



Construction Update

Green shoots in a year of transition

Rabobank – Wholesale Clients Netherlands
Industry Knowledge Team
Utrecht, April 2014



Table of contents



Sections

I	Construction in macroeconomic perspective	5
II	Developments Netherlands	9
III	Developments Europe and US	18
IV	European contractors – metrics & strategy comparison	26

Appendices

A	Appendix: Contact details	32
---	---------------------------	----

I. Construction in macroeconomic perspective

- The European construction sector is finally bottoming out now that the European economy is back on a growth track. We expect that construction production will improve gradually, provided that conditions stimulating a.o. residential production will strengthen during the year and gross fixed capital formation will increase backed by growing producer confidence and higher utilisation rates
- A recovery of European construction production is expected as of 2014 onwards. Although it will start slowly, the recovery might gather speed as of 2H14 due to increased GDP growth forecasts. One of the prerequisites for stronger economic growth is a consistent and persistent approach towards economic reforms
- Dutch gross fixed investments in homes, buildings and infrastructure have been improving in recent months. Likewise, construction confidence has shown a very strong pickup in the twelve months preceding March 2014. Overall, macroeconomic developments are not expected to have major destabilizing effects in Europe anymore, but the construction sector will still experience some headwinds from the weak labour market and depressed household income

II. Developments Netherlands

- Like in our 3Q13 Construction Update, we stick to our cautious view that the Dutch construction market will bottom out in 2H14. However, based on improving sentiment and stabilising order books we have become slightly more optimistic, resulting in stabilisation or possibly slight production growth in 2014. In 2015 the recovery will be more pronounced with 2.5% growth YoY
- Positive signs in the residential market are accumulating, but 2014 will be a balancing act between positive developments and challenges like low permit issuance, stricter regulations for housing corporations and lower employment participation. The wide gap between input prices and output prices evidences that an increase in (new)residential production will not immediately result in better margins
- Due to oversupply in commercial real estate markets and the transition from greenfield to brownfield developments (stimulating transformation, renovation) we foresee a strongly subdued demand for new non-residential buildings in the coming years. This is illustrated by the fact that the costs of construction orders for new non-residential buildings for most sectors were still declining at year-end 2013
- Dutch Infrastructure production will suffer from widespread austerity measures and a slow private sector investment climate in 2014. Meanwhile, opportunities in the Dutch PPP market are ramping up, but under very competitive pricing levels and surrounded by an increasing number of legal disputes

III. Developments Europe & US

- With the exception of France and Spain, all European countries covered in our analysis are expected to report construction growth as of 2014. Due to the severity of economic problems and public deficits it will take longer for these countries to recover. Overall, Europe continues to struggle against the challenges of Euro zone economic woes, deficit reduction and challenging export markets. Nevertheless, we expect that macro economic developments will not ignite a new set of destabilizing effects on the construction sector
- Germany proves to have the most robust construction sector in recent years and currently enjoys an early spring resulting from strong economic fundamentals
- The 4 Nordic countries combined are reporting a stronger construction performance than the rest of Europe. Many European contractors try their luck in the Nordics, mainly attracted by a steady stream of larger infrastructure and non-residential projects
- Although US construction already returned to growth in 2012, the recovery still seems relatively weak in historical perspective. However, the shale gas boom keeps offering opportunities for infra contractors experienced in the power sector (adaptation of distribution networks to LNG/shale gas). The upturn in the residential market is slowing down somewhat, but is still the main driver of construction recovery

IV. European contractors – metrics & strategy comparison

- In recent years, contractors increasingly jumped to internationalisation and diversification in order to escape weak local markets. The effects of European decline were softened by diversification into e.g. maintenance, energy and PPP contracts. A substantial number of contractors expanded their activities outside Europe, preferably in emerging markets
- EBIT margins of the largest European contractors seem to edge up from their troughs, but pure construction activities, especially those from Dutch companies, are still showing a very meagre performance in 2013, significantly under the 10-year average of 4%. Earnings recovery at main European contractors will on average be a slow process. Given this fact and the remaining high pressure on the Euro zone financial system, the need for deleveraging to create cash for growth remains
- Diversification and internationalisation are tempting in the battle to grow earnings as other regions outside Europe will report structurally higher construction growth rates. However, e.g. foreign expansion involves many risks and margin improvement firstly starts with operational excellence and excellent risk management. Dutch contractors should consider a more close examination of their opportunities for cost reductions related to subcontractors and building materials as these costs make up for 86% of total costs and these cost categories are largely responsible for so-called failure costs



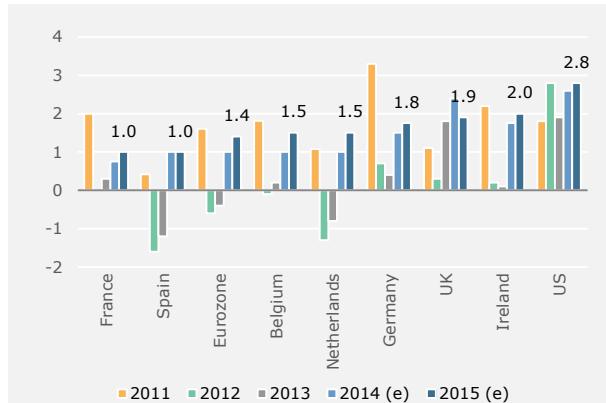
Construction in macroeconomic perspective



Rabobank

Construction still digesting aftermath of economic crisis, recovery will be more pronounced as of 2015

GDP forecasts (% YoY)



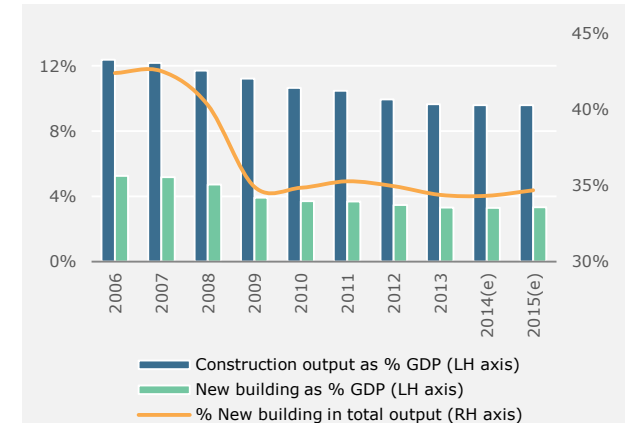
Source: Rabobank Economic Research

Construction production volume (% YoY)

	Volume 2011	Volume 2012	Volume 2013(e)	Volume 2014(e)
Netherlands	3.5%	-7.2%	-5.0%	0.4%
Germany	3.7%	-1.2%	0.3%	2.7%
UK	2.3%	-7.8%	-1.1%	2.4%
Ireland	-19.1%	-16.8%	-3.5%	9.8%
France	4.3%	0.3%	-2.8%	-1.5%
Belgium	4.3%	0.5%	-1.3%	1.2%
Spain	-20.1%	-31.8%	-23.0%	-6.7%
US	-1.7%	8.7%	6.1%	7.4%

Source: Euroconstruct December 2013, FMI Corporation

Construction output, GDP and new building



Source: Euroconstruct, Euroconstruct 19 countries

Harsh years followed by soft Dutch recovery

- After years of decline, the European economy seems to be back on a growth track. Main drivers of expected GDP growth are improving consumer confidence indicators and private spending. Various institutes recently upped their forecasts, assuming various countries continue to carry out economic reforms consistently
- Contrary to other countries, the Dutch economy will firstly benefit from increasing net exports and a higher investment appetite by the business community. As of 2015 we expect more significant contributions from private consumption and declining unemployment. Consumer confidence is still negative, but rose for the 6th consecutive month in March 2014

First green shoots in transition year

- In line with economic forecast institutes, Euroconstruct has raised its outlook for the European construction sector. Although Euroconstruct expects Dutch construction to grow slightly in 2014, the recovery might be curbed by further deleveraging of households and businesses in 2014. Furthermore, both central and local governments still have to absorb austerity and restructuring measures
- Overall, Euroconstruct estimates are mildly optimistic for most European countries. Increases in construction production as of 2014 are primarily dependent on an accelerating revival in the residential market, for instance backed by low mortgage interest rates

New building activity in calmer territory

- Currently European construction output is representing 9.7% of GDP on average. In the last decade European economies have become less dependent on construction, especially driven by strong declines in new building activities (residential and non-residential)
- In countries like Ireland and Spain construction output as a % of GDP more than halved, while Belgium and Germany were hardly affected. Positively, economic growth is strengthening and will have its effect on purchasing power. How quickly construction will increase its contribution to GDP growth, will strongly depend on the size of regionally built-up surpluses in (non)-residential property

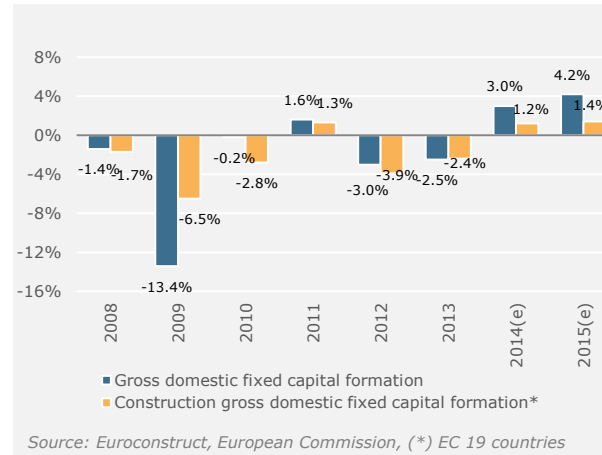
Dutch construction confidence climbing up steadily, gross fixed investments edging up from their troughs



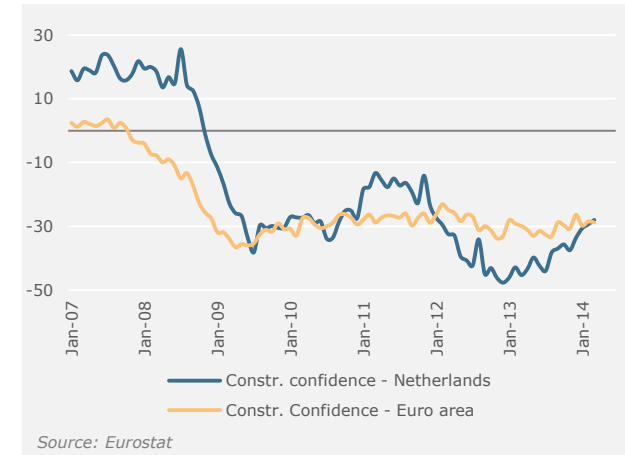
Improving prospects Dutch investments

- The outlook for European fixed capital formation¹ is modest, but is expected to slightly gather pace in 2H14. Gross fixed investment volumes are still relatively low at this early stage of the economic rebound, dampened by weak fundamentals and the economic crisis legacy. In general the European capital goods stock has been ageing strongly during a long phase of downward economic adjustments
- Fixed capital growth can be supported further by improving funding conditions. However, European corporate loan volume growth (not in graph) was still negative in February 2014 (-3% YoY), while corporate profits suffer from erosion. With better than expected GDP growth in the Euro zone and a pick-up in corporate revenue prospects, there are signs that the worst is over
- Looking at developments from a more positive angle, all this should result in improving producer confidence and higher utilization rates when replacement investments start to spill over to new capital expenditure
- Recent Rabobank forecasts reveal that Dutch gross fixed capital formation (investments)² is expected to pick up considerably in 2014 and 2015 (4.75% and 4.0% YoY). This is supported by investments in Dutch homes, buildings and infrastructure which seem to edge up from their troughs since 2H13. The construction confidence indicator has improved strongly in recent months, which provides a strong base for a further increase of both gross fixed investments and the production index

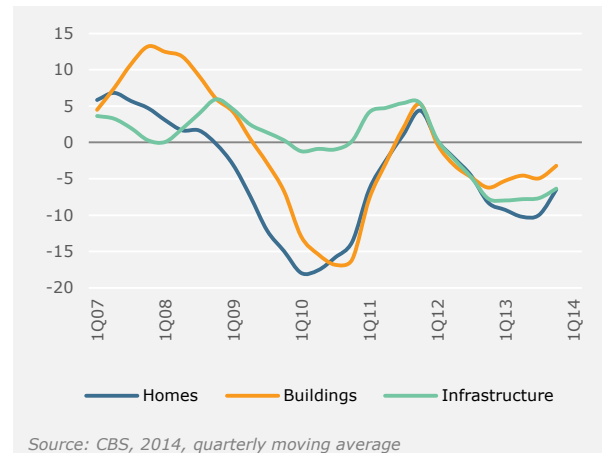
European fixed capital formation (% YoY)



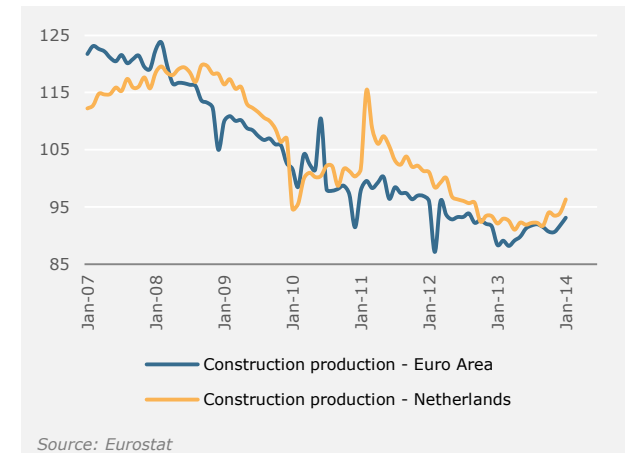
Construction Confidence indicator



Dutch gross fixed investments (% YoY)



