

Risk management at HOCHTIEF Europe

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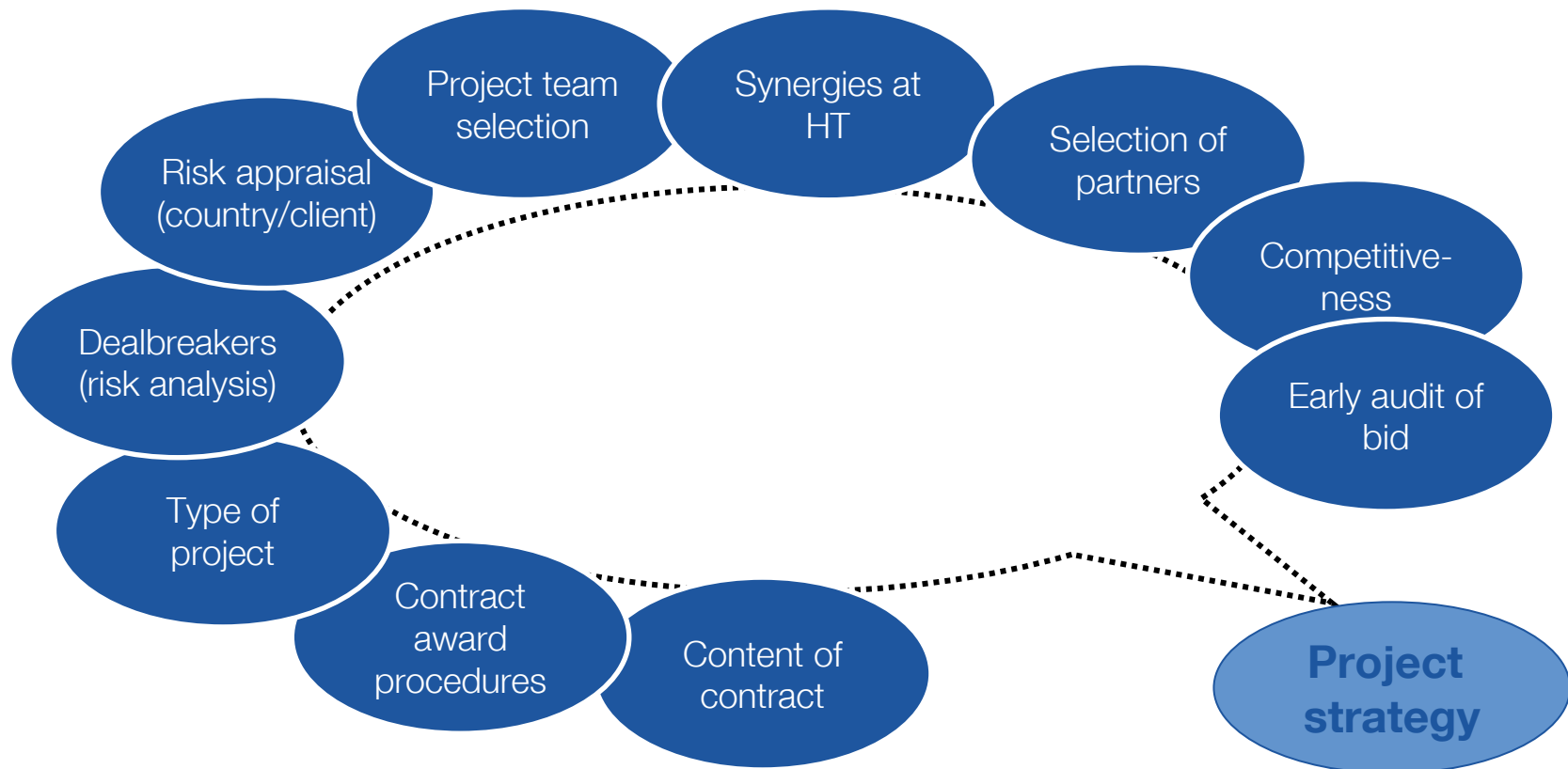
