

**QUARTERLY REPORT**

**Q1/11**

**BUILDING THE FUTURE**



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# QUARTERLY REPORT 1/2011

## Dear shareholders and respected business associates,

The first quarter 2011 developed satisfactorily for PORR despite the ongoing difficulties in the construction industry. Here the framework conditions were far from simple as the stimulus packages have now come to an end on every market and subsequent orders from public institutions are hardly being realised at all owing to their limited budgets. Private investments in commercial and industrial construction are also displaying only modest activity. Once again the delayed economic effect on the construction industry is stifling growth and a recovery is not expected before 2012.

Against this trend PORR managed to increase production output in comparison to the first quarter 2010 by EUR 39.3m (+9.2%). The early onset of winter last year which necessitated an early stop to construction on many projects was more than compensated for in the first months of the current year. This increase in productivity led to a fall in the same period's order backlog at almost the same ratio (-9.0%). In contrast, order bookings recorded growth of 3.6%.

PORR's home markets in particular (Austria, Germany, Switzerland and Poland) saw the construction industry emerge from its economic trough and the first signs of recovery have been observed, albeit starting out from a very low level in absolute terms. PORR defines the countries in the CEE/SEE region as its core markets; here the company takes a selective approach to sectors and project business. Some of these countries were much harder hit by the crisis than PORR's home markets and deep-rooted problems emerged which had been hidden in the boom times by the rapid economic growth. This is why it is necessary to observe developments on these markets very closely and to react with flexibility to varying market conditions.

In order to facilitate the requisite flexibility, PORR initiated a far-reaching reorganisation process at the end of 2010 which will be implemented in the course

of the current year. The focus here is on flat hierarchies, fast decision-making processes and clear allocation of responsibility at every level. This reorganisation will allow PORR to follow its strategy of long-term, healthy and sustainable growth. With the portfolio approach covering every sector it is largely possible to compensate for fluctuations in individual markets and business segments. This is why the future of the company goes by the motto »Dynamism and Growth«.

## Production output

In the first quarter of 2011 PORR recorded production output of EUR 468.0m, an increase of EUR 39.3m or 9.2% against the same period in 2010. This rise, which goes against the general trend of the construction industry, can be explained by multiple factors. One factor is that certain projects which could not be completed in 2010 because of the early onset of winter were now realised, another factor is the positive effects from focusing on the home markets. PORR generates more than three quarters of production output in these economically stable countries and is pursuing a solid internationalisation strategy starting out from this strong region.

In addition to Austria, growth was recorded in Poland and Switzerland, while production output in Germany slipped back slightly. In Austria, the provinces of Lower Austria and Tyrol saw particularly positive developments, while the Greater Vienna area – a key focus for PORR – was slightly below the first quarter of 2010. In Poland construction work on the large-scale project »S2 expressway« continued to have a very positive impact.

Among the core markets, Romania and Serbia were highly satisfactory once again and double-digit growth rates were recorded in both countries. Works on the »Sava Bridge« project in Belgrade are continuing on schedule and the Serbian principals are extremely satisfied with the way construction is progressing. This also led to the acquisition of further projects. Additionally there were also high growth

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rates in Albania where the projects »Ashta I and II power plants« are going well. In the Czech Republic it was possible to maintain levels similar to the previous year. In contrast, there was a massive slump in Hungary, where the situation continues to be extremely tense with no improvement in sight.

### **Order situation**

In addition to the significant increase in production output, order bookings continued to stabilise in the first quarter of 2011 and were even higher than the comparable period from last year at EUR 574.9m. Developments in the order backlog saw a reduction of 9.0% as a result of high production output and amounted to EUR 2,555.8m in absolute terms. This means that the order books are satisfactory and for the current year PORR is working to almost full capacity.

Developments of the order backlog in the home markets showed high variation. While there were increases in Germany and Switzerland – acquisitions in Germany included the Emscher sewer and the interesting bridge project »Stör Bridge« – Poland and Austria saw decreases in orders. In Poland this fall was due to the completion of the »S2 expressway« order. The new orders acquired such as »Poleczki Business Park, lot 2« were not able to compensate fully for this project.

In Austria the order backlog in Vienna decreased, although it was possible to increase order bookings significantly. New projects such as the »Oase 22 residential complex«, the »Aßmayergasse residential complex« and the municipal building »Rossau wing 7« were newly acquired in the first quarter of 2011.

