively. In fact, the largest two companies (VINCI and Bouygues) had the highest average net income percentages at 5% and 5.2% respectively.

The second tier companies (with construction revenues of €5-10bn) reported an average net income of 2.8%, down from 6.6% in 2007.

Excluding Grupo Ferrovial and ACS Group in Spain, which are outliers, average net income falls to 2.5%. Grupo Ferrovial itself has a net income percentage of -11.7%, as a result of having fair value write downs compounded by a negative impact of €871m due to the change in the industrial buildings tax allowance rules in the UK. ACS Group, on the other hand, had a positive result with a net income of 16.5%

Higher average net income percentages in the third (construction revenues of €2-5bn) and fourth (construction revenues of €0-2bn) tiers were driven by the number of UK house-builders that fall into this group, given they have a different business model from non house-building contractors. These tiers have a net income percentage of -1.8% and 1%, including UK house-builders. Excluding the UK house-builders, (which reported average net income of -18.3%), the third and fourth tiers achieved net incomes of 2.8% and 2.6% respectively.

Meet the senior executives

In this year's edition of *Epoc,* we have interviews with senior executives from four of Europe's construction companies.

First we hear from Joachim Müller, CFO of Bilfinger Berger; second from Marcelino Fernandez Verdes, President and CEO of Dragados (ACS Group); third from Antonio Mota, Chairman of Mota-Engil; and finally David Mackey, President and CEO of P Elliot & Co.

Joachim Müller, CFO of Bilfinger Berger, Germany

Bilfinger Berger describes itself as a multi-service group. Could you outline your business model and unique selling points?

Bilfinger Berger is an internationally active construction and services group that provides comprehensive solutions for real estate, industrial plants and infrastructure projects. In addition, as a private partner to the public sector, the group develops social and transport infrastructure projects on the basis of long-term concession contracts. Our services range from consulting, development, design and financing, through to turnkey construction, as well as maintenance and operation. Our company's know-how covers the entire life-cycle of buildings and facilities, and offers the basis for the development of sustainable solutions, which generate additional value in the long-term.

The strength of our services division makes us more independent from the cycles and risks commonly associated with project business, while our international orientation means that we are better able to deal with economic weakness in individual markets.

How important is traditional construction within this business model?

Although we do not intend to expand our construction activities, it makes good strategic sense to retain it in our portfolio. Synergies are an important factor in the success of our group. The complementary nature of our competence in both services and construction is an advantage in competing for major infrastructure projects.

Our success in the concessions subsector is also based on collaboration with our construction units; conversely, many interesting construction projects would be difficult to win without our concessions activities. In addition, our building and facility services units ideally complement each other to offer a complete package for real estate properties.

What effect is the current financial and economic crisis having on Bilfinger Berger in Germany, and worldwide?

We had a successful financial year in 2008 and can show strong figures for the first months of the current year. Naturally, we are also experiencing the effects of the downturn, but think that we are well prepared for the crisis, and the group have no short-term refinancing needs. Furthermore, we have a large order backlog in the construction business and long-term framework agreements in the services business, which help protect us from potential surprises.

What are the main internal challenges facing Bilfinger Berger in light of the current economic situation?

We are monitoring the performance of our clients – especially in the services business – very closely, not only in relation to their business practices but also to their payment behaviour. Furthermore, under current market conditions we are on the lookout for attractive acquisition opportunities. Internally, we are doing everything we can to maximise operational cashflow because internal funding is by far the best method of financing at the moment.

Which regional markets and business areas are you focusing on in the current climate?
We are particularly focusing on the services sector: facility, power and industrial services. We can certainly see that in power services, the past six months have been very successful. Our regional focus still lies in Europe, particularly central and northern Europe. If you look at our construction activities, there is also the Australian market, which accounts for 25% of our business.

Have you noticed any positive effects from the stimulus packages that many countries have implemented?
In many countries, the stimulus packages for infrastructure, climate and environmental protection projects are generating demand for our services. But the content of the individual stimulus packages varies greatly in terms of the kinds of measures they aim to support. Of the short-term measures, some may be interesting for our facility services division, but we are more interested in the larger investments. Many of these projects are already in the pipeline and we hope that they will be beneficial to our business.

What do you wish to see – aside from the stimulus packages – from European politics?
Our fear is that the strong investments being made this year and next will be reversed by 2011. An important area that should be invested in is PPP. Here, we must offer more incentives to private investors in relation to the construction industry and the wider economy. It is important to release more private capital for public projects and use tax money more efficiently. The federal government has set a goal to finance 15% of all public sector investment through these partnerships, at the moment the figure is around 4%.

In your opinion, will the current market situation lead to significant mergers or other changes in the construction industry?
Yes, not only in the construction industry but in all the industries in which we are active. The construction industry plays a certain role, but because of the expansion of our services business we are more interested in the consolidation of that market – where in the future we will play an active role and will be searching for more acquisition opportunities. We are confident that we will find appropriate companies to complement and enhance our portfolio.

Marcelino Fernández Verdes, President and CEO of Dragados (ACS Group), Spain

How is the current market environment affecting your business, both at home and abroad?
To the extent that the global financial crisis is impacting investments, both private and public, there is a knock-on effect in the infrastructure market. The varying relative weights of private and public investment in the various countries means that our business is affected in a different way in each market.

What are the key internal challenges you are facing as a result of market conditions?
Over the past two years, the residential portfolio in our domestic market has been largely replaced by our civil engineering portfolio in various international markets – including the US, Canada, Poland, Portugal and Ireland – with considerable success.

What opportunities are you currently exploring?
We are gaining greater insight into the strategic foreign markets (North America, central Europe and others).

Is government intervention in the market providing economic stimulus, or do you feel more could be done?
Through its Ministry of Public Works, the government has been giving a major boost to infrastructure development, and significant backing to efforts to penetrate international markets.

What regional markets and activities in Europe do you view as being key growth areas for your business?
Apart from the US and Canada, our current focus is on central Europe – in particular Poland. We also continue to be active in Portugal, Ireland and Greece.

What other growth/diversification opportunities do you see for Dragados in 2009/10?
Our growth will go hand-in-hand with our geographical diversification, through involvement in the development of large infrastructure projects in Spain and other countries, either via direct contracts with public authorities or participation in concession projects (PPPs).

António Mota, Chairman of Mota-Engil, Portugal

What is Mota-Engil, and what areas does your business focus on?

With a 63-year history, including the merger of two major national construction companies in the last decade, Mota-Engil is now the leading company in Portugal's construction sector, with a growing stake in the international market including operations in 19 countries around the world.

The company started in the civil construction and public works sector, and today operates in three key business areas: engineering and construction; environment and services; and transport concessions.

Mota-Engil is also a major operator of national seaports; owner of the largest environmental company in the waste business subsector; and the second largest national operator in highway concessions despite its relatively recent entry to the sector.

We have several key national infrastructure projects coming up, including a partnership project we are leading for the future Lisbon Airport, and a high-speed rail system in partnership with VINCI – with which Mota-Engil has strong ties due to the joint shareholding of Lusoponte (the operator of Lisbon's bridges).

What are your growth plans in the current climate?

As Mota-Engil stands today, with revenues close to €2bn and having met our 2007 objectives ahead of schedule, the need arose to develop a new five year action plan dubbed 'Ambição 2013'. The plan rests on four central pillars: sustainable growth; diversification; global internationalisation; and human capital reinforcement.

The core goals that this strategic plan is designed to help us achieve are strengthening leadership in our national market; consolidating activities in the global arena; and developing additional business areas that will complement the current value chain, focusing primarily on infrastructure construction and operation.

On a global level, given that we operate in 19 countries worldwide, this strategy entails strengthening our position in those markets where we currently operate, diversifying our activities there and promoting synergies, thus replicating what we do in Portugal.

What new territories are you focusing on in terms of expansion?

Mota-Engil is focusing on Brazil as a new international market, where the spotlight is on environmental management and transport concessions.

We are also focusing on the three main geographies in which we currently operate: Africa, Latin America and central Europe – in which Angola and Poland are platforms for development into new markets.

What international business areas are central to your strategy going forward?

Regarding new business areas, our strategy is centred on mining (in which developments are taking place in Malawi), industry (currently operated through several companies in Portugal, as well as Angola), and lastly energy (where there are new opportunities on offer in the Angolan market).

Another important factor on which the development of our international strategy rests, is the promotion of partnerships in any market where we believe we can promote the growth of Mota-Engil. In this respect we would like to highlight our recent partnership with Angola's biggest economic group, Sonangol, in the founding of an Angolan company of which Mota-Engil is the main shareholder. This has resulted in the formation of Angola's largest construction company, the aim of which is to take a leading role in this market.

What progress are you making in fulfilling your strategy?

The achievement of a record backlog of €3bn; the increase of construction activity in foreign markets; and the growth of activities in areas other than construction, show that the company is now in a position to guarantee the fulfillment of its strategy – occupying a top position in the Iberian peninsula. It will also make us one of the top 40 construction companies in Europe by 2013.

Apart from the operational side of our strategy, we have also started taking measures to improve the qualifications of our employees, the most important of which is the creation of a corporate university (the Mota-Engil Active School). We have also developed management models that enable us to be more efficient.

I firmly believe that adherence to our defined strategy will, despite the adverse global economic conditions in which we find ourselves, result in us improving our position at a European level. We expect to reach the €4m revenue mark, as well as increasing efficiency at an operational and financial level within the company.

David Mackey, CEO of P Elliott & Co, Ireland

Who are P Elliott & Co?

Founded in 1942, P Elliott & Co is a third-generation family business that has grown into one of Ireland's top construction and property development companies. It operates right across the commercial, industrial, retail, leisure and public sectors. The success of the company is reflected in its national standing in 2008, being ranked ninth in the list of the top 100 building contractors, and number 87 among the top 1,000 Irish companies overall.

How is the current market affecting your domestic business?

Even against the backdrop of the almost unprecedented downturn in the Irish and global economies – with the Irish construction and property development markets among the hardest hit – P Elliott still delivered a very good set of results in 2008. While turnover fell by just 3% from €312m to €293m, we achieved a net profit before tax of €8m, and our net assets increased by just over 4% year-on-year to €62m.

The construction arm of our business has obviously been negatively impacted by the current downturn, but much less so than many other companies operating in our sector. At the same time, however, with a greatly reduced level of construction activity taking place in Ireland, we now have to operate in a much more competitive environment, with tender prices reducing significantly and consequent reductions in profit margins. Despite the very serious slowdown in the residential market, followed quickly by a downturn in the commercial market, our property development operations also performed very well in 2008.

The very serious slowdown in the Irish residential market inevitably puts particular pressure on cashflow, but we have been able to cushion ourselves against the worst affects of this by calling on the cash reserves that we were prudent enough to build up during the 'good' years.

In terms of our substantial portfolio of commercial investment properties, with the softening of yields, capital values have dropped significantly in Ireland (as in many other countries) with resultant negative impacts on loan-to-value ratios.

By its very nature the property market is cyclical, and following the current cycle we are confident that activity and values will improve once again. In the face of the very challenging market in which we currently operate, we continue to win major building contracts, such as that for the new acute hospital in Northern Ireland (which we won with our joint venture partner, FCC of Spain). In addition to being the building contractor in this case, we are also part of the consortium that has been selected for this major PPP project, together with FCC, Allied Irish Bank and Interserve Investments. Although the property development market will continue to be difficult in the short-term, because we have good quality developments in the right locations we continue to achieve some sizeable lettings to top quality tenants – particularly in Dublin.

What are the key internal challenges you are facing as a result of market conditions?

The key internal challenge currently is the relentless pursuit of cost effectiveness across all of our operations in order to remain competitive – something that we have been very successful in achieving on a number of fronts.

Performance bonus payments have been totally eliminated; voluntary salary reductions of 15% and more have been achieved; and we continuously ensure that our supply chain costs from subcontractors, material suppliers and plant providers reflect the new environment in which we now operate. In addition, overheads have been reduced to unprecedented levels and, where necessary, we have implemented redundancies and layoffs. The real challenge, however, is to take all of these measures while at the same time retaining the many capable and loyal people who manage and work for our company, together with our core team of long-standing subcontractors.

On the property development side, our main challenge is to maintain the confidence and support of our funders. This is something we have been very successful in doing by adopting an open and transparent approach with all of the banks we do business with; satisfying them on an ongoing basis that we are still capable of generating sizeable levels of new business in our construction operations; progressively reducing our stock of residential properties; ensuring the continued strength of our portfolio of investment properties; and continuing to secure strong tenants in the case of our other development projects.

What opportunities are you currently exploring?

While the Republic of Ireland market has been very good to P Elliott over the 67 years of its existence, the current global and national downturn has highlighted for us that, by international standards, it is a relatively small market. Our task going forward is to expand our horizons, not just into new countries but also into further new businesses that will have important synergies with our core construction and property development operations.

Therefore, going forward one of our key strategies is to become a much more diversified multinational player. During the past few years, we have successfully expanded our business into Northern Ireland and secured a number of major contracts. At the beginning of 2009, we also opened a new office in London and have already secured a number of building contracts there with very good clients. During the second half of 2009 and beyond, it is our intention to expand our construction operations much further afield, including to countries in North Africa. We have already assigned specific responsibility for the UK and North African markets to two of our most senior directors.

We are also seeking to grow our business by expanding into civil engineering contracts. We are doing so by partnering, through joint venture arrangements, with a number of companies that are very experienced in this field internationally, and with which we have already developed a strong business relationship. Over the years, joint venture projects have made a very important contribution to our profitability and trading performance in Ireland, and they are a vehicle that we feel very comfortable with – when we source the right partners.

Is government intervention in the market providing economic stimulus, or do you feel more could be done?

To date, the main government interventions in the market have taken the form of the bank guarantee scheme; the nationalisation of one Irish bank; and the recapitalisation of a number of others. There has been little or no visible evidence of these interventions providing any meaningful economic stimulus up until now.

However, against the background of the speed and severity of the global downturn that has occurred, we all have to accept that the road to economic recovery will be a gradual one over the next few years. The next major government intervention, which is imminent, will be the establishment of the National Asset Management Agency (NAMA), which is designed to breathe much needed liquidity into the banking sector in Ireland. Whether or not it will be successful remains to be seen.

Other key requirements for economic recovery in Ireland will be the restoration of order to public finances and greatly improved domestic competitiveness. Undoubtedly, progress has been made on both of these fronts during the current year, and further initiatives in relation to major cutbacks in government spending will improve Ireland's situation further.

There are encouraging signs emerging that the second quarter of 2009 may have marked the low point in the Irish economy, and that the rate of contraction is beginning to slow very considerably. Furthermore, recently published figures clearly show that Irish exports, particularly through the multinational sector, have performed much better than in most other developed countries.

As regards the question of the government doing more, the harsh reality for all of us is that it has very little scope to do so, at least in the short-term.

The government's first priority must be to restore order to public finances and get the banking system moving again, all of which is part and parcel of bringing about a much more balanced and healthier economy in the future. All sectors of the Irish economy will ultimately gain from this.

The limited areas where the government can do more include the adoption of a more pragmatic approach to capital spending and ensuring projects that will contribute to the whole economy go ahead as planned. Furthermore, with exports being of such critical importance to Ireland's small open economy, the government should finalise its promised state guarantee scheme for exporters, including some form of state-backed bonds. These would be key for Irish construction companies, who have the necessary track records and are prepared to go out and secure major contracts in certain high-risk, cash-rich countries such as Africa and the Middle East, where bonding requirements are often extremely onerous.

Expert view from Deloitte

Different geographies with similar problems and responses

Epoc consistently seeks the views of senior executives from larger corporations, but how do medium-sized companies view the current economic environment and how are they responding?

The major themes

We interviewed a small sample and several key themes emerged which we have outlined here.

It does not matter where you are, the recession will find you

One universal point is evident: there is a high degree of correlation between trading experiences irrespective of where a company is based. The economic downturn has impacted companies across geographies, and despite the differing efforts of individual governments to stimulate their economies, there has been a uniform deterioration in conditions.

The private sector is short of cash

In all locations, the speed of the economic downturn was rapid and companies had less time to react than normal. While much private sector work has been cancelled due to lack of finance, the more critical point is that the order book from the private sector is not being replenished at any great speed. Given this, more difficult decisions over capacity may yet have to be made.

Commercial, industrial and residential were cited as the sectors that have been most affected.

The public sector lifeboat has a number of holes

The growing importance of public sector work was a consistent theme. A number of companies noted that it was an increasing proportion of their workload, but few felt positive about the effect of government economic stimulus measures. Instead, they said they believed that significant cut backs in public spending were inevitable in response to the need to reduce the levels of government debt. It was hoped, but not predicted, that private sector work would return as the public sector cut back. There was also gloom about the impact that reduced public spending would have on the future quality of public-owned infrastructure, and the resulting limitations of the development of the economy.

Although no one could forecast with any confidence the extent of likely cuts in public spending, 50% was a number that was often used to stress the degree of anxiety over the level of cuts that may be made. However, the key point is not really the level of anticipated cuts but rather the fact that the industry is facing significant uncertainty.

The executives said they had speculated about the priorities of governments and their spending patterns in order to work out what assets would be built in each country, so that they could consider how to deploy their resources accordingly. While the results of the speculation varied by country; education, healthcare, prisons and other social infrastructure came up regularly as areas where money should be spent; with energy and transport conspicuous by their absence. Most executives noted that, even in the areas where expenditure may be more sustained, there were still likely to be cuts. Overall, therefore, the anticipated reductions in public sector demand and the extent of time that the restrictions will be in place do not bode well for the health of the industry.

Estimates for recovery are getting longer

As for the end of the downturn, no one mentioned 2010 as possible, some went for the following year and a couple even went much later. If any conclusion can be reached, it is that the industry across Europe is in for a difficult time for several years, and those looking for growth will need to go into different territories.

So, what has been the response?

The executives have taken a number of steps to combat the worst effects of the recession but their reactions were dictated by the nature of the industry.

Stopping the black hole – cash management

Conscious that a healthy cash balance in an efficient contractor's balance sheet can be used rapidly, as subcontractors are paid and existing advance payments are not replaced by monies from new contracts, every executive mentioned the importance of adequate control over working capital. A number stated that strong procedures were already in place, while others emphasised the need for increased rigour over the review of receivables and work-in-progress, together with an increase in the frequency of that review.

As the proportion of work coming from the public sector has increased in recent years, it was considered that the risk profile of the receivables ledger had reduced. Nevertheless, executives were very aware that one bad debt could erase the hard-won margin on a number of profitable contracts.

The constant search for information

Interviewees said that obtaining and monitoring information on customers was increasingly a priority. As annual financial statements were often not current enough, other information was sought. Searches were regularly carried out and the output from the 'rumour mill' fully considered. As a result, creditworthiness was sometimes being assessed as much by the results of Google searches as by detailed analysis of historic financial data.

Having more regular contact with customers, shortening the billing cycle, and increasing the seniority of management charged with cash collection were other actions being taken. The accounts receivable manager is no longer solely accountable for collections, the division or branch managing director is increasingly in the firing line too.

Customers were not the only source of worry mentioned. Monitoring the performance and financial stability of subcontractors has taken on increased importance, as the impact on cashflow of contract delays caused by subcontractor failure has become a critical concern. The measures taken to monitor suppliers mirrored those for customers, with more information being requested and analysed, as well as an increased frequency of review.

Overall, it was clear that working capital management had become a 360-degree exercise because a cashflow shock could be delivered from anywhere in the current environment.

Don't file the cost reduction plan just yet

The degree of emphasis on cost control programmes correlated with the length of time since a country's last downturn. The more distant the memory of recessionary hard times, the looser the purse strings had become. Although very few crisis-driven cost reduction programmes had been implemented, programmes aimed at reducing discretionary spend and a tightening of approval processes were evident at all companies.

The reluctance to make cuts was explained by many companies as a need to maintain operational flexibility and capability. Many executives stressed that their whole business revolved around maximising the efficiency of their operations – not just to improve their bottom line but also to meet their customers' requirements and enhance loyalty. In an industry with three main assets (people, clients and brand), executives were conscious that care over maintaining the workforce was needed. Many companies are mindful of the difficultly of replacing skilled and experienced staff.

We are all sales people now

While hardly any companies referred to imminent reductions in employee numbers, there was some talk of redeployment by geography and market area to increase utilisation levels.

Also, a number of companies had either reinvigorated their training programmes or introduced new ones, recognising the importance of their workforce to the success of their entity. One of the most interesting ideas was a programme aimed at improving the selling skills of the entire workforce as opposed to a limited number.

