

# Half-Year Interim Report 2007

January 1 to June 30, 2007



# Interim Report of the BAUER Group for the period January 1 to June 30, 2007

## Course of Business and Background Conditions

### General economic climate

The global economy continues to develop in a positive manner. Growth will again be above 4.5 % this year. In fact, construction engineering volumes are considerably outperforming that figure, since without construction such strong growth would be inconceivable.

The construction equipment sector is profiting particularly from this upward trend, as the construction companies can only deliver the required work by substantially expanding their equipment portfolios. Against this background, it is not surprising that all construction machinery manufacturers are reporting increases in sales of around 15 %, and that shortages of construction equipment components on the market have already begun to occur.

The specialist foundation engineering field is profiting from this boom even more, as increased building in the tight confines of inner cities and the ever larger structures being constructed mean more and more of the overall construction volumes are involving the need for specialist foundation engineering services. This is also opening up major opportunities for specialist foundation engineering equipment manufacturers.

The global economy will in our view continue to grow for a number of years. The decline in planned economies in many parts of the world has led to the creation of market economies in some of the world's most populous countries. The drive to eliminate the still existent disparity in levels of economic prosperity is producing an economic dynamism which is also generating additional momentum in the countries which have traditionally operated market economies.

This process of major economic change is still being accompanied by a number of distorting factors, with crises in a wide range of different industries and regions. The latest crisis on the US mortgage market, and its severe effects on the German banking system among others, represents just one example. Strong periods of growth encourage many investors to speculate in the belief that boom times will bring high profit without risk. But when the bubble does in fact burst – as in the case of the US mortgage sector – many of those investors retreat from the market, and enormous falls in value are seen.

The BAUER Group has positioned itself to cope with these unpredictable movements as soundly as possible based on its process of internationalization. Our network structure enables us rapidly to cut capacities in high-risk countries and utilize opportunities in other markets. As a result, although we cannot avoid regional losses altogether, we can limit them substantially, and compensate for them by generating income from new business elsewhere.

Consequently, the problems on the American mortgage market will have only a minor impact on us, because last year our US subsidiaries were already moving more into the infrastructure sector, which is currently showing strong growth in the USA.

In all other economic regions of the world construction markets are currently developing very well.

In the Far East the healthy progress made in the various economic areas has stabilized. Construction markets are growing, with the strength of the region's industrial development driving the industrial construction sector in particular.

In the Middle East the boom is being sustained. The rise in oil prices is enabling the countries of the region to realize their ambitious plans for the development of their infrastructure in order to grow their tourism sectors and advance new market fields. The attraction of these countries is indeed rising steadily, driven also by major landmark projects such as the Burj Dubai, which at more than 500 metres is currently the world's tallest building. We are proud that the building is set on our foundations. We estimate that the boom in this region will be sustained for some time to come, even though revenues from energy resources may weaken from time to time.

The rising new economic powers of India, China and Russia continue to grow very dynamically. As a result, the construction sector is still advancing extremely healthily. Russia, in particular, has a major opportunity to drive its own economy based on its enormous oil and gas resources.

The countries of the European Union are showing a much healthier general economic trend, and consequently stronger growth in construction than has been the case in recent years.

Generally weaker economic trends are persisting in Africa and South America. There are nevertheless many interesting opportunities in those regions too, and some countries – such as Angola – are showing highly dynamic economic growth.

The situation in Lebanon has stabilized further, enabling our local unit to complete the construction projects it had previously begun and cautiously begin undertaking new ones. We transferred some of our capacities from Lebanon to Turkey, where we are working successfully on large-scale excavation pits for the underground rail network beneath the Bosphorus.

The construction industry recession in Germany, which lasted for more than eleven years, came to an end last year. A small number of jobs were, however, lost once again in 2006. It is to be expected that employment levels in the construction sector will rise again slightly in 2007. The construction industry is unfortunately subject to an unusual cycle this year. The unexpectedly good weather conditions at the beginning of the year enabled construction companies to generate very healthy revenues in the early months. This resulted in a decline in orders for many companies in the second quarter, necessitating temporary reductions in capacities. Housing construction orders also declined, as a result of the ending of state subsidies.

We are convinced that these deviations do not indicate the end of the upturn. The healthy economic development being seen in Germany provides a stable basis for the growth in the construction sector, meaning it will be sustained for a number of years. Although business in Germany now accounts for only around a fifth of our total Group sales, we are pleased to see some dynamism slowly returning to our home market. It is less pleasing, however, that the unusual situation at the beginning of this year has meant that the financial strength of the market has not improved as much as expected. Though we are seeing a substantial improvement in price levels on small and medium-sized projects, large-scale projects remain subject to competitive pressures which are holding down prices. The German construction sector remains in a post-recessionary phase in which costs of material are rising significantly while the actual prices charged for construction services are not yet able to follow the trend adequately. We do believe, however, that this phase will not last much longer.

Nevertheless, in 2007 our German business will perform only slightly better than last year. Our returns on small and medium-sized projects are already recovering well, but we continue to make losses on our large projects. We are therefore being very cautious in taking on new large-scale projects, so as not to be burdened by financially less rewarding projects as the better times begin. Consequently, orders in hand in this market segment have declined significantly. We can afford to pursue this strategy without problem in view of our generally strong economic growth.