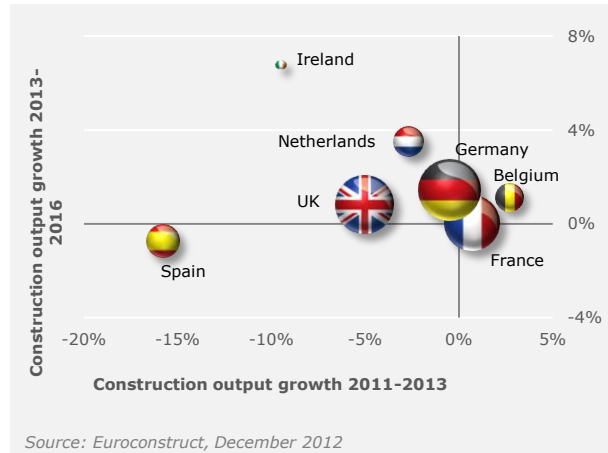
Construction Production index (2010 = 100)



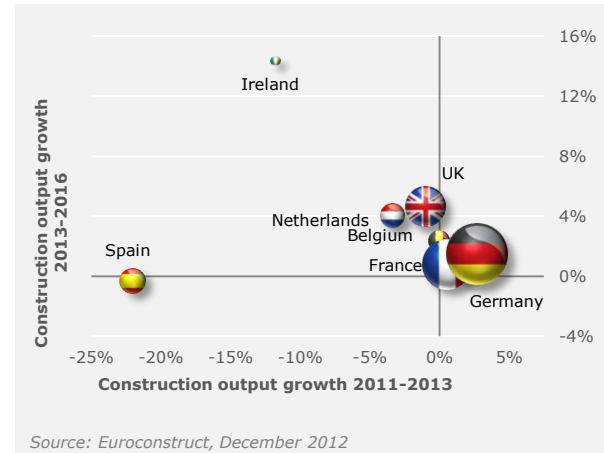
Note (1): Fixed capital includes tangible and intangible assets that are used in the production process for longer than one year, e.g. buildings, dwellings etc. Gross investment s include both spending to expand assets, and spending to replace assets
 Note (2): Dutch gross fixed investments in homes, buildings and infrastructure include the work in progress of the construction sector commissioned by principals and costs related to conveyance, real estate brokerage, appraisals and architect costs

Slow European construction recovery gathering pace after 2014

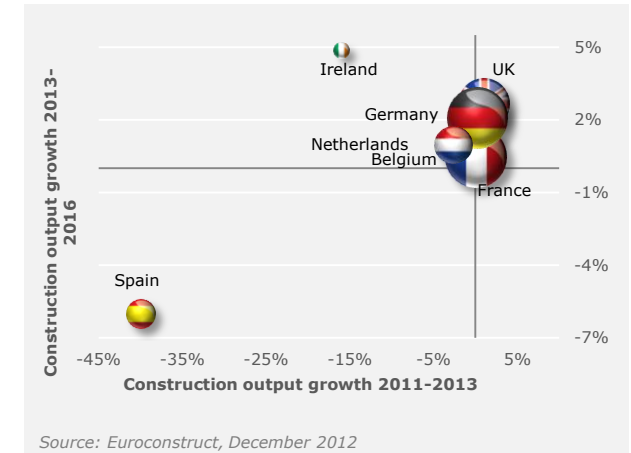
Non-residential (% CAGR)¹



Residential (% CAGR)¹



Infrastructure (% CAGR)¹



Non-residential: further deterioration halted

- After investment cuts from both the private and public sector are being absorbed, further significant decline in production is not expected
- However, apart from the sluggish recovery in new production in countries with oversupply, also renovation will be curbed. Energy efficiency policies could contribute to renovation growth, but obligatory targets and new laws are lacking
- Ireland is remarkably positioned in the higher growth range, but we have to bear in mind that recovery is from a very low base as in previous years construction volume declined by over 80%. Meanwhile, growth is strongly supported by the created 'bad bank' NAMA² which is broadly supporting both commercial and housing projects

Residential: 2013 last year of decline?

- Now that economic prospects seem to be reaching more positive territories, we expect that residential production growth will return at the latest in 2015 in most European markets
- Macro economic developments do not seem to have major destabilizing effects anymore. However, it remains to be seen how positive drivers like demographic trends and low interest rates will be counterbalanced by still weak labour markets and depressed household income
- While stimulus measures have been phased out in most European countries, the UK finds strong support from new home buyers schemes. Production is growing markedly, but at the same time overheating of housing prices is feared

Infrastructure: hold back by austerity

- Euroconstruct has upped its infra forecasts in its most recent report. This implies that only a few countries, like e.g. Spain, will not be able to return to growth in the coming years
- There have been many public initiatives and fiscal policies to stimulate infra construction. Most stimulus programmes have now come to an end and infra budget improvements are highly dependent on economic recovery which can reduce the impact of austerity
- Moreover, significant public debt burdens will continue to put a damper on the prospects for new infra production. Like with new infra, the resources to tackle the deteriorating conditions of existing infrastructure are equally scarce

Note (1): size of the bubbles in the graphs represent relative size of construction production in specific country in 2013

Note (2): NAMA stands for National Asset Management Agency, NAMA functions as a bad bank, acquiring property development loans from Irish banks in return for government bonds in order to improve the availability of credit in the Irish economy



Developments Netherlands



Rabobank

Dutch construction: outlook influenced by balancing act between latent demand, lending policies, income prospects and austerity



2014: despite 'spring fever' a transitional year

- In January 2014, EIB (Economisch Instituut Bouw) released its new construction outlook. Since 2008, construction declined by almost 25% and construction will only start to grow visibly as of 2015. Although we agree with EIB about 2014 being a transitional year, we think differently about the timing and the magnitude of the recovery. EIB forecasts a slight shrinkage (-0.5% YoY) for the construction sector in 2014, but we expect production to stabilize or grow slightly. Production will improve markedly as of 2015, but we think the 4% YoY estimated by EIB is too optimistic. Mainly based on more modest expectations about the residential market we estimate that production will grow by 2.5%
- Residential growth is hampered by very low permit issuance which has dropped to an all-time low (see slide 12). Furthermore, mortgage lending conditions have been sobered down and income prospects are still subdued by a decrease in employment participation and the impact of austerity. On top of that, households expecting residual mortgage debt will temper their ambitions to make a next step in their housing career. In 2014 the effects of the 'verhuurdersheffing' and stricter regulations for housing corporations will result in lower investments in the new-built production of rental homes. Although various institutes recently upped their forecasts regarding Dutch economic growth, it will take time before this will translate fully into strongly higher home buyers appetite. All said, there is considerable latent demand for new homes based on socio-demographic trends¹, but the accommodation of demand is curbed by the issues mentioned
- Non-residential prospects are meagre. Key issues hampering new production are overcapacity in existing real estate and the prioritization of real estate financiers towards transformation and refurbishments. Vacancy rates will not come down quickly in the coming years and the demand side is strongly weakened by e.g. the effects of 'The new way of working' and the increase of online retail. However, as of 2014 we expect the pace of transformational activity (renovations) to climb gradually, backed by improving economic prospects
- Infrastructure output suffers from postponed infra spending on large projects by the central government as well as reduced budgets at local governments. A strong increase of new-residential production and the revitalization of business parks as of 2015 can provide an impulse for modest growth as this will drive the need to prepare building sites and improve infrastructural quality

Dutch construction production forecasts – % YoY

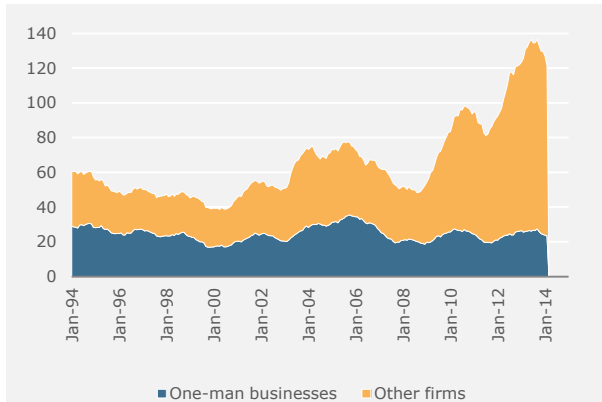
	2013 EIB	2014 EIB	2014(e) Rabo	2015(e) Rabo	2019* Rabo
Residential	-9.0%	-3.0%	-0.5%	5.0%	6.5%
<i>New building</i>	-11.5%	-7.0%	-2.0%	8.0%	8.0%
<i>Renovation</i>	-4.8%	2.5%	2.0%	0.5%	4.0%
Non-residential	-4.0%	1.5%	0.0%	2.0%	2.5%
<i>New building</i>	-5.0%	1.0%	-1.0%	1.0%	1.5%
<i>Renovation</i>	-2.0%	2.5%	2.0%	3.0%	3.5%
Infrastructure	-3.0%	0.0%	-1.0%	1.5%	2.0%
<i>New building & repair</i>	-3.5%	-0.5%	-1.5%	1.5%	2.0%
<i>Maintenance</i>	-2.5%	0.5%	0.0%	1.0%	1.5%
External subcontracting	-4.5%	-0.5%	0.0%	3.0%	3.0%
Maintenance buildings	1.5%	0.0%	0.5%	0.5%	1.0%
Total	-4.5%	-0.5%	0.0%	2.5%	3.0%

Source: EIB January 2014, Rabobank estimates 2014-2019, (*)estimated CAGR in 2016-2019

Dutch construction: capacity reduction and productivity constraints will bring challenges in the coming years

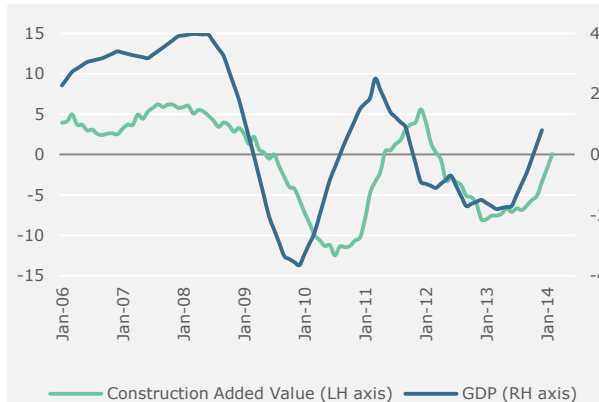


Dutch construction bankruptcies (monthly)



Source: CBS, 12 months moving average

GDP growth & added value (% YoY)

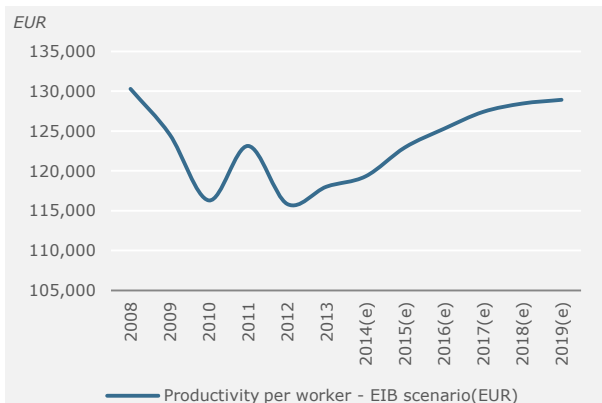


Source: CBS, Rabobank, 12 months/quarterly moving average

Cash generation key challenge

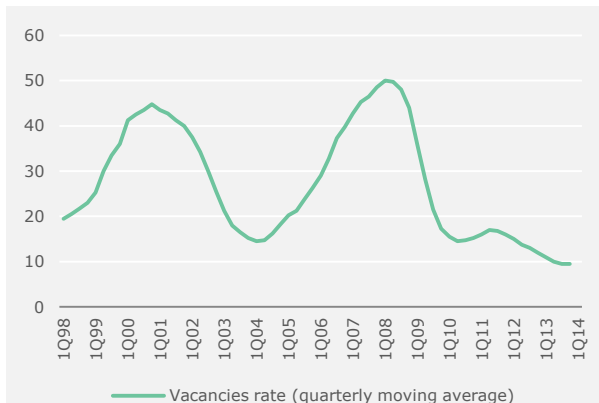
- It seems that the peak in bankruptcies has been passed. However, we expect that the level will remain high in the coming year due to a.o. order intake at or below cost price (see also slide 13) and significant constraints to generate cash to meet (increasing) working capital needs
- The late-cyclical character of construction has smoothed somewhat in recent years, because of overcapacity companies have been able to respond to demand more quickly. However, capacity at many firms has been reduced radically and as soon as demand is gathering speed, we expect margin pressure and pressure on cash flows caused by increasing labour costs (necessity to hire scarce subcontractors)

Productivity per employee (EUR)



Source: EIB, January 2014

Vacancies rate (# vacancies per 1,000 jobs)



Source: CBS, quarterly moving average

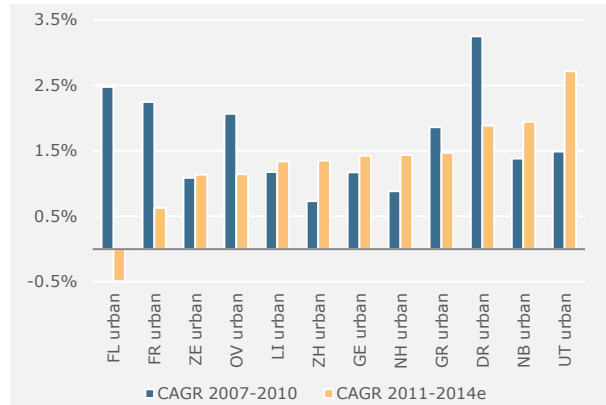
Productivity growth hampered

- Currently the vacancies rate in construction is very low. It is expected to increase only gradually over the year, provided that the order books of construction companies keep improving during the year
- As vacancies increase, it will be challenging to find new workers. Many older workers have left the industry permanently and inflow at colleges and vocational schools has shrunk considerably. Taking into account the EIB scenario (4% construction growth as of 2015), the productivity per worker might need to grow more strongly than projected in the graph at the left bottom, in order to prevent strong increases in cost price and margin erosion

Dutch Residential: new-built challenges driven by regional demographic trends, housing shortages growing in the short term

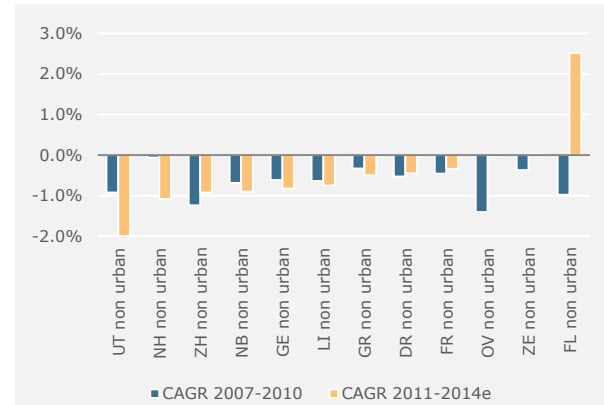


Urban population growth (%)



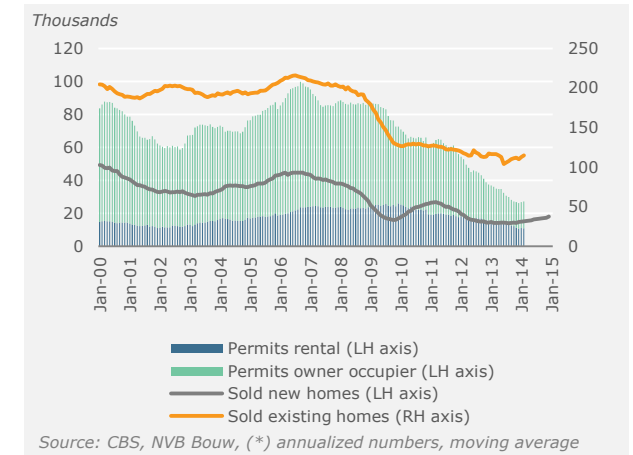
Source: CBS, 2014

Non-urban population growth (%)



Source: CBS, 2014

Sold houses & permits issued (annualized)



Increasing regional differences ...

