B.1 The Bilfinger Group

B.1.1 Business model

Bilfinger is a leading international industrial services provider. We provide customized engineering and services to customers in the process industry. Bilfinger enhances the efficiency of assets, increases their availability and reduces maintenance costs. Our portfolio covers the entire value chain: consulting, engineering, manufacturing and installation through to comprehensive maintenance concepts and their implementation, including turnarounds. Bilfinger stands for the highest standards of quality and thus meets the strict requirements of customers active in the petrochemical, chemical, pharmaceutical, energy and oil and gas sectors.

B.1.2 Legal form and management

Bilfinger is a stock company in accordance with European law (Societas Europaea – SE) and, in addition to German stock company law, is also subject to specific SE regulations and the German law on implementing a European company as well as the German SE Employee Involvement Act. The management bodies of the company are the Executive Board, the Supervisory Board and the Annual General Meeting.

The Executive Board of Bilfinger SE manages the company in its own responsibility. The Supervisory Board appoints, supervises and advises the Executive Board and is directly involved in key decisions affecting the company. These bodies work in close cooperation for the benefit of Bilfinger. Details are described in the declaration of corporate governance on the company's website at www.bilfinger.com under 'Company/Corporate Governance'.

B.1.3. Organization and business segments

Bilfinger SE is a holding without its own business activities. The operating activities are organized decentrally and are carried out through subsidiaries which act on the market as independent profit centers. The operating companies are allocated to divisions which in 2016 each belonged to one of the two business segments Industrial and Power.

As of April 1, 2016 we had reduced the number of divisions in the Industrial business segment to four.

REPORTING STRUCTURE

Industrial business segment	Power business segment
Divisions:	Divisions:
Industrial Maintenance	Power
Insulation, Scaffolding and Painting	
Oil and Gas	
Engineering Solutions	

The companies of the former Engineering, Automation and Control and Industrial Fabrication and Installation divisions were formally combined in the reporting structure to form the new Engineering Solutions division. In addition, the Support Services division was formally disbanded and its companies more closely aligned to Industrial's core businesses through the allocation to other divisions. In the Power business segment, the operating companies are combined in a single division.

Industrial business segment Bilfinger is one of the world's leading providers of integrated technical services for the process industry and energy sector. The key to our success is a comprehensive range of services that cover the entire lifecycle of industrial plants – from engineering to maintenance. In 2016, the regional focus of the Industrial business segment was on Europe and the United States.

INDUSTRIAL BUSINESS SEGMENT

Areas of activity	Key clients	Competitors
■ Design, development and erection of industrial facilities	■ Bayer	■ Amec Foster Wheeler
■ Maintenance and repair of industrial plants	■ BP	■ Beerenberg
■ Project management	■ Cargill	■ Cape
■ Assembly and installation of plant components	■ Dow Chemical	■ Fluor (Stork)
■ Design, development and implementation of automation solutions	■ GSK	■ Hertel
■ Insulation, surface and corrosion protection, industrial scaffolding	■ OMV	■ Jacobs
	■ Shell	■ Kaefer
	■ Statoil	■ Mistras
	■ Total	■ Spie
		■ Wood Group

Power business segment Bilfinger delivers professional engineering and premium services for the energy-generating industry. We design and build power plant components, maintain them, extend their service life, enhance their efficiency and reduce the emission of pollutants such as CO_2 and NO_X. Important regions for the Power business segment in 2016 included Europe, South Africa and the Middle East.

POWER BUSINESS SEGMENT

Areas of activity	Key clients	Competitors
▪ Repair, maintenance, efficiency enhancements and service life extensions as well as the demolition of existing power plants ▪ Design, manufacture and assembly of components for power plant systems with a focus on boilers and high-pressure piping systems	▪ BP ▪ EDF ▪ EnBW ▪ Eon ▪ Eskom ▪ GDF Suez ▪ Linde ▪ RWE ▪ Vattenfall	▪ Alpiq (Kraftanlagen München) ▪ Alstom Power ▪ Balcke-Dürr ▪ Doosan Babcock ▪ E.ON Anlagenservice ▪ Mitsubishi Hitachi Power Systems ▪ Shaw

Reclassification of the Building and Facility and Power business segments in financial year 2016 In February 2016, we sold the Water Technologies division to Chinese company Chengdu Techcent Environment Group, the deconsolidation was carried out as of March 31, 2016. In June 2016, the Building, Facility Services and Real Estate divisions were sold to financial investor EQT and deconsolidated as of September 1, 2016. The sold units of the former Building and Facility business segment are therefore presented under discontinued operations in this Annual Report. The remaining unit Government Services is presented under 'Consolidation / other'.

At the same time, the selling process for the Power business segment begun in mid-2015 was refocused. Rather than focusing on a total sale, we have instead initiated a comprehensive restructuring and organizational repositioning of the activities. In accordance with the International Financial Reporting Standards (IFRS), Power will be once again presented as continuing operations in the Annual Report 2016.

Against the backdrop of this reclassification, the previous year figures have been adjusted accordingly in this Annual Report.

As of January 1, 2017, a new organizational structure was introduced, the basic principles of which are described in chapter *B.4 Outlook*.

B.1.4 Strategy and objectives

A process for the strategic repositioning of the company was introduced in financial year 2016. Implementation will be carried out in 2017. Explanations of the principles as well as the forecasts for future development is included in chapter *B.4 Outlook*. Information on research and development activities is included in chapter *B.2.7.5 Innovation*.

B.1.5 Financial management system

Our key financial management metrics for financial year 2016 include figures for growth, profitability, capital efficiency as well as our capital structure. The most important of these are output volume, adjusted EBITA and return on adjusted EBITA, adjusted free cash flow and return on capital employed.

Growth and volume In addition to the Group's revenue, the figure for output volume also includes our proportion of the goods and services supplied by joint ventures and consortiums. Their planning is conducted on the basis of orders received and order backlog. Profitable organic growth in output volume forms a cornerstone of our strategy for increasing Bilfinger's enterprise value. In addition, targeted acquisitions can contribute to the growth in output volume.

B.1.5.1 Profitability

EBITA / adjusted EBITA / adjusted EBITA margin The indicator of operating profit of the corporate units and of the Group, and thus the measure of earnings for segment reporting, is 'earnings before interest, taxes and amortization of intangible assets from acquisitions' (EBITA). When performing such an analysis, the focus is on the profit margin – calculated as operating profit as a percentage of output volume.

We are focusing here on 'adjusted EBITA' with adjustments made for special items. For better comparability of operating performance over time, special items are eliminated. These include, for example, gains on disposals, restructuring measures as well as expenses in connection with the further development of our compliance system and the conclusion of old cases.

Net profit Net profit consists of operating profit plus / minus amortization of intangible assets, financial income and expense and taxes. With regard to net profit we also make reference to an 'adjusted net profit' with adjustments made for the above-mentioned special items as well as for amortization of intangible assets.

Dividend policy We pursue a sustainable dividend policy with the objective of letting our shareholders participate appropriately in the Group's success. Considering the sound balance sheet and planned positive business development, the Executive Board and the Supervisory Board will propose to the Annual General Meeting a dividend payout of €1.00 per share for financial year 2016, despite the negative adjusted net profit. Subject to the Group developing as planned, the Executive Board and Supervisory Board aim to keep the dividend constant, until the dividend distribution policy comes into effect. This aims to pay out to our shareholders between 40 and 60 percent of adjusted net profit, depending on the foreseeable medium-term development of the company.

Share buyback The company plans to cancel its treasury shares in the amount of about 4 percent. A proposal will also be made that the Annual General Meeting approve a new authorization to buy back shares in the maximum amount of 10 percent. On the basis of anticipated business development, the Executive Board intends to propose to the Supervisory Board a share buyback program with a volume of up to €150 million which should begin in financial year 2017.

B.1.5.2 Capital efficiency

Value added and ROCE The value added by ou r business segments and the Group is measured with the help of value and cash oriented management. We employ our capital in a targeted manner in order to achieve high value added. Positive value added is only achieved for the Group if the return on the average capital employed is higher than the weighted average cost of capital (WACC). In this regard and in the financial year, we switched to a calculation after taxes and including special items. For further details, please refer to the corresponding explanations in chapter *B.2.2 Results of operations – Value added*. The parameters are determined as long-term average values, are regularly reviewed, and are adjusted for any relevant changes in the market environment.

Adjusted free cash flow / cash conversion / net working capital For the operationalization of value-oriented management, we also orient ourselves toward the so-called adjusted free cash flow and the cash conversion for each business segment. A major factor to be considered in this regard is the change in net working capital. Net working capital is calculated as the difference between current assets excluding cash and cash equivalents and current liabilities excluding financial debt. A reduction in net working capital leads to lower capital employed and thus also contributes to an increase in the return on capital employed (ROCE) and in the value added by the business segment concerned.

Adjusted free cash flow is calculated on the basis of cash inflow from operating activities less net investment in property, plant and equipment as the adjustment for special items. We calculate cash conversion on the basis of the ratio between adjusted free cash flow (corrected for interest and taxes) and adjusted EBITA.

Investments Although compared with some industries our business is not very capital intensive, planned additions to property, plant and equipment are subject to intensive investment controlling.

B.1.5.3. Capital structure and liquidity

Net debt and dynamic gearing ratio To manage liquidity, we focus on the key figures net debt and dynamic gearing ratio, which is the ratio of net debt to EBITDA. In both cases, we also consider – as in the framework of operating profit measurement – adjusted figures for which we eliminate special items.

B.1.5.4. Other key figures

On the basis of our strategic corporate planning, we regularly review the effects on our financial risk profile of various scenarios for the business and financial development of the Group. In addition to those mentioned above, key figures include so-called gearing as well as ‘cash-flow protection’.

B.2 Economic report 2016

B.2.1 General statement of the Executive Board on the economic situation

Bilfinger delivered a sound performance in financial year 2016 in a challenging environment. The year was characterized by far-reaching changes. The sale of the Building, Facility Services and Real Estate divisions, the refocusing of the selling process for the Power business segment started in 2015 and the resulting reclassifications explained in chapter *B.1.3 Organization and business segments* necessitated a mid-year adjustment of reference values for our forecasts for full-year 2016. In this context, statements made on the expected development of output volume and adjusted EBITA were not fundamentally revised, but in part further substantiated.

Our business in the Industrial segment was reflected by lower project volumes and the market situation in the oil and gas sector. In the Power business segment, we saw declines primarily due to less business in home markets and in the German and international project business, where we are taking a highly selective approach in the wake of competitive and price pressures.

PLAN / ACTUAL COMPARISON*	Actual 2016	Outlook Interim report Q3 2016	Outlook Interim report Q2 2016	Actual 2015 pro forma following reclassification	Outlook Interim report Q1 2016	Outlook Annual report Year-end 2015	Actual 2015
Output volume							
Group	€4,219 million	significant decrease to about €4.1 billion	significant decrease to about €4.1 billion	€5,003 million	significant decrease	significant decrease	€6,200 million
Industrial	€3,197 million	significant decrease to about €3.1 billion	significant decrease to about €3.1 billion	€3,650 million	significant decrease	significant decrease	€3,650 million
Power	€967 million	significant decrease to about €1.0 billion	significant decrease to about €1.0 billion	€1,284 million	significant decrease	significant decrease	€1,284 million
EBITA / EBITA margin							
Industrial	€120 million / 3.7%	at prior-year level, with a higher margin	at prior-year level, with a higher margin	€128 million / 3.5 %	at prior-year level or slightly above it	at prior-year level or slightly above it	€128 million / 3.5 %
Power	€-30 million / -3.1%	significant improvement, still negative	significant improvement, still negative	€-69 million / -5.4 %	significant improvement	significant improvement	€-59 million / -4.6 %
EBITA adjusted	€15 million	significant improvement	significant improvement	€-23 million	slight increase with higher margin	slight increase with higher margin	€164 million
Adjusted net profit from continuing operations	€-8 million			€-30 million		slight increase	€93 million
Free cash flow from operating activities	€-264 million			€ 2 million		significant decrease	€216 million
Return on capital employed (ROCE)**	-13.8 %			-30.0 %		slightly below cost of capital of 9.75%	8.4 %

* Reclassification of the Building and Facility and Power business segments as of June 30, 2016: see chapter *B.1.3. Organization and business segments*:
- Reference values of forecasts in Annual Report 2015 and Interim Report Q1 2016: Actual 2015 before reclassification
- Reference values of forecasts in Interim Reports Q2 and Q3 2016: Actual 2015 pro-forma following reclassification

As a result of the reclassifications mentioned in chapter *B.1.3. Organization and business segments*, the statements made in the 2015 Annual Report are, in terms of their structure, no longer comparable with the consolidated financial statements presented here. All of the figures presented in this report relate, unless stated otherwise, to the Group's continuing operations, the figures for the prior-year period have been adjusted accordingly. The sold units Building, Facility Services, Real Estate, Water Technologies, Offshore Systems, the former construction activities as well as marine construction are presented under discontinued operations.

** The method of calculating return on capital employed was changed in the financial year. The corresponding figure is shown in the pro forma column. The calculation method used is explained in Chapter *B.2.2. Results of operations – Value added*

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Slight differences in some figures may occur in this Annual Report due to rounding.

Output volume and earnings

As expected, output volume was down significantly in the Industrial business segment at €3,197 million (previous year: €3,650 million) and in the Power business segment at €967 million (previous year: €1,284 million). Output volume for the Group decreased significantly to €4,219 million (previous year: €5,003 million). Orders received decreased to €4,056 million (previous year: €4,301 million) while order backlog at the end of the year amounted to €2,618 million (previous year: €2,902 million).

Despite the significant reduction in output volume, adjusted EBITA improved significantly to €15 million (previous year: -€23 million), as expected. In relation to output volume, this corresponds to a margin of 0.4 percent (previous year: -0.5 percent). In the Industrial business segment, adjusted EBITA was €120 million (previous year: €128 million). On a comparative basis – adjusted for deconsolidation and exchange rate effects – EBITA amounted to €128 million, the same as in the previous year. The adjusted EBITA margin increased to 3.7 percent (previous year: 3.5 percent). In the Power business segment, adjusted EBITA improved significantly to -€30 million (previous year: -€69 million) – but remained negative. The adjusted EBITA margin was -3.1 percent (previous year: -5.4 percent).

The forecasts issued for the development of output volume and adjusted EBITA were thus met.

Net profit improved substantially to €271 million (previous year: -€510 million). It includes a capital gain in the amount of €538 million from the sale of the Building, Facility Services and Real Estate divisions. This was countered by burdens primarily from restructuring expenses and losses incurred in the course of streamlining the portfolio, restructuring programs and the further development of the compliance system. Additionally, a goodwill impairment in the amount of €330 million and higher operating losses in the Power segment were incurred in the previous year. This is offset by one-time earnings from disposals and the revaluation of the remaining shares in Julius Berger Nigeria. Adjusted net profit improved as expected to -€8 million (previous year: -€30 million).

Return of capital employed (ROCE) improved on a comparative basis but remained negative at -9.4 percent (previous year: -30.1 percent).

Free cash flow from operating activities was negative in the reporting year due to the results of continuing operations and cash outflow in working capital with -€264 million, following a positive value of €2 million on a comparative basis in the previous year.

Dividends

We pursue a sustainable dividend policy with the objective of letting our shareholders participate appropriately in the Group's success. Considering the sound balance sheet and planned positive business development, the Executive Board and the Supervisory Board will propose to the Annual General Meeting a dividend payout of €1.00 per share for financial year 2016, despite the negative adjusted net profit. Subject to the Group developing as planned, the Executive Board and Supervisory Board aim to keep the dividend constant, until the dividend distribution policy comes into effect. This aims to pay out to our shareholders between 40 and 60 percent of adjusted net profit, depending on the foreseeable medium-term development of the company.

B.2.1.1 Economic environment

Overall economic development

Economic growth of the Eurozone slowed slightly in the reporting year to 1.7 percent (previous year: 2.0 percent) (DG ECFIN, p. 158). The gradually decreasing effects of the energy price drop, nearly stagnant global trade and new political uncertainties following the Brexit referendum in the United Kingdom have slowed growth. However, monetary policy with extensive bond purchases and zero interest rate policy as well as substantial increases in state spending both remain expansive.

Germany achieved strong growth rates once again at 1.9 percent (DG ECFIN, p. 1). This growth was primarily driven by private consumption, increasing state spending and a construction industry boom. By comparison, companies' willingness to invest remained subdued.

In Northern Europe, economic growth remained low, with the exception of Sweden. Norway, which is heavily dependent on commodity prices, achieved only slightly positive growth of 0.7 percent (DG ECFIN, FEB17). The Eastern European EU countries recorded above-average growth; in Poland, GDP increased by 3.1 percent (DG ECFIN, FEB17).

Investments in equipment by companies in the Eurozone increased significantly by 4.2 percent (DG ECFIN, p. 163), however this growth remains restrained in comparison with earlier phases of economic recovery. Although companies with a good financial standing benefited from further reduced interest rates and historically good financing conditions, uncertainties regarding the status of the global economy, restrained export demand and increasing political risks prevented a stronger investment dynamic.

In the USA, economic growth increased over the course of the year, however growth of just 1.6 percent was achieved for the full year (DG ECFIN, p. 1). The labor market reached full employment once more, with unemployment below 5 percent. Investment demand from companies recovered significantly.

Industry

In 2016, the chemical and pharmaceutical industry remained the most important customer group for the German industrial services sector with around 50 percent (Lün, p. 31). Performance for this sector in Germany and Europe was mixed. The decrease in chemical prices only ended in the third quarter. The industry suffered a significant decline in sales, which was at -4.4 percent compared with the previous year until halfway through the year (CEFIC).

In addition to the unfavorable price situation, continued weakness in growth in Asian emerging markets in particular made the chemical business challenging (VCI). Development of the chemical and pharmaceutical industry in the USA was more favorable with an improved volume market (VCI US).

In light of this economic development, the European market for industrial services was stable in the reporting year, with growth of between 4 and 5 percent (Lün, p. 36). Growth in the European market was slightly above that of the German market, which was between 3 and 4 percent (Lün, p. 14). The neighboring Benelux countries together with Switzerland and Austria remain important target countries for expansion strategies of German service providers, while the United Kingdom is viewed with increasing caution due to Brexit uncertainties (Lün, p. 40).

Oil and gas

The situation in the shale gas and oil sector in the United States continued to be characterized by significantly reduced investment budgets and high price pressure as a result of the drop in the oil price. The number of active drillings reached a low point in May 2016, but had increased by a third by October 2016 (USEIA Nov., p. 91). The significant increase in oil prices by USD 30 per barrel compared with the low point at the beginning of the year contributed to this (WTI). Despite the price increase, oil production in the shale oil sector continued to decline as a result of the earlier collapse in investments.

The British and Scandinavian oil and gas sector continued to be characterized by strongly declining investment spendings in 2016. In Norway, investment spending fell by a further 15 percent compared with the previous year (TI Norway). This decline differed for exploration and production activities. While investment budgets for exploratory drilling more than halved in the first six months of the year in comparison with the previous year, investments in active production declined by 9 percent (USEIA Declining Investment in Norway).

Cost reductions contributed to these savings, limiting the effect on capacity. In the last two years, the oil and gas group Statoil, which is majority-owned by the Norwegian government, renegotiated around 500 existing contracts with suppliers and partners (TI Norway). According to industry estimates for individual offshore fields, the break-even price for the profitability of new offshore oil fields has now decreased to under USD 25 per barrel due to these cost reductions and technological improvements (TI Norway). On the one hand, this development has led to the initiation of further comprehensive new projects on the Norwegian continental shelf, despite the comparatively low oil price. On the other hand, this has also resulted in increased pressure on prices for suppliers. The trend continued in Norway's offshore production fields due to advancements in drilling and production technology, leading to an increasing share in deep-sea production (USEIA Offshore Oil Production).

Energy

Decreases in maintenance budgets for conventional power plants continued in Germany in the reporting year. The critical situation for large energy suppliers and conventional power plant operators following the energy transformation continued. The declining market for power plant services continued to be characterized by overcapacities and strong margin pressure.

The forced stretching of maintenance budgets for existing conventional power plants for business regions is increasingly endangering the substance of these plants, according to industry assessments (FDBR). The highly-volatile supply of renewable energies means that an extremely flexible use of coal-fired power plants is now necessary, something that existing plants are often not designed for. In light of ever-decreasing maintenance budgets, it was not previously possible to complete such upgrades, so that plants are at times operated despite extensive wear and tear (FDBR).

In 2016, the share of nuclear power in energy production fell significantly (-15.4 percent in the first six months). This gap was primarily closed through increased electricity production using gas power plants and a strong increase in offshore wind power. The share of coal and lignite declined slightly, but still accounted for some 40 percent of electricity production (all figures: BDEW).

