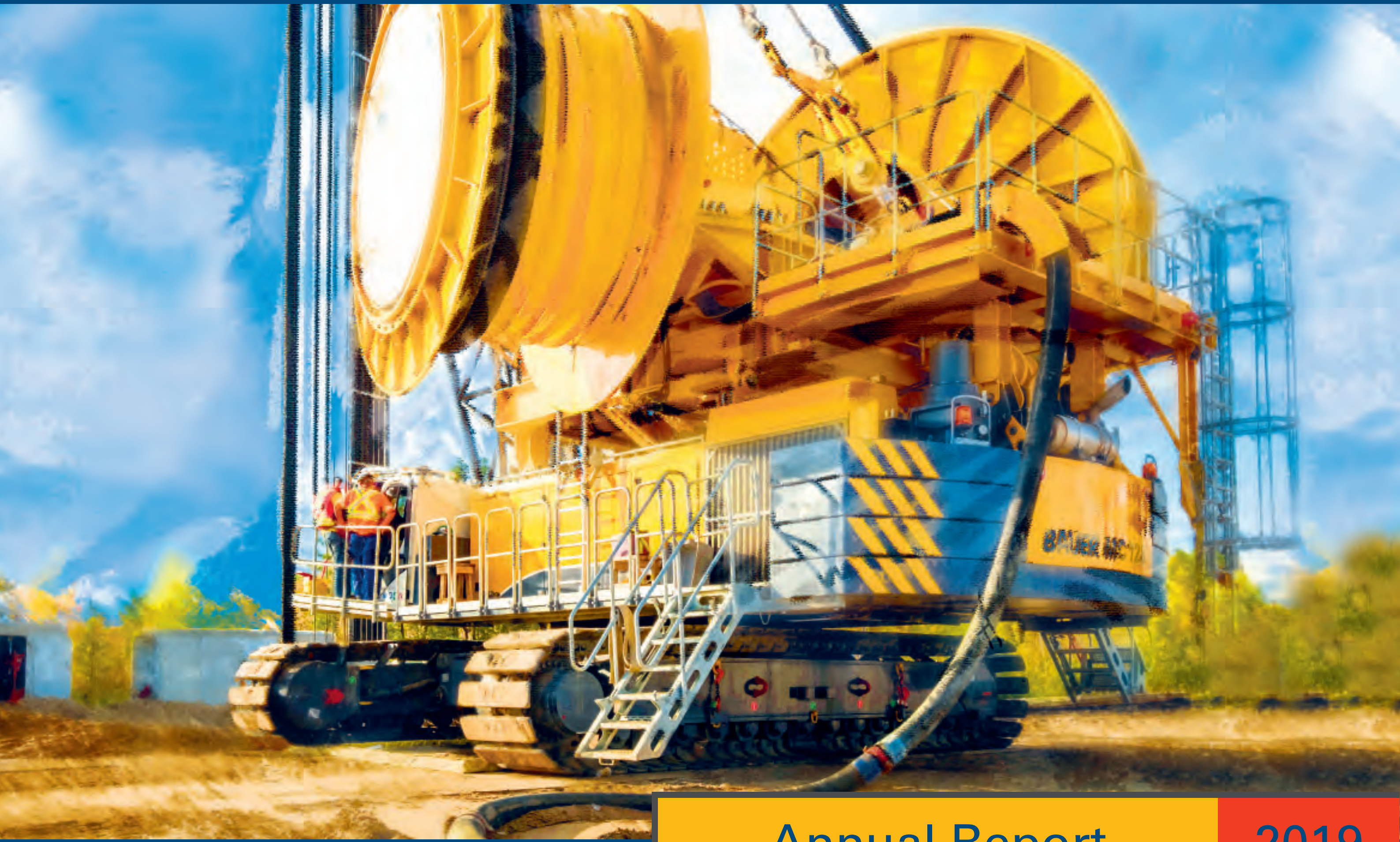


# Annual Report 2019

BAUER

# *PASSION for PROGRESS*

The BAUER Group is a leading provider of services, equipment and products related to ground and groundwater. With over 110 subsidiaries, Bauer operates a worldwide network on all continents.

The operations of the Group are divided into three future-oriented segments with high synergy potential: Construction, Equipment and Resources. The Construction segment offers new and innovative specialist foundation engineering services alongside the established ones, and carries out foundation and excavation work, cut-off walls and ground improvements worldwide. Bauer is a world market leader in the Equipment segment and provides a full range of equipment for specialist foundation engineering as well as for the exploration, mining and extraction of natural resources. In the Resources segment, Bauer focuses on highly innovative products and services in the areas of water, environment and natural resources.

Bauer profits greatly from the collaboration between its three separate segments, enabling the Group to position itself as an innovative, highly specialized provider of products and services for demanding projects in specialist foundation engineering and related markets. Bauer therefore offers suitable solutions to the greatest problems in the world, such as urbanization, the growing infrastructure needs, the environment and water, oil and gas.

The BAUER Group was founded in 1790 and is based in Schrobenhausen, Bavaria. In 2019, it employed some 12,000 people in around 70 countries and achieved total Group revenues of EUR 1.6 billion. BAUER Aktiengesellschaft is listed in the Prime Standard of the German stock market.

# The Group at a glance

## GROUP KEY FIGURES 2016 – 2019

| IFRS in EUR million | | 2016 | 2017 | 2018 | 2019 | Change 2018/2019 |
|---|---|---|---|---|---|---|
| Total Group revenues | | 1,554.7 | 1,772.0 | 1,686.1 | 1,594.7 | -5.4% |
| of which | Germany | 472.9 | 477.8 | 467.1 | 518.7 | 11.1% |
| | International | 1,081.8 | 1,294.2 | 1,219.0 | 1,076.0 | -11.7% |
| | International in % | 69.6 | 73.0 | 72.3 | 67.5 | n/a |
| of which | Construction | 713.1 | 835.0 | 767.6 | 668.8 | -12.9% |
| | Equipment | 634.4 | 754.5 | 723.1 | 713.6 | -1.3% |
| | Resources | 262.4 | 248.2 | 261.5 | 274.9 | 5.1% |
| | Other/Consolidation | -55.2 | -65.7 | -66.1 | -62.6 | n/a |
| Consolidated revenues | | 1,457.9 | 1,688.1 | 1,616.9 | 1,537.7 | -4.9% |
| Sales revenues | | 1,396.9 | 1,667.9 | 1,589.1 | 1,470.9 | -7.4% |
| Order intake | | 1,567.1 | 1,741.7 | 1,721.9 | 1,608.7 | -6.6% |
| Order backlog | | 1,008.1 | 977.8 | 1,013.6 | 1,027.6 | 1.4% |
| EBITDA | | 160.3 | 182.6 | 198.6 | 123.0 | -38.0% |
| EBITDA margin in % (of sales revenues) | | 11.5 | 11.0 | 12.5 | 8.4 | n/a |
| EBIT | | 70.3 | 89.6 | 100.1 | 22.5 | -77.5% |
| EBIT margin in % (of sales revenues) | | 5.0 | 5.4 | 6.3 | 1.5 | n/a |
| Earnings after tax | | 14.4 | 3.7 | 24.1 | -36.6 | n/a |
| Capital investment in property, plant and equipment | | 88.5 | 102.6 | 103.4 | 145.8 | 41.0% |
| Equity | | 434.1 | 418.7 | 431.8 | 386.9 | -10.4% |
| Equity ratio in % | | 25.8 | 25.9 | 26.5 | 23.8 | n/a |
| Total assets | | 1,681.8 | 1.617.7 | 1,632.3 | 1,628.5 | -0.2% |
| Earnings per share | | 0.66 | 0.16 | 1.32 | -2.17 | n/a |
| Distribution | | 1.71 | 1.71 | 1.71 | 0.00 * | n/a |
| Dividend per share in EUR | | 0.10 | 0.10 | 0.10 | 0.00 * | n/a |
| Return on equity after tax in % | | 3.2 | 0.8 | 5.8 | -8.5 | n/a |
| Employees (on average over the year) | | 10,771 | 10,913 | 11,643 | 11,684 | 0.4% |
| of which | Germany | 4,064 | 3,992 | 4,046 | 4,135 | 2.2% |
| | International | 6,707 | 6,921 | 7,597 | 7,549 | -0.6% |

* Proposed; subject to the consent of the Annual General Meeting to be held on June 25, 2020

At variance with the consolidated revenues presented in the Group income statement, the total Group revenues presented here include portions of revenues from associated companies as well as revenues of non-consolidated subsidiaries and joint ventures.

## DEVELOPMENT OF TOTAL GROUP REVENUES BY SEGMENT


## CONSTRUCTION SEGMENT KEY FIGURES

| in EUR '000 | 2018 | 2019 | Change |
|---|---|---|---|
| Total Group revenues | 767,632 | 668,784 | -12.9% |
| Sales revenues | 726,265 | 625,659 | -13.9% |
| Order intake | 822,223 | 760,122 | -7.6% |
| Order backlog | 547,272 | 638,610 | 16.7% |
| EBIT | 39,053 | -19,928 | n/a |
| Earnings after tax | 9,648 | -52,746 | n/a |
| Employees (on average over the year) | 7,078 | 6,948 | -1.8% |

## EQUIPMENT SEGMENT KEY FIGURES

| in EUR '000 | 2018 | 2019 | Change |
|---|---|---|---|
| Total Group revenues | 723,115 | 713,652 | -1.3% |
| Sales revenues | 640,062 | 610,190 | -4.7% |
| Order intake | 723,668 | 672,062 | -7.1% |
| Order backlog | 149,897 | 108,307 | -27.7% |
| EBIT | 74,858 | 61,189 | -18.3% |
| Earnings after tax | 33,981 | 39,496 | 16.2% |
| Employees (on average over the year) | 2,943 | 3,023 | 2.7% |

## RESOURCES SEGMENT KEY FIGURES

| in EUR '000 | 2018 | 2019 | Change |
|---|---|---|---|
| Total Group revenues | 261,471 | 274,873 | 5.1% |
| Sales revenues | 221,345 | 233,485 | 5.5% |
| Order intake | 242,178 | 239,116 | -1.3% |
| Order backlog | 316,478 | 280,721 | -11.3% |
| EBIT | -11,034 | -16,162 | n/a |
| Earnings after tax | -15,991 | -13,736 | n/a |
| Employees (on average over the year) | 1,273 | 1,333 | 4.7% |

# BAUER Aktiengesellschaft
# Annual Report 2019

# Milestones in the Company's History

1

2

3 Dipl.-Ing. Karl Bauer

4 Dr.-Ing. Karlheinz Bauer

5 Prof. Dr. Dipl.-Kfm. Thomas Bauer

## 1790 – 1956

**> 1790** 1

Sebastian Bauer acquires a coppersmith's shop in the center of Schrobenhausen; in the 19th century, subsequent Bauer generations were engaged in copper working, primarily for breweries and domestic households

**> 1840**

Copper cladding for the steeple roof of St. Jakob's church in Schrobenhausen

**> 1900**

Start of well drilling by Andreas Bauer

**> 1902** 2

Drilling of an artesian well for Schrobenhausen railway station

**> 1928** 3

Dipl.-Ing. Karl Bauer constructs the Schrobenhausen water supply system; construction of wells and water pipes throughout Bavaria

**> 1948**

First works on Wittelsbacherstrasse

**> 1956** 4

Dr.-Ing. Karlheinz Bauer, a shareholder in the company since 1952, becomes sole managing director; construction of a first office building in Wittelsbacherstrasse

## 1958 – 1990

**> 1958**

Invention of the injection anchor on the construction site of the Bayrischer Rundfunk building in Munich

**> 1969**

First anchor drilling rig UBW 01

**> 1972**

Construction of the new head office administration block

**> 1975**

First contracts in Libya, Saudi Arabia and the United Arab Emirates

**> 1976**

First heavy-duty rotary drilling rig BG 7

**> 1984**

Work complex West begins operations; manufacture and deployment of the first trench cutter

**> 1986** 5

Prof. Thomas Bauer becomes sole managing director of BAUER Spezialtiefbau GmbH and drives forward the international growth of the Group

**> 1990**

Founding of BAUER und MOURIK Umwelttechnik GmbH and of SPESA Spezialbau und Sanierung GmbH


6


7


8

## 1992 – 2008

> **1992** 6

Takeover of SCHACHTBAU NORDHAUSEN GmbH

> **1994**

Founding of BAUER Aktiengesellschaft

> **2001**

BAUER Maschinen GmbH becomes independent company

> **2002**

Purchase of large machinery manufacturing facility in Aresing

> **2003 – 2005**

Specialist companies in a variety of fields are acquired and integrated into the BAUER Group

> **2006**

BAUER AG is listed on the stock market

> **2007**

Founding of BAUER Resources GmbH; market launch of the three new segments: Construction, Equipment and Resources

> **2008**

Expansion of machinery manufacturing capacities in Aresing and Nordhausen as well as in Tianjin and Shanghai, China

## 2009 – 2019

> **2009**

Largest investment program in the company's history completed: administration building in Schrobenhausen, Edelshausen plant, machinery manufacturing plant in Conroe, Texas, USA

> **2012**

During the year, the Group's global workforce topped the 10,000 mark for the first time

> **2013**

Bauma Innovation Prize for an underwater drilling technique

> **2015**

Joint Venture in the field of deep drilling technology with Schlumberger, the world's leading supplier of technology and project management for oil and gas industry customers

> **2017**

BAUER Group commissioned to expand the world's biggest constructed reed bed treatment plant in Oman

> **2018** 7

Michael Stomberg succeeds Prof. Thomas Bauer as Chairman of the Management Board; this is the first time ever that an outside leader is at the helm

> **2019** 8

Bauer cutter technology reaches record depth of 251.4 m at project in Canada

# Pictures of 2019

**Record depth at Elbtower foundations** 1

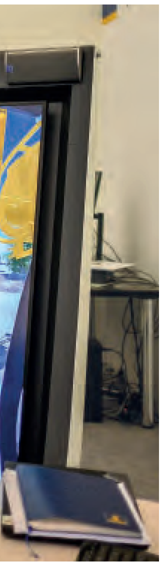
HafenCity in Hamburg is taking shape. Hundreds of new apartments have already been occupied – and more are planned. The project is the largest inner-city urban development project in Europe. The ground-breaking for the 244 m Elbtower is scheduled for 2021.

BAUER Spezialtiefbau GmbH was commissioned with the execution of comprehensive preparatory load tests using test piles built specifically for this purpose. Because the construction soil near the river Elbe has a low load-bearing capacity as a result of the deep, cohesive soil strata, the structural load must be diverted to the subsoil, meaning the deeper, load-bearing layers, to prevent long-term settlement of the building. To this end, in August 2019, the initial test piles were installed in a depth of up to 111.4 m and with a diameter of 1,850 mm – the longest piles ever to be produced in Germany.

**Cutter world record** 2

On June 17, 2019, BAUER Maschinen GmbH and a joint venture partner successfully completed the first sample extraction from a cutting depth of 228 m as part of the FalCon project in Canada. This depth has never before been achieved by a cutter in a commercial application, and it shows that Bauer cutter technology can be successfully used not only in specialist foundation engineering but also for exploration and in the mining industry.

The FalCon project, operated by Rio Tinto Exploration Canada Inc. and the Star Diamond Corporation, aims to determine the economic viability of the kimberlite fields of Fort à la Corne in the Canadian state of Saskatchewan. Due to the low diamond content of kimberlite, Rio Tinto decided to use a Bauer cutter to collect large-scale and high-quality kimberlite samples for subsequent assessment.



**Bauer at Bauma 2019** 3

At its 2,750 m² outdoor area stand, BAUER Maschinen Group presented numerous new products and developments in Munich. On display were exhibits from the areas of drilling rigs, duty-cycle cranes and diaphragm wall equipment as well as devices and equipment from a variety of subsidiaries.

The focus of Bauma 2019 was alternative drive systems using electricity. Against this backdrop, Bauer also took an important developmental step when it comes to practical implementation, for the first time presenting an electrically driven cutting unit based on the BAUER MC 96 duty-cycle crane. The 500 kW electric drive has many advantages when compared to a diesel engine, in particular for relatively stationary specialist foundation engineering procedures such as cutting. This is where the electric drive provides particularly interesting savings effects paired with high efficiency and low emissions.

**Expansion of the world's largest reed bed treatment plant completed** 4

In the middle of a desert landscape in Oman, BAUER Nimr LLC operates the largest commercial reed bed treatment plant in the world. The plant is a multi-award winning flagship project for the cleaning of polluted water from oil production at the Nimr oil field in the south of the country.

On April 28, 2019, the local subsidiary of BAUER Resources GmbH announced another important milestone: successful completion of the third expansion – a month earlier than originally scheduled. The expansion results in an increase in capacity from 60,000 m³ to 175,000 m³ per day. The innovative reed bed treatment plant is a world first, not only because of the use of natural flow processes and cleaning methods that remove hydrocarbons from the water. The site is also significant because of its size of 13.5 km².

# Mission and Strategy

## OUR MISSION

>>> **SERVICES, EQUIPMENT AND PRODUCTS DEALING WITH GROUND AND GROUNDWATER**

- >>> Target: ~ 40% of total Group revenues
- >>> Market leader in specialist foundation engineering machinery and equipment
- >>> New products for mining, deep drilling and offshore drilling
- >>> 80% of sales generated outside of Germany
- >>> Multi-branding strategy

## OUR STRATEGY

- >>> The world is our market
- >>> World market leadership in specialist foundation technologies
- >>> Powerful development of drilling techniques and applications for related markets such as environment, water and natural resources
- >>> Optimization of worldwide organizational structures and of the Group's self-managed business units
- >>> Annual growth from 3 to 8%

BAUER RESOURCES

- >>> Target: ~ 20% of total Group revenues
- >>> Activities in environmental technology, deep drilling, well construction, materials

GWE GERMAN WATER and ENERGY GROUP

BAUER UMWELT

SITE GROUP

ESAU&HUEBER

WÖHR + BAUER

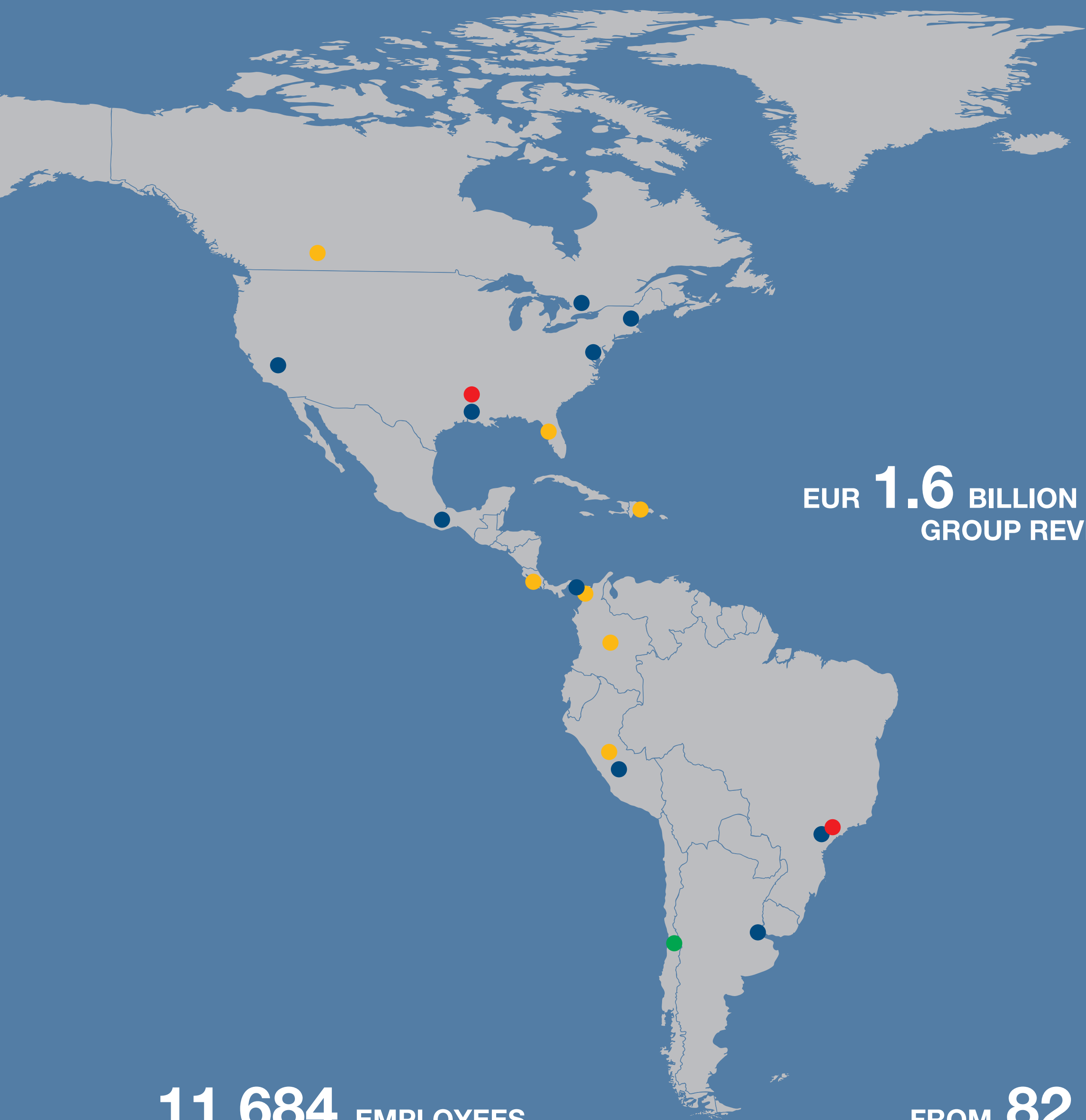
SPESA SPEZIALBAU UND SANIERUNG

- >>> Target: ~ 40% of total Group revenues
- >>> Global provider of specialist foundation engineering services
- >>> Specialist construction services
- >>> Focus on complex international projects

# The World is our Market

OVER **110**
GROUP COMPANIES

IN AROUND **70**
COUNTRIES



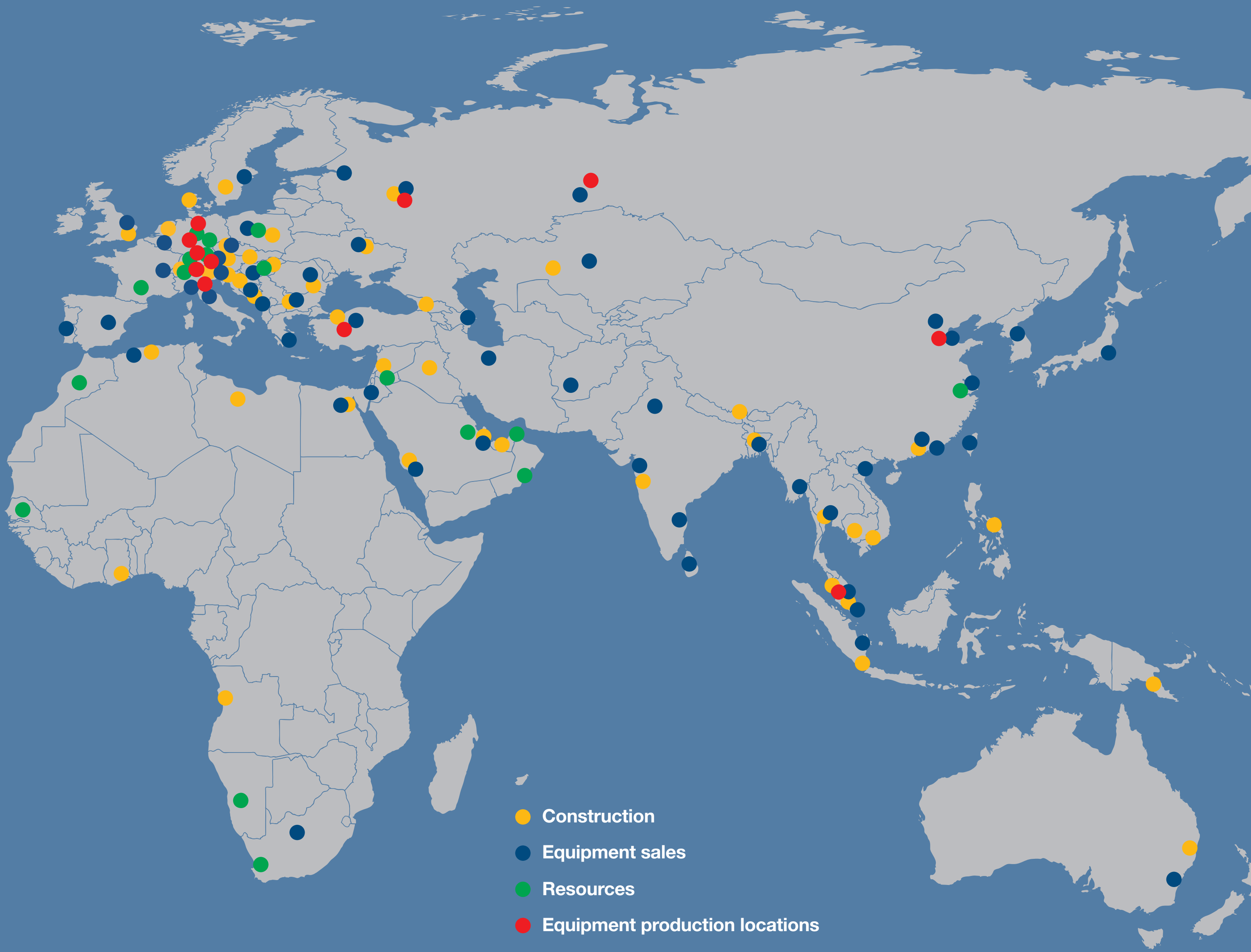
EUR **1.6** BILLION TOTAL
GROUP REVENUES

**11,684** EMPLOYEES

FROM **82** NATIONS

# 26 PRODUCTION FACILITIES

and many other service centers and construction yards



# Foreword

**Ladies and Gentlemen,**
**dear shareholders and friends of our company,**

2019 has been a year of many firsts for me: meetings on construction sites and at subsidiaries at home and abroad, or at larger events, such as our Annual General Meeting or Bauma. Even though a year is by no means long enough to completely familiarize yourself with such a complex company, I have been able to gain a good insight into the impressive variety and capability of Bauer and its employees. Our company culture is characterized by a strong sense of being a team, clear communication and decisive action. It is these characteristics which help us to get through challenging times and make us successful in the long term.

From a business perspective, our performance in 2019 was unfortunately not as successful as planned. Political changes in the Far East, which temporarily brought local construction markets to a standstill, as well as postponed projects in the international construction business have had a negative impact on our Construction segment over the course of the year. We had a temporary underutilization in several overseas subsidiaries, leading to significant losses which we were unable to compensate for with the good results in other areas.

One further negative factor was the interest rate development in provisions for pensions and interest rate hedging, which posed a significant financial burden. This has greatly impacted earnings after taxes, in particular.

Furthermore, in March 2020, an appeal against an arbitration court verdict from 2018 resulted in a ruling and we simply do not understand the reasoning for this. This related to a construction project which we carried out in Hong Kong in 2011 and 2012 and in which we incurred significant additional costs. This ruling meant that we had to carry out a significant valuation allowance on the balance sheet at short notice. Therefore, we were also unable to comply with our covenants agreed with the banks in 2019.

With total Group revenues of EUR 1.59 billion, which stood at 5.4% below the previous year, an EBIT of EUR 22.5 million and significantly negative earnings after taxes of EUR -36.6 million, 2019 was a very disappointing year for us.

Especially in the Far East, the Construction segment was affected significantly by the consequences of political changes and resulting project delays. To be better placed to react to underutilization of capacities in our subsidiaries in the future, we are investigating what capacities we need to set up in individual markets in the long term. Developments varied greatly overall from country to country and from region to region. However, we were very happy with the execution of our construction projects throughout the world. We have introduced structured processes and lean management methods in order to ensure that our construction projects are improved on a long-term basis.

The Equipment segment again reported a very good financial year in 2019 as in the two previous years. Despite lower growth rates overall, the global sales figures continued at a high level in the construction equipment segment. China and Europe, in particular, remained the drivers, whereas demand was weaker in other Asian countries. The Middle East was disappointing again. Once again, we were able to present many innovations at Bauma in 2019, which also included an electrically driven trench cutter.

We had hoped for somewhat better performance in the Resources segment, which still did not come to pass in 2019, however. Essentially, the underutilization of capacity of our subsidiary in Jordan, a weak order situation in the brewery and beverage technology business, further investment in restructuring and adjustments for receivables from old projects resulted in a loss overall. We have implemented further reorganization measures in the financial year, which will put us in a better position in this segment for the future. On the other hand, we were very happy with the development of our environmental business. This also applies to our reed bed treatment plants: we successfully completed the third expansion in Oman last year, and there are further opportunities for new projects in this region.


We are also happy to report positive developments regarding our working capital and net debt. While working capital continued to shrink, net debt remained virtually unchanged. This was due to the new IFRS 16 standard and the market valuation of financial liabilities. Pure bank debt has seen further reductions, which demonstrates that our numerous measures are helping us to move forwards.

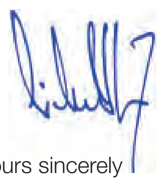
After more than a year as chairman of the management board, I strongly believe that we are on the right track with the structure in the three segments of Construction, Equipment and Resources. We have the right products and services to address topics that will shape the future: urbanization, infrastructure, the environment or even water. I would like to carry out more work to use the synergies between the segments more rigorously. One example is mining. We can achieve even more together here than before, as all business fields offer good solutions for this market, which, in some cases, optimally complement one another.

One further important issue of the future is digitalization, be this in construction or equipment, purchasing or in production, in project management or in warehousing. Digitalization affects us as a whole, and we are committed not only to be part of the digitalization process but, as the industry leader, to shape it and to set standards.

The biggest challenge will be for us to continue to manage the many external influencing factors. This applies whether these challenges are political changes, economic crises in individual countries or potential trade conflicts. The coronavirus in particular has been having a significant impact on the general economic situation for a number of weeks now, with consequences for the society and many companies. However, the exact effects of the coronavirus pandemic cannot be assessed at this stage. That is why our overall forecasts for the current financial year are much more cautious.

For 2020, we are therefore expecting a slight increase in the total Group revenues, a significant increase in the EBIT and a significant increase in the earnings after taxes in the positive area.

I would like to offer my sincere thanks to all our shareholders, financial partners and customers and friends of the company. I would also especially like to thank our employees, who make the biggest contribution to our success with their flexibility and dedication.



Yours sincerely
Michael Stomberg

# Combined Management Report



<<< *In Saskatchewan, Canada, a sample extraction was successfully completed with a cutting depth of 251.4 m. For the challenging diamond assessment project a BC 50 cutter on an MC 128 duty-cycle crane was used.*


BAUER BG 39
BAUER BG 39
BAUER

# Combined Management Report

## I. GENERAL INFORMATION ABOUT THE GROUP

### GROUP STRUCTURE

The BAUER Group sees itself as a leading provider of services, equipment and products related to ground and groundwater. With over 110 subsidiaries, Bauer operates a worldwide network on all continents. The operations of the Group are divided into three future-oriented segments with a high potential for synergy: Construction, Equipment and Resources.

The Construction segment applies all the established methods and techniques of specialist foundation engineering all over the world. These include executing complex excavation pits and foundations for large-scale infrastructure projects and buildings, as well as cut-off walls and ground improvements. It also provides other construction services, including civil engineering and remediation technology.

Bauer is committed to be a world market leader in the Equipment segment, providing a full range of equipment for specialist foundation engineering as well as for the exploration, mining and the exploitation of natural resources. Besides its headquarters in Schrobenhausen, the Equipment segment operates a worldwide distribution network and production facilities in Germany, China, Malaysia, Russia, Italy, Turkey and the USA, among other locations.

The Resources segment delivers highly innovative products and services and acts as a service provider with several business divisions and subsidiaries in the water, environmental and natural resources sectors. Its areas of expertise include water treatment, environmental remediation, waste management and drilling services as well as well drilling.

BAUER Aktiengesellschaft is the holding company of the Group and is listed on the Frankfurt Stock Exchange. BAUER AG provides central management and service functions for its affiliates. These specifically include human resources, accounting, finance, legal and tax affairs, IT, strategic purchasing, facility management and health, safety and environment (HSE).

In the financial year gone by, there were no branch offices in the Group that were important or essential for business operations.

### CORPORATE GOVERNANCE AND CONTROL SYSTEM

The principal task of the Management Board of BAUER AG is the strategic management of a global group of companies. As part of central strategies, goals and regulations, the main companies in the three operating segments – BAUER Spezialtiefbau GmbH, BAUER Maschinen GmbH and BAUER Resources GmbH – develop their own detailed strategies, which are converged at holding company level and integrated into the strategic corporate planning process.

The development and implementation of a self-managing organizational structure with decentralized business units is the primary characteristic of corporate governance within the BAUER Group. The managing directors of the various Group companies operate under their own responsibility and are provided with a large degree of autonomy within the framework of the corporate strategy to determine how their business units progress.

The autonomous management of the individual operating business units is constrained by framework guidelines, standards and strategies that were laid down by the Management Board of the Group and the individual companies. The principles of proper conduct, including compliance with our ethical and moral standards, are defined by an ethics management and values program, among others, which cover all the companies of the BAUER Group, flanked by corporate guidelines and management principles for our employees. The self-managing structure is linked to a centralized system of risk management and control, and to a central Group Accounting function. Internal auditing systems monitor compliance with laws and policies across the Group. Strategic management by the Management Board pursues the goal of securing the long-term success of the Group and optimally using the synergies between the segments.

*<<< HafenCity Hamburg is the largest inner-city urban development project in Europe. The final stage is the construction of the 244 m tall Elbtower, for which Bauer produced the deepest bored piles in Germany to date at 111.4 m during test pile drilling.*

**Financial performance indicators**

The performance of total Group revenues, earnings before interest and taxes (EBIT) and earnings after taxes are used as the fundamental and significant key financial performance indicators for the management of the Group. Here, the total Group revenues represent the revenues of all the companies that form part of our Group. The difference between the consolidated revenues and the total Group revenues is derived from the revenues of the associated companies, from our portion of revenues in consortia and from the revenues of non-consolidated companies. The performance of total Group revenues and the contributions to them by the various segments are set out in the Business Report.

The Business Report details the trends in EBIT and earnings after taxes in the Group. At segment level, only the total Group revenues and the EBIT are referred to as key financial performance indicators.

A wide range of other financial key figures, which individually are of comparatively minor significance to the medium- and long-term development of the Group, are collated and integrated in the course of internal Group management activities. They primarily comprise key figures of the balance sheet and income statement and the indicators of capital structure, profitability and liquidity derived from them.

**Non-financial performance indicators**

Many non-financial key figures of Group performance are measured as part of a comprehensive reporting system, although they have no individual material significance in terms of internal controls and other respects. The reporting on trends in these key figures is primarily intended to convey an overall picture of the operations of the BAUER Group.

The key figures included originate from the human resources function, such as workforce numbers, among other sources. Key figures on training and development as well as others derived from the field of research and development are also reported.

## RESEARCH AND DEVELOPMENT

In the 2019 financial year, the BAUER Group once again invested considerable sums to create new and develop existing products and services in three segments as well as for research purposes. The focus is primarily a wide range of equipment for specialist foundation engineering as well as the appropriate drilling tools and attachment units. This is flanked by the new development and optimization of construction site applications and methods.

Research and development work in the BAUER Group is organized on a decentralized basis. In companies belonging to BAUER Maschinen GmbH, each major product group has its own development unit that concentrates entirely on the corresponding equipment. Within BAUER Maschinen GmbH, the diversified product range is divided into business divisions that constantly develop their equipment families and pursue innovation. The central development department works on the technologies and components of a machine that is used in several product groups. Basic research is also located within central development. The development work of the BAUER Maschinen GmbH subsidiaries is grouped into the system described above.

The Equipment segment focuses primarily on the work involved with device automation. Alongside programming and implementing functions in assistance systems, this also includes automatically recording the activities and items of equipment, together with improved environmental monitoring. To this end, BAUER Maschinen GmbH has been taking part in an innovative research project since 2019. The focus of the project is the further development of construction equipment to enable the automation or partial automation of work tasks. The joint project, which also involves associations, such as the Hauptverband der Deutschen Bauindustrie (main association of the German construction industry), the VDBUM and the VDMA, and is being supported by the German Federal Ministry of Education and Research.

Electric drives are one further area of focus for the future. An electrically driven cutting unit based on the BAUER MC 96 duty-cycle crane was presented for the first time at Bauma 2019. The 500 kW electric drive has many advantages when compared with the diesel engine, in particular, for relatively stationary specialist foundation engineering procedures, such as cutting. This is where the electric drive provides particularly interesting savings effects, paired with high efficiency and low emissions.

Our construction divisions also have their own development capacities. In particular, BAUER Spezialtiefbau GmbH maintains a department for construction technology which develops new methods and conducts fundamental research. Further developments have been made in 2019 in the area of digitalization of software applications for building construction and project management. The considerable work on the “b-project” portal in this respect, which is used in data management on construction projects, was awarded 3rd place in the 2019 Bauma Prize for Innovation in the category Construction Work/Construction Processes/Construction Method. In terms of sustainable developments BAUER Spezialtiefbau GmbH was awarded the Prize for Innovation in 2019 by the Bavarian construction industry for the successful development and functionality of a geothermically activated mixed-in-place wall proven using a model project.

The main focus of development in the Resources segment is placed on solutions in the area of the environment, brownfield remediation and disposal. For example, liquid waste or drilling mud slurry are increasingly difficult to dispose of. The environment business of BAUER Resources GmbH carried out major drainage trials in 2019 for such slurry. Further tests are planned for 2020. Research was also carried out on the application of methods for thermal storage in specialist foundation engineering.

To promote research that might be of Group-wide importance, internal and external orders for research projects are placed via the BAUER Research Community. Seemingly simple ideas sometimes give rise to outstanding new techniques that help our companies achieve technological advances.

This type of overall organization for research and development work has proven to be highly effective. Fast decisions and high flexibility enable all products to be maintained up to date and allow new ideas and market requirements to be implemented quickly.

In the Equipment segment, we invest 3.2% (including internal and project-related expenditure) of the corresponding portion of total Group revenues in research and development. Some 201 employees are involved in this area, as well as outside consulting engineers and interns. Research and development activities are routinely reviewed and maintained at a high level to keep pace with the ever-increasing rate of change in market requirements.

In terms of the corresponding total Group revenues, research and development expenditure in the Construction segment is 0.5% and in the Resources segment 0.6%. We are investing considerable further resources to prepare and design construction sites. This expenditure is leading to a general increase in the expertise base of the segments.

## Research and development in the BAUER Group

| | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | Equipment | Resources | BAUER Group | Construction | Equipment | Resources | BAUER Group |
| Total Group revenues (in EUR million) * | 755.0 | 671.8 | 259.3 | 1.686.1 | 653.3 | 672.1 | 269.3 | 1.594.7 |
| Expenses for R&D (in EUR million) | 2.9 | 20.9 | 1.8 | 25.6 | 3.2 | 21.3 | 1.6 | 26.1 |
| as % of total Group revenues | 0.4% | 3.1% | 0.7% | 1.5% | 0.5% | 3.2% | 0.6% | 1.6% |
| Group employees | 7,078 | 2,943 | 1,273 | 11,643 | 6,948 | 3,023 | 1,333 | 11,684 |
| R&D employees | 38 | 196 | 19 | 253 | 38 | 201 | 16 | 255 |

* After deduction consolidation

# II. BUSINESS REPORT

## MACROECONOMIC TREND

2019 continued to be a year dogged by political tension and one that showed a slowdown in economic growth for the global economy. According to the IMF, global growth was 2.9% in 2019. Both continuing and new crisis hot spots had a significant impact. The defining issue was arguably the trade war between the USA and China, which stands as a prominent example of increasing protectionism. There were also many other crises: the protracted wars in Syria and Yemen, ongoing tension in West and North Africa, in Iraq, Iran, Afghanistan and in the Ukraine or even demonstrations in Hong Kong as well as Brexit, together with a change of government and political changes in Brazil and countries in the Far East, such as Malaysia.

Climate change and CO2 emissions are increasingly the focus of public debate. There are signs of significant changes towards greater climate protection, especially in Germany and Europe. Large global investors are also calling for more sustainable operations. Particular demands are being placed on the German economy, in particular, with its strong automotive and supplier industry, as a result of the transition to electric drives. In the mechanical engineering industry, too, increasing efforts can be observed to bring more and more electrically driven products onto the market. The requirements are also growing for the construction industry. The demands for the use of more sustainable materials and the discussions around increasing land consumption bring challenges, but also opportunities, for specialist foundation engineering.

The macroeconomic situation in 2019 was therefore shaped by numerous challenges and uncertainties. It remains very difficult for all companies to make forecasts and decisions in this environment.

There has been a huge disparity in the impact made by the variety of macroeconomic and global developments on the BAUER Group – from record sales and good earnings in one country to significant market contraction in others. Moreover, the continued decline in interest rates led to negative effects on interest rate hedging transactions and pension obligations, while also offering an opportunity for inexpensive financing.

## OVERVIEW OF OUR MARKETS

Contrary to several forecasts, the global construction markets were able to grow further in 2019 and made for a generally positive environment. The market was sustainably influenced by an enormous backlog in infrastructure in emerging economies, but also in established industrial nations. However, 2019 saw huge fluctuations in individual countries that have affected regional construction markets.

The global construction equipment markets also reported a high level of performance despite slower growth in 2019. At the same time, China especially, but also Europe, showed a very positive market environment.

Alongside construction and equipment, which are the most important markets for us, we also see a basically positive trend in mining, water, renewable energies and environmental technology, which is being spurred on by the general need for these products and services.

### Germany

Despite the weak macroeconomic performance in Germany, the German construction market has continued to grow in all areas. Persistently low interest rates, state subsidies and an ongoing high backlog demand in urban areas were drivers in the construction sector. Public sector construction benefited from an immense deficit in infrastructure, for which federal funding was available. This also applied to states and municipalities. In part, the poor state of the infrastructure has already had a major impact on freight traffic, necessitating enormous expenditure in this area. The ongoing debate about CO2 consumption and the consequences of climate change make additional investment necessary, which, in some cases, will benefit the construction industry.

**Construction statistics Germany – Change 2018 / 2019**

| in % | Revenues | Order intake | Employees |
|---|---|---|---|
| Residential construction | 9.9 | 9.7 | - |
| Commercial construction | 7.6 | 8.9 | - |
| Public construction | 7.7 | 6.5 | - |
| Total | 8.2 | 8.2 | 4.9 |

Source: Central Federation of the German Construction Industry

**Europe**

With stable growth in 2019, the European construction market showed itself to be robust. All important countries in Western and Southern Europe, such as Germany, France, the UK, Italy and Spain, were to achieve good growth in the construction sector. The Eastern European markets in Hungary, Slovenia and Romania performed extremely well.

In many other countries in Eastern Europe, the construction investments remained at a very low level due to a lack of funding. The ongoing crisis in the Ukraine continued to cause considerable damage to the local economy. As a result, there was very little money available for construction. Despite continuing sanctions, Russia tried to finance the construction sector with a smaller budget but remained weak.

**Middle East & Central Asia**

The Middle East continued to be marked by a number of crises and political influences, which significantly hampered the region's economy. This was why investment in the construction sector was also very cautious. As a consequence of the continuously low oil and gas prices, state budgets remained at a low level, meaning that investment was limited to what was absolutely necessary. Continued overcapacity in the construction sector and a noticeable contraction in the demand for new machinery for this market were a consequence of this development.

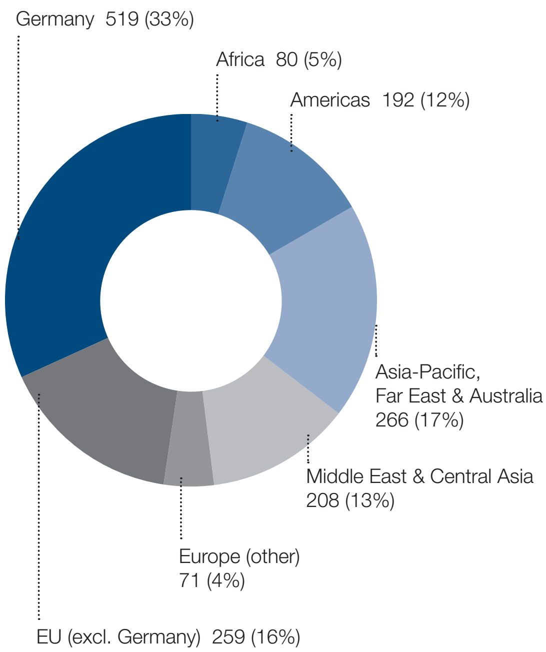
Whilst the sanctions in the local construction market in Qatar were still having a marked impact in the first six months of 2019, a noticeable improvement could be seen in the second half of the year. There were the first signs of modest recovery in Saudi Arabia. Only Egypt had a consistently stable construction sector. In total, the market conditions were and remain difficult for the construction and equipment sectors in this region.

In the markets of South Asia, e.g. India, Bhutan and Bangladesh, the general demand for infrastructure and energy supply was constantly yielding interesting projects for the construction industry as a whole and specialist foundation engineering, in particular. There were regularly good project opportunities, especially in the area of dam stabilization and the setting up of hydroelectric power plants.

**Geographical breakdown of total Group revenues**

in EUR million

**Total 1,595**




**Asia-Pacific, Far East & Australia**

The markets in Asia showed themselves to be very different over the past year. In Malaysia and Thailand, political changes, such as change of government and the monarchy, resulted in infrastructure projects being postponed or delayed, leading to a noticeable decline in construction activity. In Vietnam, Indonesia and Australia, there also was a slowing down in the construction sector for a variety of local reasons. The Philippines, by contrast, saw a revival. Overall, the region continued to offer good market conditions for the construction sector, with a variety of large infrastructure projects. Several problem areas in Thailand and Indonesia disappeared again toward the end of 2019. We are anticipating a recovery in the construction sector in Vietnam for 2020 because the political change should be complete and building licenses that had been put off for some time are expected to be granted.

The construction sector in China continued to remain at a high level, but due to strong local competition and government regulations, there were hardly any opportunities for foreign companies to operate there in the local construction projects. The sale of construction equipment in China stood at a high level again in the past year.

**The Americas**

The political decisions in the USA to promote and strengthen the national economy have had a positive effect on the local construction sector. The persistently high backlog in many infrastructure areas of the country, including flood protection, resulted in a number of projects which have been implemented. This positive trend was also seen in the sale of construction equipment. In Canada, as well as in the countries of Central and South America, the construction market was rather weak.

**Africa**

A revival and slight recovery in the raw materials markets has stimulated the investment activity of the raw materials industry in Africa, also with a positive impact on investment in services required for mining. Overall, the economic level of many countries continued to be very low, with a correspondingly low demand in construction in 2019 as well. Important future issues for the continent, such as water, the environment, energy or natural resources, are gaining in importance and have been supported by incentive measures again.

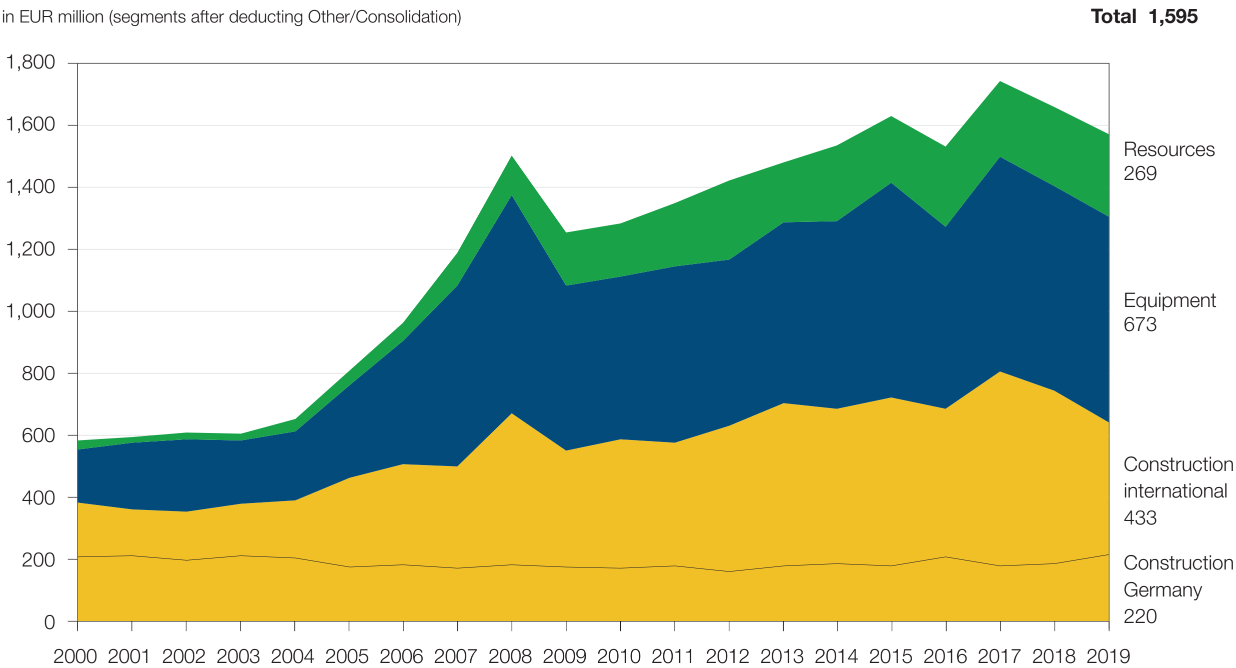
## COURSE OF BUSINESS

The BAUER Group achieved **total Group revenues** amounting to EUR 1,594.7 million in the 2019 financial year, 5.4% below the previous year's figure of EUR 1,686.1 million. **EBIT** fell very sharply from EUR 100.1 million to EUR 22.5 million. At EUR -36.6 million, **earnings after taxes** were significantly in the negative range (previous year: EUR 24.1 million).

The decline in revenues and earnings of the Group is mainly attributable to the Construction segment, which was particularly affected by project postponements and delays in the final award of contracts in the Far Eastern and Australian markets. This caused an underutilization of capacities, which led to a corresponding burden of fixed costs. In addition, the interest rate development for pension provisions and interest rate hedging in 2019 caused significant financial strain. The negative effects of interest rate hedging transactions influenced earnings after taxes, in particular.

**Development of total Group revenues by segment**

in EUR million (segments after deducting Other/Consolidation)



### Forecast/actual comparison 2019

| in EUR million | Forecasts | | Actual 2019 |
|---|---|---|---|
| | April 15, 2019 | September 18, 2019 | |
| Total Group revenues | ~ 1,700 | ~ 1,700 | 1,595 |
| EBIT | ~ 95 | ~ 70 | 22.5 |
| Earnings after tax | significant increase | slightly positive | -36.6 |

These negative trends made an adjustment of the Group forecast necessary, which was published promptly with an ad-hoc announcement on September, 18. Forecast earnings for EBIT were reduced to around EUR 70 million, and earnings after taxes were expected to be only slightly positive. We had originally forecast total Group revenues of around EUR 1.7 billion, EBIT of around EUR 95 million and earnings after taxes significantly higher than in the previous year.

