

# Annual Report 2003

## HOCHTIEF Construction AG



Cover photo:  
Mönchengladbach's new soccer stadium will hold up to 60,000 spectators. HOCHTIEF Construction AG is responsible for planning and constructing the sports arena as well as for developing the surrounding site. The first match at the new stadium will kick off in the 2004/2005 season.

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# HOCHTIEF Construction AG

## Building new successes

**HOCHTIEF Construction AG brings together our core European construction operations. Its main business is building construction, civil engineering and structural engineering. HOCHTIEF Construction also undertakes complex infrastructure projects worldwide, including airports, high-speed rail links, power stations and tunnels.**

### **In the black**

Founded at the beginning of 2001, HOCHTIEF Construction AG has a clear strategy: target high-earnings markets and segments, continuously improve risk management, and build up competitive advantage. The year 2003 was again marked by successful continuation of the company's restructuring program.

The strategic refocus is already paying off, with HOCHTIEF Construction AG returning to profit in 2003 as planned.

### **Light on the German construction horizon**

German construction activity shrank again in 2003—but not as much as in earlier years. While other parts of the industry were still fighting for survival, HOCHTIEF Construction AG's winning strategy enabled it to consolidate its position and turn in a handsome profit for the year. For more information on our markets, please turn to page 9.

### **Competence centers build a flexible response**

HOCHTIEF Construction selectively taps new markets and coordinates activities to serve these business segments in real time. Competence centers specialize in particularly complex growth markets. Besides office properties, these include healthcare facilities, stadiums, malls and, in the infrastructure sector, tunnels and power stations. 2003 saw the creation of a competence center for logistics facilities, focusing HOCHTIEF's decades of experience in construction projects for trade and industry.

### **Market leader in tunnel construction**

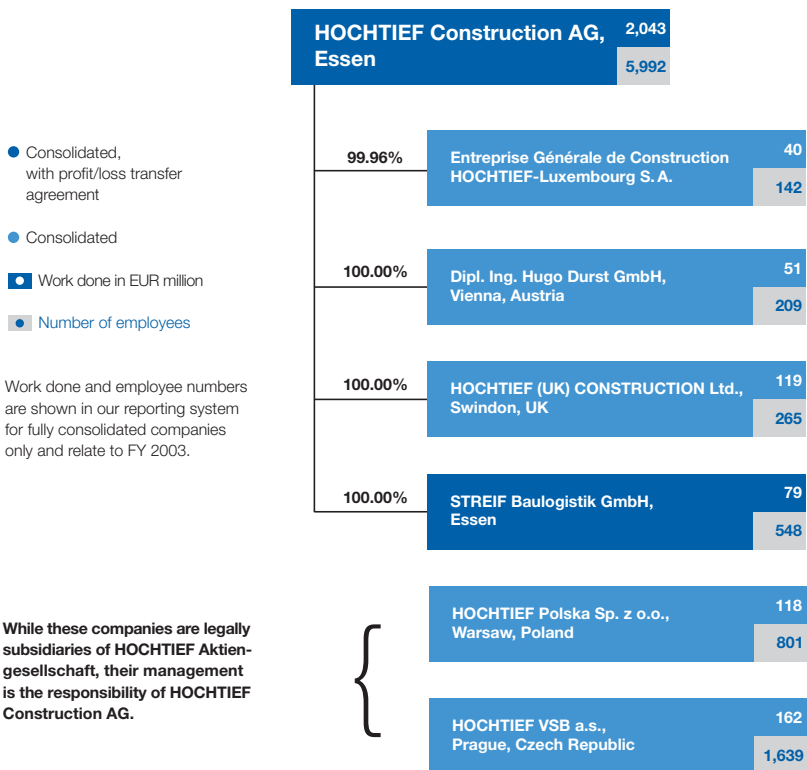
Through its involvement in building the Gotthard Base Tunnel—the longest railroad tunnel in the world—HOCHTIEF Construction has established itself as one of the world's leading players in the specialist tunneling segment. The contract means HOCHTIEF Construction is even better placed to profit from this growth market long-term. The European tunnel contracting market is set to grow some 12 percent by 2010.

## **Profile**

### **HOCHTIEF Construction AG:**

- Unites the HOCHTIEF Group's core European building construction activities within a service-minded construction enterprise.
- Markets its expertise in civil engineering, structural engineering and airport construction worldwide.
- Targets selected regions and profitable market segments.
- Applies rigorous risk management.
- Implements innovative, partnership-based contracting with PreFair.
- Is stepping up its internationalization drive in Europe.

## Main subsidiaries of HOCHTIEF Construction AG



## Structural maintenance and refurbishment

Renovating and upgrading is a dynamically growing market segment. Demand for these services has already outstripped the market for newly built real estate. Most buildings in Germany are over 25 years old. HOCHTIEF was an early mover. The share of refurbishment projects in overall work done continues to rise steadily.

## Success with PreFair

HOCHTIEF Construction's partnership-based PreFair business model is a cornerstone of its differentiation strategy. HOCHTIEF Construction has already completed twelve projects with PreFair, adding some EUR 320 million to total work done thanks to the new business model. Thirteen new projects worth approximately EUR 480 million are now under construction. More than 20 projects are in the preconstruction phase.

## Subsidiaries perform to target

Subsidiaries HOCHTIEF (UK) Construction Ltd., Entreprise Générale de Construction HOCHTIEF-Luxembourg S.A., Dipl. Ing. Hugo Durst GmbH and Streif Baulegistik GmbH have consolidated their market positions. HOCHTIEF Construction AG manages HOCHTIEF Polska Sp. z o.o. and HOCHTIEF VSB a.s., which look forward to new markets opening with the EU's eastward expansion.

# Report of the Supervisory Board

During the 2003 fiscal year, the Supervisory Board performed the tasks for which it is responsible under the law and under the Company's Articles of Association and provided support to the Executive Board while monitoring its management activities. The Executive Board provided full, timely and regular verbal and written reports on the financial situation and development of the Company and its subsidiaries, their business policy plans, questions of principle regarding their future direction, and on risk management and specific material transactions. The Supervisory Board discussed these reports with the Executive Board and made all necessary decisions.

The Chairman of the Supervisory Board also kept abreast of business developments and key transactions by remaining in regular contact with the Executive Board outside of scheduled meetings.

At four meetings during the year, the Supervisory Board extensively discussed fundamental issues of business policy, and also the order situation, financial performance and employment situation in the various company units.

A major subject of discussion was the successful implementation of the restructuring program, which was a key factor in achieving positive earnings in 2003. The Supervisory Board paid special regard to the enhancement of the risk management system and in particular to bid and procurement monitoring. The cost cutting program affecting all parts of the Company and its subsidiaries was also discussed in this connection.

The Supervisory Board examined in depth the further decline in German construction market activity, which affected individual regions and market segments to varying extent. Another focus of deliberations was on two future growth markets—tunneling, and refurbishment and upgrading—and advancement of the Market Segment Group serving the upcoming sectors of healthcare and logistics. The Supervisory Board reviewed in detail the successful market positioning of the PreFair business model and the plans to undertake public-private partnership (PPP) projects in Germany.

A further discussion topic was the outcome of proceedings before Düsseldorf Higher Regional Court surrounding the building of a Peek & Cloppenburg clothing store in Cologne and the terms for recommencing work subsequently negotiated with the client.

In the human resources field, the Supervisory Board paid special attention to the situation of the workforce in the light of the necessary restructuring and to the training activities available to employees.

The Principal Committee of the Supervisory Board met three times and the Human Resources Committee twice in the 2003 fiscal year. The need did not arise for a meeting of the Mediation Committee pursuant to Section 27 (3) of the Codetermination Act (MitbestG).

The financial statements and Management Report covering fiscal year 2003 prepared for HOCHTIEF Construction AG by the Executive Board have been audited together with the bookkeeping by PwC Westdeutschland Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (of Essen, Germany). This auditing company, engaged by the General Shareholders' Meeting of May 8, 2003 and instructed by the Supervisory Board to perform the audit of the financial statements, has issued an unqualified independent auditors' report on them.

The financial statements, Management Report and the independent auditors' report were duly submitted to all of the members of the Supervisory Board prior to the financial statements meeting on March 11, 2004. The auditors who have signed the independent auditors' report took part in the Supervisory Board's discussion of the submitted documents, when they reported on the most significant results of the audit and were available to answer questions. The Supervisory Board approved the results of the auditors' examination of the financial statements.

The Supervisory Board reviewed the financial statements and Management Report. According to the final conclusion of this review, there are no objections to be raised. The Su-

Supervisory Board therefore approves and adopts the financial statements.

Dr.-Ing. Bernhard Bürklin surrendered his office as Member of the Executive Board of HOCHTIEF Construction AG effective December 31, 2003. The Supervisory Board thanks Dr. Bürklin for his fruitful cooperation and work for the benefit of the Company.

