Private Bankers founded 1590

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Berenberg Capital Markets
Fixed Income Corporates

STRABAG SE

FIBER SCORE: BBB2

Paving the way to stability

MOODY'S	-
S&P	BBB-
FITCH	-

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27 April 2012

Mid cap: construction **ISSUER PROFILE**

400 YEARS – EXPERIENCE BUILDS THE FUTURE

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Paving the way to stability

With € 14.3bn output volume, **BBB- rated STRABAG SE** belongs to **Europe's largest construction companies** with strong presence in Germany, Austria and Eastern Europe.

Competitive quality is largely based on 1) scale and a sound balance sheet; and 2) strategic access to raw materials and highly flexible use of equipment.

1) Being considered as a partner in **large-scale and highly complex and sophisticated projects** not only requires **extensive local presence**, but most of all **well funded know-how** and **sufficient capital resources** to finance these projects. The highly competitive landscape results in poor bidding – one reason why these qualities do not translate into more decent profitability and returns. **SIZE allows STRABAG to more easily digest unprofitable projects** or sustained periods of economic doom (austerity) or possible litigation (delays).

2) STRABAG's **strong backward integration** provides a strategic advantage: **access to raw materials** through its wide but dense network of production facilities in its core markets. **Ownership of 90% of the crucial equipment** and machinery – only a marginal part needs to be leased – helps to move equipment quickly to specific locations and to pass on know-how and technology to local management. This permits a **high degree of flexibility** and efficiency in planning and project execution.

However, STRABAG is exposed to the cyclical construction sector and possesses a medium to high business risk profile given that austerity measures increase cyclical swings, which may force a shift in business from public (2/3 currently) to private (1/3) projects, and in times of low degrees of capacity utilisation, STRABAG may also have to accept losses due to low utilization rates of the equipment. This however is balanced by its sizeable backlog providing visibility well into 2013.

Purpose: STRABAG uses various sources of financing, i.e. promissory notes, syn loans, equity, and prepayments. To optimize its maturity profile, the company has issued several bonds with maturities spread from 2012 to 2018. New bonds are likely used to refinance existing debt as the company has reinvested most of the cash generated to grow the company to a significant player in the construction industry.

Payback: Berenberg does not anticipate STRABAG to become a free cash flow power house. It is likely to continue within its rating headroom to grow the business. Thus, **payback is likely to be achieved by means of refinancing**. If STRABAG sticks to investment grade, access to bond markets is expected to remain good.

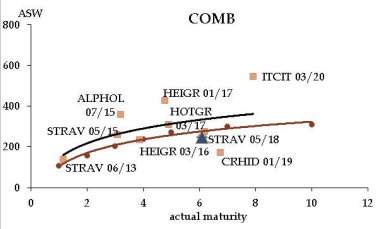
Y/E Dec. 31, EURm	2007	2008	2009	2010	2011	2012e
Sales	9,879	12,228	12,552	12,382	13,714	13,851
EBITDA	596	648	684	735	746	739
EBIT	312	270	283	299	335	305
Net profit	170	157	161	175	195	143
Y/E gross debt	972	2,167	1,976	1,994	2,140	1,990
Y/E net debt (cash)	-994	675	193	42	440	530
Adj. Y/E net debt (cash)(1)	-464	1,431	892	730	1,153	1,240
Equity ratio	40.0 %	30.5 %	32.2 %	31.1 %	30.3 %	29.6 %
Adj. equity ratio(2)	38.3 %	27.4 %	29.0 %	27.9 %	27.0 %	26.2 %
Adj. net debt/ EBITDA	-0.7x	1.8x	1.1x	0.8x	1.3x	1.4x
Adj. EBITDA/ interest	8.0x	6.4x	8.6x	9.0x	9.3x	9.1x
FFO/ gross debt	47 %	25 %	28 %	23 %	21 %	21 %
Gross margin	30.6 %	31.4 %	33.4 %	34.3 %	33.0 %	33.5 %
EBITDA margin	6.0 %	5.3 %	5.5 %	5.9 %	5.4 %	5.3 %
EBIT margin	3.2 %	2.2 %	2.3 %	2.4 %	2.4 %	2.2 %
RoE	5.9 %	5.5 %	5.5 %	5.7 %	6.6 %	4.9 %
RoCE	7.2 %	4.6 %	4.3 %	4.5 %	4.8 %	4.4 %
Operating cashflow	494	690	1,115	690	501	562
Free cashflow(3)	-50	-187	606	137	24	42
FFO	454	535	563	611	607	577
Capex	544	877	509	554	477	520
Rating history(4)	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: Company data, Berenberg Fixed Income Research; Remarks: 1) Net debt incl. off-balance-sheet debt (op. lease) & pension provisions; 2) Equity ratio post goodwill; 3) after maint. capex; 4) the lower respective rating by Moody's/ S&P/ Fitch or Berenberg's FIBER Score (Fixed Income Berenberg Research)

FIBER Score: BBB2

Outlook	st.
STRAV 4 3/4 05/18	**27. Apr 2012**
ASW Spread	251
CDS	n.a.
Price/ yield cash bond (BGN)	103.0/ 4.2
Volume outstanding (EURm)	750.0
Bloomberg:	**STRAV**
Moody's Rating/ Outlook:	--/ --
S&P Rating/ Outlook:	BBB-/ --
Fitch Rating/ Outlook:	--/ --
Financial calendar:	--
Balance sheet data FY 2012 (in EURm):	
Equity:	3096.7
Goodwill adj. equity:	2747.3
LT financial liabilities:	1320.0
ST financial liabilities:	240.0
Provisions:	1866.7
Other liabilities:	3464.6
Off-B/S liabilities:	230.0
Cash:	1460.0

Cash bond vs. CDS or peers



Source: Bloomberg

Historic spread development:

Δ1y	Δ6M	Δ1M
- bps	- 19bps	- 1bps

Business activities:
Construction Group:
Building Construction & Civil Engineering
Transportation Infrastructures

Additional data:

Enterprise value (EURm):	3531.5
Market capitalization (EURm):	2521.5
Total bond vol. outst. (EURm):	425.0
Authorized capital (m pcs):	57.0

Management:
Dr. Hans-Peter Haselsteiner (CEO)

Supervisory Board:
Dr. Alfred Gusenbauer (Chairman)
Mg. Erwin Hameseder (Deputy Chairman)

Shareholder structure:
29.5% Haselsteiner Gruppe
17.0% Rasperia Trading
15.5% Raiffeisen Gruppe
15.0% UNIQA Gruppe

27 April 2012

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Executive summary

STRABAG SE at a glance

- **ATX listed construction company** covering the entire value-added chain in the industry.
- **Strengths & weaknesses**
- **Credit metrics**

One of the leading construction companies in Europe

STRABAG SE is among the leading European construction companies, operating in more than 500 locations in more than 60 countries. With over 76,000 employees (FY 2011) and an output volume of € 14.3bn (FY 2011) is STRABAG one of the largest construction companies worldwide.

The company is structured into three different segments:
1) Building Construction & Civil Engineering,
2) Transportation Infrastructures, and
3) Special Divisions & Concessions

	Building Construction & Civil Engineering	Transportation Infrasturctures	Special Divisions & Concessions	Other	Group
					
Products	Housing Commercial and Industrial Facilities Public Buildings Production of Prefabricated Elements Bridges, Railway Structures, and Power Plants Environmental Engineering	Roads, Earthworks Hydraulic Engineering, Waterways, Dyking, and Paving Landscape Architecture and Development Large-Area Works Sports and Recreational Facilities Protective Structures and Sewer Systems	Tunneling Real Estate- / Infrastructure Development Operation / Maintenance / Marketing of PPP Projects Property and Facility Management International Business, across various business units		
Competitors	In Germany: Bilfinger Berger, Hochtief, Vinci, Bauer In Austria: Porr Group, Alpine Bau, Swietelsky, Habau In Hungary: Colas Hungária, KÉSZ Group, KÖZGÉP Épito, Swietelsky In Poland: Polimex-Mostostal, Grupa Skanska Polska, Budimex, PBG S.A. In Czech Republic: Metrostav, Skanska, Eurovia, OHL ZS In Switzerland: Implenia, Marti, Loisinger Marazzi, Walo Bertschinger				
2010 Production Sites	Number of asphalt mixing facilities: 328 / Number of concrete mixing facilities: 169 / Number of quarries and gravel pits: 181				
Market Positions (Share)	No.1 in Germany (1.9%), No. 1 in Austria (6.6%) , No.1 in Hungary (6.4%), No. 1 in Czech Republic (4.4%), No. 1 in Slovakia (7.9%), No. 1 in Poland (3.2%), No. 3 in Switzerland (1.5%), No. 3 in Romania (0.9%)				
2011 Employees	20,276	31,609	19,342	5,639	76,866
2011 Output Volume €m (Share)	5,142 (36%)	6,701 (47%)	2,315 (16%)	168 (1%)	14,326
2011 Order backlog €m	5,800	3,943	3,597	14	13,354
2011 EBITDA €m	182.6	73.3	127.9	362.6	746.3
2010 EBITDA Margin	3.7%	1.2%	5.1%	n.a.	5.4%

Source: Company data, Berenberg Research

STRABAG covers the entire value-added chain (production of raw materials to the completion of large size projects such as the construction of buildings, bridges, and infrastructure). The main brands within the group are STRABAG, DYWIDAG, HEILIT + WOERNER, and ZÜBLIN AG which produce an annual output of more than € 10bn and employ more than 53,000 workers.

covering the entire value-added chain

Besides its core markets Austria and Germany, STRABAG also enjoys a strong presence in Eastern and South-East Europe through its numerous subsidiaries.