Global developments and the problems faced by the world at large are opening up many new opportunities for our Group companies. On the one hand, the necessary increase in energy supply is producing a major growth in construction engineering volumes in the oil and gas industry. Alongside large numbers of deep-level drilling operations, new plants to refine the extracted resources need to be built. This entails a wide range of work for the specialist foundation engineering sector. On the other hand, great efforts need to be committed to developing alternative energy sources. Geothermal energy recovery from differing depths offers major potential in this respect, and the BAUER Group is able to provide all the related products and services. Furthermore, the lack of extensive water supply systems in many parts of the world is posing an ever greater problem. With our well drilling rigs and well engineering materials, we are suitably equipped to service the needs of that market too.

Overall, we are seeing our markets continue to develop in a healthy manner. Against that background, and based on outstanding selling performance, almost all the segments of the BAUER Group have very healthy levels of orders in hand. In the Equipment segment in particular, though, we are not finding it easy to satisfy our customers' needs promptly.

### **Development of the BAUER AG share**

The Bauer share has maintained its very positive growth in the current year. From the start of the year up to June 29, 2007, our share price rose by 83 %.

July 4, 2007 marked the first anniversary of our stock market listing. The closing price of our share on that day was EUR 58.70, a full 250 % up on the issue price one year earlier.

Our first public Annual General Meeting was held on June 28, 2007 at our company headquarters in Schrobenhausen, and was attended by some 700 shareholders. The very healthy response to this event demonstrated to us that our planning and organization of it fully met the needs and interests of our shareholders.

### **Business trend**

For the BAUER Group the first half of 2007 has sustained the positive progress achieved last year. Revenues and earnings were up in almost every segment. The Equipment segment, in particular, enjoyed very strong growth.

Net profit of the Group of EUR 18.6 million is around three times that of the previous year comparative period. The growth in earnings is based on an extraordinarily good half-year – with very favourable weather conditions in Germany and no dip in equipment deliveries at the beginning of the year – and as such cannot be extrapolated over the full year.

The acquisition of GWE has brought the Group EUR 30.5 million in additional sales revenues. The further improvement in total Group revenues was produced on the basis of organic growth in all segments.

In May we acquired the companies of the German Water and Energy (GWE) Group. GWE, based in Peine, operates mainly in the development, manufacture and sale of high-quality products for water exploration, exploitation, transportation and distribution. The focus of the GWE Group's activities is in the field of well engineering products, including screens and casings, as well as in pumping and drilling. Additionally, GWE Group company pumpenboese gmbh & co kg makes high-quality plastic products for the exploitation of geothermal energy. At its five locations, with a workforce of over 300 people, the companies of the GWE Group generate annual sales of well over EUR 50 million. The GWE Group has been incorporated into the BAUER Group as part of its new Resources segment. Consequently, this Interim Report already reflects the expansion in the segmental structure of our Group.

In June, BAUER Maschinen GmbH acquired Olbersdorfer Guß GmbH, based near the town of Zittau, in the area where the borders of three countries – Germany, Poland and the Czech Republic – converge. Olbersdorfer Guß employs some 130 people in the production of medium-sized steel castings for the equipment manufacturing sector. The company is a core supplier to our Equipment segment, and its acquisition means we are less dependent on the open market for the sourcing of one of our key input materials.

The acquisition of Olbersdorfer Guß GmbH has not produced any additional sales revenues to date, as the company has not yet been consolidated into the Group. The company's annual sales are budgeted to be around EUR 10 million.

### **New Resources segment**

In recent years the range of products and services offered by our Group has been greatly expanded. In earlier times we focussed almost exclusively on specialist foundation engineering and related equipment. Our ability to drill into the ground and to manage soil and groundwater in widely varying forms has led in recent years to the development of new fields of operation, in mining, geothermal energy and environmental technology. With the acquisition of the GWE Group we are now able to supply a wide range of products for the engineering of bore holes. This has provided the BAUER Group with the capability to offer a virtually complete range of products and services relating to soil and groundwater. Our newly formulated strategic claim for the Group as a whole expresses this approach: "Services, equipment and products for soil and groundwater".

We have now consolidated all areas of business not related to construction engineering (particularly specialist foundation engineering) and equipment into our new segment named Resources. We have chosen to apply the English term for this segment even in our German usage, as our future markets in this segment will be primarily on the international stage. In order to provide the new segment with the appropriate legal structure, we have furnished the new company BAUER Resources GmbH with sufficient capital to function as the parent of all the subsidiary companies in the segment. Dipl.-Ing. Heinz Kaltenecker has been appointed Managing Director of the new BAUER Resources GmbH. This report incorporates the new three-segment structure of the Group. The tables and the segment reporting have been adjusted accordingly. For greater comparability, the previous year's figures have also been adjusted in line with the new structure.

### Revenues and orders in hand

in EUR '000	06/2006	06/2007	Change	12/2006
Total Group revenues	453,867	562,542	23.9 %	979,850
Orders received	544,530	603,970	10.9 %	1,056,090
Orders in hand	426,781	463,786	8.7 %	422,358
EBITDA	42,217	65,868	56.0 %	123,191
EBIT	18,457	42,148	128.3 %	72,985
Earnings per share in EUR	0.38	1.05	176.3 %	2.17
Profit	5,914	18,636	215.1 %	35,206
Capital investment in property, plant and equipment	22,409	26,386	17.7 %	61,069
Capital investment in financial assets	1,362	570	-58.1 %	3,304
Employees	5,494	6,507	18.4 %	5,541

Total Group revenues have increased by 23.9 % against the comparative previous year period to EUR 562.5 million. Growth in the Equipment segment of over 32 % once again outperformed the other areas of the business. The Construction segment grew by 3.6 %. International specialist foundation engineering operations declined slightly, though this did not impact on the overall position, as the previous year's figures had been influenced to an unusual extent by one major project: the Péribonka dam in Canada. As there is no single outstanding project of that nature this year, the fall is irrelevant. Moreover, there was something of a slow start to the half-year in some countries as projects were delayed. We forecast that the shortfall in revenues will be recovered by the year-end based on the broad geographical spread of our business.