The Supervisory Board expresses thanks and recognition for the work of the Executive Board, business managers and all employees over the 2003 fiscal year.

Essen, March 2004

*Sincerely yours,  
Hans-Peter Keitel*

Dr.-Ing. Dr.-Ing. E. h. Hans-Peter Keitel  
Chairman

On behalf of the Supervisory Board

# Executive Board

## **Dipl.-Ing. Dr.-Ing. E.h. Friedel Abel,**

born in June 1945, began his career with HOCHTIEF in 1972 after studying civil engineering in Braunschweig (Brunswick). He started out in the technical department for civil and underground engineering, then progressed through a variety of positions. He was Assistant to the Director of the Rhine/Ruhr main branch, Superintendent Engineer for several major projects, Director of the Düsseldorf branch, the Rhineland construction unit and then the Rhine/Ruhr main branch. After becoming General Manager of HOCHTIEF, he was appointed to the Executive Board of HOCHTIEF Aktiengesellschaft in 1995 where he also fulfilled the role of Human Resources Director. In July 2001, Friedel Abel was appointed Chairman of the Executive Board of HOCHTIEF Construction AG. His fields of responsibility are the Northwest, Southwest, East and Southeast building divisions, the Market Segment Group, Streif Baulogistik GmbH, Durst-Bau and HOCHTIEF-Luxembourg S.A. as well as human resources, corporate communications, quality management and business development.

## **Dr.-Ing. Bernhard Bürklin (until December 31, 2003),**

born in August 1955, studied civil engineering at the Technical University of Munich, obtaining his doctorate at the Department of Tunneling and Construction Operations. He joined HOCHTIEF in 1980, initially as a design specialist in the technical department for civil and underground engineering. Between 1981 and 1987, he worked on a number of construction sites outside Germany. From 1990 to 1992, he was project manager in charge of expansion work on Warsaw's international airport. Bernhard Bürklin went on to build up the Controlling and Corporate Development corporate centers at HOCHTIEF's headquarters. From 1999 to 2001, he was a member of the Management Board of HOCHTIEF International, in which capacity he served as Executive Vice President of The Turner Corporation in New York. Dr. Bürklin was appointed to the Executive Board of HOCHTIEF Construction AG in April 2001. With effect from January 1, 2004 he took over an executive position at HOCHTIEF Aktiengesellschaft.

## **Dr. rer. pol. Burkhard Lohr,**

born in February 1963, studied business administration in Cologne after having worked as construction administrator with HOCHTIEF Aktiengesellschaft. After graduation, he first worked for Mannesmann AG in Group Controlling. Burkhard Lohr then rejoined HOCHTIEF in 1993 as a member of the Group Auditing team. He held a number of operational management positions in Munich and Essen from 1995 on, with commercial executive responsibilities in various building and civil engineering fields. He received his doctorate at the Technical University of Braunschweig (Brunswick) in 2001 parallel to pursuing his career. Dr. Lohr was appointed to the Executive Board of HOCHTIEF Construction AG in January 2002, and is responsible for the real estate development/investment controlling, accounting, controlling, finance, procurement, IT, legal, audit, tax and insurance functions.

## **Dr.-Ing. Martin Rohr**

was born in June 1955. After earning his doctorate at the University of Hanover, he passed the civil service examination as Construction Assessor. Following initial professional experience, he joined Otto Rohr GmbH & Co. KG in Helmstedt as fully authorized manager (Prokurist) in 1986. Following the sale of the Rohr companies to HOCHTIEF in 1994, his first role within the Group saw him in charge of the commercial management of Deutsche Gleis- und Tiefbau GmbH in Berlin. He later became Director of the Bavaria main branch, then acted as Management Spokesman of the Civil division as of 1999, also joining the Executive Board of HOCHTIEF Aktiengesellschaft in December 2000. Martin Rohr has been a member of HOCHTIEF Construction AG's Executive Board since April 2001, responsible for Infrastructure Europe, Infrastructure and Tunneling, Infrastructure International, Central/Eastern Europe, HOCHTIEF (UK) Construction Ltd., HOCHTIEF Polska Sp. z o.o. and HOCHTIEF VSB a.s. as well as the marketing, technical and contract administration functions.

# Management Report

## Markets

Our company is stepping up its activities in Europe. This aggressive expansion confronted HOCHTIEF Construction in 2003 with varying economic environments and levels of construction demand.

Construction activity trends were uneven across **Eastern Europe**. The Russian construction market is currently growing fast, most of all in Moscow and St. Petersburg. The boom centers on building construction. The possibilities are limited for foreign companies to gain a toehold in the civil engineering market.

In the Czech Republic, appreciation of the koruna led to a drop in public and foreign investment. At the same time, investment programs aimed at aligning the country with EU standards fueled a slight rise in construction activity.

The Polish construction industry braked its fall. The industry is approaching stagnation, with a decline of 1.5 percent. Experts anticipate a growth spurt in 2004 and 2005. This will mostly come from state infrastructure projects such as toll road construction.

The picture on the **Western European construction market** was one of uneven development. After stagnating in 2002, construction activity is expected to rise gradually until 2005. France accounts for the second largest share of European construction activity after Germany. Growth is anticipated in the UK and Austria.

The **tunneling** segment is set to boom in Germany and across Europe. The period to 2015 will see tunnel construction demand up almost 18 percent in our home market alone. HOCHTIEF makes this forecast based on the Prognos European Transport Report 2002. As our market research revealed, tunnel projects with a total length of 1,500 kilometers are currently planned in Europe. The main markets of the future—besides Germany—are considered to be Italy, Spain, France, Austria, Switzerland, Poland, Russia, the Czech Republic, Bulgaria and Norway. These are countries intending to build tunnels above all to improve their long distance and urban rail infrastructure.

**Power plant** modernization is thought to have growth market potential to 2020, based on European plans for emission trading from 2005. Producers will be able to sell emission rights unused as a result of lasting CO<sub>2</sub> reduction measures to others who exceed their emission limits. As a result, energy utilities are expected to invest billions over coming years to achieve sharp cuts in power plant emissions.

The **German** construction industry has started to bottom out. The pronounced downward trend in construction activity (down 4.4 percent in 2002) leveled off in 2003. The German Institute for Economic Research forecasts shrinkage of only 1.7 percent in 2004, compared with a 2.5 percent decrease in 2003.

The **office and commercial real estate** market in 2004 will be slightly down from the prior year and probably pass the low point of its cycle. This market segment presents growing complexity to companies such as ours. Besides the need to work closely with project owners, it is becoming increasingly common for real estate funds, banks, project developers and users to be involved.

# Orders and Work Done

**\*All construction activity figures:  
German Institute for Economic  
Research, Weekly Report 45/03.**

The decline in **commercial construction\*** has leveled out. The German Institute for Economic Research estimated that output was EUR 70.2 billion in 2003, a decrease of 3.8 percent.

A similar trend is emerging for **residential construction\***. Postponement of a decision to cut state grants for home buyers briefly perked up demand. Estimated output in 2003 totaled EUR 135.6 billion, a reduction of 1.7 percent from the prior year.

The output decline in **public construction\*** reflects enduring pressure to consolidate regional authority budgets, which are not increasing borrowing. 2004 will probably see a downslide of about 2.4 percent following a raise in the municipal share of the tax take at the beginning of the year.

The **structural maintenance, renovation and upgrading** segment is about to enter a major growth phase. Demand for these services has already outstripped the market for newly built real estate. Almost 80 percent of all buildings in Germany are over 25 years old and need refurbishment in the next few years.

Construction activity will grow strongly in **healthcare** over coming years as the healthcare reforms now underway clear a chronic investment logjam. This applies to new buildings as well as refurbishment projects.

## Work done

Construction output was EUR 2,043 million, an increase of 8.3 percent from the prior year.

The sharp rise outside Germany, by 50.8 percent to EUR 365 million, was due first and foremost to the large Taiwan High Speed Railway project.

Despite lackluster new business at the start of the year, domestic work done stabilized thanks to the existing order backlog at EUR 1.678 million (up 2.0 percent).

## New orders

New orders decreased 19.2 percent from the prior year, to EUR 1,850 million. Besides the cyclically weak market, this is largely a result of selective order taking and clear focus on profitable market segments.