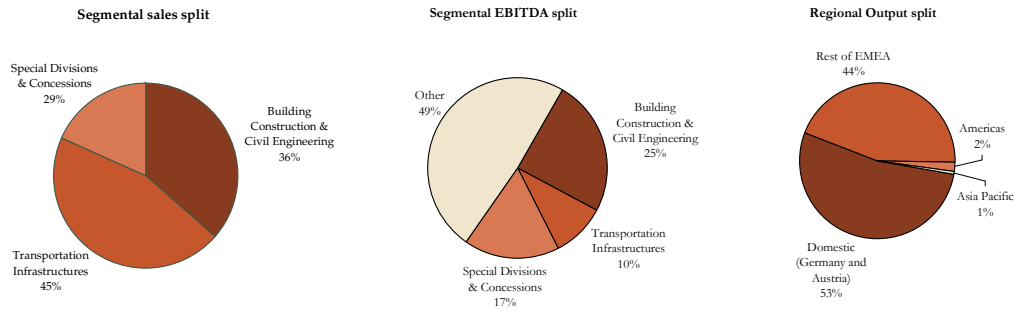
STRABAG operates a dense network of facilities throughout Europe allowing the company to cover large parts of its raw material needs. 82% of asphalt, 38% of concrete, and 20% of stone/gravel needed in 2010 were proprietarily produced by STRABAG. This allows for a high degree of flexibility and independence regarding external suppliers.

backward integration into asphalt, concrete, and stone/gravel

Building Construction & Civil Engineering
Building Construction includes a wide range of projects such as the construction of commercial and industrial properties, airports, hotels, hospitals, office and administration buildings, residential real estate and the production of prefabricated elements. Civil Engineering on the other hand contains complex infrastructure solutions, power plant construction, large-scale bridge building and environmental technology projects. Projects can vary significantly in size.

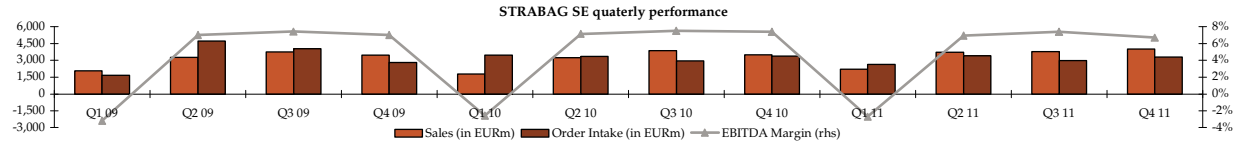
Transportation Infrastructures
TI incorporates road construction using asphalt or concrete and other crucial construction activities needed, namely earth-moving, canalisation, railway construction, waterway construction, dyking, paving, the construction of sports and recreational facilities, safety and protective structures and the building of small bridges. It also includes the production of various construction materials such as asphalt, concrete and aggregates.

Special Divisions & Concessions
Special Divisions contains tunnelling works and speciality foundation/ ground engineering. The Concessions field includes global project development activities in Transportation Infrastructures. The wide range of services offered is completed by the real estate business, which comprises project development, planning to construction as well as the property and facility services business. STRABAG acquired Deutsche Telekom Immobilien und Service GmbH (DeTe Immobilien) in 2008 in order to strengthen its market position in the real estate business. Key objective was to smooth the seasonal and economic cycles of the construction industry.



*Source: 2010 Company data, Berenberg Research, *segmental EBITDA others contains 90% of group depreciation & amortization*

STRABAG's business is cyclical and due to weather conditions also impacted by strong seasonality in sales and EBITDA - depicted in the graph below.



Source: 2010 Company data, Berenberg Research

Strengths

- STRABAG SE maintains the market leading position in its home markets Austria and Germany as well as in various Eastern European countries such as Poland, Czech Republic, Slovakia and Hungary.
- The broad geographical presence allows STRABAG SE to diversify its risk exposure against downturns in specific markets.
- STRABAG SE operates a very dense resource network. Easy access to crucial raw material is secured and dependency on outside suppliers is reduced.
- Broad network of facilities allows the company to move equipment and machinery quickly to specific locations as well as to pass on know-how and existing technologies to local management.
- The company established a solid capital structure which is secured by strong liquidity and a stable shareholder structure.
- S&P upgraded STRABAG in November 2007 to BBB- with stable outlook, elevating the company to "investment grade".

Weaknesses

- The construction industry in general is cyclical and competitive. At the same time STRABAG SE is exposed to high project risks.
- The company invests strongly in growth opportunities.
- Market conditions are likely to worsen due to public austerity measures.
- Strong seasonality: The first two quarters of the year typically have a negative effect on results, which is usually overcompensated by results in the second half of the year.
- In times of low capacity utilisation, losses may incure due to the large amount of proprietary equipment and machinery.

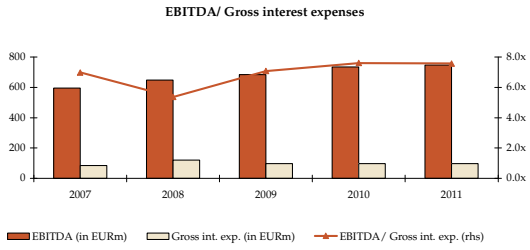
Source: Berenberg Research

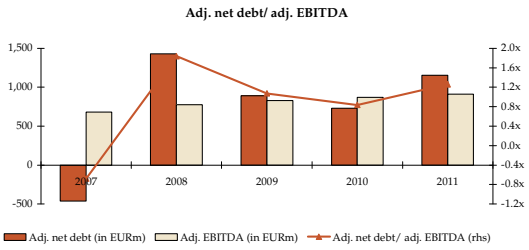
Credit Metrics

STRABAG's credit metrics improved significantly recently. The company managed to continuously grow EBITDA. The **EBITDA interest cover** reached its low in 2008 at 5.4x as both leverage and interest expenses increased strongly. In subsequent years, the ratio fell again to a **very healthy level of 7.8x in 2011 (expected)**.

increase in debt mainly resulted from the full consolidation of the AKA concession company.

The IPO in 2007 resulted in a net cash position. **Adj. net debt/ adj. EBITDA** peaked in 2008 at 1.8x due to the significant debt increase caused by the external growth. In subsequent years the ratio decreased again to **0.8x in 2010** and is expected to remain around 1x if no external growth is tamed.





Source: Company data, Berenberg Research

Investment drivers

Purpose

- **Maturity profile much diversified**
- **Debt instruments funded STRABAG's strong expansion strategy**

STRABAG SE has currently five capital market debt facilities outstanding with a combined amount of € 665m. The company's debt comprises:

- a € 75m bond issued in June 2007 with an annual coupon of 5.75%, rated with BBB-, due June 2012, at Mid Swap +125bp, **STRAV 5 3/4 06/12**
- a € 75m bond issued in June 2008 with an annual coupon of 5.75%, rated with BBB-, due June 2013, at Mid Swap +130bp, **STRAV 5 3/4 06/13**
- a € 100m bond issued in May 2010 with an annual coupon of 4.25%, rated with BBB-, due May 2015, at Mid Swap +220bp, **STRAV 4 1/4 05/15**
- a € 175m bond issued in May 2011 with an annual coupon of 4.75%, rated with BBB-, due May 2018, at Mid Swap +165bp, **STRAV 4 3/4 05/18**
- a € 140m bonded loan issued in March 2012 with two fixed-interest and two variable tranches with terms to maturity of 5 and 7 years.