The market for power plant services was significantly more stable in Central and Eastern European EU countries. Poland continues to rely primarily on coal-fired power plants for electricity generation, which account for almost 90 percent of electricity produced and ensure the country is generally not dependent on energy imports. New coal-fired power plants are being constructed and existing plants are being modernized in order to meet stricter EU standards for efficiency and environmental compatibility and ensure the continued use of coal. (TI Poland)

In the Gulf states, dramatically reduced oil revenues in the last two years have led to an adjustment of the expansion plans in the energy sector. Saudi Arabia is increasingly involving private investors.

In South Africa, a decline in power outages was achieved – a result of both capacity expansion and improved maintenance as well as a drop in demand. The financial standing of the country has fallen and the chances of realizing the planned further capacity expansion in electricity generation have become more unpredictable against this backdrop (TI South Africa economic outlook, TI South Africa economic trend).

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B.2.1.2 Factors influencing business development

In the Industrial business segment, production utilization in the process industry, the demand for outsourcing solutions, regular plant inspections (turnarounds), combined services and full services as well as solutions for international customer locations had a key influence on the development of our business.

In the Power business segment, important demand factors for our business development include the long-term foreseeable energy needs, the age of existing power plants, plant efficiency and environmental protection requirements as well as the energy mix in our markets.

The following significant trends were observed in our important customer groups in financial year 2016:

FACTORS INFLUENCING BUSINESS DEVELOPMENT

Customer groups	Share of volume	Trends
Chemical and petrochemical industries	45%	■ Stable demand for ongoing maintenance services for production plants in the European market ■ Slight recovery of investment activity in the chemical industry in the United States; signs of recovery in the project business
Pharmaceutical and biopharmaceutical industry	5%	■ Good demand for projects in the biotech pharma industry, however, generally limited willingness to invest on the part of our customers in the project business.
Oil and gas	15%	■ Maintenance budget in the UK and Scandinavia at a low level, however low point appears to have been reached ■ First indications of a possible medium-term recovery have been observed in the project business in the United States
Energy production and supply	20%	■ Low demand in the project business ■ In Germany, the scope of services demanded continued to decline, particularly as a result of insufficient capacity utilization and profitability of the power plants ■ Stable demand in the service business in South Africa and the Middle East
Other	15%	

B.2.2 Results of operations

OVERVIEW OF OUTPUT VOLUME AND ORDER SITUATION
€ million

	2016	2015	Δ in %
Orders received	4,056	4,301	-6
Order backlog	2,618	2,902	-10
Output volume	4,219	5,003	-16

Orders received by the Bilfinger Group amounted to €4,056 million in financial year 2016, corresponding to a decrease of 6 percent as compared to the prior-year figure. The order backlog of €2,618 million at the end of the year was 10 percent lower than a year earlier. Output volume declined significantly by 16 percent to €4,219 million and was thereby slightly higher than the most recent forecast of €4.1 billion.

OUTPUT VOLUME BY REGION
€ million

	2016		2015		Δ in %
Germany	1,004	24%	1,117	22%	-10
Rest of Europe	2,221	53%	2,627	53%	-15
America	641	15%	845	17%	-24
Africa	135	3%	175	3%	-23
Asia	217	5%	238	5%	-9
Total	4,219		5,003		-16

OUTPUT VOLUME BY BUSINESS SEGMENT
€ million

	2016	2015	Δ in %
Industrial	3,197	3,650	-12
Power	967	1,284	-25
Headquarters, other	55	69	
Total	4,219	5,003	-16

Industrial

INDUSTRIAL
€ million

	2016	2015	Δ in %
Orders received	3,255	3,302	-1
Order backlog	2,081	2,101	-1
Output volume	3,197	3,650	-12

In the Industrial business segment, orders received totaled €3,255 million – at the level of output volume for 2016. There was stable demand for ongoing maintenance services for production plants in the European market. However, reduced investment and maintenance demand from our oil and gas customers as well as continued competitive pressure negatively impacted new business. Order backlog reached the level of the previous year at €2,081 million. As expected, output volume declined significantly to €3,197 million and was thereby slightly higher than the most recent forecast of €3.1 billion.

INDUSTRIAL: OUTPUT VOLUME BY REGION
€ million

	2016		2015		Δ in %
Germany	742	23%	785	21%	-5
Rest of Europe	1,869	58%	2,099	58%	-11
America	509	16%	663	18%	-23
Africa	0	0%	5	0%	-100
Asia	76	2%	98	3%	-22
Total	3,197		3,650		-12

In 2016, about 81 percent of our output volume generated in the Industrial business segment came from Europe. Of this, 23 percent was attributable to Germany, 58 percent was achieved in other European countries, mainly Scandinavia, the United Kingdom, the Benelux countries, Eastern Europe and Austria. 16 percent of segment volume was generated by the American market while Asia contributed 2 percent.

Power

POWER
€ million

	2016	2015	Δ in %
Orders received	746	986	-24
Order backlog	500	762	-34
Output volume	967	1,284	-25

In the Power business segment, orders received of €746 million were below the prior-year figure, as was the order backlog of €500 million on the balance sheet date. Output volume decreased to €967 million in 2016. Overall, demand in the project business remained low. In Germany, the scope of services demanded continued to decline, particularly as a result of insufficient capacity utilization and economic efficiency of the power plants. By contrast, stable demand was recorded in the service business in South Africa and the Middle East.

POWER: OUTPUT VOLUME BY REGION

€ million

	2016		2015		Δ in %
Germany	298	31%	373	29%	-20
Rest of Europe	378	39%	567	44%	-33
America	16	1%	33	3%	-52
Africa	134	14%	170	13%	-21
Asia	141	15%	141	11%	0
Total	967		1,284		-25

In the Power segment in Germany, 31 percent of output volume and 39 percent of volume was generated in European countries outside Germany with a focus on Eastern Europe and Poland, Austria and Finland in particular. South Africa as well as the Middle East are also important international markets.

Revenue / output volume

CONSOLIDATED INCOME STATEMENT (ABRIDGED VERSION)
€ million

	2016	2015
Output volume (for information only)	4,219	5,003
Revenue	**4,249**	**5,002**
Cost of sales	-3,854	-4,571
Gross profit	**395**	**431**
Selling and administrative expense	-481	-529
Other operating income and expense	-151	-417
Income from investments accounted for using the equity method	6	15
Earnings before interest and taxes (EBIT)	**-231**	**-500**
Interest result	-22	-31
Earnings before taxes	**-253**	**-531**
Income tax expenses	-26	-60
Earnings after taxes from continuing operations	**-279**	**-591**
Earnings after taxes from discontinued opera-tions	**551**	**64**
Earnings after taxes	272	-527
thereof attributable to minority interest	1	-17
Net profit	**271**	**-510**
Average number of shares (in thousands)	44,204	44,194
Earnings per share* (in €)	6.13	-11.54
thereof from continuing operations	-6.33	-12.98
thereof from discontinued operations	12.46	1.44

* Basic earnings per share are equal to diluted earnings per share.

Revenue declined by 15 percent to €4,249 million (previous year: €5,002 million). It primarily comprises revenue from the provision of services and construction contracts, but also from goods and services supplied to joint ventures. Revenue does not include our share of the output volume generated by joint ventures. For the presentation of output volume generated by the Group, we report on output volume rather than revenue in the management report. For the reconciliation of revenue to output volume, goods and services supplied to joint ventures have to be deducted and our proportionate share of the revenue generated by joint ventures has to be added.

Cost of sales

The main components of cost of sales are material expenses and personnel expenses. Other components of cost of sales are depreciation of property, plant and equipment, amortization of intangible assets from acquisitions, and other costs directly allocable to the selling process. The level of these costs in relation to sales revenue differs from period to period and fluctuates from order to order, mainly depending on the extent that subcontractors are used. Whereas order processing in the Group's own output volume is reflected in both material expenses and personnel expenses, all costs for the use of subcontractors are allocated to material expenses.

Cost of sales fell by 16 percent to €3,854 million (previous year: €4,571 million), and in relation to revenue was unchanged at 91 percent. Of that total, material and personnel expenses accounted for 86 percentage points (previous year: 87 percentage points).

Cost of sales includes amortization of intangible assets from acquisitions of €10 million (previous year: €14 million). This relates to scheduled amortization on capitalized items from acquired order backlogs and long-term customer relations from acquisitions. Depreciation of property plant and equipment decreased to €99 million (previous year: €119 million). This represents a significant portion of the cost of sales at €88 million (previous year: €103 million), of which €16 million (previous year: €20 million) was unscheduled. The remaining depreciation of property, plant and equipment is allocated to selling and administrative expenses.

Gross profit

Gross profit decreased to €395 million (previous year: €431 million). The gross margin – adjusted for non-cash impairments on property plant and equipment – accounted for a share of 9.8 percent of output volume (previous year: 8.9 percent).

Selling and administrative expense

Selling and administrative expenses decreased to €481 million (previous year: €529 million), adjusted for special items from restructuring and compliance expenses, they accounted for 10.3 percent of output volume (previous year: 10.1 percent).

Other operating income and expense

The balance of other operating income and expenses was negative at -€151 million (previous year: -€417 million). Included in this figure are restructuring expenses especially in the Power business segment in the amount of €80 million (previous year: €112 million). Disposals and write-downs on subsidiaries as part of the streamlining of the portfolio resulted in an expense of €88 million (previous year: €8 million). In the previous year, the disposal and remeasurement of subsidiaries resulted in earnings of €54 million. A goodwill impairment of €330 million was recognized in the Power segment in the previous year.

Income from investments accounted for using the equity method

Income from investments accounted for using the equity method is composed of the income and expenses from associates and joint ventures. It decreased to €6 million following the sale of shares (previous year: €15 million).

EBITA / EBITA adjusted / EBIT

Adjusted EBITA improved significantly as compared to the prior year. Following -€23 million in the previous year, it reached a positive value again of €15 million in the reporting year. Exchange rate effects had a negative impact of -€4 million. In relation to output volume the adjusted EBITA margin was 0.4 percent (previous year: -€0.5 percent).

	Adjusted EBITA € million		Adjusted EBITA margin in %	
	2016	2015	**2016**	2015
Industrial	120	128	3.7	3.5
Power	-30	-69	-3.1	-5.4
Headquarters, other	-75	-82		
Continuing operations	**15**	-23	**0.4**	-0.5

In the Industrial business segment, EBITA of €120 million (previous year: €128 million) was at the level of the prior year despite the significant decline in output volume. Positive effects from current programs for efficiency enhancement and process optimization had an impact here. The EBITA margin increased slightly to 3.7 percent (previous year: 3.5 percent). On a comparative basis – adjusted for deconsolidation and exchange rate effects – EBITA amounted to €128 million, the same as in the previous year.

In the Power business segment, EBITA improved significantly to -€30 million (previous year: -€69 million) due to positive effects from capacity adjustments and lower project losses with optimized risk management and despite a significant decline in output volume. The figure did, however, remain negative. The EBITA margin was -3.1 percent (previous year: -5.4 percent).

Adjusted negative EBITA not allocated to the business segments improved to -€75 million (previous year: -€82 million). This is attributable, among other things, to capacity adjustments at Group headquarters introduced in the reporting year as well as reduced costs for special projects. By contrast, income from investments allocated to headquarters declined following the sale of shares. Including the special items described under *Adjusted earnings per share*, EBITA totaled -€221 million (previous year: -€157 million). After deducting amortization of intangible assets from acquisitions as well as – in the previous year – the goodwill impairment in the Power segment of €330 million, an EBIT of -€231 remains (previous year: -€500 million).

Interest result

Net interest expense improved to -€22 million (previous year: -€31 million). Interest income increased to €10 million (previous year: €7 million) as a result of interest income from the deferred purchase price claim from the sale of Building and Facility. Current interest expense decreased to €23 million (previous year: €30 million), in particular as a result of the drop in interest expense for project financing. The interest expense from the increase in the retirement benefit obligation – offset against the income from plan assets – amounted to €6 million, as in the previous year. The interest expense for minority interest totaled €3 million (previous year: €2 million).

Earnings before and after taxes

Earnings from discontinued operations totaled -€253 million (previous year: -€531 million) before income taxes and -€279 million (previous year: -€591 million) after taxes. Despite the negative result before tax, a tax expense of €26 million (previous year: €60 million) was incurred. This has two primary causes. On the one hand, earnings before taxes include non-deductible write-downs and disposal losses, on the other hand nearly no deferred taxes were capitalized for tax losses in the current year, as the utilization of tax-loss carryforwards is not reasonably certain in the relevant period. The basic claim in domestic tax-loss carryforwards remains unaffected.

Earnings after taxes from discontinued operations concerns the sold units Building, Facility Services, Real Estate, Water Technologies, Offshore Systems, the former construction activities as well as marine construction. The result of €551 million (previous year: €64 million) in the reporting year is primarily attributable to the sale of the Building, Facility Services and Real Estate divisions, which produced a capital gain in the amount of €538 million. The prior year figure included the current result from the former Building and Facility business segment.

Minority interest

Profit attributable to minority interest amounted to -€1 million in the reporting period (previous year: -€17 million). In the previous year, this particularly included the proportionate share of the write-down of investments in the now sold production site for offshore steel foundations in Poland and of South African companies in the Power business segment.

Net profit / earnings per share

Net profit amounted to €271 million (previous year: -€510 million), with earnings per share at €6.13 (previous year: -€11.54). Net profit from continuing operations adjusted for amortization of intangible assets from acquisitions and goodwill impairments and for the special items described below improved to -€8 million (previous year: -€30 million); adjusted earnings per share from continuing operations amount to -€0.17 (previous year: -€0.68).

Dividends

Considering the sound balance sheet and planned positive business development, the Executive Board and the Supervisory Board will propose to the Annual General Meeting a dividend payout of €1.00 per share for financial year 2016.

Adjusted earnings per share

The calculation of earnings per share in accordance with IFRS is presented in the income statement. Earnings per share after adjusting for special items and the amortization and impairment of intangible assets is a metric that is suited to enabling comparability over time and forecasting future profitability.

RECONCILIATION OF ADJUSTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS

€ million

	2016	2015
Earnings before taxes	253	-531
Special items in EBITA	236	134
Amortization of intangible assets from acquisitions and impairment of goodwill	10	343
Adjusted earnings before taxes	**-7**	**-54**
Adjusted income tax expense	2	17
Adjusted earnings after income taxes from continuing operations	**-5**	**-37**
thereof attributable to minority interest	3	-7
Adjusted net profit from continuing operations	**-8**	**-30**
Average number of shares (in thousands)	44,204	44,194
Adjusted earnings per share from continuing operations (in €)	**-0.17**	**-0.68**

Special items in EBITA in the amount of €90 million (previous year: €147 million) resulted from restructuring expenses including special write-downs on property, plant and equipment of €17 million (previous year: €21 million), particularly in the Power business segment. Expenses for the program to increase efficiency in administration in the amount of €29 million (previous year: €8 million) are also included. Costs of €23 million (previous year: €27 million) were incurred in connection with the further improvement of our compliance system. Disposals and write-downs on subsidiaries as part of the streamlining of the portfolio resulted in an expense of €94 million. This is offset by a net gain from the sale of shares in the amount of €48 million in the previous year.

Scheduled amortization on intangible assets from acquisitions and impairment of goodwill totaling €10 million (previous year: €14 million) relates to the amortization of intangible assets resulting from purchase price allocation following acquisitions and is therefore of a temporary nature. In the previous year, an adjustment was also made for a goodwill impairment in the Power segment in the amount of €330 million.

Adjustments to income tax expense take into account the tax effects of the special items in EBITA and the amortization on intangible assets from acquisitions, as well as the non-capitalization of deferred tax assets on losses in the reporting year and the change to write-downs on deferred tax assets on tax-loss carryforwards from previous years. The adjusted effective tax rate was 31 percent.

Adjusted earnings figures are metrics that are not defined under IFRS. Their disclosure is to be regarded as supplementary information.

Value added

VALUE ADDED IN THE BUSINESS SEGMENTS	Capital Employed € million		Return € million		ROCE in %		Cost of capital in %		Value added € million	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Industrial	1,240	1,299	81	84	6.5	6.5	7.4	7.9	-11	-18
Power	259	431	-20	-381	-7,6	-88,4	9.8	9.0	-45	-420
Headquarters / consolidation / other	290	113	-308	-256	–	–	6.9	7.1	-324	-266
Continuing operations	**1,789**	1,843	**-247**	-553	**-13.8**	-30.0	**7.4**	8.2	**-380**	-704

Value added – the difference between return on capital employed (ROCE) and the cost of capital – is an important key figure for measuring profitability of capital employed and for the efficient controlling of capital employed. We include continuing operations in order to provide better comparability over time in the consideration of return on capital employed.

Adjusted EBITA previously served as a basis for the calculation of the return. In the reporting year, for the first time we have used an after-tax calculation to determine the return, based on EBIT including interest income. This means that, unlike in the past, we also take into account special items, amortization or depreciation of capitalized assets from acquisitions as well as goodwill impairment in the calculation of the return. We thus want to ensure that all success components are reflected in our return on capital employed. We have adjusted the prior-year figures accordingly. The so-called preferred participation notes transferred in the course of the sale of the Building, Facility Services and Real Estate divisions were eliminated during the calculation of capital employed, as these were not offset by a corresponding current yield in the return.

The weighted average cost of capital (WACC) for the Group amounts to 7.4 percent after taxes (previous year: 8.2 percent). ROCE of the business segments is compared with segment-specific cost-of-capital rates. This decreased to 7.4 percent (previous year: 7.9 percent) as a result of the low interest rate for the Industrial business segment. By contrast, in the Power business segment the figure increased to

9.8 percent (previous year: 9.0 percent) as a result of a higher beta factor. Further details can be found in the chapter *D.1. Return-on-capital-employed controlling*. The average capital employed of continuing operations decreased to €1,789 million in the reporting year (previous year: €1,843 million). The return from continuing operations – the previous year includes a goodwill impairment in the Power business segment in the amount of €330 million – improved significantly, but remains negative at -€247 million (previous year: -€553 million). The negative ROCE therefore also improved to -13.8 percent (previous year: -30.0 percent) and the negative absolute value added to -€380 million (previous year: -€704 million). This is primarily attributable to development in the Power business segment where the prior-year figure was significantly burdened by the goodwill impairment. With ROCE of -7.6 percent (previous year: -88.4 percent), value added amounted to -€45 million (previous year: -€420 million). In the Industrial business segment, ROCE was unchanged from the previous year at 6.5 percent. Value added improved to -€11 million (previous year: -€18 million) as a result of the lower cost of capital. Value added by headquarters and consolidation was negative at -€324 million (previous year: -€266 million), particularly as a result of high negative special items.

B.2.3 Net assets

CONSOLIDATED BALANCE SHEET (ABRIDGED VERSION)

€ million

	Dec. 31, 2016	Dec. 31, 2015
		pro forma
Assets		
Non-current assets		
Intangible assets	849	895
Property, plant and equipment	383	471
Other non-current assets	458	159
	1,690	1,525
Current assets		
Receivables and other current assets	1,216	1,380
Cash and cash equivalents	1,032	427
Assets classified as held for sale	81	1,853
	2,329	3,660
Total	**4,019**	5,185
Equity & liabilities		
Equity	**1,621**	1,418
Non-current liabilities		
Provisions for pensions and similar obligations	304	295
Non-current financial debt	510	513
Other non-current liabilities	83	93
	897	901
Current liabilities		
Current financial debt	12	13
Other current liabilities	1,421	1,707
Liabilities classified as held for sale	68	1,146
	1,501	2,866
Total	**4,019**	5,185

For the analysis of net assets, in order to gain better comparability with the figures as of December 31, 2016, assets and liabilities of discontinued operations of the former divisions Water Technologies, Building, Facility Services and Real Estate are each shown separately in an item on the assets side and an item on the liabilities side of the pro-forma balance sheet as of December 31, 2015.

The balance sheet total declined to €4.0 billion (previous year: €5.2 billion) as a result of the sale of the Water Technologies, Building, Facility Services and Real Estate divisions. This is evident from the decrease of assets and liabilities classified as held for sale with a simultaneous increase in cash and cash equivalents.

On the assets side, non-current assets increased to €1,690 million (previous year: €1,525 million). Intangible assets decreased to €849 million (previous year: €895 million). Goodwill included here amounted to €822 million (previous year: €848 million). Property, plant and equipment decreased significantly to €383 million (previous year: €471 million). This was reflected by a comparatively low investment level as well as disposals and special write-downs.