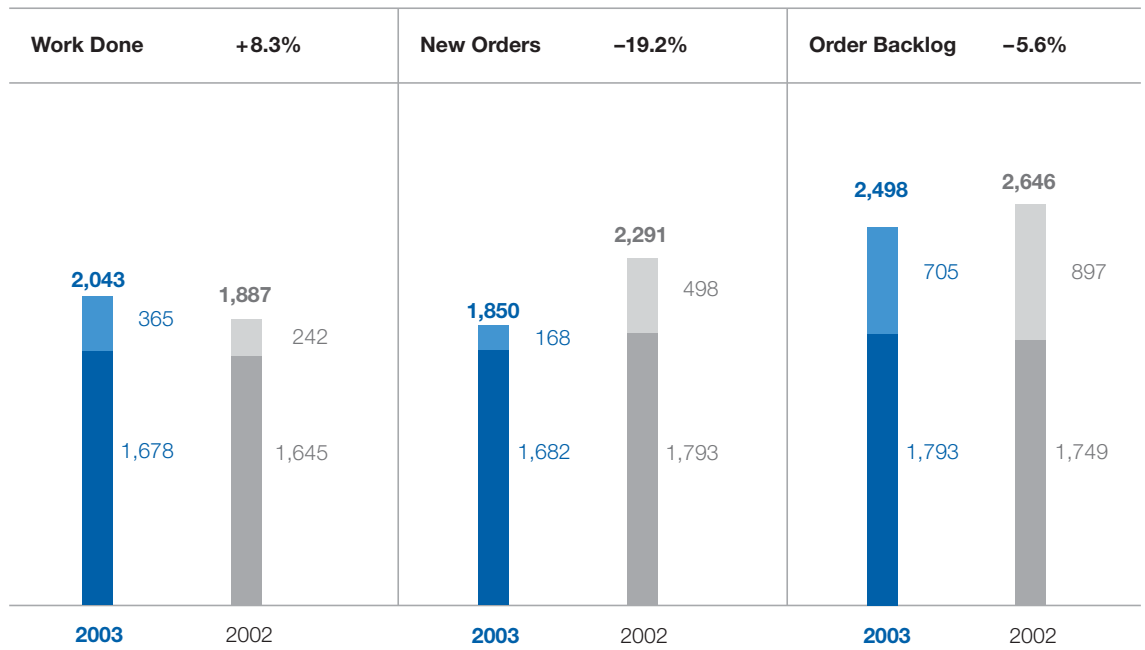
Despite persistently weak demand, HOCHTIEF Construction secured major new orders **in Germany**, including new contracts to build the headquarters of T-Online in Darmstadt, the Ettlinger Tor shopping mall in Karlsruhe and the Maritim hotel in Berlin.

New orders **outside Germany** decreased by a total of 66.3 percent from the prior year, to EUR 168 million. This pronounced reduction reflects the signing in 2002 of the contract to build part of the Parramatta Rail Link in Australia, which had given a EUR 237 million extra boost to new orders that year. Major new contracts secured in 2003 included construction of the Vomp Terfens tunnel in Austria and the Kárahnjúkar Power Station in Iceland.

## Order backlog

The order backlog was EUR 2,498 million as of the end of 2003. This represents a decrease of 5.6 percent from the prior year. Our order backlog thus continues to provide a sound base for full utilization of our capacity in fiscal 2004.

Orders and Work Done (EUR million)



# Organization

## HOCHTIEF Construction AG

Northwest	East	Southwest	Southeast	Market Segment Group	Streif Baulogistik	Infrastructure Europe	Infrastructure and Tunneling	Infrastructure International	Central/Eastern Europe*
Ruhr Düsseldorf Cologne Hanover Hamburg	Berlin Saxony Thuringia	Frankfurt Rhineland-Palatinate/Saarland Rhine-Main Württemberg Baden Kassel/Shopping Centers HOCHTIEF Luxembourg	Munich Northern Bavaria Dipl. Ing. Hugo Durst	Sports Facilities Prefabrication North Logistics Healthcare	Construction Machinery and Equipment Scaffolding and Formwork Technology and Services Holdings and International Business	Civil Engineering & Infrastructure Frankfurt Munich Berlin Leipzig	Civil Engineering and Tunneling HOCHTIEF (UK) Construction	Major International Projects Civil Engineering and Marine Works Civil Engineering, Power and Water Civil Engineering and Airports Taiwan High Speed Railway	HOCHTIEF Russia HOCHTIEF Polska HOCHTIEF VSB

\*The Central/Eastern Europe entities operationally belong to HOCHTIEF Construction AG; legally speaking they are subsidiaries of HOCHTIEF AG.

HOCHTIEF Construction AG restructured at the beginning of 2003 to further enhance value creation while retaining its successfully implemented strategic focus on profitable regions and product market segments.

In the course of this restructuring, HOCHTIEF Polska, HOCHTIEF VSB (Czech Republic) and HOCHTIEF Russia were operationally assigned to HOCHTIEF Construction AG. The first two companies are overseen by the Warsaw-based Central/Eastern Europe division. Numerous cooperations with competence centers and business units in Germany help provide optimum client service in these expanding markets.

In response to the market situation, the former Essen and Westphalia units have been combined as the Ruhr business unit and the Potsdam unit has been closed.

Integration of the prefabricated construction elements business was completed with the absorption, effective January 1, 2003, of HOCHTIEF Fertigteilebau GmbH by HOCHTIEF Construction AG.

Systematic key account management ensures that repeat customers planning projects outside Germany have a single point of contact. The key account managers know each client's needs and decision procedures from years of experience with the client.

Competence centers—focusing on especially high-growth sectors such as sports facilities, healthcare, tunneling and shopping malls—bring together experts from the relevant product market segments to form highly specialized teams. 2003 saw the creation of a Logistics competence center co-located with the Hamminkeln prefabricated elements works. The center combines vast experience in planning and building numerous real estate projects for companies in the industry, retail and logistics sectors. HOCHTIEF has completed more than 50 logistics facilities in past years.

# Capabilities

## **HOCHTIEF Construction's range of services is geared to optimizing projects within the HOCHTIEF Group at every link in the value chain.**

- **Plan:** HOCHTIEF Construction AG plans projects of every shape and size. The company's service package comprises all aspects of project development courtesy of HOCHTIEF Projektentwicklung GmbH. What we offer ranges from site scouting all the way to procurement of permits. Streif Baulogistik GmbH provides detailed site installation concepts.
- **Finance:** The realization of twenty-first century properties frequently calls for large investment input. HOCHTIEF's teams of financial and contracting experts devise financing models that also draw on innovative sources of financing.
- **Build:** The name HOCHTIEF has stood for technically sophisticated, economically efficient construction for over 125 years. Projects implemented by HOCHTIEF Construction AG come with the guarantee of quality, punctuality, reliability plus the ultimate in technical craftsmanship.
- **Operate:** HOCHTIEF factors in the life cycle of a project even at the planning stage with a view to keeping operating costs low. HOCHTIEF Projektentwicklung GmbH complements the performance picture with operator concepts for real estate and infrastructure projects such as toll roads and tunnels. HOCHTIEF Facility Management GmbH provides integrated facility management for real estate and operating plant, covering everything from project planning to management and controlling.

## **Boosting services in the construction field**

The service portfolio of HOCHTIEF Construction AG in Europe notably includes real estate development, construction logistics and planning (e.g. PreFair, see page 20).

Since the HOCHTIEF Group aims to increase its share of total work done accounted for by services from 31 percent (2003) to 50 percent (2007), the service segment within HOCHTIEF Construction AG will also continue to grow accordingly.

# Successes of HOCHTIEF Construction AG and its Subsidiaries

**Success in all product market segments rewards market research. Expert competence centers secure pole position in profitable markets. HOCHTIEF Construction AG is exploiting its advantage—and is superbly positioned.**

## HOCHTIEF Construction AG

### Office properties

#### Gap 15, Düsseldorf

Construction work began in May 2003 on a 30-story tower and a 5-floor lowrise in the center of Northrhine-Westphalia's capital, Düsseldorf. HOCHTIEF Construction is building Gap 15 under a PreFair contract. Worth some EUR 80 million, the project will be completed in June 2005.

#### Cielo, Frankfurt am Main

Fall 2001 saw HOCHTIEF Construction complete the 75 meter tall Cielo office building. The tower has 58,000 square meters of floor space. It is flanked by two new lowrise buildings. HOCHTIEF Construction also provided the construction planning for the project.

#### T-Online headquarters, TZ Darmstadt

HOCHTIEF Construction has been engaged as general contractor to build an office complex with a total floor area of 149,000 square meters. The contract is worth over EUR 100 million. Turnkey handover is slated for May 2005.

#### Kap am Südkai, Cologne

The Kap am Südkai office building on the banks of the Rhine will be completed in fall 2004. HOCHTIEF Construction worked jointly with the owner through the eight-month planning phase, incorporating numerous alternative proposals to perfect the project.

#### Quartier am Salzufer, Berlin

HOCHTIEF Construction is erecting a nine-floor office tower on a prime site in Berlin's Charlottenburg district. The project is worth EUR 40 million and will be completed in spring 2004.