Highly varied regional developments were observed on the core markets. One pleasing development in Hungary was the »Eurovegas« project in Bezenye, building a leisure and entertainment complex on the Austro-Hungarian border. This marks the largest new order so far in 2011. In Serbia the good work done on the Sava Bridge was rewarded with two subsequent

orders: works on the »bridge sidespan« and the ramps on the north and south sides of the bridge.

In most other countries the increase in production output led to falls in the order backlog, while order bookings rose due to new acquisitions. This was the case in the Czech Republic, Romania and Croatia. The Slovakian market continued to be problematic, there were hardly any new projects put out to tender.

### **Staff**

In the first quarter 2011 PORR employed an average 10,452 staff. In comparison to the same period 2010 this represents an increase of 80 people or 0.8%, appropriate given the rise in production output.

PORR is highly committed to targeted HR marketing in order to actively combat the lack of skilled labour. The significant increase in international deployment has also had an effect on HR development. Demand is rising within the Group for exceptionally well-qualified staff and managers who are able to operate in a complex and competitive environment.

### **Financial performance**

The construction industry typically experiences low output levels in the first months of every year. Particularly as a result of fixed costs for staff and machinery, the financial performance in Q1 is put under significant pressure. However, throughout the year these costs balance out through an increase in production output and lead to significant rises in earnings.

Developments in earnings for 2011 are in line with budget projections. Based on the given assumptions, over the course of the year PORR expects a stable performance in comparison to the previous year. It is, however, very difficult to predict developments in the construction industry, not only with regard to recent developments in North Africa, but also the cost-cutting measures and budget consolidation efforts of individual governments as well as the massive challenges in the European Union in general (e.g. Greece,

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Portugal). A slight decrease is expected in 2011 as a result of the delayed economic cycle of around 18 months which is specific to the construction industry and follows on from the 2009 economic crisis. The construction industry continues to find itself in a critical phase and so the impact which the crisis has had on the financial market combined with the massive falls in static industry continues to present the greatest challenges for the building sector. While it is true that the trough on PORR's home markets appears to have now passed, the CEE/SEE region continues to perform below experts' expectations.

The comprehensive reorganisation measures introduced by PORR, which will accompany the Group throughout the whole of 2011, signify the building blocks for a strategy of long-term, healthy and sustainable growth.

### **Outlook**

In the current situation there are multiple factors which will be crucial for a rebound of the construction industry. One is that the budget restrictions of governments should not come at the cost of improving infrastructure, particularly in the countries of the CEE/SEE region. The need to catch up in this region remains enormous and makes it more difficult for these national economies to approach Western European levels. In addition, the necessary cost-cutting measures in these countries should not hamper the willingness to invest on the part of private clients. The crisis has once again highlighted the extent to which building construction depends on investment in commercial, industrial and tourism projects. Public residential construction in Austria, and the Greater Vienna area in particular, may have cushioned the slump in demand from private investors, although it cannot single-handedly prop up the entire building construction sector.

While the worst of the crisis on PORR's home markets seems to be over, certain markets in the CEE/SEE region continue to battle the effects of the economic collapse. PORR is responding to these

developments with a flexible strategy and concentrating on markets where there is a resurgence in demand.

Positive growth tendencies are being seen in Romania and Serbia in particular, but also in Croatia, Slovenia and increasingly Bulgaria. The stated goal of the company is to upgrade some of these markets to home markets in the future, in which PORR will offer all products on a permanent basis with complete coverage. PORR has a highly selective approach to any markets which currently show variation. For example, in the Czech Republic the building construction sector is once again under pressure and hardly any private investments can be observed. However, the Czech road construction market holds potential and PORR is solidly positioned in this sector. PORR is keeping Hungary and Slovakia under very close observation, in order to be a reliable partner on the ground should there be a renewed rebound in the economy.

PORR's internationalisation strategy foresees growth which is organic and sustainable. Together with partner RENAISSANCE, it should be possible to tap into the massive development potential – in the infrastructure sector in particular – on the international markets (i.e. Oman, Qatar, Russia). The current situation in certain regions has validated the low-risk approach adopted by the Group.

Given the backdrop of this selective market strategy and solid order backlog, PORR's performance is in line with expectations. Steady execution of the order backlog is reflected in the satisfactory production output. For the current year 2011 PORR forecasts production output to be at least as high as the previous year. In terms of earnings, PORR predicts a stable performance, given the increase in output in the first quarter. The construction industry's delayed economic cycle and the related delay in the sector's recovery, combined with the ongoing reorganisation and continuing difficulties in the financing situation for privately financed projects are just some of the uncertain variables which can have unforeseeably severe effects on this forecast.