But we are also risk managers

Improving the skill base of employees and making them aware of the need to identify market opportunities brings a more collegiate attitude and should lead to long-term loyalty. But the approach also has a hidden risk. The temptation to maintain capacity by taking on contracts with only break-even margins is strong during a downturn. Any selling skills therefore need to be balanced with an increased emphasis on the importance of maintaining strong controls over the tendering and estimating process.

For many years now, the most successful companies have had strong risk management processes, not just at the contractual level, but also at the corporate level. None of our respondents referred to the introduction of additional risk management processes in response to the economic environment, but a number stressed an increased concentration on their processes and frequency of assessment.

What was left out?

Few executives admitted to reducing prices and chasing work, but nonetheless it does appear that there has been an increasing level of 'low-balling' in the bidding process. Perhaps this is inevitable, but the practice has never been strategically successful and cannot be sustained in the long run.

What is really going to be tested now is how deeply the new procurement practices have become embedded in the industry's client base. Will the commitment to partnership and the benefits of long-term relationships be sustained, or will the lure of the lowest bid pull the industry back into the 'low ball and litigate' era? Everyone recognises the strain that the 'old ways' placed on customer relationships, the quality-time-price triangle and the dispute resolution process. However, many customers now have their own economic uncertainties and it will be interesting to see if they end up being fair-weather friends.

So, what conclusions can be reached?

The difficulties being faced by the industry are consistent across national boundaries. There is a high level of uncertainty about when private expenditure will resume, and a depressing consistency in the view that public capital expenditure will be cut. The strategy of most companies over the next few years is likely to be limited to an attempt to read the political tea leaves in a bid to guess which subsector will suffer least.

Pain will come, but each company is hoping that it will be felt by a competitor and not themselves. There is an admirable sense of commitment to the long-term development of skills in each company, but perhaps some lack of thinking about plan B that may be needed to maintain key skills if cuts in resources are necessary and reductions have to be made.

Many companies already have strong working capital and cost efficiency programmes in place. These have been strengthened and the frequency of review has been increased with few drastic measures needed. The next few years will stress test these processes in ways that the benign conditions of previous years have not. Some will work better than others, with the key determining factor being the level of objective rigour in the process to stop the 'hope factor' creeping in.

Our view is that the industry is immeasurably better placed to deal with the impact of the current recessionary environment than in the past. Lessons in specialisation and the benefits of long-term customer relationship building have been learnt. Risk management is high on the agenda and senior management is far more focused on working capital management.

But this resilience is now going to be really tested for the first time, and any flaws in the design of the financial foundations of the industry will start to show. Firmness of purpose and nerve will be required from the executives as revenue flows weaken and client buying strategies change. Next year's *Epoc* will make interesting reading.

Following on from these themes and the views expressed by the senior executives we interviewed this year, the next few articles discuss working capital from an insolvency and consultancy perspective, as well as cost reduction and employee expenses, and the various PPP/PFI opportunities across Europe.

Survival of the fittest – The view of an insolvency practitioner

It is worth keeping a close eye on what construction design teams are doing, because they are invariably the barometer of the sectors health. It will not have escaped anyone's attention that, as a result of declining workloads, many of the leading architects, engineers and quantity surveyors have taken significant steps to reduce costs. Of particular note is the fact that contractors have been alerted to the need to 'right size' their organisations.

Another indicator of the sectors health is the credit insurance market, and this is one area that has surprised with the speed at which it has hardened. If trade credit insurance is withdrawn or reduced, suppliers will seek to improve their credit terms and demand shorter payment times (or even cash on delivery), which will in turn have a direct and potentially catastrophic effect on contractors' cashflows. It will not be lost on those close to the sector, that an increasing number of insurers are withdrawing cover due to the instability of the market. For example, it has been widely reported that the fifth largest credit insurer, Amlin, announced it would withdraw from the credit insurance market in 2009. Other insurers, including Euler Hermes, Atradius and AIG, are all reportedly robustly reviewing their portfolios. The resulting impact on the sector could be huge. This is a real threat, as evidenced by Aon, which recently confirmed that trade credit insurance for house-builders had fallen by between 50% and 100%. In addition, tightening restrictions on contractors' performance bonds will have a significant impact on construction companies when they seek to renew their current arrangements.

Avoiding a cashflow crisis

So, what should construction companies be doing to ensure that they do not become another casualty of the current economic and market turmoil? Experience has taught us that there are two main areas a construction company must focus on in a declining market. Most important of all is an unwavering concentration on cash and working capital, and second is the need for strong corporate governance and risk management.

A number of high-profile failures, caused in part by poor cash management, are forcing companies to reconsider how they manage this aspect of their business. How sure are you that you will not be next? And how could you avoid a cashflow crisis?

Some areas worthy of focus include:

- Establishing clear and unambiguous rules with regard to the management of variations and claims.

- Ensuring that the natural tension in terms of cashflow between the design, construction and facilities management phases is understood and taken into account.

- Understanding the limits of partnerships and so-called 'special' relationships. The 'get things done' attitude should always be complemented by agreeing revised costings, when appropriate. It is amazing how special relationships at the beginning of a project are often not so special by the end of it.

- When variation orders are required, ensuring that supporting documentation and sign-offs are all in place.

- Not being afraid to pursue claims and seek adjudication, even if they are disputed in the first instance.

- Not forgetting to manage back-to-back contracts, whether you are a subcontractor or a main contractor, as they can wreak havoc with your cashflow.

- Producing regular and robust 'cost to complete' estimates.

- Keeping on good terms with your bank manager.

Focus on corporate governance

It is noticeable that a growing awareness of corporate governance has seen a marked shift by businesses and perhaps more importantly their banks, lenders and shareholders, to seek increased transparency and understanding of site-based operations on construction projects. Cost and value reporting together with good cash management has always been the bread and butter of any successful contracting organisation, but businesses are now reinforcing their processes to ensure a more comprehensive and transparent understanding of their projects and wider business performance.

Such issues are not just restricted to the sector's 'Premier League', robust processes and controls supported by regular reviews are just as crucial to small and medium-sized companies.

So, how might you avoid some of the issues that have impacted others in the sector, while at the same time providing increased comfort to your stakeholders that everything is in good shape? Some actions that you might consider include:

- Undertaking regular and detailed bottom-up reviews of business operations, from site activities through to management reporting.

- Where appropriate, considering implementing a robust internal audit function.

- Providing clearly-defined commercial policies and procedures on what (and when) contract values should be recognised.

- Considering the application of standardised reporting tools and techniques, especially across different divisions and/or geographies.

Looking ahead

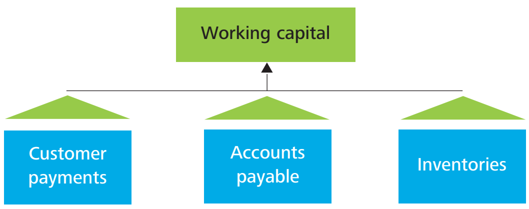
While in the recent past the construction industry has focused on growth and profit, cash and working capital management will be at the heart of every firm's survival.

Some companies are adapting to this faster and more effectively than others, and those that adapt quickest are most likely to preserve the profit and loss statement, as well as the balance sheet. Those companies that chose to ignore the signals and do not adapt quickly could well be heading for some very difficult discussions with their lenders.

Working capital management – The consultant's response

Due to the current economic crisis, the construction industry has hit choppy waters. The previous few years have been characterised by full order books, which had led to a relaxed liquidity situation. However, since the end of 2007 the granting of credit to the construction industry has clearly tightened.

But fresh capital need not necessarily come from external sources. Liquid funds are also hidden in the companies themselves; therefore, additional sources of finance may be produced through effective management of working capital and to free up working capital, in particular in the areas of accounts receivable, accounts payable and inventories. Below we have examined what can be considered in these key areas.



Customer payments

The construction industry has various unusual elements in the production process that give rise to working capital management challenges. The uniqueness of every construction project; the turnover of contractors (particularly at large-scale projects); and the long-term nature of construction orders, clearly distinguish it from other industries.

Opportunities for the sustainable improvement of customer cashflow arise within the company, as well as externally. Massive potential exists in the invoicing/receipt of the customer payments process. Here it becomes obvious that optimising administrative processes can lead to a noticeable reduction in the length of time between the rendering of services and the receipt of payments (time-to-cash). For example, the invoicing process starts still too often only after the acceptance of individual construction stages, even if it could have been done significantly earlier.

Regarding external factors, construction contracts and customer relationships have to be structured against the background of cash management. As it is difficult to adjust payment terms during projects, the contract formulation for upcoming projects is all the more important. Possible elements include detailed advance payment plans, tight payment terms and penalties in case of non-compliance. Constant monitoring of compliance with payment terms and chasing customers are additional key elements of effective customer management.

Accounts payable

While at construction firms the number of customers is generally low and the project volume high, the opposite is true of suppliers. As there is usually a high number of subcontractors, there is scope for negotiation with regard to payment terms.

In general, a consciously forced liquidity driven spread of a company's payment terms between customers and suppliers can lead to the identification and use of working capital reserves.

Framework agreements that lead to higher volumes may make it easier to achieve such advantages. In this respect, before adjusting payment terms a detailed analysis of the supplier structure is essential.
In particular, the possible dependence on some few suppliers has to be considered.

Inventories

Within the construction industry, the management of inventory with regard to properties being built is traditionally one of the core skills, and compared to other industries overall performance is generally good. However, major differences between individual companies arise, with the key reasons including ineffective warehousing and the absence of active inventory management.

Appropriate software can increase transparency with regard to inventories and thus clearly reduce the cash-to-cash cycle or use it more optimally. In addition, it enables companies to not only cut costs, but also to increase profits through an optimised purchase, in particular strategic inventories.

Also, the maintenance of stocks for so-called B and C goods (like office supplies or work clothes), as well as the procurement of services like energy, cleaning and insurance, offer significant cost reduction potential which should be actively managed and not underestimated.

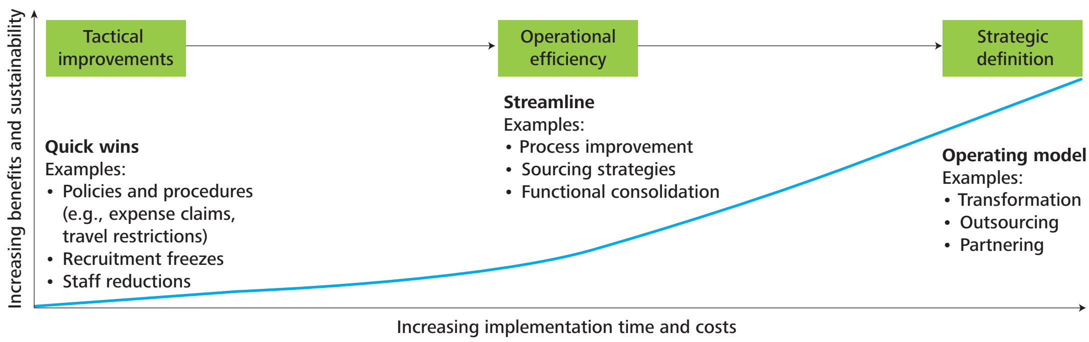
Our experience working on supply chain management projects across several industries, shows that cost reduction achieved via optimised inventories and procurement can correspond to sales growth of at least 8-12%.

Gaining competitive advantage

Because of the interaction between working capital management and other corporate goals, the isolated realisation of single measures rarely leads to sustainable success in practice.

Therefore, companies that maintain a transparent, key ratio-based, control framework within which customer payments, accounts payable and inventories can be identified and managed, show significantly better results around working capital management. Key performance indicators that highlight processes and liquidity risks, are key for transparent corporate control and sustainable success, and should be measured against best practice benchmarks.

Against the background of strong competition in the construction industry, measures for the optimisation of working capital present an opportunity for generating liquidity and therefore, increasing competitive advantage. Transparency in this sector is also an important driver in terms of credit ratings for bank loans. Transparency and working capital management go hand-in-hand and are decisive success factors in companies emerging from the crisis in a stronger position.



Cost reduction and employee expenses

Construction companies are continually under pressure to be cost effective, perhaps unsurprisingly as margins have been under pressure for many years, with net margins ranging between 1% and 3%. The recent downturn in the world economy has, in many instances, exaggerated this pressure hitting all aspects of construction hard – in particular private building and house-building. Some companies are weathering the storm better than others through strong order books of work, broad construction capabilities and fiscal stimuli bringing forward government capital spending.

The downturn could be prolonged

However, construction is one industry that could have a prolonged recession. This is because existing construction commitments will be completed over the next 12-18 months, and with limited new builds outside of government programmes, backlogs of orders will start to look bleak.

Once the global economy starts to grow again, there will also undoubtedly be severe cutbacks in government spending in parts of Europe, as countries seek to balance their books and spend less to offset the large borrowing of prior years.

Integration into service operations has provided a cushion for many construction companies which were able to take advantage of PFI and build-operate arrangements, among other long-term service agreements. However, these are usually renewed over a period of between three and 30 years. Shorter-term arrangements will suffer as customers look to reduce their own cost bases, and more competition is possible as companies seek to use their existing workforces while diversifying into less volatile revenue streams.

As the market power moves from supplier to buyer, construction contractors will be under significant pressure to adopt higher risk contracting strategies, such as lump sum turnkey (as seen in petrochemical construction in the early 1990s when oil prices were low).

Therefore, you could argue that there has never been a better time to start a sustainable cost reduction programme to gain competitive advantage.
However, cost reduction is not only about battening down the hatches, slashing overhead and operational budgets, and making the remaining staff work harder. The key to real cost reduction is taking a balanced portfolio of cost out of the business, and using a structured and sustainable method for reducing the overall business cost model.

Operational efficiency

Longer-term cost reduction requires a fundamental change in the way that operational processes are executed, so that the underlying cost base is sustainably streamlined.

Changes in operational efficiency take longer to implement than tactical improvements because they require more detailed analysis of how a particular process is performed before improvements are made, and because existing commitments may need to lapse before new improved methods can be used.

The level of operational efficiency required in construction is heavily dependent on the contractual relationship with the end customer. Key factors in terms of costs are safety, timings and quality. Understanding processes and addressing operational efficiencies behind these key elements can generate required improvements, ultimately reducing associated costs and creating competitive advantage.

Other areas companies should focus on include back office processing, corporate support services, and operation and maintenance services, where highly repetitive processes can be analysed and streamlined to bring down costs.

Strategic redefinition

Using this approach, the fundamental way that a business operates is challenged and addressed from the top down in order to lower long-term costs. New ways of working are developed which make the best use of technology, organisation design, strategic partnering and global resource pools.

One example of strategic redefinition is a new trend for developing detailed design centres of excellence. High-level concepts are prepared by a company and then sent to design centres in countries such as India. The result is that the cost of detailed design is significantly lowered.

A structured approach

Delivering a large-scale cost reduction programme requires an organisation to put in place the correct structure for delivery and provide support from an engaged leadership team. Further embedding a culture of continuous improvement and low costs requires active change management to nurture and grow the organisation long-term, while at the same time addressing short-term organisational concerns about job security.

The construction industry is facing its toughest environment for a long time. Pressures to reduce costs are now greater than ever and will remain long after the recession headlines have disappeared. Therefore, companies must resist the temptation to wield the axe now only to erode their ability to deliver on cost, quality and timing in the future. Step back, take a structured look at how you do business and deliver cost reduction in a balanced and sustainable way. Lay the foundations to deal with the pressured times ahead.

Financing PPP/PFI opportunities across Europe

Almost a year has passed since the European financial markets started to really feel the impact of the turmoil that started in the US in late 2007. The subsequent credit crunch constrained most of the European economies. After modest reviews of forecasted growth rates, the economic situation deteriorated on an almost weekly basis.

All of the economic sectors were supposedly affected, but has the PPP market really suffered a downturn? And what are the prospects for PPP projects in the pipeline?

Diagnosis

According to data provided in *Infrastructure Journal's PPP/PFI Outlook 2009* (March), we could assert that the PPP market had a good year in 2008. The number of deals was similar to the year before and deal volume increased nearly 30% from €41bn to nearly €52bn.

However, considering the storm other sectors have gone through, this deserves more detailed analysis. In fact, activity gradually diminished between the first and second quarters of the year; with 93 projects completed in the first quarter and just 64 in the second. The European region as a whole also ended with a slight decrease in activity from 2007.

Western Europe can still boast that it is the most dynamic PPP/PFI market worldwide. The UK's abrupt slowdown in the number of PPP/PFI projects that reached financial closure was compensated for by a remarkable increase in the number of deals signed in other European countries. For example, while in the UK 69 deals reached a close in 2008, Spain, France and Portugal together accrued 49 deals. Eastern Europe also showed a significant increase in PPP/PFI projects, continuing the trend from 2007.

Regarding activities by sector, data analysed showed no significant changes. Transport and social infrastructure still accounted for more than 95% of overall investments in infrastructure. In fact, transport sector deals made up more than 60% of the global PPP/PFI market. Not only did the value of projects grow strongly (nearly 73%), but also the number of deals increased (up from 34 to 56). Spain and Portugal emerged as the most active markets, accounting for 21 of those deals.

Regarding social infrastructure, 2008 was marked by a sharp drop (approximately 34%) in the number of PPP/PFI market deals. As the first half of 2009 progressed, the global recession and financial crisis had an increasing impact on the overall infrastructure market, which has seen a decrease of more than 37% in the global volume of investment in comparison to 2008's first quarter figures. Regarding PPP/PFI deals, these have only suffered a modest 6% reduction in deal volume (from €25bn to €23bn), but a positive increase in the number of deals in comparison to the previous quarter (from 66 to 72).

Impact of the financial crisis on PPPs

Broadly speaking, the current economic crisis is, according to our understanding, affecting the PPP/PFI market in two opposing ways: one positive and one negative.

The positive effect

The positive effect is that public budgets are being used to increase public expenditure in order to offset the severe contraction in private investment and consumption.

There is a general consensus that appropriate infrastructure investment is one of the best ways that any public administration can boost economic activity. This is not only in the short- to medium-term, by way of creating demand for equipment and new jobs, but also in the long-term, by positively contributing to the country's increase in economic productivity and competitiveness, as well as encouraging inter-regional and social cohesion.

This consensus has led to several European governments implementing stimulus packages and interventionist policies.

Even though the European Stability and Growth Pact is still in force, the seriousness of the economic slowdown and the rapid rise in unemployment have led to an almost universal breach of the two key criteria that signing members committed to observe in order to maintain fiscal discipline and guarantee a strong Euro currency.

However, European institutions are maintaining that this will be temporary and countries will be asked to return as soon as possible to annual budget deficits and national debt levels within the limits imposed by the pact. Consequently, European Union (EU) member governments have been reminded that they do not have a blank cheque for coping with the present at the risk of neglecting to plan for the future.

The negative effect

The negative effect has been the serious reduction in the availability of credit. This crunch has also been reinforced by the overall economic downturn, which has increased the risk profile of private investments, consequently making it more difficult to access credit due to increased financial costs and requested covenants.

This could particularly affect PPP/PFI projects as it is a distinctive feature of these financial-legal structures to achieve the highest gearing level in order to more easily obtain targeted levels of return on equity/return on investment ratios. This situation is also leading to lower competition which, on top of higher weighted average cost of capital requirements (WACC), is making PPPs more expensive. As an example, in Spain we have seen a decrease in the number of bidders from an average of 10-15 to a maximum of two or three per project.

Furthermore, increasing resource to promoters' balance sheets is erasing from the actors' scene a lot of previously active developers, which are currently struggling to reduce their very high debt levels. Those whose financial statements show relative strength are, nevertheless, acting more cautiously and have become much more selective in the number and type of projects they assess and take part in. They are also requesting, as a starting point, a greater level of minimum return.

To summarise, there is greater demand for private investment but less on offer, and the 'product' is now much more expensive for the public sector. As a consequence, it seems to be more necessary than ever before to consider the efficiency that PPP procurement might provide, and any changes in PPP structuring parameters that might allow the achievement of value for money so crucial in the use of public funds.

Market overview

The *European PPP Infrastructure Forum*, organised by Infra-News and held in London on 28-29 April 2009, was attended by representatives from most of the leading industry players across Europe. They confirmed that PPP/PFI deal flow, despite being impacted by the crisis, had proved more resilient than other sectors. This is largely down to governments needing to boost economic activity through productive investments. Consequently, the PPP/PFI project pipeline remains, although it is moving more slowly.

As previously stated, the number of PPP/PFI deals that reached financial close during the first half of 2009 was down just 6% from the prior year. This indicates that most European governments are determined to keep the PPP deal flow going, or at least with regard to projects that were already nearing completion. These, in most cases, have been helped by the provision of public funds and/or guarantees that filled the gap created by the credit crunch.