#### Mainforum, Frankfurt am Main

Lots of space to live and work: The 80 meter Mainforum tower offers attractive residential, office, retail and catering units. The commercial premises were completed last fall, and finishing work on the residential dwellings will be done by April 2004.

#### Leonrodstrasse 54-58, Munich

HOCHTIEF Construction is stripping out and refurbishing this 1960s office building. The contract is worth approximately EUR 20 million. Around 76,000 cubic meters of building volume are being refurbished. The electrical and mechanical installations are being completely removed and replaced with new systems.

### Shopping centers

#### Stadtpalais Potsdam

HOCHTIEF Construction is helping to conserve the architectural fabric of old Potsdam with the conversion and refitting of the former Stadtpalais building. The main part of the Stadtpalais will reopen as a historic store in 2005.

#### Ettlinger Tor, Karlsruhe

In Karlsruhe, HOCHTIEF Construction is building one of Germany's biggest shopping centers under a contract worth over EUR 80 million.

#### Forum Allgäu, Kempten

The new mall opened in summer 2003 after only 23 months under construction. Experts from our Shopping Centers business unit in Kassel took care of the logistics.

### Healthcare

#### Life & Brain, Bonn

A first success for HOCHTIEF Construction's new healthcare product market segment, the Life & Brain research center is being built in Bonn over a period of only 18 months. From the end of 2004, the center will develop new diagnostic techniques and treatments for brain disease.

### **Other construction projects**

#### **Maritim Kongresshotel, Berlin**

HOCHTIEF Construction will complete the 4-star superior conference hotel by summer 2005. The function rooms are dimensioned to accommodate more than 5,500 visitors.

#### **Steigenberger Airport Hotel, Frankfurt am Main**

HOCHTIEF Construction completed this hotel refurbishment and conversion project in September 2003. The hotel's bed capacity has been expanded by 140 to 583 beds. The conversion contract was worth some EUR 35 million.

#### **Cellulose plant, Stendal**

HOCHTIEF Construction celebrated the topping-out for this EUR 135 million project in October 2003. The cellulose plant will produce high-quality fiber fabrics from the beginning of 2005.

#### **BorgWarner assembly plant, Arnstadt**

HOCHTIEF Construction built an entire assembly plant for US automotive supplier BorgWarner Transmission Systems in a construction time of only eight months. The contract included both planning and building the plant incorporating assembly and logistics sections along with a test center.

### **Sports facilities**

#### **Westphalia Stadium, Dortmund**

HOCHTIEF Construction AG has altered Dortmund's stadium to make space for a new capacity of 83,000 spectators—14,500 more than before. The expanded arena is now available to stage one of the semifinals in the 2006 soccer World Cup.

#### **Mönchengladbach stadium**

Since the end of 2002, the company has been building a new soccer stadium in Mönchengladbach on the lower Rhine—an approximately EUR 70 million contract due for completion in mid-2004. Our Düsseldorf business unit is also developing and marketing a part of the surrounding site to be known as the Area of Sports.

### **Infrastructure projects**

#### **Gotthard Base Tunnel, Switzerland**

The world's longest rail tunnel is currently under construction between Bodio in the canton of Ticino and Erstfeld in Uri canton. Execution of major parts of this project once again underscores HOCHTIEF Construction's superior tunnel-building expertise. The projected construction time is eleven years.

#### **Parramatta Rail Link, Australia**

In a joint venture with Australian HOCHTIEF subsidiary Thiess, HOCHTIEF Construction is building part of the new rail link between Parramatta and Chatswood in Sydney. The construction project encompasses two tunnels, including track laying, plus stations and ramp structures. This segment will be completed by the beginning of 2008 and the entire rail link is due to open in 2010.

#### **Cologne urban railroad**

HOCHTIEF Construction is technical leader for part of Cologne's North-South urban line. The project worth more than EUR 90 million is one of Germany's largest infrastructure projects. Construction will last until mid-2009.

#### **Taiwan High Speed Railway, Taiwan**

HOCHTIEF Construction heads a joint venture which is building a 42 kilometer segment of the Taiwan High Speed Railway. The contract for this segment exceeds EUR 700 million for this joint venture. Contractual project completion is slated for 2004.

#### **Container terminal, Bremerhaven**

The container terminal on the River Weser was completed in October 2003. HOCHTIEF Construction assumed the role of technical leader. Ten large container ships can now dock simultaneously at the world's longest uninterrupted quay (3.2 kilometers).

### **Weser tunnel, Bremerhaven**

The 1,645 meter Weser tunnel took the place of the existing ferry crossing at the beginning of 2004. The contract was worth some EUR 100 million for HOCHTIEF Construction.

### **Ngqura deepwater port, South Africa**

HOCHTIEF Construction is building a deepwater port on South Africa's south coast in a joint venture with South African HOCHTIEF associate Concor and another local company. The contract includes two breakwaters in the Indian Ocean, plus quay facilities. Construction on the EUR 140 million project started in spring 2003 and will take until 2006.

### **Logistics centers**

#### **Ottoversand, Haldensleben**

HOCHTIEF Construction completed the third construction phase of the Haldensleben logistics center in mid-2003. Experience with two earlier phases meant HOCHTIEF experts could build the latest extension to short order.

#### **Rewe logistics center, Cologne**

A new logistics center is being built for the Rewe retail chain in Cologne. This is a direct follow-up contract from Rewe, who took delivery of a logistics center in Hesse from HOCHTIEF Construction last summer. Construction on the new project began in September 2003; handover is slated for 2004.

### **Main subsidiaries of HOCHTIEF Construction AG**

#### **Streif Baulogistik GmbH**

Streif Baulogistik provides logistics solutions for all aspects of site installation. Besides the lease of construction machinery and equipment as well as scaffolding and shuttering, the company's portfolio also includes the production of special-purpose formwork and engineering services. This is complemented by coordination of safety and health protection, concepts for site access surveillance and security as well as outsourcing concepts for small and medium-size construction companies.

The past financial year at Streif Baulogistik was marked by focused ongoing development of the company's business strategy coupled with systematic consolidation. The share of non-Group customers at the end of 2003 stood at around 50 percent. Streif Baulogistik managed to hold its own once again in 2003 in what continued to be a difficult market environment. A cost-cutting program introduced in the year under review geared to aligning the company with the prevailing economic situation and market conditions achieved the desired results. With its lean organizational structure and rapid decision-making processes, Streif Baulogistik is well prepared for another subdued year of business activity in 2004.

One of the focal issues in 2003 was enhancing the company's sales apparatus with a view to communicating to customers the efficiency of Streif's range of capabilities in a more effective manner. The expansion of its products and services as well as broader cooperation with other HOCHTIEF companies allowed Streif Baulogistik to generate additional benefits and synergies for its customers.

Forging ahead with the decentralization of responsibilities helped improve profitability. The systematic further development of project controlling opened the way for expanding scope for control at operational level and for increasing transparency. The efficacy of these measures is underpinned by internal project audits.

The strategy of tapping the market by way of partnerships with leading construction machinery and equipment manufacturers proved effective and was successfully pursued in 2003. These sales alliances round out the company's portfolio, serving to secure a substantial share of sales based on service and spare parts business.

An innovative outsourcing service aimed at small and medium-size companies bore first fruits. Here, Streif Baulogistik takes charge of the entire site installation including the lease of all necessary machinery. The customer can transfer part or all of its site installation equipment pool to Streif Baulogistik. Fair contracts and competitive prices make this service

highly attractive. The customer has the option of supplementing rented machinery with used machinery via Streif's used equipment sales unit.

The fledgling business area of Logistics Consulting & Management specializing in health and safety coordination, supply and waste management as well as site access surveillance systems enjoyed a successful year of business. In the year under review, this specialist segment asserted itself against established international competitors when it came to the awarding of significant contracts. The order volume increased accordingly.

The Scaffolding and Shuttering business segment showed similarly favorable development. It succeeded in recording another rise in new orders in the year under review. The unit's vendor-independent offering helped to successfully implement several large-scale projects.

For 2004, Streif Baulogistik expects the clouded economic picture on the domestic German market to continue. For this reason, expansion of the company's market position outside Germany coupled with stringent cost management will be the focus of activity in 2004.

#### **Notable successes of Streif Baulogistik:**

##### **T-Mobile City, Bonn**

Streif Baulogistik planned, produced and delivered the necessary scaffolding and formwork as well as the requisite tools and machinery for the expansion of T-Mobile's headquarters in Bonn. At the same time, the company was responsible for the transport logistics involved in delivering and returning the entire scaffolding and formwork.

##### **BMW plant, Leipzig**

At the start of construction work on the BMW Group's new production facility in Leipzig, Streif Baulogistik installed an info center and three bistros. The company is in charge of ensuring smooth operation of the site's basic infrastructure as well as earthworks management. The new facility covering an area of 210 hectares will be completed by mid-2005.

