STANDARD & POOR'S

CORPORATE RATINGS

Corporate Credit Rating
BB+/Positive/—

Primary Credit Analyst:
Izabela Listowska
Frankfurt
(49) 69-33-999-127
izabela_listowska@
standardandpoors.com

Secondary Credit Analysts:
Maria Bissinger
Frankfurt
(49) 69-33-999-120
maria_bissinger@
standardandpoors.com

Peter Tuving
Stockholm
(46) 8-440-5913
peter_tuving@
standardandpoors.com

Additional Contact: Industrial Ratings Europe
CorporateFinanceEurope@
standardandpoors.com

RatingsDirect
Publication Date
June 29, 2007

Strabag SE

Ratings Detail (As Of 29-Jun-2007)*	
Strabag SE	
Corporate Credit Rating	BB+/Positive/--
Senior Unsecured	
Local Currency	BB+
Corporate Credit Ratings History	
25-May-2007	BB+/Positive/--
30-May-2006	BB+/Stable/--
18-May-2005	BB/Positive/--
15-Feb-2005	BB/Stable/--
28-May-2004	BB/Positive/--
27-Sep-2002	BB/Stable/--
Business Risk Profile	Satisfactory
Financial Risk Profile	Aggressive
Debt Maturities	
At Dec. 31, 2006: Less than one year: €435 mil. Thereafter: €485 mil.	

***Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.**

Major Rating Factors

Strengths:

- Strong market position in road construction in Central Europe and essential parts of Eastern Europe
- Geographically diverse operations, with established foothold in the majority of the new EU member states and EU candidate states, where it will benefit from investment programs to upgrade and expand existing infrastructure networks
- Vertically integrated operations, which provides barriers to entry and strategic access to raw materials
- Stable profitability

Weaknesses:

- Cyclical and competitive industry, inherently exposed to project risk
- High exposure to the challenging German construction sector
- Aggressive financial policies
- Uncertainties over future corporate governance practices, operating strategy, and financial policies, following the entry of a new shareholder

Rationale

The ratings on AustriA-based engineering and construction group Strabag SE are constrained by the cyclical nature of the construction industry, as well as the challenging conditions in the fragmented and competitive German construction market, although they look set to improve. A further negative rating factor is the group's aggressive financial policies and uncertainties over future corporate governance practices, operating strategy, and financial policies, following the entrance of a new shareholder. The ratings are supported, however, by Strabag's leading market position in building construction and civil engineering in Central and Eastern Europe (CEE); vertically integrated operations, which provide barriers to entry and strategic access to raw materials; and good geographic diversification, which is likely to be enhanced further by ongoing expansion plans in Eastern Europe (Slovenia, Croatia, Romania, Bulgaria, and Serbia) and Russia. The ratings are further supported by Strabag's stable profitability, which has been undiluted by the group's strong business growth.

Strabag has demonstrated consistent revenue and earnings growth over the past few years, which is reflected in improved financial measures. In 2006, credit protection ratios improved and are well in line with the current ratings, with funds from operations (FFO) to adjusted debt of 47% and adjusted debt to EBITDA of 2.0x compared with 37% and 2.9x in 2005. Despite meaningful business expansion and challenging market conditions in Germany (the largest market for Strabag by revenues), Strabag has established a track record of profitable operations, with EBITDA margins of 5%-6% and return on capital of 13%-14% on average over the past three years. We expect that profitability measures will continue to be largely supported by strong and profitable Eastern European operations. If these operations eventually soften, which is not expected in the near term, the negative impact should be offset by improved profitability from the slowly recovering German construction market after years of downturn.

Although the planned expansion, in particular in the low transparency of the Russian market, involves potential business risks related to integration of the acquired companies, as well as losses due to contract exposure not revealed in the due-diligence process, we expect it to be executed in a way that the group's profitability will be maintained. This is underpinned by the group's long, solid track record of organic growth and integrating acquisitions.

