

Economic environment

Economic developments

The world economy continued to grow in the year 2006 at an overall rate of 5.1%. Economic developments compared with the prior year were mainly positive in Bilfinger Berger's key markets.

In the euro zone, gross domestic product increased by 2.7%, not quite equaling the growth rate for the global economy. In Germany, the economic upswing accelerated considerably last year, aided by ongoing rises in exports but increasingly also by improved domestic demand. Real gross domestic product increased by 2.7%, which led to increasing tax revenue for the federal government, the federal states and the municipalities, as well as higher levels of employment. The French economy expanded at rate of 2.2%, primarily driven by private consumption. The United Kingdom recorded solid growth of 2.8% in 2006; companies continued their high investment rates against a backdrop of healthy profits and high utilization of capacity. Economic growth was particularly strong in Sweden at 4.0%, with strong support from an expansionary monetary policy. In Norway, GDP increased by 3.0%. Growth in Poland reached 5.2% – due not least to the country's entry into the European Union.

Economic expansion in the United States slowed down somewhat during 2006. Higher interest rates increasingly placed a burden on investment and consumption. Nonetheless, over the year as a whole, GDP still grew by 3.4%.

The Australian economy is enjoying a long growth phase, with a GDP increase of 3.1% last year. This stable development is due in particular to the ongoing strong global demand for raw materials. Investment sentiment is very confident, inflation remained moderate, and the unemployment rate is still low.

Construction industry

The year 2006 brought the long-awaited turnaround in Germany's construction industry. Construction orders received increased once again after falling for eleven consecutive years; the total volume of €46 billion was 5.1% higher than in 2005. Sales revenues were also higher, increasing by 9.2% to €81 billion. The number of persons employed in the construction industry stabilized at approximately 710,000.

The revival of demand was apparent in all construction sectors, although commercial construction drove the upswing. Against a backdrop of positive overall economic developments, investment in replacement and expansion gained importance once again. In the sector of residential construction, there were exceptional positive effects from the abolition of certain tax benefits for home ownership and pull-forward effects from the increase in value-added tax effective January 1, 2007. Slight growth rates were also recorded for public-sector construction as a result of the improved revenue situation of federal government, federal states and municipalities, although the level of prices was still unsatisfactory.

The main association of the German construction industry anticipates growth of approximately 3.5% in 2007, whereby economic stimulus in western Germany will be stronger than in the east of the country. However, the difference is now significantly smaller than in previous years.

Gross domestic product – growth by region

%	2006	2005
Germany	2.7	0.9
Europe	2.7	1.5
United States	3.4	3.5
Australia	3.1	2.6

In France, demand for civil-engineering work grew more slowly in 2006 than in previous years, a trend that will continue. With the benefit of EU development funds, investment in Poland was primarily in road building and in the water-supply and waste-water infrastructure. In Hungary, the expansion of the transport infrastructure was continued, and additional major projects are in the pipeline. Investment in the transport infrastructure has also been high in Sweden and Norway, and this investment will continue, if not at quite the same rates as hitherto.

Australia is experiencing ongoing strong demand for ambitious civil-engineering work, while the growth rates of recent years in the sector of commercial construction are likely to gradually fall. In North America, infrastructure investment has reached high levels and will continue rising in the coming years. Construction markets in the oil-exporting countries are profiting from the growing demand for energy and rising oil prices; substantial funds are being invested in improving their transport and utility infrastructures.

Services

In Germany and the other countries of Europe, the investment slowdown in the processing industry is now coming to an end, leading to strong demand for industrial services. In Australia, the main stimulus is from utility improvements and the raw-material sector. In the United States, the positive economic situation is creating stable demand for industrial services.

The global increase in demand for energy is leading to high capital expenditure for the new construction and rehabilitation of power plants in Germany and many other countries. Increasingly strict environmental-protection regulations are an additional strong growth driver for power-plant services in numerous international markets.

The volume of externally sourced real-estate services is increasing in Germany. In the past, infrastructure services accounted for most of this market, but the importance of sophisticated technical and commercial facility management is rising steadily. The trend towards purchasing complete packages from one source is continuing. This will accelerate the process of consolidation in the sector, which is dominated by small and medium-sized enterprises.

Legal framework

The legal framework for the Group's activities in Germany and abroad did not change significantly in 2006.