STRABAG disposed of cash and cash equivalents of almost € 2bn as of FY 2010. Nevertheless, the majority of those funds are not freely available to management for debt repayment, capex or new acquisitions as they are bound to existing projects in execution. Advanced payments received on orders amounted to almost € 850m in 2010, meaning that this cash will be used to finance and work off current projects. Furthermore, provisions amounted to over € 1bn in 2010.

STRABAG still follows a strong expansion strategy. The company is especially eager to increase the amount of backward integration in order to increase flexibility and reduce dependence on external suppliers. As the company was not fully able to finance those investments and acquisitions out of cash flow in recent years, it was obliged to increase leverage, also by issuing new bonds. On top, the company was able to spread its maturity profile of debt and create a curve.

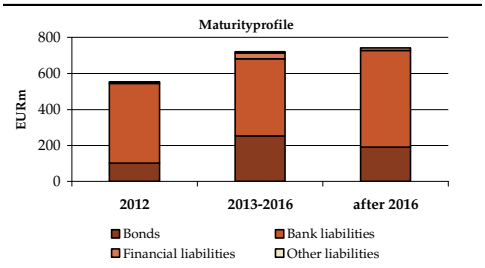
Payback

- **Mixture of cash flow and refinancing expected**
- **Access to bond markets for refinancing purposes viewed as good**

The construction industry is both very cyclical and seasonal. Thus, STRABAG's earnings and most importantly cash flows are volatile. The ups and downs in free cash flow generation are significant. Furthermore, as STRABAG is still engaged in its expansion strategy, most of the generated cash flow is used for investments and acquisitions rather than deleverage. Financial means solely generated from operations will most likely not suffice to repay STRABAG's financial obligations. Therefore, the payback of the outstanding bonds is expected to be supported by new issues to refinance maturing obligations.

As STRABAG will partly be required to refinance its outstanding bonds, access to bond markets is crucial. Berenberg views this access as good:

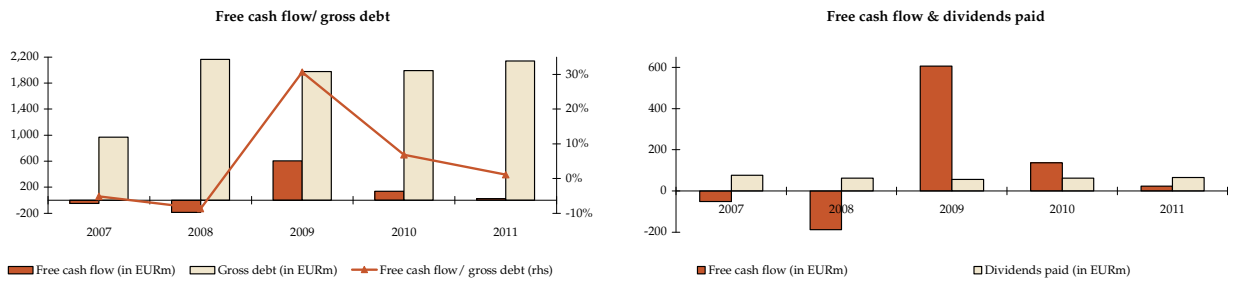
A) STRABAG obtains a BBB- rating by S&P/ stable outlook and therefore enjoys "investment grade" status. This promotes good access to the bond market.
B) The company possesses a good track record in the market due to several successful bond issues in recent years.



Source: company data, Berenberg Research

Furthermore, the maturity profile and the relatively low issue volumes require only very modest refinancing needs which could be executed by drawing unused credit lines or making use of its huge cash position.

That said, whilst Berenberg admits cash flows to be volatile, STRABAG does have the ability to generate significant free cash flow if capex were to be reduced to maintenance levels and if the expansion strategy were not pursued as vigorously as in the past.



Source: company data, Berenberg Research

Risks and competitive quality

- **Berenberg views STRABAG's competitive quality as high, based on**
  - **scale and a sound balance sheet,**
  - **excellent backward integration to secure strategic raw materials and local production, and**
  - **a high degree of flexibility due to its proprietary equipment fleet.**
- **The cyclical nature of the construction business and its poor margin environment create a medium to high business risk profile**

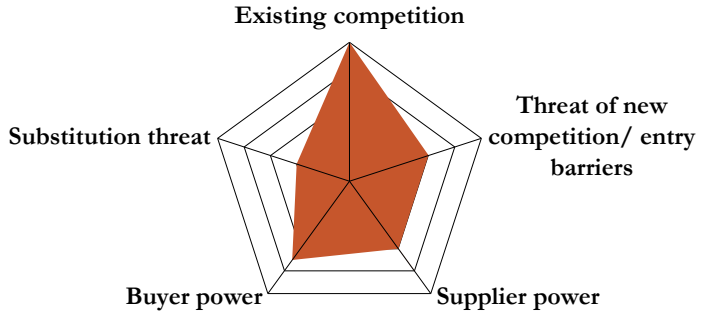
The construction industry is still a highly fragmented market place. With € 5.6bn of output volume, STRABAG is market leader in Germany, however, with a market share of only 2%.
Entry barriers are rather low as machinery can be readily leased. Recruitment of

adequate construction workers is similarly easy. Highly qualified construction engineers, however, are difficult to hire.

In this environment of high fragmentation and low entry barriers, construction companies fight hard for projects which has created poor discipline in bidding processes. However, also helped by a low level of pricing transparency, well managed construction companies may turn a small profit.

Berenberg views the supplier bargaining power to be marginally lower than that of customers due to STRABAG's significant backward integration.

Porter's five forces



Source: Berenberg Fixed Income Research

In very simplistic terms, Berenberg regards STRABAG's competitive quality to be high simply because its track record of growth and project execution is impressive:

1) The company has managed to outgrow most of its sector peers, and
2) is involved in the most complex and sophisticated construction projects, particularly infrastructure

for example the 106 km motorway section of A2 in Poland

This successful track record, however, is the result of a couple of genuine competitive qualities STRABAG has to offer to defend this record.

Berenberg views
1) STRABAG's size and the resultant economies of scale as well as its strong local presence as key competitive strengths.

the company strongly benefits from its size…

In order to be considered a partner in **large-scale and highly complex and sophisticated projects** this requires predominantly **extensive local presence**, as well as **well funded know-how.**

…and strong geographical presence

Both local presence, be it access to production and raw materials which must be close to the construction site due to high transportation costs as well as proximity to its customers are prerequisites in order to become a trusted project partner. Only scale enables this extensive local presence, which needs time to be established and is therefore also defending STRABAG's competitive position.
Those competitive edges, however, count little without access to **sufficient**

capital resources to finance these projects which is even more important in the current economic environment. Larges-scale projects may take several years to be completed and only financially sound construction companies will be awarded contracts. Despite prepayments, construction companies will have to tie significant own capital into these projects which requires access to capital resources.

2) STRABAG's **strong backward integration** to provide a strategic advantage: **access to raw materials** through its wide but dense network of production facilities in its core markets supports cost management. Again due to the long project life, relying on its own raw materials and equipment hinders material cost inflation to create huge miscalculations in pricing.

ownership of the equipment and machinery…

…creates high flexibility

This is further helped by the **ownership of 90% of the crucial equipment** and machinery – only a marginal part needs to be leased. The company is able to move equipment quickly to specific locations and to pass on know-how and existing technologies to local management. This permits a **high degree of flexibility** in planning as well as highly efficient project execution.

STRABAG possesses a medium to high business risk profile nonetheless:

European debt crisis may worsen market conditions

The construction industry depends on public-sector spending. The number of PPP's (Public Private Partnership) STRABAG worked on increased significantly during the last years. Nevertheless, market conditions may worsen due to the austerity measures in the European debt crisis.

On top, the highly competitive landscape results in poor bidding – one reason why these qualities do not translate into decent profitability and returns. **SIZE allows STRABAG to more easily digest unprofitable projects** and sustained periods of economic doom (austerity) or litigation (arising from construction delays).

However, the exposure to the cyclical construction sector and given that austerity measures increase cyclical swings, may force a shift in business from public (2/3 currently) to private (1/3) projects, and in times of low degrees of capacity utilisation, STRABAG may also have to accept losses due to low utilization rates of the equipment.

This, however, is **balanced by its sizeable backlog providing visibility** well into 2013.

