B.1 The Bilfinger Group

B.1.1 Business model

Bilfinger is an internationally active industrial services provider. The objective of our business activities is to enhance the efficiency of plants in the processing industry, to secure high availability, to lower emissions and to reduce maintenance costs. In this context, the organization of customers' sustainable production processes is becoming increasingly important. Bilfinger's portfolio covers the value chain from consulting, engineering, manufacturing, construction and maintenance through to the expansion of plants and turnarounds. Services also include environmental technologies and digital applications.

B.1.2 Legal form and management

Bilfinger SE is a stock company in accordance with European law (Societas Europaea – SE). In addition to German stock corporation law, it is also subject to special European 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 Chapter *A.4.1 Declaration of corporate governance and corporate governance report**, which is also available on the Internet site www.bilfinger.com.

B.1.3 Organization, strategy and objectives

Bilfinger SE is a holding company without its own business activities. The operating activities are organized decentrally and are carried out through subsidiaries which operate on the market as independent profit centers. The operating companies are divided into regions or divisions which in turn are each a part of one of the reporting segments.

The operating companies deliver their services for the most part in customers' plants. The business processes are therefore largely organized in a decentralized manner and this also applies to sales structures and procurement markets. In order to continuously improve process and cost efficiency, Bilfinger implements general business development concepts in relevant positions in the sales area. Central instruments also play an important role in procurement. Such instruments include the bundling of buying processes and the use of e-procurement platforms.

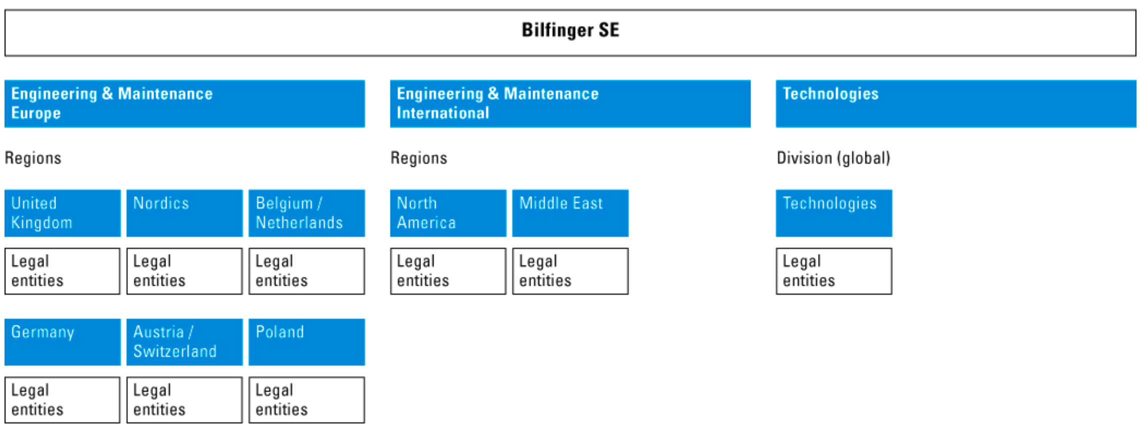
Input factors for the business are quantified in Chapter *B.2.4 Financial position – origin and distribution of value creation*. With a comprehensive range of services for plants in the process industry, an organizational structure that is aligned with the needs of our customers and the focus on defined customer industries, the foundation for the successful development of the company is created. Information on research and development activities is included in Chapter *B.2.7 Innovation (research and development report)*.

Service lines, core regions and industries

Bilfinger delivers its services in the service lines Engineering & Maintenance as well as Technologies. Activities are concentrated on the core regions of Europe, the Middle East and North America, and on defined core industries: The Group has exceptional competences and particularly strong customer relationships in the industrial sectors chemicals & petrochemicals, energy & utilities as well as oil & gas, which account for the majority of revenue. Bilfinger also focuses on the pharma & biopharma industry and is active in the metallurgy and cement sectors.

Reportable segments

REPORTABLE SEGMENTS FINANCIAL YEAR 2021



Bilfinger reports on business development in 2021 in the three segments Engineering & Maintenance Europe, Engineering & Maintenance International and Technologies. The range of services in the two Engineering & Maintenance segments is offered locally and includes services for the maintenance, engineering, extension, new construction and operation of industrial plants – all from a single source. While the majority of revenue in the Engineering & Maintenance business is generated from service and framework agreements, the Technologies segment is almost entirely dominated by project orders. The most important pillars are projects and components for the nuclear industry and biopharmaceutical plants.

Engineering & Maintenance Europe

The operational Engineering & Maintenance business in Europe is divided into six regions. Combined reporting in one segment is carried out due to the similarity of the markets, the economic environment as well as the financial parameters – especially growth expectations and the size of margins.

Engineering & Maintenance International

The activities of the North America and Middle East regions form the Engineering & Maintenance International reporting segment. The grouping in one segment is based on the specific market conditions, economic environment and financial parameters in the regions outside Europe.

Technologies

Activities in the Technologies segment are positioned globally and there is a Group-wide coordination of market development. The range of products and services offered by the prevailing project business is characterized by technological expertise in the nuclear and biopharmaceutical markets, both of which are growth areas for the Group.

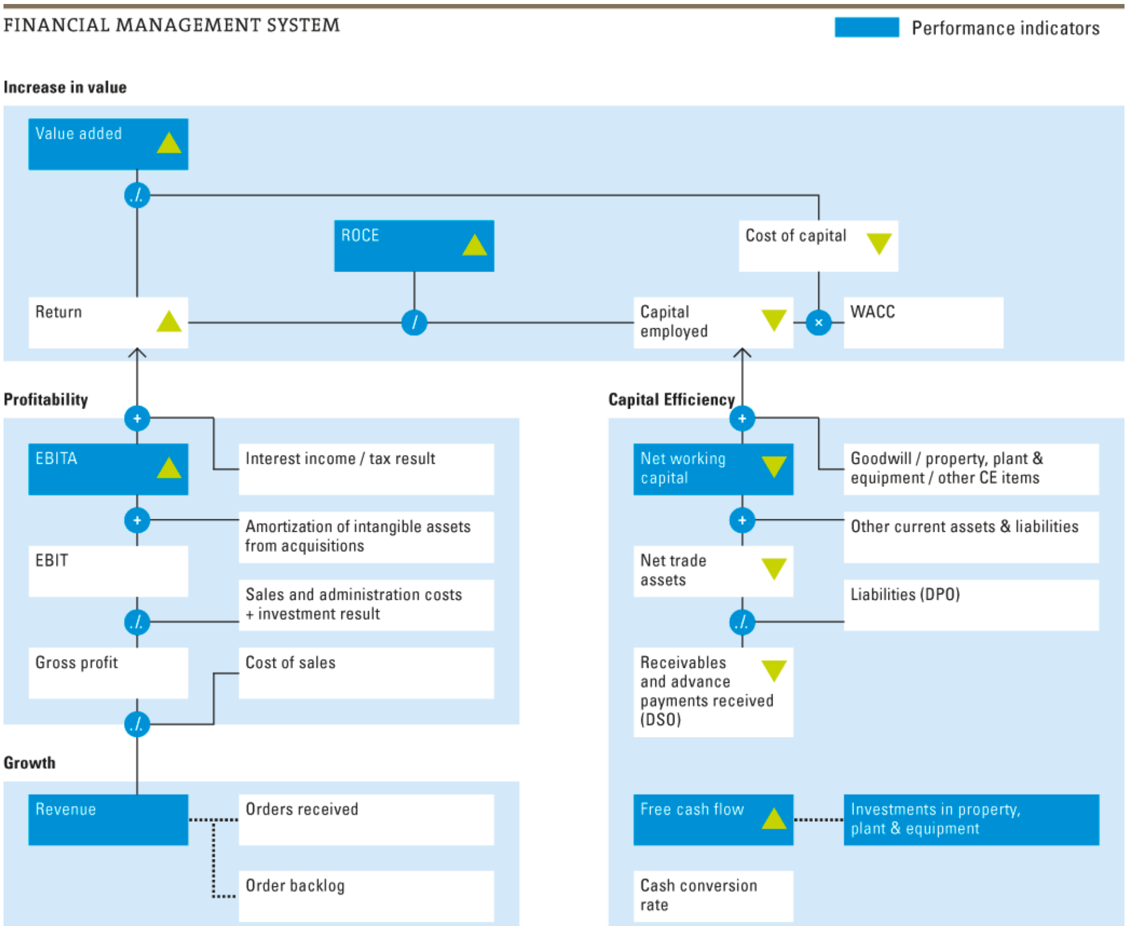
Other Operations

Bilfinger reports on operating units that are active outside the defined business segments, regions and industries under Other Operations. These units are not part of the strategic regional and technological positioning of the Group; they will be managed independently for value until a suitable owner has been found. Other Operations consisted of three individual entities as of January 1, 2021. The selling process for one of these companies was completed in the course of 2021 so that two companies remain in Other Operations at the end of the year.

B.1.4 Financial management system

The key financial management metrics for financial year 2021 include figures for growth, profitability, capital efficiency as well as for liquidity and capital structure. Revenue, EBITA, adjusted EBITA, return on capital employed (ROCE) and free cash flow serve as the most important key figures for financial management.

FINANCIAL MANAGEMENT SYSTEM



Simplified presentation

B.1.4.1 Growth

Revenue

Profitable and sustainable organic revenue growth is a cornerstone of the strategy for increasing Bilfinger's enterprise value. In addition, targeted acquisitions can contribute to the growth in volume.

Revenue planning is conducted on the basis of orders received and order backlog; both key figures represent early indicators for revenue. For projects, the entire contract volume after signing is recognized; for framework agreements without a guaranteed volume, expected revenue for the coming 12 months on a rolling basis is booked in orders received and order backlog.

B.1.4.2 Profitability

EBITA / adjusted EBITA

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' (EBITA).

Against the background of the ongoing transformation process, Bilfinger continues to focus on 'adjusted EBITA' – or EBITA adjusted for special items – in financial year 2021. For better comparability of operating performance over time, special items are eliminated. These include gains on disposals, restructuring measures as well as expenses in connection with the further development of the IT landscape and the compliance system. In view of the advanced stage of the transformation, these special items declined as planned in financial year 2021, so that from financial year 2022 onwards reported EBITA will serve as the primary measure of operating profit.

Net profit

Net profit consists of operating profit plus / minus amortization of intangible assets from acquisitions, financial income and expense and taxes. Also with regard to net profit we made reference to *adjusted net profit* in the reporting year with adjustments made for the above-mentioned special items as well as for amortization of intangible assets from acquisitions. In addition, a normalized tax rate is assumed here.

When it comes to net profit, as is the case with EBITA, we will also consider the reported figure as the main indicator from financial year 2022.

B.1.4.3 Capital efficiency

Free cash flow / adjusted free cash flow / net working capital

To facilitate the operationalization of value-oriented management, Bilfinger orients itself on free cash flow. Free cash flow is calculated on the basis of cash flow from operating activities less net investments in property, plant and equipment and intangible assets. 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 toward an increase in the return on capital employed (ROCE) and in the value added by the business segment concerned.

Also in the reporting year, adjusted free cash flow was considered at Group level. As described above, it is calculated on the basis of cash inflow from operating activities less net investment in property, plant and equipment under adjustment for special items. These special items logically correspond to the approach taken in EBITA.

Investments

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

B.1.4.4 Value enhancement

Value added and ROCE

The value added by the reporting segments and the Group is measured with the help of value and cash-oriented management. Bilfinger employs its capital in a targeted manner in order to achieve significant value added. Positive value added is only achieved for the Group if the return on average capital employed (ROCE) is higher than the weighted average cost of capital (WACC). These figures are calculated after taxes. Further details are provided in Chapter *B.2.2 Results of operations - Value added*. The underlying parameters are regularly reviewed and adjusted in the case of relevant changes in the market environment.

B.1.4.5 Capital structure and liquidity

Net debt and dynamic gearing ratio

To manage liquidity, Bilfinger focuses on the important key figures net debt and the dynamic debt ratio, which also includes net debt as relates to EBITDA (EBITA plus depreciation and amortization on property, plant and equipment and intangible assets).

Note on pro-forma key figures / alternative performance measures

As explained, in addition to the key performance indicators prepared in accordance with IFRS, Bilfinger also reports pro-forma key figures. These alternative performance measures include reported EBITA, adjusted EBITA, EBITA margin, adjusted EBITA margin, adjusted earnings per share, adjusted net profit, adjusted cash flow from operating activities and adjusted free cash flow. They are not within the scope of, and are not subject to, financial reporting requirements.

Pro-forma key figures are to be seen as a supplement, but not as a substitute for the disclosures required by IFRS and are based on the definitions set out in this Annual Report. They are used for management purposes because they are based on purely operational development and therefore offer a considerable degree of transparency as relates to the actual business development of the Group. At the same time, a perspective that includes special items is also reported.

The quantitative reconciliation of the special items in the earnings key figures is explained in Chapter *B.2.2 Results of operations*; the quantitative reconciliation of the special items in cash flow figures is explained in Chapter *B.2.4 Financial position*.

Other companies may calculate these key figures differently.

B.2 Economic report

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

PLAN / ACTUAL COMPARISON	Actual 2021	Forecast Interim Report H1 2021	Forecast Annual Report year-end 2020	Actual 2020
Revenue				
Group	€3,737.4 million	significant growth	significant growth	€3,461.0 million
Engineering & Maintenance Europe	€2,517.7 million	significant increase	significant increase	€2,220.6 million
Engineering & Maintenance International	€553.3 million	significant growth	significant growth	€521.2 million
Technologies	€559.9 million	significant increase	significant increase	€498.0 million
EBITA adjusted				
Group	€137.2 million	substantial improvement	substantial improvement	€19.8 million
Engineering & Maintenance Europe	€130.7 million	significant improvement	significant improvement	€68.9 million
Engineering & Maintenance International*	-€13.9 million	significant improvement to a positive result	significant improvement to a positive result	-€20.8 million
Technologies	€20.3 million	significant improvement to a clearly positive result	significant improvement to a clearly positive result	-€10.5 million
Net profit	€129.5 million	positive, but below prior-year figure	positive, but below prior-year figure	€99.4 million
Adjusted net profit from continuing operations	€89.0 million	significant improvement	significant improvement	-€8.0 million
Free cash flow	€114.8 million	positive, but below prior-year figure	positive, but below prior-year figure	€93.3 million
Return on capital employed (ROCE)	7.4%	lower figure (after taxes)	lower figure (after taxes)	6.9%

* The outlook for Engineering & Maintenance International was adjusted on November 11, 2021 in the course of reporting on the third quarter of 2021. Because progress in volumes and project execution in North America was slower than expected, an improvement compared with the prior year was still expected, although at a negative level. This adjustment had no impact on the Group's overall outlook because the the decrease at Engineering & Maintenance International was offset by positive developments in the other segments.

Due to rounding, individual figures may not add up exactly to the totals given and percentages presented may not precisely reflect the absolute values to which they relate.

With the figures achieved in 2021, Bilfinger again delivered on its full-year outlook and has thus left behind the years of transition and major restructuring.

On the heels of the restrictions inflicted in the previous year by the COVID-19 pandemic and the volatile development of the oil price, business recovered as expected in the reporting year. We saw especially profitable growth in our engineering and maintenance activities in our European markets and in our nuclear and biopharmaceuticals businesses.

At the end of the year we met or even exceeded the forecasts made in the Annual Report 2020 and the 2021 half-year report, supported by one-time effects: Net income, free cash flow and return on capital employed (ROCE) were higher than initially forecast. There was an adverse deviation from our forecast in the Engineering & Maintenance International segment, where the earnings forecast was adjusted in November 2021. As progress in volumes and project execution in North America was slower than expected, an improvement on the prior year was still expected, albeit with a continuing negative figure. This adjustment had no impact on the Group's overall earnings forecast as the decline at Engineering & Maintenance International was offset by positive developments in the other segments.

Bilfinger again made significant progress toward achieving its set strategic imperatives in financial year 2021. The measures already introduced over the longer term to reduce costs and enhance agility have taken effect. As a result, we achieved an increase in capacity utilization and, subsequently, a significant improvement in our gross margin. There were positive contributions to EBITA in all four quarters of the financial year. This applies to both the adjusted and reported figures and is a clear indication that the measures taken to reduce the seasonality of earnings development are proving successful. The working capital position was also further improved. Implementation of harmonized Group-wide processes and systems was also largely completed.

In addition, the Executive and Supervisory Boards are pursuing a balanced and shareholder-friendly approach in the use of available financial resources, including the inflow of €458.4 million from the resale of Apleona, which remains in line with Bilfinger's long-standing financial policy. In October 2021, we repaid the variable-interest tranches of outstanding promissory note loans in the amount of €108.5 million ahead of schedule. These would have been due in April 2022. Furthermore, the Executive and Supervisory Boards will propose to the Annual General Meeting in May 2022 an additional distribution of €3.75 per share from Bilfinger SE's unappropriated net profit in addition to the regular dividend for the 2021 financial year. This corresponds to an additional dividend payout of approximately €150 million. Moreover, the Executive Board intends to propose to the Supervisory Board a share buyback program with a volume of up to €100 million from summer 2022. The basis for this step is a corresponding authorization that will also be put to the vote at the Annual General Meeting in May 2022.

The sound balance sheet and the expected positive free cash flow in the coming years will make it possible to invest several hundred million euros in organic growth and bolt-on acquisitions to strengthen the Group's market positions, particularly in attractive sectors and regions.

One focus in 2021 was the further development of Bilfinger's sustainability strategy. The Group has been reporting its carbon footprint for Scope 1 and Scope 2 in accordance with the Greenhouse Gas Protocol since financial year 2021. In addition, we have set the goal of achieving a 'net zero' value in these categories by 2030 at the latest. We also see significant growth potential for our activities that help customers reduce their energy consumption and emissions with our sustainable industrial services.

As expected, the effects of the COVID-19 pandemic on Bilfinger's markets and business activities diminished significantly in the reporting year. The respective developments are presented in detail, specifically in Chapters B.2.1.1 Economic environment, B.2.2 Results of operations, B.2.4 Financial position and B.2.3 Net assets as well as in Chapter B.3 Opportunity and risk report and in Chapter B.4 Outlook. Government grants received in financial year 2021 (in accordance with IAS 20) are described in Chapter C.6.3.2 Government grants and other measures in connection with the COVID-19 pandemic.

Business development

Orders received for Bilfinger Group in 2021 increased by 8 percent (organically 9 percent) to €4,007.8 million (previous year: €3,724 million), thus exceeding the €4 billion mark. This was mainly due to good demand in our European markets. The order backlog grew organically by 12.2 percent to €2,946.3 million (previous year: €2,584.7 million), while the book-to-bill ratio of 1.07 underpins Bilfinger's growth ambitions for 2022.

Group revenue grew by 8 percent (organically 11 percent) to €3,737.4 million (previous year: €3,461.0 million). The gross margin improved to 10.4 percent (previous year: 8.6 percent), as did gross profit, which grew significantly to €387.0 million from a low level (previous year: €296.1 million). Despite top-line growth, adjusted SG&A expenses remained in the prior-year range at €285.6 million (previous year: €291.3 million). They were thus below the expected run rate of approximately €300 million, due also to one-time effects such as lower travel expenses because of COVID-19. The adjusted SG&A ratio measured against revenue was 7.6 percent (previous year: 8.4 percent).