- Differences in economic activity and income distribution are strong drivers of regionally diverging patterns of demographic growth. As the first two graphs on this slide clearly indicate, population growth will only occur in urbanized areas, except for the Flevoland province
- Furthermore, when looking at absolute numbers (not in graphs), population growth in the next decades will mainly take place in the Randstad provinces and Noord-Brabant, while stagnation or shrinkage is expected in the other regions
- In shrinking or stagnating regions it is important that the focus shifts from purely new-built activity to 'replacement' construction

...demand prudent new build approach

- The residential construction market is not only driven by regional urbanisation and population trends in general, but also by underlying regional developments in greying, the growth of single person households and changing consumer preferences (rental or ownership)
- Local housing shortages or surpluses will have a more temporary or structural character. Home builders and developers thus should consider to realise homes in a more adaptable and flexible way. Ideally homes should qualify for refurbishments in order to be able to serve the housing needs of e.g. both families and elderly people during its total life span. In specific cases homes should be built for disassembly, e.g. student homes or care apartments

Low permits issuance drives shortages

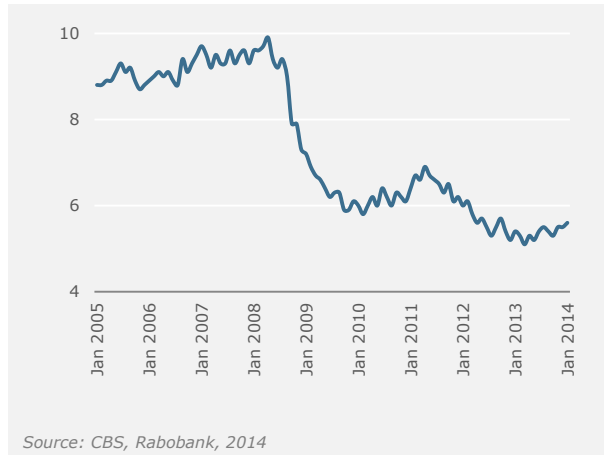
- Permit issuance for new homes has currently reached the lowest level in 14 years. In 2013 only 26.000 permits have been issued. This will temper the production of new homes in the coming years, likely resulting in a production of 45,000 homes or less in 2014 (2013: 51,000)
- Until 2040¹ ca. 1 mln new homes are required and also replacements of >15.000 homes yearly. Housing corporations, suffering from new regulation, cannot provide a strong stimulus for new production in the rental segment in the coming years. Sales (driving permits & production) of new homes will only increase by a few thousand in 2014. On balance, this will result in a growing overall Dutch housing shortage in the short term

Note (1): see the report 'Dutch housing market in regional perspective', issued by Rabobank Economic Research, January 2014

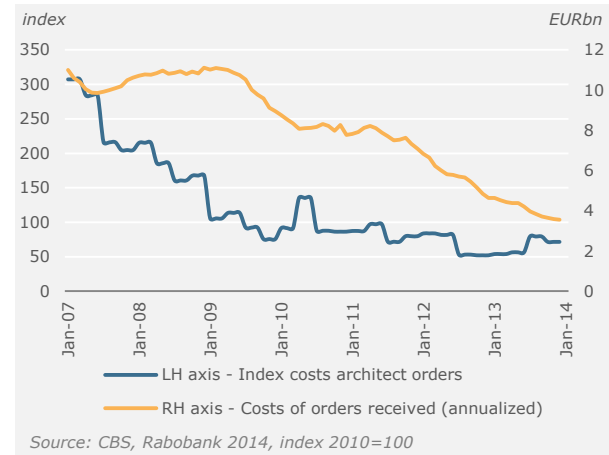
Dutch Residential: patience needed, anticipated production growth will not immediately result in margin improvement



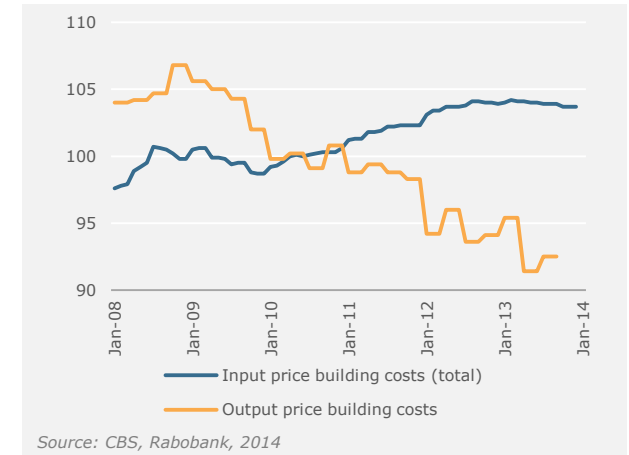
Order backlog residential (in months)



Architect orders & cost orders received



Prices newly built homes (index 2010=100)



Order book beyond the lowest point

- In 2014 new residential construction will decline further due to low permit issuance. Renovation is less late-cyclical and will grow slightly backed by improving consumer confidence (execution of postponed home improvement), supporting measures from the 'Energieakkoord' and the prolonged VAT reduction on renovation works
- The residential order backlog has reached a level of 5.6 months in January 2014 and has been circling around this number for 6 months, indicating that the worst might be over. This is also confirmed by large construction companies, indicating that both order books and sales are near stabilisation after a long period of decline

Index architect orders bottoming out

- The index of the costs of architect orders finally seems to have stabilized in 2H13. This is confirmed by the claimed order book stabilisation by architects (early indicator production)¹
- The trend in costs of orders received by contractors is still downwards. In the 'costs of orders received' wages, material costs, VAT and ground costs have been included, while in the 'costs of architect orders' e.g. ground costs and the architect's fee have been excluded. We expect the 'costs of orders received' to stabilize in due time, but the current downward trend suggests that home builders might experience an increase in orders, while they are forced to offer their products for a lower price

Margin of future production under pressure

- At first sight, expected increases in order books and costs of orders seem to be a positive indication for the future revenues and profits of contractors
- Looking more closely at input costs and output costs of newly built homes, the picture seems worrisome. The output price of homes (including surcharges for general costs, risk and profit) has declined strongly, while the input price (only representing wages & materials) has been rising substantially
- Order intake and completion of semi-finished products might be taking place at prices too low to recover actual production costs

Dutch non-residential: increasing vacancies commercial real estate drives transition from greenfield to brownfield developments



New-built assignments practically of the radar

- New non-residential production is hampered by (i) increasing vacancies (office market, retail market), (ii) modest appetite from the corporate sector, (iii) austerity at public clients, (iv) critical attitude Dutch real estate financiers and (v) increasing number of competitive all-in rental concepts from providers of existing properties. Foreign investors are increasingly interested in new-built and existing Dutch property, but primarily focus on large objects or portfolios¹
- Currently it seems unlikely that new non-residential production will ever reach pre-crisis production levels again, as a large share of production was induced by 'cheap' money and speculative building initiatives
- The order backlog has been circling around 5.4 months in 2013. So far, a stronger decline in the order backlog has been prevented by the stream of larger (PPP) projects driven by government spending. We expect the stream of large projects to shrink further, to be partly offset by brownfield (re)developments (transformation) and renovation & maintenance

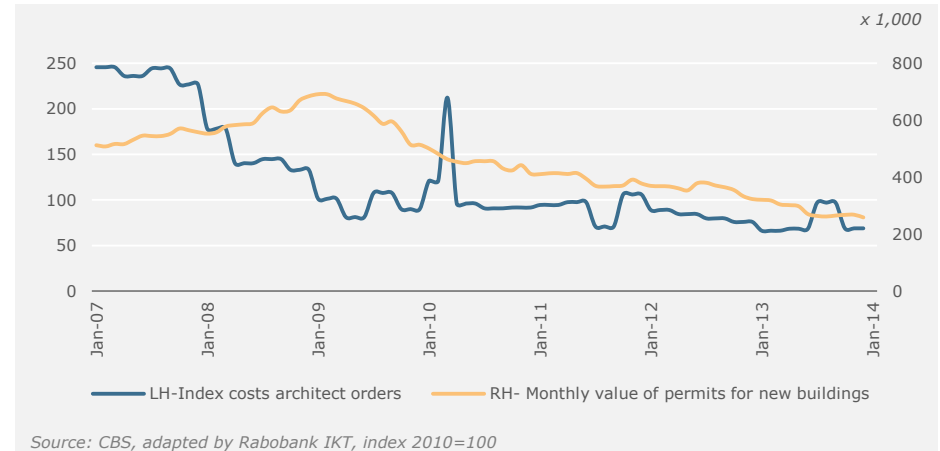
Fragile prospects for production growth as of 2015

- The index of costs of architect orders (covering new construction & renovation) finally seems to have bottomed out in 2H13. However, the monthly value of issued permits for new buildings is still declining. This seems to support the assumption that the transition from greenfield to brownfield developments (smaller scale, less voluminous) has only just started
- The value of issued permits for new buildings declined by roughly 20% YoY in December 2013 (15% YoY December 2012). Given the large relative contribution of new-built activity to total non-residential construction (>60%), this indicates that non-residential production will not recover before 2015
- Modest growth of non-residential production in 2015 is foreseen, with logistics and to a lesser extent retail construction performing markedly better than office building. Nevertheless, a vigorous recovery of business investments and continuously improving lending prospects for businesses are crucial for an overall recovery to really get airborne

Order backlog non-residential construction (in months)

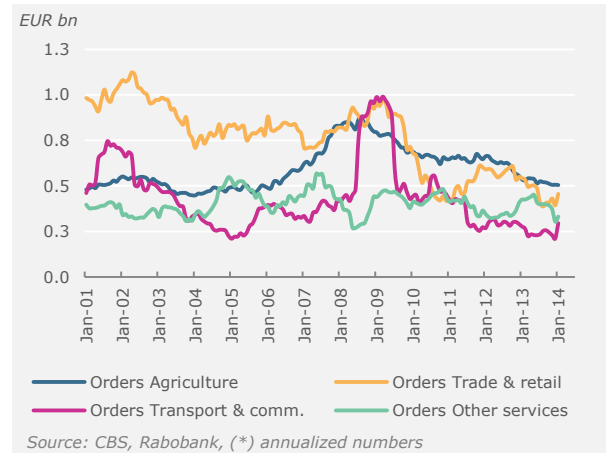


Non-residential: architect orders & value building permits (EUR m)

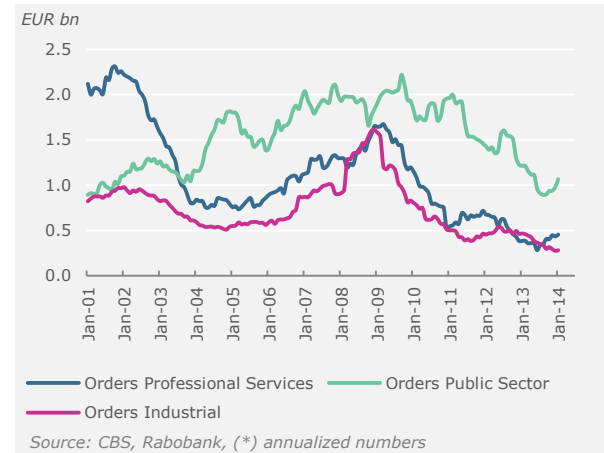


Dutch non-residential: appetite for new buildings still very modest, total orders might bottom out in 2014

Costs of orders received – new buildings*



Costs of orders received – new buildings*



Costs of orders received & finished works *



Low utilisation curbs new-built demand

- The costs of orders received contain the estimated building costs of new construction works in a specific period. The value of these orders is a good proxy for future new-built production. From the first two graphs on this slide we can conclude that production prospects for most sectors are still very modest, some sectors showing minor improvements in recent months
- When economic activity starts to improve, demand for new buildings will gradually pick up. However, oversupply of buildings is a structural problem in specific commercial sectors like e.g. offices/prof. services and retail. In our view, existing real estate will feel increased competition of new-built properties during a recovery. This will likely push up vacancy rates to undesired, higher levels

Slight pickup in services and public sector

- Costs of orders of Professional services (offices) and the Public Sector seem to have passed the lowest point. Within the Public segment (Education, Healthcare, Government), Education and Healthcare account for 80% of the costs of all Public orders received. Particularly Education has contributed to recent increases in costs of Public orders. However, we expect this to be a temporary effect as lower population growth and lower budgets decrease future new production
- The uptick in professional services seems an anomaly in the light of high and increasing vacancy rates in offices. The recent increase is perhaps distorted by the effect of a few large projects and the effects of sizeable re-developments which are measured as new-built activity

First signs of upcoming stabilisation?