All of the above is also reflected in STRABAG's BBB- rating by S&P who reward its leading market positions, the favourable operational track record, and its strategic access to raw materials which balance the high project execution risk and the inherent cyclicality and strong competition.

Structure

- **Group structure**
- **Ranking, security and covenant structure of the bonds**

STRABAG SE controls a number of legally independent subsidiaries. The three segments represent the top level of the organisation, each managed by a technical and a commercial management board member. Divisions and Central (Staff-) Divisions support the management board of STRABAG SE in the execution of its tasks and the Sub-divisions manage the operating business.

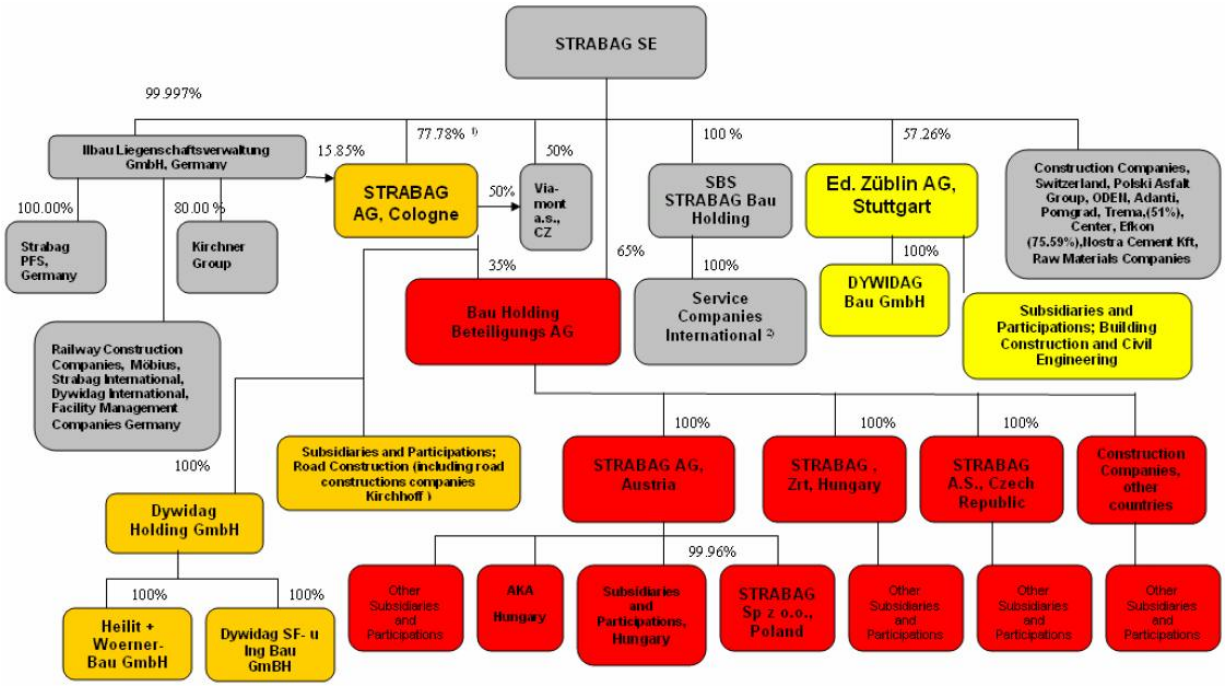
how STRABAG is managed

Source: Company data

All four bonds, none of which is callable, were issued by the group holding. All bonds are issued as senior unsecured and, thus, carry the same rating as STRABAG's corporate family rating – a BBB-/ outlook stable.

structural sub-ordination due to financing via the group holding

For a more detailed overview of holding and operating entities, Berenberg provides STRABAG's latest group structure overview as published in its prospectus for the latest bond issue STRAV 4 3/4 05/18.



Source: Company data

The newest STRAV 4 $^{3}/_{4}$ 05/18 issue has the following covenants: Negative Pledge, Negative Covenant, Restriction of Activities, and Restrictive Covenant. Restrictive Covenant take place in the real estate business and cover a wide range of restrictions from height and seize of buildings, specific materials that may be used to details such as paint colour. The second latest issue STRAV 4 $^{1}/_{4}$ 05/15 is prone to the same covenants as well as the Cross Default covenant.

External ratings and FIBER Score

- **Rated BBB-/ stable with S&P**
- **Berenberg assigns a BBB2 FIBER score to STRABAG SE**
  - The quantitative score obtained indicates BBB2
  - Our internally developed qualitative or soft-fact score is BBB1.

STRABAG's BBB- rating with S&P:

S&P initiated coverage on STRABAG SE with a BB rating and stable outlook in September 2002. Later in May 2006, S&P upgraded to BB+/ stable. In May 2007, the outlook was set to positive. **The last rating action took place in November 2007 upgrading STRABAG SE to BBB- with stable outlook,** thus elevating the company to "investment grade".

BBB- "investment grade" rating with a stable outlook by S&P

Major threats to downgrade are:

- Increase in leverage ratio above debt to EBITDA of 2.5x.
- Weaker-than-expected conditions in the company's major markets, in particular the infrastructure sector.
- Excessive debt levels from acquisition activities and/or shareholder returns.
- Deteriorating liquidity

Major triggers to upgrade are:

- **FFO/ debt > 45%** and debt to EBITDA < 1.5x
- Order backlog that gives sufficient visibility for 2013

A comparison with STRABAG's competitors regarding external ratings is rather difficult as the majority of its peers is not covered by any of the big three rating agencies. However, those peers that are covered are generally higher rated than STRABAG.

Company	S&P	MOODY'S	FITCH
Bilfinger Berger	not rated	not rated	not rated
Bouygues	BBB+	A3	not rated
FCC	not rated	not rated	not rated
Ferrovial	not rated	Ba (bonds only)	not rated
Grupo ACS	not rated	not rated	not rated
Heidelberg Cement	BB	Ba1	BB+
Hochtief	not rated	not rated	not rated
Holcim Int.	BBB	Baa2	BBB
Implenia	not rated	not rated	not rated
Skanska	not rated	not rated	not rated
STRABAG SE	**BBB-**	**not rated**	**not rated**
Vinci	BBB+	Baa1	BBB+
Wienerberger AG	BB	Ba1	not rated

Berenberg initiates with this note a **BBB2** FIBER score/ **outlook stable.**

The compound FIBER score is a result of a BBB2 quantitative score, externally provided and Berenberg's internally developed qualitative soft fact score of BBB1.

The soft fact score views STRABAG's business risk profile as very much in line with investment grade given its strong competitive position in the European construction market with good geographic diversification and strong backward integration. On top, the broad and experienced management team with a solid track record add to the strong score. Access to IR and the appropriate level of transparency are additionally viewed as positive.

The soft fact score is negatively affected by STRABAG's industry exposure to the cyclical and highly competitive construction market, thus very limited pricing power and the resultant weak operating margins.

Berenberg will watch STRABAG's external growth strategy and use of operating cash flows carefully. Any sustained negative free cash flow scenario will weigh on the FIBER score.

STRABAG SE		Range		Fulfilment	Soft fact score
Capacity (Porter & volatility)		0.00	0.56	0.24	
Character (competition)		0.00	0.96	0.60	
Character (management)		0.00	0.84	0.55	
Covenants		0.00	1.64	1.20	
SoftFact FIBER Score	0.00 0.50 1.00 1.50 2.00	0.01	4.00	2.59	BBB1

Source: Berenberg Research

Berenberg input			Agency ratings			External input			
Company	Soft-fact Score	Qual. Score	Moody's	S&P	Fitch	Est. default frequency	Credit Risk Level	Credit Risk Trend	FIBER Score
STRABAG SE	2.59	BBB1	--	BBB-	--	0.0470%	Low	Stable	BBB2

Source: Berenberg Research, CreditSights

Berenberg's FIBER Score is not a rating. Whilst the established agencies usually apply a "through-the-cycle" approach in rating companies, Berenberg's fixed income research score is much more short-term oriented. This concept aims at allowing investors to benefit from short-term spread movements as the quality of a credit improves or deteriorates due to certain news flow and short-term cycles. The impact of short-term fluctuations in credit quality is usually mitigated in an official rating by the agencies' "through-the-cycle" approach.