Bilfinger increased adjusted EBITA in 2021 to €137.2 million (previous year: €19.8 million), which corresponds to an adjusted EBITA margin of 3.7 percent (previous year: 0.6 percent). A gain of €30.4 million from non-operational real estate disposals contributed to this improvement. Reported EBITA amounted to €121.2 million (previous year: -€57 million) after adjustments of -€16 million (prior year: -€76.8 million).

At Engineering & Maintenance (E&M) Europe, orders received increased by 4 percent (organically 3 percent) to €2,552 million (previous year: €2,449.0 million). Revenue increased by 13 percent (organically 12 percent) to €2,517.7 million (previous year: €2,220.6 million) and the book-to-bill ratio was above 1. The segment's adjusted EBITA improved to €130.7 million (previous year: €68.9 million), which corresponds to an EBITA margin of 5.2 percent (previous year: 3.1 percent). This reflects the progress made in improving the sales mix as well as further increasing the utilization rate.

Orders received at E&M International increased by 44 percent (organically 48 percent) to €633.9 million (previous year: €440.6 million). Revenue grew by 6 percent (organically 10 percent) to €553.3 million (previous year: €521.2 million). Adjusted EBITA remained negative at -€13.9 million (previous year: -€20.8 million) but with a positive result in the fourth quarter. Here, better capacity utilization and strategic progress toward increasing the share of service contracts as well as small and mid-sized projects are showing some effects. The adjusted EBITA margin was -2.5 percent (previous year: -4.0 percent).

In Technologies, orders received decreased by 17 percent (organically -16 percent) to €596.8 million (previous year: €718.8 million). The prior-year figure was largely supported by a higher amount in call-off orders for the Hinkley Point C nuclear power plant project in the United Kingdom. A book-to-bill ratio clearly above 1 as well as order backlog growth of 10 percent are evidence of the healthy demand experienced by this segment. Revenue increased by 12 percent (organically 14 percent) to €559.9 million (previous year: €498.0 million). The segment's adjusted EBITA was €20.3 million (previous year: -€10.5 million) and the adjusted EBITA margin improved to 3.6 percent (previous year: -2.1 percent).

Net income increased to €129.5 million (previous year: €99.4 million), driven by the improvement in EBITA and also supported by tax refunds in the amount of €46.2 million. Adjusted for special items and with the application of a normalized tax rate, adjusted net profit improved to €89.0 million (previous year: -€8.0 million).

This also had an impact on return on capital employed (ROCE), which improved to 7.4 percent (previous year: 6.9 percent).

Free cash flow of €114.7 million (previous year: €93.2 million) made further progress compared with 2020 despite a higher cash-out from special items and for investments. Cash inflows from tax refunds, particularly in December, of in total €29.0 million contributed to this number. This was in addition to inflows from real estate disposals of €56.6 million. Another major impact, however, also came from the strong development of working capital in the last quarter of 2021, with 67 days of sales outstanding (DSO) established as the new benchmark.

B.2.1.1 Economic environment

Economy as a whole

With strong growth of 5.2 percent in 2021, the euro zone economy was able to recover a substantial share of the severe prior-year recession (-6.4 percent) (DG ECFIN, p. 154, Eurostat). The recovery that began after the end of the hard lockdowns in the second quarter was driven by strong government spending, by consumers eager to spend and by surprisingly dynamic global trade. Business investment rose again strongly, increasing by 10.1 percent (DG ECFIN, p. 159). The upswing was, however, slowed by global supply bottlenecks, disruptions in international logistics chains and soaring energy and intermediate product prices. In the course of this development, there was a sharp rise in the euro inflation rate to over 4 percent.

The European Central Bank continued its highly expansionary approach with a zero interest rate policy and extensive purchases of securities, citing what it sees as only temporary inflationary pressures. Renewed high infection levels of the COVID-19 pandemic caused containment setbacks in Europe in the fall and winter and renewed revenue losses in some particularly affected service sectors. While the EU countries of Southern Europe have not yet been able to fully recover from their particularly drastic economic crash of the previous year, economic output in Eastern European countries such as Poland and Hungary is already well above the 2019 level again.

Important German industrial sectors such as automotive and mechanical engineering were particularly hard hit by supply bottlenecks, with the result that the recovery in Germany was comparatively weak, with GDP growth of 2.7 percent. Even though the recession in Germany caused by COVID-19 was less severe in 2020 with -4.6 percent than the European Union average (-5.9 percent), it was still not possible to return to the pre-crisis level (DG ECFIN, p. 154). Outside the European Union, the United Kingdom recovered more strongly with an increase of 6.9 percent, but this was set against an extremely severe prior-year recession of -9.7 percent triggered by the combination of Brexit and the pandemic, so that here, too, the pre-crisis level was not yet reached (DG ECFIN, p. 154).

The USA experienced a much milder recession than Europe in the previous year (-3.4 percent, DG ECFIN, p. 154) and recovered much more quickly from this slump. By the second quarter of 2021, economic activity was already back at pre-pandemic levels (DG ECFIN, p. 128). This was due not only to the expansionary policy of the Federal Reserve, but also to massive additional government spending through the American Rescue Plan. The government deficit was still 11 percent of GDP in 2021. The rapid recovery, combined with high energy prices and global supply constraints, pushed inflation up to 7 percent by December (BLS).

The broad upturn in the global economy was accompanied by a sweeping recovery in oil and gas prices, which had been highly volatile in the previous year. After prices fell to levels of around US$20 in May 2020, quotations of up to US$85 per barrel of Brent were reached again at times in the course of 2021. The significantly higher average prices compared with the previous year have enabled an economic recovery in the oil-producing countries of the Middle East. Following a GDP contraction of 4.2 percent in the previous year, the region's economic output likely grew again by 4.5 percent in the reporting year (WEO, p. 40).

Engineering & Maintenance Europe

The market for industrial services in Europe recovered well from the sharp downturn in the previous year. Projects that had initially been put on hold immediately after the outbreak of the COVID-19 pandemic to avoid personal contact were increasingly made up for. In addition to these short-term effects, development was boosted by a structural increase in demand for the wide range of services in the context of the decarbonization of European industry. Even stronger growth in the services markets was, however, prevented by supply bottlenecks which led to delays in major investment projects by industrial customers. Nevertheless, the slump in sales in the industrial services sector in the previous year was largely offset. According to industry estimates, sales of all suppliers in Germany expanded by 11 percent in 2021, after falling by 10 percent in the previous year (Lün, p. 13). The chemical and petrochemical sectors continued to slightly expand their role as by far the most important customer group, with their share of the German market for industrial services now estimated at 46 percent (Lün, p. 73).

The European chemical sector benefited greatly from the strong recovery in the global industrial economy. However, despite a significantly improved order situation, production was also noticeably hampered by disruptions in supply chains. At mid-year, 50 percent of the companies surveyed by the German Chemical Industry Association (VCI) reported severe disruptions in operations due to bottlenecks in supply chains and logistics (VCI member survey). Among the customer sectors of the chemical industry, the automotive industry in particular was adversely affected by the prevailing chip shortage and had to sharply curtail its production and thus also purchases of precursors.

Despite these frictions, chemical production in Europe expanded by 9.4 percent year-on-year from January to November 2021 (VCI WCR). The recovery in chemical production was often a mirror image of the previous year's development. Where there had been particularly sharp declines in 2020 due to especially extensive lockdowns, there were particularly significant increases in 2021. Once again, the Eastern European sites recorded the strongest momentum. Chemical production in Poland was up 13 percent year-on-year in the year to November, with the extensive expansion investments of recent years having an impact here (VCI WCR).

Following a situation characterized by oversupply and a drastic fall in prices in the previous year, the oil and gas sector in the United Kingdom and Norway saw the reverse, with supply shortages and very sharp price increases in the reporting year. Surprisingly rapid growth in demand for liquefied natural gas, particularly in Asia, low inventories following a cold winter and unfavorable offshore wind conditions led to significant distortions on the gas markets, especially in the United Kingdom, with the result that prices for natural gas increased more than fivefold from the start of the year to their peak in October (Trading Economics Gas). Despite rising prices triggered by pandemic-related production cuts, oil and gas production fell even more sharply than in the previous year, dropping from a combined 87 million tons in the previous year to 73 million tons of oil equivalent (UK Oil & Gas Authority PEP). At the same time, the high prices caused the profitability of oil and gas producers to rise surprisingly strongly at average production costs of US$14 per barrel (UK Oil & Gas Authority PEP). This development stabilized the industry's capital expenditure for operating expenses and for decommissioning, which recovered slightly year-on-year from GBP 11.3 billion to GBP 11.8 billion. However, this level was still significantly below the 2019 figure of GBP 14.1 billion (UK Oil & Gas Authority PEP). Exploration and exploratory drilling expenditures are also still more than 50 percent below pre-COVID-19 pandemic levels; a further significant decline in production is expected in the coming years. Unlike in the UK fields, production volumes in the

Norwegian Shelf have remained constant. The higher-than-expected production capacity of the Johan Sverdrup field, which went into production in 2019, has contributed significantly to this stable development (Norwegian Petroleum).

During the reporting year, the energy and utilities industry was characterized by agreement on more ambitious national, European and global climate policy targets. This development further increased the pressure toward increased energy efficiency and the reduction of fossil energy in industry and power generation. In Germany, the Federal Constitutional Court ruled that the Climate Protection Act of December 2019 was unconstitutional because the reduction targets for greenhouse gas emissions were too vague (Bundesverfassungsgericht). The German government responded to this ruling by amending the Climate Protection Act to make reduction targets more precise and bring them forward. Accordingly, emissions must fall by 65 percent by 2030 compared to 1990; previously, a reduction target of 55 percent applied. Germany is now expected to achieve climate neutrality by 2045, compared with the previous target of 2050 (German government). With a new emergency program worth €8 billion, the German government has made funds available for decarbonizing industry and for green hydrogen, among other things.

The tightening of Germany's emissions targets should also be seen as a response to stricter EU climate targets. The European Parliament and the Council finally agreed on a new EU emissions target under which climate-damaging emissions are to be reduced by at least 55 percent by 2030 (previously a reduction target of 40 percent applied) (Handelsblatt EU climate target).

In November, the UN Climate Change Conference in Glasgow committed to the objective of limiting global warming to 1.5 degrees. The nearly 200 countries participating in the Paris Climate Agreement have committed to tightening their previously inadequate climate protection targets by the end of 2022 (COP26).

With climate policy that is particularly ambitious in Europe and North America, there is growing potential for the industrial services market in the area of energy transformation. In Europe, carbon reduction is also becoming increasingly economical due to the planned increase in the carbon emission price. Prices in the European emissions trading system, for example, increased very sharply in the reporting year from an average of €24.7 per metric ton of CO_2 in 2020 to more than €80 at the end of 2021, thus reaching historic highs (BDEW, p. 46, Trading Economics Carbon). The average electricity price for industrial customers rose from 17.8 ct/kWh in the previous year to 19.1 ct/kWh on average for the year (BDEW, p. 26), with a particularly sharp price spike at the end of the year.

Engineering & Maintenance International

In the USA, prospects for CO_2 reduction projects in industry and the energy sector have greatly improved again since the Biden administration took office and the USA returned to the Paris Climate Agreement. This about-face in U.S. climate policy has further strengthened U.S. industry's willingness to invest in renewables-based power generation, energy storage and greater energy efficiency.

In the USA, developments in the chemical and pharmaceutical industries varied. The pharmaceutical industry developed very dynamically with an increase of 10.8 percent, benefiting strongly from high demand for vaccines and other pharmaceutical products in the context of the COVID-19 pandemic. By contrast, production growth in the chemical industry was subdued with an increase of 1.5 percent from January to November (VCI WCR). In addition to global supply bottlenecks, U.S. production was hampered by the winter storms in the Gulf of Mexico. Stronger positive demand impetus came from dynamic demand for construction chemicals as a result of the extensive economic stimulus programs and for battery chemicals as a result of rapidly increasing electric vehicle production (GTAI USA Chemicals).

Despite an across-the-board recovery in prices, the U.S. oil and gas sector was still affected by the previous year's price slump, when 46 producing companies in the sector had to file for bankruptcy (Haynes Boone). While more than 1,000 production facilities were active at times in 2019, that number had plummeted to 250 by the summer of 2020. By the end of 2021, however, 586 production sites had been counted again (Baker Hughes). While nationwide crude oil production declined slightly (-1.3 percent), also due to the production losses caused by Hurricane Ida in August, growth in liquefied natural gas production continued (+3.5 percent) (EIA). Thanks to new infrastructure coming on stream and driven by strong demand from Asia, U.S. liquefied natural gas exports continued to grow very strongly (+50 percent, EIA).

The financial situation of the Gulf states, which had been strained in the previous year, improved profoundly as a result of stabilized oil and gas prices. In Saudi Arabia, the budget deficit fell from $78 billion to just $18 billion (GTAI Saudi Arabia). The renewed strong growth in export revenues enabled the Gulf states to accelerate their project awards again for the strategic diversification of their economies and the necessary expansion of energy infrastructure. In Saudi Arabia, the expansion and diversification of downstream industries (chemicals and petrochemicals) is a key element of the development strategy, along with the strong expansion of green power production via wind and solar power plants, which can now be realized at an accelerated pace again. In view of the sharp rise in demand for electricity, the country is also pressing ahead with plans to build two nuclear power plants.

Technologies

In the course of the German energy transition and the impending shutdown of the last nuclear power plants at the end of 2022, investments in flexible conventional power plants will continue to be critical in view of the volatile generation of wind and solar power. In spring 2021, 20 conventional power plant projects had been approved (including seven already under construction) or were in the middle of the approval process. Apart from three hydroelectric power plants, these new projects are predominantly gas-fired power plants (UBA). The energy industry in Germany, however, plays only a minor role in the market for externally contracted services, accounting for just 6.9 percent of the total (Lün, p. 34). Dismantling nuclear facilities will remain a stable sector for the foreseeable future.

In the EU, France, Finland and a number of Eastern European countries such as the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Romania and Bulgaria are also relying on nuclear power in their decarbonization strategies (Handelsblatt - Atomkraft). To cope with the phase-out of coal-fired power generation, Poland plans to build six nuclear reactors in addition to investing heavily in the use of renewable energy sources (GTAI Poland new energy policy), with the first scheduled to come on line in 2033. The country can use €14 billion from the EU COVID-19 reconstruction plan to decarbonize its energy sector (GTAI Poland promotion). These funds will be used to further expand wind power and green hydrogen production, among other projects. However, conflict over the constitutionality of Polish laws with the EU is jeopardizing the approval and disbursement of these funds.

France, one of the world's largest producers of nuclear power, is pushing ahead with upgrading its existing nuclear facilities. In November, President Emmanuel Macron announced that the country would not only invest in extending the operating lives of existing plants but also build new nuclear reactors as it moves toward its goal of climate neutrality by 2050 (Tagesschau).

The UK government allocated £1.7 billion in October enabling it to make the final investment decision on another new nuclear power plant alongside Hinkley Point C, which is currently under construction, before the end of this parliamentary term (Nuclear Engineering - funds for nuclear). Hinkley Point C is currently scheduled by operator EDF for commissioning in June 2026, and current cost estimates for the overall project are £22-23 billion (at 2015 prices, EDF). In addition to these large-scale plants, the UK government is also pushing ahead with the development of smaller nuclear reactors as part of its "Net Zero Strategy." In November, Rolls-Royce announced the raising of £200 million in private funding, which it plans to use to realize the first "Small Modular Reactors" (SMRs) within the next decade (Economist).

The breakthrough of mRNA technology in the development of successful COVID-19 vaccines provided a very strong boost to the biopharma industry. With revenue in 2021 in the order of €45 billion for the two mRNA vaccines from Biontech/Pfizer and Moderna (Evaluate, p. 27) and a massive influx of capital into the industry, there has been a surge in investment in European sites. In a short time, high production capacities for these innovative vaccines have been created here in close cooperation with industrial service providers. As a result of this development, the global share of biotechnologically manufactured pharmaceutical products rose from 30 percent in the previous year to 34 percent in 2021 (Evaluate, p. 18). Due to the pandemic-related high demand, the global sales volume of prescribed medicines has increased very strongly (+14.3 percent) (Evaluate, p. 17).

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B.2.1.2 Factors influencing business development

In the course of the reporting year, the Bilfinger Group's operating business largely recovered from what was at times a severe negative impact of the COVID-19 pandemic and volatile oil price developments in the prior year.

The activities of the Engineering & Maintenance Europe, Engineering & Maintenance International and Technologies segments in the core regions of Europe, North America and the Middle East are each subject to specific influencing factors in the individual sectors of industry. In the key sectors, the following main trends were recorded in the reporting period:

FACTORS INFLUENCING BUSINESS DEVELOPMENT

	Chemicals & Petrochem	Energy & Utilities	Oil & Gas	Pharma & Biopharma
Group*	Share of revenue: 30%	Share of revenue: 20%	Share of revenue: 20%	Share of revenue: 10%
Engineering & Maintenance Europe	Share of revenue: 40%	Share of revenue: 10%	Share of revenue: 20%	
	• Demand for combined services constantly increasing	• ESG climate change drivers still hold, e.g. CO_2 limits, emissions, decentralized power generation	• OPEX stabilized and recovery underway from a low base following relief from COVID-19 restrictions	
	• Larger investments expected going forward especially associated with renewables/carbon reduction	• Green energy investment projects emerging as anticipated (e.g. renewables, hydrogen, carbon capture etc.)	• Offshore consolidation continues with return to managed services contracts	
	• Large turnaround and OPEX activities restarted and distributed over the next two, three years	• Nuclear power revival in several countries as part of their "net zero" strategy		
	• Increasing demand for sustainable industrial services			
Engineering & Maintenance International	Share of revenue: 25%	Share of revenue: 20%	Share of revenue: 15%	
	• Trend for expansion and modernization projects in ME intact	• Continued growth in ME population and industry drives further development of alternative and nuclear energy concepts as well as water solutions	• Large oil & gas and LNG investment plans in several ME countries (e.g. UAE, Qatar, Kuwait) for the upcoming years	
	• Attractive project pipeline in NA (e.g. petrochemical companies and refineries put larger emphasis on Maintenance projects)	• In NA, more positive outlook for energy investment emerging on energy storage, wind, solar and CO2 reduction	• Industry constrained by ESG-focused investment priorities	
	• Increasing demand for sustainable industrial services			
Technologies		Share of revenue: 35%		Share of revenue: 30%
		• Energy transition focus in all our regions, esp. Europe and NA		• Mega trends remain unchanged, increased vaccine type CAPEX projects due to COVID-19
		• Nuclear demand for new builds and maintenance increasing, esp. in France, UK, Finland and demand increasing for decommissioning in Germany		• Positive outlook on pharma OPEX; Trend to outsource services and production is increasing
				• Strong growth in continuous process and single use technology. Regionalization of production capabilities

* In addition, in 2021, 20 percent of Group revenue was accounted for by the metallurgy and cement sectors as well as industries outside the defined core industries. Remaining shares are accounted for by these industrial sectors also in the individual segments.

In the Engineering & Maintenance Europe segment, the importance of service and framework agreements was highest with a roughly 75 percent share of segment sales. Revenue in the project business totaled 25 percent.

At Engineering & Maintenance International, service and framework agreements accounted for about 65 percent of revenue while the project business accounted for approximately 35 percent.

In the Technologies segment, around 95 percent of sales were generated almost entirely from the execution of projects and the production of components, while service and framework agreements accounted for 5 percent of sales.