An increase to €458 million (previous year: €159 million) was recorded in other non-current assets. This is due to the recognition of non-cash purchase price components from the sale of the Building, Facility Services and Real Estate divisions – a receivable from a purchase price deferral of €103 million and a preferred participation note of €195 million.

Receivables and other current assets decreased to €1,216 million (previous year: €1,380 million). Receivables from services not yet rendered (WIP) were reduced to €300 million (previous year: €363 million).

Cash and cash equivalents increased to €1,032 million (previous year: €427 million) at the end of the year due to revenues from the aforementioned sales; current and non-current financial debt was nearly unchanged at €522 million (previous year: €526 million). Net liquidity amounted to €510 million as of the balance sheet date (previous year: net debt €99 million).

Assets and liabilities classified as held for sale fell significantly to €81 million (previous year: €1,853 million) and €68 million (previous year: €1,146 million) respectively due to the sale of the Water Technologies, Building, Facility Services and Real Estate divisions.

Pension provisions increased to €304 million (previous year: €295 million). An increase as a result of the decreased discount rate in the Eurozone from 2.25 percent to 1.60 percent as well as valuation adjustments was countered by a reduction due to deconsolidation.

Other non-current liabilities also decreased as a result of lower deferred taxes to €83 million (previous year: €93 million).

Other current liabilities decreased to €1,421 million (previous year: €1,707 million), and advance payments received included here fell to €123 million (previous year: €153 million). Negative working capital decreased to -€205 million (previous year: -€327 million).

As a result of positive earnings after taxes of €272 million, equity increased to €1,621 million (previous year: €1,418 million). Changes in equity of -€84 million had an opposing effect. This related to negative effects from the remeasurement of defined benefit pension plans of -€68 million and exchange rate effects of -€19 million. The equity ratio on the balance sheet date increased to 40 percent, well above the prior-year figure of 27 percent.

B.2.4 Financial position

Principles and objectives of financial management

The main aspects of the Group's financial policy are determined by the Executive Board of Bilfinger SE. The prime objective of financial management is to maintain liquidity and limit financial risk. In addition, we regard financial flexibility as an important precondition for our further corporate development. Within the context of centralized Group financing, the application of available surplus liquidity as well as the provision and utilization of financing instruments for the entire Bilfinger Group are managed and executed by Corporate Treasury.

Controlling of market price risks as well as creditworthiness risks of financial counterparties is also carried out by means of a Group-wide limit and control system. To this end, financial derivatives are also used to a limited extent. A detailed report from our management on financial risks is included in chapter *B.3.2.4 Risk and opportunity report – financial risks*, as well as in the Notes in chapter *C.4 Notes to the consolidated financial statements, Note 29.*

GROUP FINANCIAL STATUS, RECOURSE LIABILITIES
€ million

	Available credit	Amount utilized	Available credit	Amount utilized
		2016		2015
Bank guarantees	**1,735**	**1,012**	2,245	1,408
thereof with residual term < 1 year	1,735	1,012	2,245	1,408
Syndicated credit facilities	**426**	**1**	661	11
thereof with residual term < 1 year	126	1	177	11
Corporate bond	**500**	**500**	500	500
thereof with residual term < 1 year	0	0	0	0
Finance leases	**12**	**12**	13	13
thereof with residual term < 1 year	4	4	5	5

Financing

The main source of funds for corporate financing is our business operations and the cash they generate. This is based not only on operating profits, but also on the stringent management of working capital.

For the purpose of general corporate financing, which is carried out under consideration of matching maturities, our main banks have provided a firmly committed, syndicated credit facility of €300 million, available until June 30, 2018, which had not been utilized at the balance sheet date. The previous credit facility in the amount of €500 million was adjusted to €300 million due to the reduced financing need in the context of the sale of the Water Technologies, Building, Facility Services and Real Estate divisions. The respective interest rate for drawings depends on the interest rate period selected; the credit margin is oriented toward a rating grid. The syndicated cash line includes a financial covenant in the form of a limitation of the dynamic gearing ratio (adjusted net debt / adjusted EBITDA). We also have additional short-term bilateral credit commitments of approximately €130 million. In 2012, a €500 million bond with maturity in 2019 was issued with a fixed interest rate over the entire period. We have credit by way of bank guarantees of €1.7 billion from various banks and bonding insurers available to meet the needs of the project business, which is not fully utilized. Detailed information on existing financial debt is provided in chapter *C.4 Notes to the consolidated financial statements, Note 25.*

Financial debt amounts to €522 million as of the balance sheet date (previous year: €526 million). Of that total, €510 million is non-current (previous year: €513 million) and €12 million is current (previous year: €13 million). It includes finance leases of €12 million (previous year: €12 million). We do not utilize off balance sheet financing instruments. Bank deposits in the amount of €6 million have been pledged.

Approved capital of €69 million is available for future capital increases. Bilfinger also has conditional capital of €14 million to be used to grant conversion and/or warrant rights in the case of convertible bonds being issued. We report in detail on the existing authorizations of the Executive Board to raise capital in chapter *B.5 Takeover relevant information pursuant to Section 289 Subsection 4 and Section 315 Subsection 4 of the German Commercial Code (HGB)*.

Investments

Capital expenditure on property, plant and equipment and intangible assets – excluding intangible assets from acquisitions in accordance with IFRS 3 – amounted to €70 million (previous year: €62 million). €41 million of the total was invested in operating equipment and office equipment, €24 million in technical equipment and machinery, €3 million in land and buildings and €2 million in intangible assets. Depreciation and amortization amounted to €99 million (previous year: €119 million). This figure includes impairment charges of €17 million (previous year: €21 million).

CAPITAL EXPENDITURE / DEPRECIATION BY BUSINESS SEGMENTS 2016
€ million

	Investments	Depreciation and amortization
Industrial	57	56
Power	8	32
Other	5	11
Total	**70**	**99**

Investments accounted for by the Industrial business segment were €57 million (previous year: €47 million) or 81 percent. €34 million was invested in operating equipment and office equipment, of which scaffolding accounted for €16 million. A further €20 million was invested in technical equipment and machinery, €2 million in land and buildings and €1 million in intangible assets.

In the Power business segment, we invested a total of €8 million (previous year: €9 million), of which €5 million was invested in fixtures, furniture and office equipment and €3 million in technical equipment and machinery.

CAPITAL EXPENDITURE ON P, P & E BY REGION

€ million

	2016	2015	Δ in %
Germany	22	20	10
Rest of Europe	35	33	6
America	9	7	28
Africa	1	0	0
Asia	3	2	50
Total	**70**	**62**	**13**

The regional focus of investment was again on Europe, which accounted for 81 percent of the total (previous year: 85 percent). Germany accounted for 31 percent of total investment (previous year: 32 percent).

Investments in financial assets were of minor importance in the financial year.

Cash flow statement

CONSOLIDATED STATEMENT OF CASH FLOWS (ABRIDGED VERSION)

€ million

	2016	2015
Cash earnings from continuing operations	**-135**	-122
Change in working capital	-132	203
Gains / losses on disposals of non-current assets	43	-42
Cash flow from operating activities of continuing operations	**-224**	39
thereof special items	*-153*	*-134*
Adjusted cash flow from operating activities of continuing operations	***-71***	*173*
Capital expenditure on P, P & E and intangible assets	-70	-62
Proceeds from the disposal of property, plant and equipment	30	25
Net cash outflow for P, P & E and intangible assets	**-40**	-37
Free cash flow from continuing operations	**-264**	2
thereof special items	*-153*	*-134*
Adjusted free cash flow from continuing operations	***-111***	*136*
Proceeds from the disposal of financial assets	**966**	213
Investments in financial assets	**-2**	-4
Cash flow from financing activities of continuing operations	**-6**	-104
Dividends	-3	-91
Repayment of debt	-3	-13
Change in cash and cash equivalents of continuing operations	**694**	107
Change in cash and cash equivalents of discontinued operations	**-136**	-45
Change in value of cash and cash equivalents due to changes in foreign exchange rates	1	2
Change in cash and cash equivalents	559	64
Cash and cash equivalents at January 1	475	403
Change in cash and cash equivalents of assets classified as held for sale	-2	8
Cash and cash equivalents at December 31	**1,032**	475

Cash earnings fell slightly to -€135 million (previous year: -€122 million). Following an unusually high release of funds in working capital of €203 million in the previous year, in the reporting year the negative working capital was at -€132 million. Reverse effects through cash outflow from provisions established in the previous year and accrued liabilities played a significant role. Losses from disposals of non-current assets to be added to the operating cash flow amounted to €43 million. These primarily relate to losses from the streamlining of the portfolio. In the previous year, gains in the amount of €42 million were deducted. The cash flow from operating activities of continuing operations decreased significantly to -€224 million (previous year: €39 million) due to the change in working capital. After eliminating negative special items, in particular due to restructuring, adjusted cash flow from operating activities amounted to -€71 million (previous year: €173 million).

Investments in property, plant and equipment and intangible assets increased to €70 million in the reporting year (previous year: €62 million). These outflows were countered by a cash inflow of €30 million (previous year: €25 million), so that net investment at -€40 million remained at a low level (previous year: -€37 million). This resulted in a free cash flow of -€264 million (previous year: €2 million) and an adjusted free cash flow of -€111 million (previous year: €136 million). The disposals of financial assets resulted in a total cash inflow of €966 million (previous year: €213 million); €767 million was attributable to the sale of the Building, Facility Services and Real Estate divisions, €184 million to Water Technologies and €21 million to Offshore Systems. Just €2 million (previous year: €4 million) was applied to investments in financial assets. The net cash outflow from financing activities amounted to -€6 million (previous year: -€104 million). The decrease as compared to the previous year was primarily attributable to the suspension of dividend payment for financial year 2015. Continuing operations including sale proceeds resulted in a net cash inflow of €694 million (previous year: €107 million). The cash outflow from discontinued operations amounted to -€136 million (previous year: -€45 million) and was primarily attributable to the former construction activities, Offshore Systems and the sold Building, Facility Services and Real Estate divisions.

Changes in exchange rates led to an arithmetical increase in cash and cash equivalents of €1 million (previous year: €2 million). Cash and cash equivalents of activities classified as held for sale fell by €2 million in the reporting year (previous year: increase of €8 million). In total, cash and cash equivalents at the end of the year increased significantly to €1,032 million (previous year: €475 million).

B.2.5 Information on the results of operations, net assets and financial position of Bilfinger SE

Results of operations

INCOME STATEMENT OF BILFINGER SE (HGB)

€ million

	2016	2015
Revenue	107	121
Other operating income	352	927
Personnel expenses	-76	-78
Amortization of intangible assets / depreciation of P, P & E	-1	-1
Other operating expenses	-333	-426
Earnings from financial assets	-30	78
Interest result	-10	-16
Earnings before taxes	**9**	**605**
Income tax expense	0	12
Net profit	**9**	**617**
Profit carryforward	313	4
Release from other retained earnings	37	0
Allocation to other retained earnings	-313	-308
Unappropriated retained earnings	**46**	**313**

The income statement of the company financial statements of Bilfinger SE is characterized by its holding function. Revenue amounted to €107 million (previous year: €121 million) and resulted almost solely from output volume charged to companies of the Group.

Other operating income of €321 million (previous year: €194 million) primarily relates to gains from the disposal of equity interests. Of this, €275 million was attributable to the sale of Bilfinger Real Estate Solutions GmbH and €45 million was attributable to Bilfinger Water Technologies GmbH. In the previous year, in connection with an internal reorganization of the affiliate structure, there was income from valuation adjustments in the amount of €688 million.

Other income comes from currency translation and hedging as well as from the reduction of write-downs on receivables from subsidiaries.

Other operating expenses in the amount of €333 million (previous year: €426 million) primarily include non-personnel administrative expenses, rents and leases, IT costs, insurance premiums, legal and consulting expenses, expenses from currency translation and hedging, other service and personnel expenses, losses from the disposal of subsidiaries and additions to provisions. The decline in comparison with the previous year is particularly attributable to lower losses from disposals, write-downs and provisions in the investment area. Expenses from currency hedging and translation have also decreased.

Earnings from financial assets of -€30 million (previous year: €78 million) mainly comprises income from profit-and-loss-transfer agreements, dividends received from Group companies and impairments of investments. The decrease is mainly the result of lower income from profit-and-loss-transfer agreements, including in connection with the disposal of subsidiaries in the Building and Facility business segment. In the previous year, earnings from valuation adjustments in connection with an internal reorganization or the affiliate structure in the amount of €56 million were included, which was attributable to one subsidiary. The continued loss situation and restructuring measures in the Power segment once again led to significant loss assumptions.

The negative interest result decreased due to the improved net of interest expense for pension provisions and income from plan assets.

The significant decline in earnings from ordinary business activities from €605 million to €9 million is primarily attributable to the loss of earnings from valuation adjustments from the previous year.

In the previous year there was tax income from the reimbursement of advance tax payments. In terms of the income tax expense, it should generally be kept in mind that income and expense in the investment area are mainly tax-neutral. Overall, a tax loss was recorded in Germany as in the previous year.

In accordance with the proposal of the Executive Board and Supervisory Board, the Annual General Meeting on May 11, 2016 decided to allocate in full to retained earnings the reported distributable earnings of €313 million in the balance sheet as of December 31, 2015. Distributable earnings as of December 31, 2016 in the amount of €46 million result from the net profit of €9 million (previous year: €617 million) and the release of retained earnings in the amount of €37 million. It will be proposed that a dividend for financial year 2016 of €1.00 per share be paid out. This represents a dividend distribution of €44 million in relation to the number of shares entitled to a dividend as of March 9, 2017.

Net assets and financial position

BALANCE SHEET OF BILFINGER SE (HGB, ABRIDGED)

€ million

	Dec. 31, 2016	Dec. 31, 2015
Assets		
Fixed assets		
Intangible assets and P, P & E	5	6
Financial assets	2,061	2,762
	2,066	2,768
Current assets		
Receivables and other assets	361	788
Cash and cash equivalents	984	360
	1,345	1,148
Excess of plan assets over pension liabilities	**29**	24
Total	**3,440**	3,940
Equity & liabilities		
Equity	**1,634**	1,625
Provisions	**258**	243
Liabilities	**1,548**	2,072
Total	**3,440**	3,940

The net assets and financial position of Bilfinger SE is governed by its function as a holding company.

Total assets of €3,440 million (previous year: €3,940 million) primarily comprise financial assets of €2,061 million (previous year: €2,762 million), receivables of €361 million (previous year: €788 million), and cash, cash equivalents and securities of €984 million (previous year: €360 million).

Financial assets decreased by €701 million to €2,061 million. The decline is attributable to the sale of the companies of the former Building, Facility Services and Real Estate divisions. Non-cash purchase price components from this transaction, consisting of a preferred participation note and a vendor claim totaling €298 million are included as financial assets.

Receivables and other assets of €310 million (previous year: €750 million) mainly comprise receivables from subsidiaries in connection with the Group's centralized corporate financing. The decline here is also primarily attributable to the loss of receivables from the aforementioned sold companies as well as from the sold Bilfinger Water Technologies.

The significant increase in cash and cash equivalents resulted from earnings from the discussed sale of investments.

The excess of plan assets over pension liabilities results from the existing surplus cover of pension provisions through plan assets.

The other side of the balance sheet includes equity of €1,634 million (previous year: €1,625 million), provisions of €258 million (previous year: €243 million) and liabilities of €1,548 million (previous year: €2,072 million).

Provisions include defined benefit obligations in the amount of €23 million (previous year: €23 million), tax provisions of €21 million (previous year: €26 million) and other provisions of €215 million (previous year: €194 million).

Pension provisions relate to obligations not covered by plan assets.

The increase in other provisions results from provisions for warranties and other liabilities in connection with the sale of the Building, Facility Services and Real Estate divisions.

Liabilities in the amount of €993 million (previous year: €1,493 million) include liabilities to associates from deposits in connection with centralized cash pooling. Here the decline is also particularly attributable to the loss of liabilities to sold subsidiaries.

They also include financial debt in the amount of €500 million, as in the previous year, for a primary unsecured bond issued in December 2012 with a term until December 2019.

The equity ratio was 47 percent at the balance sheet date (previous year: 41 percent). The increase resulted in almost unchanged equity from the decrease in the balance sheet total.

Opportunities and risks

The business development of Bilfinger SE as Group holding is generally subject to the same risks and opportunities as the Bilfinger Group.

As the parent company of the Bilfinger Group, Bilfinger SE is included in the Group-wide internal control and risk-management system.

Outlook

As the parent company of the Group without any business operations of its own, Bilfinger SE receives revenue primarily from its subsidiaries. Expectations with regard to the Group's business development will generally affect the earnings of Bilfinger SE. Because financial year 2016 was shaped by high income from the sale of subsidiaries, we anticipate lower earnings for financial year 2017.

Declaration of corporate governance in accordance with Section 289a of the German Commercial Code (HGB)

The declaration of corporate governance pursuant to Section 289 a of the German Commercial Code (HGB) has been made available on the company's website (www.bilfinger.com) under the heading 'Company/Corporate Governance'.

B.2.6 Discontinued operations

Discontinued operations include the sold units Building, Facility Services, Real Estate, Water Technologies, Offshore Systems, the former construction activities as well as marine construction.

Water Technologies, former construction activities, Offshore Systems

WATER TECHNOLOGIES, FORMER CONSTRUCTION ACTIVITIES, OFFSHORE SYSTEMS in Mio. €	2016	2015	Δ in %
Output volume	208	553	-62
EBITA adjusted	-27	15	

In February 2016, we sold the Water Technologies division to Chinese company Chengdu Techcent Environment Group, the deconsolidation was carried out as of March 31, 2016. Net proceeds of €190 million were received by Bilfinger as additional liquidity in the second quarter of 2016.

In the area of Offshore Systems, we concluded the sale of the activities for installation of offshore foundations as well as the Polish production facility for steel foundations completed in the third quarter of 2016. We continue to pursue a sale of the remaining marine construction activities.

Building, Facility Services and Real Estate

BUILDING, FACILITY SERVICES AND REAL ESTATE
€ million

	2016*	2015	Δ in %
Output volume	1,570	2,501	-37
EBITA adjusted	63	126	-50
EBITA margin adjusted	4.0	5.0	

* Deconsolidated as of September 1, 2016

In June 2016, the Building, Facility Services and Real Estate divisions were sold to financial investor EQT and deconsolidated as of September 1, 2016. The sold units of the former Building and Facility business segment are therefore presented under discontinued operations in the annual financial statements.

The selling price of approximately €1.2 billion includes two non-cash components which are to be paid at the latest at the time of a resale by the new owner EQT. On the one hand, Bilfinger grants the acquiring company a deferral of a portion of the purchase price in the amount of €100 million with annual interest of 10 percent upon maturity. On the other hand, a further portion of the purchase price in the amount of €195 million will be transformed into equity-like participation rights. This entitles Bilfinger to 49 percent of the resale proceeds, less debt, from EQT. We thus continue to participate in a proportionate amount in the development of the sold divisions.

B.2.7 Non-financial aspects of business operations

The comprehensive reporting on non-financial aspects of our business activities in 2016 is included in the Sustainability Report, which will be published in May 2017 in the Internet at www.bilfinger.com. The focus of the content of our sustainability reporting is derived from the materiality assessment conducted in 2015, through which we identified the significant aspects for our company. We have evaluated and prioritized the results according to their relevance.

RELEVANT NON-FINANCIAL ASPECTS OF BUSINESS OPERATIONS*

Focus topics	■ Occupational health and safety ■ Customer satisfaction and quality ■ Compliance
General topics	■ Sustainable supply chain ■ Innovation ■ Employee development ■ Equal opportunity and diversity ■ Energy consumption / CO_2 reduction ■ Energy and resource efficient products / services ■ Waste and resource management
Potential topics	■ Social responsibility ■ Water

* Evaluated and prioritized on the basis of the materiality assessment conducted in 2015

The requirements of the German Accounting Standards (DRS 20) for reporting on significant non-financial performance indicators form the basis of this Annual Report.

We are convinced that the long-term success of the company can only be achieved when economic, social and ecological aspects are harmonized. As part of our sustainability strategy, we focus on issues which provide useful stimulus for the success of our company and, equally, for the positive development of society as a whole.

Bilfinger is a member of the UN Global Compact and follows the rules of the German Corporate Governance Code and the German Sustainability Code. We participate in the CDP surveys on emission data, climate strategies and the responsible handling of environmental risks as well as in the assessment procedures for sustainability indices including the RobecoSAM Assessment for the Dow Jones Sustainability Index.

