

# Half-Year Report

## January–June 2004

- Revised profit forecast following earnings drop in Australia
- HOCHTIEF Airport: Substantial increase in passenger volume at airport holdings
- HOCHTIEF Development: Expanded market position in facility management
- HOCHTIEF Europe: Continuing on the path to success



# Dear Shareholders,



There were three major developments that characterized the second quarter of fiscal 2004:

- In our Asia Pacific division, earnings took a hard hit—despite a solid course of business overall—as an additional provision was formed to cover risks associated with Leighton's Spencer Street Station project in Melbourne. This directly impacted HOCHTIEF's results in the period under review, forcing us to revise our forecast for fiscal year 2004. The disappointment is all the more bitter, as our other divisions are performing as planned. An agreement was reached with Leighton's management on personnel and structural

measures aimed at optimizing the company's risk management. These measures are being implemented presently.

- HOCHTIEF Europe, whose German construction business comprises its main activity, reported its best quarter since the division's inception.
- HOCHTIEF Development, with its acquisition of Lufthansa Gebäudemanagement and the progress made integrating the former Siemens Gebäudemanagement und Services, considerably expanded its position in the market for sophisticated facility management services.

Risk is a natural part of construction. At HOCHTIEF, we make it our business to manage this risk successfully, as thousands of HOCHTIEF, Turner and Leighton projects the world over prove on a daily basis. The early detection of risks is a must. Risk provisioning is one piece of the puzzle, but it is just as important to tackle the problem full-on directly within operations in order to keep the actual materialization of discernible risks to an absolute minimum. Our project managers are trained to do just that.

We took the situation with Leighton's Spencer Street Station project as an opportunity to once again reevaluate our risk management and optimize it using a Group-wide best practices approach. Experts from HOCHTIEF, Turner and Leighton

## The HOCHTIEF Group

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
New orders	<b>2,990,962</b>	2,782,283	<b>6,911,274</b>	6,678,058	<b>3.5%</b>	14,352,632
Work done	<b>3,286,057</b>	2,727,048	<b>5,995,941</b>	5,553,085	<b>8.0%</b>	11,502,983
Order backlog	<b>17,420,440</b>	15,094,412	<b>17,420,440</b>	15,094,412	<b>15.4%</b>	16,464,715
External sales	<b>2,978,856</b>	2,696,009	<b>5,492,044</b>	5,352,368	<b>2.6%</b>	10,534,380
Operating earnings (EBITA) excluding goodwill amortization	<b>52,170</b>	60,436	<b>82,659</b>	119,550 123,861	<b>-30.9%</b>	220,083
Profit before taxes excluding goodwill amortization	<b>44,011</b>	39,871	<b>81,452</b>	70,319 84,589	<b>15.8%</b>	159,459
Consolidated net profit excluding goodwill amortization	<b>11,504</b>	8,781	<b>18,042</b>	(7,359) 6,911	<b>345.2%</b>	16,231
Earnings per share (EUR) excluding goodwill amortization	<b>0.18</b>	0.14	<b>0.29</b>	(0.12) 0.11	<b>341.7%</b>	0.26
Cash flow	<b>74,846</b>	64,371	<b>138,233</b>	131,263	<b>5.3%</b>	273,498
Capital expenditure	<b>179,767</b>	129,865	<b>273,673</b>	192,265	<b>42.3%</b>	369,852
Operating assets	<b>1,633,111</b>	1,577,080	<b>1,633,111</b>	1,577,080	<b>3.6%</b>	1,525,780
Employees (at June 30)	<b>33,847</b>	34,760	<b>33,847</b>	34,760	<b>-2.6%</b>	34,039 (2003 average)

Cover photo: High-end facility management extends deep into manufacturing processes—Fujitsu Siemens Computers in Augsburg.

participated, and the results of our work were integrated into the measures being taken in Melbourne.

The first half's figures prove that we are well prepared for the remainder of the fiscal year and beyond. At EUR 6.91 billion, **new orders** in the Group were 3.5 percent above the prior-year figure. Adjusted for exchange rates, growth stood at 6.7 percent. One reason for this increase was the first-time inclusion of the orders received by HOCHTIEF Gebäude Management (formerly Siemens Gebäudemanagement und Services). Internationally, the Asia Pacific region enjoyed new orders on a par with the previous year's high level. Measured in dollars, there was even a significant increase in the US.