Specialist foundation engineering revenues in Germany were well up on the previous year comparative period. The main drivers of this growth were the mild weather in the early months of the year and the recovery in small and medium-sized construction projects through our branch network. Our cautious approach to taking on large-scale projects will result in somewhat weaker sales in the second half of the year.

The new Resources segment recorded very strong growth, though virtually all of it was attributable to the incorporation of the GWE Group. Orders in hand increased by less than revenues because of our extremely cautious approach to taking on new work in Germany. They nevertheless developed positively, totalling EUR 463.8 million. Levels of orders in hand in the equipment sales business, in particular, are excellent, though this does entail a significant increase in delivery lead times compared to normal years. Overall, this represents an excellent foundation to maintain the positive development of our Group.

## Development of the Group's divisions (including non-consolidated subsidiaries and joint ventures)

in EUR million

	June 2006 Revenues in EUR million	June 2007 Revenues in EUR million	Percentage Share June 2007	Percentage Change over prev. year	Orders in hand	
<b>Construction</b>	BAUER Spezialtiefbau GmbH (BST)					
	BST Germany	48.8	58.0	10.3 %	18.8 %	●
	Subsidiaries, Germany	5.6	5.7	1.0 %	2.5 %	●
	BST international	73.5	71.5	12.7 %	-2.6 %	+
	Subsidiaries, international	104.5	101.3	18.0 %	-3.1 %	+
	less intra-Group revenues and IFRS adjustments	-25.4	-24.5	-4.4 %		
	<b>BST Group total</b>	<b>207.0</b>	<b>212.0</b>	<b>37.7 %</b>	<b>2.4 %</b>	<b>+</b>
	SPESA Spezialbau und Sanierung GmbH	5.7	5.8	1.0 %	2.8 %	●
	SCHACHTBAU NORDHAUSEN GmbH (SBN)					
	incl. SBN construction subsidiaries	27.2	30.9	5.5 %	13.7 %	●
less intra-Group revenues and IFRS adjustments	-1.6	-2.0	-0.3 %			
<b>Construction total</b>	<b>238.3</b>	<b>246.8</b>	<b>43.9 %</b>	<b>3.6 %</b>	<b>●</b>	
<b>Equipment</b>	SBN - construction equipment	21.2	21.1	3.8 %	-0.5 %	++
	<b>SBN Group total (construction &amp; equipment)</b>	<b>48.4</b>	<b>52.0</b>	<b>9.2 %</b>	<b>7.4 %</b>	<b>+</b>
	BAUER Maschinen GmbH (BMA)	200.0	258.2	45.9 %	29.1 %	++
	Equipment subsidiaries (specifically of BMA)	72.9	101.0	18.0 %	38.5 %	++
	<b>BMA Group total</b>	<b>272.9</b>	<b>359.3</b>	<b>63.9 %</b>	<b>31.6 %</b>	<b>++</b>
	less intra-Group revenues and IFRS adjustments	-77.4	-93.2	-16.6 %		
<b>Equipment total</b>	<b>216.7</b>	<b>287.2</b>	<b>51.0 %</b>	<b>32.5 %</b>	<b>++</b>	
<b>Resources</b>	BAUER Resources GmbH (BRE)	0.1	0.2	0.0 %		
	Resources subsidiaries (specifically of BRE)	28.0	65.5	11.6 %	133.6 %	+
	less intra-Group revenues and IFRS adjustments	-2.1	-7.0	-1.3 %		
	<b>Resources total</b>	<b>26.0</b>	<b>58.6</b>	<b>10.4 %</b>	<b>125.2 %</b>	<b>+</b>
<b>Other</b>	BAUER Aktiengesellschaft (BAG)	8.2	9.7	1.7 %	18.4 %	
	Other subsidiaries (specifically of BAG)	0.0	0.2	0.0 %		
	<b>Total other/services</b>	<b>8.2</b>	<b>9.9</b>	<b>1.8 %</b>	<b>20.9 %</b>	
	less intra-Group revenues and IFRS adjustments	-35.3	-39.9	-7.1 %		
<b>Group TOTAL (incl. non-cons. subsidiaries/joint ventures)</b>	<b>453.9</b>	<b>562.5</b>	<b>100.0 %</b>	<b>23.9 %</b>	<b>+</b>	
of which: Germany	121.6	169.0	30.0 %	39.0 %		
International	332.3	393.5	70.0 %	18.4 %		

### Notes on the table:

- List also includes non-consolidated holdings.
- Valuation of orders in hand relative to budgeted sales:  
-- weak; - slightly weak; ● adequate; + well adequate; ++ very well adequate;
- Percentages and totals are calculated on the basis of unrounded starting values.
- Breakdown Germany/international according to country in which accounting figures were allocated. For reasons of complexity the figures are not absolutely precise.