B.2.7.1 Occupational health and safety

Occupational safety The health of all employees is the number one priority for Bilfinger. Our Group-wide management system for health, safety, environment and quality is centrally managed, developed and is certified in accordance with ISO 9001 and ISO 14001, OHSAS 18001 and SCC. A strong training system serves the further education of employees in the operational areas. A central reporting system summarizes reports from the Group units in quarterly reports to the Executive Board. For serious work-related accidents, corrective measures to minimize risks are defined in the Executive Board and maintained.

Responsibility for compliance with our occupational safety standards lies with the divisions and operating units and the employees entrusted with this function there report to Corporate HSEQ. The specific working conditions are taken into consideration in the implementation of Group standards at the operating level.

The effectiveness of our systems for occupational safety in the operating units is verified by certifications in accordance with the standards OHSAS 18001 and SCC which cover around 60 percent of all the Group's operating units in the Industrial business segment. We conduct audits on all levels through internal and external agencies in order to analyze and improve our occupational safety measures.

Accidents can only be prevented if employees are repeatedly made aware of the importance of occupational safety. In order to further strengthen the safety culture at Bilfinger, we have successfully established the SafetyWorks! program which lays out a methodical approach for continuous optimization for all units in our decentralized Group. We have been determining the accident ratio LTIF (Lost Time Injury Frequency: the number of work-related accidents resulting in at least one day of lost time as relates to one million working hours) Group wide since 2009, we describe current developments based on the evaluation of the data collected in our annual sustainability report.

Health protection Our concept for the promotion of health and performance among our employees consists mainly of the areas sport and exercise, physical and psychological health as well as the optimization of workplace conditions.

Through a framework agreement with a national fitness and wellness provider, our employees have the opportunity to train and relax at fitness studios and sports facilities throughout Germany and Austria at reasonable conditions.

We offer seminars, lectures and health days to help our employees deal with stress and maintain their health and performance. We also regularly review workplaces of both administrative and industrial employees to determine how they can optimized in terms of health.

B.2.7.2 Customer satisfaction and quality

The satisfaction of our customers is absolutely vital to us. We therefore consistently gear our service range to their needs. We consider the quality of our services as a key factor in this regard. We ensure the high standard of quality through a comprehensive quality management system. It starts with the operating units, which are responsible for the quality of their products and services and monitor these systematically. They are supported by the quality management of the divisions as well as by Corporate HSEQ. System requirements and internal audits along with comprehensive training and education measures for quality assurance ensure that our high standards of quality are safeguarded and continuously developed.

In around 70 percent of the company units in Bilfinger's Industrial business segment there are management systems that have been certified in accordance with DIN EN ISO 9001 and the implementation of these systems includes a regular survey of customer satisfaction. Since 2015, Bilfinger has also had a cross-divisional matrix certificate in accordance with the most common international quality, environmental and safety standards (ISO 9001, ISO 14001, OHSAS 18001, SCCp and SCP). This will be expanded in the medium term.

Our objective in the coming years is to be able to collect comparable data throughout the Group on customer satisfaction, to make this data transparent and to report on it. To this end, we developed a standardized method for customer satisfaction analysis in the reporting year and will roll it out in 2017.

B.2.7.3 Compliance

Within the scope of the Group wide risk analysis, compliance risks that are relevant for Bilfinger were analyzed and evaluated. On the basis of these results, we have defined the content-related focus for the compliance program. As a result of our business activities as well as the international presence and the decentralized structure of the Group, the decision was made to make the prevention and counteracting of corruption and bribery a focus in our compliance program.

We understand compliance as the adherence to all applicable laws, internal guidelines and internationally recognized standards of behavior and voluntary commitments in all our business activities. Compliance is a key component of our strategy and corporate culture.

The basis is formed by transparency, responsibility, security and integrity in dealing with customers, suppliers, business partners and colleagues. This requires responsible behavior on the part of each individual employee in the interest of these values – and such behavior is a top priority at Bilfinger. Due to their functions as role models, managers bear particular responsibility.

The implementation of our strict compliance requirements and the foundation for it that is described above, is defined in our comprehensive Bilfinger Compliance Program, which is updated on an ongoing basis. It has been designed and is targeted toward preventing compliance violations before they happen and, at the same time, it ensures that potential misconduct is recognized at an early stage and reacted to quickly and consistently. The Bilfinger Compliance Program covers all areas of compliance that are relevant for Bilfinger, whereby we have placed particular emphasis on topics including anti-corruption and bribery, anti-trust and data protection.

Code of Conduct

We formulated a Code of Conduct already in 2012 which has been applied for all employees throughout the company, without exception.

In order to satisfy the legal and regulatory requirements as well as the increasing expectations of our customers and employees, we updated our Code of Conduct in the reporting year and complemented it with specific Group Policies to more clearly lay the groundwork for business practices based on integrity. We have taken our regulations, formulated them more precisely and simplified them so that they align with our focus areas in anti-corruption and bribery. We have also defined clear sets of responsibilities and improved the effectiveness of or – wherever necessary – supplemented internal controls for the associated business processes. This comprehensive set of rules took effect at the beginning of 2017. It is accompanied by our compliance team, for example in the form of local road shows as well as a broad range of communication and training measures that are targeted toward all Bilfinger employees and available in the 13 most important languages.

Corporate Legal & Compliance

To make the exchange of information and ideas between Corporate Compliance and Corporate Legal & Insurance, the two departments were merged in the summer of 2016 into a new department (Corporate Legal & Compliance) – with a direct reporting line to the Chairman of the Executive Board. Furthermore, the responsibilities of this department were expanded as of January 1, 2017 to include investigations and Allegation Management as an own office within the department. At the same time, cooperation between the Compliance area and Internal Audit was intensified and formalized. We have thus ensured that the three areas that are fundamental to our compliance program – prevention of compliance violations, early recognition of misconduct as well as quick and consistent reactions to such misconduct – are comprehensively managed by and within the area of responsibility of these gatekeeper functions.

Compliance Review Board

To sustainably anchor compliance as a management topic in all business units and departments, we also decided to establish a Compliance Review Board (CRB) which convened for the first time on October 26, 2016. The CRB is comprised of the entire Executive Board as well as the heads of the corporate departments and meets at least quarterly under the chairmanship of the Head of Legal & Compliance / Chief Compliance Officer. In 2016, the CRB met twice. In addition, over the course of the reporting year, the Chief Compliance Officer reported – at least formally in meetings – eight times to the Executive Board and eleven times to the Supervisory Board or its Audit Committee on compliance-related issues. As a result of the regular situation-related information and integration of Bilfinger's supervisory and management committees in important activities and strategic measures in the area of compliance, we ensure that they are ideally equipped to meet their responsibilities in this area.

Manager integrity

In order to take the particular responsibility of managers into account, a new process was introduced which, under the Head of Corporate Human Resources, evaluates the integrity of the most senior managers as well as other risk functions. The process is applied to both the current office holders with management responsibility (management levels 1 and 2) and in the case of both new hires and promotions. In addition, variable remuneration for managers (management level 1) was expanded in 2016 to include an integrity factor which will be calculated for the first time in 2017. This metric will be defined by the

Executive Board for each organizational unit separately and used to measure the degree to which compliance requirements are fulfilled. This measure also ensures that integrity is perceived in our company as a part of the corporate culture and that our employees can orient themselves toward the correct and responsible behavior of their supervisors.

Recognizing and reacting to compliance violations

In addition to the prevention of compliance violations, the early recognition of potential misconduct and the quick and consistent reaction to any relevant misconduct is a key component of the Bilfinger Compliance Program. Bilfinger does not tolerate unlawful conduct or conduct that violates the companies rules.

For the receipt, documentation and processing of suspicious cases in connections with possible violations of the Bilfinger Code of Conduct, the already existing whistleblower system was further expanded and new processes and committees were established. Our employees and external parties can, on a confidential basis and if desired also anonymously, provide information on potential misconduct on the part of Bilfinger employees.

The Independent Allegation Management Committee, made up of experts from Corporate Legal & Compliance, Corporate Internal Audit & Controls and Corporate Human Resources – all of whom are obligated to maintain confidentiality – at first evaluate each reported incident. In a second step, any potential internal investigations are initiated by this committee and, on the basis of the results of the investigation, consultations are conducted regarding so-called remediation measures and the implementation of such measures is followed up on. Regardless of the status or position of the person affected, all persons involved will be treated equally in the investigations and in accordance with the four principles of fairness, consistency, transparency and sustainability. This committee convened a total of 56 times in 2016.

INFORMATION ON COMPLIANCE VIOLATIONS, INVESTIGATIONS INITIATED AND EMPLOYMENT-RELATED CONSEQUENCES	Number	Share
Indications of compliance violations	129	
Investigations initiated	113	88 %
Disciplinary measures	approx. 20	18 %

Reports in the period from January 1, 2016 to December 31, 2016 No comparison to previous year possible – complete documentation undertaken in 2016 for the first time.

In addition, the integration of the Bilfinger Compliance Program and its further development in the business processes is reviewed in order to ensure the efficiency of the program and the associated measures. The Internal Audit department verifies, among other things, the implementation of compliance guidelines as part of so-called anti-corruption audits on site at the individual business units. In these audits, the integrity of the business unit's payment transactions is also analyzed on the basis of mass data analyses. In the period from April to December 2016, a total of eleven such audits were conducted throughout the world. The results are made available to the Executive Board and the Chief Compliance Officer in the form of relevant audit reports so that – where necessary – improvement measures can be implemented.

Compliance requirements for business partners

Bilfinger relies on the cooperation with business partners throughout the world for the provision of our services. Compliant behavior on the part of our business partners is an indispensable requirement for building trust. Following the registration and risk classification of our business partners, the existing process to evaluate their integrity was comprehensively revised and adjusted in a risk-oriented manner over the course of the reporting year. In such an integrity audit, the business units or their purchasing departments are supported by the Compliance department in the risk evaluation. The objective is to be able to form a conclusive opinion through relevant advance explanations with regard to the extent to which an existing or new business partner meets our integrity requirements (Integrity Due Diligence).

Bilfinger Compliance Remediation Program

In the year under review, we also launched a Group-wide project (Bilfinger Compliance Remediation Program) to adapt the Bilfinger Compliance Program to the increasing regulatory requirements and to thus gain a long term competitive advantage on the market. The objective is, on the one hand, to increase awareness for compliance risks and how to deal with such risks among employees at all levels and, on the other hand, to create the conditions that will allow integrity to be understood and experienced as a component of the corporate culture.

The Bilfinger Compliance Remediation Program is divided into twelve work packages, each with specific objectives and a comprehensive set of measures that are aligned with the objectives of effective corruption prevention agreed with the US authorities. Implementation of the Bilfinger Compliance Remediation Program and the effectiveness of the revised Bilfinger Compliance Program are reviewed by an independent monitor. As a result of the close integration of our corporate departments and business units in the implementation of the Bilfinger Compliance Remediation Program we ensure that Bilfinger meets the goals that have been set in a timely manner.

Compliance Help-Desk

Beyond the compliance-related measures within the context of the Bilfinger Compliance Program, it is necessary that each manager and each employee is aware of his or her own personal responsibility and that everyone behaves correctly at all times. So that each decision maker, in addition to his or her supervisor or another contact person at the site, can receive further support in the execution of their responsibilities, Bilfinger has established the co-called Compliance Help Desk as a central point of contact.

The Help Desk has been available to all employees since July 2016 and offers rapid and competent support. We thus achieve uniformity and security in the handling of compliance issues and can provide our compliance expertise globally to all employees by means of a structured approach. At the same time, approaches for further improvement of our Bilfinger Compliance Program can result from the questions and feedback.

NUMBER OF INQUIRIES TO THE COMPLIANCE HELP DESK	Number	Share
Guidelines and internal regulations	50	38.2 %
Gifts and invitations	45	34.4 %
Compliance trainings	8	6.1 %
Taxes and accounting	4	3.1 %
Personnel issues	4	3.1 %
Fraud, breach of trust and money laundering	3	2.3 %
Other*	17	13.0 %
Total	**131**	**100 %**
thereof reports of suspected compliance violations	9	7 %

All inquiries received since the introduction of the Compliance Help Desk in July 2016 until December 31, 2016.
* Category 'Other' includes, among other things Inquiries about tenders, contract design, corruption, donations, competition law, conflicts of interest, for which fewer than three reports were received.

Compliance training program

In the reporting year, we further expanded the compliance training program that has been in place since 2011 through broader offerings related to dealing with bribery and corruption training. The uniformly organized training modules take into account both on-site trainings and so-called e-learnings to maximize the range of our training measures. We convey not only knowledge but also use practical case studies to increase the participants' awareness of compliance topics in a way that corresponds to their tasks and positions.

We also provide comprehensive information on our compliance initiatives in our internal media and at management events.

TOTAL NUMBER AND PERCENTAGE OF EMPLOYEES TRAINED IN CORRUPTION PREVENTION	Number of persons target group	Number of trained persons	Share
E-learning module 'anti-corruption & bribery' [1]	13,840 [1]	13,281	96 %
On-site training 'anti-corruption & bribery' [2]	2,747 [2]	1,734	63 %

[1] Status: January 5, 2017. Target group: All employees with a PC workstation that have been with the company for more than three months.
[2] Status: December 31, 2016. Target group: Exposed functions & procurement, accounting, ICS employees. Due to the ongoing process for the definition of training participants, the target group will get larger. On the reporting date, 68 percent of the business units had defined the training participants.

With this range of compliance measures, we will further develop and improve our Bilfinger Compliance Program, thus putting us in a position to effectively counter the compliance risks that exist for every company.

Customers and business partners judge us based on how we run our business. Only if we ensure that everyone in the company acts with integrity can we successfully assert ourselves in competition. Bilfinger therefore understands the topic of compliance and the tasks associated with it as an entrepreneurial opportunity that can generate value for the entire Group and will give us a competitive advantage in the medium term.

B.2.7.4 Procurement and supply chain

MATERIAL COSTS

	2016	2015
Material costs (€ million)	1,779	1,832
thereof services purchased	46 %	55 %
thereof raw material and supplies	54 %	45 %
Share of material costs in cost of sales	46%	40%

Purchasing was of key strategic importance for Bilfinger in financial year 2016 with material costs of €1,779 million (previous year: €1,832 million) – this corresponds to a 46 percent share of cost of sales. 46 percent of the costs were accounted for by services purchased and 54 percent by raw materials and supplies.

Due to the sale of parts of the company, in particular the sale of the Building, Facility Services and Real Estate divisions, there was a change in purchased services and materials in 2016. Primarily affected by this change were commodity groups such as technical building equipment and trade related products and services in the construction industry.

For the purchase of subcontractor services, materials and services, we have a broad basis of internal and external suppliers as well as a number of procurement markets available. There is no general dependence on individual business partners.

The Group Guideline on Procurement forms the basis of all procurement activities at Bilfinger. The uniform procurement processes defined in the guideline are the foundation for the selection of suppliers, subcontractors and service providers in accordance with binding criteria. In addition to financial aspects, quality, adherence to schedules, environmental aspects and compliance questions are used for the evaluation. We also apply these criteria to the regular assessment of the performance of our suppliers, subcontractors and service providers.

STANDARDIZED GROUP SUPPLIER ASSESSMENT

	2016	2015
Number of suppliers assessed in category A*	1,911	4,204
Total number of assessed suppliers	2,303	3,572

* Allocation of suppliers into categories A, B and C depending on purchasing volume and strategic importance

In our Code of Conduct for Suppliers and Subcontractors and Service Providers we express clear expectations regarding integrity, compliance with the law and ethical conduct in line with the principles of the Global Compact initiative. Core elements of the Code of Conduct also relate to counteracting corruption, bid rigging and illegal employment practices as well as respecting the fundamental rights of employees and environmental protection requirements. We also unequivocally demand that our suppliers require their own suppliers to adhere to these principles.

B.2.7.5 Innovation (research and development report)

Research and development activities make a key contribution to the competitiveness of the Bilfinger Group. The focus in this regard is on the market-oriented development of our engineering and service range. The operating units are responsible for the development work. They are well-acquainted with the needs of their customers and can drive innovations forward in a targeted manner. This results in technically sophisticated and economically feasible solutions that provide an immediate customer benefit. We also enter into cooperations with leading universities and research institutes.

In the reporting year, Bilfinger pursued research and development projects with a total expense of €7.4 million from continuing operations of the Group. The focus of these activities was on innovative products and services as well as process innovations in the areas energy, industry and environment.

RESEARCH AND DEVELOPMENT EXPENSES

	2016	2015
Total expense (€ million)	7.4	9.6
thereof environment	41%	21%
thereof industry	12%	20%
thereof energy	47%	59%

B.2.7.6 Employee development

At the end of 2016, 36,946 people were employed by the Bilfinger Group (previous year: 42,365). The Bilfinger Group employed 8,961 people in Germany (previous year: 10,205 people) and 27,985 outside Germany (previous year: 32,160 people). 7,829 people were employed by Bilfinger in countries outside Europe (previous year: 9,649 people).

EMPLOYEES BY REGION

	2016	2015	Δ in %
Germany	8,961	10,205	-12
Rest of Europe	20,156	22,511	-10
America	2,849	3,603	-21
Africa	957	1,392	-31
Asia	4,023	4,607	-13
Australia	0	47	-100
Group	**36,946**	**42.365**	**-13**

EMPLOYEES BY BUSINESS SEGMENT

	2016	2015	Δ in %
Industrial	28,762	31,510	-9
Power	7,252	9,669	-25
Headquarters, other	932	1,186	-21
Group	**36,946**	**42,365**	**-13**

EMPLOYEE GROUPS

	Salaried	Industrial employees	total	Salaried	Industrial employees	total
			2016			2015
Industrial	9,737	19,025	28,762	10,892	20,618	31,510
Power	2,840	4,412	7,252	3,841	5,828	9,669
Headquarters, other	914	18	932	1,167	19	1,186
Group	**13,491**	**23,455**	**36,946**	**15,900**	**26,465**	**42,365**

EMPLOYEES WITH A UNIVERSITY DEGREE

	Salaried	University degrees in MCNT* Subjects	University degree in other subjects	Salaried	University degrees in MCNT* Subjects	University degree in other subjects
			2016			2015
Industrial	9,737	3,885	889	10,892	4,398	1,024
Power	2,840	878	300	3,841	– **	– **
Headquarters, other	914	189	292	1,167	183	467
Group	**13,491**	**4,952**	**1,481**	**15,900**	**4,581**	**1,491**

* Mathematics, computer and information technology, natural sciences, technology
** 2015 no data collection for discontinued operations

AVERAGE AGE OF EMPLOYEES

In years

	2016	2015
Industrial	42.2	42.3
Power	41.3	41.9
Headquarters, other	44.3	43.7
Group	**42.1**	**42.2**

AVERAGE YEARS OF SERVICE PER EMPLOYEE
In years

	2016	2015
Industrial	9.4	8.9
Power	10.0	10.8
Headquarters, other	10.0	9.5
Group	**9.6**	**9.4**

We develop the skills and experience of our employees, support their performance and make no compromises when it comes to integrity and occupational safety. In 2016, we focused primarily on the implementation of far-reaching measures in the areas of leadership, compliance and project management.

The human resources program DRIVE, which was initiated in 2016, is targeted toward supporting our employees in the Group's current transformation phase. In twelve sub-projects, personnel standards were defined and the transparency of internal development opportunities was expanded. At the same time, projects were started to improve core processes and systems and thereby further increase competitiveness.

Surveys and rankings attest to our excellent image as an attractive employer we enjoy among students and professionals. We want to improve even further in order to ensure we are successful in the competition for the best talent. The recruitment and personnel deployment planning of industrial staff and specialists is becoming increasingly important. A more intensified local approach was taken in this regard.

We established our Group Standard for the onboarding of employees in the reporting period. Around the world, this supports new employees and those moving to other positions, particularly in terms of internalizing applicable rules for legally compliant behavior. We continued a comprehensive qualification program that clarifies the Group-wide standards for compliance and to promote the awareness of the observance of clear rules among all employees of the Group.

The Bilfinger Academy's range of training makes needs-oriented components available for professional training and targeted development of employees and managers. All business areas bring together their seminars, e-learnings and development offers under a joint virtual umbrella. This gives employees and managers a complete overview of all training events.

Annual staff appraisals ensure the dialog between managers and employees. In addition, they create the conditions for selecting the respectively appropriate training and development measures from the extensive offerings from the Bilfinger Academy. In 2016, we successfully established an internationally valid standard for employee appraisals and measures to improve the culture of feedback.

In management development, specific development programs for each management level make an important contribution to strengthening the performance and leadership competence of selected managers and to increasing their loyalty to the company. An international 'Talent Program' was added in 2016 for defined areas to support future managers at an early stage in their personal and professional development and to strengthen competences that are critical for success.