Despite the prominence of some governments in acting as co-lenders or providing state guarantees to help reduce projects' perceived risk profiles, governments are not there to replace private financing entities in the role they were playing prior to the crisis outbreak. In essence, the governments aim to restore confidence, as well as acting as catalysts/facilitators for access to funding.

A good example of this is the UK government's creation of a PFI lending unit within the treasury – the Infrastructure Finance Unit – that lends to PFI projects struggling to raise sufficient debt finance on acceptable terms. It was clearly stated that this unit's activity would be a temporary and reversible solution to prevent public infrastructure investment from stalling, and it was designed to complement bank/capital market funds, with the treasury's loans mirroring commercial lenders' loans. Once capital market conditions improve, this unit will immediately sell its loans to the private sector. Another example is the initiative by the Spanish government to support PPP transport projects through public financial guarantees.

Due to the constraints cited above, the PPP market has been forced to consider 're-sizing' projects. This is because the multi-billion Euro projects have been those where governments have been forced to intervene in order to avoid them being scrapped or put on hold, whereas low- to medium-budget projects have achieved financial close more easily because the provision of state guarantees has satisfied lenders.

Another outcome of the situation, which is particularly disappointing for emerging European countries, is that international infrastructure promoters/developers (which in fact are mostly European) have reduced the resources reserved for opportunities in these economies which are so badly in need of public infrastructure.

On a more positive note, this problem has been swiftly recognised. The European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) have carried out an assessment of its likely impact on prospective growth. As a result, they have reinforced their teams and announced that more funds are now available for infrastructure financing through PPP/PFI schemes that create value for money.

Regarding project financiers, despite the fact that some of the financial institutions that dominated the PPP/PFI market previously have significantly reduced or limited their project finance activity, others have reinforced theirs. This way, the financiers' message to other PPP stakeholders is that they are still here and they still have an appetite for well-structured projects – but not as many or as cheaply as in the recent past.

European PPP opportunities coming up

Regarding short- to medium-term prospects in key European markets:

- The UK government has publicly emphasised its aim to continue resourcing PPP/PFI schemes mainly for transport, waste, education and housing infrastructure projects. Its PFI pipeline amounts to around €31bn – 63% of which is currently at the tender stage – and deals worth approximately €11bn are planned to close in 2009/10.

- Despite the difficult public accounts situation in Ireland and its government's decision to cut the budget's capital programme, existing transport projects in procurement – such as the upgrade of Dublin's Metro network – are going ahead. Education (Irish Schools Bundle 3 has just issued an OJEU notice) and road projects at the structuring or tender stages are also expected to progress, although presumably at a slower pace.

- The Spanish government, despite its fast-growing public deficit, has stressed that it plans to place its national transport infrastructure plan (PEIT) at the centre of its efforts to kick-start the economy. Twenty percent of a total €250bn of investment (mainly in national roads and new high-speed railway lines) is expected to be financed by the private sector. In terms of private development, two road PPPs worth €500m are expected to hit the market in the next few weeks; tenders for design-build-finance-operate-maintain projects for bus lanes in Madrid are on the horizon; as are several rail projects.

Regional and local authorities, which have been largely responsible for making the Spanish PPP market one of the most dynamic in Europe, seem to be committed to continue using PPPs for many of their planned infrastructure projects. For example, 10 light-rail transit/tram projects have been announced and are intended to hit the market in the next few months (with predicted investment of €2bn), and at least 10 regional roads are currently at the PPP structuring stage.

- The Portuguese and French governments have both committed themselves to significant multi-billion Euro high-speed rail programmes, as well as more modest investments in other transport and social infrastructure projects. However, while the €12bn French programme is going ahead (three tranches are currently in procurement), the €9bn Portuguese programme has been delayed pending the outcome of the country's elections in September. Nevertheless, cautious optimism remains at developers' headquarters.

- Serious constraints affecting financial markets in Eastern Europe are casting a shadow over the future of PPP projects in the region. The fact that many of them are multi-billion Euro projects is making it difficult to get them through to completion. Good examples of this include the R1 and D1 in Slovakia, the D3 and R3 in the Czech Republic, the Bar-Boljare motorway in Montenegro and the A3 in Romania. These projects are in tender or have recently been awarded, and private promoters are struggling to get final arrangements for their financing structures in place. However, governments do not seem to be giving up and a project pipeline remains. To avoid any potential delay, the re-sizing and revision of previously designed PPP structures will allow many projects to hit the market in the coming months. Government guarantees will likely be required for the closure of any successful deals.

A need for a fresh approach

There are several proactive measures that can be taken to encourage the continuation of a reasonable pace of procurement for crucial infrastructure projects all over Europe via PPP/PFI structures.

In essence, what public administrations must cope with in the short- to medium-term is that the 'product' – the PPP/PFI scheme – has become more expensive, not only because of more costly financing conditions but also because of reduced competition.

In order to reduce costs to more manageable levels, the first thing that governments should do is emphasise their role in financing projects, giving a clear and reassuring message that will contribute to a recovery of confidence.

Also, public administrations should devote the necessary effort to providing effective regulation regarding the assignment of risks, and adopt a firm and consistent position when assessing risk impact and transferring it to the area that is best prepared to deal with it. It is worth noting that under current conditions, some risks are no longer transferable or are very expensive to transfer, because risk premiums have sharply increased. As a direct consequence of this, it is fundamental to thoroughly review the structure of PPPs – particularly in terms of size and risk transfer.

Finally, governments should also implement measures that will help to lessen the financial risks. The provision of state guarantees has already emerged as a helpful resource in this sense. However, another approach should be for public administrations to directly provide financial resources – by means of capital grants or loans – so as to reduce the need for recourse to commercial debt and/or equity injections. This would increase the price requested for private participation and speed up financial closure.

Country profiles

Austria

Market statistics

	2008	2007
GDP (€bn)	282	271
Real GDP growth (%)	1.7	3.1
Total construction industry volume (€bn)	33	32
Share of GDP (%)	11.6	11.8
Number of employees	244,231	247,437
Share of working population (%)	7.2	7.4
Companies active in construction	N/A	20,000

Notes:
1. GDP figures are nominal figures.
2. GDP and real GDP growth rates for 2008 are Economist Intelligence Unit (EIU) estimates.

Trends

GDP is estimated to have increased by 1.7% in 2008, restrained by weakening of both domestic and foreign demand. According to EIU estimates, GDP is likely to decline by 3.9% in 2009 and 0.9% in 2010. The European Commission also indicated that it will initiate the excessive deficit procedure against the country in late 2009. Austria's fiscal deficit is likely to touch 5.2% of GDP in 2009 and 6.1% in 2010, due to lower government revenues as a result of the economic crisis and the implementation of government stimulus packages. The construction industry performed better than the overall economy in 2008, as volume increased by 2% to €33bn.

Residential construction

In the construction sector, residential, industrial and engineering experienced higher levels of demand. At the end of the fourth quarter of 2008, there was an order backlog of building construction (including non-residential construction) that stood at €3bn.

Non-residential construction

Non-residential construction did not register any growth during 2008. Commercial construction was impacted by the economic crisis, and further declines are expected in this sector as companies have reduced their discretionary spending. An increase in construction activity is likely to be around the renovation of buildings from the 1960s and 1970s. The government package to upgrade federal buildings is also a vital measure in helping the country meet its Kyoto targets.

The Viennese office market has been stable for years. Rents and development values have not seen a dramatic jump but rather continuous development. As a result, increases in yields and declines in capital values have been low in the region. The office market in Vienna consists of about 10.5m m^2 of floor space. New office supply in 2009 is likely to come down 10-15%.

With 301m^2 per every 1,000 inhabitants, Austria's modern retail space is the fifth largest in Europe. There are approximately 173 shopping centres covering 2.9m m^2, the majority of which are located in Vienna. From 2009-11 a further 465,000m^2 of retail space is expected to come to market. However, overall Austria is likely to record a 1.7% decline in non-residential construction activity for 2009.

Civil engineering

Civil engineering activity increased 5.5% in 2008. Infrastructure is expected to contribute significantly to the country's construction output, and will be supported by the economic stimulus package. Increased construction activity is expected in rail, road, energy, tunnel and environmental technology projects, as well as public construction projects such as those in healthcare, education and justice. In 2009 the civil engineering sector is expected to grow by 1.8%.

Please note that the use of N/A throughout the country profiles stands for information being not available. For companies that do not report construction revenues separately, sales and construction revenues have been assumed to be the same. Estimates used in *Epoc 2008* have been replaced with actual figures.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
STRABAG SE	Dec 08	13,743	13,743	166
Alpine Bau GmbH	Dec 08	3,506	3,506	36
PORR Group	Dec 08	3,183	3,183	38
SWIETELSKY Baugesellchaft	Mar 08	1,333	1,333	28
HABAU Group	Mar 08	708	708	12

Notes:
1. The revenue figures include those from joint ventures.
2. Net income includes minority interests.

PPP/PFI and concessions

PPPs have been gaining in importance for public sector projects across Austria. Construction companies are successfully taking part in invitations to tender for building construction and infrastructure projects and, as a result, Austria's PPP portfolio expanded sustainably in 2008.

Companies are competing for the Vienna North Hospital PPP project, which is planned to open in 2015. Negotiations are now taking place with a consortium consisting of PORR, Siemens and Vamed. The PPP project has an estimated volume of €850m and the contract should be closed in the near future.

The Ostregion PPP project – a network of highways to the north, east and south of Vienna, as well as between Vienna and the Czech border – is progressing well and achieving key milestones.

M&A activity

Alpine Bau GmbH acquired Beton- und Monierbau Gesellschaft mbH, a company that specialises in underground construction and tunnelling, from Deilmann-Haniel International Mining and Tunnelling GmbH, for an undisclosed sum in September 2008.

Stern & Hafferl Baugesellschaft mbH acquired Pletzer GmbH, a company specialising in commercial, industrial and residential building (including renovations).

Finally, Soravia Group acquired a 75% stake in IFA AG, a residential building and financial consultancy firm, from Rudolf Huber in July 2008.

Belgium

Market statistics

	2008	2007
GDP (€bn)	344	335
Real GDP growth (%)	1	2.6
Total construction industry volume (€bn)	27	30
Share of GDP (%)	7.9	9.9
Number of employees	209,000	205,000
Share of working population (%)	5.6	5.6
Companies active in construction	N/A	N/A

Notes:
1. Nominal GDP is at current market prices as stated in the EIU Country Report, July 2009.
2. Construction volume has been calculated using the EIU Country Report, July 2009.

Trends

Real GDP growth decreased by 1% in 2008, down from 2.6% in 2007; the country saw a decline in foreign direct investment; and Fortis, Dexia and KBC – Belgium's three largest banks – were bailed out by the government. With banks now expected to adopt more cautious lending policies and public debt accounting for 80.8% of GDP for the year, along with the global economic crisis, the country is likely to register negative growth, increasing unemployment figures and a 3% budget deficit in 2009.

Despite going through a deep economic crisis, the government has responded well. The European Central Bank (ECB) has put together budgetary stimulus packages and the country has focused spending on its public infrastructure projects. Belgium also plans to spend a considerable amount of its stimulus funds from the EU on housing investments.

Residential construction

After dipping slightly in 2007, the Belgian house-building industry is set to weather the worst effects of the recession and record robust growth for 2009. In 2008, the sector recorded a total of 50,800 houses and this is expected to rise to 54,900 by the end of 2013, representing a CAGR of 1.6% from 2008-13.

Non-residential construction

The country's major commercial building activity is concentrated in the Antwerp, Brussels, Limburg and Liege areas. The total built-up area in these locations is estimated at 18m m^2 – of which 5.2m m^2 is modern warehousing. Antwerp and Brussels are the country's strategic locations for logistics activities, along with Ghent where commercial construction has been growing in the past few years. These three regions are together nicknamed the 'Golden Triangle' and provide multi-modal connections for the logistics industry.

One of the major commercial properties under construction in the Liege area is a 23,000m^2 facility for US footwear manufacturer Sketchers. The new facility is being built along the A40 motorway and the project was undertaken by ProLogis.

The number of new construction projects being started in the commercial property sector declined during 2008 due to the global economic crisis. In addition, investor demand in the sector has eased and is expected to be more subdued during 2009.

Civil engineering

Belgium's construction companies have shifted their focus towards civil engineering projects in recent years. However, civil engineering is faced with stringent and complex laws to curb poor-quality construction. The government also has a mandate that any civil infrastructure project where state funding accounts for more than 25%, must be carried out by an EU company.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
CFE (excluding DEME)	Dec 08	818	818	33*
BAM Belgium	Dec 08	749	749	30
BESIX Group	Dec 08	565	565	20
Eiffage Benelux	Dec 08	677	501	27
Group Cordeel	Dec 08	249	249	7

* Net income for CFE is estimated.

PPP/PFI and concessions

The PPP/PFI technique is now starting to be applied by numerous local communities and city authorities, as well as central government.

Locorail, a consortium consisting of CFE, VINCI Concessions and BAM, has been selected by Infrabel as the concession-holder for the Liefkenshoek rail tunnel, located north-west of the Port of Antwerp. This new project aims to create an extra link between the left and right banks of the Port of Antwerp. The contract includes design-build-finance-maintenance activities amounting to €841m and will last for 42 years, including the construction period.

Several major PPP projects are currently in the preparatory phase, including the development of four new jail complexes and the refurbishment of several French- and Dutch-speaking schools.

M&A activity

The country's construction sector witnessed subdued M&A activity during 2008. The majority of acquisitions were domestic in nature, while one was a cross-border deal involving a Dutch firm.

Aannemingen Verelst NV acquired ABMT SPRL, another Belgium-based construction services provider, in December 2008.

In a management buy-out deal, Groven+ NV, a Belgium-based aluminium construction company, acquired Gijbels Group, a Belgium-based company engaged in the construction and renovation of offices and industrial buildings.

Altez Bouwgroep acquired Lambert Geerkens NV, another Belgium-based construction company, in March 2008.

GIMV NV, a listed Belgian investment company specialising in start-up companies and strong small and medium-sized enterprises, acquired a 30% stake in Verhaeren Co NV, a Belgium-based construction company, from the Verhaeren family.

In a cross-border deal, the management of Aannemingen Verelst Cva, a Belgium-based building construction services provider, acquired the company in a management buy-out backed by Bencis Capital Partners, a Netherlands-based private equity firm. As per the deal terms, Bencis Capital Partners will acquire a majority stake, while Eddy Van Arwegen and Wim Verlinden, leading managers at Aannemingen, will dilute their stakes but still hold significant positions in the group. With this investment, Aannemingen expects to increase its turnover to €240m by 2012, mainly through acquisitions.

Bulgaria

Market statistics

	2008	2007
GDP (€bn)	34	28
Real GDP growth (%)	6	6.2
Total construction industry volume (€bn)	5	4
Share of GDP (%)	13.1	14.3
Number of employees	N/A	187,600
Share of working population (%)	N/A	8.1
Companies active in construction	N/A	14,000

Notes:
1. Exchange rate used for 2008: Lv1.96=€1.
2. GDP and real GDP growth rates for 2008 are EIU estimates.
3. Construction volume for 2008 has been calculated using the average quarterly increase.

Trends

Construction volume increased to €5bn in 2008. However, the withdrawal of foreign investors from the local property market impacted construction companies, and this is expected to continue into 2009. Many real estate companies have already suspended projects to build trade centres and residential/holiday properties; other investors may postpone their plans too. In fact, the Chairman of the Bulgarian Construction Board has warned that the construction sector might face a complete stall of works in summer 2010. He also pointed out that in the current economic environment, investors might not even start projects where financing and building permits have already been secured.

Residential construction

The total number of completed buildings in 2008 increased by 8.5%, while the number of finished houses increased by 10.9% to 20,924. This expansion reflects the strong construction activity that took place from 2006-07, as many of the new houses completed were started during that peak period. The holiday subsector also remained a key factor for the rise in supply last year. Varna and Bourgas have seen a larger number of residential buildings and houses completed, while the lowest activity was registered in Kustendil.

The average price of a house in Bulgaria was €697 per m^2 in 2008, an increase of 25% from 2007. This significant price reflects the rapid growth in the first three quarters of 2008, when house prices continued to rise as a result of economic expansion, robust credit activity and rising household incomes.

Later in 2008, the strong fall in the residential market was the result of declining interest from foreign investors, credit restraints implemented by commercial banks and reduced transfers from Bulgarians working abroad.

Non-residential construction

In the second half of 2008 the retail estate market continued to develop. However, the requirements for projects seeking finance from banks have become much more rigid due to the current economic climate. Banks that were previously satisfied with letters of intent, heads of terms or signed lease agreements are now only accepting proof of tenant commitments; because of this fewer projects have been announced. It is also expected that some of the larger shopping centre projects in Sofia, Varna, Plovdiv, Rousse and Stara Zagora will be put on hold or even cancelled.

Logistics and industrial markets have been moderately hit by the current financial crisis. In the second half of 2008, demand for industrial and logistics space was relatively flat. The structure of demand is mixed; FMCG retailers have increased demand, there is neutral demand from pharmaceutical and electronic retailers, and construction material producers have reduced demand significantly.

Civil engineering

Some of the major local developers are planning to focus on civil engineering rather than residential construction due to adverse market conditions. In addition to this, foreign and domestic investors continue to announce investments in energy plants. Bulgarian Property Developments, a UK-listed company, announced its plan to build a new logistics park in Ruse; while Bulgarian ZBS plans to build trade centres worth €200m.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Roads Holding	Dec 07	76	76	9
Trace Group	Dec 07	67	67	4
Enemona	Dec 07	50	50	7
Glavbolgarstroy Plc	Dec 07	44	44	2
STRABAG SE	Dec 07	36	36	N/A

PPP/PFI and concessions

French architect Dominique Perrault has been chosen for the design of the new Bulgarian government complex, which will be situated on an 18-acre site some 6.4km from the city centre. It will bring together, on a single site, all ministry and government agency buildings and will be carried out via a PPP arrangement.

Luxembourg-based company 3EParking has expressed an interest in building above-ground and underground car parks worth €20m in Plovdiv – Bulgaria's second largest city. The project could be implemented either through a 100% private investment or a PPP.

According to the Deputy Regional Development and Public Works Minister, Dimcho Mihalevski, roughly €13bn is needed for the modernisation of the water and sewerage infrastructure in Bulgaria. Mihalevski said that 35% of this will come from EU funds within 20 years, so the rest must come from the budget, PPPs and assets held by pension funds.

The Bulgarian Ministry of Transport says that the country is likely to seek partners for the reconstruction of a railway station in Plovdiv worth up to €120m – probably via PPP.

M&A activity

Novomatic AG, an Austrian manufacturer of gaming equipment and operator of gaming outlets, agreed to acquire Sofiten EOOD, a Bulgarian company engaged in construction activities, in April 2009 for an undisclosed sum.

Croatia

Market statistics

	2008	2007
GDP (€bn)	42	38
Real GDP growth (%)	2.4	5.7
Total construction industry volume (€bn)	5	4
Share of GDP (%)	11.5	10.7
Number of employees	145,656	137,978
Share of working population (%)	9.4	9.3
Companies active in construction	12,268	10,806

Notes:
1. Exchange rate used for 2008: HRK7.22=€1.
2. GDP and real GDP growth rates for 2008 are EIU estimates.

Trends

Real GDP growth declined sharply in 2008 to 2.4%, primarily due to weak growth in private consumption. The EIU expects the Croatian economy to grow at an annual rate of 1.5% from 2009-13, compared with the 4% growth achieved from 2004-08. After declining between 2009-10, GDP growth is expected to increase from 2011-13 largely as a result of growth in construction and infrastructure spend.

Construction volume in 2008 increased to €5bn, from €4bn in 2007. Construction volume as a percentage of GDP increased to 11.5%, up from 10.7% in 2007.

Residential construction

The residential market has reached a level of maturity and requires higher building quality standards. The rapid increase in supply that dominated the market over the past few years slowed in 2008. This has brought residential supply and demand to a relative equilibrium.

Activity is continuing in residential construction. However, the absorption rate of residential units has slowed, which is evident from the significant number of new apartments left unsold.

The country's improving living standards and purchasing power continue to fuel demand, which is higher than existing supply in most of the Croatian cities – except for Zagreb which has seen supply grow significantly in the past few years.

