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European Powers of Construction 2008
Analysis of key players and markets

Contents

Introduction

Deloitte is pleased to present European Powers of Construction (EPoC) 2008, our annual publication identifying the 100 largest European construction companies by construction revenue and providing industry insights into the current marketplace.

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

Leaders of the pack

VINCI of France continues to lead the pack, topping the 100 largest European construction companies with construction revenues of €26bn. The UK continues to dominate the top 100 with the majority of companies listed, and also has its first entrant in the top ten for sometime with Balfour Beatty.

During 2007, 75 companies reported construction revenue growth, with VINCI reporting the largest relative increase at €4bn. On average, the increase in construction revenue per company was €288m and net income was 4.6%. While companies with construction revenues of less than €5bn continued to enjoy higher net margins than the major international companies, average net margins for all categories of companies were lower than in 2006.

Meet the senior executives

An important regular feature of EPoC is our interviews with senior industry executives across Europe. This year we spoke to Baldomero Falcones, Chairman and Chief Executive Officer (CEO) of FCC in Spain, and Theo Bruijninckx, Chairman, and Ruud Jacobs, Member of the Board, both from Ballast Nedam in The Netherlands. We would like to thank them for their contributions and think you will agree that they provide an interesting insight into their organisations.

Expert view from Deloitte

EPoC 2008 includes a range of articles on current industry themes and trends:

The credit crunch and construction

No matter which newspaper you pick up at the moment, you will find daily references to the financial turmoil in the credit markets and the trend towards a worldwide economic downturn. Given this, it would be inappropriate for this publication not to consider how the construction and infrastructure sector is being – or could be – affected. We do not comment on the house building sector because a great deal has already happened in this market, with falling share prices, refinancings, a level of redundancies and endless speculation as to where house prices are going to end up. This market differs from the traditional construction sector because it is very much asset-backed; house building companies purchase land banks, make use of debt markets and construct houses – always considering demand and prices. In contrast, many construction companies leave land purchases and home sales to real estate developers or actual property owners. In this respect, construction companies are service companies and their assets are their brand names, people and customers – all elements that they do not require debt to purchase.

Infrastructure investment opportunities in the emerging Chinese and Indian markets

The Chinese and Indian markets have experienced significant growth over the past few years, exhibiting the highest growth rates in the world economy. One of the factors required to sustain this growth is re-investment in their vast and ageing infrastructure networks. While considerable expenditure has already taken place in these two countries, it is not surprising to note that a significant proportion of the projected worldwide infrastructure spend over the next decade will be concentrated there. Therefore, even though the majority of European companies have tended to focus their efforts on the European and US infrastructure markets, the levels of planned spend in China and India present huge opportunities.

Key risks disclosed in financial statements

For many years, regulators and other standard-setters have called for more extensive and improved disclosures within company financial statements. This would increase understanding of a company's performance and position and assist users in making more informed investment and credit decisions. As a result of amendments to accounting standards and additional requirements for enhanced disclosures within operating and financial reviews (OFRs), companies are now required to provide increased narrative on the principal risks and uncertainties impacting their organisations. This article examines the main risks and uncertainties detailed within the financial statements of the top 20 European construction companies and looks at how disclosures vary across different organisations.

Construction and the environment

Successful corporate management of environmental issues will not only lead to companies improving their reputations in the marketplace, but also to long-term increases in shareholder value. As environmental legislation, public awareness and customer expectations gather momentum, we look at the importance of the environment to the construction industry and the main drivers associated with it.

Reduction of contract failure costs through supply chain management

Margins in the construction sector (excluding house building) are typically low and range from 2-5%. Therefore, the identification and reduction of problems – and their associated costs – could lead to considerable improvements in overall contract performance in the sector. The concept of supply chain management (SCM) has been effectively applied in other industries and sectors, resulting in increased efficiency and effectiveness, cost reductions, and improved profitability. In this article we look at whether the application of SCM in the construction industry could lead to a reduction in contract failures and, ultimately, higher margins.

Country profiles

In this section of EPoC 2008, we present key data on market statistics, trends, top construction companies, the public finance initiative/public private partnerships (PFI/PPP) market, and merger and acquisition (M&A) activity on a country-by-country basis. We hope that you find the profiles interesting and they provide a readily accessible source of information.

Finally...

We hope that you find our sixth annual EPoC publication on trends, perspectives and analysis of the past year in the construction sector of interest. We welcome your thoughts, comments and suggestions on any of the matters covered in this publication.

Jack Kelly
Partner
Deloitte – UK

Leaders of the pack: Europe's top 10

2007 ranking	Company name	Country	Latest year financials FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)	Previous year financials FY end	Sales (€m)	Construction revenue (€m)
1	VINCI SA	France	Dec 07	30,428	25,848	1,461	Dec 06	25,634	21,745
2	Bouygues SA	France	Dec 07	29,613	21,802	1,376	Dec 06	26,408	18,970
3	HOCHTIEF AG	Germany	Dec 07	18,773	18,773	141	Dec 06	16,719	16,719
4	Skanska AB	Sweden	Dec 07	14,922	14,922	443	Dec 06	14,048	14,048
5	Grupo Ferrovial SA	Spain	Dec 07	14,630	14,630	734	Dec 06	12,355	12,352
6	Eiffage SA	France	Dec 07	12,596	12,596	1,000	Dec 06	10,745	10,745
7	Balfour Beatty Plc	UK	Dec 07	11,007	11,007	222	Dec 06	8,073	8,073
8	STRABAG SE	Austria	Dec 07	10,746	10,746	170	Dec 06	10,385	10,385
9	Koninklijke BAM Groep NV	The Netherlands	Dec 07	9,322	9,322	349	Dec 06	8,988	8,988
10	Bilfinger Berger	Germany	Dec 07	9,222	9,222	134	Dec 06	7,936	7,936
11	Activ. de Construc. y Servicios SA (ACS)	Spain	Dec 07	21,312	7,389	1,551	Dec 06	13,869	6,776
12	FCC	Spain	Dec 07	13,881	6,957	738	Dec 06	9,481	4,395
13	Taylor Wimpey Plc	UK	Dec 07	7,050	6,818	-291	Dec 06	5,394	4,947
14	NCC AB	Sweden	Dec 07	6,313	6,313	243	Dec 06	6,034	6,034
15	Carillion Plc	UK	Dec 07	5,809	5,809	112	Dec 06	5,150	5,150
16	Laing O'Rourke	UK	Mar 08	5,297	5,297	96	Mar 07	4,454	4,454
17	Sacyr Vallehermoso SA	Spain	Dec 07	5,760	4,863	946	Dec 06	4,685	3,921
18	Koninklijke Volker Wessels Stevin NV	The Netherlands	Dec 07	4,828	4,828	146	Dec 06	4,488	4,488
19	Barratt Developments Plc	UK	Jun 07	4,478	4,478	442	Jun 06	3,553	3,553
20	Persimmon Plc	UK	Dec 07	4,439	4,439	608	Dec 06	4,616	4,616
21	Enka Insaat ve Sanayi AS	Turkey	Dec 07	3,847	3,847	418	Dec 06	3,189	3,189
22	Heijmans NV	The Netherlands	Dec 07	3,746	3,746	56	Dec 06	2,953	2,953
23	YIT Oyj	Finland	Dec 07	3,707	3,707	225	Dec 06	3,284	3,284
24	Obrascon Huarte Lain SA	Spain	Dec 07	3,764	3,648	140	Dec 06	3,278	3,194
25	Acciona SA	Spain	Dec 07	7,953	3,639	975	Dec 06	6,272	4,004
26	Peab AB	Sweden	Dec 07	3,616	3,616	88	Dec 06	2,850	2,850
27	Kier Group Plc	UK	Jun 07	3,128	3,128	82	Jun 06	2,695	2,695
28	Morgan Sindall Plc	UK	Dec 07	3,109	3,108	58	Dec 06	2,195	2,195
29	Porr Group	Austria	Dec 07	2,744	2,744	22	Dec 06	2,323	2,323
30	Newarthill Ltd	UK	Oct 07	2,681	2,681	48	Oct 06	1,835	1,835
31	Impregilo SpA	Italy	Dec 07	2,627	2,627	41	Dec 06	2,631	2,631
32	Veidekke ASA	Norway	Dec 07	2,505	2,256	123	Dec 06	2,166	1,983
33	Fayat	France	Sep 07	2,180	2,180	101	Sep 06	1,921	1,921
34	Lemminkainen Oyj	Finland	Dec 07	2,174	2,174	73	Dec 06	1,796	1,796
35	Technical Olympic SA	Greece	N/A	N/A	N/A	N/A	Dec 06	2,225	2,171
36	Ed. Züblin AG	Germany	Dec 07	2,128	2,128	17	Dec 06	1,626	1,626
37	Galliford Try Plc	UK	Jun 07	2,100	2,072	64	Jun 06	1,252	1,252
38	Bellway Plc	UK	Jul 07	1,990	1,990	245	Jul 06	1,812	1,812
39	The Miller Group Ltd	UK	Dec 07	1,925	1,925	85	Dec 06	1,805	1,805

0 construction companies

Net income (€m)	Present in
1,270	France, UK, Germany, Central & Eastern Europe, North America, Africa, Asia
1,254	France, UK, Spain, Germany, Central & Eastern Europe, US, Middle East, Africa, Asia
89	Germany, Australia, Chile, UK, Austria, Poland, Russia, Asia, Czech Republic, Hungary, US, Russia, Brazil
393	Argentina, Bolivia, Brazil, Chile, Czech Republic, Denmark, Estonia, Finland, Hungary, Mexico, Norway, Peru, Poland, Slovakia, Sweden, UK, US, Venezuela
1,426	Spain, Ireland, UK, Poland, Switzerland, Italy, Portugal, Greece, Cyprus, Tunisia, Israel, Nigeria, Sudan, Saudi Arabia, Dubai, Kenya, Tanzania, South Africa, Pakistan, Singapore, Philippines, Australia, Korea, Japan, Alaska, US, Canada, Mexico, Dominican Republic, Venezuela, Peru, Brazil, Argentina, Chile
377	France, The Netherlands, Belgium, UK, France, Spain, Portugal, Morocco, Senegal, Luxembourg, Germany, Czech Republic, Poland, Austria, Hungary, Italy
133	UK, US, Sweden, Germany, Italy, Hong Kong, Middle East
191	Austria, Germany, Middle East, Poland, Czech Republic, Hungary, Slovakia, Africa, US, Russia, Romania, Switzerland, Serbia, Croatia, Benelux, Bulgaria, Asia, Slovenia, Scandinavia, Italy, Ireland
137	The Netherlands, UK, Belgium, Germany, Ireland, US
92	Germany, France, Poland, Austria, Switzerland, UK, Canada, Nigeria, Hungary, Norway, US, Nigeria, Australia, China
1,250	Spain, Chile, Greece, Portugal, UK, South Africa, Chile, Colombia, Jamaica, Mexico
536	Spain, Europe, US, Latin America
424	UK, US, Spain, Gibraltar
184	Sweden, Denmark, Finland, Norway, Germany
85	UK, Canada, UAE, Oman, Trinidad & Tobago
55	UK, India, Cyprus, Ireland, Germany, UAE, Australia
542	Spain, Italy, Portugal, Ireland, Costa Rica, Chile
110	The Netherlands, UK, US, Canada, Belgium, Germany, Estonia, Lithuania, Poland, Sweden
402	UK
581	UK
325	Turkey, Europe, Africa, Middle East
83	The Netherlands, Belgium, UK, Germany
171	Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania, Russia
105	Spain, Czech Republic, Brazil, Chile, US, Mexico, Argentina, Algeria, Slovakia
1,370	Spain, Portugal, Poland, Mexico, Canada, Poland, Mexico, Chile
1,047	Sweden, Norway, Finland
63	UK, Romania, Jamaica, UAE, Antigua
48	UK
21	Austria, Germany, Croatia, Poland, Switzerland, Slovakia, Slovenia, Czech Republic, Hungary
59	UK
141	Italy, Denmark, Germany, Greece, Iceland, Portugal, Sweden, Switzerland, UK, Argentina, Brazil, Chile, Dominican Republic, Peru, Venezuela, US, Saudi Arabia, Qatar, UAE, China, Pakistan
88	Norway, Denmark, Sweden
93	France
66	Finland, Russia, Norway, Lithuania, Estonia, Latvia, Estonia, Denmark
-218	Greece, US, Romania, Cyprus
7	Germany, Portugal, France, Denmark, Sweden, Poland, Austria, Hungary, Romania, Bulgaria, Croatia, Switzerland, Russia, China, Qatar, UAE, China, Malaysia, Singapore
37	UK
228	UK
95	UK

2007 ranking	Company name	Country	Latest year financials: FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)	Previous year financials: FY end	Sales (€m)	Construction revenue (€m)
40	Snamprogetti SpA	Italy	N/A	N/A	N/A	N/A	Dec 06	1,902	1,902
41	Koninklijke Boskalis Westminster NV	The Netherlands	Dec 07	1,869	1,869	204	Dec 06	1,354	1,354
42	Jan De Nul NV	Belgium	Dec 07	1,830	1,830	338	Dec 06	1,191	1,191
43	Bovis Lend Lease	UK	Jun 07	1,754	1,754	11	Jun 06	1,659	1,659
44	TBI Holdings NV	The Netherlands	N/A	N/A	N/A	N/A	Dec 06	1,658	1,658
45	Van Oord NV	The Netherlands	Dec 07	1,652	1,652	164	Dec 06	1,516	1,516
46	Mt Højgaard AS	Denmark	Dec 07	1,572	1,572	31	Dec 06	1,486	1,486
47	Constructora San Jose Sa	Spain	Dec 07	1,560	1,560	N/A	Dec 06	1,555	1,555
48	Besix Group	Belgium	Dec 07	1,560	1,560	52	Dec 06	1,276	1,276
49	Spie Batignolles SA	France	Dec 07	1,474	1,474	N/A	Dec 06	1,120	840
50	The Berkeley Group Holdings Plc	UK	Apr 08	1,458	1,458	203	Apr 07	1,455	1,455
51	Implenia AG	Switzerland	Dec 07	1,449	1,449	15	Dec 06	1,534	1,534
52	Wates Group Ltd	UK	Dec 07	1,432	1,432	38	Dec 06	1,299	1,299
53	Keller Group Plc	UK	Dec 07	1,404	1,404	79	Dec 06	1,258	1,258
54	JM AB	Sweden	Dec 07	1,376	1,376	180	Dec 06	1,303	1,303
55	DEME	Belgium	Dec 07	1,314	1,314	90	Dec 06	1,077	1,077
56	Costain Group Plc	UK	Dec 07	1,291	1,291	24	Dec 06	1,300	1,300
57	Swietelsky Baugesellchaft	Austria	Mar 07	1,277	1,277	N/A	Mar 06	1,114	1,114
58	Astaldi SpA	Italy	Dec 07	1,273	1,273	38	Dec 06	1,030	1,081
59	Ballast Nedam NV	The Netherlands	Dec 07	1,270	1,270	27	Dec 06	1,310	1,310
60	ROK Plc	UK	Dec 07	1,397	1,259	29	Dec 06	1,011	916
61	ISG Plc	UK	Jun 07	1,225	1,225	8	Jun 06	1,094	1,094
62	Bowmer And Kirkland Ltd	UK	Aug 07	1,224	1,224	38	Aug 06	1,038	1,038
63	John Sisk & Son (Holdings) Ltd	Ireland	N/A	N/A	N/A	N/A	Dec 06	1,209	1,209
64	Redrow Plc	UK	Jun 07	1,175	1,175	124	Jun 06	1,134	1,134
65	Interserve Plc	UK	Dec 07	2,940	1,155	69	Dec 06	2,384	845
66	Strukton Groep NV	The Netherlands	Dec 07	1,145	1,145	15	Dec 06	949	949
67	Aldesa Construcciones SA	Spain	Dec 07	1,127	1,126	26	Dec 06	704	704
68	Dura Vermeer Groep NV	The Netherlands	N/A	N/A	N/A	N/A	Dec 06	1,117	1,117
69	Grupo Isolux-Corsan	Spain	Dec 07	2,173	1,107	87	Dec 06	1,870	1,057
70	Grupo Comsa	Spain	Dec 07	1,213	1,081	N/A	Dec 06	1,044	967
71	Mota – Engil	Portugal	Dec 07	1,402	1,049	98	Dec 06	1,308	1,092
72	Shepherd Building Group Ltd	UK	Jun 07	1,011	1,011	48	Jun 06	1,029	1,029
73	Metrostav AS	Czech Republic	Dec 07	1,002	1,002	25	Dec 06	904	904
74	Crest Nicholson Plc	UK	Oct 07	998	998	72	Oct 06	1,012	1,012
75	POLIMEX – MOSTOSTAL SA	Poland	Dec 07	984	984	31	Dec 06	637	637
76	Corsan-Corviam Construccion SA	Spain	N/A	N/A	N/A	N/A	Dec 06	968	968
77	Gladedale Holdings Ltd	UK	N/A	N/A	N/A	N/A	Dec 06	945	945
78	Käefer Isoliertechnik GmbH & Co. KG	Germany	N/A	N/A	N/A	N/A	Dec 06	941	941

Net income (€m)	Present in
53	Italy, Europe, North America, Central America, South America, Africa, Asia
117	The Netherlands, Argentina, Bahrain, Belgium, Canada, China, Denmark, Germany, Finland, France, Egypt, India, Indonesia, Iran, Malaysia, The Netherlands, Nigeria, Norway, Saudi Arabia, Singapore, UK, US, UAE, Australia
192	Belgium
-53	UK
36	The Netherlands
89	The Netherlands, Argentina, Australia, Belgium, Brazil, China, Denmark, France, Germany, India, Kazakhstan, Korea, Malaysia, Mexico, Russia, Singapore, Spain, UAE, UK
4	Denmark, Poland, Germany, Sweden, UK, US
N/A	Spain
41	Belgium, Western Europe, Central and Eastern Europe, North and Central Africa, Middle East, Central Asia, Caribbean
24	France
199	UK
3	Switzerland
53	UK
82	UK, US, Germany, France, Austria, Spain, Sweden, Poland, Italy, Malaysia, Singapore, Saudi Arabia, Egypt, Australia, Germany
169	Sweden, Norway, Finland, Denmark, Belgium
50	Belgium
-79	UK, Spain
N/A	Austria
30	Italy, Turkey, Venezuela, Pakistan, US, Algeria, Honduras, Indonesia, China, Switzerland, Burundi, France, Romania
44	The Netherlands, UK, Europe, Middle East, South East Asia
21	UK
7	UK, Hong Kong, Australia, Japan, Singapore, Germany, Cayman Islands, Japan, Korea, Macau, Malaysia, China, UAE
27	UK
N/A	Ireland
123	UK
-2	UK, Europe, Middle East, Africa, Australasia, Far East, Americas
31	The Netherlands
29	Spain, Mexico
23	The Netherlands
104	Germany, Belgium, Spain, France, Poland, Portugal, UK, Sweden, Romania, Argentina, US, Brazil, Mexico, Chile, Venezuela, Ecuador, India, Qatar, Jordan, Syria, Angola, Algeria, Egypt, Equatorial Guinea, Morocco, Mozambique
N/A	Spain, Italy, Portugal , Australia, Ireland, Chile, Argentina, Poland
32	Poland, Hungary, Czech Republic, Romania, Slovakia, Ireland, Angola, Mozambique, Malawi, Benin and Chad, US, Peru
45	UK
48	Czech Republic, Slovak Republic
84	UK
16	Poland
50	Spain
95	UK
26	Germany

2007 ranking	Company name	Country	Latest year financials FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)	Previous year financials FY end	Sales (€m)	Construction revenue (€m)
79	Bloor Holdings Ltd	UK	Jun 07	932	932	56	Jun 06	831	831
80	Bovis Homes Group Plc	UK	Dec 07	817	817	128	Dec 06	876	876
81	E. Pihl & Søn AS	Denmark	Dec 07	814	814	12	Dec 06	775	775
82	Budimex SA	Poland	Dec 07	813	813	4	Dec 06	780	780
83	Hellenic Technodomiki TEB SA	Greece	Dec 07	915	810	130	Dec 06	718	631
84	Goldbeck	Germany	Mar 07	752	727	28	Mar 06	562	562
85	Impresa Pizzarotti	Italy	Dec 07	736	736	23	Dec 06	672	672
86	Societa Italiana per condotte d'acqua	Italy	Dec 07	729	729	9	Dec 06	724	724
87	Vägverket Produktion	Sweden	N/A	N/A	N/A	N/A	Jun 05	776	721
88	Lindner Holding	Germany	Dec 07	675	675	13	Dec 06	594	594
89	Mccarthy & Stone (Developments) Ltd	UK	Aug 07	671	671	119	Aug 06	543	543
90	J&P – Avax SA	Greece	Dec 07	683	663	25	Dec 06	360	352
91	Koop Holding Europe	The Netherlands	N/A	N/A	N/A	N/A	Dec 06	661	661
92	Max Bögl Bauunternehmung Gmbh & Co. KG	Germany	N/A	N/A	N/A	N/A	Dec 06	645	645
93	McInerney Holdings Plc	Ireland	Dec 07	633	616	48	Dec 06	630	600
94	Wolff & Muller	Germany	N/A	N/A	N/A	N/A	Dec 06	613	613
95	Michael McNamara & Co	Ireland	Mar 07	611	611	N/A	N/A	N/A	N/A
96	Tieliikelaitos (Destia Oy)	Finland	Dec 07	602	602	6	Dec 06	485	485
97	AF Gruppen ASA	Norway	Dec 07	691	598	22	Dec 06	666	577
98	Köster Holding	Germany	N/A	N/A	N/A	N/A	Dec 06	583	583
99	Tekfen Holding AS	Turkey	Dec 07	1,062	577	157	Dec 06	962	598
100	Per Aarsleff AS	Denmark	Sep 07	576	576	20	Sep 06	507	507

Note: Some companies have adopted proportional consolidation method for joint ventures. In proportional consolidation method the Group combines its share of joint ventures' individual revenues and expenses, assets and liabilities on a line-by-line basis with corresponding items in the Group's financial statements. So in this case, joint venture revenues are included in the Group revenues.

Some companies, where they do not adopt proportionate consolidation method, the Group will include only its profits and not revenue in its consolidated income statement. In such instances, the companies sometimes report the share of revenues from joint ventures separately.

Net income (€m)	Present in
41	UK
139	UK
15	Denmark, Sri Lanka, Greenland, UK, Trinidad & Tobago, Denmark
1	Poland, Germany, Russia
47	Greece, UAE, Cyprus, Romania, Germany
9	Germany
11	Italy
7	Italy
24	Sweden
21	France
126	UK
18	Greece
8	The Netherlands
17	Germany
49	Ireland, UK, Spain
-4	Germany
N/A	Ireland
8	Finland
17	Norway, Sweden, Poland
-9	Germany
45	Turkey
12	Denmark

The top ten

Consistent with the previous year, VINCI, Bouygues, HOCHTIEF and Skanska continued to rank as the top four European construction companies in 2007. VINCI of France retained its number one position, with 19% growth in construction revenues for the year ending 31 December 2007. The group further consolidated its lead over Bouygues, which once again came second, and the UK saw its first entrant in the top ten for sometime with Balfour Beatty coming seventh. France dominated the top ten with three companies listed, closely followed by Germany with two, while no other country had more than one company listed.