- Since the peak in December 2008, the total costs of orders received (new-built + renovation) has decreased by 58% to a level of EUR 5.7bn in December 2013. The increase in January 2014 to EUR 6.1bn might indicate the start of a recovery process
- However, the costs of finished non-residential construction works are still heading downwards and the decline has accelerated in 2013. Based on improving economic growth prospects, we expect the costs of finished works to bottom out in 2H14
- The recovery pattern will differ strongly per sector, depending on economic cyclicality as well as the degree of vacant and suitable existing properties. The greater the demand for new-built property, the faster the recovery will proceed

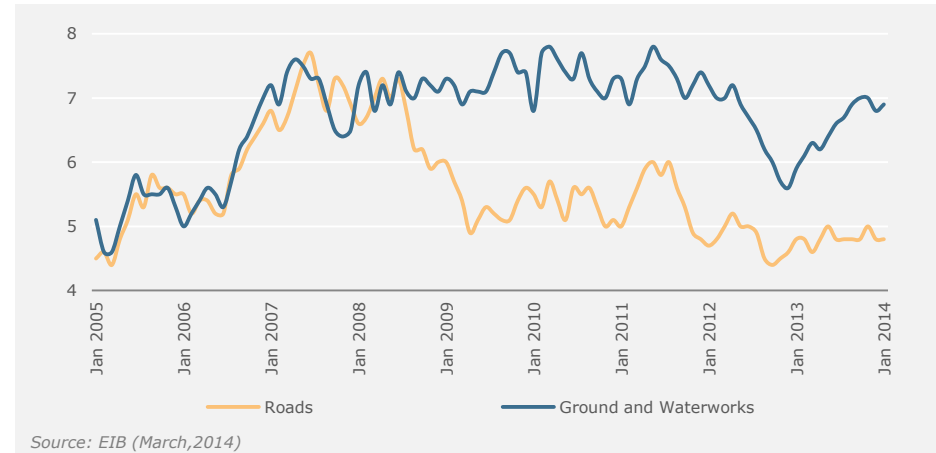
Dutch Infrastructure: production suffering from widespread austerity and slow private sector investment climate



Roads order backlog suffering from lower budgets

- Hampered by austerity from both the central government and local governments, the order backlog for roads has been circling around a very low level of 4.8 months for the past year. Although it seems that additional budget cuts by the central government will not be necessary, Dutch Statistics recently announced that local governments expect an increase of their budget deficit of EUR 0.6bn up to EUR 3.7bn in 2014, perhaps stimulating extra budget cuts. We expect the road order backlog to stabilise in 2014, provided that public bodies will reduce their expected budget deficits for 2015
- The Ground & Waterworks backlog has grown significantly in 2013, up to a level of 6.8 months, driven by increased budget from the Deltafonds and the flood protection programme (HWBP). Investments in dams, sluices and dikes will grow in the coming years, offering further upside potential for the order backlog. In an earlier stage (2012) the finalisation of the huge Maasvlakte II project has contributed to a deflation of the order backlog

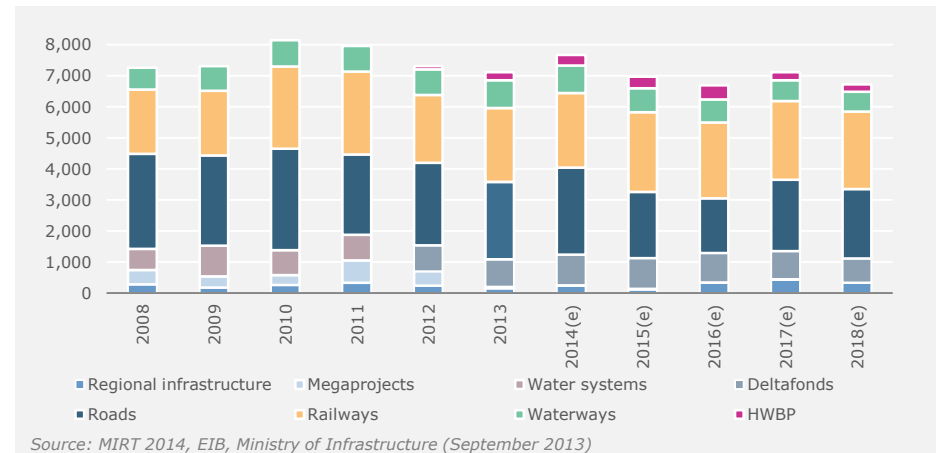
Order backlog Infra construction (in months)



Budget cuts result in significantly lower spending after 2014

- According to the budget of the central government (MIRT 2014), the total infrastructure budget will increase by 8% in 2014 up to ~EUR 7.7bn. This will mainly benefit larger contractors participating in integrated contracts for new-built roads and main water works. After 2014 budget for new construction decreases strongly, which is not compensated by an increase in maintenance
- We have our doubts about the magnitude of the 2014 MIRT budget increase, as public bodies e.g. delay larger road projects in order to effectuate austerity. Liquidity pressure at contractors is growing because tender costs for awarded projects are not being compensated quickly enough by the actual start of new assignments
- Necessary upgrades of ageing energy,- water and telecom infrastructure require considerable investments by private companies. However, we expect e.g. energy spending to be curbed by losses and debt burdens at energy utility companies and restricted tariff increases at transmission system operators

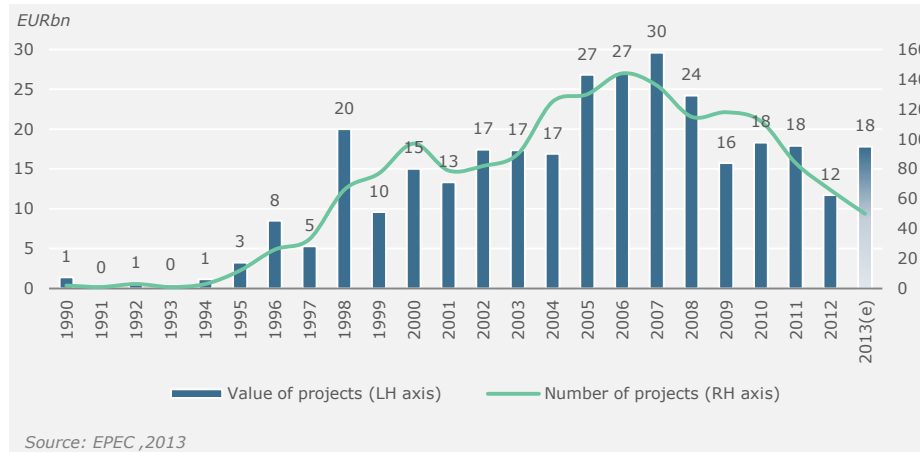
Infra expenditure budget Central Government (EUR m)



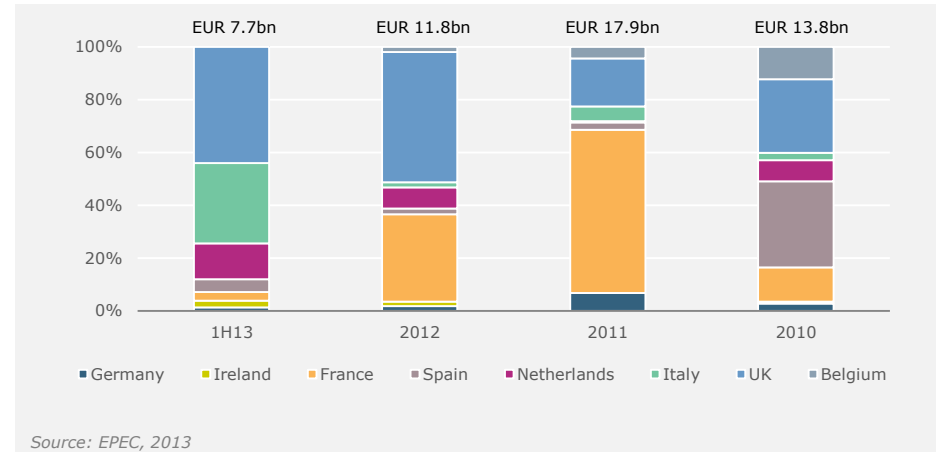
Dutch PPP market: opportunities expected to ramp up further, but under very competitive pricing levels and increasing legal disputes



Total value European PPP market and number of projects



Distribution PPP projects by value – main countries



Dutch conditions relatively favourable within European PPP market

- Until 2007 both the value and number of PPP's has grown significantly within Europe. Projecting the need and the current infrastructural conditions on the diminished public funds available for infrastructure, PPP will become increasingly attractive in the coming years
- It is important to consider the Dutch PPP market in European perspective. In 2012 the European PPP market showed the lowest figures for 12 years. The market is challenged by (i) budget restraints of governments to introduce large scale infrastructure or building programmes, (ii) the reliance on bank debt and the availability of affordable alternative funding and (iii) fading political support for PPP contracts
- We conclude that in recent years the Dutch PPP landscape has been developing relatively favourably, while for example the political support for PPP in the UK was fading. The public value for money has been questioned as early refinancing moments resulted in sizeable benefits for equity investors

Dutch market: increasing competition and legal discourse

- The overview of main European PPP projects in the last 3.5 years indicates that country shares vary widely. The UK dominated the 2012 European PPP market in terms of value, overtaking France which led the market in 2011
- We foresee a further increase of PPP projects in the Netherlands (mainly civil infrastructure) and also the size of the projects has the tendency to increase. As projects become bigger, this will increasingly entice foreign contractors to enter the Dutch market. These contractors will likely bring along their own advisors, engineers and banks, resulting in more aggressive pricing at both the contractors side and the financiers side
- As PPP is maturing in the Netherlands, we expect the number of legal disputes to increase. In practice, the responsibilities of the public clients and contractors are not always well-defined enough, leading to delays in the execution of projects. Furthermore, we see an increasing number of disputes about the accuracy of tender criteria and tender allotments



Developments Europe & US



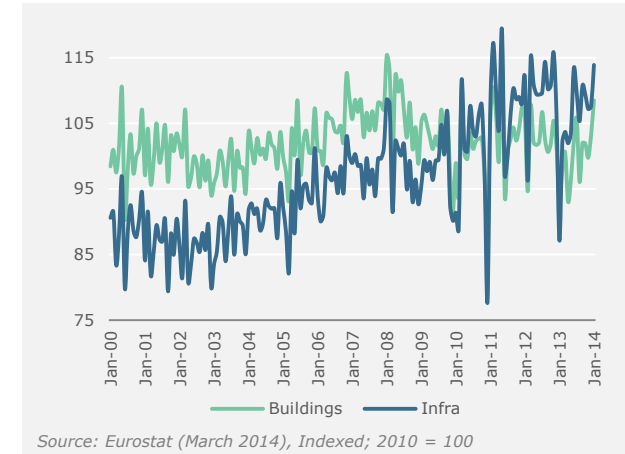
Rabobank

Belgium: concerns about public investments and fiscal stimulus

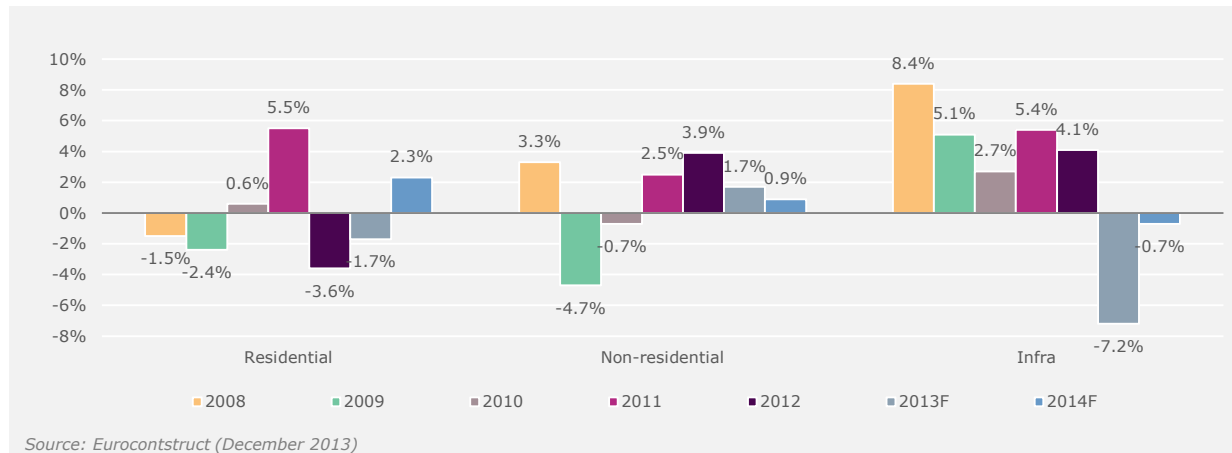
Temporary lower infra production due to regional and federal elections

- Public investments are highly influenced by local governments' electoral cycles and complex governmental structures. While the needs for e.g. infrastructural renewal remain urgent, we expect to see a decline in the infra production index as there will be many new local and regional governments installed after the May 2014 elections. The decline in infra production in 2013 was caused by the local government elections in October 2012. Limited federal public funds prevent the Flemish and Walloon governments to provide (partial) federal compensation for e.g. road construction
- The residential sector is in relatively good shape compared to other European countries given the fact that there is limited overcapacity and housing prices have been increasing since 2008. Meanwhile, the sector still has to deal with issues like modest economic growth, growing unemployment, stricter financing conditions and possible changes in the 'Woonbonus' (fiscal advantages for mortgages). The number of permits declined by 5.4 % YoY in 11M13, indicating that in 2014 growth will have to come from renovation
- Non-residential production is backed by healthy permit issuance and relatively low vacancy rates in existing real estate. Growth will come down slightly in line with current economic conditions and the office market will have to deal with greying of the working population and flexible working concepts which structurally reduce the need for office space