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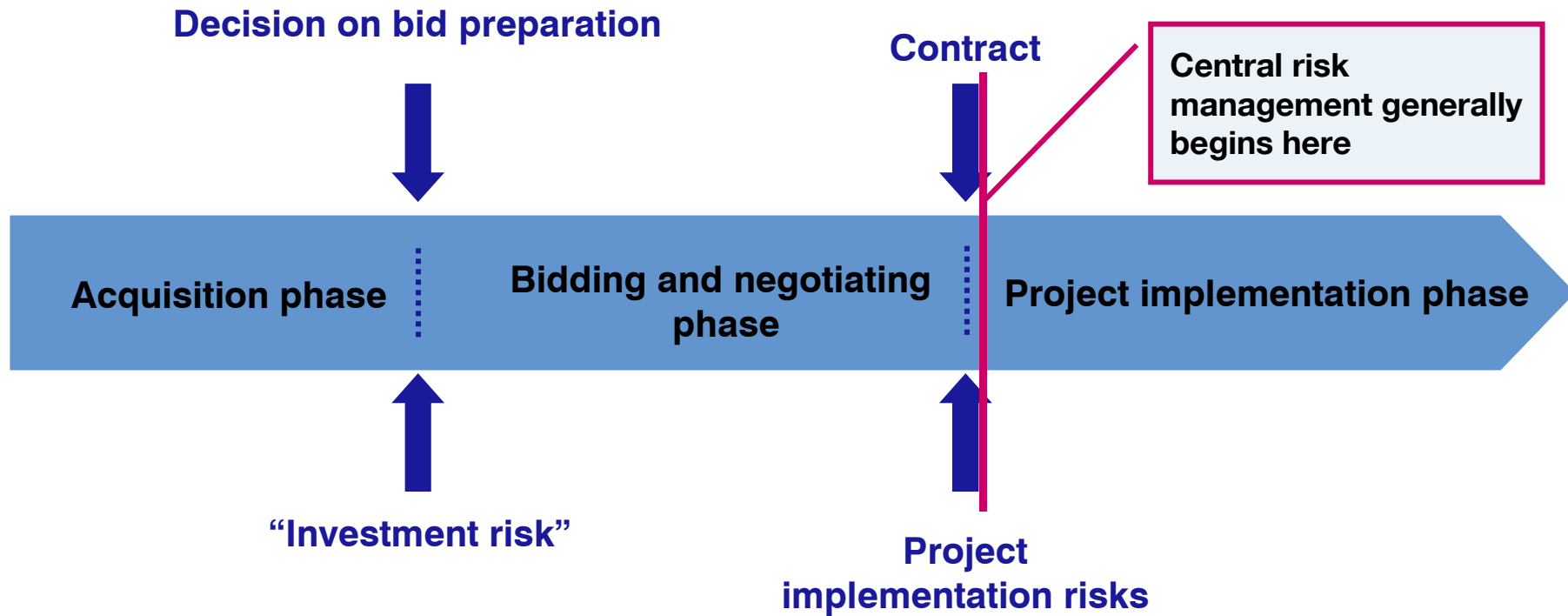
V2

