STANDARD & POOR'S

RatingsDirect®

November 14, 2007

Research Update:

Strabag SE Rating Raised To Investment Grade 'BBB-' On Improved Performance; Outlook Stable

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Rationale

On Nov. 14, 2007, Standard & Poor's Ratings Services raised its long-term corporate credit rating on Austria-based engineering and construction group Strabag SE to 'BBB-' from 'BB+', owing to the group's good operating performance and improved liquidity. The outlook is stable.

Strabag's operating performance has remained good and has not been diluted by its rapid business growth. Its liquidity has been enhanced by the IPO, completed in October 2007. We now also have better visibility on Strabag's future ambitious growth plans, in particular in Russia, and expect the IPO to add to transparency and timing of disclosure. Strabag benefits from its leading market position in building construction and civil engineering in Central and Eastern Europe; vertically integrated operations, which provide barriers to entry and strategic access to raw materials; good geographic diversification; and strong contract backlog and favorable demand outlook.

Strabag's credit profile continues to be weighed down, however, by a track record of aggressive dividend payouts and some concerns over future financial policies and corporate governance practices, in particular following the recent shift in the ownership structure. The ratings are further constrained by the cyclical nature of the construction industry; industry-typical thin operating margins and a portion of revenues from fixed-price contracts where an execution problem in a large project could have an adverse effect on earnings; and lack of free cash flow generation.

Strabag's October IPO and August equity investment by Rasperia Trading Ltd., a subsidiary of Basic Element Holding owned by Russian businessman Oleg Deripaska, resulted in a capital inflow of €1.89 billion. At June 30, 2007, pro forma the capital increases, Strabag had reported net cash position of about €920 million. The proceeds are likely to have only a temporarily positive impact on Strabag's capital structure, as we believe that they will be used predominantly to fund expansion. Nevertheless, they positively affected liquidity by supplying substantial resources for planned business growth and should generate additional cash flows.

The involvement of Rasperia indicates Strabag's intention to accelerate its expansion into Russia and other former Soviet states, particularly Ukraine. Although diversifying into new dynamic markets is positive for Strabag, we believe that the ambitious expansion plans in the opaque Russian market will add to business risks. Nevertheless, this risk is limited to some degree by Strabag's use of construction contracts on a cost-plus basis and standard terms (including progress payments from customers) in the region, as well as the management's solid track record of integrating acquisitions and operating in emerging countries.

Strabag has established a track record of profitable operations despite strong business expansion and challenging market fundamentals in Germany, its largest market. This points to good project execution and cost management capabilities. The group generated stable EBITDA margins of 5%-6% and return on capital of 13%-14% on average over the past 3 years. We expect profitability measures to continue to be largely supported by strong and profitable Eastern European operations.

We expect Strabag's funds from operations (FFO) generation in 2007 to remain largely at the good 2006 level, when the group generated an adjusted FFO of €430 million, provided there is no material project execution problem. Nevertheless, the group's free operating cash flows are likely to remain negative because of high expansion-related capital spending, although this spending is discretionary.

Liquidity

Strabag has strong liquidity. At June 30, 2007, pro forma for capital increases, it maintained large cash balances of about €2.2 billion. Financial flexibility was further underpinned by approximately €1.4 billion of available committed and uncommitted credit and guarantee facilities, as well as a portfolio of discrete properties with a current market value of about €154 million. We expect Strabag to remain in compliance with financial covenants included in credit and guarantee facilities. Its debt maturity profile is comfortable and includes largely drawings under various working capital credit lines and €325 million in unsecured bonds maturing in short to medium term.

Recovery analysis

Strabag's senior unsecured €100 million notes issued at the holding level are rated 'BBB-', 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 €75 million notes recently issued at the holding level have not been guaranteed at the operating company level and have therefore been rated one notch below the long-term corporate credit rating on Strabag SE at 'BB+'.

Outlook

The stable outlook reflects our expectations that Strabag will maintain its good operating performance while also expanding its operations in Russia and other former Soviet states. Furthermore, we expect that Strabag's future corporate governance practices and financial policies, in particular its dividend policy, will be consistent with, and executed in a way that sustains Strabag's financial risk profile and credit measures in line with the ratings. We expect, for example, that Strabag will maintain a strong liquidity position, and that adjusted FFO to debt and adjusted debt to EBITDA will remain above 30% and below 2.5x, respectively.

Downside risk in the ratings would be related to Strabag abandoning its focused business strategy and/or significantly increasing its debt by potentially expanding more aggressively into emerging markets or unrelated business. Further upside potential in the ratings is currently limited, reflecting the group's ambitious expansion plans.

Ratings List

	To	From
Strabag SE		
Corporate credit rating	BBB-/Stable/--	BB+/Positive/--
Senior unsecured debt	BBB-	BB+
Senior unsecured debt	BB+	BB-

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