## Trends in our Business Segments

### Construction segment

Key figures	in EUR '000	06/2006	06/2007	Change	12/2006
Total Group revenues		238,256	246,770	3.6 %	538,815
Orders received		258,617	229,184	-11.4 %	540,984
Orders in hand		278,672	242,894	-12.8 %	260,480
EBIT		-164	3,652	n/a	10,380
Employees		3,790	4,105	8.3 %	3,792

The Construction segment increased its revenues by 3.6 % in the first half-year. Owing to the unusual weather conditions in Germany in the first quarter and the recovery in the German construction industry in the small and medium-sized projects sector, revenues in the Construction segment in Germany were substantially up on the previous year comparative. International revenues fell slightly. The main reason for this was the lack of a major project such as last year's Péríbonka project. A large number of interesting projects and healthy levels of orders in hand will, however, ensure that the shortfall in revenues is recovered by the year-end.

We are seeing a healthy trend in virtually all the countries in which our specialist foundation engineering business operates. We are particularly pleased with developments in the United Arab Emirates where, after a slightly weaker performance last year, we are again recording very strong growth. There are pleasing trends in earnings especially from our new subsidiary in Panama, in Egypt, and from our projects business in Turkey.

SPESA Spezialbau und Sanierung GmbH is developing in line with our planning. SCHACHTBAU NORDHAUSEN GmbH is also achieving healthy growth in revenues, though it is still making a slight loss. This is due to the conditions on the German construction market.

Orders in hand in the Construction segment fell by 12.8 % to EUR 242.9 million. The decrease resulted from the reduction in the number of large projects taken on in Germany, and from the completion of the Péríbonka project. The low risk of a shortfall in capacity take-up in the German projects business poses no problem for the Group, as all capacities can currently be deployed in other areas. The total orders in hand provide a sound basis for us to achieve our targets for 2007 in this segment.

Overall, we are satisfied with the development of the Construction segment to date. The first half-year has already seen it achieve earnings before interest and taxes (EBIT) of EUR 3.7 million. Our full-year result will be well up on the previous year's figure.

## Equipment segment

### Key figures

in EUR '000	06/2006	06/2007	Change	12/2006
Total Group revenues	216,740	287,173	32.5 %	452,446
Orders received	274,170	336,550	22.7 %	520,517
Orders in hand	132,737	192,755	45.2 %	143,378
EBIT	18,499	38,454	107.9 %	61,914
Employees	1,307	1,623	24.1 %	1,345

A 32.5 % increase in revenues in the Equipment segment indicates an outstanding first half-year performance. Orders in hand of EUR 192.8 million again broke the record, representing a 45.2 % increase. Segment earnings improved by EUR 20.0 million, or 107.9 %, against the previous year comparative.

There are a number of key reasons for this performance: Trends in the international construction business are bringing a major surge in demand for specialist foundation engineering machinery. Our extensive state-of-the-art equipment range is suited to meeting the technical needs of our customers in all respects. The high levels of demand meant that we were not able to deliver the machinery ordered before the 2006 year-end. This was very different to the situation in the previous years: Usually customers wanted their equipment delivered before the year-end for tax reasons, so the early months of the new year were often sluggish for us. This time that was not possible, so the year began without the usual downturn. All these factors resulted in the substantial increase in sales, which cannot be extrapolated fully in order to forecast the year as a whole.

We regard it as a positive factor that demand is developing in a similarly pleasing way in all international markets. We are seeing high demand in particular for our new products in the fields of well drilling, geothermal drilling and exploration drilling technology. The world's largest construction equipment trade fair, bauma in Munich, provided an additional boost to our successful equipment sales business. The new equipment attracted high levels of interest from our customers. Some of the prototypes shown at the bauma trade fair have since proved their first practical capabilities in the field. The new foundation cranes featuring a new-style winch synchronization system are working optimally, as is the new hose reeling system for trench cutters.

At present we are working intensively on the expansion of our well drilling rig series, in order to reach depths of more than 3,000 metres. The machines will then be suitable for use in drilling deep-level geothermal, gas and oil wells. We are confident that we will be in a position to present a first machine of this kind as early as next year.

The demand for construction equipment for specialist foundation engineering and other drilling applications remains substantial. Growth is being hampered to a degree by the lack of component availability. However, since our high volumes enable us to plan over a longer term than our competitors, this in some ways provides us with a competitive edge. We are currently expanding our capacities significantly at all our plants. All ongoing construction projects and capital investments are currently in line with planning. Overall, we are confident that the revenues and earnings of the Equipment segment will again increase substantially this year.

## Resources segment

Key figures	in EUR '000	06/2006	06/2007	Change	12/2006
Total Group revenues		26,028	58,608	125.2 %	63,878
Orders received		28,900	68,245	136.1 %	69,878
Orders in hand		15,372	28,137	83.0 %	18,500
EBIT		544	1,242	128.3 %	1,521
Employees		235	597	154.0 %	238

The new Resources segment is covered for the first time in this report. The organizational preconditions for this new segment have been established over the past months. For greater comparability, the previous year's figures have also been adjusted in line with the new structure.