The top 100

	No. of companies in top 100		Average construction revenue per company (€m)
	2007	2006	
UK	28	33	2,613
Spain	11	11	4,600
The Netherlands	10	11	3,405
Germany	9	6	6,305
France	5	10	12,780
Italy	5	4	1,325
Sweden	5	4	6,557
Austria	3	3	4,922
Belgium	3	3	1,568
Denmark	3	2	987
Finland	3	2	2,161
Greece	3	1	736
Ireland	3	1	614
Norway	2	2	1,427
Poland	2	2	899
Turkey	2	1	2,212

The UK continued to dominate the top 100 with 28 companies listed in 2007, compared to 33 in 2006 as a result of John Laing, Renew Holdings and Willmott Dixon dropping out, Amec changing its strategic focus to the oil equipment and services sector, and the merger of Taylor Woodrow and George Wimpey. Alfred McAlpine was acquired by Carillion in February 2008 and consolidated information on the Alfred McAlpine group at 31 December 2007 was not available, so the group does not feature in the top 100.

Overall, eight countries increased their entrants in the top 100 – including Germany, Greece and Ireland – and three countries saw reductions in the number of entrants.

For example, France had five companies listed in 2007, compared to ten in 2006, mainly due to consolidation in the market and a change of strategic focus for some of the companies.

While the UK has, for a number of years, dominated the top 100 in terms of the number of companies listed, the relative fragmentation of the market means that it has not yet achieved a commensurate percentage of total construction revenues. This year's analysis highlights that the UK accounts for 23% of total construction revenues, compared to France's 21%. A possible explanation for this is the rapid growth of the larger UK companies in recent years.

There is considerable variation in the 2007 average construction revenues. This reflects different industry structures, such as the presence of major international contractors in smaller countries and the French and Spanish domestic markets being relatively closed to foreign companies, while allowing their own companies to have significant international operations.

Changes in revenue

Of the top 100, 75 companies reported revenue growth in 2007. Within the top ten, Balfour Beatty reported the largest year-on-year increase at 36.3%, of which 22% was attributable to acquisitions such as Centex Construction in the US, and full-year performance figures from Birse in the UK.

VINCI consolidated its number one position with 18.9% growth in 2007. This strong growth came from its construction sector operation and was achieved primarily through organic growth, supported by acquisitions – the most notable being Soletanche Bachy. The tie-up between Sogea Construction and GTM Construction to form VINCI Construction France also allowed the group to capture a greater share of the domestic market, while outside France, growth was significant in the UK and Polish markets. VINCI's UK position was further strengthened in 2008 through the acquisition of Taylor Woodrow Construction from Taylor Wimpey.

Bouygues achieved 14.9% growth in 2007, driven by international acquisitions such as Warings in the UK and Mibag in Switzerland. HOCHTIEF achieved growth of 12.3% from 2006, mainly because of its overseas businesses such as US subsidiary Turner, and Leighton in Asia-Pacific. In contrast, the domestic building sector in Germany remained fraught throughout 2007 and the start of 2008. Increased demand for construction triggered significant material and labour price rises that were not fully passed on to customers and resulted in a significant impact on earnings for 2007. After a period of significant growth between 2004 and 2006, 2007 was a year of consolidation and strategic review for the STRABAG group, which at 3.5% grew the least among the top ten companies.

Other notable increases included an 18.4% growth in revenues for Ferrovial due to the integration of a complete year of BAA results, and FCC's construction revenue growth of 58.3% – of which 41.2% was generated outside the domestic Spanish market. Galliford Try of the UK also increased revenues by 65.5% on the back of the Morrison Construction and Linden Homes acquisitions.

What is noticeable overall is that lower levels of growth were achieved by those companies specialising in house building rather than infrastructure, as a slowdown in the housing market began to take effect during 2007. House building is one of the first casualties of any slowdown due to demand being inextricably linked to consumer confidence.

Net income in 2007

	No. of companies	Average net income in 2007 (%)
All	82	4.6
Major international	8	3.9
Second tier	8	3.8
Third tier	20	6.5
Fourth tier	46	5.3
UK all	28	3.9
UK house builders	10	7.1

Average net income in 2007 was 4.6%, down from 5.1% in 2006. These figures are based on each company's entire revenue, as in some cases construction revenue forms only part of a company's business. Excluding the results of specialists Sacyr Vallehermoso and Jan de Nul – which reported net incomes of 16.4% and 18.5% respectively – and the UK house builders, this would give an average net income of 4.1%.

Of the major international players, and consistent with 2006, HOCHTIEF reported the lowest net income at 0.8%, partly due to the reasons discussed above. Eiffage of France – another of the major international players – reported the largest net income at 7.9%. This was largely driven by profits arising from the disposal of its interests in Cofiroute and Compagnie Eiffage du Viadu de Millau, without which the company's net income would have been comparable to 2006 at 3%.

The second tier of companies – those with construction revenues of €5-10bn – reported average net income of 3.8%. Excluding the results of Taylor Wimpey (which reported net losses of 4.1% arising from restructuring, brand impairments, and land and work in progress write-downs following the George Wimpey merger), the second tier of companies reported average net income of 4.5%.

Higher income percentages in the third and fourth tiers were driven by the number of UK house builders that fall within this group, given that they have different business models to non-house builders. The UK house builders reported average net income of 7.1%, which if adjusted to remove the results of Taylor Wimpey, would result in average net income of 11.8%. At 17.7%, the highest net income was reported by McCarthy & Stone Developments, which focuses on the residential care homes sector.

Meet the senior executives

In this year's edition of EPoC, we have interviews with senior executives from two of Europe's top construction companies.

First, we hear from Baldomero Falcones, Chairman and CEO at FCC, and second we hear from Theo Bruijninckx, Chairman, and Ruud Jacobs, Member of the Board, at Ballast Nedam.

Baldomero Falcones
Chairman and CEO at FCC, Spain

What are FCC's key objectives for 2008/09?
Under our strategic plan for 2008 to 2010 – which we launched in May 2008 – we aim to consolidate our position as a leading, diversified and multinational provider of services and infrastructure. Our strategy is based on three pillars: consolidating our current businesses, taking advantage of expansion opportunities, and increasing our efficiency levels.

Consolidating our current businesses means that we will have to work hard in order to secure our market share across our different activities, consolidate our international acquisitions – such as Alpine in Austria and the Waste Recycling Group (WRG) in the UK – and focus on profitability and free cash flow generation. We will also continue to explore international expansion opportunities in our core businesses – such as environmental services, water management and infrastructure – in Europe, the US and selected emerging markets.

We have recently launched a new Energy division and acquired 14 wind farms with a total of 425 megawatts (mw) of generating capacity, as well as two solar farms with 20mw of capacity. These assets, along with our Waste and Energy divisions, constitute the platform for our future growth. We believe our Energy division in particular will see significant development over the coming years.

This consolidation and expansion will be fuelled by further improving our processes and increasing the efficiency of our organisation, with a particular focus on cost optimisation.

Our ultimate goal is to increase the company's equity value for our shareholders.

What sets you apart from your competition?
We are one of the main construction and infrastructure companies in Europe, with revenues of €7m (representing about 50% of our total sales of €14m), but we also serve more than 5,000 municipalities around the world in the areas of waste management, street cleaning and other services. In addition we own Cementos Portland Valderrivas, which is the largest cement company in Spain, and have a presence in commercial property and renewable energy.

We are confident that this diversity is a key competitive advantage, and we are very proud of it. Fomento de Obras y Construcciones – one of FCC's two founding companies – was created back in 1900 as a construction company, but as early as 1911 it gained its first environmental service contract – the conservation of Barcelona's urban cleaning and sewerage system. Since then, we have achieved a proven track record of successful diversification that has been widely acclaimed and even emulated.

What regional markets and activities do you view as being key growth areas?
We now work in more than 50 countries and international sales represent 40% of our business, with a target of reaching 50% by 2010. To achieve this, we will continue looking at the countries we already operate in. Consolidating our construction and services businesses in the UK and Central and Eastern Europe (CEE) is also one of our priorities.

In addition, the US market is very interesting for us and we plan to increase our presence there significantly, taking advantage of the massive investment expected across the country in transport infrastructure, utilities and environmental services.

Baldomero Falcones
Chairman and CEO at FCC, Spain

We also follow other markets very closely, especially emerging economies, but it is important that we ensure we understand these markets properly and are able to limit any risks before entering them. Setting up the appropriate infrastructure and finding the right partner is key.

What other growth/diversification opportunities do you see for FCC in 2008/09?

As mentioned earlier, in accordance with our strategic plan we recently launched an Energy division and have invested more than €900m in renewable energy assets as of July 2008. This is a natural area of focus for us as we already enjoy a noteworthy position in waste management and energy generation. We are committed to this sector and will use these assets as a basis on which to build a larger business unit, leveraging our expertise in electrical and civil construction, infrastructure development and operations to achieve this goal.

The growth of demand for energy is exponential and we want to consolidate our position in this key sector of the economy, as we have done in others. Renewable energies are of specific interest for us, given our long-standing pledge to sustainability – something that was recently recognised with our inclusion in the Dow Jones Sustainability Index.

What are your expectations for the European construction market and what issues does the industry face in 2008/09?

It is evident that we are facing a downturn in the economic cycle in Western Europe, but more than 45% of our earnings before interest, taxes, depreciation and amortisation (EBITDA) are generated by services.

Despite the downturn, I remain quite an optimist about civil construction, which is our main activity (housing construction represents less than 3% of our EBITDA). The market for infrastructure projects will steadily grow at a low rate in Western Europe, but we will continue to see two-digit growth in Eastern Europe.
Overall, escalating pressure on public budgets should also be compensated for by increasing investment in infrastructure through PFI and PPP projects.

Overall, I foresee stable expansion of the market that will allow construction companies to navigate through the cycle – as long as they are well-diversified and technically-sound, and benefit from an appropriate financial structure.

Theo Bruijninckx
Chairman and CEO, Ballast Nedam, The Netherlands

Ruud Jacobs
Member of the Board, Ballast Nedam,
The Netherlands

Who are Ballast Nedam?

After a few difficult years in the late 1990s, we made a turnaround in 2000/01 to become a solid top five player in the Dutch construction market. With revenues of almost €1bn, of which approximately €100m comes from international business, our main focus is on our domestic market. Since 2005, all international projects have been managed directly by our holding company.

The group consists of two divisions: Building and Development, and Infrastructure. As well as carrying out their day-to-day activities, these divisions also jointly manage Ballast Nedam Consessies – a separate business that focuses on projects of a concessional nature, such as PPPs.

What are your objectives, and how do you intend to differentiate yourselves?

As part of our mission to offer high-quality, total solutions, we have four key priorities for the next few years.

First, we intend to focus our mix of activities on the front end (development) and the back end (maintenance and operation) of the value chain, as well as increasing our focus on niche segments – all of which we hope will increase the value of our business.

Second, we intend to start getting involved in projects earlier and for longer periods so that we can meet our customers' growing demands for total solutions.

Third, we wish to strengthen the position of our specialised companies within the value chain in order to contribute more to our core competencies.

Fourth, we will be more selective about adding or removing activities from our current portfolio. We will assess each activity based on profitability and the extent to which it can contribute to providing advanced total solutions for our clients.

While these strategic objectives might not be considered radical, they are necessary to secure our competitive position – and how we realise them is even more important than the objectives themselves.
We consistently monitor how effectively our strategy is being implemented within our various companies and make time to implement new ways of working to continually improve our business model. For example, we have spent a lot of time in recent years working on our PPP proposition and as a result of this we have become very successful in this area, now being involved in the majority of PPP projects throughout The Netherlands.

Although as you focus mainly on your domestic market, what other markets and activities within Europe do you view as being potential key growth areas for Ballast Nedam?

The construction industry remains largely a national industry. Of course, we see that a lot of attention is focused on Central Europe at present, but that is only interesting if you have a strong position or a strategic partner within a country there and can really add value. We will only work in other countries if we can add extra value based on our specific expertise, such as in the construction of football stadiums.

For the raw materials market, it's a different story. This cannot be done solely on a national basis, so we are planning concessions for raw material production in different parts of Europe (eg, in Germany and Norway), in addition to our core activities.

Finally, offshore wind energy farms are a growth area for us, mostly in North West Europe. We will apply our knowledge and expertise regarding wet infrastructure – such as bridges – to further develop this niche market.

Theo Bruijninckx
Chairman and CEO
Ballast Nedam
The Netherlands

Ruud Jacobs
Member of the Board,
Ballast Nedam,
The Netherlands

What other growth or diversification opportunities do you anticipate?
Overall, growth is not a major priority, but profitability is.

Finding clients for whom we can apply our broad knowledge and expertise is key to our future success; a current example of this is the healthcare industry, especially including hospitals and medical parks. Other important niche markets include industrial construction and natural gas, for which we have formed a new company – CNG Net – that focuses on the construction, operation, management and maintenance of natural gas stations in The Netherlands.

We aim to keep our organisation as decentralised as possible because regional knowledge and entrepreneurship are crucial to the success of our companies. This will be easier for our Building and Development division than for our Infrastructure division because there are more opportunities with a broader client base in this area, as well as a less prescribed way of working.

What issues face the European construction industry over the coming years?
It's obvious that the construction industry will face serious environmental issues – for example, around limiting energy consumption to be more environmentally-friendly. We will need to find innovative ways to improve our offerings to clients in this area, with innovation likely to come both from construction companies and our suppliers.

Of course, the financial crisis will also have an impact on the industry – but that should only be temporary. Some countries will suffer more than others, as recent developments show, but we expect strong demand for housing and infrastructure in domestic markets to continue in the years to come.

Expert view from Deloitte

The credit crunch and construction

The construction industry in any developed economy is cyclical: its fortunes tend to follow the fortunes of the country or even the region in which it operates. But because any actual assets being constructed take time to be financed, designed and built, each company usually has a sufficient backlog of work orders to counter any downturn for a short period of time. However, the construction cycle will inevitably follow gross domestic product (GDP), and so this lag of time – no matter how long it is – will eventually come to an end.

In light of the current economic downturn, this makes the picture look bleak for construction companies across Europe. However, the trend might be countered to a limited degree by a high level of public sector spending on infrastructure. Looking at the UK in particular, major projects that might counter the predicted downward trend include the London 2012 Olympics; work on the M25 upgrade and maintenance; and the Thameslink and Cross London Rail Links. Further, since the last downturn – and as some of our commentators have noted in their interviews – many construction companies have diversified into the services sector. This market is not considered to be as cyclical, thus potentially dampening the extent of any downturn.

Predictions, however, are currently fraught with danger. Even as this article went to press, there were indications that significant projects were starting to be cancelled.

Changing focus

In light of the credit crunch, four key issues are anticipated and should be managed in the coming months:

- advanced payments drying up, leading to different working capital ratios;
- customers' and subcontractors' financial positions weakening;
- more difficult variation and claim negotiations; and
- rising finance and insurance costs.

Advanced payments

A well-run construction company has net working capital liabilities because it receives significant payments before it starts work, keeps the cash inflow going with timely certification and collection, and manages its suppliers' payment terms.

But credit is becoming scarcer and more expensive, and so the level and incidence of advanced payments will undoubtedly fall – turning the net current liabilities into net current assets that will need to be financed by existing cash reserves or overdraft facilities.

Across Europe, there have been a number of working capital failures by construction companies, as irrecoverable assets have been exposed. As the advanced payments dry up, there is a risk that a further level of these assets will become visible. Certainly, working capital ratios – and the cash conversion ratios that analysts in this sector are now so fond of – will look different. As a result, if you are a supplier to the industry, you will have to watch your credit terms over the year-end.

Customers and suppliers

If construction companies are not doing so already, they should be taking a closer look at the financial positions of their customers, subcontractors and suppliers.

When customers fail to honour their payment agreements, the contractor always has the option to walk off site. However, with tight deadlines and the penal effects of liquidated damages, this is not always a popular course of action – so management should try to avoid such situations by regularly assessing the financial strength of their customers and pre-empting any possible problems.

Suppliers and subcontractors failing – regardless of them being bonded – is also a major problem for any contract. First, a replacement is needed (undoubtedly eroding forecast margins) and second, the contract is put under time pressure – meaning the project is squeezed at both ends.

Variation and claim negotiations
Whenever the economy comes under pressure, variation and claim negotiations take longer. The industry's customers and suppliers are trying to manage their working capital positions and costs, so paying someone to stall – or putting the squeeze on a settlement offer – is often the cheapest approach. As a result, we expect to see working capital positions coming under pressure over the next few months, and prudent revenue recognition policies may need to be maintained.

Rising finance and insurance costs
This effect almost goes without saying. First, if a company does have to extend its credit facilities with a bank, they will find that this is not the cheapest time to do so. This is compounded by the fact that banks often look on construction companies unfavourably because their assets are largely intangible. Second, we should not forget that a large number of contracts in the industry are backed by performance and payment bonds. The financial institutions that provide such insurances are unlikely to take on more risks at this time, and costs will inevitably go up.

Is it all doom and gloom?
The answer is that it is too early to tell. However, there are three important factors that could counter the potential issues outlined above:

- construction companies should have learned from their past mistakes. We have heard a lot about companies improving their customer relations and taking a less-combative approach to construction over the past few years, so now is the time when those improved relationships should come to the fore. In addition, working capital failures have been well publicised, so companies remaining in the sector have been stressing their prudence in terms of revenue recognition – which should include improved working capital management;

- support services and term-contracts. In contrast to the last bout of economic difficulties, construction companies have diversified into support services. While these contracts are often working capital positive (ie, they are not usually paid in advance), they are long term and should dampen the level of cyclicality; and

- the infrastructure gap. Across Europe, there are heavy demands on governments to maintain and enhance infrastructure. The standards of buildings such as schools, hospitals and prisons needs to improve; road and rail demands are increasing; and utility spend is on the increase.

In conclusion, the construction and infrastructure market is not immune to the credit crunch. We have not seen the full effects yet, and the next 12 to 18 months will be an interesting time for the industry. There are a number of critical issues that should be monitored and we will see if claims such as those around improved customer relations are shown to be true as the credit crunch starts to bite.

Infrastructure investment opportunities in the emerging Chinese and Indian markets

The sustainable economic development of a country and improvement in its citizens' living standards are very closely linked to the creation of infrastructure, including both transport infrastructure and that relating to the provision of essential services such as healthcare and education. Infrastructure constitutes a means of achieving geographical, economic and social regional cohesion because it integrates space, provides a backbone for a geographical area, makes it accessible, and provides the basic services required for social interaction and production. Adequate infrastructure also increases productivity by reducing production costs, stimulating commercial activity, contributing to job creation, and generating income – making it possible to increase tax revenues without increasing the burden on taxpayers. Finally, infrastructure stimulates private investment and capital accumulation, both of which facilitate the development, economic growth and social welfare of poorer regions.

It is not surprising that more than 70% of the world's projected investment in infrastructure over the next ten years will be concentrated in two countries: China (60%+) and India (10%+). These are currently the two countries with the highest growth rates in the world economy and, because of their vast populations and geographical size, they require enormous investments in infrastructure in order to support and help sustain their economic growth.

The other so-called BRIC countries (Brazil and Russia) and N-11 countries (those deemed to have the greatest growth potential: Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, The Philippines, Turkey and Vietnam) rank next in terms of investment, with air travel, roads, water, electricity and telecommunications attracting the most investment.

The high worldwide investment volumes forecast for the next decade have triggered the creation of more than 100 infrastructure funds over the past 18 months, which between them have raised capital of almost €105bn. With the typical leverage in projects of this nature, these funds would be capable of financing investments in excess of €420bn. They tend to be owned by financial institutions, investment banks and pension funds, and nearly half originate from the US and Europe where for the first time venture capital (eg, Carlyle, 3i, Blackstone and Citigroup) is behind a significant number of them. These new competitors have been lured by the large volumes of investment and financing required, the relative stability of investments, and the visibility of cash flow from infrastructure projects.

The entry of new players will give rise to increased competition between traditional operators in the market. This is particularly true for brownfield projects, where governments are using existing public assets to gain additional value, as investment in new infrastructure is not an essential part of any project. This increased competition may well reduce the rates of return on investments in projects of this nature.

The main emerging markets

The Chinese and Indian governments are aware of the high levels of investment required to cater to their countries' needs, particularly taking into account the current inadequacy of infrastructure in rural areas.

In order to modernise their infrastructure, China and India have both implemented mechanisms for financing investments that go beyond the traditional budget-based methods, as well as developing new policies and regulatory frameworks to assist in reducing any shortcomings.

PPP projects in China during 2007

Industry	Sub-sector	No. of projects	Total investment (€bn)
Energy			
	Electricity	132	21
	Natural gas	164	3
	Total energy	296	24
Telecoms			
	Telecoms	4	10
Transport			
	Airports	15	2
	Railways	5	4
	Roads	124	14
	Ports	45	7
	Total transport	189	27
Water			
	Treatment plants	167	3
	Utilities	16	1
	Total water	183	4
Total		672	65

China's infrastructure market

Between 2002 and 2006, investment in Chinese infrastructure increased from €191bn to €420bn – an average annual increase of 22%. In fact, China currently spends 9% of its GDP on infrastructure. In addition, since 2004 – three years after work commenced on China's accession to the World Trade Organisation – foreign companies have been allowed to operate in China's construction industry. The Chinese regulatory framework also permits various means of financing infrastructure, including traditional budget-based financing, government bonds and PPPs. However, PPPs in China are generally confined to build-operate-transfer models, in which the public and private sectors share the financial risks.

The Chinese government's ninth and tenth five-year plans are focused mainly on investment in roads and railways. However, an enormous volume of investment in these areas is still necessary. For example, the Ministry of Communications estimates that the Chinese road network needs to be extended to 2.3m km and the motorway network to 65,000km by 2010 – and to 3m km and 85,000km respectively by 2020.

China is also considering building 97 new airports by 2020 – 43 before 2010 – with an approximate investment of €44bn.

Finally, in the eleventh five-year plan, the Chinese Ministry of Construction has set an objective for a €29bn investment in waste water treatment plants.

The most notable planned investments include the Zhejiang Expressway (with almost 2,000km of motorway construction and an estimated investment of €15bn between 2006 and 2010), the Jiangsu Expressway (with 1,200km of motorway and an estimated investment of €9bn between 2006 and 2010), the Shenzhen Expressway (with 1,900km and an estimated investment of €12bn), the Anhui Expressway (with 1,900km and an estimated investment of €8bn), and the Sichuan Expressway (with 1,391km and an estimated investment of €10bn).