Permits	2008	2007	2006	2005	2004
Total construction permits	12,281	12,801	13,575	13,818	12,741
New construction	9,702	10,120	10,658	10,843	10,007
Reconstructions	2,579	2,681	2,917	2,975	2,734
Total building permits	10,889	11,378	12,135	12,253	11,203
New construction	8,542	8,986	9,500	9,569	8,750
Reconstructions	2,347	2,392	2,635	2,684	2,453
Civil engineering works	1,392	1,423	1,440	1,565	1,538
New construction	1,160	1,134	1,158	1,274	1,257
Reconstructions	232	289	282	291	281

Construction permits issued continued a downward trend from 12,801 permits in 2007 to 12,281 in 2008. However, the total value of construction permits continued to increase in 2008 to €5,733m. This increase was mainly witnessed in civil engineering which rose more than 65%, however residential construction also saw a slight increase, from €1,566m to €1,723m. Completed houses increased by 30.1% to 7,875 in 2008.

Construction permits (€m)	2008	2007	2006	2005	2004
Total value of permits	5,733	4,558	3,645	3,319	2,915
Building construction	3,252	3,106	2,633	2,162	1,998
Residential	1,723	1,566	1,513	1,241	1,018
Non-residential	1,529	1,540	1,120	921	980
Civil engineering	2,481	1,452	1,012	1,157	917
Transport	1,583	1,042	694	688	500
Telecoms, oil, transmission	397	289	274	339	337
Industrial	473	83	37	98	55
Other	28	38	7	31	25

Note: Exchange rate used for 2008: HRK7.22=€1.

To stimulate demand in the housing sector, the government announced that it will subsidise interest rates for first-time buyers. The government has further encouraged commercial banks to reduce interest rates and investors to reduce prices. In response to these initiatives several construction companies and Raiffeisen, a leading commercial bank, are to offer flats for sale at reduced prices and with preferential loans at rates between 5.5-6.3%.

Non-residential construction
Zagreb's office completions in 2008 dropped to their lowest level for the last five years, reaching only two-thirds of what was seen in 2007. Take-up levels also decreased by 55% in 2008 compared to the year before.

Over a relatively short period of time, Zagreb's office market has effectively doubled in size, but still remains small compared to other capital cities in eastern Europe. In the first six months of 2008 the demand for office space remained strong, with the vacancy rate reducing to 5%.

By the end of 2008, total office space in Zagreb was approximately 570,000m^2. However, this continues to be low compared to other cities in the region. With most new office developments experiencing delays in their construction start date, very little new space is expected to be delivered to the market in 2009. Banks are also expecting higher levels of pre-lets prior to the release of funds.

Zagreb's retail market continues to be of interest to international retailers, with a constant stream of newcomers. Therefore, in 2008 demand for retail space in Zagreb was strong. In fact, difficult economic conditions and the credit crisis do not seem to have deterred retailers from expanding in the city.

The warehousing market in Croatia was slow to evolve and at present remains the country's least developed sector despite a significant increase in retail development. However, several modern warehousing projects are being developed in larger cities near the main motorways.

Norwegian company Verdispar plans to invest €45m in the construction of a shopping centre near Varazdin, aiming to create a regional shopping destination for northern Croatia. Russian investors have also made an offer to the government, for building a €1bn luxury tourism complex in Kupari on the southern Adriatic coast. The complex would include six five-star hotels and 122 luxury villas; several shopping centres; a yacht club; and an entertainment park, all built on a state-owned plot of land.

Civil engineering
Croatian transport infrastructure is relatively well developed. However, significant investment is still required to improve the quality of road and rail networks across the country. The new motorway between Zagreb and the Port of Rijeka is expected to improve freight transit routes between the two destinations.

UPGH, the construction employers' association, has requested urgent government intervention to maintain the sustainability of the domestic construction sector. UPGH argued that civil engineering companies are facing increasing difficulty in obtaining loans due to declining investor confidence, and asked the government to pressure the EBRD to approve more favourable loan arrangements for civil engineering companies.

The Prime Minister confirmed that the country will continue with infrastructure projects and that French companies have already been called on for this work.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Konstructor-Inženjering dd	Dec 07	306	306	5
Dalekovod dd	Dec 07	254	254	11
Technika dd	Dec 08	215	215	4
Viadukt dd	Dec 08	214	214	1
Hidroelektra Niskogradnja dd	Dec 08	166	166	1

Note: Exchange rate used for 2008: HRK7.22=€1.

PPP/PFI and concessions

The consortium of Konstruktor inzenjering, Tehnika and Institut Gradevinarstva Hrvatske, which is led by Konstruktor inzenjering, won a €3bn contract for the construction of a motorway between the Port of Bar and Boljare on the border between Montenegro and Serbia. The consortium will hold a 30-year concession for the maintenance and management of the motorway, which will be 170km long and built under a PPP arrangement.

Sportski Grad, a Croatian company founded by Konstruktor-Inženjering Inc, the Civil Engineering Institute of Croatia Inc and Dalekovod Inc, chose to build the multi-purpose Spaladium Arena sports hall in Split for the Men's World Handball Championships which took place in Croatia in January 2009. The arena seats 12,000 and opened on 27 December 2008. It was developed as a public-private consortium between the City of Split and Sportski Grad, which will manage the complex for the next 30 years.

M&A activity

Croatian construction company Ingra is expected to buy a 25% stake in Arena Centar, a major shopping and entertainment centre located in Zagreb, which is currently being built by Hungarian developer TriGranit. According to market reports, the size of the deal is estimated at €55m and will entitle TriGranit to the remaining 75%.

In February 2008, the Croatian competition authority approved STRABAG's acquisition of Pomgrad Inženjering doo. Pomgrad Inženjering doo is a ports specialist and the acquisition allows STRABAG to bolster its expertise in this field.

Czech Republic

Market statistics

	2008	2007
GDP (€bn)	148	128
Real GDP growth (%)	3.2	6.6
Total construction industry volume (€bn)	22	20
Share of GDP (%)	14.5	15.5
Number of employees	461,900	446,800
Share of working population (%)	10.8	11
Companies active in construction	2,487	2,445

Note: Exchange rate used for 2008: Kc25.09=€1.

Trends

The Czech Republic's construction industry continued to grow moderately in 2008 to €22bn, driven by housing and public infrastructure needs. The planning and building control authorities also granted 122,242 permits in 2008, an increase of 4.1% from 2007. This increase was primarily in the non-residential sector, which rose by 8.9% to 22,404.

Residential construction

Residential construction performance in 2008 has been impacted by an increase in VAT from 5-9% for flats measuring up to 120m^2, and 19% for larger flats.

In 2008, the positive trend of previous years changed due to the saturation of the market and anticipation of impacts resulting from the financial crisis. During 2008, 43,531 houses were started, a slight decrease from 43,796 in 2007. This downturn was partly due to falling confidence in the second half of the year.

Negative development also affected the real estate market in the first quarter of 2009. During this period 8,721 houses were started, which represents a decrease of 8.9% compared to the same period a year earlier.

Permits	2008	2007	2006	2005	2004
Residential buildings	47,389	47,298	49,777	47,974	51,464
New construction	20,545	19,414	18,448	16,614	16,820
Renewals and enhancement	26,844	27,884	31,329	31,360	34,644
Non-residential buildings	22,404	20,578	24,503	25,668	29,439
New construction	8,221	7,912	9,336	10,100	12,142
Renewals and enhancement	14,183	12,666	15,167	15,568	17,297
Environmental protection	19,199	19,079	25,779	33,691	36,065
Other construction	33,250	30,429	35,332	35,608	36,654
Total number of permits	122,242	117,384	135,391	142,941	153,622

Houses completed during 2008 also fell by 7.8% to 38,383, from a high of 41,649 in 2007. This happened across the board, apart from family-houses which increased 15.4%, and conversions of non-residential spaces to houses which increased 3.5%.

Houses under construction is the only sector of residential construction that has been increasing steadily since its low in 1994. As of the end of December 2008, 176,123 houses were being built and the average construction period was 39 months – a drop of 1.3% compared to 2007.

Non-residential construction

Towards the end of 2008, financial turmoil adversely affected non-residential construction and the sector is expected to continue with declining volumes in 2009.

Around 790,000m^2 of new warehousing space came to market in 2008. Warehousing demand has remained active but construction slowed in the second half of the year. Evident, with around 390,000m^2 of modern warehouse space under construction, representing a 41% decrease year-on-year, and speculative construction dropping significantly from 474,000m^2 at the beginning of 2008 to 127,000m^2 at the end.

Despite the economic slowdown, 2008 was the third strongest year in terms of new shopping centres, with approximately 200,000m^2 floor space completed and 76% of this being opened to the public in the last quarter of the year. Total modern shopping centre space in the Czech Republic is now approximately 1,830,000m^2.

Civil engineering
The civil construction sector performed well during 2008 and this is likely to continue into 2009.
Civil engineering showed growth of nearly 12% year-on-year because the downturn in private investments was balanced by an upturn in public investments, mainly in infrastructure. The country has decided to carry out several infrastructure projects as PPPs, the first of which is expected to be announced in 2009.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Skanska CZ as	Dec 08	1,508	1,508	41
Metrostav as	Dec 08	1,181	1,181	30
Eurovia CS as	Dec 08	922	922	37
STRABAG as	Dec 08	719	719	8
OHL ŽS as	Dec 08	575	575	17

PPP/PFI and concessions
The Czech Republic still has no significant experience of a properly finished PPP project. The Deputy Finance Minister has said that the financial crisis could help the development of PPP projects in the Czech Republic, as with the fall in tax revenues other paths are being sought to maintain investments.

There are nine PPPs currently at the pilot stage, although most of them have been put on hold.

The Central Military Hospital (CMH), holder of the Joint Commission International (JCI) certificate, will have a three-star hotel built by 2011 via a PPP arrangement. This combined project of a lodging house for CMH staff, a hotel-type lodging house and a parking lot, comprises several functional sections with different economic characteristics. The project is currently holding out for final bids.

It has been determined that a PPP will bring the best results for the procurement element of a project to build a railway line connecting Prague Airport to the city centre. Investment of around €868m will be required for the project, which involves the refurbishment of around 12km of existing rail track, as well as building 5km of greenfield track. The service, which is expected to be operational in early 2014, aims to reduce road traffic especially in the Prague area.

M&A activity
Metrostav AS acquired Pragis AS, a Czech Republic-based construction company carrying out residential and civil projects, as well as transport and engineering construction, for an undisclosed sum in March 2009.

In November 2008, UK-based Keller Group Plc acquired Boreta sro, a Czech Republic-based construction services provider that specialises in building foundations, for €7m.

PJ Stavby Bohemia acquired BAK as, a contractor specialising in building and water management construction, in October 2008.

In January 2008, Austrian construction company STRABAG SE agreed to acquire Jhp sro, a Czech Republic-based heavy construction company, for between €14-17m.

Denmark

Market statistics

	2008	2007
GDP (€bn)	232	227
Real GDP growth (%)	-1.2	1.6
Total construction industry volume (€bn)	15	21
Share of GDP (%)	6.4	9.4
Number of employees	175,225	181,999
Share of working population (%)	6.6	6.2
Companies active in construction	~47,500	~47,500

Notes:
1. Exchange rate used for 2008: Dkr7.49=€1.
2. Construction volume was calculated using the NCC construction market share of 3%.

Trends

In 2008 the Danish economy experienced its sharpest contraction since the 1930s. Weakening confidence, tighter credit conditions and falling property prices caused a sharp decline in investment, particularly in the construction sector. Investment in construction (which accounts for just under half of total investment) contracted by 5.6%, mainly as a result of the 9.8% fall in housing investment.

The fact that the credit crisis has already had a negative impact on construction, is most evident in the actions of developers TK Development and Sjælsø Gruppen, both of which have reported several project postponements due to a lack of financing.

From 2004-07 there was an increase in the number of people employed in construction; however in 2008 this changed as there were just 175,225 employed compared to 181,999 the year before, equating to a decrease of 4%. There were no changes in the distribution of employment by activity, with 45,000 (26%) working on new buildings and extensions, 59,000 (34%) engaged in repairs and maintenance, and 27,000 (15%) working on civil engineering projects.

Almost a quarter of private sector employees work in building and construction, whether in producing or trading in building materials, working in new construction and civil engineering, consultancy, or operation/maintenance of buildings and plants. In fact, the construction sector accounts for 10% of Denmark's total exports.

Total construction costs more than doubled (102%) between 1987-2008. During this period, the costs of materials increased by 97% and labour costs by 115%. Therefore, total construction costs increased annually by 3%. Overall, the increase of total construction costs was more moderate in 2008, compared to the increase in 2007 which was the largest in 20 years.

The number of building permits issued decreased across all sectors, due to the overall economic slowdown.

Permits	2008	2007
Total number of permits	8,639	10,679
Residential	2,473	3,590
Industrial and administrative	4,784	5,531
Cultural and institutional	243	270
Other	1,140	1,288

In early 2009, in response to the economic crisis, the government negotiated a deal with the National Association of Local Authorities to remove the spending ceiling for municipal construction projects. However, the need to reign in excessive spending may pose problems in future annual budget negotiations.

The agreement with the regions also covered the disbursement of grants from the government's €3bn fund for the construction of new hospitals from 2009-18, in addition to the €2bn to be raised by the regions.

The government's new 2020 transport plan envisages a programme of infrastructure investment worth €20bn. A large chunk of transport investment (€7bn) will be directed towards improving the rail network through the construction of additional cross-country rail lines (including high-speed links) and new suburban light railway systems in the two largest cities: Copenhagen and Aarhus. The transport plan also proposes the widening of existing motorways and the introduction of road-pricing schemes.

A third fixed link, connecting the islands of Lolland in Denmark with Fehmarn in Germany, is scheduled to be built between 2011-18. Denmark will assume responsibility for the project's financing (which is likely to reach €6bn), with state-guaranteed loans to be repaid by road and rail user fees.

Residential construction

Economic growth in recent years led to an increase in the number of houses completed between 2003-07. However, the current financial crisis has resulted in a significant slowdown. The construction sector has suffered in the face of falling house prices, an excess supply of houses for sale and higher financing costs (for construction companies and households).

The increase in residential construction that had taken place since 2003, meant that the amount of floor space built for residential use came close to that for business use. However, the slowdown in house-building resulted in construction for business purposes once again being higher.

Housing investment is expected to receive some government support during 2009, with plans to offer €200m in subsidies for house renovations. However, given the continued decline in property prices and tight borrowing conditions, housing investment is likely to remain negative in 2009/10.

Construction investment is expected to recover from the first half of 2010, on the assumption that lower house prices encourage buyers back into the housing market. However, it is likely to remain more subdued than in recent years as excess capacity limits demand for new commercial property, mortgage lending remains constrained and the global financial crisis forces Danish banks to shrink their balance sheets.

In fact, the slump in the housing market and lower equity prices have eroded household wealth. The average price of a family-house fell by 4% in 2008 and this decline is expected to accelerate slightly in 2009. A stabilisation of the housing market, which is unlikely before 2011, remains key to the revival of consumer confidence and spending.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
MT Højgaard AS	Dec 08	1,499	1,499	35
E Phil & Son AS	Dec 08	870	870	3
Per Aarsleff	Sep 08	716	716	28
NCC Construction Danmark AS	Dec 08	516	516	2
Hoffmann AS	Dec 08	252	252	-2

PPP/PFI and concessions

PPP/PFI activities in Denmark remained sluggish in 2008. Nevertheless, the Danish government is planning the construction of a new tax office in the town of Haderslev, a project that will be financed through a PPP with contractor KPC Byg. The four-storey office building will have 5,440m^2 of office space and a car park. It will be leased by the tax office for a 10-year period, while 50% of the heating and water costs will be financed by KPC.

The municipality of Langeland island is also planning a new school, to be financed via a PPP with contractor MT Højgaard.

M&A activity

There was little M&A activity in 2008, largely due to the ongoing credit crunch. In fact, there was only one significant acquisition. Planet Huse AS acquired the entire share capital of MSH Huse AS for an undisclosed sum. This acquisition will allow Planet Huse AS to focus on the production of high-end holiday cottages and increase its housing sales for 2009.

France

Market statistics

	2008	2007
GDP (€bn)	1,949	1,893
Real GDP growth (%)	0.3	2.1
Total construction industry volume (€bn)	266	250
Share of GDP (%)	13.6	13.2
Number of employees	1,825,900	1,762,700
Share of working population (%)	N/A	6.3
Companies active in construction	N/A	N/A

Note: Nominal GDP at current market prices.

Trends

GDP growth slipped to 0.3% in 2008, down from 2.1% the previous year. With the country facing a tough financial crisis, the government focused on supporting business investments, boosting employment and protecting the unemployed/low-paid workers. The government took various special measures to ensure a smooth flow of investments and has guaranteed new bank lending up to €320bn, as well as providing a further €40bn in fresh capital to banks.

The construction industry has grown robustly in recent years. However, the EIU predicts that the current depressed property market will upset investments in the housing sector for the next few years.

Employment statistics for 2008 showed a grim picture with huge job losses. However, the decline in the employment rate in the construction sector was just 0.7% – a relatively positive trend compared to other sectors.

Residential construction

The residential building sector, which accounts for almost 7% of production in France, has recorded the deepest slump for 12 years. With a lack of necessary funding, the demand for housing units has come down. In addition, the sector is forecast to experience a 10% decline in house prices during 2009.

In 2008, 369,000 new houses were started in France, a fall of 15.7% compared to 2007, and the number of housing permits also decreased by 17.5%. Of these, the number of family-houses had the sharpest decline at 22.3%. However, new permits have increased considerably (14.6%) for hotels and hostels, including short-term housing. This trend indicates that demand for rental housing is increasing compared to permanent properties.

The government's target to build 500,000 houses per year is also expected to be under threat as a result of the market slowdown. In order to limit any negative effect, the government aims to construct 100,000 additional housing units over the next two years as part of its economic stimulus package. It has also widened access to state-subsidised mortgages.

Along with front-loaded programmes for urban renewal, €2bn in public aid has been allotted to the construction sector. Furthermore, in October 2008 the President intervened directly to support the industry by announcing the purchase of 30,000 houses that are yet to be built.

Non-residential construction

The number of new permits for commercial buildings declined 22% in 2008. Of the several sectors in non-residential construction, non-farm storage performed the best with a 59% increase in new permits. Another subsector that performed relatively well, with growth of 12.3%, was hotels.

Civil engineering

During the second half of 2008, civil engineering projects (and particularly roads) slowed as a result of local authorities spending less on infrastructure. However, in order to make finance accessible to high-priority construction projects, the government released €26bn to be invested directly in the country's infrastructure.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
VINCI SA	Dec 08	33,930	29,149	1,591
Bouygues SA	Dec 08	32,713	24,771	1,501
Eiffage SA	Dec 08	13,226	11,358	301
Spie Batignolles SA	Dec 08	1,866	1,864	34
FAYAT	Sep 08	2,330	1,281	N/A

Note: VINCI, Bouygues and Eiffage revenues includes those from joint ventures.

PPP/PFI and concessions

France has begun the A88 motorway concession project which forms an essential link between Caen/Cherbourg and central/southern France. Construction of the new motorway, which will be part of the Trans-European Transport Network, was awarded to a consortium consisting of Caisse des Dépôts et Consignations, AXA Investment Managers, NGE, Demathieu & Bard, Egis Projects, Malet, Spie Batignolles and Valérian. It will last 55 years and cost €250m.

French builder Eiffage has won a bid to construct the Lille Stadium in northern France under a PPP model. This new stadium will be the third-largest in the country, with an estimated seating capacity of 50,254 and costing €324m.

Since August 2008, VINCI has increased its Greek toll road business thanks to a new 600km toll road concession. A consortium led by VINCI Concessio (36%), in partnership with HOCHTIEF PPP solutions (25%) and three Greek construction companies (39%), won a 30-year concession for the Athens-Tsakona motorway. This 365km project is worth €3bn.

VINCI has also, through a consortium, won the concession for the Liefkenshoek rail link, located in the Port of Antwerp (Belgium). This 42-year contract covers an eight-lane road tunnel and is worth €841m.

A consortium, led by Bouygues and Ecover FM, has signed a hospital contract in the UK worth €400m.

Finally, Bouygues Travaux Public has won a contract for the construction and 30-year concession of South Korea's new Busan Harbour. The €703m contract was awarded to a consortium including Bouygues TP and the Busan New Container Terminal.

M&A activity

There was some cross-border M&A activity in France during 2008.

VINCI SA concluded the most important M&A deals in 2008. The leader of the French construction sector acquired Vossloh Infrastructures Services, an excavation, traffic and highway engineering company with annual revenues of €250m, and strengthened its position in the UK by acquiring Taylor Woodrow Construction, which had a turnover of €833m in 2007.