Revenues in this segment increased substantially to EUR 58.6 million. The main reason for this change was the acquisition of the GWE Group, which contributed EUR 30.5 million in revenues. The performance of the other divisions – Environmental Technology and Mining – was around the previous year's level. The acquisition of the GWE Group saw orders in hand rise by 83 %. GWE enjoyed a successful start to life within our Group, delivering very strong sales growth and a healthy improvement in earnings. We are currently not satisfied by the progress of the Bauer Environment Group however. Problems have arisen at FWS Filter und Wassertechnik GmbH stemming from the time of the previous owners, and they are problems we need to resolve. As a result, the company will make a loss in 2007, though this will not impact on our overall profit forecast. Progress in the mining business is satisfactory. Major contracts to open up another diamond mine were acquired in northern Canada.

We are convinced that this segment will over the long term find attractive markets, and so deliver healthy growth.

## Net asset position

The net assets shown on the consolidated balance sheet total increased by 25.6 % against the year-end. Against the previous year comparative to June 30, 2006, the increase was 19.0 %. Applied to the full year, the increase in net assets is less than the growth in total Group revenues.

In our business, based on the buying and payment practices of our customers the balance sheet net assets always increase significantly within the year and then fall away again by a similar amount by the year-end, as customers make more payments. This year's increase in net assets is in line with our experience over many years, and is of a similar magnitude to last year. The major increases on the Assets side of the balance sheet relate to inventories and receivables. On the Equity and Liabilities side there are increased financial liabilities.

There has been virtually no change in financial liabilities relative to the figures stated on the balance sheet to June 30, 2006.

The particularly high increase in inventories this year also results from the low delivery capability of equipment component suppliers. In order to ensure smooth production operations, we have to accept the need to hold more component stocks. At present we are also unfortunately seeing repeatedly that machines cannot be delivered exactly on time because of a shortage of components. This is also causing an increase in inventories. The financial impact is, however, of a magnitude which is unavoidable in a period of strong growth.

The initial consolidation of the companies of the GWE Group and the acquisition of the remaining 40 % of the shares in PRAKLA Bohrtechnik GmbH produced a provisional goodwill figure of EUR 14.8 million, which is stated under "Intangible assets" and which also contributes to the increase in balance sheet net assets. Allocation of the purchase price in line with IFRS 3 will see this asset distributed across the asset and liability items on the consolidated balance sheet by the year-end.

As at June 30, 2007, the acquisition of the GWE Group had the following effects on the financial position (prior to allocation of purchase price, provisional figures):

Non-current assets	EUR 6.3 million
Current assets	EUR 22.9 million
(of which cash and cash equivalents	EUR 0.9 million)
Non-current liabilities	EUR 2.9 million
Current liabilities	EUR 17.7 million

Of the substantial increase in pension provisions (defined benefit plans) on the consolidated balance sheet, an amount of EUR 1.5 million relates to the GWE Group.

### Income

The structure in income statement is similar to that in the previous year. Consolidated revenues increased by 24.2 % to EUR 534.3 million, and were generated with a disproportionately low increase in costs. Material expenses increased by 19.1 %, and personnel expenses by 16.6 %. Depreciation was kept at a constant level, as none has yet been incurred on large-scale investments. Only the "Other operating expenses" increased disproportionately, by 33.3 %. The financial result was virtually the same as in the previous year.

The tax ratio of 46.5 % is higher than forecast for the year-end. This figure results from the differing profit returns of the various segments in the first half-year. The healthy earnings of the Equipment segment will result in a normal tax burden, but some losses in the Construction segment will not result in corresponding tax relief. We expect the year-end figure to be better than last year's.

Profit after tax increased by EUR 12.7 million against the previous year to EUR 18.6 million.

This success is again the result of the healthy growth in our equipment business. The major increase in sales was achieved with no accompanying changes in fixed costs. The Construction segment and the Resources segment both also significantly improved their contribution to profits however.

Overall, the trend in earnings of the BAUER Group is on a healthy track.

### Financial position

The international rating agency Standard and Poor's upgraded our long-term rating to BB+ (outlook stable) in the second quarter of 2007. This rating provides us with even better access to financial markets, and will also bring advantages in future with regard to the interest rate terms we are able to obtain.

Our company's Annual General Meeting passed a resolution to pay a dividend of EUR 0.50 per share. The necessary funds were disbursed at the beginning of July 2007, so they have no effect on the current balance sheet.

Also in July – after the accounting reference date for the current balance sheet – promissory notes in an amount of EUR 60 million were placed. Their terms cover periods of five and seven years. This refinancing provides us with a very healthy level of financial security for the coming years.

## Sustainability

### Human resources

The number of employees increased by 18.4 % over the previous year. This increase is less than the growth in total Group revenues. The total workforce increased by 1,013. Of that total, 303 new employees joined as a result of the acquisition of the GWE Group.

Additional capacities to attain the necessary production were in part recruited from the short-term labour market. We are generally building up our core workforce at present, in order to achieve a good balance between permanent employees and temporary staff.

## Follow-up Report

### Effects of the corporation tax reform

On July 6, 2007 the upper house of the German Parliament, the Bundesrat, passed an Act reforming Germany's corporation tax, to come into force in 2008.

This change will already impact on BAUER's consolidated financial statements in the third quarter of 2007, as the Group tax ratio is likely to fall from 37.4 % to around 29 %. This will reduce deferred tax assets and liabilities, which according to provisional estimates will entail an additional tax expenditure in 2007 of EUR 0.9 million.

### Risk and Opportunity Report

Major opportunities are set out in the individual sections of this Interim Report.

There has been no change in material risks since the 2006 Annual Report. Consequently, we refer back to the 2006 Group management report.