At EUR 6.0 billion, the Group's **work done** well exceeded the prior-year figure (up 8.0 percent). The increase was more than 10 percent when adjusted for exchange rate movements. In Germany, work done continued to outperform the previous year with 2.7 percent growth. Internationally, it was Leighton that especially benefited from the large volume of new orders placed in the previous year. The company increased its work done by more than half a billion euros.

At the close of the second quarter, the **order backlog** stood at EUR 17.42 billion, which made for a more than 15 percent increase over the prior-year figure. Statistically, this represents a forward order book of more than 17 months' work, a robust showing despite movement in the Australian and US dollars. Factoring in the year-on-year exchange rate movement as of the reporting date reduces the order backlog by some EUR 0.6 billion.

The HOCHTIEF Group generated **external sales** of EUR 5.49 billion in the first half of 2004 (H1 2003: EUR 5.35 billion). Of decisive importance to the 2.6 percent increase was the some EUR 175 million boost in sales at Leighton Holdings (EUR 113 million of that amount being attributable to movement in the Australian dollar). At 82 percent, the portion of external sales attributable to international business was flat with the previous year.

Our profit figures reflect a nonuniform course of business. At EUR 82.7 million, **operating earnings** fell well short of the prior-year figure. The principal reason was the risk provisioning in the first and second quarters of the current fiscal year for projects of the Leighton Group. Having a positive

impact were the substantial increase in our Europe division's operating earnings and the sale of our stake in Ballast Nedam N. V. It should be borne in mind that the previous year's earnings were affected by nonrecurring items in the Airport division. Despite the charges relating to individual projects at Leighton, as already discussed, **profit before taxes** in the first half increased 15.8 percent year on year to EUR 81.5 million. Aside from the changes in IAS accounting rules (elimination of goodwill amortization), marked improvement in the operating business of the Europe division had an impact, as did the upsurge in net investment and interest income. In the previous year, risk provisioning for our securities holdings in special-purpose investment funds had adversely affected this figure. There was a surge in **consolidated net profit**, which increased EUR 25.4 million year on year, from negative EUR 7.4 million to EUR 18.0 million.

In March 2004 the International Accounting Standards Board adopted new rules on the treatment of goodwill. Instead of scheduled amortization, effective January 1, 2005 goodwill will be subject to an annual impairment test. HOCHTIEF has decided to voluntarily apply the new rule with retroactive effect to January 1, 2004. The resulting effect on key earnings figures has been demonstrated vis-à-vis adjusted prior-year figures ("H1 2003" column) in both the table of Group figures and the table shown with each division report. The overall effect for 2004—as measured in profit before taxes—is expected to be some EUR 27 million.

In the first six months of the current fiscal year, **HOCHTIEF stock** underperformed relevant benchmark indices such as the MDAX and DJ STOXX Euro Construction. The market reacted to the release of our Q1 results with price drops that eventually drove the value to a year-low of less than EUR 17 per share. As the second quarter progressed, HOCHTIEF stock started to regain some of its losses, closing at EUR 19.50 at the end of June. Following the announcement of our revised profit forecast on August 4 coupled with the overall market weakness, the stock price came in at EUR 17.65 as of the August 9 copy deadline for this half-year report.

Average trading of some 450,000 shares per day in the first half is a reflection of the substantial rise in our stock's liquidity and of the avid interest in it. Since the placement of RWE's stake in February 2004, over 80 percent of HOCHTIEF stock has been in free float.

### Group outlook

The prevailing conditions on the market will continue to challenge us in the second half. Our growing international ties will serve us well, as they work to offset some of the effects of local economies.

The project development market in Germany appears to be in a particularly poor state, as vacancy rates are not expected to drop before 2005, and are likely to do so only on a regional basis initially. The presence of HOCHTIEF Construction Europe in Central and Eastern Europe will help us tap the development potential of these markets. The Rondo 1 project in Warsaw is an excellent example.

Although estimates differ in their details, the consensus is that Germany's construction market is not expected to grow for a long period of time. However, taking the macroeconomic indicators as a basis, the industry's recession has likely bottomed out. HOCHTIEF has managed to tap into attractive market potential, in part thanks to the PreFair model co-developed with Turner and to client contacts in Facility Management.