Valuation

- The senior bonds **STRAV € 175m 05/18 and STRAV € 100m 05/15 trade at ASWs of 327bps and 350bps** respectively
- For the time being, Berenberg refrains from assigning a recommendation to the bonds
- Berenberg disregards the smaller bonds due to their small issue volumes

Berenberg's valuation approach reflects the idea that investors purchase those corporate bonds which offer the most attractive asset swap spreads in their respective peer group. The peer group is designed in such a fashion that it resembles a similar risk category defined by sector or market place characteristics, similar ratings, and similar maturities to derive appropriate benchmark spread curves. On top, if available and equipped with sufficient liquidity, suitable company or sector CDS curves are included. If the company in question does not obtain an agency rating, Berenberg may use the proprietary FIBER score as a proxy. If the spread difference to the appropriate benchmark curve looks to offer sufficient tightening or widening potential relative to peers, Berenberg will over- or respectively underweight the bond.

1. Comparable bonds valuation

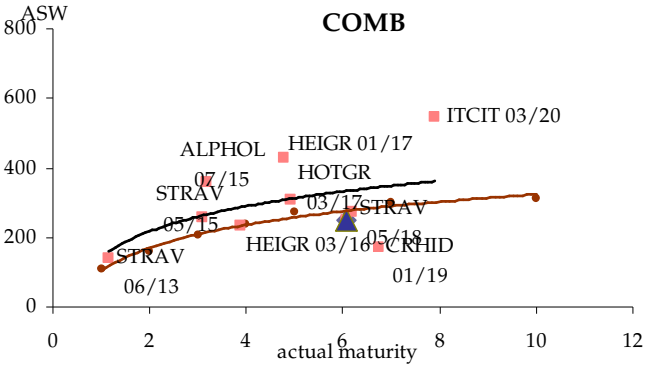
The peers included are widely recognized as appropriate sector peers.

	Moody's	S&P's	Fitch
Alpine	n.r.	n.r.	n.r.
Hochtief	n.r.	n.r.	n.r.
Wienerberger	Ba1	BB	n.r.
HeidelbergCement	Ba1	BB	BB+
CRH	Baa2	n.r.	n.r.
Italcementi	Ba1	BBB-	n.r.

Source: Berenberg Research, Bloomberg data

STRABAG's bonds form a decent curve. The most liquid STRAV € 175m 05/18 trades at a lower spread than the € 100m 05/15 due to the limited liquidity.

Currently, Berenberg does not assign any recommendation, but provides a neutral display of STRABAG's spread curve.

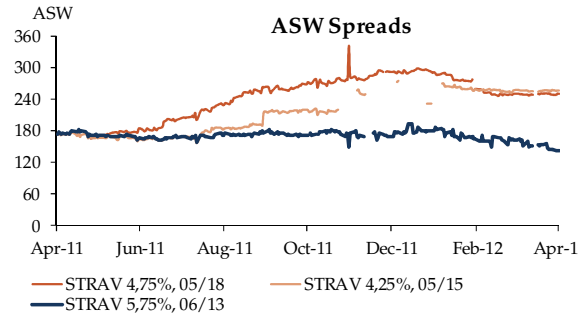


Source: Berenberg Research, Bloomberg data

Historic ASW trading range

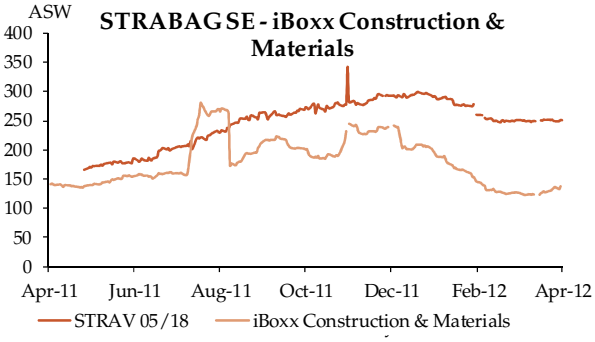
- of STRABAG's four bonds outstanding
- vs. iBoxx Construction & Materials
- vs. iTraxx

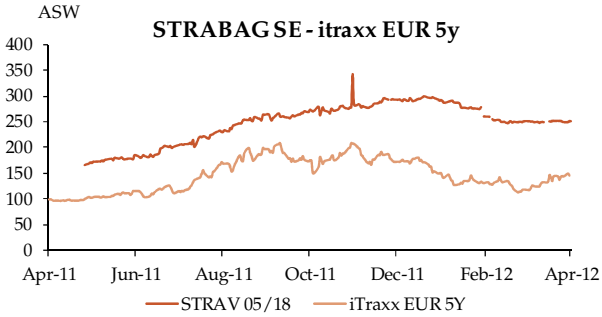
Looking at STRABAG's bonds over the previous 12 months, Berenberg observes the following ASW-spread volatility.



Source: Berenberg Research, Bloomberg data, iBoxx data

Given their lower liquidity profile, it comes as no surprise to see STRABAG's bonds trade above the iBoxx Construction & Materials sector as well as above the iTraxx main.

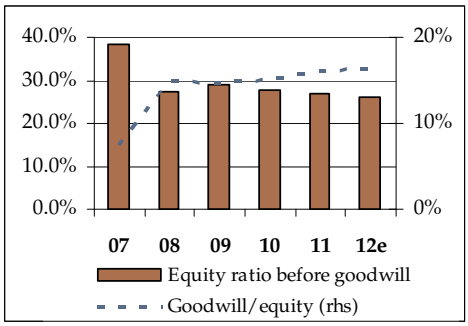




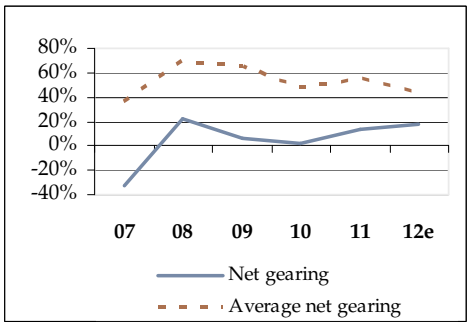
Source: Berenberg Research, Bloomberg data, iBoxx data

Financial health checklist

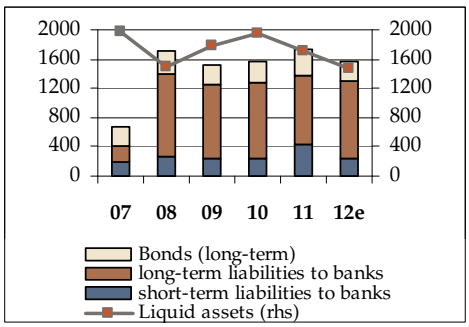
➢ Quick overview on historic financial performance and development of key ratios



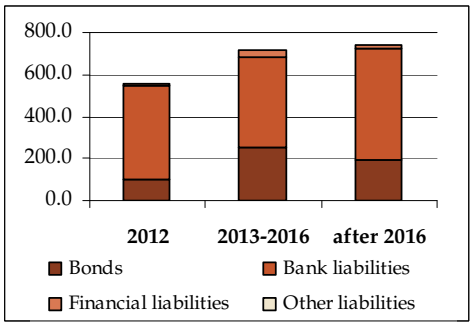
The goodwill adj. equity ratio stabalized slightly below 30% after a significant decline in 2008. The decrease was mainly due to increases in both goodwill and long-term liabilities to banks, caused by acquisitions. Berenberg expects the ratio to decrease slightly because of the share-buyback program. Goodwill almost doubled in 2008 from € 213m to €422m. As a consequence, Goodwill to equity increased to 15% and remained stable ever since.



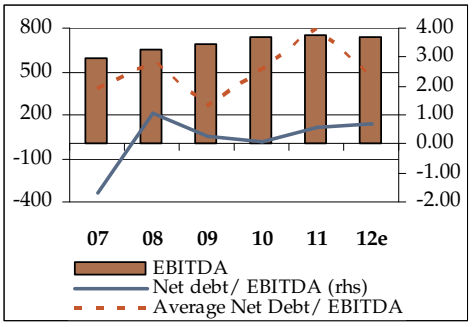
The net gearing (net debt to equity) is generally very low due to the extremely high amount of cash and cash equivalents the company holds. It peaked in 2008 at 23% after the significant increase in long-term liabilities to banks caused by the full consolidation of the AKA concession company. Already in 2009 it declined again and stabalized on a low level. Berenberg expects net gearing to slightly increase but generally to remain on a rather low level. The company therefore reveals a very solid capital structure and strong liquidity.