##### **Sewage plant, Kaditz**

Streif Baulogistik is supplying Saxony's biggest construction project in the field of water and waste water technology with a total of 11 cranes, 35 containers and the complete power supply systems. The company also installed a liquid gas unit for supplying the site with power.

##### **Skyper Taunusanlage 1, Frankfurt am Main**

The Taunusanlage quarter in the banking district of Frankfurt am Main is undergoing urban redevelopment. For the construction of a 153 meter high building, Streif Baulogistik is supplying the complete formwork for the high-rise core as well as facade protection.

Comprising around 1,300 square meters, the facade protection system was newly developed by Streif Baulogistik. The core and shell work of the 39-story tower is scheduled for completion in spring 2004.

#### **HOCHTIEF (UK) Construction Ltd.**

The subsidiary HOCHTIEF (UK) Construction has been part of the Construction Services Europe division since the beginning of 2002. In recent years, it has earned itself a reputable market position notably through the smooth handling of large-scale infrastructure projects and is on course for sustained growth. In April 2003, the company relocated to larger headquarters near Swindon in Wiltshire.

#### **Major projects:**

##### **Channel Tunnel Rail Link, UK**

Britain's first high-speed rail link is now under construction between Kent and London. HOCHTIEF (UK) is part of a joint venture building a segment of the 109 kilometer line. This is its third contract on the rail link. The project is worth EUR 200 million.

### **Paddington Station, London**

In August of the year under review, HOCHTIEF (UK) Construction began building work on a main access bridge at Paddington Station in West London. The station is not only a key nodal point on the mainline rail network but also a stop on the express service route to Heathrow Airport. The work is ongoing while the rail lines below the bridge remain fully operational. The project volume stands at over EUR 35 million.

### **Guernsey airport**

HOCHTIEF (UK) is building a new airport terminal on the channel island of Guernsey, for completion by mid-2004. The approximately EUR 28 million contract includes demolishing the existing terminal buildings and adding access roads and parking lots.

### **Road construction, South Wales**

In the hills and vales of South Wales, HOCHTIEF (UK) continued work on the EUR 43 million contract to expand the region's road network. At least five further projects are planned in an effort to modernize the "Heads of the Valleys" route. Work is proceeding faster than expected.

## **Entreprise Générale de Construction HOCHTIEF-Luxembourg S.A.**

Formed in 1981 as a fully integrated subsidiary of HOCHTIEF Aktiengesellschaft, HOCHTIEF Luxembourg is today a subsidiary of HOCHTIEF Construction AG. The company's approximately 125 employees focus among other things on real estate development projects in which HOCHTIEF Luxembourg also takes charge of financing or marketing. The Luxembourg team masterminds innovative solutions—with technically, aesthetically and economically compelling results.

Together, the HOCHTIEF Luxembourg subsidiary and the competence center staff are well equipped when it comes to successfully fielding multiple complex residential and office real estate projects. There has, however, been a slight drop in activity in the building construction segment: The state of the market in turnkey office construction is currently

below par. Stabilization is anticipated for 2004, though on a low level.

### **State Street Bank, Luxembourg**

HOCHTIEF Luxembourg completed the extension of the State Street Financial Center on a turnkey basis for this repeat client. HOCHTIEF was also responsible for planning and financing the new part of the building which provides space for 250 new jobs. State Street Bank is one of HOCHTIEF Luxembourg's major clients.

## **Dipl. Ing. Hugo Durst GmbH**

The company has been a member of the HOCHTIEF Group for 16 years, and part of HOCHTIEF Construction AG since 2001. From its Vienna base, the company is active in the fields of real estate development and refurbishment as general contractor and construction manager. A significant increase to around 20 percent of total work done was achieved, with these core business segments doing particularly well—a sure sign that they have successfully taken root. One prominent project won in 2003 was the contract to refurbish the synagogue in Baden; start of construction is slated for the first quarter of 2004.

Durst's activities in Innsbruck focus on civil engineering, sewerage and alpine construction projects, marked by a continued positive contribution to earnings.

### **Major projects:**

Late 2003 saw the ground-breaking ceremony for the "Hausgärten" project in Neusiedl am See. The first of five construction phases has a project volume of around EUR 5 million.

The "Gartensiedlung Ottakring" project worth around EUR 25 million is currently being executed and will be completed on schedule.

## Financial and Earnings Situation

HOCHTIEF Construction AG generated a profit from ordinary activities of EUR 7.3 million in 2003. The marked improvement over the prior year's EUR 51.0 million loss was attained despite the negative impact (as in 2002) of developments on the P&C store project in Cologne.

The positive earnings trend is largely due to a pronounced improvement in project earnings and increased net income from financial assets.

A restructuring program had been commenced in earlier years to cut capacity and costs in both the operational units and the service areas. This restructuring and enforcement of an across-the-board cost reduction program showed a strong positive impact in 2003. Nevertheless, the need to prevent idle capacity in future still required further trimming of capacity in line with the market situation.

The unchanged recessionary market trend in Germany means the need for further trimming cannot be ruled out.

Final closeout on earlier projects may also hold as yet unforeseeable risks.

In the light of its current appraisal of the market trend and of the measures it has applied, HOCHTIEF Construction AG will continue to deliver a positive contribution to earnings.

The successfully introduced and rigorously implemented risk management system had a positive impact on earnings.

The cash situation once again improved over the year under review. Our sweeping liquidity campaign showed results. This included stepping up receivables management, cutting funds tied up in projects and intensifying liquidity management by further developing our controlling instruments.

## Risk Management

HOCHTIEF has a strong tradition of risk management, implementing a comprehensive system well before the German Corporate Governance and Transparency Act (KonTraG) entered into force in May 1998. An extended risk management system followed in fall 2001. A core element of this system is a Contract Review Committee staffed by experienced managers, which scrutinizes every bid for potential risks and opportunities. All projects over EUR 5 million are subject to approval at various stages: regarding cost estimates on prequalification, on bid preparation, on submission of binding bids, and finally on contract signing. Earnings from new construction projects have stabilized in positive figures since the committee was set up. Additional bid audits are a further aid to project teams during the bid preparation and negotiation stage. From 2001, the Contract Review Committee examined over 1,600 projects worth over EUR 30 billion. This systematic monitoring has significantly improved project quality and the earnings situation.

Project execution is accompanied by detailed project, supply and liquidity monitoring.

By taking a stringent approach to selecting and monitoring the companies it partners with, HOCHTIEF Construction AG reduces risks that can arise when purchasing materials or services, such as quality deficiencies, the partner business's insolvency or schedule overruns.

HOCHTIEF Construction's efficient risk management system is subject to continuous improvement. It has become an established component of the company's earnings-oriented management.

Successful introduction of liquidity management in the year under review and its implementation in the standard Aristoteles reporting system have made a pronounced contribution towards improving the net cash position.

# Strategy and Outlook

## **Realignment sets the course for sustained success**

HOCHTIEF Construction is systematically tapping new markets and adapting its organizational structure to shifting parameters: While office and industrial construction projects are still implemented by the regional business unit concerned, the company set up additional competence centers during the year under review to cover particularly complex market segments. Thanks to its product focus in the fields of tunneling and power station construction, healthcare and sports facilities, logistics and shopping centers among others, HOCHTIEF Construction succeeds in engaging customers in the discussion of specific projects at a very early stage. One value-added benefit for customers here is that potential savings, which emerge notably in the planning phase, can be identified in good time. In planning and executing such construction projects, the business unit in the region concerned brings to bear its knowledge of the subcontractor market as well as its favorable contacts to customers. This allows HOCHTIEF Construction to make optimum use of its high-caliber project management expertise and technical knowhow, thus setting itself apart from the competitive field.

## **PreFair wins on added value**

With the partnership-based business model PreFair, HOCHTIEF Construction has triggered a paradigm shift in the German construction industry. Under this contractual model, the company looks at the entire life cycle of a real estate project to achieve an ideal balance between quality, costs and timing needs. Cooperation in a spirit of partnership between clients, architects, external engineers and HOCHTIEF Construction already takes root early on in the planning process and is geared to jointly developing efficient solutions. This constructive dialog allows the company to sharpen its customer focus and enhance added value for HOCHTIEF Construction.

The key advantages:

- Guarantees earliest possible certainty with regard to budgets, dates and quality, cutting risk for investors.
- The optimized planning phase shortens construction.
- HOCHTIEF can incorporate its construction expertise into the project at a very early stage.
- The risk of retrospective changes is lastingly reduced.

- Clients gain from competition based on ideas and quality.
- An integrated approach to the project life cycle results in lower operating costs.