Furthermore, on March 18, 2020, the Group surprisingly received an appeal against an arbitration court verdict from 2018, which was reported to the capital market in an ad-hoc announcement. This related to a construction project which was carried out in Hong Kong in 2011 and 2012 and in which we incurred significant additional costs. Due to this verdict, a significant valuation allowance of approximately EUR 40 million had to be made in the balance sheet, which consequently impacted the earnings figures to a significant extent. For this reason, it was also not possible to keep to the covenants agreed with the banks.

At EUR 1,027.6 million, the Group's **order backlog** remained at a very pleasing level at the end of 2019 and was up slightly at 1.4% from the previous year's already high figure of EUR 1,013.6 million. Even though the markets are very volatile and have shown themselves to be far more difficult than in 2018, the Construction segment managed to win several very large orders and significantly increase the order backlog. The order backlog in the Equipment segment was noticeably below the previous year. In the Resources segment, the order backlog also decreased compared with the previous year. **Order intake** decreased by 6.6% to EUR 1,608.7 million, compared to EUR 1,721.9 million in the previous year.

**Summary**
2019 was a very changeable year for the Group overall. Following a very good start to the year, the interest rate development and then the effects of weakness in Far Eastern markets initially hindered any improvement and the achievement of set targets. While the Construction segment was particularly affected by this, the Equipment segment once again enjoyed a successful financial year. The impact of the verdict from Hong Kong and the valuation allowance that was necessary as a result were still having a significant negative impact on the consolidated financial statements shortly before the completion of the annual report. The reorganization measures in the Resources segment were consistently pursued, although the results still did not meet expectations. Overall, it is important that all departments within the Group continue to work consistently to implement the measures introduced.

## CONSTRUCTION SEGMENT

| in EUR '000 | 2018 | 2019 | Change |
|---|---|---|---|
| Total Group revenues | 767,632 | 668,784 | -12.9% |
| Sales revenues | 726,265 | 625,659 | -13.9% |
| Order intake | 822,223 | 760,122 | -7.6% |
| Order backlog | 547,272 | 638,610 | 16.7% |
| EBIT | 39,053 | -19,928 | n/a |
| Earnings after tax | 9,648 | -52,746 | n/a |
| Employees (on average over the year) | 7,078 | 6,948 | -1.8% |

### General conditions

The construction markets around the globe have seen further growth overall. The considerable demand for infrastructure, such as roads, bridges, dams or energy supply, together with the increasing urbanization, continue to push start this growth. Due to urbanization, in particular, construction is having to take place under increasingly complex and difficult conditions. As a result, more specialist foundation engineering work is needed, and specialist foundation engineering continues to be a promising market for the future.

And yet, 2019 showed a very mixed picture in terms of the development in construction markets. Germany saw a very buoyant construction market once again in the year gone by. There was also overall growth in the rest of Europe, but performance varied greatly in the different markets. Russia, in particular, continued to be weak. In North America, Canada proved to be weaker again, while several large single projects came to market in the USA. There is continued high demand for infrastructure investment in this country overall. The countries of Central America reported a weak market situation. 2019 was a particularly difficult year in the Far East and Australia. Individual markets, such as Malaysia, Indonesia, Thailand or Vietnam, experienced a significant decline in construction activities, which was mainly due to political changes. Compared with the previous year, the Middle East showed itself to be significantly more stable despite the political uncertainties and low oil price. The markets in Africa continued to be weak.

### Significant events

The Construction segment achieved **total Group revenues** of EUR 668.8 million in the 2019 financial year, which fell by 12.9% compared with previous year's EUR 767.6 million. At EUR -19.9 million, **EBIT** was markedly negative (previous year: EUR 39.1 million). At EUR -52.7 million, **earnings after taxes** were negative. In the previous year, positive earnings of EUR 9.6 million were reported.

The verdict on appeal mentioned above against an arbitration court verdict from 2018 still resulted in a considerable valuation allowance in the balance sheet of approximately EUR 40 million shortly before the completion of the consolidated financial statements in March 2020. This had an impact of corresponding magnitude on total Group revenues and the earnings figures for the Construction segment.

The year-on-year decline is also attributable to the markets of the Far East and Australia, however, which were affected by a lack of orders and project postponements. Total Group revenues fell back slightly in the segment as a result, even though we had originally expected growth here. The project postponements had a significant impact on the earnings figures. The resulting underutilization, which was significant in individual countries in the Far East, led accordingly to a significant burden of fixed costs and marked losses in the local companies. The outcome of a legal dispute in the Philippines also had a negative impact. The companies in the USA and Panama also made a considerable negative contribution.

The projects implemented in the financial year were carried out very satisfactorily. The negative earnings essentially came about because of an underutilization in several markets. The introduction of the Bauer Construction Process (BCP), i.e., the systematic introduction of structured lean management methods transferred to specialist foundation engineering, showed success in 2019 and will gradually be rolled out internationally.

Based on the general conditions, the individual construction markets showed themselves to be very different for us as well. Even though, compared with the extremely strong previous year, revenues in Germany fell back slightly as expected, we were nonetheless able to achieve very good earnings in a buoyant market. In 2019, we had a very good financial year in Europe, particularly in the Netherlands, Hungary and Slovakia. Austria and England performed reasonably well, while in Switzerland, we had a mixed year. Capacity utilization in Russia was too low due to the difficult market situation.

The markets in the Far East were weak on the whole. We were satisfied with the financial year in Qatar and the United Arab Emirates thanks to the execution of large orders. Our large project on the Dead Sea in Jordan made an important contribution to capacity utilization in the region. It was pleasing to note the revenue of our subsidiary in Egypt once again, which was able to deliver a corresponding contribution to earnings thanks to several good projects. In Africa, contributions to earnings were only very low in line with our activities there.

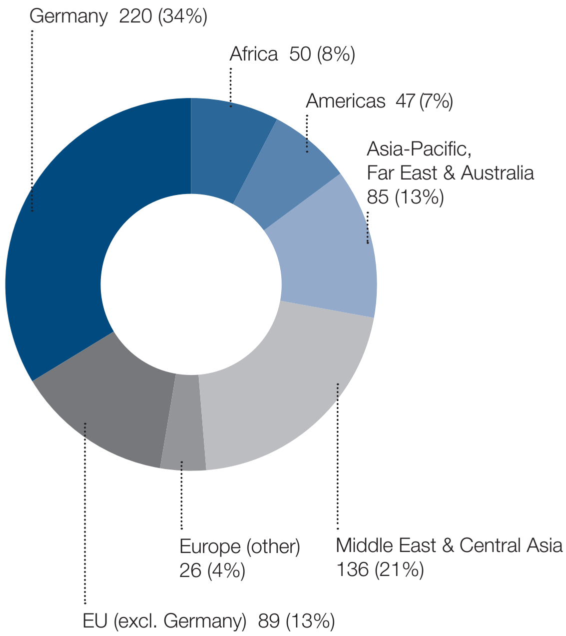
In 2019, the most difficult market conditions for us were in the Far East. Political changes, in particular, resulted in a considerable and enduring shortfall in construction activities in several countries. We were therefore unable to fill our capacities by far, especially in Malaysia and Thailand, which resulted in significant losses. There were also too few orders in Australia and Vietnam. Thankfully, project activities picked up once again in Thailand, Indonesia and the Philippines at the end of 2019. We will need to make adjustments to our capacities in several countries for 2020.

Our subsidiary in the USA underwent a difficult development again, on which further work on a restructuring program was undertaken in 2019. Unfortunately, a larger project was postponed here too, so that the necessary capacity utilization could not be achieved. It was possible to acquire several large orders for 2020, including comprehensive specialist foundation engineering works for two sections of the Herbert Hoover Dike in Florida, so that we anticipate a significant improvement here in 2020. In Canada, there were generally too few projects, especially at the headquarters of our subsidiary in Alberta, just as in the Central American markets. We had to report losses in Panama, in particular.

**Geographical breakdown of total Group revenues Construction segment**

in EUR million (after deduction of Consolidation)

**Total 653**




In Germany, we provide civil engineering and remediation services through SCHACHTBAU NORDHAUSEN Bau GmbH and SPESA Spezialbau und Sanierung GmbH. Overall, these companies posted positive results here.

### Order situation

At EUR 760.1 million, **order intake** fell back by 7.6% from the previous year's figure of EUR 822.2 million. At EUR 638.6 million, **order backlog**, which was 16.7% well above the previous year's figure of EUR 547.3 million, however, is therefore at a record level.

We also had a very good order situation in the financial year just gone. Even though the markets are very volatile and have shown themselves to be far more difficult than in 2018, we have been successful in winning several very large orders, in the USA in particular, but also in Bangladesh and in Bhutan. Due to the existing order backlog and further opportunities around the globe, we do see a good starting position for the current financial year.

## EQUIPMENT SEGMENT

| in EUR '000 | 2018 | 2019 | Change |
|---|---|---|---|
| Total Group revenues | 723,115 | 713,652 | -1.3% |
| Sales revenues | 640,062 | 610,190 | -4.7% |
| Order intake | 723,668 | 672,062 | -7.1% |
| Order backlog | 149,897 | 108,307 | -27.7% |
| EBIT | 74,858 | 61,189 | -18.3% |
| Earnings after tax | 33,981 | 39,496 | 16.2% |
| Employees (on average over the year) | 2,943 | 3,023 | 2.7% |

**General conditions**

Even though the growth dynamics of the construction equipment markets have slowed down in 2019, the sales figures are moving at a high level globally. China and Europe were the main drivers again, which were able to grow significantly once again. The markets in other Asian countries also continued to be positive. The revival of the North American equipment market, which started in the previous year, was sustained. By contrast, the market in Russia remained weak, even though the first signs of a cautious market revival could be seen. The markets in the Middle East were also at a low level, where equipment sales dropped sharply due to the low oil price and political uncertainties. Even though the construction equipment markets achieved a high level of sales overall in 2019, the growth rates and the order intake fell back, particularly in the second half of the year.

At Bauma, the most important construction equipment exhibition for us, which again took place in Munich in April 2019, we registered a positive willingness to invest among our customers. Numerous infrastructure projects around the world, some of them very large, demonstrated that the demand for large-scale specialist foundation engineering equipment is undiminished. Nonetheless, the worsening political conditions, such as the trade war between China and the USA, caused an increasing reluctance to invest in the second half of the year.

The commodity markets, which are important for some of our special product groups, such as water well drilling rigs, still tended to be weak due to fluctuating commodity and oil prices. However, they did show clear signs of recovery.

**Significant events**

In the Equipment segment, **total Group revenues** fell slightly by 1.3% from EUR 723.1 million in the previous financial year to EUR 713.6 million. **Sales revenues** also dropped by 4.7%, from EUR 640.1 million to EUR 610.2 million. Accordingly, **EBIT** decreased from EUR 74.9 million to EUR 61.2 million. **Earnings after taxes** rose slightly from EUR 34.0 million to EUR 39.5 million, in particular, because of a lower tax burden and lower at-equity loss compared with the previous year. The earnings figures also include a non-operating charge of EUR 4.5 million that is attributable to an earnings-affecting restructuring of a subsidiary, which was transferred from the Resources segment to the Equipment segment. The opposite effect can be seen in the earnings figures of the Resources segment.

In the overall very favorable market environment, we succeeded in keeping revenue, sales and earnings at very good levels. The main drivers were, once again, the sales markets in Europe and China. The further Asian countries, on the other hand, reported weaker construction markets because of political changes. This resulted in a significantly lower demand for equipment there. North America also performed noticeably better than in the previous year. By contrast, the sales figures in Africa exceeded expectations, while the sales figures in the Far East were disappointing. Sales in Russia remained too low, and the neighboring countries of Eastern Europe and Central Asia showed little momentum.

The financial year was as follows for the subsidiaries and the individual product groups: sales of anchor drilling rigs, mixing plants, rotary drives and casings were healthy once again in 2019, as were the production and sales organization in the

Far East, which made a very good contribution to revenues and earnings. Business in spare parts, drilling tools and other after-sales services once again had a good impact on total earnings. The sales of water well drilling rigs also improved.

The sales company for specialist foundation engineering equipment in the USA was able to benefit from the recovering market and the many improvement measures, and achieved a significant rise in its sales figures and robust earnings. This represents a huge improvement compared with the difficult previous years.

Unfortunately, the joint venture with Schlumberger also had too few orders in 2019. Performance is slower than planned, which is due essentially to the market environment in the onshore oil and gas industry.

Overall, sales of large-scale and special equipment remained at a high level. The revenue generated from these sales led to good plant capacity utilization and therefore had a positive effect on earnings. We were also able to improve the local earnings situation through many further targeted measures at individual subsidiaries.

**Order situation**

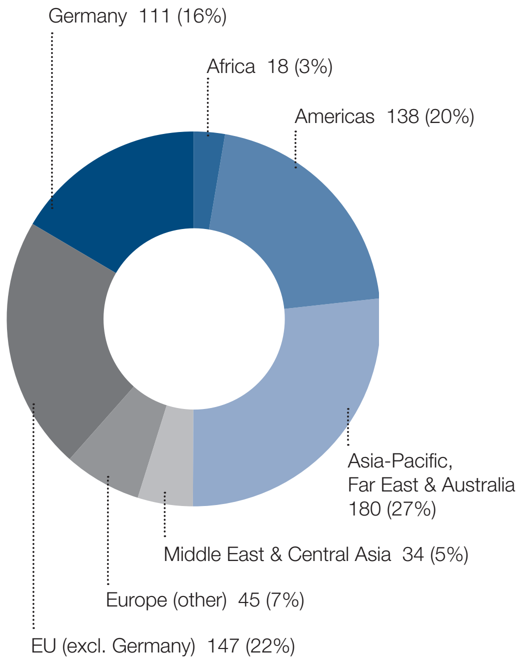
**Order intake** performed less well in the second half of the financial year just gone than in the previous year, although it should be noted that 2018 stood at a high level. Overall, it fell by 7.1% from EUR 723.7 million in the previous year to EUR 672.1 million. **Order backlog** at the end of 2019 was EUR 108.3 million, remaining significantly below the previous year's level of EUR 150.0 million.

2019 also remained unchanged with respect to the order situation, with customers of equipment for specialist foundation engineering still placing orders at relatively short notice. Only occasional equipment orders for special projects are placed somewhat longer ahead of time. As a result, deliveries to the customers are made very quickly, with the range of the order backlog only between two and three months during the year.

**Geographical breakdown of total Group revenues Equipment segment**

in EUR million (after deduction of Consolidation)

**Total 673**



## RESOURCES SEGMENT

| in EUR '000 | 2018 | 2019 | Change |
|---|---|---|---|
| Total Group revenues | 261,471 | 274,873 | 5.1% |
| Sales revenues | 221,345 | 233,485 | 5.5% |
| Order intake | 242,178 | 239,116 | -1.3% |
| Order backlog | 316,478 | 280,721 | -11.3% |
| EBIT | -11,034 | -16,162 | n/a |
| Earnings after tax | -15,991 | -13,736 | n/a |
| Employees (on average over the year) | 1,273 | 1,333 | 4.7% |

**General conditions**

The Resources segment is focused on products and services in three areas: water, environment and natural resources. In the environmental business, the market performed well in the financial year gone by. Germany continued to offer many projects in the field of remediation, such as site rehabilitation, groundwater treatment or the disposal of contaminated soils and sludges. Although there was great demand in the Middle East, project decisions were delayed for a long time. There was rising demand in China for environmental services that offer huge potential for the future.

The market in Germany and in Europe, with Eastern Europe being our main area of activity, showed significant improvement in the well materials business.

A slight improvement was to be observed in the demand for drilling for water and natural resources. In the Middle East and in Africa, there were individual projects for deep wells as well as drillings for the mining industry on the market. There were signs of a recovery here, especially in Africa, thanks to several awards of contracts.

**Significant events**

**Total Group revenues** in the Resources segment increased by 5.1%, from EUR 261.5 million in the previous year to EUR 274.9 million. **EBIT** decreased from EUR -11.0 million to EUR -16.2 million, and **earnings after taxes** were up from EUR -16.0 million in the previous year to EUR -13.7 million, primarily due to higher at-equity earnings.

Overall, the Resources segment fell short of expectations once again in 2019. While earnings from the operating business improved significantly, underutilization in Jordan, a weak order situation in the business with brewery and beverage technology, further restructuring expenditure and adjustments for receivables from old projects primarily proved to be a burden. The earnings figures include a positive non-operating contribution of EUR 4.5 million that is attributable to an earnings-affecting restructuring of a subsidiary, which was transferred from the Resources segment to the Equipment segment.

The environmental business was again very healthy and was able to handle a market environment with good demand in 2019 as well. Revenue rose to a record level with correspondingly good earnings. The extensive Kesslergrube brownfield remediation continued to make a larger contribution towards revenue. The works on the second of a total of three construction sites was completed there in 2019.

Our participation in Oman had another highly successful financial year. The extensive works to expand the largest reed bed treatment plant in the world were completed successfully in 2019. In addition, the sale of CO2 certificates generated from the project to other companies within the oil sector was successfully started. The subsidiary delivered a very strong contribution to earnings (at equity). Business in the United Arab Emirates, by contrast, progressed at a low level.

Underutilization in the well drilling division continued to have the most significant negative impact. The subsidiary in Jordan handled an extensive project to produce deep wells in 2019. This yielded good operating earnings and is due to run until the fall of 2020. However, the company's existing overcapacity resulted in a heavy financial burden. Overall, they were still significantly in the red even though year-on-year earnings improved as a result of the large project executed. Our companies in Africa worked on projects in a difficult but somewhat improved market. All in all, the rise in revenue still did not result in satisfactory earnings, as the market in Morocco, in particular, fell short of expectations.

Our subsidiary that manufactures equipment for brewery and beverage technology was not able to achieve the anticipated revenues in 2019. The restructuring measures implemented and the new product lines still have not brought the required success, so that the poor order situation resulted in sustained underutilization. In total, a loss had to be reported once again.

In the past years, it was not possible to achieve a satisfactory order and earnings situation in the area of equipment for the treatment of industrial effluent. Additionally, no adequate synergies in the Group for a sustainable positive business performance could be identified. That is why the division for industrial water treatment was abandoned in 2019 and shut down at the end of the year.

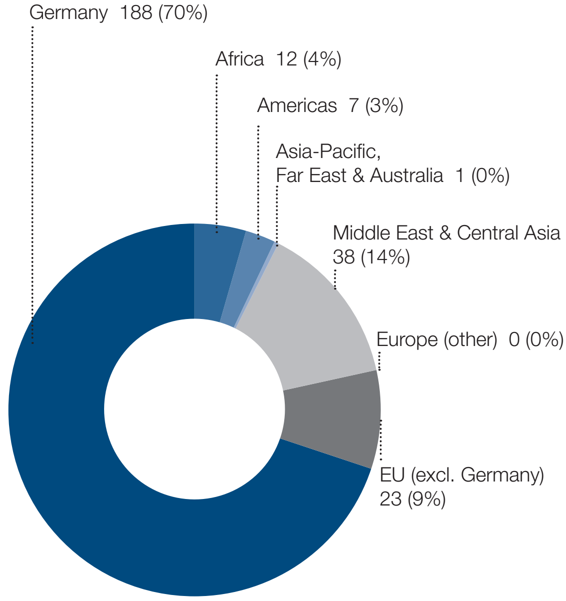
The GWE Group, which manufactures well materials in Germany and Eastern Europe as well as in Chile, underwent significant restructuring in the past years, which resulted in an increase in revenue in 2019. Operating earnings were healthy, although they were hampered by special effects from old projects. Therefore, a loss was ultimately reported.

The Resources segment also includes the mining division of SCHACHTBAU NORDHAUSEN GmbH, which chiefly renders services for repository mining, the restoration and safeguarding of mines and for old mining site rehabilitation. Thanks to the continuously good market in Germany and the strong performance of our company in Kazakhstan, the division once again made a very positive contribution to revenue and earnings.

**Geographical breakdown of total Group revenues Resources segment**

in EUR million (after deduction of Consolidation)

**Total 269**




### Order situation

The **order intake** was EUR 239.1 million in 2019 and thus 1.3% slightly below the previous year's value of EUR 242.2 million. At EUR 280.7 million, the **order backlog** at the end of the year was down 11.3% from the previous year's EUR 316.5 million. The decline is essentially due to progress on the large Kesslergrube project.

Our environmental business, in particular, reports a good order situation, which reflects the sound market conditions overall. Backlog for the subsidiary for brewery and beverage technology is still too low. The order backlog in the well drilling business is largely at an adequate level for 2020 as well, as a result of work performed on a large project in Jordan and several new orders in Africa.

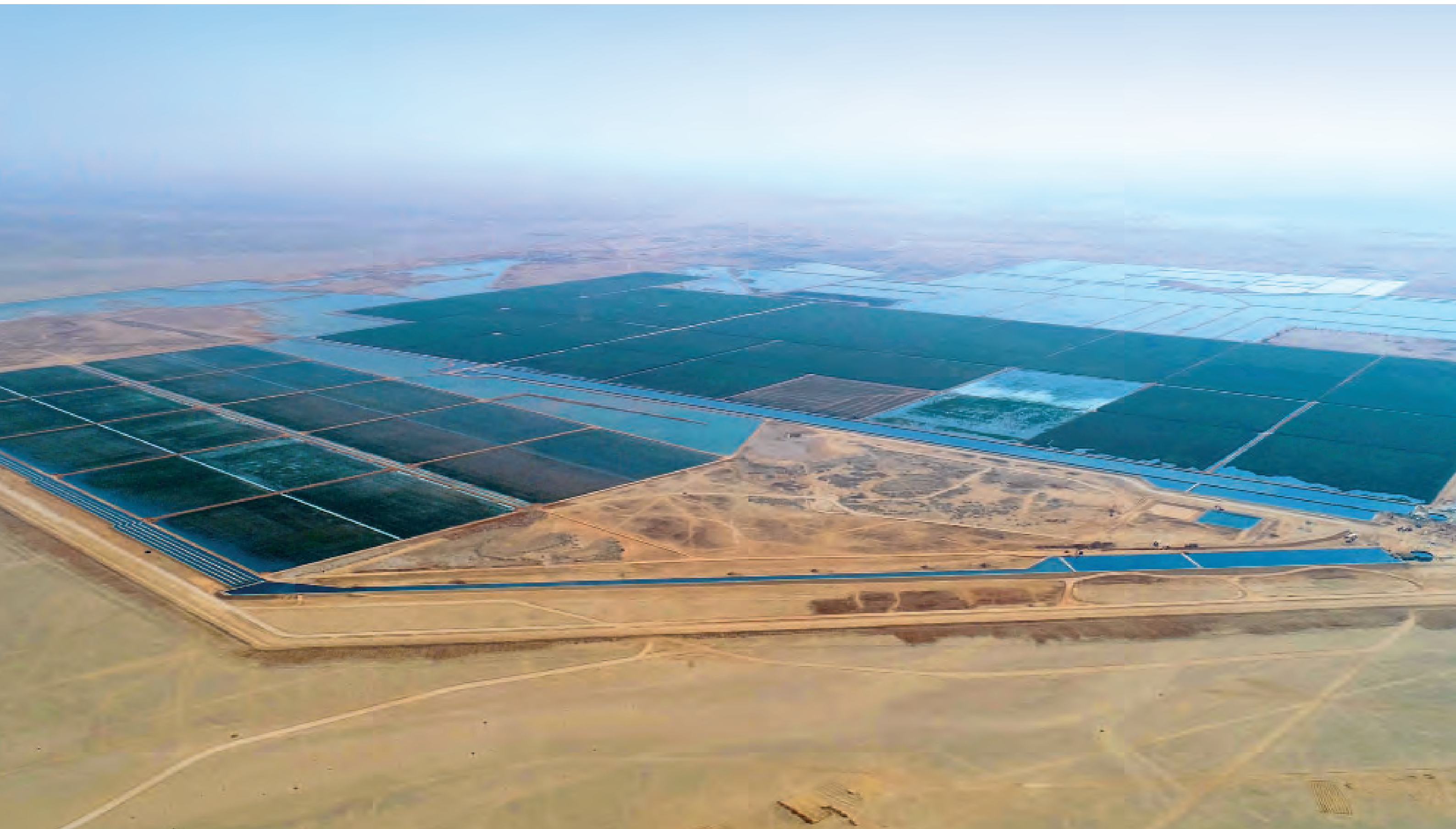
## OTHER / CONSOLIDATION SEGMENTS

The Other and Consolidation segments bundle the revenues and earnings of the Group which cannot be allocated to the operating segments. The Other segment essentially comprises the revenues of BAUER AG itself, generated from a wide variety of administrative services provided to Group subsidiaries.

The **Other segment** posted EBIT of EUR 25.0 million (previous year: EUR 40.5 million). This includes EUR 43.3 million of dividend payments by Group subsidiaries to the parent company. Earnings after taxes amounted to EUR 18.2 million (previous year: EUR 39.8 million). The segment's revenues are generated mainly by intra-group charges.

Consolidations were carried out in the **Consolidation segment.** The negative EBIT of EUR -27.6 million (previous year: EUR -43.3 million) largely matches the aforementioned dividend payments by Group subsidiaries to BAUER AG. Earnings after taxes amounted to EUR -27.8 million (previous year: EUR -43.4 million).

*In the middle of a desert landscape in Oman, BAUER Nimr LLC operates the largest commercial reed bed treatment plant in the world. After the third expansion, which was completed in 2019, the plant cleans 175,000 m³ of oil-polluted water per day.*



# III. EARNINGS, FINANCIAL AND NET ASSET POSITION

## GROUP EARNINGS POSITION

The overall weaker total performance results in correspondingly lower earnings. The most important key figures changed as follows:

**Total Group revenues** fell slightly by 5.4% from EUR 1,686.1 million in the previous year to EUR 1,594.7 million. **EBITDA** also decreased by 38.0%, from EUR 198.6 million to EUR 123.0 million. **EBIT** fell significantly from EUR 100.1 million in the previous year to EUR 22.5 million. At EUR -36.6 million, **earnings after taxes** were noticeably negative. In the previous year, positive earnings of EUR 24.1 million were reported.

The individual income statement items are summarized in the following:

**Consolidated revenues** fell by 4.9%, from EUR 1,616.9 million in the previous year to EUR 1,537.7 million.

**Sales revenues** decreased by 7.4% from EUR 1,589.1 million to EUR 1,470.9 million. This decrease was attributed primarily to the Construction and Equipment segments. Given the verdict from the legal dispute in Hong Kong, a reduction of approximately EUR 40 million was made to this item.

**Changes in inventories** rose sharply from EUR 1.6 million to EUR 32.4 million, which was mainly the result of the inventory buildup in the Equipment segment.

**Other own work capitalized** increased slightly from EUR 8.8 million to EUR 9.5 million.

**Other income** rose from EUR 17.5 million to EUR 24.9 million in the previous year.

The **cost of materials** fell by 4.7% in the year under review, from EUR 821.5 million to EUR 783.1 million. The decrease was greater than that of consolidated revenues. This was mainly due to changes in the order structure of the Construction segment, where a significant decrease in the use of materials was evident in some projects.

With a 6.7% rise from EUR 392.4 million to EUR 418.8 million, **personnel expenses** ran counter to the decline in consolidated revenues. This is the result of the increased headcount and collectively agreed wage rises in the construction industry. We will strive to improve personnel expenses in relation to consolidated revenues over the next few years.

**Other operating expenses** rose by 4.0% from EUR 204.4 million to EUR 212.7 million. This item also includes the effects of applying IFRS 16 for the first time in 2019.

**Depreciation of fixed assets** rose by 4.7% from EUR 81.0 million to EUR 84.8 million.

**Write-downs of inventories due to use** reflect the use of rental equipment made available to our customers. The item declined by 10.1% from EUR 17.6 million to EUR 15.8 million in the year under review.

**Financial income** fell back slightly from EUR 38.2 million to EUR 33.7 million. This includes currency gains amounting to EUR 21.1 million.

With EUR 78.8 million, **financial expenses** remained at the previous year's level of EUR 77.0 million. Currency losses decreased from EUR 32.8 million to EUR 22.5 million. Adjusted for this effect, the item grew by EUR 10.1 million, which was due essentially to the losses resulting from changes in the market value of derivatives, which arose because of declining interest rates.

The **share of the profit or loss of associated companies accounted for using the equity method** improved significantly from EUR 4.6 million to EUR 11.2 million. The main reasons for this were positive earnings from joint venture projects as well as from the Resources participation in Oman. The previous year included unscheduled impairments of shares amounting to EUR 5.0 million.

At EUR 25.2 million, **income tax expense** was down significantly from the previous year's EUR 41.8 million. It was possible to reduce the tax burden thanks to deferred tax assets in the Equipment segment.

The **earnings after taxes attributable to BAUER AG shareholders** were EUR -37.1 million (previous year: EUR 22.6 million).

At EUR 0.6 million, the **earnings after taxes attributable to non-controlling interests** were lower than in the previous year (EUR 1.5 million).

## GROUP FINANCIAL AND NET ASSET POSITION

**Total assets** of the Group fell slightly by 0.2%, from EUR 1,632.3 million to EUR 1,628.5 million. The application of IFRS 16 for the first time as well as new investments in the financial year (EUR +31.3 million) and differences in valuations for provisions for pensions (EUR 8.5 million net) were the main factors with a positive impact. The significant decline in contract assets and trade receivables, in particular, were factors with a negative impact.

At 23.8%, the **equity ratio** declined compared to the previous year's level of 26.5%. An equity ratio of over 30% remains a target.

**Net debt** was EUR 563.7 million in the year under review, remaining approximately at the previous year's level of EUR 561.9 million. However, this was essentially due to the new IFRS 16 standard and the market valuation of derivatives. Pure bank debt has seen further reductions, which demonstrates that our numerous measures are making progress. Nevertheless, we will continue to work hard in the coming years to improve net debt relative to total assets and revenues. The level of net debt in the Group is largely dependent on the level of working capital. The working capital of our companies is inevitably relatively high due to the nature of our business model and the special market in which we operate. We only have relatively short periods in the Construction segment, so that we very seldom generate a positive cash flow over the duration of the construction site. This is why the majority of our contracts require financing across the Group's many construction sites corresponding to roughly three months' sales in the Construction segment.

The situation in the Equipment segment is similar. The production lead times for our specialist machinery are around 12 months. Since customers usually only order equipment once they have an actual contract to fulfill, and so expect short delivery lead times from us, we are forced to hold stocks of finished machinery. Moreover, we have a very broad product range, and we need to stock spare parts for our customers worldwide, leading to a corresponding increase in the need for financing.

Given the verdict on appeal against an arbitration court verdict from 2018 and the resulting necessary valuation allowance of approximately EUR 40 million, it was not possible to meet the covenants for net debt to EBITDA, EBITDA to net interest coverage, equity and the equity ratio. In addition to the two syndicated loans valued at EUR 470 million and EUR 53 million, the Group set covenants for a number of long-term loans, which were valued as per the 2019 year-end at EUR 159.5 million

With regard to the items on the balance sheet, the following material changes should be noted:

**On the asset side:**

- **Property, plant and equipment** grew significantly from EUR 411.6 million to EUR 460.5 million, which was mainly due to the application of IFRS 16 for the first time including new investments (EUR +31.3 million).

- **Investments accounted for using the equity method** increased from EUR 113.0 million to EUR 118.2 million. The reason for this was essentially the positive performance of earnings at BAUER Nimr LLC in Oman.

- **Deferred tax assets** rose from EUR 49.2 million to EUR 67.3 million, mainly due to valuation differences in provisions for pensions and the increase in deferred tax assets in respect of losses carried forward.

- **Inventories** increased from EUR 410.3 million to EUR 458.3 million. The main reason was the inventory buildup in finished machinery in the Equipment segment. Advances received on inventories decreased from EUR 16.1 million to EUR 8.9 million.

- **Contract assets** fell back significantly from EUR 145.0 million to EUR 108.1 million. Given the verdict from the legal dispute in Hong Kong, a valuation allowance of EUR 30.0 million was made to this item. Changes in this item result from the completion status of our projects at the year-end closing date.

- **Trade receivables** decreased sharply from EUR 335.0 million to EUR 271.3 million. It was possible to reduce the level of trade receivables very significantly, particularly in the Construction segment.

- **Cash and cash equivalents** fell from EUR 62.6 million to EUR 37.6 million as of the balance sheet date.

**On the liabilities side:**

- **Equity** decreased from EUR 431.8 million to EUR 386.9 million. Earnings after taxes (EUR -36.6 million) had a significantly negative impact on this change. Actuarial valuations for pensions (EUR -15.8 million) and dividend payments (EUR -1.7 million) also had a negative impact. Factors with a positive impact included the market valuation of other participations (EUR 0.4 million) and changes in the exchange rate compensation item (EUR 6.8 million).

- The **non-current portion of liabilities to banks** fell from EUR 308.5 million to EUR 73.7 million. Compared to the 2018 consolidated financial statements, a large proportion of liabilities to banks was shifted from non-current to current liabilities. The covenants for primary loans were exceeded as of the end of 2019. As a result, these loans had to be transferred to current liabilities to banks. Our liabilities to banks decreased overall during the past financial year, in particular because of the reduction in receivables on the asset side.

- The **non-current portion of liabilities for lease agreements** increased significantly from EUR 20.7 million to EUR 37.9 million because of the initial application of IFRS 16 including new investments.

- **Provisions for pensions** grew significantly from EUR 134.4 million to EUR 158.6 million. The increase is essentially due to the lower discount rate of 1.05% (previous year 1.90%).

- **Other non-current financial liabilities** increased sharply from EUR 9.1 million to EUR 23.7 million. The reason for this were the valuations of derivatives and interest-rate swaps.

- The **current portion of liabilities to banks** rose from EUR 256.7 million to EUR 431.6 million. This item was also affected by the aforementioned reclassification of liabilities from non-current liabilities to banks, which became necessary because the covenants were exceeded.

- The **current portion of liabilities for lease agreements** increased significantly from EUR 10.1 million to EUR 20.7 million, primarily because of applying IFRS 16 for the first time.

- **Contract liabilities** rose from EUR 52.4 million to EUR 76.8 million, mainly because of the verdict from the legal dispute in Hong Kong. This includes an outstanding payment liability to the client of EUR 10.3 million.

- **Trade payables** rose from EUR 224.5 million to EUR 240.3 million.

- Effective **income tax obligations** fell back from EUR 31.7 million to EUR 19.6 million, which is due essentially to the significant reduction in tax provisions among the large German companies.

### Exchange rate trend

| 1 EUR corresponds to | Average rate 2018 | Average rate 2019 |
|---|---|---|
| USD | 1.18095 | 1.11948 |
| GBP | 0.88470 | 0.87783 |
| RUB | 74.04159 | 72.45296 |
| CNY | 7.80807 | 7.73588 |

### Covenants trend

| | 2018 | 2019 |
|---|---|---|
| Net Debt / EBITDA | 2.83 | 4.58 |
| EBITDA / Net Interest Coverage | 5.27 | 2.72 |
| Equity ratio in % | 26.5 | 23.8 |

Net cash from operating activities shown in the **consolidated statement of cash flows** rose from EUR 147.4 million to EUR 168.9 million. The following factors contributed to this change:

- The other non-cash transactions totaled EUR 16.4 million (previous year: EUR 25.4 million).
- Trade receivables changed by EUR 86.6 million compared with the previous year.
- Changes in receivables from contract assets amounted to EUR 40.6 million (previous year: EUR 8.1 million).
- The change in inventories negatively impacted the operating cash flow to the tune of EUR 72.2 million.
- Other current and non-current liabilities amounted to EUR 5.3 million.

Cash flow from investment activity totaled EUR -75.2 million and was EUR 17.6 million higher than in the previous year, which was mainly due to the increase in the acquisition of property, plant and equipment and intangible assets.

Cash flow from financing activities amounted to EUR -120.4 million. The main factors influencing this were loan repayments amounting to EUR 373.7 million, interest payments of EUR 34.5 million as well as new indebtedness to banks in the order of EUR 309.9 million.

## INVESTMENTS

In 2019, we continued to keep our investments at roughly the level of depreciation. These will increase, however, in the following years, as investments will become necessary in existing and new buildings, and increasingly larger and more complex construction projects require additional equipment. Also, our commitment to play a leading role in the ever-increasing pace of technological development, in particular in the area of digitalization, requires additional investment.

In the **Construction segment**, further investments were made in equipment to meet the market demand for ever more powerful equipment to handle specialist projects. Additional investments were used to expand and renew storage locations and workshops. These are required to enable an even better supply to construction sites. For years now, we have seen a trend toward increasingly large-scale international infrastructure projects which foster growing demand for specialist foundation engineering works that can only be carried out by ever-larger machinery. This demands higher individual investments, but also opens up new market opportunities for us. In the next few years, we will also have to invest in the modernization of our equipment. In addition,

**ASSETS** | **EQUITY AND LIABILITIES**

**Non-current assets**
EUR 692.8 million (42.5%)
(2018: EUR 621.0 million (38.0%))

**Current assets**
EUR 898.2 million (55.2%)
(2018: EUR 948.7 million (58.1%))

**Liquid funds**
EUR 37.5 million (2.3%)
(2018: EUR 62.6 million (3.9%))

**Equity**
EUR 386.9 million (23.8%)
(2018: EUR 431.8 million (26.5%))

**Non-current debt**
EUR 327.1 million (20.1%)
(2018: EUR 501.4 million (30.7%))

**Current debt**
EUR 914.5 million (56.1%)
(2018: EUR 699.1 million (42.8%))

**EUR 1,628.5 million** | **EUR 1,628.5 million**

comprehensive further investment was made in the digitalization of our construction sites, which will also be continued in the following years.

In the **Equipment segment**, the investments were chiefly channeled into modernizing the equipment available to the production sites. Major investments in our plants and production facilities were not necessary in 2019. Investment in improved logistics and automation will be required over the next few years.

Investments in the **Resources segment** in 2019 were also only made at the level of depreciation. The investments went into the modernization and expansion of existing production facilities and waste disposal centers.

In the 2019 financial year, the **BAUER Group** invested a total of EUR 151.0 million (previous year: EUR 109.9 million) in intangible assets and property, plant and equipment. This item also includes the effects of applying IFRS 16 for the first time. Depreciation of fixed assets across the Group totaled EUR 84.8 million (previous year: EUR 81.0 million). Write-downs of inventories due to use totaled EUR 15.8 million across the Group (previous year: EUR 17.6 million).

In the 2019 financial year, additions to the property, plant and equipment assets of **BAUER AG** totaled EUR 3.8 million (previous year: EUR 4.5 million). This is set against depreciation of EUR 3.7 million (previous year: EUR 3.6 million).

***Seven drilling rigs of the types BG 15, BG 28 and BG 40 are being used for a medical center in Jeddah. More than 200 employees are involved in the preparation of the foundation and shoring piles.***

## IV. FINANCIAL STATEMENTS OF BAUER AKTIENGESELLSCHAFT

The group management report and the management report of the parent company, BAUER AG, are combined. The balance sheet and the income statement of BAUER AG (according to the German Commercial Code, HGB) will thus be explained at this point.

In 2019, BAUER AG reported an **net loss** of EUR 0.05 million (previous year: net income of EUR 1.7 million). In the previous year, BAUER AG made EUR 36.9 million in shareholder contributions to subsidiaries. Measures of the same kind totaling EUR 58.0 million were carried out in 2019.

The following items in the balance sheet and income statement changed significantly during the completed financial year compared with the previous year:

Key changes in the balance sheet:

- **Financial assets** increased from EUR 142.4 million to EUR 180.4 million, mainly due to shareholder contributions to BAUER Spezialtiefbau GmbH and BAUER Resources GmbH.

- **Receivables and other assets** fell from EUR 185.2 million to EUR 87.7 million. This was largely due to the decrease in receivables from affiliated companies amounting to EUR 96.8 million. The offsetting item can be found in liabilities.

- **Equity** amounted to EUR 114.8 million (previous year: EUR 116.6 million).

- **Liabilities** fell sharply from EUR 207.5 million to EUR 147.0 million. At the same, liabilities to banks decreased by EUR 103.3 million. Financing was increasingly handled by the holding companies of the segments to operating subsidiaries rather than by BAUER AG itself. As an offsetting item, liabilities to affiliates have risen by EUR 42.2 million.

Main changes in the income statement:

- **Sales revenues**, primarily related to charging of administrative services to subsidiaries, increased by EUR 2.6 million to EUR 41.9 million.

- **Other operating expenses** fell by EUR 3.5 million. The capital measures by BAUER AG at subsidiaries described above are an essential component of the item.

- At EUR -38.9 million, the **operating result** was therefore again markedly negative (previous year: EUR -41.8 million).

- At EUR 43.3 million, **income from participations** continued at a high level (previous year: EUR 43.7 million). This particularly includes the dividend payment by BAUER Maschinen GmbH to BAUER AG.

- The **net loss** was EUR 0.05 million (previous year: net income of EUR 1.7 million). At EUR 0.05 million, accumulated loss remained unchanged (previous year: retained earnings of EUR 1.7 million).

The distribution of profit to shareholders is based on the distributable retained earnings of BAUER AG as the parent company, taking into account the Group's consolidated earnings. The dividend policy of BAUER AG is one of continuity, meaning that in principle a dividend should be paid even in difficult years, where financially justifiable. As the Group's holding company, BAUER AG is dependent on the earnings of its subsidiaries, and additionally provides financing to them.

In 2019, the original targets were not achieved, primarily due to project postponements overseas and the verdict on appeal. In light of the significantly negative after-tax earnings, the Group's equity was noticeably reduced. It is therefore important to sustainably improve the equity ratio again. The Management Board will therefore recommend that the Supervisory Board proposes to the Annual General Meeting that no dividends be distributed to the shareholders. In the medium term, the dividend ratio should be approximately 25 to 30% of reported earnings after taxes, once we have improved our equity ratio again.

As the Group's holding company, BAUER AG receives earnings, particularly from its subsidiaries. In 2020, we expect the dividend payments by the subsidiaries to be considerably lower than in 2019, and no additional effects are expected at the present time. Consequently, BAUER AG should therefore once again report a profit.

# V. RISK AND OPPORTUNITY REPORT

## RISK REPORT

### BASIC PRINCIPLE OF RISK MANAGEMENT

As part of our business activities, we are exposed to risks that are inextricably connected with our entrepreneurship. There can be no entrepreneurial action without risk. Unforeseeable events can create both risks and opportunities. Therefore, at Bauer, risk management means not just reducing hazards but also knowing how to take advantage of opportunities. The goals of risk management include safeguarding our business objectives, initiating measures early on and reducing the costs of risk. Our system of risk management, which assesses both risks and opportunities, is based on a fundamentally risk-averse approach, meaning that we aim primarily to safeguard against impending risks rather than to exploit opportunities for short-term gain.

**Risk management system**

Our risk management system regulates the handling of risks within the BAUER Group. It defines a uniform methodology applicable to all segments and their member companies. It is continually reviewed and adjusted as required.

Our risk management system is an integral element of our overall management system and, like all our management systems, serves as an instrument of value- and success-oriented corporate governance. Audits are routinely conducted to verify its implementation and continuously improve its efficacy. Furthermore, our auditors annually review the extent to which our early risk-warning system is capable of detecting existentially threatening risks in good time. The process steps involved in risk management are: identification, assessment, control of measures and monitoring.

For the identification of risks, risk categories have been defined and assigned to specific areas of risk. This defines areas of focus. Risk categories defined by the BAUER Group are: strategic risks; market risks; financial market risks; political and legal risks; organizational and governance risks; risks arising from the value chain; and risks of the supporting processes. These risks are grouped as latent risks and managed in a unified process within the framework of our risk management system. Conversely, project risks are managed according to their nature and significance by an additional, independent process.

The process of identifying and assessing latent risks is reviewed at least twice a year through interviews with the managers of the relevant Group companies as well as with departmental and central function heads. This process ensures that potential new and familiar risks and opportunities are submitted for review at management level. Structured risk identification is followed by risk assessment based on a relevance scale.

Relevant risks above a certain threshold value are assessed based on scenarios. Planning risks are estimated by applying standard deviations. Risks from within the subgroups are consolidated at Group level.

Following assessment, risk-specific measures to limit damage are defined. Where possible and useful, we purchase appropriate insurance policies that cover potential damage and liability risk in order to reduce our risk exposure and minimize or completely avoid potential losses. Responsibility for monitoring the respective risks lies with the risk managers from the operative areas.

The effects of individual risks are aggregated in the context of corporate planning by means of risk simulations. This means that the consolidated income statement for a given financial year is played through several thousand times in independent simulations based on random figures (Monte Carlo simulation).

Yearly reports are submitted to the Management Board and Supervisory Board. To communicate acute risks, the routine risk analysis is supplemented by immediate reporting.

**Handling of project risks**

Project risks are the principal performance risks and thus are an integral element in the work of the Construction and Resources segments, wherever construction work or plant assembly is carried out on the customer's premises. Associated risks, such as in relation to the construction ground and resulting from the individual character of each individual project – including contract, schedule and damage risks – can thus accumulate detrimentally in specific cases in such a way that they may threaten the existence, if not of the Group as a whole, at least potentially of smaller subsidiary companies. With respect to all relevant projects above low threshold values, prior to submission of quotes, all conceivable risks and opportunities are systematically identified, analyzed and assessed, and appropriate measures are defined to minimize risks and track opportunities. In ongoing projects, the risks are analyzed, meaning they are identified, assessed and backed with measures as part of continuous project controlling and project management.

Each project is assigned to a risk class and organizationally escalated according to its risk class, and is thus subject to a strict approval process. Risk classification is based, firstly, on defined checklists applying the K.O. principle, in order to prevent inadvertent assignment to an inappropriately low risk class. Secondly, it is based on potential harm identified in relation to the project, with the worst-case outcome serving as the decisive factor. The risk classes defined by this process are also incorporated in cost surcharges to cover the identified risks.

The system has been developed over a number of years across the corporate units faced by the relevant project risks and expanded to apply to the relevant operations. The communication and release process is supported by IT with standardized workflows.

**Internal control and risk management system with regard to the accounting procedure**

Group Accounting risks include risks with respect to accounting, valuation and reporting. To counteract these risks, the accounting functions of the parent company as well as of BAUER Spezialtiefbau GmbH, BAUER Maschinen GmbH and BAUER Resources GmbH are managed centrally at the registered office in Schrobenhausen, Germany. This allows business transactions to be handled in a standardized way.

The accounting functions for the other subsidiaries are usually managed by decentralized in-house commercial departments. Our subsidiaries are assisted by external accountants and auditors as well as by the participation controllers of BAUER Spezialtiefbau GmbH, BAUER Maschinen GmbH and BAUER Resources GmbH, so as to ensure properly qualified financial reporting in accordance with the relevant national or international accounting regulations. Furthermore, statements are subjected to auditing in accordance with the relevant national regulations.

In order to draw up the monthly Group reporting as well as quarterly statements and the consolidated financial statements according to international accountancy regulations (IFRS), the subsidiaries use a uniform Group chart of accounts.

The individual financial statements included are drawn up either based on an accounting guideline applicable throughout the Group or are transitioned from the corresponding accountancy regulations under national law to the regulations of the accounting guideline using adjustment entries.

At the major Group companies, the success of each individual department is mapped as a central management instrument by means of a cost distribution sheet. This reveals any non-conformance to annual budgets. At project level, a monthly reconciliation is carried out to cross-check the actual figures against the cost accounting and site management budgets. Based on our judgment and experience, self-monitoring and establishing dual control principles are effective elements in our system of internal controls.

The individual Group companies and departments are monitored and controlled on a monthly basis by the central commercial departments in the respective segments and are then reviewed by Group Accounting, further reducing the accounting, valuation and reporting risks.

The consolidated figures are in turn checked on a monthly basis against the figures from the annual Group-wide planning process and analyzed on the basis of key Group

**Relevance scale of the BAUER Group**

| Relevance | Definition | Identified risks |
|---|---|---|
| 1 | Insignificant to low risk | Risks with this relevance are identified in our business |
| 2 | Medium risk | |
| 3 | Significant risk | We do not see risks with this relevance in our business |
| 4 | Serious risk | |
| 5 | Critical risk | |

figures. Any necessary correction of non-conformance to plans is implemented promptly by the managers of the units concerned.

The annual financial statements and the year-end consolidated financial statements are audited by auditors in accordance with the applicable legal requirements and auditing standards and are reviewed by the Supervisory Boards established in the various business units as part of their duty of supervision. These figures and information reports are submitted regularly, on a monthly basis, to the Management Board and the Supervisory Board of BAUER AG by Group Accounting.

The IT systems employed in these procedures are protected against unauthorized access and data loss by appropriate security systems.

**Risks**

In the following, we set forth potential risks that may have a significant impact on our financial and earnings position as well as our reputation and assess the relevance to our business. The breakdown follows the same risk categories as we apply in our risk management system. The areas of risk are aggregated. Unless otherwise specified, the risks described in the following relate to all our segments.

## STRATEGIC RISKS

**Segmental structure**

We counter the strategic risks arising from the segmental structure of the Group by dividing it internationally into separate Construction, Equipment and Resources segments, thereby pursuing the aim of greater economic independence from the construction sector and regional investment cycles. Our three segments also offer significant synergy effects in addition to risk diversification. For example, the insights we gain while deploying equipment and developing methods in the Construction segment are regularly used to improve equipment. Comprehensive specialist foundation engineering services, including waste disposal or brownfield remediation, are successfully offered through cooperation between the Construction and Resources segments.

The Equipment segment's deep drilling technology and the manufacture of machinery for mining applications will also further reduce its dependence on the overall construction sector. We class the risks associated with the structure of our business as medium.

**Strategic partnerships, cooperation partners**

Particularly in the Equipment segment, we are supported by certified sales partners in selected regions. A failure or mismanagement by our partner could result in a decline in sales. The risk of partnerships must be recognized at an early stage by conducting a regular sales partner audit and analyzing financial data of major sales partners. In this way, we can counteract risks with the help of our own sales force or alternative dealers. We rate this risk as minimal.

**Brand, image, PR**

The Bauer brand carries a cachet for purchasers, especially in the Equipment segment, because it is known for high quality. Negative influences on our image, whether due to publications about accidents at work or quality and service defects for example, can result in falling demand for our machines. In some countries, there is also a risk of counterfeit products that can affect the high-quality image of the Bauer brand. Among other methods, we minimize the risk with our sophisticated quality and HSE management system. We view the risk of image loss as low.