### Material transactions with related parties

Where transactions are undertaken with related parties, they are subject to standard market terms.

### Outlook for the full year

The member companies of the BAUER Group made very good progress in the first half-year of 2007. A large number of innovations are driving the business forward. The bauma exhibition demonstrated that our equipment continues to set standards on the market. The new Resources segment has been installed and organized. The management has diligently laid down the appropriate measures to ensure its healthy growth. In the Construction segment, opportunities have increased by virtue of the improved economic climate in Germany. We therefore have the necessary dynamism to maintain the success of the BAUER Group in future.

We expect total Group revenues in 2007 to increase by more than 20 %, to around EUR 1.2 billion (previous year: EUR 980 million). This forecast includes the revenues of the newly acquired businesses. We expect profit after tax to rise by more than 40 %, to at least EUR 50 million (previous year: EUR 35.2 million).

Schrobenhausen, August 14, 2007

# Interim Financial Statements of the BAUER Group

## Income statement of the BAUER Group

in EUR '000	01.04. - 30.06.2006	01.04. - 30.06.2007	01.01. - 30.06.2006	01.01. - 30.06.2007
1. Sales revenues	208,946	274,069	375,357	477,811
2. Changes in inventories	10,420	-1,949	38,343	39,987
3. Other income	8,653	9,574	16,521	16,453
	<b>228,019</b>	<b>281,694</b>	<b>430,221</b>	<b>534,251</b>
4. Cost of materials	126,144	145,874	243,491	289,933
5. Staff costs	44,043	53,982	84,982	99,090
6. Depreciation and amortization	12,448	12,131	23,760	23,720
7. Other operating expenses	30,389	39,477	59,531	79,360
<b>OPERATING RESULT</b>	<b>14,995</b>	<b>30,230</b>	<b>18,457</b>	<b>42,148</b>
8. Financial income	669	1,598	2,303	2,360
9. Financial expenses	5,755	5,767	10,851	10,814
10. Share of the profit or loss of associates accounted for using the equity method	379	684	638	1,149
<b>PROFIT BEFORE TAX</b>	<b>10,288</b>	<b>26,745</b>	<b>10,547</b>	<b>34,843</b>
11. Income tax expense	4,102	11,664	4,633	16,207
<b>PROFIT</b>	<b>6,186</b>	<b>15,081</b>	<b>5,914</b>	<b>18,636</b>
Profit attributable to minority interests	321	489	455	606
Profit attributable to equity holders of BAUER AG	5,865	14,592	5,459	18,030

	01.04. - 30.06.2006	01.04. - 30.06.2007	01.01. - 30.06.2006	01.01. - 30.06.2007
Basic earnings per share in EUR	0.41	0.85	0.38	1.05
Diluted earnings per share in EUR	0.41	0.85	0.38	1.05
Average number of shares in circulation (basic)	14,334,840	17,131,000	14,334,840	17,131,000
Average number of shares in circulation (diluted)	14,334,840	17,131,000	14,334,840	17,131,000

## Balance sheet of the BAUER Group

### Assets in EUR '000

	31.12.2006	30.06.2007
<b>A. NON-CURRENT ASSETS</b>		
I. Intangible assets	11,346	26,337
II. Property, plant and equipment and investment property	184,855	194,838
III. Investments accounted for using the equity method	6,013	7,317
IV. Participations	3,539	4,174
V. Deferred tax assets	15,232	14,906
VI. Other non-current assets	10,236	10,251
VII. Other non-current financial assets	512	1,711
	<b>231,733</b>	<b>259,534</b>
<b>B. CURRENT ASSETS</b>		
I. Inventories	156,356	209,540
II. Receivables and other assets	237,106	311,143
III. Effective income tax refund claims	1,379	1,999
IV. Cash and cash equivalents	17,143	26,461
	<b>411,984</b>	<b>549,143</b>
	<b>643,717</b>	<b>808,677</b>

### Equity and Liabilities in EUR '000

	31.12.2006	30.06.2007
<b>A. SHAREHOLDERS' EQUITY</b>		
I. Group shares	214,213	231,167
II. Minority interests	8,368	8,284
	<b>222,581</b>	<b>239,451</b>
<b>B. NON-CURRENT LIABILITIES</b>		
I. Defined benefit plans	35,203	38,129
II. Financial liabilities	134,784	155,624
III. Other liabilities	2,522	3,727
IV. Deferred tax liabilities	11,159	10,902
	<b>183,668</b>	<b>208,382</b>
<b>C. CURRENT LIABILITIES</b>		
I. Financial liabilities	72,038	157,300
II. Other liabilities	138,230	175,458
III. Effective income tax obligations	13,874	13,389
IV. Provisions	13,326	14,697
	<b>237,468</b>	<b>360,844</b>
	<b>643,717</b>	<b>808,677</b>

### Cash flow statement of the BAUER Group

in EUR '000

	01.01. - 30.06.2006	01.01. - 30.06.2007
Cash flow from operating activities	-55,833	-35,619
Cash flow from investing activities	-17,946	-41,675
Cash flow from financing activities	76,731	86,612
<b>Net increase in cash and cash equivalents</b>	<b>2,952</b>	<b>9,318</b>
Cash and cash equivalents at beginning of reporting period	14,521	17,143
Cash and cash equivalents at end of reporting period	17,473	26,461
<b>Change in cash and cash equivalents</b>	<b>2,952</b>	<b>9,318</b>

