

## Risk report

With its risk management system, Bilfinger Berger promotes awareness of risks at all management levels and with all employees. The system is an integral component of the management processes and helps to avoid risks wherever this is possible, or at least to identify risks at an early stage and to avert any resulting dangers for the Company. We have therefore taken all precautions to ensure that the Group achieves its goals.

Risk management at Bilfinger Berger is a continuous and decentralized process, which is monitored and controlled from headquarters. The elements of the system are strategic business planning combined with a detailed reporting system that is always up to date, an early-warning system, and an internal monitoring system.

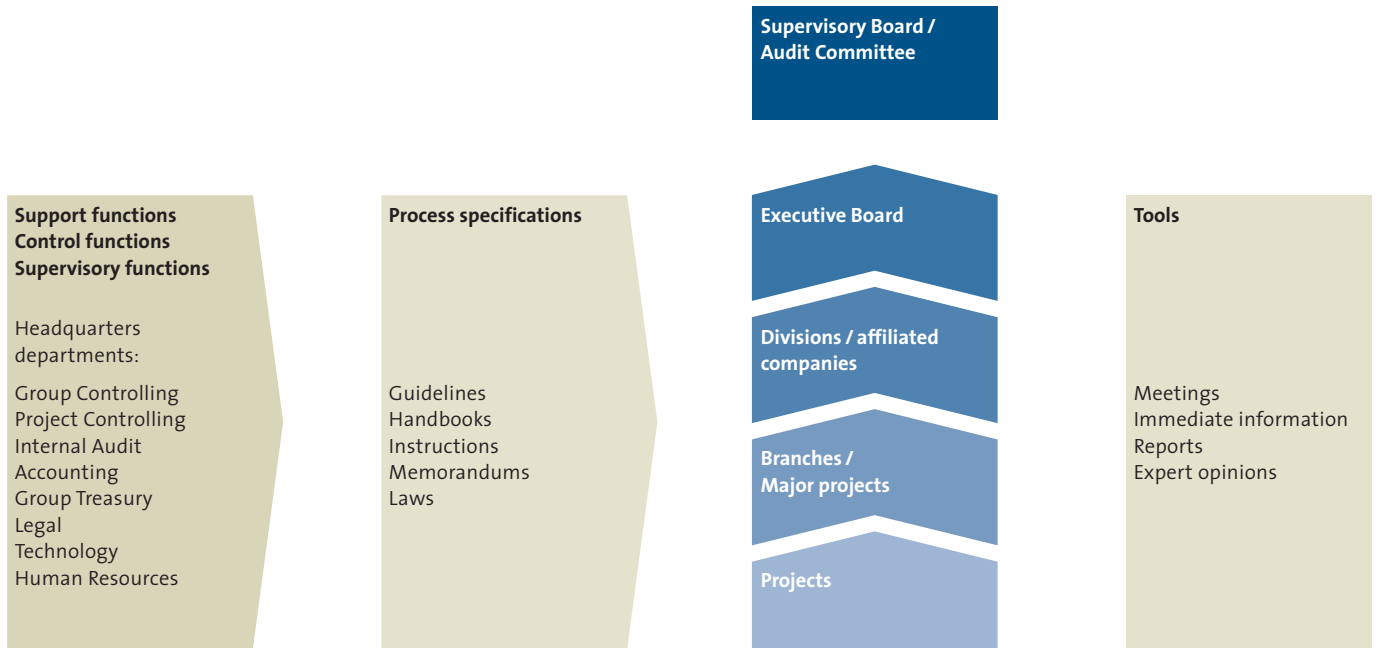
Each year, the Group sets new targets for monthly reporting for all the units and subsidiaries of the Group. The monthly reporting system informs the Executive Board and the management about the current economic situation. The actual situation and the targets set are analyzed at all levels. Using defined marginal values and deviation parameters, relevant risks are identified, monitored and limited in their effects by taking suitable measures.

Headquarters are also responsible for additional controlling functions. For example, orders with large volumes or special risks can only be accepted if they are expressly approved by the Executive Board. Such projects are critically monitored from the offer stage through to completion – both technically and financially – by the Project Controlling corporate function. The Executive Board is informed of the results. The Executive Board decides on financing, internal credit lines and guarantees, whereby it receives significant support from Group Treasury. In addition, Internal Auditing examines the effectiveness of all working routines and process sequences.