For Turner, the German experts support a marked expansion of the facility management offering. Nevertheless, the sustainability of the upswing in the US construction market remains a question, and an answer is not expected until after the upcoming presidential elections.

The boom in the Australian construction and Asian mining markets is showing no signs of weakening. In light of the large growth in orders, HOCHTIEF has made a host of specialists available for projects, especially at Thiess.

Passenger numbers at our airport holdings confirm without exception that there is a considerable recovery underway following the prior year's turbulence. Düsseldorf, in particular, seems to be responding well to the structural changes initiated by HOCHTIEF Airport. The airports' improved results will first show up at HOCHTIEF on next year's financial statements.

On the basis of the market estimates mentioned and assuming no external crises, we still expect in comparison to 2003

- New orders similar to the prior year, resulting again in record order backlogs.
- Single-digit percentage increases in work done and sales. Our profit forecast has been influenced by the risk provisioning at Leighton and the elimination of goodwill amortization:
- Taking both effects into account, pretax profit for 2004 is expected to show a high single-digit percentage increase over 2003, while consolidated net profit is expected to more than double.

For comparison: Without the change in the treatment of goodwill, the pretax profit would come in at some ten percent below, while consolidated net profit would be slightly above, the prior year's level.

The positive course of business in our German and European construction activities, the favorable order situation overall in the Group, the successful expansion of the facility management business and the raised profit forecast of Australian subsidiary Leighton for the 2004/2005 fiscal year: All of these factors make us confident in our future. To be sure, the operating conditions in our project business will remain difficult. This makes it all the more important that we stay on the course we have successfully pursued over the years while exercising sound judgment. We must strengthen the Group's globalization qualitatively, reduce the portion of higher-risk traditional construction operations in favor of services and concession arrangements, optimize our holdings in subsidiaries and associates, and increase our technological edge.

Our shareholders can be confident that we are hard at work in the interests of all those with a stake in HOCHTIEF to achieve sustainable growth in earnings and shareholder value.

Sincerely yours,



Dr.-Ing. Hans-Peter Keitel

# Divisions

## HOCHTIEF Airport Division

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
New orders	650	638	751	966	-22.3%	1,505
Work done	650	638	751	966	-22.3%	1,505
Order backlog	0	0	0	0	-	0
External sales	501	641	573	970	-40.9%	1,509
Operating earnings (EBITA) excluding goodwill amortization	2,295	11,962	7,911	21,112 23,475	-62.5%	23,635
Profit before taxes excluding goodwill amortization	(5,308)	6,314	(7,536)	5,428 7,967	-238.8%	3,163
Cash flow	5,035	1,304	6,159	(2,701)	328.0%	(22,402)
Capital expenditure	6	4	515	1,182	-56.4%	153
Operating assets	650,821	668,966	650,821	668,966	-2.7%	653,971
Employees (at June 30)	47	58	47	58	-19.0%	59 (2003 average)

The results from our airport businesses in Athens, Düsseldorf and Sydney are recognized with a lag of one accounting period.

Business was on a steady upward trend in the first half at HOCHTIEF Airport's four airport holdings in Athens, Düsseldorf, Hamburg and Sydney: All reported increasing passenger volume, with Sydney Airport and Athens International enjoying industry-beating growth of just under 11 and 14 percent respectively year on year. The performance of Düsseldorf International was also strong, with a considerable increase in traffic despite regulatory restrictions.

Proof of the upward trend's sustainability can be found in the healthy demand from airlines for takeoff and landing slots on the winter flight schedule. The improved passenger numbers are also impacting profit. Sydney Airport, whose fiscal year ended June 30, reported another earnings boost, this time of 15.8 percent.

Business developments for the HOCHTIEF Airport division overall were as expected in the first half. Despite slipping, **operating earnings** and **profit before taxes** were slightly above plan. Absent from this half's numbers were the one-off effects that had a positive impact in the previous year, including the release of reserves at Flughafen Düsseldorf GmbH and the settlement reached on the expenses associated with the failed privatization of Berlin's airports.

Negotiations for a 20-year concession to operate Tirana Airport in Albania reached a successful, on-time conclusion in June. The Albanian government is expected to sign the agreement in the third quarter. The concession model adopted is regarded as a pilot for other upcoming privatizations in Southeastern Europe.