These factors influence the risk profile

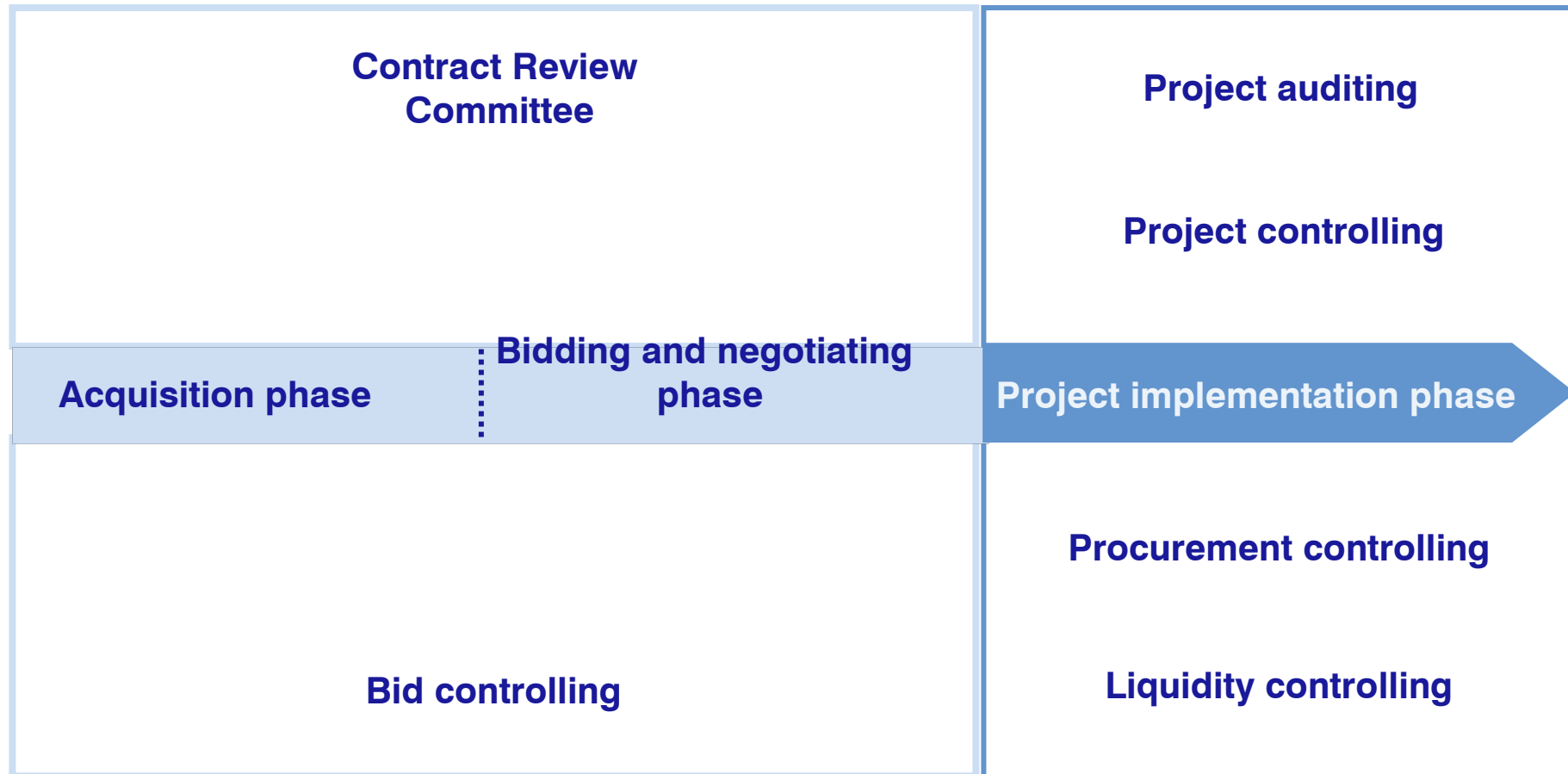


**Construction is fundamentally risk-prone.
With our risk management system, we control the risks involved.**

Risks in different project phases



Operational risk management instruments



Contract Review Committee

Structure and function

- **Participants:**

- 2 Executive Board members
- 3 divisional heads
- Head of Risk Management

- **Projects requiring authorization:**

- Contract value \geq EUR 3.0 m
- When project financing forms part of contract (even at $<$ EUR 3.0 m)
- Additional work on existing contracts if this deviates substantially from that commissioned and exceeds the threshold for the Contract Review Committee
- When bidding consortium is formed by domestic unit(s) to handle project in neighboring country

Contract Review Committee

Structure and function

- **Must be involved in connection with:**
 - Prequalification/Cost estimation
 - Bid preparation
 - Submission of binding offer
 - Conclusion of contract
- Meets weekly; timely information
- **Any contravention can have consequences for service contract**

Contract Review Committee

Documents forming basis for decision-making

- Project information
- Contract analysis with focus on key entrepreneurial points
- Bid appraisal on basis of key parameters
- Project organization

