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# European Powers of Construction 2006

*Built to last*

Analysis of key players and markets in construction



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# Contents

Introduction	2
Leaders of the pack: The top 100 construction companies in Europe	4
Meet the senior executives	10
Expert view from Deloitte	17
Public Private Partnerships: Big potential for the future?	19
UK secondary market: PFI/PPP	21
Spotlight on PPP/PFI accounting practice	23
Why construction businesses fail	25
How to manage risk	26
Country profiles	31
European construction and infrastructure group contacts	59

# Introduction

Deloitte's European Construction and Infrastructure Group is pleased to present its fourth annual publication on the "European Powers of Construction". The report identifies the 100 largest construction companies in Europe and provides economic and industry insights into the European marketplace.

The report is based on data from public sources, such as annual reports and economic figures from OECF, FIEC and Eurostat, and from national economic and construction institutes and websites. Alongside our analysis of this data, we provide commentary from Deloitte industry specialists throughout Europe.

## Leaders of the pack

The annual review of the top European companies shows that in terms of the number of companies the French, led by VINCI and Bouygues, dominate the top ten with the UK dominating the top one hundred.

Seventy-six of the companies reported revenue growth. VINCI reported an additional €3.3b. Average net income in 2005 was 3.7%, up from 3.2% in 2004, with the higher income percentages concentrated in the mid-sized companies which averaged revenues of between €2b and €5b.

## Senior executive interviews

For the second year, we also include interviews from senior executives involved in the industry in Europe. From France, we spoke to Xavier Huillard, the Chief Executive of VINCI, from Spain, Joaquin Ayuso, the Chief Executive of Ferrovial Group, and from the UK, Mike Welton, the Chairman of Hanson plc and former Chief Executive of Balfour Beatty plc. We also spoke to Ian Durant, the Chief Financial Officer of Sea Containers and former Non-Executive of Westbury plc. All provide an interesting insight into the industry and we would like to thank them for the time they gave us.

## House building

For the first time we have an article on the European house building sector. The picture across Europe is evidently mixed as the development of the market is dependent on several factors including the extent and form of government subsidies, demographic trends and the structure and intensity of demand.

Unfortunately for the speculators out there, we cannot predict the movement in house prices in each country. However, whilst it may not drive growth in the industry over the short-term, this area of the market remains extremely important to the health of the industry as a whole.

## Public Private Partnerships

One area that is expected to lead growth across Europe is the use of Public Private Partnerships (PPPs) to tackle Europe's increasing requirements to renew and expand its infrastructure.

In an article on the European market, we see that increasingly, countries are putting the building blocks in place and slowly a number of significant projects are being bid. The immediate growth areas appear to be Spain, France, Germany and Italy with, not surprisingly, the biggest long-term potential in central and eastern Europe.

The UK market continues to be strong in this area. The recent key development has been the ever increasing rise of the secondary market for PFI/PPP investments. In our article on this topic we examine some of the current trends and factors that influence the UK and which may provide clues as to how secondary markets will develop across Europe.

Finally, we have updated our prior year article on the IFRIC (International Financial Reporting Interpretations Committee) assessment of accounting for service concession arrangements. Last year there was the financial asset model and the intangible asset model. This year we see the introduction of the "bifurcated model" – a combination of financial and intangible assets.

### **Managing risk**

Financial, risk and governance management are nothing new; robust management of these areas is simply good practice and can give companies competitive advantage. But there continue to be examples of companies in the construction industry failing or significantly adjusting their balance sheet position. Is this because of unsustainable expectations from the financial analysts, or because in a highly judgemental industry, optimism gets the better of strong management?

Undoubtedly, thin profit margins, fierce competition, risk of overtrading, unpredictable cash flow, regular contract disputes, challenges with fixed price contracts, and the increasing complexity of contracts have created a tough operating environment.

Extending last year's corporate governance theme, this year we look at some of the causes of construction business failure in the UK and, following a review of approximately 100 Danish and Nordic contractors/developers, we review the benefits of a systematic risk management process.

### **The sustainability agenda**

The sustainability agenda provides industry with a significant challenge in terms of the development of deliverable solutions within a complex, rapidly-changing and often misunderstood operating environment. In recent years, the debate has become more prominent in the political landscape, and the need for overt corporate responsibility in this arena has emerged. Our final article provides an overview of the sustainability agenda in the construction industry.

### **And finally...**

We hope you find the publication of interest. Please contact me, or any of our industry practitioners across Europe, if you want to comment on any of the matters we discuss here: all suggestions are welcome.

**Jack Kelly**  
Partner  
Deloitte, London

# Leaders of the pack: The top 100 in Europe

2005 Ranking	Company Name	Country	FY End	Latest Year Financials		
				Sales (€m)	Net Income (€m)	Cons. Revenue (€m)
1	VINCI	France	Dec 05	21,543.0	871.2	19488.0
2	BOUYGUES	France	Dec 05	24,073.0	832.0	16796.0
3	HOCHTIEF AG	Germany	Dec 05	13,653.2	62.8	13653.2
4	Skanska AB	Sweden	Dec 05	13,371.1	417.9	13371.1
5	Grupo Ferrovial S.A.	Spain	Dec 05	8,989.1	415.9	8989.1
6	Eiffage	France	Dec 05	8,497.0	302.0	8327.0
7	Koninklijke BAM Groep nv	Netherlands	Dec 05	7,425.0	153.3	7425.0
8	Strabag	Austria	Dec 05	6,955.8	94.6	6955.8
9	Bilfinger Berger	Germany	Dec 05	6,205.9	66.5	6205.9
10	ACS	Spain	Dec 05	12,113.9	608.7	5724.8
11	Balfour Beatty plc	United Kingdom	Dec 05	5,587.0	154.0	5587.0
12	Technip	France	Dec 05	5,376.1	93.3	5376.1
13	NCC AB	Sweden	Dec 05	5,333.7	126.7	5333.7
14	Taylor Woodrow plc	United Kingdom	Dec 05	5,083.3	417.7	5083.3
15	George Wimpey PLC	United Kingdom	Dec 05	4,390.8	369.6	4390.8
16	Sacyr	Spain	Dec 05	4,177.0	413.1	4177.0
17	Royal Volker Wessels Stevin	Netherlands	Dec 05	4,157.3	67.1	4157.3
18	AMEC plc	United Kingdom	Dec 05	7,226.1	5.8	3822.8
19	Barratt Developments Plc	United Kingdom	Jun 05	3,628.2	411.9	3628.2
20	FCC	Spain	Dec 05	7,154.0	421.4	3346.7
21	Persimmon plc	United Kingdom	Dec 05	3,341.8	504.1	3341.8
22	Acciona Group	Spain	Dec 05	4,852.7	324.4	3153.0
23	YIT Corporation	Finland	Dec 05	3,023.8	155.5	3023.8
24	Carillion Plc	United Kingdom	Dec 05	2,962.0	57.5	2960.8
25	Heijmans N.V.	Netherlands	Dec 05	2,835.3	87.1	2835.3
26	Laing O'Rourke PLC.	United Kingdom	Mar 05	2,773.9	17.4	2773.9
27	Obrascon Huarte Lain S.A.	Spain	Dec 05	2,442.7	102.3	2442.7
28	Enka	Turkey	Dec 05	2,411.0	261.0	2411.0
29	Peab AB	Sweden	Dec 05	2,748.5	92.3	2407.6
30	Impregilo S.p.A.	Italy	Dec 05	2443.0	-358.2	2318.5
31	Kier Group plc	United Kingdom	Jun 05	2,296.9	53.4	2296.9
32	Snamprogetti	Italy	Dec 05	2089.5	20.5	2089.5
33	Morgan Sindall plc	United Kingdom	Dec 05	1,896.7	43.3	1896.7
34	Autobahnen- u Schnellstrassen K Finanzierungs AG	Austria	N.A.	N.A.	N.A.	1874.0
35	TBI Holdings	Netherlands	Dec 05	1,836.5	26.1	1836.5
36	Porr Group	Austria	Dec 05	1828.2	32.0	1828.2
37	Wilson Bowden plc	United Kingdom	Dec 05	1,799.5	219.5	1799.5
38	Interserve	United Kingdom	Dec 05	1,797.0	47.5	1797.0
39	Bellway plc	United Kingdom	Jul 05	1,716.8	222.6	1714.6
40	ALPINE MAYREDER BAU GMBH	Austria	Dec 05	1,640.3	36.3	1640.3
41	Fayat	France	Dec 05	1,636.0	53.0	1636.0
42	Lemminkainen Oyj	Finland	Dec 05	1,609.7	43.7	1609.7
43	Newarthill Ltd.	United Kingdom	Oct 05	1,589.5	22.1	1589.5
44	Nexity	France	Dec 05	1,577.8	151.7	1577.8

# 0 construction companies

FY End	Previous Year Financials			Present in
	Sales (€m)	Net Income (€m)	Cons. Revenue (€m)	
Dec 04	19,520.2	731.6	16,182.0	France, United Kingdom, Germany, Central and Eastern Europe, Belgium, Spain, Other European countries, North America, South America Africa, Asia, Oceania
Dec 04	20,894.0	909.0	14,469.0	France, Europe, Africa, United States, Canada, Central and South America, Asia
Dec 04	11,943.7	41.2	11,943.7	Germany, Europe, America, Asia, Australia, Africa
Dec 04	12,740.6	347.7	12,740.6	Sweden, Norway, Denmark, Czech Republic, Finland, Poland, United Kingdom, St. Petersburg, Russia, Europe, United States,
Dec 04	7,254.0	528.6	7,254.0	Spain, United Kingdom, Canada, United States, Poland, Chile, Portugal, Italy, Ireland, Asia, Africa
Dec 04	7,787.0	229	7,787.0	France, Belgium, Spain, Poland, Germany, Portugal, Italy, Luxemburg
Dec 04	7,493.0	106.5	7,493.0	Netherlands, United Kingdom, Ireland, Belgium, Germany, United States
Dec 04	5,222.9	65.7	5,222.9	Germany, Austria, Hungary, Czech Republic, Poland, Switzerland, Slovakia, Croatia, Benelux, Other countries
Dec 04	5,437.9	51.2	5,437.9	Germany, America, Africa, Asia, Australia
Dec 04	10,817.9	452.5	5,230.3	Spain, Europe, America
Dec 04	5,141.2	223.0	5,141.2	United Kingdom, Europe, North America
Dec 04	5,140.9	111.8	5,140.9	France, Europe, Russia, Middle East, Africa, Asia, America
Dec 04	5,099.7	95.7	5,099.7	Sweden, Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia, Singapore, Swaziland, Tanzania, Zambia
Dec 04	4,878.3	412.9	4,878.3	United Kingdom, Canada, North America, Spain
Dec 04	4,384.0	444.6	4,384.0	United Kingdom, United States, Canada
Dec 04	3,523.2	282.2	3,523.2	Spain, Portugal, Chile, other countries
Dec 04	3,864.7	62.1	3,864.7	The Netherlands, United Kingdom, Belgium, Germany, Europe, North America
Dec 04	6,861.1	75.0	3,317.5	United Kingdom, United States
Dec 04	3,666.4	379.6	3,666.4	United Kingdom, United States
Dec 04	6,348.8	362.5	3,123.0	Spain, Europe, United States, Latin America
Dec 04	3,139.7	477.7	3,139.7	United Kingdom
Dec 04	4,078.3	230.3	2,745.8	France, Europe, Africa, Asia
Dec 04	2,780.1	99.1	2,780.1	Finland, Russia, Europe, Asia, Africa, America
Dec 04	2,741.6	83.2	2,740.4	United Kingdom, Canada, Middle East,
Dec 04	2,672.2	40.1	2,672.2	Netherlands, Belgium, United Kingdom, Germany
Mar 04	2,174.2	59.9	2,174.2	United Kingdom, Europe, Middle East, South East Asia
Dec 04	2,224.8	40.7	2,224.8	Spain, Europe
Dec 04	1,510.0	257.0	1,510.0	Turkey
Dec 04	2,416.1	42.4	2,103.5	Sweden, Norway, Finland, other countries
Dec 04	2,714.1	-88.6	2,714.1	Italy, Europe, Americas, Africa, Asia
Jun 04	2,104.4	41.7	2,104.4	United Kingdom, rest of world
Dec 04	2,212.0	4.7	2,212.0	Italy, Europe, North America, Central America, South America, Africa, Asia
Dec 04	1,798.2	35.4	1,798.2	United Kingdom
Dec 04	<b>1,874.0</b>	<b>63.0</b>	<b>1,874.0</b>	<b>Austria</b>
Dec 04	1,782.0	31.2	1,782.0	Netherlands
Dec 04	1,533.1	25.8	1,533.1	Austria, Germany, Poland, Czech Republic, Slovakia, Hungary, Croatia
Dec 04	1,889.0	258.5	1,889.0	United Kingdom
Dec 04	1,823.0	7.2	1,823.0	United Kingdom, Europe, Middle East, Asia, Africa, Australia, South America
Jul 04	1,600.9	210.7	1,598.5	United Kingdom
Dec 04	1,537.5	33.9	1,537.5	Austria, Germany, Switzerland, CEE Countries, North Eastern Europe, Far East
Sep 04	1,239.1	35.8	1,239.1	France
Dec 04	1,431.3	37.4	1,431.3	Finland, Europe, Asia, Africa, America
Oct 04	1,210.4	-34.5	1,589.5	United Kingdom
Dec 04	1,362.5	80.7	1,362.5	France, other countries

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2005 Ranking	Company Name	Country	FY End	Latest Year Financials		
				Sales (€m)	Net Income (€m)	Cons.Revenue (€m)
45	Societe des Autoroutes Paris-Rhin-Rhone	France	Dec 05	1,571.0	194.8	1552.1
46	Veidekke ASA	Norway	Dec 05	1,821.1	69.7	1548.1
47	Bovis Lend Lease Ltd.	United Kingdom	Jun 05	1,519.0	-25.1	1519.0
48	Alfred McAlpine Plc	United Kingdom	Dec 05	1,518.8	52.3	1518.8
49	Grupo Isolux-Corsán SA	Spain	Dec 05	1,500.0	12.0	1500.0
50	The Berkeley Group Holdings plc	United Kingdom	Apr-06	1,344.1	296.0	1344.1
51	<b>John Sisk &amp; Son (Holdings) Limited</b>	<b>Ireland</b>	<b>Dec 05</b>	<b>1,319.5</b>	<b>39.8</b>	<b>1319.5</b>
52	Westbury Ltd.	United Kingdom	Feb 05	1,313.0	120.4	1313.0
53	The Miller Group Ltd.	United Kingdom	Dec 05	1,305.9	81.5	1305.9
54	Ballast Nedam N.V.	Netherlands	Dec 05	1,206.0	20.0	1206.0
55	Koninklijke Boskalis Westminster NV	Netherlands	Dec 05	1,155.7	62.7	1155.7
56	Constructora San José SA	Spain	Dec 05	1,142.0	44.0	1142.0
57	Redrow plc	United Kingdom	Jun 05	1,139.6	140.9	1139.6
58	<b>Sir Robert McAlpine Ltd</b>	<b>United Kingdom</b>	<b>Oct 05</b>	<b>1,139.3</b>	<b>18.8</b>	<b>1139.3</b>
59	Mota-Engil	Portugal	Dec 05	1,381.0	34.6	1137.0
60	MT Højgaard	Denmark	Dec 05	1,131.2	12.6	1131.2
61	Ed. Zublin	Germany	Dec 05	1,105.5	28.0	1105.5
62	JM AB	Sweden	Dec 05	1,065.2	105.2	1065.2
63	Galliford Try plc	United Kingdom	Jun 05	1,049.2	27.8	1049.2
64	Kaufman & Broad S.A.	France	Nov 05	1,048.7	52.5	1048.7
65	Dura Vermeer Groep NV	Netherlands	Dec 05	1,046.0	29.0	1046.0
66	Crest Nicholson PLC	United Kingdom	Oct 05	1,017.7	78.5	1017.7
67	Besix Group	Belgium	Dec 05	1,014.0	36.2	1014.0
68	Van Oord	Netherlands	Dec 05	1,002.3	41.9	1002.3
69	Costain Group Plc	United Kingdom	Dec 05	991.4	34.5	991.4
70	Wates Group Ltd.	United Kingdom	Dec 05	980.7	11.4	980.7
71	Astaldi S.p.A.	Italy	Dec 05	968.9	31.9	968.9
72	Spie Batignolles	France	Dec 05	948.0	19.0	948.0
73	Shepherd Building Group Ltd.	United Kingdom	Jun 05	940.4	36.1	940.4
74	Bowmer And Kirkland Ltd.	United Kingdom	Aug 05	915.5	26.2	915.5
75	DEME	Belgium	2005	845.0	41.0	845.0
76	Metrostav	Czech Republic	Dec 05	832.0	37.0	832.0
77	Strukton Groep	Netherlands	Dec 05	824.2	36.8	824.2
78	Bloor Holdings Ltd.	United Kingdom	Jun 05	797.3	88.9	797.3
79	Jan de Nul	Belgium	Dec 05	795.0	96.0	795.0
80	<b>Koop Holding Europe</b>	<b>Netherlands</b>	<b>N.A.</b>	<b>N.A.</b>	<b>N.A.</b>	<b>787.1</b>
81	SOMAGUE Engenharia	Portugal	Dec 05	775.0	3.5	775.0
82	Swietelsky Baugesellschaft m	Austria	Mar 05	765.0	8.9	765.0
83	Bovis Homes Group plc	United Kingdom	Dec 05	762.0	119.1	762.0
84	Condotte D'Acqua	Italy	Dec 05	755.2	10.7	755.2
85	Jarvis Plc	United Kingdom	Mar 05	747.5	-486.1	747.5
86	ROK Plc	United Kingdom	Dec 05	811.6	17.1	742.5
87	Grupo Comsa	Spain	Dec 05	863.6	25.0	734.8
88	Gladedale Holdings Plc	United Kingdom	Dec 05	694.3	63.7	694.3
89	Renew Holdings Plc	United Kingdom	Sep 05	661.7	3.0	661.7
90	MJ Gleeson Group	United Kingdom	Jun 05	610.5	-12.8	610.5
91	Willmott Dixon Ltd.	United Kingdom	Dec 05	603.6	10.5	603.6
92	<b>Max Bögl Bauunternehmung Gmb</b>	<b>Germany</b>	<b>N.A.</b>	<b>N.A.</b>	<b>N.A.</b>	<b>600.1</b>
93	John Laing plc	United Kingdom	Dec 05	596.5	31.2	596.5
94	Van Wijnen Holding NV	Netherlands	Dec 05	576.0	12.0	576.0
95	C.M.C. di Ravenna	Italy	Dec 05	574.7	N.A.	574.7
96	E Pihl & Son	Denmark	Dec 05	542.4	11.5	542.4
97	Impresa Pizzarotti	Italy	Dec 05	521.4	6.4	521.4
98	Grupo soares de costa	Portugal	Dec 05	501.0	6.8	501.0
99	Tieliikelaitos	Finland	Dec 05	495.2	6.1	495.2
100	Goldbeck	Germany	Dec 05	493.0	N.A.	493.0

Note: Companies with bold font are ranked according to the 2004 revenues as latest figure is not available at the time of compilation.

Sources used: 1. OneSource. 2. Oanda.com (for currency conversion). 3. Company websites. 4. Amadeus. 5. "2005 European Powers of Construction".

FY End	Previous Year Financials			Present in
	Sales (€m)	Net Income (€m)	Cons.Revenue (€m)	
Dec 04	1,512.9	146.1	1,495.1	France
Dec 04	1,533.2	31.5	1,317.0	Norway, Denmark, Sweeden, Africa
Jun 04	1,013.2	13.5	1,013.2	United Kingdom
Dec 04	1,371.0	16.4	1,371.0	United Kingdom
Dec 04	789.3	37.3	789.3	Spain
Apr 05	1,162.6	203.3	1,162.6	United Kingdom
Dec 04	1,025.7	31.2	N.A.	Ireland
Feb 04	1,262.9	103.7	1,262.9	United Kingdom
Dec 04	1,109.3	58.7	1,109.3	United Kingdom
Dec 04	1,164.0	13.0	1,164.0	Netherlands, United Kingdom, Europe, Middle East, Southeast Asia
Dec 04	1,019.9	33.9	1,019.9	Netherlands, Europe, Australia, Asia, Middle East, Africa, North and South America
Dec 04	1,053.2	35.2	1,053.2	Portugal, France, Germany, United States, Argentina, Peru, Panama, Uruguay, Morocco, Cabo Verde
Jun 04	976.2	126.6	976.2	United Kingdom
Aug 03	1,135.7	N.A.	N.A.	United Kingdom
Dec 04	1,169.3	22.3	1,080.5	Portugal, Poland, Hungary, Czech Republic, Romania, Slovakia, Africa, North America, South America,
Dec 04	990.0	10.6	990.0	Denmark, Sweden, United Kingdom, United States, Portugal
Dec 04	1,109.6	4.1	1,109.6	Germany, Europe, Portugal, France, Denmark Sweden, Poland, Austria, Hungary, Romania, Bulgaria, Croatia, Switzerland, Russia, China, Qatar, UAE, China, Malaysia, Singapore
Dec 04	935.0	51.9	935.0	Sweden, Norway, Denmark, Belgium
Jun 04	1,001.9	22.8	1,001.9	United Kingdom
Nov 04	834.2	39.6	834.2	France
2004	970.0	5.0	970.0	Netherlands
Oct 04	929.7	84.0	929.7	United Kingdom
Dec 04	877.0	28.4	877.0	Belgium, Europe, Middle East, Africa
Dec 04	762.6	15.7	762.6	Netherlands, Belgium, France, Germany, United Kingdom
Dec 04	991.7	13.0	991.7	United Kingdom, Spain, Other countries
Dec 04	930.4	2.7	930.4	United Kingdom
Dec 04	1,004.8	28.0	1,004.8	Italy, Europe, North America, Central America, South America, Africa, Asia
Dec 04	833.0	14.3	833.0	France
Jun 04	879.6	32.1	879.6	United Kingdom
Aug 04	770.5	34.5	770.5	United Kingdom
2004	649.0	28.0	649.0	Belgium
Dec 04	605.6	25.3	605.6	Czech Republic
Dec 04	719.6	11.9	719.6	Netherlands
Jun 04	686.3	64.3	686.3	United Kingdom
Dec 04	770.0	64.0	770.0	Belgium
Dec 04	787.1	-13.6	787.1	Netherlands
Dec 04	837.0	7.5	837.0	Portugal
Mar 04	612.8	10.3	612.8	Austria
Dec 04	824.0	115.6	824.0	United Kingdom
Dec 04	701.0	4.0	701.0	Italy
Mar 04	1,548.7	-351.0	1,548.7	United Kingdom, Europe
Dec 04	723.3	11.8	681.9	United Kingdom
Dec 04	651.1	N.A.	560.0	Spain, Ireland, Poland, Italy, Portugal, Australia
Dec 04	501.5	38.3	501.5	United Kingdom
Sep 04	675.0	-10.4	675.0	United Kingdom
Jun 04	939.9	20.7	939.9	United Kingdom
Dec 04	605.2	8.4	605.2	United Kingdom
Dec 04	600.1	20.2	600.1	Germany
Dec 04	665.3	22.4	665.3	United Kingdom, Europe, America
Dec 04	439.1	10.6	439.1	Netherland
Dec 04	432.0	3.2	432.0	Italy, Africa, Asia
Dec 04	509.0	11.0	509.0	Denmark, Faeroer Islands, Greenland
Dec 04	629.1	7.9	629.1	Italy
Dec 04	576.1	-8.0	576.1	Portugal
Dec 04	500.5	12.1	500.5	Finland
Dec 04	407.0	N.A.	407.0	Germany, Poland, Czech Republic, Austria, UK

### The top ten

So which construction companies were the best performers in Europe in 2005? There was no change at the top, with VINCI remaining the largest company in terms of construction revenue. Consolidating its position, it once again increased its lead over second-placed Bouygues. Skanska fell for the second year running, overtaken by Hochtief and slipping to fourth place due to weaker revenue growth than its peers.