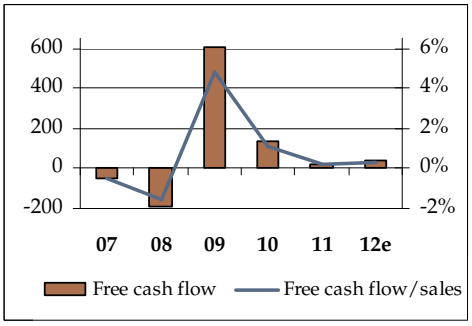
As discussed before, STRABAG maintains a very high cash position almost exceeding short- and long-term liabilities. This allows to keep financial flexibility in any economic development. Regarding payback this looks better as it actually is. The majority of the liquid funds is bound to already existing liabilities such as advanced payments received on orders and cannot be used for the payback of outstanding bonds. Currently, the company finances its activities rather long-term.



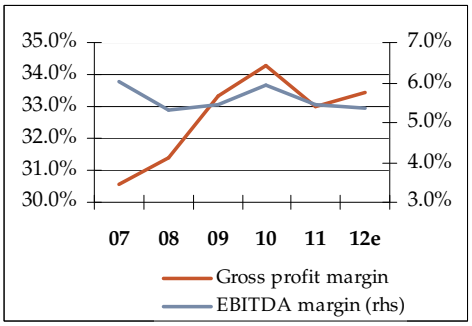
The maturity profile, as a consequence, is very well structured. There are four bonds outstanding. The first is worth € 75m due in June 2012, another bond worth € 75m due in June 2013, a bond worth € 100m due in May 2015, and the last one worth € 175m due in May 2018.



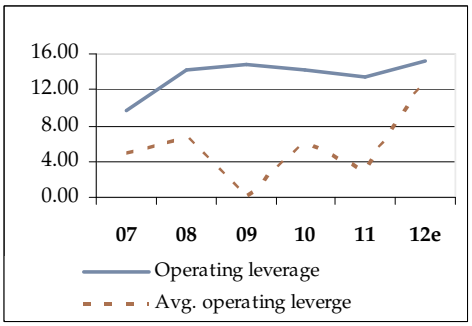
STRABAG managed to maintain its business activities high despite the financial crisis. The result is a nicely developing EBITDA that grew continuously over the last years and attained € 735m in 2010. Similar to net gearing, net debt to EBITDA is close to zero as cash and cash equivalents almost equal long- and short-term debt in 2010. Berenberg expects only a small growth in EBITDA due to the difficult economic circumstances in Europe.



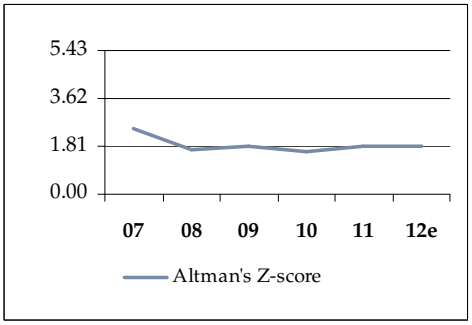
Free cash flow (FCF) fluctuated significantly during the last years. It attained its low point of -€ 187m in 2008 as a result of unusual high investment expenses in PPE. It peaked in the subsequent year at € 606m due to a significant decrease in accounts receivable. Berenberg expects the volatility in FCF to continue, albeit on a lower level in the near future.



As a result of backward integration, the company managed to maintain a steadily growing gross profit margin in a cyclical industry despite the financial crisis. It grew from 30.6% in 2007 to 34.3% in 2010. Berenberg does not expect this growth to continue due to the difficult economic situation in Europe. The constant remaining EBITDA margin shows that the efficiency gains do not run to the bottom. Responsible for this development are increasing personal expenses.



The operating leverage rose from 9.7 in 2007 to 14.2 in 2008. The reason was a drop in EBIT mainly due to an overproportional increase in operataing expenses such as: general administrative costs, travel and advertising costs, insurance premiums etc. Later on, the company managed to maintain a rather stable operating leverage and Berenberg expects this trend to continue.



Altman's quite simplistic z-score indicates a company's financial health and subsequently its probability of default setting two barriers (probably solvent/ probably insolvent). A score below 1.81x incicates the latter. A score above 2.67x indicates a very sound financial health profile.
STRABAG's score of around 1.8 rather low and corroborated by its BBB- rating. Berenberg expects the score to remain stable for the near future.

Company background

- History at a glance
- Management
- Product background
- Shareholder structure
- Geographical spread

History at a glance

STRABAG SE originates from two companies: 1) Lerchbaumer, founded in 1835, later renamed ILBAU in 1954, and 2) Straßenwalzenbetrieb, founded in 1895, that became STRABAG in 1930. The two businesses became sister companies in 1998 after the acquisition of STRABAG AG, Cologne through BIBAG (Bauindustrie Beteiligungs Aktiengesellschaft). After several acquisitions and modifications of the company name, STRABAG SE became the controlling company of the group in 2006.

know-how and experince built up over more than 170 years of doing business

The company always followed a strong expansion strategy by performing continuous acquisition activities and new market entries. STRABAG acquired big players such as DYWIDAG (Germany), HEILIT + WOERNER (Germany), and ZÜBLIN AG (Switzerland) in 2005. These companies contained around 10,000 employees and an operating performance of approximately € 2.5bn.

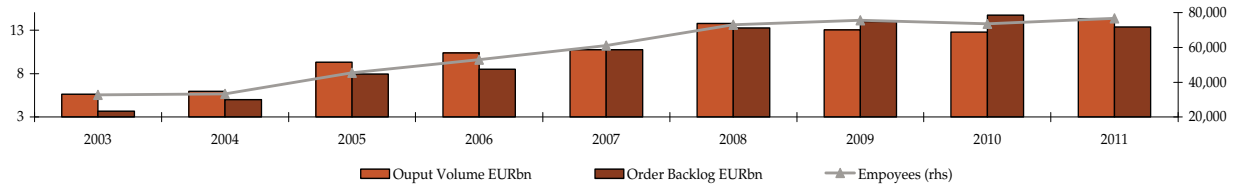
expansion strategy: acquisitions and new market entries

STRABAG SE launched its IPO in the Prime Market Segment of the Vienna Stock Exchange in 2007. The stock was offered at € 47, resulting in a capital increase of around € 0.9bn. Currently the market capitalization amounts to around € 2.5bn. A further increase of the output volume by € 2bn was attained by acquisitions of various companies such as Adanti SpA and KIRCHNER Holding GmbH in 2008.

IPO took place in 2007, current mcap amounts to around € 2.5bn

STRABAG SE, with its headquarters in Vienna, not only grew to Austria's largest construction company but also to one of the leading construction companies throughout Europe. It operates on a project-basis and is, besides Europe, active in North-/ and South America, Africa as well as Asia. As of today, the company generates an output volume of over € 14bn (FY 2011) and employs more than 76,000 people (FY 2011).

one of Europe's leading construction companies, with more than 76,000 employees producing an output volume of € 14bn



Source: company data, Berenberg Research

Management

Dr. Hans Peter Haselsteiner (CEO) received his doctorate degree from the Vienna University of Economics and Business in 1970 and started his career at an auditing and tax consultancy firm in Vienna. In 1972 he entered the group by taking a position in the supervisory board of ILBAU AG. Dr. Haselsteiner became a member of the management board and CEO in 1987 and is responsible for Central Staff Units, Central Division Central Technical Department and Central Division BRVZ, technical responsibilities for Building Construction & Civil Engineering. His term expires 31 December 2015.

Ing. Fritz Oberlerchner (Deputy CEO) graduated in 1968 as a certified engineer in building construction from the HTL Villach polytechnic institute. He began working as a construction engineer at a small building firm before moving on to the STRABAG Group in 1971. Fritz Oberlerchner took a position in the management board in 1994 and became deputy CEO in 2003. He leads technical responsibilities for Transportation Infrastructure. His term ends on 31 December 2014.

Dr. Thomas Birtel received his doctorate degree in economics from the Ruhr-University Bochum in 1982. One year later he began working at Klöckner & Co and in 1996 he joined the STRABAG Group by becoming a member of the management board of STRABAG Hoch- & Ingenieurbau AG. Thomas Birtel was appointed member of the group management board in 2006. He has commercial responsibilities for Building Construction & Civil Engineering and his term ends 31 December 2014.

Dr. Peter Krammer received his doctorate degree in engineering sciences from the Technical University in Vienna in 1995. In 2005 he became a member of the management board of STRABAG AG in charge of Building Construction & Civil Engineering in Eastern Europe and of Environmental Technology for the entire company. He was appointed deputy member of the management board of STRABAG SE in 2010 and is leading technical responsibilities for Building Construction & Civil Engineering. His term ends 31 December 2014.