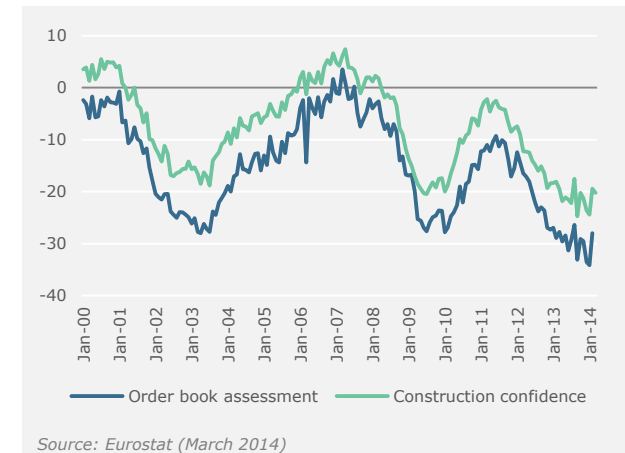
Belgian production index



Belgian construction production by sector (% YoY)



Order backlog developments & confidence

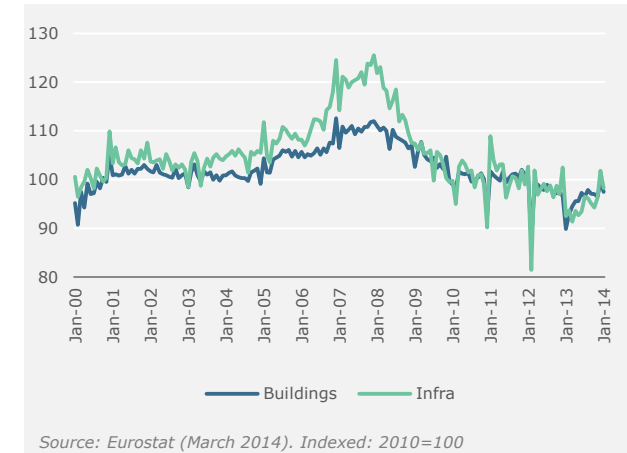


France: battling with unemployment and weak business climate

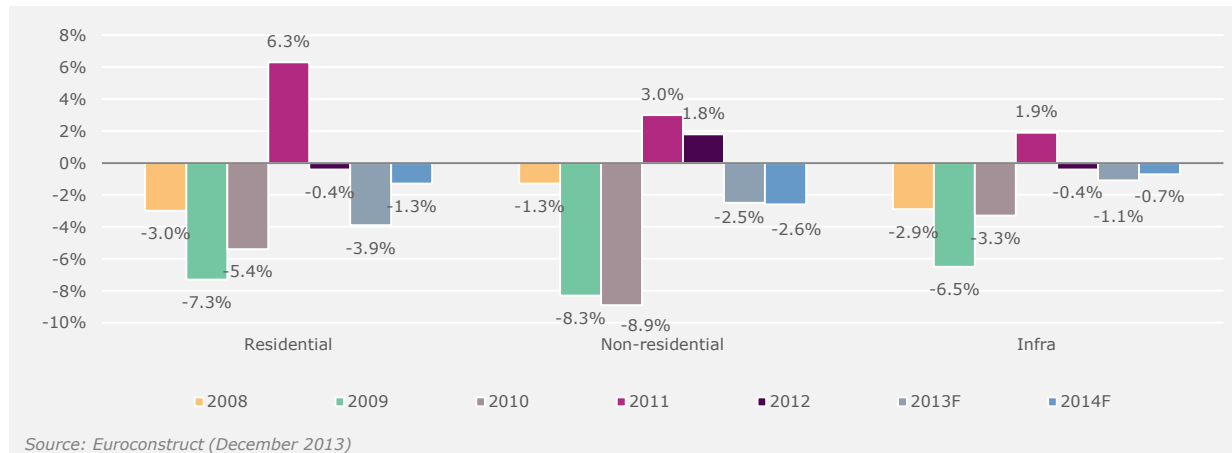
Construction recovery curbed by austerity and slowly improving utilisation of businesses

- In 2014 the 'advantageous' VAT rate for residential renovation will be elevated from 7% to 10%. In combination with still high unemployment rates, wage reductions and unfavourable changes in rental investment schemes, residential production will decline in the coming year, albeit at a lower pace than in 2013. Social housing ambitions by the central government are expected to offer some consolation to the number of new building starts and prevent the number to drop under the 2013 low of 330,000 units
- Unemployment has reached an all-time high of 11% and a pick-up in private consumption will be curbed as long as the economic growth engine is still running in low gear. The Hollande administration announced EUR 50bn in tax cuts for businesses, but without clear funding plans yet. Tax cuts will not result in a recovery of non-residential production before 2015. Firstly, utilisation rates have to improve markedly before corporate investments in buildings will increase. In the build-up to the regional elections in 2015, local public investments can slightly spur construction activity in the non-commercial segments
- Although the French production indexes seem to edge up from their troughs, it will be a lengthy road towards full recovery. This is illustrated by the trend in construction confidence. Currently infrastructure seems to have the best cards to reap the short term benefits of stimulus measures. Main infra contractors fiercely count on the signing of a stimulus package of EUR 3.6bn in 1H14 to expand the road network

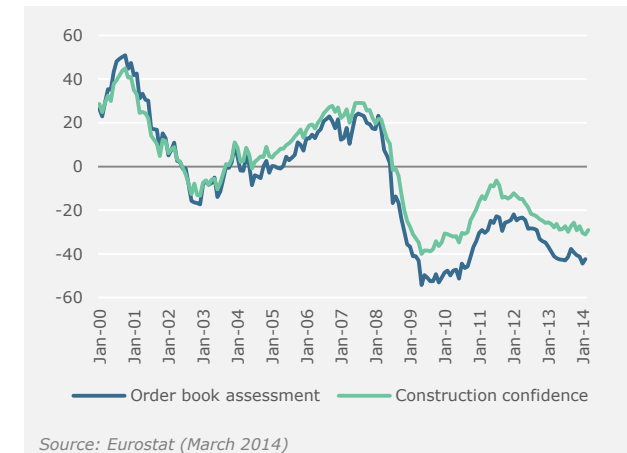
French production index



French construction production by sector (% YoY)



Order backlog developments & confidence



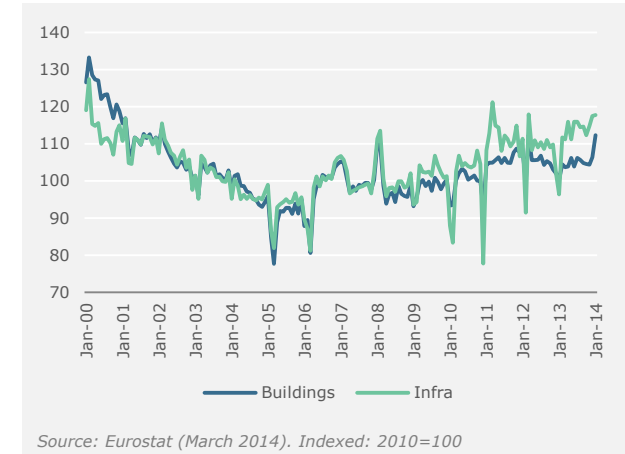
Germany: strong economy drives early spring in construction



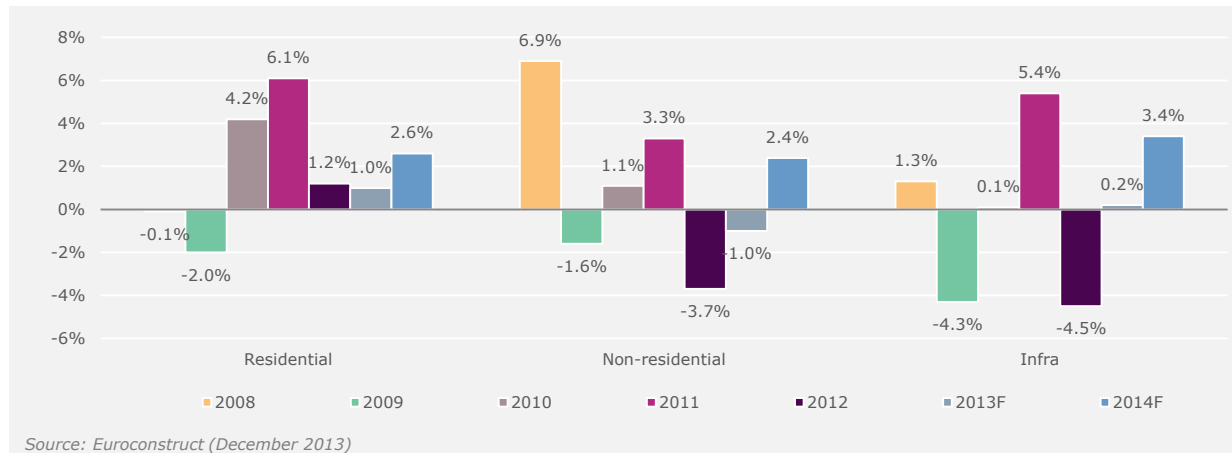
Construction supported by wage trends, industrial production and public spending

- The issuance of residential permits increased by 13% YoY in 2013 and indicates that residential production is on the rise. Although mortgage credit growth is quite modest, low interest rates make it attractive for investors to invest their capital into residential estate rather than in financial products. Low interest rates also encourage consumers to buy homes instead of parking their cash on a savings account. Furthermore, residential construction is supported by a falling unemployment rate and strong immigration flows
- Economic growth is gathering pace as industrial production is increasing. Driven by both domestic consumption and export demand, utilisation rates are improving and the demand for new industrial, storage and commercial buildings is growing. Demand for new office buildings and public buildings is less buoyant due to the absorption of (regional) overcapacity and budget consolidation at federal and regional governments. Renovation spending keeps developing steadily, backed by energy efficient building policies
- Infra growth was meagre in 2013 due to very bad weather in 1H13 and the phasing out of stimulus packages. As local authorities are the most important investors in infrastructure, it is encouraging that economic growth is now accelerating and drives higher (municipal) tax revenues. Also the Federal government is likely to increase its investments in transport infrastructure. Private investments in energy infrastructure seem to be curbed by the impact of the energy market reforms (a.o. phasing out nuclear)

German production index



German construction production by sector (% YoY)



Order backlog developments & confidence



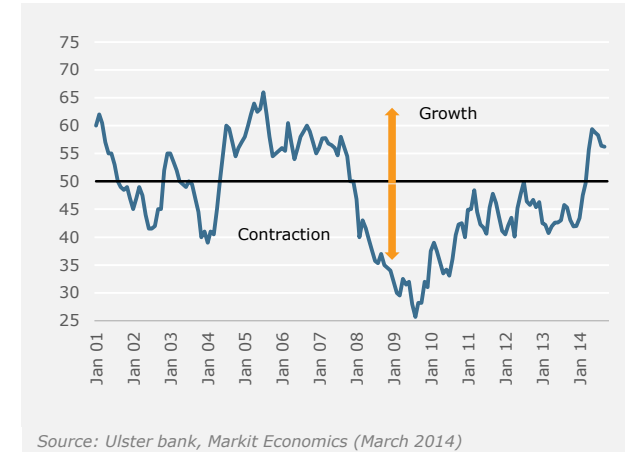
Ireland: construction activity seems to have turned the corner



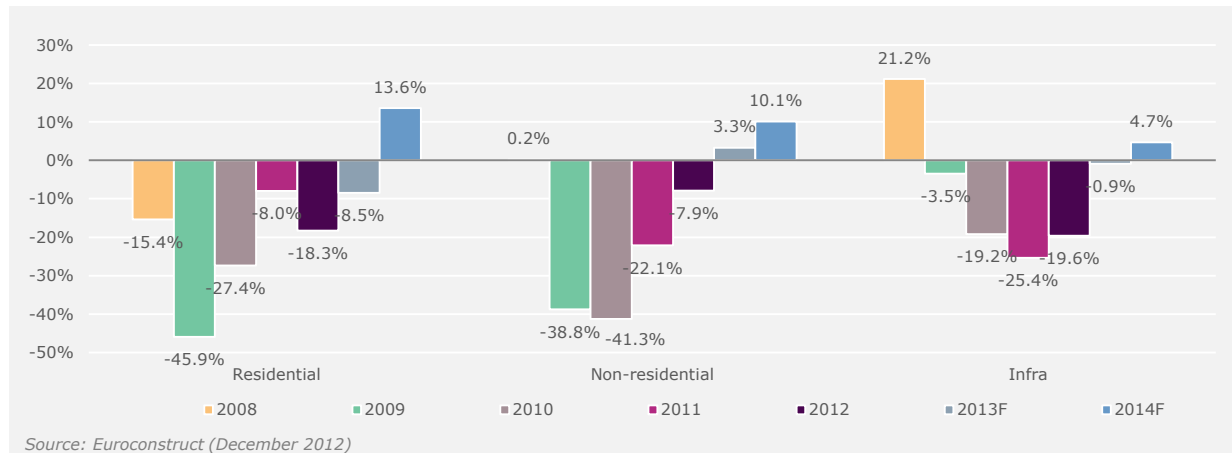
Overcorrection of construction sector already fostering shortages in specific niches

- The European Commission recently raised Irish GDP forecasts, based on positive signs like growing domestic demand and slightly improving unemployment figures. The Irish economy is far from fully 'cured' as e.g. household deleveraging and mortgage arrears remain serious challenges, but we expect the favourable developments to fuel through to the residential construction sector. It is estimated that Ireland is in need of 30,000 homes yearly, while in recent years hardly 5,000 homes were built. Housing prices in Dublin and in other urban areas are on the rise and specific locations are actually facing supply shortages
- Non-residential construction is primarily driven by public sector spending (>60%) and particularly by NAMA¹ and NDFA (PPP) support projects. The support plans imply several billion Euros and will primarily benefit offices, industrial buildings, schools and healthcare centers. As large international companies are keen to concentrate their European headquarters in Dublin, shortages for high quality offices in e.g. Dublin's central district are growing
- Government support is also driving road building and repair projects. Most of these projects will be tendered as PPP projects. Other main spending categories are water & sewage, rail and energy transmission and distribution infrastructure. All said, we expect Irish construction to improve gradually during the year, which should be reflected by the construction activity indicator performing significantly above 50