Thus, with PreFair, HOCHTIEF creates an alternative to the need to compete on price, replacing it with the desire to win on quality—a more advantageous approach for all concerned. The innovative PreFair model is patterned on a comparable concept already used by Turner for a substantial number of projects in the US. PreFair has met with an encouraging response as an alternative to the conventional forms of cooperation on the German construction market: At the end of 2003, PreFair contracts worth a total of around EUR 480 million were in the process of implementation.

## **Internal processes streamlined**

With a view to boosting efficiency in the tapping of new areas of business and further intensifying the transfer of knowledge between business units in future, HOCHTIEF Construction AG has set up a Business Development department. At the same time, risk management has been improved once again and the method of systematically selecting projects to bid on rigorously pursued. The Quality Management and Contract Administration departments monitor all construction projects on an ongoing basis, ensuring that cooperation with clients runs smoothly and without friction at all times.

## **Costs significantly reduced in the year under review**

HOCHTIEF Construction continued to pursue its stringent cost-cutting program also in the year under review. The program includes not only savings in IT and business travel; thanks to the rapid implementation of capacity adjustments coupled with substantial savings on internal services, the company also managed to considerably reduce operating expenses.

### **Forging ahead with internationalization of infrastructure business**

Cross-border expansion is a key driver behind the success of infrastructure business. The Infrastructure Europe, Infrastructure and Tunneling and Infrastructure International segments have set the stage for systematic internationalization. Focusing not only on regional business, they also act as competence centers for special product market segments. Partnership-based contracting models are instrumental to ensuring fair cooperation between companies and clients also when it comes to international infrastructure projects. They help pinpoint potential project risks at the very outset and formulate practicable solutions in the event of conflict. For example, it was contractually agreed in the case of the Channel Tunnel Rail Link sections awarded that cost overruns of up to 20 percent in excess of the target price would be split between the client and HOCHTIEF Construction according to a fixed ratio. The same applies in the case of cost savings.

As part of HOCHTIEF Construction's strategy of focusing exclusively on profitable segments, the company's bidding efforts in the field of global infrastructure projects concentrate on airports, power stations, dams, ports, bridges, tunnels and other infrastructure projects.

HOCHTIEF Construction's clear orientation toward product market segments results in a lesser dependence on regional markets and their inherent fluctuations. Furthermore, focusing on a handful of segments allows business units to implement projects of all shapes and sizes.

### **New direction in procurement management**

In the year under review, HOCHTIEF Construction AG structurally integrated its procurement managers into the operating divisional and procurement organizations, at the same time assigning them to the newly founded Procurement Management unit. This move allows strategic approaches to be transferred into day-to-day business. In addition, risk management for such key subcontractor trades as facade engineering as well as electrical and mechanical installations was further strengthened. So-called subcontractor managers support the operational units in requesting bids as well as selecting suitable specialist firms. The close contact between these experts and a select circle of high-caliber subcontractors creates a sound knowledge pool as regards market trends as well as product quality and workmanship standards. Alongside a competitive advantage for HOCHTIEF Construction, this results not only in higher-quality results but also in significantly reduced outlay within the scope of defects liability. Reputed subcontractors were invited to take part in partner forums held for the first time; these laid the cornerstone for even more efficient cooperation. Enhanced procurement monitoring makes a wealth of information on the overall market accessible, while Web-based procurement reporting ensures that such information is available throughout the company. This, for instance, permits efficient bundling of procurement measures.

### **Sound foundation for further expansion**

Improved results for 2002 and 2003 show that HOCHTIEF Construction is well poised to successfully tap not only European construction business but also global infrastructure projects. Through its management of the major Central and Eastern European companies HOCHTIEF Polska and HOCHTIEF VSB, HOCHTIEF Construction can now draw on the potential necessary to benefit from measures brought about by expansion of the EU.

### **Outlook**

Building on its broad technical expertise and experience in implementing complex projects, coupled with an uncompromising eye to profitability, HOCHTIEF Construction will continue to expand its innovation leadership in the coming years and make a sustained contribution to consolidated earnings. As part of these activities, an internationally seasoned team of experts has been supporting German clients in implementing general building projects in Europe since the end of 2003. Here, HOCHTIEF Construction is responding to the increasingly global nature of its repeat clients' activities.

In the infrastructure segment—Infrastructure Europe, Infrastructure International as well as Infrastructure and Tunneling—we continue to set our sights on systematic cross-border expansion. Initially, Infrastructure Europe will become increasingly involved in countries such as Austria, Switzerland and the Scandinavian region. Together with HOCHTIEF subsidiaries in Poland and the Czech Republic, we aim to strengthen our expertise in infrastructure projects in Central and Eastern Europe. In the case of Infrastructure International, internal joint ventures are to be set up between the product-specific and international business units. HOCHTIEF Construction aims to harness the resulting combined knowhow in securing large-scale international airport, industrial, power station, dam, port, bridge and hydro construction projects. Close collaboration at all company levels guarantees a sound springboard: Together, projects can be identified in good time and strategic alliances formed.

Positioning itself as innovation leader in tunneling, the Infrastructure and Tunneling segment will continue to forge ahead with efforts to secure tunneling projects.

### **Major events subsequent to the reporting period**

There were no major events subsequent to the reporting period.

# Financial Statements and Notes

## Boards

### Supervisory Board

**Dr.-Ing. Dr.-Ing. E. h. Hans-Peter Keitel**

Essen, Chairman, Chairman of the Executive Board of HOCHTIEF Aktiengesellschaft

**Gerhard Peters\***

Butzbach, Deputy Chairman, Administrative Officer, HOCHTIEF Construction AG

**Fred Anders\***

Delmenhorst, Technician, HOCHTIEF Construction AG

**Bernd Börgers\***

Haldern/Rees, Executive Manager of the Mülheim/Oberhausen regional chapter of the German Construction, Agricultural and Environmental Employees' Union

**Werner Böse\***

Cologne, Concrete Worker, HOCHTIEF Construction AG

**Günter Haardt\***

Frankfurt, Executive Manager, Vermögensverwaltungs- und Treuhandgesellschaft mbH, trust fund of the German Construction, Agricultural and Environmental Employees' Union

**Olaf Hasselmann\***

Hanover, Chairman of the Management of the Hanover business unit, HOCHTIEF Construction AG

**Dr. Wolfgang Kässer**

Pullach, Chairman of the Executive Board of RWE Net AG

**Hans-Wolfgang Koch**

Meerbusch, Member of the Executive Board of HOCHTIEF Aktiengesellschaft

**Wojciech Kostrzewa**

Warsaw, President and Chief Executive Officer of BRE Bank SA

**Dr.-Ing. Karl Rönberg**

Essen, President of HOCHTIEF USA Inc.

**Dr. rer. pol. Hans-Georg Vater**

Ratingen, Member of the Executive Board of HOCHTIEF Aktiengesellschaft

### Executive Board

**Dipl.-Ing. Dr.-Ing. E. h. Friedel Abel**

Mettmann, Chairman

**Dr.-Ing. Bernhard Bürklin**

Essen  
(until December 31, 2003)

**Dr. rer. pol. Burkhard Lohr**

Haltern am See

**Dr.-Ing. Martin Rohr**

Düsseldorf

\*Employee representative

# Financial Statements of HOCHTIEF Construction AG for the Fiscal Year January 1 – December 31, 2003

The 2003 Financial Statements and Management Report of HOCHTIEF Construction AG are published in the German

Federal Bulletin ("Bundesanzeiger") and are submitted to the commercial registry of the Essen District Court under registered number HRB 14772.

## Balance Sheet

Assets (EUR thousand)

See note **Dec. 31, 2003** Dec. 31, 2002

<b>Fixed assets</b>	(1)		
Property, plant and equipment		8,800	5,880
Financial assets		5,715	5,698
		<b>14,515</b>	<b>11,578</b>
<b>Current assets</b>			
Inventories			
Construction work in progress		1,340,291	1,197,013
Less: Installment payments received		1,228,290	1,060,085
		<b>112,001</b>	<b>136,928</b>
Other inventories	(2)	12,068	3,195
		<b>124,069</b>	<b>140,123</b>
Receivables and other current assets	(3)	845,340	749,336
Marketable securities	(4)	342,549	603,436
Cash and cash equivalents	(5)	29,605	19,581
		<b>1,217,494</b>	<b>1,372,353</b>
		<b>1,356,078</b>	<b>1,524,054</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Shareholders' equity</b>	(6)		
Subscribed capital		100,050	100,050
Additional paid-in capital		103,615	103,615
Unappropriated net loss		(3)	(3)
		<b>203,662</b>	<b>203,662</b>
<b>Provisions</b>	(7)	<b>413,427</b>	<b>419,735</b>
<b>Liabilities</b>	(8)	<b>738,989</b>	<b>900,657</b>
		<b>1,356,078</b>	<b>1,524,054</b>