Mag. Hannes Truntsching studied business administration at Karl Franzens University Graz. He graduated in 1981 and joined the STRABAG Group later by working for ILBAU AG. After acting in various management positions within the group, Hannes Truntschnig was appointed member of the group management board in 1995. He is leading commercial responsibilities for Special Divisions & Concessions as well as responsibilities for Central Division BMTI, Central Division TPA, Central Division BLT. His term ends 31 December 2014.

Ing. Siegfried Wanker studied civil engineering at Graz University of Technology. In 1994 he started his career as a site manager for the STRABAG Group. In 2005 he returned to the STRABAG Group after working in several management-level positions for engineering service providers. In 2011, Siegfried Wanker became a member of the management board of STRABAG SE and is leading technical responsibilities for Special Divisions & Concessions. His term ends 31 December 2014.

Product background

Building Construction & Civil Engineering

The building construction part of the segment incorporates a very wide range of projects such as the construction of commercial and industrial properties, airports, hotels, hospitals, office and administration buildings, residential real estate and the production of prefabricated elements. On the other hand, the civil engineering part includes complex infrastructure solutions, power plant construction, large-scale bridge building and environmental technology projects. The projects can vary significantly in size.

As a general trend, the demand in the sector is high. At the same time, prices for materials and subcontractors in Germany are stable. Further opportunities exist in the expansion of the position in niche markets such as environmental technology.

profitable expansion opportunities in niche markets

Transportation Infrastructures

The Transportation Infrastructures segment includes two parts. The first part incorporates road construction using asphalt or concrete and other crucial construction activities needed for road construction, namely earth-moving, canalisation, railway construction, waterway construction, dyking, paving, the construction of sport and recreational facilities, safety and protective structures and the building of small bridges. The second part of the segment contains the production of various construction materials such as asphalt, concrete and aggregates.

The situation in Eastern European countries such as Poland, Hungary, Bulgaria or Czech Republic is rather difficult. Due to the declining level of public-sector tenders in Austria and Germany as well as generally low prices in the area of road construction, focus on the expansion in northern European markets could produce relief. The current trend is, track and railway construction is becoming more and more important while rising asphalt prices and raw materials business are a burden.

Austerity measures in Eastern Europe worsen outlook. Situation in Northern Europe looks more promising.

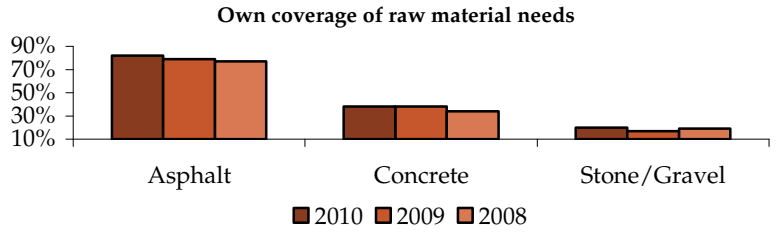
Special Divisions & Concessions

On the one hand, the Special Divisions contains tunnelling works and speciality foundation/ ground engineering. On the other hand, the Concessions field includes global project development activities in Transportation Infrastructures. The wide range of services offered is completed by the real estate business, which comprises project development, planning to construction as well as the property and facility services business.

Other

This segment does not produce any goods but rather includes expenditures, income and employees at the group's service companies and staff units as well as consolidation effects.

STRABAG SE produces a large part of the raw materials needed itself allowing a high degree of flexibility and independence regarding outside suppliers.



Source: company data, Berenberg Research

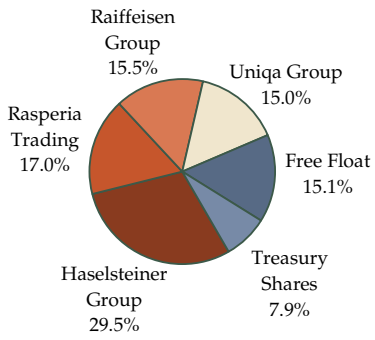
Approval for new production facilities is limited in regions in which such facilities already exist. This provides a barrier to entry and gives STRABAG a competitive advantage due to its strongly developed network.

barrier to entry the market represents a competitive advantage

Shareholder structure

STRABAG SE is listed at the Vienna Stock Exchange with an index weight of 2.6% in the ATX. Shares outstanding are 114m of which 77% are split among the four main shareholders, namely Haselsteiner Group, Rasperia Trading, Raiffeisen Group and Uniqa Group. The remaining 23% are split into 7.9% Treasury Shares and 15.1% free float.

STRABAG holds treasury stock in the amount of 7.9%, thus total shares outstanding currently amount to ~105m



Source: Bloomberg, company data, Berenberg Research

Geographical spread

STRABAG produces 55% of its output volume in its home markets Austria and Germany. Furthermore, the company is very well positioned in Eastern Europe and other European countries (which account for 30% and 9% respectively of the output volume). The company holds market leading positions in several European countries such as Austria, Germany, Hungary, Romania, Slovakia and Poland. Having a strong position in many countries allows STRABAG to diversify its risk exposure and the existing network can be used for an efficient expansion.

market leader in various European countries

strong geographical presence diversifies risk

Source: Company data

STRABAG operates a total of 678 facilities in Europe

Throughout its home and various growth markets, STRABAG operates a resource network that includes a total of 328 asphalt mixing facilities, 169 concrete mixing facilities and 181 quarries and gravel pits. This secures an easy access to raw materials and reduces the dependency on outside suppliers.

However, STRABAG does not limit its activities to Europe, but is also more and more engaged in projects beyond the continental boarders as for example in India, China, Canada and Chile. Nonetheless, it remains a European construction company where it has its roots and their core markets lie. In the intercontinental markets it takes only part in the direct export business.

Financial statement

Ratios	2007	2008	2009	2010	2011	2012e
Security						
Y/E gross debt (EURm)	972	2,167	1,976	1,994	2,140	1,990
Y/E net debt or (net cash) (EURm)	-994	675	193	42	440	530
Net debt/ EBITDA	-1.7x	1.0x	0.3x	0.1x	0.6x	0.7x
Debt from operating lease contracts (EURm)	176	284	264	243	259	230
Pension provisions (EURm)	355	471	435	444	455	480
Adj. net debt/ adj. EBITDA	-0.7x	1.8x	1.1x	0.8x	1.3x	1.4x
Debt/ equity	31.4%	72.7%	63.8%	61.7%	67.9%	64.3%
Net debt/ equity	-32.1%	22.7%	6.2%	1.3%	14.0%	17.1%
FFO/ gross debt	46.7%	24.7%	28.5%	22.8%	21.3%	21.4%
FFO/ net debt	-97.9%	37.4%	63.1%	83.7%	52.6%	46.5%
EBIT interest cover	3.7x	2.2x	2.9x	3.1x	3.4x	3.2x
EBITDA interest cover	7.0x	5.4x	7.1x	7.6x	7.6x	7.7x
Altman's Z-score	2.5	1.7	1.8	1.6	1.8	1.8
Dividend payout ratio	45.5%	39.9%	35.3%	35.9%	33.3%	42.6%
Cashflow (EURm)						
Operating cashflow (after maintenance capex)	494	690	1,115	690	501	562
Capex	544	877	509	554	477	520
Free cashflow (excl. acquisitions)	-50	-187	606	137	24	42
Funds from operations	454	535	563	611	607	577
Funds management & liquidity						
Working capital/ sales	6.4%	6.0%	3.2%	1.3%	4.6%	3.6%
Cash flow/ sales	4.7%	4.3%	4.5%	4.9%	4.4%	4.1%
Capital expenditure/ sales	5.6%	7.1%	4.0%	4.4%	3.4%	3.7%
Maint. cap. exp./ sales	3.0%	3.2%	3.3%	3.5%	3.1%	1.4%
FCF/ sales	-0.5%	-1.5%	4.8%	1.1%	0.2%	0.3%
Capital expenditure/ dep'n	191.9%	232.0%	126.7%	127.1%	115.9%	119.8%
Stocks in days of sales (days)	26	29	28	31	32	31
Trade debtors in days of sales (days)	90	85	70	75	70	75
Trade creditors in days of COGS (days)	106	98	102	101	94	98
Cash conversion cycle (days)	10	15	-4	6	8	8
Current ratio	1.7	1.4	1.4	1.5	1.4	1.4
Asset utilisation efficiency						
Capital employed turnover	1.9	1.9	1.9	1.8	2.0	2.0
Operating asset turnover	4.5	4.5	5.0	5.5	5.3	5.0
Inventory turnover	20.7	18.1	19.1	17.5	16.8	17.5
Operational efficiency						
Gross margin	30.6%	31.4%	33.4%	34.3%	33.0%	33.5%
EBIT margin	3.2%	2.2%	2.3%	2.4%	2.4%	2.2%
Net profit margin	1.7%	1.3%	1.3%	1.4%	1.4%	1.0%
Operating leverage	9.7x	14.2x	14.8x	14.2x	13.5x	15.2x
Total operating costs/ sales	93.9%	94.7%	94.6%	94.1%	94.6%	94.7%
No. of employees	61,125	73,008	75,548	73,600	76,866	78,000
Personnel costs/ sales	21.3%	21.1%	22.5%	22.6%	21.9%	22.3%
Sales per employee (EURk)	160	169	167	169	180	179
EBITDA per employee (EURk)	10	9	9	10	10	9
Costs per employee (EURk)	34	35	37	38	39	40
Returns						
RoCE I (EBIT/ Y/E capital employed)	6.1%	4.1%	4.3%	4.4%	4.8%	4.4%
RoCE II (EBIT/ avg. capital employed)	7.2%	4.6%	4.3%	4.5%	4.8%	4.4%
RoE (net profit/ Y/E equity)	5.9%	5.5%	5.5%	5.7%	6.6%	4.9%
Cash RoCE	10.2%	6.6%	5.8%	6.2%	6.6%	5.7%
Other						
Interest received/ avg. cash	3.9%	5.2%	4.8%	4.2%	6.1%	3.7%
Interest paid/ avg. debt	7.1%	7.7%	4.7%	4.9%	4.8%	4.6%