China leads the world ranking for private investment in transport infrastructure, most of which comes from abroad – a feature that the Chinese government wishes not only to maintain, but also to promote because the enormous demand for investment simply could not be covered by budgeted financing. Also, from a legal certainty standpoint, the percentage of investments in cancelled PPP projects is approximately 7%, which is lower than the global average of 10%.

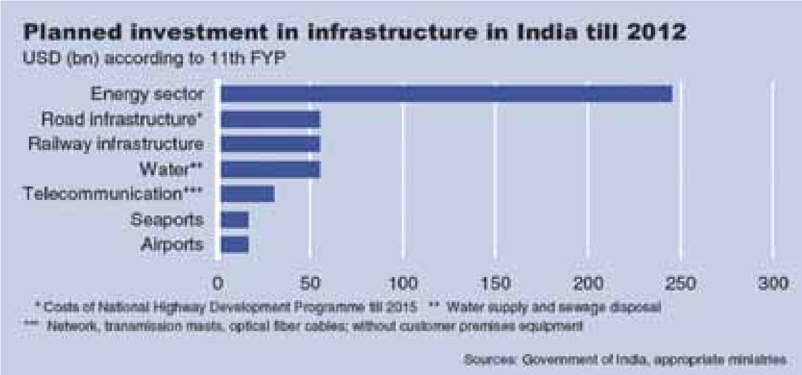
The greatest investment opportunities are located in West and North-East China due to the government's planned developments for these areas.

India's infrastructure market

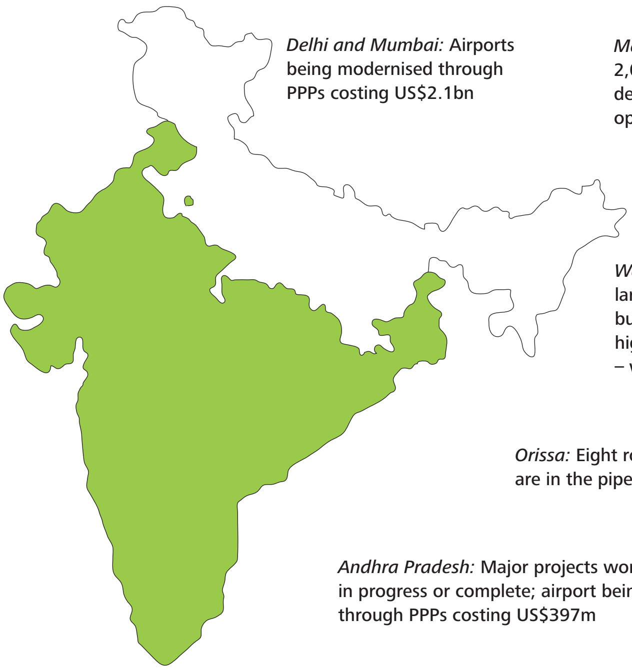
The rapid increase in the Indian population and the country's economic growth have both generated enormous pressure in connection with the modernisation and expansion of the country's infrastructure. To tackle this, the Indian government's tenth five-year plan (2002 to 2007) budgeted for infrastructure investments of €175bn.

However, according to various studies, India needs to invest 9% of its GDP in infrastructure until 2012 – compared with the current 5% – and would need to invest up to 12.5% of GDP annually until 2015 to reach China's infrastructure level. An investment of more than €315bn will be required by 2012, of which approximately 20% will be provided by the private sector.

Regulations regarding investment by foreign companies have been relaxed significantly in recent years, and now 100% of foreign investment in projects building roads, motorways, ports, power stations, industrial parks, airports and hotels is permitted. Moreover, the government has implemented various initiatives aimed at strengthening the infrastructure market, including the provision of funds and the establishment of an infrastructure development vehicle – the India Infrastructure Finance Company Ltd.



PPP projects – State highlights



Punjab: 11 road projects costing US$161m

Rajasthan: 28 road projects worth US$92m

Gujarat: Seven port projects worth US$2.2bn

Karnataka: Projects worth US$0.9bn

Kerala: Thiruvananthapuram city road development project – US$48m. First urban road project built with private participation

Delhi and Mumbai: Airports being modernised through PPPs costing US$2.1bn

Madhya Pradesh: Over 2,000km of roads developed via build-operate-transfer projects

West Bengal: Two of the largest privately-financed build-operate-transfer highway projects in India – worth approx. US$200m

Orissa: Eight road projects are in the pipeline

Andhra Pradesh: Major projects worth US$6.5bn are in progress or complete; airport being developed through PPPs costing US$397m

Tamil Nadu: Infrastructure fund with initial corpus of US$4.1m set up to facilitate PPPs

States for which PPP projects are shown

Gujarat, Maharashtra, and the states bordering Delhi offer the best growth prospects for infrastructure investment.

Given that the shortfall in infrastructure cannot be covered exclusively by budgeted financing or multilateral bodies, the government has made efforts to transform the legal framework in order to support PPPs. This has involved, among other measures, the creation of a PPP department in the Ministry of Finance, and a Planning Committee for the promotion of PPPs. In addition, model PPP contracts have been created for certain industries and guidelines for PPP financing and bidding processes have been issued.

By the end of 2006, the government had awarded 86 PPP contracts, with an investment cancellation percentage of around 7% of the total investment.

Despite this progress, the elections in May 2009 could affect the timing of the reforms, even though they are currently supported by a coalition of widely-differing parties. In addition, market liquidity and the scant transparency of the various markets and players are risks that should be considered by companies considering entering the Indian market.

Looking ahead

The major volumes of investment planned in China and India present an important opportunity for European transport infrastructure concession operators, which number among the world's leading companies in this field.

However, many European companies are focusing their strategies on the US and Latin American infrastructure markets. The economic recovery of the principal Latin American countries – most notably Brazil and Mexico, which recently announced ambitious infrastructure plans – represents a clear opportunity for European companies.

Added to this is the enormous interest shown by the US in recent years in transport infrastructure concessions as a means of financing investments. European companies are naturally drawn to such projects because of the experience they have gained in these countries, coupled with their large market shares.

Because of this focus, European companies appear to be some way behind their competitors in terms of the two economies that will lead infrastructure investment over the next decade. However, European construction companies – with their extensive domestic and international experience in transport infrastructure concessions – possess enough financial muscle to grasp the opportunities and face up to the challenges that will emerge in the coming years.

Key risks disclosed in financial statements

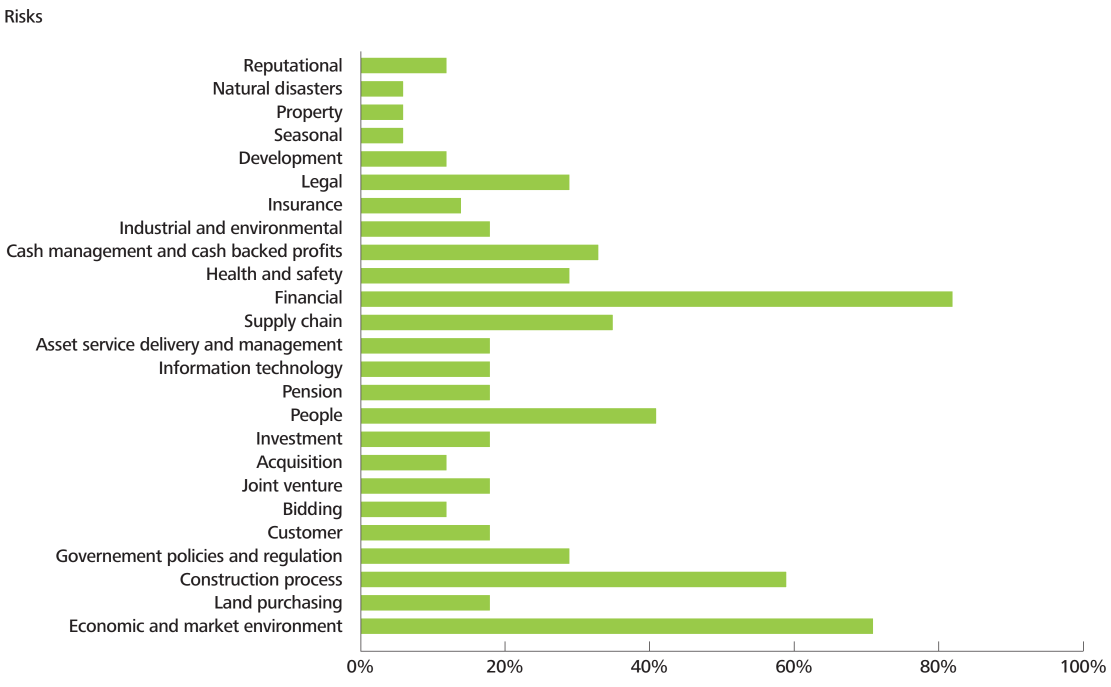
For many years, regulators and other standard-setters have called for more extensive and improved disclosures within company financial statements. This would increase understanding of a company's performance and position and assist users in making more informed investment and credit decisions. As a result of amendments to accounting standards and additional requirements for enhanced disclosures within OFRs, companies are now required to provide increased narrative on the principle risks and uncertainties impacting their organisations.

The International Accounting Standards Board (IASB) framework and the International Accounting Standards (IAS) 1 'Presentation of Financial Statements' guidelines require disclosures in financial statements of risks arising from accounting judgements and any uncertainties facing a business, while the International Financial Reporting Standard (IFRS) 7 'Financial Instruments and Disclosures' guidelines require disclosures on risks and risk management with regards to financial instruments.

While these standards require disclosure of financial risks, they do not cover strategic, commercial and operational risks. As a result, significant changes have been made to the reporting required for wider risks in financial statements (typically as part of a company's OFR) in accordance with the European Union's (EU) Modernisation and Transparency Directive.

These regulations extend the fair review of the development and performance of a company to include descriptions of the principal risks and uncertainties facing the business, together with a commentary on the directors' approach to them. The directors are expected to anticipate the full range of risks facing a business, including strategic, commercial and operational risks. Although not required by legislation, it is considered best practice to explain how the company monitors and manages such risks.

Risks disclosed within the top 20 construction companies



This article examines the main risks and uncertainties detailed within the financial statements of the top 20 European construction companies and looks at how disclosures vary across different organisations. The annual reports reviewed were the most recently available and relate to the 2007 year end.

We noted that all of the companies included a risk commentary, although the quality and quantity of information disclosed differed widely. The chart on page 23, provides a breakdown of the principal risks identified across the companies.

All of the companies disclosed risks and gave prominence to them within their OFR. A wide range of risks were reported (which in part reflects the varying nature of activities performed by the companies surveyed), but it should be noted that not all of the companies included the whole range of financial, strategic, commercial and operational risks.

Other key risks our review identified were as follows:

Risk	%	Notes
The economic and market environments	71	Exposure to changes in opportunities and threats, competitors' capabilities increasing and other factors affecting a company's industry.
The construction process/project management	59	Maintaining the quality of services provided to customers and avoiding delays in the execution of work.
People	41	Recruitment, training, development and retention of key personnel.
SCM	35	Maintaining the supplier base and managing costs, efficiency and quality of supplies.
Cash management	33	Maintaining adequate levels of liquidity and ensuring delivery of cash-backed profits.
Legal	29	Exposure to changing laws (affecting the ability of companies to enforce contractual agreements to implement specific strategic activities) and risks arising from contract disputes.
Health and safety	29	Compliance with health and safety regulations and maintaining workers' safety.
Government policy and regulation	29	Changing regulations impacting a company's competitive position and its capacity to efficiently conduct business.

For example, a strong emphasis tended to be placed on financial and operational risks, while less weight was given to strategic and commercial risks.

Financial risks were disclosed in respect of 83% of the companies reviewed, and in part reflect the requirements of IFRS 7 (ie, the need to disclose risks and risk management relating to financial instruments). The key financial risks disclosed primarily related to liquidity risks and foreign currency risks, reflecting the multi-locational nature of many of the companies' operations.

The economic and market environments around Europe would appear to be a primary concern for 71% of the companies reviewed. This in part reflects the companies carrying out a wide range of activities in different geographical areas. Accordingly, a company's performance depends largely on the economic climate in the countries in which it operates, as a considerable portion of work will be commissioned by government bodies. Much of the commentary provided within the companies' narrative reports was generic, with limited discussion on how economic conditions would impact their business stream or company. History, however, tells us that for annual reports two critical factors are the trend of GDP and government policy.

The construction process is highlighted as the key operational risk in 59% of the reports reviewed. This low percentage is somewhat surprising as it represents the key activity for such companies, and is the area where stakeholders would presumably require most reassurance. In the reports where this was discussed, extensive commentary was provided to explain to the stakeholders how the risks had been mitigated through effective project governance and setting up internal control frameworks to safeguard the interests of the company throughout a project's lifecycle.

The narrative reporting of risks in relation to people and SCM partly reflected the fact that we were studying annual reports from 2007. This was when the construction market was at the top of the cycle, with increased competition for winning new work and obtaining resources (both people and products) at the top of companies' minds. In addition, many companies may have included them as key risks because they emphasise the key role of people elsewhere in their annual reports, people after all are the key asset in companies within this sector.

As construction companies are service companies, their assets are essentially their brand names, people and clients. It is therefore somewhat surprising to see that reputation risk was only included by 12% of the companies concerned, and customers by 18%.

It is also important to note the prominence of cash management in narrative reporting. This may reflect changes in stakeholders' perceptions around what are important financial performance measures. While turnover and profit margins are still deemed to be important measures of growth, cash flow is also seen as a measure of success now. This may be because, as measuring profit becomes more complicated as a result of changes in accounting standards, cash flow is the one tangible that can be relied upon – and it is also a good indicator of whether something is going wrong at a company.

In conclusion, wide-ranging risks were disclosed by the top construction companies in 2007, with disclosures varying substantially in quantity and quality. However, it is likely that – with the combination of recent events in the financial markets, the possible impact they will have on the wider economy, and continued changes in regulatory reporting requirements – consistency of disclosure in reporting key risks will improve in 2008.

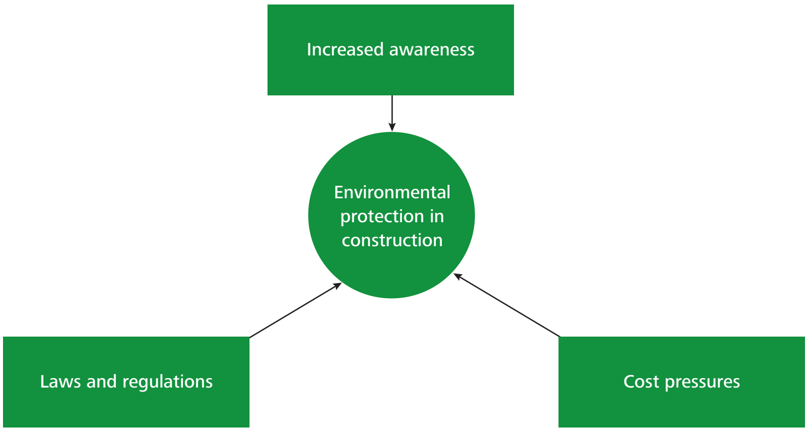
Construction and the environment

As early as 2003, 78% of Europe's fund managers and analysts predicted that sound management of environmental risks would increase a company's valuation over the long term. Investor relations managers also largely agreed that good sustainability performance would lead to a better reputation, increased market value and improved economic performance. One of the reasons for this is sustainability and the environment becoming ubiquitous in the media, and regulatory changes gaining momentum (eg, at the G8 Summit held in Japan in 2008, a resolution to halve greenhouse gas emissions by 2050 was adopted).

Meeting such ambitious objectives will be challenging, and the construction industry is likely to play a crucial role – particularly through remodelling existing buildings to save energy, and building new energy-efficient structures. All of this means that companies should be looking in detail at how they manage their environmental risks – and opportunities – in order to maximise value over the long term.

Major drivers

The emerging importance of the environment to the construction industry is due to three main drivers:



Increased awareness

People have become more sensitive to environmental issues all over Europe, especially in relation to those large construction projects that are continually in the spotlight. For instance airports, motorways and other infrastructure construction projects frequently meet with massive resistance on environmental grounds – and not just from neighbouring residents.

In fact, protests and legal action often cause construction projects to be interrupted or abandoned, so companies increasingly need to take environmental issues into account when they are planning or executing projects. Something that is enabling this approach to become more embedded in the industry is that individuals working in construction appear to have generally become more environmentally-conscious in recent years.

Laws and regulations

Another significant driver is the host of environmental laws and regulations now in effect. First and foremost are the EU's climate protection requirements. A 1990 EU agreement called for a 20% reduction in carbon dioxide emissions by 2020, and specific requirements include obtaining energy passes for buildings – something that will further increase demand for energy-efficient remodelling and construction.

The EU requirements also include mandatory rules around renewable energies representing a larger share of total energy production. This is likely to lead to increased demand for corresponding power plants and technologies.

Finally, the launch of EU-wide emissions trading is also important. This means that those construction corporations that produce building materials will need to work hard to manage their own emissions.

Cost pressures
In times of increasing commodity and energy prices – and government interventions such as Germany's eco tax – there is more intense pressure on company finances. This means that achieving energy-efficiency and lowering capital expenditure are becoming increasingly important drivers, wherever properties are built and operated. Companies must manage their construction projects as effectively as possible in order to ultimately lower – or at least contain – operating costs.

An evolving market

Environmental requirements and associated approval procedures are increasingly posing major challenges to large construction projects. Almost everywhere, noise and emissions limits must be observed, and projects in the fields of infrastructure, tourism and raw material exploration are often subject to particularly complex restrictions – such as to protect nature reserves or ensure that roads do not run through environmentally -sensitive areas. In every case, the challenge is minimising the impact of any construction.

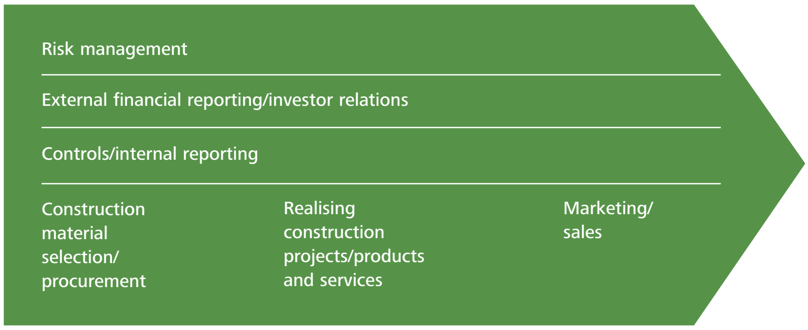
Higher-priority environmental concerns for consumers have also caused demand to rise for environmentally-friendly products. As a result, construction standards have changed – especially in building – and buyers, tenants and investors are paying increasing attention to the energy and cost-efficiency of properties. This trend has been reinforced by measures such as the EU's Green Building Programme and the introduction of certificate schemes for energy-saving buildings – such as Leadership in Energy and Environmental Design, Building Research Establishment Environmental Assessment Method, and Haute Qualité Environnementale. As well as catering to consumer demand and trying to improve their reputations, companies are aiming to achieve such standards because they ultimately benefit from lower operating costs when working with energy-efficient buildings.

Finally, brand new opportunities for construction firms are emerging in areas such as wind energy (especially building offshore wind farms) and geothermal and solar energy plant construction. Modernising existing power plants, as well as developing the next generation, is also becoming increasingly important. Even nuclear energy – frowned upon in some European countries until just a few years ago – is being discussed as an option to fight energy- and carbon dioxide-related problems.

In order to make the most of the various opportunities which are emerging, construction companies must adapt to these changes in the market and develop the skills, resources and know-how needed to meet tomorrow's requirements.

Integrated management

Corporate environmental management relates to several areas of the enterprise value chain, including the support functions.



On a construction project, environmental concerns figure prominently early on (ie, when construction materials are being selected). Concerns include avoiding materials that are banned (such as asbestos), and sourcing those materials with environmentally-friendly properties. For example, to build an environmentally-friendly building, construction materials with certain properties – such as adequate heat insulation and air circulation – must be used. In road construction, requirements for blacktop surfaces have also changed and using a large proportion of recycled materials is encouraged to reduce waste.

More and more frequently, the actual construction process is also being influenced by environmental concerns. Goal-orientated construction plans and site logistics allow significant energy savings to be realised in many cases, which translates into less impact on the environment and lower operating costs. Disposing of and/or recycling waste in an environmentally-friendly manner is also of primary importance – both for ethical reasons, and to help lower the cost of materials by increasing recycling ratios.

In order to be successful, environmental management must touch the various corporate support functions and properly address the whole range of risks, identifying them and initiating appropriate action as and when they occur. It is also important that environmentally-relevant information – for instance, new regulations and policies – be communicated and documented using a company-wide reporting system, and that controls and measures such as internal audits are used to ensure a business is adhering to such requirements.

Environmental protection is also becoming an ever-more-present feature in external corporate communications. Increasingly, companies are publishing environmental information and key figures in annual reports, sustainability reports, environmental reports, and on their websites. This is partly due to statutory requirements such as Article 46 of the Fourth Accounting Directive, 78/660/EC, according to which a company's management report should contain non-financial performance indicators, including information relating to environmental matters. Besides, investors and analysts are increasingly setting store by sustainability information and performance indicators and proactive communication of environmental topics can help to enhance a company's image.

In conclusion, construction companies have no choice but to confront the issue of environmental protection in every area of their business. Ensuring that integrated environmental management becomes a central managerial focus will arguably be the best response to the whole range of risks and opportunities that will arise.

Reducing failure costs through supply chain management

Over the past decade, failure costs (ie, costs associated with the causes of contract failures) in the construction industry have received more and more attention. The reason is simple: in a low-margin business such as this, even a small reduction in failure costs leads to considerable improvement in a firm's overall financial performance. In the various studies that have been carried out in an attempt to quantify failure costs for building and engineering projects (sometimes referred to as 'rework'), they have been estimated to range between 3-23% of a contract's value, while in the Dutch construction industry the estimated range is even wider, at 5-30%. Although these are only rough estimates, it is clear that failure costs are a serious issue for construction companies.

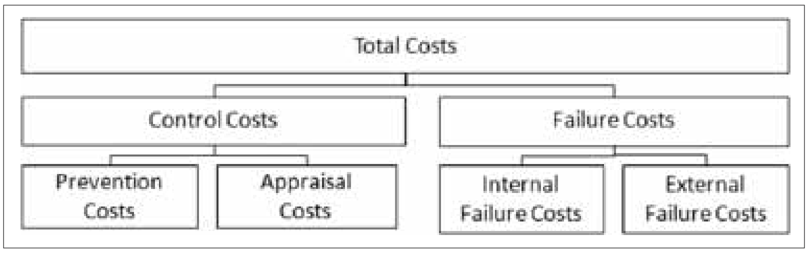
Failure costs are caused by a variety of factors. However, all involved agree that a crucial factor contributing to the current scale of the problem is the fragmentation of responsibilities within any construction project and the lack of co-ordination between the organisations involved. Indeed, clients, architects, contractors, subcontractors and end-users all have their own objectives, and they are not necessarily in line with each other. Moreover, with so many parties involved, miscommunication is bound to happen – and it often does. Even more problematic is that for a high percentage of construction projects, the various parties involved are selected based on a tender where low price is the dominant factor. This increases the likelihood that each project will begin with a completely new group of suppliers, so learning from earlier mistakes is less likely to happen. The overall result is a lack of co-ordination between the various organisations, which leads to failure costs of the magnitude mentioned above.