FAYAT acquired Razel, an excavation, traffic and highway engineering company with a turnover of around €447m.

Colas, a Bouygues subsidiary, confirmed its international position by acquiring one Australian and two Caribbean firms. It acquired a 51% stake in SAMI, an Australian company with revenues of roughly €70m, and Gouyer and subsidiaries, with annual revenues of €45m.

Germany

Market statistics

	2008	2007
GDP (€bn)	2,491	2,424
Real GDP growth (%)	1.3	2.5
Total construction industry volume (€bn)	264	256
Share of GDP (%)	10.6	10.6
Number of employees	2,232,000	2,240,000
Share of working population (%)	5.5	5.5
Companies active in construction	N/A	N/A

Note: GDP for 2008 is nominal as reported in the EIU Country Report, July 2009.

Construction sector	Volume in 2008 (€bn)	Increase over 2007 (%)
Total	264	3.1
Residential building	141	1.5
Non-residential building	74	5.4
Infrastructure	49	4.2

Trends

The German economy grew slowly at 1.3% in 2008, compared to 2.5% in 2007. Being an export-focused country, Germany has been one of the hardest hit in Europe by the global financial crisis. However, Euroconstruct's economists see Germany as better placed than other European countries for an economic recovery, due to its labour market reforms and its strengthened ability to compete. In fact, economists predict that Germany will emerge from the economic crisis by 2011.

Construction industry volume grew by 3.1% to €264bn in 2008, and growth in orders received to November 2008 was 0.3%. The ongoing growth of Germany's construction industry will depend on the extent and speed of the implementation of government reforms to stimulate the economy and improve the country's infrastructure. This should be helped by the fact that more than three-quarters of buildings in Germany are over 25 years old and therefore will require large-scale modernisation in the coming years.

Total building permits issued by the authorities, including those for work on existing buildings, dropped by 2.2% to 184,048 in 2008. Construction permits issued for new buildings dropped 2.5% to 119,090.

Permits	2008	2007	2006	2005	2004
Build/construction work	184,048	188,216	247,830	242,102	271,944
Construction of new buildings	119,090	123,362	171,485	169,024	188,449

Residential construction

German housing activity has witnessed modest growth for many years and in 2008 increased by 1.5% to reach €141bn. However, construction activity in this sector is expected to decline by 1% in 2009.

Period		Total permits granted (including work on existing buildings)		Permits granted for new buildings	
		Number	Change over previous year (%)	Number	Change over previous year (%)
2009					
	Apr	15,149	-14.6	9,714	-15.4
	Mar	14,348	2.4	9,122	-1.1
	Feb	11,482	-20.4	7,328	-24.6
	Jan	11,846	-9.6	7,793	-8.9
2008					
	Dec	13,804	-5	8,902	-7.5
	Nov	13,063	-12.2	8,426	-12.5
	Oct	15,746	-2.9	10,191	-5.8
	Sep	15,294	-4.1	9,842	-6
	Aug	15,538	-10.5	9,891	-12.2
	Jul	17,802	-0.9	11,287	-2.5
	Jun	17,746	6.1	11,389	5
	May	15,787	-9.4	10,179	-11.5
	Apr	17,736	11.4	11,489	11.4
	Mar	14,006	-7.8	9,225	-9.4
	Feb	14,426	12.6	9,716	13.4
	Jan	13,100	-1.1	8,553	-0.2

Non-residential construction

Non-residential construction activity increased by 5.4% in 2008, however it is expected to decline by 0.3% in 2009.

The country's real estate investment market returned to normal activity levels in the first half of 2008, after witnessing significant growth in recent years.

Commercial property transactions dropped about two-thirds in 2008. Although the financial crisis had an impact on the fourth quarter, 2008 was better than average in terms of transaction volumes, due to the strong take-up in the first half of the year.

According to CB Richard Ellis, the investment market in eastern Europe also declined sharply. The restrictive lending policies adopted by banks were among the primary reasons for this but they may be relaxed in 2009.

Warehouse and office take-up in Germany dropped modestly in 2008, by 7% and 8% respectively, as a result of a poor fourth quarter. Vacancy rates in major real estate markets such as Hamburg, Frankfurt and Munich dropped to an all-time low. However overall, rents in Germany continue to increase – particularly for high-quality properties.

There has been a significant increase in the number of PPP construction projects in this area; with tenders expected to be released for a large number of PPP projects, particularly in the education sector. Construction activity is also expected to increase in the healthcare sector.

Civil engineering

Infrastructure construction increased by 4.2% in 2008. Apart from road and railway construction, which witnessed significant activity, positive developments were also seen in the energy sector. For the next few years forecasts remain fairly positive, partly due to such planned investments in the civil engineering and energy sectors. However, growth in infrastructure construction activity is expected to drop to 0.5% in 2009 and 2010.

A significant number of investments are expected by 2010 for major motorway and railway repairs. These investments will be partially funded by toll revenues and an increase in income tax revenues, which have been directly allocated to the motorway network. An increasing number of PPP projects are also likely to be carried out in the civil engineering market.

In 2008, the railway infrastructure sector increased by approximately 4.5% and is projected to grow at a rate of 1% in 2009 and 2010. This is partly because major railway repairs form part of the government's programme for the modernisation of key infrastructure in Germany.

This investment programme predicts public spending of €14bn for infrastructure construction – including roads, nurseries, hospitals and schools. The government is also working on simplifying procurement laws to allow these investments to be implemented quickly.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
HOCHTIEF AG	Dec 08	21,643	21,643	175
Bilfinger Berger AG	Dec 08	10,742	10,742	200
STRABAG AG	Dec 08	2,146	2,146	56
Ed Züblin AG	Dec 07	2,128	2,128	17
VINCI Deutschland GmbH	Dec 08	1,855	1,855	N/A

Notes:
1. HOCHTIEF and Bilfinger Berger revenues include those from joint ventures.
2. Net income is the profit available to shareholders of the parent company.

PPP/PFI and concessions

There has been a change in the law governing the awarding of PPP contracts in Germany. Now companies carrying out PPP contracts have to subdivide them into several subcontracts which they then award to third parties.

There are 94 new projects (worth €3bn) at a federal, state and municipal level – most of which are in public building construction. At the end of 2008, the number of tendered or planned projects stood at 98. Public building spending is expected to reach €20bn by 2011.

Bilfinger Berger has been awarded the contract for one of the country's first PPP projects within motorway construction. A company, under the leadership of Bilfinger Berger, will take over the planning and widening of a 73km stretch of the A1 autobahn. The project, which is worth €650m, comprises the reconstruction and widening of six lanes between the Buchholz and Bremen intersections and includes the construction of more than 74 bridges.

STRABAG, as part of a consortium, has been selected to build the second section of the A2 toll motorway between Nowy TomySl in western Poland and Swiecko on the German border. Including design and finance, the value of the project is €2bn, and work is expected to finish by May 2012. STRABAG will then operate this section of motorway until 2037.

One of STRABAG's divisions has won a bid to build a 60km section of the A5 motorway between Baden-Baden and Offenburg in Germany. Investment in this project amounts to approximately €660m.

HOCHTIEF has won a €150m PPP contract for the planning, construction and 23-year operation of a new city hall in Moers, as well as an adjacent education centre.

M&A activity

In September 2008, STRABAG AG received approval from the cartel authorities to acquire an 80% stake in Kirchner Holding GmbH. Krichner complements STRABAG's activities around infrastructure construction, environmental technologies and raw/construction materials.

The competition authorities approved the majority takeover of F. Kirchhoff AG by STRABAG SE in July 2008, acquiring an 85% stake. The Kirchoff Group is the market leader in road construction in the southern German state of Baden-Württemberg.

Austrian-based STRABAG SE also decided to acquire the outstanding shares of its German subsidiary, STRABAG AG, for €350m during 2008.

Steel and bridge engineering and construction company, Donges SteelTec GmbH, a subsidiary of Hitachi Power Europe GmbH, acquired Donges Stahlbau GmbH for an undisclosed sum in April 2008.

Greece

Market statistics

	2008	2007
GDP (€bn)	243	229
Real GDP growth (%)	2.9	4
Total construction industry volume (€bn)	17	N/A
Share of GDP (%)	7	N/A
Number of employees	400,000	399,500
Share of working population (%)	8.7	8.8
Companies active in construction	N/A	N/A

Note: GDP figures are nominal figures.

Trends

Greece's real GDP grew 2.9% in 2008, lower than the 4% in 2007, due to high inflation. Construction volume constitutes approximately 7% of the country's annual economic output. A notable decline in Greece's overall economic performance is likely in 2009, but the outlook for the construction industry is considered to be better.

Residential and non-residential construction

Construction has long been an important driver of Greece's economy. However, a decline in construction activity was seen during 2008, largely because of the tightening of credit and the decision by consumers to defer buying new houses until after the global economic downturn.

Building permits granted in Greece fell 15.4% to 65,474 in 2008. This decline was seen across all regions but especially in Attiki which fell 23.1%.

The Economy and Finance Ministry has announced measures to protect jobs and bolster the country's construction industry. These include subsidising mortgages and increasing tax benefits. The government is to guarantee 25% of home loans issued by banks that offer 75% of the sale price to borrowers. These perks will be available for residential and commercial borrowers until the end of 2010.

Civil engineering

After the Olympic Games, construction activity declined sharply and it is likely to be supported in the future by public works funded under the EU's fourth Community Support Framework. The country is in the process of completing a significant number of infrastructure projects with the support of the EU, and the government is planning to put a number of PPP contracts out to tender.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
ELLAKTOR SA (formerly Hellenic Technodomiki TEB SA)	Dec 08	1,913	1,751	95
J&P-Avax SA	Dec 08	991	991	21
GEK Terna SA	Dec 08	669	606	24
Att-Kat SA	Dec 08	251	251	-6
Michaniki SA	Dec 08	231	216	22

PPP/PFI and concessions

The government has been seeking to generate investment through PPPs for the running of public-owned infrastructure such as ports, schools and hospitals. At present, a total of 52 public infrastructure projects worth approximately €6bn have been approved by the Greek PPP inter-ministerial committee. These projects span public sector accommodation, health, education, environment, culture, justice and security.

Already under procurement are 14 projects totalling €2bn. Two recently reached their final stages, while six other PPP tenders with a budget of €500m are about to enter their second stage – that of the submission of final and binding offers.

The target of the Greek PPP Special Secretariat for 2009 is for 12 projects worth €2bn to reach their final stages.

M&A activity

GEK SA, a Greek company specialising in heavy construction, real estate and energy, absorbed (in exchange for GEK shares) a 45.4% stake in its listed subsidiary, Terna SA, for €158m.

Compartners Holding Technical Company SA acquired a 51% stake in Ekat-Etan SA from Betanet SA for €7m.

Finally, construction company AEGEK SA agreed to sell an 80% stake in its wholly-owned subsidiary, AEGEK Construction SA, to Promachos SA, a construction and real estate development company, for €20m. The deal was approved by AEGEK's banks and also entailed the acquisition by Promachos SA of up to a third of AEGEK's shares.

Hungary

Market statistics

	2008	2007
GDP (€bn)	105	101
Real GDP growth (%)	0.6	1.2
Total construction industry volume (€bn)	8	8
Share of GDP (%)	7.5	7.9
Number of employees	309,600	330,525
Share of working population (%)	8	8.4
Companies active in construction	N/A	N/A

Note: Exchange rate used for 2008: Ft251.5=€1.

Trends

Real GDP growth in Hungary fell from 1.2% in 2007 to 0.6% in 2008. The number of employees in construction also decreased during the year, as well as the percentage of construction employees in relation to total working population.

The Hungarian government expects the country's fiscal deficit to be less than 3% of GDP in 2011, after consultations with the EU and the International Monetary Fund.

Residential and non-residential construction

The number of construction permits granted has been falling for several years, but this trend accelerated in 2008 with a decline of 10.2%. There was a decline in permits granted for residential and non-residential buildings, however permits issued for house construction were only marginally down.

Permits	2008	2007	2006	2005	2004
Residential buildings	17,681	19,685	20,797	20,903	24,637
Non-residential buildings	8,089	8,711	8,814	10,392	11,667
Houses	43,862	44,276	44,826	51,490	57,459

Building construction dropped in 2008, primarily due to a decline in the construction of warehouses, industrial and office buildings.

The country's total stock of modern warehousing is about 1.2m m^2. The majority of Hungary's warehousing is situated in the southern and western outskirts of Budapest. Development is being seen along the M1 motorway leading to the Austrian border, the M5 motorway leading to Romanian border and the M7 motorway leading south west from Budapest. There is also growing interest in other locations such as Székesfehérvár to the south west and Kecskemét to the south east of Budapest.

Industrial property supply continues to increase, although the completion of developments is starting to slow with approximately 260,000m^2 of new space completed in 2008. Occupier demand is continuing, primarily driven by large third-party logistics providers needing more space. In Budapest, the vacancy rate is nearing 15% and prime rents are being forced down – a trend that is likely to continue in 2009.

In terms of new office developments, take-up remained high during 2008 and this trend continued into 2009 but the economic slowdown may change this outlook.

There was no breakthrough in the rural office market in 2008. Budapest continued to dominate and investors continue to be wary about entering this market.

Civil engineering

Hungary's transport infrastructure is heavily reliant on roads, lagging behind other European countries in terms of railways. However, while some sections of the road network are newly built or renovated, others are in a poor state and are regularly congested.

Infrastructure investment in Hungary decreased during 2008 due to tight public sector finances and adverse economic conditions. In fact, government spending cuts (due to the high fiscal deficit) have nearly led to a standstill in terms of public sector infrastructure construction. However, Euroconstruct expects that EU-sponsored infrastructure projects might go some way to compensating for the country's lower spending. A total of €7bn has been made available by the EU to help stabilise the construction sector.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
STRABAG Èpítő	Dec 07	614	614	N/A
BETONÚT	Dec 07	504	504	N/A
Colas-Hungary	Dec 08	467	467	20
Hídépítő	Dec 07	448	448	16
Vegyépszer	Dec 08	274	274	3

PPP/PFI and concessions

A consortium, comprising Bilfinger Berger and PORR, has won a PPP tender to build a 65km stretch of Hungary's M6 motorway. The consortium's bid of €487m was enough to win the 30-year concession rights for operating the stretch between Dunaujvaros and Szekszard, which is expected to be completed by 31 March 2010.

The government has announced a PPP tender worth €182m to build a stretch of the M3 motorway in north-east Hungary. The stretch will have four lanes for the 26km between Nyiregyhaza and Vaja, and two lanes for the remaining 20km to Vasarosnameny. The motorway will eventually extend to the Romanian border.

The EBRD is loaning €75m to Hungary's MAK consortium, led by STRABAG, for the construction of new sections of Hungary's M60 and M6 motorways.

M&A activity

Hungarian-based private investor, Endre Apathy, acquired a 97.4% stake in construction company Hidepito Zartkoruen Mukodo Reszvenytarsasag from VINCI Construction, for an undisclosed sum during 2008.

In a deal worth €257m, Hungarian construction company STRABAG Epito Rt, completed the acquisition of M5 motorway operator Alfold Koncesszios Autopalya Zrt, by purchasing a 40% stake from peer Raiffeisen PPP Infrastruktur Beteiligungs GmbH, as well as several other minority stakes.

Ireland

Market statistics

	2008	2007
GDP (€bn)	186	191
Real GDP growth (%)	-2.3	6
Total construction industry volume (€bn)	30	39
Share of GDP (%)	16	20
Number of employees	216,300	263,700
Share of working population (%)	12.3	12.8
Companies active in construction	N/A	N/A

Trends

The Irish economy, like that in many other countries, is currently experiencing a recession. Real GDP growth fell to -2.3% in 2008, down from 6% in 2007. Total investment spending, which has been dominated in recent years by the construction sector (accounting for around 20%), is suffering a severe contraction which is expected to continue until 2010. According to EIU estimates, GDP is expected to decline by 7.5% and 2.8% in 2009 and 2010 respectively. This decline in GDP can be attributed to decreasing demand in the construction industry, shrinking consumer spending and falling exports as a result of the global recession. The Summer 2009 *Quarterly Economic Review* from the Economic and Social Research Institute (ESRI) forecasts that GNP will contract by 8.9% in 2009 and 2.3% in 2010.

According to DKM Consultants and the Department of Environment Housing and Local Government, construction sector volume was estimated to be €30bn in 2008, down almost 23% from 2007. The housing sector, which accounts for almost 60% of the industry, is expected to fall by up to 38% in 2008. Figures for the first two quarters of 2008 show a significant slowdown with only 70% of the number of completions compared to the same period the year before.

The Central Statistics Office's (CSO) *Quarterly National Accounts* for the last quarter of 2008 reveals that total investment in the economy (as measured by gross fixed capital formation) declined by more than 15% compared to the previous quarter, and by almost 30% year-on-year. New residential investment was hit hardest, with a fall of 50.9% compared to the same quarter the year before.

The latest data from the *Permanent TSB/ESRI House Price Index,* published in July 2009, shows that house prices fell by 18.8% and 9% year-on-year to June 2009 for first- and second-time buyers respectively. In fact, falling house prices have left many home owners facing negative equity. The national average house price was €241,504 in June 2009, compared with a peak of €311,078 in February 2007.

Volumes and values of new mortgage lending are also down sharply. Data from the Irish Bankers' Federation (IBF) shows that the value of mortgage lending fell by 55.7% year-on-year to €2,352m in the last quarter of 2008. The value of loans paid out to first-time buyers was down by approximately 46% on the previous year, while loans to existing owners fell by 55% over the same period. The volume of new lending in the first quarter of 2009 was down 41.2% compared to the previous quarter, and down some 61% year-on-year – a trend that reflects the general economic environment but also the seasonal pattern of lower mortgage lending in the first quarter of each year.

Data from the IBF shows that in addition to loan values declining, the number of loans paid out is also falling. This figure fell at an annual rate of 51% in the final quarter of 2008, compared with an annual decline of 35% in the previous quarter. Around 9,415 mortgages were taken out in quarter four of 2008, compared to 19,264 during 2007. Some 11,000 new mortgages worth €2bn were also issued during the first quarter of 2009. This shows that the rate of mortgage credit growth has eased significantly, and at 4% the Irish market is still experiencing growth in net lending.

According to data released by the CSO, the number of houses granted planning permission during 2008 fell by 20% – just 67,584 units during the last quarter, from 84,397 the year before. The total floor area granted permission for non-residential construction also fell significantly, by 32.2% to 1,102,000m^2, in the last quarter of 2008. Demand is likely to be lower for new non-residential buildings until there is a return to positive growth in the economy, which is not expected until 2011 at the earliest according to ESRI.

CSO data also highlights that average weekly construction earnings have been falling, with declines in quarters two and three of 2008. Year-on-year growth fell by 2.4% during the year, in contrast to positive year-on-year growth of 6% in 2007. Pay levels are expected to continue falling in the construction industry, given the fact that this is one of the industries worst affected by the recession in Ireland.

According to the CSO's *Quarterly National Household Survey,* the largest decline in employment during 2008 was recorded in the construction sector. By quarter four of 2008 almost 53,000 jobs had been lost and year-on-year growth had declined to 15.6%. This situation is not expected to improve significantly in the near future.

The most significant upcoming development, which will affect the construction sector and arguably Ireland's economic situation overall, is the establishment of NAMA, which will be done on a statutory basis. Fundamentally, this agency will purchase troubled property loans worth circa €90bn from the country's banks at a discounted rate (which is yet to be calculated). The idea is that, in purchasing these loans in exchange for Irish government bonds, the banks will be able to use the bonds as collateral in obtaining funding from the ECB, which will in turn be lent to businesses in Ireland that are currently starved of credit. The success of NAMA will depend on the impact on the country's debt rating once the ultimate discount is calculated, as well as the ability of the banks to restore their capital base after this discount.

With the majority of the country's property assets sitting within this agency, it would be expected to have a material influence on the shape of the construction industry over its life span (expected to be 10-15 years). This is due to the large number of assets it will purchase (in order to maximise debt recovery for NAMA), which will need to be developed over the years – including large quantities of residential and commercial land ripe for development.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
John Sisk & Sons (Holdings) Ltd	Dec 08	1,276	1,276	17
Michael McNamara & Co	Dec 08	504	504	N/A
BAM Contractors Ltd	Dec 08	460	460	N/A
Pierse Contracting Ltd	Apr 08	439	439	N/A
SIAC Construction Ltd	Dec 08	410	410	N/A

PPP/PFI and concessions

The PPP market, while having a number of projects across several sectors, has been impacted by the current economic downturn and more specifically by the issues within the long-term debt market. Planned capital expenditure for the next few years has been reduced. However, PPP projects continue to be launched, including a new roads programme (four projects), a third-level education programme (four projects) and the continuation of the schools programme. In addition, the Metro North project continues at BAFO stage, as does tranche one of the National Roads Authority motorway service station project. Other large PPP infrastructure projects planned for the short- to medium-term include the Dublin rail interconnector project, and the Metro West and national oncology projects (three projects).