For the Group as a whole, framework and service agreements slightly predominated with a share of around 65 percent of Group revenue, while projects and component manufacturing accounted for around 35 percent.

B.2.2 Results of operations

OVERVIEW OF ORDERS AND REVENUE

in € million	2021	2020	Δ in %
Orders received	4,007.8	3,724.1	8
Order backlog	2,946.3	2,584.7	14
Revenue	3,737.4	3,461.0	8

In financial year 2021, orders received for the Bilfinger Group of €4,007.8 million were 8 percent above the prior-year figure; organically, the increase was 9 percent. This was mainly due to a good demand level in European markets. The market environment in 2021 largely recovered from the effects of the COVID-19 pandemic that began in the previous year, showing a generally positive trend. At the end of the year, order backlog amounted to €2,946.3 million, and was thus 14 percent above the figure for the prior year (organically: 12 percent). Revenue increased by 8 percent to €3,737.4 million; organically it increased by 11 percent. Here, too, the expected recovery following the COVID-19 pandemic materialized, particularly in our activities in Europe. By contrast, development in the markets outside Europe was slower.

REVENUE BY REGION

in € million		2021		2020	Δ in %
Germany	1,019.4	27%	932.6	27%	9
Rest of Europe	2,029.8	54%	1,877.7	54%	8
America	452.5	12%	409.0	12%	11
Africa	123.0	3%	105.1	3%	17
Asia	112.7	3%	136.7	4%	-18
Total	3,737.4		3,461.0		8

In the reporting year, about 82 percent of revenue was accounted for by our European markets. Germany contributed 27 percent of sales volume; the focus in European countries outside Germany remained Scandinavia, the United Kingdom, the Netherlands and Belgium as well as Austria. In North America, we generated 12 percent of our revenue, while Asia and Africa each contributed 3 percent.

REVENUE BY BUSINESS SEGMENT

in € million	2021	2020	Δ in %
Engineering & Maintenance Europe	2,517.7	2,220.6	13
Engineering & Maintenance International	553.3	521.2	6
Technologies	559.9	498.0	12
Reconciliation Group	106.5	221.2	-52
thereof Other Operations	167.2	262.5	-36
thereof headquarters / consolidation / other	-60.7	-41.3	47
Total	**3,737.4**	**3,461.0**	**8**

Engineering & Maintenance Europe

ENGINEERING & MAINTENANCE EUROPE

in € million	2021	2020	Δ in %
Orders received	2,552.5	2,449.0	4
Order backlog	1,768.8	1,706.8	4
Revenue	2,517.7	2,220.6	13

In the Engineering & Maintenance Europe segment, orders received of €2,522.5 million were 4 percent (organically: 3 percent) higher than at the end of the prior year. Order backlog also increased to €1,768.8 million. The segment recorded a 13 percent (organically: 12 percent) increase in revenue to €2,517.7 million as a result of recovery from the adverse effects of the COVID-19 pandemic. All regions contributed to this growth, and the upswing also has a broad base in the customer industries.

ENGINEERING & MAINTENANCE EUROPE:
REVENUE BY REGION

in € million	2021		2020		Δ in %
Germany	779.9	31%	688.2	31%	13
Rest of Europe	1,731.4	69%	1,525.2	69%	14
Other	6.3		7.2		-12
Total	**2,517.7**		**2,220.6**		**13**

In 2021, about 31 percent of revenue generated in the Engineering & Maintenance Europe segment came from Germany. 69 percent of segment revenue was accounted for by European countries outside Germany – with a focus on Scandinavia, the United Kingdom, the Netherlands and Belgium as well as Austria.

Engineering & Maintenance International

ENGINEERING & MAINTENANCE INTERNATIONAL

in € million	2021	2020	Δ in %
Orders received	633.9	440.6	44
Order backlog	489.6	323.8	51
Revenue	553.3	521.2	6

Engineering & Maintenance International grew significantly in the reporting year compared with the very low level of the previous year. Orders received in this segment increased by 44 percent (organically: 48 percent) to €633.9 million, with equally high growth rates in both North America and the Middle East. Order backlog at the end of the year amounted to €489.6 million. Revenue increased by 6 percent (organically: 10 percent) to €553.3 million, although the trend in both North America and the Middle East was more subdued than initially expected. In the project business in North America in particular, high inflation and supply bottlenecks played a major role, resulting in some customers postponing investment decisions. Nevertheless, in line with the strategy in this region, important contracts were signed for service agreements and medium-sized projects.

ENGINEERING & MAINTENANCE INTERNATIONAL: REVENUE BY REGION

in € million	2021		2020		Δ in %
America	448.4	81%	403.0	77%	11
Asia	104.9	19%	118.1	23%	-11
Total	**553.3**		521.2		6

Our business outside Europe is bundled in the Engineering & Maintenance International segment. In the reporting year, 81 percent of revenue was generated in the North American market, while the Middle East contributed 19 percent to segment revenue, thereby continuing to decline in terms of importance.

Technologies

TECHNOLOGIES

in € million	2021	2020	Δ in %
Orders received	596.8	718.8	-17
Order backlog	617.3	559.6	10
Revenue	559.9	498.0	12

In Technologies, orders received decreased by 17 percent (organically: -15 percent) to €596.8 million compared with the exceptionally high prior-year figure. The comparative figure was impacted in particular by major orders received for the construction of the new Hinkley Point C nuclear power plant in the United Kingdom. Nevertheless, at €617.3 million, the order backlog at the end of the reporting year was significantly higher than a year earlier. Revenue also improved, rising by 12 percent (organically: 14 percent) to €559.9 million. The activities in the growth areas of nuclear power and (bio)pharmaceuticals had a significant impact on this development.

TECHNOLOGIES:
REVENUE BY REGION

in € million	2021		2020		Δ in %
Germany	268.5	48%	227.1	46%	18
Rest of Europe	285.7	51%	252.9	51%	13
America	2.0	0%	2.3	0%	-11
Africa	-0.5	0%	1.0	0%	-148
Asia	3.1	1%	14.5	3%	-79
Total	**559.9**		**498.0**		**12**

In the Technologies segment, 48 percent of revenue was attributable to Germany, and 51 percent of volume was generated in European countries outside Germany with a focus on France, Austria and the United Kingdom. Our markets in the Middle East, Africa and North America accounted for a total of around 1 percent of segment revenue.

Reconciliation Group

RECONCILIATION GROUP

in € million	2021	2020	Δ in %
Orders received	224.6	115.6	94
thereof Other Operations	252.9	232.6	9
thereof headquarters / consolidation / other	-28.3	-117.0	76
Revenue	106.5	221.2	-52
thereof Other Operations	167.2	262.5	-36
thereof headquarters / consolidation / other	-60.7	-41.3	-47

Bilfinger reports on operating units that are active outside the defined business segments, regions and industries under Other Operations. These units are not part of the strategic positioning of the Group; they will be managed independently for value until a suitable owner has been found. As of January 1, 2021, Other Operations included three individual units. The selling process for one of these companies was completed in the course of 2021 so that two companies remained in Other Operations at the end of the year.

In Other Operations, orders received increased by 9 percent (organically: 37 percent) to €252.9 million. Revenue declined by 36 percent (organically: +2 percent) to €167.2 million. This reflects significant deconsolidation effects resulting from the company disposals, while organic development was slightly positive.

Revenue

CONSOLIDATED INCOME STATEMENT
(ABRIDGED)

in € million	2021	2020
Revenue	**3,737.4**	**3,461.0**
Cost of sales	-3,350.4	-3,164.9
Gross profit	**387.0**	**296.1**
Selling and administrative expense	-290.7	-309.7
Impairment losses and reversals of impairment losses in accordance with IFRS 9	-2.8	-6.5
Other operating income and expense	24.6	-57.9
Income from investments accounted for using the equity method	3.1	12.5
Earnings before interest and taxes (EBIT)	**121.2**	**-65.5**
Financial result	-5.9	181.1
Earnings before taxes	**115.3**	**115.6**
Income taxes	8.1	-7.5
Earnings after taxes from continuing operations	**123.4**	**108.0**
Earnings after taxes from discontinued operations	**6.8**	**-7.0**
Earnings after taxes	130.2	101.0
thereof non-controlling interests	0.7	1.6
Net profit	**129.5**	**99.4**
Basic earnings per share (in €)	3.19	2.47
thereof from continuing operations	3.02	2.64
thereof from discontinued operations	0.17	-0.17
Diluted earnings per share (in €)	3.16	2.44
thereof from continuing operations	2.99	2.61
thereof from discontinued operations	0.17	-0.17

Group revenue recovered from the negative impact of the COVID-19 pandemic and the volatile oil price development in the previous year. It rose by 8 percent to €3,737.4 million (previous year: €3,461.0 million). Revenue includes in particular revenue from the provision of services and from production orders.

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 rights of use from leases in accordance to IFRS 16 and 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 increased by 6 percent to €3,350.4 million (previous year: €3,164.9 million), and in relation to revenue was 90 percent (previous year: 91 percent). Of that total, material and personnel expenses accounted for 77 percentage points (previous year: 78 percentage points). In the previous year, cost of sales included amortization of intangible assets from acquisitions in the amount of €1.7 million; no further amortization was carried out in the reporting year. Depreciation of property, plant and equipment and the amortization of other intangible assets amounted to €49.1 million (previous year: €59.3 million). This includes impairment losses of €0.5 million (previous year: €6.9 million). Depreciation and amortization on rights of use from leases amounted €51.8 million (previous year: €56.4 million). This figure includes impairment losses in the amount €2.1 million (previous year: €3.3 million).

Gross profit

Gross profit increased by 31 percent to €387.0 million (previous year: €296.1 million). In addition to increased revenue, this is primarily attributable to improvements in capacity utilization as well as improvements in order processing. The gross margin accounted for a share of 10.4 percent of revenue (previous year: 8.6 percent).

Selling and administrative expense

Selling, general and administrative expense continued to decline significantly to €290.7 million (previous year: €309.7 million). This is primarily the result of lower burdens from special items, in particular from the harmonization of IT systems and from restructuring expenses in the amount of €5.1 million (previous year: €18.4 million). Selling and administrative expenses adjusted for these special items continued to improve to €285.6 million (previous year: €291.3 million). COVID-19-related one-time effects such as lower travel expenses continued to have a positive impact in the reporting year.

The share of selling and administrative expenses in revenue was reduced further to 7.8 percent (previous year: 8.9 percent). Adjusted for special items from the harmonization of IT systems and restructuring expenses, the ratio improved significantly to 7.6 percent due to the revenue growth (previous year: 8.4 percent).

Other operating income and expense

The balance from other operating income and expense was positive at €24.6 million (previous year: -€57.9 million).

Income in the reporting year totaled €68.4 million (previous year: €47.8 million). The increase resulted mainly from the disposal of non-operational real estate in the amount of €30.4 million (previous year: €1.0 million). Disposals from property, plant and equipment thus increased to a total of €34.5 million (previous year: €4.3 million). Other income decreased to €8.5 million (previous year: €27.7 million). In the previous year, this figure included income of €16.7 million from a settlement agreement with former Executive Board members of Bilfinger SE.

Other operating expenses fell considerably in the reporting year to -€43.8 million (previous year: -€105.7 million). This was mainly due to significantly lower restructuring expenses of -€16.7 million – these had totaled -€66.9 million in the previous year due to the effects of the COVID-19 pandemic. Other expenses decreased to €7.7 million (previous year: €18.0 million). In financial year 2020, this item included impairment losses on goodwill from Other Operations amounting to €6.8 million.

Income from investments accounted for using the equity method

Income from investments accounted for using the equity method is composed of income and expenses from associates and joint ventures. It fell to €3.1 million (previous year: €12.5 million). This mainly reflects the sale of the stake in a joint venture in Oman.

EBITA / adjusted EBITA / EBIT

Following the severe impact of the COVID-19 pandemic and volatile oil price development in the previous year, adjusted EBITA increased significantly again in the reporting year. The increase to €137.2 million (previous year: €19.8 million) was mainly due to the expected business recovery. In addition, proceeds from the disposal of property and real estate in the amount of €30.4 million (previous year: €1.0 million) had an impact. In relation to the increase in sales, the adjusted EBITA margin improved to 3.7 (previous year: 0.6) percent. Exchange rate effects again had only an insignificant impact, amounting to €1.8 million (previous year: -€0.4 million).

ADJUSTED EBITA BY BUSINESS SEGMENT

	Adjusted EBITA in € million		Adjusted EBITA margin in %	
	2021	2020	**2021**	2020
Engineering & Maintenance Europe	130.7	68.9	5.2	3.1
Engineering & Maintenance International	-13.9	-20.8	-2.5	-4.0
Technologies	20.3	-10.5	3.6	-2.1
Reconciliation Group	0.2	-17.8		
thereof Other Operations	2.3	6.2	1.4	2.4
thereof headquarters / consolidation / other	-2.1	-24.0		
Continuing operations	**137.2**	19.8	**3.7**	0.6

While the COVID-19 pandemic and volatile oil price developments had a tangible impact on the results of our segments in the previous year, the expected recovery materialized in the reporting year. After the number of employees had to be reduced by around 5,000 Group-wide in the course of 2020, it was stable overall in the reporting year. The number of European employees on short-time work was also no longer significant in the financial year.

Government support measures were still mainly utilized in the Netherlands, the United Kingdom, Poland and Austria. In accordance with the net method selected, government grants, which under IAS 20 are classified as government grants related to profit or loss, were recognized as a reduction of the corresponding personnel expense, in the amount of about €9 million (previous year: €36 million). Details can be found in Chapter *C.6.3.2 Government grants and other measures in connection with the COVID-19 pandemic*.

Adjusted EBITA in the Engineering & Maintenance Europe segment improved to €130.7 million (previous year: €68.8 million); the adjusted EBITA margin rose to 5.2 percent (previous year: 3.1 percent). This reflected the success in improving the sales mix as well as further increasing the utilization rate.

Adjusted EBITA in the Engineering & Maintenance International segment was negative at -€13.9 million (previous year: -€20.8 million), but with a positive result in the fourth quarter. Here, better capacity utilization and strategic progress toward increasing the share of service contracts as well as from small and mid-sized projects are showing some effects. The adjusted EBITA margin in this segment was -2.5 percent (prior year: -4.0 percent).

At Technologies, adjusted EBITA improved to a clearly positive €20.3 million (previous year: -€10.5 million). This corresponds to an adjusted EBITA margin of 3.6 percent (previous year: -2.1 percent). In this segment, structural measures already initiated in the previous year led to a sustained reversal of the trend in earnings development.

Adjusted EBITA not allocated to the segments showed a break-even result of €0.2 million (previous year: -€17.7 million) in the reporting year as a result of proceeds from the sale of land and real estate. The Other Operations also included in this position provided a positive earnings contribution.

Reported EBITA of the Group – not including the special items described in B.2.2 Results of operations - adjusted earnings per share – improved substantially as compared to the prior year, increasing to €121.2 million (previous year: -€57.0 million). It is important to note that this figure in the prior year was impacted in particular by necessary restructuring charges in connection with the COVID-19 pandemic and volatile oil price developments.

Reported EBITA of the individual segments including restructuring charges also improved across the board. Accordingly, EBITA at Engineering & Maintenance Europe was €115.5 million (previous year: €36.0 million), at Engineering & Maintenance International -€17.6 million (previous year: -€34.5 million) and at Technologies €19.2 million (previous year: -€36.0 million).

EBITA not allocated to the business segments amounted to €4.1 million (previous year: -€22.5 million). It also includes restructuring costs and expenses for projects related to process and system harmonization as well as income from the disposal of investments in the course of portfolio adjustments.

Because there was no amortization of intangible assets from acquisitions in the reporting year, Group EBIT of €121.2 million (previous year: -€65.5) was in line with reported EBITA.

Financial result

The financial result declined significantly to -€5.9 million (previous year: €181.1 million). This is mainly due to the income from the mark-to-market valuation of the preferred participation note recognized in income in the previous year following the sale of Apleona. Bilfinger's former Building and Facility Services business (now: Apleona) was sold to financial investor EQT in September 2016. Bilfinger had participated in the resale as agreed in December 2020, which under IFRS led to an appreciation of the preferred participation note of €209.7 million in the 2020 consolidated financial statements. Following completion of the transaction in April 2021 it will now be recognized in income under the German Commercial Code (HGB) in Bilfinger SE's consolidated financial statements for financial year 2021.

Interest income increased in the reporting year to €17.2 million (previous year: €1.4 million), mainly as a result of particularly high income in the reporting year from interest on late payment of tax receivables and from the investment of cash and cash equivalents with variable interest rates.

The current interest expense amounted to -€22.1 million (previous year: -€20.5 million). This is mainly incurred on financial debt with fixed and variable interest rates. In October 2021, tranches of the promissory note loans with variable interest rates due in April 2022 with a nominal value of €108.5 million were repaid early. The interest expense on lease liabilities in accordance with IFRS 16 amounted to -€5.7 million (previous year: -€4.5 million).

Declining income from securities in the amount of €8.4 million (previous year: €209.7 million) is mainly due to the valuation difference between the final proceeds realized on disposal and the preferred participation note for Apleona, which was upgraded in the previous year.

The interest expense from an increase in the retirement benefit obligation – offset against income from plan assets – amounted to -€2.0 million (previous year: -€3.6 million). The interest expense for minority interest was -€1.7 million (previous year: €1.4 million).

Earnings before and after taxes

Earnings from continuing operations before taxes of €115.3 million (previous year: €115.6 million) were at the level of the previous year. This means that the effect in 2020 from the revaluation of the preferred participation note for Apleona was offset in the reporting year by improved operating earnings including the positive one-time effects from the disposal of properties described above.

In financial year 2021, the Group recorded tax income of €8.1 million (previous year: -€7.5 million), including tax refunds of around €31 million from tax audits for the years 2001-2009. Income after taxes amounted to €123.4 million (previous year: €108.0 million).

Income after income taxes from discontinued operations improved to €6.8 million (previous year: -€7.0 million) due to the resolution of several disputes and issues in connection with subsidiaries sold in previous years and the associated elimination of the need for risk provisions.

Non-controlling interests

Non-controlling interests amounted to €0.7 million (previous year: €1.6 million).

Net profit / earnings per share

Consolidated net income increased to €129.5 million (previous year: €99.4 million) as a result of the improvement in EBITA and also supported by tax refunds. This surpassed the previous year's figure, which was impacted in particular by the special item resulting from the revaluation of the preferred participation note for Apleona. Basic earnings per share increased to €3.19 (previous year: €2.47), while diluted earnings per share also rose to €3.16 (previous year: €2.44).

Net profit from continuing operations adjusted for amortization of intangible assets from acquisitions and goodwill impairments and for the special items described below amounted to €89.0 million (previous year: -€8.0 million); adjusted earnings per share from continuing operations were €2.17 (previous year: €0.20). The figure relates to diluted earnings per share.

Dividend

The Executive and Supervisory Boards will propose to the Annual General Meeting that an increased dividend of €4.75 (prior year: €1.88) per share be distributed. The amount results from the minimum dividend of €1.00 per share and an additional distribution of €3.75 per share from the proceeds from the sale of Apleona in Bilfinger SE's distributable earnings.