Source: Company data, Berenberg estimates

Profit and loss account (EURm)	2007	2008	2009	2010	2011	2012e
Sales	**9,879**	**12,228**	**12,552**	**12,382**	**13,714**	**13,851**
Own work capitalised	-129	107	81	80	135	111
Total sales	**9,750**	**12,335**	**12,633**	**12,462**	**13,848**	**13,962**
Other operating income	230	240	254	323	271	311
Material expenses	6,730	8,494	8,447	8,218	9,320	9,326
Personnel expenses	2,102	2,575	2,823	2,801	3,004	3,086
Other operating expenses	552	858	933	1,030	1,048	1,122
EBITDA	**596**	**648**	**684**	**735**	**746**	**739**
Depreciation	276	341	359	357	382	388
EBITA	**320**	**307**	**325**	**378**	**365**	**351**
Amortisation of intangible assets	3	11	17	29	14	21
Impairment charges	0	0	0	0	0	0
EBIT	**312**	**270**	**283**	**299**	**335**	**305**
Interest income	50	90	78	79	112	58
Interest expenses	85	121	97	97	99	96
Other financial result	1	10	2	2	5	7
Financial result	-36	-41	-20	-20	9	-44
Income on ordinary activities before taxes	**276**	**229**	**263**	**279**	**343**	**261**
Extraordinary income/ loss	0	0	0	0	0	0
EBT	**276**	**229**	**263**	**279**	**343**	**261**
Taxes	69	63	78	91	104	78
Net income from continuing operations	**208**	**166**	**185**	**188**	**239**	**183**
Income from discontinued operations (net of tax)	0	0	0	0	0	0
Net income	**208**	**166**	**185**	**188**	**239**	**183**
Minority interest	37	9	23	14	44	40
Net income (net of minority interest)	**170**	**157**	**161**	**175**	**195**	**143**

Source: Company data, Berenberg estimates

Balance sheet (EURm)	2007	2008	2009	2010	2011	2012e
Intangible assets	240	463	496	536	537	550
Thereof goodwill	213	421	434	468	472	476
Property, plant and equipment	1,544	2,045	2,146	2,102	2,154	2,321
Financial assets	593	1648	1524	1493	1670	1663
Fixed assets	**2,376**	**4,156**	**4,166**	**4,131**	**4,361**	**4,535**
Inventories	477	674	656	706	818	791
Accounts receivable	2,448	2,836	2,402	2,549	2,630	2,846
Other current assets	380	469	473	830	703	640
Liquid assets	1,966	1,491	1,783	1,952	1,700	1,460
Deferred taxes + other accruals	94	138	134	214	174	195
Current assets	**5,364**	**5,609**	**5,447**	**6,251**	**6,025**	**5,932**
TOTAL	**7,741**	**9,765**	**9,614**	**10,382**	**10,386**	**10,467**
Shareholders' equity	**2,871**	**2,838**	**2,950**	**3,091**	**2,939**	**2,917**
Minority interest	**226**	**141**	**149**	**141**	**211**	**180**
Long-term debt	772	1,893	1,741	1,754	1,707	1,750
Pension provisions	355	471	435	444	455	480
Other provisions	719	913	1,013	1,195	1,260	1,387
Non-current liabilities	**1,846**	**3,277**	**3,189**	**3,392**	**3,422**	**3,617**
Short-term debt	199	274	235	241	433	240
Accounts payable	1,959	2,286	2,360	2,266	2,395	2,505
Advance payments	347	505	315	845	576	650
Other liabilities	272	370	361	356	362	310
Deferred taxes + other accruals	21	74	54	49	48	49
Current liabilities	**2,798**	**3,509**	**3,325**	**3,757**	**3,814**	**3,754**
TOTAL	**7,741**	**9,765**	**9,614**	**10,382**	**10,386**	**10,467**

Source: Company data, Berenberg estimates

Cash flow statement (EURm)	2007	2008	2009	2010	2011	2012e
Net profit/ loss	208	166	185	188	239	183
Depreciation of fixed assets	282	357	369	357	406	388
Amortisation of goodwill	4	25	25	50	16	25
Amortisation of intangible assets	3	11	17	29	14	21
Other	-80	-18	53	23	97	25
Cash flow from operations before changes in w/c	**416**	**542**	**649**	**647**	**772**	**642**
Change in inventory	32	-97	18	-48	-67	27
Change in accounts receivable	-61	70	641	-248	-177	-216
Change in accounts payable	165	135	-147	351	-9	110
Change in other working capital positions	-58	40	-46	-11	-18	0
Change in working capital	78	148	466	44	-271	-80
Cash flow from operating activities	**494**	**690**	**1,115**	**690**	**501**	**562**
Maintenance capex	289	393	412	436	436	200
Cash flow from operating activities after maintenance	**205**	**296**	**704**	**255**	**65**	**362**
Capex, excluding maintenance	255	483	97	118	41	320
Payments for acquisitions	218	163	5	68	106	95
Financial investments + other	66	132	54	48	161	0
Income from asset disposals	187	126	131	146	128	128
Cash flow from investing activities	**-641**	**-1,046**	**-437**	**-524**	**-616**	**-487**
Cash flow before financing	**-147**	**-356**	**678**	**167**	**-115**	**75**
Increase/ decrease in debt position	-296	60	-306	51	163	-150
Purchase of own shares	0	0	0	0	185	100
Capital measures	1,907	0	0	0	0	0
Dividend paid	77	63	63	57	63	65
Others	-10	-94	-18	-14	3	0
Effects of exchange rate changes on cash	2	-21	0	23	-56	0
Cash flow from financing activities	**1,524**	**-97**	**-386**	**-20**	**-82**	**-315**
Increase/ decrease in liquid assets	**1,380**	**-474**	**292**	**170**	**-252**	**-240**
Liquid assets at end of period	1,966	1,491	1,783	1,952	1,700	1,460

Source: Company data, Berenberg estimates

Y/E Dec. 31, IFRS	2007	2008	2009	2010	2011	2012e
Regional sales (EURm)						
Domestic	5,916	7,366	7,361	6,958	7,594	7,580
Rest of EMEA	4,606	6,170	5,414	5,447	6,367	6,386
NAFTA	110	118	162	246	258	277
South America	0	0	0	0	0	0
Asia/ Pacific	114	89	84	126	107	101
Rest of world	0	0	0	0	0	0
TTL	10,746	13,743	13,021	12,777	14,326	14,344
Regional sales shares						
Domestic	55.1%	53.6%	56.5%	54.5%	53.0%	52.8%
Rest of EMEA	42.9%	44.9%	41.6%	42.6%	44.4%	44.5%
NAFTA	1.0%	0.9%	1.2%	1.9%	1.8%	1.9%
South America	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asia/ Pacific	1.1%	0.6%	0.6%	1.0%	0.7%	0.7%
Rest of world	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TTL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, Berenberg estimates

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Company	Disclosures
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Competent supervisory authority

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