## MARKET RISKS

**Sales market risks**

It has always been one of our key strategic principles to counter risks in our selling markets by means of a diversified organization. Whereas our Equipment segment is still heavily influenced – with a delay – by economic trends in the construction sector, the establishment of the Resources segment has enabled us to isolate part of our business from the effects of construction cycles much more effectively. Our strategy of spreading business in each segment across a large number of markets worldwide further reduces the overall risk, so that no serious risk is posed to the Group as a whole in the event of any weakening or collapse of individual regional markets. Moreover, in the event of a regional market downturn, our network strategy in the Construction segment enables us to relocate our capacities rapidly to another country and continue operations at the new location. This strategy has proven effective during various regional crisis situations in the past, in which it cushioned negative impacts on overall earnings. The Resources segment has also already expanded on an international scale. We rate risks associated with our sales markets as medium.

**Competitive environment**

In the Equipment segment especially, we operate in highly competitive and price-sensitive markets. To sustainably improve our competitive position in China, after-sales services have been expanded in all markets as a stabilizing factor in addition to new business. We are also improving the competitive situation using localization.

Despite the overcapacity and associated pressure on margins in the country, we have been able to maintain our market position based on the recognized high quality and the clear technological edge of our equipment. In the Construction and Resources segments, we use a combination of international experts and local personnel. This allows us to ensure both methodical expertise and quality as well as a competitive cost structure. The competitive risk is considered to be low.

**Market development risks**

Our assessment of the macroeconomic situation is affected by the trade dispute between the US and China, public debt in the US and some EU countries, China's declining economic growth as well as uncertainty regarding developments in the Middle East and the resulting consequences. The Group's Management Board and the managing directors of the three operating segments routinely consider projections based on specific scenarios to estimate the impact of any given market development risks on the company in question and on the Group as a whole. Any necessary and relevant measures are derived from these analyses and implemented in full. The risks of market development are currently assessed to be medium.

## FINANCIAL MARKET RISKS

**Financial stability and liquidity**

Compliance with key financial figures has been agreed with banks for multiple long-term loans. These include, in particular, the ratio between net debt and EBITDA, the ratio between EBITDA and net interest coverage as well as equity and equity ratio.

In addition to the earning situation pertaining to the entire Group, increased financing requirements, in particular, may lead to an increased risk of failure to comply with key financial figures agreed with banks, which may lead to a reduction or termination of lines of credit.

Syndicated loan agreements ensure, in principle, the liquidity supply of the Group and are an important way in which to counteract turbulence in the financial markets.

The risk in the area of financial stability and liquidity is, in principle, classified as a moderate risk.

As a consequence of the ad-hoc notification published on March 18, 2020 regarding the result of a legal dispute in Hong Kong and the valuation allowance carried out in the course of this in the amount of around EUR 40 million, the key financial figures agreed with the finance partners as at December 31 could not be complied with, which, in principle, leads to a right of termination in the financing agreements. If financing partners use this right of termination and make a significant portion of the financial liabilities due for repayment, there is a risk that the company may not be able to meet its payment obligations. For this reason, there is a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

The affected financing partners have been provided with documents allowing them to evaluate the effects on the Group, and negotiations will be held regarding the suspension of the key financial figures as at the end of 2019 and/or the waiver of such right of termination. Due to the current high order backlog, the development of the Group, which is fundamentally positive overall, and the continued efforts made as part of a program to improve results, the Management Board does not expect any key lines of credit to be terminated by the financing partners on the basis of an individual event, such as the result of a legal dispute in Hong Kong.

**Currency risks and interest rate risks**

Where possible and available, we counter foreign exchange risks by financing our international holdings in the respective local currency. We minimize transaction risks (foreign currency risks from current cash flow) in all business divisions using suitable hedging instruments. We classify the remaining currency risks, which are primarily translation risks, as medium.

The interest rate risk of the Group is based on financial liabilities with primarily floating interest rates (short and long-term credit lines). We have interest hedge agreements for exchanging floating interest rates for fixed interest rates in place to exclude the risk of increasing market interest rates. Market interest rate changes have an impact on the financial income and expenses of the Group. We classify interest rate uncertainty as a low risk for our operational business.

**Participations, acquisitions, financial assets**

The valuations of shares in associated companies contain goodwill items, the values of which are subject to the risk from future company developments. If these future expectations do not occur as planned, impairments may be necessary. Similar to the risk of market development, the need for goodwill depreciation is assessed to be medium.

## POLITICAL AND LEGAL RISKS

**Compliance**

For the BAUER Group, acting responsibly and in keeping with the law is a fundamental principle underpinning our commercial success, the quality of our products and services and our sustainable ongoing development. We place the utmost value in upholding social conventions and in complying with applicable laws and business standards, so as to minimize the risk of non-compliance. For us, compliance means observing all applicable laws, rules and regulations as well as behaving in an ethically sound way. Legally compliant, ethical and socially sustainable action is the cornerstone of our values management system. Our employees are made aware of our fundamental values as soon as they are hired. Special training sessions are held to deepen this knowledge. A software program ensures that we do not do business with any customers cited on EU or US sanctions lists.

In summary, we are of the opinion that our existing values management system provides us with an efficient means of keeping our compliance risk to a low level.

**Political and legal environment**

Ongoing political unrest in the Middle East is impeding willingness to invest in the countries immediately affected, and often beyond. Falling sales volumes in the Equipment segment and a decline in revenues in the Construction and Resources segments are the consequences. In some countries, there is also a risk that the government will intervene more heavily in company affairs. This can, in turn, be costly and time-consuming. Political changes, such as a change of government, can lead to either recovery or weakening of the local construction markets. We classify the risks from our political and legal environment as medium.

**Contract risks**

Our Construction and Resources segments primarily provide construction, drilling and environmental services. The underlying projects are almost always prototypes executed in each case on the basis of customized contracts. Where possible, we use standardized international conventions from the construction sector (e.g. FIDIC). The resultant risks are subject to stringent management procedures and so can be rated as low.

**Current legal cases**

Litigation arises almost exclusively from our provision of services, especially in the project business. Legal disputes occur with clients, suppliers and business partners and are generally related to compensation, alleged deficiencies in services or delays in the completion of a project. By their very nature, it is impossible to predict for certain how the court or arbitration proceedings we are involved in will turn out. Nevertheless, following careful examination, we assume that adequate provision has been made in the balance sheet for all current legal disputes.

## VALUE CREATION RISKS

**Research and development risks**

As a technology leader, particularly in our Equipment segment, we counter any possible weakening of our market position by means of continuous research and development. Although the growth in the Far East and the resulting new competitors are sharpening the innovative pressures, we have to date succeeded in maintaining the necessary edge as a leading technological company.

Moreover, there is a risk of incurring additional costs in this context due to development and design mistakes necessitating modifications. This risk is minimized by a structured, multi-stage product creation process.

Thanks to our great innovative strength and transparent product creation process, we currently rate the risks in relation to research and development as being medium.

**Acquisition, sales and contract negotiations as well as costing**

The risks of miscalculating quotations and of guaranteeing technical characteristics which cannot be fulfilled are minimized by the strict application of the dual-control principle and established costing standards (see project risks) and can be regarded as medium.

**Materials management and procurement**

Thanks to our long-standing and successful policy in the Equipment segment of planning well ahead to safeguard supplies of components that may be subject to bottlenecks as well as our ability to have time-critical components made within the Group in the event of a bottleneck, the risks in terms of procurement currently remain classed as low. We also estimate the dependence on subcontractors or individual suppliers in our segments as a low risk.

**Production and order fulfillment**

Technical failures arising from design errors or miscalculations of statics can result in significant construction project delays. The risks resulting from this represent an inherent component of our Group's project business. As a result, general and structural designs are predominantly produced by experienced employees in our own engineering offices.

A further risk in order fulfillment is entailed by the selection and application of drilling methods. Misjudging ground conditions can likewise result in increased risk costs. Disturbances to the project timetable must be identified and communicated at an early stage by the project manager in charge. The management is aware of these risks and relies on experienced project and production managers in all segments. In spite of all the precautions taken when carrying out projects, there is still a risk of management errors, which can drive up costs, especially in major projects. All the listed risks are subjected to an opportunity and risk analysis at project level in the Construction and Resources segments (see project risks).

Project risks are essentially the principal performance risks in the Construction and Resources segments, especially as each project has its own individual characteristics. Although we work on the assumption that our projects are costed with due diligence, the possibility cannot be definitively ruled out that, on finally billing the customer, lower earnings will ultimately need to be accepted. As a result of the trend for projects of increasing size and complexity, the resulting risks must be assessed as medium.

## RISKS OF SUPPORTING PROCESSES

**Debtor management**

An efficient management of receivables counteracts the risk of default. In addition, the creditworthiness of new customers is checked as a key criterion in the review process for our business partners. Our receivables are partially covered by insurance. We classify default risks as low.

## OVERALL RISK

There are currently no apparent individual or aggregate risks that threaten the existence of the BAUER Group in the 2020 financial year. The management sees no change in the overall risk situation, in view of future business prospects among other factors.

## OPPORTUNITY REPORT

The opportunities arising are classified parallel to the detailing of risks. In this context, too, the areas of opportunity have been aggregated. Unless otherwise specified, all opportunities set out in the following relate to all our segments.

### STRATEGIC OPPORTUNITIES

Over the years, the Group has built up expertise through handling projects in areas associated with its core business and has developed synergy effects from this which today shape the Resources segment. These include the environmental technology business that deals with treating contaminated ground and groundwater and has taken on an increasingly international character since its beginnings more than 25 years ago. A similar business grew out of the first use of specialist foundation engineering equipment for diamond exploration. Today, the company drills for a wide range of natural resources. In the water sector, we also develop high-quality products for expanding wells and for close-to-the-surface geothermal energy applications, as well as for treating and purifying drinking water and process water. By merging these three areas into the Resources segment, we are addressing some of the most important issues of the 21st century. Moreover, the Resources segment is less dependent on the economic cycles of the construction sector.

In order to bring about the internationalization of the Resources segment, we are also utilizing the experience of our long-standing organizational units in the other two segments as well as the international reputation of the Bauer brand.

In addition to opportunities in the oil and gas industry through our joint venture with Schlumberger, we also have new business opportunities in the area of renewable energies. For example, some offshore wind turbines or tidal power plants require complex underwater drilling, which our Construction segment can carry out using special drilling rigs. These special-purpose rigs are manufactured in the Equipment segment.

### MARKET OPPORTUNITIES

The ever-increasing urbanization and rising demand for infrastructure result in increasingly large construction projects, which create many interesting opportunities for the construction sector. This industry benefits particularly from an enormous need to catch up with backlogs in emerging economies, but also in the established industrial nations. That is not only true for traffic infrastructure, but also for residential complexes, public buildings, dams or flood protection facilities. Moreover, construction work is performed in increasingly confined urban spaces. This will require increasingly tall buildings, necessitating extensive foundation work. In addition, stationary and flowing traffic must be increasingly transferred below ground, which also leads to growth in specialist foundation engineering.

The strict environmental standards for oil production offer excellent market opportunities for our products and services in the Resources segment, such as constructed wetlands. In addition to this, brownfield remediation in oil-producing countries is also gaining importance.

### VALUE CREATION OPPORTUNITIES

**Development and innovation**

As always, our goal is not only to endure as a market player in the long term, but also to set standards as a technology leader. Digitalization is therefore one area that the Group will focus on intensively in the coming years. An important driving force for digitalization in construction is Building Information Modeling (BIM). This trend will also continue to grow in the Equipment segment and influence many of the business processes. Digitalization will become an opportunity for Bauer with the help of an overarching strategy that encompasses all parts of the Group.

**Project opportunities**

Regardless of national and global market cycles, projects often arise in otherwise weak markets that we as a Group are extremely well equipped to handle thanks to the mix of our products and services portfolio. Examples of this are processes for the retrofitting of core seals in earthwork dams or processes for development and expansion of mining operations.

The resultant projects in some cases entail very large lot units. When contracted, we are able to manage them successfully by converging our global resources and using our many years of experience in handling large-scale projects.

**Supplements and claims management**

The assertion of requirements and supplements not only entails risks, but also the opportunity to achieve better earnings than originally specified in the contract based on changes to the ordered construction services or supplemental work ordered by the client. On projects involving high potential for changes, this can result in a substantial improvement in earnings. We attempt to exploit such opportunities by professional management of supplemental requirements in the course of the construction project.

## OVERALL OPPORTUNITIES

We are seeing a steady improvement in our opportunities on global markets as our Resources segment becomes increasingly well established and new innovative products are being developed. Our strategy of systematically interlinking our mainly small and medium-sized globally operating member companies to create efficient networks is enabling us to generate benefits in terms of speed and cost more and more effectively, based on the associated economies of scale. In summary, we see an increase in opportunities for our Group's global business in 2020.

*Around 10,000 m of bored piles were manufactured for the remediation of a motorway bridge in Linz, Austria. For the deep foundations of two bypass bridges, Bauer additionally installed around 1,600 m of bored piles that were constructed in sheet pile walls in the Danube.*

# VI. FORECAST REPORT

For the construction sector, we expect to see a continuously favorable global market environment in 2020. The same applies to the key markets for our Resources segment, in particular for environmental services. This reflects the fact that the world continues to have to struggle with the economic and political challenges already described and, therefore, that generally weaker global economic growth is to be expected.

Despite this, continuing urbanization and population growth essentially continue to create demand for new infrastructure as well as the maintenance and expansion of existing infrastructure. Climate change is a further driver for our markets. Alternative energy sources also require appropriate infrastructure. Increasing digitalization offers opportunities for new business models and the continued development of our own processes and services. We can benefit from this. The rapid rate of change and continuing volatility in the markets require quick action and decision making in order to react flexibly to shifts in the market focus. A continued highly subdued market growth is to be expected in the countries dependent upon oil and gas.

We consider ourselves to be well-positioned for the current year and beyond, thanks to our generally healthy order backlog, investments in the development and enhancement of our technologies as well as our considerable efforts in the area of digitalization. Digitalization projects such as “Digital Construction” let us open up new markets and strengthen our position in specialist foundation engineering. This also benefits our Equipment segment, in particular from the possibilities of predictive maintenance and assistance systems.

We are also working on the improvement of our cost structures and the expansion of synergies within the Group. Improvement of our working capital and cost base is being supported with a long-term program of measures.

In view of these general conditions, it is our opinion that our business model will also prove robust in 2020. We have attempted to evaluate all known risks and opportunities in our plans and think both positive and negative scenarios through as thoroughly as possible.

Nevertheless, we are obliged to point out that specialist foundation engineering and our other business areas are exposed to greater risk than those of many other companies. Our activities always include an element which cannot be analyzed perfectly in advance: the construction ground or soil. Even after conducting extensive and detailed preliminary ground surveys, some factors may arise that were not detectable before. They can impede construction works in a wide variety of ways and in some cases also cause significant financial losses.

There is currently no need to change the Group’s basic strategic objective. The strategic structure comprising the Construction, Equipment and Resources segments will continue to dictate the direction of the Group over the coming years. We are not currently planning any larger acquisitions, as we want to continue to strengthen our capital base.

Aside from the general conditions described above, the coronavirus has also been having a significant impact on the general economic situation since the start of 2020 – which has consequences for a great many companies. It is clear that we will not be able to escape this development entirely. Overall, our forecasts for the current financial year are therefore also considerably more cautious, even if it is not possible to completely quantify the exact impact at the present time.

## TOTAL GROUP FORECAST

Based on knowledge current at the time of completion of this management report and taking account of the influencing factors mentioned, we are expecting a slight increase in **total Group revenues**, a significant increase in **EBIT** as well as a significant increase in **earnings after taxes** in the positive area for the 2020 financial year.

In 2019, the original targets were not achieved, primarily due to project postponements overseas and the verdict on appeal. In light of the significantly negative after-tax earnings, the Group’s equity was noticeably reduced. It is therefore important to sustainably improve the equity ratio again. The Management Board will therefore recommend that the Supervisory Board proposes to the Annual General Meeting

**Comparison: 2019 actual / 2020 forecast**

| in EUR million | Actual 2019 | Forecast 2020 |
|---|---|---|
| Total Group revenues | 1,595 | slight increase |
| EBIT | 22.5 | significant increase |
| Earnings after tax | -36.6 | significant increase in the positive area |

that no dividends be distributed to the shareholders. In the medium term, the dividend ratio should be approximately 25 to 30% of reported earnings after taxes, once we have improved our equity ratio again.

## BUSINESS SEGMENTS FORECAST

### Construction segment

The very high demand for infrastructure around the world continues to drive activity in the construction sector. However in 2019, in particular, political uncertainty led to a number of markets performing significantly more weakly than anticipated. We assume this will continue in the current financial year, particularly in the Middle East.

In Germany, we expect continued good development. Around Europe, we assume there will be varied development in the individual markets, but as a whole expect it to be positive. In the Middle East, the political environment is expected to continue to contribute to general uncertainty in 2020. From today's perspective, however, we can handle this well with order backlogs in the region. Based on our order situation in the USA, we are confident of seeing a significant increase in revenues, and expect the markets in Central America to be also moderately positive. In the Far East, we received orders again in a number of countries that experienced underutilization of capacity in 2019 and are expecting further improvements. Nonetheless, we will review our structures and make any necessary adjustments.

We are assuming that coronavirus will have an impact on the progress of individual construction sites in several countries.

Based on this and due to the high order backlog, we expect to see a significant increase again in total Group revenues and EBIT in the Construction segment in 2020 compared with the previous year. EBIT is expected to be significantly positive.

### Equipment segment

On the whole, 2019 was another highly encouraging year for our Equipment segment. The business benefited from our continuously strong market position, from the good market environment in Europe and Asia as well as further improvements at subsidiaries. We assume that the good overall market trends will continue in 2020, even if a slowdown after the boom years is to be expected. Political uncertainties contribute to this. Russia and the Middle East are also assumed to be weak in the current year. We expect a positive environment for Europe, Asia and North America.

Coronavirus had an impact on our production and sales activities in China in the first weeks of the year. We are assuming that we will report a significant drop in sales in the year as a whole. The coronavirus could also impact the willingness of our customers to invest in the other markets. The effects on the supply chains are not currently significant, but also still not possible to fully predict. Overall, however, it is not possible to quantify the influence at the present time.

Given the anticipated slight weakening of the market environment and the possible impact of the coronavirus, we expect the segment's total Group revenues and EBIT to be significantly lower in 2020 than in the previous year.

### Resources segment

The Resources segment was not able to meet our original expectations in the year gone by. In particular underutilization in the drilling business, individual subsidiaries as well as other restructuring expenses had a strong negative impact on earnings. In 2020, we will therefore continue to work intensively on the measures introduced to improve the earning situation.

The environmental business, which has a good backlog of orders, continues to perform well. Our reed bed treatment plants offer additional opportunities in this area. Additional plants are in the tendering phase in the Middle East, for which we expect further opportunities. Tenders are expected to be awarded in 2020.

We are expecting a further improvement in well drilling, in particular for the subsidiary in Jordan, so that the negative contribution to earnings should be reduced even further.

Similar to the Construction segment, we are assuming that coronavirus will impact the progress on individual construction sites.

It is our aim to achieve significantly improved earnings in the Resources segment in 2020. According to our estimates, revenue will decrease slightly, which can be particularly attributed to the execution of the large Kesslergrube project as well as the completion of the reed bed treatment plant expansion in Oman.

In 2020, we therefore expect a slight decrease in total Group revenues in the segment and a significant rise in EBIT right through to a balanced result.

*In Ratingen, North Rhine-Westphalia, a Klemm KR 806-3G system was used for the anchoring of a Berlin wall. Uncased deep boreholes with a depth of 20 m were made using a down-the-hole hammer.*

# VII. LEGAL DISCLOSURES

## REMUNERATION REPORT

The Remuneration Report presents the remuneration system and total benefits for the Management Board and outlines the principles and the remuneration of the Supervisory Board.

### REMUNERATION OF THE MANAGEMENT BOARD

The Management Board of BAUER AG comprised four members during the 2019 reporting period. The Supervisory Board sets the overall levels of remuneration paid to the individual members of the Management Board, based on proposals submitted by the Presidial and Personnel Committee. The Supervisory Board meeting approves the remuneration system for the members of the Management Board following prior consultations in the Presidial and Personnel Committee.

The system of remuneration paid to the members of the Management Board did not change from the previous year. The overall levels of remuneration paid to the individual members of the Management Board are set on the basis of a performance assessment. This process assures that the overall remuneration is appropriate to the duties and performance of the Management Board member concerned and to the situation of the company. The remuneration paid to each member of the Management Board is composed of non-performance-related components, chiefly a fixed basic salary paid in equal monthly installments, and a performance-related component in the form of a variable bonus. This is set by the Supervisory Board on the basis of short and long-term evaluation criteria, with the short-term evaluation criteria being equally weighted with the long-term ones when setting the variable remuneration.

The criteria for setting the fixed remuneration are the assignment of duties, the performance of the Management Board member, the economic position of the Group and its profitability as well as ongoing future prospects.

Maximum limits are imposed on the total remuneration paid. The variable remuneration paid to each member of the Management Board is limited by an individually defined maximum bonus level. This maximum is the upper limit of potential bonus payment in the normal course of business and is paid in full if all set goals are attained. If business performance is exceptionally good, the said levels may be surpassed by up to 1.8 times.

The short-term criteria applied in setting the variable remuneration elements are the performance of the respective member of the Management Board in the past financial year and the economic position of the Group with respect to the attainment of budget targets in the year under review, particularly the attainment of earnings and revenue targets, taking into account general economic trends.

The long-term criteria applied in setting the variable remuneration elements are the success and future prospects of the Group and the performance of the Management Board member with respect to these criteria. This assessment judges the decision-making of the Management Board member in terms of sustainable business development over the past three financial years and the effects of this decision-making in achieving long-term stability for the business. Criteria applied here are long-term earnings and revenue prospects, sustainable personnel development in accordance with the future prospects of the Group, the development of the corporate culture, the development of intragroup collaboration, the safeguarding of corporate harmony, strategic market and product development, risk and security management, long-term financial stability and the quality of key financial indicators relative to the prevailing economic conditions.

In assessing the appropriateness of the remuneration paid to the Management Board, the variable remuneration is set and compared in proportion to the fixed basic salary. Furthermore, the fixed and variable portions and the overall remuneration paid are compared against the normal levels of remuneration received by management board members of other stock market quoted companies and other companies operating in the same sector, or companies similar in other ways, in Germany (horizontal comparison). A vertical comparison is carried out on two levels: firstly, the salaries of the Management Board members are compared against those of the managing directors of the major BAUER Group subsidiaries; secondly, they are assessed relative to salary grade A VIII stipulated in the collective pay agreement applicable within the Group within the industry-wide framework of salary and training remuneration to salaried staff and foremen in the construction sector.

The remuneration is also set to remain competitive with the remuneration generally paid to highly qualified management staff on the market.

The Annual General Meeting held on June 23, 2016, resolved that the BAUER AG financial statements and the consolidated financial statements for the financial years 2016 to 2020 would contain no disclosures of the remuneration paid to individual Management Board members, thereby applying the legal authority assigned to it by section 286 (5) and section 314 (3) of the German Commercial Code (HGB).

The total remuneration paid to current members of the Management Board for their activities on the Management Board in the year under review, excluding allocations to provisions for pensions, was EUR 1,549 thousand (previous year: EUR 1,552 thousand). Of that total, EUR 1,344 thousand (previous year: EUR 1,342 thousand) was not performance-related and EUR 205 thousand (previous year: EUR 210 thousand) was performance-related. The total remuneration includes benefits in kind arising from the private use of a company car and reimbursement of expenses for each member of the Management Board, as well as group accident insurance premiums and employer's liability insurance association contributions.

Some contracts with members of the Management Board include pension commitments and a survivor's pension as part of the company pension scheme. A retirement pension is also offered through a direct pension plan with a deferred compensation option. The company pension scheme for Management Board members incurred pension service costs totaling EUR 61 thousand (previous year: EUR 50 thousand). The baseline salary defined for calculating retirement benefits is significantly lower in all contracts than the basic salary. Calculated in accordance with IAS 19, the defined benefit obligation entailed by all pension commitments to members of the Management Board serving at the end of the year was EUR 1,660 thousand (previous year: EUR 1,247 thousand). The total remuneration of former members of the Management Board amounted to EUR 289 thousand (previous year: EUR 91 thousand).

The contracts of Management Board members include individual severance clauses regulating the specific terms of premature termination, with settlements oriented to the

**Remuneration Supervisory Board** (not including sales tax proportion and reimbursement of expenses)

| in EUR '000 | 2018 | 2019 |
|---|---|---|
| **Chairman** | | |
| Prof. Dr.-Ing. E.h. Dipl.-Kfm. Thomas Bauer (since November 1, 2018) | 7.5 | 52.5 |
| Dr. Klaus Reinhardt (until October 31, 2018) | 37.6 | - |
| **Deputy Chairman** | | |
| Robert Feiger | 32.3 | 37.5 |
| **Shareholder representatives** | | |
| Dr.-Ing. Johannes Bauer | 23.6 | 27.5 |
| Dipl.-Ing. (FH) Elisabeth Teschemacher | 21.5 | 25.0 |
| Gerardus N. G. Wirken | 25.2 | 29.5 |
| Prof. Dr. Manfred Nußbaumer | 21.5 | 25.0 |
| Dipl.-Kffr. Andrea Teutenberg | 25.2 | 29.5 |
| **Employee representatives** | | |
| Dipl.-Kfm. (FH) Stefan Reindl | 21.5 | 25.0 |
| Regina Andel | 21.5 | 25.0 |
| Reinhard Irrenhauser | 23.6 | 27.5 |
| Rainer Burg | 21.5 | 25.0 |
| Maria Engfer-Kersten | 25.2 | 29.0 |
| **Total** | **307.7** | **358.0** |

length of service of the Management Board member concerned and gauged so as not to exceed the sum of two years' remuneration for any one Management Board member. No provisions for compensation in the event of a takeover offer being made have been agreed with the members of the Management Board.

**Remuneration of the Supervisory Board**

The Supervisory Board of BAUER AG comprises 12 members. Calculation of the remuneration paid to the members of the Supervisory Board is specified in detail in the Articles of Association of BAUER AG. Under the remuneration provisions in the Articles of Association, each member of the Supervisory Board receives an annual fixed basic remuneration of EUR 25 thousand. The chairman receives twice that amount, and the deputy chairman 1.5 times the basic remuneration. For each membership in a committee of the Supervisory Board, each member receives an additional fee of 10% of the basic remuneration. This requires that the respective committee has met at least once during the financial year (meeting or telephone conference). Insofar as a member of the committee attended more than two meetings or telephone conferences of a committee of the Supervisory Board in the financial year, the respective member additionally receives an attendance fee of EUR 500 per meeting or telephone conference.

No supplementary remuneration is paid for membership in the Mediation Committee. Changes to the Supervisory Board and/or its committees are taken into account proportionate to the time in office and rounded up or down to full months based on the standard commercial rule. In addition, the company reimburses members of the Supervisory Board for expenses incurred while performing their duties and for value added tax applied to the remuneration and reimbursement of expenses. The members of the Supervisory Board do not receive any performance-based remuneration.

The remuneration paid to all the members of the Supervisory Board in the 2019 financial year totaled EUR 358 thousand (previous year: EUR 308 thousand).

## OTHER

No loans or advances were paid to members of executive bodies of the company in the year under review, nor were any liabilities entered into in their favor. As a matter of principle, no securities-oriented incentive systems exist for members of the Management Board or Supervisory Board of BAUER AG, or for Group employees in Germany. BAUER AG provides D&O (directors and officers) group insurance cover with respect to liability for economic loss to the members of executive bodies of BAUER AG and of all affiliates in Germany and internationally in which a majority share is held. The D&O policy includes an appropriate excess for the insured parties. For the members of the Management Board, the minimum excess stipulated by law of 10% of the loss up to at least an amount representing one and a half times the fixed annual remuneration of the Management Board member concerned was agreed in the D&O insurance policy in the year under review.

The members of the Management Board are required to limit the extent to which they take on Supervisory Board mandates and other administrative or voluntary functions outside of the company. Without the consent of the Supervisory Board, the members of the Management Board may not carry out any trade or any dealings in the sector in which the company operates on their own or a third-party's account. Further, they may not, without the consent of the Supervisory Board, become a management board member, managing director or personally liable shareholder of any other trading company. This ensures that no conflict arises with the assigned duties of the Management Board member either in relation to time commitment or to remuneration received. Members of the Management Board are not entitled to remuneration for accepting positions at Group companies.

## STATUTORY DISCLOSURES REGARDING TAKEOVERS

The following disclosures are made pursuant to section 315a and section 289a of the German Commercial Code (HGB) as per December 31, 2019.

### COMPOSITION OF SUBSCRIBED CAPITAL

The subscribed capital (share capital) of BAUER AG remains unchanged at EUR 73,001,420.45 and is divided into 17,131,000 no-nominal-value bearer shares, representing a pro rata amount of approximately EUR 4.26 per share of the total share capital. The company does not hold its own shares. Each share entails equal rights and entitles the holder to one vote at the Annual General Meeting, with the exception of share categories precluded from voting by law pursuant to section 136 of the German Stock Corporation Act (AktG) and section 28 of the German Securities Trading Act (WpHG). Shares with special rights entailing supervisory powers were not issued. Employees holding a capital share in BAUER AG exercise their supervisory rights like other shareholders in accordance with the statutory provisions and the Articles of Association.

As in the previous year, 51.81% of the shares were in free float. The members of the Bauer family and the BAUER Stiftung, Schrobenhausen, own a total of 8,256,246 no-nominal-value shares in BAUER AG on the basis of a pool agreement, representing a 48.19% shareholding in the company. The pool agreement provisions include binding voting commitments as well as restrictions on the transferability of pool members' shares. No other direct or indirect holdings of BAUER AG share capital exceeding 10% of the voting rights are known to the company.

### AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE OR BUY BACK SHARES

Article 4, paragraph 4 of the company's Articles of Association states that the Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital once or more than once up to June 22, 2021, by up to a total of EUR 7.3 million by issuing new no-nominal-value bearer shares against cash and/or non-cash contributions (2016 authorized capital). To that end, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the legal subscription rights of shareholders in the following cases:

- in the case of capital increases in return for non-cash contributions, particularly for the purpose of acquiring companies, parts of companies, shareholdings in companies and other assets or claims for the acquisition of assets, including receivables from companies or their Group companies, or for the purpose of company mergers;

- in the event of capital increases against cash contributions where the issue amount of the new shares issued is not materially below the market price of the already quoted shares at the time of definitive setting of the issue price and the shares issued excluding shareholders' subscription rights pursuant to section 186 (3) sentence 4 of the AktG do not in total exceed 10% of the existing share capital either at the time this authority takes effect or at the time of exercising this authority. Shares which have been or are to be sold or issued in direct or corresponding application of section 186 (3) sentence 4 of the AktG while this authority is in place until such time as it is exercised, pursuant to other authorities, excluding subscription rights, are to be set off against the said 10% limit;

- to compensate fractional amounts resulting during capital increases in return for cash and/or non-cash contributions due to the subscription ratio;

- to implement so-called scrip dividends where shareholders are offered an option to pay in their dividend entitlement (in full or part thereof) as a non-cash contribution to the company in return for the issuance of new shares from the 2016 approved capital.

By resolution in the ordinary Annual General Meeting adopted on June 27, 2019, the company was authorized to purchase treasury stock, over a limited period up to June 26, 2024, representing up to a total of 10% of the company's share capital at the time the resolution was passed. The shares shall be acquired at the discretion of the Management Board by means of a public tender offer or via the stock market. If the acquisition is effected via the stock market, the acquisition price (excluding ancillary costs) may be no more than 10% above or below the mathematical average of the closing prices per share on the trading day for shares in the company in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange for the three trading days prior to the date of entering the obligation to purchase. If the acquisition is effected by means of a public tender offer, the purchase price or the limits of the purchase price span per share (excluding ancillary costs) may be no more than 10% above or below the mathematical average of the closing prices per share in the company in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the three trading days prior to the day of publication of the public tender offer. If significant variations of the decisive share price occur after the day of publication of the public tender offer, the purchase price may be adjusted.

The Management Board shall be authorized to appropriate shares in the company acquired pursuant to the above authorizations for all legally admissible purposes. Consequently, the acquired shares may also in particular be sold by means other than via the stock market or by means of an offer to the shareholders, if the shares are sold for cash at a price (excluding ancillary costs) not materially below the stock market price of shares of the company carrying the same rights at the time of the sale in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange. The shares may also be transferred to third parties, provided this is done for the purpose of effecting company mergers or acquiring companies, parts of companies, shareholdings in companies or other assets. They can also be issued to employees and members of management in the company or affiliated companies as part of share option or employee participation programs. The aforementioned shares may be redeemed without the need for a further Annual General Meeting in order to approve the redemption or its execution. With regard to the use of the bought-back shares, the authorization provides, in specific cases, for legal rights of subscription of shareholders to be excluded. The facility to acquire treasury stock has not been utilized to date.

## APPOINTMENT AND TERMINATION OF APPOINTMENT OF MANAGEMENT BOARD MEMBERS, AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The appointment and termination of appointment of members of the Management Board of BAUER AG is regulated by sections 84 and 85 of the AktG and sections 30 et seq. of the German Employee Co-Determination Act (MitbestG) in conjunction with articles 5 and 6 of the company's Articles of Association. Pursuant to the company's Articles of Association, the Management Board comprises at least two persons, who are appointed by the Supervisory Board for a maximum term of office of five years. At the end of the 2019 financial year, the Management Board comprised four members appointed by the Supervisory Board and a Chairman of the Management Board as well as a Labor Director. It is permissible to re-appoint or extend the appointment of a member of the Management Board for a further maximum term of five years. Any appointment or re-appointment requires a decision by the Supervisory Board, which may be taken no earlier than one year prior to the end of the relevant term of office. The Supervisory Board may rescind an appointment to the Management Board or an appointment as chairman for good cause. The Presidial and Personnel Committee of the Supervisory Board prepares the Supervisory Board's decisions on the appointment and termination of appointment of Management Board members and concerns itself with the long-term planning of successor members for appointment to the Management Board.

In accordance with section 119 (1) no. 6 and section 179 of the AktG, the amendment of the Articles of Association is passed by the Annual General Meeting with a majority of at least three quarters of the share capital represented at the vote. Pursuant to article 12 of the Articles of Association, the Supervisory Board is authorized to pass amendments to the Articles of Association that relate only to its wording. The Supervisory Board is further authorized to adapt the wording of article 4 of the Articles of Association (amount and division of the share capital) following full or partial execution of the increase in share capital or on expiration of the authorization period according to the respective utilization of the authorized capital.

## CHANGE OF CONTROL

Together with other Group companies, BAUER AG has concluded a syndicated loan agreement providing a credit line of up to EUR 470 million and a further syndicated loan agreement totaling EUR 53 million; this contains a provision for the lender to terminate its loan commitments in the event of a change of control or if control is gained by a third party. As defined by these syndicated loan agreements, a change of control is defined as a situation in which the total shareholding held by the pooled members of the Bauer family directly amounts to less than 40% of the capital shares or voting rights in BAUER AG. A third party gains control if, overall, more than 50% of the capital shares or voting rights in BAUER AG is held directly or indirectly by one or more persons acting jointly (with the exception of the pooled members of the Bauer family).

Furthermore, several long-term loans with balances totaling EUR 148.5 million as of the balance sheet date, agreed by BAUER AG together with other Group companies as the borrower and guarantor, provide for a right of termination for cause by the lender in the event of a change of control in BAUER AG. A change of control is considered to have taken place where a third party, not forming part of the circle of existing main shareholders, directly or indirectly acquires control of at least 30% of voting rights or the majority of outstanding share capital of BAUER AG. Any loaned amounts would have to be repaid in the event of termination. The terminated credit line would no longer be available for new borrowing.

Additional short- and long-term loan agreements also exist within the Group that provide for a right of termination for cause, at market terms, in the event of a change of control.

BAUER AG has not made any agreements with the members of the Management Board or employees regarding provisions for compensation in the event of a takeover offer.

## DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289f OF THE HGB IN CONJUNCTION WITH SECTION 315d OF THE HGB

With effect from March 26, 2020, the Management Board of BAUER AG issued a declaration regarding corporate governance pursuant to section 289f of the HGB in conjunction with section 315d of the HGB and made this publicly available on the website https://www.bauer.de/bauer_group/investor_relations/corporate_governance. It includes the declaration of compliance pursuant to section 161 of the AktG, relevant information about corporate governance practices, a description of the composition and roles of the Management Board and Supervisory Board as well as the composition and roles of their committees, the target figures for female quota in the Management Board and the two executive levels below the Management Board, information about compliance with minimum quotas of women and men in the Supervisory Board and details of the diversity concept.

## NON-FINANCIAL GROUP REPORT 2019

At the same time as the annual report, BAUER AG also published a separate non-financial Group report pursuant to section 315b of the HGB at https://www.bauer.de/bauer_group/investor_relations/publications/annual_report. It outlines environmental, employee and social concerns, respect for human rights as well as anti-corruption and anti-bribery policies as non-financial aspects.

Schrobenhausen, April 3, 2020
**BAUER Aktiengesellschaft**

Dipl.-Phys. Michael Stomberg
Chairman of the Management Board

Dipl.-Ing. (FH)
Florian Bauer, MBA

Dipl.-Betriebswirt (FH)
Hartmut Beutler

Peter Hingott

# Bauer stock

**Global economy shows weaker growth**
According to figures from the IMF, global growth in 2019 decreased significantly to 2.9% (previous year: 3.6%). As an export-oriented country, Germany was particularly affected by this slowdown in momentum, achieving only a growth rate of 0.5% (previous year: 1.5%). With 1.7% (previous year: 2.3%), growth in the industrialized nations as a whole also declined.

A major reason for ongoing uncertainty was the trade dispute between the US and China, giving rise to concerns that Europe could also be impacted by wide-ranging US sanctions. The conflict also took its toll on growth rates in the US with 2.4% (previous year: 2.9%) and China with 6.1% (previous year: 6.6%).

In addition to this were other flash points that affected the global economy: the US' withdrawal from the Iranian nuclear deal, numerous conflicts in the Middle East, in particular Syria, Brexit in Europe as well as political change in a number of Asian countries. Moreover, there is continued concern in Germany about the future of the automotive industry as it is fighting its way through the transition to electric drive systems.

The oil price in 2019 took a roller coaster ride. In the first few months of the year, the price for Brent crude climbed from around USD 50 to just over USD 70 per barrel, but in the middle of the year plummeted back down to just above the starting point. By the end of the year, it recovered slightly to just over USD 60.

The gap between interest rates in the US and Europe has decreased for the first time in many years. While the ECB continued to keep key interest rates steady, the US Federal Reserve lowered interest rates three times to a range between 1.5 and 1.75%.

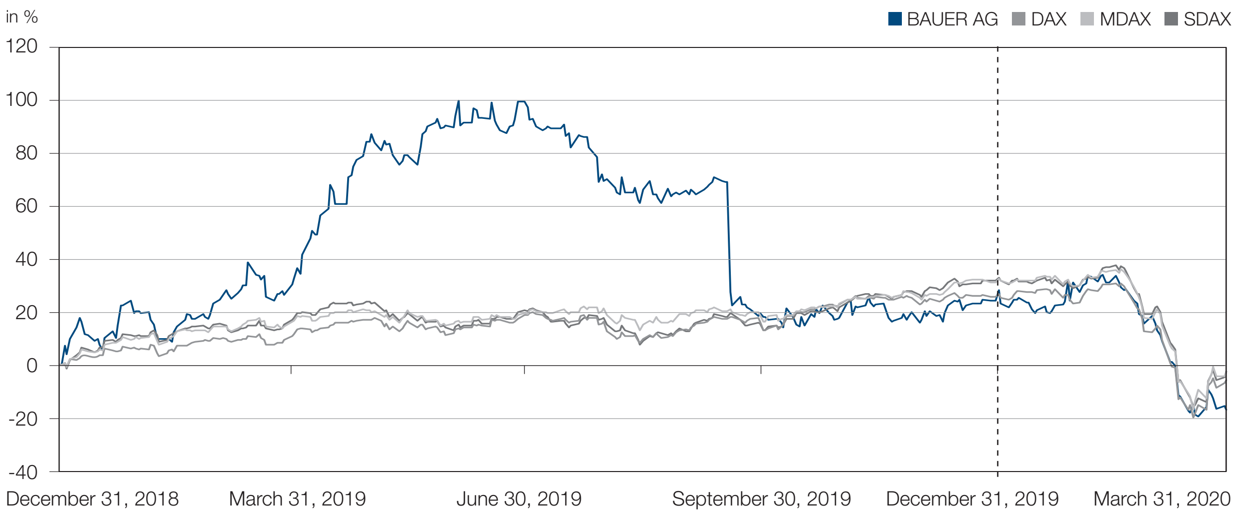
In particular, the interest rate development in Europe and the loose monetary policy of the ECB continued to drive the stock markets despite the slacking global economy in 2019.

**Variable year for Bauer stock**
The 2019 stock market year was very variable for Bauer stock. The first nine months showed a significant rebound after very weak performance in the previous year. In mid-September 2019, the share price slumped considerably after an ad-hoc announcement. By the end of the year, however, Bauer stock still managed growth of 24.4%. The benchmark indices DAX (+25.5%) and SDAX (+31.6%) were only a little better.

From an opening price of EUR 12.14, Bauer stock moved primarily sideways in a range between EUR 12 and 14 in the first two months. Following this, the price rose significantly for several weeks with only a few setbacks. On June 5, the shares reached their peak for the year at EUR 24.30, at that point clearly outperforming the major indices.

From July onwards, there was a decline in prices as the stock market was increasingly affected by uncertainties. These developments brought the share price back down below EUR 20 by the middle of August.

**Performance of the Bauer Share**



On September 18, after close of trading, an ad-hoc announcement was made with an adjustment of the annual forecast, which led to a slump in the share price. The closing price on the following day was EUR 15.50, and it did not recover by the end of the year. While the indices rose sharply again, especially in the last two months of the year, Bauer stock hardly moved at all. At the end of the year, the share price was EUR 15.10.

In the first quarter of 2020, the share price moved sideways until the end of February, before the spread of the coronavirus and the economic consequences caused stock markets worldwide to record massive price falls. This was also the case with the Bauer stock, which closed the first quarter of 2020 at EUR 10.08.

### First AGM for Michael Stomberg

The goal of the Management Board and the Investor Relations department is to openly provide information for the capital market and shareholders on a regular basis.

The Annual General Meeting in Schrobenhausen plays a central role to achieve this. In June 2019, it was time for Michael Stomberg's first Annual General Meeting at Bauer, and there was plenty of interest: around 400 shareholders and guests listened as he and other members of the Management Board and Supervisory Board provided insights about the company's situation.

Capital market conferences and roadshows in various cities are also an important component of communication with institutional investors. Discussions focused on the objectives that the new CEO has for the company.

### Share information

| | |
|---|---|
| ISIN / WKN | DE0005168108 / 516810 |
| Trading symbol | B5A |
| Trading segment | Frankfurt, Prime Standard |
| Share indexes | CDAX |
| Class of share | No-nominal-value individual bearer shares |
| Share capital | EUR 73,001,420.45 |
| Number of shares | 17,131,000 |
| Shareholder structure | Bauer family 48.19%, free float 51.81% |

In 2019, five analysts regularly reported on Bauer stock. At the end of the year, one analyst voted "buy" and four voted "hold." The average target share price quoted was EUR 17.06.

### Dividend policy

The Bauer dividend strategy is fundamentally aimed at providing shareholders with an appropriate and fair participation in the success of the business, maintaining continuity and safeguarding the equity ratio.

In 2019, the original targets were clearly missed, primarily due to project postponements overseas and the ruling from an appeal procedure. That is why we must continue to strike a careful balance between continuity and shareholder participation on the one hand, and safeguarding our equity ratio on the other.

The Management Board will therefore recommend that the Supervisory Board proposes to the Annual General Meeting that no dividends be distributed to the shareholders.

**More information:**
http://ir.bauer.de

| KEY FIGURES | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Earnings per share (in EUR) | 0.66 | 0.16 | 1.32 | -2.17 |
| Dividend per share (in EUR) | 0.10 | 0.10 | 0.10 | 0.00 * |
| Dividend total (in EUR '000) | 1,713 | 1,713 | 1,713 | 0 * |
| Year-end price (in EUR) | 11.40 | 30.00 | 12.16 | 15.10 |
| Annual high (in EUR) | 17.16 | 30.96 | 31.25 | 24.30 |
| Annual low (in EUR) | 9.45 | 11.73 | 12.08 | 12.62 |
| Market capitalization at year-end (in EUR '000) | 195,293 | 513,930 | 208,313 | 258,678 |
| Average daily trading volume (units) | 18,173 | 55,439 | 62,434 | 40,742 |

* Proposed, subject to the consent of the Annual General Meeting on June 25, 2020


CASE
BMU

# Report of the Supervisory Board 2019

The Supervisory Board regularly monitored the work of the Management Board during the 2019 financial year on the basis of the detailed reports provided by the Management Board in written and verbal form and provided support in the form of advice. The Management Board discharged its duties to provide the Supervisory Board with regular, prompt and comprehensive information about all questions of strategy, planning, company development, risk development and compliance that are relevant to the company and the Group. Between the meetings, the Management Board submitted monthly written reports on all important business transactions and financial indicators of the Group and the company. The Chairman of the Supervisory Board was also in regular contact with the Management Board, in particular with the Chairman of the Management Board, gathered information as appropriate relating to the course of business and key transactions and discussed strategic topics and risk situations.

In the year under review, the composition of the Supervisory Board did not change. Prof. Thomas Bauer was reelected by the Annual General Meeting in June of the year under review as a member of the Supervisory Board due to the time limit imposed by the court on the appointment until the end of the next Annual General Meeting. There were no indications of conflicts of interest among members of the Management Board or Supervisory Board requiring immediate notification of the Supervisory Board and disclosure to the Annual General Meeting. Furthermore, the company supports the training and ongoing education of members of the Supervisory Board; in April of the year under review it held training on medium-term balance sheet and income statement planning.

**MAIN FOCUS OF CONSULTATIONS IN SUPERVISORY BOARD MEETINGS**

In the year under review, there were four regular plenary sessions. Current business and earnings performance, order backlog development and developments in the markets in the Construction, Equipment and Resources segments were discussed at all Supervisory Board meetings. The Supervisory Board takes into account the reports of the committees.

At the annual financial review meeting in April relating to the annual parent company and consolidated financial statements for the 2018 financial year, also attended and informed by the auditors, a detailed review was undertaken of the respective financial statements and associated management and audit reports, taking into consideration the report from the Audit Committee and the proposal of the Management Board with regard to the appropriation of earnings. Due to the time limit imposed by the court on the appointment of Prof. Thomas Bauer as a member of the Supervisory Board until the end of the next Annual General Meeting, there was discussion of the Supervisory Board's suggestion to the Annual General Meeting that a successor be selected under consideration of the election proposal of shareholders who hold more than 25% of the voting rights in the company. During this meeting, the Supervisory Board discussed the selection of auditors, the remuneration system, the remuneration of the Management Board and the invitation to the Annual General Meeting.

In June, the Supervisory Board concentrated on focus topics regarding business development in the segments, debt development, the balance sheet effects due to provisions for pensions and the assessment of interest swaps. Prof. Thomas Bauer was confirmed as chairman of the Supervisory Board given his election by the Annual General Meeting.

After an exchange of ideas for the encouragement of women in the company and flexible working models, the September meeting dealt with regional capacity underutilization of Group construction companies that are dependent on project business. Another focus was medium-term consolidated balance sheet planning and machine production in the Aresing plant.

At the Supervisory Board meeting in December of the year under review, the business performance in the individual divisions was discussed, an updated declaration of compliance was adopted in accordance with the German Corporate Governance Code and the annual planning for the financial year 2020 was approved.

<<< *The Diamalt project is currently the largest construction project in the Munich city district of Allach-Untermenzing. To make the former grounds of a baking agent manufacturer suitable for building, Bauer Umwelt carried out a variety of remediation works.*

## WORK CARRIED OUT BY THE COMMITTEES

There are four committees in the Supervisory Board, though the Mediation Committee and the Nominations Committee were not required to convene. The committee chairpersons submitted regular reports on the main content of the committee meetings to the plenary Supervisory Board meetings.

Two meetings of the Presidial and Personnel Committee were convened. At those meetings, preparations were made for the decisions of the Supervisory Board relating to the determination of the salaries and performance bonuses of the members of the Management Board and to the structuring of its remuneration system, as well as to the performance bonus framework. The Committee also addressed developments and imminent changes due to implementation of the second Shareholders' Rights Directive (ARUG II), a topic that will continue to occupy the Committee in 2020. The declaration of compliance with the German Corporate Governance Code was also discussed.

The Audit Committee held three conference calls and three meetings in the year under review. The committee reviewed the audit of the quarterly statements, the half-year interim report and, in the presence of the auditors, the audit of the annual financial statements of the parent company and the consolidated financial statements of the Group as well as the additional auditor's report. It also scrutinized the Management Board's proposal regarding the appropriation of earnings as well as the selection and appointment of auditors. The Audit Committee obtained the required declaration of independence from the auditor and agreed on the fees for auditing services. Audit content for key audit points was determined in consultation with the auditor. The Committee also held a special session to provide support in procedural work for the reduction of project risks and reviewed risk management and internal auditing reports. Changes to the year-end forecast were reviewed in September and the risks, and opportunities for business development were regularly examined.

## PRESENCE

As in previous years, in the business year 2019 there was once again a consistently high participation rate in the Supervisory Board meetings as well as in the committees. In the business year 2019, all members of the Supervisory Board and its committees participated in more than half of the Supervisory Board meetings and its committees, with the result that almost all consultations had full attendance by the members.

## AUDITING OF 2019 ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of BAUER AG as at December 31, 2019 and the consolidated financial statements of the Group as well as the Combined Management Report, including the Group accounts, were audited by the auditors elected by the Annual General Meeting and duly appointed

### Session attendance for members of the Supervisory Board

| | Supervisory Board meeting | Presidential and Personnel Committee | Audit Committee |
|---|---|---|---|
| **Number of sessions** | **4** | **2** | **6** |
| Regina Andel | 3 | | |
| Dr.-Ing. Johannes Bauer | 4 | 2 | |
| Prof. Dr.-Ing. E.h. Dipl.-Kfm. Thomas Bauer | 4 | 2 | |
| Rainer Burg | 4 | | |
| Maria Engfer-Kersten | 4 | | 5 |
| Robert Feiger | 4 | | |
| Reinhard Irrenhauser | 4 | 2 | |
| Prof. Dr. Manfred Nußbaumer | 4 | | |
| Dipl.-Kfm. (FH) Stefan Reindl | 4 | | |
| Dipl.-Ing. (FH) Elisabeth Teschemacher | 4 | | |
| Dipl.-Kffr. Andrea Teutenberg | 4 | | 6 |
| Gerardus N.G. Wirken | 4 | | 6 |

by the Supervisory Board, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart. The accounts were certified by the auditors with an unqualified opinion. The Audit Committee scrutinized the audit documentation, the non-financial consolidated statement and the reports submitted by auditors. The Committee reported on its review to the Supervisory Board. The Supervisory Board dealt with the effects on the annual and consolidated financial statements of a court ruling received after the balance sheet date regarding a project in Hong Kong and with the breach of financial covenants agreed with the financing partners. The auditors attended the meeting of the Audit Committee as well as the annual financial review meeting of the plenary Supervisory Board.