### HOCHTIEF Airport outlook

Once the Albanian parliament ratifies the agreement, HOCHTIEF Airport will immediately assume management of Tirana Airport. For the first year of operations, the division expects to spend EUR 1.8 million on required renovations, but will also see a simultaneous return on its investment in the form of fee income.

On the whole, HOCHTIEF Airport expects to see the positive trend of the first six months continue in the second half and to reach the breakeven point in 2005.

## HOCHTIEF Development Division

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
New orders	123,848	138,721	595,563	198,606	199.9%	476,314
Work done	172,434	147,966	304,291	259,382	17.3%	559,866
Order backlog	1,176,763	786,789	1,176,763	786,789	49.6%	746,508
External sales	157,308	132,954	273,607	243,202	12.5%	518,713
Operating earnings (EBITA) excluding goodwill amortization	2,504	5,532	4,049	16,722 16,722	-75.8%	51,909
Profit before taxes excluding goodwill amortization	3,329	3,959	5,866	11,165 13,128	-47.5%	37,886
Cash flow	(3,436)	(14,356)	1,152	(1,689)	168.2%	26,449
Capital expenditure	8,100	1,657	23,981	3,499	585.4%	44,425
Operating assets	473,804	451,495	473,804	451,495	4.9%	470,079
Employees (at June 30)	2,748	1,141	2,748	1,141	140.8%	1,147 (2003 average)

The positive movement in orders in the Development division is largely the result of taking over the order backlog of Siemens Gebäudemanagement und Services (now HOCHTIEF Gebäude Management) following the latter's acquisition. This in turn generated a year-on-year increase in **work done** and **external sales**. **Operating earnings** and **profit before taxes** were as planned in the first half of 2004, but well below the previous year's levels due to seasonally atypical marketing successes in real estate development in the first half of 2003. Despite integration costs in line with estimates, HOCHTIEF Gebäude Management made a positive contribution to earnings in the period under review. The lion's share of the sharp rise in own funds used for **capital expenditure** went toward stakes in the infrastructure business as well as equipment for building the Rondo 1 office complex in Warsaw.

- Successful first half for the Property Development business unit: The Courtyard by Marriott hotel in Düsseldorf was sold to INNO-Invest Holding AG, Zug (Switzerland). The Air Cargo Center at Stuttgart Airport went to HGA Capital Grundbesitz und Anlage GmbH, Hamburg. The new Eurohypo headquarters in Eschborn was handed over on time, as was the BMW training academy near Munich, which was leased to the BMW Group for 20 years and sold to the Hertie-Stiftung.
- In the Infrastructure Development unit the equivalent of approximately USD 425 million in bonds was successfully placed at the end of June to fund the Santiago de Chile

beltway project. Demand for the AAA-rated bonds, with which the concession company has secured long-term financing hedged against currency risks, was so brisk that they were oversubscribed by more than 80 percent. Build-out work and preparations to erect the toll booth at the Herren Tunnel in Lübeck are on schedule.

- July 1, 2004, HOCHTIEF Facility Management\* took over Lufthansa Gebäudemanagement Holding GmbH and the latter's stakes in its subsidiaries. The acquisitions in the first half made for an expanded service portfolio.
- Debausie handed over the first phase of the "spreepoort" development in Berlin, on schedule, to the united service workers trade union ver.di. In Cologne, an existing property was revitalized for a new use and successfully let.

### HOCHTIEF Development outlook

The division expects a substantial earnings contribution in the fourth quarter in keeping with standard seasonal expectations from the Property Development and Asset Management units, in particular. Despite the nonrecurring expenditure associated with integrating the new facility management companies, which is proceeding according to plan, the Facility Management unit's contribution toward earnings will be positive.

As planned, the division will not achieve the high pretax profit of the previous year due to the slowdown on the domestic real estate markets.

\* For details of developments in HOCHTIEF Facility Management, turn to the In the Spotlight feature on page 15.

