QUARTERLY REPORT Q3/10

INFRASTRUCTURE –
CREATING NEW CONNECTIONS

QUARTERLY REPORT 3/2010

Dear shareholders and respected business associates,

The PORR Group put in another solid performance when viewed in the context of the crisis. However, developments on the markets – in particular our markets in the CEE/SEE region – fell slightly short of expectations owing to the difficult global backdrop. In the course of the crisis it has emerged that eastern Europe in particular will suffer from the economic impact longer than was originally forecast. Despite this, numerous projects were completed in recent months, having been delayed by bad weather at the start of the year. Production output for the first three quarters 2010 amounted to EUR 2.0389bn, which is 3.9% lower than output for the same period last year.

The economic situation improved slightly in the middle of the year and most European states report a return to moderate GDP growth rates. Many economic sectors also underwent a slight upturn, albeit starting out from a very low level. In the construction industry – characterised by its own economic cycle with a delay of around 18 months – the coming months will continue to present serious challenges. A full recovery will only take hold when the general economic backdrop leads to ongoing willingness of private clients to invest. This does not appear to be possible before 2012.

The infrastructure-focused stimulus packages from the Federal Government helped to limit the construction industry's slump in orders in recent months. The planned national savings, which could also affect previously announced infrastructure projects, represent a major danger for the construction industry's recovery. New and promising financing measures – such as budget-neutral PPP models – are likely to play a key role here, in order to meet the pressing need for infrastructure measures while at the same time relieving pressure on the public purse.

The PORR Group was swift to react to the difficult situation on the domestic market as well as in the CEE/SEE region, launching an expansion into the strategically important MENA region (Middle East and North Africa) together with Turkish partner RENAISSANCE. Investment levels in this region continue to be high, both for classic infrastructure projects such as railways and roads as well as for new, forward-looking areas such as energy and environmental engineering. These are areas in which PORR has proven expertise and the necessary experience to realise projects. This will enable PORR to drive its strategy of geographic risk diversification forward.

Production Output

While the majority of industries had already passed their trough by the third quarter of 2010 and are forecasting growth by the end of the year, the construction industry continues to fight the effects of the crisis, owing to its delayed economic cycle. On the construction market there will not be an end to the crisis or stable growth before 2012 at the earliest.

In this environment the PORR Group generated production output of EUR 2.0389bn in the first nine months, a value which is 3.9% below the same period last year. We do, however, expect satisfactory output levels to be met by the end of the year. Foreign output accounted for 36.4% of the total.

Order developments on different markets were highly heterogeneous. Overall, foreign markets were harder hit by the crisis than the market in Austria. Individual large-scale projects such as the new expressway S2 in Poland and infrastructure projects in Romania did however drive up output in these countries. For the first time since the onset of the crisis there was also output growth in the Czech Republic, with road construction mainly responsible for the increase. In contrast, production output slipped back in Germany and Hungary due to the completion of major projects.

The most important foreign markets in the first three quarters of 2010 were Germany, Poland and Switzerland – markets in which PORR has traditionally been strong. In recent years there has also been a steady rise in demand for projects related to energy, environment and traffic construction in Romania and Serbia, countries where PORR now has a solid position to develop these markets. With landfills in the cities of Jagodina and Leskovac, PORR has even established itself as Serbia's largest private waste management company.

Production output on the domestic market held steady in the context of the crisis and amounted to EUR 1.2971bn, which is 2.1% below the same period last year. Looking at federal provinces, Vienna was the most important, recording growth of 19.7%.

In terms of construction volume, the sectors of civil engineering and road construction – which are primarily driven by infrastructure – continued to account for the largest share of total PORR Group output. The completion of large-scale projects in Hungary and the fact that several orders in other foreign markets are still in their initial phase meant that civil engineering was confronted by declines in output. Here major projects such as Vienna Main Station and the Ashta hydro power plant in Albania are ensuring stable basic output levels. The road construction segment also saw positive developments. Despite the crisis, a rise in production output was observed in the first three quarters. While it is true that municipal austerity measures are dampening growth, the Greater Vienna area is also proving to be a guarantee for stable output in the road construction segment.