The audit documentation along with the non-financial consolidated statement and reports from auditors were provided to all members of the Supervisory Board in good time for scrutiny. The Supervisory Board duly noted and concurred with the findings of the auditors' review of the parent company's and the Group's consolidated annual financial statements as well as the Combined Management Report. On conclusion of the Supervisory Board's review, no objections were raised. The annual financial statements of BAUER AG and the consolidated financial statements of the Group were approved by the Supervisory Board at its financial review meeting on April 7, 2020. The annual financial statements of BAUER AG were thus adopted. Following prior consultations by the Audit Committee, the Supervisory Board concurred with the proposal of the Management Board regarding the appropriation of distributable net profit. In the absence of net profit, no proposal for the appropriation of net profit can be made to the shareholders. The net loss will be carried forward to new account.

On behalf of the Supervisory Board, I would like to thank the members of the Management Board, all the Group's employees and the employee representatives within all Group companies for their great commitment throughout the past financial year.

Schrobenhausen, April 2020
**The Supervisory Board**

Prof. Thomas Bauer
Chairman of the Supervisory Board


RTG RG 25 S

# Balance Sheet and Income Statement of BAUER Aktiengesellschaft in accordance with the German Commercial Code (HGB)





<<< *During a full closure of the railway line, BAUER Spezialtiefbau GmbH renovated a total of three embankments near Vilseck, Germany. Around 42,000 m² of mixed-in-place panels were made with an RG 27 S and an RG 25 as well as two RG 19 Ts.*

# Income Statement of BAUER Aktiengesellschaft

| in kEUR | 12M/2018 | 12M/2019 |
|---|---|---|
| Sales revenues | 39,305 | 41,916 |
| Other operating income | 2,921 | 544 |
| | **42,226** | **42,460** |
| Cost of materials | -8,653 | -9,184 |
| Personnel expenses | -21,573 | -21,927 |
| Amortization of intangible assets and depreciation of fixed assets and property, plant and equipment | -3,524 | -3,537 |
| Other operating expenses | -50,247 | -46,733 |
| | **-83,997** | **-81,381** |
| **Operating result** | **-41,771** | **-38,921** |
| | | |
| Income from participations | 43,699 | 43,250 |
| Other interest and similar income | 8,563 | 4,977 |
| Interest and similar expenses | -9,567 | -11,987 |
| **Financial result** | **42,695** | **36,240** |
| | | |
| **Result from operating activities** | **924** | **-2,681** |
| | | |
| Taxes on income and profit | 813 | 2,656 |
| Other taxes | -24 | -25 |
| **Net income/loss for the year** | **1,713** | **-50** |
| Profit carried forward | 1,713 | 1,713 |
| Withdrawals from other revenue reserves | 0 | 0 |
| Dividend payment | -1,713 | -1,713 |
| **Accumulated loss** | **1,713** | **-50** |

# Balance Sheet of BAUER Aktiengesellschaft as at December 31, 2019

## ASSETS

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| **Fixed assets** | | |
| Intangible assets | 2,746 | 2,036 |
| Property, plant and equipment | 6,514 | 6,854 |
| Financial assets | 142,400 | 180,434 |
| | **151,660** | **189,324** |
| **Current assets** | | |
| Inventories<br>Raw materials and supplies | 97 | 118 |
| Receivables and other assets<br>(of which receivables from affiliated companies) | 185,174<br>(181,693) | 87,711<br>(86,429) |
| Cash at banks | 321 | 892 |
| | **185,592** | **88,721** |
| **Prepayments and deferred charges** | **1,170** | **2,130** |
| **Deferred tax assets** | **2,537** | **5,278** |
| | **340,959** | **285,453** |

## EQUITY AND LIABILITIES

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| **Equity** | | |
| Subscribed capital | 73,001 | 73,001 |
| Capital reserve | 39,781 | 39,781 |
| Revenue reserves | 2,055 | 2,055 |
| Accumulated loss<br>(of which profit carried forward) | 1,713<br>(1,713) | -50<br>(1,713) |
| | **116,550** | **114,787** |
| **Provisions**<br>(of which provisions for pensions) | **16,871**<br>(12,416) | **23,679**<br>(13,809) |
| **Liabilities**<br>(of which liabilities payable to affiliated companies) | **207,538**<br>(6,364) | **146,987**<br>(48,587) |
| | **340,959** | **285,453** |


SBN
SCHACHTBAU
NORDHAUSEN

# Consolidated Financial Statements in accordance with IFRS



*<<< In the Ruhr area, Europe's longest waste water canal is gradually being moved deeper and the Emscher River is being renaturalized. Schachtbau Nordhausen is supplying and assembling the required pump systems technology.*

# Consolidated Income Statement and Consolidated Statement of Comprehensive Income

## INCOME STATEMENT

| in kEUR | Notes | 12M/2018 | 12M/2019 |
|---|---|---|---|
| Sales revenues | (7) | 1,589,091 | 1,470,922 |
| Changes in inventories | | 1,552 | 32,378 |
| Other own work capitalized | (8) | 8,825 | 9,523 |
| Other income | (9) | 17,468 | 24,868 |
| **Consolidated revenues** | | **1,616,936** | **1,537,691** |
| Cost of materials | (10) | -821,496 | -783,126 |
| Personnel expenses | (11) | -392,384 | -418,805 |
| Other operating expenses | (12) | -204,440 | -212,713 |
| **Earnings before interest, tax, depreciation and amortization (EBITDA)** | | **198,616** | **123,047** |
| Depreciation and amortization<br>a) Depreciation of fixed assets | (13) | -80,967 | -84,760 |
| b) Write-downs of inventories due to use | (14) | -17,590 | -15,806 |
| **Earnings Before Interest and Tax (EBIT)** | | **100,059** | **22,481** |
| Financial income | (15) | 38,204 | 33,742 |
| Financial expenses | (16) | -76,992 | -78,766 |
| Income from shares accounted for using the equity method | (17) | 4,594 | 11,225 |
| **Earnings before tax (EBT)** | | **65,865** | **-11,318** |
| Income tax expense | (18) | -41,778 | -25,232 |
| **Earnings after tax** | | **24,087** | **-36,550** |
| of which attributable to shareholders of BAUER AG | | 22,577 | -37,146 |
| of which attributable to non-controlling interests | | 1,510 | 596 |

| in EUR | | 12M/2018 | 12M/2019 |
|---|---|---|---|
| Basic earnings per share | (19) | 1.32 | -2.17 |
| Diluted earnings per share | (19) | 1.32 | -2.17 |
| Average number of shares in circulation (basic) | | 17,131,000 | 17,131,000 |
| Average number of shares in circulation (diluted) | | 17,131,000 | 17,131,000 |

## STATEMENT OF COMPREHENSIVE INCOME

| in kEUR | 12M/2018 | 12M/2019 |
|---|---|---|
| **Earnings after tax** | **24,087** | **-36,550** |
| Income and expenses which will not be subsequently reclassified to profit and loss | | |
| Revaluation of obligations arising from employee benefits after termination of the employment relationship | -6,301 | -21,963 |
| Deferred taxes on that revaluation with no effect on profit and loss | 1,686 | 6,130 |
| Market valuation of other participations | -1,663 | 422 |
| Income and expenses which will be subsequently reclassified to profit and loss | | |
| Market valuation of derivative financial instruments (hedging reserve) | -1,479 | -3,568 |
| Included in income and loss | 2,608 | 3,468 |
| Market valuation of derivative financial instruments (reserve for hedging costs) | -494 | -1,889 |
| Included in income and loss | 293 | 2,026 |
| Deferred taxes on financial instruments with no effect on profit and loss | -261 | -10 |
| Exchange differences on translation of foreign subsidiaries | 986 | 9,087 |
| **Other income after taxes** | **-4,625** | **-6,297** |
| **Total comprehensive income** | **19,462** | **-42,847** |
| of which attributable to shareholders of BAUER AG | 18,394 | -45,714 |
| of which attributable to non-controlling interests | 1,068 | 2,867 |

# Consolidated Statement of Cash Flows

| in kEUR | 12M/2018 | 12M/2019 |
|---|---|---|
| **Cash flows from operational activity:** | | |
| Earnings before tax (EBT) | 65,865 | -11,318 |
| Depreciation of property, plant and equipment and intangible assets | 80,967 | 84,760 |
| Depreciation of financial assets | 2,392 | 0 |
| Depreciation of inventories due to use for impairment | 17,590 | 15,806 |
| Financial income | -38,204 | -33,742 |
| Financial expenses | 74,600 | 78,766 |
| Other non-cash transactions and results of de-consolidations | 25,412 | 16,353 |
| Dividends received | 2,698 | 1,859 |
| Income from the disposal of property, plant and equipment and intangible assets | 2,089 | -1,551 |
| Income from participations accounted for using the equity method | 4,594 | 11,225 |
| Change in provisions | -3,051 | -2,455 |
| Change in trade receivables | -32,662 | 53,886 |
| Change in contract assets | 8,125 | 40,567 |
| Change in other assets and in prepayments and deferred charges | 4,783 | -4,872 |
| Change in inventories | -35,778 | -72,206 |
| Change in trade payables | -10,349 | 6,892 |
| Change in contract liabilities | 1,411 | 23,402 |
| Change in other current and non-current liabilities | 2,561 | 5,291 |
| **Cash and cash equivalents generated from day-to-day business operations** | **173,043** | **212,663** |
| Income tax paid | -25,599 | -43,781 |
| **Net cash from operating activities** | **147,444** | **168,882** |
| **Cash flows from investment activity:** | | |
| Purchase of property, plant and equipment and intangible assets | -94,540 | -101,765 |
| Proceeds from the sale of property, plant and equipment and intangible assets | 37,296 | 26,858 |
| Purchase of financial assets (participations) | 0 | 0 |
| Change in financial resources resulting from the basis of consolidation | -356 | -306 |
| **Net cash used in investment activities** | **-57,600** | **-75,213** |
| **Cash flows from financing activity:** | | |
| Raising of loans and liabilities to banks | 318,841 | 309,881 |
| Repayment of loans and liabilities to banks | -341,089 | -373,730 |
| Repayment of liabilities from lease agreements | -19,083 | -22,047 |
| Disbursements for the purchase of additional shares in subsidiaries | 0 | 0 |
| Dividends paid | -2,526 | -2,972 |
| Interest paid | -39,411 | -34,519 |
| Interest received | 8,180 | 3,048 |
| **Net cash used in financing activities** | **-75,088** | **-120,339** |
| **Changes in liquid funds affecting payments** | **14,756** | **-26,670** |
| Influence of exchange rate movements on cash | 565 | 1,658 |
| **Total change in liquid funds** | **15,321** | **-25,012** |
| **Cash and cash equivalents at beginning of reporting period** | **47,266** | **62,587** |
| **Cash and cash equivalents at end of reporting period** | **62,587** | **37,575** |
| **Change in cash and cash equivalents** | **15,321** | **-25,012** |

# Consolidated Balance Sheet as at December 31, 2019

## ASSETS

| in kEUR | Notes | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|---|
| Intangible assets | (20) | 18,077 | 16,946 |
| Property, plant and equipment | (20) | 411,571 | 460,470 |
| Investments accounted for using the equity method | (20) | 113,019 | 118,185 |
| Participations | (20) | 8,350 | 8,806 |
| Deferred tax assets | (21) | 49,189 | 67,273 |
| Other non-current assets | (22) | 7,637 | 7,175 |
| Other non-current financial assets | (23) | 13,198 | 13,923 |
| **Non-current assets** | | **621,041** | **692,778** |
| | | | |
| Inventories | (24) | 365,865 | 405,401 |
| Rental equipment | (24) | 60,488 | 61,838 |
| Less advances received for inventories | (24) | -16,098 | -8,921 |
| | | 410,255 | 458,318 |
| | | | |
| Contract assets | (25) | 145,005 | 108,122 |
| Trade receivables | (25) | 334,978 | 271,300 |
| Receivables from enterprises in which the company has participating interests | (25) | 7,846 | 1,912 |
| Payments on account | (25) | 3,163 | 5,904 |
| Other current assets | (25) | 35,748 | 35,844 |
| Other current financial assets | (25) | 8,371 | 11,526 |
| Effective income tax refund claims | | 3,290 | 5,270 |
| Cash and cash equivalents | (26) | 62,587 | 37,575 |
| **Current assets** | | **1,011,243** | **935,771** |
| | | **1,632,284** | **1,628,549** |

## EQUITY AND LIABILITIES

| in kEUR | Notes | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|---|
| Subscribed capital | | 73,001 | 73,001 |
| Capital reserve | | 38,404 | 38,404 |
| Other revenue reserves and retained earnings | | 316,907 | 270,399 |
| **Equity of BAUER AG shareholders** | | **428,312** | **381,804** |
| Non-controlling interests | | 3,504 | 5,112 |
| **Equity** | (27) | **431,816** | **386,916** |
| | | | |
| Liabilities to banks | (28) | 308,472 | 73,743 |
| Liabilities from lease agreements | (28) | 20,739 | 37,892 |
| Provisions for pensions | (29) | 134,389 | 158,641 |
| Other non-current liabilities | (28) | 5,335 | 6,028 |
| Other non-current financial liabilities | (28) | 9,093 | 23,665 |
| Deferred tax liabilities | (21) | 23,396 | 27,149 |
| **Non-current liabilities** | | **501,424** | **327,118** |
| | | | |
| Liabilities to banks | (30) | 256,743 | 431,645 |
| Liabilities from lease agreements | (30) | 10,057 | 20,745 |
| Contract liabilities | (30) | 52,426 | 76,829 |
| Trade payables | (30) | 224,502 | 240,280 |
| Liabilities to enterprises in which the company has participating interests | (30) | 860 | 1,699 |
| Other current liabilities | (30) | 80,063 | 83,510 |
| Other current financial liabilities | (30) | 19,304 | 13,563 |
| Effective income tax obligations | | 31,687 | 19,566 |
| Provisions | (31) | 20,501 | 23,677 |
| Current portion of provisions for pensions | (29) | 2,901 | 3,001 |
| **Current debt** | | **699,044** | **914,515** |
| | | **1,632,284** | **1,628,549** |

# Consolidated Statement of Changes in Equity from January 1, 2018 to December 31, 2019

| in kEUR | | | Other revenue reserves and retained earnings | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subscribed capital | Capital reserve | Revenue reserves | of foreign subsidiaries | Derivative financial instruments (hedging reserve) | Derivative financial instruments (reserve for hedging costs) | Equity instruments | Non-controlling interests | Total |
| **As at January 1, 2018** | **73,001** | **38,404** | **319,812** | **-14,721** | **-1,013** | **0** | **0** | **3,249** | **418,732** |
| Changes to accounting methods | 0 | 0 | -4,102 | 0 | 0 | 0 | 0 | 0 | **-4,102** |
| **As at January 1, 2018 (adapted)** | 73,001 | 38,404 | 315,710 | -14.721 | -1.013 | 0 | 0 | 3,249 | **414,630** |
| Earnings after tax | 0 | 0 | 22,577 | 0 | 0 | 0 | 0 | 1,510 | **24,087** |
| Exchange differences on translation of foreign subsidiaries | 0 | 0 | 0 | 1,436 | 0 | 0 | 0 | -450 | **986** |
| Revaluation of obligations arising from employee benefits after termination of the employment relationship | 0 | 0 | -6,308 | 0 | 0 | 0 | 0 | 7 | **-6,301** |
| Market valuation of other participations | 0 | 0 | 0 | 0 | 0 | 0 | -1,663 | 0 | **-1,663** |
| Market valuation of derivative financial instruments | 0 | 0 | 0 | 0 | 1,129 | -201 | 0 | 0 | **928** |
| Deferred taxes with no effect on profit and loss | 0 | 0 | 1,685 | 0 | -317 | 56 | 0 | 1 | **1,425** |
| **Total comprehensive income** | **0** | **0** | **17,954** | **1,436** | **812** | **-145** | **-1,663** | **1,068** | **19,462** |
| Changes in basis of consolidation | 0 | 0 | 250 | 0 | 0 | 0 | 0 | 0 | **250** |
| Dividend payments | 0 | 0 | -1,713 | 0 | 0 | 0 | 0 | -813 | **-2,526** |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **As at Dec. 31, 2018** | **73,001** | **38,404** | **332,201** | **-13,285** | **-201** | **-145** | **-1,663** | **3,504** | **431,816** |
| **As at January 1, 2019** | **73,001** | **38,404** | **332,201** | **-13,285** | **-201** | **-145** | **-1,663** | **3,504** | **431,816** |
| Earnings after tax | 0 | 0 | -37,146 | 0 | 0 | 0 | 0 | 596 | **-36,550** |
| Exchange differences on translation of foreign subsidiaries | 0 | 0 | 0 | 6,814 | 0 | 0 | 0 | 2,273 | **9,087** |
| Revaluation of obligations arising from employee benefits after termination of the employment relationship | 0 | 0 | -21,960 | 0 | 0 | 0 | 0 | -3 | **-21,963** |
| Market valuation of other participations | 0 | 0 | 0 | 0 | 0 | 0 | 422 | 0 | **422** |
| Market valuation of derivative financial instruments | 0 | 0 | 0 | 0 | -100 | 137 | 0 | 0 | **37** |
| Deferred taxes with no effect on profit and loss | 0 | 0 | 6,129 | 0 | 28 | -38 | 0 | 1 | **6,120** |
| **Total comprehensive income** | **0** | **0** | **-52,977** | **6,814** | **-72** | **99** | **422** | **2,867** | **-42,847** |
| Changes in basis of consolidation | 0 | 0 | 919 | 0 | 0 | 0 | 0 | 0 | **919** |
| Dividend payments | 0 | 0 | -1,713 | 0 | 0 | 0 | 0 | -1,259 | **-2,972** |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **As at Dec. 31, 2019** | **73,001** | **38,404** | **278,430** | **-6,471** | **-273** | **-46** | **-1,241** | **5,112** | **386,916** |

Other disclosures on the development of equity can be found in section 27.

# Notes to the Consolidated Financial Statements

## GENERAL NOTES

### GENERAL INFORMATION ABOUT THE GROUP

BAUER Aktiengesellschaft, Schrobenhausen (referred to in the following as BAUER AG) is a stock corporation under German law. Its place of business is at BAUER-Strasse in Schrobenhausen, and the company is entered in the Commercial Register of Ingolstadt (HRB 101375).

The BAUER Group is a provider of services, equipment and products dealing with ground and groundwater. The Group markets its products and services all over the world. The operations of the Group are divided into three segments: Construction, Equipment and Resources.

BAUER AG is listed in the Prime Standard of the German stock market.

### 1. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of BAUER AG were prepared in accordance with section 315e of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS), as adopted by the EU. The consolidated financial statements were prepared on the basis of historical costs for procurement and manufacturing costs, limited by the fair value valuation of financial assets and liabilities (including derivative financial instruments) affecting net income. The previous year's figures have been determined according to the same principles.
The BAUER Group's financial year is the calendar year.
The consolidated financial statements were prepared in euros. Unless otherwise specified, all amounts are quoted in thousands of euros (kEUR).

The income statement was prepared using the nature of expenses method and covers the period from January 1 to December 31 of the respective year.

### 2. BASIS OF CONSOLIDATION

The basis of consolidation includes the ultimate parent company BAUER AG and all major subsidiaries. Subsidiaries are all companies over which the Group has control in terms of financial and corporate policy. This is routinely accompanied by a share of voting rights of over 50%. When assessing whether control is exerted, the existence and effect of potential voting rights currently exercisable or convertible are considered.
Subsidiaries are not consolidated and do not fall within the scope of IFRS 9 if their business operations are dormant or minor and they are, individually and as a whole, of minor importance for conveying a picture of the true and fair view of the net assets, financial and earnings position as well as the cash flows of the BAUER Group. They are recognized in the consolidated financial statements with their respective acquisition costs, taking into account any necessary impairments and value recovery adjustments.

In 2019, 114 companies were consolidated into the consolidated financial statements (previous year: 113). In the financial year, 3 (previous year: 5) companies were included in the basis of consolidation for the first time. Since the beginning of 2019, the number of companies de-consolidated due to merger, sale and discontinuation of operations was 2 (previous year: 2). Consortia are not included in the number of companies which form part of the consolidated financial statements due to the short-term nature of these projects

The following overview shows the number of subsidiaries by segment (without construction joint ventures):

| | Main business | Place of business | Number of companies with 100% share | | Number of companies with a share less than 100% | | Number of associated companies | | Number of joint ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Dec. 31 2018 | Dec. 31 2019 | Dec. 31 2018 | Dec. 31 2019 | Dec. 31 2018 | Dec. 31 2019 | Dec. 31 2018 | Dec. 31 2019 | Dec. 31 2018 | Dec. 31 2019 |
| Con-struction segment | Specialist foundation engineering | Global | 39 | 39 | 3 | 3 | 1 | 1 | 1 | 1 | 44 | 44 |
| Equipment segment | Equipment manufacture and sales | Global | 25 | 28 | 4 | 4 | 3 | 3 | 2 | 2 | 34 | 37 |
| Resources segment | Water, environ-mental technol-ogy and natural resources | Global | 24 | 22 | 4 | 4 | 1 | 1 | 2 | 2 | 31 | 29 |
| 'Other' segment | Central services | Global | 4 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 4 |
| **Total** | | | **92** | **93** | **11** | **11** | **5** | **5** | **5** | **5** | **113** | **114** |

If the quality assessment of a new subsidiary finds that the company is immaterial in terms of the operative segment or Group, it may not be included in the consolidated financial statements.
Consequently, the non-inclusion of any one company must not result in material changes to the Group's net asset, financial and earnings position, nor must it mask any other materially relevant trends.
In a small number of cases, companies are fully consolidated into the consolidated financial statements of BAUER AG even though that company holds less than 50% of their share of voting rights. This is the result of state restrictions which stipulate that foreign investors may not hold more than 50% of the voting rights in domestic companies. In such cases BAUER AG makes use of so-called agency constructions, whereby more than 50% of the voting rights are commercially held in the company concerned, thus allowing for full consolidation.

Subsidiaries are included in the consolidated financial statements (fully consolidated) from the point at which control or the possibility of control is transferred to the Group. They are de-consolidated at the point when control ends. Companies of which BAUER AG is able, directly or indirectly, to exercise a significant influence on the said companies' financial and operating policy decisions (associated companies) are consolidated according to the equity method . As at December 31, 2019, this related to 5 companies (previous year: 5). Joint ventures were likewise consolidated according to the equity method.
The BAUER Group sometimes holds a share of more than 50 per cent in companies which are considered to be joint ventures or associated companies. This evaluation is based on contract design which is individual to the company and which excludes control from the perspective of the BAUER Group.
The main subgroups and companies included in the consolidated financial statements are listed in the Major Participations section. The disclosures in accordance with section 313 (2) of the HGB are grouped in a separate list of holdings. This will be published as part of the Notes to the financial statements of BAUER Aktiengesellschaft in the electronic version of the official Gazette Bundesanzeiger of the Federal Republic of Germany. Subsidiaries with differing balance sheet dates compile interim financial statements as per the Group date for the consolidated financial statements. BAUER Corporate Services Private Limited, BAUER Equipment India Private Limited and BAUER Specialized Foundation Contractor India Private Limited prepare their annual financial statements for March 31 due to local statutory requirements.

**Application of section 264 (3) of the HGB**

Section 264 (3) of the HGB has been exercised for the following companies:

BAUER Maschinen GmbH
PRAKLA Bohrtechnik GmbH
KLEMM Bohrtechnik GmbH
EURODRILL GmbH
RTG Rammtechnik GmbH
GWE pumpenboese GmbH
BAUER Resources GmbH
ESAU & HUEBER GmbH
ESAU & HUEBER Verwaltungs GmbH
SCHACHTBAU NORDHAUSEN Stahlbau GmbH
SCHACHTBAU NORDHAUSEN Bau GmbH
SPESA Spezialbau und Sanierung GmbH

**Application of section 291 (1) of the HGB**

BAUER Maschinen GmbH, BAUER Spezialtiefbau GmbH, BAUER Resources GmbH and PRAKLA Bohrtechnik GmbH have utilized the exemption option under section 291 (1) of the HGB and have not prepared consolidated financial statements or a management report.

**Changes at subsidiaries**

**Construction segment**

In the fiscal year of 2019, there were no changes in the 'Construction' segment.

**Equipment segment**

In the first quarter of the 2019 financial year, P.T. BAUER Equipment Indonesia and BAUER Technologies (Thailand) Co., Ltd. and, in the fourth quarter, BAUER Machines SAS, were included in the consolidated financial statements for the first time. There were no other changes in the 'Equipment' segment.
The acquisition of ESAU & HUEBER GmbH from BAUER Resources GmbH would have various effects on the prior year figures of the Group segment reporting. The main increases in the Machinery segment would be an increase of kEUR 8,745 in third-party sales, kEUR 430 in depreciation and amortisation, kEUR 1,010 in segment assets and kEUR 5,875 in segment liabilities. The earnings after tax would have been changed by kEUR -4,366. The sales revenues with third parties mainly represent sales revenues over a period of time. Consolidation effects were not taken into account for reasons of materiality. In the Resources segment, the opposite effects occur accordingly.

**Resources segment**

In the first quarter of the 2019 financial year, 100% of the shares in ESAU & HUEBER GmbH was sold to BAUER Maschinen GmbH and, at the same time, ESAU & HUEBER GmbH was renamed to ESAU & HUEBER Verwaltungs GmbH.
The sale also represents a change from the Resources segment to the Equipment segment.
In addition, BAUER MEXICO S.A. DE C.V. and BAUER Ambiente S.r.l. were deconsolidated as a result of the discontinuation of business operations. The deconsolidation did not have a significant impact on the net assets, financial situation and earnings position of the BAUER Group. As a result, disclosures in accordance IFRS 10 and IAS 7 were not made.

**Other segment**

In the fiscal year of 2019, there were no changes in the 'Other' segment.

Effects from initial consolidation and deconsolidation are subsumed under changes in the scope of consolidation in the following notes.

## 3. CONSOLIDATION POLICIES

The assets and liabilities of the German and foreign companies included in the consolidated financial statements are stated according to the uniform accounting policies applicable throughout the BAUER Group. Mutual receivables and liabilities as well as expenses and income between consolidated companies are eliminated. Group inventories and fixed assets are adjusted by existing interim results. Consolidation affecting net income is subject to deferral of taxes, with deferred tax assets and liabilities being offset against each other provided the payment period and tax creditor are the same. In respect of subsidiaries consolidated for the first time, the identifiable assets, liabilities and contingent liabilities of the acquired companies were recorded at their applicable fair values at the time of purchase. Goodwill occurring on initial consolidation is capitalized and subjected to a yearly impairment test; an excess of the net fair value of the acquired net assets over cost is recognized in the income statement immediately at the time of initial consolidation in accordance with IFRS 3. Consolidation according to the equity method is subject to the same principles. If the pro-rata loss in an associated company is equal to or greater than the carrying amount of the participating interest, no further losses are recognized, unless a consolidated Group company has entered into obligations or made payments on behalf of the associated company.

Non-controlling interests are a part of earnings and net assets which is not allocable to the Group. Earnings pertaining to these interests are therefore recognized separately from the share in earnings allocable to the shareholders of the parent company in the income statement. In the balance sheet, these earnings are recognized in equity, separately from the equity allocable to the shareholders of the parent company. The purchase of non-controlling interests and changes to the investment quota of the parent company in a subsidiary which do not lead to a loss of control are reported as equity transactions in the balance sheet.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the consolidated financial statements, assumptions and estimates must be made which influence the amounts and recognition of assets and liabilities, income and expenses recorded, as well as contingent liabilities. Assumptions and estimates are primarily used for determining the useful life of fixed assets, discounted cash flows during impairment tests, and assessing the feasibility of deferred tax assets, recoverability of receivables and the recognition of provisions for legal proceedings, pensions (actuarial estimates) and other benefit commitments, taxes, warranties and guaranties. The actual values may differ from the estimates made. In addition, assumptions and estimates have to be made for expected credit losses in connection with financial assets, the extent of control over a subsidiary and leasing transactions (terms, interest rates, lease payments). The actual values may differ from the estimates.

## 5. PRINCIPLE ACCOUNTING POLICIES

### 5.1. Changes in accounting policies

It was obligatory to apply the following standards and interpretations for the first time in the financial year:

**IFRS 16, “Leasing relationships”**

IFRS 16 will replace IAS 17 - Leases, IFRIC 4 - Establishing if an agreement contains a leasing relationship, SIC 15 - Operating leasing relationships - Incentives as well as SIC 27 - Assessment of the profitability of transactions in the legal form of leasing relationships. The new standard does not undertake any classification in finance and operating leasing relationships for lessees, instead basically all leasing relationships are included in the balance sheet in the form of usage rights and leasing liabilities.

During the term of the lease, the right of use is to be written off and the leasing liability updated using the effective interest method and taking the leasing payments into consideration.

The BAUER Group applies the modified retrospective method when implementing IFRS 16 as at January 1, 2019.

Accordingly, the reassignments and adjustments resulting from the new regulations are recorded in the opening balance sheet as at January 1, 2019. An adjustment of the comparative figures for the previous year is not carried out.
Assets and liabilities arising from leasing relationships are recorded at present value for the first-time recognition.
The BAUER Group creates leasing liabilities for leasing relationships previous classified as operating leasing relationships under IAS 17.

The leasing liability includes the present value of the following leasing payments:

- Fixed payments (including de facto fixed payments, less any leasing incentives which are due
- Variable leasing payments which are tied to an index or interest rate, initially evaluated with the index or interest rate to the provision date
- Expected Group payments from the use of residual value guarantees
- The exercise price of a purchase option, of which the exercise by the BAUER Group is reasonably certain
- Fines in connection with the termination of a leasing relationship insofar as the term provides for the respective termination option being exercised by the BAUER Group
- Furthermore, in the evaluation of the leasing liabilities, leasing payments are also taken into consideration on the basis of the reasonably certain use of extension options

The simplification provision of one discount rate on a portfolio was applied to leasing contracts of a similar nature. The discounting took place using the incremental borrowing rate. The weighted average incremental borrowing rate was 4.53%. However, in the event that an implied interest rate is identifiable, the leasing payments are discounted by the interest rate upon which the leasing relationship is based.
The lease installments are divided into principal and interest payments. The interest part is recognized in the income statement throughout the term of the leasing relationship so that a constant periodic interest rate on the remaining amount of the liability results for each period.

Rights of use are evaluated at acquisition costs, which are comprised as follows:

- the amount of the initial valuation of the leasing liability
- all leasing payments made at or before the provision, less any leasing incentives which have been received
- all initial direct costs incurred by the lessee and
- estimated costs which are incurred by the lessee in the event of the demolition or removal of the underlying asset, in the event of the reconstruction of the location at which the asset is based or in the event of the transition of the underlying asset to the condition required under the leasing agreement.

In the subsequent measurement, the right of use will be recorded less cumulative depreciation and, if relevant, taking into consideration impairments adjusted by each new evaluation of the leasing liability set out in paragraph 16.36 (c). There were no debiting leasing relationships at the point in time of the first application of IFRS 16, meaning that a valuation allowance of the rights of use in this regard was not necessary.

The rights of use set on the balance sheet are highlighted in those balance sheet positions in which the assets that form the basis of the leasing contract would have been if they were the property of the BAUER Group. Therefore, the rights of use are primarily designated to property, plant and equipment on the cutoff date under the item of non-current assets.
Rights of use are amortized using the straight-line method over the shorter of both periods of time out of the usage period and the term of the leasing contract. If the exercise of a purchase option is reasonably certain from the perspective of the BAUER Group, the depreciation takes place over the usage period of the underlying asset.

On the balance sheet date, the necessary adjustments to the right of use and liabilities are also to be checked within the framework of the subsequent evaluations.
Adjustments resulting from reassessment of the assumptions which have been made or a change in the contract are necessary, and may also lead to changes to the contract.
The reassessment of the assumptions which have been made relates to adjustments to payment expectations, the discounting rate to be applied relating to the remaining term if the changes are based on a change to the term or the assessment of the probability of a purchase option being exercised, as well as the changed expectation relating to the exercise of an extension or termination option.
However, the original interest which was applied is retained if, for example, expected payments are changed.
The leasing liability is reassessed with the changed parameters and accounted for on the balance sheet with this amount.
The adjustment amount on the leasing liability incurred in this manner is recognized in full against the right of use. This means that, in principle, this is purely a balance sheet recording with no effect on profit and loss. The assessment of the adjustment with an effect on profit and loss only takes place for the first time in subsequent years via reduced or increased depreciations on the value in use.

Application simplifications exist for short-term and low value leasing relationships in accordance with IFRS 16.60. These are used by the BAUER Group and there is therefore no application of a right of use or liability for such leasing relationships. The lease payments in this regard are recorded as expenditure on the income statement without any changes. Leasing contracts with a term of up to 12 months are deemed short-term leasing relationships. Low-value assets include, for example, IT equipment and small items of office furniture, where the price for the new item is less than kEUR 5. However, an exact division between short-term and low-value leases is not possible.
At the point in time of the first application, lease agreements of which the lease term ends before January 1, 2020 are classified as a short-term leasing relationship regardless of the leasing contract start date. Furthermore, at the point in time of the initial application for existing contracts, no reassessment to that effect was carried out to assess whether the contracts contain a leasing relationship according to the criteria of IFRS 16 or not. This means that the estimate made according to IAS 17 is retained. Existing contracts which were not classified as leasing relationships under IAS 17 or IFRIC 4, will continue to not be handled as leasing relationships.

Likewise, the simplifications were selected for the non-consideration of initial direct costs in the evaluation of rights of use at the point in time of the first application and the retrospective provision of the term of leasing relationships for contracts with extension or termination options (use of hindsight).

The BAUER Group rents various office and warehouse buildings, as well as technical equipment and vehicles.
Contracts may include both leasing and non-leasing components.
With the exception of property leasing relationships, the BAUER Group exercises its voting rights to collate leasing and non-leasing relationships and record these in a uniform manner on the balance sheet as leasing relationships.
Furthermore, the accounting provisions set out in IFRS 16 are not applied to leasing relationships which relate to intangible assets. In principle, IAS 38 is still applied to leasing relationships for intangible assets.

The sale-and-lease-back transactions are primarily of a short-term nature and are not of key importance for the BAUER Group in 2019, like income from subleasing relationships.

The lessor balancing corresponds to the former provisions of IAS 17 for the most part.
The lessor must also continue to carry out classification in financing and operating leasing relationships on the basis of dissemination of the opportunities and risks arising from the asset value. Accounting adjustments for assets let within the framework of operating leasing relationships for which the Group acts as the lessor were not necessary due to the initial application of IFRS 16.

For leasing relationships previously classified as financing leasing relationships, the carrying amount of the leased asset according to IAS 17 right before the first application of IFRS 16 and the carrying amount of the leasing liability according to IAS 17 are used as the first carrying amount of the right of use and the liability arising from leasing contracts according to IFRS 16. The evaluation principles set out in IFRS 16 will only be applied afterwards.
At the point in time of the first application of IFRS 16 on January 1, 2019, the following effects arise with regard to rights of use and liabilities from leasing contracts:

| in kEUR | |
|---|---|
| Obligations arising from operating leasing relationships as at December 31, 2018 * | 28,566 |
| Discounted with the lessor's incremental borrowing rate at the point in time of the first application of IFRS 16 | 26,333 |
| plus present value of conditional rent payments | 729 |
| plus retrospective determination of the term with an extension or termination option | 1,052 |
| less short-term leasing relationships and assets with a low value which are recorded as an expenditure in linear terms | 5,593 |
| plus balanced liabilities arising from financing leasing as at December 31, 2018 | 30,796 |
| **Balanced liabilities arising from leasing contracts on January 1, 2019** | **53,317** |

* The difference between existing obligations arising from operating leasing relationships and minimum leasing payments arising from operating leasing relationships in 2018 results from the reassessment of extension and termination options.

The rights of use applied relate to the asset types set out below and influence the following items on the balance sheet as set out below:

| in kEUR | Dec. 31, 2018 * | Jan. 1, 2019 | Dec. 31, 2019 |
|---|---|---|---|
| Land and Buildings | 0 | 13,692 | 17,888 |
| Technical equipment and machinery | 28,002 | 34,304 | 38,312 |
| Other equipment, factory and office equipment | 7,534 | 10,121 | 10,670 |
| **Total** | **35,536** | **58,117** | **66,870** |

* In the previous year, the BAUER Group only recorded leasing assets and leasing liabilities for leasing relationships classified as financing leasing relationships under IAS 17. The corresponding assets were listed under property, plant and equipment and liabilities from finance lease contracts.

Capitalized advance payments and delimited liabilities were offset against the rights of use. From the rights of use, as at December 31, 2018, kEUR 35,536 was recorded on the balance sheet within the framework of financing leasing relationships. On the other hand, liabilities from financing leasing contracts amounted to kEUR 30,796.
The allocations to the rights of use amount of kEUR 22,581 as at January 1, 2019.

The transition of liabilities from finance lease contracts on December 31, 2018 to liabilities from leasing contracts in accordance with IFRS 16 (incl. finance lease contracts on December 31, 2018) is organized as follows as at January 1, 2019:

| in kEUR | Dec. 31, 2018 | Jan. 1, 2019 | Dec. 31, 2019 |
|---|---|---|---|
| Liabilities from lease agreements | 30,796 | 53,317 | 58,637 |

No effects resulted from the first application in terms of equity.

Leasing payments for low-value and short-term leasing relationships are not included in the liabilities arising from leasing contracts in the opening balance.

In contrast to the previous approach, using which the expenses for operating leasing relationships were reflected in the EBITDA in full, according to IFRS 16, the depreciations on the rights of use and the interest expense are assigned to the earnings after tax. The depreciations from rights of use in the financial year amounted to kEUR 3,444 for land and buildings (previous year: 0), for technical equipment and machinery, it amounted to kEUR 10,411 (previous year: 7,359) and for other equipment, factory and office equipment it amounted to kEUR 3,377 (previous year: 1,532). The interest expense from leasing contracts in the financial year amounted to kEUR 2,032 (previous year: 1,024).
No expenses arising from variable leasing payments are included in the income statement which are not included in the leasing liabilities.

At the same time, the change in the recording of expenses from operating leasing relationships in the cash flow statement for the 2019 annual financial statements in comparison with the previous year shows an improvement in the capital flow on the basis of current business activities by kEUR 2,964. This is set against a worsening of the cash flow from financing activities by the same amount. The entire cash outflow for leasing relationships comprises kEUR 22,047.

**Effects on segment details by field of business**

The segment assets and liabilities increased as a consequence of the change in the accounting method as follows by December 31, 2019:

| in kEUR | Segment assets | Segment liabilities |
|---|---|---|
| Construction | 32,734 | 24,640 |
| Equipment | 25,921 | 25,998 |
| Resources | 7,281 | 7,060 |
| Other | 934 | 939 |
| **Total** | **66,870** | **58,637** |

**IFRIC 23, Uncertainty over Income Tax Treatments**

The interpretation explains how deferred and current income tax claims and liabilities are to be reported and evaluated in the event of uncertainties regarding the tax implications.
Although there are no new disclosure obligations, the companies are reminded of the general obligation to provide information about assessments and estimates when preparing the statements.

**Amendments to IFRS 9 "Prepayment features with negative compensation"**

The changes made to IFRS 9 in October 2017 allow companies to evaluate certain financial assets with negative compensation in the event of early repayment at amortized acquisition costs. These assets, which include some credit and debt instruments, would otherwise be evaluated at the applicable fair value with an effect on the income statement.
In order to be considered for evaluation as amortized acquisition costs, the negative compensation must constitute appropriate remuneration for the early termination of the contract and the financial asset be assigned to the "hold" business model.

**Annual improvements to IFRS, cycle 2015 - 2017**

As part of the process of making small improvements to standards and interpretations, the published “Annual improvements to IFRS, cycle 2015 - 2017” apply to the following standards:

- IFRS 3, “Business Combinations”
- IFRS 11 “Joint Arrangements”
- IAS 12 “Income Taxes”
- IAS 23 “Borrowing costs”

The directive on the adoption of the amendments by the EU (endorsement) was published in the Official Journal of the EU on March 15, 2019.

**Amendments to IAS 28, “Long-term Investments in Associates and Joint Ventures”**

The changes clarify the accounting of long-term investments which are assigned to profitability according to the net investment in a company accounted for using the equity method, but which are not evaluated using the equity method.
The reporting and evaluation of these shares takes place according to IFRS 9.
Thus, the calculation of any impairments for these shares takes place according to the rules set out in IFRS 9. However, in the IAS 28.8 regulation, such shares are still to be taken into consideration with regard to the value of participations in the loss allocation within the framework of the equity method.
The directive on the adoption of the amendments by the EU (endorsement) was published in the Official Journal of the EU on February 11, 2019.

**Amendments to IAS 19, “Plan amendment, reduction or compensation”**

The changes to IAS 19 “Employee Benefits” contain provisions on accounting for plan amendments, reductions and compensation. According to this, companies must:

- use updated actuarial assumptions and the net debt (or asset) at the point in time of the intervention to determine the current service expenses and net interest for the remaining time in the reporting period after a plan amendment, reduction or compensation.
- record any reductions in a debit balance as part of the service expenses to be accounted for subsequently or as income or loss from compensation in a manner which affects the net income, even if this debit balance was not previously disclosed as a result of the effect of the upper asset limit.
- record changes to the upper asset limit in “Other comprehensive income”.

The directive on the adoption of the regulations by the EU (endorsement) was published in the Official Journal of the EU on March 14, 2019.
Moreover, the IASB and the IFRIC have adopted further standards, interpretations and amendments, as listed below, some of which were not yet binding, or had not yet been recognized by the EU, in financial year 2019. The BAUER Group had not implemented early application of these standards by December 31, 2019.
We plan to adopt these standards as soon as they are recognized and adopted by the EU. BAUER AG does not expect any of the other standards to have any material impact on the consolidated financial statements.

| Standard/Interpretation/Amendment | To be applied as of financial year | Endorsement takes place |
|---|---|---|
| Changes to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies...” | 2020 | Yes |
| Revised IFRS framework concept | 2020 | Yes |
| Changes to IFRS 10 and IAS 18 | n/a | No |
| Amendments to IFRS 3, Definition of business activities | 2020 | No |
| IFRS 17, insurance contracts | 2021 | No |

With changes to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform), it is expected that the effects on the IFRS financial statements arising from the IBOR Reform will be reduced. Within the framework of the changes, designated hedge accounting transactions which existed at the start of the reporting period or were designated after this should also continue to remain effective even in the event of the discontinuation of existing reference interest rates. The BAUER Group will take advantage of this relief as early as 2019. We refer to the “Interest rate risks” section with regard to further disclosures.

### 5.2. Significant accounting policies

**Foreign currency translation**

Foreign currency transactions are translated in the financial statements of BAUER AG and the consolidated subsidiaries at the rates applying on the dates of the transactions. The financial statements of the foreign companies belonging to the BAUER Group are translated into euros according to the functional currency concept. Accordingly, assets and liabilities are translated at the rate applying on the balance sheet date and the income statement items at the average rate. The resulting differences from the currency translation are recorded as other income and recognized cumulatively in the provision for currency translation losses stated under equity until the foreign operations are sold.

The following table shows the exchange rates applied for the currency conversion:

| 1 EUR corresponds to | | Annual average | | Balance sheet date value | |
|---|---|---|---|---|---|
| | | 2018 | 2019 | 2018 | 2019 |
| Egypt | EGP | 21.03629 | 18.82985 | 20.47700 | 18.01000 |
| Argentina | ARS | 32.98672 | 53.92740 | 43.04640 | 67.19490 |
| Australia | AUD | 1.57967 | 1.61091 | 1.62200 | 1.59950 |
| Bulgaria | BGL | 1.95559 | 1.95580 | 1.95589 | 1.95580 |
| Chile | CLP | 757.05286 | 787.10502 | 793.45000 | 843.91000 |
| China | CNY | 7.80807 | 7.73588 | 7.87510 | 7.82050 |
| Georgia | GEL | 2.98987 | 3.15553 | 3.06920 | 3.21120 |
| Ghana | GHS | 5.51905 | 5.99909 | 5.52580 | 6.29880 |
| Great Britain | GBP | 0.88470 | 0.87783 | 0.89453 | 0.85080 |
| Hong Kong | HKD | 9.25593 | 8.77145 | 8.96750 | 8.74730 |
| India | INR | 80.73323 | 78.83808 | 79.72980 | 80.18700 |
| Indonesia | IDR | 16,803.22235 | 15,834.37327 | 16.50000 | 15,595.60000 |
| Japan | JPY | 130.39588 | 122.00221 | 125.85000 | 121.94000 |
| Jordan | JOD | 0.83788 | 0.79363 | 0.81130 | 0.79610 |
| Canada | CAD | 1.52936 | 1.48538 | 1.56050 | 1.45980 |
| Qatar | QAR | 4.19155 | 4.07674 | 4.16980 | 4.08800 |
| Lebanon | LBP | 1,787.07882 | 1,691.61294 | 1.727.20000 | 1,697.90000 |
| Malaysia | MYR | 4.76336 | 4.63738 | 4.73170 | 4.59530 |
| Morocco | MAD | 11.08154 | 10.76664 | 10.94000 | 10.73960 |
| Mexico | MXP | 22.70542 | 21.22020 | 22.49210 | 21.55699 |
| New Zealand | NZD | 1.70645 | 1.69982 | 1.70560 | 1.66530 |
| Oman | OMR | 0.45459 | 0.43096 | 0.44016 | 0.43201 |
| Panama | PAB | 1.18095 | 1.11958 | 1.14530 | 1.12280 |
| Peru | PEN | 3.82819 | 3.73670 | 3.87040 | 3.72370 |
| Philippines | PHP | 62.21013 | 57.98312 | 60.11300 | 56.90000 |
| Poland | PLN | 4.26149 | 4.29763 | 4.30140 | 4.25680 |
| Romania | RON | 4.65401 | 4.74528 | 4.66350 | 4.78300 |
| Russia | RUB | 74.04159 | 72.45296 | 79.71530 | 69.95630 |
| Saudi Arabia | SAR | 4.42854 | 4.19831 | 4.28850 | 4.21010 |
| Sweden | SEK | 10.25825 | 10.58826 | 10.25480 | 10.44680 |
| Switzerland | CHF | 1.15495 | 1.11234 | 1.12690 | 1.08540 |
| Singapore | SGD | 1.59261 | 1.52729 | 1.55910 | 1.51110 |
| South Africa | ZAR | 15.61856 | 16.17619 | 16.45940 | 15.77730 |
| Taiwan | TWD | 35.59397 | 34.60970 | 35.02700 | 33.57970 |
| Thailand | THB | 38.16436 | 34.75352 | 37.05200 | 33.41500 |
| Turkey | TRY | 5.70766 | 6.35534 | 6.05880 | 6.68430 |
| Hungary | HUF | 318.88968 | 325.30448 | 320.98000 | 330.53000 |
| United Arab Emirates | AED | 4.33698 | 4.11170 | 4.19950 | 4.12460 |
| United States of America | USD | 1.18095 | 1.11948 | 1.14500 | 1.12340 |
| Vietnam | VND | 27,185.04313 | 26,005.41177 | 26,564.00000 | 26,018.00000 |

**Intangible assets**

Intangible assets are capitalized at acquisition costs and amortized according to the straight-line method over the projected useful life of 3 to 10 years.

Assets which have an indefinite useful life, such as goodwill, are not subjected to scheduled amortization but are impairment tested each year, or when relevant indications arise. The goodwill is the amount by which the acquisition costs of the company acquisition exceed the fair value of the Group's shares in the net assets of the acquired entity at the date of acquisition. Goodwill created by company acquisition is recognized under "Intangible assets." Goodwill resulting from the purchase of an associated company is included in the carrying amount of investments in associated companies and consequently is not impairment-tested separately, but within the overall carrying amount. The recognized goodwill undergoes an annual impairment test is recognized at its original acquisition costs less accumulated write-downs. Write-ups are impermissible. Income and losses from the sale of a company comprise the carrying amount of goodwill allocated to the company to be disposed of.

Assets subject to scheduled depreciation or amortization are tested for impairment if any events or changes of circumstances indicate that the carrying amount may no longer be achievable.

Impairment in the amount of the carrying amount exceeding the attainable amount is recognized. The attainable amount is the higher amount of the applicable fair value of the asset less selling costs and the value in use. For the impairment test, assets are grouped at the lowest level for which cash flows can be separately identified (cash-generating units). With the exception of goodwill, a test is performed on each balance sheet date in respect of non-cash assets for which in the past an impairment was recognized as to whether a value recovery adjustment is required.

Research and development costs are generally charged as expenditure in the financial year in which they occurred, in accordance with IAS 38. Exceptions to this are certain development costs which are capitalized where it is probable that a future economic benefit will be drawn from the development project and the costs incurred can be measured reliably. In addition, the following criteria in accordance with IAS 38.57 must be met:

- Technical feasibility of completion of the intangible asset so that it will be available for use or sale
- Intention to complete the intangible asset and to use or sell it
- Ability to use or sell the intangible asset
- Evidence of how the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The manufacturing costs include all costs directly attributable to the development process as well as appropriate portions of development-related overheads. The assets in development are subjected to an annual impairment test and valued at their original acquisition or manufacturing costs less cumulative depreciation. Depreciation is undertaken according to the straight-line method as from start of production over the intended term of the developed models. The projected useful life is between 3 and 6 years. Depreciation losses on intangible assets are recognized to the higher amount out of the value in use or net realizable value. If the prerequisites for an impairment no longer exist, reversals of impairment - except for goodwill - are undertaken.

**Property, plant and equipment**

According to IAS 16, property, plant and equipment is valued at the acquisition or manufacturing costs, less scheduled straight-line depreciation based on the pro-rata temporis method, unless in exceptional cases some other method of depreciation more effectively reflects the usage. The following table provides an overview of the useful lives:

| Asset | Economic useful life |
|---|---|
| Land | Unlimited |
| Buildings and other structures | 3 to 60 years |
| Technical equipment and machinery | 3 to 21 years |
| Other equipment, factory and office equipment | 2 to 21 years |

Depreciation losses on property, plant and equipment are recognized in accordance with IAS 36 where the value in use or net selling price of the asset concerned has fallen below the carrying amount. If the reasons for a depreciation recognized in previous years no longer exist, a corresponding reversal of impairment is applied.