## HOCHTIEF Construction Services Americas Division

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
New orders	<b>1,547,961</b>	1,641,611	<b>3,371,823</b>	3,383,792	<b>-0.4%</b>	6,266,032
Work done	<b>1,524,792</b>	1,314,754	<b>2,672,240</b>	2,726,195	<b>-2.0%</b>	5,452,657
Order backlog	<b>6,400,538</b>	5,896,804	<b>6,400,538</b>	5,896,804	<b>8.5%</b>	5,488,232
External sales	<b>1,461,632</b>	1,295,456	<b>2,638,451</b>	2,674,399	<b>-1.3%</b>	5,353,198
Operating earnings (EBITA) excluding goodwill amortization	<b>18,480</b>	14,030	<b>26,979</b>	28,241 29,653	<b>-4.5%</b>	67,955
Profit before taxes excluding goodwill amortization	<b>14,032</b>	8,239	<b>19,592</b>	15,033 22,485	<b>30.3%</b>	38,282
Cash flow	<b>10,090</b>	7,419	<b>15,845</b>	16,850	<b>-6.0%</b>	48,582
Capital expenditure	<b>3,470</b>	1,692	<b>15,008</b>	6,350	<b>136.3%</b>	19,874
Operating assets	<b>267,216</b>	241,425	<b>267,216</b>	241,425	<b>10.7%</b>	264,150
Employees (at June 30)	<b>5,930</b>	7,683	<b>5,930</b>	7,683	<b>-22.8%</b>	7,400 (2003 average)

Due to solid, above-average **new orders**, Turner's current **order backlog** of USD 7.7 billion is up USD 1 billion over the first half of 2003. The exchange rate effect on **work done** was a negative EUR 258 million, while that on **external sales** was a negative EUR 256 million. Factoring out the movement in exchange rates year on year, both items increased approximately eight percent.

**Operating earnings** slipped 4.5 percent due to reverberations from the tense economic climate in the US in the first half of 2003, when the contracts for current projects were obtained. In addition, some of subsidiary Turner's projects were delayed, which will postpone recognition of their profit contributions until later periods. **Pretax profit** rose some 30 percent. Both figures were impacted by the elimination of goodwill amortization.

As in previous reporting periods, the dollar's depreciation against the euro (down an average of 8.9 percent in the period under review) distorts the year-on-year comparison.

In the services sector, Turner Logistics continued to grow at a rapid pace. New projects with sales of approximately EUR 110 million were secured in the first half of this year (a 45 percent increase over the previous year). As a result, Turner will be generating an ever-increasing part of its revenues out-

side of the margins typically seen in the construction and construction management business.

In the course of the Group-wide review of business holdings, the Kitchell Corporation stake was sold at carrying value. Due to the dollar's weakness, earnings took a slight hit from the currency translation. The bid to take over the remaining shares of Canadian-based Aecon Group was turned down by Aecon's other shareholders at the general shareholders' meeting held in July. The vote was swayed by fair-value and hence takeover price expectations that markedly exceeded the bid price. HOCHTIEF will continue to pursue the basic strategy of streamlining its portfolio and intends to resume talks about strategic options with Aecon.

### HOCHTIEF Americas outlook

As planned, the division expects a solid contribution to pretax profit in keeping with the prior year's level, among other things as a result of Aecon's improved bottom line and Turner's successful strategy of diversifying its service.

## HOCHTIEF Construction Services Asia Pacific Division

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
New orders	768,320	199,624	1,811,090	1,857,298	-2.5%	5,240,223
Work done	952,454	586,000	1,859,698	1,342,586	38.5%	2,983,396
Order backlog	7,081,146	5,467,943	7,081,146	5,467,943	29.5%	7,446,177
External sales	829,563	706,792	1,622,415	1,430,557	13.4%	2,647,279
Operating earnings (EBITA) excluding goodwill amortization	28,134	47,995	47,829	86,546 87,082	-44.7%	129,357
Profit before taxes excluding goodwill amortization	24,179	48,198	44,353	83,838 85,762	-47.1%	126,511
Cash flow	65,680	61,476	123,918	128,686	-3.7%	226,662
Capital expenditure	163,670	118,917	222,127	162,186	37.0%	273,284
Operating assets	362,897	322,468	362,897	322,468	12.5%	311,548
Employees (at June 30)	15,668	15,431	15,668	15,431	1.5%	15,185 (2003 average)

After a very strong performance in the previous year, **new orders** in the division were slightly down on the prior-year figure, but remained very high. The sizeable volume of new projects obtained in 2003 impacted **work done**, while a strong showing in the current order situation drove the **order backlog** above EUR 7 billion. The mining business played a major role in this regard, with volume at 1.4 times the prior year's level.