Production output in the building construction segment varied greatly from region to region. While private clients still seem reluctant to invest on foreign markets, it was possible to increase production output on the domestic market of Austria. Good capacity utilisation in public residential construction is responsible for the growth rates in Vienna.

Current Order Backlog

The development of the order backlog reflects the course of the crisis in the construction industry. While in previous quarters there was still an increase in the order backlog – not least because of the rapidly implemented stimulus packages – it decreased in the third quarter to EUR 2.4044bn. Uncertainty regarding the public budget as well as investment reticence on the part of the private sector led to a modest level of order bookings. This situation does have to be considered alongside current expectations for the coming months. However, some high-volume projects – in particular in the MENA region – are in the pipeline and may come into effect in the short term.

The order backlog on the domestic market saw slightly higher declines than on the foreign markets. The reason for this was the winding down of Austrian stimulus packages mentioned earlier, which had previously gone some way to compensating falls in private investment. Similar to the first quarter, the ratio between domestic and foreign orders was around 53% to 47%.

The weaker order backlog on foreign markets was partly due to the completion of major projects, whereby the political and economic situation is delaying the acquisition of follow-up projects. However, Poland, Switzerland and Slovakia in particular did see rises in the order books. In Albania the major order for the Ashta hydro power plant resulted in a significant order backlog. In contrast, Hungary experienced a sharp decrease in the order backlog.

The order situation in civil engineering and road construction was satisfactory despite the difficult general backdrop. While the order backlog in road construction approached the level of the previous year, in civil engineering it even increased slightly. The domestic market was responsible for this rise, as several railway projects from the stimulus packages were acquired.

In the building construction segment a lack of investment from private principals along with tight public-sector budgets had a negative impact. This resulted in order booking levels below that of the previous year. In any case, capacity remains fully utilised – particularly in the Greater Vienna area – thanks to the satisfactory order backlog from the successful acquisition of projects with durations of several years.

Staff

In the first three quarters of 2010 the PORR Group employed 11,560 staff on average. This represents a slight fall of 1.5% when compared to the previous year. Of total staffing levels, 6,979 were waged workers and 4,581 were salaried employees.

Even in times of global crisis, the PORR Group is committed to having well-trained and highly motivated staff, believing them to be the cornerstone of the Group's success. This is why intensive efforts in HR development are continuing as before. Training apprentices is another area which remains unaffected by the strict cost management measures implemented across the company. This means than when the construction industry recovers, there will be sufficient resources of skilled workers who are qualified and well prepared.

Financial Performance

The PORR Group's financial performance continued to undergo the effects of the economic crisis. The market situation in CEE/SEE was a prominent factor here, continuing to perform below expectations because of the problematic environment. The tight budget situation of the public sector in most foreign markets is putting increasing pressure on profit margins in the construction industry and a long-lasting consolidation of national budgets cannot currently be foreseen.

In order to counter these external conditions and to respond to the crisis quickly and flexibly, PORR has introduced process optimisation measures with the support of renowned external partners. These adjustments in organisational processes and the validation of the structure will be reflected in the cost entries for 2010. The positive impact on earnings created by the implementation of these measures will begin to take effect next year.

Given the experience and skills that the PORR top management has in participating on markets, in particular as regards project business, expectations will remain in line with the current situation and therefore point to modest earnings estimates.

Taken together, every one of these measures – some of which have already been implemented – will continue to make PORR stronger in national and international business and enable the Group to perform competitively in the face of continuing problematic market conditions. Following on from the performance over the course of the year, similar developments can also be expected in the fourth quarter.

Outlook

The global economy appears to have passed its trough in the middle of the year. Whether a rapid recovery will now take place or whether the next years will be dominated by a stable levelling off without significant growth, is a subject which divides economic experts. An ongoing recovery is the only way to bring about renewed investment readiness.