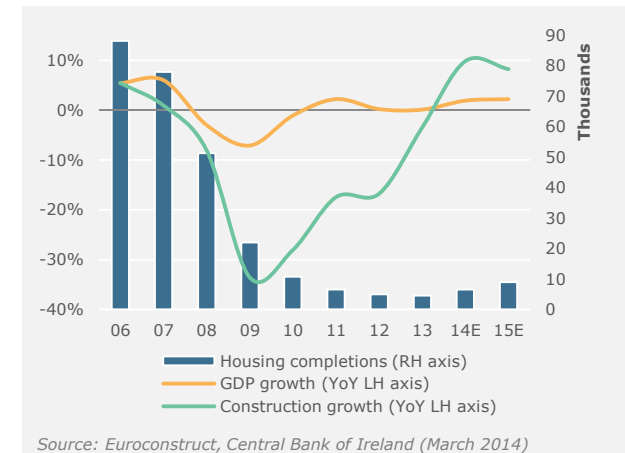
Irish PMI construction activity indicator



Irish construction production by sector (% YoY)



GDP, construction & housing completions



Note (1): NAMA stands for National Asset Management Agency, NAMA functions as a bad bank, acquiring property development loans from Irish banks in return for government bonds in order to improve the availability of credit in the Irish economy

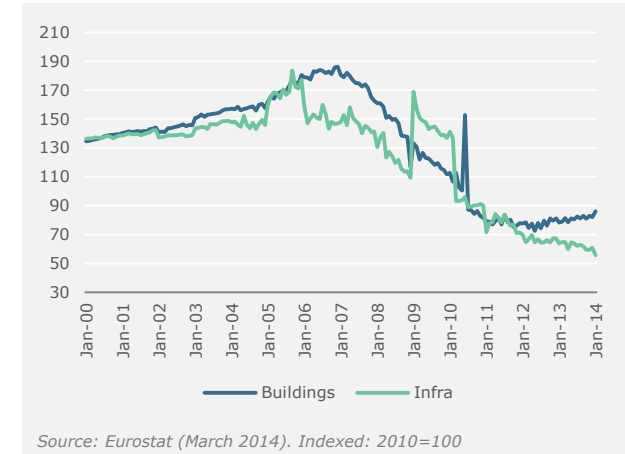
Spain: solving imbalances might stop construction decline in 2015



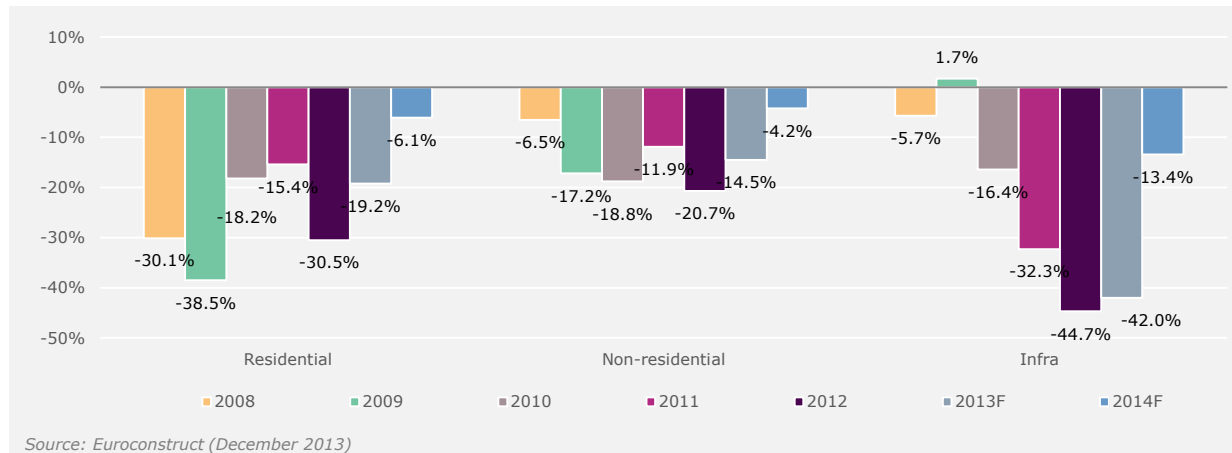
Exports growing strongly while construction recovery is hold back by impoverished nation

- With 26% of the workforce unemployed and a decline in average household disposable income for four consecutive years, the government plans to boost consumer spending power by major tax reforms. The reforms should entice companies to hire new employees while simultaneously consumers start to pay higher taxes for the consumption of goods and services (VAT). The recovery of the residential market will be highly dependent on improving income prospects, credit availability and the absorption of the huge residential oversupply created during the boom years. Meanwhile there seems to be a handful of foreign investors back in the market buying residential properties at huge discounts
- The production index and the construction confidence might suggest that Spanish construction is bottoming out. Given sizeable imbalances (labour market, public budget, private financing) and the oversupply of real estate it will take a few more years before non-residential production will report modest growth. However, the rate of decline will decelerate as the export of relatively cheap Spanish goods keeps growing
- For growth to return in infrastructure, it is crucial that public finance constraints are being solved. Currently the government is involved in a dispute with main contractors over the bankruptcy of 9 toll roads. The government considers to pull out of state guarantees as the awarding of the guarantees would enlarge the national deficit. This decreases the appetite of private (foreign) investors to participate in new infra projects

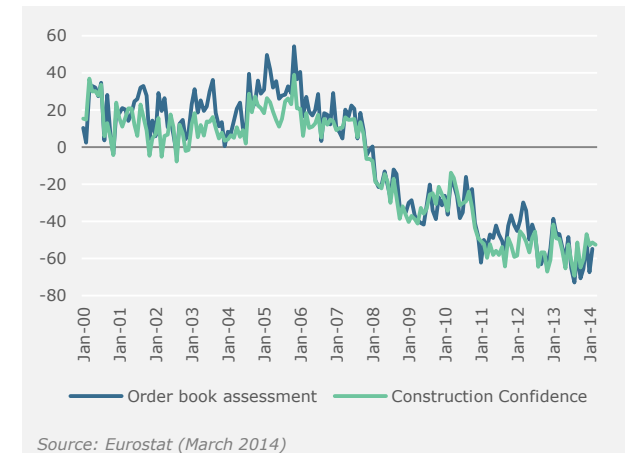
Spanish production index



Spanish construction production by sector (% YoY)



Order backlog developments & confidence



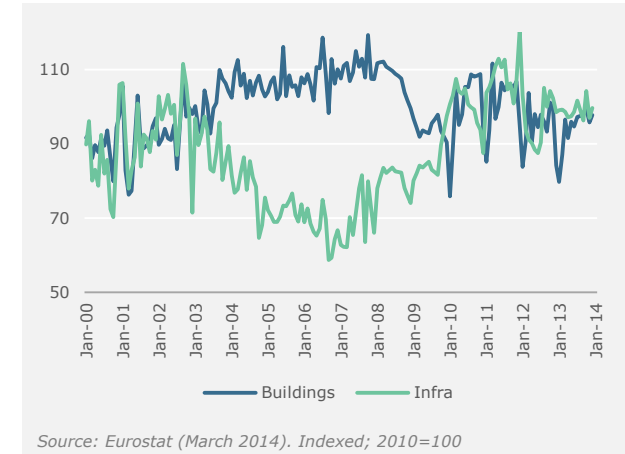
United Kingdom: residential construction and infrastructure surging



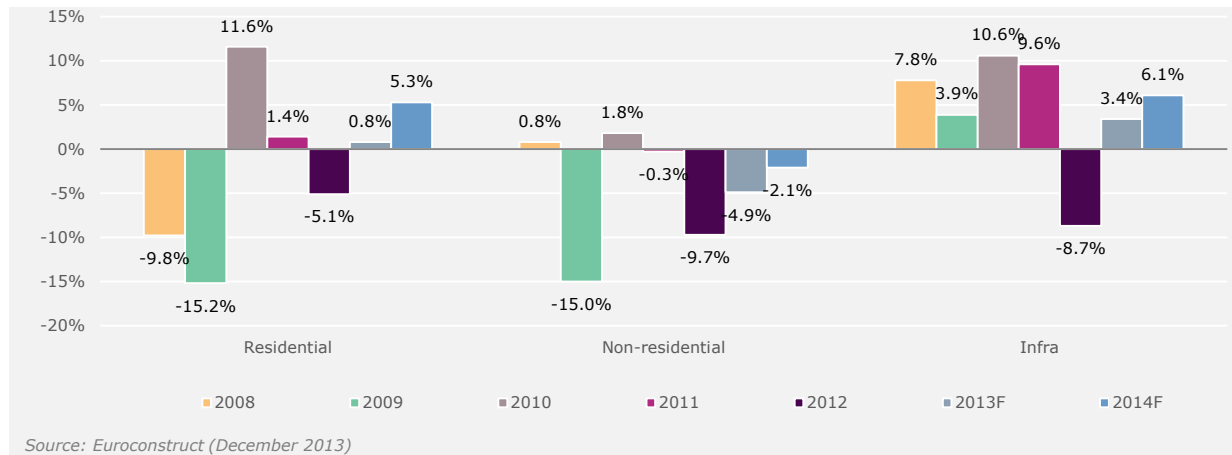
Visible impact of stimulus programmes for new home building and transport infrastructure

- The 'Funding for lending' and 'Help to buy' schemes clearly had an impact on residential production as new housing starts have grown by 23% YoY in 2013 and mortgage lending was 38% higher in January 2014 than in January 2013. The new residential market is likely to improve further on the back of increasing consumer confidence, low interest rates and falling unemployment. So far the 'Green Deal' scheme fails to boost energy efficient renovation and maintenance. In 2013 only 746 green deals have been carried out
- New non-residential production is strongly dependent on the new 'PF2' scheme for PPP projects. The old scheme had raised public debate about insufficient flexibility and high contract costs. As a result, the 'Schools for the future' programme was cancelled. Despite the introduction of PF2 early 2013, it has not fuelled new production substantially yet and a proper pipeline of projects seems to be lacking. Meanwhile, the first green shoots in private sector funded projects (offices, industrial) are visible and when retail sales really take off, total commercial construction should provide a foundation for sector growth as of 2015
- The UK is still a preferred location for many infrastructure funds. Apart from the initiative(4Q13) to invest up to GBP 375bn in energy, water, communication and transport projects in the next 2 decades, the government keeps working hard to attract foreign investment. In February 2014 AMP Capital (AUS) announced that it plans to raise up to GBP 0.5bn for a UK listed infra fund, scheduled for launch in 1H14

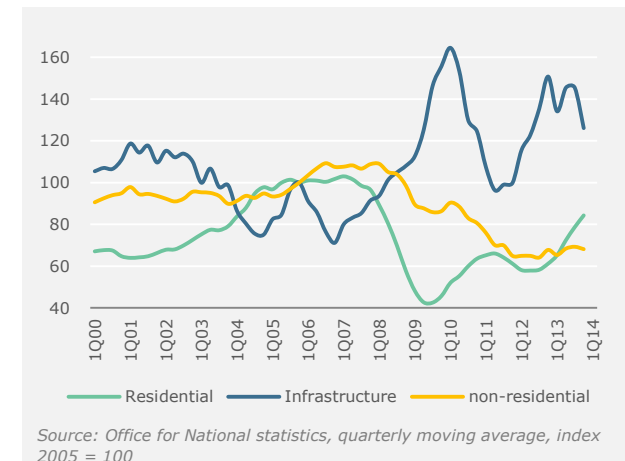
UK production index



UK construction production by sector (% YoY)



Order backlog index



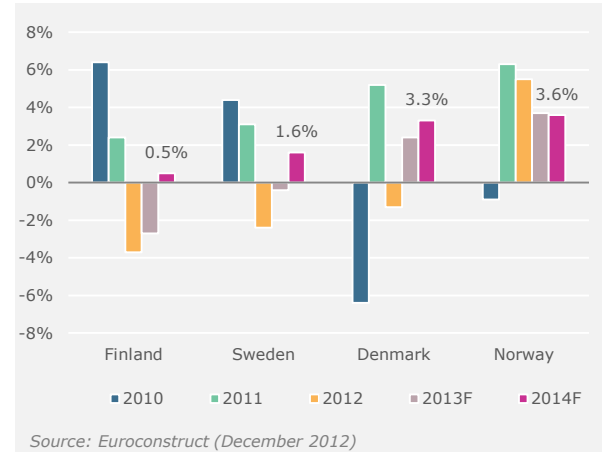
Other regions: Nordics deviating positively from European trend, US benefiting from pent-up residential demand and shale gas



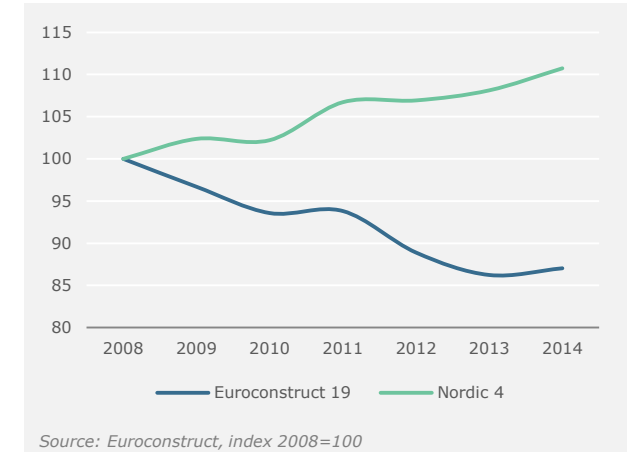
Nordics: doing better than rest of Europe

- Looking at construction output in the Nordics, we conclude that only Norway shows a relatively strong performance over the full 2010-2014 period. The other Nordic countries report very divergent patterns, caused by specific national challenges and economic structure. However, the 4 Nordic countries together show a much stronger construction performance than the total Euroconstruct 19 countries
- Attracted by the steady supply of infrastructure projects, many European contractors try their luck in the Nordics. However, foreign firms typically need to start their operations as a subcontractor as mostly just local professional qualifications are recognized by the trade unions

Construction production by country (% YoY)