Despite the difficulties in the financial markets, the National Development Finance Agency and Department of Education and Science successfully closed bundle one of the schools PPP programme in April 2009. The successful consortium, led by Macquarie and including Pierce Contracting, will design-build-finance-operate four new secondary schools for a 25-year period. The second bundle of this programme, involving six schools, is currently at the bid evaluation stage with a preferred tenderer expected to be appointed late 2009. Bundle three is also expected to be launched in the last quarter of 2009.

As with all PPP-type projects, issues are arising due to escalating financial costs and access to long-term funds. This is because the number of funders that can provide long-term finance is much reduced. In addition, as the underwriting market is effectively gone, banks need to club together to build up the required levels of funding. With the 'take and hold' levels of each individual bank being from €30-80m, the large number of banks required for bigger transactions is making the management of the various parties difficult.

As an alternative, the Irish government is actively looking at ways of accessing institutional investors for infrastructure projects that could provide longer-term funds. With the absence of monoline insurers this is more difficult. As a result of this – and because exchequer funds are likely to remain tight over the coming years – it is expected that the use of PPPs will increase, particularly if the funding markets free up or a method of accessing the institutional funds is identified.

M&A activity

There was no major M&A activity in Ireland's construction sector during 2008.

Italy

Market statistics

	2008	2007
GDP (€bn)	1,572	1,535
Real GDP growth (%)	-1	1.4
Total construction industry volume (€bn)	140	142
Share of GDP (%)	8.9	9.3
Number of employees	N/A	1,974,689
Share of working population (%)	N/A	8.5
Companies active in construction	N/A	N/A

Notes:
1. GDP for 2008 is nominal as reported in the EIU Country Report, June 2009.
2. Construction volume for 2008 has been calculated by applying the change in construction output reported in the EIU Country Report, April 2009.

Trends

Italy's economy slowed in 2008, with real GDP growth contracting to -1% compared to a growth of 1.4% in 2007. Construction industry volume in 2008 also contracted by 1.8%, in line with a reduction in its contribution to GDP.

Residential construction

Following a period of significant growth between 2004-08, with a CAGR of 4.3%, residential construction fell 1.5% in 2008. This slowdown is expected to continue throughout 2009. House construction also fell by 3.8% in 2008, with 235,900 new houses being completed. This is expected to decline further, to around 225,000 new houses per year by the end of 2013.

The residential construction industry is showing an increased degree of consolidation and profitability. This situation is favouring the large players who can leverage their scale and scope to reduce material costs.

Non-residential construction and civil engineering

Growth in this subsector has been slow over the past five years and it is expected to decrease during 2009, however a recovery is expected from 2010-13.

Previous under-investment has put Italy at a disadvantage compared to other European economies. However, the Italian government is committed to improving and modernising its transport and infrastructure system, and has embarked on a large programme of related investments. A recent example is the 182km high-speed rail link between Milan and Bologna which opened in December 2008 and cost around €7bn.

In June 2009, the Interdepartmental Committee for Economic Planning approved its priorities for infrastructure projects. The value of these projects amounts to €29bn, of which €11bn will be publicly-funded and €18bn will come from private investors. Despite the fact that the majority of the funds are to be dedicated to mainstream infrastructure projects, other areas are also benefiting. These include the education sector with €750m for new schools and the prison service with €200m for new prisons, as well as €380m for reconstruction work following the earthquake in Abruzzo in 2009.

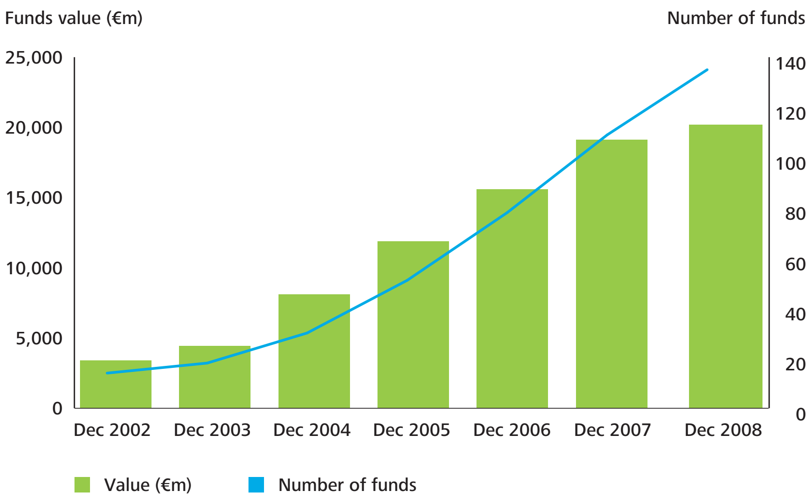
Real estate funds

A major feature of the Italian construction and property market is the presence of real estate funds which by the end of 2008 numbered 135, up 24% from 2007, and worth more than €20bn. As of December 2008, of the 135 funds 110 were reserved for specialist investors (69% of the total value invested) and 25 were open to the retail market (31%).

Of the Italian real estate fund market, the total asset allocation is broken up into: offices (54%); commercial property (17%); and residential, tourism, logistics and industrial building projects (29%).

The graph opposite shows the growth in funds since 2002.

Growth in funds since 2002



Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
IMPREGILO SpA	Dec 08	2,867	2,867	168
Astaldi SpA	Dec 08	1,467	1,467	45
TREVI Group	Dec 08	1,050	1,050	77
Pizzarotti & Co SpA	Dec 08	748	748	12
Società Italiana per Condotte D'Acqua SpA	Dec 08	717	717	3

PPP/PFI and concessions

Italy's PPP market has significant potential, but procedural and administrative delays often impede progress and discourage investors.

However, the Ministry of Infrastructure and Transport and the EIB have signed an agreement for financing works forming part of the government's 10-year strategic infrastructure plan.

Under this agreement the EIB and the ministry will work together to identify projects covered under the plan, that are eligible for financing by the bank. They will share skills to define appropriate finance and project structures, including the awarding of concessions under PPP arrangements. The EIB will provide an estimated €15bn of finance from 2008-12 for infrastructure projects, including the completion of Venice's flood protection barrier, the Pedmontana motorway and several rail infrastructure projects.

M&A activity

Italy-based private equity firm Equiter SpA and banks Banca Intesa Infrastrutture e Sviluppo SpA and Ubi Banca, together acquired a 32% stake in Autostrada Pedemontana Lombarda, a road construction company, for approximately €15m from motorway operator Milano Serravalle-Milano Tangenziali in February 2009.

German investment holding company Sopela Beteiligungsverwaltungs GmbH acquired a 3.3% stake in Atlantia Spa, an Italian company specialising in the construction and management of toll motorways and connected traffic services, from Corporate Partecipazioni Srl for €248m in December 2008.

Società Italiana per Condotte D'Acqua also acquired a 55% stake in Cossi Costruzioni SpA, a company that specialises in building tunnels and dams, from LIRI Srl for €20m in November 2008.

ABM Merchant SA Group acquired 40% of civil engineering contractor Torno Internazionale SpA in May 2008 for €62m.

The Luxembourg-based Mercurio Retail Properties Fund, which is owned by Natixis SA, acquired a 45% stake in CDS Holdings SpA, a company that develops warehouses and shopping centres, in February 2008.

Finally, STRABAG SE agreed to acquire construction firm Adanti SpA from SECI SpA in February 2008 for an undisclosed sum.

Netherlands

Market statistics

	2008	2007
GDP (€bn)	595	567
Real GDP growth (%)	2.1	3.5
Total construction industry volume (€bn)	90	81
Share of GDP (%)	15.1	14.3
Number of employees	N/A	389,000
Share of working population (%)	N/A	5
Companies active in construction	N/A	85,910

Trends

According to the Economic Institute for the Building Industry, the Dutch economy grew by just 1.5% in 2008, while building outputs increased 2.4%. In addition, construction turnover increased by nearly 10% to €90bn, the same growth rate as in 2007. However, the recession did result in a slowdown to 6% in the fourth quarter of 2008, after three quarters of booming growth (at around 12%).

Residential and non-residential construction represented the largest sectors in the industry, almost a 50% share, while civil engineering and other sectors accounted for 17% and 37% respectively.

Residential construction

Total residential output increased by almost 1% in 2008, due primarily to well-filled order books in the first six months of the year. However, demand remains substantially below the level of recent years because of factors such as uncertainty about house prices, an ongoing lack of government incentives and greater reticence on the part of mortgage lenders.

Despite building permits granted in recent years contributing to the overall turnover growth, the number of residential building permits granted from January to August 2008 was down nearly 2% compared to the same period in 2007. This is expected to affect future output in the sector.

Property developers are starting fewer residential construction projects because of increased financing costs and greater risk profiles. Building costs have also risen; total building costs for new houses, for example, rose by nearly 5% from January to September 2008. Nonetheless, the rental market in which housing corporations are the customers (which includes the maintenance, renovation and building of properties for the rental market) remains stable.

Non-residential construction

In 2008, non-residential construction continued to experience significant growth, with output increasing by more than 5%. The credit crunch is expected to substantially reduce the sector's willingness to invest, but the stable volumes seen in the public buildings sector will partly compensate for this trend. Construction volumes in the healthcare and welfare sectors, as well as in education, will continue to grow in the coming years. Meanwhile, the number of non-residential building permits granted for buildings, such as offices and schools, rose by 5% over the same period.

Civil engineering

Civil engineering recorded one of the lowest turnover growths in 2008. Output in the Dutch market increased by 2% in 2008, which was slightly less than in 2007. The number of civil engineering activities relating to residential and non-residential construction – such as making sites ready for construction and residency – decreased considerably due to a fall in demand within these sectors. Building costs also increased by 8%, with no volume growth.

Meanwhile, government policy is focusing on improving infrastructure. For example, amendments to the Road Widening Emergency Act cleared the way for a rapid improvement in the traffic situation at 30 trouble spots. However, the Economic Institute for the Building Industry forecasts that demand will shrink moderately for the next two years before starting to grow again in 2011.

Public investment is expected to be more robust during the downturn, especially as the government has pledged some infrastructure spending as part of a fiscal stimulus package. It aims to spend a total of €37bn on infrastructure investments from 2006-10, and the ministry of transport and public works wants to introduce a larger role for the private sector in public transport.

The table below summarises the procedures, time and costs involved in building a warehouse in the Netherlands.

Indicator	Netherlands	OECD
Procedures (number)	18	15
Duration (days)	230	162
Cost (% of income per capita)	112	57

PPP/PFI and concessions

The government finalised three major PPP projects in 2008. They were the Zestienhoven Detention Centre in Rotterdam, offices for the IB Groep and the tax authorities in Groningen, and the Kromhout Barracks in Utrecht. The Kromhout project will include a substantial extension to the accommodation which will increase its capacity from 1,000 to 3,000 people. It is notable that the consortium for this project succeeded in raising a €90m loan in a turbulent financial market.

Apart from these projects, which are in the construction phase, the Waldwei N31 PPP project was also finalised and is now operational.

M&A activity

Consolidation in the Dutch construction industry continues.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Koninklijke BAM Groep NV	Dec 08	9,264	9,264	162
Koninklijke VolkerWessels Stevin NV	Dec 08	5,393	5,393	142
Heijmans NV	Dec 08	3,638	3,638	-34
TBI Holdings BV	Dec 08	2,279	2,279	48
Koninklijke Boskalis Westminster NV	Dec 08	2,142	2,142	249

Note: The revenues of the above companies, apart from TBI Holdings BV, include those from joint ventures.

Norway

Market statistics

	2008	2007
GDP (€bn)	307	284
Real GDP growth (%)	2.1	3.1
Total construction industry volume (€bn)	37	35
Share of GDP (%)	12	12.3
Number of employees	N/A	N/A
Share of working population (%)	N/A	N/A
Companies active in construction	N/A	N/A

Housing	2008	2007	2006	2005	2004
Buildings completed	28,617	30,970	28,554	29,544	23,609
Buildings started	25,824	32,520	33,314	31,608	29,999
Buildings under construction	34,337	38,089	37,525	33,971	33,482

Trends

Norway's economic growth decreased to 2.1% in 2008, from 3.1% the previous year, with GDP reaching €307bn. This was in line with all major economies. Construction volume, however, increased to €37bn in 2008 from €35bn in 2007.

Residential construction

Construction activity in the housing sector started decreasing in late 2007 after many years of high sales. Demand for new houses was low in 2008; a large supply of completed houses coupled with lower sales resulted in excess supply. This in turn meant the postponement of new houses being started and the number of new projects is likely to continue falling in 2009. In addition, the number of buildings completed fell and house prices dropped 10% in 2008. However, demand for detached and semi-detached houses in suburban/urban areas is likely to rise in the near future. This is mainly due to an increase in population growth in and around Norway's major cities. Continuous low interest rates in a relatively stable national economy will also contribute to an increase in demand for detached houses, particular as the focus over the past few years has been on developing apartments and smaller houses.

Central and eastern parts of Norway and Oslo have witnessed an inflow of people over the past few years and this trend is likely to continue in the near future. This coupled with lower interest rates might boost the housing market over the long-term.

The Norwegian government plans to pursue a social housing policy, the aim of which is to ensure that everyone can live in decent housing. The Housing and Building Department will be responsible for implementing this new policy.

Non-residential construction

In 2008 demand for commercial buildings in Norway decreased. Indications from property developers point towards a further fall in demand during 2009 and therefore slower rates of development. However, central and local government initiatives and maintenance work on nursing homes, schools and other buildings are likely to help maintain construction levels.

Non-residential construction has seen a rise in private investors interested in green construction, although such investments are likely to be on hold for the near future because of poor economic prospects and restrictive bank lending policies.

Civil engineering

Supported by substantial public sector investments, civil engineering was buoyant in 2008 and competition for projects remained stable. Government indications are that there will be an increased focus on rail, road and other major infrastructure projects. However there is some uncertainty with regard to the timely implementation of these projects, as such large-scale programmes require extensive planning and follow-up from clients.

In 2009, the overall Nordic construction market is likely to contract. This expected decline can be moderated if the Nordic governments endorse stimulus packages and invest in upgrading infrastructure facilities. This is particularly important as private investments are expected to decline in 2009.

In terms of the Norwegian construction market specifically, a decline of 3% is expected in 2009, followed by a further decline in 2010.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Veidekke ASA	Dec 08	2,392	2,065	74
Skanska Norge AS	Dec 08	1,472	1,472	39
NCC Construction AS	Dec 08	864	864	N/A
AF Gruppen ASA	Dec 08	714	606	26
BWG Homes ASA	Dec 08	382	382	-10

Notes:
1. Exchange rate used for 2008: Nkr8.29=€1.
2. Veidekke and AF Gruppen revenues include those from joint ventures.
3. Skanska Norge AS's revenue figure includes revenues from the construction and residential development subsectors. Figures for revenues from commercial development and infrastructure were not available. The net profit figure for this company was also not available, so the operating figure has been inserted in the net income column.

PPP/PFI and concessions

The government's national transport plan for the next 10 years does not include the use of PPP models for road construction, even though a study of the last three PPP road projects concluded that that they were finished much faster than similar publicly-financed projects. The prime reason for quick completion was the use of private finance rather than yearly allocation of funds from the government's budget.

Transport economists and politicians have criticised the omission of PPP/PFIs from this plan. However, the Norwegian government is increasingly looking at various options for enhancing the quality of the country's infrastructure (primarily roads and railways), and PPP/PFI concessions are starting to be considered as part of that.

M&A activity

VSP Holding AS, an investment holding company with interests in construction-related services, acquired Protector AS, a company specialising in the remediation of concrete corrosion, for an undisclosed sum.

Peab AB agreed to acquire construction services company Senter-Bygg Entreprenor AS for an undisclosed sum; Senter Bygg operates in the Drammen province and is active in building and renovating housing.

Poland

Market statistics

	2008	2007
GDP (€bn)	358	308
Real GDP growth (%)	5	6.6
Total construction industry volume (€bn)	39	35
Share of GDP (%)	10.9	11.4
Number of employees	421,700	430,100
Share of working population (%)	5.1	5.2
Companies active in construction	N/A	N/A

Notes:
1. Exchange rate used for 2008: Zl3.54=€1.
2. The total number of employees excludes entities employing less than 10 people.

Trends

Poland's GDP increased by 5% in 2008. For the past few years, strong private consumption and high levels of public sector spending have resulted in above average GDP growth in Poland. The credit crisis does not appear to have made its mark on the country's construction sector as yet.

The Polish construction market is the largest in eastern Europe. Construction volume increased by 12% to €39bn in 2008, compared to €35bn in 2007, and a fall in residential construction was offset by an increase in infrastructure construction. The construction market is expected to increase 5-10% from 2009-10, higher than the expected GDP growth of 3-4% in 2009. Euroconstruct estimates construction growth to fall to single digit growth of 8% for 2009.

Residential construction

Permits issued for house construction fell 7.1% in 2008 to 230,100, and the number of houses completed increased by 23.6% to 165,200. Residential construction is expected to come down by 4% in 2009, but is likely to recover in 2010 with growth of 3%.

Housing construction	2008	2007	2006	2005
Permits issued	230,100	247,700	168,400	123,900
Houses started	N/A	185,100	138,000	105,800
Houses completed	165,200	133,700	115,400	114,100

The value of residential real estate transactions has plummeted; driven by a widening gap in price expectations between buyers and sellers, and restricted access to credit, developers are in a fix. However, because of the continuing shortage of houses the situation will inevitably improve over the longer-term.

Non-residential construction

Activity in non-residential construction increased by 10.3% in 2008 and is likely to grow at 5.2% in 2009. Non-residential construction, such as retail centres and warehouse premises, was strong during the first three quarters of 2008 with a slowdown in activity towards the end of the year. Vacancies of commercial space fell to 2% in central urban locations. There was very strong interest from investors until the global economic downturn began.

Non-residential construction is likely to continue performing well. The Euro 2012 Championships will encourage public and private investors to invest in sports facilities, hotels and other related infrastructure worth approximately €3bn.

Civil engineering

The country has significant need for investment in infrastructure, two-thirds of which will be financed by the EU. Civil engineering works will be a major driver for the construction industry in Poland, with double-digit growth in the medium-term due to finance from guaranteed cohesion and structural funds. Poland will be the main beneficiary of these funds from 2007-13, receiving about €57bn. The first assignment of funds was made in connection to the Euro 2012 Championships.

The Polish Ministry of Infrastructure estimates that investments in national motorways will reach €35bn during the period 2008-12, with a similar amount being invested by local authorities in maintaining local roads and regional motorways. Investments in railways are estimated at €9bn for the same period, while infrastructure improvements for airports are estimated at €2bn.

Civil construction has recently been weakened by a delay in planned projects but it is likely to improve soon. Delayed projects are expected to be resumed to enable the country to make use of EU aid and continue upgrading its infrastructure in preparation for 2012. Overall, activity in civil engineering increased by 14.3% in 2008 and is expected to grow by 21.4% in 2009.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Polimex-Mostostal SA	Dec 08	1,215	1,212	34
Budimex SA	Dec 08	946	946	30
STRABAG Poland	Dec 08	889	889	N/A
Skanska SA	Dec 08	792	792	38
Mostostal Warszawa SA	Dec 08	629	629	23

Notes:
1. Exchange rate used for 2008: Zl3.54=€1.
2. Net income is the profit attributable to the shareholders of the parent company.
3. STRABAG's revenue figure includes revenues from associates.

PPP/PFI and concessions

In Poland, the new PPP Act and the Act on Concessions for construction and services have been in force since February 2009.

The Infrastructure Ministry has signed a €1bn contract for the A1 motorway (the Nowe Marzy to Torun section) with the Gdansk Transport Company. This project will be executed via a PPP and is being financed by the EIB, the Nordic Investment Bank, and the Swedish Corporation for Exporting Loans. Skanska Infrastructure Development AB is the majority shareholder in Gdansk Transport Company.