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 exceptional 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

in € million	2021	2020
Earnings before taxes	115.3	115.6
Special items in EBITA	16.0	76.9
Special items in financial income	-8.4	-209.7
Amortization of intangible assets from acquisitions and goodwill impairment	0	8.5
Adjusted earnings before taxes	**122.9**	**-8.7**
Adjusted income tax income / expense	-33.2	2.3
Adjusted earnings after taxes from continuing operations	**89.7**	**-6.4**
thereof non-controlling interests	0.7	1.6
Adjusted net profit from continuing operations	**89.0**	**-8.0**
Average number of basic shares (in thousands)	40,645	40,297
Adjusted basic earnings per share from continuing operations (in €)	**2.19**	**-0.20**
Average number of diluted shares (in thousands)	40,973	40,814
Adjusted diluted earnings per share from continuing operations (in €)	**2.17**	**-0.20**

SPECIAL ITEMS IN EBITA

€ million	2021	2020
EBIT	**121.2**	**-65.5**
Amortization of intangible assets from acquisitions and goodwill	0.0	8.5
EBITA	**121.2**	**-57.0**
Restructuring and efficiency enhancement expense	18.0	76.8
Income / expense for improvement of the compliance system	0.0	-17.1
Process and system harmonization expense	6.5	13.2
Income / expense from the disposal of investments	-8.5	3.9
Total special items	**16.0**	**76.8**
Adjusted EBITA	**137.2**	**19.8**

Special items in EBITA fell substantially to €16.0 million (previous year: €76.8 million). Expenses for restructuring and efficiency enhancement of €18.0 million (previous year: €76.8 million) and for process and system harmonization of €6.5 million (previous year: €13.2 million) were offset by income from disposals of investments of €8.5 million (previous year: expenses of -€3.9 million). In the previous year, there was also income of €17.1 million from the settlement with former members of the Executive Board.

Unusually high special items in the financial result in the previous year related to earnings from the measurement of our preferred participation note for Apleona.

Amortization of intangible assets from acquisitions and goodwill was not recognized in the reporting year (prior year: €8.5 million).

Adjustments for income taxes reflect Bilfinger’s specific situation in the context of the transformation and take into account the high level of tax loss carryforwards, some of which were not capitalized. To establish operational comparability, Bilfinger examines what a normalized average

Group tax rate would be. After taking into account the above-mentioned circumstances, Bilfinger estimates this to be 27 percent on average in the long term.

Adjusted earnings is a metric that is not defined under IFRS. Their disclosure is to be regarded as supplementary information.

Value added

VALUE ADDED IN THE BUSINESS SEGMENTS	Capital employed in € million		Return in € million		ROCE in %		Cost of capital in %		Value added in € million	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Engineering & Maintenance Europe	890.4	821.1	97.5	37.2	11.0	4.5	8.2	8.3	24.5	-31.2
Engineering & Maintenance International	309.1	324.3	-18.3	-34.1	-5.9	-10.5	8.9	9.1	-45.8	-63.5
Technologies	246.9	246.4	17.8	-36.8	7.2	-14.9	10.3	11.6	-7.7	-65.3
Reconciliation Group	642.6	613.3	57.9	171.7	–	–	–	–	5.6	122.2
thereof Other Operations	43.6	66.4	1.4	-5.1	3.3	-7.7	13.6	11.9	-4.5	-13.0
thereof headquarters / consolidation / other	599.0	546.9	56.5	176.8	–	–	–	–	10.1	135.2
Continuing operations	**2,088.9**	2,005.0	**154.9**	138.0	**7.4**	6.9	**8.5**	8.8	**-23.4**	-37.9

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

To determine the return, we rely on an after taxes calculation, based on EBIT and including interest income and income from securities. This means that we also consider special items, amortization of capitalized assets from acquisitions as well as potentially goodwill impairments in the calculation of the return. We thus want to ensure that all success components are represented in our return on capital employed.

The average capital employed of continuing operations increased to €2,088.9 million in the reporting year (previous year: €2,005.0 million). The return for continuing operations improved to €154.9 million (previous year: €138.0 million).

The weighted average cost of capital (WACC) for the Group was 8.5 percent after taxes (previous year: 8.8 percent). Overall, ROCE improved to 7.4 percent (previous year: 6.9 percent); value added in absolute terms improved further to -€23.4 million (previous year: -€37.9 million).

B.2.3 Net assets

CONSOLIDATED BALANCE SHEET

in € million	2021	2020
Assets		
Non-current assets		
Intangible assets	780.6	765.2
Property, plant and equipment	258.7	269.7
Right of use assets from leases	176.7	189.3
Investments accounted for using the equity method	11.4	19.4
Other non-current assets	7.3	14
Deferred taxes	46.7	55.8
	1,281.4	1,313.4
Current assets		
Inventories	64.9	59.8
Receivables and other current assets	909.1	865.6
Current tax assets	20.3	10.9
Other assets	40.2	46.0
Securities	0.0	450.0
Marketable securities	189.9	0.0
Cash and cash equivalents	642.9	510.6
Assets classified as held for sale	0.0	0.0
	1,867.3	1,942.9
Total	**3,148.7**	3,256.3
Equity & liabilities		
Equity		
Share capital	132.6	132.6
Capital reserve	771.8	770.6
Retained and distributable earnings	403.1	468.3
Other reserves	5.5	-12.7
Treasury shares	-12.2	-149.5
Equity attributable to shareholders of Bilfinger SE	1,300.8	1,209.3
Minority interest	-11.8	-10.7
	1,289.0	1,198.6
Non-current liabilities		
Provisions for pensions and similar obligations	306.5	340.0
Other provisions	20.7	22.2
Financial debt	395.1	521.3
Other liabilities	2.5	0.0
Deferred taxes	4.2	2.9
	729.0	886.4
Current liabilities		
Current tax liabilities	21.9	23.9
Other provisions	215.8	300.3
Financial debt	54.3	46.9
Trade and other payables	641.4	579.2
Other liabilities	197.3	221.0
Liabilities classified as held for sale	0.0	0.0
	1,130.7	1,171.3
Total	**3,148.7**	3,256.3

The company's net assets remain sound. The balance-sheet total decreased only slightly to €3,148.7 million (previous year: €3,256.3 million).

On the assets side, non-current assets decreased to €1,281.4 million (previous year: €1,313.4 million). In this context, intangible assets of €780.6 million (previous year: €765.2 million) were well above the prior-year figure. Goodwill included in this figure increased to €777.7 million (previous year: €761.5 million) mainly due to changes in exchange rates. The annual impairment test in accordance with IAS 36 is conducted at the level of the operating segments or individual groups in *Other Operations*. It did not reveal any need for impairment. An event-driven impairment test was not conducted in the reporting year, as there were no indications of a possible impairment of a cash-generating unit. In the reporting year, non-current assets included property, plant and equipment amounting to €258.7 million (previous year: €269.7 million), while rights of use from leases in accordance with IFRS 16 totaled €176.7 million (previous year: €189.3 million).

Other non-current assets decreased to €65.4 million (previous year: €89.2 million), with deferred tax assets comprising the largest item at €46.7 million (previous year: €55.8 million).

Current assets decreased to €1,867.3 million (previous year: €1,942.9 million). Receivables and other current assets recorded a growth-related increase to €909.1 million (previous year: €865.6 million), with receivables from work in progress rising to €317.0 million (previous year: €262.4 million). In the previous year, securities held as current assets included the preferred participation note for Apleona with a value of €450.0 million; this item was reversed following the resale of the company in the reporting year. Part of the payment received in this connection was invested in financial instruments with a maximum term of 12 months; this led to an increase in other financial investments to €189.9 million. Cash and cash equivalents increased overall to €642.9 million (previous year: €510.6 million) in the year under review.

On the liabilities side, equity increased to €1,289.0 million (previous year: €1,198.6 million). Positive earnings after taxes of €129.5 million (previous year: €99.4 million) had an increasing effect. The equity ratio was 41 percent at the balance-sheet date (previous year: 37 percent).

Non-current liabilities totaled €729.0 million (previous year: €886.4 million). Non-current financial debt decreased significantly to €395.1 million (previous year: €521.3 million). This is due to the early repayment in October 2021 of tranches of the promissory note loans with a nominal value of €108.5 million due in April 2022. Non-current financial debt also includes a bond in the amount of €250.0 million maturing in June 2024. Non-current lease liabilities in accordance with IFRS 16 totaled €139.9 million (previous year: €146.3 million). Current financial debt amounted to €54.3 million (previous year: €46.9 million) and mainly relates to current lease liabilities under IFRS 16 of €45.0 million (previous year: €46.6 million). Net liquidity amounted to €383.4 million (previous year: -€57.5 million) as of the reporting date.

Current liabilities amounted to €1,130.7 million (previous year: €1,171.3 million). Other provisions decreased to €215.8 million (previous year: €300.3 million). Working capital totaled -€41.9 million (previous year: €307.9 million). Trade payables increased to €337.2 million (previous year: €293.3 million), while advance payments received remained unchanged at €143.5 million (previous year: €142.1 million).

Pension provisions amounted to €306.5 million (previous year: €340.0 million), based on an increased discount rate of 1.05 percent (previous year: 0.7 percent) in the euro zone.

There were no assets and liabilities classified as held for sale as of the balance-sheet date, as was the case for each in the previous year.

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 & Investor Relations.

Management of market price change 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. We report on the management of financial risks in Chapter *B.3.2.3 Risk and opportunity report – Financial risks* and in detail in the notes to the consolidated financial statements in Chapter *C.6.30 Risks related to financial instruments, financial risk management and hedging transactions*.

GROUP FINANCIAL STATUS RECOURSE LIABILITIES AND LIABILITIES FROM LEASE OBLIGATIONS	Credit facility	Availment	Credit facility	Availment
		2021		2020
in € million				
Bank guarantees	**905.6**	**477.9**	948.6	495.7
thereof with residual term < 1 year	905.6	477.9	948.6	495.7
Syndicated credit facilities	**335.0**	**0.0**	335.0	0.0
thereof with residual term < 1 year	85.0	0.0	85.0	0.0
Operating loans	**1.9**	**1.9**	2.2	2.2
thereof with residual term < 1 year	0.3	0.3	0.3	0.3
Corporate bond / promissory note loan	**262.5**	**262.5**	373.0	373.0
thereof with residual term < 1 year	9.0	9.0	0.0	0.0
Liabilities from lease obligations	**185.0**	**185.0**	192.9	192.9
thereof with residual term < 1 year	45.0	45.0	46.6	46.6

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 syndicated credit facility of €250 million, which had not been utilized at the balance-sheet date. Availability of the facility is firmly committed until December 2023. 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 credit 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 €85 million.

In addition, we issued a bond in 2019 with a nominal value of €250.0 million, maturity in June 2024 and a fixed interest rate over the entire period. Moreover, several promissory note loans totaling €123.0 million maturing in April 2022 and in October 2024 with partly variable and partly fixed interest rates over the term to maturity were also taken out, whereby the variable tranches totaling €108.5 million were repaid early during the reporting year. The tranches with fixed interest rates amounting to €14.5 million remained as of the reporting date.

Bilfinger has at all times complied with the undertaking given in the terms and conditions of the new bond issued in June 2019 from the time of the issue of the bond in June 2019 until the end of the past financial year.

We have credit by way of bank guarantees of €905.6 million from various banks and bonding insurers available to meet the needs of the operating business, which are not fully utilized. Information on existing financial debt is provided in Chapter *C.6.26 Financial debt*.

Financial debt totaled €449.4 million (previous year: €568.1 million) at the reporting date, including lease liabilities of €184.9 million (previous year: €192.9 million) in accordance with IFRS 16. In terms of the financial debt, €395.1 million (previous year: €521.3 million) related to non-current liabilities and €54.3 million (previous year: €46.9 million) to current liabilities. We do not utilize off-balance sheet financing instruments. Bank balances of €2.1 million (previous year: €2.8 million) were pledged as of the reporting date.

Approved capital of €66.3 million is available for future capital increases. Bilfinger also has conditional capital of €13.3 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.6 Takeover-relevant information pursuant to Section 289a and Section 315a of the German Commercial Code (HGB)*.

Investments

Investments in property, plant and equipment and intangible assets – not including intangible assets from acquisitions in accordance with IFRS 3 – rose again to a sustainable level in the reporting year, following a significant reduction in the previous year against the backdrop of economic uncertainty and declining revenue. They amounted to €61.3 million (previous year: €36.6 million), of which €45.4 million (previous year: €21.6 million) related to operating and office equipment, €9.3 million (previous year: €7.2 million) to technical equipment and machinery, €3.2 million (previous year: €2.8 million) to real estate and €0.7 million (previous year: €1.6 million) to intangible assets. Depreciation and amortization amounted to €49.0 million (previous year: €59.3 million). This figure includes impairment charges of €0.0 million (previous year: €6.9 million).

INVESTMENTS / DEPRECIATION BY BUSINESS SEGMENT	Investments	Depreciation	Investments	Depreciation
		2021		2020
in € million				
Engineering & Maintenance Europe	54.6	35.6	26.2	36.0
Engineering & Maintenance International	2.1	5.5	2.8	6.3
Technologies	3.2	3.0	2.5	3.0
Reconciliation Group	1.4	4.9	5.1	14.0
thereof Other Operations	0.9	1.6	3.0	5.5
thereof headquarters / consolidation / other	0.5	3.3	2.1	8.5
Total	**61.3**	**49.0**	**36.6**	**59.3**

The Engineering & Maintenance Europe segment accounted for investments in the amount of €54.6 million (previous year: €26.2 million). At €44.1 million, they related in particular to operating and office equipment, of which scaffolding accounted for €32.8 million. A further €8.1 million was invested in technical equipment and machinery and €2.1 million in real estate.

In the Engineering & Maintenance International business segment, we invested €2.1 million (previous year: €2.8 million), of which €0.9 million was invested in operating and office equipment, €0.2 million in technical equipment and machinery, €0.9 million in real estate and €0.1 million in intangible assets.

In the Technologies segment, investments amounted to €3.2 million (previous year: €2.5 million). Of that amount, €1.0 million went to operating and office equipment, €1.7 million to technical equipment and machinery and €0.2 million to intangible assets.

Investments in Other Operations totaled €0.9 million (previous year: €3.0 million).

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT BY REGION

in € million	2021	2020	Δ in %
Germany	26.5	13.1	102
Rest of Europe	32.0	20.5	56
America	1.5	2.1	-29
Africa	0.8	0.2	300
Asia	0.5	0.7	-29
Total	61.3	36.6	67

The regional focus of investment was again on Europe, which accounted for 96 percent of the total (previous year: 92 percent). Germany accounted for 43 percentage points of European investment (previous year: 36 percentage points).

Investments in financial assets amounted to €2.4 million in the financial year (previous year: €0.0 million). In this context, the activities of a Dutch specialist for rope access to industrial plants at great heights were acquired in the E&M Europe segment as part of an asset deal with effect from January 1, 2021, and transferred to the newly established subsidiary Bilfinger Height Specialists B.V., Netherlands.

Consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS
(ABRIDGED VERSION)

in € million	2021	2020
Cash flow from operating activities of continuing operations	**112.5**	120.4
thereof special items	-52.2	-43.3
Adjusted cash flow from operating activities of continuing operations	164.7	163.7
Capital expenditure on P, P & E and intangible assets	-61.3	-36.6
Proceeds from the disposal of property, plant and equipment	63.5	9.4
Net cash outflow for property, plant and equipment / intangible assets	**2.2**	-27.2
Free cash flow from continuing operations	**114.7**	93.2
thereof special items	-52.2	-43.3
Adjusted free cash flow from continuing operations	166.9	136.5
Payments made / proceeds from the disposal of financial assets	**14.9**	8.3
Investments in financial assets	**-2.4**	0.0
Changes in marketable securities	**268.4**	0.0
Cash flow from financing activities of continuing operations	**-266.5**	-82.2
Share buyback	0.0	0.0
Dividends	-78.5	-7.3
Payments from changes in ownership interest without change in control	-1.9	-0.3
Borrowing	0.0	0.0
Repayment of financial debt	-158.5	-51.8
Interest paid	-27.6	-22.8
Change in cash and cash equivalents of continuing operations	**129.1**	19.3
Change in cash and cash equivalents of discontinued operations	**2.4**	-6.5
Change in value of cash and cash equivalents due to changes in foreign exchange rates	**0.8**	-2.0
Change in cash and cash equivalents	**132.3**	10.8
Cash and cash equivalents at January 1	510.6	499.8
Change in cash and cash equivalents of assets classified as held for sale	0.0	0.0
Cash and cash equivalents at December 31	**642.9**	510.6

The cash flow from operating activities of continuing operations fell slightly to €112.5 million (prior year: €120.4 million) due to an increase in special items. Cash flow from operating activities adjusted for special items, on the other hand, was stable at €164.7 million (previous year: €163.7 million). The main factor contributing to this development was successful working capital management, with a further improvement in net working capital in relation to the significant increase in revenue. Tax refunds amounting to €29.0 million also had a significantly positive impact on the cash effect of taxes.

Special items increased to a total of -€52.2 million (previous year: -€43.3 million). While payments for restructuring were only slightly lower than in the previous year, significantly fewer funds were used for process and system harmonization. The prior-year figure, however, included cash inflows from the settlement reached with former members of the Executive Board.

SPECIAL ITEMS IN CASH FLOW

in € million	2021	2020
Cash flow from operating activities of continuing operations	112.5	120.4
Restructuring expense	45.1	47.1
Income / expense for improvement of the compliance system	0.0	-16.5
Process and system harmonization expense	7.1	12.7
Total special items*	52.2	43.3
Adjusted cash flow from operating activities of continuing operations	164.7	163.7

* Special items of €52,2 million (previous year: €43,3 million) relate in an identical amount to the adjustment of free cash flow.

Investments in property, plant and equipment and intangible assets increased significantly to €61.3 million (previous year: €36.6 million). These outflows were offset by an equally sharp increase in cash inflow of €63.5 million (previous year: €9.4 million), primarily due to the disposal of various non-operational properties and land (inflow of €57.1 million). Net capital expenditures were thus negative, declining to -€2.2 million (previous year: €27.2 million). Contrary to original expectations, these non-recurring effects contributed to a significant increase in free cash flow to €114.7 million (previous year: €93.2 million). Adjusted free cash flow also improved to €166.9 million (previous year: €136.5 million).

Against the backdrop of the COVID-19 pandemic, we took advantage in the previous year of the option to defer social security contributions and tax payments to improve the liquidity situation over the course of the year. At the end of 2020, these liabilities, which as of June 30, 2020, amounted to a total in the high double-digit million-euro range, had been nearly fully settled. In the reporting year, this option was used only to a limited extent. Details are explained in Chapter *C.6.3.2 Government grants and other measures in connection with the COVID 19 pandemic*.

Disposals of financial assets resulted in a cash inflow of €14.9 million (previous year: €8.3 million), primarily due to the sale of Muscat Engineering Consultancy LLC, Oman. Investments in financial assets were incurred in the amount of €2.4 million (previous year: €0.0 million). They related to the acquisition of the activities of a Dutch specialist for rope access to industrial plants at great heights as part of an asset deal with effect from January 1, 2021, and the transfer to the newly established subsidiary Bilfinger Height Specialists B.V., Netherlands.