The construction industry continues to have a solid cushion of orders, partly supported by the stimulus packages initiated by national governments. Many private clients have stayed clear of the industry over the past turbulent months. This once again raises the question of whether, in the medium term, the capital markets will offer the opportunities for project financing which are necessary to encourage new investments.

The PORR Group continued to perform in line with expectations in the past months, with current performance reflecting the situation on the general economy. The order backlog has been steadily worked through and partly worked off over the course of the year, as can be seen in the satisfactory production output. These continuous output levels, as well as a somewhat hesitant situation with order bookings, lead us to expect a year-end order backlog with regional variations.

The fact that our planning has traditionally focused on the long term and that the swift decision was taken to compensate falls in orders through further diversification into the MENA region, means that we should have a solid foundation for the coming years. In particular, the first positive signals from our commitment to the MENA region suggest that this promising region will begin to have a favourable effect on output from 2011.

SELECTED PROJECTS 3RD QUARTER 2010

	Location	Country
Civil Engineering/Road Construction		
B64 Preding bypass	Preding	Austria
Rossauer Kaserne underground parking*	Vienna	Austria
Reißeck II pumped storage power plant*	Reißeck	Austria
Danube flood protection Spitz*	Krems	Austria
Ashta hydro power plant	Shkodra	Albania
Finne Tunnel Deutsche Bahn*	Herrengosserstedt	Germany
Osterberg Tunnel	Kalzendorf/Steigra	Germany
Tunnel Eierberge	Bad Staffelstein	Germany
Twingo CCGT Power Plant Nuon Diemen	Amsterdam	Netherlands
Twingo CCGT Power Plant Hemweg 9	Amsterdam	Netherlands
Expressway S2	Konotopa-Puławska	Poland
Motorway bridge, Aabachtalviadukt	Niederlenz	Switzerland
Motorway Cityring Luzern	Luzern	Switzerland
Motorway Oerlikon*	Zurich	Switzerland
Sava Bridge*	Belgrade	Serbia
Zdruzenie ZSR – Belusa rail line*	Zdruzenie-Belusa	Slovakia
Building Construction		
Gertrude Fröhlich-Sandner Education Campus	Vienna	Austria
Hotel and Offices St. Marx	Vienna	Austria
Margaretenstraße 131–135 residential complex	Vienna	Austria
Zachgasse 12 residential complex	Vienna	Austria
Hotel Palais Hansen Kempinski	Vienna	Austria
Bike & Swim residential complex	Vienna	Austria
Münster Rehabilitation Centre	Münster	Austria
Berlin Brandenburg International Airport parking	Berlin	Germany
Renovating Warsaw's main rail station	Warsaw	Poland

* executed as part of a joint venture

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KEY DATA 3RD QUARTER 2010 PORR GROUP

in EUR m	1st - 3rd quarter 2010	change	1st - 3rd quarter 2009
Production output	2,038.9	-3.9%	2,122.5
of which domestic	1,297.1	-2.1%	1,325.0
of which foreign	741.8	-7.0%	797.4
Foreign share as % of total output	36.4	-1.2 PP	37.6
Total order backlog	2,404.4	-7.0%	2,585.6
of which foreign in %	47.2	+0.9 PP	46.3
for the remainder of the current year	724.1	-2.4%	742.0
for the following years	1,680.3	-8.9%	1,843.6
Domestic order backlog	1,270.7	-8.5%	1,388.2
for the remainder of the current year	444.6	+1.6%	437.5
for the following years	826.0	-13.1%	950.7
Foreign order backlog	1,133.7	-5.3%	1,197.4
for the remainder of the current year	279.4	-8.2%	304.5
for the following years	854.3	-4.3%	892.9
Order bookings	1,759.5	-18.0%	2,146.1
of which domestic	1,233.1	-16.7%	1,480.1
of which foreign	526.3	-21.0%	666.0
Average staffing levels	11,560	-1.5%	11,736