There have been other changes in the top ten as a result of varying rates of revenue growth, but the list retains a French flavour with Eiffage in sixth place. No other country has more than a single representative and – with Balfour Beatty slipping from eighth to 11th place – there is no longer any British presence in the top ten.

### Entrants per country

	Number of companies in top 100		Average construction revenue per company (€m)
	2005	2004	
United Kingdom	36	24	1,780
Netherlands	11	11	2,077
France	9	5	6,306
Spain	9	9	3,468
Italy	6	9	1,205
Germany	5	10	4,412
Austria	5	4	2,613
Sweden	4	6	5,544
Finland	3	3	1,710
Belgium	3	3	885
Portugal	3	3	804

Despite having no construction companies among the very largest, the UK does have an even stronger presence in the top 100 than in 2004, with 36 companies represented. However, this does not translate into a corresponding dominance of the European market, with UK companies representing only 24.9% of the total revenue for the top 100, thus suggesting a greater degree of fragmentation in the UK market.

The UK share is only slightly more than that of the 11 French companies which have 22.1%, reflecting different national industry structures and the sheer size of the two leading French companies, both of which have a greater breadth of international operations and a more diverse range of services than their UK counterparts. Indeed, the combined construction revenue of VINCI and Bouygues represents more than 14% of the total for the entire top 100, and the construction revenue of VINCI is nearly three and a half times that of the largest UK contractor, Balfour Beatty.

There is considerable variation in average construction revenues for the remaining countries. Again, this reflects different industry structures and the presence of major international contractors – particularly in the case of some of the smaller countries, for example, Skanska in Sweden. The markets in Belgium and Portugal are relatively small and their companies do not have as extensive an international operation as some of the major European players. In Spain and Italy, the domestic markets are relatively closed to foreign companies, but whereas there are a number of Spanish companies with extensive international operations, the largest Italian company (Impregilo) is only 32nd in the top 100.

### Changes in revenue

Of the top 100 companies, 76 reported revenue growth – and of the top ten, only Koninklijke BAM showed a decrease. As might be expected, the largest overall increases were reported by the biggest companies, with VINCI reporting an additional €3.3b. Spain's Grupo Isolux-Corsán, in 51st place, reported the largest relative increase at 90%, and Bovis Lend Lease reported an increase of 49.9%. Due to the ongoing consequences of extensive restructuring, Jarvis saw the largest relative decrease in revenues – at 51.7% – while MJ Gleeson reported a decrease of 35.1%, following its withdrawal from general contracting and the sale of its building and rail businesses.

The construction industry is particularly sensitive to the wider economic climate and many companies have made efforts to diversify or offer higher value services that provide more predictable revenue streams. This has led to some increased merger and acquisition activity, one interesting example being the acquisition of the UK's largest airport operator, BAA, by Ferrovial Group of Spain. In the case of Bouygues, construction remains just one of five group businesses, and diversification extends as far as media (the main French national television channel) and telecommunications (a major mobile communications operator).

### Net income in 2005

	No. of companies	Average net income 2005
All	95	3.7%
Major international players (construction revenues > €10b)	4	3%
Second tier (construction revenues €5-10b)	10	3.4%
Third tier (construction revenues €2-5b)	18	4.6%
Fourth tier (construction revenues < €2b)	63	4%
UK all	36	4.9%
UK house builders	16	10%

The average net income in 2005 was 3.7%, up from 3.2% in 2004. It should be noted that the figures quoted are for the companies' entire revenues, rather than just construction revenues, as in some cases construction forms only part of a company's business. The higher income percentages of the mid-sized companies (third tier, construction revenues €2-5b) and the lower than average income percentages of the larger companies tend to support the idea that big is not always beautiful. However, more careful analysis reveals that this is not the full picture. Higher income percentages in the third tier are driven by the number of large UK house builders that fall within this group. House building has a very different business model to general contracting and has traditionally achieved much higher margins. Furthermore, consolidation in the UK house building sector has led to less fragmentation than in the non-housing sectors, and the market is now dominated by a smaller number of companies. The higher income percentages of the house builders drive up the overall UK average and the average for the top 100 tiers in which the house builders fall.

The same effect is evident in other countries. While Bouygues, for example, is active in the housing sector, the sector does not form a sufficiently significant part of the company's operations to have a marked effect on margins – nor is it clear whether companies in other countries specialise to such an extent.

It is difficult to draw conclusions on how income percentages vary from one country to the next because of the relatively small sample sizes for most countries, and the fact that many of the larger companies have extensive international operations. The larger companies arguably have more in common with peers of comparable size and scope of activity across Europe than with other companies from their own country. However, regardless of country, most of the higher income companies without housing sector interests are specialists such as Jan de Nul or infrastructure operators such as Société des Autoroutes Paris-Rhin-Rhône.

# Meet the senior executives

We are delighted to present four interviews with senior executives of major European companies in this year's **European Powers of Construction**.

While last year we started out with the same questions for each interviewee, this year we put the interviewees in the driving seat. As a result we have four very different perspectives, all of which have at least one thing in common: they provide excellent insight into the industry.

First, Xavier Huillard, Chief Executive of VINCI assesses his company's position in the world, its 'concession-construction' model, and the company's culture and prospects.

Second, Joaquin Ayuso, Chief Executive of Ferrovial Group, provides an insight in to how the group has grown from an unlisted company focusing on Spain with revenues at roughly €1.5b, to a listed company with revenues at €14b – in just ten years.

While Xavier Huillard and Joaquin Ayuso both retain executive roles within the industry, our next two interviewees, Mike Welton, former Chief Executive of Balfour Beatty plc, and Ian Durant, a former non-executive director of house builder Westbury, provide a more reflective view. They discuss a wide range of issues and trends that continue to challenge their respective parts of the industry.

We would like to thank all four interviewees for their time and valuable contributions to this publication.



Credit: Sylvie Villerot

## Xavier Huillard, Chief Executive, VINCI

### How would you assess VINCI's position in the world and in Europe?

With the acquisition of Autoroutes du Sud de la France (ASF) in March 2006, VINCI became the world's leading integrated concession-construction group. In 2005, VINCI generated net sales worth €21.5b and employed a worldwide workforce of 142,000 people. This lead position has been built up around four major business lines: concessions, construction, roads and energy-related services.

### Concessions

The French government's decision on 14 December 2005 to sell VINCI its majority holding in ASF marked a decisive step forward for the group. As a result, VINCI became the leading European operator in concessions, with 4,687km of motorway under management, 860,000 parking spaces, and a stake in numerous infrastructure operations (such as road engineering structures and airports) in France and around Europe.

### Construction

Because of its strong roots through its subsidiaries to local markets – mainly, but not exclusively – in France and Europe, VINCI Construction is number one in France and a leading player in the global construction sector, offering expertise in the fields of building, civil engineering, hydraulic engineering, multi-technical maintenance and construction-related services. With net sales of €9.4b, it is also a major operator worldwide when it comes to designing and building significant projects: recent examples include the Rion-Antirion bridge in Greece and the Naga Hammadi dam on the Nile.

### Roads

Eurovia has become a world leader in roadworks and materials recycling, generating net sales of €6.5b in 2005. Vertically integrated with its 220 quarries, 520 sites producing bituminous mix and binders for roads and 110 recycling plants, Eurovia is also the leading French producer of aggregates and one of the biggest European producers of materials for road building.

### Energy

With a turnover of €3.5b in 2005, VINCI Energies is the acknowledged leader in France and a prominent player in Europe for services associated with energy and information technology. The group is particularly strong in the fields of transport, electricity and telecommunications infrastructure. VINCI has become the world number one by exploiting the synergies in skills and networks that exist between these different, but complementary business lines.

### What is VINCI's historic integrated concession-construction model?

For over a century now, VINCI has combined its operations in the concessions sector with its various construction activities. The group's development strategy is focused on three priorities: economics, finance and operations.

From an economic standpoint, involvement in two business areas having complementary business cycles means it is easier to ride out any fluctuations in the economy. Whereas cycles in the concessions business tend to be long (for example, up to 70 years for the A86 Ouest motorway, 65 years for the A19), cycles in the construction sector are shorter, ranging from a few months to several years.

On the financial front, concessions generate recurring revenue flows and margins in return for a large input of capital (and they account for more than 95% of the group's invested capital), while the construction business ties up relatively little capital and has lower margins. In addition, construction operations generate a positive cash flow that can be reinvested in long-cycle assets like concessions, helping to secure the continuing generation of such revenue and cash flow for the future.

In operational terms, the skills and experience gained through concession and construction activities tend to be mutually enriching. The construction sector calls for technical expertise covering the entire value chain, including, for example, design, construction, maintenance, and a locally-based sales network. The concessions business, meanwhile, relies on know-how in the area of project development (the legal and financial side of things, in particular), project implementation, and the management of the resulting infrastructure over the long-term.

The synergies coming out of these two areas can be seen at work in the creation of complex structures like motorways, bridges or tunnels. They currently benefit from a particularly favourable operating environment in which a shortage of public financial resources and the huge need for investment in infrastructure are prompting public-sector contracting authorities to increasingly turn to public private partnerships (PPPs) in order to open up new sources of finance.

### Is there a specific VINCI culture?

With more than 2,500 subsidiaries, VINCI is noted for its extremely decentralised management approach and its 'entrepreneurial spirit'. VINCI operates in areas where good people management is particularly important. The group is attractive because its management model is based on two key principles: autonomy and transparency. Showing confidence in our employees, giving them a sense of responsibility, together with decentralisation and profit-sharing arrangements, all have a positive impact on the group's various operations. Of course, the freedom enjoyed by VINCI employees would obviously not be possible without transparency, honesty and reliable internal controls.

**How can you grow VINCI's position in Europe? Where are the best opportunities?**

VINCI generates more than 90% of its turnover in Europe, and its future development, too, will be based on the strong growth expected in this region in coming years.

France is VINCI's principal market. It still has considerable infrastructure requirements: population growth is above the European average and the country needs more homes, more hospitals and more prisons. French towns and cities are also keen to develop their public transport systems. In fact, projects worth more than €14b are already planned for between now and 2008. Thanks to the regulation implemented in June 2004 on Public Private Partnerships (PPPs), France is at last able to tap into new sources of funding to enable it to meet these growing needs.

Then come the countries of the 'New Europe', an area of high growth for the group (+35% in 2005). In fact, VINCI has had a presence there for many years, and is now reaping the rewards of past investments. These markets are not yet mature: the huge investment in infrastructure needed to put these countries on a level playing field is largely being covered by European funding, so these countries will be important markets for the group in years to come.

Finally, western European countries remain extremely attractive for VINCI. Here, with numerous greenfield concession projects, major modernisation and road infrastructure programmes (such as the A-Modell in Germany, the Antwerp ring road in Belgium and the Coentunnel in the Netherlands), the development of trans-European networks and the first PPPs in the energy sector, new opportunities for growth are emerging for the VINCI Group.

**Is it important to be the biggest? How might future concentration in Europe impact VINCI?**

Critical mass is essential for the sectors in which we operate. In the concessions industry, for example, a strong financial position is a definite advantage when bidding for a contract. In the construction sector, geographical coverage in a given region, the scale of the sales network and the acquisition of new areas of expertise are all factors that can ensure success.

In the field of concessions, recent developments like privatisations and mergers demonstrate that the process of market consolidation is only just getting under way. As the European number one in this expanding market, VINCI will undoubtedly continue to play a major role as the process advances.

In construction, the development of our business activities in recent years has been largely driven by organic growth. We believe this will continue to be the case, particularly in France, with the growing number of PPPs. In the future, however, we might decide to reinforce our geographical presence or expand our range of expertise, were the right opportunity to arise.

The roads sector in France is already highly concentrated and we are not aiming to expand to any significant degree by external growth. Again, however, were the right opportunity to arise, we might be tempted to strengthen our position in the value chain by acquiring some more quarries/aggregates. As far as the rest of Europe and North America are concerned, there are still numerous opportunities for further development, both through organic growth and acquisitions.

The energy sector, too, has strong prospects for expansion and there should be no shortage of opportunities to create a truly European network, given the low level of consolidation.

I think that recent acquisitions by VINCI have, above all, made clear that the group intends to pursue its strategic goal of creating value and ensuring profitable long-term growth.



## Joaquin Ayuso, Chief Executive, Ferrovial Group

A little over ten years ago, Ferrovial was an unlisted company, with revenues of roughly €1.5b. It was focused on construction (88% of revenues) and generated around 90% of revenues in Spain. Ten years on, Ferrovial is a listed group with listed subsidiaries and revenues of €14b, of which only 40% relate to local construction and real estate activities.

### What have been the drivers of change in the Ferrovial Group's profile, and what does this change mean to management?

Really, the change in the Ferrovial Group's profile over the last decade has been extraordinary. It is the result of a steady growth strategy. This strategy is based on investing surplus cash flows from recurring construction business in growth-led, non-cyclical businesses, and in the internationalisation of the group. Ferrovial is currently the leading private transport infrastructure operator in the world, with 60% of its revenues from repeat business and it has 95,000 employees, of which more than 50% do not speak Spanish.

From a management viewpoint, the fact that these changes have occurred gradually has been important. The first major step in our internationalisation was the successful tender for the ETR 407 highway in Toronto, followed by the acquisitions of the construction company Budimex (Poland), Amey (UK), CESPAs (Spain), Swissport (Switzerland), Webber (USA) and most recently BAA (UK). The fact that these transactions were phased over time – and that in each case we were able to become part of the management team allowed us to integrate the acquired companies with relative ease – making the changes necessary to adapt them to the Ferrovial Group's methods and corporate culture.

### What does the acquisition of BAA represent for the group? Can we expect further acquisitions, or does the acquisition of BAA mark the end of this phase?

BAA is a transforming acquisition for Ferrovial. It represents the culmination of a strategy focused on applying the group's skills to become one of the world's leading infrastructure players. We are talking about an acquisition with an enterprise value of €23.6b which will practically double the group's EBITDA (currently approaching €1,500m) with high quality assets that are expected to deliver significant cash returns over the very long-term.

The acquisition of BAA will involve the group in significant investments in terminals and airside facilities, to accommodate future demand, but we will also perform a strategic review of some of BAA's assets. It is no secret that we have agreements with partners concerning the possible sale of certain airport assets that the Ferrovial group has in its asset portfolio.

### Which markets are of most interest to the Ferrovial Group?

For some years now, the Ferrovial Group's investments have focused on OECD countries where there is a high degree of development and a stable legal framework that provides sufficient guarantees to investors. The group's most recent main investments have been aimed at the world's most highly developed markets – the US and UK – where we believe we have the capacity to compete with the leading companies.

If, like Ferrovial Group, you want to be the world leader in infrastructure, you have to be capable of being successful in the world's most competitive markets.

### How do you view the European construction industry?

Our group's interest lies in the eastern European countries, which doubtless are going to see significant growth after they join the European Union and which, as far as infrastructure is concerned, will go on to become the main beneficiaries of European funds. The current degree of economic development of these countries is reminiscent of Spain 40 years ago. In the long-term, the development of these countries and their degree of convergence with European per capita income could rival Spain (which today has average European per capita income). But, without doubt, this will be a long process and not without complications in the short-term. Unlike others, we take a long-term view of the growth expectations of eastern European countries.

### 'Construction doesn't travel well' is an oft-repeated phrase. Do the recent corporate changes and the growing internationalisation of European companies mean that something has changed?

A single European market does not exist in the construction industry. In practice, the European construction markets are often not open to participation by foreign companies. The percentage of tenders won by foreign companies in some countries continues to be very low, due on the one hand to the fact that governments still show a certain degree of protectionism, and on the other to the fact that it is more complicated for foreign companies to establish a network of local subcontractors and manage projects effectively. In reality, there is only a single market for the large infrastructure projects that are tendered through PFI/PPP or concession contracts.

### Your group is firmly committed to entering the US. Do you think the prospects for growth and profitability in the US are better than for Europe?

Ferrovial is the industry's pioneer in North America. Besides our investment in Canada, our subsidiary Cintra has successfully bid for the first two transport infrastructure privatisations in the US – the Chicago Skyway in 2005 and the Indiana Toll Road in 2006. Also, at year-end 2004, we entered into an agreement to become a strategic partner of the Texas Department of Transportation to analyse, identify, plan, develop and finance the multi-use 'TransTexas Corridor'. Cintra was given the right to develop, under concession, the projects defined for the period 2005-2010 without the need to present tenders. The acquisition of the Texan construction company Webber in August 2005 is another part of this growth strategy in a market that we consider key for the group.

We believe that the transport infrastructure market in the US has enormous potential, and we have spent a long time working in this field. Recently, competition in this market has increased significantly as all the major players in the industry want to be in the US market. As the company with the greatest experience, we are in a strong starting position.



## Mike Welton, Chairman, Hanson plc and formerly Chief Executive, Balfour Beatty plc

### After many years of working directly in the construction industry and heading one of the UK's most successful companies, what do you see as some of the significant changes?

There have been many changes in the industry since I qualified as a civil engineer. But to concentrate on just a few, I would say there have been major changes in the labour market, the subcontractor market and the regulatory environment.

#### The labour market

The UK labour market has changed considerably. People are now encouraged to go into tertiary education and get a degree, as opposed to going down the trade apprenticeship route. It doesn't cross anyone's mind to become a plumber having just left university with a degree.

It is right that more people are being encouraged to stay in education, but our education system does not regard the labour needs of the economy as the customer. Instead, it responds to the demands of the individual. If people want to do media studies then the educational institutes will expand to offer those options, regardless of whether there is the demand for these skills in the short to medium-term.

As there is a fluid labour market in Europe, the skills shortage is not really an issue as the required skills are still being taught in eastern Europe. What is imperative from the health and safety perspective, if nothing else, is that the work force can communicate effectively.

Of course we are not just talking about the traditional trades. At the management level there is also a worrying shortage of skilled people now that fewer undertake technical qualifications at college or university, or choose to study subjects such as physics and maths at A-level. To manage a team of people building a bridge, you yourself have to know how to do it.

#### Subcontractors

There has been a major change in the subcontracting regime. When I started in the industry, significantly more people were employed directly by construction companies. Now, the majority of workers on a construction site are subcontracted, resulting in a lot more relationships to maintain and interfaces to work with, and hence the potential for more disputes to arise. When a new office is complete, you may be amazed by the number of companies a single piece of steel has passed through.

#### The regulatory regime

There has also been a significant change in regulatory requirements, particularly in connection with health and safety. The administrative requirements are far greater, which in my mind is a good thing. It results in more people being on site checking and recording information, and also ensuring the information is being retained.

While people might see this as reducing productivity on the construction site, undoubtedly, as in all walks of life, there have been gains in other areas. For example, advances in technology mean that ground surveys that previously took weeks now take a day.

### Do you think that the underlying contract disciplines of a project manager have changed significantly?

There is a narrower spectrum of behaviour which I believe is a result of the current levels of regulation in place with particular focus on health and safety requirements. Such requirements pervade the whole management system, not just at the project management level. That said, the basic skills of good project management remain the same – however, the stricter requirements, not only in health and safety, but also in financial accountability and tight progress schedules, have reduced the cavalier attitude. Now only the more able and professional project managers can survive.

### In recent years we have seen a number of high profile company failures and significant write downs of assets. Is this a City, or rather an industry, problem?

You can't blame the City. Listed companies are under pressure to perform and demonstrate uniform growth patterns. Private companies on the other hand are under significantly less pressure; they still have to satisfy the shareholders and the banks, but they can have more erratic behavior in terms of performance.

I have always maintained that it should be relatively easy to detect when a company in the contracting industry is going wrong as there will be a fairly evident disparity between operating profit and operating cash.

In all industries, there have been examples of companies getting their revenue recognition wrong. The contracting industry is just more judgemental, and hence it is easier to recognise assets that companies have not yet fully secured.

Compared with years gone by, there are more lump sum, fixed price contracts, thus reducing the number of subjective views that can be taken with respect to variations and extras. However, the cashflow characteristics of companies have become more complex with investments, services and partnership agreements, making it more difficult for the independent observer to make an informed judgment on declared profits.

**Key performance indicators (KPIs) are obviously imperative: what measures did you consider when analysing a company or division's results?**

Undoubtedly, the relationship between operating profit and operating cash is fundamental. We have also touched on health and safety, and in my experience the most compliant contract is usually the most profitable. In part, this can be attributed to the attention to detail and the working environment, but these contracts are not the most profitable ones purely by chance. Beyond these essentials, there are a number of KPIs at the company and contract level.

Taking the latter first, whatever type of contract you are reviewing, there are always about five key operations on which the costs should be monitored on a weekly basis. Obviously, there is also the monitoring of physical progress on site compared to the plan.

At the contract level, and for the company as a whole, customer satisfaction is of paramount importance; this has become more prominent in recent years across all areas of the industry, particularly in the support services market.

Other key company financial metrics are those that you would expect – such as the pipeline of opportunities in the business, the conversion rate of this pipeline into actual orders, profitability, and working capital.

**Why are construction companies moving to the support services sector?**

Five to ten years ago, managements wanted to be re-listed as 'support services' companies as they believed they would get a better valuation for their businesses. The companies that did end up having a better valuation were those that had differentiating skills or assets in their business rather than a blanket assumption based on the listing category – which is, in my view, quite right.

If I think of examples of companies that have real differentiators in terms of value, I would mention two of the other companies contributing to this publication, VINCI and Ferrovial Group. These companies have started with a successful core business and used the returns to invest in assets/areas where other companies have not, for example in private investment such as toll roads. As a result of taking revenue/demand risk on these assets, the returns are better and they are able to provide enhanced value for their shareholders.

**Is this what UK contractors have done by taking an equity stake in the PFI/PPP concession?**

No, this is slightly different because they have not taken on the same degree of revenue/demand risk as the other companies I have mentioned. In fact, as we have seen lately, a number of companies are now selling off their PFI/PPP portfolios in order to demonstrate the assets value and also to raise cash to invest in other projects.

**What comments would you make to these secondary market companies?**

Their investments are not just in financial assets. Customer relationships and service to the public sector remain very important for a successful PFI/PPP concession over a long period of time.

In addition, there are risks associated with forecasting for the long-term. I think there can be a lack of understanding of life cycle costs, especially in terms of energy costs, and also a lack of skills in understanding how decisions made now will have an impact in future years.



## **Ian Durant, Chief Financial Officer, Sea Containers Ltd and former Non-Executive Director, Westbury plc**

### **How attractive is the house building industry as a career?**

Just like the supermarket industry some 10-15 years ago, house building was not seen as an attractive sector in which to build a career. The development of the food retailing sector, and the resulting high profile and size of organisations like Tesco, means that high calibre trainees are now being attracted into that industry. House building still has some catching up to do, but the industry is well on its way, and consolidation is playing a large part.

### **Talking of Tesco, how important is brand in house building?**

The consumer doesn't usually buy a house because of the brand; the product is bought because of location. This raises an open question for the future of whether we can differentiate through brand. It will almost certainly require process change and innovation to differentiate products. I could foresee the use of high technology enabling the customer to be presented with a shell and a customisation service. Indeed the UK industry is learning about new processes and offsite construction techniques from Scandinavian examples of innovation. However, the mismatch of demand and supply in the UK, together with an insufficient supply of new plots, means that there is little incentive to innovate. Land banks are king, the construction process is a commodity, and there is insufficient premium for additional services with the product.