Cash outflow from financing activities increased significantly to -€266.5 million (previous year: -€82.2 million). From the repayment and taking of loans there was a net outflow of €158.5 million (previous year: €51.8 million). In the reporting year, dividend payments including payments to minority shareholders of €78.5 million (previous year: €7.3 million) were significantly higher than the previous year's outflows, because at that time the dividend had been reduced to the statutory minimum of €0.12 to improve the liquidity situation in view of the economic uncertainty caused by the COVID-19 pandemic. This reduction was made up for in the reporting year following the stabilization of business performance, with the basic dividend of €1.00 per share being additionally increased by the €0.88 reduction from the previous year, resulting in a dividend of €1.88 per share being paid out to the shareholders of Bilfinger SE. Interest payments increased to €27.6 million (previous year: €22.8 million).

Continuing operations resulted in a net cash inflow of €129.1 million (previous year: €19.3 million).

Cash flows from discontinued operations amounted to €2.4 million (previous year: -€6.5 million).

Changes in exchange rates resulted in an arithmetical increase in cash and cash equivalents of €0.8 million (previous year: decrease of €2.0 million). Cash and cash equivalents of activities classified as held for sale in the reporting year amounted to €0.0 million as was the case in the previous year. In total, cash and cash equivalents at the end of the year increased to €642.9 million (previous year: €510.6 million).

Origin and distribution of value creation

The Group's value creation originates from revenue, income from investments accounted for using the equity method and other operating income. Depreciation, material expenses and other costs had an impact on value creation.

In the distribution of value creation in 2021, 93 percent was accounted for by employees (previous year: 93 percent), 1 percent by creditors (previous year: 1 percent). The remaining value creation resulted in a corresponding increase in equity.

ORIGIN OF VALUE CREATION

in € million, continuing operations and discontinued operations	**2021**	2020
Revenue	3,739	3,463
Income from investments accounted for using the equity method	4	8
Other operating income	76	60
Depreciation and amortization	-101	-124
Cost of materials	-1,255	-1,138
Other costs related to value added	-458	-283
Value added	**2,005**	**1,986**

DISTRIBUTION OF VALUE CREATION

in € million, continuing operations and discontinued operations	**2021**	**in %**	2020	in %
To employees	1,856	93	1,852	93
To the state	-9	0	7	0
To creditors	28	1	25	1
To minority interest	1	0	2	0
To shareholders (dividend for the respective financial year)	76	4	5	0
Change in equity	**53**	**3**	**95**	**5**

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)

in € million	2021	2020
Revenue	114	139
Other operating income	76	40
Personnel expense	-47	-43
Amortization of intangible assets / depreciation of P, P & E	-1	-1
Other operating expense	-105	-200
Earnings from financial assets	354	90
Interest result	-2	-23
Earnings before taxes	**389**	**2**
Income tax expense	30	4
Net income (previous year: net loss)	**419**	**6**
Profit carryforward	7	39
Release from other retained earnings	-209	38
Distributable earnings	**217**	**83**

The income statement of the company financial statements of Bilfinger SE is characterized by its holding function. Revenue amounted to €114 million (previous year: €139 million) and resulted almost solely from output volume charged to companies of the Group as well as from rental income. Revenues from services charged to other companies in the Group are comprised of the costs of these services plus an adequate margin. As a result of efficiency enhancements at headquarters and thus the associated cost savings, revenue was significantly lower than in the previous year while the margin remained constant.

Other operating income of €76 million (previous year: €40 million) mainly related to income from the sale of non-operational properties, the reversal of other provisions and write-ups of receivables from associates. The significant increase compared with the previous year was due in particular to substantial book gains on the disposal of real estate.

The increase in personnel expenses from €43 million to €47 million was mainly due to higher management bonuses and other compensation in connection with the increase in corporate earnings following a weak performance in 2020 due to the Corona pandemic.

Other operating expenses of €105 million (previous year: €200 million) were mainly made up of non-personnel administrative expenses, IT costs, rents and leases, insurance premiums, legal and consulting fees, additions to other accruals, losses from the disposal of investments and impairment losses on current assets. The significant decrease is mainly due to the fact that write-downs on receivables from associates were significantly lower than in the previous year and losses on the disposal of investments were significantly higher in the previous year. Consulting costs were also further reduced.

Income from financial assets of €354 million (previous year: €90 million) mainly comprised the book gain of €263 million (previous year: €0 million) from inflows in the spring of 2021 from the preferred participation notes in connection with the sale of the former Building and Facility business segment (Apleona) completed in 2016, which were recognized in income in spring 2021 with effect under commercial law. Also included are earnings from profit and loss transfer agreements, dividends received from Group companies, and write-downs on investments. The significant increase is mainly due to the above-mentioned inflows recognized in income from the preferred participation notes, but also to lower write-downs on the carrying amounts of investments in associates compared with the prior year.

The sharp increase in net interest income is partly due to interest income from tax refunds in connection with completed tax audits, but also to higher net interest income from pensions and plan assets due to a positive performance of plan assets.

Earnings before taxes thus increased from €2 million to €389 million.

In terms of the income tax expense, it should generally be kept in mind that distributions as well as income and expense from investment measurement and disposals are mainly tax-neutral. The reported income of €30 million (previous year: €4 million) results from tax refunds and the reversal of tax accruals in connection with completed tax audits totaling €33 million (previous year: €4 million) and current tax expense for the financial year totaling €3 million (previous year: €0 million).

Distributable earnings in the amount of €217 million result from the annual profit of +€419 million (previous year: +€6 million) and retained earnings in the amount of €7 million (previous year: €39 million) with a release from retained earnings in the amount of €209 million (previous year: €38 million). It will be proposed that a dividend for financial year 2021 of €4.75 per share be paid out. This represents a dividend distribution of approximately €193 million in relation to the number of shares entitled to a dividend as of March 7, 2022.

Net assets and financial position

BALANCE SHEET OF BILFINGER SE (HGB / ABRIDGED)

in € million	Dec. 31, 2021	Dec. 31, 2020
Assets		
Non-current assets		
Intangible assets and P, P & E	14	16
Financial assets	1,680	1,797
	1,694	1,813
Current assets		
Receivables and other assets	456	247
Cash and cash equivalents	651	473
	1,107	720
Accrued expenses	1	1
Excess of plan assets over pension liabilities	1	1
Total	2,803	2,535
Equity & liabilities		
Equity	1,680	1,325
Provisions	86	111
Liabilities	1,037	1,099
Total	2,803	2,535

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

Assets totaling €2,803 million (previous year: €2,535 million) mainly comprised financial assets of €1,680 million (previous year: €1,797 million), receivables and other assets of €456 million (previous year: €247 million) as well as cash and cash equivalents of €651 million (previous year: €473 million).

Intangible assets and property, plant and equipment decreased by €2 million, in particular due to the sale of non-operational properties.

The €117 million decrease in financial assets to €1,680 million was mainly due to the disposal of the preferred participation notes, which were capitalized at a carrying amount of €195 million, as already mentioned in the section on the results of operations. This was partly offset by an increase of €73 million from the intra-Group purchase of a subsidiary in Scandinavia in connection with an optimization of the shareholding structure in Scandinavia and the UK.

Receivables and other assets of €297 million (previous year: €230 million) mainly comprised receivables from subsidiaries in connection with the Group's centralized corporate financing. Also included in this figure is a fixed-term deposit of €140 million (previous year: €0 million) invested for twelve months on a non-cancelable basis as part of the cash inflow from the sale of the preferred participation notes. Cash and cash equivalents recorded a significant increase of €178 million to €651 million, largely due to of the inflow from the preferred participation notes the sale of properties. This was partly offset by a €93 million reduction in promissory note financing.

Prepaid expenses resulted from a discount on the bond issued in 2019 and are reduced in proportion to the maturity.

The excess of plan assets over pension liabilities relates to existing surplus cover of partial retirement benefit obligations through plan assets.

The other side of the balance sheet included equity of €1,680 million (previous year: €1,325 million), provisions of €86 million (previous year: €111 million) and liabilities of €1,037 million (previous year: €1,099 million).

The significant increase in equity resulted from the annual profit for 2021, which exceeded the dividend payment for 2020 which was paid in 2021. The equity ratio thus increased from 52 percent to 60 percent.

Provisions included defined-benefit obligations in the amount of €26 million (previous year: €22 million), tax provisions of €21million (previous year: €4 million) and other provisions of €39 million (previous year: €85 million).

The increase in pension provisions results from a decrease in net plan assets due to a payout in the amount of the pension payments of the previous year. Another factor was the fact that the discount rate decreased further compared with the previous year.

The increase in tax provisions results from a reclassification of tax provisions relating to units sold in previous years, which were previously reported under other provisions. This was offset by reversals of provisions for corporate income tax and trade tax in connection with the results of the tax audit.

The significant decrease in other provisions is mainly due to the reclassification of tax provisions relating to disposed units mentioned in the previous section and the resolution of several disputes and issues in connection with subsidiaries sold in previous years.

Liabilities mainly relate to bond and promissory note financing, which was reduced from €358 million to €255 million in the financial year, and liabilities to affiliated companies from cash investments in the central cash pooling system amounting to €742 million (prior year: €712 million).

Opportunities and risks

The business development of Bilfinger SE as Group holding company 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 therefore generally significantly affect the earnings of Bilfinger SE. For financial year 2022, we expect a positive but significantly lower result, given that the special item from the inflow from the preferred participation notes had a significantly positive impact on the result for financial year 2021.

Declaration of corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB)

The declaration of corporate governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) is included in Chapter *A.4.1 Declaration of corporate governance and corporate governance report*, which is also available on the Internet site www.bilfinger.com.

B.2.6 Employees

At the end of 2021, the Bilfinger Group workforce numbered 29,756 (previous year: 28,893) employees. The increase must be considered against the background of the business recovery following the impact of the COVID-19 pandemic in the previous year.

In Germany, the number of employees decreased to 6,425 (previous year: 6,909), while outside Germany it increased to 23,331 (previous year: 21,984). There were 6,721 employees in countries outside Europe (previous year: 5,524). A significant increase in the number of employees, particularly in North America, was noticed here.

EMPLOYEES BY REGION

	2021	2020	Δ in %
Germany	6,425	6,909	-7
Rest of Europe	16,610	16,460	1
North America	3,281	2,048	60
Africa	762	714	7
Asia	2,678	2,762	-3
Group	**29,756**	28,893	3

EMPLOYEES BY BUSINESS SEGMENT

	2021	2020	Δ in %
Engineering & Maintenance Europe	20,210	19,914	1
Engineering & Maintenance International	5,951	4,800	24
Technologies	2,088	2,274	-8
Reconciliation Group			
Headquarters / other	484	523	-7
Other Operations	1,023	1,382	-26
Group	**29,756**	28,893	3

EMPLOYEE GROUPS	Salaried	Industrial employees	Total	Salaried	Industrial employees	Total
			2021			2020
Engineering & Maintenance Europe	6,094	14,116	20,210	5,752	14,162	19,914
Engineering & Maintenance International	1,557	4,394	5,951	1,636	3,164	4,800
Technologies	1,489	599	2,088	1,634	640	2,274
Reconciliation Group						
Headquarters / other	484	0	484	523	0	523
Other Operations	451	572	1,023	561	821	1,382
Group	**10,075**	**19,681**	**29,756**	10,106	18,787	28,893

Bilfinger is an internationally focused Group that provides what tend to be highly diversified services. We therefore depend on employees who bring a broad range of experience, qualifications and perspectives to their jobs and help us to successfully take advantage of market opportunities.

One aspect of equal opportunity is equality among male and female employees. Our predominantly industrial operational working environment in the commercial sector is, however, heavily dominated by male workers. At the end of the reporting year, the share of women in the workforce Group-wide was 10.5 percent (previous year: 10.3 percent).

EMPLOYEES BY GENDER	Male	Female	Total	Male	Female	Total
			2021			2020
Engineering & Maintenance Europe	18,299	1,910	20,209	18,095	1,819	19,914
Engineering & Maintenance International	5,433	518	5,951	4,397	403	4,800
Technologies	1,752	329	2,081	1,927	347	2,274
Reconciliation Group						
Headquarters / other	317	177	494	341	182	523
Other Operations	829	192	1,021	1,167	215	1,382
Group	**26,630**	**3,126**	**29,756**	25,927	2,966	28,893

Information in relation to the law that is valid in Germany on the equal participation of women and men in executive positions in the private sector and in the civil service as well as the information on the diversity concept as required by the CSR Directive Implementation Act (CSR-RUG) are included in Chapter *A.4.1 Declaration of corporate governance and corporate governance report*, which is also available on the website www.bilfinger.com.

Employee development programs implemented over the course of the reporting year are described in Chapter *B.5. Non-financial Group declaration.*

B.2.7 Innovation (research and development report)

The focus of Bilfinger's innovation activities in the reporting year remained in the area of digitalization. The development of new solutions was carried out in line with the decentralized corporate structure both at the operating companies and through central departments, which implement Group-wide digitalization projects. New requirements of the operating companies were addressed, advanced in the context of joint developments and introduced in the operating business.

In the reporting year, Bilfinger implemented innovation projects with a total expense of €5.8 million (previous year: €8.1 million).

RESEARCH AND DEVELOPMENT EXPENSES

in € million	2021	2020
Total expense	5.8	8.1
thereof digitalization	4.4	5.5
thereof industry	1.5	2.4
thereof other	0.0	0.2

The majority of the expense, as was the case in previous years, was incurred in the digitalization field of innovation, with both solutions for our customers as well as for internal digitalization being further developed. On the Bilfinger platform BCAP (Bilfinger Connected Asset Performance), plant data is used for Internet of Things (IoT) applications while solutions based on artificial intelligence are also developed. This enhances overall equipment effectiveness (OEE) and, in particular, the energy efficiency of our customers' plants. The focus is on the reduction of quality deviations, improvement of plant availability as well as the optimization of energy management and product throughput. The user interface of the BCAP platform has been redesigned, organized by user groups to make it more user-friendly and equipped with the respective role-specific programs and information content. New Edge solutions for installation in our customers' plants expand the safe deployment options of the BCAP platform, increase performance and reduce the operational costs of the IoT solutions.

In addition, the BCAP platform has also been further developed for internal use by the company's own business units and implemented operationally. Asset management, for example, is supported with digital solutions in the Bilfinger Maintenance Concept (BMC) and extensive evaluations for control and optimization are provided automatically. The units involved in industrial scaffolding and inspection services also use the platform as a customer portal to optimize their operating business and communicate with customers.

For the monitoring and optimization of production processes, we have developed our solutions with cognitive sensors that facilitate product quality tracking during the manufacturing process using acoustic perception. This leads to an increase in the efficiency of production plants and reduces fluctuations in product quality. Blockchain technology is now being used to increase the security of plant data.

Bilfinger's digital application PIDGraph uses artificial intelligence to transfer existing asset diagrams from paper form to a digital format and supports our customers in the necessary digitalization of the extensive documentation of existing assets. The technology can also be used to build a modern object-oriented, digital structure for asset management from existing inventory documentation. Initial developments in this area have already been successfully implemented with customers.

In the year under review, the program's performance was significantly enhanced and the interfaces to engineering programs used by customers were expanded. PIDGraph also forms the basis for the implementation of 'digital twins' of real plants and contributes to the creation of a central digital 'single place of truth' with remote access to required information.

The focus on developing digital solutions has proven to be forward-looking in light of the COVID-19 pandemic. Using such solutions to monitor our customers' production processes will require less personnel on site at the respective plants in the future.

Our new digital service offerings also include the ‘Variation App’. It can be used, for example, to efficiently record, communicate and document changes in plant conditions, additional services in projects, maintenance and turnarounds.

Overall, the trend toward applying digital solutions in our customers’ plants continues unabated.

B.3 Risk and opportunity report

The recognition of opportunities and risks is an integral part of the management processes in all of our units, both operational and administrative. We define risks as potential negative deviations and opportunities as potential favorable deviations from our plans.

Bilfinger has a systematic management system for the integrated identification, evaluation and management of risks and opportunities. This is intended in particular to avoid a threat to the existence of the company as a going concern and to achieve a sustained improvement in its earnings situation.

For reasons of consistency with Chapter B.4 Outlook, the underlying timeline for the likelihood of risks and opportunities includes financial year 2022.

B.3.1 Risk management

B.3.1.1 Basic principles

The Group-wide risk management system serves to identify, evaluate and control significant risks in a targeted manner. It is focused on achieving the goals of the company in the context of the strategy developed for the Group.

The risk management process covers all activities for the systematic handling of risks in the Group. At Bilfinger, risk management is not an isolated process that runs parallel to company activities, but rather an integral part of existing company and business processes.

The systematic approach to identifying, evaluating and managing relevant risks is based on the Enterprise Risk Management – Integrated Framework (2004) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Opportunities and risks are reported with the help of a top-down / bottom-up process established throughout the Group – an essential component of risk management at Bilfinger. On the IT side, risk management is extensively supported by a special risk management tool. Another key element of the risk management organization at Bilfinger is the definition of clear roles and responsibilities.

The risk strategy for the Bilfinger Group is formulated by the Executive Board in the context of the planning process and also includes the definition of parameters to assess which risks the company should take in order to achieve its desired goals, for example, by determining risk classes for projects and framework agreements. The starting point is the company's risk capacity. This describes the amount of risk the Group can take on without jeopardizing its continued existence. To summarize, the following applies:

- Individual risks that put the Group in jeopardy may not be taken. This also applies if liquidity cannot be quickly restored when a risk occurs.
- Possible combinations of significant individual risks are reviewed as to whether they represent an existential threat in total. This creates an informative overall picture of the risk profile.
- Risks from large projects and services contracts are subject to a special review, among others by Corporate Project Controlling.
- Insurable risks are, where financially viable, transferred centrally to external insurance companies.

The line organization's management is primarily accountable for the responsible handling of risks. Supervisory Board, Audit Committee and Executive Board perform these superordinate functions:

- **Supervisory Board and Audit Committee**
  The Audit Committee monitors the risk situation and the functionality of the risk management system for the Supervisory Board on the basis of the risk report provided each quarter by the Executive Board. The Audit Committee is also informed of the results of the monitoring activities carried out by Corporate Internal Audit & Investigations and Corporate Compliance. The Supervisory Board and Audit Committee may make decisions regarding additional internal or external reviews.

- **Executive Board**
  The Executive Board assumes overall responsibility for the functionality of the risk management system. It monitors the risk management cycle, carries out the final review and prioritization of significant Group risks and reports to the Audit Committee and the Supervisory Board in this regard.

Bilfinger is oriented toward the *Three Lines of Defense* model, with operations and functional supervision structured under Group headquarters and Corporate Internal Audit & Investigations. Bilfinger's responsibilities and tasks are clearly defined at these levels:

- First Line: Operational
  - Division / Region Heads (Executive President / Financial Director)
    Divisional / regional management is responsible for the functionality of the risk management system and its monitoring at divisional / regional levels and in the local units. Divisional / regional management regularly itemizes risks, as well as providing the final evaluation and prioritization of significant risks for the divisions / regions. This also includes the classification of risks to a defined risk owner and the approval of a division's / region's risk portfolio in the context of the quarterly reporting process.
  - Division / Region Risk Officer
    In its entirety, specific responsibility for the operational implementation of the risk management process and for monitoring and identifying risks lies with the Division / Region Risk Officer. This function is normally performed by a division's / region's financial director. The tasks of the Division / Region Risk Officer include, among other things, the plausibility of the overall risk situation with regard to its completeness and the evaluation of significant risks as well as the appropriateness and effectiveness of the risk mitigation measures – including the evaluation of necessary investments or expenses – and regular updates on the risk situation.
  - Division / Region Risk Coordinator
    Division / Region Risk Coordinators consolidate the individual risks at divisional levels in the course of risk inventory. They support the heads of the divisions / regions in the consistent application of risk management methods and in reporting to Corporate Risk Management or the Group Risk Organization.