Contract Review Committee

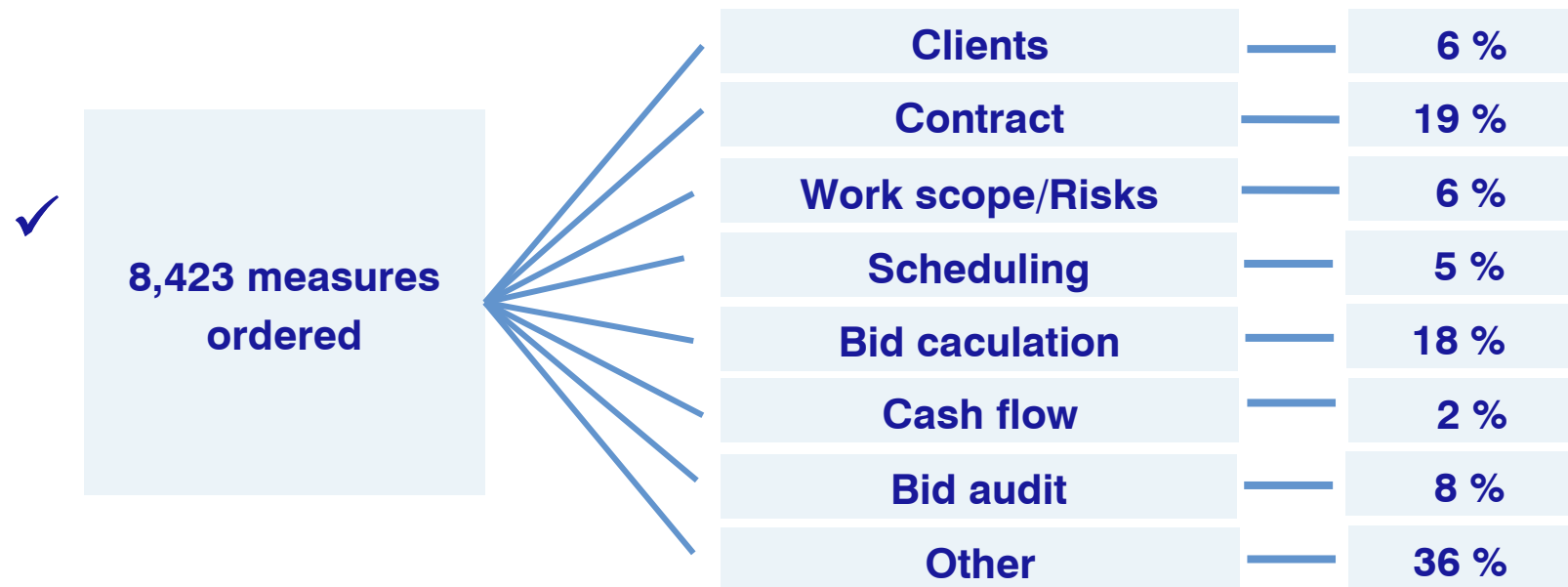
Key criteria in decision-making

- Client credit-rating
- Type of project
- Type of contract
- Competitive situation
- Payment schedule/payment schedule security
- Integration of Group competencies
- Procurement
- Consortium or joint venture partners
- Project staffing
- Costs/earnings calculation

Contract Review Committee

Interim survey after four years

- ✓ Number of projects: 4,689
- ✓ Volume: EUR 87.7 bn
- ✓ 158 applications turned down



Bid controlling

Detailed on-the-spot examination
of bid preparation

- Obligatory with projects > EUR 10 m
- Or if ordered by the Contract Review Committee
- Report submitted to the entire management level