Poland's preparations for the Euro 2012 Championships are going well with respect to stadium building. Four out of six cities have contracts in place for the construction of their stadiums. On the other hand, railway modernisation and motorway construction are both behind schedule. According to the Commission of Infrastructure, Poland is going to build only 60% of planned roads by 2012 if the current trend continues.

Contracts for the construction of 408km of motorway and 404km of other types of state roads were signed between November 2007 and June 2009 according to the Infrastructure Ministry. Among the motorways built to date, 60km were financed traditionally while 350km were financed via PPP arrangements. In 2008, 32 tenders worth €4bn were completed and roughly 190 contracts signed. About 720km of state roads are being re-built at the moment.

M&A activity

Sweden-based construction and property development company, NCC AB, sold its 10% interest in Polish company Autostrada Wielkopolska SA to Meridiam Infrastructure A2 Sarl, a subsidiary of Meridiam Infrastructure Fund (SCA) SICAR, a Luxembourg-based investor focused on PPP projects in Europe. Autostrada Wielkopolska SA has a concession to construct, own and operate the A2 motorway between Nowy Tomysl and Konin in Poland.

Polish construction group Erbud SA acquired Przedsiebiorstwo Robot Drogowych SA, a Polish road construction company and manufacturer of bituminous goods, for €12m.

Polish construction company PBG SA, which specialises in energy and gas pipelines, acquired a 70% stake in Przedsiebiorstwo Betpol Spzoo, a domestic road construction, engineering and installation firm, for €12m.

Portugal

Market statistics

	2008	2007
GDP (€bn)	166	163
Real GDP growth (%)	0	1.8
Total construction industry volume (€bn)	20	20
Share of GDP (%)	5.6	5.6
Number of employees	560,000	570,800
Share of working population (%)	11	11
Companies active in construction	56,000	56,000

Trends

In 2008, the Portuguese economy was hit by the global economic crisis, in terms of an increase in raw material prices during the first half of the year and a slowdown in foreign demand during the second half. This resulted in a GDP growth rate of nil in 2008, with two consecutive quarterly drops of economic activity in the second half of the year.

The construction sector has been declining since the early 2000s, with output (on a national accounts basis) contracting year-on-year from 2002-06 before recovering slightly by 0.8% in 2007. At the start of 2008, the Portuguese Federation of Construction Industry and Public Works (FEPICOP) expected turnover to be around €20bn, a similar level to 2007. However, in the first half of 2008 the sector fell again by 2.7% year-on-year. This was partly attributable to government policies that curtailed public sector investment but also to the enduring weakness in housing demand. Government efforts to trim the budget deficit also resulted in delaying or scrapping significant public projects in 2008. As a result, the construction industry's overall production index fell by 1.1%.

Production in the residential construction sector contracted 9% in 2008, a fall only outstripped in 2003.

Production levels in civil engineering performed well, closing the year 2.1% up from 2007, although this variation was insufficient to boost the sector significantly.

Despite the good issue rate of public calls for construction work tenders and the gradual improvement of contracts awarded throughout 2008, the performance of this subsector was below expectations (which had been raised as a result of intentions to invest in engineering and construction infrastructure). This was despite a 32% increase in the number of bids for construction work tenders. They even peaked at more than 100% during the middle of the year, leading to expectations of a higher rate of adjudications. However, this was only seen later in the year because up until the end of August the amounts contracted were less than in 2007.

In the fourth quarter of 2008, building permits and completed buildings were at their lowest rates since 2001; roughly 8,900 building permits were licensed and 7,000 buildings completed. These figures represented annual average decreases of 13.7% and 11.9% respectively.

The outlook for residential construction is still bleak with a decline of 3-5% expected in 2009. Residential construction represents around 38% of the construction sector. Meanwhile, civil engineering which represents around 37% is expected to grow 6-8% in 2009. These expectations are based on the belief that measures recently announced by the European Council, and more specifically by the Portuguese government, will increase public investment.

Additionally, the strategic importance of the projects listed in the priority infrastructures investment plan (PIIP) has increased as a result of the crisis. Therefore, it can be expected that any major projects not yet implemented, such as the high-speed railway and the new Lisbon Airport, will be speedily launched. However, it is also expected that decisions regarding major infrastructure investments will be postponed and taken by the future government in 2010.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Mota-Engil SGPS SA	Dec 08	1,869	1,467	31
TEIXEIRA DUARTE Engenharia Construções SA	Dec 08	1,291	793	-347
Grupo Soares da Costa SGPS SA	Dec 08	835	726	8
Somague Engenharia SA	Dec 08	700	700	7
Opway Engenharia SA	Dec 08	621	621	-10

PPP/PFI and concessions

The government has approved a €43bn public-private infrastructure development plan (with half the funds being provided by the private sector) for projects up until 2017 – including a high-speed railway, a new international airport near Lisbon and a bridge over the Tagus river.

During 2008, Altavia Alentejo, a consortium led by Mota-Engil, submitted a bid for the concession of a high-speed railway from Poceirão to Caia. This PPP is set to be the first of five high-speed railway projects in Portugal and is a priority for the Trans-European Transport Network. The project will cost an estimated €1,450m and the concession period will last 40 years, including the design-build-finance-maintenance-provision of the railway and the new Évora station.

The business model, which has been approved by the Portuguese government, also calls for the launch of PPPs for each section of the high-speed railway: from Lisbon to Poceirão, Lisbon to Pombal, Pombal to Porto, and Braga to Valença. The government originally said that calls for tenders would be issued in 2009 but they will probably be postponed to 2010.

During 2008, the government confirmed its decision to locate the new Lisbon Airport at the site of the old Alcochete firing range. The construction of the airport is expected to start in 2011 coming into operation by 2017. This project will be linked to the privatisation of ANA (Aeroportos de Portugal), the Portuguese airports operator. The final model for the new airport's construction and ANA's privatisation will probably be postponed to 2010, when the new airport construction tender is also expected to be launched, representing an investment of €5bn.

M&A activity

Opway, a Portuguese construction company, agreed to acquire a 71% stake in Construtora do Tamega (Madeira) SGPS SA, a Portugal-based construction company specialising in the Madeira market.

Mota-Engil Concessoes de Transportes SGPS SA, a Portuguese company that builds and operates motorways, and ES Concessoes, the transport concessions arm of Banco Espírito Santo SA, also agreed to form a 60:40 joint venture called Ascendi Concessoes de transportes SGPS SA.

Also during 2008, civil construction company Soares da Costa Construcao bought Contacto Sociedade de Construcões, a Portugal-based construction company, from SC Engenharia e Promocao Imobiliaria (SC EPI) for approximately €81m.

Romania

Market statistics

	2008	2007
GDP (€bn)	137	122
Real GDP growth (%)	7.1	6
Total construction industry volume (€bn)	15	12
Share of GDP (%)	10.7	9.6
Number of employees	404,700	389,500
Share of working population (%)	8.5	8.3
Companies active in construction	N/A	N/A

Notes:
1. Exchange rate used for 2008: Lei 3.68=€1.
2. GDP and real GDP growth for 2008 are EIU estimates.

Value of new construction orders – year-on-year growth	2008 (%)	2007 (%)	2006 (%)
Residential buildings (RON)	37.9	20.2	21.8
Non-residential buildings (RON)	0	92.3	37.5
Civil engineering (RON)	7.1	55.6	45.4
Total (RON)	8.6	58.8	39.7
Residential buildings (€)	2.5	26.9	25.1
Non-residential buildings (€)	-9.3	103	41.4
Civil engineering (€)	-2.9	64.4	49.5
Total (€)	-1.6	67.7	43.6

Trends

Construction volume in Romania increased by 26% in 2008, compared with growth of 33.6% in 2007. Despite facing a deceleration of construction growth, Romania remains one of the most dynamic European countries in terms of construction output. In the fourth quarter of 2008, Romania achieved the highest construction works growth in the EU at 16.6%, and the construction sector remained the main GDP growth driver. However, construction is expected to face the sharpest downward correction of all the sectors in the economy. State forecasting body CNP reduced the predicted growth rate for the value generated by the construction sector to 6.2% year-on-year in 2009, from 12.8% in a previous forecast.

The value of new construction orders increased 8.6% in nominal terms during 2008 to €13bn. However, when expressed in Euros the total value of new construction orders actually declined by 1.6%.

Residential construction

Growth in residential construction stood at 18.3% for 2008, falling from 29.3% in 2007. There were 61,092 permits issued, which was an increase of 7.9% from 2007. Finished houses in 2008 numbered 64,414, an increase of 36.2% from 2007.

Non-residential construction

The total industrial floor space available in Bucharest is about 2.4m m^2. The country's modern warehousing market is evolving but it is still in its infancy. However, demand for warehouse and logistics space has been maintained as a result of growing retail trade, and the desire of logistics providers and retailers to secure modern premises.

In 2008, available retail space in Romania increased by 50% compared to the existing stock available at the end of 2007.

Supply of office space in Bucharest continued to increase during 2008, when approximately 300,000m^2 of new buildings were completed – 25% higher than the previous year. At the end of 2008 total office stock reached 1.3m m^2.

Civil engineering

Civil engineering works increased by 25.9% in 2008, compared to 34% in 2007.

The country currently has 200km of motorway, and within two years this is expected to rise to about 700km.

Romania is expected to attract at least €2bn of structural funds in 2009. According to EU laws, funds assigned to 2007, 2008, 2009 and 2010 can be attracted up to four years, while the funds assigned to 2011, 2012 and 2013 can be attracted for up to three years. Structural funds for Romania total €19bn.

The Romanian government earmarked €10bn (20% of its total budget) for public investments in 2009. The majority of these funds are to be used for the development of Romania's roads and railways, and industry players expect them to start having some impact in the second half of 2009.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Hindroconstructia SA	Dec 06	237	237	17
STRABAG	Dec 07	191	191	N/A
Delta ACM 93 SRL	Dec 06	67	67	N/A
Tehnologica Radion SRL	Dec 06	63	63	N/A
TMUCB	Dec 06	61	61	N/A

PPP/PFI and concessions

Romania and Bulgaria have drafted a joint agreement for the building of two more bridges over the Danube river. The bridges will be built by way of a PPP arrangement and will link Bechet of Romania to Oreakhovo of Bulgaria, and Calarasi of Romania to Silistra of Bulgaria.

Romania is also coordinating the construction of a high-speed railway to connect Vienna, Budapest and Bucharest. Romania is leading the project because it will house the largest section of railway which will be approximately 800km long. This section could be funded by the EU or via a PPP, and investment is expected to reach €12bn.

M&A activity

Romanian construction company Straco Grup acquired Genesis International, a Romanian heavy construction company, from UK-based investment fund Beechwood Investments for an undisclosed sum during 2008.

The Cyprus-based investment holding company of businessman Horia Simu, Wagma Holdings Ltd, acquired a 64.1% stake in CCCF SA, a Romania-based construction company, from Asociatia Salariatilor for €14m.

Slovak Republic

Market statistics

	2008	2007
GDP (€bn)	65	55
Real GDP growth (%)	6.4	10.4
Total construction industry volume (€bn)	6	5
Share of GDP (%)	9.7	8.4
Number of employees	256,700	237,100
Share of working population (%)	10.6	10.1
Companies active in construction	N/A	N/A

Note: Nominal GDP at current market prices.

Trends

Although its national GDP increased to €65bn in 2008, Slovakia's real GDP growth declined to 6.4%, from 10.4% in 2007. However, in January 2009 the country adopted the Euro as its national currency – something which is expected to spur economic growth.

In 2008, construction volumes increased by 37% to €6bn, up from €5bn the previous year. New construction accounted for nearly €5bn of total construction volume for the year, while the rest was contributed by repairs, maintenance and projects abroad. Factors including increased foreign investment; EU funds for infrastructure projects; ongoing motorway construction; and the need for additional housing in the Slovak Republic, are boosting the country's construction activity.

Residential construction

28,321 new houses were started in 2008, an increase of 50% from the previous year. The number of residential properties being built reached 66,122 by the end of 2008, while 17,184 houses were completed (up 4.3% from 2007) – mostly in Bratislava. Other areas experienced a decline in the number of newly completed houses.

According to the National Bank of Slovakia, the average house price in 2008 was €1,511 per m^2 compared to €1,238 per m^2 the previous year, an annual increase of 22.1%. The highest price noted was €1,972 per m^2, in the Bratislava region, representing an increase of 18.4% from 2007. The lowest price was in the Nitra region at €744 per m^2, an increase of 44% from 2007.

Non-residential construction

The Slovak Republic experienced strong economic growth from 2007-08, which provided momentum for increased demand for office space. The country's capital, Bratislava, has an estimated 1.1m m^2 of office space. The new business district emerging near the Danube River has also recorded increased levels of interest from developers, as areas for development in the city centre become limited. It is estimated that this region will eventually offer office space of 200,000m^2 – effectively doubling that available in 2007.

Modern industrial floor space was around 735,000m^2 in 2008, with the majority of warehousing concentrated around Bratislava. A lack of suitable industrial plots around the city has pushed development northwards towards regional cities along the D1 motorway – such as Trnava, Trenčín and Žilina which now have the potential to become destinations for local and international logistics developers. In addition, growing demand for industrial development is also being registered in the east of Slovakia, in particular around Presov and Košice.

The automotive industry has so far provided the principal source of demand for modern warehousing through affiliated companies such as Peugeot, Kia/Hyundai and Volkswagen, all of which are located along the major D1 and D2 motorways. In addition, logistics providers such as DHL (which holds a sizeable market share) have been active through a consolidation of their activities in the country. Prime rents for large industrial space in Bratislava have remained stable at €46 per m^2 per annum. However, the risks to the motor industry are likely to impact the regional property market, placing downward pressure on property rents.

Civil engineering
In 2008, €168m was invested in the reconstruction and modernisation of the national railway network which will form part of the Trans-European Transport Network. Another major project undertaken in 2008 was the development of a new passenger terminal in Bratislava Airport and the subsequent reconstruction of the current terminal. Infrastructure company ZIPP Bratislava won the tender for an estimated €93m. The construction of the new terminal is expected to be completed in May 2010, while the reconstruction of the existing terminal will be finished by February 2010.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
STRABAG	Dec 08	558	558	N/A
Doprastav Group	Dec 08	388	388	10
Zipp Bratislava, spol. sro	Dec 08	352	352	4
Vahostav SK AS	Dec 08	299	274	7
Inzinierske stavby as	Dec 08	252	252	2

PPP/PFI and concessions

The transport, post and telecommunications ministry has initiated PPP projects to build nearly 150km of motorway. These projects are expected to cost €4bn and be completed by 2010.

With the economy coming under financial pressure due to the international credit crunch, it is expected that the majority of future projects will be funded through PPPs.

M&A activity

There was no significant M&A activity in the construction industry during 2008.

However, one considerable acquisition was carried out by STRABAG SA in October 2008, when it acquired Deutsche Telekom Immobilien and Service GmbH, a German real estate and facility management services provider. The newly-acquired entity allows STRABAG to enter the facility management services arena.

Spain

Market statistics

	2008	2007
GDP (€bn)	1,095	1,051
Real GDP growth (%)	1.2	3.7
Total construction industry volume (€bn)	193	200
Share of GDP (%)	17.7	19
Number of employees	2,404,200	2,697,400
Share of working population (%)	11.9	13.3
Companies active in construction	N/A	N/A

Trends

Spain's real GDP growth slowed to 1.2% in 2008, down from 3.7% in 2007. The EIU forecast GDP to decline by 4.2% in 2009 and 1% at the start of 2010, with a modest recovery towards the end. Falling tax revenues and increased spending might also result in an increase in the country's fiscal deficit, from 3.8% of GDP in 2008 to approximately 12% in 2010.

Construction volume fell to €193bn in 2008, against a backdrop of a real estate bubble bursting and global economic crisis. The number of employees in the construction sector also fell sharply in 2008.

Residential construction

In Spain, the housing market remained weak in 2008 due to a continuing over-supply of new properties on the mainland. As a result of increasing uncertainty and the weakening of the Pound against the Euro, demand for residential properties from UK purchasers reduced during the year, as indeed it did from other European countries also. However, continuing demand in the subsidised housing subsector should lead the government to continue investing in this area.

The residential sector made up 32% of the total construction industry in 2008. The number of houses completed declined to 615,000 and permits issued numbered 263,000, 60% lower than 2007. Activity in residential construction is likely to fall by 21-26% in 2009.

Non-residential construction

Non-residential construction made up 16% of Spain's construction activity in 2008, a fall of 6% from 2007. Building refurbishments and maintenance, which accounted for 24% of construction activity, fell 4.5% in 2008. The number of construction permits issued for non-residential construction also fell, dropping 30% in 2008.

Civil engineering

Civil engineering constituted 28% of total construction in 2008, an increase of 4.5%. However, the financial crisis has impacted the start of projects that had already passed through the tender process, as builders were required to provide financing until the final settlement with the government.

Between 1996-2008 the government allotted funds in excess of €152bn to civil engineering, of which 14.3% is to be invested in 2009. In fact the government made a significant commitment to these investments in 2008, resulting in tenders and project implementations increasing by 7% and 6% respectively. The government's objective is to deliver new infrastructure projects in accordance with their strategic plan for providing better infrastructure, increasing employment and increasing industrial activity.

State investments in infrastructure	Expected change in 2009 over 2008 (%)	Change in 2008 over 2007 (%)	2009 estimates (€m)	2008 (€m)	2007 (€m)	2006 (€m)
Roads	21.1	16.6	5,614	5,010	4,297	3,451
Railways	35	8	8,200	6,075	5,625	5,704
Ports and marine security	-18.8	48.1	1,548	1,907	1,288	1,371
Airports and air security	-34.4	31.5	1,777	2,708	2,059	1,790
Transport infrastructure subtotal	9.2	18.3	17,139	15,700	13,269	12,316
Hydraulic	-8.3	32.7	4,221	4,603	3,469	3,605
Environmental	-12.7	28.8	754	864	671	194
Total	4.5	21.6	22,114	21,167	17,409	16,115

State investment in infrastructure is expected to increase by 4.5% in 2009, with the majority of funds being used for roads and railways. These investments form part of the PEIT strategic plan for infrastructure and transport, which aims to improve the country's infrastructure by 2020.

In 2008, government tenders amounted to €41bn which was in line with the previous year. Among Spain's regional governments, growth in tenders was relatively flat with a modest increase of 0.1%. Tenders from local administrations fell by 7.9%.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
FCC	Dec 08	14,016	7,744	337
ACS Group	Dec 08	16,010	6,625	1,805
Grupo Ferrovial SA	Dec 08	14,126	5,155	-838
Sacyr Vallehermoso SA	Dec 08	5,380	4,241	-256
ACCIONA	Dec 08	12,665	3,592	465

PPP/PFI and concessions

As part of the PEIT plan, roughly €249bn will be invested in infrastructure between 2005-20. Of this, 20% will be made up of PPPs and another 20% will come from investments by public companies such as Aena (airports), Puertos del Estado (ports) and ADIF (railways).

Due to the economic situation in 2008, fewer resources were available for new projects, resulting in uncertainty in the PPP market. Infrastructure programmes with private financing planned for 2008, such as first-generation motorways, were delayed due to problems around the closing of the finance stage, as well as issues with government contract negotiations. Budget restrictions at local councils and autonomous regions (which have accounted for two-thirds of public investments in the last decade) also contributed to the concession contracts for public works.

M&A activity

Spain has seen several years of industry consolidation, followed from 2005-07 by significant M&A activity among the top six listed construction companies. These companies have been concentrating on diversification and internationalisation, and acquisitions included that of Fenosa and 30% of HOCHTIEF by ACS Group, Endesa being bought by ACCIONA, BAA by Ferrovial, and Alpine and WRG by FCC.

In 2008, the industry then saw the top Spanish construction companies involved in a divestment process, which reduced their €98,000m debt as of 31 December 2007 to about two-thirds of that a year later.

The main divestments included:

- ACS Group sold its 45% stake in Fenosa for €8bn.

- ACCIONA sold its 25% in Endesa for €10m.

- Ferrovial sold several BAA assets (World Duty Free and various real estate assets) for €1bn, as well as its stake in Belfast Airport for €167m.

- ACS Group sold its highway concessions in Chile and several airports in Latin America to Abertis (a listed Spanish concessions group) for €810m.

- Sacyr sold its stake in Itinere (its infrastructure concession branch) to a Citigroup Infrastructure investment fund for €3bn.

Also, several of Spain’s listed construction companies announced their plans to make other divestments. ACS Group announced its intention to sell its ports activities; Ferrovial is involved in a forced sale of Gatwick airport, as well as its parking division, in a proposed merger with Cintra; Sacyr announced and then froze the sale of its services division; while ACCIONA announced it intends to sell its parking and handling divisions.