- Risk Owner
  Risk Owners are responsible for the identification, analysis and evaluation of individual risks. This also includes the evaluation and implementation of appropriate risk mitigation measures and the regular analysis and monitoring of the current situation regarding individual risks. This also comprises the evaluation of necessary investments and other expenses.

- Second Line: Functional supervision of headquarters

  - Bilfinger Risk Committee
    The Bilfinger Risk Committee generally meets every quarter on behalf of the Executive Board. Members include the Chief Financial Officer (CFO), the Financial Directors of the divisions / regions, the Group Risk Organization as well as the heads of Corporate Accounting, Controlling & Tax, Corporate Treasury, Corporate Legal & Insurance, Corporate Compliance, Corporate Internal Audit & Investigations and the Head of Internal Control Systems. If necessary, the Bilfinger Risk Committee is supplemented with further experts from other specialist areas.
    The committee establishes plausibility for the risk reports quarterly and submits these to the Executive Board. It supports the design of a pragmatic risk management system, shares best-practice approaches and assumes responsibility for superordinate quality assurance of the quarterly risk report for significant Group risks. The Risk Committee also fulfills an important advisory function and contributes recommendations on the design of the risk management system.

  - Group Risk Organization
    Group Risk Organization at Bilfinger is responsible for and has decision-making authority over methods and development of the risk management system. This includes the monitoring and design of all risk management processes at the level of the divisions / regions, headquarters and the Group as a whole. Group Risk Organization also bears overall responsibility for the execution of risk inventories at regular intervals, as well as for generating and submitting reports to the Executive Board, the Audit Committee and the Supervisory Board. Ongoing monitoring of the risk management system should ensure its effectiveness in light of constantly changing conditions and also continuously improve the process in the future.

  - Corporate Central Functions
    In consultation with the Executive Board, Corporate Central Functions perform specialist monitoring tasks throughout the Group. They have wide-ranging obligations to request and receive information, to intervene in some cases and to issue individually defined competences to issue guidelines, and be actively involved with their specialist colleagues in the divisions / regions and subsidiaries. Corporate Central Functions partially assume primary responsibility for risks or make tax-related interventions in the context of their Group-wide functional supervision.

- Third Line: Independent review

  - In accordance with the *Three Lines of Defense* model, Corporate Internal Audit & Investigations, as an independent monitoring body, has the task of regularly reviewing the effectiveness and appropriateness of the risk management system and the internal control system on an incident-related or ad-hoc basis. The risk owner regularly monitors the evaluation of the identified risks in order to determine significant changes.

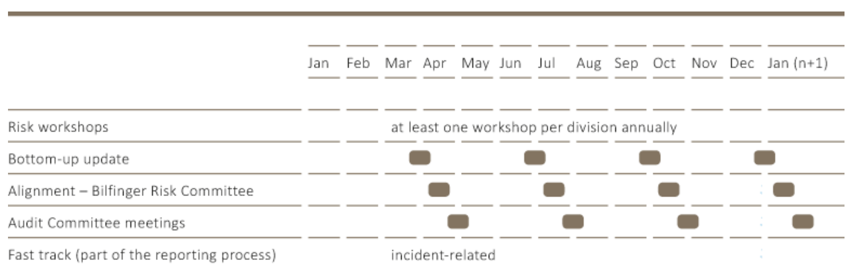
As part of the audit of the annual financial statements, external auditors also carry out a review of the appropriateness of the system in order to detect early threats to the continued existence of the Group.

In addition to the specific tasks and functions described above, the Principles of Risk Awareness, which are Group-wide and binding, apply to all staff. These aim to ensure that only manageable risks are taken. We promote risk awareness among employees by taking appropriate communication and training measures. Each employee is required to act responsibly in the handling of risks and to immediately report any knowledge of risk-related behavior.

B.3.1.2 Identification

Risk identification is conducted continuously in the course of daily business processes. It includes the regular and systematic analysis of internal and external developments and events that could lead to negative deviations from underlying framework conditions.

In order to achieve comprehensive Group-internal transparency, risk identification is conducted as part of an ongoing, institutionalized process:



As of the balance-sheet date, the following significant risks result from the parameters of impact and likelihood: Directly following this, the Bilfinger Risk Committee convenes, performs quality assurance on the quarterly risk report and forwards it for processing in the Executive Board and for submission to the Audit Committee.

Any significant risk is documented with a high degree of transparency and described comprehensibly. The description indicates cause and effect clearly.

The operating companies and divisions / regions as well as units at headquarters entrusted with company-wide functional supervision immediately report relevant short-term risks to the responsible Corporate Central Functions and, if relevant, to the Executive Board.

In accordance with the COSO standard, the identified risks are assigned to four categories: strategic risks, operational risks, financial risks and compliance risks. In this regard, the cause of a risk is decisive for the categorization.

B.3.1.3 Evaluation

The basic risk assessment is carried out within the scope of the annual risk assessment workshops of the divisions / regions. In this regard, the respective form of the risk (net) is determined while also considering the risk mitigation measures currently implemented. Each risk is evaluated in five defined levels using the parameters of *effect* and *likelihood*.

The evaluation primarily takes place using a qualitative approach. At times, an additional monetary evaluation is made. However, this is assigned a subordinate value.

Evaluation scale of impact

Category	Level	Sample form	Indicative value corridor (€ million)
Low	1	No (perceptible) effect on service provision or customer satisfaction	0-20
Relevant	2	Achievement of strategic goal delayed	21-50
Substantial	3	Achievement of multiple goals delayed or individual goals no longer achievable	51-100
Major	4	Clear and protracted impairment of daily operations	100-500
Critical	5	Group’s continued existence in jeopardy	> 500

Evaluation scale of likelihood within the next 12 months

Category	Level	Likelihood of risk occurring within the forecast horizon
Very low	1	0 - 5%
Low	2	6 - 15%
Possible	3	16 - 30%
Increased	4	31 - 50%
Probable	5	> 50%

The assessment of the *effect* and *likelihood* allows for risks to be prioritized and for necessary action to be taken in order to manage risks. Here, a focus is on the 10 most significant risks.

B.3.1.4 Control

Additional measures to manage risks, where reasonable and necessary, are taken on the basis of risks that have been identified and evaluated. Depending on the scope and value, this takes place in consultation with those in the companies defined as responsible for the risk management process or according to line functions.

Bilfinger differentiates between four fundamental strategies to deal with individual risks:

- Avoid
  Incalculable risks or risks with a disadvantageous risk-return ratio are avoided, for example by not accepting projects in a high risk category or ensuring that these risks are explicitly eliminated by means of contractual provisions.
- Transfer
  Depending on the situation, risks are contractually transferred to third parties such as insurers, subcontractors and customers outside the Group.
- Manage
  Manageable risks or their impact are reduced or limited by better operational execution, strengthened control or other risk mitigation measures (hedging etc.).
- Accept
  Remaining risks are accepted as such in their current respective form whenever further risk mitigation measures are not economically viable.

The costs and benefits will be taken into account in the selection of a control measure. Risk management is carried out within the business processes by the risk owner. The risk owner regularly monitors the evaluation of the identified risks in order to determine significant changes. The risk owner reviews the appropriateness of the implemented control measures for the risks assigned to him, as well as the implementation of additional measures deemed necessary.

The transparency necessary to control risks is achieved by communicating significant risks in the risk report, at least quarterly, to the Executive Board and to the Audit Committee of the Supervisory Board. Risks from framework agreements in the services business relate primarily to business in the engineering & maintenance sector.

B.3.2 Significant risks

Significant risks for Bilfinger are calculated on the basis of the described evaluation method. If risks calculated as significant occur, this could lead to negative effects on our net assets and financial position as well as on our reputation. The risks are presented on a net basis after risk mitigation measures.

As of the balance-sheet date, the following significant risks result from the parameters *impact* and *likelihood*:

Risk title	Rank	Risk field	Evaluation Impact (1-5)	 Likelihood (1-5)
Risks from projects and framework agreements	1	Operational	●●	●●●●
Lack of adequate personnel	2	Operational	●●	●●●●
Adverse market developments	3	Strategic	●●	●●●
COVID-19 pandemic	4	Operational	●●	●●●
Legal disputes and completed legacy projects	5	Compliance	●●	●●●
Serious HSEQ incident	6	Operational	●●	●●
Insufficient agility	7	Operational	●	●●●
IT-related risk	8	Operational	●	●●●
Insufficient progress in working capital / cash management	9	Financial	●	●●●
Dependence on single customers in some businesses	10	Strategic	●	●●

The individual risks compiled under semantically aggregated risk titles in the fields of strategic risks, operational risks, financial risks and compliance risks are described in the following. Unless otherwise stated, the risks presented affect the entire Group. Risks specific to business segments include an appropriate indication.

Risks are monitored in accordance with COSO requirements. Additional risks with a lesser meaning for the Bilfinger Group are also followed alongside identified significant risks. Obligatory information, such as on risks from financial instruments, is explained in Chapter *C.6.30 Risks from financial instruments, financial risk management and hedging transactions*.

B.3.2.1 Strategic risks

Adverse market developments

Bilfinger depends on the general economic situation and the development of its markets. Bilfinger evaluates the risk from project and framework agreement risks in their effect overall as relevant. Bilfinger is also smaller than a range of its customers, who try to exploit their relative market strength, particularly in the context of new tenders.

In addition to this general situation and in light of continued major activities in the oil and gas segment, Bilfinger – despite the ongoing expansion of its service portfolio including in areas such as renewable energies and hydrogen technologies – is dependent on the development in the price of oil and its effect on the spending behavior of customers in this market segment. Increasing efforts to decarbonize operations can also tend to lead to a decline in demand in the oil and gas sector.

Bilfinger continued to face restrictions in its operating business in reporting year 2021 as a result of the ongoing global COVID-19 pandemic, such as the limitation of occupancy capacities on oil and gas platforms in the North Sea. These did not, however, have a significant impact on our business activities.

In the course of the pandemic, Bilfinger last year prepared itself for a scenario in which the oil price only returns to a historical level of between US$ 55 and US$ 75 per barrel in the medium term. Fortunately, however, we saw a recovery in the price of oil to the level forecast in the 2021 reporting year. Development of the price of oil, its volatility in particular or even its longer-term decline, remain a potential risk for our activities.

Furthermore, the efforts made at the end of financial year 2019 to make the organization more efficient and agile are paying off, enabling Bilfinger to meet the ongoing challenges from a position of greater agility and strength.

We continue to counter these risks by gradually strengthening our product range, by regularly expanding the customer base and by actively managing productivity and capacity to minimize potential sunk costs, in addition to intensive cooperation with customers. In general, Bilfinger's strategy targets a balanced distribution of the business between the six core industries and eight regions.

A delay in planned projects in the area of nuclear energy represents an additional risk in the development of our markets. A further risk lies in the scarcity of resources in the area of special materials. Increases in raw material costs for our customers in the chemical sector, a long-term increase in the price of oil, for example, could also have negative effects on their spending behavior regarding investments and maintenance. The latter may be partially offset by additional revenue in the oil and gas sector. And, not least, a further acceleration of the energy transition and a departure from conventional energy, particularly in Germany, could lead to additional overcapacities on the one hand, but also to additional opportunities in new sectors. However, the start of the projects depends heavily on the duration of the approval processes or procedures for funding.

Inflationary trends currently being observed could potentially lead to a reluctance on the part of our customers to award projects, as economic viability may no longer be assured. This could lead to a reduction in growth at Bilfinger.

Bilfinger counters the risk arising from adverse market developments through, among other things, a highly diversified portfolio of customers and industries, whereby growth in sustainability areas in particular will also be pursued. Overall, Bilfinger's assessment of the risk from future adverse market developments is unchanged compared with the previous reporting period and therefore remains within the range of possibility with a relevant impact.

Dependence on individual customers in some business sectors

Steady increases in inflation also cannot be readily carried over to the customer in full. A deterioration or loss of customer relationships could have a negative impact on regional business or assets.

In view of the necessary productivity increases, Bilfinger continues to assess the risk as relevant in terms of its impact, with the likelihood being within the possible range. Our customer relationships are also cultivated through effective customer relationship management. Overall, Bilfinger continues to assess the risk of dependence on individual customers in some business segments as low in terms of both likelihood and effect.

B.3.2.2 Operational risks

Risks from projects and framework agreements

When planning and executing projects, significant calculation and execution risks exist that are often larger than in the service business due to the project volumes and higher degree of technical complexity. Risks from the project business therefore relate primarily to the Technologies segment but are becoming increasingly relevant for the maintenance and repair units due to the growing project business.

Project orders involve the construction of new industrial production facilities or major overhauls, for example. Requirements that 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 assumes significant technical guarantees for some orders in the project area. Plant construction projects carried out in this way are often complex and require a large purchasing volume and qualified project management. Such project contracts are typically concluded with the obligation to provide turnkey construction of the plant. 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 specific risk categories, the independent corporate departments of Project Compliance, Corporate Project Audit and Corporate Legal & Insurance must be involved as additional supervisory authorities – until the Executive and Supervisory Boards have given their approval.

Risk management begins with the targeted selection of the projects. In addition to the actual task of the project, the experience with the client, 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, the schedule, project risks, the draft contract, the payment plan, payment security and resource availability 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. Positive or negative particularities are subsequently analyzed, evaluated and transferred into significant projects in a quantitative risk analysis. The risk structure is decisively taken into account in the final decision on the bid and its formulation. Furthermore, it is consistently monitored by a central unit in accordance with defined regulations from the bid phase through to the implementation, completion and processing of any warranty claims.

Risks from framework agreements in the services business relate primarily to business in the engineering & maintenance sector. 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, 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.

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. Wage increases, which are partly influenced by external factors, primarily wage settlements, will be partially absorbed by the indexing of contractual remuneration.

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 Audit over the contract period.

Bilfinger evaluates the risk from project and framework agreement risks in their effect overall as relevant. On the basis of internal analyses, the likelihood of occurrence is currently assessed as increased, which corresponds to an unchanged estimate compared with the previous year. This is mainly due to project risks that occur and that cannot be completely avoided despite globally established project governance and standardized project management processes.

Lack of adequate personnel

The market for skilled labor remains difficult, particularly for our business activities in Europe and North America. There is therefore an ongoing risk that qualified and motivated personnel will leave the Group. Another risk is posed by the failure to recruit relevant personnel due to increased competition for qualified personnel and demographic change. Because the company relies on technically qualified and motivated employees in many business areas in order to be able to optimally meet the requirements of its customers, the lack of skilled personnel could have a negative impact on customer satisfaction. Insofar as this should affect the regular business and order acquisition, negative effects on the net assets and financial position are possible. It is therefore vital that highly qualified specialist and management personnel are recruited and retained by the company over the long term.

We counter the risk of losing employees with targeted development and incentive systems. This is achieved, among other things, by a thorough annual performance appraisal process, individually tailored training opportunities and performance-related remuneration systems.

Overall, we counter human resources risks that could arise from a lack of young talent, fluctuation, a lack of qualifications or the change in the workforce due to demographic development with a broad range of measures that are described in the non-financial Group declaration in Chapter *B.5.3.2 Employee development and diversity*.

Overall, the situation on the labor market for skilled workers is becoming increasingly difficult, which is why we have raised our assessment of the probability of occurrence by one level compared with the previous year, with the impact remaining relevant.

COVID-19 pandemic

In the reporting year 2021, there was no significant impact on our business activities due to the global COVID-19 pandemic. The emergence of new virus mutations, however, continues to generate increased uncertainty. One example is that COVID-19 protection measures could result in reduced production activities on oil and gas platforms, as well as possible travel restrictions and quarantine obligations. In our view, however, a severe negative economic impact in our target markets is not expected in the coming year. If, contrary to Bilfinger's expectations, significant distortions in business activity were to occur again, this could certainly lead to material effects on the Group's net assets, financial position and results of operations, taking into account the elimination of state compensation funds in particular.

In view of the global dimension and the limited predictability of the pandemic, Bilfinger will continue to monitor the situation very closely and will make every effort to mitigate any negative effects on the Group. These include, in particular, agility measures and comprehensive occupational safety and hygiene concepts for our employees.

Bilfinger currently assumes a relevant impact with a downward tendency. We consider the probability of occurrence to be within the realm of possibility.

Serious HSEQ incident (Health, Safety, Environment 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 health, safety, and environmental protection as well as on the quality of the services provided. The 'Zero Accidents' vision is a fixed component of our safety and corporate culture. At the same time, we urge our employees to strictly comply with our customers' safety requirements, though it is still not possible to prevent all incidents.

Failures in environmental protection or in occupational health and safety that result in a serious incident could lead to adverse effects on our customer relationships through to a 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 by using far-reaching 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 as well as internal audits, they work toward the continued development of quality standards. To ensure this development, our processes and units are externally audited and certified in accordance with the ISO EN 9001, ISO EN 14001 and ISO EN 45001 standards.

With an accident rate of 0.21 per 1,000,000 working hours, lost-day incidents are at an internationally leading level for our industry. Our 2021 global safety campaign "Line of Fire", which raised awareness of the Bilfinger Life Saving Rules among our employees and managers, was also a contributing factor here. In the coming year, we will continue to focus intensively on work content as we continue this global safety campaign and help make ourselves even more successful.

Bilfinger's assessment of the HSEQ risk as one of the most significant Group risks is largely unchanged with a relevant effect on the earnings situation and a simultaneously lower likelihood of occurrence.

Details on HSEQ management at Bilfinger are described in the non-financial Group declaration in Chapters *B.5.3.2 Employee development and diversity*, *B.5.5.1 Customer focus and B.5.5.2 Quality management*.

Insufficient agility

The achievement of our medium-term margin goals requires a significant increase in productivity in both direct and indirect functions. By contrast, market and margin pressure remain high as customers demand that any cost reductions achieved be passed on. Steady increases in inflation also cannot be readily carried over to the customer in full. Newly accepted framework agreements in the Engineering & Maintenance business segment are less profitable due to set-up costs and the initial training necessary for a specific plant in the start phase.

Due to productivity improvements already achieved as well as the leaner organization, Bilfinger assesses the risk in terms of its impact as low and therefore one level lower than in the previous year, while the probability remains within the realm of possibility.

The situation requires constant and careful management of the cost base and regular review of the status quo. Productivity management is initially the responsibility of all those with operational responsibility. To further support achievement of these goals, measures are being intensified within the Group to obtain new personnel resources from alternative sources and to train them thoroughly in central training centers. Transparency regarding key resources is also being increased Group-wide and flexibility is being enhanced.

To ensure an ongoing improvement in operating performance, Bilfinger continues to identify so-called transformation units within the Group that are initially subject to increased monitoring and undergo a comprehensive reorganization program.

IT-related risk

Information is a key component of our business processes and thus represents an important corporate asset that must be protected in an appropriate manner against unauthorized access. The ever-increasing global networking of computer systems, however, makes it increasingly difficult to protect our information from abuse, manipulation, espionage or theft. This is a general trend in the business world and Bilfinger is by no means immune to it. The most serious risk in this regard is posed by hostile attacks on Bilfinger IT systems (so-called cyber attacks), which are becoming increasingly prevalent as a result of increasing digitalization. These cyber attacks can have malicious intent including disrupting processes, attempting to gain access to internal and confidential information or even blackmailing to release data. The result can be significant system failures and disruptions to operational processes.