The corporate functions of Group Controlling, Project Controlling, Internal Auditing and Legal report regularly and comprehensively on possible risks from their respective specialist perspectives directly to the Executive Board and the Audit Committee in rotation. In addition to the monthly review of performance indicators, Group Controlling is responsible for the active controlling of subsidiaries and associated companies. Whereas Project Controlling carries out independent monitoring of project processing, Internal Auditing carries out audits at the level of the operating units. The Legal corporate function reviews project risks pertaining to contract law and takes the lead in connection with any litigation.

All of the processes and approval procedures stipulated by law, the Executive Board or the corporate functions are documented in manuals and working instructions, and are available in up-to-date form on the intranet to the workforce throughout the Group. Our controlling and monitoring instruments are combined into a holistic system that is subject to continuous further development. The risk-management system at Bilfinger Berger is appraised by our external auditors, whose suggestions are made use of.

**Interaction of elements in the risk-management process**



**Market risks**

Macroeconomic developments in our national and international markets and any special changes in our sectors are taken into consideration under the heading of market risks. We regularly analyze how countries' economies are developing and whether we are competitive in our business segments. We are actively involved in advisory committees and panels to ensure that the economic effects of new legislation, ordinances and regulations are considered in good time.

**Country risks**

Country risks include uncertainties arising from political developments in our various markets. In order to minimize such risks, we only operate in certain countries. Our activities in Nigeria continue to progress in an orderly manner despite the tense security situation in the Niger Delta. We have adjusted the protective measures for our employees in the affected regions to the current situation. Precautions have been taken against latent risks. We therefore see no country risks with a relevance to earnings.

### Project risks

Risks from our operating business are counteracted with comprehensive and clearly structured project controlling. This includes the selection of projects, the subsequent bid preparation, execution and the processing of any guarantee claims. All important contracts are subjected to detailed commercial and legal examination before being signed. In addition, technical aspects are analyzed separately by experts. Projects above a certain volume or with a high degree of complexity are additionally monitored by a headquarters unit with clearly defined regulations in each phase of the business, so that any required measures can be taken in good time. In the year 2006, 85 major projects were under special observation. With complex projects in the build-operate-transfer business (BOT), we make use of the expertise available throughout the Group to assess costs and risks reliably.

### Process risks

We strive to avoid legal disputes wherever this is possible. However, this goal cannot always be achieved, with the result that German and international companies of the Group are sometimes involved in litigation or arbitration. It is naturally impossible to predict the outcome of such cases with certainty. Nonetheless, after careful examinations, we assume that sufficient provisions have been formed for all legal disputes.

### Procurement risks

We intensively monitor our global procurement markets. The Group-wide monitoring of world market prices for steel, oil and petroleum products facilitates the flexible procurement of raw materials for our major projects at optimal conditions. We counteract regional procurement risks by cooperating only with competitive suppliers and subcontractors. We secure capacities, qualities and prices by means of letters of intent and preliminary agreements. And we protect ourselves against inflation by means of sliding-price clauses in our offers.

### Financial risks

We monitor financial risks with proven instruments of supervision and control. The Group's reporting system guarantees the weekly identification, analysis, evaluation and control of financial risks by Group Treasury. All of our relevant subsidiaries and associated companies are included in this monitoring.

Liquidity risks are monitored and controlled centrally at Group headquarters on the basis of rolling 12-month cash-flow planning. We regularly check the effects of possible changes in our financial risk exposure; the key figures in this respect are the dynamic debt/equity ratio, cash-flow protection and gearing. Our goal is that the relations should reflect a financial standing comparable with a rating in the lower end of an investment grade.

Liquidity bottlenecks can be ruled out due to the Group's high level of cash and available credit lines and sureties. After successfully placing a long-term syndicated cash credit line of €300 million with our main banks in 2005, in September 2006 we secured a significant proportion of our guaranteed credit needs by concluding a syndicated long-term credit agreement with a volume of €1,100 million. The increasing

long-term debt resulting from the expansion of our concessions business is solely on a non-recourse basis; lenders have no access to Bilfinger Berger's assets beyond the respective project companies.