Project auditing

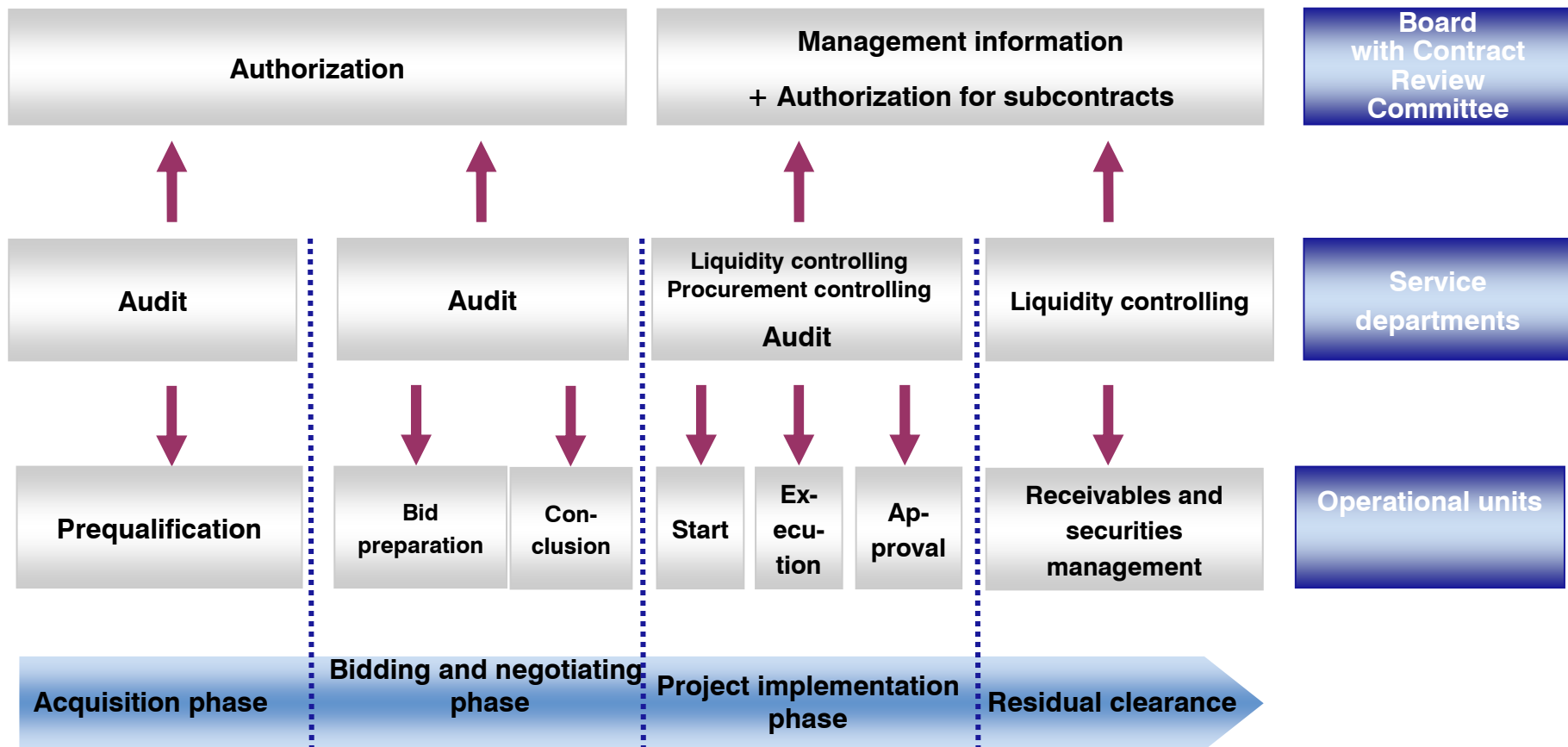


- Technical, contractual and economic analysis of project
- With every project \geq EUR 3 m, the following are conducted:
 - Commencement audit (5 % completion)
 - Execution audit (50 % completion)
 - Approval audits (95 % completion)
- Report submitted to the entire management level

Risk management aspects of liquidity controlling

- Project cash flow as early indicator
- Project monitoring after acceptance
 - Final payment
 - Returning bank guarantees

Interplay of risk management instruments



Quantitative benefits of risk management:

Earnings (EBT)

Since risk management system has been implemented:

Improvement EBT: + EUR 220 m



Improvement in earnings position

Qualitative benefits of risk management:

- Know-how transfer
- Prevention
- Executive Board closer to operational business
- Assessment of managerial staff

Summary

- Sustained improvement in results
- In the long term, money can be earned in the German construction market
- Intelligent risk management as key to success
- Our business model makes above-average return on capital possible



Rondo ONZ Warsaw