To overcome similar issues in other industries – like fast-moving consumer goods and automotives – the concept of SCM has been successfully applied. The key idea behind SCM is that the various parties involved work together for the benefit of the end-user (better, faster and at lower costs). However, there is also overwhelming evidence that applying SCM can lead to increased supply chain efficiency, with lower overall costs and increased effectiveness, so all parties involved stand to benefit.

The fact that favourable SCM benchmarking results are being seen in other industries – coupled with the scale of failure costs in the construction industry – means that whether we can implement SCM in construction is becoming a natural focus.

Defining failure costs

Within quality management, the costs of quality (CoQ) are the costs concerned with preventing, finding and correcting defective work. We use Philip Crosby's definition for CoQ, which refers to CoQ as the price of conformance (prevention and appraisal costs), together with the price of non-conformance (failure costs). This means that the total CoQ consists of two major components: control costs and failure costs (as shown below).



Source: P.B. Crosby, Cost of quality

Control costs

Prevention costs are planned costs incurred by an organisation to ensure that errors are not made at any stage during the process of delivering a product or service. The process may include stages such as design, development, production, and shipping, and examples of prevention include process control, market research, field testing, and preventative maintenance.

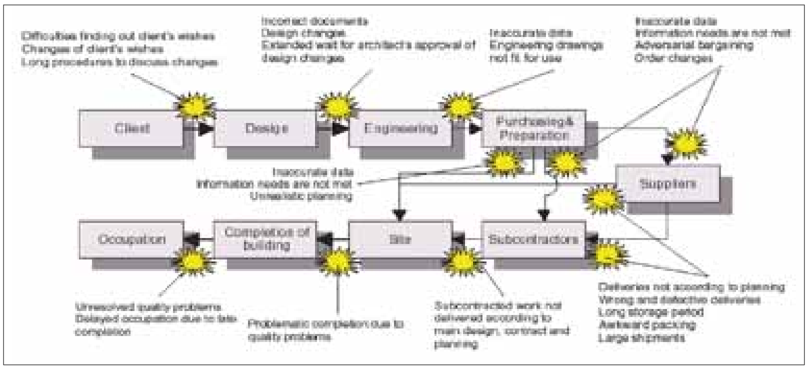
Appraisal costs are the costs of checking a product or service at the various stages of the process, with examples including internal product audits, supplier evaluations and inspections.

Failure costs

Internal failure costs cover all costs resulting from errors that are discovered before a product or service reaches the customer. Examples include costs due to reworking, redesigning, reports about necessary corrective action, and salvage.

External failure costs are those costs incurred when a customer finds an error. Examples include costs for replacement products, administration, recalls, shipping costs and customer service.

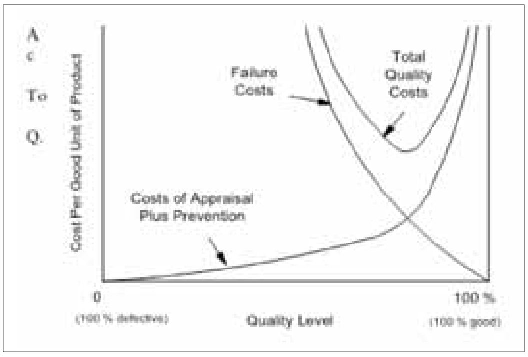
Construction-specific examples of both internal and external failure costs are illustrated in academic Ruben Vrijhoef's diagram below, which shows failure cost problems arising at the interfaces of different parties or functions in the construction supply chain.



Source: R. Vrijhoef, Co-makership in construction: towards construction supply chain management

Prevention better than cure

In general, control costs are preferable to failure costs. This is not only because control costs are usually lower, but also because prevention costs are usually perceived to be positive and informative, whereas failure costs are seen as negative and associated with fire-fighting – repairing things that should not have gone wrong in the first place. Furthermore, there is an optimal level of CoQ that companies should aim for (see management consultant J.M. Juran's graph). This shows that when a higher level of quality – towards 100% right first time – is reached, failure costs decrease. However, to achieve this, control costs do need to increase – so getting the right balance is key. The necessary investments in SCM are to be evaluated within this setting.



Source: J.M. Juran and F.M. Gryna, Quality costs: Juran's quality control handbook

Financial impact of failure cost reduction

Construction is an industry where profit margins are generally low (eg, 2-5% for major contractors) which means that losing 3-23% of contract value on failure costs can have a massive impact. That's why it is crucial that these costs are brought under control.

To analyse this further, assume that the profitability of a company is measured by the yield ratio – also known as return on investment (ROI) – which is the turnover a venture has gained as a percentage of total capital. Within this model, reducing costs influences profit margins and increases cost-effectiveness.

To demonstrate this, we have used a DuPont chart – a simple tool that measures and presents the effect of savings on yield. In the example on the following page, we show the impact that a 20% reduction in internal failure costs would have on profit margins. This example shows that a 20% reduction in failure costs improves the profit margin from 0.02 to 0.04, and the ROI from 0.08 to 0.16. In other words, reducing the failure costs by 20% results in a 100% improvement in profit margin and ROI.

Why use SCM?
Better co-ordination between the various organisations involved in a construction project – something that can be achieved using SCM – can lead to higher efficiency and improved effectiveness.

In their respective books, Sir M. Latham and R. Lamming state that there are two main causes for the occurrence of failure costs:

1. Construction companies and their suppliers failing to do things right the first time.

   Such failures are often caused by:

   • poor control of the supply chain;

   • a lack of supplier involvement during design;

   • poor technical data interchange and communication; and

   • a lack of standardised approaches, resulting in uneconomical solutions and costly design errors that are often not exposed until the construction phase.

2. Contractors and their suppliers being selected based on price to complete a building, often at a stage when it is still not fully designed.

   This encourages suppliers to win work through submitting artificially low tenders and then struggling for profit through claims – and, if necessary, litigation – following variations to the specification.

In order to reduce failure costs, these primary issues have to be resolved. SCM has been shown to achieve good results regarding:

• increasing control of the supply chain;

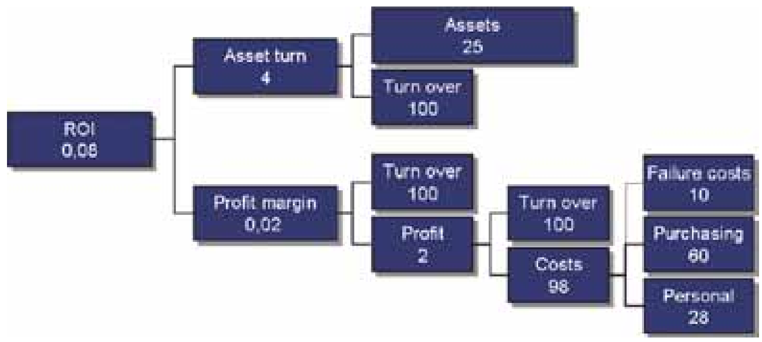
• improving exchange of information;

• joint development of products;

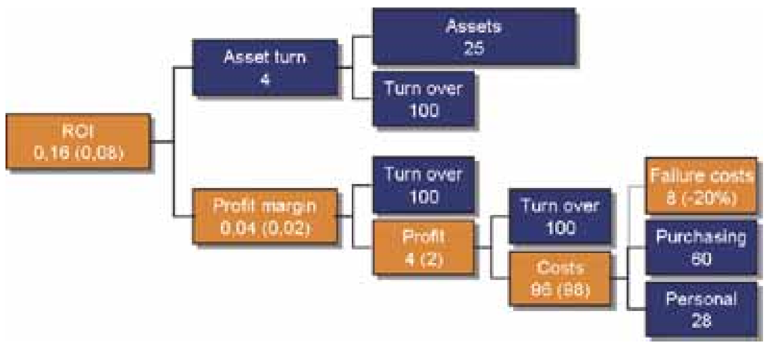
• increasing co-ordination; and

• increasing co-operation and mutual trust.

Original situation



Situation with reduced failure costs



Source: Adapted from C.A. Kline and H.L. Hessler, The DuPont chart system for appraising operating performance, NACA Bulletin 33

Therefore, applying SCM in the construction industry might be the way to fight the causes of failure costs at every stage of the process.

The diagram below shows the causes of failure costs and their impact on different construction phases versus the financial results of implementing SCM.

Implementing SCM implies a total shift in thinking about partnering. Many organisations still think that tendering (ie, cutting projects into pieces and bringing them to market individually for quotations) delivers higher quality and lower prices. From initial costs this can seem to be the case, but looking at construction projects from a wider perspective, parties offering the lowest initial prices may not be the ones that are able to deliver the best lifecycle costs and quality.

SCM explained

We can define SCM as follows: management focus on the co-ordination of several entities in the supply chain to optimise the entire supply chain as if it were one unit, rather than optimising each entity separately.

Depending on whether the entities are departments in a company, business units within a corporation, or separate organisations, three levels of SCM can be distinguished – as shown in the diagram on the following page.

The first (and lowest) level of SCM refers to the alignment of activities and goals of the different functions (or departments) within a company, such as Research and Development, Marketing and Sales, Operations and Logistics, and Purchasing. The basic idea of SCM here is that, in order to get the optimal result for the entire company, all functions need to be co-ordinated. On this level, co-ordination can be forced using hierarchical structures.

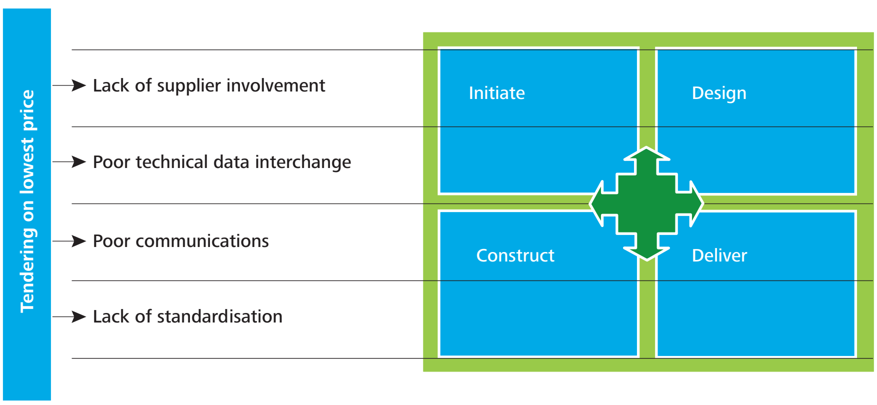
The second level refers to the co-ordination of different business units within one corporation. Here, SCM is aimed at optimising the flow of goods and information, as well as the activities and goals of the different units. SCM also usually aims to present one face to suppliers and one face to customers (account management). As this level is still internal, hierarchical structures can again be used to ensure collaboration.

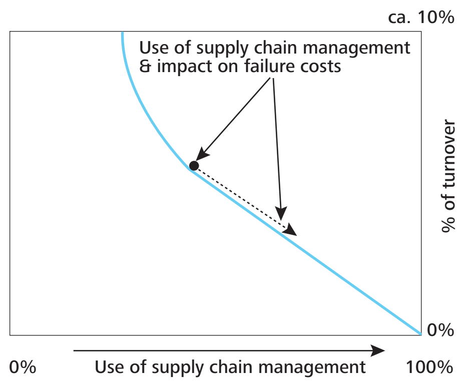
On the third level, the different entities are autonomous organisations. SCM here implies that the various organisations work together to improve overall results – producing a win/win situation. Hierarchical control is not feasible, so companies must work together out of choice – one of the factors in making SCM difficult to implement at this level.

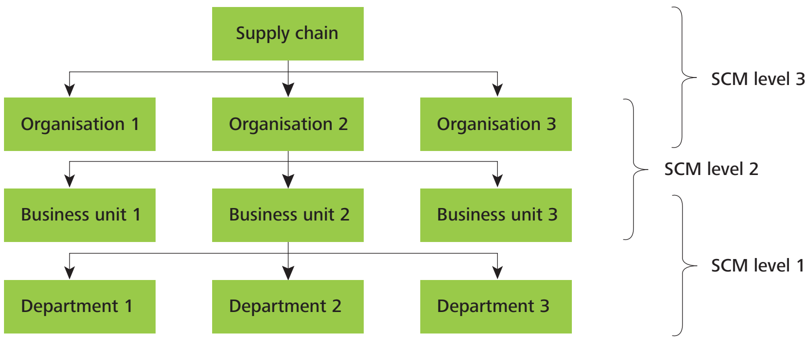
It should be noted that these three SCM levels are considered to be levels, meaning that in order to get SCM to the highest level, a company usually has to implement it at the lower levels first.

Causes of failure costs

Impact on different phases of the construction process







Conclusion

Therefore in summary, while the results of applying SCM in construction are limited, pilot projects in the UK construction market indicate significantly better performance than conventional projects across a diverse set of performance indicators. The table below shows the impact that SCM has had on the pilot projects, with improvements noted on all performance indicators, highlighting the value that SCM could bring to construction. Current studies show that SCM can reduce failure costs and lead to improvements in overall performance.

KPI	Type	Norm	Sector	Pilots	Percentage
✓	Client satisfaction – product	8 or better	80%	90%	+12.5
✓	Client satisfaction – service	8 or better	74%	86%	+16
✓	Defects	8 or better	68%	87%	+28
✓	Safety	Accidents/100,000 employees	1,172	428	+174
✓	Predictability – construction costs	On target/better	49%	71%	+45
✓	Predictability – project costs	On target/better	50%	64%	+29
✓	Predictability – construction time	On target/better	60%	66%	+10
✓	Predictability – project time	On target/better	44%	69%	+57
✓	Margin	Profit/turnover	5.8%	6%	+3.4
✓	Productivity	MargiValue added/employee x £1,000	31	36	+16
✓	Learning curve cost	▲ Last year	+5%	-2.9%	+7.9
✓	Time	▲ Last year	+1%	-2.4%	+3.4

Source: DTI Construction Statistics Annual 2004

Country profiles

Austria

Market statistics

	2007	2006
GDP (€bn)	273	256
Real GDP growth (%)	3.3	3.2
Total construction industry volume (€bn)	32	30
Share of GDP (%)	11.7	11.8
Number of employees	247,437	240,409
Share of working population (%)	7.4	7.3
Companies active in construction	20,000	N/A

Notes: i) The GDP and real GDP growth figures for 2007 are Economist Intelligence Unit (EIU) estimates. ii) We have updated the actual 2006 construction volume as we used an estimated figure in EPoC 2007, and the construction volume figure for 2007 is estimated.

Trends

Residential construction

Residential construction grew around 7% in 2007, down from the 7.7% increase seen in 2006. Growth in housing production is expected to be slower in 2008, 2009 and 2010, at 3%, 2.5%, and 2.2% respectively. Despite this, the increase in the number of single households and older people living alone; stronger demand for energy efficient buildings to fulfil the Kyoto target; changes in demographics due to immigration; and increased demand to relocate to city locations are all likely to drive demand for housing until 2010.

Up to 44,000 houses were completed in 2007. However, according to the Austrian Institute of Economic Research, 50,000 new houses are needed every year. By 2010, the housing market is expected to be nearing this, building 49,000 houses during the year.

In late 2007, the government confirmed €2bn of housing subsidies for the next six years. These subsidies will be linked to environmental protection measures as part of the government's aim to reduce energy consumption in construction.

Non-residential construction

Non-residential construction also grew during 2007, with drivers including increasing profits and favourable macroeconomic development. Commercial and industrial buildings showed the strongest growth, largely due to the increasing numbers of office buildings being constructed.

Between 2008 and 2010, non-residential construction is likely to grow 2.5% every year. Demand will centre on good infrastructure, centrally-located offices, and buildings designed to high architectural standards. In Vienna in particular, demand for office space is high as occupancy rates have risen steadily since 2004.

The government has also authorised an extensive programme for expanding and refurbishing the country's universities. As part of this, one of the current projects is relocating Austria's largest business university from the ninth to the second district in Vienna.

Civil engineering

Economists are of the opinion that forthcoming infrastructure investments will drive growth in the construction sector. Civil engineering has seen good recent growth – including substantial activity in traffic infrastructure and energy/water works – and is expected to increase by 3.5% each year between 2008 and 2010.

Investment of approximately €11bn has been budgeted for road infrastructure (€5bn) and railways (€6bn). Due to these investment plans, the Austrian Institute of Economic Research believes it is unlikely that the construction industry will collapse in the wake of the mortgage crisis in the US.

Please note that the use of N/A throughout the country profiles stands for not applicable, because information not available. For companies that do not report construction revenues separately, sales and construction revenues have been assumed to be the same.

The need for investment is high, especially in the rail sector. Expansion of the Western route – the rail network from Vienna to Munich – must take priority because of bottle-necks and capacity issues on the system. The construction of the Koralm rail route – which will cost €5bn – is an important part of the Baltic-Adriatic corridor, as well as one of the biggest planned infrastructure projects at present.

Major road projects on the horizon include investments in and around Vienna and the North-Eastern bypass, where construction is likely to start in 2009. The expansion of water transport via the Danube is also planned, for which an additional €9m per year has been budgeted.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	STRABAG SE	Dec 07	10,746	10,746	170
2	Porr Group	Dec 07	2,744	2,744	22
3	Alpine Bau GmbH	Dec 07	2,595	2,595	30
4	Swietelsky Baugesellchaft	Mar 07	1,277	1,277	N/A
5	Habau Group	Mar 07	505	505	4

PFI/PPP and concessions

PPPs are on the rise in Austria, mainly for transport infrastructure projects. In the government's programme for 2007-2010, it sets out plans for the creation of a PPP competence centre that will draw on the power and efficiency of the private sector and the controls of the public sector.

The Ostregion PPP scheme – a 30-year design-build-finance-operate-maintain contract worth €988m – has been awarded to the Bonaventura consortium, which comprises Alpine Mayreder, HOCHTIEF, Egis Projects, RREEF and Meridiam. The scheme will be a network of highways to the North, East and South of Vienna, as well as between Vienna and the Czech border.
The project funding will be met by a combination of equity, subordinated debt, mezzanine bonds, monocline-wrapped multiple drawdown senior bonds, and a monocline-wrapped European Investment Bank (EIB) loan.

The Summerau-Spielfeld Railway has been chosen to be the first rail PPP by the Austrian Railway Infrastructure Financing Association. The €840m rail link, which is likely to be completed by 2012, will improve the route from Summerau on the Czech border to Spielfeld on the Slovenian border.

The government is keen to explore using the private sector for healthcare, as well as for transport-related infrastructure such as the Freudenau Container Terminal.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Swietelsky Baugesellchaft	Bahnbau Petri Hoch-Tiefbau GesmbH & Co KG	N/A	N/A	100

Belgium

Market statistics

	2007	2006
GDP (€bn)	331	314
Real GDP growth (%)	2.8	3
Total construction industry volume (€bn)	30	28
Share of GDP (%)	9.2	9
Number of employees	N/A	199,000
Share of working population (%)	N/A	4
Companies active in construction	N/A	N/A

Note: The GDP and real GDP growth figures for 2007 are EIU estimates.

Trends

Belgium's GDP grew by 2.8% in 2007. The country's large construction and mechanical engineering industry, coupled with the ongoing construction boom, helped drive growth for the second year running (reaching 6.8%).

However, as per Euroconstruct's estimate, a slowdown is expected in infrastructure construction, and residential construction is expected to grow at a modest 1.5% in 2008. On the other hand, non-residential construction should hold up well with 4.1% growth, and beyond 2008 both infrastructure and non-residential construction should show signs of recovery.

Despite an EU directive stating that projects worth more than €5m must be publicly-tendered, Belgian construction companies have experienced little increased threat from foreign competition. However, Belgium has long been a competitive market that plays host to a range of foreign companies, including firms from Germany, France and The Netherlands.

But out of all the European markets, the UK and The Netherlands seem to be where the directive is working as planned. One example is the recent achievement of preferred-bidder status for the Tweede Coentunnel project – worth more than €500m – by a consortium including VINCI and Belgian company CFE.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Jan De Nul NV	Dec 07	1,830	1,830	338
2	Besix Group	Dec 07	1,560	1,560	52
3	DEME	Dec 07	1,314	1,314	90
4	CFE (excluding DEME)	Dec 07	811	696	62
5	Interbuild	Dec 07	216	216	N/A

PFI/PPP and concessions

In Belgium, each state has its own rules and regulations for PPP/PFI initiatives and can develop projects in the areas for which it has responsibility. This results in separate federal, Flemish, Walloon and Brussels-Capital PPP markets, all evolving at different speeds and with different priorities (with the Flemish region leading the way). In all of these regions, areas likely to see most development over the next few years will be transport, environmental (with a particular focus on water), social housing and urban regeneration.

The following major PPP projects are under way:

- Noriant – a consortium led by France's VINCI – has been named preferred bidder for a project to design, finance, construct and maintain a 30km stretch of ring road in Antwerp. The 39-year project is expected to begin in late 2009;
- Belgian natural gas network operator Fluxys SA and its French counterpart, GRTgaz, have signed a memorandum of understanding to build and operate a French-Belgian gas interconnector by late 2012;
- German utilities group E.on is planning to construct a coal-fired power station at Antwerp harbour with a capacity of 1,100mw. The station is expected to cost €2bn and become operational in 2014;

- Dialink, a joint venture composed of several companies including CFE, has been selected to build Northern road and rail links at Brussels' Zaventem airport. The design and build project, which is worth more than €300m, should be completed in late 2011. It consists of boring a 1,080m tunnel under the airport runways, extending the existing underground station, and connecting roads between the E19 motorway and the airport's cargo area; and

- a joint venture between Jan De Nul NV and Dutch construction company BAM has been awarded a contract to construct the Schuman-Josaphat railway tunnel in Brussels. The contract is worth €210m and forms part of the Watermael-Schuman-Josaphat project.

M&A activity

Major deals in 2007 included:

- the Royal BAM Group bought all of the shares in Belgian infrastructure builder Betonac, based in Sint-Truiden. Betonac has an annual turnover of some €100m and strong operating results;

- Koninklijke BAM Groep (also Royal BAM) acquired Landsbeeck, a move that strengthened its position in the Flanders and Brussels regions. Landsbeeck specialises in office building projects and had sales of €60m in 2006;

- Heijmans signed an agreement to acquire Groep Verbraeken, pending regulatory approval. If it goes through, the acquisition should reinforce Heijmans' position in the telecoms, gas, electricity and water sectors. Groep Verbraeken specialises in installing piping and connections for gas, water and electricity; and

- CFE bought electro-technical installation firm VMA Infra-Industries and its subsidiary VMA Slovakia for €16m.