Operating growth and positive exchange rate effects (an average of +7.7 percent in the period under review) resulted in an increase in **external sales**. The currency translation impacts the year-on-year comparison.

After identifying project risks for which provisions were made at the end of the first quarter, Leighton worked in cooperation with HOCHTIEF in the ensuing weeks to structure its risk management around best practices and subjected all major projects to additional, detailed risk analysis. Ultimately, the decision was made—amidst positive earnings development overall—to set aside an additional AUD 60 million (EUR 36 million) in the second quarter to cover anticipated risks associated with the overall progress of the Spencer Street Station project in Melbourne.

The measure impacted the division's **operating earnings** and **profit before taxes**, both of which fell well short of prior-year figures.

The receipt of several significant orders in the last quarter underscores the overall positive trend. Leighton subsidiary John Holland tendered the winning bid for a major contract to lay a new rail link in Western Australia. Its share of the contract value amounts to around EUR 120 million.

In Macau (China), Leighton Asia (Northern) and a partner are scheduled to build a hotel and casino complex. Leighton Asia's portion of the deal is worth approximately EUR 100 million.

**Capital expenditure** on property, plant and equipment and on financial assets was stepped up sharply. The 3 percentage point increase in the stake in Leighton Holdings and Leighton's planned injection of new capital into operating companies drove the increased spending on financial assets.

### HOCHTIEF Asia Pacific outlook

Although Leighton's profit after tax of AUD 110 million (EUR 66 million) for the 2003/04 fiscal year was a noticeable AUD 30 million (EUR 18 million) below forecasts, the Asia Pacific division is still operating from the assumption that its contribution to the Group's pretax profit will be high, but below the prior year's level. In view of the high quantity and quality of new orders over the last few months and the additional risk provisioning undertaken at the beginning of August, Leighton raised its profit forecast for the new 2004/05 fiscal year from AUD 150 million (EUR 90 million) to AUD 180 million (EUR 108 million).

## HOCHTIEF Construction Services Europe Division

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
New orders	534,722	786,759	1,096,856	1,204,896	-9.0%	2,293,003
Work done	620,266	662,760	1,123,770	1,191,456	-5.7%	2,430,004
Order backlog	2,761,993	2,942,876	2,761,993	2,942,876	-6.1%	2,783,798
External sales	512,631	546,682	916,295	966,961	-5.2%	1,936,038
Operating earnings (EBITA) excluding goodwill amortization	5,176	(1,753)	865	(16,743) (16,743)	105.2%	176
Profit before taxes excluding goodwill amortization	5,539	412	6,306	(10,919) (10,527)	157.8%	10,371
Cash flow	12,657	10,084	18,442	6,518	182.9%	45,629
Capital expenditure	4,488	7,578	11,942	18,252	-34.6%	31,075
Operating assets*	(90,425)	(48,089)	(90,425)	(48,089)	-88.0%	(108,199)
Employees (at June 30)	9,016	10,120	9,016	10,120	-10.9%	9,918 (2003 average)

\*The negative figure for operating assets is primarily due to large sums in advance payments—a normal feature of the construction business.

Given the difficult market environment, **new orders** remained at a satisfactorily high level, even though in the second quarter they were some five percent below the record-setting level of the first quarter. **Work done** and **external sales** were down on the previous year as budgeted, and as before the **order backlog** well exceeds a year's work, thus assuring a large part of planned volume. All of these figures indicate the trend to limit volume to long-term, profitable projects. **Operating earnings** increased EUR 17.6 million on the previous year. **Profit before taxes**, up EUR 17.2 million, was also very gratifying. Backed by these developments, the division is sending a powerful message about its commitment to generating sustainable earnings contributions.

**Capital expenditure**, solely related to property, plant and equipment in the period under review, was down some 35 percent year on year.

All major new contracts were won in promising industries, which ensures HOCHTIEF Europe's ability to build up even more expertise in growth markets, including power plant construction. In close cooperation with HOCHTIEF Construction, HOCHTIEF (UK) tendered the winning bid for the construction of a waste incineration power plant in the County of Kent, England. With a number of alternative proposals in hand, HOCHTIEF managed to reduce the costs of building the facility considerably.