During 2008, there was also some smaller-scale M&A activity including:

- FCC entering into the energy business by acquiring Babcock & Brown’s Spanish wind farms for €190m.

- FCC acquiring ACCIONA’s interest in five highway concessions for €101m.

- Private equity firm Mercapital agreed to acquire an 85% stake in Obras Subterráneas SA for €180m.

- Spanish real estate company Altec Empresa de Construccion y Servicios SA teamed up with a Spanish venture capital firm to buy a 54% stake in Contratas la Mancha SA for €25m.

- Grupo Empresarial Inverduero and Bitrebol Construccion agreed to merge their operations and create a new entity called Corporacion Llorente.

- OHL acquired a majority stake in industrial engineering firm Ecolaire for an undisclosed sum.

- In terms of cross-border investments, German-based bank Eurohypo AG exercised its option to acquire a 3.4% stake in FCC for €130m. Goldman Sachs also exercised its option to buy a 3.4% stake in FCC for €130m. These stakes come from an asset-debt deal with Inmobiliaria Colonial, a troubled Spanish real estate firm.

Sweden

Market statistics

	2008	2007
GDP (€bn)	326	331
Real GDP growth (%)	-0.4	2.7
Total construction industry volume (€bn)	26	27
Share of GDP (%)	8	8.1
Number of employees	300,000	N/A
Share of working population (%)	6.3	N/A
Companies active in construction	N/A	60,000

Note: Exchange rate used for 2008: Skr9.7=€1.

Trends

Sweden saw negative real GDP growth of 0.4% in 2008, compared to 2.7% in 2007. The EIU estimates real GDP growth will fall by 5.5% in 2009, with a modest recovery not expected until the end of 2010. In addition, the EIU predicts that declining revenues as a result of the economic recession and a reduction in taxes, might result in public finances moving into deficit in 2009-10.

Residential construction

Housing investments in Sweden fell by 5.4% in 2008, primarily in the third quarter. Construction began on 21,700 new homes, down from 28,300 in 2007.

In terms of looking ahead, the slowing economy and higher unemployment may well lead to lower purchasing power. The financial crisis may also lead to difficulties in procuring funding for new projects. On the other hand, real wage hikes due to lower taxes and interest rates may cushion the housing market from any negative effects.

Sweden needs more housing and, as a result, about 7,000 apartments and 8,000 houses are likely to be started in 2009. However, this will be the lowest level for the past 10 years. Mortgage lending increased by 11% up to September 2008.

From 1997-2007 Sweden saw a housing boom with prices often increasing by at least 10%. Prices then fell slightly in 2008. The weakest prices were seen in the Malmö region towards the end of the year. Consumer surveys indicate that many consumers expect house prices to fall further in 2009, and the central bank expects a decrease of at least 5%.

The national real estate tax was abolished at the beginning of 2008 and replaced with a smaller municipal fee of €619 for a small house. However, this reduction in tax was partially offset by capital gains tax increasing from 20-22%.

Non-residential construction

In Sweden, the construction market for commercial properties such as shopping centres and office buildings was strong in 2008, although a slowdown started towards the end of the year. Commercial property investments increased by 8.8% but commercial construction is likely to decline by 3% in 2009 as developers face difficulties borrowing funds. Nevertheless, large projects like shopping centres are likely to continue as they are mostly funded by international conglomerates with low borrowing levels.

Civil engineering

This sector improved 3.9% in 2008 and, according to the Swedish Construction Federation, is expected to increase by a further 10% in 2009 supported by public sector investments. The market for both large and small infrastructure projects is expected to expand and the government is likely to invest an additional €783bn in road and railway projects. Along with previously allocated funds, the government intends to invest a total of €1bn by the end of 2010. Parliament has passed the government’s infrastructure bill, which includes plans for investments worth €50bn in the management and maintenance of federal roads and railways up until 2024.

Åsa Torstensson, the Swedish Minister for Infrastructure, has started a review of the regulations and processes relating to the purchase of civil engineering contracts. The government has instructed the authorities to introduce better cost controls.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Skanska AB	Dec 08	15,218	15,218	320
NCC AB	Dec 08	5,924	5,924	187
Peab AB	Dec 08	3,571	3,571	112
JM AB	Dec 08	1,261	1,261	84
Svevia (formerly Vägverket Produktion)	Dec 08	782	782	7

Notes:
1. Exchange rate used for 2008: Skr9.7=€1.
2. Skanska AB, NCC AB, Peab AB and JM AB revenues include those from joint ventures.

PPP/PFI and concessions

According to a preliminary study by the Swedish National Rail Administration, Banverket, the renovation of the railway line between Härnösand and Sundsvall is likely to cost €559m. If this is carried out, the refurbishments will include a new stretch of track which will enable travel at higher speeds. This project may be divided into several tranches and PPP arrangements will probably be considered.

M&A activity

Peab AB agreed to acquire the entire share capital of Peab Industri AB for €573m during 2008. After the sale, Peab Industri AB was spun off from Peab AB and listed on the OMX Exchange.

Peab AB also acquired Berg och Falk AB during 2008, a company specialising in land development, management, maintenance and ballast production, from Ryno Berg, Managing Director of BEFAB.

Skagerack Holding AB acquired Sverigehuset i Goteborg AB, a property and housing developer, from Swedish private investors Bertil Borjesson, Tomas Akesson and Lars Olof Axelsson.

Austrian company STRABAG SE acquired an 85% stake in ODEN Anlaggningsentreprenad, a company specialising in engineering and tunnel and bridge construction, for an undisclosed sum.

Turkey

Market statistics

	2008	2007
GDP (€bn)	448	493
Real GDP growth (%)	1.1	4.7
Total construction industry volume (€bn)	21	24
Share of GDP (%)	4.7	4.9
Number of employees	1,126,000	1,130,000
Share of working population (%)	5.4	5.3
Companies active in construction	N/A	N/A

Note: The exchange rate used 2008: $1.47=€1.

Trends

Turkey was not immune to the global economic crisis, which curbed GDP growth from 4.7% in 2007 to 1.1% in 2008. Turkey's imports and exports also decreased, while unemployment increased and the level of incoming foreign capital dropped sharply.

One of the most vulnerable sectors in this scenario is the construction sector. Construction plays a crucial role in Turkey's economic development, accounting for well over 4% of GDP and employing some 1.1m people. When direct and indirect impacts on other sectors are taken into account, the construction sector's share in the Turkish economy actually reaches 30%.

In 2007 the construction sector grew 5.7%, however the growth rate fell to -7.6% in 2008.

The slowdown in the construction and real estate sectors was reflected by a recent sharp fall in the number of building permit applications. According to a study by EFG Istanbul Securities, as early as the second quarter of 2008, the number of permits being issued was down 20% compared to the same period in 2007. This contraction is predicted to continue throughout 2009. Nevertheless, the government has announced spending plans for the next three years, including fiscal stimuli for the construction sector worth €14bn.
The recession in the housing market, caused largely by excess supply in the mid-price range and overpriced projects in the premium range, was magnified by the economic crisis. This resulted in a sharp decline in the number of residential projects. Mortgage lending fell from €9bn to €7bn during the year, and house prices and rents dropped by as much as 25% in the second half of 2008. However, it is expected that the declining interest rates will have a positive impact on housing projects in 2009.

Developments in the shopping centre subsector in 2008, confirmed that it has reached saturation point. In Istanbul alone there are 250 prospective shopping centre builds, however most projects will remain on paper. The shopping centre development projects are likely to focus on other large cities in Turkey.

Demand for top-class office buildings also continued to rise during 2008, as did rents as a result.

On a more positive note, a report released by the Turkish Statistical Institute in January 2009 showed construction costs falling 3.9% in the fourth quarter of 2008. However, the institute also said that activity in the building sector was down by 4.3% in the third quarter, despite these lower prices for materials.

Building construction (45%), industrial facilities (20.2%), transport (20%) and infrastructure projects (7.7%) made up the majority of activities in 2008.

Distribution of projects undertaken abroad in 2008, by sector

Sector	Number of projects	Project value (€m)	Share (%)
Buildings	316	7,255	45
Transport	70	3,222	20
Industry	83	3,250	20.2
Hydraulic works	14	1,052	6.5
Infrastructure	52	1,236	7.7
Other	28	98	0.6

Detailed breakdown of projects undertaken abroad in 2008

	Subsectors	Project value (€m)	Share (%)
Buildings			
	Military facilities	89	0.6
	Hospitals	823	5.1
	Administrative buildings	286	1.8
	Accommodation	2,663	16.5
	Socio-cultural facilities	1,745	10.8
	Commercial centres	1,412	8.8
	Tourism facilities	236	1.5
Transport			
	Airports	1,056	6.6
	Roads/bridges/tunnels	1,473	9.1
	Ports	694	4.3
Industry			
	Depots/warehouses	33	0.2
	Energy facilities	1,082	6.7
	Factories	1,019	6.3
	Communications	152	0.9
	Power plants	962	6.0
Hydraulic works			
	Dams	469	2.9
	Irrigation systems	583	3.6
Infrastructure			
	Waste water	11	0.1
	Drinking water	36	0.2
	Urban infrastructure	1,189	7.4
Other			
	Provision of staff	30	0.2
	Other	67	0.4

Global markets and projects continue to play a major role within the Turkish construction sector. In 2008, 10% of the top 225 international contractors named by leading industry magazine *Engineering News Record* were Turkish companies. With 23 companies among the top 225, Turkey ranked third in the world after China and the US. This number increased to 31 in the following year and placed Turkey number two after China.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
ENKA İnşaat ve Sanayi AŞ	Dec 08	4,734	1,902	405
Tekfen Holding AŞ	Dec 08	1,188	622	43
Gama Holding AŞ	Dec 08	899	735	47
Yüksel Holding AS	Dec 08	476	455	8
Alarko Holding	Dec 08	437	302	29

Note: Exchange rate used for 2008: TL2.12=€1.

PPP/PFI and concessions

The government is planning to invite tenders for the construction of Ankara's high-speed railway station under a build-operate-transfer model from 2009-10. The estimated cost of the project will be €204m.

The government also plans to tender the construction of a third bridge over the Bosphorus, and high-speed railway stations in Istanbul, Izmir, Edirne, Trabzon, Erzurum, Erzincan, Sivas, Kayseri, Antalya, Afyon and Polatli in the near future.

In addition, the government will invite bids between 2008-09 for the construction of the Bandirma-Bursa-Osmaneli train station, a project worth an estimated €402m.

M&A activity

Çimsa Cimento Sanayi ve Ticaret AS, a listed Turkish cement and concrete manufacturer, acquired the plants and aggregate units of Bilecik Hazìr Beton Ltd Şirketi, a Turkish concrete company, for €13m. Lafarge, which has already sold its Lafarge Van AS company to Aşkale Cimento Sanayi TAŞ, has agreed to sell most of its remaining business plants to OYAK Cement Group, another major player in the industry. The deal is awaiting the approval of the Turkish Competition Authority.

UK

Market statistics

	2008	2007
GDP (€bn)	1,827	2,060
Real GDP growth (%)	0.7	3
Total construction industry volume (€bn)	139	163
Share of GDP (%)	7.9	7.6
Number of employees	2,283,000	2,237,000
Share of working population (%)	9	8.8
Companies active in construction	~250,000	~250,000

Notes:
1. Exchange rate used for 2008: £1.27 = €1.
2. Nominal GDP at current market prices has been taken from the EIU Country Report, June 2009.

Trends

The UK has been one of the worst-hit countries during the recession. Real GDP growth fell to 0.7% in 2008, compared to 3% in 2007. The EIU predicts that real GDP growth will contract by 4% in 2009, and by a further 0.5% in 2010. Household savings also fell sharply to a historical low in 2008, and credit availability remained tight throughout the year. Consequently, Britain's current economic policy is almost entirely focused on managing the severe financial and economic crisis. In fact, the weakness of public finances is expected to pose a serious threat to the macroeconomic stability of the UK economy over the medium-term.

The impact of the economic downturn has been felt across the construction sector. Construction industry volume remained flat in 2008 compared to 2007. This was despite an acceleration in government spending, with €4bn of capital spend being brought forward from 2010-11 to 2008-09. Due to the weakness of the Pound, construction industry volume fell to €139bn in 2008, from €163bn in 2007.

The UK has witnessed one of the world's most sustained increases in house prices over the past decade. Nevertheless, the construction sector has not grown as strongly as other developed economies.

Residential construction

Overall residential construction volumes decreased during 2008 because the UK construction industry is faced with tight credit conditions, increasing unemployment and falling house prices.

According to a report by Davy Research (January 2009), the UK government's measures to stimulate new lending will eventually work. However, it will take some time for both confidence and mortgage lending to pick up significantly. Other research by KBC Peel Hunt (June 2009) asserts that the construction sector in the UK is hampered by a lack of mortgage funds, limited personal finances, almost negative wage-growth and rising tax burdens.

However, with increasing population growth there is expected to be increased demand for housing in the medium- to long-term. It is estimated there will be 28m households by 2031, a rise of 6m from 2006, with levels driven by population growth and an increase in the number of people living alone. This trend will compel the government to spend more on the house-building sector and restart stalled projects.

Non-residential construction

According to the Office for National Statistics, new work in the public non-housing sector (excluding infrastructure) rose by 15% in 2008, but only by 3% in the first quarter of 2009. In addition, new infrastructure projects in the country increased by 7% in the 12 months to the first quarter of 2009.

This growth was largely driven by major capital projects and government spending, including the completion of Heathrow's Terminal 5 and proposals to refurbish Terminal 2; the start of London's Crossrail transport programme; and construction on the 2012 Olympic site.

Considerable growth was also seen in school building, which was funded by the government, although this is expected to decline from 2010-11. Other major civil engineering projects include the widening of the M25 motorway, which had previously stalled due to funding issues. One of the biggest infrastructure projects in the country is the Mersey Gateway project, which aims to build a new toll bridge between Widnes and Runcorn. Finally, it is hoped that the development of new nuclear power stations will be an area of significant revenues in the next decade.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Balfour Beatty Plc	Dec 08	12,008	12,008	248
Carillion Plc	Dec 08	6,590	6,590	137
Laing O'Rourke	Mar 08	5,297	5,297	96
Barratt Developments Plc	Jun 08	4,500	4,500	109
Taylor Wimpey Plc	Dec 08	4,420	4,307	-2,331

Note: Sales include shares of revenue from joint ventures and associates.

PPP/PFI and concessions

Many of the country's major construction projects have stalled due to the reduced availability of private funding and a high dependence on public funding. At the height of the credit crisis, the PPP/PFI market also stalled, with many projects (including various health sector schemes) being delayed or even suspended.

However, the easing of the credit crisis has seen the PPP/PFI route rise in popularity again. There have been significant PPP/PFI projects reaching financial close in 2009, such as the M25 widening project, and the Manchester Waste PFI project. Further, the UK treasury also announced plans to inject money into partnership projects that were struggling to raise private finance, making use of hybrid models.

M&A activity

Recent M&A activity in the construction industry included several large cross-border deals, as well as many domestic transactions.
A remarkable domestic acquisition during 2008 was the takeover of Bullock Construction Ltd, a UK-based construction company, by Lloyds TSB Development Capital Ltd from the Bank of Scotland for an estimated €127m.

Another prominent domestic deal during 2008 was the acquisition of Dean & Dyball Ltd by Balfour Beatty Plc, for a cash consideration of €57m. Dean & Dyball has a strong presence in the civil engineering and building business, and a healthy relationship with key customers including Network Rail, the Environment Agency, Thames Water, the Royal National Lifeboat Institute and the Ministry of Defence.

Other deals in 2008 included AC Holdings SARL acquiring a 75% stake in Raven Audley Court Plc for €19m; AMCO Corporation Plc acquiring Amalgamated Construction Co Ltd in a management buy-out deal worth €28m; Rok Plc acquiring Richardson Projects Holdings Ltd for a cash and equity consideration of €51m; Norwest Holst Ltd acquiring Gordon Durham & Co Ltd for an estimated €6m; and RSK Group Plc acquiring Building Sciences Ltd for €32m.

The UK construction sector was also marked by several significant cross-border deals. VINCI SA acquired Taylor Woodrow Construction Ltd, a UK-based company specialising in construction, facilities management and engineering, from Taylor Wimpey Plc for a cash consideration of €94m.

Other notable cross-border deals were Jacobs Engineering Group Inc, a listed US-based provider of technical, professional and construction services, acquiring LES Engineering Ltd, a UK-based maintenance, construction and service works contractor.

A significant announcement was made by Balfour Beatty in September 2009, when they declared their intention to acquire Parsons Brinckerhoff, a professional services business based in the US for €425m.

Ukraine

Market statistics

	2008	2007
GDP (€bn)	89	98
Real GDP growth (%)	2.3	7.6
Total construction industry volume (€bn)	6	9
Share of GDP (%)	6.8	6.6
Number of employees	N/A	679,200
Share of working population (%)	N/A	3.3
Companies active in construction	N/A	41,491

Notes:
1. Exchange rate used for 2008: UAH7.44=€1.
2. GDP and real GDP growth are based on EIU estimates.

Trends

Ukraine's economy plunged into recession in October 2008, after several boom years. The primary factors that led to the recession were the global liquidity crunch, a sharp drop in steel prices (by some 70% in the second half of 2008) and a resumption of the political crisis.

According to the EIU, the country's real GDP growth was just 2.3% in 2008, compared to 7.6% in 2007. Agriculture performed exceptionally well with 17.5% growth in gross output terms, whereas construction witnessed a huge decline of 16% during the year. Construction output continues to fall in 2009, registering a further drop of 55.6% between January and April. There were also notable job losses of nearly 80,000 construction workers in 2008 and the same is expected for 2009.

However, as Ukraine is one of the venues for the Euro 2012 Championships, the construction industry is now witnessing a boost in demand for tourism infrastructure – including additional hotel accommodation. Kiev, Lviv, Dnipropetrovsk, Donetsk and Odessa are the chosen venues for the championships.

The EIU forecasts that Ukraine will face a deep recession in 2009 and real GDP is expected to fall by 12%. However, it predicts that a gradual recovery will start in 2010.

Residential construction

Residential development in Ukraine is undergoing a slump as most of the property buyers (nearly 75%) cannot afford bank loans due to a nearly 20% increase in interest rates. At the same time, developers are finding it difficult to secure loans on favourable terms to continue construction. As a result, many major construction projects have been put on hold.

Despite the crisis in the housing sector during the first three quarters of 2008, the surface area of houses completed rose by almost 6% to 6.5m m^2. However, this was largely due to the completion of projects that had been started at the beginning of 2008 and earlier, which already had funding in place. Later in 2008, very few houses were started and a great many projects were postponed or cancelled. For example, The Mirax Group, a Russian developer, has halted work on its €180m project to build Ukraine's tallest building.

Residential construction is likely to decline further in 2009. In fact, this will continue until banks start to grant more loans to developers and individuals.

In January 2009, a new Ukrainian law was introduced to help prevent the economic crisis from negatively impacting the construction industry. The new law is designed to facilitate the development of the entire residential sector (including affordable housing) by offering favourable finance terms to residential construction developers.

Non-residential construction

Experts predict that the commercial property sector will start improving in 2009. This is partly because the amount of office, retail and warehouse space in Kiev is among the lowest per capita in Europe. As a consequence, rental rates for commercial real estate in Ukraine far exceed the European average. According to the Ukrainian Deputy Culture and Tourism Minister, Vladyslav Korniyenko, the country requires 372 new accommodation facilities by 2012.

Civil engineering

The government is planning to build nearly 30km of new bridges; reconstruct 10km of existing bridges; and construct nearly 200 new overpasses and viaducts at an estimated cost of €7bn by 2012, as part of its preparations to co-host the Euro 2012 Championships. The government is set to attract private investments to cover two-thirds of the costs.

Top five construction companies

Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
Kyivmiskbud	Dec 08	364	364	3
Kovalska	Dec 08	195	195	7
Mostobud VAT	Dec 07	129	129	-0.7
Interbudmontazh	Dec 07	27	27	-0.5
Kyivmetrobud	Dec 07	82	82	3

Note: Exchange rate used for 2008: UAH7.44=€1.

PPP/PFI and concessions

In November 2008, the Ukrainian Economy Ministry allowed Lviv to sign a contract with Azovinteks for the construction of a stadium for the Euro 2012 Championships. The stadium is expected to cost €85m.

M&A activity

No significant M&A activity took place during 2008.

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* For all the companies featured in this publication.

** A full list of all the articles used is available on request.

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