Bulgaria

Market statistics

	2007	2006
GDP (€bn)	28	25
Real GDP growth (%)	6.2	6.1
Total construction industry volume (€bn)	4	3
Share of GDP (%)	14	12
Number of employees	187,600	140,600
Share of working population (%)	8	5
Companies active in construction	14,000	11,000

Note: Exchange rate used for 2007 = €1=1.96BGN.

Trends

Bulgaria's entry to the EU gave a strong boost to the construction industry, which recorded 17% growth in 2007. The availability of EU financing for infrastructure projects was one of the main reasons for this significant increase, as well as strong investor interest in residential and commercial property.

Foreign investment in the sector also continued to grow, reaching €727m in 2007 – a rise of 43% from the previous year. Overall, foreign direct investment (FDI) in construction accounted for 11.9% of total foreign investment, and 2.8% of Bulgaria's GDP.

The large-scale infrastructure projects planned for the next few years, and the huge number of planned developments across all property sub-sectors, are expected to fuel future growth. Market analysts have forecast growth of 12-16% per year until 2010 for the overall sector.

Residential construction

According to the Bulgarian National Statistical Institute, 18,864 new housing developments were completed in 2007 – 42% more than the previous year. The largest numbers of complexes were built in the seaside districts of Burgas (5,158) and Varna (3,471), while 3,431 houses were built in Sofia.

Bulgarian house prices increased approximately 20% in 2007. Analysts are expecting this growth to continue through 2008 and beyond, although at significantly lower rates.

Non-residential construction

Developers are showing increasing interest in building shopping centres, with many projects being announced or under construction. For example, in 2007 more than 14 projects were planned for Sofia alone. Developers are also beginning to face challenges around stricter lending requirements from banks and higher interest rates, but there is still no shortage of money in the sector.

There is concern that the sharp decreases in property prices in the UK and Ireland could affect investment from these countries, so efforts are being made to attract more investment from other countries, such as Russia and Scandinavia.

Civil engineering

Major infrastructure developments in 2007 included:

- projects worth just over €9m to refurbish and extend Bourgas' water and sewerage network, with Alpine Mayreder as the contractor;

- government investment in the reconstruction of municipal water mains that will service new retail and business centre Varna Towers. The whole complex is expected to cost €43m and create 1,800 jobs when it opens;

- the government has awarded two contracts worth a combined €62m to a consortium led by Spain's FCC and High-Point Rendel. The contracts relate to the construction of adjacent infrastructure for a bridge that is yet to be built over the Danube;

- construction of a 31km road, costing €11m, to form part of a cross-border connection from Roudozem-Xanthe. The project is expected to be funded by the Phare programme for cross-border co-operation;

- Italian construction group Astaldi and the Bulgarian Ministry of Transport signed a contract for the design and build of a 104km railway to connect Southern Bulgaria to Turkey. The €163m project will be completed by 2010; and

- Russia, Bulgaria and Greece signed a long-delayed deal to build a pipeline to pump Russian oil via the Balkan countries, thereby bypassing Turkey's congested Bosphorus Straits. The 280km pipeline will then carry oil onto the rest of Europe, the US and Asia-Pacific, and could cost up to €1bn.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Roads Holding	Dec 07	76	76	9
2	Trace Group	Dec 07	67	67	4
3	Enemona	Dec 07	50	50	7
4	Glavbolgarstroy Plc	Dec 06	44	44	2
5	STRABAG SE	Dec 07	36	36	N/A

PFI/PPP and concessions

Use of PPPs is expected to grow in areas including transport, the environment, schools, hospitals, prisons and sports facilities. The Ministry of Regional Development and Public Works is also planning to use PPPs in the water sector. However, on a less positive note, there is still a lack of transparency evident within the PPP market.

In 2007, a contract for the Trakia highway (a 35-year Sofia-Bourgas toll road worth €720m) was reopened for negotiations with a consortium of Portuguese and Bulgarian companies, but the project encountered opposition from the EU, which did not agree with the way traffic risk was being allocated in the existing contract. Tenders for a number of road projects were also prepared during the year, including the Struma, Maritsa, Black Sea and Hemus highways.

At the end of 2007, a concession contract was signed for the port in Lom, and a tender was launched for the concession of the Shturkelovo airport in Rousse.

Miscellaneous issues

In June 2007, the government approved amendments to the Roads Act, paving the way for the transformation of the National Road Infrastructure Fund (NRIF). This fund is being transformed into the National Agency for Road Infrastructure, which will report directly to government. The Bulgarian government made these amendments to overcome several failures in NRIF's operations, as well as to improve the co-ordination of works and the efficiency of spend – particularly regarding funds provided by the Cohesion Fund and the European Regional Development Fund.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Equest Investments Balkans Ltd	Rila-Samokov 2004 AD	N/A	26	34
Patishta & Saorazhenia EAD (subsidiary of Elatsite-Med JSC)	Pleven Engineering JSC	N/A	0.6	93
Equest Balkan Properties Plc	Glavbolgarstroy Plc	N/A	N/A	N/A

Note: Exchange rate used for 2007 – €1=1.96BGN.

Croatia

Market statistics

	2007	2006
GDP (€bn)	38	35
Real GDP growth (%)	5.7	4.8
Total construction industry volume (€bn)	4	3.9
Share of GDP (%)	10.5	11.2
Number of employees	137,978	130,375
Share of working population (%)	9.3	9.1
Companies active in construction	10,806	9,185

Note: Exchange rate used for 2007 – €1=HRK7.3.

Construction permits	2007	2006	2005	2004	2003
Total construction permits	12,801	13,575	13,818	12,741	13,647
New construction	10,120	10,658	10,843	10,007	10,674
Reconstructions	2,681	2,917	2,975	2,734	2,973
Total building permits	11,378	12,135	12,253	11,203	11,977
New construction	8,986	9,500	9,569	8,750	9,301
Reconstructions	2,392	2,635	2,684	2,453	2,676
Civil engineering	1,423	1,440	1,565	1,538	1,670
New construction	1,134	1,158	1,274	1,257	1,373
Reconstructions	289	282	291	281	297

Construction permits (€m)	2007	2006	2005	2004	2003
Total value of permits	4,564	3,645	3,319	2,915	3,960
Building construction	3,110	2,633	2,162	1,998	1,869
Residential	1,568	1,513	1,241	1,018	1,003
Non-residential	1,542	1,120	921	980	866
Civil engineering	1,454	1,012	1,157	917	2,091
Transport	1,044	694	688	500	1,763
Telecoms, oil, transmission	289	274	339	337	294
Industrial	83	37	98	55	19
Other	38	7	31	25	15

Note: Exchange rate used for 2007 – €1=HRK7.34, for 2006 –€1=HRK7.32, for 2005 – €1=HRK7.4, for 2004 – €1=HRK7.5, and for 2003 – €1=HRK7.56.

Trends

Croatia's real GDP growth for 2007 was 5.7%, despite a fairly marked deceleration in the second half of the year. Growth in investments and consumer spending were largely responsible for the economic expansion, but Croatia's fiscal deficit remains a key problem.

In 2007, construction activity was sluggish compared to other countries in the region. The industry grew approximately 5% to €4bn, but steady growth is expected for the next few years.

Residential construction

In residential construction, activities continued to centre on Zagreb and the coastal regions. The decline in construction permits continued in 2007, when permits issued dropped 5% to 12,801. This was primarily due to a 6.2% fall in building permits, while civil construction permits fell 1.2%. However, with fewer construction permits being issued, the value of permits increased by 25% to €5bn.

Non-residential construction

The non-residential construction sub-sector grew robustly in 2007, with significant progress being made in office building (mainly in Zagreb), commercial buildings, hotels (mainly on the coast), and industrial construction.

Civil engineering

Civil engineering, mainly consisting of motorway development projects, represented about 60% of the total construction sector during the year. Roughly 260km of motorways were planned for 2007/08, with preliminary plans for a further 150km to start construction in 2009. Other key areas of planned investment are the modernisation of the railway system, the development of Zagreb airport, and the development of Rijeka port.

Croatian construction companies are also expanding their presence in the Balkan region. For example, Ingra has won a tender for the construction of a €10m motorway in Macedonia.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Konstructor-Inzenjering	Dec 07	306	306	4.5
2	Dalekovod Group	Dec 07	254	254	11
3	Viadukt dd Zagreb	Dec 07	193	193	0.7
4	Technikka dd	Dec 07	171	171	7.5
5	STRABAG doo	Dec 07	160	160	N/A

PFI/PPP and concessions

In 2007, a PPP school-building project in Koprivnica worth €30m was completed on schedule, and projects were started in Varazdin – building schools and rebuilding the district palace – and Zagreb – building a stadium worth €200m.

In April 2007, expressions of interest were invited for a PPP that would encompass both the health and tourism sectors.

The county of Krapina and Zagorje and the municipality of Stubicke Toplice are expected to work together to develop a 22-hectare site that will include the Stubicke Toplice Special Hospital for Medicinal Rehabilitation. The county plans to provide assets and initial expenses, while a private partner will be expected to contribute funds for the completion of the development.

A Croatian consortium consisting of Konstruktor, Dalekovod and IGH is to build a €147m sports hall in Split under a PPP arrangement. The sports hall will be used for the World Handball Championships in 2009, as will the €87m sports hall in Zagreb being built by a consortium comprising Ingra and Hungarian company Trigranit.

When it comes to road building, traditional PPP approaches have not always been popular in Croatia due to the risks and associated costs. Therefore, a new method of structuring and funding motorways has been developed to address this situation, which relies on hybrid payment mechanisms within a PPP model.

Looking ahead, the Croatian government is seeking investor initiation for future PPP projects, especially in the agriculture and tourism sectors.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Konel	GP Dubrovnik	N/A	N/A	N/A
Bilfinger Berger AG	Djuro Djakovic Holding dd	Djuro Djakovic Montaza dd	N/A	25
STRABAG SE	Cestar doo	N/A	N/A	75
Bouygues SA	Cesta Varazdin	N/A	N/A	70

Czech Republic

Market statistics

	2007	2006
GDP (€bn)	128	113
Real GDP growth (%)	6.6	6.1
Total construction industry volume (€bn)	20	17
Share of GDP (%)	15.5	15
Number of employees	400,000	436,300
Share of working population (%)	8	9
Companies active in construction	N/A	N/A

Note: i) Exchange rate used for 2007 – €1=CZK27.77. ii) As the EIU has revised real GDP growth for 2006, we have used the latest figure.

Building permits	2007	2006	2005	2004	2003
Residential	47,298	49,777	47,974	51,464	51,948
New construction	19,414	18,448	16,614	16,820	16,465
Reconstructions	27,884	31,329	31,360	34,644	35,483
Non-residential	20,578	24,503	25,668	29,439	28,390
New construction	7,912	9,336	10,100	12,142	11,526
Reconstructions	12,666	15,167	15,568	17,297	16,864
Environmental protection	19,079	25,779	33,691	36,065	36,427
Other construction	30,429	35,332	35,608	36,654	32,574
Total	117,384	135,391	142,941	153,622	149,339

Trends

In 2007, the Czech Republic's GDP increased by 6.6% to €128bn and the Czech crown strengthened. This positive trend looks set to continue, with GDP expected to grow more than 5% over the next three years. Construction volume kept pace with the country's GDP growth in 2007, increasing by 6.7% to €20bn.

In 2007, the planning and building control authorities issued 117,384 permits, down 13% from 2006. In total, 67,876 permits were issued for buildings, down from 74,280 in 2006. This decrease was primarily due to fewer permits being granted for renovations and conversions.

Construction permits granted for environmental protection and other construction also declined by 26% and 14% respectively, while those for new construction saw just a marginal decrease.

Residential construction

The residential sub-sector reported very strong growth of more than 10% in 2007. A total of 41,649 houses were completed, up 38% from 2006. During the year, 43,796 houses were also started – the highest number seen since 1993.

The boom in mortgage lending in 2007 – when mortgages issued rose 24% – fuelled the housing sector, and particularly large-scale projects built by developers. Consumer confidence in the economy and increased earnings contributed to the surge in the number of mortgages taken out.

Non-residential construction

The non-residential construction sub-sector also grew in excess of 10% in 2007 – particularly in the area of industrial and storage buildings – and was driven mainly by private investments.

Civil engineering

The worst-performing sub-sector was civil engineering, which showed negative growth of nearly 2%. The market has been affected for some years by a lack of public engineering contracts – particularly for transport infrastructure – and this problem escalated in 2007. Even though demand for such structures exists and there is no problem sourcing funding, better legal grounding for projects is needed.

However, construction companies are anticipating the announcement of an ambitious government plan to build another 500km of motorways. In September 2007, the government also approved a new six-year road and railway infrastructure development programme. Investment in the project is expected to reach €21bn, of which 70% will be allotted to roads and 30% to railways.

Large sections of the country's railways are being modernised in order to form part of a pan-European railway system. Corridors one and two have been completed, and corridors three and four are likely to be completed by 2016.

Going forward, EU funds of more than €800m per year are expected towards the development of transport infrastructure. However, administrative barriers are still preventing the optimum use of EU funds in the country.

In addition, the construction industry faces a lack of skilled staff and increasing prices for energy and building materials like cement, bricks and steel. These issues are expected to impact the quality and price of construction works in the years ahead.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Skanska CZ AS	Dec 07	1,274	1,274	46
2	Metrostav AS	Dec 07	1,002	1,002	25
3	STRABAG AS	Dec 07	864	864	N/A
4	Stavby silnic a zeleznic AS	Dec 07	695	695	28
5	OHL ZS AS	Dec 07	394	394	12

Note: Exchange rate used for 2007 – €1=CZK27.77.

PFI/PPP and concessions

In May 2007, after analysing a report prepared by the Ministry of Finance about PPPs as procurement vehicles, the government announced that it would support PPPs – along with the Czech PPP Association, PPP Centrum and other ministries.

PPP pilot schemes in the Czech Republic include:

- a €30m military hospital in Prague;
- a €37m prison scheme, likely to be located in Moravia;
- two law courts, which will cost €27m and be located in Usti nad Labem and Karlovy Vary;
- the €67m Brno Leisure Centre;
- a €367m D3 highway project;
- a €90m campus scheme;
- the €77m Pardubice hospital; and
- the €465-€560m Aircon airport rail scheme.

In January 2007, the €765m country-wide e-toll system came into operation – a project that was awarded to Austrian company Kapsch in 2005.

Also during 2007, the government started preparations for the privatisation of Letiste Praha, the operator of Prague-Ruzyne airport. This privatisation might be undertaken via a sale to a strategic partner, a stock market flotation, or a long term lease – with a sale thought most likely at present.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
VINCI Energies CZ sro	Jan Svoboda, Karel Hruska, Jan Jukl and Petr Dlouhy	Diproton sro	N/A	80
Milan Janku (private individual)	Desta Holland	PSJ Holding AS	N/A	50
Eiffage SA	Vaclav Danek, Milan Lasak	TCHAS spol. sro	N/A	90
VINCI SA	Private individuals	Průmstav AS	N/A	75
Syner AS	Private individuals	VHS Vysocina AS	N/A	100

Denmark

Market statistics

	2007	2006
GDP (€bn)	228	220
Real GDP growth (%)	1.7	3.9
Total construction industry volume (€bn)	25	25
Share of GDP (%)	11	11
Number of employees	182,000	172,000
Share of working population (%)	6	6.2
Companies active in construction	~6,300	~6,300

Note: Exchange rate used for 2007 – €0.1342=1DKK.

Trends

Denmark's GDP growth slowed to 1.7% in 2007, after three years of strong economic performance that saw it outstrip many of its main trading partners in the EU. Moreover, the EIU forecasts that Denmark's GDP growth will fall further to 0.9% in 2008, and 0.6% in 2009.

The construction industry accounts for around 11% of Danish GDP, moving in parallel with the overall contraction or expansion of the economy. Construction, after showing negative growth earlier in the decade, has recovered and grown at a steady pace since 2004 – alongside the country's economic expansion. According to a Euroconstruct estimate, the construction sector generated total sales of €25bn in 2007, up around 1.4% from the previous year.

According to Danish government statistics, around 182,000 people were employed in construction in 2007, compared to 172,000 in 2006 – an increase of 6%. The average household has decreased from 2.5 people in 1981 to 2.2 people in 2007, while the average house size has increased from 106.4m² to 110.2m².

The increase in construction and labour costs in Denmark in 2007 was the largest for 20 years. Construction costs were up 6%, while material costs rose 8% and labour costs rose 2%. Overall, total construction costs have increased 96% since 1987, while materials costs have increased 92% and labour costs 109%. The outlook for the Danish construction industry is weak because of the overall economic slowdown.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	MT Hojgaard	Dec 07	1,572	1,572	32
2	E Pihl & Son	Dec 07	814	814	12
3	Per Aarsleff	Sep 07	576	576	20
4	NCC Construction	Dec 07	556	556	N/A
5	Skanska Denmark	Dec 06	446	446	14

PFI/PPP and concessions

PPP/PFI activities in Denmark remained sluggish in 2007. However, structural reforms to merge 14 counties into five bigger regions that are responsible for healthcare and environmental issues are likely to increase PPP opportunities.

In one ongoing PPP project, the government has invited private investors to finance the 18km Fehmarnbelt bridge project, linking Germany and Denmark. The project will cost in the region of €6bn.

M&A activity

No significant M&A activity was recorded in 2007.

France

Market statistics

	2007	2006
GDP (€bn)	1,893	1,809
Real GDP growth (%)	2.1	2.4
Total construction industry volume (€bn)	155	151
Share of GDP (%)	8.5	8.4
Number of employees	1,766,800	1,684,200
Share of working population (%)	6.3	6.1
Companies active in construction	N/A	N/A

Trends

The French construction market was one of the main drivers behind the country's economic growth in 2007. It grew by 2.6% – higher than the overall economic growth rate of 2.1% – although this was a fall from 2006, when it grew 5.6%.

After four years of strong growth for French construction overall, the industry is now facing a potential recession because of financial issues highlighted by the sub-prime crisis. Deutsche Bank expects a significant slowdown in the industry in 2008, predicting volume growth of only 1.4%.

Residential construction

Demand for housing was sluggish until the middle of the year, when the presidential election was held. This was because many households deferred their purchases in case any house buying incentives were introduced by the new president.

Demand picked up after the election and remained buoyant until September 2007, before slowing down due to rising interest rates and credit becoming scarce.

Something that should provide impetus to the sluggish market – as well as bolstering the position of social housing contractors – is the government's announcement that social housing will increase from 41,000 units in 2006 to around 142,000 by 2010.

Non-residential construction

This sub-sector was relatively protected from the slowing market because high public spending drove growth in 2007 – particularly in the area of building new public utilities to support population growth. According to a Deutsche Bank report, Paris' office building sub-sector – which accounts for 85% of non-residential construction – also benefited from limited supply and high occupancy rates, both of which drove demand.

Public spending is expected to decline in 2008 if the French economy slows down in line with deteriorating financial conditions around the globe.

Civil engineering

This sub-sector is highly dependent on local authorities being financially strong because they account for half of all the civil engineering public spend in France.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	VINCI SA	Dec 07	30,428	25,848	1,461
2	Bouygues SA	Dec 07	29,613	21,802	1,376
3	Eiffage SA	Dec 07	12,596	12,596	1,000
4	Fayat	Sep 07	2,180	2,180	101
5	Spie Batignolles SA	Dec 07	1,474	1,474	N/A

PFI/PPP and concessions

The PPP market in France made good progress in 2007, especially in transport and social infrastructure. However, it is estimated that privately-funded initiatives in the public domain still account for only 2% of total spend. To address this, the French government has committed to move the PPP market forward, forming a PPP taskforce in the Ministry of Finance to oversee and authorise projects to go out to tender.

Healthcare is a relatively mature market in France, and the government was initially cautious about using PPPs for new investment in the sector. However, four healthcare projects have been funded via the PPP route so far, and two of them – at Caen and Douai – came to a close in 2007. The government has become more focused on PPPs in light of these initial successes and is pursuing a number of health deals worth around €5bn.

Other recently completed PPP projects include the A19 and A41 toll road concessions, and tranches one and two of the prisons programme. There are also a number of road-building projects under way.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
VINCI SA	Eiffage SA	Cofiroute	802	18
VINCI Construction	N/A	Soletanche Bachy	281	81
Colas	Spie	Spie Rail	267	100
VINCI Construction	N/A	Entrepose Contracting	251	77
Freyssinet (VINCI Construction)	N/A	Nukem Ltd	165	100
Bouygues Construction	N/A	Warings	N/A	100
Bouygues Construction	N/A	Karmar	N/A	100
Colas	N/A	Cesta Varazdin	N/A	70
Colas	N/A	Texrod	N/A	100

Germany

Market statistics

	2007	2006
GDP (€bn)	2,424	2,307
Real GDP growth (%)	2.5	2.7
Total construction industry volume (€bn)	89	84
Share of GDP (%)	3.7	3.6
Number of employees	2,240,000	2,237,000
Share of working population (%)	5.5	5.7
Companies active in construction	N/A	N/A

Note: Construction volume is calculated on the basis that it grew 2% in 2007, as mentioned in the EIU country report from February 2008.

Trends

In 2007, the construction industry delivered a positive contribution to Germany's economic growth for the second year running. Construction investment expanded by 2%, although construction industry volume as a percentage of GDP declined to 6.2% from 6.4% in 2006.

Residential construction

Residential construction activity was weak in 2007. This was largely caused by the withdrawal of tax breaks for new home owners, and an increase in value added tax at the start of the year.

Permits	2007	2006	2005	2004	2003
Buildings/construction work	188,216	247,830	242,102	271,944	298,787
New buildings	123,362	171,485	169,024	188,449	212,334

Non-residential construction

Non-residential construction grew 4.9% in 2007. This was mainly due to a lack of capacity in the manufacturing sector coupled with high demand for production and workshop buildings, as well as retail, wholesale and warehouse premises. Demand for new offices, on the other hand, was sluggish due to the high number of vacant properties. Overall, non-residential construction is expected to grow by 3.8% in 2008.

Civil engineering

In 2007, civil engineering increased 4.2%, driven largely by road toll revenues, and investment is likely to increase by 3.5% during 2008.

The economic recovery in Germany resulted in improved public sector revenues and, as a result, there were indications in 2007 that the investment backlog in transport infrastructure would be addressed.

Municipalities also benefited from increasing tax revenues, which rose to about €40bn. As municipalities are responsible for 60% of investments in public sector construction, this improvement in their finances boosted demand.

Separately, construction companies are being affected by the increase in building material costs. According to the Federal Construction Industry Association, strong demand for copper, steel and crude oil products in emerging markets such as India and China is having an impact on the price of building materials in Germany, which in turn is affecting profit margins.

Permits for building and construction work decreased 24% to 188,216 in 2007, after having shown a marginal increase in 2006. Permits for construction of new buildings also declined 28% to 123,362 in 2007.