### Statement of changes in equity of the BAUER Group

	Subscribed capital	Capital reserve	Other revenue reserves and net earnings available for distribution				Minority interests	Total
			Revenue reserves	Currency translation	Reconciling item, IFRS	Own shares		
<b>As at 01.01.2006</b>	63,000	10,470	60,794	-762	10,387	-1,914	6,486	<b>148,461</b>
Consolidated profit	0	0	5,459	0	0	0	455	<b>5,914</b>
Dividend payments	0	0	-2,479	0	0	0	0	<b>-2,479</b>
Consolidation measures	0	0	0	0	0	0	-438	<b>-438</b>
Exchange rate movements	0	0	84	-1,979	0	0	-485	<b>-2,380</b>
<b>As at 30.06.2006</b>	<b>63,000</b>	<b>10,470</b>	<b>63,858</b>	<b>-2,741</b>	<b>10,387</b>	<b>-1,914</b>	<b>6,018</b>	<b>149,078</b>
<b>As at 01.01.2007</b>	73,001	38,404	96,475	-4,054	10,387	0	8,368	<b>222,581</b>
Consolidated profit	0	0	18,030	0	0	0	606	<b>18,636</b>
Dividend payments	0	0	0	0	0	0	0	<b>0</b>
Consolidation measures	0	0	-641	-435	0	0	-558	<b>-1,634</b>
Exchange rate movements	0	0	0	0	0	0	-132	<b>-132</b>
<b>As at 30.06.2007</b>	<b>73,001</b>	<b>38,404</b>	<b>113,864</b>	<b>-4,489</b>	<b>10,387</b>	<b>0</b>	<b>8,284</b>	<b>239,451</b>

### Segment reporting of the BAUER Group, 1st half-year

in EUR '000

	Construction		Equipment		Resources	
	2006	2007	2006	2007	2006	2007
<b>Total revenues (Group)</b>	<b>238,256</b>	<b>246,770</b>	<b>216,740</b>	<b>287,173</b>	<b>26,028</b>	<b>58,608</b>
<b>INCOME</b>						
External sales	200,507	209,059	155,162	224,137	19,594	44,480
Inter-segment sales	8,158	8,822	18,139	18,390	219	2,716
Changes in inventories	-52	5,293	35,329	32,285	3,066	2,409
Other income	4,494	4,447	7,392	7,732	823	1,841
<b>Consolidated revenues</b>	<b>213,107</b>	<b>227,621</b>	<b>216,022</b>	<b>282,544</b>	<b>23,702</b>	<b>51,446</b>
<b>RESULT</b>						
<b>Segment result (operating result) / EBIT</b>	<b>-164</b>	<b>3,652</b>	<b>18,499</b>	<b>38,454</b>	<b>544</b>	<b>1,242</b>
Share in results of associated companies	329	212	0	0	309	937
Financial expenses and income, income tax expense, amortization of financial assets						
<b>Profit</b>						

in EUR '000

	Other		Eliminations/Consolidations		Consolidated	
	2006	2007	2006	2007	2006	2007
<b>Total revenues (Group)</b>	<b>8,169</b>	<b>9,873</b>	<b>-35,326</b>	<b>-39,882</b>	<b>453,867</b>	<b>562,542</b>
<b>INCOME</b>						
External sales	94	135			375,357	477,811
Inter-segment sales	8,190	9,533	-34,706	-39,461	0	0
Changes in inventories	0	0	0	0	38,343	39,987
Other income	0	111	3,812	2,322	16,521	16,453
<b>Consolidated revenues</b>	<b>8,284</b>	<b>9,779</b>	<b>-30,894</b>	<b>-37,139</b>	<b>430,221</b>	<b>534,251</b>
<b>RESULT</b>						
<b>Segment result (operating result) / EBIT</b>	<b>612</b>	<b>338</b>	<b>-1,034</b>	<b>-1,538</b>	<b>18,457</b>	<b>42,148</b>
Share in results of associated companies	0	0	0	0	638	1,149
Financial expenses and income, income tax expense, amortization of financial assets					-13,181	-24,661
<b>Profit</b>					<b>5,914</b>	<b>18,636</b>

# Notes

## Accounting principles

BAUER Aktiengesellschaft prepares its interim financial statements in accordance with the International Financial Reporting Standards (IFRS). The Interim Report to June 30, 2007 was prepared on the basis of IAS 34, "Interim Financial Reporting".

The same accounting and valuation methods as for the consolidated financial statements to December 30, 2006 are applied in the Interim Report to June 30, 2007. A detailed description of those methods is presented in the 2006 Annual Report.

The Standards and Interpretations bindingly applicable for the first time with effect from January 1, 2007 had no effects on the interim financial statements.

## Audit

These consolidated interim financial statements and management report have not been audited in accordance with section 317 of the German Commercial Code (HGB), nor have they been subjected to any review by an auditor.

## Scope of consolidation

In addition to BAUER Aktiengesellschaft, the consolidated Group companies comprise all major domestic and foreign enterprises in which BAUER Aktiengesellschaft holds a direct or indirect interest enabling it to govern the said companies' financial and business policies in such a way that the members of the Group draw benefit from the activities of the said companies (subsidiaries).

The following changes have occurred to the scope of consolidation since December 31, 2006:

The previously fully consolidated BAUER America Latina S.A., Peru, was de-consolidated effective March 31, 2007.