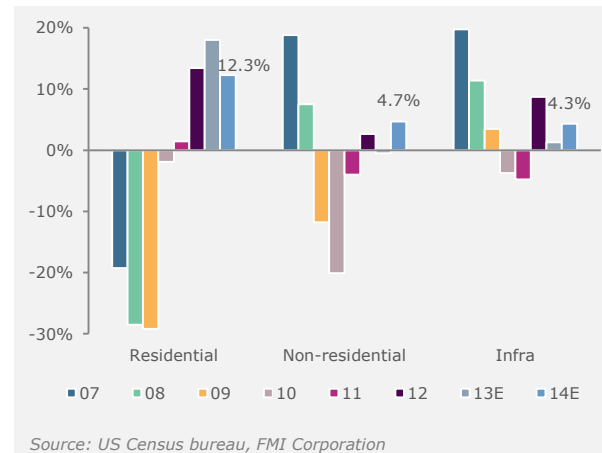
Nordic vs. European construction index



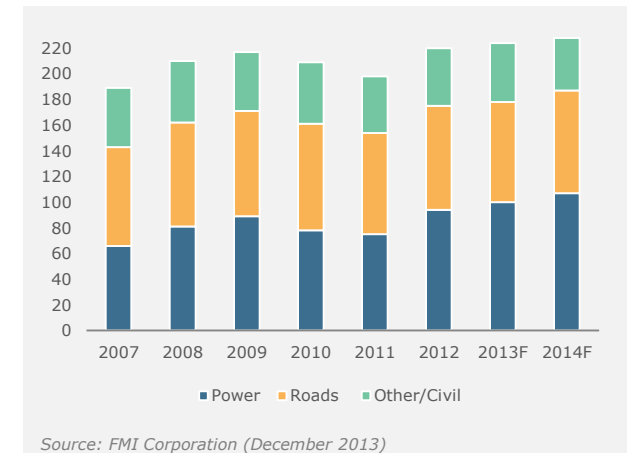
US: infra and residential opportunities

- The shale gas boom is offering opportunities for infra contractors experienced in the 'power' segment; shale-based oil, natural gas, pipeline construction, petrochemical plants and LNG plants. The growing popularity of PPP is generating investments in transport infrastructure, resulting in highway/bridge/tunnel expansions
- The pent-up residential demand during the crisis has led to accelerated growth in the past 3 years. In 2014, we expect that growth will decelerate somewhat. There is a transition taking place from a market strongly driven by institutional buyers to home-buyers who can finally complete their postponed housing dream

US construction market outlook (% YoY)



Infrastructural production (USD bn)



V

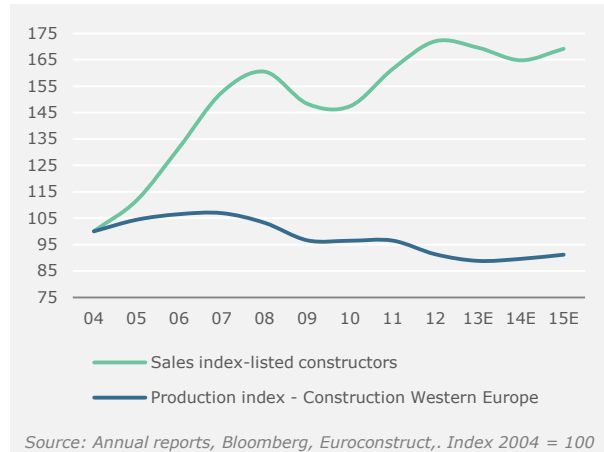
European contractors: metrics & strategy comparison



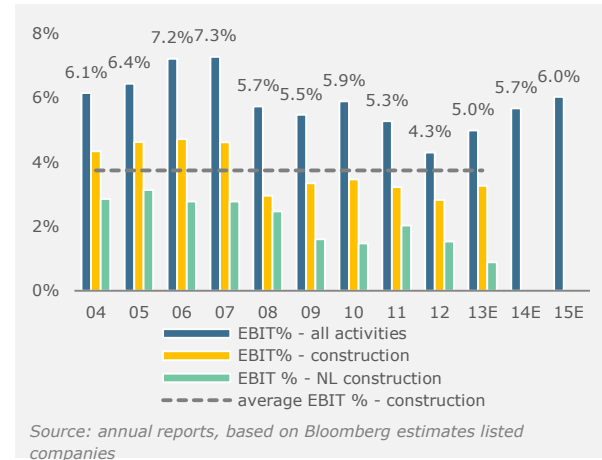
Rabobank

Metrics: sales developments and margin growth indicate increased diversification at European contractors

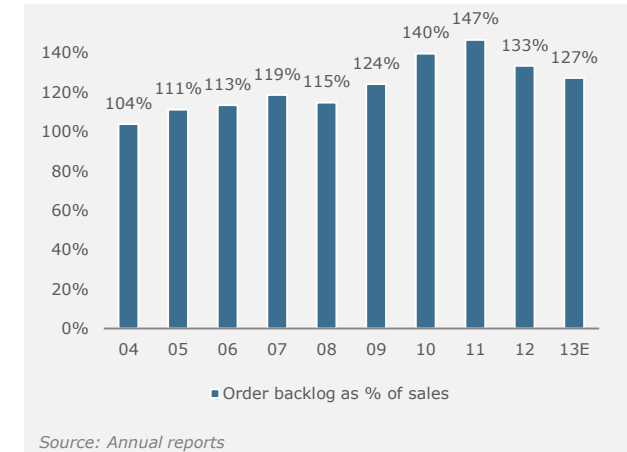
European contractors – Sales index¹



European contractors EBIT Margin¹ (%)



Construction backlog/construction sales (%)



Diversification helps to mitigate downturn

- The depressed development of construction production in Western Europe was continued in 2013 by a YoY decline of 1.2%. Meanwhile the aggregated sales of the largest European contractors declined by 1.5%. However, in the past decade the sales index has developed far more favorably than the production index
- Many companies have softened the effects of decline by focussing on diversification in e.g. engineering services, maintenance, energy and PPP contracts. Others increasingly expanded their activities outside Europe in order to escape meagre prospects. M&A activity slowed down somewhat and deals were relatively small, due to the need to deleverage (see also next slide)

EBIT margins have seen lowest point

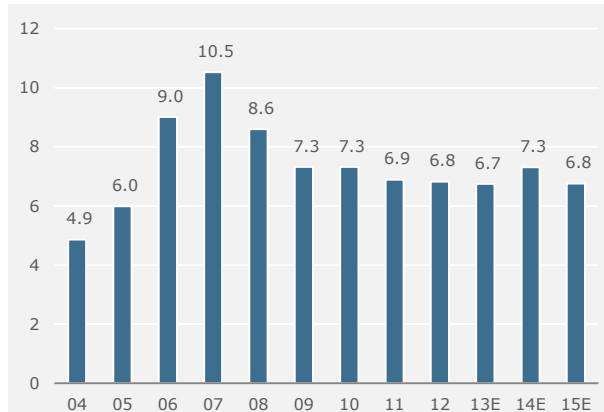
- The average EBIT margin of European contractors increased in 2013. However, the margin on construction activities is still below 4%, which emphasizes the vulnerability of pure play contractors. Given high industry risks, still meagre order books and a more limited availability of funding, we also see a renewed interest to refocus on the core business
- Many Dutch firms have acquired projects at or below cost price due to declining market volumes and intense competition. On top of that, the majority of Dutch contractors is primarily active in the Dutch market. In our view this will at best lead to a slight improvement of Dutch construction margins as of 2015

Last year of decline backlog-to-sales ratio

- The decrease in the backlog-to-sales ratio in 2013 is the result of a relatively modest decline in sales, while the average order backlog experienced an accelerated decline compared to the previous year. As of 2014 we expect the ratio to increase gradually, primarily stimulated by growing order backlogs. Sales growth can be boosted by cash generating companies with the means to make acquisitions or to buy distressed assets and activities of competitors
- Between 2009-2011 large contractors gained market share at the expense of smaller companies, which partially explains the increase in the ratio at a time that construction market conditions in general worsened significantly

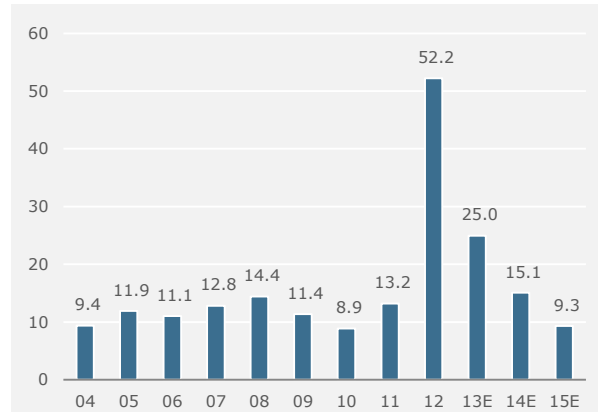
Metrics: relatively slow earnings recovery triggers need for further deleveraging and cash generation

European contractors: EV/EBITDA¹



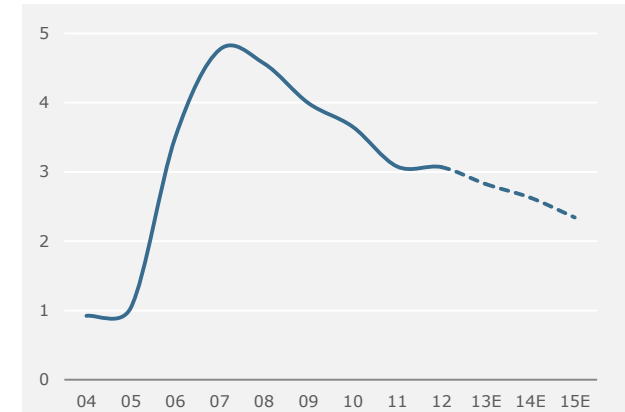
Source: Bloomberg consensus estimates

European contractors: P/E ratio¹



Source: Bloomberg consensus estimates

European contractors: Net debt/EBITDA¹



Source: Bloomberg consensus estimates, annual reports

EV/EBITDA ratio remains relatively high

- The increase in the EV/EBITDA multiple for 2014 is largely caused by analysts' expectations that share prices keep improving, net debt reduction progresses slowly and margins will only improve slightly
- We expect that EV/EBITDA multiples in the coming years might be slightly lower than current analysts' estimates suggest. EBITDA can improve backed by increased diversification into non-construction activities
- We also expect certain contractors to refocus on their core business, resulting in better synergy, higher operational excellence (see also next slide) and stronger EBITDA margins

Slow earnings recovery impacts P/E ratio

- The average P/E ratio skyrocketed in 2012 due to huge net losses at various (South)- European contractors. In 2013 the ratio is still high given the fact that net profits/losses only edged up modestly from their troughs, while share prices are strongly on the rise
- We expect a deceleration of share price increases and gradually improving net profits based on analysts' estimates as polled by Bloomberg. As a result the P/E ratio will decline in 2014-15
- We conclude that European construction shares are becoming more attractive based on the growing perception that the industry finally bottoms out and has passed the lowest point

Deleveraging remains key topic

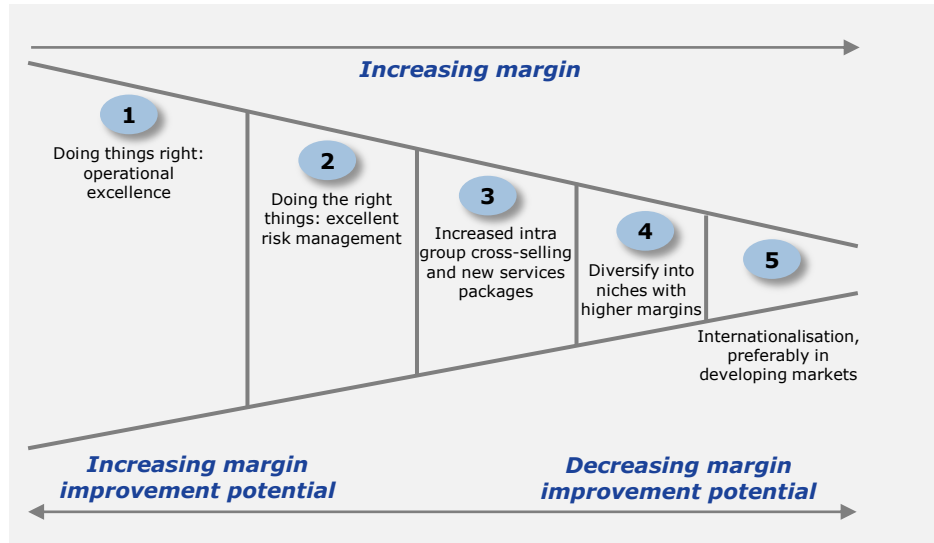
- Less pressure on the financial system might create willingness among financiers to allow for a slightly slower pace of restructuring and deleveraging at construction companies
- Despite growing expectations that new stimulus measures could be introduced in 2014, the ECB recently announced that it is not very likely that it will buy loans and other assets from banks in the short term to support Euro zone recovery
- We conclude that the need for deleveraging will remain in the coming years, whereby contractors will have to consider asset sales and cost reductions which provide cash for debt reduction and working capital support

Strategy: diversification is tempting, but margin improvement starts with operational excellence and excellent risk management



Overcapacity forces contractors to rethink their business model

- In our 1Q13 update we introduced the 'margin improvement' funnel (see illustration on the right). To become less dependent on the widespread European downturn in construction, many contractors have focussed on diversification (phase 4 and 5) of their activities in order to preserve margins. The focus has been predominantly on growth in non-construction activities (telecom, energy, maritime, technical services) in markets outside Europe
- However, reading through the annual reports of main European contractors, it seems that companies which have sought foreign expansion regularly are confronted with lower profit margins. These lower margins are caused by e.g. organisational complexity adding to operational costs and high-entry costs due to cultural and regulatory differences
- Many contractors forget to reap the full benefits from phase 1&2 in the funnel. Based on the review of annual reports we conclude that many companies suffer from inadequate project acquisition & control frameworks, complex support processes and incomplete reporting mechanisms
- Below we discuss a few cases to illustrate strategic actions in phase 1&2 taken by various companies to improve margins