Both impairment losses and scheduled depreciation are recognized under the “Depreciation of fixed assets” item. The level of depreciation losses is explained in accordance with IAS 36 under “Non-current assets.”

**Leasing**

The BAUER Group acts as both a lessee and a lessor.

**a) Accounting for lessee transactions**

A leasing agreement is a contract which transfers the right to control the use of an identified asset for a defined period of time in return for the payment of a fee.

In principle, a lessee must capitalize a right of use and recognize a leasing liability for all leasing relationships. During the initial application, the leasing liability is recorded in the amount of the present value of the leasing payments not yet made at the point in time of provision and which will become due during the term of the leasing relationship. The term of the leasing relationship is determined taking extension or termination options into consideration insofar as the prerequisites of IFRS 16 for reasonable certainty with regard to exercise or non-exercise have not been met. The discounting takes place using the incremental borrowing rate. In the subsequent evaluation, the carrying amount of the leasing liability is increased by the interest expense and reduced by the leasing payments which have been made. The right of use is evaluated at the amount of the acquisition costs during the initial application. In the subsequent measurement, the right of use will be recorded less cumulative depreciation and, if relevant, taking into consideration impairments. In principle, the right of use is amortized using the straight-line method for the term of the leasing relationship. If the ownership of the underlying asset is transferred to the lessee at the end of the term of the leasing agreement or if the acquisition costs for the right of use contain payments for a purchase option, the right of use is amortized over the usage period of the underlying asset.

The BAUER Group uses the simplification provisions for low-value assets with a new item price of less than kEUR 5 and for short-term leasing relationships with a term of under 12 months. Leasing payments arising from the leasing relationships will be recognized as expenditure using the straight-line method over the term of the leasing relationship. In the previous year, the accounting for the leasing relationships took place according to IAS 17.

**b) Accounting for lessor transactions**

A lease is an agreement whereby the lessor assigns to the lessee the right to use an asset for a specific period of time against a payment or series of payments.
These leasing relationships are either accounted for as financing leasing relationships or as operating leasing relationships. If the terms of the leasing relationship essentially transfer all the risks and opportunities associated with the ownership to the lessee, the contract is classified as a financing leasing contract. If this is not the case, it is classified as an operating leasing relationship. Sales revenues arising from operating leasing relationships are recorded using the straight-line method over the term of the leasing relationship. In the BAUER Group, these leases are usually of a very short-term nature and cover a period of a few months. These are reported under sales revenues at a point of time.

The lessor's accounting according to IFRS 16 is mostly the same as accounting according to IAS 17 and does not have any significant effects on the BAUER Group.

**Government grants**

Government grants for assets including non-monetary benefits at fair value are recognized on the balance sheet as accruals on the Equity and Liabilities side (Investment allowance) or, on determining the carrying amount of the asset, are deducted from the Assets side (Invest subsidy).

**Business combinations**

Accounting for acquisitions of subsidiaries is carried out in accordance with IFRS 3 based on the acquisition method. The acquisition costs of the purchase correspond to the fair value of the assets contributed, the equity instruments issued and the liabilities created and/or transferred at the transaction date. Assets, liabilities and contingent liabilities identifiable in the course of a business combination are measured on initial consolidation at their fair values at the date of acquisition. The amount by which the acquisition costs of the purchase exceed the Group's share of the net assets measured at their fair value is stated as goodwill. The non-controlling interests are valued either at the acquisition costs (Partial Goodwill method) or at fair value (Full Goodwill method). The available option can be exercised on a case-by-case basis. BAUER Group policy is to apply the Partial Goodwill method. If the acquisition costs are less than the net assets of the acquired subsidiary measured at their fair value, the difference is recognized directly in the income statement. Transaction costs directly linked to a business combination are recognized in the income statement. In the event of successive company acquisitions, the differences between the carrying amount and the applicable fair value of the shares previously held are recognized as affecting net income at the date of acquisition. Existing contracts with the acquired entity at the date of acquisition, except those under the terms of IFRS 16 and IFRIC 4, are analyzed and reclassified where appropriate.

**Borrowing costs**

Borrowing costs linked directly to the purchase, construction or production of qualifying assets in accordance with IAS 23 are included in the acquisition or manufacturing costs of the asset in question for the period until commissioning of the asset. No borrowing costs were capitalized in the financial and previous year. Testing as to whether an asset is a qualifying asset is carried out according to internally stipulated materiality limits for projects and equipment. If the said materiality limits are exceeded, borrowing costs for qualified assets are capitalized. Other financing costs are recognized as ongoing expenditure under "Financial expenses."

**Investments accounted for using the equity method**

**Associated companies**

According to IAS 28, an associated company is any entity over which the Group has significant influence, though not control. This routinely means a share of voting rights of between 20% and 50%.

Participations in associated companies are valued at-equity and recognized initially at their acquisition costs. The Group's shares in associated companies include the goodwill created by the purchase (less cumulative impairment).

The Group's share in the profits and losses of associated companies is reported in the income statement as from the time of purchase. The shares in the other comprehensive income of the associated company are also reported proportionally in the Group's other income, broken down by amounts reclassified to the income statement in a later period and amounts that are not reclassified. Cumulative changes after purchase are set off against the carrying amount of the investment. If the Group's share in the losses of an associated company is equal to or more than the Group's shareholding in the said associate, including other unsecured receivables, the Group recognizes no additional losses, unless it has entered into obligations or made payments on behalf of the associated company.

Non-realized income from transactions between Group companies and associated companies are eliminated according to the Group's share in the associated company. Non-realized losses are likewise eliminated, unless the transaction implies an impairment of the transferred asset.

In the event of indicators that would suggest a potential impairment, an impairment test in accordance with IAS 36 is carried out on the total equity carrying amount. If the achievable amount drops below the carrying amount of a financial asset accounted for using the equity method, an impairment in the amount of the difference is carried out. Subsequent revaluations are recognized in the income statement.

**Joint ventures**

Joint ventures are joint arrangements in which the parties exercise joint control and have claims to the net assets of the arrangement. The contractually agreed joint control of the arrangement jointly manages the venture. This is only the case if decisions regarding the material activities require the unanimous approval of the parties involved in the joint control.Joint arrangements recognized using the equity method include joint ventures as well as the Arbeitsgemeinschaften ("ARGE") consortia specific to Germany, with there being a difference between provision consortia and umbrella consortia. Both consortia are subject to the regulations of IFRS 11.

Assets are provided for and invoiced to provision consortia in the form of personnel, material or equipment. The earnings generated by the consortia are recognized in the balance sheet using the equity method, in accordance with IAS 28. They are recognized in the balance sheet as investments accounted for using the equity method and as income from investments accounted for using the equity method in the income statement.

An umbrella consortium, on the other hand, is always recognized without any effect on profit and loss. The compensation claims between umbrella consortium and client are identical to the compensation claims between the individual consortia and the umbrella consortium. The umbrella consortium transfers all payments received from the client in full to the individual consortia. BAUER as a partner in an umbrella consortium accounts for the assets at its disposal and the liabilities it itself incurs, as well as its own expenses, and recognizes the income from such activities on a pro-rata basis in its sales revenues.

Ongoing settlements from and to consortia are recognized in trade receivables and trade payables.

**Joint operations**

Joint operations are joint arrangements in which the parties assume joint control and hold rights in the assets as well as obligations with regard to the liabilities of the arrangement. The contractually agreed joint control of the arrangement jointly manages the venture. This is only the case if decisions regarding the material activities require the unanimous approval of the parties involved in the joint control.

Any operations performed by the BAUER Group as part of a joint operation relating to its share in the joint operation are recognized in the following items:
- Its assets, including its share in jointly held assets
- Its liabilities, including its share in jointly incurred liabilities
- Its income from the sale of its share in the products or revenue from the joint operation
- Its share in income from the sale of products or revenue from the joint operation, and
- Its expenses, including its share in any jointly incurred expenses

For transactions such as the acquisition of assets by a Group company, income and losses are recognized in the amount of the Group share of other joint operations only once the assets are sold to third parties.

**Financial instruments**

Financial instruments are contracts resulting in a financial asset for one company and a financial liability (or equity instrument) for another.
Under IFRS 9, financial assets are classified and measured as debt instruments, equity instruments in the sense of IAS 32, and derivatives.

**a) Primary financial instruments**

In the BAUER Group, primary financial instruments are assigned as financial assets to the following categories:
- “Evaluated at continued acquisition costs” or Amortized cost (AC)
- Fair Value through Profit or Loss (FVTPL)
- Debt instruments measured at fair value through other comprehensive income (FVOCI), whereby the cumulative gains and losses are reclassified to the income statement when the financial asset is disposed of (so-called recycling)
- Equity instruments measured at fair value through other comprehensive income (FVOCI), whereby gains and losses remain in other comprehensive income (without recycling)

The fair value option for financial assets or financial liabilities under IFRS 9 was not exercised.

As a general rule, the first accounting takes place when the BAUER Group becomes a contractual party. When accounting for regular sales or purchases for the first time, the settlement date is relevant, i.e. the date on which the asset or liability is transferred to or by the BAUER Group. Financial assets and liabilities are initially recognized at fair value. The subsequent measurement of financial assets depends on the classification on the categories in accordance with the requirements of the IFRS 9 and takes place either under amortized acquisition costs or at the fair value. Financial liabilities, with the exception of derivatives, generally fall into the category of amortized costs.

Financial assets representing debt instruments within the meaning of IAS 32 are classified into the measurement categories of amortized cost (AC), fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) (with recycling) based on the underlying business model and the cash flow conditions of the financial asset being assessed. Financial assets are measured at amortized cost if they are held to collect contractual cash flows and these contractual cash flows are only the payments of interest and principal on the outstanding capital amount. Debt instruments that meet the cash flow conditions but are held within a business model that provides for both the collection of contractual payment flows and the disposal of financial assets are measured at fair value through other comprehensive income.

Financial assets and financial liabilities measured at amortized cost are initially recognized at fair value, including transaction costs directly attributable to the purchase of the financial asset or issue of the financial liability, and subsequently measured at continued acquisition costs using the effective interest method. The continued acquisition costs of a financial asset or liability is calculated, applying the effective interest rate method, from the historical cost less the repayments made, plus or less the cumulative amortization of any difference between the original amount and the amount repayable at the final due date, and also less impairment or plus value recovery adjustment.

For financial assets classified as “fair value through other comprehensive income,” (with recycling) the transaction costs directly attributable to the purchase are also recognized. However, changes in the carrying amount are recognized in other comprehensive income, with the exception of impairment gains or expenses recognized in profit or loss. The cumulative gains and losses previously recognized in equity are not reclassified at fair value in the income statement until the financial assets are disposed of. No financial assets measured at FVOCI, which are also debt instruments, were recognized in the past financial year.

Financial assets (debt instruments) that do not meet the criteria of amortized cost or fair value through other comprehensive income are classified as fair value through profit or loss. Income or losses on a debt instrument subsequently measured at FVTPL are recognized in profit or loss in the period in which they arise.

Cash and cash equivalents include bank balances and cash in hand and are measured at amortized cost because they are held within the business model with the aim of collecting the contractual cash flows and these contractual cash flows are only the payments of interest and principal. Cash and cash equivalents are also subject to the impairment provisions of IFRS 9. However, for reasons of immateriality, no valuation allowances are recorded.

At initial recognition, trade receivables are recorded at the transaction price. If they contain significant financing components, they are recognized at fair value. The BAUER Group holds trade receivables in order to collect contractual cash flows exclusively comprising payments of interest and principal on the outstanding capital amount, and subsequently measures them at amortized cost less valuation allowances. For receivables designated for a sale, the criteria for the business model “Sale” are present due to the factoring agreements and they are therefore to be assigned to the measurement category FVTPL. No impairments are to be recorded for these receivables as per IFRS 9.

As a general rule, financial assets representing equity instruments as per IAS 32 are generally to be classified as fair value through profit or loss and recognized in net income. At the same time, when equity instruments held are initially categorized, there is an irrevocable option to recognize changes to the fair value in other income with no effect on profit or loss. The BAUER Group exercises this option for participations affected by this because the recognition of income and losses from fair value changes in the income statement has no significance in terms of the development of the participations.
Once the participation is derecognized, the amounts recognized in other comprehensive income are not subsequently reclassified in the income statement. Dividends continue to be recognized in profit or loss unless the dividend is clearly a repayment of part of the cost of the equity instrument.

Impairments are recognized based on losses incurred as well as estimates of expected credit losses (expected loss model). Here, in line with IFRS 9, impairments for expected credit losses are recorded for all financial assets valued at amortized cost and for debt instruments valued at fair value through other comprehensive income. In order to determine the scope of the risk provision strategy, a three-stage model is envisaged as a general rule. Risk provision is either formed on the basis of expected 12-month credit losses (stage 1) or on the basis of credit losses expected over the contract period if the credit risk has worsened considerably since the initial statement (stage 2) or if impaired creditworthiness is established (stage 3). For trade receivables and for contract assets recorded as per IFRS 15, the simplified approach is used, which accounts for credit losses expected over the contract period as impairment.

To determine the expected credit losses and individual valuation allowances for financial assets with impaired creditworthiness, the BAUER Group uses internal credit assessments and external ratings. In the event of relevant circumstances specific to a certain case, individual and macroeconomic factors are also considered when determining the extent of the valuation allowances. A significant credit risk deterioration of the counterparty is assumed when its rating has fallen by a set number of grades. Credit ratings are derived from an active system of claims management with reference to the relevant credit history and from continuous monitoring of the creditworthiness of customers. Application of the arrears assumption of 30 days has no bearing in the industry due to, among other things, limitations in acknowledgment of performance.

The expected credit losses in relation to trade receivables and contract assets are measured using a “Provision Matrix,” which is based on historic defaults and future estimates. In light of the fact that the BAUER Group’s business activities are categorized into three different segments, Construction, Equipment and Resources, and the customer structure is therefore so diverse, trade receivables are summarized per segment and expected credit losses are calculated per portfolio for each segment.

An individual valuation allowance for financial assets with impaired creditworthiness is recognized when there are objective signs, such as missed payments or insolvencies. Default of a financial asset is determined based on an individual assessment according to which it cannot be reasonably assumed that the receivable is realizable in full or in part. If repayment cannot be reasonably expected, the financial asset is depreciated. With the depreciation of financial assets, the BAUER Group continues to take enforcement measures in an attempt to recover the overdue receivables.

Financial assets are derecognized if the rights to payments from the financial assets have expired or been transferred, and the Group has essentially transferred all risks and opportunities associated with ownership, or the essential opportunities and risks have neither been transferred nor retained, but right of disposal has been transferred. Financial liabilities are derecognized when they have been paid or the obligation has been extinguished.

Financial assets and liabilities are not offset unless the amounts can be legally settled at the current point in time and there is an intention to actually offset the assets.

**b) Derivative financial instruments**

A derivative is a financial instrument or contract within the area of applicability of IFRS 9, which cumulatively meets the following criteria:

- which varies in value based on changes in a specific interest rate, price of a financial instrument, raw material price, exchange rate, price or interest rate index, credit rating or credit index, or some similar variable, provided in the case of a non-financial variable the variable is not specific to one party to the contract;
- which requires no payment in return for acquisition, or one which, compared to other forms of contract expected to react similarly to changes in market conditions, is lower;
- which is settled at a later date.

In the BAUER Group, derivative financial instruments (interest swaps and foreign exchange forward contracts) are entered into solely to hedge against interest rate and currency risks. No deals are made without an underlying transaction.
In the BAUER Group, free-standing derivative financial instruments are assigned as financial assets to the following category:

- Fair Value through Profit or Loss (FVTPL)

Free-standing derivative financial instruments as financial liabilities are assigned to the following category:

- Fair Value through Profit or Loss (FVTPL)

In the case of financial assets or liabilities recognized at fair value through profit or loss, the initial fair-value valuation excludes the transaction costs, which must be recognized as expenditure in the income statement immediately. The first accounting takes place on the trading date. Value changes of derivatives that are not part of a cash flow hedge are considered with no impact on profit or loss under financial expense or earnings.

The free-standing derivative financial instruments in the “fair value through profit or loss” category include interest swaps and foreign exchange forward contracts.

In the case of derivatives which are designated as hedging instruments in hedge accounting, when hedging the risk of fluctuations in future cash flows (cash flow hedges) the effective portion of the gain or loss from a hedging instrument is initially recognized in the equity, taking into account deferred taxes, and is only recognized in the income statement when the underlying hedged transaction is realized. With regard to foreign exchange risk hedging, the BAUER Group designates only the cash component of the change of the fair value of the hedging transaction as a component of the cash flow hedge. The changes to the fair value occurring on the forward component and cross-currency basis spread (CCBS) component are included under other income in the reserve for hedging costs. The ineffective portion of the hedging transaction is recognized in the income statement immediately. The derivative financial instruments are stated at their market values as assets or liabilities. In the 2019 financial year, hedge accounting was used for cash flow hedges.

The market values of the derivatives are calculated on the basis of the conditions prevailing at the balance sheet date, such as interest or exchange rates, and applying recognized models, such as discount cash flow or option price models. The market values of the foreign exchange forward contracts are defined on the basis of current reference prices, taking into account forward premiums and discounts. The market values of the interest swaps are determined on the basis of discounted future payment flows, applying the market interest rates applicable to the respective residual terms of the derivatives.

**Inventories and advances received**

Inventories of finished goods and work in progress as well as stock for trade and raw materials and supplies, are measured at acquisition costs or manufacturing costs or at the lower net realizable value on the balance sheet date, in accordance with IAS 2. Down payments received for orders that do not represent construction contracts are listed as assets and openly deducted from inventories, provided manufacturing costs have already been incurred for the corresponding contract. All other down payments received are listed under Equity and Liabilities. The net realizable value is the estimated achievable selling price in the ordinary course of business less the estimated costs through to completion and the estimated necessary selling costs. Raw materials and supplies are valued mainly at floating average cost. Where the machinery and accessories classified as finished goods and stock for trade and primarily held for sale, are rented out for a short period as a secondary sales promotion measure, the following factors are considered in determining their net realizable values:

- Rental period
- Useful life of the machines
- Damage and inoperability

Where the net realizable value of previously written-down inventories has increased, corresponding value recovery adjustments are made. The manufacturing costs include all direct costs of the manufacturing process. The level of depreciation losses for impairment on inventories is explained in accordance with IAS 2 under “Inventories”.

**Construction contracts**

Customer-specific construction contracts are recognized according to the percentage of completion. The work performed, including the pro-rata share of income, is mainly shown under revenue on a period-by-period basis and according to the percentage of completion. The method that most reliably measures the services provided is used to determine the progress of a project. Both input- and output-based methods can be consistently applied to similar contractual obligations and similar circumstances. The BAUER Group mainly uses input-based methods (for example, cost-to-cost method of profit recognition according to the stage of completion), in particular for the determination of revenues from construction contracts. Revenue and contract modifications (contract amendments and claims) are recognized in accordance with IFRS 15 if it is highly probable that these contract modifications will not result in a significant cancellation. Tender costs are capitalized if it is probable that they can be invoiced and would not have been incurred if the contract had not been awarded. Contract performance costs incurred prior to the commencement of the contract are capitalized to the extent that settlement is expected and amortized over the contract term. The BAUER Group does not have any contracts in which the period until the transfer of the work owed to the customer represents a financing component. Consequently, the transaction price is not adjusted by the time value of money. The BAUER Group evaluates the restrictions at regular intervals as part of the estimate of the variable consideration to be included in the transaction price. The estimate is based on all information available as of the balance sheet date and experience from past projects. If the price of the change was not confirmed, an adjustment is made to the revenue reported, taking into account any restrictions.

The contracts are reported under contract assets or contract liabilities. Construction contracts are recognized as assets under contract assets if the cumulative work performed (order costs and contract profit/loss).

In general, works and service contracts include defect and warranty periods following completion of the project. These obligations are not considered separate performance obligations and are therefore included in the total cost of the contracts on an estimated basis. Where necessary, amounts are recognised under provisions in accordance with IAS 37.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash and sight deposits with an original term of no more than three months.

**Deferred taxes**

In accordance with IAS 12, deferred taxes are taken into account in respect of deviations between the valuations of assets and liabilities according to IFRS and their corresponding tax bases in the amount of the projected future tax charge or refund. In addition, deferred tax assets are recognized for future advantages arising from tax losses carried forward, provided it is probable that they will be realized.

Deferred taxes arising from temporary differences in connection with participations in subsidiaries and associated companies are recognized, unless the date of reversal of the temporary differences can be determined by the Group and it is likely that the temporary differences will not be reversed again in the foreseeable future because of this effect.

According to IAS 12.74, deferred tax assets and liabilities are to be offset if a legally enforceable right to set off current tax assets against current tax liabilities exists. Offsetting should also be carried out if the deferred tax assets and liabilities relate to income taxes levied by the same tax authority in respect of:

- either the same taxable entity or
- different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the obligations simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The tax expenditure for the period comprises current and deferred taxes. Taxes are reported in the income statement, unless they relate to items recognized directly in the equity or in the other comprehensive income. In this case, the taxes are likewise recognized in the equity or in the other comprehensive income.

In Germany, income taxes and deferred taxes are stated on the basis of corporation tax, the “solidarity surcharge” and trade tax, in a range of 28.08% to 32.14% (previous year: 28.08% and 32.14%). Outside Germany, income tax rates of between 0.00% and 35.00% are applied (previous year: 0.00% and 38.15%).

**Provisions**

**a) Provisions for pensions**

The BAUER Group operates a number of provisions for pensions in Germany and internationally.

Typically, such plans define an amount of pension payments which employees will receive on retirement and which is normally dependent on one or more factors (such as age, years of service and salary).

The provisions for pensions on the balance sheet corresponds to the present value of the defined benefit obligation (DBO) at the balance sheet date, less the fair value of the plan assets. The DBO is calculated annually by an independent actuary applying the projected unit credit method. The present value of the DBO is calculated by discounting the expected future inflow of funds at the interest rate of industrial bonds of the highest credit rating. The industrial bonds are denominated in the currency of the disbursements, and have terms corresponding to the pension commitments. In countries where the market in such bonds is insufficiently developed, government bonds are applied.

Actuarial gains and losses based on experience-related adjustments to actuarial assumptions are recognized in the "Other comprehensive income" in the equity in the period in which they occur. Post-employment expenditure is recognized in personnel expenses and the interest portion of the addition to provisions in financial expenses.

Under the contribution-based provisions for pensions, the entity concerned makes payments to pension institutions which are stated in the personnel expenses.

**b) Tax provisions**

Tax provisions include obligations from current income taxes. Income tax provisions are balanced against corresponding tax refund claims, provided they arise in the same tax territory and are identical in nature and in terms of due date.

**c) Other provisions**

The other provisions are created in accordance with IAS 37 where a present obligation arises from a past event, a relevant claim is more likely than unlikely, and the amount of the claim can be reliably estimated. The provisions are stated at their performance amount, and are not netted against profit contributions. Long-term provisions are recognized at present value. Provisions are created only for legal or constructive obligations to third parties.

**Income and expenses**

Revenue from contracts with customers is recognized net of sales tax and other taxes, less expected revenue reductions. Proceeds from the sale of machinery and equipment as well as corresponding accessories and other income are recognized when a Group company has performed a service and the risk has been transferred to the customer. This falls into the category of sales revenues at a point of time. For sales revenues from construction contracts, please refer to the section "Construction contracts". Revenue from the rental of used equipment relates to operating leases with customers. With regard to accounting, please refer to the notes on accounting as lessor in this section. The BAUER Group has country-specific payment terms for the transaction price. These are usually 30 days in Germany. Warranty provisions are formed for anticipated warranty obligations.

Dividend income is recognized at the date on which the right to receipt of payment is created. Dividends received are recognized as income from operating participations under "Financial income". Operating expenses are recognized as affecting net income when the supply or service is claimed or at the time they are caused, as appropriate. Financial income and expenses are recognized when incurred.

Revenues may also include revenues unrelated to the accounting period, which result from final invoice agreements and revenue adjustments in the Construction segment.

## 6. GROUP SEGMENT REPORTING

Reporting on the segments of the BAUER Group was implemented in accordance with IFRS 8, as in the previous year. The internal organizational and management structure and the internal system of reporting to the Management Board and Supervisory Board dictate the segmentation employed by the BAUER Group.

The BAUER Group comprises the Construction, Equipment and Resources segments. Transactions between the segments are conducted at market prices.

SCHACHTBAU NORDHAUSEN GmbH is the only Group company to operate in all three segments. The assets and liabilities and income statement items of SCHACHTBAU NORDHAUSEN GmbH are assigned to the relevant segments.

**Construction**

The core business of the **Construction segment** is specialist foundation engineering. Complete excavation pits and foundation works, often in difficult construction soil conditions, are carried out for major infrastructure projects and buildings.

In order to offer customers a full range of services, the companies of the BAUER Group additionally offer other construction services, often involving a major specialist foundation engineering element. Examples of this include bridges, environmental engineering, remediation and building renovation projects. The Construction segment is founded on the close interlinking of all construction activities.

**Equipment**

In the **Equipment segment**, construction equipment for all specialist foundation engineering methods and for deep drilling is developed and manufactured for worldwide distribution. The specialist foundation engineering equipment can be employed to produce large-diameter and small-diameter bores for piles, diaphragm walls, anchors, injections and wells. The deep drilling equipment can be employed to drill for oil and gas. Equipment for pile driving and ground improvement is also manufactured. The range is supplemented by a wide selection of attachments and ancillary equipment, covering all the processes involved in specialist foundation engineering.

**Resources**

In the **Resources segment**, the companies of the Group that provide products and services in the water, environmental and natural resources areas are combined. They include environmental technology companies involved in the treatment of ground and groundwater as well as companies involved in exploration drilling and mining of raw materials and drilling of wells and geothermal energy sources. This segment also includes companies which manufacture and sell materials for the engineering of bore holes, specifically for wells and geothermal energy sources.

**Other**

The **Other** segment comprises the central services (accounting, personnel, IT etc.) provided by BAUER AG to the Group companies as well as other units not assignable to the separately listed segments, providing services such as in-house and external education and training and centralized research and development.

**Consolidation**

The intersegmental consolidation effects are grouped here under **Consolidation**. This includes offsetting of intra-group sales between the segments as well as income and expenses and interim results. The intersegmental consolidation effects are adjusted within the respective segments.

The segment earnings after tax reflect the financial income and expenses as well as the net earnings of shares valued at equity and the income tax expense. The segments' assets and liabilities incorporate all the assets and liabilities of the Group. The non-current assets stated in the segment report by region comprise intangible assets and property, plant and equipment.

**Total Group revenues, consolidated revenues and sales revenues with third parties**

The consolidated revenues reflect the performance of all the companies included in the basis of consolidation. The total Group revenues represent the revenues of all the companies forming part of our Group. The difference between the consolidated revenues and the total Group revenues is derived from the revenues of the associated companies, from our subcontractor shares in joint ventures, and from the revenues of non-consolidated companies.

The sales revenues with third parties are allocated to the business segments according to the customer's location. No one customer accounts for more than 10% of total sales.

No breakdown of sales revenues by product and service, or by groups of comparable products and services, was available as per the balance sheet date.

# Group segment reporting

| SEGMENT REPORT BY BUSINESS SEGMENT | Construction | | Equipment | |
|---|---|---|---|---|
| in kEUR | 2018 | 2019 | 2018 | 2019 |
| **Total Group revenues** | **767,632** | **668,784** | **723,115** | **713,652** |
| Sales revenues with third parties | 726,265 | 625,659 | 640,062 | 610,190 |
| Sales revenues between business segments | 10,356 | 14,506 | 52,448 | 45,934 |
| Changes in inventories | 2,345 | -23 | -540 | 30,401 |
| Other own work capitalized | 907 | 798 | 3,860 | 4,706 |
| Other income | 11,534 | 16,132 | 5,870 | 2,743 |
| **Consolidated revenues** | **751,407** | **657,072** | **701,700** | **693,974** |
| **Earnings before interest, tax, depreciation and amortization (EBITDA)** | **85,723** | **25,263** | **112,472** | **101,911** |
| Depreciation of fixed assets | -46,670 | -45,191 | -20,024 | -24,916 |
| Write-downs of inventories due to use | 0 | 0 | -17,590 | -15,806 |
| **Earnings Before Interest and Tax (EBIT)** | **39,053** | **-19,928** | **74,858** | **61,189** |
| Financial income | 14,653 | 11,450 | 13,118 | 12,846 |
| Financial expenses | -24,675 | -29,164 | -30,550 | -26,684 |
| Income from shares accounted for using the equity method | 2,990 | 3,083 | -6,250 | -2,444 |
| Income tax expense | -22,373 | -18,187 | -17,195 | -5,411 |
| **Earnings after tax** | **9,648** | **-52,746** | **33,981** | **39,496** |
| **ADDITIONAL INFORMATION ON THE INCOME STATEMENT** | | | | |
| Sales revenues with third parties based at a point in time | 0 | 0 | 640,062 | 610,190 |
| Sales revenues with third parties based over time | 726,265 | 625,659 | 0 | 0 |
| Unscheduled depreciation of fixed assets | -409 | -8 | -1,164 | -634 |
| **Major non-cash segment items** | | | | |
| Depreciation losses on financial assets | -609 | 0 | -1,783 | 0 |
| Depreciation losses for impairment on inventories | -1,441 | -43 | -25,144 | -12,472 |
| Allocation of valuation allowances for receivables | -12,397 | -25,307 | -5,315 | -2,711 |
| Reversal of valuation allowances for receivables | 1,015 | 5,715 | 1,495 | 1,934 |
| **ADDITIONAL INFORMATION ON THE BALANCE SHEET** | | | | |
| **SEGMENT ASSETS DECEMBER 31** | **657,759** | **622,635** | **725,333** | **762,660** |
| of which shares in companies accounted for using the equity method | 8,616 | 10,924 | 59,474 | 56,194 |
| of which capital investments in fixed assets | 74,740 | 87,906 | 24,964 | 44,254 |
| **SEGMENT LIABILITIES DECEMBER 31** | **528,458** | **519,787** | **444,156** | **447,155** |

| SEGMENT REPORT BY REGION | Germany | | EU (excluding Germany) | | Europe (other) | |
|---|---|---|---|---|---|---|
| in kEUR | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| **Total Group revenues** | **467,050** | **518,668** | **276,362** | **260,035** | **59,060** | **70,143** |
| Sales revenues with third parties | 418,122 | 477,371 | 266,224 | 243,822 | 61,088 | 65,985 |
| Intangible assets, property, plant and equipment, December 31 | 216,561 | 228,319 | 29,455 | 32,922 | 17,299 | 18,130 |

| Resources | | Other | | Consolidation | | Group | |
|---|---|---|---|---|---|---|---|
| 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| **261,471** | **274,873** | **87,154** | **90,503** | **-153,280** | **-153,094** | **1,686,092** | **1,594,718** |
| 221,345 | 233,485 | 1,419 | 1,588 | 0 | 0 | 1,589,091 | 1,470,922 |
| 1,626 | 5 | 39,640 | 42,104 | -104,070 | -102,549 | 0 | 0 |
| -253 | 2,000 | 0 | 0 | 0 | 0 | 1,552 | 32,378 |
| 730 | 1,322 | 0 | 0 | 3,328 | 2,697 | 8,825 | 9,523 |
| 2,533 | 6,277 | 43,566 | 43,336 | -46,035 | -43,620 | 17,468 | 24,868 |
| **225,981** | **243,089** | **84,625** | **87,028** | **-146,777** | **-143,472** | **1,616,936** | **1,537,691** |
| **582** | **-3,636** | **44,168** | **28,959** | **-44,329** | **-29,450** | **198,616** | **123,047** |
| -11,616 | -12,526 | -3,667 | -3,957 | 1,010 | 1,830 | -80,967 | -84,760 |
| 0 | 0 | 0 | 0 | 0 | 0 | -17,590 | -15,806 |
| **-11,034** | **-16,162** | **40,501** | **25,002** | **-43,319** | **-27,620** | **100,059** | **22,481** |
| 5,487 | 7,594 | 13,859 | 7,222 | -8,913 | -5,370 | 38,204 | 33,742 |
| -15,992 | -13,835 | -14,688 | -14,453 | 8,913 | 5,370 | -76,992 | -78,766 |
| 7,854 | 10,586 | 0 | 0 | 0 | 0 | 4,594 | 11,225 |
| -2,306 | -1,919 | 176 | 452 | -80 | -167 | -41,778 | 25,232 |
| **-15,991** | **-13,736** | **39,848** | **18,223** | **-43,399** | **-27,787** | **24,087** | **-36,550** |
| 54,651 | 59,211 | 1,419 | 1,588 | 0 | 0 | 696,132 | 670,989 |
| 166,694 | 174,274 | 0 | 0 | 0 | 0 | 892,959 | 799,933 |
| -1 | -108 | -49 | 0 | 0 | 0 | -1,623 | -750 |
| 0 | 0 | 0 | 0 | 0 | 0 | -2,392 | 0 |
| -165 | -304 | 0 | 0 | 0 | 0 | -26,750 | -12,819 |
| -6,266 | -9,752 | 0 | 0 | 0 | 0 | -23,978 | -37,770 |
| 870 | 945 | 0 | 0 | 0 | 0 | 3,380 | 8,594 |
| **254,616** | **269,283** | **443,310** | **408,094** | **-448,734** | **-434,123** | **1,632,284** | **1,628,549** |
| 44,929 | 51,067 | 0 | 0 | 0 | 0 | 113,019 | 118,185 |
| 8,493 | 14,103 | 4,571 | 4,224 | -2,901 | 517 | 109,867 | 151,004 |
| **199,011** | **199,554** | **228,620** | **178,957** | **-199,777** | **-103,820** | **1,200,468** | **1,241,633** |

| Middle East and Central Asia | | Asia-Pacific Far East and Australia | | Americas | | Africa | | Group | |
|---|---|---|---|---|---|---|---|---|---|
| 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| **211,418** | **208,410** | **428,095** | **265,684** | **170,808** | **192,101** | **73,299** | **79,677** | **1,686,092** | **1,594,718** |
| 205,676 | 177,634 | 411,896 | 257,684 | 154,290 | 172,889 | 71,795 | 75,537 | 1,589,091 | 1,470,922 |
| 41,113 | 49,343 | 89,701 | 102,740 | 22,350 | 29,314 | 13,169 | 16,648 | 429,648 | 477,416 |

# EXPLANATORY NOTES TO THE CONSOLIDATED INCOME STATEMENT

## 7. SALES REVENUES

The sales revenues generated in the amount of kEUR 1,470,922 (previous year: 1,589,091) include revenues based over time, goods and services delivered to consortia as well as sales revenues from the sale and rental of equipment and accessories.
Sales revenue from leased equipment and accessories amounted to kEUR 20,946 in the financial year (previous year: 21,322). With regard to the presentation and breakdown of sales revenues by operating segment and region as well as the categorization according to revenues based on time period and those based on point in time, please refer to the notes on segment reporting (see item 6).

Sales revenues provide only an incomplete picture of the performance in the financial year. Figures are therefore transferred to total Group revenues in the following sections:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Sales revenues | 1,589,091 | 1,470,922 |
| Changes in inventories | 1,552 | 32,378 |
| Other own work capitalized | 8,825 | 9,523 |
| Other income | 17,468 | 24,868 |
| **Consolidated revenues** | **1,616,936** | **1,537,691** |
| Subcontractor share in consortia | 19,407 | 11,019 |
| Revenues of associated companies and joint ventures | 49,661 | 40,602 |
| Revenues of non-consolidated companies | 21,124 | 19,130 |
| Intra-group revenues | -21,036 | -13,724 |
| **Total Group revenues** | **1,686,092** | **1,594,718** |

Sales revenues also include kEUR 5,720 in net out-of-period sales (previous year: 2,749) resulting from final invoice agreements and sales corrections in the Construction segment. In addition, due to an individual valuation allowance resulting from a court decision, in the financial year, kEUR 40,327 was recorded as an out-of-period result with a reduction effect on the income. The sales adjustment involves variable transaction components that were realized in the past. A possible reversal of sales was not anticipated in the course of project implementation. The matter represents a change in the transaction price in accordance with IFRS 15.88. In the Construction segment, final invoices, for example, may include supplementary items which have not yet been finally negotiated with the client and ordered. These may prove uncertain. A revenue correction is applied to these amounts. Should the uncertain amount turn out to be recoverable, the corresponding sales revenue will be realized.

The following table shows current contractual obligations that have been initiated but not yet fully met as well as the expected revenue to be realized:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Unfulfilled contractual obligations | 527,930 | 600,473 |
| Expected realization within 1 year | 383,688 | 428,591 |
| Expected realization in 1 to 5 years | 144,242 | 171,284 |
| Expected realization after 5 years | 0 | 598 |

## 8. OTHER OWN WORK CAPITALIZED

| in kEUR | 2018 | 2019 |
|---|---|---|
| Income from other own work capitalized | 8,825 | 9,523 |

## 9. OTHER INCOME

| in kEUR | 2018 | 2019 |
|---|---|---|
| Income from disposal of property, plant and equipment | 2,034 | 5,354 |
| Income from insurance refunds | 2,302 | 3,456 |
| Other income from rentals | 651 | 85 |
| Effects from de-consolidation and transitional consolidations | 585 | 124 |
| Other operating income | 11,896 | 15,849 |
| **Total** | **17,468** | **24,868** |

Additionally, the other operating income mainly comprises income from benefits in money's worth, other reimbursements of expenditure as well as other income spread across the companies in the basis of consolidation which is of minor importance in the individual instances.

## 10. COST OF MATERIALS

| in kEUR | 2018 | 2019 |
|---|---|---|
| Expenses for raw materials and supplies and purchased goods | 552,906 | 508,740 |
| Expenses for purchased services | 268,590 | 274,386 |
| **Total** | **821,496** | **783,126** |

The expenses for purchased services included short-term external device rentals in the amount of kEUR 23,024 (previous year: 21,157). This relates to large devices for short-term building site activities with a significant term of 3 to 6 months.

## 11. PERSONNEL EXPENSES

The expenses for retirement benefits include the expenditure on benefits as well as the allocations to provisions for pensions excluding the interest portion, which is stated under "Interest and similar expenses".
Allocations to provisions for anniversary bonuses are also shown under wages and salaries without interest.

| in kEUR | 2018 | 2019 |
|---|---|---|
| Wages and salaries | 333,530 | 356,557 |
| Social security contributions | 52,316 | 54,794 |
| Expenses for retirement benefits | 6,538 | 7,454 |
| **Total** | **392,384** | **418,805** |

The employer's pension contributions in the financial year totaled kEUR 24,002 (previous year: 22,823). These are contribution-based schemes, as explained under 5.2 "Significant accounting policies in the Group". Of that total, kEUR 19,180 (previous year: 18,364) relate to Germany and kEUR 4,822 (previous year: 4,459) relate to other countries. The wages and salaries include severance payments in the amount of kEUR 1,612 (previous year: 771).

## 12. OTHER OPERATING EXPENSES

| in kEUR | 2018 | 2019 |
|---|---|---|
| Losses from disposal of property, plant and equipment | 4,126 | 3,803 |
| Leasing expenses | 27,859 | 19,456 |
| Energy, heating, water | 4,192 | 5,528 |
| Vehicle costs | 6,366 | 4,790 |
| Property, motor vehicle and transport insurance | 9,800 | 11,362 |
| Other operating expenses | 18,028 | 13,537 |
| Administrative expenses | 40,298 | 41,530 |
| Distribution costs | 41,311 | 45,946 |
| Other employee-related expenses | 14,342 | 16,011 |
| Result from valuation allowances of receivables | 6,025 | 14,842 |
| Bank charges | 2,275 | 2,934 |
| Duties | 7,088 | 5,165 |
| Accrued expenses | 5,411 | 7,160 |
| Additional other operating expenses | 17,319 | 20,649 |
| **Total** | **204,440** | **212,713** |

The “Additional other operating expenses” mainly comprise allocations to and reversal of provisions affecting net income as well as additional other operating expenses spread across the consolidated companies which are of minor importance in the individual instances. The other employee-related expenses include education and training costs, grants and gifts, travel and relocation expenses, and other project-specific personnel costs. Other operating expenses include income of kEUR 13,697 (previous year: 17,120) resulting from the reversal of provisions, valuation allowances of receivables, derecognition of liabilities and written-off receivables. Please refer to Note 37 for further information on the valuation allowances. The leasing expenses include the expenses arising from short-term leasing relationships and low-value leasing expenses.

## 13. DEPRECIATION AND AMORTIZATION

Depreciation is as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Depreciation of intangible assets | 7,654 | 6,329 |
| Depreciation of property, plant and equipment | 73,313 | 78,431 |
| **Total** | **80,967** | **84,760** |

Impairments of fixed assets are explained under item 20.2, “Property, plant and equipment”.

## 14. WRITE-DOWNS OF INVENTORIES DUE TO USE

Write-downs of inventories due to use in the financial year totaled kEUR 15,806 (previous year: 17,590). This related to depreciation of used machinery temporarily rented out to customers as sales promotion measures. Depreciation of used machinery disposed of in the 2019 financial year are included in these figures.

## FINANCIAL RESULT

### 15. FINANCIAL INCOME

The financial income is broken down as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Income from operating participations | 1,322 | 132 |
| Other interest and similar income | 6,909 | 9,500 |
| Income from changes in fair values of interest swaps | 1,540 | 2,998 |
| Income from foreign currency translation from financing activities | 28,433 | 21,112 |
| **Total** | **38,204** | **33,742** |

### 16. FINANCIAL EXPENSES

The financial expenses are broken down as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Interest and similar expenses | 32,655 | 35,771 |
| Unscheduled depreciation losses on financial assets | 2,392 | 0 |
| Losses from changes in fair values of interest swaps | 6,587 | 17,769 |
| Interest portions of allocations to provisions for pensions and similar obligations | 2,599 | 2,747 |
| Losses from foreign currency translation from financing activities | 32,759 | 22,479 |
| **Total** | **76,992** | **78,766** |

The interest from lease transactions included under “Interest and similar expenses” in the financial year totaled kEUR 2,032 (previous year: 1,024). The financial result includes interest income from financial assets in an amount of kEUR 9,438 (previous year: 6,587) and interest expenses from financial liabilities in an amount of kEUR 34,987 (previous year: 31,369) which were not measured at fair value affecting profit and loss. Depreciation losses on financial assets in the business year comprised kEUR 0 (previous year: 2,392).

### 17. INCOME FROM SHARES ACCOUNTED FOR USING THE EQUITY METHOD

The result from investments accounted for using the equity method in the fiscal year is kEUR 11,225 (previous year 4,594 and includes the income  and loss shares of associated joint ventures that were evaluated in accordance with the equity method. No devaluation took place in the financial year. In the previous year, depreciation in the amount of kEUR 5,005 for the joint venture BAUER Deep Drilling GmbH took place.

### 18. INCOME TAX EXPENSE

The income tax expense is broken down as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Actual taxes | 40,102 | 33,234 |
| Deferred taxes | 1,676 | -8,002 |
| **Total** | **41,778** | **25,232** |

The theoretical tax rate is 28.08% (previous year: 28.08%). The actual taxes include recorded adjustments for out-of-period actual income tax in the amount of kEUR -1,682 (previous year: -425).

**Reconciliation from expected to actual income tax expense**

The expected tax expenditure is below the recorded tax expenditure. The reasons for the difference between the expected and recorded tax expenditure are as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Earnings before tax (EBT) | 65,865 | -11,318 |
| Theoretical tax expenditure 28.08% (previous year: 28.08%) | 18,495 | -3,178 |
| Differences in tax rate | 6,636 | 6,254 |
| Taxation effects of non-deductible expenses and tax-free income | 4,377 | 8,296 |
| Effects of deviations in the tax calculation base | 1,238 | 1,609 |
| Valuation of associated companies using the equity accounting method | -1,290 | -2,881 |
| Out-of-period tax payments/refunds for previous years | 166 | 1,563 |
| Effects of deferred tax assets in respect of losses carried forward and temporary differences | 11,951 | 13,347 |
| Other | 205 | 222 |
| **Taxes on income and profit** | **41,778** | **25,232** |

The tax effects of the non-deductible expenses and tax-free earnings contain effects from transitional and de-consolidations to the amount of kEUR -35 (previous year: -164). In the financial year, the valuation allowance of the contractual assets in BAUER Hongkong Ltd. resulted in additional effects in the amount of kEUR 6,654, which are included in the effects of deferred tax assets. The difference in tax rate of BAUER Hongkong Ltd. (16.50%) and the Group tax rate (28.08%) in the amount of kEUR 4,670 is included in the 'Differences in tax rate' section. Internal disbursements result in taxation effects after December 31, 2019 totaling kEUR 342 (previous year: 356).

## 19. EARNINGS PER SHARE

The earnings per share are calculated by dividing the earnings after tax attributable to the shareholders of BAUER AG by the weighted average number of ordinary shares outstanding. Earnings per share amount to the following values:

| | 2018 | 2019 |
|---|---|---|
| **Earnings after tax attributable to the shareholders of BAUER AG, in kEUR** | **22,577** | **-37,146** |
| Number of shares from January 1 to December 31 | 17,131,000 | 17,131,000 |
| Weighted average number of shares in circulation in financial year (basic) | 17,131,000 | 17,131,000 |
| Weighted average number of shares in circulation in financial year (diluted) | 17,131,000 | 17,131,000 |
| **Basic earnings per share in EUR** | **1.32** | **-2.17** |
| **Diluted earnings per share in EUR** | **1.32** | **-2.17** |

# EXPLANATORY NOTES TO THE CONSOLIDATED BALANCE SHEET

The breakdown of the fixed asset items summarized on the balance sheet and their development is presented in the fixed asset movement schedule on the following pages.

## NON-CURRENT ASSETS

### 20. FIXED ASSETS

#### 20.1 Intangible assets

| in kEUR | | | Internally generated intangible assets | | |
|---|---|---|---|---|---|
| **Acquisition or Manufacturing costs** | Licenses, software and similar rights and values | Goodwill | Capitalized software costs | Capitalized development costs | Total |
| **January 1, 2018** | **37,435** | **2,186** | **0** | **40,801** | **80,422** |
| Change in basis of consolidation | -3 | 0 | 0 | 0 | -3 |
| Additions | 2,211 | 0 | 0 | 4,270 | 6,481 |
| Disposals | 2,504 | 0 | 0 | 4,830 | 7,334 |
| Transfers | 10 | 0 | 0 | 0 | 10 |
| Currency adjustment | 76 | 0 | 0 | -2 | 74 |
| **December 31, 2018** | **37,225** | **2,186** | **0** | **40,239** | **79,650** |

| in kEUR | | | Internally generated intangible assets | | |
|---|---|---|---|---|---|
| **Accumulated depreciation** | Licenses, software and similar rights and values | Goodwill | Capitalized software costs | Capitalized development costs | Total |
| **January 1, 2018** | **30,820** | **2,186** | **0** | **26,395** | **59,401** |
| Change in basis of consolidation | -3 | 0 | 0 | 0 | -3 |
| Additions | 2,910 | 0 | 0 | 4,744 | 7,654 |
| Disposals | 1,752 | 0 | 0 | 3,831 | 5,583 |
| Transfers | 4 | 0 | 0 | 0 | 4 |
| Currency adjustment | 100 | 0 | 0 | 0 | 100 |
| **Dec. 31, 2018** | **32,079** | **2,186** | **0** | **27,308** | **61,573** |
| **Carrying amount December 31, 2018** | **5,146** | **0** | **0** | **12,931** | **18,077** |

| in kEUR | | | Internally generated intangible assets | | |
|---|---|---|---|---|---|
| **Acquisition or Manufacturing costs** | Licenses, software and similar rights and values | Goodwill | Capitalized software costs | Capitalized development costs | Total |
| **January 1, 2019** | **37,225** | **2,186** | **0** | **40,239** | **79,650** |
| Change in basis of consolidation | 0 | 0 | 0 | 0 | 0 |
| Additions | 1,209 | 0 | 0 | 4,027 | 5,236 |
| Disposals | 1,728 | 0 | 0 | 304 | 2,032 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Currency adjustment | 13 | 0 | 0 | 2 | 15 |
| **December 31, 2019** | **36,719** | **2,186** | **0** | **43,964** | **82,869** |

| in kEUR<br>Accumulated depreciation | Licenses, software and similar rights and values | Goodwill | Internally generated intangible assets<br>Capitalized software costs | <br>Capitalized development costs | Total |
|---|---|---|---|---|---|
| **January 1, 2019** | **32,079** | **2,186** | **0** | **27,308** | **61,573** |
| Change in basis of consolidation | 0 | 0 | 0 | 0 | 0 |
| Additions | 2,492 | 0 | 0 | 3,837 | 6,329 |
| Disposals | 1,717 | 0 | 0 | 288 | 2,005 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Currency adjustment | 26 | 0 | 0 | 0 | 26 |
| **December 31, 2019** | **32,880** | **2,186** | **0** | **30,857** | **65,923** |
| **Carrying amount December 31, 2019** | **3,839** | **0** | **0** | **13,107** | **16,946** |

In the financial year, there were no changes to the basis of consolidation.