In addition to these direct attacks on our systems, continued attempts are being made to use IT-supported communication to entice employees to surrender company information or even to pay out funds (known as phishing or spoofing).

We counter the risks in the cyber security environment with a broad package of measures, such as increased monitoring of incoming and outgoing e-mail traffic to prevent malicious e-mails with a cloud-based e-mail gateway. In the event of specific threats, we work together closely with the relevant authorities. The central data centers were migrated to Microsoft Azure and will continue to be subject to ISO 27001 certification. In addition, measures to make network access more stringent are checked by means of regular vulnerability analyses, e.g., through so-called friendly hacking.

To monitor security-relevant events, Bilfinger uses a Security Information and Event Management System (SIEM) which collects all central logs and evaluates them for anomalies. In addition, training requirements have been defined for all employees with IT access to raise awareness with regard to potential risks. In addition, the risk for Bilfinger was partially mitigated through the purchase of cyber security insurance.

In addition to the risks from the cyber security environment mentioned above, risks relating to potential breaches of the European General Data Protection Regulation (GDPR) on the IT side are also significant. Measures to comply with the requirements of the General Data Protection Regulation with regard to the use of personal data in Bilfinger's IT processes that may not have been fully implemented could result in severe penalties if breaches are identified. In order to counteract possible violations, Bilfinger has a uniform Group Data Protection Policy based on the regulations of the European Union's General Data Protection Regulation and on globally accepted principles of data protection law for the processing of personal data from employees, customers, suppliers and other business partners. Compliance with the requirements is monitored by means of regular audits, among other things.

Overall, Bilfinger classifies IT-related risks as having a low impact. We consider the probability of occurrence to be within the realm of possibility.

B.3.2.3 Financial risks

Inadequate focus on working capital / cash management

Bilfinger lists significant working capital positions on the balance sheet, particularly in the area of current and future customer requirements (services that have been provided but not yet invoiced). Furthermore, Bilfinger's business model involves substantial liabilities due to warranty and follow-up costs as well as significant advance payments, particularly from the project business. The involvement of suppliers and external staff that is typical of the business leads to substantial liabilities from trade receivables. This results in Bilfinger normally being in a net position for accounts receivable because the payment due dates for suppliers are often shorter than those of customers, mainly due to temporary staff. This results in an imbalance which typically widens during the year.

With a view to Bilfinger's growth plans, there is a risk that this imbalance continues to increase in the future and that there will arise both an increased need of financing and additional costs to finance this position. Moreover, an active management of working capital can also be identified on the customer side, for example, in the even more restrictive interpretation of requirements for milestones when billing. This can also lead to a further imbalance in relation to receivables and liabilities, with corresponding additional costs for financing.

The mitigation measures focus on a consistent local management of receivables and liabilities, which is formalized in the Group policy on minimum standards in working capital management, to which all employees are bound. This extends comprehensively to the order-to-cash (OtC) and purchase-to-pay (PtP) processes. In addition, the objective of the ongoing comprehensive process and system harmonization within the Group is to contribute to greater transparency with regard to improvement potential and an increased Group-wide exchange of best practices in working capital management. In addition, there has been a Group-wide program at Bilfinger since 2019 to optimize working capital management, including training and awareness measures as well as the definition of specific measures in individual units. Significant improvements in order-to-cash demonstrate the effectiveness of the program, which is why it will be continued in the future.

In addition to working capital, Bilfinger monitors all 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.

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 entail a change in Bilfinger's creditworthiness, particularly from rating agencies and banks, which can lead to more difficult and expensive financing or a more difficult and expensive provision of securities and guarantees. External financing can also result in a worsening of the dynamic gearing ratio that was pledged to be maintained through the financial covenant. 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 an ongoing 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 United States is supported by cross-border cash pooling.

Investment financing is carried out with consideration of matching maturities. To finance working capital, we have a €250 million pre-approved syndicated credit line at attractive conditions that is in place until December 2023. This includes a standard market financial covenant in the form of a limitation of the dynamic gearing ratio adjusted net debt / adjusted EBITDA. The value as of December 31, 2021, is 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 service business with a volume of €906 million are sufficiently dimensioned to accompany the further development of the company. In addition, we have a U.S. surety program in the amount of US$ 750 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.

In addition, Bilfinger has issued a €250 million bond maturing in June 2024 and several promissory note loans totaling €14.5 million maturing in April 2022 and October 2024.

Bilfinger's assessment of the risk from insufficient progress on working capital management / cash management remains unchanged with regard to possible occurrence and an impact classified as low.

For a presentation of the risks we refer to Chapter *C.6.30 Risks related to financial instruments, financial risk management and hedging transactions*. You will also find further information in Chapter *C.6.29 Additional information on financial instruments*.

B.3.2.4 Compliance risks (including legal risks)

Legal disputes and completed legacy projects

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.

In connection with an explosion incident at a gas station in Austria in 2017, the public prosecutor is investigating a Bilfinger company and other involved parties and has now filed charges. The reason for the accident has not yet been determined. In the summer of 2019, an expert commissioned by the public prosecutor's office determined that the gas accident was due to technical defects in the plant for which the relevant Bilfinger company was responsible. Another court-appointed expert basically concurred with this view on causation in the report he submitted in summer 2021. Bilfinger has disputed these findings. The main public hearing started in December 2021. From today's perspective, we expect that in case of a civil law availment by injured parties, we would, if necessary, have sufficient insurance coverage. In individual projects in various countries, clients, subcontractors, public authorities or consortium partners are asserting claims in the mid triple-digit million-euro range against Bilfinger for various reasons. The objects of the disputes are, among other things, the appointment of blame for the causes of construction delays, disruptions to the construction process, defects and disagreements related to the technical features of the plants. It was possible to bring large volume cases to a close in various countries over the course of the 2021 reporting year.

Bilfinger is also asserting claims against customers in various countries for payment of outstanding compensation claims in the mid double-digit million-euro range and sees opportunities in this regard.

Overall, following careful examinations, we can assume that sufficient provisions have been recognized in the balance sheet for all ongoing disputes and partially with counter-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.

Due to the positive developments, Bilfinger assesses the risk from legal disputes and legacy projects as relevant and therefore one level lower than in the prior year, with a simultaneous limited likelihood of occurrence.

B.3.3 General assessment of the risk situation

The evaluation of overall risk is the result of a consolidated consideration of all significant individual risks. Bilfinger expects that the general risk situation of the Group in reporting year 2021 did not change significantly as compared with the previous year.

The pandemic-related recession in the global economy was followed this year by a worldwide economic upturn, during which the price of oil also rose again due to demand – in some cases even exceeding pre-crisis levels – which benefited our business in the oil & gas sector in particular.

The challenges associated with the COVID-19 pandemic continue to be an issue that should not be underestimated, although Bilfinger does not currently expect any major setbacks. Furthermore, Bilfinger was able to successfully conclude another major legal case in the fall of this year without incurring any financial losses. At the same time, it is becoming apparent in some units that risks in project execution can still have an impact as can an increasing scarcity of personnel resources. The inflationary trends currently being observed could also have a negative impact on our business if customers become more reluctant to award projects due to higher costs.

Overall, however, Bilfinger is convinced that the existing risks are sustainable for the Group as a result of the instruments put in place to manage them.

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 occur, the possibility that they would have an impact on the development of our sales or earnings cannot be ruled out. 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 Opportunity management

B.3.4.1 Principles, identification, evaluation and control

We understand opportunities as potential positive deviations from our planning. Their occurrence may have additional positive impacts on our net assets and financial position.

In its dynamic competitive environment, Bilfinger is presented with opportunities, both externally through new customer requirements, market structures or legal framework conditions, and internally through new services, innovations, quality improvements and competitive differentiation.

Opportunities are identified by Bilfinger's employees and management in the course of their daily processes and market observations. In addition, a strategic planning process at regular intervals supports a fundamental annual analysis of the opportunities presented to us.

In the overall context of the company, opportunities that are considered advantageous to Bilfinger's development and, with it, to the interests of shareholders, should be – where it makes financial sense – encouraged and realized using targeted measures. These are managed by established planning and forecasting processes as well as by projects.

B.3.5 Significant opportunities

Significant opportunities for Bilfinger that are established on the basis of the described method are present in the following areas:

1 Opportunities from tax matters
2 Advantageous market developments
3 Digitalization and business development
4 Positive outcomes of pending legal cases and disputes
5 Effective project and contract execution
6 Optimization of personnel availability and costs
7 Compliance and safety culture as a positive differentiation feature
8 Portfolio rotation (value contribution through the purchase and sale of companies and shares in companies)
9 Accelerated implementation of productivity measures
10 Growth opportunities in sustainability areas

Like risks, the opportunities described below fall under the four core areas of the COSO framework and generally relate to the entire Group. Segment-specific opportunities are declared as such.

B.3.5.1 Strategic opportunities

Advantageous market developments

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.

A substantial and sustainable increase in global market prices for fossil fuels beyond the level that we assume in our strategic planning would, due to our substantial activities in this segment, likely have additional positive effects on our business operations. An oil price that, over a longer term, is above the profitability threshold of the respective extraction technologies used would revive the investing activities of our customers. This would primarily impact the maintenance and investment budgets in the Norwegian, British and U.S. oil and gas sectors.

An additional revival of demand in the area of nuclear energy as a result of targets on the reduction of CO_2 emissions could also open further earnings potentials in selected national markets.

Bilfinger considers additional opportunities in this area to be relevant, which is one level lower than the previous year’s assessment. This is, however, against the background that additional positive market developments and additional growth opportunities in sustainable areas have been reported separately since this year. We continue to assess the probability of occurrence of favorable market developments as low compared with the previous year.

Portfolio rotation (value contribution through the sale of companies and shares in companies)

Operating units that are active outside the defined business segments, regions or industries are allocated to the Other Operations segment. These units are not part of the strategic positioning of the Group. Units with a positive earnings contribution are initially managed independently for value until a suitable owner has been found.

In the case of the selling of these companies or for other strategic considerations, cash inflows can have an additional positive effect on the liquidity of the Group and can be put to use for the expansion of growth areas (portfolio rotation). With only two units remaining in this group as of December 31, 2021, the impact of the opportunity is still considered low, with a low likelihood of occurrence. Should it come to a sale with proceeds below the current carrying amount, this would even be associated with a corresponding disposal loss. At the same time, the proceeds from the sale of the preferred participation note to Apleona and the current financial position, as communicated, allow for acquisitions in the amount of several hundred million euros. Should the purchase price be significantly lower than the value contribution of the asset, on a stand-alone basis or due to synergies, this could have a positive impact on our net assets, financial position and results of operations.

Growth opportunities in sustainability areas

Bilfinger has a comprehensive portfolio of products and services to help its industrial customers achieve their sustainability objectives and to meet climate-protection targets.

We provide support through services in hydroelectric power and district heating, and in innovative areas including the production of (green) hydrogen, carbon capture, utilization and storage (CCUS), battery production or energy efficiency. In this context, Bilfinger is constantly developing its capabilities so that it can better serve its customers along the entire value chain. A major part of the growth opportunities in sustainability areas is already included in our planning, which is why we assess additional opportunities beyond the planning as low, with a simultaneously low probability of occurrence.

B.3.5.2 Operational opportunities

Digitalization and business development

The digitalization of processes in our customer industries is being driven forward with a high degree of commitment under the keyword ‘Industry 4.0’. We see ourselves as a full service provider for the process industry in the development and ongoing enhancement of existing and new digital solutions. We act as a liaison between industrial companies and pure IT providers. We want to actively shape the transformation and, among other things, to contribute to enabling digitally networked production, even for medium-sized companies. To this end, we have established a competence center and make targeted investments in this area (see Chapter *B.2.7 Innovation (research and development report).* Furthermore, the Global Development Organization was established as part of an organizational adjustment at the beginning of the 2020 financial year. This organization reports directly to Bilfinger’s Chief Operating Officer and coordinates Group-wide business development programs related to both new products and the greater integration of services across organizational boundaries. In the course of these efforts, the digital competence center was placed under the control of the Global Development Organization. The objective is to more aggressively market Bilfinger’s existing innovative products.

An accelerated customer demand for our digital solutions that goes beyond our underlying planning can, along with an additional boost in growth, also lead to a business that can more easily be scaled and thus to the use of economies of scale. Both can have a significant positive impact on Bilfinger’s financial position. The perspective of opportunities that go beyond planning in this regard includes relevant effects with a limited likelihood of occurrence.

Effective project and contract execution

Supplementary earnings opportunities arise from constant improvement of project execution and the identification of additional potential contracts resulting from this. The realization of these potentials relies on the nearly optimal application of project management processes and instruments, which are also used in the mitigation of project risks. This also requires a profound understanding of the underlying contracts in each case. Bilfinger therefore utilizes professional project managers with comprehensive experience and training. Bilfinger continues to assess the likelihood of this opportunity occurring within the realm of possibility, while the impact, compared with the previous reporting period, is one level lower and therefore considered low.

Optimization of personnel availability and costs

A positive deviation from the underlying planning on the availability of cost-efficient personnel resources presents an opportunity for Bilfinger. In particular, the possibilities here are in a more effective integration of qualified suppliers and subcontractors as well as in a moderate development of labor and incidental wage costs in our focus regions. There are also additional modern methods for personnel deployment as part of a better process and system landscape, among other things, with regard to an even more effective administration of necessary training. Current measures to further optimize personnel availability include the development of new source markets and training at central training centers, thus creating additional opportunities. Generally speaking, however, the potential positive effects are considered low and thus unchanged compared with the previous year. The likelihood of occurrence also remains within the realm of possibility.

Accelerated implementation of productivity measures

The achievement of our medium-term margin goals depends on a substantial increase in productivity in all areas of the Group. To this end, Bilfinger implemented significant further measures in the prior year, also as a result of the COVID-19 pandemic, to make personnel resources in particular more flexible. The Group also benefits from our internal Global Excellence Team, which is responsible Group-wide for the establishment and implementation of additional productivity-enhancing measures.

Moreover, in the coming 12-18 months, more employee training on operational excellence and lean management will be carried out in order to firmly establish the concept of ‘lean’ in the organization and culture. We expect the improvement measures that have been initiated to take effect and to contain relevant potential opportunities, but these have already been incorporated to a significant extent in our medium-term planning.

Bilfinger continues to assess the probability of realizing relevant opportunities beyond this as very low. If the measures can be implemented more quickly or effectively, this would generate additional finance and earnings potentials for Bilfinger.

B.3.5.3 Financial opportunities

Opportunities from tax matters

In the Bilfinger Group there are substantial tax-loss carryforwards for which no deferred taxes have been capitalized because the conditions pursuant to IFRS are not currently given. The majority of these loss carryforwards is attributable to the German tax group of Bilfinger SE. Despite the positive taxable income of Bilfinger SE in 2021, no loss carryforwards have yet been capitalized as the results are to a significant extent attributable to one-time items. In the event of a further increase in profitability in the operating companies, non-capitalized loss carryforwards could be utilized, thus improving the Group's financial and earnings planning beyond the current planning.

Further opportunities from appeals against tax assessments following tax audits were realized in 2021, as key aspects of the appeals were upheld. These effects led to an improvement in the financial position, net assets and results of operations of the Bilfinger Group. Approximately two-thirds of the expected income has also already been recognized. Further opportunities still exist in a change in the valuation of the interest position.

With regard to the outstanding issues, the appeal proceedings are suspended until the highest court decides on these legal questions. These additional effects have a much smaller material scope. The prospects of success are in some cases good and in others considered to be rather low. Overall, Bilfinger estimates the additional expected effects from tax matters to be low, with an increased probability of occurrence.

B.3.5.4 Compliance opportunities

Positive outcomes for pending legal cases and disputes

Bilfinger's business activities occasionally lead to disputes with customers concerning the appropriateness of certain requirements. There are relevant balance-sheet provisions in place for Bilfinger's current expectations. Should the processes end more favorably than currently expected, this would, in some instances, provide significant potentials for our net assets and financial position. Here we see opportunities primarily in our European units.

In addition, Bilfinger is asserting claims against customers in various countries for payment of outstanding compensation claims in a combined double-digit million amount. If these claims can be asserted, this would also have a positive effect on the Group's net assets and financial position.

Overall, the opportunity from pending legal cases and disputes is seen as having a low effect and a possible probability of occurrence.

Compliance and safety culture as a positive differentiation feature

Our customers place a greater focus on compliance and HSEQ performance when choosing their partners. In light of the measures for optimization of integrity and HSEQ culture described in Chapter *B.5.2.2 Counteracting corruption and bribery,* Bilfinger rigorously meets these requirements and can gain an important positive differentiation feature in the competitive environment. This is proven by the contracts awarded to Bilfinger, for which the compliance system was an important factor in the customer's decision. This trend opens up additional growth and earnings potential for us. The opportunity from this is still considered small in terms of its effect. This also applies to the probability of occurrence.

B.3.6 General assessment of the opportunities situation

Our current planning for 2022 and beyond already provides for a substantial improvement in the Group's net assets, financial position and results of operations through the realization of possible opportunities, meaning that further opportunities beyond this planning tend to be limited.

Compared with the prior year, Bilfinger's overall opportunity situation has weakened somewhat because relevant elements of the opportunities have already been realized, in particular with the sale of the preferred participation note to Apleona. Inflows from the sale as well as the current financial situation do, however, offer the opportunity for potential acquisitions, which in turn could generate positive value added for the Group. As a result of the economic upturn, the oil price has also risen sharply recently and was quoted above the pre-crisis level, which has benefited our oil & gas business. In addition, Bilfinger offers a comprehensive portfolio of services and products in sustainability areas, which is why we also see potential for additional growth here.

Irrespective of this, Bilfinger continues to work on the ongoing development of its opportunities portfolio, including through the established BTOP platform.

B.3.7 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.

Accounting process

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 on a quarterly basis or, when necessary, also ad hoc.

The financial statements provided by Bilfinger SE and its subsidiaries form the data basis for the preparation of our consolidated financial statements. Accounting at 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, implemented process controls as well as a clear definition of areas of responsibility. The accounting process is also supported by quality assurance control and monitoring mechanisms (for example plausibility controls, the dual control principle, audits performed by Corporate Compliance / Corporate Internal Control Systems (ICS) as well as Corporate Internal Audit & Investigations), which aim to expose and prevent risks and errors.

Internal control and risk management system

Taking into account legal requirements and customary industry standards, Bilfinger has established a Group-wide internal control system (ICS) for the identification and mitigation of potential risks. This system is continuously expanded and developed. The internal control system 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 tasks and functions, four-eyes principle or lawful access regulations in the IT systems will be ensured for the accounting and consolidation process. The ICS at the Bilfinger Group for both the companies included and for the consolidation is based on the COSO standard 2017.

The basic structure of the ICS 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 companies as well as the consolidation. The key risks have been identified for these business processes and necessary correlating controls are defined within the framework of a risk control matrix. This structure represents the Group-wide binding ICS standard.

The internal control and risk management system designed and implemented 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 on a regular basis for completeness and accuracy. 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 regularly reviewed by Corporate Compliance / Corporate Internal Control System (ICS).
- On the basis of the reports received from the external auditors and from Corporate Compliance / Corporate Internal Control System (ICS), the Supervisory Board, through its Audit Committee, reviews the functionality of the internal control and risk management system as relates to the accounting process.

