

# SUPERVISORY BOARD REPORT

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Dr. Alfred Gusenbauer

## **Dear shareholders, associates and friends of STRABAG SE,**

The 2014 financial year proves that STRABAG is capable of delivering long-term profitability even in a difficult economic environment. While the European construction industry continues to face high price pressure and even large competitors have been turning their backs on the sector, the STRABAG Group shows that its clear strategy – and the systematic implementation thereof – is the right answer to the challenges facing us today. The solid equity base and broad

diversification by segment and region create flexibility and help the company to adequately address risks. Building on these strengths, we are working with great determination on optimising our processes and organisation. Together with its moderate and selective acquisition policy, STRABAG in 2014 set some important paths for future years in which we intend to expand our position as one of the leading service providers in the field of construction technology.

## Supervisory Board meetings

In the past financial year, the Supervisory Board diligently performed the duties incumbent upon it under Austrian law, the Articles of Association, the Austrian Code of Corporate Governance (ÖCGK) and the Rules of Procedure. A total of six regular meetings of the Supervisory Board as well as three meetings of the audit committee, two meetings of the presidential and nomination committee, and one meeting of the executive committee took place in 2014. All members of

the Supervisory Board and its committees are independent and were represented in the relevant meetings in accordance with the conditions contained within the Austrian Code of Corporate Governance.

The Management Board engaged in an exchange of information and opinion as well as in open discussions with the Supervisory Board in order to regularly report on the market situation,

the course of the business and the situation of the company. At all meetings, the Management Board informed the Supervisory Board of STRABAG's strategic direction, of its cash flows and financial performance, the personnel situation and of any plans regarding investments, disposals or large projects, and obtained its

approval regarding important business transactions. The Supervisory Board studied the corporate planning and the appropriate analyses of divergence constantly and in great depth. Specifically, the following agenda items of the Supervisory Board meetings should be emphasised:

#### **SUPERVISORY BOARD MEETING 1: DISCUSSION OF 2013 RESULTS AND GROUP STRATEGY**

The agenda of the first Supervisory Board meeting of the 2014 financial year on 24 March 2014 included the Management Board's report on the market situation and the current situation of the company, as well as the budgeting and expenditure planning for the equipment fleet for the 2014 financial year. The board approved the renewal of the syndicated € 2.0 billion surety loan and of the € 400.00 million syndicated credit facility, as the market environment at the time offered more favourable conditions. The results were discussed in detail on the basis of the cost accounting for the 2013 financial year. The results of the fourth quarter of 2013, the strongest quarter in company history, were received especially positively. The impact of individual

problematic projects was also debated in detail and ways of improving the risk management so as to avoid such projects were discussed with the Management Board. The Management Board presented its new group strategy with the motto of "TEAMS WORK." The strategy foresees STRABAG continuing to selectively grow as a leading technology group for construction services in Europe. Important targets include maintaining the investment grade rating, an equity ratio of at least 25 %, an EBIT margin of 3 %, and a dividend payout ratio of 30–50 % of the net income after minorities, as well as increasing the percentage of women in the group and the percentage of the output volume generated on the non-European markets.

#### **SUPERVISORY BOARD MEETING 2: EVALUATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The agenda of the second Supervisory Board meeting of the 2014 financial year on 28 April 2014 dealt with the financial statements, the management report, the corporate governance report, the consolidated financial statements and the group management report. The audit committee reported on the audit of the financial statements, the consolidated financial statements, the management reports and the corporate governance report. There were no objections to the audit by the financial auditor and all questions of the audit committee could be answered satisfactorily. The Supervisory Board thereupon acknowledged completion of the 2013 financial report. The Management Board's proposal for the appropriation of net income was also reviewed, with a recommendation for its acceptance by the Annual General Meeting. Also discussed were the results of the external

evaluation of compliance with the Corporate Governance Code in 2013, which had determined that all applicable rules had been complied with. In preparation of the tenth Annual General Meeting, the Board also discussed and approved the Supervisory Board report as well as the proposal to appoint KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, as auditor, financial auditor and group financial auditor. The Management Board reported on the results of the first quarter 2014. The Management and Supervisory Boards further discussed variances from the targets and debated possible solutions. The meeting also included a detailed discussion of how to implement the Management Board's decision, based on the STRABAG 2013ff task force reports, for measures in Hungary as well as the impact on output volume and earnings.

#### **SUPERVISORY BOARD MEETING 3: EXTENSION OF THE MANAGEMENT BOARD MANDATES**

During the third Supervisory Board meeting of the 2014 financial year on 27 June 2014, it was decided – in accordance with the specifications that had been discussed in detail by the presidential and nomination committee – to extend

the mandates of all Management Board members by four years to 31 December 2018. Dr. Thomas Birtel was again appointed CEO for this period.