### **Tell us more about the rationale for consolidation in the industry.**

Consolidation is clearly happening as mergers and acquisitions are mentioned almost daily in the press. We are seeing the emergence of FTSE100 companies such as Persimmon which are highly acquisitive and skilled at exploiting the synergies with companies they have absorbed. It is a reasonably stable and profitable industry, but there is the ever growing problem of land availability and the time it takes to gain planning approvals. Mergers can be a quick way to top up the land bank. There is also the challenge of access to capital for private companies which might lead to a sale of the business to a larger player, or the involvement of a private equity house. Private equity houses, which are currently awash with capital, clearly have an eye on valuations, and businesses such as house building which are underpinned by asset values are very attractive targets.

### **How big an issue is availability of land and time taken to gain planning approvals?**

Planning approvals seem to be taking longer. Despite the recommendations from the Barker Review of Housing Supply (March 2004) for significant growth in housing completions, there is a mismatch between central government policy and local authority planning capacity to manage the volume of planning requests. Land shortages are leading to escalating land and house prices. Affordability becomes a real issue and we are seeing a move towards apartment living rather than low rise housing. Consumer tastes change over time, and for affordability they will have to accept living in apartments and not houses with gardens. Government efforts to promote lower cost housing are laudable, but we are still seeing children living at home longer with their parents.

### **How is the industry responding to the environmental lobby?**

There is certainly pressure on the industry to be seen to be doing the right things when it comes to showing leadership in environmental integrity. There is also the issue of consumer preference for an ecologically sound product similar to the demand for organic products in the supermarket. However, life in the industry is predicated on supply and demand: legislation is moving ahead of the industry. The industry is therefore being forced to comply, and pressure is placed on examining the house building processes. I like to think of the analogy of the motor industry which produced the Toyota Prius as a result of the ecological lobby – this product has enabled consumers to achieve a sense of ecological altruism. I'd like to hope that house building can begin to move forward with this type of innovation, without undue pressure from legislation.

### **How well is the industry reaping the benefits of technology?**

Technology is a dynamic related to size and process. Traditionally, house building is a local process – in terms of land acquisition, planning, hiring labour and sourcing materials. The industry has grown out of local businesses where the pace of developing new control structures and the rationalisation of processes to gain economic advantage has been outstripped by growth. The absence of information technology in enabling change has been a real disadvantage. Again, I see the industry potentially following the lead of the supermarket industry where 20 years ago the local store manager of Tesco would decide on the stocking of his store – and now, of course, it's centrally driven.

### **Turning to executive remuneration and retention of middle management, how well is the industry coping with these pressures?**

Executive remuneration is a real challenge for the industry, especially with the contrasts between public companies and privately-owned businesses. There are more pressures on publicly listed remuneration arrangements, which show an enormous disparity within house building. There is also the issue of incentives – the more public shareholders see management being rewarded by incentives, the better. In terms of middle management, there is a homogenous pool in which people move around within the industry. I think there is more stability in larger companies, as the smaller companies are subject to take-overs which usually signal job losses.

### **Is labour supply an issue for the industry?**

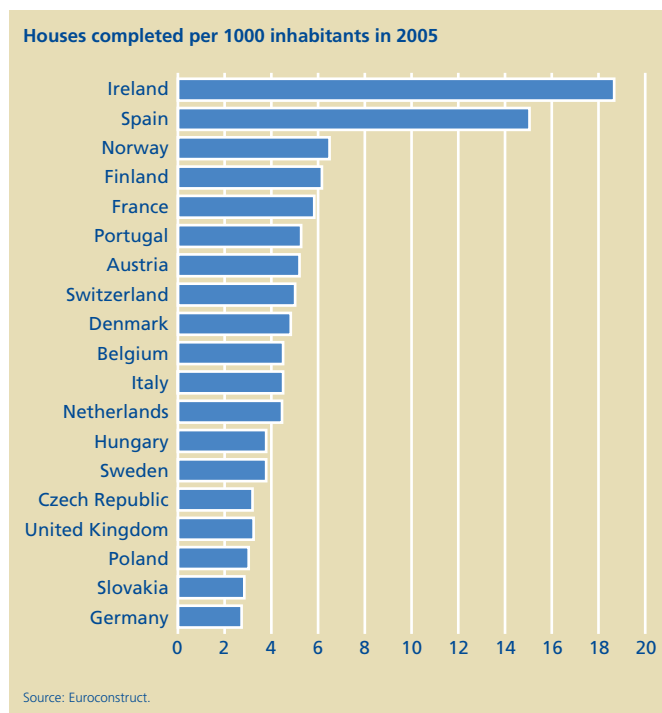
Labour costs are rising faster than inflation, and something has to give. We are seeing changing patterns of employment with the influx of eastern European labour, and of course in the UK, we will see strong demand for construction labour to cope with the demands of the 2012 Olympic building programme. The principal area for change must be in construction processes and techniques. However unlike some of the other industries we have discussed, I don't see labour being replaced by technology or robots!

# Expert view from Deloitte

## The European house building sector

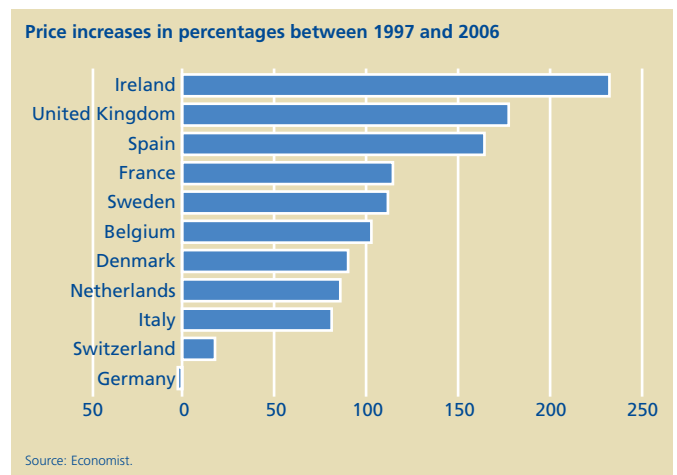
Traditionally, house building represents the lion's share of the construction industry – around 47% by volume, with renovation by far the busiest sub-sector. Its development is therefore of particular importance, not just for construction, but also for the national economy as a whole.

The development of house building is affected by several factors, including house prices, the extent and form of government subsidies, demographic trends and the structure and intensity of demand. Because the interaction of these factors varies over time and by geography, there are major differences in the house building sectors in the various European economies. The graph below shows just how large these differences are:



### House prices

House prices have varied dramatically by country during the last ten years:



For some markets, warnings have already been issued that the house price bubble must burst. Some fall in demand is already evident in Ireland and Spain in particular, where the strong and continuing rise in house prices has been a dominating investment motive of the last few years. In the UK, despite regular warnings that house prices will decrease sharply as they did in the late 1980s, the market appears to remain resilient. In Germany too prices are now rising as international investors, attracted by the stagnating prices of the last few years, have bought heavily into the existing housing stock.

### Government subsidies

For a long time, government subsidies for the housing market played an important role everywhere in Europe. In the beginning, the most significant subsidies were designed to stimulate the weakening new house building sector and finance the construction of social housing so that affordable housing could be made available to the less affluent sections of society. Later, the subsidies were extended to the wider population with other objectives in mind.

Today, tax breaks on the purchase of housing are granted in a large number of countries. Other ways of subsidising housing include granting low interest loans and – particularly in Germany – direct grants. According to an OECD survey, the Dutch, Danish and Italians currently profit the most from housing subsidies.

However, in many cases, the poor state of public finances has led to a decrease in housing subsidies or – as in the UK – to its virtual halt. Existing public housing is being 'privatised', in other words sold, ever more frequently – preferably to the existing tenants.

**Demographic changes**

In western Europe in particular, demographic change will dampen demand for housing in the medium and long-term. The 25-35 age group, which fuels the bottom of the housing ladder, will decrease markedly in many western European countries over the next few years. Germany, Italy and the UK are likely to be most severely affected, France and Spain less so. However, a lot depends on immigration trends and even within individual countries, demographic changes are by no means uniform. Even with decreasing populations, it is expected that people will move to urban areas.

To some extent, the impact of the population fall is cushioned by the current trend towards more and more living space per inhabitant, which is evident in certain parts of Europe.

**Housing demand**

Today, with the possible exception of parts of Europe that were affected by conflict (for example, the Balkans) the goal of 'one house for one household' has been achieved. In many cases, wealthy households now own second or holiday homes. Therefore, in the future, new houses will be built primarily to replace old ones. As saturation and lack of tax breaks mean demand for rental properties is low, owner occupiers are the main market, with the possible exception being the UK.

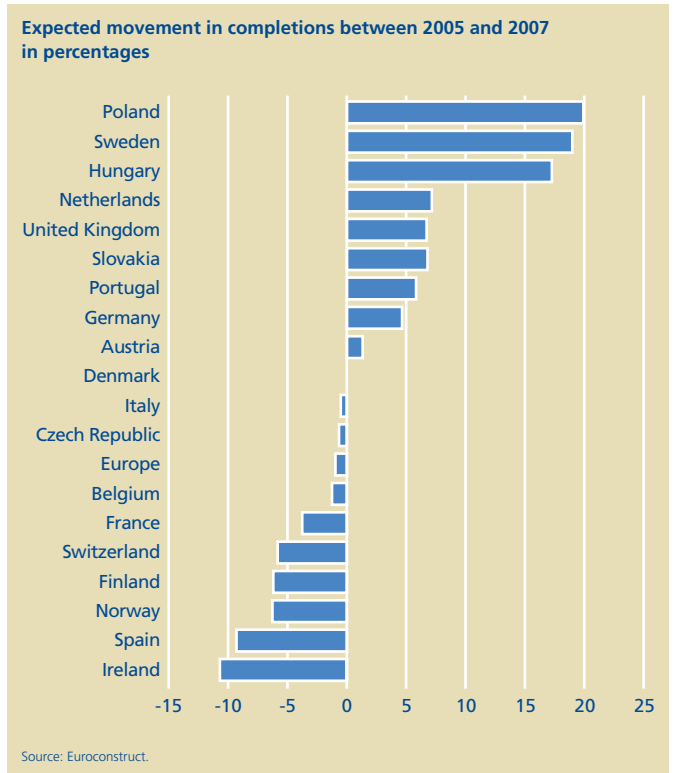
Willingness to invest in housing for owner occupation varies strongly between national markets, however. Countries with a large rural sector traditionally have high levels of ownership and demand is also particularly strong in eastern Europe, where consumers are making up for years of central planning that depressed demand.

In western Europe, Spain and Norway lead the way, each with an ownership rate of more than 80%, followed closely by Ireland. In Italy, Greece and Belgium the rate is more than 70%. In Great Britain, nearly 70% of the population owns their own house, in France 55% and in the Netherlands 53%. The lowest ownership rates in Europe are in Germany with 41% and Switzerland with 36%.

Willingness to purchase is influenced by a variety of factors including price, financing costs and expected future economic development.

Throughout Europe, interest rates continue at record low levels, which is traditionally beneficial to the purchase of housing. However, the views of the future economic situation are not so positive. With the construction cycle out of phase with the economic cycle, plans to build or purchase housing are clearly being revised or postponed.

For these reasons, house building development will continue to vary across Europe and the construction industry should not expect a huge boost from this sector over the next few years.



## Public Private Partnerships: Big potential for the future?

### Market overview

The long-promised proliferation of the use of Public Private Partnerships (PPPs) to tackle Europe's increasing requirements to renew and expand its infrastructure may not have happened yet. However, the outlook is very promising because several significant building blocks are now in place:

- The legal framework has been clarified in many countries (eg, the Contrat de Partenariat in France, the Beschleunigungsgesetz in Germany and the Ley de Concesiones in Spain), or it is being actively developed;
- Eurostat now provides a common accounting regime, even if precise interpretation at a local level remains somewhat problematic;
- The introduction of the EU Competitive Dialogue procurement procedure, while being greeted with some nervousness in the UK, will probably be welcomed more in Europe as a clarification of correct procurement process;
- Many countries clearly have the political will to use the PPP approach already, and not just in the politically safe areas of roads and transport, but in traditionally more sensitive areas such as schools (Germany), health (France, Italy), defence (Germany) and prisons (Spain, France); and
- The PPP approach is being pursued at a regional and local level, as well as at a national level, in a number of countries, including France, Spain, Italy and Germany.

The issue is therefore not **if** but **when** the PPP market will take off – although the picture across Europe is mixed.

The immediate major growth areas are likely to be Spain, France, Germany and Italy. In Spain, the use of PPP is developing at a rate which makes it arguably second only to the UK. In Italy, deals have closed in a range of sectors such as health, utilities and education. In France and Germany, the market is poised to take off now that the legal framework is in place.

Arguably the biggest long-term potential lies in central and eastern Europe, where the need to renew infrastructure is huge. The front-runners – Czech Republic, Slovakia, Poland and Hungary – have done a lot of groundwork, especially on the legislative front, but political uncertainty following recent elections has led to a slow-down. Elsewhere, countries are still feeling their way.

The expansion of PPP in Europe offers huge opportunities for the construction industry, if only because it is likely to increase construction activity. But as more and more major infrastructure projects are channelled through the PPP mechanism, there will be significant challenges for individual companies.

For the foreseeable future, any strategy for engaging with the PPP market must recognise the huge diversity of approaches across Europe. For example, in many countries, local market understanding and political connections will remain key. It is likely that the early beneficiaries of any expansion in central and eastern Europe will be German and Austrian firms with strong local presence, even if they are less experienced in PPP than others. However, companies which regard PPP as simply another route to construction contracts, with the added benefit of higher margins, are likely to be disappointed in the longer-term. To thrive in the PPP market, particularly as it becomes more truly pan-European, companies will need to expand their service offerings and engage with their public sector customers in new ways.

While it is undoubtedly the case that taking public sector assets off-balance sheet has been a major driver in the expansion of PPP, it would be wrong to think that PPP contracts are simply traditional building contracts by another name. The shift from input to output specification, critical to the desired balance sheet outcome, and the related shift from the procurement of assets to the procurement of services, require a major change in thinking and approach from the public and private sectors. The building blocks may be in place, but the implementation is likely to present major difficulties and the construction companies that succeed will be those that respond to the challenge by supporting the procuring authorities. Specific challenges include:

- Many authorities will struggle with the concept of moving to output-based specification. The theory may be simple, but the practice will rely on civil servants who may be culturally hostile to – or even directly threatened by – the change in approach; and
- Managing a PPP procurement through to contract award and beyond is a programme management challenge which not all public authorities are equipped to meet.

Many construction companies have skills in these areas. If the skills are backed up with a strong balance sheet and an appetite to take on and manage whole life risks transferred from the public sector, such companies could thrive in the new environment. Critical to this is an ability to manage risk within special purpose vehicles and through relationships with facilities managers.

It is worth noting that in the countries with more mature PPP markets, the dominance of construction companies may be waning. In the Netherlands, for example, there is a trend for consortia to be led by project management/service companies or banks.

In the UK, increasing emphasis is being placed on the creation of partnering structures that maximise flexibility and value for the public sector over the longer-term, for programmes that cannot always be specified fully at the outset. This has led to the emergence of the use of an 'integrator' – not necessarily a construction company – which is incentivised to work with the authority over a period of years procuring a programme of construction works. Some models allow construction companies to perform at least the first phase of works, with subsequent phases put out to competitive tender, while more radical models prohibit the integrator from carrying out the construction, making them focus solely on programme/risk management, service integration and financing.

So, overall, the outlook for PPP in Europe and its construction companies remains good. The investment needs are there, the budgetary pressures – driven by the Maastricht criteria – will not go away, and in many countries the legal groundwork has already been done. Construction companies which combine scale, strong balance sheets and local knowledge with a willingness to work with the public sector have everything to play for – but they should not assume that the best opportunities are theirs by right.

## UK Secondary market: PFI/PPP

With the increasing maturity of the UK PFI/PPP market, there has been much discussion about the secondary market for equity investments. Some of the current trends and factors influencing the UK may provide clues as to how secondary markets will develop across Europe.

The UK's National Audit Office estimates that more than 40% of UK PFI projects have had a change of equity investors. The secondary market has previously been somewhat fragmented and unpredictable. For example, some forced sales have been triggered by financial distress. However, in the last year there has been an increasing number of transactions. Examples include the sale of equity stakes in four projects by John Laing to Allianz's PFI fund in December 2005, acquisitions and disposals by PFICo, and the sale of the Global Solutions portfolio to the Secondary Market Infrastructure Fund in January 2006. The latter was an example of an innovative transaction where the primary investor continues to retain a stake, combined with an agreement regarding co-investment in future projects. The John Laing/Allianz transaction also involves ongoing management of the projects by a John Laing subsidiary.

Overall perception is that there is significant appetite for investment in the sector but limited opportunities for acquisitions. Some of the factors influencing this are as follows:

### Buyers

- PFI is viewed as a good fit for pension funds, given the perceived security of income from the public sector combined with long-term contracts;
- The growth of pension funds has led to pressure to expand beyond their traditional investment sectors and locations. Canadian and Australian funds now actively looking for European investments are good examples of this trend. It has also been speculated that changes to the UK pensions environment could lead to increased interest from UK funds; and
- International construction groups, which have benefited from strong domestic markets and are now seeing PPP develop across Europe and elsewhere, are looking for new investment opportunities.

### Sellers

- Equity markets are now beginning to recognise the value of PFI investments, reducing pressure on the major contractors to sell. However, smaller contractors and other project sponsors are unlikely to have the same balance sheet capacity, making them likely to consider selling sooner;
- There is reluctance by some owners to sell their stakes due to concerns that the public sector will feel they are not sufficiently committed to the long-term success of projects, making it more difficult to secure new contracts;
- Potential political sensitivity around investors announcing large profits from disposing of PFI stakes, because of media perception that this would be at the expense of the public sector;

- The majority of UK projects are structured as joint ventures. In situations where one of the original partners wishes to sell their stake, there are often pre-emption rights in the agreements which enable the other investors to step in. Existing investors' greater knowledge of the project, especially the detail of the financial model, can provide them with a competitive advantage over a new investor; and
- The predictability of the income flows from PFI are seen as an attractive balance to the traditionally cyclical construction business. Some of the large construction groups now see themselves as long-term holders of equity, even once the construction period has passed.

It seems that demand still exceeds supply and most well performing projects attract significant interest from potential buyers whenever they become available. Many sales are now handled discreetly among an agreed list of serious buyers, which tends to provide for a quick sale and attractive pricing.

The current trend for flexible PFIs such as LIFT and Partnerships for Schools – where a joint venture with the public sector is intended to adapt to future investment needs – may make sales of equity in these vehicles more difficult. This could act as a constraint upon supply in the secondary market as the incidence of such vehicles increases.

### Debt refinancings

The interaction between equity sales and debt refinancings is also worth mentioning. A typical funding structure for UK projects is 90% debt: 10% equity (made up of subordinated debt and share capital). Many equity investors have been able to realise cash and/or enhance their returns through refinancing of the debt in the projects. These gains arise from a combination of factors: increased understanding of PFI risks, removal of construction delivery risk, and lower rates of interest for funding long-term projects. A refinancing may be combined with an agreement with the public sector, such as one to extend the term of the contract and/or increased termination liabilities. Often the overall level of borrowing increases, enabling accelerated distributions to equity holders which enhances rates of return. In the UK, these refinancing gains are shared with the public sector: 50% for contracts signed since July 2002 and 30% for earlier projects (under a voluntary code of conduct).

Unlike debt refinancing, the public sector does not share in any of the gain from equity sales, except for tax on the transaction. Gain sharing on equity sales was considered in a recent UK government report, but was rejected. Therefore, PFI owners may see the sale of equity as an alternative to refinancing – and one that can be achieved without sharing gains with the public sector. This could be a good sign for the PFI equity markets, coming at a time when equity owners might otherwise be hesitant to sell.

### **Government attitude**

The UK government appears to be generally supportive of the secondary market. Increased liquidity and operational efficiencies from management of a portfolio of projects are seen as potential benefits. However, as a consequence, there is an expectation from the public sector that equity returns for new projects will fall from the current 13-15%. There is also a desire for greater transparency surrounding equity sales.

### **Rise of infrastructure funds**

A recent development has been the rise of infrastructure funds, including those specifically targeted at the PFI secondary market. Although PFI funds have been around for some time, a number of more recent funds have entered the market, including Allianz, Henderson, HSBC, i2, Babcock & Brown and various general infrastructure funds with investments in the sector. For institutional investors, secondary funds make a natural target as they offer investment in PFI equity without the need for lengthy and expensive procurement processes. Fund investors may also provide a home for very long dated cashflows more easily and efficiently than the major contractors.

### **Who is entering the market?**

We believe there is a wider sphere of potential investors in PFI equity. PFI assets seem well suited to institutional investors, and leading pension advisers are reporting anecdotal interest from a range of funds.

However, gaining access to PFI equity is not straightforward. Laing Group and the PFI Infrastructure Company are examples of quoted companies which are substantially PFI and infrastructure investment companies. Aside from these, and contractors that hold material investments in PFI projects to support their core businesses, there are relatively few entry points for pension funds. Investing directly during procurement or on a secondary basis is often not practical. Investing via PFI funds with specialist knowledge of the underlying assets appears to be the obvious route, but it does restrict investors' ability to move in or out of the market.

### **The final word**

Continuing transactions in the UK secondary market are expected, both to realise contractor profits and free up capital. As other parts of the European PFI sector mature, international projects are likely to become a more significant feature of the market for investment. Investor appetite also looks set to remain strong, with little indication that current demand has been satisfied, and with potential for new investors to enter the market. However, if substantial equity gains start to be realised, governments may come under pressure from opponents of PFI and the wider public sector to seek to share in some of the profits.

## Spotlight on PPP/PFI accounting practice

### Summary of progress

The International Financial Reporting Interpretations Committee ("IFRIC") met on 7 September 2006 to discuss what was previously called draft interpretations D12-14 on accounting for service concession arrangements. The outcome of this meeting is the acceptance by the IFRIC, subject to some minor drafting changes, of what will now be a single IFRIC interpretation tentatively called "Service Concession Arrangements" (the "Interpretation"). The Interpretation will now be considered for approval by the International Accounting Standards Board during November 2006. The Interpretation is not expected to have an effective date before 1 January 2008 and then it will only apply to companies which prepare their accounts under International Financial Reporting Standards ("IFRS").

To put IFRIC guidance in context, it is worth remembering that this is considered to be the appropriate interpretation of existing IFRS as they apply to service concessions and not an IFRS in its own right.

This article is structured so as to provide the background to the development of the IFRIC guidance. It then comments on a number of specific features, which were either the focus of responses during the consultation period or which we believe to be of particular importance. These include the scope of the Interpretation and the dividing line between the alternative models now agreed.

### Background

D12-14 were exposed for consultation early last year, with a consultation period running to 31 May 2005. The IFRIC received a mixed response with a number of significant criticisms raised. In particular, criticism was levelled at: the scope of the interpretation; the dividing line between what is a financial asset versus an intangible asset; and the intangible asset treatment. Financial assets are defined by IAS 32 "Financial Instruments: Presentation" to include any asset that is cash or a contractual right to receive cash. An intangible asset is defined by IAS 38 "Intangible Assets" as an identifiable non-monetary asset without physical substance.

Since June 2005, the IFRIC, and its project team, have been working to address these issues. These issues having been taken in an incremental fashion, to successive IFRIC meetings in order to seek a resolution. That resolution is reflected in the current position.

### Scope of the interpretation

The original scope of the Interpretation covered service concession arrangements in which:

- The public sector, the "grantor", controls services provided by the private sector, the "operator"; and
- Significant residual value in infrastructure assets exists at the end of the service "concession" arrangement which the grantor controls.

The scope has now been revised also to include situations where the infrastructure assets do not have a significant residual value at the end of the service concession arrangement, so called "whole-of-life assets", whose life is only the term of the concession.