The decrease in monthly permits issued continued in 2007, indicating a likely slowdown in construction activity.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	HOCHTIEF AG	Dec 07	18,773	18,773	141
2	Bilfinger Berger	Dec 07	9,222	9,222	134
3	STRABAG AG	Dec 07	2,142	2,142	65
4	Ed. Züblin AG	Dec 07	2,128	2,128	17
5	VINCI Deutschland GmbH	Dec 07	1,720	1,040	N/A

		Permits granted (including work on existing buildings)		Permits granted for new buildings	
Period		Total	Change from previous year (%)	Total	Change from previous year (%)
2008					
	Feb	14,426	13	9,716	13
	Jan	13,100	-1	8,553	-0.2
2007					
	Dec	14,535	-7	9,619	-9
	Nov	14,870	-7	9,626	-9
	Oct	16,215	-8	10,824	-7
	Sep	15,940	-14	10,471	-14
	Aug	17,367	-16	11,270	-19
	Jul	17,955	-14	11,573	-15
	Jun	16,727	-19	10,843	-18
	May	17,434	-23	11,498	-23
	Apr	15,916	-25	10,316	-30
	Mar	15,194	-41	10,186	-46
	Feb	12,811	-45	8,570	-51
	Jan	13,252	-48	8,566	-57

PFI/PPP and concessions

The German government generally puts major infrastructure projects out for tender to the private sector. Therefore PPPs, though not yet common, may become more so. In July 2005, parliament passed a bill to facilitate the creation of such partnerships that allows, for example, the construction of roads by private companies. In April 2007, the cabinet also passed an investment law that would allow for the creation of infrastructure funds to mobilise private capital for PPPs.

Road sector PPPs have attracted several international players to the German market because it is considered to be a highly stable investment destination.
A consortium including Bilfinger Berger (42.5%), Johann Bunte (42.5%) and the UK's John Laing (15%) won the concession for the reconstruction of the A1 motorway in Lower Saxony – the largest-ever PPP scheme for a German motorway. The design-build-finance-operate contract is worth €650m and involves expanding 72km of motorway from two to three lanes in each direction.

The Fluor consortium (Fluor Infrastructure BV, BAM PPP, Trapp Infra, Egis and Berger Bau) has been awarded a 30-year concession contract for the A8 motorway between Augsburg and Munich. The project involves the reconstruction and widening of 37km of motorway by December 2010, and the operation and maintenance of 52km of motorway over the concession period.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
ACS	HOCHTIEF AG	N/A	1,229	25
PFI Infrastructure Co Plc	HOCHTIEF AG	HOCHTIEF PPP Schools Capital Ltd	13	49
STRABAG AG	Baugesellschaft Claus Alpen GmbH	N/A	N/A	100
STRABAG AG	Gebr. von der Wettern GmbH	N/A	N/A	100
Victory Industriebeteiligung AG	Absolute Capital Management Holdings Ltd	M&W Zander Holding GmbH	N/A	100
Absolute Capital Management Holdings Ltd	Springwater Capital LLC	M&W Zander Holding GmbH	N/A	73
ACS	ThyssenKrupp AG	Intecsa-Uhde Industrial SA	N/A	50
Habau Hoch und Tiefbaugesellschaft GmbH	Hans Holzner Hoch-, Tief- & StraBenbau GmbH	N/A	N/A	100
Wayss & Freytag Schlusselfertigbau AG	Royal BAM Groep NV	Wayss & Freytag Schlusselfertigbau AG	N/A	N/A

Note: Exchange rate used for 2007 – €1=US$1.369.

Greece

Market statistics

	2007	2006
GDP (€bn)	229	214
Real GDP growth (%)	4	4.3
Total construction industry volume (€bn)	N/A	N/A
Share of GDP (%)	N/A	N/A
Number of employees	399,500	368,500
Share of working population (%)	8.8	8.3
Companies active in construction	N/A	N/A

Notes: i) As the EIU has revised real GDP growth for 2006, we have used the latest figure. ii) The GDP and real GDP growth figures for 2007 are EIU estimates.

Trends

During the past decade, the Greek construction industry has recorded a healthy volume increase due to community funding for infrastructure improvements, and preparations for the 2004 Olympic Games.

Building activity declined in 2007 for all sub-sectors – new buildings, extensions and new houses – partly because construction volumes across the board have declined since the completion of the various Olympic projects. There has also been a slowdown due to significant tender delays when awarding big infrastructure projects. These delays were largely down to the change of ruling party after the 2004 elections and government efforts towards minimising the country's budget deficit, which led to a reduction in public spending. Despite this, an increasing use of PPPs for infrastructure development is likely to counter any negative impact.

In 2007, the government introduced a new legal framework for awarding public contracts, under which projects were awarded to the lowest bidder. This increased competition and led construction companies – particularly smaller firms – to bid for projects at significantly discounted rates, thus putting pressure on margins.

Building activity	2007	2006	2005	2004	2003	2002
New buildings	41,790	45,390	56,341	43,431	45,233	45,195
Extensions	16,604	17,541	17,596	17,175	16,774	17,143
New houses	103,865	125,368	195,206	122,135	127,008	128,236

However, in 2008, this pressure started to ease because several new high-margin build-own-operate-transfer projects were started, and many of the low-margin projects reached completion.

The government has signed 13 operational programmes with the European Commission (EC) that mean Greece will receive assistance from the EU until 2013 – €4m coming from the Cohesion Fund, and €17bn from Structural Funds.

The construction outlook for 2008 is positive in the context of the third and fourth European Community Support Frameworks, under which new large-scale public projects are expected to be tendered.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Technical Olympic SA	Dec 06	2,225	2,171	-218
2	Hellenic Technodomiki TEB SA	Dec 07	915	810	130
3	J&P-Avax SA	Dec 07	683	663	25
4	GEK Group of Companies	Dec 07	446	386	38
5	Mochlos SA	Dec 07	374	374	2

PFI/PPP and concessions

The government's PPP committee has given the go-ahead to 18 new PPP packages worth €2bn, increasing the total value of approved projects to €6bn. Moreover, the government is investigating the merit of tendering new public infrastructure projects through PPPs, such as:

- the development of a pan-Hellenic fibre optic network, budgeted at €2bn;
- the renovation of peripheral airports and the construction of a new airport in Heracleon, Crete; and
- the extension of the Athens ring road.

The EIB extended a loan of €200m for the Korinthos-Patras-Tsakona Peloponnesian motorway and the upgrade of the Elefsina-Korinthos motorway. This design-build-finance-operate-maintain project will be carried out by Olympia Odos SA in a PPP with the Greek state.

PPP projects under construction

Sector	Project	Value (€m)
Roads	Corinth-Patras-Pyrgos-Tsakona motorway	2,700
Roads	E-65 Central Greece highway	1,100
Roads	Corinth-Tripoli-Kalamata and Leftktro-Sparta motorways	900
Roads	Malaikos to Kleidi highway	995
Roads	Athens (Attika) urban projects	575

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
DS Constructions Ltd	Aegek SA	N/A	102	100
J&P-Avax SA	Athena SA	N/A	67	76
GEK Group of Companies	Atti-Kat SA	N/A	23	21
Hellenic Technodomiki TEV SA	Pantechniki SA	N/A	187	100

Note: Exchange rate used for 2007 – €1=251.32HUF.

Hungary

Market statistics

	2007	2006
GDP (€bn)	101	95
Real GDP growth (%)	1	4
Total construction industry volume (€bn)	10	11
Share of GDP (%)	10	11
Number of employees	330,000	322,000
Share of working population (%)	8.4	8
Companies active in construction	N/A	N/A

Note: Exchange rate used for 2007 – €1=251.32HUF.

Trends

The Hungarian economy grew just 1.3% in 2007, largely due to the government still having structural reforms in place to bring down its high public deficit. The economy is expected to improve from 2008, once the most painful reforms are out of the way. Overall, construction output fell 3% in 2007.

Residential construction

The residential sub-sector showed growth of more than 5%. Over 36,000 housing units were completed in 2007, and more than 44,000 building permits were issued for the construction of new houses. The number of houses put to use was also 7% higher than in 2006. Finally, the government made preparations for the Hungary Home Renovation Programme, which took effect in 2008.

Non-residential construction

The non-residential sub-sector grew 3% in 2007. Strong growth of 6% was reported in office building and commercial construction, but public construction showed very sluggish growth during the year.

Civil engineering

In civil engineering, a significant decrease of more than 10% was reported. In particular, motorway and railway construction suffered major falls due to the government's Convergence Programme. However, 52 new road development projects are expected to be launched at the end of 2008, which should drive an improvement in the construction sector and contribute to overall expected growth of more than 3%.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	STRABAG Èpítő	Dec 07	614	614	N/A
2	Colas Hungary	Dec 06	450	450	N/A
3	Betonùt	Dec 06	403	403	8
4	Hídépítő	Dec 07	372	372	12
5	Vegyépszer	Dec 07	345	345	3

Note: Exchange rate used for 2007 – €1=251.32HUF.

PFI/PPP and concessions

Hungary is one of the most advanced PPP markets in CEE, particularly in the area of road infrastructure. Several of the large motorway projects being financed under PPP schemes (eg, the M5) have been completed. The M6 motorway from Érdi Teto to Dunaújváros – the first real PPP infrastructure project in Hungary – was also completed in 2006. Concessions company M6 Duna Autópálya Koncessziós Zrt, founded in 2004 by Bilfinger Berger, Porr Infrastruktur and Swietelsky International Baugesellschaft, won the concession tender. This €482m project includes the construction, operation and maintenance of the motorway until 2026.

In 2007, a Bilfinger-led consortium won the tender for phase two of the M6 motorway, which is worth around €475m. The tender for phase three, which is worth approximately €1bn, was won by a STRABAG-led consortium. Both of these projects will be completed by Q1 2010 and, like all Hungarian road PPPs, will be done under an availability fee regime.

Also in 2007, a HOCHTIEF-led consortium took over the Budapest Ferihegy airport from BAA at an approximate cost of €2bn for a 75% share. The consortium plans to invest €261m in the airport over the next few years.

In the large-scale infrastructure sub-sector, other opportunities currently under discussion include the extension of the M3 motorway toward the Ukrainian border (tender expected in Q1 2009) and the Budapest airport high-speed rail connection (Ferex). Another area that is expected to see renewed attention is the country's rail infrastructure – including the construction of a number of high-speed tracks – but no decision has yet been reached about how these will be financed.

The Hungarian government is also considering floating shares from the state-owned motorway company on the stock exchange, so that they can be accounted for off-balance sheet and make motorway construction a more genuine PPP.

Finally, the construction of smaller-scale social infrastructure via PPPs – such as prisons, libraries, swimming pools, sports halls and university residences intensified in 2007 as the government started co-financing the availability payments. These projects range from small-scale local swimming pools costing €5-10m, to larger prisons and dormitories costing €50-100m.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Raiffeisen PPP Gmbh	AAK (state motorway management company)	AKA (M5 concession company)	112	40
STRABAG	Raiffeisen PPP Gmbh	AKA (M5 concession company)	257	40
Hidepito	VINCI	N/A	N/A	100

Ireland

Market statistics

	2007	2006
GDP (€bn)	191	176
Real GDP growth (%)	6	5.7
Total construction industry volume (€bn)	34	33
Share of GDP (%)	18	19
Number of employees	277,000	262,700
Share of working population (%)	13	2.5

Trends

The Irish economy grew strongly in 2007, with real GDP growth increasing to 6% from 5.7% in 2006, well ahead of the European average of 2.9%. The construction sector makes a significant contribution (around one fifth) to the economy and has been one of the main growth drivers in recent years.

According to a Euroconstruct estimate, Irish construction sector volume was around €34bn in 2007 and the growth of the past few years started to slow due to deteriorating economic conditions.

The housing sector accounts for around 60% of all construction output in Ireland, and housing completions in 2007 stood at 78,027, a 16.5% decrease from 2006. The global sub-prime crisis and rising interest rates have led to a decline in the residential sector and stabilised house prices, which had risen significantly over the past few years. The Construction Industry Federation has predicted that total housing completions and the number of houses started will decline in 2008. As a result, the government is expected to lose significant tax revenues. However, the civil engineering sector – and particularly road building – continued its growth in 2007 due to increased government spending.

In late 2007, there were 279,000 employees in the construction sector – roughly 13% of the country's workforce. Growth in construction employment is forecast to slow to about 3-3.5% in 2008 and fall to as low as 1% in 2009, if the housing market continues to decline.

Top five construction companies

No	Company	FY end	Total revenue (€m)	Construction revenue (€m)	Net income (€m)
1	John Sisk & Sons Holdings Ltd	Dec 06	1,209	1,209	N/A
2	McInerney Holdings Plc	Dec 07	633	616	48
3	Michael McNamara & Co	Mar 07	611	611	N/A
4	Ascon Contractors	Dec 07	470	381	0.4
5	Pierse Contracting	Apr 07	464	464	3

PFI/PPP and concessions

In 2007, the National Development Plan 2007-2013 was launched, forming the blueprint for future infrastructure and service development in Ireland. The plan is valued at around €175bn and includes approximately €80bn of planned infrastructure spend, of which €13bn will be delivered via PPPs.

From now on, the majority of PPP procurement will be arranged using specialist agencies – NRA (roads), RPA (metro and light rail) and NDFA (health, education and justice). With the introduction of new capital approval guidelines, every project worth more than €23m is now considered for PPP procurement, resulting in PPPs becoming more acceptable and being considered and used for a wider range of projects.

The past year has seen PPP activity increase, with the long-standing Metro North project being launched. The route has been selected and the four shortlisted consortia are currently preparing detailed bids for submission in late 2008. However, the railway order still needs to be approved and planning permission granted for this €4bn project.

The RPA has already started work on the Metro West and Lucan Luas light rail PPP projects. In addition, a separate interconnector rail project in Central Dublin is being planned by Irish Rail.

Activity is also increasing in the education sector. In 2008, the Schools PPP Programme – bundle one for secondary schools – reached the preferred bidder stage, with financial closure expected in Q3 2008. Bundle two (for six new schools) went to market in Q2 2008, and bundle three is expected in late 2008/early 2009.

Furthermore, four bundles of third-level PPP projects are being developed, with the first bundle due in Q4 2008.

As the need for infrastructure increases, the volume of new PPP deals also increases. Strong interest from local and international bidders has continued, with most major international PPP companies being involved across a variety of sectors.

PPP deals closed during the past year include the National Conference Centre, the M50 upgrade, the Dublin waste to energy project, and the Criminal Courts complex. Deals in progress include the Thornton Hall prison project, several co-located hospitals projects, bundle one of the NRA service stations project, the National Concert Hall project, and various waste and housing projects.

Overall, the PPP market looks to be improving rapidly, with many transactions planned. While continued focus needs to be maintained by the public sector to ensure planned projects reach the marketplace, this is not expected to be a significant issue in the short to medium term.

M&A activity

No major mergers or acquisitions took place in 2007.

Italy

Market statistics

	2007	2006
GDP (€bn)	1,535	1,477
Real GDP growth (%)	1.4	1.9
Total construction industry volume (€bn)	142	140
Share of GDP (%)	9.3	9.4
Number of employees	1,974,689	1,949,347
Share of working population (%)	8.5	8.5
Companies active in construction	N/A	N/A

Notes: i) Construction volume is calculated on the basis that it grew 2% in 2007, as mentioned in the EIU country report from February 2008. ii) Due to a lack of available information on the number of employees in construction, an estimate was worked out using the EIU's overall employment figures for 2007.

Trends

Residential construction

Investment in residential construction reached €83bn in 2007, up 1.6% from 2006. New house construction investment rose 0.8% to €40bn, while renovations and conversions increased 2.4% to €43bn due to the introduction of tax reliefs.

According to a study by the Italian National Statistics Institute, residential construction costs rose 0.7% in the first quarter of 2008, compared with the last quarter of 2007. This rise was mainly due to transport costs, which went up 1.9% in the first quarter of 2008 from the previous quarter. Material costs also rose 2.8% and labour costs rose 1.9% from the previous year.

According to the Italian Builders' Association (ANCE), residential construction is expected to grow 1.3% in 2008. Investment in new house construction is predicted to fall 0.1%, while renovations should increase 2.6%.

Non-residential construction

Non-residential construction investments rose just 2.8% in 2007 to €40bn, and ANCE expects a 0.3% fall in investment in the sector in 2008.

The extraordinary rises in the prices of iron and steel are also causing difficulties, especially for those companies involved in public construction works because their contracts are typically negotiated years in advance. As a result, ANCE has asked the government to intervene on such price increases.

A study by Italian research company Nomisma predicts that Italy's construction sector will create 330,000 new jobs by 2015.

Top five construction companies

No	Company	FY end	Total revenue (€m)	Construction revenue (€m)	Net income (€m)
1	Impregilo SpA	Dec 07	2,627	2,627	41
2	Snamprogetti SpA	Dec 06	1,902	1,902	53
3	Astaldi SpA	Dec 07	1,273	1,273	38
4	Impresa Pizzarotti	Dec 07	737	737	23
5	Societa Italiana per condotte d'acqua	Dec 07	729	729	9

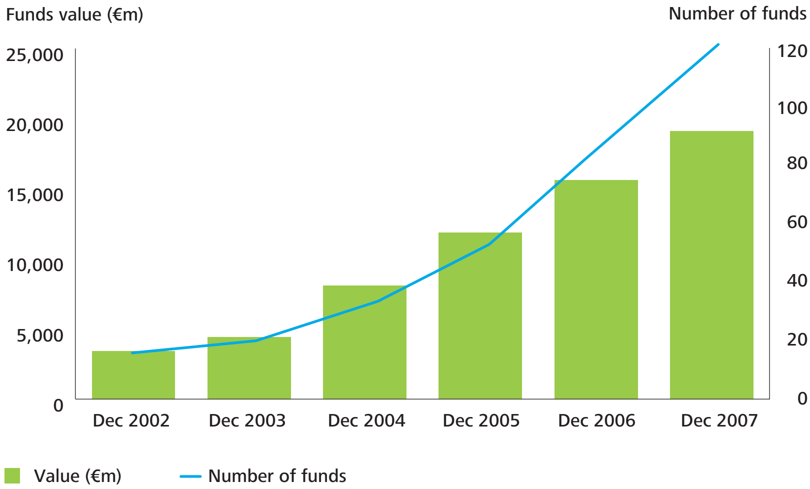
PFI/PPP and concessions

Italy is not in a position to provide high levels of public funding for infrastructure development. However, its public debt decreased more than expected in 2007, and credit for this positive outcome was given to the outgoing Prodi government. It was the first time since 2002 that the deficit fell below the ceiling of 3% of GDP.

However, as the economy is likely to slow down, economists predict that it will be difficult for the Berlusconi government to build on this and bring the deficit down further in 2008. Italy spends about €70m a year to finance its debt, which limits the resources available for growth-boosting measures.

Under these circumstances, Berlusconi's government is likely to be a big supporter of PPPs – and it is also likely to favour laws for private investment in infrastructure. Regarding infrastructure projects, two draft laws have been proposed. One of the laws aims to modify the Code of Public Contracts in order to speed up and simplify the participation of private entities in public works, while the other intends to reform project financing rules.

Growth in funds since 2002



Progress has been made in the underground sector, where the first PPP project has been agreed – Milan's Metro Line 5, a 5.6km driver-less metro system with nine stations. The project is a 32-year concession agreement between the municipality of Milan and Metro 5, estimated to cost €556m.

Real estate funds

A major feature of the Italian construction market is the continued presence of real estate funds, which increased to 109 (+40%) and exceeded €19bn (+23%) in 2007. As of December 2007, of the 109 funds, 82 were reserved for specialist investors (62% of the total invested), and 27 were funds open to the retail market (38%).

Of the Italian real estate fund market, the total asset allocation is divided into 53% for offices, 17% for commercial property, and 30% for residential, tourism, logistics and industrial buildings.

The chart above, shows the growth in funds since 2002.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Uni Land SpA	Gruppo Russo SpA	Immobiliare Italia Servizi SpA	12	60
Uni Land SpA	Pro Val SRL	N/A	N/A	51
Uni Land SpA	Experia Real Estate SRL	N/A	N/A	51
Uni Land SpA	Oniria Immobiliare SRL	N/A	N/A	51
Pec. Co SRL	Generale Prefabbricati SpA	N/A	N/A	35

Note: Exchange rate used for 2007 – €1=US$1.369.

The Netherlands

Market statistics

	2007	2006
GDP (€bn)	567	540
Real GDP growth (%)	3.5	3.4
Total construction industry volume (€bn)	55	51
Share of GDP (%)	9.7	9.5
Number of employees	389,000	384,000
Share of working population (%)	5	5.1
Companies active in construction	85,910	81,690

Trends

The Netherlands' GDP was €567bn in 2007 and real GDP growth was 3.5%. Growth was driven by the expansion of all the main market components, including building production, which rose 6% to €55bn.

Residential construction

The residential building sector saw robust activity in 2007, when 80,000 new houses were completed – an increase of 10% from 2006. The number of new flats in particular increased substantially at 21%.

However, there was also a significant decrease in the sale of new homes due to increasing construction costs and less favourable financing conditions. In an example, the average 5-year fixed mortgage rate has increased from 3.8% in 2005 to 5.5% in 2007, illustrating the reduced borrowing capacity available.

Building permits issued during 2007 fell approximately 9%, while the number of house permits issued was 87,918.

Residential housing	2007	2006	2005	2004	2003
Building permits issued	87,918	96,447	83,273	76,180	72,454
Owner-occupied	64,175	72,530	64,636	58,880	56,606
Rented	23,743	23,917	18,637	17,300	15,848
Houses built	80,193	72,382	67,016	65,314	59,629
Owner-occupied	57,429	52,166	50,116	51,174	46,655
Rented	22,764	20,216	16,900	14,140	12,974
Permits – governmental and housing corporations	25,645	22,978	22,600	20,870	18,220

Construction costs are increasing significantly as a result of rising costs for raw materials and building materials; rising personnel costs due to labour market scarcities; and higher subcontracting costs – all of which are also impacting demand for houses. Residential building costs rose 4% in 2007, while civil engineering costs rose more than 5%, and the production volume of new non-residential buildings grew nearly 15%.

Non-residential construction

In 2007, investment in commercial property increased. Roughly 2.1m m^2 of office space was sold in The Netherlands – almost 5% more than the previous year – as shops and business premises showed a strong recovery and occupancy rates reached a peak of almost 3m m^2. The health and education sectors also started receiving increased government funding during the year.