#### **SUPERVISORY BOARD MEETING 4: INTERNAL AUDIT REPORTS AND TASK FORCE REPORT ON SWITZERLAND**

During the fourth Supervisory Board meeting of the 2014 financial year on 18 July 2014, the chairman of the Supervisory Board reported on the positive outcome of the tenth Annual General Meeting, the audit committee reported on the results of internal audit, and the financial auditor reported on the planning for the audit of the financial statements for the 2014 financial year. The report by the Management Board on recent developments focused especially on the

challenges in the RANC region (Russia and neighbouring countries). Possible consequences for STRABAG from the merger of cement manufacturers Holcim and Lafarge were also discussed with the Management Board. Finally, the discussion moved to proposals for implementing measures based on the visit to Switzerland by the STRABAG 2013ff task force. The measures are taking hold and the developments observed are positive.

#### **SUPERVISORY BOARD MEETING 5: TASK FORCE REPORT ON POLAND AND ACQUISITION OF DIW**

During the fifth Supervisory Board meeting of the 2014 financial year on 15 September 2014, the Management Board first reported on recent developments before discussing variances from the targets with the Supervisory Board. Regarding the developments in Poland, it was reported that measures to restructure and optimise the regional organisation had already been implemented starting with the foreseeable decline in

orders after the 2012 European football championship. The task force undertook a more detailed analysis and further optimisations were made. The Management Board reported on the planned acquisition of DIW Group, a facility management company. As the range of services make a complementary addition to the existing activities, the Supervisory Board approved the Management Board's proposal.

#### **SUPERVISORY BOARD MEETING 6: APPROVAL OF BOND AND SELF-EVALUATION BY SUPERVISORY BOARD**

During the sixth Supervisory Board meeting of the 2014 financial year on 12 December 2014, Georg Hinterschuster was presented as the newest Supervisory Board member nominated by the works council. He replaces Gerhard Springer, who left the Supervisory Board after 20 years as employee representative. The Management Board reported on the latest situation, specifically that the positive results of the first half of the year continued into the third quarter. Recent developments in Russia were also discussed once more. The Management Board further reported on the measures to fight

corruption (C-Rule 18a of the ÖCGK). In 2014, STRABAG reworked its ethics guidelines from 2007 and reissued them under the title "STRABAG Business Compliance". Finally, the Supervisory Board discussed the results of its self-evaluation. The review showed that the working methods of the Supervisory Board were rated very positively overall and that there are no suggestions for improvements. Also discussed were the IT-supported distribution of Supervisory Board documents under the aspects of data privacy and efficiency. Such a system will be tested in 2015.

## **Financial reporting**

The internal audit department informed the audit committee of the audit plan and of significant outcomes in accordance with C-Rule 18 of the Austrian Code of Corporate Governance. Furthermore, the audit committee monitored the accounting processes (including the preparation of the consolidated financial statements) and the work of the auditor (including the audit of the consolidated financial statements) as well as the effectiveness of the system of internal control, the risk management system and the

audit system. The independence of the auditor (group financial auditor) was reviewed and monitored in particular as regards the additional services given to the audited company.

The financial statements and management report of STRABAG SE for the 2014 financial year were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz. Pursuant to the final result of the audit, the auditor had no cause for

complaint and awarded its unqualified opinion.

The consolidated financial statements and the group management report drawn up by the Management Board for the 2014 financial year under application of Section 245a of the Austrian Business Enterprise Code (UGB) in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) applicable on the balance sheet date were reviewed by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, and awarded their unqualified opinion.

The auditor's reports and the group financial auditor's reports were submitted to the Supervisory Board. The audit committee reviewed the 2014 financial report and the management report including the proposed appropriation of

net income and the corporate governance report, and the 2014 consolidated financial statements and group management report, and prepared the approval of the annual financial report by the Supervisory Board.

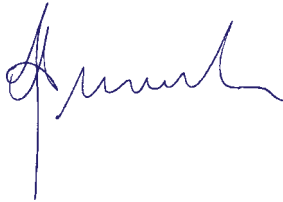
The Supervisory Board reviewed all documents as well as the report by the audit committee. In the meeting of 27 April 2015, the Supervisory Board stated its agreement with the financial report and the 2014 consolidated financial statements and officially approved the 2014 financial report, thus acknowledging its completion. The Supervisory Board supports the Management Board in its proposal for the appropriation of net income. The Supervisory Board proposes appointing KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, as auditors and financial auditors for the 2015 financial year, in accordance with the proposal of the audit committee.

## Thanks

By way of closing, the Supervisory Board would like to express its gratitude and appreciation to the Management Board and to all employees for

their valuable contribution in the past financial year.

The chairman of the Supervisory Board of STRABAG SE



Dr. Alfred Gusenbauer  
Vienna, 27 April 2015