The scope change is illustrated in the table below:

	Insignificant residual value	Significant residual value
Grantor	Now in scope	Always in scope
Concessionaire	Now in scope	Outside scope

### The dividing line between what is a financial asset versus an intangible asset

Previously the financial asset model was to be applied if the grantor has the primary responsibility to pay the operator for the concession services. The Interpretation now refers to the operator recording their interest in the service concession as a financial asset if the grantor has agreed to pay a specified amount or if the grantor agrees to guarantee the shortfall between the amounts received from users of the services and a specified amount. The operator cannot record the underlying asset as a financial asset if the grantor only pays when users use the service or when the grantor only grants a right to charge users for the service.

The dividing line in the Interpretation between a financial asset and an intangible asset has therefore been revised. The dividing line was reconsidered because the IFRIC noted that the definition relies on the existence of a contractual right to receive cash, and the specific identity of the party making the payment does not directly influence the existence of such a right. Payments from the grantor which are only contractually committed based upon usage, or payments from unidentified service users do not meet the definition of financial assets (see definition above).

### The intangible asset treatment

The alternate treatment is to record the cost of the underlying assets as an intangible asset. It remains the case that the Interpretation requires the recognition of revenue during the construction of the underlying assets in advance of the operating phase of the service concession, equal to the value of those underlying assets via a transfer of the operator borne construction costs from work in progress to intangible assets. The Interpretation also requires recognition as revenue of the full amount of payment from the grantor and/or service users. As a result the total revenue recorded under the intangible model during the service period can substantially exceed the total cash receipts from the grantor and/or users.

### **The bifurcated model**

As highlighted, the issue of the dividing line between financial asset and intangible asset prompted considerable response. Whilst the guidance outlined above addresses the majority of service concessions, there are a number of service concessions which do not neatly fit within the revised approach. As a result, the IFRIC Interpretation allows for the bifurcated model, which essentially is a financial asset with an intangible asset layered on top.

This is seen as appropriate where the underlying assets in a service concession costs, say, 100 units, but the grantor is contractually committed for only, say, 80 units. Therefore, based upon the approach described above the financial asset will have a value of 80 units. However, it is not appropriate for the balancing 20 units to either remain as work-in-progress or be written off. Instead the 20 units, which are expected to be recovered from payments by users, is seen as an intangible asset. Whilst the theory underlying the bifurcated approach is clear, it is worth noting that applying this model, particularly when trying to address issues such as the treatment of lifecycle maintenance and interest capitalisation can be complex.

### **Other issues**

a) In relation to the financial asset model, IAS 39 "Financial Instruments: Recognition and Measurement", is the relevant IFRS. IAS 39 in respect of these types of financial assets draws a distinction between different types of financial instruments:

- Financial asset measured at fair value through the profit and loss account;
- Available for sale financial asset also carried at fair value, but through revaluation reserve; and
- Loans and receivables.

Assuming the service concession arrangement can meet the qualification criteria in IAS 39, treatment as a financial asset carried at fair value will potentially be advantageous if the operator is also required to "fair value" their financing.

b) The Interpretation indicates that for the financial asset model it is not appropriate for the concessionaire to capitalise their borrowing costs.

c) Finally, the Interpretation suggests that it may be appropriate to recognise a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" for the lifecycle maintenance the operator is required to undertake during the concession term. It is worth noting that under UK GAAP relatively few operators now provide for lifecycle maintenance as it is debateable whether there is a contractual commitment for the operator to undertake this maintenance, even though it is planned to be undertaken. Entities will need to determine whether any obligation they have for lifecycle maintenance meets the criteria for recognition as a provision in accordance with IAS 37.

## Why construction businesses fail

Financial, risk and governance management are nothing new; robust management of these areas is simply good practice and can give companies competitive advantage. But what happens when these key controls are compromised? And how can a construction company and its stakeholders find themselves in severe difficulty – past the point when corrective action should have been taken?

It is surprising given the buoyant market and ten consecutive years of growth that the UK construction industry is expected to see the highest level of business failures for a decade in 2006, up 20% on the annual average.

In recent years, growth has been fuelled by a significant increase in government spending on schools, transport and health, including large projects such as Heathrow Terminal 5 and rail/tube upgrades. However, this level of growth is unlikely to continue as the government is reining in public sector spending in order to reduce the budget deficit.

And these current projects have not been without difficulty, mainly due to aggressive bidding and a lack of experience of 'end-to-end' delivery of complex PFI projects. For example it has been reported that Jarvis experienced problems on various education and health schemes as it continued winning contracts without ever having seen one through from end-to-end. It is also widely reported that Mowlem experienced significant issues with the Bath Spa and Dublin Port Tunnel projects.

These instances show that the construction industry is a challenging one to operate in, even for large companies. By their very nature, construction businesses offer low financial returns. They typically have an operating margin of 1-2%, which equates to an operating profit of €1.4-2.9m for every €146m of turnover, leaving very little margin for error.

Thin profit margins, fierce competition, risk of overtrading, unpredictable cash flow, regular contractual disputes, challenges with fixed price contracts, and the increasing complexity of PFI contracts add up to a tough operating environment. If you also factor in companies that chase business outside their areas of expertise or in new geographies, and those targeting trophy contracts to boost profile and revenue growth, further pressures and challenges would seem inevitable. This applies even to those which, on the face of it, appear to have strong balance sheets.

For example, Multiplex moved into the UK market and pursued the Wembley contract. It agreed to a fixed price contract with reportedly tight margins, even though it had a less mature relationship with the construction supply chain in the UK. UK subcontractors have become more sophisticated in recent years and Multiplex has experienced its fair share of difficulties, with its dispute with Cleveland Bridge being a high profile example.

With around a €146m reported loss on the Wembley contract at June 2006, Multiplex is pursuing claims against various third parties as it tries to recover some of the additional costs incurred. A highly leveraged balance sheet within the construction arm of Multiplex and significant cash outflows, particularly in the UK, have drawn attention. However, the construction division is supported by a strong parent company and so is able to weather contract losses more easily than some.

Jarvis is another example. It entered the PFI arena with limited previous experience and has reportedly made losses on a significant number of contracts. It also highlights the importance of focusing on the link between profitability and cashflow. On paper, Jarvis was profitable, but in truth these profits masked the cashflow problems that Jarvis was later to experience. Strain was evident within Jarvis due to reputational damage from the Potters Bar train crash, along with adverse PR regarding delivery issues on school PFI contracts and slow payment of subcontractors. Under the surface, operational and management issues were alleged to be even more significant, with poor financial controls and loss-making, high-risk contracts increasing the cash flow burden. It was reported that negotiations with the financial stakeholders – necessary to achieve a stable platform for restructuring – were complex and drawn out.

Mowlem is another example of a seemingly profitable business (despite falling margins) experiencing significant cash outflows which were causing liquidity issues. Three profit warnings were issued in the eight months to February 2005 and there was adverse publicity regarding its management and its aggressive accounting policies. However, a change in management in early 2005 led to significant improvements. It was reported that prompt action was taken to address issues by appointing professional advisors, reviewing accounting policies, and opening communication lines with banks. An asset write down of around €102m was booked in September 2005, primarily as a result of aggressive profit recognition on contracts. Following the Carillion takeover further losses emerged, but the position now appears to have stabilised.

There are various warning signs that point to a business in trouble, including aggressive revenue recognition policies, the ability to convert operating profits to cashflow or not, cost overruns, programme delays, and poor financial reporting and systems. If some or all of these issues persist, a business will find itself in a cash crisis that can lead to business failures if not remedied quickly.

There are some high level lessons to learn from these situations: a diversified portfolio of contracts provides necessary protection from contract losses, a thorough control discipline needs to be embedded, and cash must be actively managed in a business where operating profit turns to operating cash flow very quickly.

The recipe for success in this industry is strong risk management procedures, prudent accounting policies and a stable and skilled workforce. A construction business survives because of the reputation of its people and sound commercial practices, both of which take time to build but only a moment to demolish.

## How to manage risk

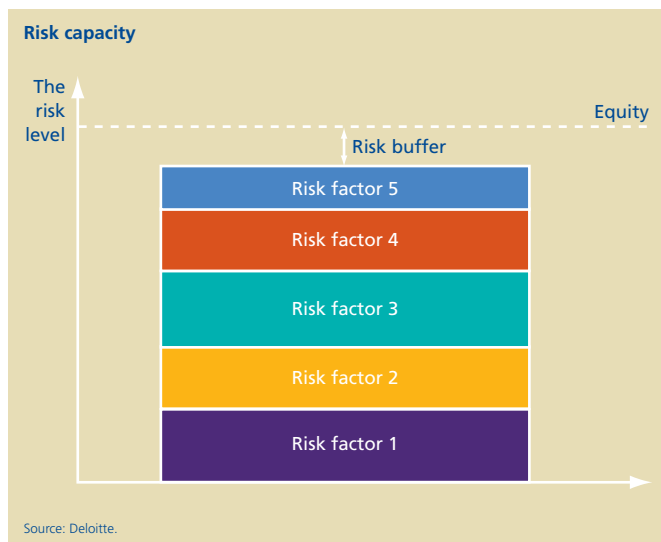
In a 2005 Deloitte review of approximately 100 Danish and Nordic contractors/developers, it became evident that many have a distinct focus on risk management and risk control. However, the review also highlighted that risk management is handled in many different ways.

Many of the key findings may be obvious to industry participants, but not to others – and we also think they are relevant across Europe. A selection of the results are as follows:

- There is a distinct correlation between the size of a company and the degree of systematic risk management procedures adopted. Small and medium sized companies have a tendency to base their risk management procedures on recent experience, rather than using standard systematic tools;
- There is more focus on operational risk than financial or legal risks;
- Around half of the companies surveyed said that risk management was included in strategic planning, but 12% said risk management does not take place until a problem arises;
- While the measurement of risk management's effectiveness is difficult (it is impossible to know what would have happened if risk management had been handled differently), more than half the companies said their success criterion is to be able to measure effort; and
- As for the employment of consultants, the survey indicated that there is a predictable correlation with a company's appetite for risk. The more risk averse, the more likely a company is to employ consultants to help with risk management. That said, we did not find that companies with an intentionally high-risk profile had actively chosen not to turn to consultants.

### Why dynamic risk management?

One of the most important objectives for any company is to develop and use financial resources to optimum effect. Accordingly, decisions made today should not conflict with the company's capital resources in the future. It is also important to ensure that new projects are constantly being developed in order for the available capital to be 'working' to benefit the company.



By applying risk management and risk control, a company can keep its risks at an appropriate level. It also enables the company to assess the relationship between equity and an acceptable risk level. This gives the company clearer insight into its ability to resist losses that could be derived from the realisation of such risks.

A dynamic risk management system could provide the basis for allocating risk capital to projects during the different project phases.

### Benefits: an overview of your business

In Deloitte, we have long worked with various types of risk management models, ranging from the very sophisticated, developed for large companies, to models which are more suited to small and medium sized firms.

We base work on our understanding of how developers and contractors run their companies. Experience has taught us to develop a standardised model for risk management that incorporates a systematic methodology for these types of organisations. This provides several benefits:

- Complete information on risks at a project level;
- Complete information on risks at an aggregate level; and
- Insight on risk at a dynamic level.

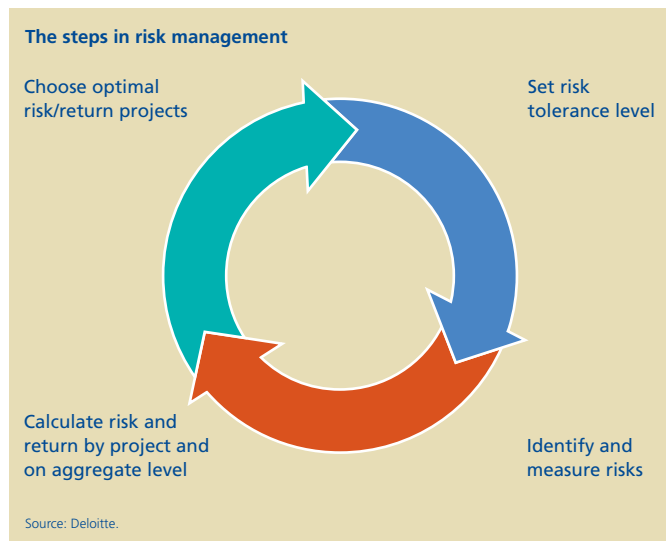
If the company systematically applies a bottom-to-top approach, it is better able to identify risks at a project level. From the project level, the risk profile of all projects can be aggregated to a whole business basis. This enables the company to evaluate the conditions and risks of individual projects and gain an overview, on a whole business basis, of the risks taken.

Risks and return are determined for all projects and for all periods, which allows the company to see its risk profile from a dynamic perspective. The methodology provides information on the potential surplus risk capacity in future periods, based on ongoing and planned activities.

One of the benefits of such methods is the increased ability to select the best project for the company, in cases where there are several competing projects available. The method also enables the company to exercise risk management over time, based on knowledge about the process and the completion time of projects. At the same time, the company gains knowledge about present and future risk types and sizes, and any alteration of a project will be reflected in the overall picture of the company's risk level. Finally, the systematic method provides greater potential to optimise the risk/return equation.

By employing such systematic methods, companies can achieve enhanced borrowing terms and gain the confidence of third parties in management decisions which are seen to be made on the basis of more robust information.

Risk management covers a number of steps, as shown in the model below:



The first thing to do is to set the level of risk desired, a choice which varies from company to company. Generally, where the return requirements of equity are higher, the greater the risk level is likely to be. The ability to spread risks will help to improve the risk/return equation, which means that the company will be able to reduce the risk impact significantly – even where some projects have a very high risk profile.

When determining risks, our experience tells us that a bottom-to-top strategy, where the risk is measured at project level, is best. This provides for an intuitive and easy-to-understand risk management process.

The project return is derived on the project's budgeted earnings. The budgeted earnings are adjusted (multiplied) with the gross and net risk percentages, in order to understand the potential demand for capital which then forms the basis of the calculation of a project return. The gross risks are risks defined in relation to the project, and they can be managed by initiating risk-reducing measures to achieve the net risk position.

Based on the potential risk/return of the individual projects, the company can identify the most attractive projects. If the company has limited capital, it may prioritise the projects which it pursues by reference to the current capital conditions.

### Tailored project phases

The risk models we work with have been developed specifically to meet the requirements of contractors and developers, to measure and report on risk/return. Generally, there are three project phases:

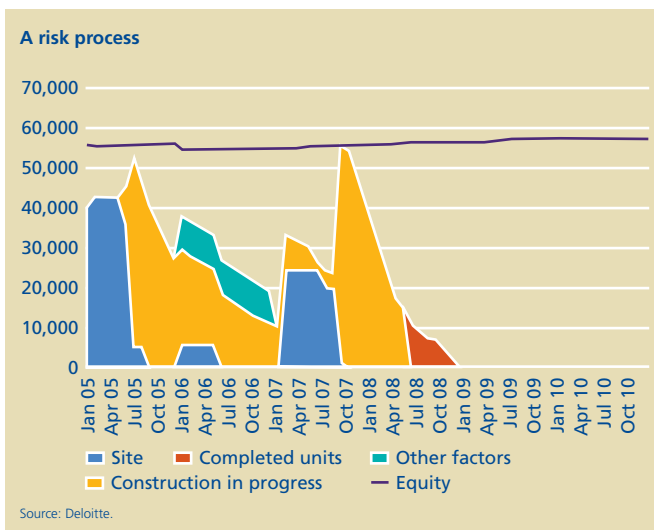


The first step is to determine the primary risks, which are typically related to the development of a project. To be able to model the risks, it is necessary to have an understanding of the project's combination of risk factors.

The model calculates risks over time, not only to assess the individual project's risk requirement, but also to estimate the requirements of all the company's projects. This calls for knowledge about the expected progress and completion of projects, typically possessed by the project manager.

The company will begin by defining the risk factors of the project, for example the type of project, location, level of complexity and legal risks. Then the company will analyse a wide range of project data, such as the defined construction period, the sales period and the sales price, all of which will lead to a characterisation of the project's risk and return profile.

If the company adds up the risks of all the projects, a picture of the company's overall risk profile will emerge.



As shown in the diagram above, it is possible to take on new projects, as long as available equity exceeds the overall risk with a given margin. The model makes it possible when selecting new projects to select the ones with the best risk/return factor, and it allows for a systematic reduction of the risk factors in individual projects.

### **Conclusion**

Put simply, there are a number of benefits to be gained by implementing systematic risk management and control:

#### **Internal**

- Ability to measure risks over time, based on knowledge of progress and completion of projects;
- Knowledge of present and future risk types and sizes;
- Consistent risk assessment of all projects;
- Overview of effects on the aggregate risk level from project changes; and
- Basis for optimising the risk/return equation.

#### **External**

- Enhanced borrowing terms due to an improved risk management process; and
- Increased confidence in management decisions due to more reliable information on the company's project funds;

Without a doubt, companies that employ a systematic risk management regime perform better than companies that rely more heavily on more informal methods and experience.

The danger of not having a systematic risk management regime is that the company only ever sees a small part of the risk landscape and will not have an overview of the risk potentially sitting in the balance sheet.

## How can the industry address the ever-changing sustainability agenda?

It wasn't very long ago that man believed the world comprised just four elements: earth, air, fire and water. While scientists have subsequently proved that wrong, the four basic elements can convey some of the principles of the sustainability agenda in the context of construction. Against these four elements we can identify examples of the impact that the construction industry has on the environment and the opportunities that exist to address sustainability.

<ul style="list-style-type: none"><li>• Burning fossil fuels (for heating, cooling, transportation);</li><li>• Energy consumption; and</li><li>• Creating alternative energy sources.</li></ul>	<ul style="list-style-type: none"><li>• Air pollution;</li><li>• Emissions associated with ozone depletion and climate change; and</li><li>• Renewable wind energy.</li></ul>
<ul style="list-style-type: none"><li>• Appropriate site selection;</li><li>• Extraction and movement of aggregates and similar natural products;</li><li>• Waste disposal and landfill; and</li><li>• Renewable material resources eg, timber.</li></ul>	<ul style="list-style-type: none"><li>• Preservation and anti-pollution measures;</li><li>• Safeguarding supplies; and</li><li>• Renewable water energy.</li></ul>

The sustainability agenda provides the construction industry with a significant challenge in terms of the development of deliverable solutions within a complex, rapidly-changing and often misunderstood operating environment. In recent years, the debate has become more prominent in the political landscape, and the need for overt corporate responsibility in this arena has emerged.

Paradoxically, a clear picture of what constitutes sustainable development has become more complex to assess in terms of economic or environmental benefits, even before contemplating the ability to deliver. This is further compounded by other factors such as the fragmented and diverse nature of the construction industry and the similarly diverse range of jurisdictions it finds itself operating in around the world.

The challenge that the industry faces in terms of delivering sustainable solutions can be considered from three principal perspectives:

- First, the impact on the environment during the acquisition of raw materials, their processing and transformation into components and systems, and their amalgamation into a finished asset;
- Second, the impact that the finished product has on the environment in terms of its lifecycle performance; and
- Ultimately, how the asset may be disposed of at the end of its economic life, and to what degree it can be reused or recycled.

It's much more than a technical challenge. In the overall construction life cycle, a diverse array of stakeholders is involved, including suppliers, manufacturers, designers, developers, contractors and subcontractors, end users, maintainers, and parties that are responsible for disposal (or, hopefully, recycling).

Stakeholder interests have historically been misaligned in respect of property and construction, when the party responsible for capital expenditure is not the same party that is responsible for operating it throughout its life. This has, in the past, led to less than optimal solutions from a commercial perspective – leading to ever more focus on a whole-life dimension, where the contractual landscape allows. This is becoming even more critical if the sustainability agenda is to be wholeheartedly embraced.

Recent developments in longer-term procurement arrangements, such as projects delivered through PFI, can realise the commercial rewards of a whole-life approach as there is, in theory, a single entity responsible for capital and operating costs.

However, even this can be diluted. PFI projects only account for a small percentage of the construction market in the UK, and even less across Europe. Critical whole-life elements such as the risk of power/utility consumption may not be passed across to the service provider, leaving a vital element missing from the commercial life cycle and sustainability agendas.

One of the biggest challenges currently facing these longer-term arrangements is how the contracting parties set out their requirements and obligations for sustainability, and how they expect these requirements and obligations to remain relevant 10, 20 or even 30 years hence.

When looking back at developments that have taken place in recent years, it is clear that the sustainability agenda has moved on significantly. The only certainty about the future is change, and the ability to accommodate change within a strategic framework is key to finding a solution to the long-term arrangements. This demands the creation of flexible and adaptable arrangements that have the ability to predetermine how future changes in technology, good practice, legislation and market forces will be dealt with. The ultimate challenge here is to make this totally committed to, and deeply embedded in, future behaviours – and not merely an empty 'agreement to agree'.

### Do we spend to save?

Many major construction programmes have already faced technological and economic challenges where there is a strong desire, perhaps by a variety of stakeholders, to incorporate technologies that are in their infancy, or which do not yet demonstrate robust economic logic.

Several initiatives to encourage sustainability in construction have been unsuccessful. These are where capital investment in a component that supports renewable energy can only demonstrate a crude economic pay-back over a period beyond the economic life of the overall asset. Resistance can be compounded when the transfer of risk for operation and maintenance is contemplated in such contracts. Simplistic short-term analysis has repeatedly proven a major stumbling block in getting innovative materials, components or systems that may demonstrate sustainable credentials into construction projects.

The concept of spending to save is not new. In many markets, the opportunity exists for the consumer to pay a premium for products that demonstrate improved resource consumption, such as a diesel

car as opposed to a petrol car. Increasingly, social responsibility is impacting how we live our lives and how we do business – and the ability to make choices that go beyond traditional commercial norms is becoming a key factor.

Such choices are not always evident or easy to obtain in the construction industry. This is due to the fragmented nature of the market, and the difficulties in obtaining robust cost-in-use data because of the many variables that arise through the creation of something unique. Encouragingly, an increasing number of stakeholders – including landlords and corporate occupiers – are now demanding a whole-life approach to the design, costing, delivery and operation of their assets, as well as the adoption of low and zero carbon technologies. But is the industry equipped for this?

Where an enlightened approach is adopted, the reality of objectively assessing the sustainability of materials, components and systems within a construction project can be very difficult. While the overall product can be assessed using long-established tools like the Building Research Establishment's Environmental Assessment Method (an independent environmental assessment system in the UK), the initial assessment of individual parts to determine their sustainability credentials has not always been easily undertaken.

In theory, this is set to change with the introduction of the ISO 14025:2006, Environmental labels and declarations – Type III environmental declarations – Principles and procedures. This should enable specifiers and purchasers to compare products fulfilling the same function, and encourage improvement of environmental performance. The standard was introduced in July 2006 and it will be interesting to see how useful it proves in practice for the sustainability agenda, and whether it leads to industry stakeholders embracing similar standards across Europe.

Technology is increasingly being used to generate renewable energy elements as an integral part of construction projects. There has been a relatively sudden realisation that the supply market is not as resilient as was once thought. Volatile markets, and the realisation that power supplies may be adversely affected by political moves or technical weakness, have brought the concept of micro generation to the fore, both at a political and corporate level. While the investment decision for such schemes is not always clear cut, the unit cost of providing such installations is falling, making their use increasingly economically viable for all types of scheme.

### **Dump the dumping**

The days of demolishing buildings or infrastructure and disposing of them by dumping them in a hole in the ground are disappearing fast. The combined drivers of corporate social responsibility and fiscal measures brought in to support legislation like the EU Landfill Directive are designed to discourage this. Not only is the industry obliged to reduce the amount of material that is disposed of through landfill, it is also required to increase sustainability by sorting and recycling waste.