B.2.7.7 Equal opportunity and diversity

At Bilfinger, employees around the world are offered equal opportunities. There can be no discrimination based on ethnicity, gender, sexual orientation, religion, ideology, disability or age.

At the end of the reporting year, the share of women in the workforce was 10.1 percent worldwide (previous year: 10.4 percent).

EMPLOYEES BY GENDER	male	female	total	male	female	total
			2016			2015
Industrial	26,080	2,682	28,762	28,495	3,015	31,510
Power	6,537	715	7,252	8,739	930	9,669
Headquarters, other	575	357	932	724	462	1,186
Group	**33,192**	**3,754**	**36,946**	**37,958**	**4,407**	**42,365**

The share of women in management positions (management levels 1-3) was Group-wide at 9.4 percent in 2016. It is an important issue for us to further increase this share; for this purpose we have been executing a specific support program since 2011.

SHARE OF WOMEN IN MANAGEMENT POSITIONS (MANAGEMENT LEVELS 1-3)
in %

	2016	2015
Industrial	9.5	9.2
Power	4.7	– *
Headquarters, other	14.2	14.4
Group	**9.4**	– *

* 2015 no data collection for discontinued operations, therefore no information on previous year's Group figures

The measures we apply to promote female employees include special training opportunities and cross-mentoring programs. For example, female employees can stay abreast of career topics and exchange experiences with each other through an in-company network that was founded in 2012. We are also placing great emphasis on the search for female managers outside of our company. We are represented as an exhibitor at special career fairs, in the context of which especially women with professional experience can establish contact with potential employers. Many Bilfinger companies also participate in the nationwide Girls' Day event where female pupils are invited into companies in order to encourage their interest in technical careers. We specifically approach potential female apprentices.

Equal opportunity depends not least on whether it is possible to balance work and private life in an appropriate manner. Our goal, within the scope of our possibilities, is therefore to adapt the workplace to the individual situation of our employees. This is often possible with part-time contracts, the details of which are worked out individually between the respective employee and his or her supervisor. Models for flexible working hours and home-office arrangements are implemented in the individual companies in line with both local operational and individual situations.

Based on the legislation for the equal participation of men and women in management positions in the private sector and in the civil service, which came into effect in 2015, we have set the following targets for Bilfinger SE to be achieved by June 30, 2017:

Supervisory Board For new appointments to the Supervisory Board, with regard to the fixed gender quota of 30 percent that is to be met, the Supervisory Board is following the goal of filling the quota equally. On June 30, 2015, the decisive date for the definition of the target, this share was 8 percent. Following the regular new election of the shareholder representatives during the Annual General Meeting on May 11, 2016 and the simultaneously newly-appointed seats held by employee representatives, six of the twelve Supervisory Board members are female, the share of women is thus at 50 percent.

COMPOSITION OF THE SUPERVISORY BOARD BY GENDER

	2016	2015
Number of members (on December 31)	12	12
Shareholder representatives	6	6
thereof female	3	1
thereof male	3	5
Employee representatives	6	6
thereof female	3	0
thereof male	3	6

Executive Board In terms of the share of women in the Executive Board, the Supervisory Board has decided that it is not absolutely necessary to have a female member, and thus the target was defined as zero. If a vacancy should become available, the Supervisory Board will, however, attempt to find an appropriately qualified woman who would be suitable for joining the Executive Board. In the reference period since the legislation came into effect, there were no female members of the Executive Board.

Management level 1 Management level 1 includes employees who belong to management levels 1 and 1a in accordance with the internal company definition. The Executive Board has decided to reach a target of an 8 percent share of women in management level 1 of Bilfinger SE until June 30, 2017. On June 30, 2015, the decisive date for the definition of the target, this share was 4 percent.

Management level 2 Management level 2 includes employees who belong to management level 2, in accordance with the internal company definition. The Executive Board has decided to reach a target for Bilfinger SE of a 10 percent share of women in management level 2 below the Executive Board by June 30, 2017. On June 30, 2015, the decisive date for the definition of the target, this share was 6 percent.

The differentiation of the management levels is undertaken on the basis of sales responsibility and the importance of the area of responsibility that is managed.

B.2.7.8 Resource management and energy consumption

We want to reduce the negative environmental impact of our business activities and expand our sustainability requirements along the value chain.

One of our most important objectives is the careful and intelligent handling of energy: the reduction of CO_2 emissions, which we monitor on the basis of the Greenhouse Gas Protocol in the categories Scope 1-3, is important for us. At all levels of the Group there are initiatives to reduce energy consumption and CO_2 emissions, for example through the use of low-emission vehicles and the recommendation that rail travel be used for business trips.

About 50 percent of the business units in the Industrial segment are certified in accordance with the environmental management standard DIN EN ISO 14001 or the energy management standard DIN EN ISO 50001.

We place great importance on waste and resource management and therefore take ecological criteria into consideration already in the procurement of materials. We pay close attention to local availability and try to reuse unavoidable waste or to initiate a recycling or disposal procedure. We have been undertaking a central collection of data related to dangerous waste since 2012, whereby not all locations have been integrated yet. In the years to come, we will gradually expand the scope of key environmentally-relevant key performance indicators.

B.3 Risk and opportunity report

The recognition of risks and opportunities is an integral part of the process management system at our operational units. We define opportunities as favorable deviations and risks as negative deviations from planned framework conditions.

Against a backdrop of strategic corporate planning approved by the Executive Board, detailed five-year planning is being developed. In order to regularly check the achievement of targets, identify trends and subsequently identify possible deviations, the Executive Board regularly conducts business reviews together with the divisional management in which business development is discussed together with short and medium-term earnings expectations of the divisions and measures to prevent risks and take advantage of opportunities. This treatment takes key factors that are relevant for the Group's opportunity management into consideration, including markets, competitive situation, strategic positioning as well as volume and earnings development. The result is the basis for decisions relating to the exploitation of opportunity potential and for the reduction of risks in the Group.

B.3.1 Risk management system

The Bilfinger risk-management system is designed to identify the risks that present themselves at an early stage, evaluating them and ensuring the continued successful development of Bilfinger through suitable measures. Opportunities are not recorded in our risk management system; they are evaluated within the scope of our strategic planning.

Our risk management system is continuously revised and improved. The goal that is pursued is therefore to apply suitable measures to reduce the risks to an acceptable level. The risk tolerance that arises is therefore proportional to the earnings opportunities that are identified. In accordance with the Group Principles on risk awareness, Bilfinger only assumes manageable risks.

In order to further develop the risk-management system, the Executive Board initiated a program for the re-design of the existing risk management system elements in 2015. In the first stage, a financial risk assessment was carried out for the period Q3/2015 to Q1/2016 with the aim of identifying and evaluating financial risks. The risk assessment and evaluation was carried out through a top-down assessment with the members of the Executive Board, heads of financial corporate departments as well as divisional management and a bottom-up assessment in a representative selection of companies for the Group and its divisional structure. A survey of operative and strategic risks was initiated in the fourth quarter of 2016 and will be completed in the course of 2017.

As part of this future system, an updated risk guideline will be prepared for the Bilfinger risk management system. This particularly includes the definition of roles and responsibilities (Risk Owner, Risk Manager) and sets out the process steps for the design of a risk-management control cycle. These include:

- Identification and evaluation of risks at the level of the company by the defined Risk Owner, monitored by the Risk Manager. The evaluation of the risks is carried out using the likelihood and impact parameters.
- Definition, introduction and allocation of measures to reduce or transfer financial impact (mitigation measures).
- Aggregation of the individual risks using a Monte Carlo Simulation approach, insofar as this is reasonable.
- Risk reporting – both ad hoc and at predetermined reporting periods (at least quarterly).
- Monitoring of the identified risks and implementation of the mitigation measures.

In terms of an integrated corporate governance, the approach of the redesign takes into consideration the connection between the risk-management system, internal control system and auditing system.

For the timely identification, evaluation and responsible handling of risks, diverse management, recording, control and transfer systems are in place which are connected with the auditing system and which are being further expanded and improved. Together this forms Bilfinger's risk-management system which is currently being re-designed. The elements of our risk-management system are currently and will in future be the strategic and operative business planning combined with a comprehensive reporting system and extended by a monthly forecast process which together serve as the early-warning and monitoring system. Our risk management takes into consideration the special features of the project and service business as well as the international positioning of our activities.

Already today, the risk-management function comprises the following components which will be further enhanced by the current re-design:

- General principles of risk awareness and fostering individual risk conscious behavior
- Detailed specification and control of key performance indicators (Corporate Controlling)
- Monthly evaluation of the key financial risks for each individual risk on the basis of expert assessment as well as the implementation of measures for risk management
- Collective controlling by corporate departments (Corporate Controlling, Corporate Procurement, Corporate Treasury, Corporate Project Controlling, Corporate Internal Audit & Controls, Corporate Legal & Compliance and Corporate HSEQ).
- Particular risk review and monitoring for major projects and large service contracts (Corporate Project Controlling, Corporate Internal Audit & Controls)
- Internal control and risk-management system as relates to the accounting process (Corporate Internal Audit & Controls)
- Transfer of insurable and insurance-worthy risks to external insurance companies (Corporate Legal & Compliance) – this applies in particular to risks with a generally low likelihood and high potential for damage, whose risk transfer is organized centrally.

Risk management at Bilfinger is a continuous and decentralized operative process, which is monitored and controlled from headquarters. Accordingly, the divisions and subsidiaries, within the scope of the overall system, use instruments of risk management that are customized to their respective businesses and their key risks. The Group's collective risk-management function is exercised by the Executive Board and Group headquarters and monitored by the Supervisory Board. Effectively avoiding risks requires more than just good instruments and procedures. Risk awareness among employees is also a factor that we promote through training sessions and other measures. Group-wide, general principles of risk awareness apply to management and staff.

Each year, the Group defines new targets for all of its subsidiaries at a divisional level for the key performance indicators. These and other key figures are monitored with the use of monthly reporting. An analysis of the current situation, comparison with planning and derivation of measures is carried out at all operative levels.

In consultation with the Executive Board, the corporate departments perform a specialist monitoring function throughout the Group. They have wide-ranging obligations to request and receive information, to intervene in some cases and to issue individually defined guidelines, and be progressively actively involved with their specialist colleagues at the divisions and subsidiaries.

Group headquarters is also responsible for monitoring tasks of overriding importance. The areas of Corporate Accounting, Corporate Controlling, Corporate Procurement, Corporate Treasury, Corporate Project Controlling, Corporate Internal Audit & Controls, Corporate Legal & Compliance and Corporate HSEQ report regularly to the Executive Board on the risk situation from their respective specialist perspectives, based on which the Audit Committee and the plenum of the Supervisory Board produce a risk report every quarter, which includes all key risks. Within the framework of the initiated re-design of the risk-management system, this element is also subject to a methodological and content review. The Audit Committee is therefore informed of the results of the review and monitoring activities by the heads of Corporate Internal Audit & Controls and Corporate Legal & Compliance.

Orders with large volumes or special risks are only accepted if they are expressly approved by the Executive Board. Above a specified volume, approval of the Supervisory Board is also required. Orders with greater risks are analyzed more intensively by the Executive Board prior to a bid being submitted and continue to be monitored when an order has been received:

- Corporate Project Controlling supports these projects above certain thresholds from the bidding phase until completion. The technical, financial and timeline-related development of each project – irrespective of the responsible operating unit – is analyzed continually and critically.
- Decisions on financing, internal credit lines and guarantees are made by the Executive Board with significant support from Corporate Treasury as well as Corporate Legal & Compliance.
- Corporate Internal Audit & Controls, both on a scheduled basis as well as incident-related, examines the design and effectiveness of work procedures and processes and internal controls at the levels of the corporate departments and operating units.
- Corporate Controlling is responsible for monthly collection and processing of central performance measures and other information relevant for decisions. By permanently monitoring business developments, it creates a complete picture and independent opinion of the financial situation of the Group under consideration of significant divisional and regional structures. Where necessary, individual company level is used as a basis. Furthermore, Corporate Controlling is responsible for the content and further development of the key figure system as well as related instruments including the maintenance and adjustment of the supporting reporting and information systems.

- With its supplier management system, Corporate Procurement supports the evaluation and selection of subcontractors, materials suppliers and external service providers.

- Corporate Legal & Compliance reviews and evaluates legal risks, particularly before bid submissions, above certain threshold values and in certain risk categories, takes the lead in protecting our legal interests as well as in legal disputes in connection with contract fulfillment and ensures appropriate insurance coverage in the key, insurable risk areas.

Corporate Legal & Compliance also defines the priorities and measures in connection with the Bilfinger anti-corruption program and supports its worldwide implementation. As part of the company-wide risk analysis, Bilfinger companies and units are classified according to their risk of corruption. The decisive factors here are the business activities as well as the country-specific evaluation of the Corruption Perception Index produced by anti-corruption organization Transparency International. Following this prioritization, we implement the necessary measures for corruption prevention on the basis of risk evaluation in the companies and units.

The globally appointed Compliance Officers are particularly important as direct contact partners for the business units and as an interface to the Corporate Compliance Organization. The compliance experts provide comprehensive support on the subject of compliance for the companies and business segments. They support the management in upholding anti-corruption regulations in accordance with the Bilfinger Compliance Program. The Compliance Officers report regularly both within the business unit and to Group headquarters. In order to further minimize corruption risks, the existing standard process for the review of business with public authorities and government-related customers in countries with an increased risk of corruption is being further developed and improved.

In order to minimize corruption risks, we carry out a risk-based integrity review of business partners and make contractual agreements with these partners, which outline our expectations as regards lawful conduct. This is also being further developed as part of the re-design.

Managers have a special degree of responsibility as role models and important contact partners for employees. The fundamental importance of compliance is thereby firmly integrated into the qualification program for managers and junior managers as well as in talent promotion. Concrete compliance objectives are also set for managers. In future, we will link variable management remuneration even more closely with compliance behavior.

Our whistleblower system is the central point of contact for global reception, documentation and processing of suspected misconduct. Here suspected cases can be confidentially reported, anonymously if desired, via diverse contact routes. Employees are requested to report concrete suspicions of breaches of criminal law or of our principles of conduct. The protection of whistleblowers is binding. The processing of the received information regarding suspected misconduct is investigated independently and led by Corporate Internal Audit & Controls. In order to increase transparency, we regularly inform managers of all significant reported information on suspected misconduct in an anonymous form. If required, processes can be changed or optimized using the case analysis in order to prevent damage in future.

All new employees must complete web-based training on the Bilfinger principles of conduct. We also offer comprehensive training on corruption prevention worldwide. Furthermore, the top managers of the company take part in targeted anti-corruption workshops. These trainings undergo continuous development.

As part of the ongoing development of the risk management system and as a component of the compliance management system, a compliance risk assessment was conducted in all Group companies in financial year 2016. The operational implementation and the specification of the methodology followed in blocks from May 2016. In this regard, compliance risks were initially identified and evaluated from a Group-wide top-down perspective and subsequently placed in relation to a company-related bottom-up compliance risk assessment.

This year's focus of the compliance risk assessment was on corruption risks, giving special consideration to risks in the areas of granting undue advantage, office-holder liability as well as bribery and corruptibility in business transactions.

The evaluation of the risks identified within the scope of scenario-based assessment interviews was conducted parallel to the other operational areas of the risk management system through the parameters probability of occurrence and impact. This evaluation was conducted both without consideration of mitigation measures (gross) as well as after acknowledgment of the respective mitigation impact (net). The objective of the compliance risk assessment is a derivation of the compliance risk situation for each company as well as the compliance risk portfolio for business segments and the Group.

The results of the respective Compliance risk assessments were coordinated with the Executive Managements as well as with Corporate Legal and Compliance and with Corporate Internal Audit & Controls in the interests of an integrated Corporate Governance system approach. The results of the compliance risks aggregated or consolidated within this framework will in future aid the Executive Board with the management and monitoring of the company.

The previously described Compliance Management System and organizational elements such as guidelines or trainings for the relevant compliance departments are organized on this basis, and appropriately risk-oriented. The compliance risks identified in this way significantly shape the design as well as the number of internal elements of the control systems in place to deal with these risks and are thus, among other things the basis for project planning processes at Corporate Internal Audit & Controls.

The continuing periodic execution of the Compliance Risk Assessment ensures the ongoing adaptation of the Bilfinger Compliance Corporate Governance structures and elements in the individual companies and the Group to the forms and types of compliance risks that change over time.

- Corporate HSEQ has developed a Group-wide HSEQ management system, which displays the processes and objectives. This includes, among others, the implementation of audits in order to analyze existing risks in connection with health, safety, environment and quality and to review the methods used to control them. Results are analyzed and measures for continued improvement are introduced.

Our management, controlling and risk transfer tools form the Group's comprehensive risk-management system which is currently being further developed as part of the re-design.

Processes and approval procedures are documented in guidelines, manuals and instructions. Employees throughout the Group have access to the content of the risk-management system aia the intranet. The risk-management handbook is also currently being reviewed as part of the re-design project for the risk management-system. The functionality and effectiveness of central elements of this system, including the operative, non-accounting-related internal control system, are reviewed by Corporate Internal Audit & Controls. In addition, the Audit Committee of the Supervisory Board and the auditor also have general review and monitoring functions. Recommendations for the optimization of the risk-management system resulting from the review are currently being implemented as part of the initiated re-design project of risk management, among others.

B.3.1.1 Internal control and risk management system as relates to the accounting process

The primary objective of our internal control and risk-management system as relates to the accounting and consolidation process is to ensure orderly financial reporting in terms of conformity of the consolidated financial statements and the combined management report of the Bilfinger Group as well as the consolidated financial statements of Bilfinger SE as a parent company with all relevant regulations.

The internal control system (ICS) consists of principles, procedures and measures to secure the effectiveness, efficiency and accuracy of the company's accounting as well as the observance of applicable legal requirements. This also includes the internal auditing system insofar as it relates to accounting. On this basis, the observance of fundamental controlling principles such as separation of functions, four-eyes principle or lawful access regulations in the IT systems is ensured for the accounting and consolidation process. The ICS at Bilfinger for both the units included and for the consolidation is based on the COSO standard 2013.

Under consideration of legal requirements and standards that are usual for the industry, Bilfinger has established a Group-wide internal control and risk-management system in order to recognize potential risks and minimize them. This system is being systematically developed based on the determined need for improvement.

The basic structure of the internal control system includes the five core business processes Purchase to Pay, Order to Cash, Hire to Retire, Investment to Disposal and Financial Reporting. The controls embedded in the financial reporting process relate to both the accounting process in the included units as well as the consolidation. The key risks have been identified for these business processes and necessary correlating controls are defined annually within the framework of a risk control matrix. This structure represents the Group-wide binding ICS standard.

The methodical support of the ICS is organized in accordance with the structure of the Group. Responsible persons for ICS are determined at a Group, division and company level. Their tasks include reporting on the status of ICS to management, who have overall responsibility for the ICS, and supporting the implementation of further development of the system.

The effectiveness of the internal control system is ensured through annual effectiveness checks (tests). The tests are carried out by external auditors, Corporate Internal Audit & Controls and by the units themselves (control self-assessments). This forms the basis for the evaluation of the appropriateness and effectiveness of the Group-wide control system by the Executive Board at the end of the financial year. Recommendations for improvement become part of the ongoing development of the internal control system.

Our consolidated financial statements are produced based on a centrally predetermined conceptual framework. This primarily comprises uniform requirements in the form of accounting guidelines and an account framework. Continual analysis is carried out to determine whether adaptation of the conceptual framework is necessary as a result of changes in the regulatory environment. The departments involved in accounting are informed of current topics and deadlines to be met which affect accounting and the preparation of financial statements.

The financial statements provided by Bilfinger SE and its subsidiaries form the data basis for the preparation of our consolidated financial statements. Accounting in the Bilfinger Group is generally organized in a decentralized manner. Accounting tasks are mainly undertaken by the consolidated companies on their own responsibility, or are transferred to one of the Group's shared service centers. In some cases, such as the evaluation of pension obligations, we call upon support from external qualified service providers. The consolidated financial statements are prepared in the consolidation system on the basis of the reported financial statements.

The accuracy of the accounting process is supported by appropriate staffing and material equipment, the use of adequate software as well as a clear definition of areas of responsibility. The accounting process is also supported by quality assurance control and monitoring mechanisms (especially plausibility controls, the dual control principle, audit treatments from Corporate Internal Audit & Controls), which aim to expose and prevent risks and errors.