- After the acquisition by ACS of 56% of Hochtief's shares in 2011, a restructuring programme was implemented
- In order to become 'world's most relevant Infrastructure contractor' with sustainable and profitable growth various strategic initiatives have been initiated
- To enhance profitability, subsidiaries have been assigned greater entrepreneurial responsibility, administrative expenses have been reduced, procurement has been professionalized and priority is given to the acquisition of higher margin projects with lower capital intensity
- Risk management comprises the implementation of new standards for project control and methods of execution, while simultaneously stricter criteria for project selection have been adopted and new approval and reporting processes have been implemented



- Bilfinger has developed itself from a pure contractor towards an engineering and services group. Various acquisitions have been made in the area of industrial services, engineering, power and facility services
- The company launched 2 strategic programmes which contribute to higher operational excellence and better risk management. Together they create a strong base for better cooperation between all parts of the group
- All subsidiaries now operate according 1 set of rules which are used to execute joint projects, decision making is accelerated by scrapping management levels and administrative functions are centralized. Concessions and road construction activities will be abandoned, which makes it easier to focus, expand and accelerate R&D and focus on technological and engineering competences



- Since 2011 FCC has been divesting non-core real estate assets, flight handling activities and various concessions
- In April 2013 a strategic plan was launched to sell more assets and divest activities in excess of EUR 1,550bn, including more than half of FCC Energia
- Furthermore the company focuses on (i) restructuring of the construction & cement business, (ii) strengthening of environmental services in Spain & UK and (iii) the reduction of overhead costs
- Restructuring and cost reductions typically focus on the centralisation and simplification of support activities, procurement optimization, selective tendering and the downscaling of commercial support activities to current market conditions and the sale of minority stakes in entities in which FCC has no control

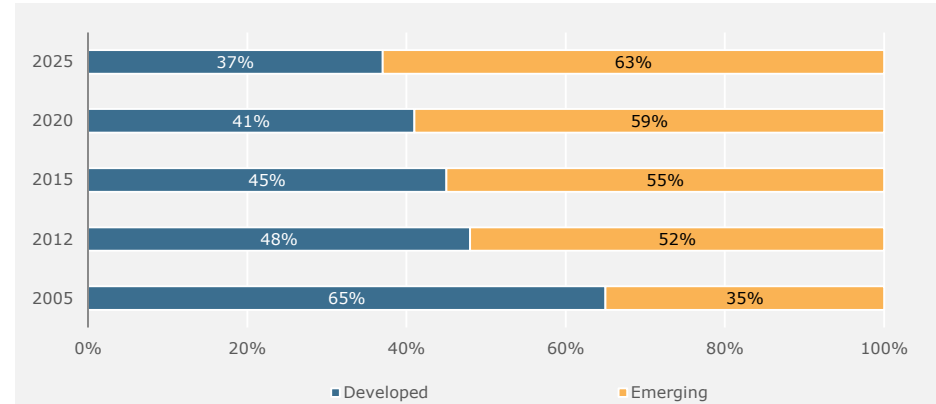
Meagre European growth challenges contractors to rethink business models and find solutions to untap foreign markets



Emerging regions will dominate global construction output in 2025

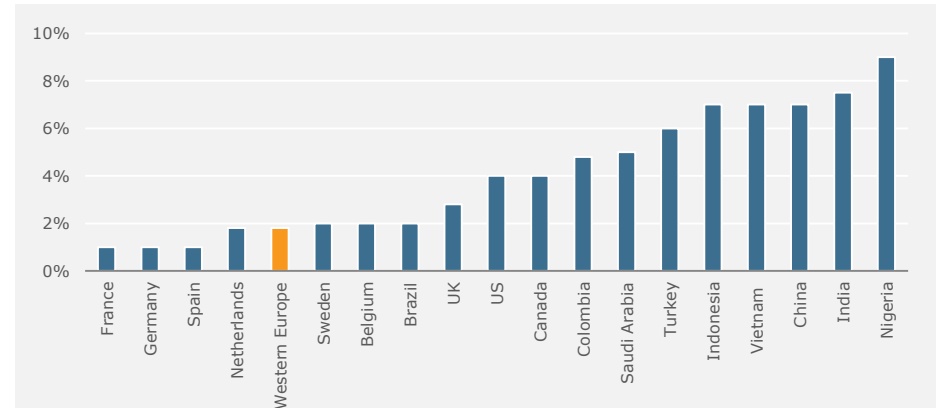
- Globalization is progressing quickly in the construction industry. According to a global study by Oxford Economics¹ global construction output will have grown by 70% between 2012 and 2025. Construction production will grow from USD 8,700 bn to USD 15,000 bn. Although the Chinese construction market will grow more moderately in the coming years, China will be the largest market with a share of 25% of global output in 2025
- China, the USA and India together will be responsible for 60% of total output in 2025, while Western Europe will only cover 25% of total production. Within Europe Germany remains the largest market, but growth will be far from spectacular. The Netherlands will likely grow in line with the Western European average which is slightly below 2%. The UK is expected to outperform the European average based on assumptions that investment capital keeps flowing to the much needed infrastructure improvements
- Developments clearly illustrate that emerging markets will take over the lead from industrialized countries as population growth and urbanization are soaring. This implies that European contractors need to expand in foreign markets in order to preserve critical mass in specific disciplines and to ensure a steady work stream when domestic markets come to a standstill
- However, we already concluded on slide 29 that foreign expansion is not an easy task (phase 5 in the funnel). Contractors should choose carefully in picking their preferred regions for growth. For example it means that setting up a foreign subsidiary may seem interesting, but is of no use when the order book dries up after a few projects due to potential clients failing to secure financing. Contractors could be tempted to take aboard too much project risk by 'pre'-financing projects by themselves
- Other main issues to consider are supply chain & logistics reliability (procurement and sourcing of materials and equipment), currency issues, repatriation of profits and equipment and corruption. Research by foreign institutes suggests that a localization strategy which comprises a.o. the hiring of local employees and cooperation with local subcontractors through joint ventures is enhancing performance and margins. Bearing this in mind, expansion will still imply foreign acquisitions, but could be more organic

Construction production in developed & emerging regions



Source: Construction 2025, Oxford Economics, adapted by Rabobank

Construction production CAGR 2013 - 2025



Source: Construction 2025, Oxford economics, adapted by Rabobank

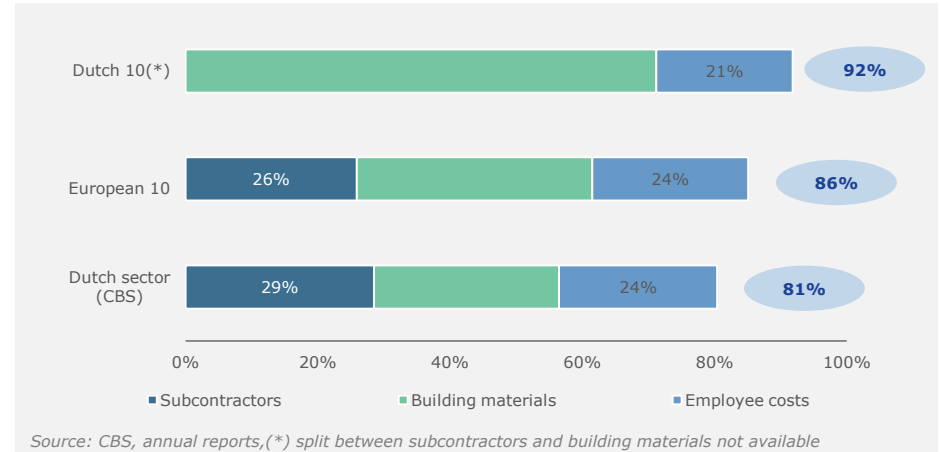
Metrics: cost structure differences between Dutch and European players suggest room for cost reductions



European contractors seem more cost efficient than Dutch top 10

- Looking at the EBIT margin developments on slide 28, we conclude that Dutch contractors still face declining margins where it concerns their construction activities. Meanwhile the European peer group as a whole is reporting slightly growing margins (on total revenues and construction activities) in 2013
- In order to explain margin differences, it is interesting to investigate spending on main cost categories. On average the group of 10 European contractors is spending significantly less on subcontractors and building materials than the group of the 10 Dutch contractors
- It could be argued that European contractors, according to their larger size, have certain economies of scale, while many Dutch contractors lack these 'procurement' advantages. However, the Dutch construction sector as a whole is reporting fairly lower costs than the Dutch top 10. Main Dutch contractors should at least investigate which options they have to reduce operational costs, as this is the strongest driver to improve performance and margins

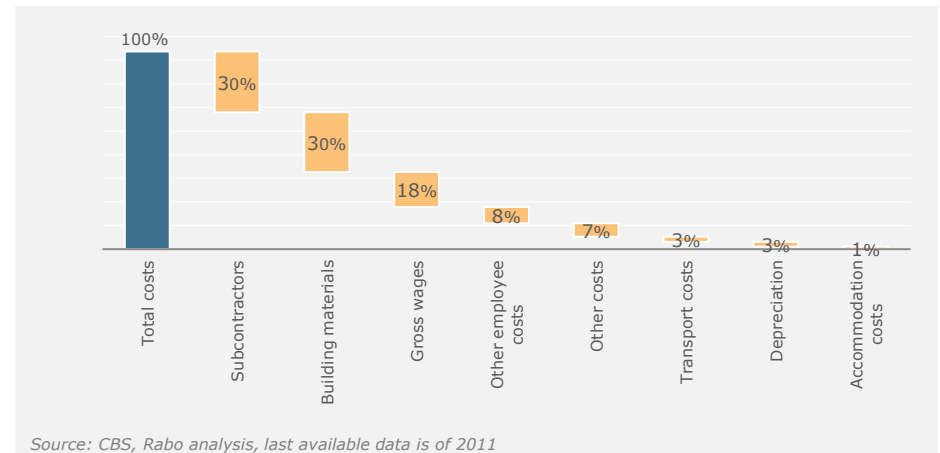
Main costs categories – costs as % of total revenues (2011)¹



Cost reduction potential curbed by growth unavoidable failure costs

- With failure costs estimated at 5-35% of total sales² or 20% of total costs, margin improvement potential is huge when these unnecessary costs are avoided. Failure costs relate e.g. to poor communication & cooperation within the value chain and ill prepared designs & engineering, resulting in high adaptation costs. These failure costs likely most strongly present themselves in phase 1 and 2 of the funnel (previous slide) and in subcontracting and material costs (see graph on the right)
- Altogether subcontractors, materials and labour costs make up for 86% of total costs. Thus failure cost reduction initiatives should focus on these categories. However, there are also unavoidable failure costs, related to e.g. bankruptcies of subcontractors or constraints at clients. For example restrictions imposed on Dutch housing corporations have resulted in the scaling down of new-built ambitions and cancellations of building plans. Likely, the share of unavoidable failure costs has grown strongly in recent years

Costs categories Dutch construction sector - % of total costs



Note (1): companies used for comparison are NCC, Strabag, Skanska, Ferrovial, Bouygues, Vinci, ACS, Bilfinger, Eiffage, FCC, Volker Wessels, Ballast Nedam, BAM, Heijmans, TBI Group, Strukton, Dura Vermeer, Van Wijnen, Mourik, ASVB

Note (2): Based on research in the UK and the Netherlands (Deloitte)

Contact details



Rabobank

Wholesale Clients Netherlands

Office address

Croeselaan 28
3521 CB Utrecht

Postal address

UCZ5096
P.O. Box 17100
3500 HG Utrecht
The Netherlands




Rabobank
Industry Knowledge Team



Rabobank **Leontien de Waal**
Industry analyst

Telephone +31 (0)30 71 22 718
Mobile +31 (0)6 202 90 481
E-mail Leontien.de.Waal@rabobank.com



Rabobank
Coverage Large Corporates



Rabobank **Robbert Klaasman**
Sector Head Construction,
Engineering & Maritime Industries

Telephone +31 (0)30 71 24 413
Mobile +31 (0)6 535 71 825
E-mail Robbert.Klaasman@rabobank.com

Important notice



This document is prepared by either Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., trading as Rabobank International ("RI") or Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., acting through its New York Branch and any of its associated or affiliated companies and directors, representatives or employees. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. is incorporated in the Netherlands. The liability of its members is limited. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. is authorised and regulated by De Nederlandsche Bank N.V. Furthermore, RI in the Netherlands is regulated by the Netherlands Authority for the Financial Markets. RI, London Branch is regulated by the Financial Services Authority for the conduct of UK business. RI, London Branch is registered in England and Wales under no. BR002630. With respect to this document, in the U.S.A., any banking services are provided by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York Branch and any securities related business is provided by Rabo Securities USA, Inc., a U.S. registered broker dealer.

This document is directed exclusively to either Eligible Counterparties and Professional Clients on the one hand and Market Counterparties and Intermediate Customers on the other. It is not directed at Retail Clients respectively Private Customers.

This document is for information and discussion purposes only. Neither this document nor any other statement (oral or otherwise) made at any time in connection herewith is and is not, and should not be construed as an offer, invitation or recommendation to acquire or dispose of any securities or a commitment to enter into any transaction. Any transaction would be subject to contract, satisfactory documentation and market conditions. All parties are advised to seek independent professional advice as to the suitability of any products and their tax, accounting, legal or regulatory implications.

The information and opinions contained in this document have been compiled or arrived at from public sources believed to be reliable, but no representation or warranty, express or implied, is made as to the accuracy, completeness or warranty, express or implied. This document does not constitute investment advice, nor is it intended to be investment research. All opinions expressed in this document are subject to change without notice. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. To the extent permitted by law, neither RI, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document, or related investments, or may otherwise have conflicting interests, including acting as advisors, brokers, bankers or providing services to companies whose securities, or related investments, are mentioned in this document. Further Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. By accepting this document you agree to be bound by the foregoing restrictions.

© www.rabobank.com

© Rabobank International
Croeselaan 18, 3521 CB Utrecht, The Netherlands

© Rabobank International, London Branch
Thames Court, One Queenhithe, London EC4V 3RL, United Kingdom

© Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York Branch
245 Park Avenue, New York, New York 10167, United States of America