Like spending to save, the concept of recycling construction materials is hardly new. At its simplest, excavated material has been reused since man began constructing dwellings, and materials such as concrete or macadam have long been crushed or planed to provide an economic and local source of materials. But historically, the economics of the equation have been predominant, rather than the social or environmental drivers.

The responsible disposal of waste materials has long been a major issue. The fragmented nature of the industry, which comprises a multitude of small businesses operating under the radar of legislation, is often most visible through the illegal tipping of waste. In the UK, initiatives such as the Waste and Resources Action Programme ([www.wrap.org.uk](http://www.wrap.org.uk)) and the Building Research Establishment's SmartWaste ([www.smartwaste.co.uk](http://www.smartwaste.co.uk)) are now under way to promote the recycling of construction materials and encourage companies to develop a waste management strategy. The latter scheme has received government support ahead of the proposed introduction of new legislation in 2007.

### **Grasping the opportunity**

While the industry is in the embryonic stages of responding to the wider sustainability agenda, the pressure to develop processes and products to address current issues is rapidly increasing. Today's initiatives and good practices soon become tomorrow's compulsory practices as legislation develops, so businesses need to scrutinise themselves and the projects they are working on continuously. The fact that new construction products are often slow to market, along with the relatively lengthy delivery of projects from inception to operation, makes staying ahead of the game that much more difficult.

While none of us has a crystal ball, there are three key issues that we think the construction industry needs to deal with in the short-term:

- Developing a robust and demonstrable industry standard to consistently evaluate the environmental footprint of its products, including the creation of new buildings and infrastructure;
- Identifying and implementing a range of compensatory measures to neutralise the impact of construction activities/outputs on the environment; and
- Publishing objective statements to the diverse range of project stakeholders, and demonstrating how sustainability is being addressed within the wider corporate responsibility agenda.

The industry's performance in responding to these wide-ranging challenges will be in the spotlight over the next 12-18 months.

# Country profiles

## Austria

### Austrian market statistics

Austria	2005	2004
GDP at market prices (€b)	246.6	236.9
Real GDP Growth	1.9%	2.6%
Total volume construction industry (€b)	28.67	28.25
As % of GDP	11.6%	11.9%
Employees in construction industry	N/A	N/A
As % of working population	N/A	N/A
Companies active in construction industry	N/A	N/A

Notes: (i) GDP and Real GDP growth figures for 2005 are estimates of the Economist Intelligence Unit.  
(ii) Total volume construction industry is based on Euroconstruct research.

### Trends

The recovery of central and eastern Europe's economy is benefiting the country. The period 1999-2004 saw a stagnant or low increase in construction activity, but this is now changing. Construction activity, private consumption and exports are driving expansion in Austria.

Increasing investments in infrastructure and communication networks by the enlarged European Union will benefit the construction industry in the next few years. Expansion of Trans European Networks should also benefit the country's economy. Euroconstruct predicts construction industry revenue will increase by 2% in 2006 and 1.9% in 2007.

Construction revenue has increased to €28.67b in 2005, from €28.25b in 2004. This is slightly less than the real gross domestic product (GDP) growth of 1.9%. Construction revenues as a percentage of GDP have decreased from 11.9% in 2004 to 11.6% in 2005.

Housing construction market output has slumped to about 50% since the boom in the 1990s. Building permits have dropped to about 40,000 during 2001-2004, from 66,000 in the mid-1990s.

There is a strong demand for subsidised rented housing construction, following poor construction activities in recent years. Subsidised housing plays a significant role in Austria. Apart from the direct housing construction subsidies, indirect housing subsidies are provided through fiscal incentives like housing construction bonds and building society saving premiums.

Following weak construction activity over the past few years, the non-residential buildings segment is likely to show a slight revival. There has not been any major fluctuation in rent or yields, and this had an influence on cautious construction activities. In 2006 and 2007, recovery is expected for rents as well as yields.

The market for office properties is concentrated in Vienna. To the countries in the east, Vienna used to be a highly attractive hub – but now Prague and Budapest are attracting international groups, with the enlargement of the European Union. With the economy expected to recover during 2006 and 2007, non-residential construction is likely to increase. Revival of construction activities in the health sector is also expected in the near future, with the help of public private partnerships.

Speedy development of transport and communication infrastructures has arisen due to the ongoing enlargement of the European Union. More than its counterparts, the Austrian economy may also benefit from the development of Trans European Networks.

Road infrastructure projects are not financed through the general budget, but through the special financing corporation, Asfinag. Power plant construction is expected to increase as household power consumption is on the rise.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	Strabag SE	Dec 05	6,956	95
2	Porr Group	Dec 05	1,828	32
3	Alpine Mayreder Group	Dec 05	1,640	36
4	Swietelsky Group	Mar 05	765	N/A
5	Habau Group	Mar 05	295	N/A

### PFI/PPP and concessions

For a present value of €945m, Austria's motorway authority, Asfinag, has recently contracted 'Y' (A5), the first of the four planned Austrian road PPPs to the consortium Bonaventura. Consortium members are the construction companies Alpine Mayreder Bau GmbH (Austria) and Hochtief AG (Germany), as well as the French motorway operator Egis Projects SA. The 30 year concession will involve construction of 51kms of roads north of Vienna.

### Mergers and acquisitions (M&A)

There has been one significant transaction:

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Pappas Family	Alpine Mayreder (Austria)	Grupo FCC	Spain	525	75%

Note: Exchange ratio used for 2005 is €1.245=\$1.

## Belgium

### Belgian market statistics

Belgium	2005	2004
GDP at market prices (€b)	298.4	287.5
Real GDP growth	1.5%	2.4%
Total volume construction industry (€b)	25.2	23.3
As % of GDP	8.4%	8.1%
Employees in construction industry	N/A	N/A
As % of working population	N/A	N/A
Companies active in construction industry	N/A	N/A

### Trends

The construction industry has shown strong growth in 2005, increasing by 8.1% to €25.2b. In the same period, real GDP has increased by 1.5%. There has been a lot of activity in residential construction in 2005, which has been one of the best years during the period 1960-2005. Building permits increased by 13% to 59,000 units, due to demand for apartments over houses and low mortgage interest rates.

Public sector spending is increasing, partly as a result of a long-term rail investment programme scheduled for the period 2003-12. The operation of the TVG line linking Brussels to Amsterdam is expected to start in 2007, and will shorten the travel time by an hour.

A total investment of €17b has been planned for major rail infrastructure programmes for the period 2003-2012. The plan includes a fast suburban network around Brussels, modeled on the Regional Express Railway (RER) system in Paris. It also includes a new freight link from the port of Antwerp to other parts of Belgium, and is further designed to link with neighbouring countries.

Due to the economic slowdown, the residential construction segment had shown no growth in the past few years. During 2005, residential construction revenue reached €11b, an increase of 7.8% over 2004.

This segment grew with a combined annual growth rate (CAGR) of 1.4% from 2001-2005. For the same period, European industry overall showed a CAGR of 2.5%. The private sector generates 61.2% of the revenue in this segment, and the remaining 38.8% comes from the public sector. Belgium is the least lucrative in Europe, accounting for just 2.6% of the European home building industry.

The non-residential construction industry has generated revenue of €14.2b in 2005, up 8.4% from €13.1b in 2004. This segment recorded a CAGR of 0.5% during the period 2001-2005, compared to a CAGR of 1.1% for the European region as a whole.

This segment generates 3% of Europe's total revenue. Belgium's share decreased marginally over the five year period, from 3.1% in 2001.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	VINCI-CFE	Dec 05	1006	26
2	DEME	2005	845	41
3	Jan De Nul NV	Dec 05	795	96
4	Dredging International	Dec 04	316	N/A
5	Les Entreprises Louis De Waele	Dec 05	117	2

### PFI/PPP and concessions

The following three contracts indicate areas of development:

- The new sports hall Topsportal will be constructed by Antwerps Sportpaleis NV, an operator of the cultural centre Sportpaleis in Antwerp, northern Belgium. It will be developed under public private partnership. The sports hall will have 5,000 seats and should be completed by the end of 2006;
- The municipality of Maasmechelen in eastern Belgium is investing €98m for the renovation of its city centre by 2011. The consortium companies for this project include Strabag Belgium, Democo Group and Van Roey; and
- An investment of €500m is planned by Belgian railway operator SNCB/NMBS for the construction of direct connections to Brussels airport in Zaventem, central Belgium. This provides direct connections from Brussels airport to Antwerp, Mechelen, Leuven and Liege. SNCB/NMBS expects to double its passengers by 2030.

### Mergers and acquisitions

In the Belgian construction industry, a number of deals have taken place during 2005.

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Synerco NV	N/A	Imtech NV	Neth.	N/A	100%
Cramover NV	N/A	Hans van den Neste NV	Belgium	N/A	100%
Britte SA	N/A	Groupe Dion	France	N/A	100%
Egemin NV	Egemin ECS NV	Group Air Cooling Services NV	Belgium	N/A	49%
Globe NV	N/A	E-Capital	Belgium	N/A	N/A
Lombaerts Industrie NV	N/A	Dockx NV	Belgium	N/A	100%
SWK Group	N/A	Arcadis NV	Neth.	N/A	100%
Group Loix NV	N/A	Aannemingen Janssen & Drooghmans NV	Belgium	N/A	100%

## Bulgaria

### Bulgarian market statistics

Bulgaria	2005	2004
GDP (€b)	21.4	19.5
GDP growth	5.5%	5.7%
Total volume of construction industry (€b)	2.73	2.39
As % of GDP	12.82%	12.26%
Employees in construction industry	138,446	127,600
As % of working population	6.2%	6%
Companies active in construction industry	N/A	N/A

Notes: (i) GDP at market price.  
(ii) Wherever required, annual average exchange rate used, €0.80453=US\$1, and 1€=1.96 BGN.

### Trends

The Bulgarian economy is in relatively good shape preparing for EU accession. The Bulgarian government has shown progress in areas such as the fight against corruption and the reform of the judiciary. The GDP growth rate remains stable at more than 5.5% in 2005, compared to 5.7% in 2004. The performance of the construction sector was well above that of the economy for the past two years. It grew 14.1% in 2005 and generated a total revenue of €2.73b. However, the growth rate was slightly lower than the 2004 rate of 14.9%.

The housing sector led the construction boom in 2005. The number of newly-completed homes increased by 45.5% in 2005 to 12,029. With increased supply also came improved quality of construction. There was a rise in the construction of investment projects in mountain and sea resorts to attract foreign tourists and city dwellers and housing prices continued growing fast, although at a slower pace. The mortgage market continued its strong growth.

The buoyant construction sector received foreign direct investment (FDI) of €172.8m, a spectacular rise of 119%. In fact, the 2005 FDI figure is higher than the total FDI received during the whole period of 2000-2004.

The construction sector is expected to continue growing rapidly in the coming years, due to Bulgaria's accession to the EU, lots of interest from local and foreign property developers, and EU funds for large infrastructure projects. The local construction chamber has predicted annual growth of 10-13% for the construction sector until 2010. A similar forecast has also been made by the Ministry of Public Works.

### Top companies

No.	Company	Total revenues (€m)	Net income (€m)
1	Glavbolgarstroy JSC	105	N/A
2	Darzhavno Stroitelstvo I Vazstanovyavane*	31	N/A
3	Strabag*	29	N/A
4	Darzhavno Predpriatie Transportno Stroitelstvo I Vazstanovyavane	23	N/A
5	Enemona JSC	21	N/A

\* Data for the year 2004.

### PFI/PPP and concessions

PPP activity in the Bulgarian market is still not significant, with the major projects relating to the Trakia highway, and the 35-year concession for the management of two major Bulgarian airports.

A number of steps have been taken by Bulgarian government in 2005 to encourage more partnership with private firms for large public infrastructure projects. One step is the creation of the PPP Initiative document by the Ministry of Finance. This document contains the basic principles and objectives of PPP and is awaiting approval from the Council for Economic Development and the Council of Ministers. It should help to bring transparency – a crucial area as the current lack of transparency has been criticised – which could help to attract investors.

The PPP sector is expected to grow in the coming years as the Bulgarian government recently unveiled a strategy that outlines multi-billion Euro projects for development of the country's roads, railways, ports and airports. Water treatment, waste treatment and prisons are also being considered. The government plans to finance these infrastructure projects via European Union cohesion funds, the state budget and public private partnerships. The government also plans to grant concessions for some of the country's sea and river ports, and all of its major civil airports.

### Mergers and acquisitions

No major mergers or acquisitions were recorded in 2005.

## Croatia

### Croatian market statistics

Croatia	2005	2004
GDP at market prices (€b)	30.95	28.37
Real GDP growth	4.3%	3.8%
Total volume construction industry (€b)	2.95	2.73
As % of GDP	9.5%	9.6%
Employees in construction industry	N/A	N/A
As % of working population	N/A	N/A
Companies active in construction industry	7,000	N/A

Note: Exchange rate used for 2005 is €1=HRK7.4; for 2004 €1=HRK7.5.

### Trends

The Croatian economy grew by 4.3% in 2005, but key problems remained including high unemployment, a budget deficit and a widening trade deficit.

In the early 1990s, construction saw a boom due to physical damage caused by the 1991-95 war. Activity then declined in the late 1990s, but since 2001 has starting growing again, helped by the government working on a regulatory framework for efficient deregulation and privatisation of infrastructure. During the past few years, construction sector growth has been influenced by several major infrastructure projects. For example, the government announced that €725.7m would be invested in the construction and maintenance of Croatia's motorways and roads in 2006.

The construction industry made €2.95b in 2005, up 8% from €2.73b in 2004. This growth outstrips real GDP growth of 4.3%, but as a percentage of GDP the volume of construction has marginally decreased.

Poor road infrastructure has historically caused problems for Croatian businesses, especially those transporting goods by road. In the past few years, the situation has improved as the government has invested in road construction programmes. Between 1998-2002 about 500km of roads – including 125km of motorways – were constructed. This has resulted in the movement of goods by road increasing by more than a third between 2001-2004.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	Strabag	Dec 05	241	N/A
2	Bechtel	Dec 04	240	17
3	Hrvatske Ceste doo	Dec 04	170	N/A
4	Konstruktor inzenjering dd	Dec 04	166	2
5	Viadukt dd	Dec 04	146	1

Note: Exchange rate used for 2004 is €1=HRK7.5.

### PFI/PPP and concessions

There appears to still be a long way to go before the PPP market in Croatia can be considered to be developed. Concerns have been expressed that the market bidding process is not sufficiently transparent. But understandably there will be PPP developments, for example, for the forthcoming construction of the Zagreb-Sisak motorway, Zagreb is considering granting a concession to Credit Suisse First Boston. It is estimated that it will cost €67.3m and will consist of a stretch of 46km connecting Zagreb with the central Croatian city of Sisak.

### Mergers and acquisitions

The construction industry saw limited merger and acquisition activity during 2005.

Seller	Buyer	Buyer country	Deal size (€m)	% sought
GTC Croatia	Globe Trade Centre SA	Poland	N/A	14.7%
Züblin Hrvatska doo	Strabag	Austria	N/A	100%

## Czech Republic

### Czech Republic market statistics

Czech Republic	2005	2004
GDP at market prices (€b)	99	87
Real GDP growth	6.1%	4.2%
Total volume construction industry (€b)	14	13
As % of GDP	14%	15%
Employees in construction industry	457,500	451,100
As % of working population	9.5%	9.5%
Construction companies	18,532	N/A

Note: Exchange rate used is €1=29.784 CZK (year average).

### Trends

Construction industry revenue increased to €14.2b in 2005, up 4.2% from €13.6b in 2004. The construction industry contributes a major portion to the country's GDP – 14% – and employs 9.5% of the total working population. As of December 2005, firms with prevailing construction activity stood at 269,625, of which 18,532 were companies. The number of construction enterprises employing at least 20 people was 2,463 in 2005 compared to 2,404 in 2004, and the construction sector employed 457,500 people in 2005.

Residential construction grew in 2005, supported by a significant increase in mortgage lending. However, the residential situation remains unsatisfactory. While the number of housing units completed last year (32,800 units) was the highest in recent years, it is estimated that this is still 15,000 less than the number needed.

The most significant growth in the non-residential building segment was in the area of industrial buildings, as a result of €8.8b of FDI received in 2005.

EU accession is supporting the development of civil engineering construction activity in the country. For example, there has been extensive construction of rail routes for the European international network. Other major projects include motorway construction and extension of the Prague underground system. Transport construction currently makes up 53% of the total volume of civil engineering construction. In the next 10-15 years it is expected that some €28b will be invested in the transport investment sector in the Czech Republic.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	Skanska CZ as	Dec 05	1,169	45
2	Metrostav as	Dec 05	832	37
3	Strabag as	Dec 05	714	N/A
4	SSZ as	Dec 05	651	25
5	OHL ZS as	Dec 05	271	9

Note: As the construction revenue figure is not available we have shown the total revenue figure. Exchange rate used for 2005 is €1=29.005 CZK (year-end).

### PFI/PPP and concessions

During 2005, the Czech government worked on finalising the legal framework for PPP, which is expected take effect in 2006. The Czech government sees PPP as a useful tool for financing infrastructure projects without increasing its budget deficit. A number of pilot projects have been identified and the key area for PPP projects is expected to be the road infrastructure sector.

In the city district of Prague-Bechovice, the first ten apartment blocks are to be constructed using a public private partnership. This project will eventually consist of 86 housing units and cost €4.5m to build.

PPP projects for a prison (an expected investment of €50m) and two courthouses (€25m) are planned. Another area which may benefit from PPP projects is healthcare. A pilot project has been planned for a military hospital.

### Mergers and acquisitions

Seller	Buyer	Buyer country	Deal size (€m)	% sought
Hajek sro	SSZ (VINCI)	France	N/A	51%
Dálniční stavby Praha, as	Strabag	Austria	N/A	100%
SAT sro	Strabag	Austria	N/A	100%
Züblin spol sro	Strabag	Austria	N/A	100%
Viamont DSP as	Strabag	Austria	N/A	50%
Kamenolom Cisarsky	Colas	France	N/A	N/A

## Denmark

### Danish market statistics

Denmark	2005	2004
GDP at market price (€b)	208	197
GDP growth	3.1%	1.9%
Total volume of construction industry (€b)	24.70	23.80
As % of GDP	11.88%	12.08%
Employees in construction industry	169,130	160,469
As % of working population	6.13%	5.8%
Companies active in construction industry	NA	NA

Note: Wherever required, annual average exchange rate is used; €0.11=1SEK, €0.13=1DKK, and €0.80=US\$1.

### Trends

The construction and engineering industry in Denmark currently stands at approximately 12% of total GDP, a slight fall of 1% year on year. Analysts have anticipated a CAGR of 4.3% between 2005-2010 (for construction of non-residential buildings and non-buildings construction – civil engineering). By the end of 2010, this segment is expected to reach a value of €17.36b. Estimates value the contribution of the construction sector to the total GDP at around 5%.

The housing construction market promises growth in the future, but it is not associated with high volumes. Add to this the uncharacteristically high level of inflation that Denmark and its neighbouring countries have witnessed in 2005, and this could signal a marked slowdown in house price growth in 2006. Denmark has had an extremely high level of house price inflation at 22%, compared to the UK which witnessed a rise of about 3%.

This trend resulted in increased house prices, which in turn resulted in a large number of houses being left empty – totalling 142,189 in January 2005 (circa 5.5% of all houses in Denmark), the largest number for 21 years. The large number was attributed to the trend for people to hold on to their property in order to get a higher price later.

The stiff competition witnessed within the Danish construction industry has resulted in a paradigm shift where construction companies are looking for significant internal efficiencies. Throughout the industry, companies are now streamlining their operations and business systems using innovative IT solutions such as back-office CRM and ERP systems. Major players are being drawn towards the use of lean construction methods – initiatives aimed at increasing efficiency and design within the building process.

This marks the start of a new era for the industry. The past was marked by traditional values and practices that inhibited change and modernisation. Dominated largely by small, family-owned enterprises, competition within the Danish sector was exceptionally weak, with price-fixing agreements between companies. Prices within the Danish sector are also comparatively high, which is thought to reflect a lack of research and development and business organisation within the sector.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	MT Hojgaard	Dec 05	1131.2	13
2	E Pihl & Son	Dec 05	542.40	11.5
3	NCC Construction	Dec 04	488	10.1
4	Per Aarsleff	Sep 05	465.2	5.8
5	Skanska Danmark	Dec 05	416	N/A

### PFI/PPP and concessions

Neither PPP nor PFI are widespread in Denmark, however, the Danish government has starting promoting their use. In the government's budget review for 2005, it acknowledged that there should be greater focus on PPP in order to increase productivity.

In April 2005, Danish Naestved Municipality and Storstrom County decided to build a bypass road around Naestved, on the Danish Zealand Island, for a total cost of €60.4m. The two public institutions expect to generate a return on investment of approximately 30% annually, corresponding to about €18.1m. The Danish engineering and business consultancy COWI A/S has been called on to evaluate whether the project can make use of the PPP concept.

### Mergers and acquisitions

Only one major merger/acquisition transaction was recorded in 2005.

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
M2 A/S	N/A	Keops A/S	Denmark	8.264	65

Note: Exchange ratio used for 2005 \$1=€0.80.

## Finland

### Finnish market statistics

Finland	2005	2004
GDP at market prices (€b)	155.3	149.7
Real GDP growth	2.1%	3.6%
Total volume construction industry (€b)	22.3	21.1
As % of GDP	14.3%	14.1%
Employees in construction industry	158,000	148,000
As % of working population	6.6%	6.3%
Companies active in construction industry	N/A	N/A

### Trends

At the beginning of the 1990s, Finland's construction market suffered a slump and it took a long time to recover. It continued to decline until 1997, when recovery started partly due to government-subsidised programmes. Between 1990-1994, the volume of new building declined by 58.1%, and recovery was seen late in the second half of the 1990s. Volume for new building increased at an average of 16.2% in 1997-2000, but declined by 6.4% during the 2001-2003 economic slowdown. Revival of residential construction activity has resulted in an increase in construction activity in 2004.

Completed dwellings: Finland	2001	2002	2003	2004	2005
Total dwellings	30,592	27,171	28,101	30,662	30,441
Detached houses	10,654	10,335	10,807	12,798	13,252
Attached houses	4,588	3,793	4,303	4,651	4,707
Blocks of flats	14,901	12,539	12,557	12,949	12,068

Note: The data for 2005 is preliminary.

Growth in the renovation of older residential apartments and buildings continues. Euroconstruct predicts that construction activity will slow down in 2006 with an increase of 3% and that construction volume will contract slightly in 2007 and 2008.

Non-residential construction has not seen much improvement in recent years. In 2005, it increased by 5% and Euroconstruct expects a marginal increase in 2006, then a slight reduction in 2007 and 2008.

Civil construction activity increased marginally by 1% in 2005, the same as seen in 2004. Investment growth was maintained in this segment because of larger road, rail, energy and port projects.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Construction revenues (€m)	Net income (€m)
1	YIT Corporation	Dec 05	3,023.8	3,023.8	156.9
2	Lemminkäinen Oyj	Dec 05	1,609.7	N/A	48.5
3	Skanska Oy	Dec 04	1,007.5	N/A	N/A
4	NCC Rakennus Oy	Dec 04	728.3	N/A	N/A
5	SRV Group	Dec 04	403.2	N/A	N/A

### PFI/PPP and concessions

A consortium led by Skanska signed a contract for an expressway project for the E18 in the south of Finland. This Muurla-Lohja project, which covers a stretch of about 51km, will be conducted as a public private partnership and the consortium will be responsible for the design, financing, construction and operation of the project. The contract is for 21 years from the day it is open for traffic, which is expected to be in November 2008.