Strabag has a strong position in infrastructure engineering including roads and tunneling, as well as turnkey building construction in Central Europe in view of EU-sponsored investment programs for expanding and upgrading CEE infrastructure networks. The acquisitions of Germany-based engineering companies Dywidag Holding GmbH (Dywidag) and Zueblin AG in 2005, which increased Strabag's share in the road segment (Heilit + Woerner) and in civil engineering (Zueblin and Dywidag), put the company in a pole position to compete within the recovering infrastructure construction in Germany. The company reported an increased order backlog of EUR8.5 billion at Dec. 31, 2006, compared with EUR7.9 billion at Dec. 31, 2005.

At the end of April 2007, Strabag announced plans to increase its share capital and to subsequently sell a 30% capital stake to the Russian investor, Basic Element Holding, although the transaction is subject to approval from antitrust authorities. The transaction would result in a capital inflow of EUR1.05 billion.

Although the proceeds from the planned capital increase are likely to have only a temporarily positive impact on Strabag's capital structure as we believe that they would be used predominantly to fund expansion, the transaction should have a positive effect on liquidity because it would supply Strabag with substantial resources for planned business growth.

Liquidity

Strabag has sufficient liquidity. At Mar. 31, 2007, it maintained approximately EUR4.4 billion of committed credit and guarantee facilities, which contain some financial covenants. Financial flexibility was further underpinned by sufficient cash balances.

Recovery analysis

Strabag's senior unsecured EUR100 million notes issued at the holding level under an MTN program are rated the same as the long-term corporate credit rating on Strabag, as upstream guarantees from the operating company level avoid structural subordination. Strabag's senior unsecured EUR75 million notes recently issued at the holding level have not been guaranteed at the operating company level and therefore have been rated two notches lower that the long-term corporate credit rating on Strabag.

Outlook

The positive outlook reflects the possibility that the ratings on Strabag could be raised in the medium term if the group's future corporate governance practices, financial policies, in particular its dividend policy, and strategic ambitions become more predictable and less opportunistically driven. Proven and credible governance, strategies, and policies that are consistent with, and executed in a way that sustains Strabag's credit measures could result in an upgrade. In addition, to secure an upgrade, adjusted FFO to debt and adjusted debt to EBITDA should remain above 30% and about 2x. An IPO, which may occur in the near term could also trigger a positive rating action, but would not of itself prompt an upgrade.

Business Description

With annual revenues of EUR9.4 billion, Strabag is one of the largest European construction groups and is involved in all segments of the construction industry. The group is structured around three divisions:

- Road construction: Involved in asphalt and concrete road construction, railway construction, and production of building materials for internal and external supply.
- Building Construction & Civil Engineering: Involved in commercial and industrial building, public building, general and residential building, and various civil engineering projects.
- Tunneling & Services: Involved in tunneling works, project development, and support services.

At the end of April 2007, Strabag announced plans to raise capital and to subsequently sell its 30% share capital to a RussiA-based conglomerate, Basic Element Holding (Basic Element), for EUR1.05 billion in a transaction that is a subject to antitrust approval. Following the transaction, under the new shareholder structure the Haselsteiner family will hold a 35% stake, the Raiffeisen-Gruppe and the UNIQA-Gruppe together will hold 35%, with Basic Element holding the remaining 30%.

Business Risk Profile: Extensive Supply Network Underpins Dominant Market Position

Operating strategy: Prudent contract selection, internal cost control, and risk monitoring mitigate risk

Strabag is a leading, highly vertically integrated, road construction company in Europe. It operates an extensive network of asphalt- and concrete-mixing plants, representing self sufficiency of 70%-100% depending on the geographic market, and gravel quarries and pits (self sufficiency of 50%-100%), which provide direct access to strategic raw material supply. This creates effective barriers to entry in light of customers frequently requiring constructors to offer in-house produced raw materials and due to the strict environmental regulation of the establishment of new quarry sites. The road business provides the group with large contract volumes and a high degree of recurring revenues from maintenance, which are much less volatile than new road construction. The industry is, however, influenced by political issues and public finances. In addition, Strabag has its own machine park and relies only to a limited extent on leasing machinery. This can be an advantage in times of high capacity utilization or when there is a shortage of equipment available for rent, but is a burden when the rate of utilization is low.