Of the total research and development costs and patent costs incurred in 2019, kEUR 4,187 (previous year: 4,348) met the capitalization criteria in accordance with IFRS. The following amounts were recognized in net income:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Research costs and non-capitalized development costs | 18,486 | 18,779 |
| Depreciation of development costs and patents | 4,924 | 3,991 |
| **Research and development costs recognized in net income** | **23,410** | **22,770** |

### 20.2 Property, plant and equipment

| in kEUR<br>**Acquisition or Manufacturing costs** | Land and Buildings | Technical equipment and machinery | Other equipment, factory and office equipment | Payments on account and Equipment in construction | Total |
|---|---|---|---|---|---|
| **January 1, 2018** | **292,354** | **541,223** | **82,215** | **18,634** | **934,426** |
| Change in basis of consolidation | -39 | 152 | 428 | 0 | 541 |
| Additions | 2,940 | 70,033 | 12,705 | 17,708 | 103,386 |
| Disposals | 1,405 | 66,361 | 9,156 | 54 | 76,976 |
| Transfers | 10,578 | 15,024 | 315 | -25,917 | 0 |
| Currency adjustment | -645 | 7,499 | 717 | 452 | 8,023 |
| **December 31, 2018** | **303,783** | **567,570** | **87,224** | **10,823** | **969,400** |

| in kEUR<br>**Accumulated depreciation** | Land and Buildings | Technical equipment and machinery | Other equipment, factory and office equipment | Payments on account and Equipment in construction | Total |
|---|---|---|---|---|---|
| **January 1, 2018** | **118,096** | **352,855** | **56,045** | **0** | **526,997** |
| Change in basis of consolidation | -39 | -100 | 355 | 0 | 216 |
| Additions | 7,819 | 56,185 | 9,309 | 0 | 73,313 |
| Disposals | 196 | 42,560 | 7,751 | 0 | 50,507 |
| Transfers | 0 | 127 | -127 | 0 | 0 |
| Currency adjustment | 57 | 7,149 | 604 | 0 | 7,810 |
| **December 31, 2018** | **125,737** | **373,657** | **58,435** | **0** | **557,829** |
| **Carrying amount December 31, 2018** | **178,046** | **193,913** | **28,789** | **10,823** | **411,571** |
| of which carrying amount of the rights of use as at December 31, 2018 | 0 | 28,002 | 7,534 | 0 | 35,536 |

| in kEUR<br>**Acquisition and/or manufacturing costs** | Land and Buildings | Technical equipment and machinery | Other equipment, factory and office equipment | Payments on account and Equipment in construction | Total |
|---|---|---|---|---|---|
| **January 1, 2019 as reported** | **303,783** | **567,570** | **87,224** | **10,823** | **969,400** |
| Transition effect from initial application of IFRS 16 | 13,692 | 6,302 | 2,587 | 0 | 22,581 |
| **January 1, 2019 corrected** | **317,475** | **573,872** | **89,811** | **10,823** | **991,981** |
| Change in basis of consolidation | 0 | 0 | 34 | 0 | 34 |
| Additions | 15,131 | 77,247 | 14,330 | 16,479 | 123,187 |
| Disposals | 4,490 | 48,623 | 7,534 | 317 | 60,964 |
| Transfers | 1,394 | 8,009 | 238 | -9,641 | 0 |
| Currency adjustment | 1,994 | 15,656 | 1,148 | 433 | 19,231 |
| **December 31, 2019** | **331,504** | **626,161** | **98,027** | **17,777** | **1,073,469** |

The additions of rights of year for the financial year 2019 for land and buildings amount to kEUR 7,644, kEUR 16,383 for technical equipment and machinery and kEUR 4,664 for factory and office equipment. The depreciations from rights of use in the financial year amounted to kEUR 3,444 for land and buildings (previous year: 0), for technical equipment and machinery, it amounted to kEUR 10,411 (previous year: 7,359) and for other equipment, factory and office equipment it amounted to kEUR 3,377 (previous year: 1,532).

| in kEUR<br>**Accumulated depreciation** | Land and Buildings | Technical equipment and machinery | Other equipment, factory and office equipment | Payments on account and Equipment in construction | Total |
|---|---|---|---|---|---|
| **January 1, 2019** | **125,737** | **373,657** | **58,435** | **0** | **557,829** |
| Change in basis of consolidation | 0 | 0 | 9 | 0 | 9 |
| Additions | 11,375 | 55,441 | 11,615 | 0 | 78,431 |
| Disposals | 809 | 29,245 | 6,303 | 0 | 36,357 |
| Transfers | 3 | -32 | 29 | 0 | 0 |
| Currency adjustment | 327 | 11,976 | 784 | 0 | 13,087 |
| **December 31, 2019** | **136,633** | **411,797** | **64,569** | **0** | **612,999** |
| **Carrying amount December 31, 2019** | **194,871** | **214,364** | **33,458** | **17,777** | **460,470** |
| of which carrying amount of the rights of use as at December 31, 2019 | 17,888 | 38,312 | 10,670 | 0 | 66,870 |

Changes in the basis of consolidation in fiscal 2018 and 2019 were of minor significance in the area of the fixed assets.

The underlying interest rates for leasing contracts which form the basis of the contracts vary between 0.68% and 8.03% depending on the market and time of the conclusion of the contract (previous year: 1.39% and 7.70%). The lease payments due in the future and their present values for the 2018 financial year are stated in the following table:

| in kEUR | Remaining term 2018 | | | |
|---|---|---|---|---|
| | under 1 year | 1 to 5 years | over 5 years | Total |
| Minimum lease payments | 10,583 | 21,320 | 103 | 32,006 |
| Interest portions | 526 | 671 | 14 | 1,210 |
| **Present value** | **10,057** | **20,649** | **89** | **30,796** |

For the 2019 financial year, we refer to the details in accordance with IFRS 16 on page 72 et seq. of the annual report.
Items of property, plant and equipment have a carrying amount of kEUR 69,707 (previous year: 71,701) and are subject to encumbrances such as mortgages and chattel mortgages.
There are also common restraints on disposal on leased assets from 2018, which are attributable to the Group in accordance with IFRS 16 and amount to kEUR 35,536.
No borrowing costs were capitalized in the financial year (previous year: kEUR 19). Fixed assets were impaired by a total of kEUR 750 in the financial year (previous year: 1,623) on an unscheduled basis. These depreciations are attributable in the amount of kEUR 8 (previous year: 409) to the Construction segment, in the amount of kEUR 634 (previous year: 1,164) to the Equipment segment, in the amount of kEUR 108 (previous year: 1) to the Resources segment and in the amount of kEUR 0 (previous year: 49) to the Other segment.

Of this amount, kEUR 582 pertained to intangible assets (previous year: 1,014) and kEUR 168 to property, plant and equipment (previous year: 609). The majority of depreciations on intangible assets relate to capitalized development costs in the Equipment segment in the amount of kEUR 440 (previous year: 968). The expected market development for lots of pieces of equipment developed in-house was decisive for this. Unscheduled depreciation of property plant and equipment relate at an amount of kEUR 168 (previous year: 529) to technical equipment and machinery. The depreciations were applied on the basis of the recoverable amount. For the capitalized development costs, this corresponded with the value in use. A discount rate of 6.57% was applied in the financial year (previous year: 7.7%). The recoverable amount of other non-financial assets regularly corresponded with the fair value less cost to sell. This method is part of level 1 of the fair value hierarchy stated in IFRS 13.

### 20.3 Investments recognized using the equity method

The balance sheet approaches of the joint ventures and associated companies developed as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Shares in joint ventures accounted for using the equity method | 68,320 | 68,923 |
| Shares in associated companies accounted for using the equity method | 44,699 | 49,262 |
| **Total** | **113,019** | **118,185** |

The following table provides an overview of the changes in shares accounted for using the equity method:

| in kEUR | Associated companies | | Joint ventures | |
|---|---|---|---|---|
| **Acquisition or Manufacturing costs** | 2018 | 2019 | 2018 | 2019 |
| **January 1** | **42,492** | **46,838** | **86,267** | **78,584** |
| Additions | 898 | 0 | 4,658 | 0 |
| Disposals | 0 | 0 | 17,297 | 4,964 |
| Profit/loss attributable | 4,792 | 4,563 | 4,805 | 6,662 |
| Dividend payments | -1,298 | 0 | -1,400 | -1,859 |
| Transfers | -46 | 0 | 0 | 0 |
| Currency adjustment | 0 | 0 | 1,551 | 764 |
| **December 31** | **46,838** | **51,401** | **78,584** | **79,187** |

| in kEUR | Associated companies | | Joint ventures | |
|---|---|---|---|---|
| **Accumulated depreciation** | 2018 | 2019 | 2018 | 2019 |
| **January 1** | **2,185** | **2,139** | **5,259** | **10,264** |
| Additions | 0 | 0 | 5,005 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 |
| Currency adjustment | -46 | 0 | 0 | 0 |
| **December 31** | **2,139** | **2,139** | **10,264** | **10,264** |
| **Carrying amount December 31** | **44,699** | **49,262** | **68,320** | **68,923** |

**a) Joint ventures**

The amounts stated in the financial information for joint ventures are recognized in the annual financial statements prepared in accordance with local financial reporting standards, corrected by any adjustments to IFRS.

These are the material joint ventures:

**Financial year 2018:**

| Name | Company's activities | Place of business | Capital share | Accounting policies |
|---|---|---|---|---|
| SPANTEC Spann- & Ankertechnik GmbH | Production | Schrobenhausen, Germany | 40% | Equity method |
| BAUER Manufacturing LLC | Production | Conroe, USA | 51% | Equity method |
| BAUER Deep Drilling GmbH | Production | Schrobenhausen, Germany | 51% | Equity method |

**Financial year 2019:**

| Name | Company's activities | Place of business | Capital share | Accounting policies |
|---|---|---|---|---|
| SPANTEC Spann- & Ankertechnik GmbH | Production | Schrobenhausen, Germany | 40% | Equity method |
| BAUER Manufacturing LLC | Production | Conroe, USA | 51% | Equity method |
| BAUER Deep Drilling GmbH | Production | Schrobenhausen, Germany | 51% | Equity method |

Summarized financial information on the material joint ventures (before consolidation):

| **BALANCE SHEET** | SPANTEC Spann- & Ankertechnik GmbH | | BAUER Manufacturing LLC | | BAUER Deep Drilling GmbH | |
|---|---|---|---|---|---|---|
| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 |
| Non-current assets | 5,462 | 5,615 | 29,285 | 28,517 | 13,470 | 11,976 |
| Current assets | 8,391 | 8,259 | 22,936 | 8,301 | 5,038 | 5,841 |
| (of which cash and cash equivalents) | (482) | (540) | (641) | (1,171) | (4,350) | (4,496) |
| **Total assets** | **13,853** | **13,874** | **52,221** | **36,818** | **18,508** | **17,817** |
| Non-current liabilities | 394 | 540 | 0 | 109 | 1,216 | 970 |
| (of which non-current financial liabilities) | (0) | (0) | 0 | (109) | (1) | (0) |
| Current debt | 1,119 | 1,550 | 11,153 | 1,998 | 326 | 1,199 |
| (of which current financial liabilities) | (0) | (0) | (14) | (64) | (2) | (982) |
| **Total liabilities** | **1,513** | **2,090** | **11,153** | **2,107** | **1,542** | **2,169** |

Non-current and current financial liabilities do not contain any trade payables and provisions.

| INCOME STATEMENT | SPANTEC Spann- & Ankertechnik GmbH | | BAUER Manufacturing LLC | | BAUER Deep Drilling GmbH | |
|---|---|---|---|---|---|---|
| in kEUR | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Sales revenues | 23,365 | 26,189 | 31,890 | 17,971 | 2,259 | 1,792 |
| Scheduled depreciation and amortization | -188 | -179 | -1,622 | -1,838 | -1,996 | -2,006 |
| Earnings before interest and tax | 5,242 | 6,661 | -4,174 | -7,203 | -1,490 | -1,833 |
| Interest income | 83 | 99 | 13 | 44 | 280 | 0 |
| Interest expense | -37 | -48 | -371 | -13 | -7 | -6 |
| Income tax expense | -1,502 | -1,904 | 0 | 0 | 342 | 514 |
| Earnings after tax | 3,783 | 4,808 | -4,532 | -7,172 | -892 | -1,319 |
| Other comprehensive income | 9 | 13 | 0 | 0 | -16 | 0 |
| **Total comprehensive income** | **3,792** | **4,821** | **-4,532** | **-7,172** | **-908** | **-1,319** |
| Dividends distributed to the BAUER Group | 1,400 | 1,600 | 0 | 0 | 0 | 0 |

The amounts stated in the financial information for joint ventures are recognized in the annual financial statements prepared in accordance with local financial reporting standards, corrected by any adjustments to IFRS.

Summarized financial information on the immaterial joint ventures (before consolidation):

| BALANCE SHEET | Immaterial joint ventures | |
|---|---|---|
| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
| Non-current assets | 1,760 | 13,993 |
| Current assets | 53,379 | 125,556 |
| (of which cash and cash equivalents) | (4,750) | (27,741) |
| **Total assets** | **55,140** | **139,549** |
| Non-current liabilities | 0 | 0 |
| (of which non-current financial liabilities) | (0) | (0) |
| Current debt | 36,118 | 110,117 |
| (of which current financial liabilities) | (12,228) | (85,041) |
| **Total liabilities** | **36,118** | **110,117** |

Non-current and current financial liabilities do not contain any trade payables and provisions.

| **INCOME STATEMENT** | Immaterial joint ventures | |
|---|---|---|
| in kEUR | 2018 | 2019 |
| Sales revenues | 52,020 | 78,485 |
| Scheduled depreciation and amortization | -539 | -862 |
| Earnings before interest and tax | 8,343 | 12,427 |
| Interest income | 0 | 811 |
| Interest expense | -8 | -909 |
| Income tax expense | 327 | -728 |
| **Earnings after tax** | **7,732** | **11,612** |
| Dividends distributed to the BAUER Group | 0 | 259 |

**Reconciliation to the summarized financial information on joint ventures**

The proportional carrying amount of the joint ventures can be offset and reconciled as follows:

**Financial year 2018:**

| in kEUR | SPANTEC Spann- & Ankertechnik GmbH | BAUER Manufacturing LLC | BAUER Deep Drilling GmbH | Immaterial joint ventures |
|---|---|---|---|---|
| Net assets of joint ventures | 12,340 | 41,068 | 16,966 | 19,582 |
| Share in joint ventures according to investment quota | 4,936 | 20,945 | 8,653 | 9,794 |
| Goodwill and other adjustments | 5,896 | 18,096 | 0 | 0 |
| **In the balance sheet carrying amount** | **10,832** | **39,041** | **8,653** | **9,794** |

**Financial year 2019:**

| in kEUR | SPANTEC Spann- & Ankertechnik GmbH | BAUER Manufacturing LLC | BAUER Deep Drilling GmbH | Immaterial joint ventures |
|---|---|---|---|---|
| Net assets of joint ventures | 11,784 | 34,711 | 15,648 | 29,432 |
| Share in joint ventures according to investment quota | 4,714 | 17,703 | 7,980 | 13,641 |
| Goodwill and other adjustments | 6,442 | 18,443 | 0 | 0 |
| **In the balance sheet carrying amount** | **11,156** | **36,146** | **7,980** | **13,641** |

Fair values of material joint ventures:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| SPANTEC Spann- & Ankertechnik GmbH | 49,145 | 65,890 |
| BAUER Manufacturing LLC | 77,964 | 63,918 |
| BAUER Deep Drilling GmbH | 17,011 | 16,355 |

We did not state the fair value of our immaterial joint ventures as there is no listed market price.

**b) Associated companies**

The amounts stated in the financial information for associated companies are recognized in the annual financial statements prepared in accordance with local financial reporting standards, corrected by any adjustments to IFRS.

These are the material associated companies:

**Financial year 2018:**

| Name | Company's activities | Place of business | Capital share |
|---|---|---|---|
| TERRABAUER S. L. | Specialist foundation engineering | Madrid, Spain | 30.00% |
| BAUER Nimr LLC | Water treatment and environmental technology | Muscat, Al Mina, Sultanate of Oman | 52.50% |
| AO Mostostrojindustria | Metal processing | Moscow, Russia | 20.70% |

**Financial year 2019:**

| Name | Company's activities | Place of business | Capital share |
|---|---|---|---|
| TERRABAUER S. L. | Specialist foundation engineering | Madrid, Spain | 30.00% |
| BAUER Nimr LLC | Water treatment and environmental technology | Muscat, Al Mina, Sultanate of Oman | 52.50% |
| AO Mostostrojindustria | Metal processing | Moscow, Russia | 20.70% |

BAUER Nimr LLC is classified as an associated company despite a majority of voting rights because no control can be asserted over business and financial policy under the partnership agreement.

Summarized financial information for BAUER Nimr LLC is provided in the tables below. For the other key associated companies, AO Mostostrojindustria and TERRABAUER S. L., no entire information was available on the balance sheet date. For TERRABAUER S. L., the last financial information was available as of December 31, 2018. Equity amounted to kEUR 5,731. The result for the period was kEUR -36. The amounts in the following table are presented before consolidation:

| **BALANCE SHEET** | BAUER Nimr LLC | |
|---|---|---|
| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
| Non-current assets | 60,264 | 75,607 |
| Current assets | 17,847 | 24,875 |
| (of which cash and cash equivalents) | (6,544) | (14,844) |
| **Total assets** | **78,111** | **100,482** |
| Non-current liabilities | 34,312 | 50,279 |
| (of which non-current financial liabilities) | (33,735) | (13,655) |
| Current debt | 15,841 | 11,938 |
| (of which current financial liabilities) | (4,011) | (5,296) |
| **Total liabilities** | **50,153** | **62,217** |

| **INCOME STATEMENT** | BAUER Nimr LLC | |
|---|---|---|
| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
| Sales revenues | 42,592 | 33,345 |
| Scheduled depreciation and amortization | -330 | -505 |
| **Earnings before interest and tax** | **12,817** | **10,937** |
| Interest income | 1,714 | 4,292 |
| Interest expense | -2,506 | -3,683 |
| Income tax expense | -1,795 | -1,743 |
| **Earnings after tax** | **10,154** | **9,803** |
| **Earnings after tax for the period in proportion to share** | **5,331** | **5,146** |
| Other comprehensive income | 0 | 0 |
| **Total comprehensive income** | **5,331** | **5,146** |
| Dividends distributed to the BAUER Group | 1,283 | 0 |

Summarized financial information for associated companies, which are immaterial on their own (amounts before consolidation):

| **BALANCE SHEET** | Immaterial associated companies | |
|---|---|---|
| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
| Non-current assets | 76 | 68 |
| Current assets | 239 | 408 |
| (of which cash and cash equivalents) | (8) | (1) |
| **Total assets** | **315** | **476** |
| Non-current liabilities | 31 | 41 |
| (of which non-current financial liabilities) | (31) | (41) |
| Current debt | 117 | 326 |
| (of which current financial liabilities) | (3) | (31) |
| **Total liabilities** | **148** | **367** |

| **INCOME STATEMENT** | Immaterial associated companies | |
|---|---|---|
| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
| Sales revenues | 831 | 764 |
| Scheduled depreciation and amortization | -33 | -31 |
| Earnings before interest and tax | 42 | -105 |
| Interest income | 0 | 0 |
| Interest expense | -1 | -2 |
| Income tax expense | -13 | 7 |
| **Earnings after tax** | **29** | **-100** |
| **Earnings after tax for the period in proportion to share** | **9** | **-30** |
| Dividends distributed to the BAUER Group | 15 | 0 |

**Offsetting and reconciliation to the summarized financial information on associated companies**

The proportional carrying amount of the associated companies can be offset and reconciled as follows:

**Financial year 2018:**

| in kEUR | AO Mostostrojin-dustria | BAUER Nimr LLC | Immaterial associated companies |
|---|---|---|---|
| Net assets of associated companies | 4,338 | 27,958 | 167 |
| Share in associated companies according to investment quota | 898 | 14,678 | 50 |
| Goodwill and other adjustments | 0 | 22,552 | 0 |
| Present value of concession arrangement | 0 | 6,521 | 0 |
| **Carrying amount reported in the balance sheet** | **898** | **43,751** | **50** |

**Financial year 2019:**

| in kEUR | AO Mostostrojin-dustria | BAUER Nimr LLC | Immaterial associated companies |
|---|---|---|---|
| Net assets of associated companies | 4,338 | 38,265 | 108 |
| Share in associated companies according to investment quota | 898 | 20,089 | 14 |
| Goodwill and other adjustments | 0 | 22,287 | 0 |
| Present value of concession arrangement | 0 | 5,974 | 0 |
| **Carrying amount reported in the balance sheet** | **898** | **48,350** | **14** |

The other adjustments pertain to temporal differences in reporting.

There were no obligations and material restrictions or risks with regard to the shares in associated companies on the balance sheet date.

**20.4 Participations**

**Additional financial information for participations**

**Financial year 2018:**

| in kEUR | Wöhr + Bauer GmbH | Deusa International GmbH | Immaterial participations |
|---|---|---|---|
| Fair value | 6,166 | 2,067 | 117 |
| Dividends recorded during the period | 1,162 | 160 | 0 |

**Financial year 2019:**

| in kEUR | Wöhr + Bauer GmbH | Deusa International GmbH | Immaterial participations |
|---|---|---|---|
| Fair value | 6,588 | 2,067 | 151 |
| Dividends recorded during the period | 0 | 133 | 0 |

In the reporting period, no financial investments in equity instruments were derecognized that were valued at fair value with no effect on profit and loss.

## 21. DEFERRED TAXES

Deferred tax assets and liabilities pertained to the following balance sheet items:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|---|---|
| | Deferred tax assets | | Deferred tax liabilities | |
| Intangible assets | 36 | 65 | 12,489 | 11,319 |
| Property, plant and equipment | 628 | 863 | 13,468 | 9,499 |
| Inventories | 7,363 | 1,768 | 7,845 | 13,157 |
| Receivables and other assets | 1,440 | 1,293 | 3,103 | 3,431 |
| Provisions for pensions | 23,730 | 30,560 | 1,314 | 1,658 |
| Liabilities | 11,513 | 16,875 | 2,267 | 2,500 |
| Tax losses carried forward | 19,318 | 26,583 | 0 | 0 |
| Consolidation | 10,026 | 11,326 | 7,775 | 7,645 |
| Offsetting | -24,865 | -22,060 | -24,865 | -22,060 |
| **Net amount** | **49,189** | **67,273** | **23,396** | **27,149** |

In the table above, deferred tax assets to the amount of kEUR 230 (previous year: 224) and deferred tax liabilities in the amount of kEUR 408 (previous year: 223) are included in liabilities, which is part of hedge accounting . In addition, in the provisions for pensions position, deferred tax assets in the amount of kEUR 25,946 (previous year: 19,290) and deferred tax liabilities in the amount of kEUR 83 (previous year: 76) are included for the actuarial income and losses recognized in equity. The deferred tax assets and deferred tax liabilities, which were generated as a result of hedge reserves and actuarial income and losses, were recognized under equity.

The share of current deferred tax assets without losses carried forward amounts to kEUR 12,213 (previous year: 10,680) and the share of deferred tax liabilities to kEUR 17,691 (previous year: 11,500).

Deferred tax assets were capitalized for companies in the reporting period in the amount of kEUR 36,489 (previous year: 23,516), which can be realized in the future on the basis of the tax forecast calculation.

The tax losses carried forward at the end of the year are as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Domestic losses (corporation tax) | 108,245 | 106,314 |
| Foreign losses | 174,057 | 240,446 |
| **Total** | **282,302** | **346,760** |
| Of which losses carried forward deductible for limited periods | 83,944 | 112,786 |

No deferred taxes were recognized for unusable losses carried forward in the amount of kEUR 246,070 (previous year: 212,323) due to the medium-term income tax target.
The share of current deferred tax assets in respect of losses carried forward amounted to kEUR 6,421 (previous year: 5,211).

Deferred tax liabilities arising from temporary differences in connection with participations in subsidiaries, shares in joint arrangements and associated companies are only recognized if the date of reversal of the temporary differences can be determined by the Group and it is likely that the temporary differences will not be reversed again in the foreseeable future because of this effect. This is not presently the case.

In connection with shares in subsidiaries, deferred taxes in the amount of kEUR 3,199 (previous year: 2,032) were not recognized for temporary differences.

## 22. OTHER NON-CURRENT ASSETS

The other non-current assets comprise the following items:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Claims from backup insurance | 4,701 | 4,879 |
| Sundry other non-current assets | 2,936 | 2,296 |
| **Total** | **7,637** | **7,175** |

The additional other non-current assets did not incur any interest in the financial and previous year.

As in the previous year, the other non-current assets were neither impaired nor overdue in the year under review.

Within the BAUER Group, in the financial year, trade receivables in the amount of kEUR 475 (previous year: 540) were sold to third parties within the scope of individual receivables sales agreements. The risks with respect to sold receivables relevant for the risk assessment are the credit risk and the risk of late payment (late-payment risk). The credit risk primarily represents all risks and opportunities connected with the receivables and is mostly fully transferred onto the receivable purchaser against payment of a fixed purchase price reduction. For the BAUER Group, an arranged excess with respect to the purchaser of the receivables remains an agreed excess. The late-payment risk is still borne to the full extent by the BAUER Group. The maximum loss risk resulting for the late-payment risk for the BAUER Group from the sold and written off receivables as at December 31, 2019 is kEUR 174 (previous year: 627) and is listed under the remaining other short-term assets as an ongoing commitment.

The corresponding liability amounts to kEUR 348 (previous year: 1,231) and is stated under “Other current debt”. The difference in the amount of kEUR 174 (previous year: 604) represents the fair value from remaining risks and is recognized in net income.

## 23. OTHER NON-CURRENT FINANCIAL ASSETS

The other non-current financial assets comprise the following in the financial year:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Sundry other non-current financial assets | 11,411 | 11,424 |
| Shares in non-consolidated subsidiaries | 1,787 | 2,499 |
| **Total** | **13,198** | **13,923** |

The additional other non-current assets contain receivables from derivatives and other non-current financial assets. The derivatives are presented in item 37 under “Other disclosures”. The item also contains a loan receivable, which is due at maturity and unsecured, from BAUER Nimr LLC in the amount of kEUR 10,229 (previous year: 10,036). The interest on the loan is a fixed rate at 8%. No subordination has been agreed on the loan. Non-consolidated subsidiaries do not include non-listed companies for which there is no active market. These do not fall under the scope of IFRS 9 and are therefore recognized at acquisition costs. Depreciation of non-consolidated subsidiaries did not take place in the financial year (previous year: kEUR 2,392).

## CURRENT ASSETS

### 24. INVENTORIES

The inventories comprise the following items:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Raw materials and supplies | 153,259 | 168,961 |
| Finished goods and work in progress and stock for trade | 212,606 | 236,440 |
| Rental equipment | 60,488 | 61,838 |
| | 426,353 | 467,239 |
| Less advances received for inventories | -16,098 | -8,921 |
| **Total** | **410,255** | **458,318** |

Of the inventories, kEUR 214,788 (previous year: 251,061) is stated at net realizable value. The impairment losses on inventories against the net realizable value affecting net expenditure in the financial year totaled kEUR 28,625 (previous year: 44,340).

They are broken down as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Write-downs of inventories due to use | 17,590 | 15,806 |
| Depreciation losses for impairment on inventories | 26,750 | 12,819 |
| **Total** | **44,340** | **28,625** |

In the financial year, lots of rental devices were sold from rental and our rental device fleet was therefore updated significantly. The rental rate during the financial year was lower than in the previous year. Depreciation of used machinery due to use therefore decreased from kEUR 17,590 to kEUR 15,806.

The depreciation losses on inventories include both impairment losses on new and used machinery (stated under “Changes in inventories”) and on warehouse inventories (stated under “Cost of materials”). Most of the depreciation losses relate to the machinery which was not rented out, and are attributable to the Equipment segment. The depreciations were applied on the basis of the recoverable amount. This regularly corresponded to the fair value less cost to sell.

Finished goods and stock for trade include machinery and accessories produced internally by the Equipment segment and intended primarily for sale. Machines are rented out as part of sales promotion activities. These revenues are recognized as rental income.

We differentiate essentially between two forms of equipment and accessories (hereinafter: “Equipment”):

**New machines**
These are machines manufactured in the financial year or in earlier years which are available for sale but have not yet been hired out. These machines are valued at manufacturing costs or at the lower net realizable value on the balance sheet date.

**Used machines**
Used machines are machines which are primarily up for sale and which have been temporarily rented out as a secondary sales promotion measure during the financial year or in earlier years. New machines automatically become used machines the first time they are rented out.
When equipment is rented out, the net realizable value is determined from the manufacturing cost less depreciation due to use and impairment losses on inventories.

In the case of a new machine, or a used machine which has not been hired out, the impairment against the net realizable value is recognized by means of a depreciation loss.

The sale and rental of machinery relates solely to the Equipment segment.

The following chart sets out the carrying amount before impairment of the used machinery and accessories along with the rate of hire status on the balance sheet date:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Carrying amount of used machines | 60,488 | 61,838 |
| of which rented out | 27,101 | 36,171 |
| of which not rented out | 33,387 | 25,667 |

Inventories were not listed as loan securities this year or last year.

## 25. RECEIVABLES AND OTHER ASSETS

**Contract assets**
Contract assets developed as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Order costs incurred (plus income, less losses) for projects not yet completed | 1,002,491 | 908,711 |
| less down-payments | 909,912 | 877,418 |
| **Balance** | **92,579** | **31,293** |
| of which: Contract assets | 145,005 | 108,122 |
| of which: Contract liabilities | 52,426 | 76,829 |

For the financial year, valuation allowances were applied to contract assets amounting to kEUR 892 (previous year: 571). These valuation allowances were applied to take expected credit losses into account. In addition, due to an individual valuation allowance resulting from a court decision, in the financial year, kEUR 40,327 was recorded as an out-of-period result with a reduction effect on the income. Of this amount, kEUR 30,038 is attributable to contract assets. The revenue adjustment represents a change in the transaction price in accordance with IFRS 15.88.

**Revenue from Contracts with Customers**

There were no significant changes in the balances of contract assets and liabilities during the reporting period.

The following table shows the share of revenue from contract liabilities recognized in the reporting period in the previous year and revenue from contractual obligations that were met in previous years:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Revenue from contractual obligations included in contract liabilities at the beginning of the period | 45,156 | 36,398 |
| Revenue from contractual obligations that were fulfilled in previous periods | 2,749 | 12,903 |

**Development of receivables and other assets**

The receivables and other assets comprise the following:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Contract assets | 145,005 | 108,122 |
| Trade receivables | 334,978 | 271,300 |
| Receivables from enterprises in which the company has participating interests | 7,846 | 1,912 |
| Payments on account | 3,163 | 5,904 |
| Other current assets | 35,748 | 35,844 |
| Other current financial assets | 8,371 | 11,526 |
| **Total** | **535,111** | **434,608** |

The “Trade receivables” balance sheet item includes long-term receivables totaling kEUR 8,063  (previous year: 4,602).

The trade receivables also include receivables from joint ventures.
Other current assets mainly comprise miscellaneous tax refund claims and receivables from employees and against welfare benefit funds as well as accrued interest and insurance premiums and other prepayments and deferred charges.

For changes in valuation allowances in the financial year and in the previous year as stipulated in IFRS 9, please refer to section 37 “Financial instruments.”

The valuation allowances to reflect expected credit losses from trade receivables amounting to kEUR 42,500 (previous year: 31,950) were calculated taking individual risks into account and on the basis of historic payment defaults. Here, receivables were impaired individually (in the event of objective indications) and based on expected credit losses. The determination of valuation allowances for receivables is primarily based on estimates and evaluations of individual claims, incorporating considerations of the creditworthiness and late-payment record of the customer concerned as well as current economic trends and historical experience in relation to default.

Oher financial assets amounting to kEUR 208 were impaired in the financial year as a result of expected credit losses (previous year: 59).

Other current assets were neither impaired nor overdue in the year under review.

In total in the financial year, kEUR 3,116 (previous year: 3,057) in monetary assets were deposited as collateral for potential future warranties for construction services. The current portion of the receivables from foreign exchange contracts included in the current financial assets in the financial year totaled kEUR 1,127 (previous year: 615).

## 26. CASH AND CASH EQUIVALENTS

The cash and cash equivalents totaling kEUR 37,575 (previous year: 62,587) include credit balances at banks and petty cash stocks.

## 27. EQUITY

The shareholder structure of BAUER AG is as follows:

| in kEUR | December 31, 2018 | | December 31, 2019 | |
|---|---|---|---|---|
| | % | kEUR | % | kEUR |
| Bauer family | 48.19 | 35,182 | 48.19 | 35,182 |
| Free float | 51.81 | 37,819 | 51.81 | 37,819 |
| **Total** | **100.00** | **73,001** | **100.00** | **73,001** |

Please refer to the Notes to the Financial Statements of BAUER AG (published in the Federal Gazette [Bundesanzeiger]) on December 31, 2019 for reports on participations in BAUER AG.

### Composition of subscribed capital

The subscribed and completely paid in capital (share capital) of BAUER AG is EUR 73,001,420.45 and is divided up into 17,131,000 no-nominal-value bearer shares, representing a pro rata amount of approximately EUR 4.26 per share of the total share capital. The shares have no nominal value. Each share entails equal rights and entitles the holder to one vote at the Annual General Meeting, with the exception of share categories precluded from voting by law pursuant to section 136 of the German Stock Corporation Act (AktG) and section 28 of the German Securities Trading Act (WpHG).

As in the previous year, 51.81% of the shares were in free float. The members of the Bauer family and a charitable foundation own a total of 8,256,246 no-nominal-value shares in BAUER AG on the basis of a pool agreement, representing a 48.19% share in the company. The pool agreement provisions include binding voting commitments as well as a right of pre-emption of pool participants if any member of the pool sells shares to third parties. No other direct or indirect participations of BAUER AG share capital exceeding 10% of the voting rights are known to the company.

None of the shareholders have special rights entailing controlling powers. Nor does any voting rights control exist on the part of the employees holding shares in the capital.

**Authority of the Management Board to issue or buy back shares**

Section 4 (4) of the company's Articles of Association authorizes the Management Board, with the consent of the Supervisory Board, to increase the share capital once or more than once up to June 22, 2021 by up to a total of EUR 7.3 million by the issue of no-nominal-value shares against cash and/or non-cash contributions. To that end, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the legal subscription rights of shareholders in the following cases:

- in the case of capital increases in return for non-cash contributions, particularly for the purpose of purchasing companies, parts of companies, participations in companies and other assets or claims for the acquisition of assets, including receivables from companies or their Group companies, or for the purpose of company mergers;
- in the event of capital increases against cash contributions where the issue amount of the new shares issued is not materially below the market price of the already quoted shares at the time of definitive setting of the issue price and the shares issued excluding shareholders' subscription rights pursuant to section 186 (3) sentence 4 of the AktG do not in total exceed 10% of the existing share capital either at the time this authority takes effect or at the time of exercising this authority. Shares which have been or are to be sold or issued in direct or corresponding application of section 186 (3) sentence 4 of the AktG while this authority is in place until such time as it is exercised, pursuant to other authorities, excluding subscription rights, are to be set off against the said limit;
- to compensate fractional amounts resulting during capital increases in return for cash and/or non-cash contributions due to the subscription ratio;
- to implement so-called scrip dividends where shareholders are offered an option to pay in their dividend entitlement (in full or part thereof) as a non-cash contribution to the company in return for the issuance of new shares from the 2016 approved capital.

The Supervisory Board is authorized to amend Article 4 of the Articles of Association accordingly following complete or partial execution of the increase in share capital or on expiration of the period of authority.

Through resolution in the Annual General Meeting dated June 27, 2019, the company was authorized to purchase treasury stock, over a limited period up to June 26, 2024, representing up to a total of 10% of the company's share capital at the time the resolution was passed. The shares shall be purchased at the discretion of the Management Board by means of a public tender offer or via the stock market. If the acquisition is effected via the stock market, the acquisition price per share (excluding ancillary costs) may be no more than 10% above or below the mathematical average of the closing prices per share on the trading day for shares in the company in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange for the three trading days prior to the date of entering the obligation to purchase. If the acquisition is effected by means of a public tender offer, the purchase price or the limits of the purchase price span per share (excluding ancillary costs) may be no more than 10% above or below the mathematical average of the closing prices per share in the company in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange on the three trading days prior to the day of publication of the public tender offer. If significant deviations of the decisive share price occur after the day of issue of the public tender offer, the purchase price may be adjusted.

The Management Board shall be authorized to appropriate shares in the company acquired pursuant to the above authorizations for all legally admissible purposes. Consequently, the acquired shares may also in particular be sold by means other than by way of the stock market or by means of an offer to the shareholders, if the shares are sold for cash at a price (excluding ancillary costs) not materially below the stock market price of shares of the company carrying the same rights at the time of the sale in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange. The shares

may also be transferred to third parties, provided this is done for the purpose of acquiring companies, parts in companies or participations in companies or other assets or effecting company mergers. They can also be issued to employees and members of management in the company and affiliated companies as part of employee participation programs. The aforementioned shares may be withdrawn without need of a further resolution by the Annual General Meeting.
With regard to the use of the bought-back shares, the authorization provides, in specific cases, for legal rights of subscription of shareholders to be excluded. The facility to acquire treasury shares has not been utilized to date.

The remaining equity of the BAUER Group developed as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| I. Capital reserve | 38,404 | 38,404 |
| II. Other revenue reserves and retained earnings | 316,907 | 270,399 |
| | **355,311** | **308,803** |
| III. Non-controlling interests | 3,504 | 5,112 |
| **Total** | **358,815** | **313,915** |

In the financial year a dividend of EUR 0.10 (previous year: 0.10) per share was paid to the shareholders.

**Capital reserve**

The capital reserve essentially comprises amounts that exceeded the book value of the nominal value when shares were issued, as well as expenses for the issue of shares.

**Other revenue reserves and retained earnings**

Other revenue reserves and retained earnings include past earnings of the companies included in the consolidated financial statements, insofar as they were not distributed. In addition, revaluations of obligations from benefits to employees after termination of employment totaling kEUR -91,072 (previous year: -69,112) and related deferred taxes with no effect on profit and loss totaling kEUR 25,512 (previous year: 19,383) were recognized in the revenue reserves.
This line item also includes cumulative differences from the currency translation of financial statements for consolidated foreign subsidiaries with no effect on profit and loss totaling kEUR -6,471 (previous year: -13,285) and cumulative gains from the switch to IFRS of kEUR 10,387 (previous year: 10,387).

Furthermore, this item includes accumulated effects from the recognition of derivative financial instruments (hedging reserve and reserve for hedging costs) totaling kEUR -319 (previous year: -346) with no effect on profit and loss and the recognition of equity and debt instruments amounting to kEUR -1,241 (previous year: -1,663) with no effect on profit and loss.

### 27.1 Non-controlling interests

**Details on not wholly owned subsidiaries in which material non-controlling interests are held**

These are the material non-controlling interests of BAUER Group:

| in kEUR | | December 31, 2018 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|---|
| Group company | Non-controlling interests | Share in the capital in % | Share in the capital in kEUR | Profit/loss attributable in kEUR | Share in the capital in % | Share in the capital in kEUR | Profit/loss attributable in kEUR |
| BAUER EGYPT S.A.E., Cairo, Egypt | Various natural persons | 44.25 | 8,535 | 2,850 | 44.25 | 15,308 | 3,738 |
| BAUER Casings Makina Sanayi ve Ticaret Limited Sirketi, Ankara, Turkey | Emiroglu Makina | 40.00 | 686 | 532 | 40.00 | 1,621 | 539 |
| Thai Bauer Ltd. | | 26.01 | 4,373 | 1,221 | 26.01 | 3,381 | -1,311 |
| Site Group for Services and Well Drilling Ltd. Co., Amman, Jordan Co., Amman, Jordan | Oweis family | 16.67 | -14,564 | -2,884 | 16.67 | -17,094 | -2,539 |
| Individual immaterial subsidiaries with non-controlling interests | | | 4,474 | -209 | | 1,896 | 169 |
| **Total** | | | **3,504** | **1,510** | | **5,112** | **596** |

Below is the summarized financial information for each Group company with material non-controlling interests corresponding to the amounts before Group-internal elimination:

| BALANCE SHEET<br>in kEUR | BAUER Casings | | BAUER EGYPT S.A.E | | Site Group | | Thai Bauer Ltd. | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 |
| Non-current assets | 1,475 | 1,454 | 12,252 | 14,165 | 10,757 | 8,639 | 18,950 | 20,949 |
| Current assets | 3,545 | 4,303 | 23,216 | 30,574 | 45,726 | 37,831 | 16,442 | 13,992 |
| Non-current liabilities | 753 | 671 | 0 | 438 | 228 | 219 | 2,180 | 4,290 |
| Current debt | 663 | 1,093 | 10,647 | 9,569 | 60,242 | 50,597 | 21,304 | 22,729 |

| INCOME STATEMENT<br>in kEUR | BAUER Casings | | BAUER EGYPT S.A.E | | Site Group | | Thai Bauer Ltd. | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Sales revenues | 6,488 | 7,402 | 42,686 | 46,100 | 1,330 | 15,985 | 42,799 | 25,470 |
| Earnings before interest and tax | 1,812 | 1,656 | 8,121 | 12,394 | -20,985 | -13,093 | 6,329 | -4,437 |
| Earnings before tax | 1,706 | 1,706 | 8,444 | 12,382 | -25,640 | -15,489 | 5,723 | -5,079 |
| Earnings after tax | 1,331 | 1,349 | 6,440 | 8,447 | -26,655 | -15,543 | 4,695 | -5,079 |
| Profit/loss attributable to non-controlling interests | 546 | 539 | 2,850 | 3,738 | -2,884 | -2,539 | 1,221 | -1,311 |
| Profit/loss attributable to shareholders of BAUER AG | 785 | 810 | 3,590 | 4,709 | -22,771 | -13,004 | 3,474 | -3,768 |
| Dividends distributed to non-controlling interests | -188 | -216 | -589 | -1,027 | -30 | 0 | 0 | 0 |

| CONSOLIDATED STATEMENT OF CASH FLOWS<br>in kEUR | BAUER Casings | | BAUER EGYPT S.A.E | | Site Group | | Thai Bauer Ltd. | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Cash flow from operating activities | 721 | 1,021 | 8,844 | 6,277 | -13,053 | -22,679 | 12,930 | -2,433 |
| Cash flow from investment activities | -119 | -241 | -6,196 | -3,133 | 21,663 | 14,526 | -5,961 | -337 |
| Cash flow from financing activities | -823 | -592 | -946 | -1,868 | -5,110 | 1,810 | -6,980 | 2,854 |
| Influence of exchange rate movements on cash | -32 | -53 | 291 | 1,200 | 2,101 | 120 | 28 | 57 |
| Changes in cash and cash equivalents with an effect on liquidity | -253 | 135 | 1,993 | 2,476 | 5,601 | -6,223 | 18 | 141 |

**27.2 Additional disclosures regarding capital management**

The object of Bauer's capital management is to safeguard a strong financial profile. In particular, it aims to provide shareholders with appropriate dividend payments and to safeguard servicing of capital on behalf of lenders. We also aim to provide ourselves with adequate financial resources to sustain our growth strategy. The risk profile is actively managed and monitored. This is focused primarily on key figures such as the equity ratio, net debt and earnings after tax for the period for the period.

The key figures are presented below:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Equity | 431,816 | 386,916 |
| Equity ratio | 26.45% | 23.76% |
| Earnings after tax | 24,087 | -36,550 |
| Net debt | 561,821 | 563,679 |
| Financial indebtedness | 624,408 | 601,254 |
| Liquid funds | 62,587 | 37,575 |
| Net debt / EBITDA | 2.83 | 4.58 |
| EBITDA / net interest coverage | 5.27 | 2.72 |

Financial liabilities include long-term and short-term liabilities to banks, liabilities from lease agreements and other financial liabilities. Net interest coverage includes the financial result, adjusted for income from operating participations.

As part of the capital management strategy covering the subsidiaries of the BAUER Group, it is ensured that member companies are provided with an equity base in line with local requirements. In this regard, our goal is to make available the necessary finance and liquidity freedom. As a consequence of the ad-hoc notification published on March 18, 2020 regarding the result of a legal dispute in Hong Kong and the valuation allowance carried out in the course of this in the amount of around EUR 40 million, the financial figures agreed with the partners as at December 31 could not be complied with, which in principle leads to a right of termination in the financing agreements. The consequence of this is that some liability items may become payable in accordance with the agreement and they are therefore stated under current liabilities to banks regardless of the original term. The reassignments amount to kEUR 187,347 at the balance sheet date.

In the event of the financing agreements being terminated by the financing partners and the major part of the financial liabilities falling due for repayment, there is a risk that the BAUER Group will not be able to meet its payment obligations. For this reason, there is a material uncertainty which may cast significant doubt on the Company‘s ability to continue as a going concern.

The affected financing partners have been provided with documents allowing them to evaluate the effects on the Group and negotiations will be held regarding the suspension of the key financial figures to the end of 2019 and/or the waiver of this right of termination. Due to the current high order backlog, the development of the Group which is positive in principle overall and the further work on the program to improve the results, the Management Board does not expect any key lines of credit to be terminated by the financing partners on the basis of an individual event, such as the result of a legal dispute in Hong Kong.

## 28. NON-CURRENT DEBT

The non-current portions of the liabilities comprise the following:

| in kEUR | Remaining term December 31, 2018 | | Remaining term December 31, 2019 | |
|---|---|---|---|---|
| | 1 to 5 years | over 5 years | 1 to 5 years | over 5 years |
| Liabilities to banks | 304,326 | 4,146 | 70,551 | 3,192 |
| Liabilities from lease agreements | 20,739 | 0 | 35,003 | 2,889 |
| Other non-current liabilities | 5,335 | 0 | 6,028 | 0 |
| Other non-current financial liabilities | 9,093 | 0 | 23,665 | 0 |
| **Total** | **339,493** | **4,146** | **135,247** | **6,081** |

| in kEUR | Fair value | | Interest rate margin | |
|---|---|---|---|---|
| | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 |
| Liabilities to banks | 316,491 | 100,530 | 0.95 - 12.40% | 0.80 - 11.05% |
| Liabilities from lease agreements | 21,498 | 42,371 | 1.39 - 7.70% | 0.68 - 8.03% |
| Other non-current financial liabilities | 9,118 | 24,372 | 1.68 - 7.93% | 1.99 - 6.50% |
| **Total** | **347,107** | **167,273** | **-** | **-** |

The other non-current debt primarily includes non-current portions of liabilities from obligations in respect of service anniversary payments.

Other non-current financial liabilities include the market value of the derivatives as well as other liabilities to financing companies (see notes to the financial instruments in item 37).

## 29. PROVISIONS FOR PENSIONS

The BAUER Group operates a number of provisions for pensions in Germany and internationally. The provisions for pensions of the companies in Schrobenhausen recognized on the consolidated balance sheet cover most (96%) of the balance sheet value. Those companies are governed by the occupational pension scheme of BAUER Spezialtiefbau GmbH constituted on July 1, 1992 as amended by the in-company agreement dated November 18, 1998. In it, the company grants all employees who joined by March 31, 1998 and their surviving dependents a retirement pension and invalidity benefit as well as a widow's/widower's pension. Employees qualify for the retirement pension on reaching the standard retirement age, or on prior qualification for a pension from the statutory pension fund. The pension payable amounts to 0.225% of the employee's pensionable earnings for each pensionable year of service, plus 0.075% of pensionable earnings for each pensionable year of service completed before January 1, 1999; plus, for the portion of pensionable earnings above the contribution assessment limit in the statutory pension fund, 0.375% plus 0.125% for each pensionable year of service completed before January 1, 1999. In the case of scheme members who are not members of the Zusatzversorgungskasse des Baugewerbes (construction industry ancillary benefits fund): For each pensionable year of service, 0.3% plus 0.1% of pensionable earnings for each pensionable year of service completed before January 1, 1999; plus, for the portion of pensionable earnings above the contribution assessment limit in the statutory pension fund, 0.3% plus 0.1% for each year of service completed before January 1, 1999.


BAUER BG 26
BAUER BG 26

The widow's/widower's pension amounts to 50% of the attained entitlement. Benefits are also promised to surviving dependent children in various forms. Vesting and transitional arrangements are also in place. The risks entailed by the pension schemes are mainly those commonly associated with provisions for pensions in terms of potential variations in the discount rate and, to a lesser extent, inflation trends as well as longevity.

The calculations are based on the following actuarial assumptions:

| in % | December 31, 2018 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Germany | Indonesia | Philippines | India * | Germany | Indonesia | Philippines | India * |
| Interest rate | 1.90 | 8.25 | 7.50 | - | 1.05 | 8.00 | 5.12 | - |
| Future salary increases | 3.00 | 10.00 | 5.00 | - | 3.00 | 10.00 | 5.00 | - |
| Future pension increases | 2.00 | - | - | - | 2.00 | - | - | - |

* No information was available for companies with a different financial year.

Provisions for pensions in Germany are calculated biometrically applying the 2018 G guideline tables compiled by Klaus Heubeck. The interest rate applied for discounting the future payment obligations is always determined on the basis of the return on top company bonds.
Outside of Germany, the underlying biometric probability of death is based on published national statistics and empirical data.

The provision for pensions and similar obligations recognized in the balance sheet is calculated as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Present value of obligations financed by a fund | 727 | 233 |
| Fair value of plan assets | -727 | -233 |
| **Plan deficit** | **0** | **0** |
| Present value of obligations not financed by a fund | 137,290 | 161,642 |
| **Total deficit of defined benefit plan obligations** | **137,290** | **161,642** |
| Effect of asset ceiling | - | - |
| **Recognized provision** | **137,290** | **161,642** |

<<< *For the construction of an 85 m long retaining wall in Bedford, Pennsylvania USA, the equipment customer Carmen Paliotta Contracting used a BG 26 with kelly set-up.*

The defined benefit obligations and the plan assets developed as follows in the previous year:

| in kEUR | Present value of obligation | Fair value of plan assets | Total | Effect of asset ceiling | Total |
|---|---|---|---|---|---|
| **Date: January 1, 2018** | **129,989** | **-1,038** | **128,951** | **-** | **128,951** |
| Current service costs | 2,680 | - | 2,680 | - | 2,680 |
| Interest expense/income | 2,599 | -52 | 2,547 | - | 2,547 |
| Post-employment expenditure, income and losses from payment in lieu | - | - | - | - | - |
| **Total** | **135,268** | **-1,090** | **134,178** | **-** | **134,178** |
| **Revaluation:** | | | | | |
| Income from plan assets excluding amounts contained in the above interest | - | 339 | 339 | - | 339 |
| Actuarial income and losses arising from adjustments to demographic assumptions | 2,270 | - | 2,270 | - | 2,270 |
| Actuarial income and losses arising from adjustments to financial assumptions | -276 | - | -276 | - | -276 |
| Empirical value-based adjustments | 3,552 | - | 3,552 | - | 3,552 |
| Changes in the effect of limitation of a defined benefit plan on the asset ceiling, excluding amounts contained in the interest | - | - | - | - | - |
| **Total** | **5,546** | **339** | **5,885** | **-** | **5,885** |
| Exchange rate movements | 69 | 9 | 78 | - | 78 |
| Contributions: | | | | | |
| Employer | - | -71 | -71 | - | -71 |
| Beneficiary employee | - | - | - | - | - |
| Payments from the plan: | | | | | |
| Ongoing payments | - | - | - | - | - |
| Retirement benefits (not fund-financed) | -2,905 | 86 | -2,819 | - | -2,819 |
| Other effects | 39 | - | 39 | - | 39 |
| **Date: December 31, 2018** | **138,017** | **-727** | **137,290** | **-** | **137,290** |

The defined benefit obligations and the plan assets developed as follows during the financial year:

| in kEUR | Present value of obligation | Fair value of plan assets | Total | Effect of asset ceiling | Total |
|---|---|---|---|---|---|
| **Date: January 1, 2019** | **138,017** | **-727** | **137,290** | **-** | **137,290** |
| Current service costs | 2,719 | - | 2,719 | - | 2,719 |
| Interest expense/income | 2,747 | -63 | 2,684 | - | 2,684 |
| Post-employment expenditure, income and losses from payment in lieu | - | - | - | - | - |
| **Total** | **143,483** | **-790** | **142,693** | **-** | **142,693** |
| **Revaluation:** | | | | | |
| Income from plan assets excluding amounts contained in the above interest | - | 12 | 12 | - | 12 |
| Actuarial income and losses arising from adjustments to demographic assumptions | - | - | - | - | - |
| Actuarial income and losses arising from adjustments to financial assumptions | 24,085 | - | 24,085 | - | 24,085 |
| Empirical value-based adjustments | -2,073 | - | -2,073 | - | -2,073 |
| Changes in the effect of limitation of a defined benefit plan on the asset ceiling, excluding amounts contained in the interest | - | - | - | - | - |
| **Total** | **22,012** | **12** | **22,024** | **-** | **22,024** |
| Exchange rate movements | 141 | -42 | 99 | - | 99 |
| Contributions: | | | | | |
| Employer | - | -75 | -75 | - | -75 |
| Beneficiary employee | - | - | - | - | - |
| Payments from the plan: | | | | | |
| Ongoing payments | - | - | - | - | - |
| Retirement benefits (not fund-financed) | -3,760 | 662 | -3,098 | - | -3,098 |
| Other effects | -1 | - | -1 | - | -1 |
| **Date: December 31, 2019** | **161,875** | **-233** | **161,642** | **-** | **161,642** |

The fair value of the plan assets can be allocated to the following categories:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Qualifying insurance contracts | 0 | 0 |
| Money market fund and pension fund | 727 | 233 |
| Cash and cash equivalents | 0 | 0 |
| **Total** | **727** | **233** |

No market price quotations exist for the qualifying insurance contracts.