### Mergers and acquisitions

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Cargotec Oyj	Consolis Oy AB	Industri Kapital AB	Sweden	78.3	42%
Insinööri- ja Polartek Oy	CTS Engineering Oy	Ngpannef Reningen AB	Sweden	1.17	11%
Pineco Trading Oy	N/A	LGC Promochem AB	Sweden	N/A	100%
CMC-Yhtiöt Oy	N/A	Jaakko Poyry Group Oyj	Finland	N/A	100%
Timberheart Oy Ltd.	N/A	Honkarakenne Oyj	Finland	N/A	38%

## France

### French market statistics

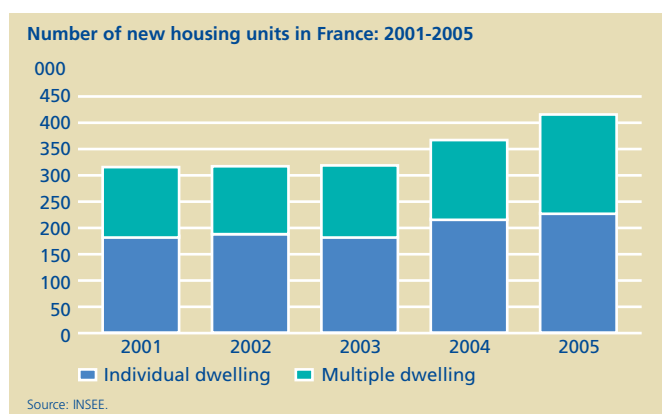
France	2005	2004
GDP at market price (€b)	1,707	1,657
GDP growth	3.02%	3.82%
Total volume of construction industry (€b)	143	140
As % of GDP	8.38%	8.45%
Employees in construction industry	1,606,400	1,573,000
As % of working population	6.51%	6.41%
Companies active in construction industry	N/A	N/A

Note: Wherever required, annual average exchange rate used; €0.80453=US\$1 for 2005.

### Trends

The French construction market was valued at €143b in 2005. The home building sector generated a total volume of €86.5b in 2005, an increase of 1.5% over 2004, and a CAGR of 0.6% for the period 2001-2005. The non-residential and civil engineering sector generated a total volume of €56.5b in 2005, an increase of 2.2% over 2004, and a CAGR of 0.7% for the period 2001-2005. The public sector constitutes the largest segment of the French construction industry, generating a total revenue of €77b, or 54% of total industry value.

The residential housing sector has shown strong growth over the past two years. After a spectacular performance of around 16% growth in 2004, the sector performed well again in 2005 with growth of 13.1%. This was the best performance in 25 years and 410,000 housing units were started.



Within this overall trend, however, individual homes and multi-dwelling homes are showing differing levels of growth. The number of new multi-dwelling homes rose to 181,300 units, showing growth of 23.9% in 2005, up from a growth rate of 20.2% in 2004. The number of new individual houses is still dominating the residential sector with 228,900 units, but growing at the modest rate of 5.83% in 2005. The growth seems to be driven by demographic growth and tax incentives. The demand for new houses has also pushed prices up; they rose 9% in 2005 and 6.5% in 2004.

The non-residential sector showed a flat growth rate of 0.1% in 2005 and, when it comes to civil engineering, French government and local authority spending for public work stabilised in 2005, after growing at 7.4% in 2004.

### Top companies

Two of Europe's largest construction companies, VINCI and Bouygues, are French. Naturally, these two are the most important players in the French market. However, there are also many smaller companies in the market that compete effectively on a local or regional basis.

No.	Company	FY end	Construction revenues (€m)	Net income (€m)
1	VINCI	Dec 05	19,488	871
2	BOUYGUES	Dec 05	16,796	832
3	Colas (Bouygues)	Dec 05	9,540	307
4	VINCI Construction (VINCI)	Dec 05	9,399	323
5	Eiffage	Dec 05	8,327	301
6	Eurovia (VINCI)	Dec 05	6,457	159
7	Bouygues Construction (Bouygues)	Dec 05	6,131	175
8	Eiffage Construction (Eiffage)	Dec 05	4,279	132
9	Sogea Construction (VINCI Construction)	Dec 05	2,744	103
10	APPIA (Eiffage)	Dec 05	2,320	64
11	GTM Construction (VINCI Construction)	Dec 05	1,977	62
12	FAYAT	Dec 05	1,636	53
13	Spie Batignolles	Dec 05	948	19
14	VINCI Construction Grands Projets (VINCI)	Dec 05	606	32

### PFI/PPP and concessions

The first French public private partnership hospital project deal – for the design, build, finance and operation of a logistical support platform (Logipole) at the Douai Hospital in northern France – was signed in 2005. The cost of this project is estimated to be around €30m. The platform will be built by Norpac and maintained by Exprimm, both members of the leading Bouygues group.

Other government departments have announced a number of PPP initiatives. The Ministry of Justice announced a €1.3b PPP programme to build 18 new prisons to hold 13,200 inmates. The Ministry of the Interior also issued tenders for 20 projects to outsource its construction and maintenance operations. Overall, the government has announced that €19b could be allocated to PPP projects over the next three years for central government facilities or hospitals.

In June 2006, Sogea Nord-Ouest – a subsidiary of French construction and engineering company Vinci SA – won a €13m PPP contract for the financing, construction and maintenance of a secondary school in Villemand, central France. This will be the first time that a local public school will be financed, built and operated within the framework of the June 2004 government decree on PPPs.

**Mergers and acquisitions**

There has been a lot of activity in the French home building industry in 2005 as construction companies looked to extend their operations to make the most of burgeoning demand. The recent surge in demand has worked in favour of large conglomerates, particularly those which have reacted quickly to the boom by expanding inorganically. Meanwhile, smaller companies have found it hard to compete with the larger firms' low labour and material costs, achieved due to economies of scale.

Details of the largest deals closed or announced in 2005 are below:

Seller	Unit sold	Buyer	Deal size (€m)	% sought
French government	ASF	VINCI	5,933	50%
French government	APRR	Eiffage SA/ Mig-Macquarie Infrastructure Group	4,841	70%
French government	SANEF	Consortium HIT (including ABERTIS)	4,030	76%

## Germany

### German market statistics

Germany	2005	2004
GDP at market prices (€b)	2,247	2,216
Real GDP growth	1%	1.6%
Total volume construction industry (€b)	139.4	136.3
As % of GDP	6.2%	6.2%
Employees in construction industry	2,179,000	2,277,000
As % of working population	5.6%	5.9%
Companies active in construction industry	N/A	N/A

### Trends

The construction industry is fragmented, with many small players collectively dominating and surviving in the competitive market due to the localised, specialised nature of their operations. The industry has benefited from new projects relating to the 2006 World Cup, with the total value of transport routes built to the participating cities estimated to be more than €3b.

The Federation of Germany's Construction Industry forecasts that the decade-long recession will come to an end and the sector's turnover will stabilise during 2006. The organisation expects turnover to rise slightly in western Germany (by 1%) and fall again in eastern Germany. The federation expects turnover from public construction activities to increase by 1.5%, but to drop 1.5% for housing construction operations. It also expects an increase of 0.5% for commercially used buildings.

The slowdown of the global economy, as well as Germany's subdued economy, meant that the home building industry suffered at the beginning of the decade. Government cutbacks also affected public sector construction, and increasing oil and raw material prices contributed to the industry's weak performance. However, the industry did return to growth in 2005. Home building industry revenues increased by 6.3% in 2005, with a CAGR of 0.8% for the period 2001-2005.

Public sector construction constitutes 53.9% of the market, while the private sector accounts for the remaining 46.1%. Germany, with 14.8% of regional revenues, is the second largest home building industry in Europe.

The heavy construction industry has been getting smaller since the start of the decade. It decreased 0.6% in 2005, with a compound annual rate of change (CARC) of -3.7% for the period 2001-2005. The CAGR of the European region as a whole was 1.1%. The German heavy construction industry is equally split between the private and public sectors. Germany generates 16.5% of Europe's revenue as a whole, a drop from 20% in 2001.

While we have not indicated building permit trends for all countries, the situation in Germany is worth highlighting. Permits for building/construction work decreased by 11% in 2005 to 242,102, continuing the trend of the past few years.

Permits	2002	2003	2004	2005
Building/construction work	278,340	298,787	271,944	242,102
Construction of new buildings	195,389	212,334	188,449	169,024

Permits for construction of new buildings followed the same trend, declining by 10.3% in 2005.

Total permits granted for construction of buildings, including the permits for new buildings, did show an improvement in the second half of 2005. Continuing this positive trend, permits granted significantly increased in the first quarter of 2006 (see below).

Period		Total permits granted		New permits granted	
		Number	% change over previous corresponding period	Number	% change over previous corresponding period
2006	Mar	25,734	27.2	18,829	30.4
	Feb	23,376	22.8	17,505	28.2
	Jan	25,411	25.5	19,713	32.8
2005	Dec	23,791	16	18,214	22.4
	Nov	19,588	6.9	14,174	11
	Oct	18,562	-1.4	12,980	0.9
	Sep	20,038	6	13,906	9.3
	Aug	21,112	5.4	14,158	6.8
	Jul	19,779	-1.2	13,073	-1
	Jun	20,829	-4.6	13,551	-4.4
	May	19,167	-10	12,694	-10.3
	Apr	19,726	-13.3	13,338	-13.9
Mar	20,233	-32.8	14,438	-31.8	
Feb	19,035	-35.1	13,655	-35.6	
Jan	20,242	-31.9	14,843	-33.6	

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	HOCHTIEF Aktiengesellschaft	Dec 05	13,653	151
2	Bilfinger Berger AG	Dec 05	7,061	66
3	VINCI Deutschland GmbH	Dec 05	1,720	N/A
4	STRABAG AG	Dec 05	1,120	19
5	Ed Züblin AG	Dec 05	1,106	28
6	E Heitkamp Baugesellschaft mbH & Co KG	Dec 04	850	N/A
7	BAUER AG	Dec 05	824	20
8	Wolff & Müller GmbH & Co KG	Dec 04	750	N/A
9	Kaefer Isoliertechnik GmbH & Co KG	Dec 05	705	N/A
10	Max Bögl Bauunternehmung GmbH & Co KG	Dec 04	600	20
11	Lindner AG	Dec 04	527	8
12	Köster AG	Dec 04	524	10
13	GOLDBECK GmbH	Dec 05	493	N/A
14	Leonhard Weiss GmbH & Co KG	Dec 04	425	14
15	Wiemer & Trachte AG	Dec 04	419	-5

#### **PFI/PPP and concessions**

PPPs have taken place for education and transport, but health has been slow to catch up in Germany. However, the government is preparing to launch one of its first health PPPs with a €200m hospital in Bremen. The Federal Ministry of Transport and Building started the tendering process for five PPP-based autobahn extension projects. The total investment for these projects will be more than €500m. Dutch construction company Royal BAM Group won a PPP contract for the construction of Germany's first privately-financed prison, which requires an investment of €27m.

#### **Mergers and acquisitions**

The construction industry was heavily affected in 2005 by the insolvency of Walter Bau, formerly the third largest German construction group. Following Walter Bau's bankruptcy, Strabag (Austria) took over large parts of the company, as well as a majority interest in Ed. Züblin. Due to financial problems, E. Heitkamp started a restructuring project in 2005; it is expected to be a significantly smaller contractor in the future. In addition, MergerStat noted 33 minor deals in 2005.

## Hungary

### Hungarian market statistics

Hungary	2005	2004
GDP (€b)	88	82
GDP growth	4.1%	4.6%
Total size of construction industry (€b)	10	9
As % of GDP	9%	8%
Employees in construction industry	315,100	309,000
As % of working population	8%	8%
Companies active in construction industry	NA	NA

Notes: (i) GDP at market price, (ii) Foreign exchange rate used is €1=248.05HUF.

### Trends

The Hungarian economy has experienced steady growth for the last couple of years. It grew 4.1% in 2005 and in 2006 this rose to 8%, helped by the buoyant civil engineering segment. As a result, total construction sector output reached €10b during 2005, and the industry's share in GDP amounted to about 9%.

Before the 2006 elections, the Hungarian government did not tackle the budget deficit. It reached 6.1% of GDP in 2005, up from 5.4% the year before, and reducing it will be a key challenge for the economy in the years to come.

At the end of 2005, housing stock amounted to 4.2m housing units, with private ownership at 92%. About a quarter of the housing stock is obsolete – in a dilapidated condition and/or vacant. In 2005, 51,490 new dwelling permits were issued, which is a 10% decrease from 57,459 the year before, and the number of new dwellings fell by 6.4% to 41,084 in 2005. The average size of new homes also decreased from 93m<sup>2</sup> in 2004 to 87m<sup>2</sup>. The likely cause of this decrease is changes to state-subsidised mortgage schemes. The market for new housing construction should remain characterised by strong supply, but demand is unlikely to increase due to an expected slowdown in economic growth.

Strong growth in the non-residential segment last year was fuelled mainly by large scale office projects, retail projects and warehouse construction, as well as some €5b in FDI (30% more than in 2004).

The civil engineering sector showed robust growth of nearly 20% in 2005, amounting to around €4b, which was fuelled by a major transport infrastructure development programme. Investing in motorways has been a government priority since 2002. A 150km extension of the motorway system was carried out in 2002-2004, while 95km of roads were completed in 2005. Hungary has been granted €440m of EU funds for the construction of the eastern sector of the ring-road 'M0' around Budapest, as well as for the modernisation of railway lines and air transport control infrastructure. The government's stated aim to develop the motorway network is expected to support the steady growth of the civil engineering sector for the next few years.

### Top companies

No.	Company	FY end	Total revenues (€m)	Net Income (€m)
1	Strabag Epito kft	2005	938	N/A
2	HÍDÉPÍTŐ Zrt	2005	293	9
3	Swietelsky csoport*	2005	285	5
4	Debreceni Magas-, Mély-Útépítő Zrt	2005	252	12
5	BETONÚT Zrt	2005	249	15

### PFI/PPP and concessions

Hungary is one of the most advanced PPP markets in central and eastern Europe, especially when it comes to road infrastructure. The current budget deficit, together with the country's need for major investment projects, is a key driver for the development of PPP projects in the country. Further development will be closely linked to political developments in the country, and encouragingly the newly-elected government embraced PPP in its previous term.

Hungary's successful highway scheme, the M5, was completed in 2005 under a PPP scheme. Another notable PPP project under way is the 60km M6 motorway. A consortium of Austrian and German companies, including Bilfinger Berger BOT, Porr Infrastruktur, and Swietelsky International Baugesellschaft, are building the road for €482m. A second phase for the project, between Dunaújváros and the Croatian border (198km), is expected to be scheduled for bidding in 2007.

In September 2005, Wallis Real Estate announced that it will build a new PPP project, a €40m building for Budapest Corvinus University. The project will be financed by Wallis, mostly from bank loans, and will be completed by September 2007.

Another PPP project in the offing is by state-owned Hungarian railway company MAV. MAV is considering a PPP scheme to build a rapid rail line between Budapest's Ferihegy airport and the city centre, refurbish the capital's Kelenfold train station and convert a stretch of tracks in north west Hungary to an electrified rail line.

However, the PPP project to convert an old barracks into an 800-person prison in Szombathely, south west Hungary, has been delayed further because offers submitted by companies bidding to run the prison far outstripped the amount allocated by the government.

### Mergers and acquisitions

Seller	Buyer	Buyer country	Deal size (€m)	% sought
Hoffmann Rt	Colas SA	France	N/A	100%
Transbitum International	Colas SA	France	N/A	100%
Melyepito Budapest Kft	Hochtief AG	Germany	N/A	75.7%
Züblin Kft, Budapest	Strabag	Austria	N/A	100%

## Ireland

### Irish market statistics

Ireland	2005	2004
GDP at market price (€b)	160.3	148.6
Real GDP growth rate	4.7%	4.5%
Total volume of construction industry (€b)	31.5	27.5
As % of GDP	19.65%	19.51%
Employees in construction industry	250,000	225,900
As % of working population	12.96%	12.3%
Companies active in construction industry	NA	NA

### Trends

The Irish economy is growing steadily as there is strong domestic demand helped by strong employment growth and wage increases. In 2005, the economy grew by 4.7% compared to 2004, reaching around €160b. The outlook for the economy is strong, at least for the next couple of years, as public consumption growth is expected to increase with the general elections due in 2007.

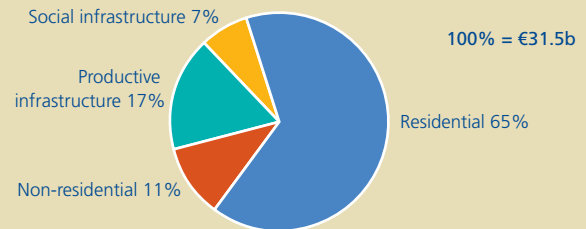
Construction sector output is growing at a stronger rate than the overall economy. It grew by almost 14.5% in 2005, reaching €31b, and showed a CAGR of 12% for the period 2001-2005. The sector accounts for almost one fifth of Irish GDP – the highest among all European countries. Construction output per capita is also highest in Ireland at approximately €7,600 in 2005 – almost double that for the UK.

The construction industry's overall growth is fuelled mainly by residential sector growth, followed by infrastructure development. The value of the residential sector doubled in the five-year period 2001-2005, from €10.9b in 2001 to around €21b in 2005. Its contribution to the overall construction sector also increased from 55% in 2001 to 66% in 2005. Conversely, the contribution of the non-residential sector to the overall construction sector has decreased from 18.6% in 2001 to 10.8% in 2005. The decline in this sector is mainly due to the fall in tourism, where output has decreased by almost 40% in the past five years.

Housing activity accounted for 66% of Ireland's total construction output in 2005, which is well ahead of the European average of 48%. The total number of house completions showed an annual growth rate of 5%, reaching the record level of nearly 81,000. This means that Ireland has the highest house building rate in Europe, at almost 20 houses per 1,000 people. The boom in housing activity is due to the rapid increase in population and overall economic prosperity. It is also helped by the reduction in personal tax which has boosted take-home pay, and low interest rates which have kept mortgage payments relatively affordable. Despite the huge number of new houses built, house prices increased considerably in 2005, but they still remain relatively affordable.

The Public Capital Programme investment in productive infrastructure reached almost €4.3b, while investment in social infrastructure was approximately €3.5b. More than €2.4b – or 29% – of the total Public Capital Programme was spent in the transport sector, while more than €1.5b was spent on housing.

### Ireland construction output by sector in 2005



Source: Central Statistics Office (CSO) report published in July 2006.

The construction sector created more than 25,000 jobs in 2005, with the labour force reaching 250,000 and the sector employing nearly one in eight people.

### Top companies

No.	Company	FY end	Total revenues (€m)	Net income (€m)
1	John Sisk & Son Ltd	2005	1319.5	39.8
2	McInerney Holdings PLC	2005	489	41
3	Abbey PLC	2005	206	44
4	G&T Crompton (Holdings) Ltd	2004	195	6
5	Bowen Construction	2005	187	3

### PFI/PPP and concessions

Ireland has slowly embraced the concept of PPP and the government is starting to use this route, among others, to improve public infrastructure. There are a considerable number of PPP projects currently ongoing or in the pipeline for the house building sector. The most prominent are the Phase 1 and 2 redevelopments of Fatima Mansions, comprising 110 social housing units and 40 social units respectively. Also, the redevelopment of O'Devaney Gardens and the development at St Michael's Estate, which will comprise 150 social units together with 70 affordable and 480 private units, the redevelopment of the Dominick Street flat complex, which is likely to comprise 120 social units and 140 private units, and the final phase of the redevelopment of the Bridgefoot Street flats, which will comprise some 200 affordable and private units.

In the transport sector, the Kinnegad motorway PPP contract is complete and progress has been made on the 60km M3 Clonee-Kells motorway – the largest motorway construction project ever undertaken in Ireland.

The government has also launched the biggest transport plan yet, Transport 21, which it plans to spend €34b on over the next ten years. The exchequer will contribute €26.4b of the total cost, while €6b will come from PPP financing and €2b from existing toll roads.

Recently, the government announced its desire to increase the use of PPPs by setting a target for private sector involvement in infrastructure of 3% in 2006, rising to 15% by 2008.

### Mergers and acquisitions

There was not much activity during 2005. The only notable transaction was the acquisition of Century Homes, a timber-frame building company, by commercial and industrial panel company Kingspan. Kingspan bought Century Homes in April 2005 for €98m.

# Italy

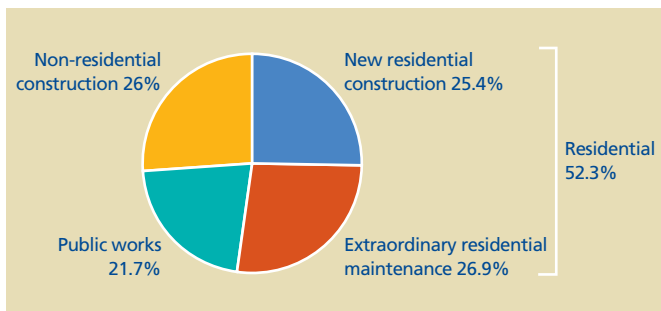
## Italian market statistics

Italy	2005	2004
GDP (€b)	1.418	1.387
GDP growth (at current prices)	0%	1.1%
Total volume of construction industry (€b)	137	131
As % of GDP	9.6%	9.4%
Employees in construction industry	1,913,000	1,833,000
As % of working population	8%	8%
Companies active in construction industry	NA	NA

### Trends

From a growth of 1.1% of GDP in 2004, the Italian economy slowed and was essentially stationary in 2005 – a performance which was below the European average growth of 1.3%.

Despite this, the construction sector remained one of the more dynamic sectors of the economy, growing by 4.6% to €137b in 2005. Between 1998-2005, investment in the construction sector grew by more than 22%, compared to a GDP growth of 9%. The breakdown by segment can be seen in the diagram below:

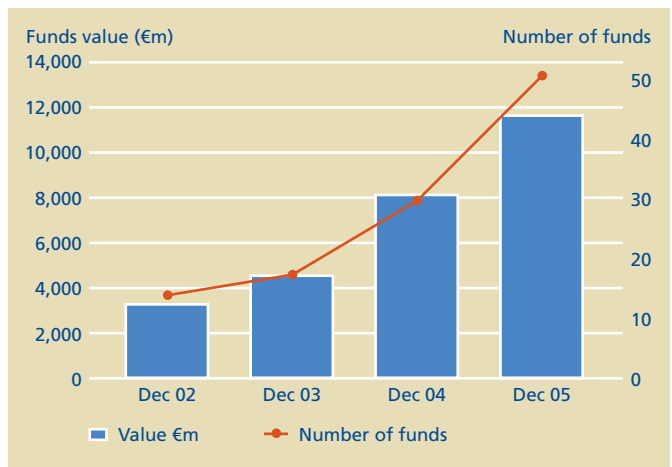


This diagram shows that the residential sub-sector (new construction and maintenance) accounts for more than 50% of total investment in construction (around €72b).

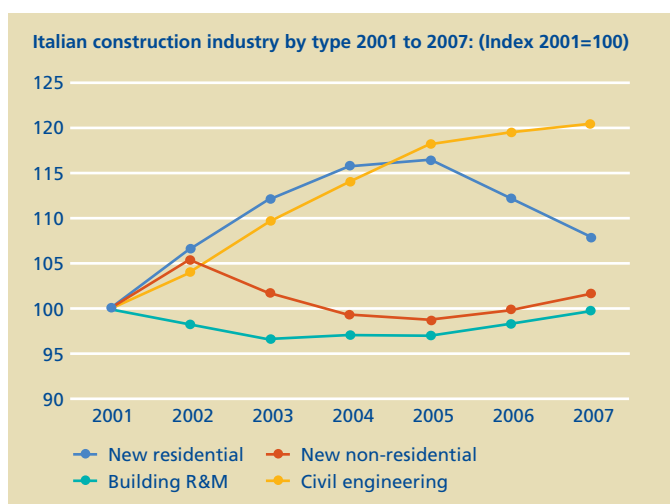
The non-residential construction market accounted for around 26% of total activity. In 2005, the total investment in this area amounted to more than €35b, a decrease of 1.1% from 2004. Most of this type of activity was focused in the centre and south of Italy.