As most contracts are generally priced on a fixed-cost basis, the risk of cost overruns lies with Strabag unless delays are due to changes in building specifications, problematic soil conditions, or similar circumstances. The bulk of contracts are won through public tender, where competition is strong and margins tend to be narrow. On the other hand, the group is able to secure contracts on a recurring basis, thereby capitalizing on established long-term relationships with customers.

Prudent contract selection as well as internal cost control and risk monitoring are crucial risk-mitigating factors. For this reason, Strabag's tender teams are fully liable for the execution of projects, not just for winning tenders. The group's decision-making process regarding order acquisition aims to ensure profitability. Risk-management processes involve continuous cost screening and a profit-driven compensation system has been implemented throughout the entire group.

Strabag is able to manage the very largest and complex of civil engineering and construction projects on a sole-contractor basis. The group frequently undertakes technically demanding infrastructure projects on a case-by-case basis in locations beyond its core markets, such as North America and Africa, where it can charge a high margin for specific skills provided. At Dec. 31, 2006, Strabag had a strong and well-diversified order backlog, with the largest 10 projects accounting for 18% of the total. The largest projects in the order backlog were the construction of the Quadrilatero d. Marche motorway and tunnel project in Italy for EUR414 million, the construction of the Niagara tunnel in Canada for EUR320 million, and the construction of the Saadiyat bridge in Abu Dhabi for EUR120 million.

Market position: Presence built up in Germany puts Strabag in a pole position to compete within the recovering infrastructure segment

Strabag's output base has grown by 75% to about EUR10.4 billion (including the Zueblin and Dywidag acquisitions) from about EUR6.0 billion over the past three years. Strabag is now one of the largest players in Europe.

The German construction market is highly fragmented, with the top 10 players accounting for only 10% of the total market. Strabag is one of the three largest construction companies in Germany, together with Hochtief AG and Bilfinger Berger AG, and covers most fields of commercial construction, including road and underground construction, and building and civil engineering. After the acquisition of Heilit+Wörner Bau GmbH (Heilit), a unit of Dywidag Holding GmbH, Strabag strengthened its market-leading position in the German road segment, followed by the Eurovia GmbH, a German subsidiary of France-based VINCI S.A. (BBB+/Negative/A-2). The group's technical, financial, and human resource capabilities enable Strabag to bid for the most complex infrastructure projects, which generally translates into higher margins, as the market for large projects is more concentrated. The acquisition of Zueblin has strengthened Strabag's competence and market share in civil engineering in Germany. The presence Strabag has built up in Germany puts it in a pole position to compete within the recovering infrastructure segment.

The Austrian construction market is relatively concentrated, with the top three companies accounting for about 40% of the market. Strabag is the market leader, followed by Porr AG and Alpine Mayreder Bau GmbH, recently acquired by the third-largest Spanish builder Fomento de Construcciones y Contratas S.A.

As well as being the market leader in road construction in Austria and Germany, Strabag is among the top three in Hungary, the Czech Republic, Slovakia, and Poland. It is also the market leader in asphalt production and has several gravel sites throughout these six countries. The group is expanding its operations in Bulgaria, Romania, Serbia, and Croatia, where the first steps have been taken to set up asphalt-mixing plants and to acquire gravel yards.

Through the cooperation with Basic Element, Strabag should be able to accelerate its expansion into the Russian market (EUR173 million in revenues in 2006). The market for infrastructure projects in Russia is growing by about 20% per year, in particular in those areas in which Strabag has its strengths: bridges, roads, and tunnels.

Diversification: Well-positioned in CEE, mitigating exposure in Germany and Austria

Strabag has good geographic diversification, with a focus on CEE. Germany and Austria accounted for 38% and 20% of Strabag's total output in 2006, respectively. It focus on the Eastern European region (including Russia), where Strabag is well positioned to benefit from continuously healthy investment volumes for upgrading and expanding the Eastern European infrastructure networks, should mitigate Strabag's exposure to Germany and Austria over the medium term.

Strabag is also well-diversified by industry segment, as the group is involved in all segments of the construction industry: residential, nonresidential, public sector, and renovation, which tend to follow somewhat different business cycles.