The key actuarial assumptions applied in determining the defined benefit plan obligation are the discount rate, expected salary increases and expected pension increases.

The sensitivity of the overall pension commitment to variations in the weighted primary assumptions is:

| in kEUR | Effect on obligation | | |
|---|---|---|---|
| | Variation in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | +/- 0.5% | 146,926 | 179,134 |
| Future salary increases | +/- 0.5% | 166,196 | 157,824 |
| Future pension increase | +/- 0.5% | 173,724 | 129,353 |
| | | Increase in assumption by 1 year | Decrease in assumption by 1 year |
| Probability of death | | 170,702 | 152,764 |

The above sensitivity analysis is based on a variation in one assumption while all other assumptions remain constant. It is unlikely that this will occur in reality, and variations in some assumptions may correlate.
The sensitivity for life expectancy is reached using general (age-independent) factors for a reference person with a life expectancy of one year higher or one year lower. In calculating the sensitivity of the defined benefit plan obligation to variations in actuarial assumptions, the same method was applied as that used to measure the provisions for pensions on the balance sheet. The present value of the defined benefit plan obligations was calculated by the Projected Unit Credit method as at the end of the reporting period.

The methods and categories of assumption applied in preparing the sensitivity analysis have not changed relative to the prior period. The defined benefit plan obligations and plan assets by country are as follows:

| in kEUR | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Germany | Indonesia | Philippines | Taiwan | Total |
| Present value of obligations | 135,717 | 1,943 | 318 | 39 | 138,017 |
| Fair value of plan assets | 0 | -727 | 0 | 0 | -727 |
| **Total** | **135,717** | **1,216** | **318** | **39** | **137,290** |
| Effect of asset ceiling | 0 | 0 | 0 | 0 | 0 |
| **Total** | **135,717** | **1,216** | **318** | **39** | **137,290** |

| in kEUR | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Germany | Indonesia | Philippines | India | Total |
| Present value of obligations | 159,507 | 1,702 | 631 | 35 | 161,875 |
| Fair value of plan assets | 0 | -233 | 0 | 0 | -233 |
| **Total** | **159,507** | **1,469** | **631** | **35** | **161,642** |
| Effect of asset ceiling | 0 | 0 | 0 | 0 | 0 |
| **Total** | **159,507** | **1,469** | **631** | **35** | **161,642** |

The present value of the defined benefit plan obligation is distributed as follows among the plan members:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Active scheme members | 79,330 | 95,029 |
| Deferred beneficiary employees | 6,566 | 8,129 |
| Retired employees | 52,121 | 58,717 |
| **Total** | **138,017** | **161,875** |

The weighted average term of the provisions for pensions is 19.91 years (previous year: 19.06 years).

Pension payments in financial year 2020 are expected to amount to kEUR 3,271 (previous year: 3,884). Of that total, kEUR 3,271 (previous year: 3,884) is projected to be contributed by the employer. Contributions to the external plan assets totaling kEUR 75 are expected (previous year: 70) for 2020.

The following table provides an overview of the due dates of the non-discounted pension payments:

| in kEUR | Up to 1 year | 1 to 5 years | 6 to 10 years | Dec. 31, 2019 Total |
|---|---|---|---|---|
| Pension payments | 3,271 | 15,642 | 23,688 | 42,601 |

## 30. CURRENT DEBT

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Liabilities to banks | 256,743 | 431,645 |
| Liabilities from lease agreements | 10,057 | 20,745 |
| Contract liabilities | 52,426 | 76,829 |
| Trade payables | 224,502 | 240,280 |
| Liabilities to enterprises in which the company has participating interests | 860 | 1,699 |
| Other current liabilities | 80,063 | 83,510 |
| Other current financial liabilities | 19,304 | 13,563 |
| **Total** | **643,955** | **868,271** |

The “Trade payables” balance sheet item includes long-term payables totaling kEUR 778 (previous year: 864).

In the fiscal year, kEUR 40,327 was recorded as reduction of income relating to other periods due to an individual value adjustment as a result of a court ruling. Of this amount, kEUR 10,289 relates to contract liabilities. The revenue adjustment represents a change in the transaction price in accordance with IFRS 15.88.

The other current debt mainly comprises obligations in respect of outstanding invoices, flexitime and holiday credits, employer's liability insurance associations, the compensation levy for the shortfall in handicapped employees, performance bonuses as well as other tax liabilities and liabilities in respect of social security.

The other current financial liabilities mainly comprise obligations to finance companies. The fair values almost match the carrying amounts. The interest rate margin on current debt to banks is 0.80% to 13.65% (previous year: 0.95% to 13.20%).

## 31. OTHER PROVISIONS

The other provisions developed as follows in the financial year:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| **Date: January 1** | **20,188** | **20,501** |
| Change in basis of consolidation | 0 | 0 |
| Currency adjustment | -160 | 249 |
| Allocation | 10,396 | 14,355 |
| Reversal | 4,897 | 6,704 |
| Consumption | 5,026 | 4,724 |
| **Date: December 31** | **20,501** | **23,677** |

The other provisions comprise the following:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Risk from contract processing and warranties | 19,690 | 22,493 |
| Litigation | 797 | 1,164 |
| Impending losses | 14 | 20 |
| **Total** | **20,501** | **23,677** |

The provisions for risk from contract processing and warranties include all risks arising from carrying out specialist foundation engineering work and from the sale of machinery, equipment and tools for specialist foundation engineering, with the associated services. These primarily relate to warranty obligations and to other uncertain commitments. The risk from contract processing and warranties is determined specific to project/construction site.

It is expected that other provisions will be consumed in the course of 2020. The provisions for litigation relate for the most part to provisions for legal disputes on receivables.

## 32. CONTINGENT LIABILITIES

Contingent liabilities are liabilities not yet recognized in the financial statements, which are recognized in the amount of the maximum possible exposure on the balance sheet date.

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Liabilities from guarantees | 45,252 | 52,435 |

In the construction industry, it is common and essential practice to issue various guarantees to secure obligations arising from construction contracts. These guarantees are usually issued by banks or credit insurance companies (guarantors), and essentially guarantee quotations, contract performance, prepayments and warranty commitments. In the event of a guarantee being given, the guarantors have a right of recourse against the Group. A risk of a guarantee being implemented exists only when the underlying contractual obligations are not duly met.

The contingent liabilities were mainly in relation to the securing of contract performance, to warranty obligations and to advance payments. Liabilities from guarantees exist to third parties. In addition, we are subject to joint and several liability in respect of all consortia in which we participate. Maturities of payments for liabilities are not expected.

## 33. OTHER FINANCIAL OBLIGATIONS

| in kEUR | Remaining term December 31, 2018 | | |
|---|---|---|---|
| | under 1 year | 1 to 5 years | over 5 years |
| Minimum lease payments from leasing relationships | 7,184 | 17,879 | 777 |
| Other financial obligations | 10,561 | 4,584 | 3,533 |

The operating leases relate mainly to mutual agreements about factory and office equipment, as well as to technical equipment and machinery which were added in the previous year and are classified as operating leases. In the previous year, the BAUER Group was committed to rental agreements of a term unlimited in time totaling monthly kEUR 251. The other financial obligations mainly include limited-term property rentals and leases. Otherwise, we refer to the leasing relationships in accordance with IFRS 16 on page 72 et seq. of the annual report.

## 34. DISCONTINUED OPERATIONS

There are no plans to discontinue business operations under the terms of IFRS 5.

## 35. EVENTS AFTER THE BALANCE SHEET DATE

As at December 31, 2019, BAUER AG did not comply with agreed relations with regard to key loan agreements. The consequence of this is that some liability items may become payable in accordance with the agreement, meaning that they are stated under current liabilities to banks regardless of the original term. The reassignments amount to kEUR 187,347 at the balance sheet date. On January 30, 2020, the World Health Organization (WHO) declared a global health emergency due to the coronavirus outbreak. On March 11, 2020, the WHO classified the spread of the coronavirus as a pandemic. The further events relating to the spread of the coronavirus and the effects on the business activities of the BAUER Group will be monitored on an ongoing basis. On the basis of the most recent developments, the BAUER Group expects the increasing spread of the coronavirus and the measures which are necessary to reduce this to have a negative effect on the 2020 financial year. Furthermore, there are risks which relate to upstream and downstream processes (e.g. possible supply bottlenecks due to cancelled deliveries). The estimates and assumptions for the financial year of which the BAUER Group is aware have been taken into consideration and described in the forecast report. Furthermore, at the current time, no other major charges are known or foreseeable. However, additional charges are possible over the course of the year. With a press release from March 31, 2020, the BAUER Group announced that, due to the worsening economic situation caused by the worldwide spread of the corona pandemic, short-time working would be introduced starting from April 1, 2020 for some companies based in Germany. This applies above all to the Schrobenhausen site with its machine production, but also in many areas of construction operations and administration. The further and final economic impact of the coronavirus on the BAUER Group cannot yet be estimated. Furthermore, after December 31, 2019, there are no events that must be reported in accordance with IAS 10 or DRS 20.

# OTHER DISCLOSURES

## 36. CONSOLIDATED STATEMENT OF CASH FLOWS

The funds shown in the consolidated statement of cash flows comprise only the cash and cash equivalents stated on the balance sheet. The consolidated statement of cash flows details payment flows, broken down by inflow and outflow of funds from operating activities and from investment and financing activities.
The cash flow from operating activities is derived indirectly from the earnings before tax. The earnings before tax are adjusted by non-cash transactions. The cash flow from operating activities is produced taking account of the changes in working capital.
Investment activities include additions to property, plant and equipment and to financial assets and intangible assets, as well as income from the sale of fixed assets. Financing activities include outflows of cash and cash equivalents arising from dividend payments as well as the change in other financial indebtedness.
The changes in balance sheet items applied for the preparation of the consolidated statement of cash flows are not directly derivable from the balance sheet, as the effects of currency translation and changes in the basis of consolidation, as well as the allocation and elimination of valuation allowances on trade receivables and provisions, do not affect payments and are stripped out.

## 37. FINANCIAL INSTRUMENTS

In its business operations and financing activities the BAUER Group is subject in particular to fluctuations in exchange rates and interest rates. It is the company's policy to exclude, or at least limit, these risks by entering into hedge transactions. All hedging measures are controlled and executed centrally by BAUER AG. Application of the segregation-of-duties approach ensures that there is an adequate split between the trading and execution functions. All derivatives transactions are entered into only with banks of the highest possible credit rating.

### MARKET RISKS

#### Foreign exchange rate risks

Foreign exchange rate risks under the terms of IFRS 7 are created by financial instruments which are denominated in a currency different to the functional currency and are of a monetary nature. Exchange rate-related differences when converting financial statements into the Group currency are ignored. The exchange rates between functional and non-functional currencies in which the BAUER Group enters into financial instruments are classed as relevant risk variables.
The existing foreign exchange contracts safeguard the currency hedging strategy. Within the BAUER Group, the primary monetary financial instruments are either denominated directly in functional currency or the fluctuations resulting from the exchange rate risk are largely eliminated by means of derivatives. In view of the usually short-term maturity of the instruments too, possible changes in exchange rates have only very minor effects on earnings or equity.
For the purposes of sensitivity analysis, foreign exchange rate risks arising from monetary financial instruments which were not concluded in the functional currencies of the individual member companies of the BAUER Group are included in the analysis.

Quantification of foreign exchange risk in case of exchange rate shifts of +/- 10%:

| in kEUR as at December 31, 2018 | USD/EUR | AUD/EUR | GBP/EUR |
|---|---|---|---|
| Overall effect of +10% on OCI | 6,586 | 342 | 0 |
| Overall effect of -10% on OCI | -8,049 | -418 | 0 |
| Overall effect of +10% on income statement | -2,998 | 24 | -380 |
| Overall effect of -10% on income statement | 3,673 | -29 | 464 |

| in kEUR as at December 31, 2019 | USD/EUR | CNY/EUR | GBP/EUR |
|---|---|---|---|
| Overall effect of +10% on OCI | 2,625 | 0 | 104 |
| Overall effect of -10% on OCI | -3,209 | 0 | -127 |
| Overall effect of +10% on income statement | 4,294 | 961 | -112 |
| Overall effect of -10% on income statement | -5,301 | -1,174 | 132 |

In 2019, the sensitivity effects primarily related to the currency pairs of USD/EUR, CNY/EUR and GBP/EUR. No concentrations of risk exist.

**Interest rate risks**

The interest rate risk of the Group is based on financial liabilities with floating interest rates (as well as the short-term credit lines used). The existing interest rate swaps serve to safeguard our financing and interest rate hedging strategy. Agreements exist in respect of swaps from variable to fixed interest rates in order to reduce the risk of fluctuation in market interest rates. Changes in market interest rates affect the interest results of variable-rate primary financial instruments of which the interest payments are not hedged by derivatives, and consequently are included in the calculation of earnings-related sensitivity. Changes in market interest rates of interest rate derivatives (interest swaps) which are not embedded in a hedging relationship pursuant to IFRS 9 have effects on financial income and financial expenses (net valuation based on adjustment of financial assets and financial liabilities to applicable fair value) and so are included in the calculation of earnings-related sensitivity. The effects of changes in market interest rates of interest rate derivatives to which hedge accounting is applied are recognized in the OCI.

Quantification of risk of change in interest rate in case of interest rate shifts of +/- 100 base points:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Overall effect of +100 base points on OCI | 939 | 558 |
| Overall effect of -100 base points on OCI | -274 | -56 |
| Overall effect of +100 base points on income statement | 17,146 | 17,364 |
| Overall effect of -100 base points on income statement | -17,782 | -18,355 |

Within the framework of the IBOR Reform, interest rate hedging instruments will be subject to a number of uncertainties, such as the nature and time of the change in view of the hedged risk of the underlying transaction. BAUER AG will use possible simplifications arising from the resulting standard changes of IFRS 7, IFRS 9 and IAS 39 in advance, regardless of the remaining term starting in fiscal year 2019, for all affected hedging relationships. This does not affect effectiveness. The uncertainty relates to the highly likely expectation of hedged and variable payment flows (reference interest rate EURIBOR) within the framework of the application of cash flow hedge accounting. In addition, BAUER AG will observe the effects of the IBOR Reform on the interest rate hedging instrumentsand introduce corresponding measures if necessary.

**Raw material price risk**

Raw material price risks to which the BAUER Group is exposed in respect of availability and potential fluctuations in price on the market are excluded, or limited, by means of supply promises and fixed pricing agreements entered into with suppliers prior to execution of contracts. The raw material price risk relates mainly to steel. Due to the fixed pricing agreements, no sensitivity is stated.

**Liquidity risks**

The liquidity risk is managed by means of business planning, which ensures that the necessary funds to finance operating activities and current and future capital investments are made available at the appropriate time, in the required currency, and at optimum cost, in all Group companies. In liquidity risk management, the liquidity requirement arising from operating activities, from investment activities and from other financial measures is determined in the form of a banking report and a liquidity plan. Liquidity is guaranteed by means of a liquidity forecast focused on a fixed planning horizon and by unused lines of credit and guarantee facilities available in the BAUER Group.

The following tables present the contractually agreed and undiscounted interest payments and capital repayments in respect of primary financial liabilities of the BAUER Group:

| in kEUR | Carrying amount Dec. 31, 2018 | Cash flow 2019 | Cash flow 2020 to 2023 | Cash flow 2024 et seq. |
|---|---|---|---|---|
| Liabilities to banks | 565,215 | 269,588 | 311,722 | 10,877 |
| Liabilities from lease agreements | 30,796 | 10,759 | 21,620 | 250 |
| Other liabilities | 85,398 | 80,069 | 1,872 | 3,501 |
| Other financial liabilities (excluding derivatives) | 19,177 | 17,896 | 1,319 | 0 |
| Liabilities from construction contracts (PoC) | 52,426 | 52,426 | 0 | 0 |
| Trade payables | 224,502 | 223,638 | 864 | 0 |
| Liabilities to enterprises in which the company has participating interests | 860 | 860 | 0 | 0 |

| in kEUR | Carrying amount Dec. 31, 2019 | Cash flow 2020 | Cash flow 2021 to 2024 | Cash flow 2025 et seq. |
|---|---|---|---|---|
| Liabilities to banks | 505,388 | 253,867 | 261,523 | 13,532 |
| Liabilities from lease agreements | 58,637 | 21,727 | 33,943 | 8,473 |
| Other liabilities | 89,538 | 83,636 | 1,831 | 4,210 |
| Other financial liabilities (excluding derivatives) | 16,807 | 13,271 | 3,870 | 339 |
| Contract liabilities | 76,829 | 76,829 | 0 | 0 |
| Trade payables | 240,280 | 239,502 | 778 | 0 |
| Liabilities to enterprises in which the company has participating interests | 1,699 | 1,699 | 0 | 0 |

There were no instances of defaulting on interest payments or capital repayments in the period under review. In addition, no concentrations of risk exist. It is not to be expected that liabilities arising from sureties (contingent liabilities) will result in significant actual liabilities, and thus in significant cash flows, for which no provisions have yet been made.

As at December 31, 2019, BAUER AG was unable to comply with predefined credit relations. Following this, the non-current liabilities to banks in the amount of kEUR 187,347 were reassigned to current liabilities to banks. The financing partners concerned were provided with documents to assess the impact on the Group and negotiations were held to suspend the financial ratios at the end of 2019 and will lead to a waiver of this right of termination. BAUER AG assumes that no major credit lines will be cancelled. For this reason, there was no adjustment of the cash flow under cash outflows in 2020. For more details, we refer to section 27.2 of the Notes and to the Group Management Report.

The due dates of derivative financial instruments based on outflow and inflow of cash and cash equivalents are as follows:

| in kEUR **as at December 31, 2018** | Carrying amount | 2019 | 2020 to 2023 | From 2024 |
|---|---|---|---|---|
| **Liabilities from foreign exchange forward contracts** | **1,315** | **-2,846** | **0** | **0** |
| Outflow of cash and cash equivalents | - | -100,938 | 0 | 0 |
| Inflow of cash and cash equivalents | - | 98,092 | 0 | 0 |
| **Liabilities from interest swaps** | **7,905** | **-2,206** | **-11,746** | **-5,343** |
| Outflow of cash and cash equivalents | - | -2,206 | -11,746 | -5,343 |

| in kEUR **as at December 31, 2019** | Carrying amount | 2020 | 2021 to 2024 | From 2025 |
|---|---|---|---|---|
| **Liabilities from foreign exchange forward contracts** | **270** | **-337** | **0** | **0** |
| Outflow of cash and cash equivalents | - | -14,008 | 0 | 0 |
| Inflow of cash and cash equivalents | - | 13,671 | 0 | 0 |
| **Liabilities from interest swaps** | **20,151** | **-4,132** | **-14,818** | **-7,274** |
| Outflow of cash and cash equivalents | - | -4,132 | -14,818 | -7,274 |

To calculate the cash inflows from interest swaps the conditions as per December 31, 2019 were applied. The foreign exchange forward contracts represent a gross settlement while the interest swaps represent a net settlement.

In the reporting period, there were free lines for short-term loans and overdrafts of kEUR 379,864 (previous year: 364,825) and for guarantees of kEUR 163,191 (previous year: 237,013).

**Risk of default**

The risk of default is managed at Group level. Default risks arise from cash and cash equivalents, derivative financial instruments and deposits at banks and financial service companies, as well as trade receivables, receivables from enterprises in which the company has participating interests, other financial assets and contract assets. Only banks and financial services companies with the highest possible credit ratings are selected as partners. No credit limit was exceeded in the reporting period.

The risk of default on financial assets exists in terms of the risk of failure of a contract party and thus to a maximum in the amount of the carrying amount of the exposure to the said party. A presentation of the carrying amounts and the resultant maximum risk of default per category is given in the tables starting on page 142. The risk arising from primary financial instruments is countered by means of valuation allowances for bad debt, and in Germany also by means of credit insurance cover. As derivative financial instruments are entered into only with banks with the highest possible credit ratings, and the risk management system sets limits for each party, the actual risk of default for completed derivative financial instruments is negligible. No concentrations of risk exist.

The valuation allowance for trade receivables and contractual assets as at December 31, 2018 is transferred to the closing balance of the valuation allowance as at December 31, 2019 as follows:

| in kEUR | Trade receivables | | |
|---|---|---|---|
| | Stage 2 (simplified approach) | Stage 3 (credit-worthiness-impaired) | Contract assets |
| **Valuation allowance on December 31, 2017** | **3,779** | **21,373** | **1,858** |
| Change in basis of consolidation | 0 | 0 | 0 |
| Foreign currency translation differences | 0 | 362 | 0 |
| Allocation | 0 | 19,699 | 0 |
| Reversal | 1,587 | 4,684 | 1,287 |
| Consumption | 0 | 6,992 | 0 |
| **Valuation allowance on Dec. 31, 2018** | **2,192** | **29,758** | **571** |
| | | | |
| **Valuation allowance on December 31, 2018** | **2,192** | **29,758** | **571** |
| Change in basis of consolidation | 0 | 2 | 0 |
| Foreign currency translation differences | 0 | 301 | 0 |
| Allocation | 710 | 24,841 | 321 |
| Reversal | 569 | 4,508 | 0 |
| Consumption | 0 | 10,227 | 0 |
| **Valuation allowance on December 31, 2019** | **2,333** | **40,167** | **892** |

Additions and reversals include the results of value adjustments on receivables from section 12 less the impairment losses on irrecoverable receivables reported there in the amount of kEUR 4,781 (previous year: EUR 3,201). In addition, the additions include the impairment losses of kEUR 10,733 (previous year: EUR 9,245) recognised through revenue.

The following tables display the gross carrying amounts and the risk of default for trade receivables and contract assets:

| in kEUR | Valuation allowance matrix for risk of default | | | | |
|---|---|---|---|---|---|
| | Credit default rate | Gross carrying amount | | Total term ECL | Gross carrying amount of creditworthiness-impaired trade receivables |
| | | Trade receivables | Contract assets | | |
| **Valuation allowance matrix on December 31, 2018** | | | | | |
| not overdue | 0.37% | 178,248 | 145,577 | 1,211 | - |
| overdue up to 30 days | 0.64% | 36,444 | - | 235 | - |
| overdue up to 60 days | 0.95% | 12,928 | - | 123 | - |
| overdue up to 90 days | 1.27% | 4,892 | - | 62 | - |
| overdue more than 90 days | 1.30% | 86,902 | - | 1,132 | - |
| **Total** | **-** | **319,414** | **145,577** | **2,763** | **47,515** |
| **Valuation allowance matrix on December 31, 2019** | | | | | |
| not overdue | 0.59% | 127,961 | 108,122 | 1,564 | - |
| overdue up to 30 days | 0.91% | 37,676 | - | 341 | - |
| overdue up to 60 days | 1.30% | 14,079 | - | 183 | - |
| overdue up to 90 days | 1.31% | 7,938 | - | 104 | - |
| overdue more than 90 days | 1.98% | 52,060 | - | 1,033 | - |
| **Total** | **-** | **239,714** | **108,122** | **3,225** | **74,086** |

The following table displays the gross carrying amounts of financial assets as per ECL stages on December 31, 2019:

| in kEUR | Stage 1 12-month ECL | Stage 2 Total term ECL (not creditworthiness-impaired) | Stage 3 Total term ECL (creditworthiness-impaired) | Total |
|---|---|---|---|---|
| **as at December 31, 2018** | | | | |
| Other financial assets | 19,226 | 0 | 0 | **19,226** |
| **as at December 31, 2019** | | | | |
| Other financial assets | 22,030 | 0 | 0 | **22,030** |

The other financial assets evaluated at amortized cost are seen as “subject to a low risk of default,” which is why the valuation allowance recorded in the period was limited to the expected 12-month credit losses. Debt instruments are classified as having a “low risk of default” if the risk of default is low and the debtor is always in a position to fulfill its contractual payment obligations at short notice. Financial assets are classified as stage 2 if the risk of default has increased significantly since being first recognized, but default has not yet occurred. Accordingly, all financial assets reduced by way of individual valuation allowance can be found in stage 3. At the BAUER Group, other financial assets mainly comprise lending and short-term loans to related parties, surety receivables and other receivables. The loan receivable from BAUER Nimr LLC in the amount of kEUR 10,229 (previous year: 10,036) represents the largest individual item within financial assets. The risk of default of BAUER Nimr LLC is assessed as being very low given its positive earnings forecasts from planning. The rating of other debtors is also known, thereby allowing continuous monitoring.

The valuation allowance for other financial assets valued at amortized cost as at December 31, 2018 is transferred to the closing balance of the allowance as at December 31, 2019 as follows:

| in kEUR | Stage 1 12-month ECL | Stage 2 Total term ECL (not creditworthiness-impaired) | Stage 3 Total term ECL (creditworthiness-impaired) | Total |
|---|---|---|---|---|
| **Valuation allowance on December 31, 2018** | **59** | **0** | **0** | **59** |
| Change in basis of consolidation | 0 | 0 | 0 | 0 |
| Foreign currency translation differences | 0 | 0 | 0 | 0 |
| Allocation | 149 | 0 | 0 | 149 |
| Reversal | 0 | 0 | 0 | 0 |
| Consumption | 0 | 0 | 0 | 0 |
| **Valuation allowance on December 31, 2019** | **208** | **0** | **0** | **208** |

### Net result by valuation category

The following table sets out the net profits and losses (before tax) on financial instruments stated in the income statement, broken down by valuation category as per IFRS 9:

| in kEUR | Dec. 31, 2018 * | Dec. 31, 2019 |
|---|---|---|
| Financial assets measured at amortized cost | -8,630 | -15,056 |
| Financial liabilities measured at amortized cost | -33,644 | -35,907 |
| Financial assets at fair value through OCI without recycling | 1,322 | 133 |
| Financial assets and liabilities at fair value through profit or loss | -9,145 | -17,211 |
| **Total** | **-50,097** | **-68,041** |

* Previous year’s figure adjusted, bank charges are reclassified from Financial assets measured at amortized cost to Financial liabilities measured at amortized cost.

The net result of the “financial assets measured at amortized cost” category includes results from the creation and reversal of valuation allowances in respect of trade receivables, impairments and write-ups of uncollected receivables, effects from currency translation as well as interest income.
The net result of the “financial liabilities measured at amortized cost” category includes the result from interest expenses to third parties, for current and non-current loans and results from bank fees.
The net result of the “financial assets at fair value through OCI without recycling” category includes dividend income from other participations.
The net result of the “financial assets and liabilities at fair value through profit or loss” category includes results from foreign exchange forward contracts and options, as well as results from changes to the fair values of interest swaps.
In contrast to the reconciliation for value adjustments, the impairments for financial assets measured at amortised cost also include the results from uncollectible receivables in the amount of kEUR 4,781 (previous year: 3,201). It also includes the impairment losses recognized through revenue.

In the table below the included impairments are evident:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Impairments for financial assets measured at amortized cost | -15,271 | -25,575 |
| Impairments for fair value through OCI without recycling | - | - |
| **Total** | **-15,271** | **-25,575** |

The total interest income and expense from financial instruments valued at amortized cost is represented as follows:

| in kEUR | Dec. 31, 2018 | Dec. 31, 2019 |
|---|---|---|
| Interest income | 6,857 | 9,433 |
| Interest expense | -31,369 | -34,987 |
| **Total** | **-24,512** | **-25,554** |

**Carrying amounts and fair values**

The fair value of a financial instrument is the amount for which an asset might be exchanged, or a liability paid, between informed, willing and mutually independent parties. Where financial instruments are quoted on an active market - such as in particular shares held and bonds issued - the price quoted on the market in question is the fair value. If no active market exists, the fair value is determined by financial valuation methods. The tables on page 142 and onward provide a comparison of the carrying amounts and fair values of financial instruments and reconcile these according to the categories of IFRS 9.
For derivative financial instruments without option component, including foreign exchange forward contracts and interest swaps, future payment flows are determined based on term curves. The fair value of these instruments corresponds to the sum of discounted payment flows.

Currency pair options are valued on the basis of customary market option price models.For cash and cash equivalents, current trade receivables and other current assets, current trade payables and other current debt, owing to their short remaining terms the carrying amount should be adopted as a realistic estimate of the fair value.

The fair values of non-current financial assets and of other non-current financial liabilities correspond to the cash values of the payment flows linked to the assets, taking into account the applicable interest rate parameters, which reflect changes in the terms and expectations of the market and of the respective parties.

The fair values of financial instruments are determined on the basis of one of the methods set out on the three following levels:

- Level 1: Quoted prices (adopted unchanged) on active markets for identical assets and liabilities
- Level 2: Directly or indirectly observable input data for the asset or liability other than quoted prices as per level 1
- Level 3: Applied input data which does not originate from observable market data for measurement of the asset and liability (non-observable input data)

The following table represents the balance sheet items measured at the fair value of stage 3:

| in kEUR | January 1, 2018 | Additions | Disposals | Changes without any effect on profit or loss | Changes recognized in the income statement | Dec. 31, 2018 |
|---|---|---|---|---|---|---|
| Participations | **11,733** | 34 | -1,083 | -2,334 | 0 | **8,350** |

| in kEUR | January 1, 2019 | Additions | Disposals | Changes without any effect on profit or loss | Changes recognized in the income statement | Dec. 31, 2019 |
|---|---|---|---|---|---|---|
| Participations | **8,350** | 34 | 0 | 422 | 0 | **8,806** |

These are participations valued at fair value through OCI. The change in fair value having no effect on profit or loss pertains exclusively to the participation in Wöhr + Bauer GmbH.
The assumptions regarding company planning, the growth rate for the estimation of cash flows after the end of the planning period and the discount rate are included in the valuation as non-observable input parameters. Based on information that is currently available, a significant change to corporate planning is estimated as being improbable. For this reason, the used cash flow forecasts are considered as a suitable foundation for determining the fair value. If the cost of capital rate calculated on the after-tax basis varied by +/- 0.5 percentage points, the equity would be kEUR 321 (previous year: 604) lower or kEUR 355 higher (previous year: 685). There are no significant relationships between the significant, non-observable entry parameters.
No significant fair value changes have arisen in the other participations.

There were no transfers between the levels during the year. If circumstances arise necessitating a reclassification, it is undertaken at the end of the reporting period.

**Other disclosures relating to hedging transactions**

Within the scope of intra-Group lending, the BAUER Group is exposed to foreign currency risks, the majority of which are hedged by cash flow hedges using forward exchange contracts. The main contractual features of the forward foreign exchange contracts are in accordance with the contractual components of the underlying transaction. Gains and losses on inter-company loans in foreign currency as at December 31, 2019 included in the hedge reserve in the OCI are recognized in the income statement in the period in which the hedged transaction impacts on the income statement. The likely effectiveness and economic relationship are determined using the critical term match method. Any ineffectiveness is determined using the dollar offset method based on the hypothetical derivatives method. When hedging foreign currency transactions, inefficiencies are likely to arise when the creditworthiness of the Group or counterparty of the derivative changes. No inefficiencies emerged during the reporting period.
Moreover, the interest-rate-related cash flow risk of variable-interest promissory notes were hedged by means of interest swaps and the promissory notes thus converted into fixed-interest financial liabilities. The main contractual features of the interest swaps are in accordance with the contractual components of the underlying transaction. The promissory notes and interest swaps are designated as a hedging relationship. No inefficiencies to be recognized arose in the financial year.

The following table provides an overview of the nominal volumes and market values of derivative financial instruments used in the Group:

| in kEUR | Nominal volume | | Market value | | | |
|---|---|---|---|---|---|---|
| | December 31, 2018 | December 31, 2019 | December 31, 2018 | | December 31, 2019 | |
| | | | Positive | Negative | Positive | Negative |
| Interest swaps * | | | | | | |
| of which in hedge accounting | 41,000 | 41,000 | 0 | -292 | 0 | -393 |
| of which not in hedge accounting | 273,284 | 280,252 | 0 | -7,613 | 0 | -19,758 |
| Foreign exchange contracts | | | | | | |
| of which in hedge accounting | 82,589 | 32,528 | 286 | -408 | 303 | -114 |
| of which not in hedge accounting | 70,899 | 85,195 | 329 | -907 | 824 | -156 |
| Foreign exchange options | | | | | | |
| of which in hedge accounting | 0 | 0 | 0 | 0 | 0 | 0 |
| of which not in hedge accounting | 0 | 0 | 0 | 0 | 0 | 0 |
| Cross currency swaps | | | | | | |
| of which in hedge accounting | 0 | 0 | 0 | 0 | | 0 |
| of which not in hedge accounting | 0 | 0 | 0 | 0 | | 0 |
| Interest rate caps | | | | | | |
| of which in hedge accounting | 0 | 0 | 0 | 0 | 0 | 0 |
| of which not in hedge accounting | 226,000 | 0 | 0 | 0 | 0 | 0 |

* The interest swaps constitute the market values including accrued interest.

### Amount, timing and uncertainty of future cash payment flows

The following table presents quantitative information per risk category. This includes the time profile for the notional amount of the hedging instrument and the average rate of the hedging instrument:

| **December 31, 2018** | Hedging of currency and interest rate risk | | |
|---|---|---|---|
| | 2019 | 2020 | > 2020 |
| **Foreign exchange risk**<br>Nominal volume (in kEUR) | | | |
| of which USD/EUR | 74,288 | 0 | 0 |
| of which AUD/EUR | 3,792 | 0 | 0 |
| of which CAD/EUR | 3,396 | 0 | 0 |
| of which HUF/EUR | 1,112 | 0 | 0 |
| **Average hedging rate** | | | |
| Average price USD/EUR | 1.1765 | 0 | 0 |
| Average price AUD/EUR | 1.5350 | 0 | 0 |
| Average price CAD/EUR | 1.5280 | 0 | 0 |
| Average price HUF/EUR | 327.2051 | 0 | 0 |
| | | | |
| **Interest rate risks**<br>Nominal volume (in EUR '000) | 0 | 3,500 | 37,500 |
| **Average interest hedging rate** | **0** | **0.6400%** | **0.3828%** |

| December 31, 2019 | Hedging of currency and interest rate risk | | |
|---|---|---|---|
| | 2020 | 2021 | > 2022 |
| **Foreign exchange risk**<br>Nominal volume (in kEUR) | | | |
| of which USD/EUR | 29,170 | 0 | 0 |
| of which GBP/EUR | 1,140 | 0 | 0 |
| of which ZAR/EUR | 2,218 | 0 | 0 |
| of which HUF/EUR | 0 | 0 | 0 |
| **Average hedging rate** | | | |
| Average price USD/EUR | 1.1260 | 0 | 0 |
| Average price GBP/EUR | 0.8504 | 0 | 0 |
| Average price ZAR/EUR | 16.9910 | 0 | 0 |
| Average price HUF/EUR | 0 | 0 | 0 |
| | | | |
| **Interest rate risks**<br>Nominal volume (in EUR ’000) | 3,500 | 18,500 | 19,000 |
| **Average interest hedging rate** | **0.6400%** | **0.2300%** | **0.5355%** |

### Effects of hedge accounting on the net asset, financial and earnings position

The following table shows the carrying amounts of the hedging instruments (financial assets and liabilities shown separately) and the balance sheet items of the hedging instruments:

| in kEUR | Information about hedging instruments | | | | |
|---|---|---|---|---|---|
| **as at December 31, 2018** | Nominal | Carrying amounts of hedging instruments | | Cumulative value change of hedging instruments for determining inefficiencies | Balance sheet items |
| | | Assets | Liabilities | | |
| **Cash flow hedges** | | | | | |
| Foreign exchange risks | 82,589 | 286 | -408 | -1,183 | Other financial assets or other financial liabilities |
| Interest rate risks | 41,000 | 0 | -292 | -296 | Other financial liabilities |

| in kEUR | Information about hedging instruments | | | | |
|---|---|---|---|---|---|
| **as at December 31, 2019** | Nominal | Carrying amounts of hedging instruments | | Cumulative value change of hedging instruments for determining inefficiencies | Balance sheet items |
| | | Assets | Liabilities | | |
| **Cash flow hedges** | | | | | |
| Foreign exchange risks | 32,528 | 303 | -114 | -3,181 | Other financial assets or other financial liabilities |
| Interest rate risks | 41,000 | 0 | -393 | -387 | Other financial liabilities |

The following table shows the carrying amounts of the hedged items and the balances of the cash flow hedge reserve:

| in kEUR | Information on underlying transactions of cash flow hedges | | | | |
|---|---|---|---|---|---|
| **December 31, 2018** | Carrying amount of hedged items | | Cumulative value change of hedged items for determining inefficiencies | Balance of the cash flow hedge reserve | |
| | Assets | Liabilities | | Active hedges | Ended hedges |
| **Cash flow hedges** | | | | | |
| Foreign exchange risks | 79,833 | 2,756 | 1,183 | 0 | 0 |
| Interest rate risks | 0 | 40,829 | 296 | -201 | 0 |

| in kEUR | Information on underlying transactions of cash flow hedges | | | | |
|---|---|---|---|---|---|
| **December 31, 2019** | Carrying amount of hedged items | | Cumulative value change of hedged items for determining inefficiencies | Balance of the cash flow hedge reserve | |
| | Assets | Liabilities | | Active hedges | Ended hedges |
| **Cash flow hedges** | | | | | |
| Foreign exchange risks | 32,528 | 0 | 3,181 | 0 | 0 |
| Interest rate risks | 0 | 40,882 | 387 | -273 | 0 |

| in kEUR | Reconciliation statement for cash flow hedge reserve | | | | | |
|---|---|---|---|---|---|---|
| | | | Amounts reclassified to the income statement | | | |
| | January 1, 2018 | Changes in market value | due to non-occurrence of expected cash payment flows | due realization of underlying transaction in income statement | Tax effect of change in reserves | December 31, 2018 |
| **Hedging reserve** | | | | | | |
| Foreign exchange risks | **-957** | -1,183 | 0 | 2,514 | -374 | **0** |
| Interest rate risks | **-56** | -296 | 0 | 94 | 57 | **-201** |
| | | | | | | |
| **Reserve for hedging costs** | | | | | | |
| Foreign exchange risks | **0** | -494 | 0 | 293 | 56 | **-145** |

| in kEUR | Reconciliation statement for cash flow hedge reserve | | | | | |
|---|---|---|---|---|---|---|
| | | | Amounts reclassified to the income statement | | | |
| | January 1, 2019 | Changes in market value | due to non-occurrence of expected cash payment flows | due realization of underlying transaction in income statement | Tax effect of change in reserves | December 31, 2019 |
| **Hedging reserve** | | | | | | |
| Foreign exchange risks | **0** | -3,181 | 0 | 3,181 | 0 | **0** |
| Interest rate risks | **-201** | -387 | 0 | 287 | 28 | **-273** |
| | | | | | | |
| **Reserve for hedging costs** | | | | | | |
| Foreign exchange risks | **-145** | -1,889 | 0 | 2,026 | -38 | **-46** |

Reassignment for recognition in the income statement was carried out using the financial income and financial expenses items in the 2019 financial year. No inefficiencies emerged during the reporting period.

## Offsetting Financial Assets and Financial Liabilities

### a) Financial assets

The following financial assets are subject to potential offsetting, enforceable master-netting arrangements or similar arrangements. The gross amount of recognized financial assets corresponds to the net amount because no offsetting was performed in the balance sheet.

| in kEUR | Gross amount of financial assets recognized | Gross amount of financial liabilities offset on the balance sheet | Net amount of financial assets recognized on the balance sheet | Related amounts, which are not offset in the balance sheet | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash securities received | Net amount |
| **Date: December 31, 2018** | | | | | | |
| Derivative financial assets | 615 | 0 | 615 | -603 | - | 12 |
| Cash and cash equivalents | 62,587 | 0 | 62,587 | -13,517 | - | 49,070 |
| **Total** | **63,202** | **0** | **63,202** | **-14,120** | **-** | **49,082** |
| **Date: December 31, 2019** | | | | | | |
| Derivative financial assets | 1,127 | 0 | 1,127 | -956 | - | 171 |
| Cash and cash equivalents | 37,575 | 0 | 37,575 | -7,870 | - | 29,705 |
| **Total** | **38,702** | **0** | **38,702** | **-8,826** | **-** | **29,876** |

### b) Financial liabilities

The following financial liabilities are subject to potential offsetting, enforceable master-netting arrangements or similar arrangements. The gross amount of recognized financial liabilities corresponds to the net amount because no offsetting was performed in the balance sheet.

| in kEUR | Gross amount of financial liabilities recognized | Gross amount of financial liabilities offset on the balance sheet | Net amount of financial assets recognized on the balance sheet | Related amounts, which are not offset in the balance sheet | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash securities received | Net amount |
| **Date: December 31, 2018** | | | | | | |
| Derivative financial liabilities | 9,220 | 0 | 9,220 | -603 | - | 8,617 |
| Current-account overdrafts | 442,997 | 0 | 442,997 | -13,517 | - | 429,480 |
| **Total** | **452,217** | **0** | **452,217** | **-14,120** | - | **438,097** |
| **Date: December 31, 2019** | | | | | | |
| Derivative financial liabilities | 20,421 | 0 | 20,421 | -956 | - | 19,465 |
| Current-account overdrafts | 504,080 | 0 | 504,080 | -7,870 | - | 496,210 |
| **Total** | **524,501** | **0** | **524,501** | **-8,826** | - | **515,675** |

The “Financial instruments” column lists the amounts which are subject to master-netting arrangements but are not netted on the balance sheet because the preconditions for offsetting are not met. The “Cash securities received” column lists the amounts of cash and financial instrument securities received relative to the sum total of assets and liabilities which do not meet the criteria for netting on the balance sheet.

At the Group, financial instruments are assigned to balance sheet items as per the classification rules of IFRS 9. No fair value was stated for current financial instruments recognized at amortized cost in accordance with IFRS 7.29a. The following table presents a progression of the classes to the categories of IFRS 9 and the respective market values:

| in kEUR | Measurement benchmark | Carrying amount | | Amortized cost | |
|---|---|---|---|---|---|
| | | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 |
| **NON-CURRENT ASSETS** | | | | | |
| Participations | | 8,350 | 8,806 | | |
| | at cost | 0 | 0 | 0 | 0 |
| | at fair value | 8,350 | 8,806 | 0 | 0 |
| Other non-current financial assets | | 13,198 | 13,923 | | |
| | at fair value | 0 | 0 | 0 | 0 |
| | at amortized cost | 11,411 | 11,424 | 11,411 | 11,424 |
| | at cost | 0 | | 0 | 0 |
| | n/a | 1,787 | 2,499 | 0 | 0 |
| **CURRENT ASSETS** | | | | | |
| Contract assets | n/a | 145,005 | 108,122 | 0 | 0 |
| Trade receivables | | 334,978 | 271,300 | | |
| | at amortized cost | 330,189 | 269,800 | 330,189 | 269,800 |
| | at fair value | 4,789 | 1,500 | 0 | 0 |
| Receivables from enterprises in which the company has participating interests | at amortized cost | 7,846 | 1,912 | 7,846 | 1,912 |
| Other current financial assets | | 8,371 | 11,526 | | |
| | at fair value | 615 | 1,127 | 0 | 0 |
| | at amortized cost | 7,756 | 10,399 | 7,756 | 10,399 |
| Cash and cash equivalents | at amortized cost | 62,587 | 37,575 | 62,587 | 37,575 |
| **Total financial assets** | | **580,335** | **453,164** | **419,789** | **331,110** |

| Balance sheet valuation under IAS 9 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fair Value through OCI (without recycling) | | Fair Value through Profit or Loss | | Derivatives in hedge accounting | | Not assigned to IFRS 9 category | | Fair value according to IFRS 7 and IFRS 13 | | Measure-ment level under IFRS 13 |
| Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| 8,350 | 8,806 | 0 | 0 | 0 | 0 | 0 | 0 | 8,350 | 8,806 | 3 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,839 | 13,702 | 3 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 145,005 | 108,122 | n/a | n/a | n/a |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| 0 | 0 | 4,789 | 1,500 | 0 | 0 | 0 | 0 | 4,789 | 1,500 | 2 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 329 | 824 | 286 | 303 | 0 | 0 | 615 | 1,127 | 2 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| | | | | | | | | | | |
| **8,350** | **8,806** | **5,118** | **2,324** | **286** | **303** | **145,005** | **108,122** | **24,593** | **25,135** | |

| in kEUR | Measurement benchmark | Carrying amount | | Amortized cost | |
|---|---|---|---|---|---|
| | | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Liabilities to banks | at amortized cost | 308,472 | 73,743 | 308,472 | 73,743 |
| Liabilities from lease agreements | n/a | 20,739 | 37,892 | 0 | 0 |
| | | | | | |
| Other non-current financial liabilities | | 9,093 | 23,665 | | |
| | at fair value | 7,812 | 20,129 | 0 | 0 |
| | at amortized cost | 1,281 | 3,536 | 1,281 | 3,536 |
| | | | | | |
| **CURRENT DEBT** | | | | | |
| Liabilities to banks | at amortized cost | 256,743 | 431,645 | 256,743 | 431,645 |
| Liabilities from lease agreements | n/a | 10,057 | 20,745 | 0 | 0 |
| Contract liabilities | n/a | 52,426 | 76,829 | 0 | 0 |
| Trade payables | at amortized cost | 224,502 | 240,280 | 224,502 | 240,280 |
| Liabilities to enterprises in which the company has participating interests | at amortized cost | 860 | 1,699 | 860 | 1,699 |
| | | | | | |
| Other current financial liabilities | | 19,304 | 13,563 | | |
| | at fair value | 1,408 | 292 | 0 | 0 |
| | at amortized cost | 17,896 | 13,271 | 17,896 | 13,271 |
| | | | | | |
| **Total financial liabilities** | | **902,196** | **920,061** | **809,754** | **764,174** |

| Balance sheet valuation under IAS 9 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fair Value through OCI (without recycling) | | Fair Value through Profit or Loss | | Derivatives in hedge accounting | | Not assigned to IFRS 9 category | | Fair value according to IFRS 7 and IFRS 13 | | Measure-ment level under IFRS 13 |
| Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2019 | |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 316,491 | 100,530 | 3 |
| 0 | 0 | 0 | 0 | 0 | 0 | 20,739 | 37,892 | 21,498 | 42,371 | 3 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 7,520 | 19,758 | 292 | 371 | 0 | 0 | 7,812 | 20,129 | 2 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,306 | 4,180 | 3 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| 0 | 0 | 0 | 0 | 0 | 0 | 10,057 | 20,745 | n/a | n/a | n/a |
| 0 | 0 | 0 | 0 | 0 | 0 | 52,426 | 76,829 | n/a | n/a | n/a |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| | | | | | | | | | | |
| | | | | | | | | | | |
| 0 | 0 | 1,000 | 156 | 408 | 136 | 0 | 0 | 1,408 | 292 | 2 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a | n/a | n/a |
| | | | | | | | | | | |
| **0** | **0** | **8,520** | **19,914** | **700** | **507** | **83,222** | **135,466** | **348,515** | **167,502** | |

With regard to the fundamental classification of the different accounting categories and standards, we refer to the Accounting policies for financial instruments section on page 84.