Investment in public works grew by 2.3% in 2005 to represent nearly 22% of the total investment in construction (around €29b). In 2005, the number of bids for public works reduced by 3.1%, but the value of projects increased by 1.5%.

A major feature of the Italian construction market is the continued proliferation of real estate funds, which increased to 51 in 2005, up from 30 in 2004. The total invested in 2005 reached nearly €12b. As of December 2005, of the 51 funds, 28 were reserved for specialist investors and 23 were open to the retail market. Nearly 60% of the total asset allocation of the Italian real estate fund market is devoted to offices, followed by commercial property (14%), with the remaining 26% comprising residential, touristic and industrial buildings. The figure below shows fund growth since 2002.



The diagram below illustrates recent research by CRESME, the construction industry research body, which indicates that there will be a notable decline in the residential construction market over the next few years. However, it should be off-set to a certain degree by limited growth in the civil engineering, non residential and repair and maintenance sectors.



### Top companies

No.	Company	FY end	Construction revenues (€m)	Net income (€m)
1	Impregilo SpA	2005	2,318.5	-358.2
2	Snamprogetti	2005	2,089.5	20.5
3	Astaldi SpA	2005	968.9	31.9
4	Condotte D'Acqua	2005	755.2	10.7
5	CMC di Ravenna	2005	574.7	N/A
6	Impressa Pizzarotti	2005	521.4	6.4
7	Coopsette	2005	484.9	70.5
8	Grandi Lavori Fincosit	2005	362.7	1.8

Source: Financial Statement.

### PFI/PPP and concession market

The PFI/PPP market continued to grow in 2005, reflecting the public administration's need to continue delivering services in the face of diminishing resources. The following table shows a breakdown of 2005's initiatives, in terms of value and the projects progress.

Projects 2005	Number	Average	
		Total value (€b)	Project value (€m)
Project finance – request for proposals	625	5.762	9,22
Project finance – invitation to negotiate	125	2.838	22,7
Design build and operate projects	183	2.212	12,08
Other concessions	506	4.245	8,4
Other procurement methods	260	1.817	6,98

Source: Infopieffe.

**Request for proposals** – represent the requests from the public administration inviting proposals for potential interested parties.

**Invitation to negotiate** – a second phase in which selected parties are invited to make specific detailed proposals and then enter into negotiations.

**Design build and operate** – projects mainly orientated towards large infrastructure projects.

**Other** – other types of projects that are more service-orientated projects, eg, the outsourcing of the provision of water services in Sicily.

In 2005, the projects most frequently requested were public parks and gardens (415 projects), sport facilities, utilities projects, cemeteries and parking facilities (more than 100 projects). With regard to the geographic spread and value of these projects, northern Italy accounted for 48% of the total number of projects, but only 27% of the total projects value.

### Mergers and acquisitions

The Italian construction industry has seen a limited number of deals in 2005, of which the five largest deals available from MergerStat are shown below.

Seller	Unit sold	Buyer	Deal size (€m)	% sought
Schemaventotto SpA	EuroPPASS LKW-Mautsystem GmbH	Autobahnen und Schnellstraßen Finanzierungs AG (AS)	223	75%
Impregilo SpA	Costanera Norte SA	Autostrade SpA/ Societa Italiana Apparecchi Scien	213	80%
UniCredito Italiano SpA	Autostrada Brescia Verona Vicenza Padova SpA	Reconsult & Partners	197	20%
Italenergia Bis SpA	Tecnimont SpA	Maire Holding SpA	175	100%
Gruppo Pasini	Immobiliare Cascina Rubina SRL	Risanamento SpA	94	100%

## The Netherlands

### Dutch market statistics

Netherlands	2005	2004
GDP (€b)	506.6	489.8
GDP growth volume	1.5%	2%
Total volume construction industry (€b)	49.7	48.3
As % of GDP	9.8%	9.9%
Employees in construction Industry	367,000	380,000
As % of working population	5%	5.4%
Companies active in construction industry	74,054	72,365

### Trends

The Dutch home building industry was negatively impacted by the economic slowdown at the start of the decade. Home building industries in western Europe have grown marginally in recent years, but the Dutch home building industry has shown negative growth.

The home building industry generated €7.21b in 2005, up 2.4% from €7.04b in 2004. It showed a CARC of -1.8% in the period 2001-2005. However, the European home building industry showed a CAGR of 2.5% over the same period.

The private sector generates the majority of revenue, bringing in 75.3% as opposed to 24.7% by the public sector. The Netherlands generates 1.7% of the total construction revenues in this segment.

The non-residential construction industry is fragmented, with many small, family-owned companies. Revenue increased marginally by 0.4% to €23.8b in 2005, with a CAGR of 3.9% over the period 2001-2005. During the same period, Europe's CAGR was 1.1%. The Netherlands generates 5.1% of Europe's total non-residential construction revenue.

### Top companies

No.	Company name	Total revenues (€m)	Net income (€m)
1	Royal BAM Group NV	7,425	153
2	Royal Volker Wessels Stevin NV	4,157	67
3	Heijmans NV	2,835	87
4	TBI Holdings BV	1,836	26
5	Ballast Nedam NV	1,206	20
6	Royal Boskalis Westminster NV	1,156	63
7	Dura Vermeer Group NV	1,046	29
8	Van Oord Group NV	1,002	42
9	Strukton Group NV	824	36
10	Koop Group NV	787	nb
11	Van Wijnen Holding NV	576	12
12	Janssen de Jong Group BV	403	16
13	Aan de Stegge Verenigde Bedrijven BV	400	nb
14	Joh.Mourik&Co Holding BV	328	10
15	Hurks Bouwgroep BV	256	4

### PFI/PPP and concessions

The first PPP in the educational market is being undertaken by TalentGroep, a consortium company consisting of Dutch Strukton, Imtech and ISS Facility Services. It will be responsible for development, construction, technology, maintenance and facility services for the school.

After three years of infrastructure PPPs, central and local governments are looking at developing other areas, such as schools, offices and health. The Dutch government is trying to ensure a steady deal flow by doing public/private comparisons for every large investment from €25m. It is now aiming for four PPP projects per year. Deal flow contracts on PPP infrastructure and housing projects are standardised. All large construction companies are involved in these projects in various consortia. Also, the SME construction companies are interested in PPP, but still find it hard to enter this market because of the required equity investments.

Two housing projects have recently been put out to tender by the Ministry of Defence and Dutch tax authorities. The tax authority office is a small project, but the Defence project entails creating office space for 2000-3000 people. In infrastructure, the second Coen tunnel is also being tendered. These three projects have been put out to tender in accordance with European procurement law. Another government housing project and a prison build are likely to come up in spring 2007.

### Mergers and acquisitions

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Heijmans NV	Opstalan BV	Unilin Systems NV	Belgium	NA	100%
Heitkamp	Heitkamp Rail GMBH	Heijmans NV	Germany	18	100%
ABN AMRO	Bouwfonds Property Development	Rabobank	Holland	845	100%
ABN AMRO	Bouwfonds Property Finance	SNS Reaal	Holland	840	100%

Note: The last two deals which involve ABN Amro were closed in August 2006.

## Norway

### Norwegian market statistics

Norway	2005	2004
GDP at market prices (€b)	237.7	204.9
Real GDP growth	2.3%	3.1%
Total volume construction industry (€b)	26.3	24.3
As % of GDP	11.1%	11.9%
Employees in construction industry	N/A	160,000
As % of working population	N/A	7%
Companies active in construction industry	N/A	N/A

Note: Exchange rate used for 2005 is €1=Nkr8.02, for 2004 €1=Nkr8.38.

### Trends

Construction volume in 2005 increased to €26.3b, an increase of 8% from 2004. This construction growth is significant when compared with the real GDP growth of 2.3%. The construction volumes recorded in 2001, 2002 and 2003 were €21.4b, €21.8b and €21.9b respectively.

The construction industry consists mainly of small companies, with large companies making up a smaller portion of the industry than in other countries. The public sector, along with the Public Roads Administration and local authorities, accounts for a considerable share of the industry's activities.

Norway's construction industry is sensitive to market fluctuations and often registers the first sign of major changes in the economy. In the late 1980s, the industry was in a recession. Low interest rates during the early 1990s brought the construction industry out of the recession, and growth has come from household and business demand since then. The construction of the new Gardemoen airport and its dedicated railway line in 1998, as well as the Oslo hospital completed in 2000, also benefited the construction industry.

2001 saw positive activity in the public sector. In 2002 and 2003, the economic slowdown resulted in fewer houses being started. The industry then saw a housing boom in late 2003 and 2004 due to low interest rates.

Dwellings in Norway	2001	2002	2003	2004	2005
Buildings completed	23,400	21,744	21,405	23,609	29,544
Building work started	25,266	22,980	23,177	29,999	31,608
Buildings under construction	25,804	26,986	28,084	33,482	33,971

Completed houses leapt 25% to 29,544 in 2005, up from 23,609 in 2004. The number of houses started showed a minimal increase of 5% in 2005 to 31,608.

Larger companies are looking to diversify operations in order to improve competitive strength and reduce costs. Backroom integration would substantially decrease costs and increase efficiency by integrating the construction process and materials supply chain.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Construction revenues (€m)	Net income (€m)
1	Veidekke ASA	Dec 05	1,820	1,386	70
2	Skanska Norway AS	Dec 04	1,009	N/A	N/A
3	AF Gruppen	Dec 05	521	N/A	11
4	NCC Norge AS	Dec 03	355	N/A	N/A
5	Reinertsen Anlegg AS	Dec 03	223	N/A	N/A

### PFI/PPP and concessions

The debt finance of €399m for the E18 Grimstad-Kristiansand road project is the first European PPP to use wrapped bank debt outside Spain. It is a 40km four lane motorway based on a design-build-finance-operate concession, forming an important part of the transport corridor between southern Norway and continental Europe.

The construction and maintenance contract for two schools from Oslo University has been awarded to Skanska Norge, the Norwegian unit of a Swedish construction company. Oslo's Persbraaten and Hoybraaten schools are covered under this €75.5m contract and will be constructed and operated by Skanska Norge for 25 years. Persbraaten school will be completed during summer 2007 and Hoybraaten school in spring 2008.

### Mergers and acquisitions

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Exploration Resources ASA	N/A	Compagnie GTnTrale de GTophysique SA	France	278.3	60%
Plugging Specialists International ASA	N/A	T.D. Williamson, Inc.	United States	53.7	100%
Lassen & Bjervig	N/A	SWEDO AB	Sweden	N/A	100%
P.A Elektro Forum	N/A	SWEDO AB	Sweden	N/A	100%
Leirvik Module Technology	N/A	Sorco Gruppen	Norway	N/A	100%
Hesselbergtak	N/A	Sigurd Hesselberg AS	Norway	N/A	47%
BNO Radgivende Ingeniører AS	N/A	Rambøll Unico AS	Norway	N/A	100%
Urheim AS	N/A	Norconsult Informasjonssystemer AS	Norway	N/A	100%
Multiwave Geophysical Co ASA	N/A	Exploration Resources ASA	Norway	N/A	47%
Brødr Glomsrød Entreprenør AS	N/A	AF Gruppen ASA	Norway	N/A	100%

Notes: (i) Exchange rate used for 2005 is €1=\$1.245.

(ii) Unit sold information not available from Mergerstat.

## Poland

### Polish construction statistics

Poland	2005	2004
GDP at market prices (€b)	240	195
Real GDP growth	3.2%	5.4%
Total volume construction industry (€b)	24	20
As % of GDP	10%	10%
Employees in construction industry	601,900	588,800
As % of working population	4.7%	4.6%
Companies active in construction industry	N/A	N/A

Note: Annual average exchange rate used, for 2005 €1=4.03PLN, for 2004 €1=4.53PLN.

### Trends

Construction industry volumes in Poland increased by 6% in 2005 vs 2004. This is higher than real GDP growth which increased by only 3.2% and was largely fuelled by private consumption and €6.1b in foreign direct investment.

Problems in the Polish labour market are worsening due to the extensive migration of highly-skilled staff to EU member states. This lack of skilled staff is an increasing problem for construction companies.

In 2005, housing construction has been fuelled by attractive cheaper mortgages and labour market improvements. Housing units completed during the year stood at 114,060 – an increase of 5.5% over the corresponding period in 2004. Despite more building, the Polish housing market still faces a deficit with about 1.6m households requiring a home and general renovation required for 30% of units. Demand in these areas will drive housing construction in the near future. The areas tipped for fastest growth include the biggest cities: Warsaw, Kraków, Gdansk, Wrocław and Poznań.

The non-residential building segment shows the most significant growth, particularly in commercial and industrial buildings in Warsaw, Wrocław, Poznań, Łódź and Kraków.

Poland faces a deficit of modern commercial space, even though in recent years development of commercial centres has been rapid. Investments in commercial, office and warehouse construction increased to €3.63b in 2005 from €1.53b in 2004.

Infrastructure projects are a key area for Polish construction, with significant amounts of funds available from the EU's Cohesion Fund. The priorities are the construction of the A1, A2 and A4 motorways and several expressway projects. The country's transport infrastructure is poor, and to match the rest of the EU, Poland will have to spend heavily. Government officials have recently stated that the country will spend over €26b by 2013 on the construction of roads and motorways. Another €1b will be spent in the next three years on improvement of domestic roads in co-operation with the World Bank and the EIB.

Polish road construction in km			
Year	Highways	Express roads	Road renovation
2002	47	41.7	900
2003	75.8	16.6	1000
2004	67	19.5	1800
2005	54	20	1600

It was also declared that about 200km of motorway would be built in 2006. The cabinet plans to have a total of 743km of motorway and 261kms of expressway in the country by the end of 2006 compared to the present 570km of motorways and 247km of expressway.

Rail infrastructure is also poor in Poland. Only about 5% of national railtrack meets EU requirements, and 54% of establishments are over 90 years old, hence the country requires major investment in rail infrastructure.

Poland is also focusing on airport infrastructure and it is expected that about €115m will be spent on this area. Travellers visiting Polish airports increased by 31% in 2005 and the International Air Transport Association predicts that passenger traffic in Poland will increase by an average of 11.2% during the period 2005-09. Poland's air traffic is among the fastest growing in the world.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Construction revenues (€m)	Net income (€m)
1	Budimex	Dec 05	697	620.6	0.5
2	Skanska Exbud	Dec 05	558.1	N/A	21.3
3	Polimex-Mostostal Siedlce	Dec 05	467	N/A	10.7
4	Strabag	Dec 05	433	N/A	N/A
5	Warbud	Dec 05	246	N/A	2

Note: Exchange rate for 2005 is €1=4.03PLN.

### PFI/PPP and concessions

PPP in Poland is still at an early stage of development and few projects have been undertaken. During 2005, a new law was being prepared to regulate PPP projects which is expected to come into effect during 2006.

### Mergers and acquisitions

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Energomontaz-Polnoc	N/A	Polimex-Mostostal Siedlce	Poland	3.8	6%
Torpol	N/A	Polimex-Mostostal Siedlce	Poland	7.7	100%
Mostostal Warszawa	N/A	Acciona	Spain	49	50%
Perfekt	N/A	Tchas	Czech	undisclosed	100%
Hydrobudowa Slask	N/A	PBG	Poland	12	65.9%
Mostostal Warszawa	Mostostal Invest	Acciona	Spain	7.4	81%
Trakcja Polska PKRE Group	N/A	COMSA Group	Spain	10.3	34%
Polish government	PSKE Elbud Krakow	Stalprodukt	Poland	2.7	100%
Infra	N/A	PBG	Poland	1.0	99.8%

## Portugal

### Portuguese construction statistics

Portugal	2005	2004
GDP at market price (€b)	147	143
Real GDP growth	0.4%	1.2%
Total volume of construction industry (€b)	26.03	27.00
As % of GDP	17.71%	18.88%
Employees in construction industry	544,800	555,200
As % of working population	9.76%	10.05%
Companies active in construction industry	92,927(2002)	92,927(2002)

Note: Exchange rate used for 2005 is 1€=US\$0.80.

### Trends

The Portuguese economy showed very low growth of 0.4% in 2005, the second lowest among all EU countries. Due to a large budget deficit, public sector spending has been cut back and GDP is now mainly driven by household consumption. A new government formed in March 2005, is expected to make steady progress with regard to a revised economic programme.

The recession in construction which started in late 2001 continued in 2005 with output falling by 3.5% year on year. The need to contain the budget deficit has forced the government to lower investment in infrastructure development, which has reduced production and cut employment in the sector. Construction output was down to €26b in 2005 from €30b in 2001.

In 2005, the residential segment was the worst hit, with a drop in the region of 5.95% by November, followed by civil engineering, which was down by 4.0%. The non-residential segment fell by 1% and demand was lacklustre across the board.

The Portuguese construction industry is highly fragmented, with many smaller construction companies. As public spending is low, any tenders are receiving an overwhelming response. The bidders are also quoting low prices which could impact quality and lead to further deterioration of the industry.

However, prospects for 2007 are better because of predicted growth in the civil engineering sector.

### Top companies

Almost all construction companies in Portugal showed a reduction in construction revenues in 2005, compared to 2004. Also, as there is little internal demand, Portuguese companies are tending to look for international projects to enhance external revenues.

No.	Company	FY end	Construction revenues (€m)	Net income (€m)
1	Mota Engil	2005	1,137	34.6
2	Somague-Engenharia	2005	775	3.5
3	Soares da Costa	2005	501	6.8
4	Teixeira Duarte	2005	395	NA
5	Edifer Construções	2004	238	1.7

### PFI/PPP and concessions

Major new PPP projects include construction of ten hospitals in an attempt to outsource clinical service to the private sector. However, the ineffective Portuguese legal system and lengthy tendering process are hampering progress. The new PPP code is expected to be enacted soon, which will streamline the procedure.

In 2005, the Portuguese government invited tenders for the Loures, Braga and Cascais hospital concessions, which are currently publicly run. The leading Portuguese construction company, Mota-Engil, submitted tenders for this concession involving the concept, financing, construction and maintenance of hospitals.

In transport concessions, the government announced the issue of a new call for tenders for the Transmontana and Alto Alentejo motorways. The network of motorways under concession in Portugal totals about 2,403km. The Brisa/Brisal group is the leading operator in the transport concession segment with a market share of 47.9%. The Aenor group, in which Mota-Engil is the biggest shareholder, is the second operator with market share of 21%.

The outlook for PPP procurement is optimistic as the government has announced several large infrastructure projects, including the High Speed Railway Network (€7,100m), the National Road Plan (€6,000m), the New Lisbon Airport (€3,500m) and the Portugal Logistics Plan (€1,100m).

### Mergers and acquisitions

There has been little activity in the Portuguese construction market. The most notable transaction was the acquisition of Somague Group by the Spanish Sacyr Vallehermoso Group in March 2005.

## Romania

### Romanian construction statistics

Romania	2005	2004
GDP at market price (€b)	78.18	66.59
GDP growth	4.1%	8.4%
Total volume of construction industry (€b)	7.31	6.65
As % of GDP	9.35%	9.99%
Employees in construction industry	360,000	340,000
As % of working population	4.06%	3.84%
Companies active in construction industry	N/A	N/A

Note: Annual average exchange rate used, for 2005 €1=3.62Lei, for 2004 €1=3.70Lei.

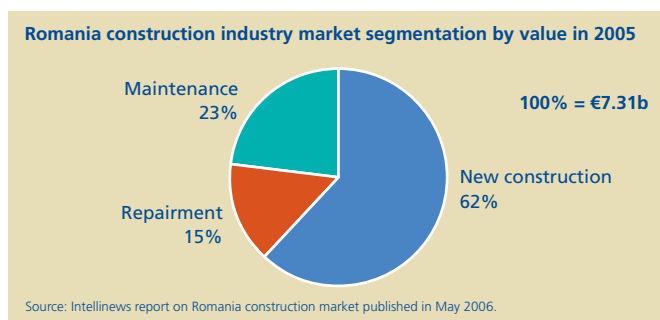
### Trends

A major objective of the Romanian government is to join the EU as soon as possible. The government is attempting to control corruption and improve law and order, as well as reforming other institutions, which will allow for a faster EU entry and enable the country to benefit from more EU funds.

GDP in Romania grew by 4.1% in 2005 after showing a spectacular growth rate of 8.4% in 2004. The decline is attributed to a slow-down in agricultural production caused by a calamitous flood during the middle of 2005. Unlike the 1990s, GDP growth is fuelled by an increase in private consumption as there is rapid expansion of consumer credit and an increase in real wages. Romania still has a high level of inflation and a widening current account deficit.

Foreign investors are building portfolios prior to Romania's EU accession. In 2005, Romania received €5.20b in foreign direct investment, a similar figure to the year before.

The Romanian construction market was worth €7.31b in 2005. The market is growing by 9.8% annually and is responsible for approximately 9% of the country's GDP. New construction activity amounted to €4.55b, 62% of the total value of construction work.



The boom in construction has been driven by increasing consumer demand for new housing as new mortgage instruments are expanded, and by the construction of shopping malls and growing investment in infrastructure, especially motorways.

The Romanian real estate market is considered to have high potential, particularly in office and commercial buildings. In the residential market, demand exceeds supply despite the fact that several projects are under development. Low-priced dwellings are most in demand, while the market for high class dwellings is still very small.

According to market analysts, Romanian construction market output will reach €10b by 2010 and the number of employees is expected to reach between 450,000-500,000. These estimates have taken into account the fact that by 2010 there will be 1,000km of motorway and that 500,000m<sup>2</sup> of shopping mall and commercial areas will have been constructed. However, there was no progress made on motorway construction during 2005, but there were a significant number of projects announced relating to the construction of malls, office building and villas.

The Transylvania Motorway Project was launched in 2004 on the basis of a contract worth €2.2b. Works were stopped in mid 2005 because of lack of funds and are expected to be resumed in 2006.

The civil engineering sector is expected to outperform the residential and non-residential sectors of the market and will be a major contributor to overall construction market growth. This is because government expenditure on large scale construction projects to improve infrastructure and tourism amenities could exceed €3b per year over the next ten years. The majority of growth in the civil engineering sector is likely to come from the transport sector as new motorways and the modernisation of the existing road network could cost €12b alone over the next eight years. Also, Romania is expected to join the EU in 2007 and this will require the authorities to invest in large-scale infrastructure projects to meet EU environmental regulations, including the renewal of water and sewage systems.

### Top companies

No.	Company	FY end	Total revenues (€m)	Net income (€m)
1	Hydroconstructia SA	2005	160	8.5
2	Rominserv SA	2005	93.6	4.06
3	Energomontaj SA	2005	90.9	1.32
4	Arcom SA	2005	37.2	N/A
5	Impact SA	2005	34.95	2.96

Note: annual average exchange rate used, for 2005 €1=3.62Lei, for 2004 €1=4.05Lei

**PFI/PPP and concessions**

The PPP procurement route faced a setback in Romania in 2005 as the government cancelled three public private deals with Austrian company Strabag, French company Vinci and Israeli company Roichmann-Ashtrom to build parts of a major motorway in the country valued at a total of €1b. These deals were cancelled because the contracts did not ensure transparency, according to the transport ministry.

The ministry also announced the drafting of new regulations for public private partnership in collaboration with the European Bank for Reconstruction and Development, the EIB and the European Commission in order to have a clear PPP policy in the country. Some key areas for PPP projects in Romania include road construction, energy, water and waste management.