The internal control and risk management system established at Bilfinger with regard to the Group accounting process consists of the following significant features:

- The IT systems used in accounting are protected from unauthorized access through appropriate security measures.
- Uniform accounting is defined in Group-wide guidelines, which are regularly updated.
- Accounting data is randomly reviewed for completeness and accuracy on a regular basis. Programmed plausibility audits are carried out by software that is designed for that purpose.
- Appropriate controls have been implemented for all accounting relevant processes (including the dual control principle, functional separation and analytical audits). They are also reviewed regularly by Corporate Internal Audit & Controls.
- On the basis of the reports received from the external auditors and from Corporate Internal Audit & Controls, the Supervisory Board, through its Audit Committee, reviews the functionality of the internal control and risk-management system as relates to the accounting process.

Within the scope of the internal control and risk management system with regard to the accounting and consolidation process, Bilfinger has taken the measures described above for the identification and evaluation of risks that could counter the objective of conformity with standards in the consolidated financial statements and the combined management report (especially inaccuracies, violations of standards and requirements, manipulation, data collection and security, elimination of existing internal controls, inaccurate assessments of situations, inappropriate exercise of organization and assessment latitude as well as inaccurate estimates and evaluations). These relate primarily to systematic and manual coordination processes at Group, divisional and company level.

To limit the identified risks that exist with regard to the Group accounting processes, Bilfinger, within the scope of the internal control and risk management system with regard to the accounting and consolidation process, has taken the measures described above, primarily the establishment of the internal control system, the requirement of a conceptual framework and the establishment of quality assuring control and monitoring mechanisms.

B.3.2 Risks

B.3.2.1 Significant risks

The following risks could lead to significant negative impacts on our net assets and financial position as well as on our reputation. The risks are presented on a gross basis before risk limitation measures.

Unless otherwise stated, the risks presented in this chapter affect the entire Group. Risks specific to business segments include an appropriate indication. The principles of the reporting structure that is valid from 2017 with the business segments Engineering & Technologies as well as Maintenance, Modifications & Operations are described in chapter *B.4 Outlook*.

In our risk categories 'Risks related to our business environment', 'Risks related to service provision', 'Financial risks' and 'Other risks', we have identified the following risks as the greatest challenges for Bilfinger:

Risks related to our business environment – market risks The development of the crude oil price could severely impact our business. Furthermore, the negative development of the energy markets in Europe could negatively affect the business of individual areas of our company. Both factors could lead to our customers reducing their investment and maintenance budgets. In addition, competition could continue to increase. This could result in risks for the net assets and financial position of our Group.

Other risks – compliance risks In connection with the Deferred Prosecution Agreement to prevent legal proceedings against Bilfinger, which was concluded with the United States, there is a danger that the suspended legal proceedings against Bilfinger reach the point of prosecution or that the duration of observation by the Compliance Monitor is extended. The resulting costs could have a significant impact on the financial position of Bilfinger. In addition, there are also reputation risks which, if they were to materialize, would noticeably affect our competitive position.

Other risks – risks from legal disputes The outcome of legal disputes often depends on inquiry or assessments on the part of the courts and can therefore not be predicted with certainty. The possibility that the outcomes of litigation and proceedings may deviate from our assessments and forecasts and that our net assets and financial position may be affected can thus not be ruled out. The most significant current legal dispute relates to the collection of evidence in connection with the collapse of the Cologne municipal archives in 2009.

The order of the risks presented within the individual risk categories reflects the importance for Bilfinger.

B.3.2.2 Risks related to our business environment

Bilfinger depends on the general economic situation and the development of its markets. We are also exposed to political and macroeconomic risks. There is a tremendous amount of competition in our markets. Changes in legal requirements could also burden our earnings. To manage these risks, we regularly analyze how countries' economies and legal framework conditions are developing and continually evaluate our competitiveness in our markets.

Oil price development

The volatile development in the price of oil is a risk factor for our activities. Parts of our business are highly dependent on the sustainable development of global fossil fuel prices. The current price level for oil price continues to make cost-intensive fracking technologies in the extraction of oil and gas as well as deep-sea extraction unprofitable. Initial indicators, however, suggest that the consecutive investment cycles in the upstream and midstream areas may have reached or passed their low point in 2016.

The oil price development affects our offshore business in particular. Our customers in the Norwegian and British oil and gas sector have significantly reduced current maintenance and investment budgets for insulation and corrosion protection work. In the American shale gas sector, the former boom has waned considerably and, as a result, volume in the reporting year once again declined significantly.

Overall, a persistently low oil price could also negatively impact the results of operations, net assets and financial position in the future.

We counter risks from the oil price development through the restructuring of the affected areas. In addition, these framework conditions form the basis for the strategic repositioning, the principles of which are described in chapter *B.4 Outlook*.

Energy policy

As a consequence of the changes to the German energy policy, there is still a lack of planning security for power plant operators. The investment backlog that began with the energy transformation has continued. This is on top of increasing savings in the maintenance budgets. In other European countries, too, the energy transformation is having a negative effect on investment behavior.

A reduction of orders received beyond the predictable decline could have further negative effects on our results of operations, net assets and financial position. This requires an organizational and strategic reorganization of our activities in this business. The main principles of the measures taken are described in the chapter *B.4 Outlook*.

Countries

Country risks include uncertainties arising from political developments in our markets. In order to minimize such risks, we operate only in certain specified markets. In the course of the strategic repositioning of the company, we place the focus of our business on the core markets of Europe and, increasingly, on the United States and the Middle East.

In several Middle Eastern countries there are increased risks from the political situation. On top of this, there are possibly also compliance and financial risks there. To make business there legally secure and to transact this business under consideration of our compliance rules, central audit steps were introduced by the Executive Board. An internal export control reviews and organizes the permissibility of export transactions from a customs and trade perspective throughout the Group. In addition, possible violations of international sanctions should be ruled out. The minimum requirements with regard to our compliance regulations were also added to cover particular risks in individual countries.

Climate change and environment

Risks related to climate change and regulatory countermeasures affect Bilfinger primarily as a consequence of regulations and standards for product and process efficiency. At the same time, requirements for the reduction of energy consumption and CO_2 emissions are increasing around the world as a result of business activities. Contamination of air and water can occur through our production processes at production facilities and at construction sites as well as in transport. Failure to comply with environmental standards can have substantial risks for the habitats affected, for the company it can be associated with reputational risks and high cost risks.

On the customer side, new or changed environmental legislation and regulations lead to significant cost increases, particularly for our European customers in the energy-intensive process industry. This could result in our customers making savings, thereby decreased demand for our products and services and thus an impact on our results of operations, net assets and financial position.

The direct consequences of climate change such as extremely strong rainfall or the lack of precipitation, unusually high or low temperatures could have a negative impact on our service provision, because services are primarily conducted outdoors.

The business units have management systems to measure and reduce the impact of our business activities on the environment. These are partially subject to various national, industry, and customer specific requirements. Further explanations on the handling of environmental risks are included in the chapter *B.2.7.8 Resource management and energy consumption* as well as in the Bilfinger Sustainability Report which will be published in May 2017.

B.3.2.3 Risks related to service provision

Occupational safety and quality

As a service provider, we are almost exclusively active at the locations of our customers. In the execution of our work we place the highest possible demands on safety, environmental protection and quality of our services and have anchored the goal of ‘zero accidents’ in our safety culture. At the same time, we strictly maintain the safety requirements of our customers, though it is still not possible to prevent all incidents.

Our customers have strict requirements for health, safety and environment as well as for the quality of the services provided. Failure in these areas could lead to adverse effects on our customer relationships through to loss of orders as well as contractual penalties and damage claims and could thus have a negative impact on the net assets and financial position of the Group.

We counteract risks from quality defects with our quality and process management. It starts with the operating units, which are responsible for the process as well as the quality of their services. Through system requirements and targets and internal audits, they work toward the continued development of quality standards. Our processes and units are also externally audited and certified.

Project business

When planning and executing projects, significant calculation and execution risks exist, which are often larger than in the service business due to the project volumes and higher degree of technical complexity. Risks from the project business following the strategic repositioning in 2017 therefore primarily relate to the Engineering & Technologies business segment.

Project orders, for example, are major inspections or the new construction of industrial production facilities. Requirements, which have not been fully anticipated, and resulting modifications, delays, financial difficulties of our customers or suppliers, lack of skilled personnel, technical difficulties, cost overruns, construction site conditions or changes to the project sites, weather influences or natural catastrophes, changes to the legal or political environment or logistical difficulties can have a significant negative impact on the results of operations, net assets and financial position of Bilfinger.

Bilfinger takes responsibility for the engineering, procurement and construction (EPC) in a number of project orders. Plant construction projects carried out as part of EPC/turnkey fixed price contracts are often complex, require substantial purchasing volumes and a qualified project management. Such project contracts are typically concluded with the obligation to provide turnkey construction of the plant or plant components. A key risk lies in the fact that the calculated prices are inadequate for the contractual performance for diverse reasons (e.g. construction site conditions, delays due to weather conditions, mistakes by subcontractors) and that further claims cannot be obtained from the customer. This can result in a decreased profit margin and in some cases can lead to significant losses from the contract.

The limitation of risks is a key task of the unit responsible for the individual project at Bilfinger. There are thus minimum requirements which a project must fulfill in order to be accepted by the responsible unit. Depending on the bid volume and risk categories, the independent Project Controlling and Legal & Compliance departments must be involved as an additional supervisory authority. The joint risk management begins with the targeted selection of the projects. In addition to the actual task of the project, the client's person, conditions in the region in which the project is to be carried out, the competence and capacity of the Group unit that will potentially do the work, execution risks, the draft contract as well as the payment plan and payment security are analyzed. In the following bid phase, positive or negative deviations from the generally expected conditions are systematically listed. In the determination of costs, the calculation initially assumes planned conditions. Subsequently, the positive or negative particularities are analyzed, evaluated and decisively taken into account in the final decision on the bid and its formulation. Projects above a certain volume or with a high degree of complexity are consistently monitored by a central unit in accordance with defined regulations from the bid phase through to implementation, completion and processing of any warranty claims.

Service business

Risks from the service business following the strategic repositioning in 2017 relate primarily to the Maintenance, Modifications & Operations business segment. Here, we generally conclude contracts over a longer term, which are primarily awarded in a highly competitive environment. The earnings margins attainable in long-term contracts could deviate from the initial calculations as a result of changes from diverse influences. In maintaining industrial plants and buildings, there is the risk that material and personnel costs or legal requirements are not fully covered by the contractual revenue and thus have an impact on the financial position.

Overall, the calculation and execution risks in the service business are, however, generally lower than in the project business due to the lesser degree of complexity and lower order volumes. In terms of the risk profile of Bilfinger, we therefore focus our activities on the service business.

The basis for the management of risks in the service sector is a profound understanding of the customer, the services being provided and of the contract conditions that have been agreed. For the execution of the work, our operative companies have competent, reliable and experienced staff. In view of the high degree of involvement in the business processes of our customers, we pay particular attention to the appropriate level of qualification of the persons assigned. Precise knowledge of the specific conditions in the plants we manage is a decisive factor for our business success. Service contracts above a certain volume must be subject to a regular review by Corporate Project Controlling over the contract period.

Overcapacities

Against the backdrop of demand development in sub-markets of our industrial service business, we are faced with risks resulting from overcapacities and reduced cost flexibility. Fluctuations in demand could continue to have a noticeable impact on the financial position.

We are therefore developing measures to adapt administrative capacities and reduce over-capacity. We consistently adapt these structures to the requirements of the restructured operating business. We also continuously work on gaining a greater degree of flexibility in our operating costs. In addition to measures for greater flexibility in the availability of our own staff, we also constantly examine the vertical integration within the scope of structured 'make or buy' decisions as regards the appointment of our own employees or the use of subcontractors.

Technical characteristics

In some of the contracts with our customers, technical parameters and availability of the plant must be assured and guaranteed through penalties. If the technical values or availability are not achieved, there is the risk of significant costs of rectification, the payment of technical penalties or withdrawal of the customer in the case of obligation for payment of damages.

Human resources

Bilfinger is currently in a far-reaching transformation process. The strategic repositioning of the company and the necessary optimization of the organizational structures are of course associated with uncertainty for employees. The organizational and strategic repositioning, however, have again led to an increase in employees' confidence in the company. There is, however, a continued risk that qualified staff will leave the company and potential new employees will be reluctant to move to Bilfinger. Because the company is reliant on technically qualified and motivated employees in many areas in order to be able to meet the requirements of its customers, this could have a negative impact on customer satisfaction. If this affects the regular business and order acquisition, negative effects on the net assets and financial position are possible.

As part of our human resources controlling, we closely follow structural changes within the workforce and can thus counteract any negative developments at an early stage. We counter attempts by competitors to recruit our employees with attractive wage and salary structures and a targeted identification of personal development prospects. Overall, we counter human resources risks that could arise from a lack of young talent, fluctuation, a lack of qualifications, limited motivation or an aging of the workforce with a broad range of measures that are described in chapter *B.2.7.6 Employee development*.

Procurement, supply chain and human rights

With a volume of about €1.8 billion, purchasing is a decisive factor in our business success. In addition to the economic aspects, respect for human rights is also extremely important in our supply chain.

As a longstanding member of the United Nations Global Compact, we are committed to supporting the protection of human rights within our area of influence. Failure to observe basic rights leads to significant risks for the personal, social and economic situation of those affected. For our company, this could lead not only to significant reputation risks, but also to negative impacts on the company's economic performance and earnings situation. Therefore, all suppliers are bound by the principles of our Group-wide procurement guideline to meet minimum requirements with regard to the observance of human rights.

As a result of the sale of parts of the company, in particular the sale of the Building, Facility Services and Real Estate divisions in 2016, the purchasing volumes of the Group decreased significantly. Primarily affected by this decline, however, were commodity groups such as technical building equipment and trade related products and services in the construction industry. With regard to the remaining purchasing volume, there are primarily risks from price increases in the indirect materials costs. In addition, preliminary work from our suppliers, subcontractors or service providers that is lacking, too expensive or inadequate in terms of quality could have significant negative impacts on our financial position. Unexpected price increases in components, energy and raw materials could also be a burdening factor. The handling of these procurement risks is a key component of our supplier management system, the principles of which are described in chapter *B.2.7.4 Procurement and supply chain*.

We intensively monitor our global procurement markets. The Group-wide monitoring of world market prices of, for example, steel, oil and services facilitates the flexible procurement of materials and subcontractor services for our projects at optimal conditions. We counteract regional procurement risks by cooperating with competitive suppliers and subcontractors. We secure quantities, qualities and prices by means of letters of intent and preliminary agreements. We also safeguard ourselves against inflation by means of sliding-price clauses in our offers as far as this is permitted and the competitive position allows this.

Business partners

For the execution of our business activities we maintain diverse contractual relationships with a large number of partners. For the most part, these are clients, partners in jointly-owned companies, consortiums and joint ventures, subcontractors, suppliers, financial institutions, insurers as well as service providers. If these contract partners are not able to meet their performance and / or payment obligations, if they perform poorly, behind schedule or not at all, this can impact our liquidity and financial situation.

We counter these risks by carefully selecting our partners in terms of reliability and performance, a consistent dunning system and – when necessary – a collateralization of their contractual obligations. In the execution of projects with consortial and joint venture partners and in the assignment of important subcontractors, all potential breakdowns on the partner side are routinely included in the bid considerations. Where possible, we pursue a 'multi-sourcing' strategy in order to be able to draw on alternatives quickly in the case of a loss of a partner, particularly suppliers, and thereby avoid a potential performance failure. Within the scope of the monthly debtor reporting, receivables with our customers are brought together and evaluated in terms of the respective probability of default based on the external rating. In order to minimize cluster risks, volume-graded limits are defined at Group level in relation to the external customer rating.

We subject important suppliers, service providers, subcontractors, working groups, consortia and joint ventures as well as all distribution agents to an integrity review before contract signing.

A particular problem is presented by advance performance obligations, which affect some areas of our business. Inherent to these obligations is the risk that payments from the client are not made on time or that additional work must be carried out that has not been secured with a price agreement. This could result in risks for the calculated earnings of an order. In order to avoid such risks, we follow the systematic payment behavior, business conduct and the financial situation of the customer and try, particularly within the project area, to meet security requirements.

B.3.2.4 Financial risks

We are also subject to financial risks in the form of liquidity and financing risks, market price risks from the fluctuation in currency and commodity prices and changes in interest rates as well as credit risks of our banking partners. We monitor these financial risks with proven control mechanisms that allow for timely and transparent reporting. The Group's reporting system guarantees the regular identification, analysis, assessment and management of financial risks by Corporate Treasury. All relevant equity interests and joint ventures are included in this monitoring.

Fundamental questions of risk management such as defining or reviewing methods, limits or risk strategies are dealt with by a steering committee with the direct involvement of the Executive Board.

As a result of an unexpected negative business development, increased financing needs can occur in the operating units. At the same time, a negative business development can lead to changes in Bilfinger's credit rating, particularly through rating agencies and banks, which could lead to more difficult and more expensive financing, or make securing bonds and guarantees more difficult and expensive. External financing can also result in a worsening of the dynamic gearing ratio. Within the scope of the agreed financial covenant, it is ensured that this gearing ratio is met. Any breach of the financial covenant can lead directly or, through cross-default clauses, indirectly to the repayment call of all financing on a recourse basis and can thereby also lead to an unplanned loss of liquidity.

We counter this risk by centrally monitoring liquidity development and risks in the Group using a rolling cash flow planning and introducing countermeasures at an early stage. Within the context of central financing, Bilfinger SE makes necessary liquidity available to its subsidiaries. Notwithstanding economically less relevant regions, the Group's internal equalization of liquidity in Europe and in the USA is supported by cross-border cash pooling.

Investment financing is carried out with consideration of matching maturities. In 2012, a €500 million bond with maturity in 2019 was issued with a fixed interest rate over the entire period. To finance working capital, we have a €300 million pre-approved credit line at attractive conditions that is in place until June 2018. This includes a standard market financial covenant in the form of a limitation of the dynamic gearing ratio net debt / EBITDA. The value as of December 31, 2016 is substantially below the contractually agreed cap. If, in the case of a significant worsening, adjustment does not take place in agreement with the lender, any breach of the financial covenant can lead directly or, through cross-default clauses, indirectly to the repayment call of all financing on a recourse basis.

The sureties available for the execution of our project and services business with a volume of about €1.7 billion are sufficiently dimensioned to accompany the further development of the company. In addition, we have a US surety program in the amount of USD 700 million for the execution of our business in North America. All credit commitments can be called due prematurely in the case of a change of control.

Market-price risks in the financial sector primarily involve exchange rates, interest rates, raw-material prices and the market values of financial investments. As a globally active company, we are subject to exchange rate fluctuations, for example between the euro and the US dollar, because part of our volume of business is generated in the USA. A rise of the euro against the US dollar in particular could therefore have a negative impact on our financial position. Furthermore, we are also faced with interest rate fluctuations. Negative developments in the financial markets and changes to the policies of central banks could have a negative impact on our earnings. Fluctuations in commodity prices can also have a negative impact on the financial position.

We counteract market price risks by protecting against certain currency, interest rate and commodity risks through derivative financial instruments. This allows our centralized control of market-price risks to net out cash flows and financial positions to a large extent. We make use of derivative financial instruments in order to minimize residual risks and fluctuations in earnings, valuations and cash flows.

Depending on the development of exchange rates and interest rates, hedging transactions could affect our net assets and financial position. We therefore do not undertake any financial transactions beyond the underlying business risk. Hedging is primarily carried out via micro-hedges.

We use currency futures or currency options to hedge risks relating to foreign-currency cash flows and balance sheet items denominated in foreign currencies (not translation risks). We generally hedge against transaction risks in the project business for the entire project period immediately after a contract is received. In individual cases this is already done during the bidding phase. Risk management takes place with the use of specified risk limits for outstanding foreign exchange items, their value at risk and marked-to-market results.

Whenever possible, hedging against price fluctuations of raw materials is undertaken on the basis of fixed-price agreements for materials purchased or sliding-price clauses for our affected services. If this is not possible, hedging is carried out with the use of commodity swaps, for diesel fuel, for example.

We counteract the risks of interest-rate changes by continually reviewing and, when required, adjusting the composition of recourse liabilities subject to fixed and variable interest rates. We assess risks in consideration of future needs for new financing or refinancing on the basis of a cash-flow-at-risk model. The borrowing costs budgeted within the scope of the cost of-capital model serve as a point of reference. To manage this, we generally apply derivative financial instruments such as interest-rate swaps and swaptions.

Positive market values and the investment of liquid funds in banks result in credit risks from these banks. In the case of a collapse of the bank, there is the risk of a loss, which can have a negative impact on our net assets and financial position. We counter these risks by concluding relevant financial transactions with such banks that have a public short-term rating of at least A. In addition, on the basis of an internal limit system, a diversification of volumes and maturities takes place.