Chart 1

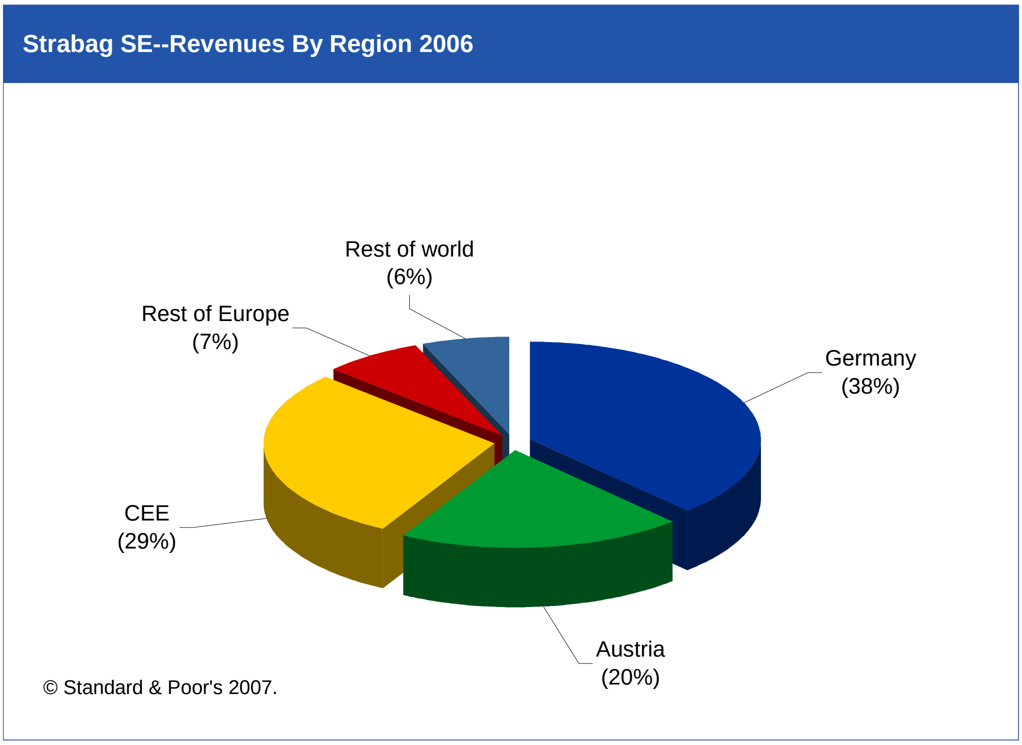
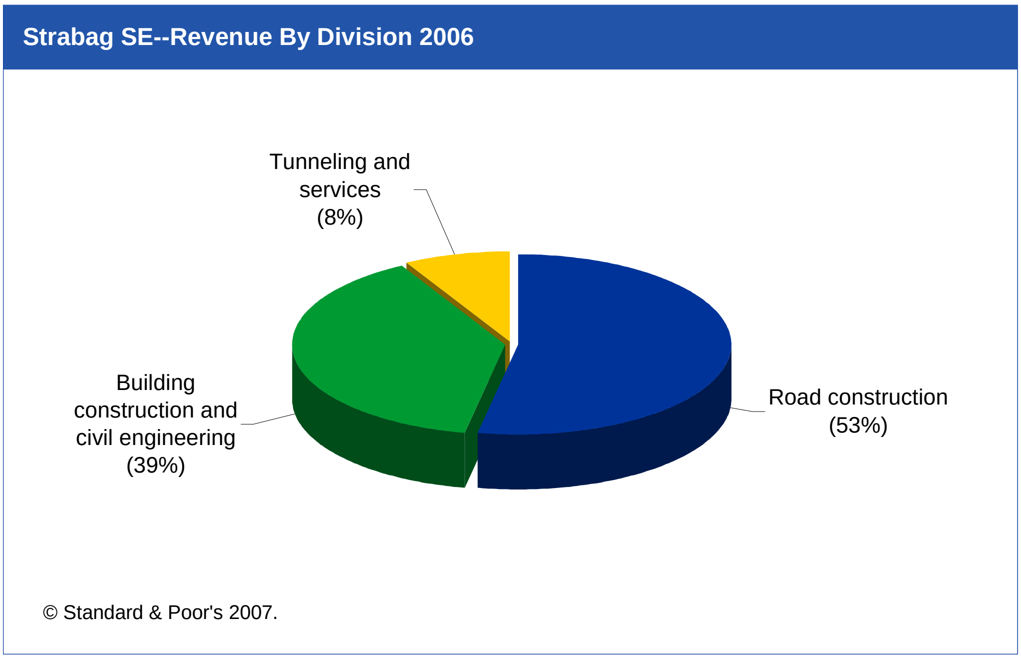