## Statement of Earnings

(EUR thousand)	See note	Jan. 1 – Dec. 31, 2003	Jan. 1 – Dec. 31, 2002
Sales	(10)	1,562,895	1,312,080
Change in construction work in progress		100,733	246,657
Other own work capitalized		438	–
Other operating income	(11)	23,957	15,800
Materials	(12)	(1,247,221)	(1,178,227)
Personnel costs	(13)	(363,742)	(367,084)
Depreciation and amortization	(14)	(9,302)	(7,170)
Other operating expenses	(15)	(106,719)	(117,712)
Income transferred under pooling agreements		221	5,385
Income from participating interests (net)	(16)	46	0
Income from financial assets (net)	(16)	4	3
Interest income (net)	(17)	46,080	39,362
Write-downs on financial assets and marketable securities	(18)	(41)	(63)
<b>Profit from ordinary activities</b>		<b>7,349</b>	<b>(50,969)</b>
Loss/profit transferred under pooling agreement		(7,349)	50,969
<b>Net income/(loss) before changes in reserves</b>		<b>0</b>	<b>0</b>
Net loss brought forward from previous period		(3)	(3)
<b>Unappropriated net loss</b>		<b>(3)</b>	<b>(3)</b>

## Movements in Fixed Assets over the Period Jan. 1–Dec. 31, 2003

### Cost of acquisition and production

Jan. 1, 2003      Additions      Disposals      Depreciation and amortiza-  
tion, cumulative      Depreciation and amortiza-  
tion in FY

(EUR thousand)

	Jan. 1, 2003	Additions	Disposals	Depreciation and amortiza- tion, cumulative	Depreciation and amortiza- tion in FY	Carrying value at <b>Dec. 31, 2003</b>	Carrying value at Dec. 31, 2002
<b>Property, plant and equipment</b>							
Technical equipment and machinery, transportation equipment	4,915	16,526	745	18,001	1,236	2,695	1,047
of which: from merger		[15,529]		[13,624]		[1,905]	
Other equipment, office furniture and equipment, small equipment	42,051	13,088	6,266	42,768	8,066	6,105	4,833
of which: from merger		[3,785]		[3,505]		[280]	
	<b>46,966</b>	<b>29,614</b>	<b>7,011</b>	<b>60,769</b>	<b>9,302</b>	<b>8,800</b>	<b>5,880</b>
<b>Financial assets</b>							
Shares in affiliated companies	5,638	–	–	–	–	5,638	5,638
Other participating interests	–	32	–	–	–	32	–
Other long-term loans	60	4	19	–	–	45	60
	<b>5,698</b>	<b>36</b>	<b>19</b>	<b>–</b>	<b>–</b>	<b>5,715</b>	<b>5,698</b>
<b>Total Fixed Assets</b>	<b>52,664</b>	<b>29,650</b>	<b>7,030</b>	<b>60,769</b>	<b>9,302</b>	<b>14,515</b>	<b>11,578</b>

The merger figures relate to the inclusion of assets and liabilities of HOCHTIEF Fertigteilebau GmbH, Essen, at book value as of January 1, 2003.

# Notes to the 2003 Financial Statements of HOCHTIEF Construction AG

## General principles

These annual financial statements have been prepared in accordance with the German Commercial Code (HGB) and Stock Corporations Act (AktG). HOCHTIEF Construction AG has exercised the option provided by Sec. 265 (7) of the Commercial Code to aggregate a number of items in both the balance sheet and the statement of earnings for the sake of clarity. Also in the interest of clarity, we have added two further subitems in these Notes to the usual statutory balance sheet format: "Receivables from joint ventures" and "liabilities to joint ventures." They record the net amounts (credit or debit) remaining for the joint ventures involved, after accounting for products and services supplied, construction work done, administration fees, cash advances paid, and the pro rata share of the venture's profits or losses. The statement of earnings classifies expenses by their nature, using what is also known as the "cost of production" method.

The Company is a fully-owned subsidiary of HOCHTIEF Aktiengesellschaft, with which it has concluded a Control and Profit Transfer Agreement.

As there was no material impact on comparability, figures from earlier years were not adjusted as provided for by Section 265 (2) of the Commercial Code to take account of the mergers with effect of January 1, 2003, of HOCHTIEF Fertigteilebau GmbH, Essen, and CAL Grundstücksgesellschaft "Galerie Wiener Platz" mbH, Cologne.

## Accounting and valuation methods

Property, plant and equipment are stated at cost of acquisition or production (at the amount required to be capitalized under tax law), less scheduled depreciation. Interest on debt is not included in those costs.

Depreciation charges against property, plant and equipment are made to the full extent permissible under tax law. The declining balance depreciation method is used wherever permitted, switching to the straight-line method once this yields a greater amount. Providing tax law permits, depreciation on additions to movable assets during the first and second half of the year is calculated using full or half-year rates respec-

tively. Low-value assets are fully written down in the year of acquisition and posted as disposals to the schedule of movements in fixed assets. Owing to its limited significance, acquired IT software is not reported as a separate item but under office equipment. All permissible extraordinary tax depreciation allowances are used.

Financial assets are reported at cost of acquisition, as are shares in affiliated companies. Non-interest-bearing loans and low-interest loans to third-party entities are reported at their present value.

Inventories are stated at cost of acquisition or production or at their fair value if lower. The production cost of construction work in progress includes unit costs of materials and other prime cost, and also an appropriate proportion of capitalizable general operating expenses.

Impending losses are taken into account by writing down the cost of production accordingly or, if the losses exceed the capitalized cost of production, by establishing provisions. These are estimated on the basis of the prospective future performance of each contract until construction is completed, assessing future income solely on the basis of figures confirmed in writing by the client whereas future costs consist of the estimated full costing up to completion.

Advance payments received from clients are deducted from inventories up to the amount of the cost of production for each project. Advance payments which exceed these amounts are reported on the liabilities side.

Appropriate provision has been made for foreseeable risks in the valuation of receivables and other current assets. They have also had a lump sum charged against them to cover general credit risks.

Receivables from clients in other countries are largely secured against political and economic risks by HERMES guarantees.

Marketable securities are reported at acquisition cost. If the cost of acquisition or production of any assets is higher

than their fair value on the balance sheet date, their value is written down accordingly.

Provisions for pensions, long-service bonuses, and semi-retirement programs for older employees are determined using actuarial tables. The discount factor applied is 3.5 percent. The 1998 actuarial tables have been used for assessing pension provisions. Other provisions are allocated on a prudent, discretionary basis; in a limited number of project-related cases, the Company has set the provision on a legally determined basis, reflecting the level of risk that can realistically be anticipated.

Liabilities are invariably reported as the amount due.

Sales figures include the net profit/loss from joint ventures apportioned on a pro rata basis.

Expenses for severance allowances to employees and semi-retirement arrangements are reported as other operating expenses.

#### **Currency translation**

Assets and liabilities in foreign currency are reported in the financial statements at the central rate or the daily rate applicable at the time of initial entry into the accounts. Losses due to changes in exchange rates are recognized as expense.

# Explanatory Notes on the Balance Sheet

## 1. Fixed assets

The aggregated fixed assets categories reported in the balance sheet are itemized, with details of movements in each item, on page 26.

## 2. Other inventories

(EUR thousand)

**Dec. 31, 2003** Dec. 31, 2002

	<b>Dec. 31, 2003</b>	Dec. 31, 2002
Raw materials and supplies, spare parts	1,409	663
Advance payments	10,659	2,532
	<b>12,068</b>	<b>3,195</b>

## 3. Receivables and other current assets

(EUR thousand)

**Dec. 31, 2003**

Of which:  
with residual  
term above  
1 year

Dec. 31, 2002

Of which:  
with residual  
term above  
1 year

	<b>Dec. 31, 2003</b>		Dec. 31, 2002	
Trade receivables	122,516	937	122,810	–
Receivables from joint ventures	40,790	–	49,307	–
Receivables from affiliated companies	659,224	6,800	537,229	7,000
Receivables from companies linked by virtue of participating interests	299	–	4,954	–
Other current assets	22,511	19	35,036	–
	<b>845,340</b>	<b>7,756</b>	<b>749,336</b>	<b>7,000</b>

Amounts due from affiliated companies consisted primarily of trade receivables, loans and cash-pool receivables.

Other current assets include short-term loans, interest receivable from securities, fixed-term deposit investments, tax refund entitlements, advance contributions made to funds set up to compensate construction employees during reduced working hours or bad weather, advances on wages, salaries and travel expenses, damage claims, other non-trade receivables and other assets.

#### 4. Marketable securities

Our securities are all fixed-interest investments denominated in euros.

#### 5. Cash and cash equivalents

These consist mostly of euro bank balances.