C.4 The Notes to the consolidated financial statements, Note 29 provides quantitative information on the risks from financial instruments and hedging transactions. Further information on financial instruments can also be found in the *C.4 Notes to the consolidated financial statements, Note 28.*

B.3.2.5 Other risks

Compliance

The importance of compliance risks for Bilfinger remains high. We investigate suspicious cases in various countries and are cooperating with the responsible authorities.

With regard to the case in the USA for violation of the US Foreign Corrupt Practices Act (FCPA), it was agreed in 2016 with the American Department of Justice (DoJ) that the Deferred Prosecution Agreement (DPA) that has been in place since 2013 would be extended until the end of 2018. The key content of this DPA is the obligation to introduce an effective compliance system throughout the Group. In order to ensure that this goal is achieved, an extensive Compliance Remediation Program was established. Also within the framework of the extended DPA, the already appointed Compliance Monitor will report on a regular basis on the effectiveness of our compliance measures to the company as well as the DoJ. The company supports the Monitor in the fulfillment of his tasks. There is the risk, especially if new transgressions in connection with the FCPA are determined or if the company violates its obligations in connection with the DPA, that the duration of the DPA and thus the supervision by the Monitor is again extended or fines are levied against the company or the suspended proceedings against Bilfinger are prosecuted. In addition to the risk that resulting costs and other consequences could have a significant impact on the financial position, there is also a significant reputation risk for Bilfinger.

We are currently investigating suspicious cases in various countries, including Brazil and Vietnam, and are cooperating with the authorities. According to current assessments, there is a risk of fines or significant disgorgement of profits or other liability claims in connection with these transactions.

Changes to the regulatory environment in markets where we do business could affect our business globally and impact our business situation, net assets and financial position. Bilfinger could also face fines, sanctions and damage to its reputation. Furthermore, uncertainty in the legal environment could mean that we are subject to increasing costs for adequate compliance programs. In 2016, in connection with the further development and re-design of our compliance program, we had expenditures in the amount of approximately €20 million.

Corruption, antitrust or similar proceedings against Bilfinger could lead to criminal or civil prosecution as well as fines, sanctions, injunctions, disgorgement of profits, the exclusion from direct or indirect participation in certain business activities or to other restrictions. In addition, corruption and antitrust cases or other misconduct could have a detrimental effect on our involvement in business with public-sector customers – up to exclusion from public-sector contracts. Criminal prosecution could also result in the cancellation of some of our existing contracts and third parties, including competitors, could initiate proceedings against us on a large scale.

Legal disputes; damage cases and liability risks

In addition to the costs and expenses that arise as a result of legal disputes, there is also the risk of financial loss arising from correct, incorrect or lengthy decisions on the part of courts or public authorities.

Legal disputes predominantly arise from our provision of services. Controversies with customers mainly relate to claimed defects in our services, delays to completion or to the scope of services provided. In such cases there is often also a similar dispute with the subcontractors that were used. We strive to avoid legal disputes wherever possible or to settle them at an early stage. This goal cannot always be achieved, however, with the result that German and international companies are sometimes involved in litigation or arbitration. The outcome of such can of course not be predicted with any degree of certainty, but is often dependent on inquiry or assessments on the part of the courts. We therefore cannot exclude the possibility that the outcomes of litigation and proceedings may deviate from our assessments and forecasts and that damages may occur to our net assets and financial position.

Among the most important current damage cases is the collection of evidence for the cause and amount of potential claims in connection with the collapse of the Cologne municipal archives in 2009. Bilfinger participates with a share of one third in the joint venture that was commissioned with the construction of an underground rail line in front of the former location of the municipal archives. Gathering of evidence in these proceedings has not been completed. From today's perspective, we expect that in case of a proportionate availment we would, if necessary have sufficient insurance coverage. Should risks from this case occur, claims would be made against the owners of the commissioned joint venture who are jointly and severally liable. There is no binding assessment of the potential magnitude of the damages.

The insurance coverage does not include the costs of rehabilitation that go beyond the original construction costs for the structure, among other things, financial losses from an early commissioning in the north and south area of the underground rail line and internal costs from the Cologne transportation authority for the processing of the damages. From today's perspective, sufficient provisions have been taken for any burdens that may arise as a result.

For individual projects in Germany, in the United Arab Emirates and other countries clients have made, for various reasons, claims with a total volume in the double digit million euro range. The object of the disputes are, among other things, the appointment of blame for the causes of construction delays and disagreement related to technical features. According to current assessments, we do not expect – also in light of existing balance sheet provisions – any relevant negative impact on the business situation, net assets and financial position of Bilfinger as a result of the proceedings.

A suit has been filed against Bilfinger for arbitration proceedings by a customer in connection with a plant project in Texas. The customer is claiming the costs of a replacement measure following termination of the works contract. The exact volume of the suit has not yet been determined but is likely to be in the middle double-digit million US dollar range. We have filed a counter-suit for payment for our services also in the mid-double digit million US dollar range. Another lawsuit in the United States relates to the services of an American subsidiary. The customer's claim is an amount in the mid double-digit million US dollar range, but here too there are substantial counter-claims.

In connection with a concluded M&A selling project, a suit has been filed by the seller for arbitration proceedings in Germany. The seller has asserted a claim in the mid double-digit million euro range against us.

In Malaysia, we have been sued for damages in the lower double-digit million range in connection with a project that is currently in arbitration hearings. Proceedings are still at an early stage.

Damage cases in connection with the business activities of the Bilfinger Group, including those outside of legal disputes, can have significant negative financial impacts for the affected Group company and for the Group. We generally transfer such risks to financially sound, international insurance companies as part of insurance contracts. The key insurance contracts of the Group include diverse liability insurances to protect against claims from third parties, technical insurances and property and transport insurances.

Overall, following careful examinations, we can assume that sufficient provisions have been recognized in the balance sheet for all ongoing disputes and partially with recourse claims. However, it is still possible that the available provisions are insufficient as a result of the difficulty in making projections or because capitalized receivables cannot be fully collected.

Restructuring

In the course of the restructuring of Bilfinger, we are also working closely on initiatives for cost reduction. This concerns both structural optimization of our organization as well as the adjustment of capacities. If the necessary measures cannot be implemented as planned, their benefits are less than originally estimated, they take effect later than expected or do not have any effect or the necessary one-time expenses and investments are higher than currently foreseeable, this would result in a negative deviation from our planning. We continually control and monitor the processes of the strategic repositioning of Bilfinger and implement appropriate concepts for the management and controlling.

IT

In 2016, we launched a comprehensive program for the standardization of the Group IT system landscape, which will help us to accelerate processes and to reduce complexity in our company. To achieve this goal, we will make investments of millions of euros in the coming years. If these measures cannot be implemented as planned, their benefits are less than originally estimated, they take effect later than expected or the necessary investments are higher than currently foreseeable, this would lead to a negative deviation from our planning.

Threats to information security could lead to risks to the security of our services, systems and networks. The confidentiality, availability and reliability of data could also be endangered through unauthorized access to our information technology. Furthermore, negative effects on our reputation, competitiveness and business could occur.

In order to prevent unauthorized access and data loss and to guarantee the permanent availability of our systems, we protect our information technology with numerous technical installations. Our IT structures are largely standardized. We use software products from leading producers such as SAP, Oracle and Microsoft. Applicable security guidelines are continuously adapted to the latest technical developments. The IT security is regularly audited in a standardized process by internal and external auditors.

Risks from the sale of the Building, Facility Services and Real Estate divisions (discontinued operations)

The selling price for the Building, Facility Services and Real Estate divisions, sold in the third quarter of 2016, of approximately €1.2 billion includes non-cash components that are to be paid when new owner EQT resells the company, at the latest. On the one hand, Bilfinger grants the acquiring company a deferral of a portion of the purchase price in the amount of €100 million with annual interest of 10 percent upon maturity. On the other hand, a further portion of the purchase price in the amount of €195 million will be transformed into equity-like participation rights. This entitles Bilfinger to 49 percent of the resale proceeds from EQT. We thus continue to participate in a proportionate amount in the development of the sold divisions. If their value should develop worse than planned, up to and including a complete loss of value, there is the risk of negative effects on Bilfinger's results of operations, net assets and financial position.

Disposals

Selling processes have been initiated for individual companies categorized as not strategically relevant and, with the strategic repositioning in 2017, are presented under Other operations. Disposal plans carry the risk that certain business activities cannot be sold as planned. In addition, completed disposals could result in negative impacts on our results of operations, net assets and financial position.

In general, clearly predetermined processes and criteria are observed with disposals: In the first stage a review is carried out to determine whether the disposal of a business unit is consistent with the Group strategy or whether there are other considerations in favor of selling and what the framework conditions for the sale of a business unit are. Particular consideration is given to whether there could be a promising group of buyers and whether there are initially identifiable risks for the Group. Furthermore, alternatives such as restructuring or closure, for example, are taken into account and examined.

Acquisitions

Company acquisitions can, as a result of the absence of expected economic success, lead to substantial burdens for the Group including potential goodwill impairment. The causes for this could, for example, be related to unexpected business or market developments, the appearance of unforeseen financial obligations, inadequate integration or increased personnel fluctuation. Because we have not made any large acquisitions in the reporting year and are not presently planning any, risks from acquisitions for Bilfinger are currently low. It is however still possible that risks from earlier acquisitions occur, particularly as concerns possible impairments to goodwill (see the *C.4 Notes to the consolidated financial statements, Note 15* for the impairment tests of goodwill).

Subsidiaries

The subsidiaries are responsible for the operating business of the Bilfinger Group. This carries the risk that misconduct occurring here is not promptly identified at the Group headquarters and countermeasures against impending negative effects on our results of operations, net assets and financial position are implemented too late.

All the companies of the Group are therefore subject to an ongoing financial controlling process. Corporate Controlling reports to the Executive Board once a month and informs it of any unusual developments without delay. Corporate Controlling develops a complete picture and an independent opinion on the financial situation of the companies. The following instruments and analyses are particularly used:

- Monthly results forecasts for the year-end with a focus at a division level including documentation or opportunities and risks
- Analysis of the loss-making units and cash-negative units
- Working capital analysis and documentation of changes to net working capital
- Analysis of the statement of cash flows with a focus at division level

In addition, there is a decentralized financial controlling department in each division that reports to the respective divisional management and is subject to the functional supervision of Corporate Controlling.

Taxes

As a globally-active company, we are subject to the respective country's tax laws and regulations. Changes can lead to a higher tax expense and higher tax payments. In addition, changes in laws and regulations can also have a significant impact on tax assets and tax liabilities as well as on the deferred tax assets and deferred tax liabilities of our company. We are also active in countries with complex tax regulations that can be interpreted differently. Future interpretations or development of the tax system can have an impact on tax liabilities as well as tax expenses and tax payments. Bilfinger is regularly audited by the financial authorities in different jurisdictions. Tax risks that arise from the stated range of topics will be continuously identified and evaluated.

B.3.3 General assessment of the risk situation

The evaluation of the overall risk is the result of a consolidated consideration of all significant individual risks. The most significant risks for the Group, in the operating business as well as risks from the sale of the Building, Facility Services and Real Estate division (discontinued operations) have been described. The most important risks are listed in chapter *B.3.2.1 Significant risks*.

With regard to the overall risk situation of the Bilfinger Group, the following situation has arisen as compared with the previous year: due to the sale of the Building, Facility Services and Real Estate divisions, the specific risks of this business no longer exist. The clear positioning on the core industrial services business results in a homogeneous risk structure on which we can specifically position our risk management system.

Market risks, including those that result from a continuing low oil price, did not decrease noticeably as compared to the previous year. The strategic and organizational repositioning of our business will contribute to an improvement in our ability to evaluate market risks and risks related to service provision and, when necessary, to take counter-measures. Furthermore, we have introduced additional measures, in order to particularly counteract the identified compliance risks. We are convinced that the risks associated with our business activities are sustainable for the Group as a result of the instruments that have been put in place to manage these risks.

In the past financial year, we did not identify any individual risks whose occurrence, either alone or in combination, would have jeopardized the continuing existence of the Group or one of its significant Group companies. If unpredictable, exceptional risks should arise, the possibility that they would have an impact on our output volume or earnings cannot be excluded. From today's perspective, however, no risks can be identified that could threaten the existence of the Group or one of its significant Group companies.

B.3.4 Opportunities

We evaluate the opportunities for Bilfinger within the scope of our strategy process. The main features of the strategic and organizational repositioning are described in chapter *B.4 Outlook*. We define opportunities as developments which deviate from this strategic planning in a positive way and which, accordingly, could result in an additional improvement in our results of operations, net assets and financial position.

The opportunities described below generally relate to the entire Group. Segment-specific opportunities are declared as such. In terms of their order within the individual categories, the opportunities presented reflect the current evaluation of their importance for Bilfinger.

B.3.4.1 Opportunities related to our business environment

Oil price development

A sustainable increase in global market prices for fossil fuels beyond the level that we assume in our strategic planning would have additional positive effects on our business operations. An oil price that, over a longer term, is above the profitability threshold of more cost intensive fracking technologies and deep-sea production would revive the investing activities of our customers. This would primarily impact the maintenance and investment budgets in the Norwegian and British oil and gas sector as well as the US shale gas sector.

General economic conditions

Our strategic planning is based on certain assumptions with regard to the economic framework conditions in our markets in Europe, the United States and the Middle East. If the actual development deviates positively from this planning basis, it can lead to additional impetus on demand.

Exchange rates

Our planning is based on the assumption that the exchange rates for those currencies that are important for Bilfinger – the US dollar, British pound and the Norwegian krone – will remain at the average level of 2016. Because the vast majority of our services are provided on site, we are less affected by changes in currency exchange rates than companies that rely on the export of goods. Nevertheless, a more favorable exchange rate development would mean additional positive effects for Bilfinger.

B.3.4.2 Other opportunities

Value development of the non-cash purchase price components for the sold Building, Facility Services and Real Estate divisions (discontinued operations)

As described under Risks in chapter *B.3.2.5 Other risks*, the selling price for the Building, Facility Services and Real Estate divisions sold in the third quarter of 2016 includes non-cash components that are to be paid when new owner EQT resells the company, at the latest. This entitles Bilfinger to 49 percent of the resale proceeds from EQT. We thus continue to participate in a proportionate amount in the development of the sold divisions. If their value should develop better than planned, at the time of a resale there is an opportunity of positive effects on Bilfinger's results of operations, net assets and financial position.

B.3.5 General assessment of the opportunities situation

With the strategic and organizational repositioning, we create the conditions necessary for the successful future of our company. Our environment and service range offer additional opportunities that can lead to a development of our results of operations, net assets and financial performance that is above our planning.

B.4 Outlook

B.4.1 Organizational and strategic repositioning

We repositioned the Bilfinger Group at the beginning of 2017. With our comprehensive range of services for plants in the process industry, an organizational structure that is aligned with the needs of our customers and a focus on defined customer industries, we have established the foundation for the successful development of our company. The forecasts and statements related to the expected development of Bilfinger are made within the scope of these new structures.

Two business segments

REPORTABLE SEGMENTS FROM JANUARY 1, 2017

Engineering & Technologies (E&T)	Maintenance, Modifications & Operations (MMO)	Other Operations
Division:	Regions:	
Engineering & Technologies	Continental Europe	Units with activities outside the defined business segments, regions or customer industries
	Northwest Europe	
	North America	
	Middle East	

From financial year 2017, we report on Bilfinger's business development in the two segments Engineering & Technologies and Maintenance, Modifications & Operations.

The Engineering & Technologies segment bundles activities based on engineering services and technical solutions. The project business is predominant, important drivers are capital expenditures on the part of our customers (CAPEX). We meet the requirements of our customers by means of a centrally controlled project management system in an internationally-active division focused on defined industries and engineering disciplines.

In the Maintenance, Modifications & Operations segment, we report on our activities in ongoing maintenance services, modifications and operational management of industrial plants. These activities are dominated by the share of the services business that is based on long-term framework agreements. The main drivers of the business are, in many cases, the budgets of our customers for the ongoing operation of their plants (operational expenditure – OPEX). Because these relate primarily to activities with specific local demand structures, we have organized this business in regions.

Four regions

Bilfinger concentrates its business on the core regions Continental Europe, Northwest Europe, North America and the Middle East. In these regions, we already have partially very good market positions and see opportunities to expand our business in selected areas. We have carefully analyzed the respective environments and evaluated our regional development potential in defined customer groups.

Six customer industries

Bilfinger has exceptional competences and particularly strong customer relationships in the industrial sectors chemicals & petrochemicals, oil & gas as well as energy & utilities which account for the majority of our current output volume. In the pharma & biopharma, cement and metallurgy industries we intend to further expand our existing business and grow to an even greater extent in future.

Other Operations

We report on operating units that are active outside the defined business segments, regions and customer groups under Other Operations. These units are not the focus of the Group's new strategic positioning, but will be managed independently for value. In the long term, a suitable owner will be sought for the individual units.

OUTPUT VOLUME AND ADJUSTED EBITA IN FINANCIAL YEAR 2016 IN ACCORDANCE WITH THE REPORTING STRUCTURE VALID FROM JANUARY 1, 2017
€ million

	Output volume	Adjusted EBITA	Adjusted EBITA margin
Engineering & Technologies	1,246	-30	-2.4 %
Maintenance, Modifications & Operations	2,461	121	4.9 %
Other Operations	615	5	0.8 %
Headquarters / consolidation / other	-103	-81	
Total	**4,219**	**15**	**0.4 %**

B.4.2 General economic development

The outlook for 2017 from research institutes and international organizations with regard to the economy in Europe, the USA and emerging countries is restrained. In these forecasts, the prospects for world trade and capital investments in particular are shaped by substantial political uncertainties. The chance that new comprehensive free trade zones could revive the recent stagnation in world trade has declined with the expected failure of the transatlantic and transpacific free trade zones.

Chemicals & petrochemicals, pharma & biopharma

Important customer industries such as chemicals and pharmaceuticals are particularly impacted by the risks of growing protectionism and new obstacles in the European single market. The United Kingdom, which is heading toward an exit from the European Union, is currently Germany's third largest export market. A departure of the country from the single market, which would bring with it new import duties and other obstacles to trade, would have a substantial impact on certain industries. Currently, 10.5 percent of the German pharmaceuticals industry's exports go to the United Kingdom (DB Research).

Especially with regard to the chemical and pharmaceutical industry, the industrial services sector can thus not expect a sweeping revival of the business in Europe. In addition to the economic risks, there are also additional dangers for the German market as a result of the planned tightening of regulations regarding temporary employment and the law governing the sale of goods and services. New bureaucratic hurdles in this area represent an additional problem for the industrial services sector which relies on a high degree of flexibility (Lün, p. 36).

In the fall of 2016, sales expectations in the chemicals industry in Europe improved only slightly (CEFIC). German chemicals companies no longer anticipate a significant revival in 2017. Uncertainties with regard to trade policies and continuing growth weakness in China and other emerging economies, among other things, are having an impact here.

There is a more optimistic picture for the outlook in the chemicals and pharmaceuticals industry in the USA. At the turn of the year 2016/2017, companies' expectations improved considerably. With already good capacity utilization, the industry is benefiting from expanding US economic growth which could be heated up further through fiscal impetus and the prospect of an economically-friendly deregulation from the new administration. The pharmaceutical sector in particular will also benefit from a significant increase in prices (VCI US J17).

Oil & gas

The International Energy Agency anticipates oil prices to stabilize further in 2017 only if OPEC can actually implement its resolutions limiting production which were passed in autumn 2016. Otherwise, weak demand in emerging economies and the expansion of production in non-OPEC states such as Russia, Canada and Brazil could continue to put pressure on prices. In the medium term, the Agency is conversely warning against shortages and abrupt price increases as development activities for new, conventional production fields around the world are now at´their lowest level since the 1950s (IEA). As for the most part years of preparation are required to exploit conventional sources of energy, it might, in the Agency's opinion, lead to sharper price increases. Rapidly available American shale oil could only partially mitigate this volatility.

In terms of US shale oil production, the US Energy Information Administration (EIA) still anticipates a slight decline in production for 2017 due to the previous decline in investment (USEIA Future tight oil). As a result, maintenance budgets are also likely to continue to stagnate. However, according to EIA projections, from 2017 productivity improvements will again ensure rising output. The legal situation for the shale gas and oil sector could improve further with the new US administration. It remains to be seen, however, the extent to which regulations will actually be eased to support the shale gas, shale oil and coal sector.