Market-price risks in the finance sector primarily involve exchange rates, interest rates and the market values of financial instruments. As a result of our central risk management, to a large extent our cash flows and financial positions are netted out. We make use of derivative financial instruments in order to minimize residual risks and the resulting fluctuations in earnings, valuations or cash flows. We do not undertake any financial transactions beyond the underlying business risk. We use currency futures or currency options to hedge foreign-currency cash flows and balance-sheet values in foreign currencies. We generally hedge our project business for the entire project period immediately after contracts are awarded, in some cases also during the bidding phase. Risk management takes place with the use of concrete risk limits for foreign-exchange items and marked-to-market results.

We counteract the risks of interest-rate changes by continually reviewing and adjusting the composition of assets and liabilities subject to fixed and variable interest rates. In order to react flexibly and economically, we primarily make use of derivative financial instruments. We analyze and evaluate the risks arising from our net interest exposure in good time and at regular intervals with the use of the value-at-risk method. Interest-rate derivatives are an exception; they are used in the concessions business

for the long-term financing of project companies. The non-recourse character of this project financing requires long-term, predictable interest cash flows and thus also the long-term, static hedging of interest-rate risks. Market-value changes occurring in this context must be reflected in the balance sheet, but due to the closed project structure they have no impact on the Group's financial development.

Issuer risks can occasionally arise in connection with the investment of liquid funds and the application of derivative financial instruments. We counteract such risks by only selecting issuers with investment-grade ratings; we also limit the periods and amounts of such transactions.

In order to limit contracting-party risks, we undertake financial transactions solely with banks that have a very good rating of at least A-.

Due to the consistent application of this risk policy, there were no negative effects on the Group's earnings or financial situation in 2006.

#### **Human-resources risks**

We carefully monitor and offensively counteract the human-resources risks that may arise out of a shortage of junior managers, high staff turnover, lack of qualifications, low motivation or an excessively old workforce. Our human-resources development enables us to recruit highly qualified employees and retain them at the Company over the long term. For this purpose, we maintain close contacts with selected universities, organize internships for their graduates and organize specially designed familiarization programs at the beginning of new recruits' careers at Bilfinger Berger. An extensive range of courses and further training is available to our workforce. Individual career perspectives are discussed with our

employees individually. Management positions are mainly filled from within the Group. Our forward-looking human-resources development is one of the main reasons why, despite an upturn in the construction industry in some markets and ongoing growth in the service business, no specific risks are apparent in the human-resources sector.

#### **Subsidiaries' risks**

We have a clear strategy to counteract risks from subsidiaries and acquisitions. We generally acquire either a majority interest or 100% ownership in suitable companies. Candidate companies are evaluated by our experts with the help of comprehensive due-diligence audits. The decisive features for assessment are strategic relevance, profitability, management quality and good prospects for the future. We only acquire companies that are active and successful in the market and which can make positive contributions to the Group's earnings from the start. Our recent acquisitions have also fulfilled our high expectations for return on capital and profits. New companies are integrated into the Group and its risk-management system without delay.

We have also intensified our system of active subsidiary controlling. In this context, the controllers act outside the reporting hierarchy, have unrestricted rights to information in the units concerned, and can obtain an independent picture of the situation. They report monthly to the Executive Board and inform the Executive Board without delay of any unusual developments.

#### **IT risks**

In order to prevent unauthorized access and data loss and to guarantee the permanent availability of our systems, we protect our information technology with numerous technical installations. Our IT structures are highly standardized. We use software products from leading producers such as SAP, IBM, RIB and Microsoft. Applicable guidelines are regularly adapted to the latest technical developments.

#### **Overall risk**

In 2006, we did not identify any individual risks whose occurrence, either alone or in combination, would have jeopardized the continued existence of our Company. If unpredictable, exceptional risks should occur, the possibility of an effect on the development of our output volume or earnings cannot be ruled out. However, no risks can be identified that could threaten the Group's continuing existence.