Demand in the infrastructure market is developing well; production grew by approximately 3% in 2007 to around €14bn, largely as a result of new developments, renovations and maintenance projects.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Koninklijke BAM Groep NV	Dec 07	9,322	9,322	349
2	Koninklijke Volker Wessels Stevin NV	Dec 07	4,828	4,828	146
3	Heijmans NV	Dec 07	3,746	3,746	56
4	Koninklijke Boskalis Westminster NV	Dec 07	1,869	1,869	204
5	TBI Holdings NV	Dec 06	1,658	1,658	36

PFI/PPP and concessions

Current transport policy for 2010 to 2020 includes plans for total infrastructure investments of €81bn, of which private funding would constitute €31bn. As part of this, the Dutch government has identified road projects suitable for design-build-finance-maintain treatment, in line with its view that all transport projects over €112m should be considered for PPP treatment.

One of the largest PPPs – the A10 Coentunnel project – has been assigned to the Coentunnel consortium, which includes local contractor Dura Vermeer, Belgian firm Dredging International, and France's VINCI. This is a €1bn, 30-year contract to build and manage a new tunnel under the River IJ as part of the A10 ring road around Amsterdam.

The Ministry of Defence has signed a contract to build and run the Kromhout army barracks in Utrecht. This €250m project includes the development of offices, accommodation and sports facilities. A consortium – including local contractors Strukton and Ballast Nedam International, Utrecht-based ISS, and UK equity providers John Laing – will undertake this project.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Group Air Cooling Services NV	Heijmans NV	Siegers Elektro NV	175	100
HOCHTIEF AG	Royal BAM Group NV	Flatiron Construction Corp	N/A	100
CVC Capital Partners Ltd/ Koninklijke Volker Wessels Stevin NV	Koninklijke Volker Wessels Stevin NV	N/A	N/A	43
PSJ Holding as /Janku & Vaculik	Desta Holland	PSJ Holding as	N/A	51
Wayss & Freytag Schlusselfertigbau AG	Royal BAM Groep NV	Wayss & Freytag Schlusselfertigbau AG	N/A	100
Janssen de Jong Groep BV	Koninklijke Woudenberg Ameide	N/A	N/A	100
TBI Holdings BV	Hopman Interheem Groep BV	N/A	N/A	100
Van Wijnen Groep NV	Bimo Bouw BV	N/A	N/A	100

Norway

Market statistics

	2007	2006
GDP (€bn)	284	267
Real GDP growth (%)	3.7	2.5
Total construction industry volume (€bn)	35	29
Share of GDP (%)	12	11
Number of employees	N/A	N/A
Share of working population (%)	N/A	N/A
Companies active in construction	N/A	N/A

Notes: i) As the EIU has revised real GDP growth for 2006, we have used the latest figure. ii) Exchange rate used for 2007 – €1=NKr8.02.

Trends

The country's economic performance improved in 2007, with GDP reaching €284bn and real GDP growth of 3.7%. Construction volume also increased to €35bn in 2007, up from €29bn in 2006.

Residential construction

Norway's housing market was characterised by greater uncertainty in 2007, after a sustained period of rising prices, strong demand, and high numbers of houses starting construction. Residential construction decreased during the year as higher interest rates led to a drop in demand and house prices started to fall – with prices in January 2008 2% lower than the same month the previous year.

During 2007, the number of new houses being built fell 2.4% to 32,520. While the inland regions reported growth of 27% in 2007, Oslo and Central Norway declined by 31% and 19% respectively and as a result fewer houses are expected to be started in 2008. Apartments in cities are likely to be the most affected, while detached houses and smaller properties should remain stable.

Non-residential construction and civil engineering

These sub-sectors saw increased activity in 2007 – in both the public and private sectors – largely because demand for commercial buildings remained high. Conversions and renovations in particular grew steadily, and an upward trend was also seen in the heavy construction market, which includes public road and railway infrastructure projects. In January 2008, the road and railway authorities submitted a draft National Transport Plan, including proposals to focus less on new buildings and more on the maintenance and operation of existing buildings instead.

Housing	2007	2006	2005	2004	2003
Buildings completed	30,970	28,554	29,544	23,609	21,405
Buildings started	32,520	33,314	31,608	29,999	23,177
Buildings under construction	38,089	37,525	33,971	33,482	28,084

The construction market in Norway is likely to show growth of 1.5% in 2008. Contributing to this growth will be the non-residential and heavy construction sub-sectors, with residential construction likely to show a fall in activity.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Veidekke ASA	Dec 07	2,505	2,256	123
2	Skanska Norge AS	Dec 06	997	997	26
3	NCC Construction AS	Dec 06	603	603	8
4	AF Gruppen ASA	Dec 07	691	598	22
5	BWG Homes ASA	Dec 07	321	321	25

Note: Exchange rate used for 2007 – €1=NKr8.02.

PFI/PPP and concessions – pre-tender projects as at January 2007

Sector	Project	Value (€m)
Education	Moster Havik School	12
Healthcare	Trondheim Hospital	N/A
Rail	Sandness-Stavanger rail link	200

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
NCC AB	Mardahl Group	Mardahl Pukk AS	N/A	100
VINCI SA	Bremanger Quarry AS	N/A	N/A	23
Larsen Atteraas & Brosvik AS	NCC AB	Aasane Byggmesterforretning AS	N/A	100
Kruse Smith AS	Eco Bygg AS	N/A	N/A	70

Poland

Market statistics

	2007	2006
GDP (€bn)	308	271
Real GDP growth (%)	6.6	6.1
Total construction industry volume (€bn)	35	27
Share of GDP (%)	11	10
Number of employees	724,500	690,900
Share of working population (%)	5	5
Companies active in construction	N/A	N/A

Note: Exchange rate used for 2007 – €1=Z13.78.

Trends

The Polish economy continued to develop in 2007 with real GDP growth reaching 6.6%, up from 6.1% in 2006. Key drivers were low interest rates, an increase in consumer spending, and increasing interest in investments. Over the next few years, solid economic growth is expected, together with further appreciation of the zloty.

The rising affluence of Polish society and increasingly effective application of European funds both contributed to an increase in construction activity in 2007. Overall, construction output grew more than 12%, with similar growth rates being achieved across the residential, non-residential and civil engineering sub-sectors. However, the sector was negatively affected by rising construction costs and workers' salaries growing at more than 10%.

Housing construction	2007	2006	2005
Permits issued	247,700	168,400	123,900
Buildings started	185,100	138,000	105,800
Buildings completed	133,700	115,400	114,100

Residential construction

Residential construction showed good growth in 2007, with the number of building permits issued increasing 47% to 247,700. House completions stood at 133,700 – an increase of 16% from 2006, and the highest since level 1992. Intense construction activity in this sub-sector was one of the reasons behind house prices rising rapidly during the year.

High labour costs, a shortage of qualified workers, increasing material and transportation costs, and serious equipment shortages have delayed the next round of residential housing investments. Labour shortages are particularly problematic; up to 180,000 specialised workers have left Poland in the past two to three years, resulting in a shortage of approximately 60,000 workers.

Non-residential construction

Non-residential construction performed well in 2007, particularly in the storage, commercial and industrial sub-segments. Most of the growth came from the private sector, with the public sector showing limited growth in comparison.

Poland's hotel construction market is expected to increase by two and a half times over the next five years – a necessary development to counter under-investment in this sector in the past. Contributing factors to this predicted increase include Poland co-hosting the Euro 2012 football championships with Ukraine; the country's favourable economic situation; and a steady inflow of funds to aid tourism development. Demand for hotels should also continue to increase – the number of tourists visiting Poland is expected to rise to 20m by 2012/13, up from 16m in 2006.

Civil engineering
The civil engineering sub-sector performed very well in 2007, growing more than 10%. This growth could have been even higher had there not been delays in starting new projects, owing to complicated preparation procedures.

The Construction Programme for National Roads estimated that the Polish government is going to spend €36bn constructing roads and motorways between 2008 and 2012. The Ministry of Infrastructure announced that work would start on the construction of 625km of highways in 2008, and 281km of highways in 2009. In 2008, work on 514km of expressways is also starting, followed by 975km in 2009, and 612km in 2010. The main sources of funding for these projects are expected to be the EU (mainly the Cohesion Fund) and the government.

Investment of €9bn is expected in railways, stations and rolling stock until 2012. This will come largely from the EU, the PKP Group, the government and private investors. In 2008, the PKP Group continued modernising nearly 500km of a planned 1,600km of railroads. Other projects that will be carried out using PKP Group funds – possibly with co-financing from the public sector – include Warsaw Central Station, Krakow Main Station, Wroclaw Main Station, Gdansk Main Station, and Gdynia Main Station.

Investments in airport expansion and modernisation – which are crucial in light of the increase in air traffic that the Euro 2012 football championships will create – should reach €1bn.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Polimex-Mostostal SA	Dec 07	984	984	31
2	Skanska SA	Dec 07	859	859	38
3	Budimex SA	Dec 07	813	813	3.7
4	STRABAG Sp zoo	Dec 07	595	55	18
5	Mostostal Warszawa SA	Dec 07	510	510	14

Note: Exchange rate used for 2007 – €1=Z13.78.

PFI/PPP and concessions
Although PPP legislation was adopted in 2005, only a few PPP projects have been started since then. The main reasons for this have historically included the need for comprehensive project analysis, a lack of know-how and experience in the public sector; a lack of government measures to stimulate PPP developments; and minimal incentives for private partners to invest in projects.

In 2007, many construction firms and investors were disappointed with the rate of progress in the PPP sector. The government cancelled phase two of the A1 Gdansk-Torun project in January 2007. The concession had been awarded to the Gdansk Transport Company SA (GTC), and the government claimed that the cancellation was down to GTC causing a three-year delay.

In August 2007, the Polish roads authority (GDDKiA) issued tender documents for the A1 (Strykow-Pyrzowice section) and the A2 (Strykow-Konotopa section) PPP projects. Ongoing delays have hit the A1 project because GDDKiA is struggling to obtain the necessary environmental approvals.

Also during 2007, the government prepared amendments to current PPP legislation in order to stimulate PPP activity. The main PPP players had previously blamed complex bureaucracy for long time frames for tenders, and the small number of successful projects that had been completed. The amendments are expected to be approved in 2008.

Despite initial setbacks, several large PPP infrastructure projects are expected to be developed in connection with the Euro 2012 football championships. The most anticipated projects include stadiums in Warsaw, Wrocław, Gdańsk, Poznań, Kraków and Chorzów, as well as planned improvements to road, air and rail infrastructure. As the stadiums will continue to be used after the championships, the PPP route should be one of the preferred options for carrying out these projects.

Other PPP projects under consideration include prison schemes and urban regeneration projects in Łódź, Sopot and Katowice, where local authorities plan to revitalise city centres in co-operation with private partners. Some very popular sport and leisure PPP projects include aqua parks in Bydgoszcz, Szczecin and Wągrowiec, sports centres in Kraków and Olsztyn, and stadiums in Chorzów and Łódź. PPPs are also being used in the health sector, with examples including the Wolski hospital extension and the construction of new hospitals in Warsaw and Wrocław. Finally, other PPP projects include conference centres and car parks, such as those in Kraków and Poznań.

Two key acquisitions stood out during 2007. First, STRABAG purchased Poland's fourth-largest road constructor – NCC Poland – for €114m. NCC Poland is a subsidiary of Swedish construction company NCC. Second, Autostrade acquired a controlling stake in Polish toll road company Stalexport – concessionaire of the €100m Katowice-Krakow section of the A4 motorway.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Finanz Industrie Management AG	NCC AB	NCC Roads Polska Sp zoo	114	100
ERBUD SA	Budlex Sp zoo	N/A	13	75
PBG SA	PRID SA	N/A	4	56
Projprzem SA	Lubuskie Przedsiebiorstwo Budownictwa Przemyslowego	N/A	3	100
ERBUD SA	Rembet Plus Sp zoo		2	75
PBG SA	Apartamenty Poznanskie	N/A	0.4	51
Polimex-Mostostal Siedlce SA	Zaklady Remontowe Energetyki Lublin SA	N/A	0.3	7
Autostrade	Stalexport	N/A	N/A	N/A
COMSA Group	PRK7 SA	N/A	N/A	9I.
Pol-Aqua SA	Vectra SA	N/A	N/A	1í.1
Pol-Aqua SA	Mostostal Pomorze SA	N/A	N/A	12
TUP SA	PRD MPRD Sp zoo	N/A	N/A	96
Bouygues SA	Karmar SA	N/A	N/A	N/A
PBG SA	Hydrobudowa Slask SA	N/A	N/A	N/A

Note: Exchange rate used for 2007 – €1=US$1.369.

Portugal

Market statistics

	2007	2006
GDP (€bn)	163	155
Real GDP growth (%)	1.8	1.3
Total construction industry volume (€bn)	24.5	25.2
Share of GDP (%)	15	16
Number of employees	570,800	553,000
Share of working population (%)	11	10
Companies active in construction	>90,000	>90,000

Trends

The Portuguese economy grew 1.8% in 2007, lagging behind other European countries which grew more rapidly at an average of 2.9%. However, Portugal's growth rate was slightly better than the 1.3% it recorded in 2006.

Between 2000 and 2007 the Portuguese economy, corrected for purchasing power parity, fell by 7.3% overall, resulting in average incomes falling from 73% to 67% of the European average. The Portuguese economy's sluggish performance over the past few years is largely due to the high budget deficit and, to some extent, the economic underperformance of important economic partners such as Germany and Spain.

The current conditions are having a serious impact on the construction sector, an important constituent of the economy (representing 15% in 2007). According to Euroconstruct, Portugal's construction sector volume was €25bn in 2007 – a fall of 2.8% from 2006 – and construction sector volume decreased at a compound annual growth rate (CAGR) of 4.1% between 2004 and 2007. Significantly, investment in the construction sector also slowed to 1.8% growth in 2007, down from more than 6% in 2006.

The residential building sub-sector saw negative growth of 1.3% in 2007, largely due to high household debt levels and interest rate rises. Along with civil engineering, the new residential building sub-sector contracted at an average annual rate of 3.5% between 2004 and 2007.

In 2007, the non-residential and civil engineering sub-sectors saw negative growth of 3.8% and 4.7% respectively. In fact, between 2004 and 2007 the non-residential sub-sector shrank 6.5% on average each year due to under-investment.

The outlook for Portugal's construction sector is positive because Euroconstruct and domestic construction companies expect 2008 to be a turning point. This is based on the expectation that the government plans to ensure infrastructure investments will take priority in the run up to the 2009 elections. Important investments already announced include the new international airport and the TGV railway.

According to Euroconstruct, the Portuguese construction sector is expected to grow at a CAGR of 1.5% between 2007 and 2010. Construction output is expected to increase 0.4% in 2008, 2% in 2009, and 2.2% in 2010, and international operations should become increasingly important for Portuguese construction firms.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Mota-Engil	Dec 07	1,402	1,049	98
2	Somague-Engenheria	Dec 07	N/A	726	8
3	Teixeira Duarte	Dec 07	1,012	564	122
4	Soares da Costa	Dec 07	551	480	12
5	Opway	Dec 07	N/A	322	1

PFI/PPP and concessions

The Portuguese PPP market did not make significant progress in 2007, due to the overall slowdown in public and private spending. This was despite the ambitious hospital programme that the government launched in 2002, which included plans for 31 hospitals worth around €21bn to be built by 2014 using a PPP model. The contracts are wide-ranging, covering the design, construction, financing, maintenance and operation of the buildings, and even some clinical services. There has not been much recent progress, but the government still looks likely to stimulate activity before the 2009 election.

Other PPP developments include the government's Priority Investments in Infrastructure Plan, which calls for almost €16bn of investment in infrastructure up to 2009. However, more recent estimates suggest that this will lead to contracts worth as much as €40bn being awarded between 2009 and 2018.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Grupo Soares da Costa SGPS SA	Scuvitas Autoestrades da Beira Interior SA	N/A	56	20
Finertec-Energia e Tecnologia SGPS SA	Sociedade Construtora do Tamega SGPS SA	N/A	25	41
Domingos da Silva Teixeira SA	Casimiro Ribeiro & Filhos Lda	N/A	5	100
Eiffage SA	JJ Tome	N/A	N/A	51
Eiffage SA	TGA SA	N/A	N/A	51

Romania

Market statistics

	2007	2006
GDP (€bn)	122	97
Real GDP growth (%)	6	7.7
Total construction industry volume (€bn)	11	9
Share of GDP (%)	9	9
Number of employees	389,500	352,500
Share of working population (%)	8.3	7.7
Companies active in construction	N/A	N/A

Note: Exchange rate used for 2007 – €1=Lei3.34.

Value of new construction orders	Year on year change in 2007 (%)	2007 (€m)	2006 (€m)	2005 (€m)	2004 (€m)
Residential buildings	27	1,385	1,091	872	279
Non-residential buildings	103	3,467	1,708	1,208	769
Civil engineering	64	7,812	4,753	3,179	1,981
Total	68	12,664	7,552	5,259	3,029

Building permits	2007	2006	2005	2004	2003
Residential buildings (excluding collective buildings)	56,618	51,059	43,542	34,346	27,644
Residential buildings for collectivity	338	156	103	119	111
Administrative buildings	426	297	298	239	251
Other buildings	10,803	11,093	10,184	9,790	10,145

Trends

Romanian GDP growth fell to 6% in 2007, down more than 7% on the previous year. Although inflation improved during the year, lax fiscal policies are pushing domestic demand and generating further current account imbalances. The next few years are expected to see a slight decrease in GDP growth as Romania struggles to meet criteria for entry to the EU.

In 2007, the construction sector remained the most dynamic sector in the Romanian economy. As a result, construction volume increased strongly to more than €11bn, up 33% from 2006. At the end of the year, the Romanian construction market showed the highest growth in the EU, with all of the main sub-sectors – residential, non-residential and civil engineering – growing at more than 30%. Strong growth of more than 20% is expected in 2008 as Romania sees an influx of EU funds, mainly for infrastructure projects.

The value of new construction orders increased from €8bn in 2006 to €13bn in 2007. The highest percentage increase was seen in non-residential buildings, which rose 103% to €4bn, while civil engineering represented more than 60% of new orders. The residential construction sector grew very strongly but it still has a long way to go to remedy the serious housing shortage in Romania.

Building permits issued for residential buildings increased 10.9% to 56,618 in 2007. However, permits issued for other buildings declined marginally, dropping 2.6% to 10,803 permits. The number of houses completed reached 47,299, an increase of 19.3% from 2006.

Residential construction

Due to the rising costs of construction materials and land, housing developers started to focus more on building large-scale residential projects in 2007, rather than individual family houses, as they are more cost-efficient.

Non-residential construction

Non-residential construction experienced very strong growth during the year, driven mainly by rising numbers of commercial developments in areas including retail, offices and logistics.

Civil engineering
Romania is in need of enormous modernisation and infrastructure development after decades of under-investment. The country's National Development Plan for 2007-2013 shows that substantial EU funding is expected to help remedy this, with approximately €20bn likely to come from Structural Funds and the Cohesion Fund.

Over the next few years, investment of approximately €4bn in transport infrastructure is expected. Part of this will go toward the government's ambitious road infrastructure goals – including plans to extend the country's motorway network to 1,950km by the end of 2013.

Major infrastructure projects include:

- the Bucharest-Brasov-Arad (Bors) motorway, which will create a road link with Western Europe at a cost of more than €7bn;
- a motorway linking Bucharest with Black Sea harbour Constanta. The first two phases of this project have been completed and are functional, and the whole project is expected to cost €350m;
- Bucharest's outer ring road is planned to start in 2009 and will take three years to complete. The road will be 101km and cost €1bn, including land;
- ring roads for other key cities in Romania, such as Sibiu (€50m);
- road maintenance, for which the government has budgeted €2bn over the next four years;
- the Bucharest-Danube canal, with outstanding investment of €450m to be sourced;
- Romania is estimated to need investment of at least €16bn to address improvements to the water and sewage systems – especially in rural areas;
- Brasov airport, which will cost roughly €220m; and
- the Bucharest ring railway, which will open in 2011. It will sit almost parallel to the ring road and be approximately 62km long, requiring investment of more than €200m.

A shortage of specialist workers has long been an issue in the construction industry, with workers preferring to work abroad where wages are higher. The shortage amounts to around 150,000 workers, so companies and trade unions are looking to attract labour from countries including Bulgaria, India, the Republic of Moldova, Turkey and Ukraine. Industry associations predict that this will result in around 50,000 new workers being hired.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Hindroconstructia SA	Dec 06	237	237	17
2	STRABAG	Dec 07	191	191	N/A
3	Delta ACM 93 SRL	Dec 06	67	67	N/A
4	Tehnologica Radion SRL	Dec 06	63	63	N/A
5	TMUCB	Dec 06	61	61	N/A

PFI/PPP and concessions
To aid the development of PPPs, legislation was introduced in 2006 regarding the granting of contracts for public works and service concessions.

The Romanian government intends to develop 200km of motorways every year until 2018, with funding likely to come from the government and EU funds. However, with approximately €10bn needed each year, future funds are also likely to come from other sources, such as commercial credits and PPPs.

During 2007, preparations started for the A3 Comarnic-Brasov highway project. This project involves financing, building and maintaining the 58km highway for 23-25 years. Costs for the project – which includes a number of bridges and viaducts – have been estimated at €1bn, with the successful bidder being remunerated via availability payments. Construction is due to start in 2009 and be completed by 2011.

Romania's Ministry of the Environment and Water Management plans to distribute approximately €4bn of EU funds, with most being invested in waste management and improvement of the country's water infrastructure. To do this, a PPP project is already under way at Sanandrei.

Work on airport infrastructure also intensified in 2007. Several airports are in need of modernisation and the government and local authorities are analysing several options for achieving this. Plans include modernising Bacau's airport – for which preparations are at an advanced stage – and building a large new airport at Vadeni with an initial investment of €300m.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
STRABAG	ARL Cluj	N/A	5	100
Euroholding	Marcora Constructii	N/A	12	100
Eurovia (VINCI)	Viarom Construct	N/A	N/A	80
Grupo Prasa	Silva Group	N/A	N/A	N/A
George Becalli	Arcom	N/A	N/A	5

Note: Exchange rate used for 2007 – €1=US$1.369.

Slovak Republic

Market statistics

	2007	2006
GDP (€bn)	55	45
Real GDP growth (%)	10.4	8.5
Total construction industry volume (€bn)	4.6	3.8
Share of GDP (%)	8.4	8.6
Number of employees	237,100	226,100
Share of working population (%)	10.1	9.8
Companies active in construction	N/A	N/A

Note: Exchange rate used for 2007 – €1=Sk33.8.

Trends

The Slovak Republic's real GDP growth increased at a record level of 10.4% in 2007, while unemployment fell from 10.4% in 2006 to 8.4% in 2007. In addition, a declining budget deficit, low levels of debt, and increasing levels of FDI indicated an economy that was flourishing.

The country's construction volume increased to €5bn in 2007 and, after two boom years, the sector showed growth of around 3%. In 2007, the most dynamic sub-sector was residential construction, with growth of more than 20%. Conversely, civil engineering decreased nearly 8%, largely due to falling investments in transport infrastructure.