# SELECTED PROJECTS 1ST QUARTER 2011

	Location	Country
<b>Region 1</b>		
ÖBB Ötztaler Ach Bridge	Roppen	Austria
Office Park Euro Plaza, lot 5	Vienna	Austria
Innovative residential facility and care home Liebhartstal	Vienna	Austria
Oase 22 residential complex	Vienna	Austria
Parking facilities at Berlin Brandenburg International Airport	Berlin	Germany
Hochmosel crossing*	Zeltingen	Germany
Chedi Bellevue Hotel*	Andermatt	Switzerland
Oerlikon cross-city link*	Zurich	Switzerland
Eurovegas Casino	Bezenye	Hungary
<b>Region 2</b>		
Magnolia Park Wroclaw shopping centre	Breslau	Poland
S2 expressway	Konotopa-Pulawska	Poland
Office and retail building Poleczki Business Park, lot 2	Warsaw	Poland
E75 motorway renovations through Belgrade	Surcin-Bubanj Potok	Serbia
Reconstruction of Michelskastraße	Prague	Czech Republic
Metro M4	Budapest	Hungary
<b>Infrastructure</b>		
Vienna Main Station, lot 1*	Vienna	Austria
Reißeck II pumped storage power plant*	Reißeck	Austria
Ashta hydro power plant	Shkodra	Albania
Emscher sewer, lot 20*	Bottrop	Germany
Finne Tunnel new section Erfurt-Leipzig	Herrengosserstedt	Germany
Osterberg Tunnel new section Erfurt-Leipzig	Kalzendorf/Steigra	Germany
Arad Bypass	Arad	Romania
Biel Ostast Bypass*	Biel	Switzerland
Sava Bridge*	Belgrade	Serbia
Zdruzenie ZSR-Belusa stretch of railway line*	Zdruzenie-Belusa	Slovakia
<b>Development</b>		
Shopping Haidäcker Park	Eisenstadt	Austria
Regional office Wiener Städtische Versicherung AG and Donau Versicherung AG	St. Pölten	Austria
Austria Trend Hotel Doppio & Doppio Offices	Vienna	Austria
Office Park Euro Plaza, lot 5	Vienna	Austria
Project development at Main Station**	Vienna	Austria
Alexander Parkside, hotel buildings and apartments	Berlin	Germany

\*executed as part of a joint venture

\*\*project development in a consortium

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# THE »NEW« PORR

## Reorganisation – three key success factors

Success factors

Inclusion in organisational design

### Clear responsibilities

- Clear reporting lines
- Clearly defined limits of business responsibility
- Defining tasks and responsibilities for every unit

### Streamlined and flexible structures

- Optimising hierarchy levels
- Overall simplification of processes
- Reducing red tape

### Results-oriented, transparent management

- Increasing commercial responsibility through a strict dual-control principle
- Offering incentives based on results and in line with strategic aims
- Implementing transparent structures for accounting and controlling

## KEY DATA 1ST QUARTER 2011

in EUR m	1st quarter 2011	change	1st quarter 2010
Production output	468.0	+9.2%	428.7
of which domestic	288.4	+10.2%	261.7
of which foreign	179.6	+7.5%	167.0
Order bookings	574.9	+3.6%	554.9
of which domestic	311.2	-23.9%	408.8
of which foreign	263.7	+80.5%	146.1
Order backlog	2,555.8	-9.0%	2,810.1
of which domestic	1,286.6	-13.2%	1,481.8
of which foreign	1,269.2	-4.4%	1,328.2
Average staffing levels	10,452	+0.8%	10,372
of which waged workers	5,961	+3.0%	5,786
of which salaried employees	4,491	-2.1%	4,586

**Disclaimer** This quarterly report (interim notice in accordance with Stock Exchange Act art. 87 para. 6) also contains statements relating to the future which are based on estimates and assumptions which are made by managerial staff to the best of their current knowledge. Future-related statements may be identified as such by expressions such as »expected«, »target« or similar constructions. Forecasts related to the future development of the Group take the form of estimates based on information available at the time of going to press. Actual results may differ from the forecast if they are shown to be based on inaccurate assumptions or are subject to unforeseen risks. Every care has been taken to ensure that all information contained in every part of this quarterly report is accurate and complete. We regret that we cannot rule out possible round-off, typesetting and printing errors. This report is a translation into English of the interim report on the first quarter issued in the German language and is provided solely for the convenience of English-speaking users. In the event of a discrepancy or translation error, the German-language version prevails.