Chart 2



Management strategy: Despite change in ownership, strategic direction remains on course

According to management, following the potential change of the ownership structure, the overall strategic direction of the group will not change. Management activities will continue to focus on: (1) further expansion organically and through acquisitions with a primary regional concentration on CEE and Russia, but also Germany and Austria; and (2) increasing independence from raw material suppliers by intensified acquisition activities and therefore building up its vertical integration.

In addition, in the near-to-medium term, Strabag intends to expand its presently minor support-service activities (such as facility management) and to extend operations into new business fields, such as environmental technologies and rail track construction, all through external acquisitions. Furthermore, Strabag will continue to bid for privately financed infrastructure (PPPs). This should provide for additional construction revenues over the near-term and relatively stable cash flows over the longer term in the form of dividends from the project consortia (if Strabag decides to hold the participation stakes).

Profitability: Solid track record despite business expansion and integration costs

Strabag has a track record of profitable operations, with EBITDA margins at 5%-6% and return on capital at 13%-14% on average over the past three years, despite the meaningful business expansion and integration costs of acquired companies. Profitability measures are expected to be sustained over time, largely supported by strong and profitable Eastern European and Austrian operations. If these operations eventually soften, which is not expected in the near term, the negative impact should be offset by improved profitability from the slowly recovering German construction market after years of downturn. Although the additional planned expansion, particularly in the opaque Russian market, involves business risk related to the integration of acquired companies, as well as potential losses due to contract exposure not revealed in the due-diligence process, we expect this expansion to be executed in such a way that the group's profitability will be largely maintained. This is underpinned by the group's long, solid track record of integrating acquisitions.

Financial Risk Profile:

Accounting

Strabag has reported under IFRS since 2002. In calculating Strabag's 2006 credit ratios, Standard & Poor's made the following adjustments to reported figures:

- We reduced total cash of EUR586 million by EUR200 million, which we consider on average necessary for the company to bridge seasonal working capital fluctuations, among other things, and therefore do not deem structurally available for other purposes. Therefore, gross debt was adjusted for surplus cash of EUR386 million.
- In addition, we capitalized operating leases using the net-present-value method. This increased the company's debt by EUR101 million and its interest by EUR8 million. Strabag mainly leases office and storage space.
- Finally, we have made an adjustment for unfunded pension obligations. Therefore, EUR342 million was added to Strabag's reported debt.

Table 1

Reconciliation Of Strabag SE Reported Amounts With Standard & Poor's Adjusted Amounts*

—Fiscal year ended Dec. 31, 2006—

Strabag SE reported amounts

(Mil. €)	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	919.5	858.0	474.4	474.4	244.7	77.1	446.4	446.4	347.0
Standard & Poor's adjustments									
Operating leases	101.3	—	22.2	8.0	8.0	8.0	14.2	14.2	24.1
Postretirement benefit obligations	342.1	—	—	—	—	14.9	3.5	3.5	—
Surplus cash and near cash investments	-386.27	—	—	—	—	—	—	—	—
Reclassification of nonoperating income (expenses)	—	—	—	—	134.5	—	—	—	—
Reclassification of working-capital cash flow changes	—	—	—	—	—	—	—	-2.69	—
Minority Interest	—	177.9	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	-243.00	—	—
Total adjustments	57.2	177.9	22.2	8.0	142.5	22.9	(225.3)	15.0	24.1

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	976.7	1,035.9	496.6	482.4	387.2	100.0	221.1	461.4	371.1

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Corporate governance/Risk tolerance/Financial policies: Uncertainty regarding new shareholder constrains ratings

Strabag has a target equity ratio of above 20%. At Dec. 31, 2006, this ratio was only about 15% (including minority interests).

