Supervisory board report

© REUTERS/ Herbert Neubauer

Dr. Alfred Gusenbauer

DEAR SHAREHOLDERS, ASSOCIATES AND FRIENDS OF STRABAG SE

After the 2012 financial year, which was affected by negative non-recurring items, STRABAG SE found its way back to its original course in 2013. The foundation for this success lies in the consistent implementation of the strategy that has made STRABAG strong – and not just since the global economic crisis. The broad diversification of the business by construction segment and country, the focus on sustainable business and, above all, the persistent optimisation of the group's organisation – for example through the STRABAG 2013ff task force – ensure that STRABAG can do a comfortable business and offer tens of thousands of jobs even in times of stagnation on the construction markets.

OPEN EXCHANGE OF INFORMATION AND OPINION IN FOUR 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 four regular meetings of the supervisory board as well as two meetings of the audit committee, two meetings of the presidential and nomination committee, and one meeting of the executive committee took place in 2013. 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 EARNINGS EXPECTATIONS AND ATX POSITION

The agenda of the first supervisory board meeting of the 2013 financial year on 18 February 2013 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 2013 financial year. The results were discussed in detail on the basis of the cost accounting for the 2012 financial year. Countries and projects with special variances from the planning or from the forecast of the previous quarter were explained by the management board and analysed together with the members of the supervisory board. Also discussed were the management board's expectations for the 2013 financial year as well as the necessary steps for the further optimisation of the group organisation. The heterogeneity of the market structures in the individual countries in which the group does business results in great differences in the earnings situation. Certain unique qualities of large projects, for example in tunnelling, led to aperiodic results and non-recurring items. All in all, however, the non-recurring items are no longer expected to impact the results in 2013 to the same degree as they did in 2012. The press reports on the development of the STRABAG SE share price and the possible delisting from the ATX blue chip index, as well as possible responses, were also discussed.

SUPERVISORY BOARD MEETING 2: STRATEGIC ANALYSIS OF BUSINESS FIELDS

The agenda of the second supervisory board meeting of the 2013 financial year on 29 April 2013 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 2012 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. The presidential and nomination committee reported on the intention by Dr. Gottfried Wanitschek to resign his mandate as member of the supervisory board. Mag. Hannes Bogner was unanimously nominated as his successor for election by the Annual General Meeting. The discussion also focused on the proposal by Dr. Hans Peter Haselsteiner to resign as CEO following the Annual General Meeting on 14 June 2013 and to make his services available to the group as fully authorised representative. Following the suggestion of the presidential and nomination committee, the supervisory board accepted the resignation. At the same time, it was decided to appoint Dr. Thomas Birtel as new CEO with a term from 15 June 2013 to 31 December 2014. In preparation of the ninth Annual General Meeting, the board also discussed and approved the supervisory board report as well as the appointment of KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, as auditor, financial auditor and group financial auditor. The management board reported on the results of the first quarter 2013 and provided an outlook of planned projects. Changes in the management of group subsidiaries were discussed, the reasons for weaknesses in individual areas were analysed and the measures taken were presented. Due to the low growth of the construction markets in Europe, the output volume of the group is expected to remain stable in the future. The focus is therefore on increasing the income, which is why the group is working intensely on further improving its risk management in contract acquisition and in the bidding phase. The board also discussed the issue of a bond due to the favourable market situation and approved the management board's plans in this regard.

SUPERVISORY BOARD MEETING 3: REPORT ON THE ANNUAL GENERAL MEETING AND ON THE EVALUATION OF THE INTERNAL AUDIT

During the third supervisory board meeting of the 2013 financial year on 19 July 2013, the chairman of the supervisory board reported on the ninth Annual General Meeting of 14 June 2013 and on the resolutions which had been passed. The Annual General Meeting had proceeded positively and the changes in top management had been well-received. From the audit committee, the chairman also reported on the evaluation of the internal audit. The management board reported that the realignment of the organisational structure in Poland at the beginning of the year had been met with positive feedback. The insolvency of Austrian competitor Alpine and the consequences for the affected markets were discussed with the management board and a strategy was agreed. The management also highlighted the especially positive development in the building construction business in Germany. A restructuring process had been launched in the management of the German transportation infrastructures segment and an upward trend is to be expected in this business field in the future. The board also reported on the market development in Hungary and on the concluded share buyback programme.

SUPERVISORY BOARD MEETING 4: ANALYSIS OF VARIANCES AND RESULTS OF THE SELF-EVALUATION

The fourth supervisory board meeting of the 2013 financial year on 20 December 2013 dealt with the positive and negative variances from the targets and analysed the reasons for this development. Discussions focused especially on the restructuring of the hydraulic engineering activities. Strategic and organisational adjustments, however, should improve the situation in the future. The board also discussed the first estimates for the 2014 targets. The management board reported on the measures to fight corruption (C-Rule 18a of the ÖCGK). A special focus was placed on new training measures in this regard in 2013. The new e-learning module is now in place throughout the group.

Finally, the supervisory board discussed the results of its self-evaluation: the annual self-evaluation of the supervisory board showed that the working methods of the supervisory board were rated very positively overall. Especially worth mentioning are the open discussion culture with the management board and the coordination between the supervisory board plenum and its committees. Particularly positive ratings were also given to the structuring of the working methods in the committees and in the plenum of the supervisory board and to the communication with the financial auditor.

CONSOLIDATED FINANCIAL STATEMENTS RECEIVE UNQUALIFIED OPINION

The internal audit department informed the audit committee of the audit plan and of significant outcomes in accordance with Rule C-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 2013 financial year were audited by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz. Pursuant to the final result of the audit, the auditor had no cause for complaint and awarded his unqualified opinion.

The consolidated financial statements and the group management report drawn up by the management board for the 2013 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 AG 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 2013 financial report and the management report including the proposed appropriation of net income and the corporate governance report, and the 2013 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 28 April 2014, the supervisory board stated its agreement with the financial report and the 2013 consolidated financial statements and officially approved the 2013 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 AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Linz, as auditors and financial auditors for the 2014 financial year, in accordance with the proposal of the audit committee.

CORPORATE GOVERNANCE REVIEW FINDS NO CAUSE FOR COMPLAINT

In accordance with C-Rule 62 of the Austrian Code of Corporate Governance, STRABAG SE commissions an external evaluation of compliance with the Code every three years. The evaluation conducted by Fellner Wratzfeld & Partner Rechtsanwälte GmbH at the beginning of 2014 revealed no indications that the declarations provided by the management and supervisory board members regarding the observation of and compliance with the comply or explain rules or the recommendations of the Austrian Code of Corporate Governance were untrue. In its audit of the 2013 corporate governance report in accordance with Section 243b of the Austrian Business Enterprise Code (UGB), Fellner Wratzfeld & Partner Rechtsanwälte GmbH also found no cause for complaint in its final report.

THANKS TO THE MANAGEMENT BOARD AND TO ALL EMPLOYEES

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. Special thanks go to the departing CEO, Dr. Hans Peter Haselsteiner, for his many years of invaluable contributions to the company. Without his exceptional service, STRABAG would not be where it is today.

The Chairman of the Supervisory Board of STRABAG SE

Dr. Alfred Gusenbauer
Vienna, 28 April 2014