The outlook for PPP procurement is optimistic as the government has announced several large-scale infrastructure projects including the construction of a third nuclear reactor at the Cernavoda plant and a number of major projects to improve tourism facilities, including the Dracula theme park at Snagov, near Bucharest. The cost of this project will require the government to establish a public private partnership and to seek funding from the World Bank, EIB and the EU.

**Mergers and acquisitions**

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
TPA Societate pentru asigurarea calitatii si inovatii SRL, Bucharest	N/A	Strabag	Austria	N/A	100%
SCCF Iasi	N/A	Colas	France	N/A	26.65%

## Russia

### Russian market statistics

Russia	2005
GDP 2005	€610.24b
GDP growth	€6.4%
Total volume of construction industry 2005	€30.6b
As % GDP	5%
Number of employees in the construction industry 2005	4,899,000
As % of working population	7.3%

Note: Exchange rate used for 2005 is 1€=US\$0.80.

### Trends

During the period 2003-2005, the Russian economy showed strong economic performance with real GDP growth of 7% in 2003-2004 and 6.4% in 2005. The aggregated growth was driven by consumer demand in both the private and public sectors, and a rise in the output of export-oriented industries (mostly natural resources and natural resources processing). Economic growth has also prompted large-scale new housing construction.

In 2005, consumer prices grew by 10.9%. For 2006, the Ministry of Economic Development and Trade predicts an inflation rate of 9%, with a gradual slowdown to 4-5.5% by 2008. According to the EIU, real disposable income grew by 11.2% in 2004 and 10.9% in 2005. In 2006, the growth of real disposable income is estimated at 11.8%. For 2007-2008, the Ministry of Economic Development and Trade forecasts the annual growth of real disposable income at 8.9-10.2%, whereas the EIU assumes a growth of 10-10.2% per year.

During the period 2001-2005, the construction industry has posted average annual growth of 9.1%. In 2006 performance has continued to be strong with growth for the year forecast at 9.7%.

Residential construction led industry growth with €202m of new space delivered to the market. The expansion in the residential sub-sector was mainly due to the rapid growth of real disposable income and improvement of mortgage financing terms.

The non-residential sector also expanded at a rapid pace, with the highest level of growth recorded in the commercial sub-sector. The education, health and agriculture sub-sectors were behind the industry average; growth in industrial construction was 7.9%.

In 2005, there was a boost in railway construction. At the same time the civil engineering sector grew more slowly than the industry as a whole. Road network construction continues to decline, but at a slower pace than in the previous years.

### Top companies

	Turnover (€m)	Net profit (€m)
Gazpromstroyengineering	1,554	4
Globalstroy-engineering	690	26
Stroytransgaz	578	1
DSK-1	532	8
LGSS	479	17

\* Data provided for 2005

Out of the five leaders, the top three companies are focusing on oil and gas infrastructure projects, which reflects the country's natural resource orientation.

Gazpromstroyengineering was established in 2002 and is 100% owned by Gazprom (Russia's leading energy company). The company specialises in large-scale construction and maintenance projects in the gas sector.

Globalstroy (formerly Lukoil Neftegazstroy) has been set up by Lukoil (Russia's leading oil company). The company is mainly engaged in construction, engineering and the maintenance of gas and oil infrastructure projects.

Stroytransgaz, established in 1990, is involved in engineering and construction of pipelines, oil and gas production facilities and underground gas storage, as well as construction of civil and industrial facilities.

### PFI/PPP and concessions

There is little activity currently in the PFI/PPP area and no specific legislative framework. There is some discussion, however, of such projects in future – for example, in the area of road infrastructure.

### Mergers and acquisitions

Between 2005 and early 2006, there were three major acquisitions in the construction industry and the PIK group of companies was on the buyer-side in two transactions. PIK, which mainly focuses on residential development in Moscow and throughout Russia, was established in 1994. In 2005, PIK bought a 100% stake in DSK-3 – one of Moscow's leaders in residential development. In 2006, the group bought Stroyinvestregion, the Moscow development company founded in 2002 specialising in large-scale residential development projects.

In 2005, Basic Element bought a 55% stake in Glavmosstroy – one of the oldest construction companies in Russia, established in 1954. Glavmosstroy develops large-scale residential real estate in Moscow and the surrounding area. Basic Element is a private equity fund with core assets in energy, machinery, resources financial services, construction and development.

No	Target	Stake	Buyer	Deal date	Deal Value (€m)
1	Stroyinvestregion	100%	PIK	20 Mar 06	32
2	Glavmosstroy	55%	Basic Element	03 Aug 05	ND
3	DSK-3	100%	PIK	15 Jun 05	240

### Other issues

The Russian construction sector has traditionally been relatively non-transparent and well known for aggressive tax structuring. There are signs that this is beginning to change as the sector becomes more active in seeking third party financing. Some of the leading companies are even talking about trying to join the Russian IPO boom.

Legislation, however, is still often unclear and this has led to instability in the market with, for example, a shortage of new residential property linked in part to legislative changes in 2006. The mortgage market is now served by all the major banks, and is gradually gaining in popularity, although it clearly remains a long way behind more developed mortgage markets.

## Slovak Republic

### Slovak Republic construction statistics

Slovak Republic	2005	2004
GDP at market prices (€b)	37.3	33.1
Real GDP growth	6%	5.5%
Total volume construction industry (€b)	3.1	2.7
As % of GDP	8.3%	8.2%
Employees in construction industry	209,800	205,300
As % of working population	9.5%	9.5%
Companies active in construction industry	N/A	N/A

Note: Exchange rate used for 2005 is €1=37.848 SKK and 2004 €1=38.796 SKK.

### Trends

Since 2001, there has been a significant increase in construction volumes in Slovakia. In 2005 construction was up 14% on 2004 and well ahead of GDP growth of 6%.

The number people employed in the construction industry continued to grow at 9.5% over the previous year. Regulations and oversight were tightened up, with more inspection of employment status and social allowances.

In 2005, Slovakia received some €1.7b of FDI which contributed significantly to the strong construction growth in the country, particularly in the industrial, office and commercial sectors. The building of two car factories continued in 2005 (Peugeot/Citroen and Hyundai/Kia) despite land shortages. Peugeot/Citroen aims to build a second factory in the next three years, at a planned cost of €370m.

Civil engineering showed strong growth in 2005 (up 32%), particularly in the area of transport infrastructure. The need to develop the road and railways was recognised by the government, with priority being given to the construction of a highway from Bratislava to Zilina, following the Kia Motors' decision to locate the new plant near Zilina. It is planned this will be open for traffic in 2007.

The total assumed investment in roads and motorways in 2005 represented about €441m. The most important projects in 2005 were in sections of the D1 and D3 highways. According to the Ministry of Construction and Regional Development, 402 priority public works projects will be carried out between 2007-2009. The value of the projects is estimated at around €6.2b, and includes motorway construction, dual carriageways, water management, improving the environment, education, justice, culture and state administration.

European funds for infrastructure projects, future greenfield FDI and the requirement for additional housing in Slovakia indicate an optimistic outlook for the country's construction industry in the near future. The Ministry of Construction and Regional Development predicts growth in the construction of 10% in 2006.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	Doprastav as	Dec 05	366	14
2	Strabag Groupe (including ZIPP BRATISLAVA spol sro)	Dec 05	253	N/A
3	Inzinierske stavby as	Dec 05	184.5	2.9
4	Skanska – SK as	Dec 05	154.1	1.1
5	Vahostav as	Dec 05	82.8	2.2

Note: As the construction revenue figure is not available we have shown the total revenue figure.

### PFI/PPP and concessions

The Slovak government was preparing a new Public Procurement Act in 2005 which was expected to come into effect during 2006. However, it contains no specific reference to PPP regulation.

The Slovak Republic plans to build about 94km of road through public private partnership. The pilot project undertaken under public private partnership for a new 30km stretch of highway between Lietavska Lucka and Turany was approved by the government in late 2005, and is in the second stage. This project includes a 7.5km long tunnel. It is estimated that the cost of the stretch would be €533.8m.

The Slovak government was also planning to introduce electronic tolls during 2005 under a new PPP scheme.

### Mergers and acquisitions

Seller	Buyer	Buyer country	Deal size (€m)	% sought
Klimavex	Skanska	Sweden	4.8	100%

## Spain

### Spanish construction statistics

Spain	2005	2004
GDP at market prices (€b)	904	837
Real GDP growth	3.4%	3.1%
Total volume construction industry (€b)	121.7	117.5
As % of GDP	13.5%	14%
Employees in construction industry	2,357,200	2,253,200
As % of working population	15%	14.5%
Companies active in construction industry	225,000	225,000

### Trends

The construction industry grew by 3.57% – slightly higher than real GDP growth of 3.4% – in 2005. This was driven by low interest rates, continued expansion in residential construction and the execution of the administration's long-term planning for public works.

The government has announced €241b transport infrastructure spending under the Strategic Infrastructure and Transport Plan which will link provincial towns through a rail and road network. This amount will be spent over a period of 15 years from 2005-2020, as per the model below.

Strategic infrastructure and transport plan 2005-2020	€b	% of total
Railways	103.4	42.9%
Roads	60.6	25.1%
Airports	15.7	6.5%
Sea ports	23.5	9.7%
Urban works	32.5	13.5%
Other	5.6	2.3%
<b>Total</b>	<b>241.3</b>	<b>100%</b>

Out of the total budgeted expenditure, 43% will be spent on the development of 10,000km of railway network to link all the provincial capitals. The development of a road network is also a priority. 60% of the planned spend will be financed through public funds and the rest through PFI/PPP.

Official public tenders in 2005 increased by 20%. With local and general elections due in 2007 and 2008, and public finances being in good health, public investment is likely to remain strong in the near-term. Regional and local contracting currently represents more than 65% of total administration expenditure.

Building approvals for new houses increased by 6.6% to 812,000 in 2005, compared to the previous year. The association of building promoters, APCE, is of the view that new housing demand will fall between 5% and 9% in 2006.

Spain's home building industry grew by 4.9% in 2005 to €46.6b from €44.4b in 2004, with a CAGR of 3.7% over the period 2001-2005. The private sector forms the major portion, constituting 77.1%.

The level of home building in 2004 and 2005 in Spain outstrips countries like France, the UK and Germany, and, although this level is not considered sustainable in the long-term, it is expected to remain strong in the coming two years. The high preference of Spaniards for ownership (80% of the housing stock is owner occupied), the consolidation of Spain as the 'Florida of Europe' for European residents (especially British and Germans), and increasing immigration in recent years partially explains the recent high level of home building.

The Spanish non-residential housing industry is performing better than other countries in Europe. This sector generated revenues of €75.1b in 2005, an increase of 2.7% over €73.1b in 2004. It achieved a CAGR of 4.5% over the five year period 2001-2005, when the EU recorded CAGR of 1.1%.

This segment generates 15.9% of total non-residential revenues in Europe. This has increased over the five year period 2001-2005 from 14% in 2001.

### Top companies

No.	Company name	FY end	Total revenues (€m)	Net income (€m)
1	Grupo ACS Activ. de Construc. y Servicios	Dec 05	12,114	609
2	Grupo Ferrovial SA	Dec 05	8,989	416
3	Grupo Fomento de Construcciones y Contratas (FCC)	Dec 05	7,154	421
4	Grupo Acciona	Dec 05	4,853	324
5	Grupo Sacyr Vallehermoso	Dec 05	4,177	413
6	Grupo Obrascon Huarte Lain (OHL)	Dec 05	2,443	102
7	Grupo Isolux-Corsán	Dec 05	1,500	12
8	Grupo San José SA	Dec 05	1,142	44
9	Grupo Comsa	Dec 05	863	25
10	Grupo Aldesa	Dec 05	592	27

Spain's top five form part of the ten largest European construction companies by stock market capitalisation. These figures are expected to grow sharply in 2006, due to organic growth and recent acquisitions.

Market concentration is very low in the residential construction market and high in civil engineering activities. (The top six companies account for 60% of total projects awarded by the administration). Residential construction accounts for less than 20-30% of construction sales by the top six companies.

### PFI/PPP and concessions

In the Spanish public private partnership market, IRRs are thin due to excessive liquidity. The public sector has become more cost conscious, and sponsors are responding with competitive bids and, in turn, demanding competitive funding from banks.

In addition, these kinds of projects are considered low risk, as the volatility of daily average traffic (in the case of highway concessions) is traditionally low (between 3.5%-7%). Historically, the concession and PFI/PPP industry in Spain has centered on highway concessions. However, in recent years, an increasing number of PFI/PPP projects have got under way for other types of infrastructure assets (hospitals, prisons, etc). The most significant PFI/PPP investments currently under way concern eight hospitals with an investment of €1.6b awarded by the Madrid Regional Government.

### Mergers and acquisitions

The most important deals this year in the Spanish construction industry are listed opposite.

The significant amount of M&A activity is mostly due to the existence of several major construction conglomerates with excellent financial strength (due to ten years of continued growth in the construction and local real estate markets). They are currently investing in diversification and internationalisation as a mean of dealing with a potential slow-down in their historical local business in the medium-term.

Seller	Unit sold	Buyer	Deal size (€m)	% sought
City of Chicago	Chicago Skyway (USA)	Grupo Ferrovial	1,386	55%
Candover	Swissport (Switzerland)	Grupo Ferrovial	635	100%
State of Indiana	Indiana Toll Road	Grupo Ferrovial	3,100	100% <sup>1</sup>
Individuals	Webber (USA)	Grupo Ferrovial	180	100%
Terra Firma	Waste Recycling Group (UK)	Grupo FCC	2,000	100%
Individuals	Cementos Lemona, SA (Spain)	Grupo FCC	240	69%
Individuals	Uniland Cementera (Spain)	Grupo FCC	1,600	75%
Individuals	ASA Group (Austria)	Grupo FCC	300	100%
Pappas Family	Alpine Mayreder (Austria)	Grupo FCC	550	75%
SCH	Unión Fenosa (Spain)	Grupo ACS	2,400	24,5%
Individuals	Autoestrade	Grupo Abertis	Merger*	100%
Individuals	Community Asphalt Corp (USA)	Grupo OHL	115	80%
Individuals	The Tower Group (USA)	Grupo OHL		70%
Individuals	Eiffage Group (France)	Grupo Sacyr Vallehermoso	1,700	32%
Individuals	Grupo Sufi (Spain)	Grupo Sacyr Vallehermoso	142	100%

\* Not yet completed.

### Other issues

The housing market has been strong in recent years. The construction boom has boosted the economy, and the chances of overheating in the housing market are increasing. A significant rise in interest rates would hamper housing industry prospects, however. Also, the construction business is dependant on government spending, especially in the civil works sector. Market correction is inevitable unless the government meets its spending promises.

## Sweden

### Swedish construction statistics

Sweden	2005	2004
GDP at market price (€b)	287	282
GDP growth	1.8%	4.8%
Total volume of construction industry (€b)	20.8	20.3
As % of GDP	7.25%	7.2%
Employees in construction industry	256,534	242,700
As % of working population	6.01%	5.76%
Companies active in construction industry	NA	NA

Note: Wherever required, annual average exchange rate used; €0.80453=US\$1, and €1=9.30Skr.

### Trends

The Swedish economy grew strongly in 2005 which was reflected in the annual GDP real growth rate of 3.2%. This was Sweden's best year in the last five. The strong year was also reflected in construction sector activity which had been growing, but dropped back in 2005 to 2.2%, compared to 4.8% growth in 2004. Total construction sector output in 2005 was €20.8b compared to €20.3b in 2004.

The residential sector (including new, repair and maintenance) generated total output of €9b, which is about 43% of total industry output in 2005. This sector expects to see more growth as elections are due in 2006 and the municipal housing companies could start to build new residential properties at a faster pace than expected.

This sector witnessed strong growth in 2005 as combined non-residential and civil engineering sector volumes grew at 2% over 2004. The non-residential sector generated 51.5% of total revenue of €6.1b. Civil engineering accounted for 48.5% of total volume at €5.7b in 2005 and seemed to pick up momentum in 2005 as government spending on infrastructure projects increased.

### Top companies

No.	Company	FY end	Total revenues (€m)	Net income (€m)
1	Skanska	Dec 05	13,371	418
2	NCC AB	Dec 05	5,333	126
3	Peab AB	Dec 05	2,748	92
4	JM AB	Dec 05	1,065	105
5	Vagverket Production	Dec 05	854	NA

### PFI/PPP and concessions

There was no significant PPP/PFI or concession activity in Sweden during 2005. However, Skanska, a leading Swedish construction company, participated in lots of PPP projects outside Sweden, mainly in the UK.

### Mergers and acquisitions

There have been a considerable number of M&A deals in the Swedish construction industry in 2005. The following are the top five deals in terms of size from MergerStat:

Seller	Unit sold	Buyer	Buyer country	Deal size (€m)	% sought
Finnveden AB	N/A	Nordic Capital AB	Sweden	225	100%
Myresjhus AB	N/A	Industri Kapital AB	Sweden	60	100%
Woodrose Invest AB	Dotcom Solutions AB	TDC A/S	Denmark	34	100%
Securitas AB	Game Nucleaire Sas	AMEC Plc	United Kingdom	21	100%
Sweden Offshore Wind	N/A	Vattenfall AB	Sweden	10	100%

## United Kingdom (UK)

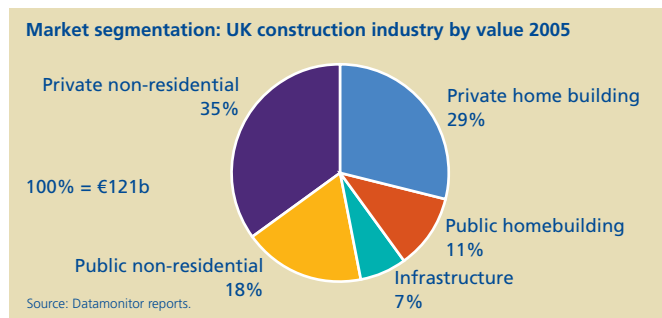
### UK construction statistics

United Kingdom	2005	2004
GDP (€b)	1,761	1,714
GDP growth	3.85%	5.3%
Total volume of construction industry (€b)	121	116
As % of GDP	6.85%	6.87%
Employees in construction industry	2,100,000	1,754,000
As % of working population	6.98%	5.88%
Companies active in construction market	250,000	N/A

Notes: (i) GDP at market price.  
(ii) Wherever required, annual average exchange rate used; for 2005 €1.459=£1, for 2004 €1.472=£1, for 2003 €1.443=£1.

### Trends

The UK construction sector accounted for almost 7% of GDP in 2005, but lagged GDP growth of 3.85%.



The UK home building industry generated total revenue of €48b in 2005; this represents an increase of 4.7% on the previous year's value, and a CAGR of 7.8% for the five year period 2001-2005. This growth in the home building industry is fuelled by low interest rates and rising demand for new houses. The home building market is dominated by private sector construction companies which constitute 29% of the industry, amounting to €38b in 2005. Fears that the volatility in house prices in 2005 could potentially shake homebuyers' confidence appear to have abated.

In the non-residential sector, total revenues were €71b, representing an increase of 2.6% on the previous year's value and a CAGR of 2.9% for the five year period 2001-2005.

In the non-residential sector, prospects remain fairly optimistic. There are a number of major construction projects in the pipeline, including the London Olympics in 2012 which will not just benefit London but also other areas of the UK. The road programme continues, albeit with the occasional stutter, as does rail investment both overland and underground. The government's much needed investment in education and health facilities continues.

In addition, there is considerable interest being generated in the nuclear industry both from a decommissioning standpoint and in the new build area as well.

A number of people have questioned whether labour shortages will be a constraint to growth, but due to the ability to attract labour from abroad this is not considered to be a significant problem.

### Top companies

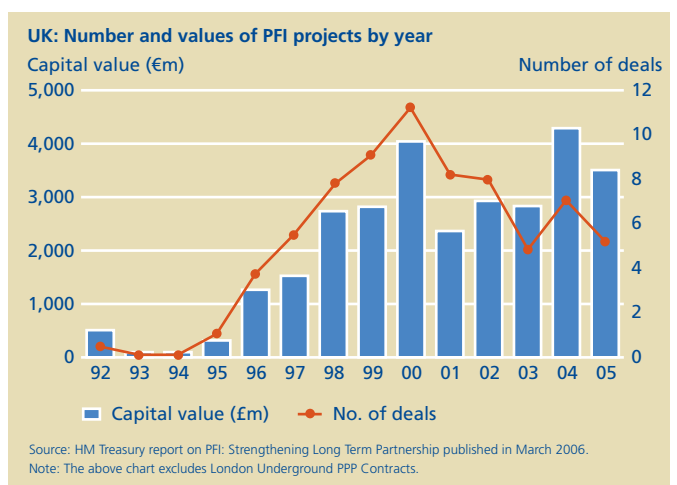
The UK construction industry is extremely fragmented. Most of the companies in the UK construction industry are small and domestically owned with localised operations.

**Top 15 construction companies in the UK**

No.	Company	FY End	Construction revenues (€m)	Net Income (€m)
1	Balfour Beatty plc	Dec 05	5,587	154
2	Taylor Woodrow plc	Dec 05	5,083	417
3	George Wimpey PLC	Dec 05	4,390	368
4	AMEC plc	Dec 05	7,226	6
5	Barratt Developments Plc	Jun 05	3,628	411
6	Persimmon plc	Dec 05	3,341	504
7	Carillion plc	Dec 05	2,962	57
8	Laing O'Rourke PLC.	Mar 05	2,773	17
9	Kier Group plc	Jun 05	2,296	53
10	Morgan Sindall plc	Dec 05	1,896	43
11	Wilson Bowden plc	Dec 05	1,799	219
12	Interserve	Dec 05	1797.0	47.5
13	Bellway plc	Jul 05	1,716	222
14	Newarthill Ltd.	Oct 05	1,590	22
15	Bovis Lend Lease	Jun 05	1519.0	-25.1

### PFI/PPP and concessions

The UK is considered to be a highly developed PPP market. The government remains committed to using PPP/PFI as one of the main procurement routes, but only where it can demonstrate value for money. The government has expressed satisfaction with most of the PFI projects completed and says it will continue to play a small but important role in financing improvement to public services.



PFI has grown in line with increasing government investment in public services since 1997. Since 1992, about €50b has been invested in public construction through PFI projects. The total capital value of PFI projects comprising 85 deals in 2005 was around €5.8b. The health and education sectors continue to account for the majority of PFI deals, seeing 51% and 21% of the action respectively in 2005.

Government spending on PFI deals was 10% of total government spending on public services during the year. The proportion of government investment in public services through PFI is relatively stable and is expected to remain so. This is because the government has set clear criteria for where PFI is likely to provide better value for money. This has resulted in the government adopting a conventional procurement route for the majority of its increased investment in the UK's public services.

It is estimated that €37.9b will be spent on 200 PFI projects over the next five years. The health sector makes up the lion's share of the PFI pipeline, representing around €11.6b of total spend.

### **Mergers and acquisitions**

The major highlight of the year was Carillion pipping Balfour Beatty to the post in the acquisition of Mowlem. This deal will propel Carillion into the top three contractors, excluding house builders, alongside the likes of Balfour Beatty and Amec. Balfour Beatty purchased a couple of the Mowlem businesses and recently (2006) announced the acquisition of Birse plc. Laing O'Rourke also purchased part of the Mowlem group, taking its Australian subsidiary, Barclay Mowlem.

A further interesting trend is the ongoing large Spanish companies' interest in the UK. Although not directly in the construction industry, these companies are buying up assets and hence gaining a significant presence in the market from which they may pursue other areas.

In the house building market there has also been a fair amount of activity, including Persimmon's acquisition of Westbury.

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The following information sources were consulted for compilation of the Country Profiles section of this publication:

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**European Powers of Construction 2005**

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MergerStat

OneSource



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