Uncertainty over future corporate governance practices and financial policies following the entrance of the new shareholder is a factor constraining the ratings. Strabag's governance practices to date have been strongly characterized by its private ownership and the tight "hands on" management by its largest shareholder, Mr. Haselsteiner, who is the company's CEO. While we have so far seen no evidence to suggest that Mr. Haselsteiner's influence on the company has been anything but positive, we have in the past expressed our concerns in respect to: (i) transparency and a timing of disclosure; and (ii) limited checks and balances on Mr. Haselsteiner's powers (exhibited by aggressive dividend payments in the past).

The potential capital increase of 25% and subsequent purchase of a 30% stake in the company by Basic Element Holding, owned by Mr. Oleg Deripaska, has raised some additional governance concerns regarding uncertainty of Mr. Deripaska's involvement and influence on the company.

Cash flow adequacy: Capital spending is relatively higher than peers

FFO generation improved by 25% to EUR461 million in 2006 compared with 2005. This, in light of relatively stable debt levels, led to stronger FFO-to-debt of 47% in 2006 (after 37% in 2005). Capital spending remains relatively high compared with other peers, owing to Strabag's vertical integration and own machine park, and continues to more than absorb cash flows from operations. Over the past years, capital expenditures have been higher than the depreciation because the figure includes not only maintenance, but also expansion-related capital spending, for example investment in technology at newly acquired companies. Cash outflows for periodic acquisitions were well-balanced with cash inflows from disposals. However, aggressive dividend payouts continue to put pressure on the group's cash flows.

Capital structure/Asset protection: Planned capital increase should have overall positive effect

Leverage ratios improved in 2006: debt-to-EBITDA stood at 2.0x (after 2.9x in 2005) and debt-to-capital at 49%, which is well in line with the ratings. Although the proceeds from the planned capital increase are likely to have only a temporarily positive effect on Strabag's capital structure, the transaction will have a positive effect on liquidity because it supplies Strabag with substantial resources for intended business growth.

Table 2

Strabag SE—Peer Comparison

(Mil. €)	*Strabag SE*	*Balfour Beatty PLC*	*Bauer AG*
Financial year end	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2006
Corporate credit rating*	BB+/Positive/—	—/—/A-2	BB+/Stable/—
Business risk	Satisfactory	Satisfactory	Weak
Financial risk	Aggressive	Intermediate	Aggressive
Sales	9,431	6,664	835
Operating income/Sales (%)	5.3	3.5	15.7
Return on permanent capital (%)	19.8	24.3	17.8
FFO/Total debt (%)	47.2	57.3	38.4
FOCF/Total debt (%)	Negative	54.5	Negative
EBITDA fixed-charge cover (x)	4.8	5.0	5.2
EBIT fixed-charge cover (x)	3.9	6.0	3.4
Total debt/Capital	48.5	45.0	55.5
Total debt/EBITDA (x)	2.0	2.3	2.1

*Ratings at June 29, 2007.

Table 3

Strabag SE—Financial Statistics

	—Year ended Dec. 31—		
(Mil. €)	**2006**	**2005**	**2004**
Revenues	9,430.6	6,955.8	5,216.8
Operating income	496.6	352.7	315.1
Net income	191.4	49.9	69.6
Funds from operations (FFO)	461.4	368.2	258.9
Capital expenditure	371.1	279.8	213.0
Debt	976.7	988.5	893.3
Common equity	858.0	497.2	630.6
Operating margin (%)	5.3	5.1	6.0
Return on capital (%)	19.8	11.7	9.1
EBITDA interest coverage (x)	4.8	4.7	4.9
FFO/Debt (%)	47.2	37.2	29.0
Debt/Capital (%)	48.5	52.2	55.2
Debt/EBITDA (x)	2.0	2.9	2.9

Additional Contact: **Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com**