



**Explanatory report of the Management Board in accordance with section 120, subsection 3 and section 175, subsection 2 of the German Stock Corporation Act (AktG) relating to the disclosures pursuant to section 289, subsection 4 and section 315, subsection 4 of the German Commercial Code (HGB) in the management report of BAUER AG and the Group management report for the 2008 financial year**

The management report of BAUER AG and the Group management report contain disclosures pursuant to section 289, subsection 4 and section 315, subsection 4 of the German Commercial Code (HGB) which are explained in the following:

1. At December 31, 2008 the share capital of BAUER Aktiengesellschaft totalled EUR 73,001,420.45 and is divided into 17,131,000 no-nominal-value bearer shares, representing a pro rata amount of approximately EUR 4.26 per share of the total share capital. Each share entails one vote. Multiple share categories do not exist.
2. No legal or statutory limitations of voting rights beyond the voting bar in accordance with section 136 of the German Stock Corporation Act (AktG), or legal or statutory limitations on the transfer of shares, exist. At December 31, 2008, 51.81 percent of the shares were in free float. The members of the Bauer family own a total of 8,255,946 no-nominal-value shares (previous year: 8,250,840 shares) in BAUER AG on the basis of a pool agreement, representing a 48.19 percent (previous year: 48.17 percent) share in the company. The pool agreement provisions include binding voting commitments. The pool imposes restrictions on its members with regard to their disposal of shares held in the company and subjects them to a right of pre-emption in the event that a pool member does not wish to exercise a subscription right when the share capital is increased. No other agreements between shareholders which may lead to limitations on voting rights or on the transferability of shares are known to the Management Board. No other direct or indirect holdings of BAUER Aktiengesellschaft share capital exceeding 10 percent of the voting rights are known to the company.
3. BAUER AG has issued no shares with special rights entailing controlling powers.
4. BAUER AG has no control over voting rights in respect of employee shares where employees have an interest in the capital of the company and do not directly exercise controlling rights. BAUER AG has no exhaustive information regarding employee shares in free float.
5. BAUER Aktiengesellschaft ("BAUER AG" for short) is a public limited company (stock corporation) with headquarters in Germany. The company is managed and represented in its dealings with third parties by the Management Board. The appointment and termination of appointment of members of the Management Board of BAUER AG is regulated by sections 84 and 85 of the German Stock Corporation Act (AktG) and sections 30 ff. of the German Co-determination Act (MitbestG) in conjunction with Articles 5 and 6 of the company's Articles of Association. In accordance with the law and Article 5, clause 1 of the company's Articles of Association, the Management Board comprises at least two people, appointed by the Supervisory Board pursuant to section 84 of the German Cor-

poration Act (AktG) for a maximum term of office of five years. The Supervisory Board may appoint a Chairman and a Deputy Chairman of the Management Board. At present the Management Board comprises four members appointed by the Supervisory Board and a Chairman of the Management Board, as well as a Labour Director. It is permissible to re-appoint or extend the appointment of a member of the Management Board for a further maximum term of office of five years. Any appointment, re-appointment or extension of a period of office requires a decision by the Supervisory Board, which may be taken no earlier than one year prior to the end of the relevant term of office. The Supervisory Board may rescind an appointment to the Management Board or an appointment as Chairman for good cause. The Presidial and Personnel Committee of the Supervisory Board prepares the Supervisory Board's decisions on the appointment and termination of appointment of Management Board members and concerns itself with the long-term planning of successor members for appointment to the Management Board.

6. In accordance with section 179 of the German Stock Corporation Act (AktG), the Articles of Association of BAUER AG can only be amended by resolution of the Annual General Meeting of shareholders. The Annual General Meeting passes its resolutions by means of a simple majority of votes cast and – where a majority of the voting capital is required – by means of a simple majority of the voting share capital represented at the meeting during which the resolution is made, unless legal requirements or the Articles of Association stipulate differently. The German Stock Corporation Act stipulates that amendments to the Articles of Association require a majority of at least three quarters of the votes cast by the voting share capital represented at the meeting during which the resolution is made. Pursuant to Article 12 of the Articles of Association, the Supervisory Board is authorized to pass amendments to the Articles of Association which relate only to its wording. The Supervisory Board is further authorized to adapt the wording of Article 4 of the Articles of Association (amount and division of the share capital) following full or partial execution of the increase in share capital or on expiration of the authorization period according to the respective utilization of the authorized capital.
7. No share buy-back programmes exist. However, the Management Board is authorized to issue shares. In accordance with Article 4, clause 4 of the Articles of Association, the authorization of the Management Board to issue authorized capital was extended by the resolution passed by the Annual General Meeting held on June 26, 2008 empowering the Management Board, with the consent of the Supervisory Board, to increase the share capital, in whole or in part, once or more than once, by June 25, 2013 by up to a total of EUR 2,000,000.00 by the issue of new ordinary bearer shares against cash and/or non-cash contributions (authorized capital). When issuing shares, the Management Board is further authorized, with the consent of the Supervisory Board, to exclude the legal subscription rights of shareholders in the following cases:
  - in the event of a capital increase against non-cash contributions in the course of acquisition of a business, parts of a business or shares in businesses;
  - in the event of capital increases against cash contributions where the issue amount of the new shares issued excluding shareholders' subscription rights pursuant to section 186, subsection 3, clause 4 of the German Stock Corporation Act (AktG) does not fall materially below the market price of the already quoted shares of the same category and structure, and the total pro rata amount of the share capital accounted for by the new shares issued excluding shareholders' subscription rights pursuant to section 186, subsection 3, clause 4 AktG does not exceed 10 percent of the existing share capital at the time this authority takes effect and at the time of exercising this authority. Shares issued in direct or corresponding application of

section 186, subsection 3, clause 4 AktG during the term of this authority until the time it is exercised are to be set off against the said 10 percent limit of the share capital;

- to avoid residual amounts.

In the 2008 financial year the authorization to issue new ordinary shares was not exercised.

8. Two promissory notes in an amount of EUR 30 million each, which BAUER AG agreed together with BAUER Spezialtiefbau GmbH and BAUER Maschinen GmbH as jointly and severally liable debtors in July 2007, provide for an extraordinary right of cancellation by the lenders in the event that one or more persons not forming part of the circle of existing main shareholders indirectly or directly hold more than 50 percent of the outstanding share capital or hold a number of shares in BAUER AG to which 30 percent or more of the voting rights are attributable. The conditions relating to the change of control are in line with standard market terms.
9. Furthermore, no compensation agreements exist between the company and members of the Management Board or company employees in the event of a takeover offer being made.

Schrobenhausen, May 2009  
BAUER Aktiengesellschaft

Prof. Dipl.-Kfm. Thomas Bauer  
Chairman of the Management Board

Dipl.-Betriebswirt Hartmut Beutler

Dipl.-Ing. Mark Schenk

Dipl.-Ing. Heinz Kaltenecker