#### 6. Shareholders' equity

(EUR thousand)	Amount as of <b>Dec. 31, 2003</b>	Amount as of Dec. 31, 2002
Subscribed capital (nominal capital stock)	100,050	100,050
Additional paid-in capital	103,615	103,615
Unappropriated net loss	(3)	(3)
	<b>203,662</b>	<b>203,662</b>

The nominal capital of HOCHTIEF Construction AG is divided into 100,050,000 bearer shares of common stock with no par value (the notional nominal value is EUR 1.00 each); the sole shareholder is HOCHTIEF Aktiengesellschaft of Essen, Germany.

#### 7. Provisions

(EUR thousand)	<b>Dec. 31, 2003</b>	Dec. 31, 2002
Provisions for pensions	177,742	158,051
Other provisions	235,685	261,684
	<b>413,427</b>	<b>419,735</b>

Provisions for pensions are created for obligations arising from entitlements to future pension benefits and ongoing payments to current and former employees and their survivors.

Current pension payments during the reporting year were EUR 2,762,000 (2002: EUR 1,593,000). EUR 12,088,000 of the increase in pension provisions consists of additions resulting from the merger of HOCHTIEF Fertigteilebau GmbH with HOCHTIEF Construction AG. Other provisions totaling EUR 12,570,000 were transferred in equity on the merger of HOCHTIEF Fertigteilebau GmbH and CAL Grundstücksgesellschaft "Galerie Wiener Platz" mbH.

Other provisions cover warranty obligations, costs of order processing and follow-up costs on contracts already invoiced, anticipated losses related to pending transactions not considered elsewhere, obligations for long-service bonus payments, costs of preparing the financial statements, contributions to occupational accident mutual indemnity associations, outstanding employee vacation time, costs for social compensation plans, costs of semi-retirement programs for older employees, payments for damages, and other uncertain liabilities.

## 8. Liabilities

(EUR thousand)

	<b>Dec. 31, 2003</b>	Of which: with residual term up to 1 year	Dec. 31, 2002	Of which: with residual term up to 1 year
Amounts due to banks	8,300	8,300	173,124	173,124
Advance payments received	209,678	209,678	126,955	126,955
Trade payables	310,131	310,131	333,246	321,440
Amounts due to joint ventures	108,666	108,666	138,573	138,573
Amounts due to affiliated companies	38,420	38,420	80,700	80,700
Amounts due to companies linked by virtue of participating interests	184	184	382	382
Other liabilities	63,610	63,610	47,677	47,677
Of which: from taxes	[5,101]	[5,101]	[(6,125)]	[(6,125)]
Of which: from social insurance	[8,007]	[8,007]	[(8,338)]	[(8,338)]
	<b>738,989</b>	<b>738,989</b>	<b>900,657</b>	<b>888,851</b>

The reduction in amounts due to banks is mainly due to the fact that, unlike the prior year, no repo transactions were open at the balance sheet date.

Other liabilities include liabilities from payroll, tax liabilities, short-term borrowing, social insurance liabilities, other non-trade payables and other obligations.

## 9. Contingencies, commitments and other financial obligations

Under the centralized cash management system operated by the parent company HOCHTIEF Aktiengesellschaft, the Company bears a secondary liability for the use of funds by HOCHTIEF Aktiengesellschaft, provided that meeting the assumed payment obligation does not affect the asset base needed to preserve the capital stock at the time the payment obligation is entered into.

HOCHTIEF Construction AG is jointly and severally liable for all joint ventures in which it participates.

HOCHTIEF Construction AG has pledged securities with a par value of EUR 145,696,000 to secure liabilities of HOCHTIEF Aktiengesellschaft.

HOCHTIEF Construction AG is liable up to a maximum of EUR 18.9 million under a guarantee bond provided in connection with a project to be implemented by HOCHTIEF Luxembourg. HOCHTIEF Construction AG is also liable under a lease with HOCHTIEF Polska with guarantees relating to a total of EUR 5.6 million.

Other financial obligations arise in connection with long-term tenancy agreements. In FY 2003, the total expense involving rentals and lease rentals was EUR 24,210,000.

## 10. Sales

Our sales totaling EUR 1,562,895,000 (2002: EUR 1,312,080,000) primarily consist of the contract values invoiced directly to clients, products and services supplied to joint ventures, and pro rata profits/losses from joint ventures. Because of the long-term nature of contracts, sales figures provide only an incomplete picture of work done during the fiscal year (including the pro rata share of work done for joint ventures), which is therefore detailed separately for domestic and international operations below.

### Work done

(EUR thousand)	Jan. 1 – Dec. 31, 2003	Jan. 1 – Dec. 31, 2002
Domestic:		
Subdivided by sector		
Commercial/ industrial	1,402,525	1,347,211
Public sector	169,380	196,014
Residential	106,315	101,585
	<b>1,678,220</b>	<b>1,644,810</b>
International:		
Subdivided by region		
Europe	104,345	74,690
Asia	137,095	140,439
Africa	62,838	14,888
The Americas	10,339	10,046
Australia	50,089	2,377
	<b>364,706</b>	<b>242,440</b>
<b>Total</b>	<b>2,042,926</b>	<b>1,887,250</b>

## 11. Other operating income

This item primarily includes income from the reimbursement of administrative expense, disposal of fixed assets, writing back provisions, the sale of securities, insurance payments received for damages, renting and leasing out, price gains on securities, and foreign exchange gains.

## 12. Materials

(EUR thousand) **Jan. 1 – Dec. 31, 2003** Jan. 1 – Dec. 31, 2002

Raw materials, supplies and purchased goods	128,737	80,672
Purchased services	1,118,484	1,097,555
	<b>1,247,221</b>	<b>1,178,227</b>

## 13. Personnel costs

(EUR thousand) **Jan. 1 – Dec. 31, 2003** Jan. 1 – Dec. 31, 2002

Wages and salaries	300,083	302,588
Social insurance and support	53,619	52,118
Pensions	10,040	12,378
	<b>363,742</b>	<b>367,084</b>

## Employees (average for the year)

**Jan. 1 – Dec. 31, 2003** Jan. 1 – Dec. 31, 2002

Waged/industrial employees	2,060	2,539
Salaried/office employees	3,932	3,717
<b>Total</b>	<b>5,992</b>	<b>6,256</b>



# List of Holdings

Name and registered location	Percentage of equity held	Shareholders' equity (thousand)		Profit/(loss) for the year (thousand)	
		Local currency	EUR	Local currency	EUR
Entreprise Générale de Construction HOCHTIEF-LUXEMBOURG S. A., Luxembourg	99.96 %		(4,764)		1,091
Dipl. Ing. Hugo Durst G.m.b.H. Vienna, Austria	99.90 %		6,741		269
HOCHTIEF (UK) CONSTRUCTION Ltd., Swindon, England	100 %	GBP 1,292	1,833	GBP 502	724
STREIF Baulogistik GmbH, Essen	100 %		31,659		0*
<b>Other holdings</b>					
HOCHTIEF Construction Chilena Ltda., Las Condes, Santiago, Chile	100 %	CLP 19,460	26	CLP 419,471	568
HGW Verwaltungsgesellschaft mbH, Bremen**	100 %		31		1
HGW Grundstücksverwaltungsgesellschaft Theodor-Heuss-Allee KG, Bremen**	95 %		158		191
Projektverwaltungsgesellschaft Mönchengladbach Area of Sports mbH, Mönchengladbach	50 %		25		0
Area of Sports GmbH & Co KG, Mönchengladbach	50 %		2		(7)
DILIGENTIA Hundertsechste Vermögensverwaltungs-GmbH, Cologne***	51 %		25		-

\* Income totaling EUR 221,000 was transferred to HOCHTIEF Construction AG under the existing profit and loss pooling agreement.

\*\* Annual financial statements as of December 31, 2002

\*\*\*No current annual financial statements

# Independent Auditors' Report

We have audited the annual financial statements of HOCHTIEF Construction AG, Essen, for the fiscal year January 1 – December 31, 2003, including the bookkeeping system on which they are based and the Management Report. The responsibility for keeping accounts and preparing the financial statements and the accompanying Management Report conforming to German commercial law lies with the Company's Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the Management Report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 of the German Commercial Code (Handelsgesetzbuch—HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

It is our opinion that the annual financial statements convey a true and fair view of the assets and liabilities, financial position and results of operations of HOCHTIEF Construction AG, Essen, in accordance with the principles of proper accounting. On the whole the Management Report provides a suitable understanding of the Company's business situation, and properly portrays the risks inherent in future developments.

Kunst  
Wirtschaftsprüfer  
(German Public Auditor)

Bedenbecker  
Wirtschaftsprüfer  
(German Public Auditor)

PwC Westdeutschland  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Essen, January 19, 2004

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**This annual report is a translation of  
the original German version, which  
remains definitive.**

As at: March 2004