BAUER Corporate Services Private Ltd, India, was consolidated for the first time effective March 31, 2007.

In the 2nd quarter of 2007 the BAUER Group acquired 100 % of the shares in the GWE Group. At that time, the GWE Group essentially comprised the following companies: pumpenboese gmbh & co kG, SBF-Hagusta GmbH, Gerd Nelke Beteiligungs- und Verwaltungs-GmbH, and GWE Prakla Bohrtechnik GmbH. The total cost of this acquisition was EUR 17,803 thousand, of which EUR 16,800 thousand was paid in cash on May 24, 2007 and EUR 3 thousand, likewise in cash, on June 10, 2007. A further EUR 1,000 thousand falls due for payment on May 10, 2009, and is recognized as a discounted liability on the balance sheet. The BAUER Group has also acquired the remaining 40 % of the shares in PRAKLA Bohrtechnik GmbH, for which it paid a cash amount of EUR 6,100 thousand.

In accordance with IFRS 3.62, the transaction is initially recorded only provisionally on the balance sheet. All provisional figures will be adjusted when the purchase price has been fully allocated.

In addition, the BAUER Group has acquired 75 % of the shares in Olbersdorfer Guß GmbH, for which a cash payment of EUR 2,625 thousand was made on June 26, 2007. This transaction is likewise initially recorded only provisionally on the balance sheet, and will be adjusted on completion.

## Notes on segment reporting

The segmentation of the BAUER Group is in accordance with IAS 14. It is founded on the internal organizational and reporting structures of the Group. The same accounting and valuation methods as for the 2006 consolidated financial statements are applied.

The core business of the **Construction** segment is specialist foundation engineering. Complete excavation pits and foundation works, often in difficult subgrade conditions, are carried out for major infrastructure projects. In order to offer customers a full range of services, the companies of the BAUER Group additionally offer other construction services, often involving a major specialist foundation engineering element. Examples of this include bridges, environmental engineering and remediation projects. The Construction segment is founded on the close interlinking of all construction activities, including those handled by the Projects departments.

In the **Equipment** segment, machinery for all specialist foundation engineering processes is developed and manufactured for worldwide distribution. The equipment can be employed to produce large-diameter and small-diameter bores for piles, diaphragm walls, anchors, injections

and wells. Equipment for ramming and soil improvement is also manufactured. The range is supplemented by a wide selection of add-on units and ancillary equipment, covering all the processes involved in specialist foundation engineering.

The **Resources** segment brings together all the Group units providing products and services relating to the remediation and exploitation of natural resources essential to human life. The units operate in the field of environmental technology, in soil and groundwater remediation; in exploration drilling and mining of raw materials and drilling of wells and geothermal energy sources; and in the manufacture and sale of materials for the engineering of bore holes, specifically for wells and geothermal energy sources.

This segment was established during the second quarter of the year, merging existing businesses from the Construction and Equipment segments with the newly acquired GWE Group.

The **Other** segment comprises the central services for the Group's business units (accounting, human resources, IT etc.), specifically those of BAUER Aktiengesellschaft.

#### **Events after June 30, 2007**

Following the consent passed on July 6, 2007 by the upper house of the German Parliament (the Bundesrat) to the 2008 Corporation Tax Reform Act, amended tax regulations will come into force with effect from January 1, 2008.

This will entail a revaluation of the domestic deferred taxes of the BAUER Group in the third quarter of 2007. As set out in the Follow-up Report, this revaluation will result in higher tax expenditure, as there will be an overhang of deferred tax assets.

#### **Assurance by the legal representatives**

We hereby assure that, to the best of our knowledge, the condensed interim consolidated financial statements give a true and fair view of the net assets, financial position and earnings of the company in accordance with the accounting principles applicable to interim reporting, and that the interim Group management report depicts the course of business, including the earnings and overall situation of the Group, in such a way that a true and fair view is conveyed and the material opportunities and risks of the foreseeable development of the Group over the remaining course of the financial year are set out.

Schrobenhausen, August 14, 2007

The Management Board

#### **Future-related statements**

This Interim Report contains future-related statements. Future-related statements are any statements which do not relate to historical facts and events, such as forecasts of future financial earning power and indications of plans and expectations with regard to the development of the business of the BAUER Group and relating to the general economic climate or other factors to which the BAUER Group is subject. The use of words such as "believe", "expect", "predict", "forecast", "intend", "plan", "estimate", "aim", "likely", "assume" and similar formulations indicates that the statements in question are future-related. Future-related statements are subject to risks and many uncertainties which may mean that actual developments, earnings or levels of performance differ widely from those explicitly or implicitly assumed in the future-related statements.

Readers are advised that, in view of the said risks and uncertainties, no inappropriately high degree of confidence should be placed in the likelihood of such statements proving to be accurate in the future. BAUER Aktiengesellschaft does not intend to and assumes no obligation to publish updates of such future-related statements in order to incorporate events or circumstances beyond the date of publication of this Interim Report.

## Dates

### 2007

Interim Report to September 30, 2007

November 14, 2007

### 2008

Interim Report to March 31, 2008

May 15, 2008

Annual Press Conference

April 22, 2008

Analyst Conference

April 22, 2008

Annual General Meeting

June 26, 2008

Interim Report to June 30, 2008

August 14, 2008

Interim Report to September 30, 2008

November 14, 2008

You will find more information on the BAUER Group on the Internet at [www.bauer.de](http://www.bauer.de).

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