Oil production will also decrease on the Norwegian continental shelf due to the sharp reduction in exploration activities over the last two years. However, according to current projections, only a minor decrease in production will occur, as a very high volume will be produced towards the end of the decade with the ongoing development of the Johan Sverdrup field (USEIA Declining Investment in Norway). According to forecasts from the Norwegian Office of Statistics, investments in the Norwegian offshore oil and gas economy in terms of the development of existing fields will also once again decrease slightly in 2017, while exploration budgets will increase again (TI Norway). From today's perspective, investments in both areas are expected to increase from 2018, therefore also increasing maintenance budgets as a result. Due to successful cost reductions and improvements in material handling technology, this forecast is then also realistic if oil prices remain at a moderate level. Norway's offshore economy will remain a quantitatively significant sector for the foreseeable future. Industry association Petro Arctic expects investment and operating costs in a total volume of between €55 billion and €66 billion in the next 15 years (TI Norway).

The Scottish oil and gas industry is headed toward a gradual recovery after the loss of 120,000 jobs in the last two years. High productivity gains, which helped to reduce production costs by nearly half from USD 29 to USD 16, created crucial prerequisites for stabilizing production over the past two years. In addition, the majority of companies expect Brexit to have no negative effects on the British oil and gas sector. However, growth perspectives are limited by the sharp decline in exploration activities resulting from low oil prices. The industry association Oil & Gas UK estimates that the resources discovered in the last two years are only 25 percent of the current production volume (Oil & Gas UK).

In the last two years, oil-producing countries in the Middle East increased their market share in global oil production to 35 percent and, as a result, their market share has reached its highest level since the end of the 1970s (Bloomberg). The expansion of volume will now be interrupted in the first half of 2017 by the OPEC resolution from the previous December. Nevertheless, oil-producing countries in the region are pursuing comprehensive investment plans in order to stabilize their production capacity in the coming years. In Saudi Arabia, the expansion of gas production has special priority because very high proven reserves will protect the production of gas for many decades. Plans call for the doubling of production in the coming years (TI Saudi Arabia Economic Trends).

Energy & utilities

In 2016, energy policy in Germany saw a number of strategic moves that enabled an improvement in planning security for operators of conventional power plants and nuclear power plants, and that led to an increase in the willingness to invest once again. The Electricity Market Bill, which took effect in August, created the instrument of a capacity reserve and will be tendered for the first time in summer 2017 (NEXT Kraftwerke). Thermal power plants will also continue to play a significant role in Germany due to their importance for a secure power supply, and will only have to provide a moderately reduced capacity until the year 2035 (FDBR, p. 6). However, these power plants must be strengthened for new requirements such as a decrease of minimum loads or an efficiency level increase also in part-load operation. For the time being, it remains unclear how this necessity can also be implemented in an economically and financially viable manner. Nevertheless, there is notable market potential here for power plant services for the coming years.

The liability provision for the interim and final storage of radioactive waste has improved planning security for German nuclear power plant operators. Once it has been legally and contractually implemented, this perspective improves the creditworthiness of energy companies affected, and thus their ability to invest, as difficult to calculate long-term risks of final storage for the companies are eliminated.

The new law for digitalizing energy transition in Germany is creating the conditions necessary for intelligent electricity girds (‘Smart Grids’) to be expanded, where consumption and production, especially in regard to situations with peak loads or low production, can be better synchronized (SVR, p. 450).

Poland also expects continued strong demand in the area of coal-based energy production. Investments in the Polish energy sector until 2030 are estimated at almost €30 billion (TI Poland). The stable position of the Central and Eastern European economies as well as sizable inflows from the EU Structural Fund and the new European Fund for Strategic Investments secure the ability to finance the planned investments in energy across the entire region.

In the Middle East, the somewhat higher oil price has an effect on the financing of the still very ambitious expansion plans in the energy sector. In terms of planning its future energy mix, Saudi Arabia decided to move away from renewable energy back to gas, also forcing the gas pipeline network to be expanded. Despite the decrease in revenue from the oil business, the country is continuing to follow the plan to almost double its power plant capacity by the year 2024. The government is expecting electricity consumption to triple by 2030 in its requirement planning (TI Saudi Arabia).

In Qatar, expansion of the energy supply infrastructure is progressing at a high intensity due to the football World Cup in 2022. Major, ongoing investments are focused on a combined gas power plant/ desalination project (TI Qatar). The United Arab Emirates announced a 160 billion dollar investment plan for renewable energies until 2050, supposedly increasing the share of 'renewables' in electricity production to 44 percent (PEI).

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B.4.3 Assumptions

The outlook relates – unless stated otherwise – to adjusted figures, which means that special items such as burdens from efficiency improvement programs and restructurings or positive as well as negative effects from the sale of parts of the company are excluded.

We are also subject to currency translation effects, primarily with regard to the US dollar, British pound, Norwegian krone and South African rand. Planning is based on the assumption that the exchange rates will be within the range of the average level from 2016.

Our forecast takes into account the expected hesitation among our clients in the oil and gas business both in terms of investments and in the maintenance budgets due to the continued uncertain outlook for the price of oil. We also assume that there will be continued aggressive competitive behavior as a result of the tight market and limited demand. This applies to all areas of the market within the production chain, even at a local level we see few differences. In terms of the price of oil, our planning for 2017 is based on a level of approximately US$ 50/bbl.

B. 4.4 Expected business development in 2017

OUTLOOK 2017	Current situation Financial year 2016	Forecast Financial year 2017
Output volume	€4,219 million	Organic decrease in the mid to high single digit percentage range
Adjusted EBITA	€15 million	Further margin improvement of about 100 basis points

Output volume Output volume for the Group (reporting year: €4,219 million) will decrease again in 2017, the organic decline is expected to be in the mid to high single digit percentage range.

In this regard, we anticipate a clearer reduction in output volume in the Engineering & Technologies segment due to a selective acceptance of orders in the project business. In the Maintenance, Modifications & Operations segment, on the other hand, we expect a slight decrease. For Other Operations – considering the sales of companies that have been carried out – a stable organic development is anticipated.

Orders received for the Group will grow organically as compared to the reporting year. As of December 31, 2016, order backlog was €2,618 million. We expect that most of this amount will translate into output volume in 2017.

Adjusted EBITA / adjusted EBITA margin For adjusted EBITA (reporting year: €15 million) we expect a significant increase with a further improvement in the margin of about 100 basis points (reporting year: 0.4 percent).

The basis for an increasing Group margin is a substantial improvement in the Engineering & Technologies segment. Following a loss in the reporting year, we expect a positive result here. In the Maintenance, Modifications & Operations segment, on the other hand, we expect a slight decrease in the adjusted EBITA margin. The adjusted EBITA margin for Other Operations is expected to improve in a similar magnitude as the Group margin.

Adjusted net profit We expect a significant improvement in adjusted net profit (reporting year: -€8 million).

Significant special items in 2017 From today's perspective, we expect special items on EBITA from expenses for restructuring and efficiency enhancements in administration, investments in IT systems for the standardization of the system landscape and expenses in connection with the further development of our compliance system totaling about €90 million. Further, the reported net profit will likely be burdened by the non-capitalization of deferred tax assets on the negative result of the holding. Net profit will decline significantly as compared to the disposal-related high figure from the reporting year and will be negative in financial year 2017.

Return on capital employed We expect a significantly improved return on capital employed after taxes – though it will remain negative as a result of one-time expenses.

Dividend policy We pursue a sustainable dividend policy with the objective of letting our shareholders participate appropriately in the Group's success. Considering the sound balance sheet and planned positive business development, the Executive Board and the Supervisory Board will propose to the Annual General Meeting a dividend payout of €1.00 per share for financial year 2016, despite the negative adjusted net profit. Subject to the Group developing as planned, the Executive Board and Supervisory Board aim to keep the dividend constant, until the dividend distribution policy comes into effect. This aims to pay out to our shareholders between 40 and 60 percent of adjusted net profit, depending on the foreseeable medium-term development of the company.

Share buyback The company plans to cancel its treasury shares in the amount of about 4 percent. A proposal will also be made that the Annual General Meeting approve a new authorization to buy back shares in the maximum amount of 10 percent. On the basis of anticipated business development, the Executive Board intends to propose to the Supervisory Board a share buyback program with a volume of up to €150 million which should begin in financial year 2017.

Adjusted free cash flow In 2017, adjusted free cash flow will improve significantly as compared to the reporting year (-€111 million).

Capital expenditure on property, plant and equipment We expect capital expenditure on property, plant and equipment to rise as compared to the reporting year due to backlog effects. At a share of a good 2 percent of our output volume, there are at the upper end of the sustainable level of between 1.5 and 2 percent.

Financing We have a syndicated cash credit line of €300 million available which is due in 2018. We expect that the limit defined in the loan agreement for the covenant (dynamic gearing ratio = adjusted net debt / adjusted EBITA) can be maintained.

General statement from the Executive Board of Bilfinger SE on the anticipated development of the Group

Following a difficult financial year 2016, we are concentrating on improving operating performance and on the implementation of the strategy introduced in February 2017: we want to establish a basis for profitable growth by building on our strengths.

Effects from our efficiency enhancement program and from capacity adjustment measures will also contribute to improved margins despite the fact that markets will remain challenging. The new organization makes us stronger in our markets and will lead to leaner processes and thus to a greater level of efficiency.

B.5 Takeover relevant information pursuant to Section 289 Subsection 4 and Section 315 Subsection 4 of the German Commercial Code (HGB)

Structure of subscribed capital

The subscribed capital of (unchanged) €138,072,381 is divided into 46,024,127 bearer shares with an arithmetical value of €3.00 per share. Each share entitles its holder to one vote at the Annual General Meeting.

Limitations relating to voting rights or the transfer of shares

We are not aware of any limitations to voting rights beyond the legal limitations – such as in accordance with Sections 136 and 71 b of the German Stock Corporation Act (AktG).

Shareholdings in Bilfinger exceeding 10 percent of the voting rights

Investment company Cevian Capital II GP Limited, St. Helier, Jersey, Channel Islands, notified us on September 29, 2014 with reference to Section 21 Subsection 1 of the German Securities Trading Act (WpHG) that its shareholding in Bilfinger had exceeded the threshold of 25 percent of the voting rights and amounted to 25.62 percent. In accordance with Section 22 Subsection 1 Sentence 1 Number 1 of the German Securities Trading Act (WpHG), these voting rights were assigned to Cevian Capital II GP Limited through Cevian Capital II Master Fund LP, Camana Bay, Cayman Islands, Cevian Capital Partners Limited, Floriana, Malta, and Cevian Capital II Co-Investment Fund LP, Camana Bay, Cayman Islands.

Investment company Cevian Capital II Master Fund LP, Camana Bay, Cayman Islands, notified us on September 2, 2014 with reference to Section 21 Subsection 1 of the German Securities Trading Act (WpHG) that its shareholding in Bilfinger had exceeded the threshold of 20 percent of the voting rights and amounted to 20.02 percent. In accordance with Section 22 Subsection 1 Sentence 1 Number 1 of the German Securities Trading Act (WpHG), these voting rights were assigned to Cevian Capital II Master Fund through Cevian Capital Partners Limited.

Investment company Cevian Capital Partners Limited, Floriana, Malta, notified us on September 2, 2014 with reference to Section 21 Subsection 1 of the German Securities Trading Act (WpHG) that its shareholding in Bilfinger had exceeded the threshold of 20 percent of the voting rights and amounted to 20.02 percent.

Shares with special rights

There are no Bilfinger shares with special rights conferring powers of control.

Control of voting rights of employee shares with indirect exercise of controlling rights

Within the scope of the employee share program, there are employee shareholdings in Bilfinger that do not exercise their control rights directly, but have transferred these to a shareholder association that represents their interests. The proxies can be revoked at any time. On the balance sheet date, a total of 7,841 voting rights had been transferred to the association.

Statutory requirements and provisions of the Articles of Incorporation on the appointment and dismissal of members of the Executive Board and changes to the Articles of Incorporation

The appointment and dismissal of members of the Executive Board are subject to the statutory provisions of Section 39 of the SE Regulations, Section 16 of the SE Implementation Act and Sections 84 and 85 of the German Stock Corporation Act (AktG), as well as the provisions of Article 8 of the Bilfinger SE Articles of Incorporation. Accordingly, members of the Executive Board are appointed by the Supervisory Board for a maximum period of five years. Re-appointments are permitted. The Supervisory Board can dismiss a member of the Executive Board when there is good cause for the dismissal. The Supervisory Board decides on the appointment or dismissal of a member of the Executive Board by simple majority. In the event of a tied vote, the Chairman has a casting vote.

Any amendments to the Articles of Incorporation of Bilfinger SE are subject to the statutory provisions of Section 59 Subsection 1 of the SE Regulations and Sections 133 and 179 of the AktG, as well as the provisions of Article 21 Section 2 of the Articles of Incorporation of Bilfinger SE. Accordingly, a majority of two-thirds of the valid votes cast or, provided that at least half of the share capital is represented, a simple majority of the valid votes cast is sufficient to amend the Articles of Incorporation. This does not apply to a change in the object of the company, for which a resolution in accordance with Section 8 Subsection 6 SE-VO is required as well as for cases in which a greater voting or capital majority is stipulated by law. Pursuant to Article 25 of the Articles of Incorporation, the Supervisory Board is authorized to make resolutions concerning amendments and supplements that affect only the wording of the Articles of Incorporation.

Authorization of the Executive Board with regard to the buy-back and issue of shares

In February 2008, the Executive Board, with the consent of the Supervisory Board and on the basis of the authorization granted by the Annual General Meeting of May 23, 2007, bought back 1,884,000 shares through the stock exchange at an average price of €53.07 per share. Of these, a total of 59,517 shares was issued during financial years 2013, 2014 and 2015 as part of employee stock ownership plans and another 9,298 were issued for the same purpose during the reporting period. Afterwards, the company holds 1,815,085 treasury shares; this corresponds to 3.94 percent of the current voting rights.

The company has no rights from these treasury shares (Section 71 b AktG). In accordance with the resolution of May 23, 2007, the Executive Board can sell these shares through the stock exchange, offer them for sale to shareholders under consideration of the principle of equal treatment, use them within the scope of corporate mergers or acquisitions or for the fulfillment of conversion and option rights or recall them without any further resolution by an Annual General Meeting. The Annual General Meeting held on April 18, 2013 authorized the Executive Board, among other things, to offer these treasury shares for sale or to pledge / transfer them, with the approval of the Supervisory Board, to employees of Bilfinger SE and subordinated subsidiary companies as well as to the management of subordinated subsidiary companies; this also includes authorization to offer the shares for sale under other special conditions or to pledge / transfer them at no cost. The Annual General Meeting of May 7, 2015 also authorized the Supervisory Board to use the shares to meet the rights of members of the Executive Board to the granting of shares of Bilfinger SE which the Supervisory Board had granted as part of the Executive Board remuneration.

The Annual General Meeting of May 7, 2015 canceled the authorization from the Annual General Meeting of April 18, 2013 to acquire the company's own shares; the authorizations in the resolutions of the Annual General Meeting of April 18, 2013 on the use of the company's own shares are not affected. It authorized the Executive Board, with the consent of the Supervisory Board, to acquire the company's own shares until May 6, 2020 in an amount of €13,807,238 of the current share capital under the condition that the shares to be acquired on the basis of this authorization, together with other shares held by the company which the company has already acquired and which are still in its possession or attributable to the company in accordance with Sections 71d and 71e of the AktG, at no time exceed 10 percent of the share capital. Furthermore, the requirements of Section 71 Subsection 2 Sentences 2 and 3 AktG are also to be observed. The acquisition may not be used for the purpose of trading in treasury shares.

Acquisition is to take place in accordance with the principle of equal treatment (Section 53 a AktG) through the stock exchange or by means of a public offer to buy addressed to all shareholders. In the case of acquisition through the stock exchange, the price paid (excluding incidental costs) may not be more than ten percent higher or ten percent lower than the stock-exchange price of the company's shares resulting from the opening auction in Xetra trading of Deutsche Börse AG (or a comparable successor system). With a public offer to buy, the price offered (excluding incidental costs) may not be more than 10 percent higher or 10 percent lower than the average stock-exchange price of Bilfinger shares on the last three days of stock-exchange trading before the day the offer is made public, calculated on the basis of the arithmetical average of the price of Bilfinger shares in the closing auction of XETRA trading of Deutsche Börse AG (or a comparable successor system).

Shares acquired on the basis of this authorization may be offered to all shareholders with consideration of the principle of equal treatment or sold through the stock exchange. With the approval of the Supervisory Board, they may also be disposed of by sale or otherwise if the shares are sold in exchange for cash at a price not substantially below their average stock market price on the last three trading days before determination of the final selling price by the Executive Board. This authorization is limited to a total of 10 percent of the share capital of the company at the time of the resolution of the Annual General Meeting on May 7, 2015 or – if lower – 10 percent of the company's share capital at the time of disposal of the shares. The authorized volume is reduced by the proportionate part of the share capital which is attributable to the shares or to which conversion and / or option rights or obligations under bonds relate which were issued or sold, subject to an exclusion of subscription rights, on or after May 7, 2015 pursuant to Section 186 Subsection 3 Sentence 4 AktG either directly, analogously or mutatis mutandis. The shares may also be used within the scope of corporate mergers or acquisitions or the purchase of assets associated with such mergers or acquisitions, recalled without any further resolution by the Annual General Meeting, or used for the fulfillment of conversion and / or option rights or obligations under bonds. These treasury shares may also be offered for sale or to pledge / transfer them, with the approval of the Supervisory Board, to employees of Bilfinger SE and subordinated subsidiary companies as well as to the management of subordinated subsidiary companies; this also includes authorization to offer the shares for sale under other special conditions or to pledge / transfer them at no cost.

The Annual General Meeting of May 7, 2015 also authorized the Supervisory Board to use treasury shares that are acquired as a result of this authorization or which were acquired as a result of a previous authorizations to meet the rights of members of the Executive Board to the granting of shares of Bilfinger SE which the Supervisory Board had granted as part of the Executive Board remuneration.

Approved capital

By resolution of the Annual General Meeting of May 8, 2014, with the consent of the Supervisory Board, the Executive Board was authorized until May 7, 2019 to increase the company's share capital by up to €69,000,000 by the single or multiple issue of new no-par value bearer shares (Approved Capital 2014). Such issue of new shares may be effected against cash or non-cash contributions. The new shares are to be offered to the shareholders for subscription. An indirect subscription right within the meaning of Section 186 Subsection 5 of the AktG shall suffice in this context. Limited to new shares representing a total proportionate amount of the share capital of up to €27,600,000 and subject to the consent of the Supervisory Board, the Executive Board is authorized to exclude shareholders' statutory subscription rights under the conditions specified in the authorization resolution with the issue of new shares in cases of fractional amounts, to grant subscription rights to holders of conversion and / or option rights issued by the company or by a company of the Group, or to carry out capital increases against cash and / or non-cash contributions.

Conditional capital

By resolution of the Annual General Meeting of April 18, 2013, the share capital was conditionally increased by up to €13,807,236 through the issue of up to 4,602,412 new bearer shares representing a proportionate amount of the share capital of €3.00 per share (Conditional Capital 2013). The conditional capital increase serves to grant shares to holders of conversion or option rights upon the execution of such rights, or to fulfill conversion or option obligations under convertible bonds or bonds with warrants which, in accordance with the authorization granted by the Annual General Meeting on April 18, 2013, are issued and / or guaranteed by the company or by a company of the Group until April 17, 2018.

The conditional capital increase will only be carried out to the extent that holders of bonds make use of their conversion and / or option rights or fulfill their obligations to exercise conversions / options, and the conditional capital is required for this purpose. The new shares participate in profits from the beginning of the financial year in which they are issued as a result of the exercise of conversion or option rights or the fulfillment of conversion or option obligations.

Agreements related to a change of control

In the case of a change of control resulting from an offer to take over Bilfinger SE, as is common business practice, termination possibilities exist for the providers of credit for our syndicated cash credit lines of €300 million, for the bilateral credit lines of €1,400 million, and for the investors in our corporate bond of €500 million.

Compensation agreements in the case of an offer to acquire the Company

In the case of a change of control and if certain other conditions are fulfilled, the members of the Executive Board have the right to terminate their contracts of service. This regulation would give the members of the Executive Board the required independence in the case of a takeover bid so that they could direct their actions solely to the benefit of the company and its shareholders. Further details can be found in chapter *A.4.2 Remuneration report*.

B.6 Executive Board remuneration

The remuneration of the members of the Executive Board is generally comprised of a fixed annual salary, variable remuneration as well as fringe benefits and retirement benefits. Further information including individualized details of payments can be found in chapter *A.4.2 Remuneration report*. The remuneration report is part of the combined management report.