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

The effectiveness of the internal control system is monitored through annual effectiveness checks (tests). The tests are carried out by Corporate Compliance / Corporate Internal Control System (ICS) and by the units themselves (control self-assessments). By means of regular training measures, it is ensured that all those involved in the internal control system have current and valid information available. 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.

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 such as the inappropriate exercise of assessment latitude as well as violations against standards and regulations. The requirement of a conceptual framework and the establishment of quality-assuring control and monitoring mechanisms in particular serve to limit risks that exist with regard to the Group accounting processes. Given their inherent limitations, however, internal controls cannot completely prevent potential errors in the Group accounting process and do not provide absolute certainty with regard to the achievement of control objectives.

B.4 Outlook

B.4.1 Economy as a whole

Recent high infection rates led to renewed restrictions for contact-intensive service industries including tourism and hospitality in Europe and the U.S. as 2021 drew to a close. With setbacks in the fight against the COVID-19 pandemic, economic risks have begun to intensify again. The euro zone and the USA can both expect real economic growth of just over 4 percent in 2022 (DG ECFIN, p. 154). This development is conditional, however, on the COVID-19 pandemic remaining under control, also with regard to new virus mutations, and on the current supply bottlenecks and disruptions in global logistics gradually easing. In this case, growth momentum may be supported by continued strong business investment and catch-up effects. In Europe, the start-up of project financing from the EU reconstruction plan is providing growth impetus through additional investment in digital infrastructure and the energy transition. One risk to the economic outlook is the development of inflation: If inflationary pressure proves to be unexpectedly persistent, the European Central Bank could be forced to scale back its monetary policy support for the recovery through its securities purchases and zero interest rate policy earlier than expected. The development of the oil price will be heavily dependent on global economic developments. The price of oil is likely to be stable in the scenario of a further broad-based recovery of the global economy, but more volatile again in the event of economic setbacks.

Engineering & Maintenance Europe

The European industrial services market will experience further structural growth impetus in the coming years from the ambitious climate policy under the European Green Deal. The new tighter European and national emission reduction targets, combined with further increases in CO_2 prices, will lead to significant investment in the decarbonization of European industry. Industry will invest extensively in energy efficiency improvements, distributed generation and innovative carbon capture and storage processes. The chemical & petrochemical sector is expected to grow +1.5 percent in Europe in 2022 (VCI Business Worldwide).

A key role in the industry’s gradual phase-out of fossil energy will be played by the production and use of climate-neutral hydrogen. The EU and its member states are providing considerable support for the development of a European hydrogen value chain through the European Hydrogen Strategy and national funding instruments. In addition to the US$ 37 billion in public funding already committed internationally, announced private sector investments total US$ 300 billion (FAZ). In the EU, there are already more than 400 funding projects in 18 countries (BMWI IPCEI). These projects relate to the production of hydrogen, the infrastructure from transport to storage and the applications in industry and mobility. In Germany, the new federal government has set itself the goal of making the country the lead market for hydrogen technologies. More than 60 major projects have been selected for funding under the national hydrogen strategy (BMWI IPCEI). In this transformation process, there is increasing demand from industry for integrated services to create the hydrogen infrastructure on site and to adapt plants and processes to the new energy carrier. Industrial service providers are increasingly becoming industry’s transformation partners here.

Another trend in the context of the Green Deal with high potential for European industrial services relates to electromobility and the surge in demand for batteries. Extensive investments in new European battery factories have started, and even more are at the planning stage. A total of 40 projects have been announced for the next 10 years, 17 of them – with a total investment of €25.5 billion – already have a concrete financing concept (Handelsblatt Elektromobilität). The EU and its member states are promoting these investments in order to reduce dependence on the import of batteries from Asia. Not least, recent experience with the possible unreliability of global supply chains has increased the willingness of policymakers and industry to secure sufficient production capacity for strategically important products at European locations (Lün, p. 46).

In view of these very positive long-term demand-side trends and the high level of technical expertise required, the shortage of skilled workers will increasingly prove to be a restricting factor for growth opportunities in the European services market. In industry surveys, the lack of qualified personnel is ranked first as the most important obstacle to business development in the medium term, ahead of other limiting factors such as growing price and competitive pressure (Lün, p. 37).

United Kingdom

Due to the low level of exploration activity in recent years, a further decline in oil and gas production in the UK production fields is inevitable. For oil production, the UK Oil & Gas Authority expects crude oil production to decline by 25 percent and gas production to decline by 15 percent in the years from 2021 to 2025 (UK Oil&Gas PEP). However, if oil prices remain stable, exploration activities are expected to pick up again slightly. In the short term, the business will also benefit from catch-up effects. For example, projects to decommission production facilities that were postponed during the COVID-19 pandemic are gradually being caught up. In addition, expenditures to extend the service life of existing plants in particular are expected to increase. A permanently growing role will be played by carbon capture and storage projects, with which the oil industry aims to contribute to climate neutrality in the UK.

The country is already the world's largest offshore wind power producer with its capacity of 10 gigawatts. This capacity is expected to quadruple by 2030 (OGUK Business Outlook). With investment recently hampered by supply bottlenecks and input price increases, demand for inspection and maintenance is expected to rise in light of high public and private investment.

Scandinavia

On the Norwegian Shelf, oil and gas production is still expected to increase slightly until 2025, after which it is forecast to decline gradually (Norwegian Petroleum). Although the new government, which took office in 2021, intends to continue to allow new developments of production fields in the oil industry, the energy policy focus is on an expansion of offshore wind energy and on the further development of green hydrogen production (Reuters, Windpower).

Chemical and petrochemical industries in Scandinavia are benefiting from a sharp increase in the willingness on the part of the companies there to invest, with a focus on petrochemicals, battery chemistry and the hydrogen economy (GTAI Norway). Significantly lower electricity prices than in Western Europe are boosting development in addition to the expected global recovery of the chemical markets.

Belgium / the Netherlands

Belgian pharmaceutical sites play a key role in the European production of COVID-19 vaccines and will consequently also benefit substantially from the associated ongoing upswing in the biopharma sector. The Belgian government presented its hydrogen strategy in the fall of 2021, according to which it will further expand the country's European role in hydrogen technology and develop the infrastructure for the necessary hydrogen imports (Allan & Overy).

The chemical industry, together with the pharmaceutical sector, will remain Belgium's industrial backbone. In 2022, this significant chemical hub, with its excellent integration into global chemical logistics, is expected to benefit strongly from the anticipated global recovery of customer industries. Future growth is also backed by substantial investments currently underway in propylene and ethylene production capacity in the Antwerp cluster (GTAI Belgium).

The Netherlands expects to gain a particular advantage from the know-how and infrastructure of the existing gas industry when switching to green hydrogen. This infrastructure offers potential for conversion to hydrogen, which will require significant investment on the part of the industry (GTAI Netherlands Hydrogen).

Dutch chemical companies' expectations for 2022 are optimistic, despite supply chain issues. 40 percent of chemical companies expect sales to increase, with only 3 percent expecting a decline in sales (GTAI Netherlands Industry Check).

Germany

Higher growth rates are also expected for the German market for outsourced industrial services in the coming years than in previous years, which were still strongly characterized by the loss of importance of the fossil power plant market. Partly as a result of the catch-up effects following the COVID-19 recession, the services sector is expecting strong revenue growth of 11 percent in 2022 and then further strong growth rates of 8 percent in subsequent years (Lün, p. 13). The climate policy of the new German government is expected to provide additional impetus. Under the coalition agreement, the new federal government will make the expansion of renewable energies a central project of its work. Offshore wind energy in the North Sea and Baltic Sea is to be expanded to a capacity of at least 70 gigawatts by 2045 (Coalition Agreement). The expansion of modern gas-fired power plants to safeguard the energy turnaround is to be accelerated, and these are to be convertible to climate-neutral gases at a later date. The import and transport infrastructure for green hydrogen will be expanded. Although the deadline for the phase-out of coal-fired power generation has not yet been set as binding, according to the coalition agreement, the phase-out should "ideally" be brought forward to 2030 (Coalition Agreement, p. 5). With the exception of the business associated with the indispensable flexible gas-fired power plants, the service market for fossil-fired power plants in Germany will thus finally become a phase-out model.

The German chemical and pharmaceutical industry is concerned that production will continue to be hampered by a lack of upstream products and disruptions to global logistics until at least the summer of 2022. The industry is also concerned about the very sharp price increases for electricity and gas, which can only be passed on to customers with a delay and not in full. Nevertheless, in view of the good order situation, the industry association VCI expects production to increase by 2 percent and sales by 5 percent in 2022 (VCI balance sheet).

Austria / Switzerland

The chemical and pharmaceutical locations in Switzerland and Austria continue to have high potential in the coming years due to high productivity and innovative capacity.

The 2021 breakdown of negotiations between Switzerland and the EU on a comprehensive framework agreement could hinder the integration of Swiss industry into the EU internal market in the coming years (BAK). It is true that the existing bilateral agreements currently still provide a good basis for largely smooth trade in the single market. However, without a contractual follow-up solution, there would no longer be continuous alignment with changing EU standards. This would create increasing obstacles for exports and imports by Swiss industry. However, further negotiations are to be expected here because both sides have a strong interest in a pragmatic solution.

The Austrian chemical industry, almost two-thirds of whose exports go to the EU's internal market (CEFIC), will benefit strongly from the expected industry recovery in Europe due to this interdependence. However, high energy costs and problems in the supply chains also remain key challenges for the medium-sized Austrian chemical industry in 2022.

Poland

Poland's chemical industry plans to expand its already significant investment activity by 15 percent in 2022 (GTAI Poland supply bottlenecks). Extensive investments continue to take place in both chemicals and petrochemicals. However, supply bottlenecks for important components, a shortage of skilled workers and high energy costs are hampering investment activity. Important EU-funded support programs in the area of infrastructure development and energy transformation could be delayed due to the conflict between the Polish government and the EU over the rule of law. If the country were to permanently lose parts of the promised high payments from the regular EU budget and the EU's COVID-19 reconstruction plan, this would lead to a clouding of investment dynamics in the country (GTAI Poland EU membership).

Engineering & Maintenance International

North America

Chemicals and petrochemicals are expected to expand robustly in the USA in 2022 with growth of 5 percent (VCI Business Worldwide). The expected positive development will be favored by the abundant availability of energy at prices that are competitive by international standards. In addition, the extensive economic stimulus programs that have been launched are leading to substantial additional demand in the construction chemicals sector. In addition, as in Europe, significant investments in battery factories are taking place due to the turn toward electromobility, with a growing demand for battery chemicals (GTAI US Chemie).

Although recovering oil and gas prices are leading to a short-term stabilization of investments in the oil and gas sector, the longer-term outlook for the sector is uncertain given the country's climate policy objectives (GTAI Oil and Gas Fracking). On the financing side, growing investor reluctance to finance fossil activities is weakening future development opportunities. On the path to reducing emissions, industry investment is increasing for the capture and industrial use of associated gases from extraction. In addition, the volume of projects for carbon storage in former oil and gas reservoirs is growing.

Middle East

The region's population growth is accompanied by a continued sharp rise in demand for electricity. This is creating stable demand for services to upgrade and build new power plants. The strategic objective of oil producers in the Gulf to reduce their one-sided dependence on oil revenues is accompanied by extensive investment in the expansion of downstream industries, the use of renewable energy sources and nuclear power. Among fossil fuels, the region's producers will rely more heavily on gas in the future and will be extensively expanding their export infrastructure for liquefied natural gas.

Technologies

In France, the United Kingdom, Finland and some Eastern European countries, the construction of new nuclear power plants is part of national energy strategies on the road to climate neutrality. These investments and the ongoing work to modernize and extend the operating lives of existing nuclear plants will result in a stable market for services in the coming years.

In the German market, demand for dismantling services for nuclear power plants will continue to rise in the coming years. At the end of 2021, the Grohnde, Gundremmingen C and Brokdorf nuclear power plants will be decommissioned. The three newest German plants, Isar 2, Emsland and Neckarwestheim 2, will be shut down by the end of 2022 at the latest (German government). In view of the long periods required for the decommissioning of a nuclear power plant, this means that the development of this market is predictably stable over a time horizon of more than a decade. The current provisions of power plant operators for dismantling amount to €21.6 billion (year-end 2020). Of this amount, €5.5 billion is earmarked for actual dismantling and €7.6 billion for residual material processing and packaging (German Bundestag). These figures provide reliable indications of the importance of this market segment to be expected in the coming years.

The biopharma industry is likely to experience a further boost thanks to its successes in the COVID-19 pandemic. Not only has the willingness of venture capitalists to finance innovative methods grown strongly. Even more, digitization and innovative new trial methods have greatly increased the speed of clinical trials (Evaluate, p. 4). These learning effects will shorten the time to approval of innovative drugs.

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B.4.2 Assumptions

COVID-19 pandemic

The pandemic continues to generate an increased level of uncertainty throughout the world. Our outlook, however, is based on the assumption that it will not have a material impact on our business activities in the course of financial year 2022. More detailed information can be found in Chapter *B.3 Risks and opportunities report* as well as in Chapter *C.6.15.1 Goodwill*.

Russia-Ukraine conflict

After the end of the reporting year, Russia launched an attack on Ukraine. Bilfinger's business activities in Russia and Ukraine are very limited and the conflict therefore has no significant direct impact on the Group's economic situation. It is, however, currently not possible to assess the short and medium-term consequences of the conflict, in particular regarding its length and any potential sanctions or further escalations, which means that uncertainties exist with regard to further developments.

Oil price

We expect the oil price to fluctuate between US$ 60 and US$ 80 per barrel in 2022.

Competitive situation

We continue to expect intense competition in our business segments. In addition to its direct impact on the macroeconomic environment, the COVID-19 pandemic has also led to growing price sensitivity on the part of our customers. This is already included in our planning, and we are countering it with the cost-cutting and efficiency-enhancing measures described above. In consultation with our customers, we identify potential savings to relieve the pressure on their overall budgets.

Currency effects

We are subject to currency translation effects, primarily with regard to the U.S. dollar including the currencies influenced by the dollar in the Middle East, as well as with regard to the British pound, the Norwegian krone, the Polish zloty and the South African rand. Our planning is based on the assumption that the exchange rates will be within the range of the average level from 2020.

Brexit

In addition to possible impacts on currency developments and overall economic demand, Brexit does not have any significant specific risks for our business because value creation in the United Kingdom takes place nearly entirely within the country itself. No significant impact is expected on the major Hinkley Point C project, either.

Inflation

Bilfinger expects moderate cost increases in the medium term which can be passed on at least in part to customers, in particular with regard to wage developments in the main markets.

B.4.3 Expected business development in 2022

Based on the assumptions above, we expect business to develop as follows in financial year 2022:

OUTLOOK 2022	Initial situation financial year 2021	Outlook financial year 2022
Revenue	€3,737.4 million	significant growth
EBITA	€121.2 million	significant operational improvement
EBITA margin	3.2%	significant operational improvement
Free cash flow	€114.7 million	at prior-year level

The positive development of revenue and earnings is expected to continue in 2022. It is anticipated that Bilfinger's growth will be accompanied by further earnings improvements in all three segments. We now measure this on the basis of EBITA and the EBITA margin, and no longer – as was the case in the reporting year – on the basis of adjusted figures, a clear indication that the transformation and restructuring phases have now been completed.

Revenue

For 2022, the Bilfinger Group expects significant revenue growth (2021: €3,737.4 million).

In the Engineering & Maintenance Europe segment, revenue (2021: €2,517.7 million) will grow slightly following a strong recovery in the reporting year, with growth potential limited by the personnel resources that are currently available, particularly in Germany, Belgium/Netherlands and Poland.

By contrast, Engineering & Maintenance International (2021: €553.3 million) is expected to achieve significant revenue growth from a very low level. Key factors here will be the progress in implementing the strategy to expand both the service business as well as the continued focus on smaller and medium-size projects.

At Technologies, a significant increase in revenue (2021: €559.9 million) is also expected due to the high order backlog and continued strong development of the nuclear power and biopharma markets.

In Other Operations (2021: €167.2 million), revenue is expected to be significantly below the level of the previous year due to deconsolidation effects.

Order backlog as of December 31, 2021, amounted to €2,946.3 million for the Group. We expect that most of this amount will translate into revenue in 2022.

EBITA

The special items required in the past for transforming the Group will no longer be incurred in a significant amount from 2022 as these processes were largely completed in 2021. Bilfinger is therefore now focusing on reported EBITA as the key earnings indicator. Here, the Group expects a significant increase (2021: €121.2 million). The absence of restructuring charges will also significantly increase the EBITA margin. In this context, the gains from the disposal of property and real estate incurred in the reporting year will be offset by improved operating results in 2022.

For Engineering & Maintenance Europe (2021: €115.5 million), Bilfinger anticipates a stable operating performance. Overall, the segment's EBITA margin will improve significantly due to the fact that restructuring expenses will no longer be incurred in 2022. At Engineering & Maintenance International (2021: -€17.6 million), EBITA is anticipated to increase significantly to at least break-even due to higher capacity utilization. A further significant improvement in EBITA is also expected at Technologies (2021: €19.2 million).

For the items summarized in the Reconciliation Group (2021: €4.1 million), we expect EBITA in 2022 to be significantly lower than in the reporting year, when it was strongly impacted by gains on real estate and property disposals. Excluding this effect, a generally stable level is expected.

Net profit

As with EBITA, the reported figure for net profit will also be regarded as the primary measure from financial year 2022. Due to a financial result without positive special items and a normalized tax rate, it will be significantly lower than the figure for the reporting year (2021: €129.5 million) despite improved EBITA.

Return on capital employed

In 2022, we expect a slightly lower return on capital employed after taxes despite significantly improved EBITA, because the figure in the reporting year (2021: 7.4 percent) was positively influenced by special items from taxes.

Free cash flow

We anticipate free cash flow in 2022 to be at the good level of the reporting year (2021: €114.7 million), which was influenced by positive cash inflows from real estate disposals and tax refunds. This will be offset by increased operating cash flows in 2022.

Investments in property, plant and equipment

We expect investments in property, plant and equipment to be slightly above the sustainable level of 1.5 percent of sales in 2022 due to investments undertaken to support growth.

Financing

We have a syndicated cash credit line of €250 million available which is due in December 2023. We expect that the limit defined in the loan agreement for the financial covenant (dynamic gearing ratio = adjusted net debt / adjusted EBITDA) will be maintained at all times.

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

In financial year 2022, we expect a positive development of the Bilfinger Group, although increased inflation and the lack of availability of skilled workers pose particular challenges in individual markets. We generally assume that the competitive situation will remain intense. In financial year 2021, Bilfinger clearly demonstrated that the company is very well positioned, particularly in Europe, to continue growing profitably.

At the same time, in 2021 we managed to successfully conclude measures that had originally been planned for the longer term. Not least among these were the finalized harmonization of Group-wide ERP systems, a further reduction in the number of legal entities and the disposal of a further unit in Other Operations.

It is thus wholly consistent to formulate the earnings forecast for the coming year 2022 on the basis of the key performance indicators EBITA and EBITA margin, and no longer – as was the case in the reporting year – on the basis of adjusted figures, a clear indication that the transformation and restructuring phases have now been completed. This puts us in a strong position to achieve our targets for financial year 2022 – to significantly grow revenue in the financial year while at the same time significantly improving the EBITA margin at operating level.

In addition to higher profitability, we will also continue to focus our attention on sustainably increasing our free cash flow. The measures initiated to further reduce costs and improve cash flow generation will be important factors when it comes to achieving our medium-term targets.