Residential construction

New houses completed during the year increased 14% to 16,473. The ongoing housing boom was not evenly distributed across regions, with the majority of houses – 35% – being completed in Bratislava. In the less developed regions of Kosice and Banska Bystrica, residential construction was weak, partly due to reduced demand as a result of high unemployment.

Residential property under construction stood at 55,259 at the end of 2007. The volume of housing loans has increased approximately two times in the past three years, while house prices have increased about 40-50% over the past two years – something that might not be sustainable over the long term.

Non-residential construction

Since 2001, office space – concentrated mainly in Bratislava – has almost doubled, and high-quality premises enjoy occupancy rates of around 90%. This trend is expected to continue in 2008/09, with office space likely to grow by at least a third. Strong economic growth should ensure that occupancy rates remain high during this period, but rents might fall from the current levels of €11-12 per m^2 each month.

Civil engineering

The Ministry of Transport has published a plan for road construction over the next four years. The plan involves building 127km of highways at a total cost of €3bn, with funding expected to come from sources including the EU, the government and PPPs.

Over the coming years, the construction industry's prospects should improve slightly as growth in the civil engineering sub-sector picks up.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Doprastav Group	Dec 07	395	395	18
2	STRABAGSTRABAG	Dec 07	371	371	N/A
3	Inzenierske Stavby AS	Dec 07	220	220	5.3
4	Vahostav SK AS	Dec 07	155	155	4.5
5	Skanska Group	Dec 07	149	149	6.7

Note: Exchange rate used for 2007 – €1=Sk33.8.

PFI/PPP and concessions

The Slovak Republic's main priority is to modernise its infrastructure in line with the Trans-European Transport Networks development programme. PPPs in the areas of education, healthcare and justice are also under consideration, while a new football stadium and infrastructure for the Ice Hockey World Championship are needed.

Following the cancellation of plans to privatise Bratislava airport in 2006, the Slovakian government is looking for private sector investment for the airport once again.

In 2007, the National Highway Company (NDS) published prior information notices for the first section of the D1 motorway and the R1 expressway.

Later in the year, the National Council of the Slovak Republic passed widely-debated legislation on extraordinary measures relating to the construction of roads and highways. The legislation should accelerate the construction of PPP road projects because it considerably shortens certain time-limits for planning and building procedures.

It is also worth noting that a number of private companies set up the Slovak PPP Association at the end of 2007.

Finally, the government made preparations for an electronic tolling system network to cover 2,400km of motorways and main roads, and NDS was expected to announce a preferred bidder in 2008.

M&A activity

No major M&A activity took place during 2007.

Spain

Market statistics

	2007	2006
GDP (€bn)	1,050	976
Real GDP growth (%)	3.8	3.9
Total construction industry volume (€bn)	200	186
Share of GDP (%)	19	19
Number of employees	2,697,400	2,542,900
Share of working population (%)	13.3	12.9
Companies active in construction	N/A	N/A

Trends

The Spanish construction industry has been growing continuously for the past 11 years. Construction volume increased to €200bn in 2007, up 7.5% from 2006, while real GDP growth was 3.8%, compared to 3.9% in 2006. Construction is key to the country's economy, and construction volume as a percentage of GDP remained the same at 19.1% in 2007. Employment in construction increased 6% in 2007, with people working in construction making up 13.3% of the country's workforce (as opposed to 12.9% in 2006).

The highest increase in construction was seen in the residential and civil engineering sub-sectors.

Construction volume (€m)	2007	2006
Building construction	150,810	140,293
Residential	71,115	65,750
Non-residential	32,022	30,039
Maintaining and refurbishment	47,673	44,505
Civil engineering	49,381	45,844
Total	200,191	186,137

Residential construction

The housing market constitutes a major portion of the country's total construction output, and a decline in the market would severely impact Spain's economy. Over the past few years, the housing boom has been driven by falling interest rates, growth in employment and household incomes, better borrowing conditions, and tax breaks for home owners. The country's mortgage debt as of December 2007 was 99% of GDP, compared to 29% at the start of the boom in December 1997.

Housing statistics	2007	2006	2005	2004	2003	2002
Houses started	616,000	760,000	716,000	691,000	622,000	543,000
Houses completed	647,000	659,000	590,000	565,000	506,000	520,000

In 2007, the number of houses started fell 19% to 615,976 units, in contrast to 2006 when there was an increase of 6.2% to 760,169. Building permits issued also decreased in 2007, falling 24.4% to 688,851 units, while housing completions fell 1.7%. Total housing stock in Spain stood at 26m in December 2007.

House prices rose 4.8% in 2007; however, for the first time since 1997, they started falling in the first quarter of 2008. Demand continues to decline, with excess supply estimated to be more than 1m houses.

State involvement in infrastructure	2007 (€m)	2008 expected (€m)	Change (%)
Roads	4,297	4,903	14
Railways	5,625	5,939	6
Ports and marine security	1,288	1,673	30
Airports and air security	2,059	2,573	25
Hydraulic works	3,469	4,476	29
Environmental activities	492	508	3
Others	179	198	11
Total	17,409	20,270	16

Civil engineering
From 1995 to 2007, government tenders increased by 15% per annum – reaching €47bn in 2007. Tenders were largely concentrated on railways, roads, urban development, social services and hydraulic works.

Government spending in 2008 – budgeted at €20bn – is mainly focused on infrastructure and, in particular, roads and railways. These investments are set out in the government's Strategic Plan for Infrastructure and Transport (PEIT). PEIT aims to improve Spanish infrastructure by 2020, with plans to invest approximately €249bn in total, or an annual average of €16bn. Investment of €19bn was forecast for PEIT projects in 2008, taking total investment to €65bn by the end of the year – as opposed to initial estimates of €57bn. If this high rate of investment is maintained, the government should be able to meet all of the plan's objectives.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Grupo Ferrovial SA	Dec 07	14,630	14,630	734
2	ACS	Dec 07	21,312	7,389	1,551
3	FCC	Dec 07	13,881	6,957	738
4	Sacyr Vallehermoso SA	Dec 07	5,760	4,863	946
5	Obrascon Huarte Lain SA	Dec 07	3,764	3,648	140

PFI/PPP and concessions
Of the €249bn PEIT budget, 40% will be accounted for by PPPs. A major portion of that will be spent on railways and roads – amounting to €109bn and €63bn respectively – while airports and ports will constitute 6.3% and 9.4% respectively.

Although PEIT investments during 2007 were 15% ahead of plan, PPP investments were 6% below plan because the government is not strongly endorsing PPP schemes. The main contracts awarded in 2007 were eight 20-year concessions totalling approximately €3m for the renewal and maintenance of the so-called First Generation Highways.

Conversely, local government bodies such as municipalities and regional governments showed increasing interest in using PPPs during 2007. For example, an ACS/Dragados-led consortium was awarded a 35-year construction and maintenance concession for part of the CV-50 shadow toll in Valencia for €98m. Municipalities and local government bodies also started using PPP and concession models for hospitals, prisons, car parks and social infrastructure, with significant activity continuing into 2008.

M&A activity
After several years of consolidation, 2006 and 2007 saw Spain's top five construction companies concentrating on diversification and globalisation. For example:

- between 2006 and 2008, ACS acquired 45% of energy company Unión Fenosa for €5bn, 7.2% of energy company Iberdrola for €3bn, and 25% of German constructor HOCHTIEF for circa €1bn. Also, in December 2007, ACS' wholly-owned subsidiary Dragados acquired US constructor Schiavonne for €100m;

- a consortium led by Ferrovial acquired BAA for €17bn. Since then, Ferrovial has focused on divestments rather than acquisitions, selling its property branch Ferrovial Inmobiliaria for €2bn, its share in Sydney airport for €600m, and its share in Budapest airport for €1bn;

- Acciona acquired 25% of Spanish energy company Endesa for €9bn. This acquisition required a public offer, jointly-launched in March 2007 with Italian energy company Enel;

- FCC invested more than €4bn in acquisitions between 2006 and 2007, including most notably the Spanish cement group Corporación Uniland for €1bn, Austrian constructor Alpine for €480m, UK company WRG for €2bn, Austrian waste management company ASA for €230m, and Czech water company Svmak for €170m; and

- after making good investments in 2006 (buying 33% of French company Eiffage for €2bn and 20% of Repsol YPF SA for €7bn), Sacyr was not involved in any significant M&A activities in 2007.

Other significant M&A deals include:

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Dico, Harinsa and Obrum	Merger between three companies	Merger	297	100
Grupo Sando	Agofer SL	N/A	215	100
Obras Publicas e Cimento Armado SA	Sarrion SA	N/A	95	70

Note: Exchange rate used for 2007 – €1=US$1.369.

Sweden

Market statistics

	2007	2006
GDP (€bn)	332	306
Real GDP growth (%)	3	5
Total construction industry volume (€bn)	27	22
Share of GDP (%)	8	7
Number of employees	250,000	N/A
Share of working population (%)	N/A	N/A
Companies active in construction	60,000	N/A

Note: Exchange rate used for 2007 – €1=Skr9.25.

Trends

The Swedish economy continued to grow in 2007, with a GDP of €332bn. Consumer spending and household incomes both rose during the year due to lower unemployment, higher salaries, and reductions in taxes, all of which benefited the housing sector and increased demand, despite higher interest rates. However, in and around the major cities, there were imbalances in terms of supply and demand.

Construction volume reached €27bn in 2007 and a number of large companies continued to dominate the residential, commercial and civil construction sub-sectors.

Residential construction

Houses completed increased by 2% in 2007 to 30,527, while housing stock reached approximately 2.4m units, according to Statistics Sweden. The percentage of houses being built outside urban areas also increased from 46% in 2006 to 48% in 2007.

During the year, 29,700 houses were started, a fall of 34% from 2006. This was primarily due to government subsidies coming to an end in January 2007. With public sector housing companies generally enjoying good financial strength, political pressure is growing to build more tenant-owned flats.

Non-residential construction

Economic growth and rising consumer spending increased demand for hotels, shopping centres, arenas, offices and industrial premises during the year. Construction of shopping centres was a particular growth area, but a slight decline is expected in 2008. Construction of new sports facilities like football stadiums was driven by increased demand and changing consumer habits in terms of leisure activities. Strong growth was also seen in industrial building, driven mainly by metal industry facility requirements. Finally, demand was buoyant from the public sector with respect to day-care centres and school renovation projects.

Civil engineering

Rising costs and reduced public spending and subsidies resulted in lower than expected growth in 2007. This trend looks set to continue in 2008, when costs are expected to rise faster than grants.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Skanska	Dec 07	14,922	14,922	443
2	NCC AB	Dec 07	6,313	6,313	243
3	Peab AB	Dec 07	3,616	3,616	88
4	JM AB	Dec 07	1,376	1,376	180
5	Vägverket Produktion	Dec 06	776	721	24

Note: Exchange rate used for 2007 – €1=Skr9.25.

The government has announced plans to allocate more investment to infrastructure projects in its autumn budget. Projects include parts of the E22 in Skane, the Hjulsta-Kista project in Stockholm, and a further railway project.

PFI/PPP and concessions

The Swedish government has tended to finance infrastructure projects themselves. As a result, the projects that have been proposed by the Swedish Road Administration (Vägverket) and Swedish Rail Administration (Banverket) as suitable for PPP are unlikely to be financed in this way.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
STRABAG Oesterreich AG	NCC AB	NCC Roads Polska Sp zoo	114	100
AF Gruppen ASA	JK Bygg i Goteborg AB	N/A	8	32
Ittur Koncernen	Tallasens Bygg i Ruda AB	N/A	N/A	100
Bravida	Jibex El AB	N/A	N/A	100
Wolseley Plc	Pieter Martinsson AB/Klas Berntsson Invest AB/ Per Stellan AB	Save Tra Forsaljnings AB	N/A	100
Asane Byggmesterforretning AS/Atteras	NCC AB	Asane Byggmesterforretning AS	N/A	100
Peab AB	GeoDells Byggnads AB	N/A	N/A	100

Note: Exchange rate used for 2007 – €1=US$1.369.

Turkey

Market statistics

	2007	2006
GDP (€bn)	480	423
Real GDP growth (%)	4.5	6.9
Total construction industry volume (€bn)	24	20
Share of GDP (%)	5	4.7
Number of employees	1,258,345	1,160,150
Share of working population (%)	5.5	5
Companies active in construction	N/A	N/A

Note: Exchange rate used for 2007 – €1=YTL1.784.

Trends

The global economic downturn seems to have affected the Turkish economy as GDP grew at a rate of 4.5% in 2007, compared to 6.9% in 2006. Also, inflation reached almost double the targeted rate, and the budget deficit outstripped that of 2006. However, over the past five years, the country's GDP has more than doubled and Turkey has become the 17th largest economy in the world. In 2008, Turkey's GDP is forecast to grow at 5.5%, well ahead of the EU average.

The buoyancy of the Turkish economy in recent years has been driven by strong growth in the construction and industrial sectors. The construction boom of the past few years did start to slow in 2007 (with the industry growing 5.4% and then just 0.5% in Q3 and Q4 of 2007) as a result of the global sub-prime crisis. However, the rapid population increase and the need for earthquake-resistant housing projects ensured overall growth and construction volume reached €24bn during the year, up from €20bn in 2006.

In 2007, Turkey was focused on the general election and various other socio-political events. This resulted in some important economic issues and structural reforms being postponed for the next few years, such as several major infrastructure projects led by the public sector. As a result, growth in public sector spending also slowed to 5.2% in 2007, compared to 10.4% in 2006. Growth in private sector spending slowed even more significantly to 6.3% in 2007, down from 20.3% in 2006.

The outlook for the Turkish construction sector is uncertain as reduced liquidity, coupled with increased loan costs, is expected to further slow growth. However, the structural reforms that were postponed in 2007 are expected to be resurrected during 2008, so infrastructure, energy, and transportation projects are expected to provide impetus to the sector.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m
1	Enka Insaat ve Sanayi AS	Dec 07	3,847	3,847	418
2	Tefken Holding	Dec 07	1,062	577	157
3	Gama Holding	Dec 06	505	505	N/A
4	Alarko Holding	Dec 07	534	296	31
5	Ihlas Holding AS	Dec 07	219	20	-7

PFI/PPP and concessions

No significant PPP projects are currently under way in the construction market. However, the government is broadening the law on the build-operate-transfer model to include a wider range of projects, as well as allowing foreign companies to work on construction projects.

M&A activity

No significant M&A activity took place in 2007.

United Kingdom (UK)

Market statistics

	2007	2006
GDP (€bn)	1,833	1,779
Real GDP growth (%)	3	2.8
Total construction industry volume (€bn)	121	118
Share of GDP (%)	6.6	6.6
Number of employees	N/A	2,230,000
Share of working population (%)	N/A	7
Companies active in construction	~250,000	~250,000

Trends

The UK economy grew by a robust 3% in 2007, driven by solid growth in domestic demand. However, with the international credit crunch dampening expansion in the financial services sector and raising risk premiums on lending, domestic demand is moderating. As a result, the EIU has forecast that real GDP growth will slow to 1.7% in 2008 and 1.4% in 2009.

In 2007, the construction sector accounted for around 6.6% of GDP and grew more slowly than the overall UK economy. As the UK construction sector has a strong correlation with the overall economy, the sector is not expected to be immune to the economic downturn.

Longer term prospects in private sector construction activity have deteriorated, with investor caution about future returns and restricted access to funding. The residential construction sector did show growth in 2007, but the UK's strict planning laws acted as a constraint on the building of new homes. House prices climbed steeply up to the second half of the year, but then started falling in line with the beginning of the economic downturn.

According to the Chartered Institute for Purchasing and Supply, the house building sector suffered most in the second half of 2007 which has continued into 2008. In December 2007, the index for house building activity slipped below the 50 mark (which separates expansion from contraction) for the first time since August 2006, indicating that housing demand is weakening. The total new orders index inched up to 58.8 from 58.6 and the employment index increased to 56.8 from 55.9 the previous month, but firms' optimism about business in the coming months fell to 66.3 – its lowest point since September 2001.

Growth over the next year will be largely dependent upon new public sector work and infrastructure spending, offsetting a weakening housing market and a drop in repair and maintenance work. Growth in public sector activity will be centred on the government's priority areas of health, education and new social housing. Work for the London 2012 Olympics is also set to gather momentum over the coming years as major projects start on site. At the same time, higher utilities and transport investments should drive the anticipated recovery in infrastructure work.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Balfour Beatty Plc	Dec 07	11,007	11,007	222
2	Taylor Wimpey Plc	Dec 07	7,050	6,818	-291
3	Carillion Plc	Dec 07	5,809	5,809	112
4	Laing O'Rourke	Mar 08	5,297	5,297	96
5	Barratt Developments Plc	Jun 07	4,478	4,478	442

PFI/PPP and concessions

The PFI/PPP route continues to be one of the main methods used by the government to finance and carry out improvements to public sector facilities. According to the latest HM Treasury report, around 510 PFI projects have been completed and become operational out of a total of more than 625 agreed projects. PFIs have been highly successful in the UK within sectors such as healthcare (70 hospital projects), education (74 projects covering 800 schools), and transport (43 new projects completed). More than 300 other projects have also become operational in sectors including defence, leisure, culture, housing and waste.

In 2007, 57 PFI contracts totalling €8bn were signed, making the total value of PFI projects signed until the end of 2007 €86bn. However, compared to 2006 the number of partnership deals did drop dramatically in 2007 (16%). This could be attributed to the drop in investment in health and school schemes. In particular, the €66bn Building Schools for the Future programme delivered only two schemes in 2007. However, the pipeline of future PFI deals is strong, with €34bn worth of projects due to be signed over the next five years.

The government's agreement to adopt IFRS from this year (which may require it to put PFI/PPP project costs on its balance sheet), coupled with problems arising from Metronet's underground upgrade work, could pose challenges for the future of PFI/PPP projects.

Nevertheless, the UK is the most developed and mature PFI/PPP market in Europe and has become a reference point for governments around the world wishing to use the private sector to finance improvements in public infrastructure.

Overall, M&A activity in the UK construction sector remained strong during 2007. However, there was evidence that the volume of transactions slowed considerably after March 2008, in parallel with the deterioration of market conditions.

While the volume of transactions among construction companies increased in 2007, there was a reduction in the house building sub-sector. This was primarily driven by the onset of deteriorating conditions in the leveraged debt markets, as well as inflationary pressures leading to rising material costs, and subsequent pressures on balance sheets and profit margins.

The volume of domestic corporate buy outs across the industry remained stable compared with the same period last year, and there was growth in the volume of equity-backed management buy outs. The volume of cross-border transactions rose slightly, with a higher proportion of those acquisitions completed within the building products sub-sector.

M&A activity

Buyer	Seller	Deal completed	Deal size (€m)	Share sought (%)
George Wimpey Plc	Taylor Woodrow Plc	Mar 07	4,010	100
Barratt Developments Plc	Wilson Bowden Plc	Feb 07	3,453	100
Bank of Scotland Integrated Finance	Keepmoat Plc	Aug 07	1,151	MBO
Bank of Scotland	Apollo Group	Aug 07	603	MBO
Galliford Try Plc	Linden Holdings Plc	Feb 07	360	100
Gladedale Holdings Plc	Ben Bailey Plc	Jul 07	294	100
Bovis Homes Group Plc	Elite Homes Ltd	Oct 07	106	100
Balfour Beatty Plc	Cowlin Group Ltd	Aug 07	77	100

Note: Exchange rate used for 2007 – €1.470=£1.

Ukraine

Market statistics

	2007	2006
GDP (€bn)	103	85
Real GDP growth (%)	7.7	7.9
Total construction industry volume (€bn)	13	9
Share of GDP (%)	6.9	7.1
Number of employees	N/A	667,900
Share of working population (%)	N/A	N/A
Companies active in construction	N/A	35,875

Note: Exchange rate used for 2007 – €1=HRN7.3.

Trends

The buoyant Ukrainian economy kept up the momentum of 2006 with strong growth of 7.7% in 2007. Similar growth rates are expected over the next few years as the country becomes more closely aligned with the EU. However, the economy does face several challenges, including inflation, taxes and increasing energy exposures.

The construction sector grew faster than the economy in 2007, achieving strong volume growth of more than 10%, slightly up from 2006. Construction prices also rose more than 20%.

Residential construction

The housing sector continued to be the most dynamic sub-sector in the construction market during 2007, showing growth of more than 10%. This impressive growth is expected to accelerate in the years ahead. The number of newly-built homes increased to 95,000 units in 2007, up from 82,000 units the year before, with the highest levels of activity taking place in Odessa, Lviv and the Kiev region. House prices also continued to rise, driven by strong demand and the development of the mortgage lending market.

Non-residential construction

The non-residential sub-sector grew by nearly 10% in 2007. The majority of this growth was concentrated in the office, commercial and industrial sub-sectors, driven largely by a lack of supply and increasing demand.

Civil engineering

The worst-performing sub-sector of the construction market in 2007 was civil engineering, which was held back by limited public funding. Of the activity that did take place, most was focused on road and airport construction. The lack of modern infrastructure remains a key challenge for the country going forward.

The main driver for the Ukrainian construction industry over the next few years will be the country's co-hosting of the Euro 2012 football championships with Poland. The championship will be held in Dnepropetrovsk, Donetsk, Kyiv, Lviv and Simferopol, with Kharkiv and Odessa as reserve cities. It is expected to require massive investment in areas such as transportation, sports infrastructure, accommodation, catering, hospital, and energy supply networks.

Top five construction companies

No	Company	FY end	Sales (€m)	Construction revenue (€m)	Net income (€m)
1	Mostobud VAT	Dec 07	128.5	128.8	N/A
2	Interbudmontazh	Dec 05	85	85	-0.2
3	Kyivmetrobud	Dec 07	82	82	3
4	Poznyakyzhylbud	Dec 05	71	71	5
5	TMM	Dec 07	44	44	9

Note: Exchange rate used for 2007 – €1=HRN7.3.

PFI/PPP and concessions

The Euro 2012 football championships are providing significant impetus to Ukraine's PPP programme – although the country may be starting from too far behind to be able to rely heavily on private capital for its planned investments.

The government estimates that investments in the championships will reach €18bn, with the state planning to invest €2bn and local government bodies planning to contribute almost €1bn. This means that approximately 90% of all investments – €16bn – will need to come from private sources.

In September 2007, the Ukrainian government signed a partnership memorandum with a private company regarding transportation infrastructure. The State Automobile Road Service, Ukravtodor, predicts that PPP projects will start under this umbrella by 2010.

Apart from road projects, other PPPs across all sectors are only at the consideration stage.

Ukraine is in the process of setting up a legal framework for PPP projects in order to encourage their development. For that purpose, it has received multi-lateral technical and consultancy assistance around concession legislation and how to build an effective PPP strategy.

M&A activity

Buyer	Seller	Unit sold	Deal size (€m)	Share sought (%)
Bamtonnelstroy JSC	Metrobud JSC	KievMetro Bud JSC	N/A	N/A
Colberg Division	Innovative Construction Co	N/A	N/A	N/A

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

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