### Net liability

The development of net liabilities is shown in the following table:

| in kEUR | Borrowings | Lease agreements | Subtotal | Cash and Cash equivalents | Total |
|---|---|---|---|---|---|
| **Net liability as at January 1, 2018** | **585,210** | **34,680** | **619,890** | **47,266** | **-572,624** |
| Cash flows | -22,248 | -19,083 | -41,331 | 14,756 | 56,087 |
| Acquisition - Leasing agreements | 0 | 16,352 | 16,352 | 0 | -16,352 |
| Other changes | 2,252 | -1,153 | 1,099 | 565 | -534 |
| **Net liability as at December 31, 2018** | **565,214** | **30,796** | **596,010** | **62,587** | **-533,423** |
| **Net liability as at January 1, 2019** | **565,214** | **30,796** | **596,010** | **62,587** | **-533,423** |
| Adjustment because of first-time application of IFRS 16 | 0 | 22,521 | 22,521 | 0 | -22,521 |
| **Net liability as at January 1, 2019 (adjusted)** | **565,214** | **53,317** | **618,531** | **62,587** | **-555,944** |
| Cash flows | -63,849 | -22,047 | -85,896 | -26,670 | 59,226 |
| Acquisition - Leasing agreements | 0 | 28,691 | 28,691 | 0 | -28,691 |
| Other changes | 4,024 | -1,324 | 2,700 | 1,658 | -1,042 |
| **Net liability as at December 31, 2019** | **505,389** | **58,637** | **564,026** | **37,575** | **-526,451** |

## 38. EXECUTIVE BODIES

In the year under review the Supervisory Board comprised the following members:

### Shareholder representatives

- Prof. Dr.-Ing. E.h. Dipl.-Kfm. Thomas Bauer, Schrobenhausen, Chairman
  Freelance management consultant
  Supervisory Board, BAUER Egypt S.A.E., Cairo, Egypt, Chairman
  Administrative Board, Maurer SE, Munich, member
  Supervisory Board, DEUSA International GmbH, Bleicherode, Chairman
  Advisory Board, BAUER Deep Drilling GmbH, Schrobenhausen, member
- Dr.-Ing. Johannes Bauer, Schrobenhausen
  Civil engineer with BAUER Designware GmbH, Schrobenhausen
- Prof. Dr.-Ing E.h. Manfred Nußbaumer M.Sc., Munich
  Retired civil engineer
  Supervisory Board, Leonhardt, Andrä und Partner Beratende Ingenieure VBI AG, Stuttgart, Chairman
- Dipl.-Ing. (FH) Elisabeth Teschemacher, née Bauer, Schrobenhausen
  Self-employed in the area of real estate management, building renovation and construction consulting
- Dipl.-Kffr. Andrea Teutenberg, Berlin
  Managing Director, Orange 12 GmbH, Berlin
  Administrative Board, KSB Management SE, Frankenthal (Palatinate), member
- Gerardus N. G. Wirken, Breda, Netherlands
  Freelance consultant in the area of strategy, managerial accounting and accounting
  Supervisory Board, Winters Bouw- en Ontwikkeling B.V., Breda/Netherlands, Chairman

**Employee representatives**

- Robert Feiger, Neusäß, Deputy Chairman
  Federal Chairman of the Industriegewerkschaft Bauen-Agrar-Umwelt industrial trade union, Frankfurt am Main
  Supervisory Board, Zusatzversorgungskasse des Baugewerbes AG, Wiesbaden, member
- Regina Andel, Ellrich
  Vice-Chairwoman of the Works Council, SCHACHTBAU NORDHAUSEN GmbH, Nordhausen
- Rainer Burg, Gerolsbach
  Technical Marketing Manager at BAUER Spezialtiefbau GmbH, Schrobenhausen
- Maria Engfer-Kersten, Langenhagen
  Union secretary of IG BCE Industriegewerkschaft Bergbau, Chemie, Energie, Hannover
- Reinhard Irrenhauser, Schrobenhausen
  Works Council Chairman at BAUER Maschinen GmbH, Schrobenhausen,
  Supervisory Board, BAUER Maschinen GmbH, Schrobenhausen, member
- Dipl. Kfm. (FH) Stefan Reindl, Schrobenhausen
  Personnel Director of BAUER AG, Schrobenhausen
  Advisory Board, BAUER Training Center GmbH, Schrobenhausen, Chairman

**Management Board**

- Dipl.-Phys. Michael Stomberg, Strasslach-Dingharting, Chairman
  Function: Participations, IT, Group Process Management, HSE, Quality Management
  Supervisory Board, BAUER Spezialtiefbau GmbH, Schrobenhausen, Chairman
  Supervisory Board, BAUER Maschinen GmbH, Schrobenhausen, Chairman
  Supervisory Board, BAUER Resources GmbH, Schrobenhausen, Chairman
  Supervisory Board, SCHACHTBAU NORDHAUSEN GmbH, Nordhausen, Chairman
- Dipl.-Ing. (FH), Florian Bauer, MBA, Schrobenhausen
  Functions: Digitalization, Development Coordination, Training, Corporate Culture
- Dipl.-Betriebswirt (FH) Hartmut Beutler, Schrobenhausen
  Functions: Finance, Legal and Insurance, Corporate Communications, Facility Management, Media Design
  Supervisory Board, Schrobenhausener Bank e.G., Schrobenhausen, Chairman
  Supervisory Board, BAUER Resources GmbH, Schrobenhausen, member
  Supervisory Board, SCHACHTBAU NORDHAUSEN GmbH, Nordhausen, Deputy Chairman
- Peter Hingott, Schrobenhausen
  Functions: Participations, Accounting, Personnel, Group Corporate Purchasing, Labor Director
  Supervisory Board, BAUER Spezialtiefbau GmbH, Schrobenhausen, member
  Supervisory Board, BAUER Maschinen GmbH, Schrobenhausen, member
  Administrative Board, BAUER Emirates Environment Technologies & Services LLC, Abu Dhabi, member
  Supervisory Board, BAUER Nimr LLC, Muscat, Oman, Chairman
  Administrative Board, BAUER Resources GmbH / Jordan Ltd. Co., Amman, Jordan, Chairman
  Administrative Board Site Group for Services and Well Drilling Ltd. Co., Amman, Jordan, Chairman
  Administrative Board BAUER Resources Chile Limitada, Santiago de Chile, Chile, Chairman

The total remuneration paid to members of the Management Board for their activities on the Management Board in the year under review, excluding allocations to pension provisions, was kEUR 1,549 (previous year: 1,552). Of that total, kEUR 1,344 (previous year: 1,342) was not performance-related and kEUR 205 (previous year: 210) was performance-related. The total remuneration includes benefits in kind arising from the private use of a company car and reimbursement of expenses for each member of the Management Board, as well as group accident insurance premiums and employer's liability insurance association contributions.
Old contracts with members of the Management Board include pension commitments and a survivor's pension as part of the company pension scheme. A retirement pension is also offered through a direct pension plan with a deferred compensation option. The company pension scheme for members of the Management Board incurred pension service costs totaling kEUR 61 (previous year: 50). The baseline salary defined for calculating retirement benefits is significantly lower in all contracts than the basic salary. Calculated in accordance with IAS 19, the defined benefit obligation entailed by all pension commitments to members of the Management Board serving at the end of the year was kEUR 1,660 (previous year: 1,247). The total remuneration of the former members of the Management Board amounted to kEUR 289 for the 2019 financial year (previous year: 91). The contracts of Management Board members include individual severance clauses regulating the specific terms of premature termination, with settlements oriented to the length of service of the member of the Management Board concerned and gauged so as not to exceed the amount of two years' remuneration for any one Management Board member. No provisions for compensation in the event of a takeover offer being made have been agreed with the members of the Management Board. For departed members of the Management Board, provisions for pensions amounting to kEUR 6,535 are recognized as a liability on the reporting date (previous year: 5,958).

The remuneration paid to the Supervisory Board for the 2019 financial year totaled kEUR 358 (previous year: 308) and is broken down as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| **Chairman** | | |
| Prof. Dr.-Ing. E.h. Dipl.-Kfm. Thomas Bauer (from Nov. 1, 2018) | 7.5 | 52.5 |
| Dr. Klaus Reinhardt (until Oct. 31, 2018) | 37.6 | - |
| **Deputy Chairman** | | |
| Robert Feiger | 32.3 | 37.5 |
| **Shareholder representatives** | | |
| Dr. Ing. Johannes Bauer | 23.6 | 27.5 |
| Dipl.-Ing. (FH) Elisabeth Teschemacher | 21.5 | 25.0 |
| Gerardus N. G. Wirken | 25.2 | 29.5 |
| Prof. Dr. Manfred Nußbaumer | 21.5 | 25.0 |
| Dipl.-Kffr. Andrea Teutenberg | 25.2 | 29.5 |
| **Employee representatives** | | |
| Dipl.-Kfm. (FH) Stefan Reindl | 21.5 | 25.0 |
| Regina Andel | 21.5 | 25.0 |
| Reinhard Irrenhauser | 23.6 | 27.5 |
| Rainer Burg | 21.5 | 25.0 |
| Maria Engfer-Kersten | 25.2 | 29.0 |
| **Total** | **307.7** | **358.0** |

## 39. RELATED PARTY DISCLOSURES

Related parties under the terms of IAS 24 are parties that the reporting enterprise has the ability to control or exercise significant influence over, or parties that have the ability to control or exercise significant influence over the reporting enterprise.

Transactions with related parties are defined as the transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether an invoice is issued in respect of the transaction or not.

Members of the Management Board of BAUER AG are members of Supervisory Boards and Management Boards of other companies with which BAUER AG maintains relations in the course of its ordinary business operations. Related persons received pensions totaling kEUR 284 in respect of former employment within the BAUER Group (previous year: 143). The members of the Supervisory Board, by virtue of their role as employees, received remuneration totaling kEUR 680 (previous year: 536). Contracts of employment (except for the remuneration to members of the Management Board disclosed) exist with members of the Management Board, including close family, in respect of which remuneration to an amount of kEUR 550 (previous year: 558).

For existing lease contracts with close relatives, a right of use of kEUR 1,518 was capitalized and a liability of kEUR 1,534 was recognized according to IFRS 16 for the first time on December 31, 2019.

Liabilities to the BAUER Foundation arising from a mortgage-backed amortizing loan existed totaling kEUR 1,500 (previous year: 1,150), for which set interest in the amount of kEUR 74 (previous year: 61) was paid. The BAUER Foundation is another related party. With regard to the loan granted to the associated company BAUER Nimr LLC, Muscat, Sultanate of Oman, we refer to the explanations in Section 23 “Other non-current financial assets“. At the end of the financial year no loan liabilities existed to shareholders of BAUER AG.

The key relationships between fully consolidated Group companies and related parties are set out in the following table:

| in kEUR | Associated companies | | Non-consolidated companies | | Joint ventures | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Income | 3,456 | 3,531 | 14,940 | 10,088 | 3,976 | 4,362 |
| Purchased services | 3,106 | 3,384 | 9,125 | 5,655 | 1,807 | 1,414 |
| Receivables and other assets (December 31) | 1,547 | 88 | 10,100 | 6,093 | 36,701 | 19,260 |
| Liabilities (December 31) | 54 | 243 | 2,513 | 2,398 | 3,687 | 6,022 |
| Valuation allowance of receivables | 0 | 0 | 14 | 17 | 16,851 | 13,939 |
| Expenditure for uncollectable and uncertain receivables | 0 | 0 | 393 | 0 | 1,821 | 0 |

The purchased services essentially comprise all expenses incurred with related parties during the financial year.

Transactions with related parties are conducted at standard market terms.

The receivables and other assets include uncollectable receivables as well as financial assets in respect of related parties.

## 40. JOINT OPERATIONS

The material joint ventures are listed below:

**Financial year 2018:**

| Project | Company's activities | Place of business | Investment quota |
|---|---|---|---|
| Piling Contractors Bauer Australia - Crown Resort Hotel | Specialist foundation engineering | Sydney, Australia | 50% |
| Wagstaff Piling Bauer Australia - Westgate Tunnel | Specialist foundation engineering | Melbourne, Australia | 50% |

**Financial year 2019:**

| Project | Company's activities | Place of business | Investment quota |
|---|---|---|---|
| Piling Contractors Bauer Australia - Crown Resort Hotel | Specialist foundation engineering | Sydney, Australia | 50% |
| Wagstaff Piling Bauer Australia - Westgate Tunnel | Specialist foundation engineering | Melbourne, Australia | 50% |

## 41. FEES AND SERVICES OF THE AUDITORS

The fee paid to the auditors and recorded as expenditure in the financial year is broken down as follows:

**PricewaterhouseCoopers GmbH:**

| in kEUR | 2018 | 2019 |
|---|---|---|
| Fees for auditing services | 798 | 871 |
| Fees for other certification | 0 | 24 |
| Fees for tax advice | 17 | 39 |
| Fees for other services | 42 | 175 |
| **Total** | **857** | **1,109** |

In the fees for other services and for other certification services, near-audit consulting services, audit reviews when using information technology over the course of the project and services as part of disclosure obligations are included. In addition, Roland Jehle GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft was engaged to audit the major German capital corporations included in the Group's consolidated financial statements.
The fees for this recognized in the financial year are broken down in accordance with Section 285, Paragraph 17 and Section 314, Subsection 1, Paragraph 9 HGB as follows:

| in kEUR | 2018 | 2019 |
|---|---|---|
| Fees for auditing services | 40 | 42 |
| Fees for other certification | 0 | 0 |
| Fees for tax advice | 0 | 0 |
| Fees for other services | 2 | 2 |
| **Total** | **42** | **44** |

## 42. DECLARATION OF CONFORMITY TO THE GERMAN CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of BAUER AG issued the Declaration of Conformity prescribed by section 161 of the AktG on December 5, 2019 and made it permanently available for shareholders at www.bauer.de.

## 43. RELEASE FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board has submitted the consolidated financial statements to the Supervisory Board for authorization for issue (the Supervisory Board meeting is scheduled for April 7, 2020).

## 44. AVERAGE NUMBER OF EMPLOYEES

| | 2018 | 2019 |
|---|---|---|
| **Salaried staff** | **3,560** | **3,599** |
| Germany | 2,004 | 2,012 |
| International | 1,556 | 1,587 |
| **Industrial & trade employees** | **7,837** | **7,828** |
| Germany | 1,796 | 1,866 |
| International | 6,041 | 5,962 |
| **Apprentices** | **246** | **257** |
| **Total number of employees** | **11,643** | **11,684** |

## 45. PROPOSAL ON THE USE OF RETAINED EARNINGS

The defined annual financial statements of BAUER Aktiengesellschaft as at December 31, 2019 show an accumulated loss. Therefore, the Annual General Meeting will not be presented with any suggestions relating to the use of the retained earnings.

Schrobenhausen, April 3, 2020

**The Management Board**

| | | | |
|---|---|---|---|
| Dipl.-Phys. Michael Stomberg<br>Chairman of the Management Board | Dipl.-Ing. (FH)<br>Florian Bauer, MBA | Dipl.-Betriebswirt (FH)<br>Hartmut Beutler | Peter Hingott |

# List of shareholdings of the BAUER Group pursuant to section 313 of the HGB as at December 31, 2019

| NAME AND PLACE OF BUSINESS OF COMPANY | | Currency | Capital share in % |
|---|---|---|---|
| **1.** | **Fully consolidated companies** | | |
| | BAUER Aktiengesellschaft | EUR | |
| **A.** | **Germany** | | |
| | BAUER Spezialtiefbau GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | BAUER Maschinen GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | SCHACHTBAU NORDHAUSEN GmbH, Nordhausen, Germany | EUR | 100.00 |
| | SPESA Spezialbau und Sanierung GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | BAUER Resources GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | BAUER Training Center GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | BAUER Designware GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | KLEMM Bohrtechnik GmbH, Drolshagen, Germany | EUR | 100.00 |
| | EURODRILL GmbH, Drolshagen, Germany | EUR | 100.00 |
| | WW Beteiligung GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | RTG Rammtechnik GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | PRAKLA Bohrtechnik GmbH, Peine, Germany | EUR | 100.00 |
| | Olbersdorfer Guß GmbH, Olbersdorf, Germany | EUR | 75.00 |
| | SCHACHTBAU NORDHAUSEN Bau GmbH, Nordhausen, Germany | EUR | 100.00 |
| | SCHACHTBAU NORDHAUSEN Stahlbau GmbH, Nordhausen, Germany | EUR | 100.00 |
| | MMG Mitteldeutsche MONTAN GmbH, Nordhausen, Germany | EUR | 100.00 |
| | PURE Umwelttechnik GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | BAUER Foralith GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | GWE pumpenboese GmbH, Peine, Germany | EUR | 100.00 |
| | Esau & Hueber GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | ESAU & HUEBER Verwaltungs GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| | hydesco24 GmbH, Hamburg, Germany | EUR | 60.00 |
| **B.** | **EU (excluding Germany)** | | |
| | GWE Budafilter Kft., Mezöfalva, Hungary | HUF | 100.00 |
| | BAUER Ambiente S.r.l., Milan, Italy * | EUR | 100.00 |
| | BAUER SPEZIALTIEFBAU Gesellschaft m.b.H., Vienna, Austria | EUR | 100.00 |
| | BAUER Technologies Limited, Bishops Stortford, Great Britain | GBP | 100.00 |
| | BAUER RENEWABLES LIMITED, Bishops Stortford, Great Britain | GBP | 100.00 |
| | BAUER EQUIPMENT UK LIMITED, Rotherham, Great Britain | GBP | 100.00 |
| | BAUER Magyarorszàg Speciális Mélyépitö Kft., Budapest, Hungary | HUF | 100.00 |
| | BAUER BULGARIA EOOD, Sofia, Bulgaria | BGN | 100.00 |
| | BAUER Funderingstechniek B.V., Mijdrecht, Netherlands | EUR | 100.00 |
| | BAUER Maszyny Polska Sp.z.o.o., Warsaw, Poland | PLN | 100.00 |
| | BAUER Foundations (IRL) Ltd., Bishops Stortford, Great Britain | EUR | 100.00 |
| | GWE France S.A.S., Aspiran, France | EUR | 100.00 |
| | BAUER Machines SAS, Strasbourg, France | EUR | 100.00 |
| | TracMec Srl, Mordano, Italy | EUR | 100.00 |
| | BAUER Macchine Italia Srl, Mordano, Italy | EUR | 100.00 |
| | GWE Pol-Bud Sp.z.o.o, Lodz, Poland | PLN | 100.00 |
| | BAUER Resources UK Ltd., Beverley, Great Britain | GBP | 100.00 |

* in liquidation

| NAME AND PLACE OF BUSINESS OF COMPANY | Currency | Capital share in % |
|---|---|---|
| **C. Europe (other)** | | |
| BAUER Spezialtiefbau Schweiz AG, Baden-Dättwil, Switzerland | CHF | 100.00 |
| FORALITH Drilling Support AG, St. Gallen, Switzerland | CHF | 100.00 |
| OOO BAUER Maschinen - Kurgan, Kurgan, Russian Federation | RUB | 65.00 |
| OOO BG-TOOLS-MSI, Lyubertsy, Russian Federation | RUB | 55.00 |
| OOO BAUER Maschinen Russland, Moscow, Russian Federation | RUB | 100.00 |
| OOO BAUER Technologie, Moscow, Russian Federation | RUB | 100.00 |
| BAUER Georgia Foundation Specialists LCC, Tbilisi, Georgia | GEL | 100.00 |
| **D. Middle East & Central Asia** | | |
| Saudi BAUER Foundation Contractors Ltd., Jeddah, Saudi Arabia | SAR | 100.00 |
| BAUER LEBANON FOUNDATION SPECIALISTS S.a.r.L., Beirut, Lebanon | USD | 100.00 |
| BAUER International FZE, Dubai, United Arab Emirates | AED | 100.00 |
| BAUER International Qatar LLC, Doha, Qatar | QAR | 49.00 * |
| BAUER Equipment Gulf FZE, Dubai, United Arab Emirates | AED | 100.00 |
| BAUER Emirates Environment Technologies & Services LLC, Abu Dhabi, United Arab Emirates | AED | 49.00 * |
| BAUER Resources GmbH / Jordan Ltd. Co. - (subsidiary consolidated financial statements), Amman, Jordan | USD | 100.00 |
| Site Group for Services and Well Drilling Ltd. Co., Amman, Jordan Co., Amman, Jordan | USD | 83.33 |
| Site Drilling Ltd. Co., Limassol, Cyprus Co., Limassol, Cyprus | USD | 100.00 |
| Technical Dimension Co. for Maintenance Services Ltd., Amman, Jordan | USD | 60.00 |
| BAUER Casings Makina Sanayi ve Ticaret Limited Sirketi, Ankara, Turkey | TRY | 60.00 |
| BAUER Corporate Services Private Limited, Mumbai, India | INR | 100.00 |
| BAUER Geotechnical Specialized Foundation LLC, Abu Dhabi, United Arab Emirates | AED | 49.00 * |
| BAUER Specialized Foundation Contractor India Pvt. Ltd., New Delhi, India | INR | 100.00 |
| BAUER Equipment India Private Limited, Navi Mumbai, India | INR | 100.00 |
| BAUER Resources Saudi LLC, Riyadh, Saudi Arabia | SAR | 100.00 |
| BAUER Engineering International Ltd., Dubai, United Arab Emirates | AED | 100.00 |
| BAUER Bangladesh Limited, Dhaka, Bangladesh | BDT | 100.00 |
| **E. Asia-Pacific, Far East and Australia** | | |
| BAUER (MALAYSIA) SDN. BHD. - (subsidiary consolidated financial statements), Petaling Jaya, Malaysia | MYR | 100.00 |
| BAUER Foundations Australia Pty Ltd, Brisbane, Australia | AUD | 100.00 |
| First Asian Limited, Hong Kong, People's Republic of China | HKD | 100.00 |
| P.T. P.T. BAUER Pratama Indonesia, Jakarta, Indonesia | IDR | 100.00 |
| BAUER Services Singapore Pte Ltd, Singapore | EUR | 100.00 |
| BAUER Hong Kong Limited, Hong Kong, People's Republic of China | HKD | 100.00 |
| BAUER Vietnam Ltd., Ho Chi Minh City, Vietnam | VND | 100.00 |
| BAUER Foundations Philippines, Inc., Quezon City, Philippines | PHP | 40.00 * |
| BAUER Technologies Far East Pte. Ltd. - (subsidiary consolidated financial statements), Singapore | EUR | 100.00 |
| BAUER EQUIPMENT SOUTH ASIA PTE. LTD., Singapore | EUR | 100.00 |
| BAUER Technologies Taiwan Ltd., Taipei, Taiwan | TWD | 99.88 |
| BAUER Tianjin Technologies Co. Ltd., Tianjin, People's Republic of China | CNY | 100.00 |
| BAUER Equipment Hong Kong Ltd., Hong Kong, People's Republic of China | EUR | 100.00 |
| BAUER Equipment (Malaysia) Sdn. Bhd., Shah Alam, Malaysia | MYR | 100.00 |
| Shanghai BAUER Technologies Co. Ltd., Shanghai, People's Republic of China | CNY | 100.00 |

* Commercial ownership is 100%

| NAME AND PLACE OF BUSINESS OF COMPANY | Currency | Capital share in % |
|---|---|---|
| **Continued: E. Asia-Pacific, Far East & Australia** | | |
| BAUER Equipment (Shanghai) Co. Ltd., Shanghai, People's Republic of China | CNY | 100.00 |
| BAUER Technologies Thailand Co., Ltd., Bangkok, Thailand | THB | 100.00 |
| P.T. P.T. BAUER Equipment Indonesia, Jakarta, Indonesia | IDR | 100.00 |
| NIPPON BAUER Y.K., Tokyo, Japan | JPY | 100.00 |
| Inner City (Thailand) Company Limited, Bangkok, Thailand | THB | 49.00 * |
| Thai BAUER Co. Ltd., Bangkok, Thailand | THB | 73.99 |
| BAUER Equipment Australia Pty. Ltd., Baulkham Hills, Australia | AUD | 100.00 |
| **F. Americas** | | |
| BAUER FUNDACIONES PANAMÀ S.A., Panama City, Panama | USD | 100.00 |
| BAUER Resources Canada Ltd., Edmonton, Canada | CAD | 100.00 |
| BAUER FUNDACIONES DOMINICANA, S. R. L., Santo Domingo, Dominican Republic | DOP | 100.00 |
| BAUER Foundations Canada Inc., Calgary, Canada | CAD | 100.00 |
| BAUER FOUNDATION CORP., Odessa, United States of America | USD | 100.00 |
| BAUER Resources Chile Limitada - (subsidiary consolidated financial statements), Santiago de Chile, Chile | CLP | 100.00 |
| GWE Tubomin S.A., Santiago de Chile, Chile | CLP | 60.00 |
| BAUER Machinery USA Inc., Conroe, United States of America | USD | 100.00 |
| BAUER Equipment America Inc., Woodlands, United States of America | USD | 100.00 |
| **G. Africa** | | |
| BAUER EGYPT S.A.E Specialised Foundation Contractors, Cairo, Egypt | EGP | 55.75 |
| BAUER Technologies South Africa (PTY) Ltd - (subsidiary consolidated financial statements), Midrand, South Africa | ZAR | 100.00 |
| MINERAL BULK SAMPLING NAMIBIA (PTY) LTD, Windhoek, Namibia | NAD | 100.00 |
| MINERAL BULK SAMPLING SOUTH AFRICA (PTY) LTD, Midrand, South Africa | ZAR | 100.00 |
| BAUER TECHNOLOGIES RDC LTD SARL, Lubumbashi/Haut-Katanga, Republic of the Congo | USD | 49.00 * |
| BAUER Engineering Ghana Ltd., Accra, Ghana | GHS | 100.00 |
| BAUER Resources Maroc S.A.R.L., Kenitra, Morocco | MAD | 100.00 |
| BAUER Resources Senegal SARL, Dakar, Senegal | XOF | 100.00 |
| **2. Companies in the expanded basis of consolidation** | | |
| **A. Germany** | | |
| Harz Hotel Grimmelallee Nordhausen Beteiligungsgesellschaft mbH, Nordhausen, Germany | EUR | 100.00 |
| Schacht- und Bergbau Spezialgesellschaft mbH, Mülheim an der Ruhr, Germany | EUR | 50.00 |
| pumpenboese Beteiligungs- und Verwaltungs GmbH, Peine, Germany | EUR | 100.00 |
| fielddata.io GmbH, Munich, Germany | EUR | 99.00 |
| Obermann MAT GmbH, Michelstadt, Germany | EUR | 100.00 |
| rig.plus GmbH, Schrobenhausen, Germany | EUR | 100.00 |
| **B. International** | | |
| BAUER Angola Lda., Luanda, Angola | AOA | 100.00 |
| BAUER Fondations Spéciales EURL, Algiers, Algeria | DZD | 100.00 |
| BAUER Cimentaciones Costa Rica S. A., Alajuela, Costa Rica | CRC | 100.00 |
| BAUER Lybian Egyptian Specialized Corporate for Technical Engineering Works, Tripoli, Libya | LYD | 36.00 |
| TOO BAUER KASACHSTAN, Almaty, Kazakhstan | KZT | 100.00 |
| BAUER Fundaciones Colombia S. A. S., Bogota, Colombia | COP | 100.00 |
| BAUER Fundaciones America Latina, S. A., Panama City, Panama | USD | 100.00 |

* Commercial ownership is 100%

| NAME AND PLACE OF BUSINESS OF COMPANY | | Currency | Capital share in % |
|---|---|---|---|
| **Continued: B. International** | | | |
| | BAUER Iraq for Construction Contracting LLC, Baghdad, Iraq | IQD | 100.00 |
| | BAUER Geoteknoloji Insaat Anonim Sirketi, Istanbul, Turkey | EUR | 100.00 |
| | Sverige BAUER GL AB, Stockholm, Sweden | SEK | 100.00 |
| | BAUER DK A/S, Copenhagen, Denmark | DKK | 100.00 |
| | BAUER Special Foundations Cambodia Co., Ltd., Daun Penh, Cambodia | USD | 100.00 |
| | EURODRILL ASIA PTE. LTD., Singapore | EUR | 100.00 |
| | BAUER Maschinen Ukraine TOV, Kiev, Ukraine | UAH | 100.00 |
| | BRASBAUER Equipamentos de Perfuracào Ltda., Sao Paulo, Brazil | BRL | 60.00 |
| | BAUER Equipamentos do Brasil - Comércio e Importacao Ltda., Sao Paulo, Brazil | BRL | 100.00 |
| | BAUER Equipamientos de Panama S. A., Panama City, Panama | PAB | 100.00 |
| | BAUER Maschinen Canada Ltd., Acheson, Canada | CAD | 100.00 |
| | BAUER Parts HUB (Singapore) Pte. Ltd., Singapore | EUR | 100.00 |
| | BAUER - De Wet Equipment (Proprietary) Limited, Rasesa, Botswana | BWP | 51.00 |
| | BAUER Maschinen Pars LLC, Teheran, Iran | IRR | 100.00 |
| | OOO TRAKMECHANIKA, Yaroslavl, Russian Federation | RUB | 100.00 |
| **3.** | **Associated companies and joint ventures** | | |
| **A.** | **Germany** | | |
| | TMG Tiefbaumaterial GmbH, Emmering, Germany | EUR | 50.00 |
| | Grunau und Schröder Maschinentechnik GmbH, Drolshagen, Germany | EUR | 30.00 |
| | SPANTEC Spann- & Ankertechnik GmbH, Schrobenhausen, Germany | EUR | 40.00 |
| | BAUER Deep Drilling GmbH, Schrobenhausen, Germany | EUR | 51.00 |
| **B.** | **International** | | |
| | TERRABAUER S. L., Madrid, Spain | EUR | 30.00 |
| | Bauer + Moosleitner Entsorgungstechnik GmbH, Salzburg, Austria | EUR | 50.00 |
| | BAUER Nimr LLC, Maskat - Al Mina, Sultanate of Oman | OMR | 52.50 |
| | BAUER Resources Bahrain W.L.L., Diplomatic Area, Bahrain | BHD | 53.00 |
| | BAUER Manufacturing LLC, Conroe, United States of America | USD | 51.00 |
| | TOO SCHACHTBAU Kasachstan, Almaty, Kazakhstan | KZT | 50.00 |
| | AO Mostostrojindustria, Moscow, Russian Federation | RUB | 20.70 |
| **4.** | **Enterprises in which the company has participating interests** | | |
| **A.** | **Germany** | | |
| | Wöhr + Bauer GmbH, Munich, Germany | EUR | 16.65 |
| | Nordhäuser Bauprüfinstitut GmbH, Nordhausen, Germany | EUR | 20.00 |
| | Deusa International GmbH, Bleicherode, Germany | EUR | 10.00 |
| | Stadtmarketing Schrobenhausen e.G., Schrobenhausen, Germany | EUR | 4.18 |
| | Digitales Gründerzentrum der Region Ingolstadt GmbH, Ingolstadt, Germany | EUR | 2.00 |

The complete list of shareholdings in accordance with section 313 of the HGB is published in the electronic version of the official Gazette Bundesanzeiger of the Federal Republic of Germany.

# Audit opinion

**”INDEPENDENT AUDITOR‘S REPORT**

To BAUER Aktiengesellschaft, Schrobenhausen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

**Representation of the Auditor’s Report**

After the final result of our audit, we issued the following full Auditor’s Report dated April 7, 2020:

“We have audited the consolidated financial statements of BAUER Aktiengesellschaft, Schrobenhausen, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, the consolidated statement of comprehensive income, the consolidated income statement, the consolidated shareholders’ equity statement and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. In addition, we have audited the group management report of BAUER Aktiengesellschaft, which is combined with the Company‘s management report, for the financial year from January 1 to December 31, 2019. We have not audited the content of the non-financial statement pursuant to section 289b (1) of the HGB and section 315d of the HGB in accordance with the provisions of German commercial law.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e (1) of the HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its earnings position for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the non-financial declaration pursuant to section 289b (1) of the HGB and section 315d of the HGB.

Pursuant to section 322 (3) sentence 1 of the HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

**Basis for the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other

*<<< In Cairo, specialist foundation engineering works are in progress for the third expansion phase of the metro. Work on four of the six metro stations and two of the seven ventilation shafts has been successfully completed. A total of around 250,000 m² of diaphragm wall will be built.*

German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

**Significant uncertainty relating to „Going Concern“**

We refer to the disclosures in the section “Additional disclosures on capital management“ under item 27. 2 of the notes to the consolidated financial statements as well as the disclosures in section V. Risk and opportunity report of the group management report, in which the legal representatives describe that there is a risk that the group will not be able to meet its payment obligations if the financing partners terminate the financing agreements and a significant portion of the financial liabilities are called in for repayment. As explained in the section “Additional disclosures on capital management“; and in section V. Risk and opportunity report“, these events and circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group‘s ability to continue as a going concern and which could pose a risk to the continued existence of the Group as a going concern within the meaning of section 322 (1) of the German Stock Corporation Act. 2 sentence 3 HGB. Within the scope of our audit, we have, among other things, assessed the group-wide corporate and liquidity planning prepared by the Company. In this context, we also assessed the appropriateness of the assumptions underlying the corporate and liquidity planning and verified whether the corporate and liquidity planning was properly derived on the basis of these assumptions. Our audit opinions have not been modified in respect of this matter.

**Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In addition to the matters described in the section “Significant uncertainties relating to going concern“, we have identified the following matters of particular importance to be disclosed in our opinion.

In our view, the matters of most significance in our audit were as follows:

❶ At-equity valuation of shares in associated companies and joint ventures and their recoverability

❷ Revenue recognition from customized contracts

❸ Accounting for hedging instruments

❹ Accounting for deferred taxes

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ **At-equity valuation of shares in associated companies and joint ventures and their recoverability**

① In the consolidated financial statements of the Company, an amount of EUR 118.0 million is stated under the balance sheet heading of “Shares valued using the equity method.” Having applied the equity method, BAUER Aktiengesellschaft is obliged pursuant to IAS 28 to check whether it is necessary to make valuation allowances to their stake in the net assets of the associated companies and joint ventures. In doing so, the entire carrying amount of the investment - as an asset - is examined for impairment in accordance with IAS 36, i.e. the goodwill contained therein is not examined separately. As at balance sheet date, BAUER Aktiengesellschaft examined the recoverability of its shares in associated companies and joint ventures that are valued using the equity method. In order to calculate the values of material equity investments, BAUER Aktiengesellschaft carried out its own business valuations, whereby the present values of the expected future cash flows derived from the budgetary accounting of the Company's executive directors were calculated using discounted cash flow models. In doing so, the Company also took account of expectations as to future market trends and assumptions about the development of macro-economic influencing factors. The discounting was performed using costs of capital calculated individually for each of the shares concerned. Based on the Company's present calculations and other documentation, it was found that there was no need to write down the value of investments for impairment for the 2019 financial year.

The result of this valuation is greatly dependent on how the Company's executive directors assess the future cash payment flows and on the discounting and growth rates applied in each case. The valuations are therefore subject to major uncertainties. Against this background and because of the highly complex nature of the valuation and its material significance for the Company's net assets and earnings position, this matter was of key significance in our audit.

② As part of our audit, we initially acquired an understanding of the processes used in the equity adjustment method. In a sample test of associated companies and joint ventures, we verified the equity adjustment for (among other things) the correctness of the mathematical calculation and to establish whether the financial data used was reconcilable with the annual and consolidated financial statements of the associated companies and joint ventures. By inspecting the companies' articles of incorporation, we satisfied ourselves of the fact that BAUER Aktiengesellschaft has a significant influence in its role as shareholder at the associated companies and that the prerequisites are fulfilled for classification as joint ventures.

Furthermore, as part of our audit, we verified, among other things, the methodical procedures used to evaluate the shares in associated companies and joint ventures. In particular, we assessed whether the values of the material shares in associated companies and joint ventures were calculated properly using discounted cash flow models, taking the relevant valuation standards into account. In doing so, we relied among other things on a comparison with general and sector-specific market expectations and on extensive clarifications from the Company's executive directors as to the key value drivers, upon which the anticipated cash flows are based. Knowing that even relatively small changes in the discounting rate used can already have a major impact on the value of the companies thus calculated, we also assessed the parameters used in determining the discounting rates applied in the calculation and verified the calculation method.

Taking into account the information available to us, the valuation parameters and underlying valuation assumptions used by the executive directors are, in our opinion, generally suitable for an appropriate evaluation of the shares in associated companies and joint ventures.

③ The information provided by the Company on the shares in associated companies and joint ventures is contained in Section 5.2. "Accounting policies" and 20.3 "Shares valued using the equity method" of the Notes to the Group Consolidated Financial Statements.

**❷ Revenue recognition from customized contracts**

① The BAUER Group is involved in some major and complex construction projects, for which turnover is recorded over a particular period of time. In the case of revenues that are realized over a period of time, the sales revenues are recognized on the basis of the percentage of completion. This is defined as the ratio of the order costs actually incurred to the total contract costs expected. In the consolidated financial statements as at December 31, 2019, the income statement recognizes sales revenues of EUR 710.3 million realized from customized contracts. As at December 31, 2019, there are receivables from contracts amounting to EUR 108.1 million and liabilities from contracts amounting to EUR 76.8 million recorded in the balance sheet. Revenue from customized contracts is recognized over a period of time if an asset is created that has no other possible use for the BAUER Group and if the Company has a legal entitlement to payment for the services already rendered. Sales revenues are also realized over a period of time if control of the asset passes over to the customer while the asset is being created or improved. Due to the complex production processes involved, time-based revenue recognition notably requires an effective internal budget/reporting system including continuous accompanying project costing and a well-functioning internal control system.

The amount of the revenues and income that are recognized for projects in one year depends among other things on the costs actually incurred, the assessment of the percentage of completion of contracts and the projected revenues from the order and the costs for each project. Furthermore, the amount of the sales and income is influenced by the Company's assessment of supplementary orders for additional work and claims for damages.

Because of the complexity of the projects and the uncertainty as to the costs of completion and as to the outcome of discussions with customers about changed orders and requirements, this is often subject to a large measure of discretion. Against this background, the correct application of the accounting standards must be seen as complex and is based in part on estimates and assumptions made by the Company's executive directors. For this reason, this was a matter of key significance for our audit.

② As part of our audit, among other things we assessed the appropriateness of the internal control system set up at the BAUER Group and the effectiveness of relevant controls, and we examined the determination of the percentage of completion of building projects based on supporting submittals and checked it for compliance with BAUER's accounting policies. In doing so, we also appraised the appropriateness of the accounting guidelines in place at BAUER and their interpretation of the relevant accounting standards. In particular, we also assessed the way in which the Company has specified and precisely clarified the accounting guidelines in terms of the conditions that must be fulfilled in order to recognize a receivable and supplementary orders for additional work as a part of the revenues from an order.

Our specific audit approach included the examination of controls and substantial audit procedures. In this context, above all we assessed the cost accounting system and other relevant systems that assist in the process of accounting for production orders. Furthermore, on a sample basis, we assessed the appropriate nature of the recording and netting of the direct costs, the amount and netting of overhead rates, the project cost calculations underlying the construction projects and the determination of the percentage of completion of individual projects. In this connection, we also appraised the statements submitted to us from external parties such as lawyers or experts with regard to the accounting treatment of supplementary orders for additional work and claims for damages and reconciled the executive directors' estimates with regard to the enforcement of supplementary orders for additional work and claims for damages with historical values based on experience.

Moreover, with regard to the contracts we compared the items recorded in the consolidated financial statements with the previous year in order to assess the consistency of the evaluation and perform back-testing on the estimate. In this context, we also assessed the design of the processes implemented for depicting transactions in compliance with IFRS 15 and the implementation of the new specifications.

We were able to satisfy ourselves that the systems and processes set up and the controls in place are generally appropriate and that the estimates made and assumptions reached by the executive directors are sufficiently documented and justified in order to ensure the appropriate recognition of revenues from customized contracts.

③ The information provided by the Company on the recognition of revenues from customized contracts is contained in Sections 5.2. "Accounting policies" and 25. "Receivables and other assets" of the Notes to the Group Consolidated Financial Statements.

**3 Hedge accounting**

1 The companies of the BAUER Group conclude a large number of different derivative financial instruments in order to hedge against currency and interest rate risks arising from ordinary business operations. The currency risk mainly arises from intra-group loans granted and assets assumed from companies in the BAUER Group that are denominated in a foreign currency. The interest rate hedges aim to rule out the risk of fluctuating interest rates on the market. The Company limits these risks by concluding forward exchange transactions, foreign exchange options, interest swaps and interest caps, among other things. The required hedging measures are largely carried out and coordinated by the Group Finance department of the BAUER Group.
Derivative financial instruments are accounted for at the fair value on the balance sheet date. The positive fair values of the total derivative financial instruments used for hedging purposes amount to EUR 1.1 million at balance sheet date, and the negative fair values amount to EUR -20.4 million in total. Provided that the derivative financial instruments used by the BAUER Group are effective hedging transactions for future cash payment flows applying the hedge accounting provisions of IFRS 9, changes in their fair value are recognized as unrealized gains and losses under “Other Comprehensive Income” (OCI) - without affecting the income statement - over the duration of the hedge until the due date of the hedged cash flow (the effective part). Here, the spot-rate-based changes in the value of derivative hedging transactions are shown under the hedging reserve. The BAUER Group implemented the option given by IFRS 9 of recognizing forward-rate-based changes in the value of hedging transactions and changes in value arising from the so-called cross-currency-basis spread under the heading of “reserve for hedging costs”.

At balance sheet date, the balance of the accumulated effective fair value changes (stated in equity under “hedging reserve”, with no effect on income) amounted to EUR -0.3 million after income tax. In the same period or periods, the amounts recognized in equity are re-classified from “Other Comprehensive Income” to the income statement, in which the hedged expected cash payment flows have an impact on profit and loss.

In our opinion, these matters were of key significance for our audit because of their high complexity and the large number of transactions and because of the extensive accounting and disclosure requirements of IFRS 9 and IFRS 7.

2 As part of our audit, among other things, we appraised the technical changes connected with the adoption of IFRS 9 with the help of our internal specialists in the area of Corporate Treasury Solutions. Furthermore, we appraised the contractual and financial fundamentals and verified the relevant accounting, including the impact of the various hedging transactions on equity and earnings. In doing so, we addressed in particular the prerequisites for applying hedge accounting. Furthermore, in auditing the valuation of the financial instruments at fair value, we also verified the calculation methods based on market data. Moreover, we requested bank confirmations in order to assess the completeness aspect and to audit the fair values of the transactions recorded. With regard to the expected cash payment flows and the assessment of the effectiveness of hedging transactions, we largely retrospectively appraised the degree of hedging in the past. In doing so, we were able to satisfy ourselves that the estimates made and assumptions reached by the Company’s executive directors are justified and sufficiently documented.

3 The information provided by the Company on accounting for hedging instruments is contained in Sections 5.2. “Accounting policies” and 37. “Financial instruments” of the Notes to the Group Consolidated Financial Statements.

**4 Accounting for deferred taxes**

1 In the Company’s consolidated financial statements, deferred tax assets amounting to EUR 67.3 million are recognized as at December 31, 2019. Offsetting these with congruent deferred tax liabilities results in a surplus of deferred tax assets amounting to approx. EUR 40.1 million. The amount recognized in the accounting corresponds to the extent to which the Company’s executive directors deem it likely that taxable earnings will be generated in the foreseeable future through which the deductible temporary differences and the tax loss carry-forwards can be used. For this purpose, unless there

are sufficient relevant deferred tax liabilities available, prognoses are made as to the future earnings which are derived from the approved forecast calculation. Overall, the amount of tax losses not yet used upon which no deferred tax assets were stated was EUR 240.1 million in total, based on the fact that it is unlikely that this can be utilized for tax purposes through netting with future earnings.

In our opinion, the accounting for deferred taxes was a matter of key significance for our audit because it is highly dependent upon estimates and assumptions made by the Company's executive directors and is therefore subject to uncertainty.

2 As part of our audit, among other things we assessed the internal processes and controls for recording tax issues and the methodical procedures for calculating, accounting for and evaluating deferred taxes. Furthermore, we assessed the recoverability of the deferred tax assets for deductible temporary differences and tax losses not yet used based on the Company's internal forecasts regarding its future earnings situation and appraised the appropriateness of the underlying estimates and assumptions.

Based on our audit procedures, we were able to satisfy ourselves that overall the estimates made and assumptions reached by the Company's executive directors are justified and sufficiently documented.

3 The information provided by the Company on deferred taxes is contained in Sections 5.2. "Accounting policies" and 21. "Deferred taxes" of the Notes to the Group Consolidated Financial Statements.

**Other Information**

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to section 289f of the HGB and section 315d of the HGB included in the section of the Group Management Report called "Corporate governance statement pursuant to section 289f of the HGB in connection with section 315d of the HGB"
- the non-financial statement pursuant to section 289b (1) of the HGB and section 315b (1) of the HGB included in the section of the Group Management Report called "Non-financial group statement 2019"

The other information comprises further the remaining parts of the annual report - excluding cross-references to external information - with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated

**Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) of the HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and earnings position of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's accounting procedure for the preparation of the consolidated financial statements and of the group management report.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 of the HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit.
We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- We obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- We evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimated values provided by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and earnings position of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) of the HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the Group consolidated financial statements audit. We remain solely responsible for our audit opinions.
- We evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as Group auditor for the consolidated financial statements by the Annual General Meeting on June 27, 2019. We were engaged by the Supervisory Board on June 28, 2019. We have been the Group auditor for the consolidated financial statements of BAUER Aktiengesellschaft, Schrobenhausen, without interruption since the financial year 1999.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## PUBLIC AUDITOR RESPONSIBLE

The German Public Auditor responsible for the engagement is Jürgen Schwehr."

Stuttgart, April 7, 2020

**PricewaterhouseCoopers GmbH**
**Wirtschaftsprüfungsgesellschaft (auditing firm)**

| | |
|---|---|
| Jürgen Schwehr | p.p. Bernd Adamaszek |
| Auditor | Auditor |

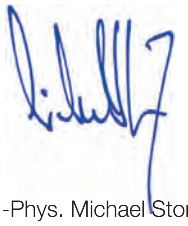

BODEMBOUW.NL
SCA-15
BODEMBOUW.NL
RTG RG 21T
BODEM
BOUW

# Assurance by legal representatives

We hereby assure that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the net assets, financial position and earnings position of the Group in accordance with the accounting principles applicable to financial reporting, and that the Combined Management Report depicts the course of business, including the earnings and overall situation of the Group, in such a way that a true and fair view is conveyed and the material opportunities and risks of the foreseeable development of the Group are set out.

Schrobenhausen, April 3, 2020

**The Management Board**




| | | | |
|---|---|---|---|
| Dipl.-Phys. Michael Stomberg | Dipl.-Ing. (FH) | Dipl.-Betriebswirt (FH) | Peter Hingott |
| Chairman of the Management Board | Florian Bauer, MBA | Hartmut Beutler | |



*<<< For the construction of a new residential complex in Eindhoven, the Netherlands, a 316 m long retaining wall was built using the CSM method and an RG 21 T from RTG Rammtechnik GmbH.*

## IMPRINT

**Published by**
BAUER Aktiengesellschaft
BAUER-Strasse 1
86529 Schrobenhausen, Germany
www.bauer.de

**Photos**
BAUER Group
Suresh Anthikad (p. 5)
Alexander Blatt (p. 12)
Tobias Windhager (p. 45)
Lars Denke (p. 62)
Jeff Harmston (p. 122)
Thomas Vohs (p. 166)

**Contact**
Investor Relations
BAUER Aktiengesellschaft
BAUER-Strasse 1
86529 Schrobenhausen, Germany
Tel.: +49 8252 97-1218
investor.relations@bauer.de

**Registered place of business**
86529 Schrobenhausen, Germany
Registered at the District Court of
Ingolstadt under HRB 101375

**Print**
Mayer & Söhne Druck- und
Mediengruppe GmbH & Co. KG,
Aichach

FSC
www.fsc.org
MIX
Papier aus verantwortungsvollen Quellen
FSC® C003486

BAUER

# PASSION for PROGRESS

## ANNUAL REPORT

This Report is published in German and English.

**Print**

**Download as PDF**
http://ir.bauer.de

## FURTHER PUBLICATIONS


**Bauer Review**
Discover the company magazine for employees and friends of the BAUER Group.

**Sustainability Report**
The Sustainability Report shows how our company is involved in society.

To order under www.bauer.de

## VISIT OUR SOCIAL MEDIA CHANNELS

**Facebook**
www.facebook.com/BauerAGgroup

**YouTube**
https://www.youtube.com/BAUERGruppe

**LinkedIn**
www.linkedin.com/company/bauer-group

**XING**
www.xing.com/companies/bauergruppe

## CONSOLIDATED INCOME STATEMENT

| in EUR '000 | 12M/2018 | 12M/2019 | Change |
|---|---|---|---|
| Sales revenues | 1,589,091 | 1,470,922 | -7.4% |
| Changes in inventories | 1,552 | 32,378 | n/a |
| Other own work capitalized | 8,825 | 9,523 | 7.9% |
| Other income | 17,468 | 24,868 | 42.4% |
| **Consolidated revenues** | **1,616,936** | **1,537,691** | **-4.9%** |
| Cost of materials | -821,496 | -783,126 | -4.7% |
| Personnel expenses | -392,384 | -418,805 | 6.7% |
| Other operating expenses | -204,440 | -212,713 | 4.0% |
| **Earnings before interest, tax, depreciation and amortization (EBITDA)** | **198,616** | **123,047** | **-38.0%** |
| Depreciation of fixed assets | -80,967 | -84,760 | 4.7% |
| Write-downs of inventories due to use | -17,590 | -15,806 | -10.1% |
| **Earnings before interest and tax (EBIT)** | **100,059** | **22,481** | **-77.5%** |
| Financial income | 38,204 | 33,742 | -11.7% |
| Financial expenses | -76,992 | -78,766 | 2.3% |
| Share of the profit or loss of associated companies accounted for using the equity method | 4,594 | 11,225 | n/a |
| **Earnings before tax (EBT)** | **65,865** | **-11,318** | **n/a** |
| Income tax expense | -41,778 | -25,232 | -39.6% |
| **Earnings after tax** | **24,087** | **-36,550** | **n/a** |

## CONSOLIDATED BALANCE SHEET

| **ASSETS** in EUR '000 | 12M/2018 | 12M/2019 | Change |
|---|---|---|---|
| Intangible assets | 18,077 | 16,946 | -6.3% |
| Property, plant and equipment | 411,571 | 460,470 | 11.9% |
| Investments accounted for using the equity method | 113,019 | 118,185 | 4.6% |
| Participations | 8,350 | 8,806 | 5.5% |
| Deferred tax assets | 49,189 | 67,273 | 36.8% |
| Other non-current assets | 7,637 | 7,175 | -6.1% |
| Other non-current financial assets | 13,198 | 13,923 | 5.5% |
| **Non-current assets** | **621,041** | **692,778** | **11.6%** |
| | | | |
| Inventories | 365,865 | 405,401 | 10.8% |
| Rental equipment | 60,488 | 61,838 | 2.2% |
| Less advances received for inventories | -16,098 | -8,921 | -44.6% |
| | 410,255 | 458,318 | 11.7% |
| | | | |
| Receivables and other assets | 535,111 | 434,608 | -18.8% |
| Effective income tax refund claims | 3,290 | 5,270 | 60.2% |
| Cash and cash equivalents | 62,587 | 37,575 | -40.0% |
| **Current assets** | **1,011,243** | **935,771** | **-7.5%** |
| | **1,632,284** | **1,628,549** | **-0.2%** |

| **EQUITY AND LIABILITIES** in EUR '000 | 12M/2018 | 12M/2019 | Change |
|---|---|---|---|
| **Equity of BAUER AG shareholders** | **428,312** | **381,804** | **-10.9%** |
| Non-controlling interests | 3,504 | 5,112 | 45.9% |
| **Equity** | **431,816** | **386,916** | **-10.4%** |
| | | | |
| Provisions for pensions | 134,389 | 158,641 | 18.1% |
| Financial liabilities | 338,304 | 135,300 | -60.0% |
| Other non-current liabilities | 5,335 | 6,028 | 13.0% |
| Deferred tax liabilities | 23,396 | 27,149 | 16.0% |
| **Non-current debt** | **501,424** | **327,118** | **-34.8%** |
| | | | |
| Financial liabilities | 286,104 | 465,953 | 62.9% |
| Other current liabilities | 357,851 | 402,318 | 12.4% |
| Effective income tax obligations | 31,687 | 19,566 | -38.3% |
| Provisions | 20,501 | 23,677 | 15.5% |
| Current portion of provisions for pensions | 2,901 | 3,001 | 3.5% |
| **Current debt** | **699,044** | **914,515** | **30.8%** |
| | **1,632,284** | **1,628,549** | **-0.2%** |

In the "Change" column, there may be differences from the Group key figures as a result of roundings and a different representation between thousands of EUR and millions of EUR.

# Financial calendar 2020

| | |
|---|---|
| April 9, 2020 | Publication Annual Report 2019<br>Annual Press Conference<br>Analysts‘ Conference |
| May 13, 2020 | Quarterly Statement Q1 2020 |
| June 25, 2020 | Annual General Meeting |
| August 13, 2020 | Half-Year Interim Report to June 30, 2020 |
| November 13, 2020 | Quarterly Statement 9M/Q3 2020 |

BAUER Aktiengesellschaft
BAUER-Strasse 1
86529 Schrobenhausen, Germany
www.bauer.de

BAUER