Projects are currently underway in Cologne and Stuttgart for the REWE Group. In May grocery store chain Lidl commissioned HOCHTIEF Construction to build a new logistics center in Leverkusen. In June HOCHTIEF Construction was awarded the contract to build a logistics center in Munich for electronics components of US-based TTI. The developer and investor for the project is Immobilienkontor Dreieich, one of the division's regular clients.

In Stuttgart, HOCHTIEF Construction is the general contractor for the Cannstatter Carré office, shopping and service center. The developer is ING Real Estate Development Group; the contract value for HOCHTIEF is EUR 50.5 million.

With these contracts HOCHTIEF is making a strong impression as an expert in the trade and logistics market segment.

### HOCHTIEF Europe outlook

The division will achieve a significant increase in its pretax profit in the current fiscal year. Using core business as the starting point, the service offering will be expanded as a means of solidifying customer loyalty and increasing added value. The innovative, partnership-based PreFair business model will play a central role.

# Consolidated Statement of Earnings

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003	Change (H1 2004)	Full year 2003
Sales	2,978,856	2,696,009	5,492,044	5,352,368	2.6%	10,534,380
Changes in inventories	(1,450)	(673)	100	55	81.8%	(1,691)
Other own work capitalized	183	611	451	1,009	-55.3%	1,523
Other operating income	24,567	29,399	38,367	41,808	-8.2%	120,023
Materials	(2,319,122)	(2,094,893)	(4,221,450)	(4,148,245)	1.8%	(8,077,842)
Personnel costs	(420,918)	(396,102)	(838,318)	(789,327)	6.2%	(1,578,962)
Depreciation and amortization excluding goodwill amortization	(70,966)	(48,558)	(125,767)	(112,030)	12.3%	(232,018)
Other operating expenses	(163,073)	(152,446)	(299,392)	(278,174)	7.6%	(644,547)
<b>Profit from operating activities excluding goodwill amortization</b>	<b>28,077</b>	<b>33,347</b>	<b>46,035</b>	<b>67,464</b>	<b>-31.8%</b>	<b>120,866</b>
Net income from participating interests excluding goodwill amortization	15,395	15,174	24,965	29,129	-14.3%	44,866
Net investment and interest income	539	(8,650)	10,452	(26,274)	139.8%	(6,273)
<b>Profit before taxes excluding goodwill amortization</b>	<b>44,011</b>	<b>39,871</b>	<b>81,452</b>	<b>70,319</b>	<b>15.8%</b>	<b>159,459</b>
Income taxes	(22,618)	(9,362)	(44,404)	(38,840)	14.3%	(82,956)
<b>Profit after taxes excluding goodwill amortization</b>	<b>21,393</b>	<b>30,509</b>	<b>37,048</b>	<b>31,479</b>	<b>17.7%</b>	<b>76,503</b>
Minority interest	(9,889)	(21,728)	(19,006)	(38,838)	-51.1%	(60,272)
<b>Consolidated net profit for the period excluding goodwill amortization</b>	<b>11,504</b>	<b>8,781</b>	<b>18,042</b>	<b>(7,359)</b>	<b>345.2%</b>	<b>16,231</b>

## Statement of Earnings

HOCHTIEF generated **Group sales** of EUR 5.49 billion in the first half of 2004, which puts us some EUR 140 million (2.6 percent) above the prior-year figure. Part of the increase is attributable to the EUR 175 million boost in sales at our Australian subsidiary Leighton, which profited from the sizeable new orders of the previous year. The favorable movement in the Australian dollar is responsible for EUR 113 million of that amount. Measured in US dollars, Turner increased its sales by 8.6 percent. Due to an unfavorable exchange rate, however, the equivalent euro amount fell short of the prior year's level by EUR 28 million (1.0 percent). At 82 percent, the portion of sales attributable to international business was flat with the previous year.

**Profit from operating activities** fell 31.8 percent to EUR 46.0 million (H1 2003: EUR 67.5 million). In addition to anticipated drops in keeping with the budget, the risk provisioning for certain projects of the Leighton Group more than offset the positive effects from operating improvements in the rest of Leighton's business and in the Europe division.

The **net income from participating interests** of EUR 25.0 million (H1 2003: EUR 29.1 million) was influenced both in this fiscal year and the previous one by nonrecurring items. Both the elimination of scheduled amortization on the goodwill of Group companies valued at equity and the income from the sale of our stake in Ballast Nedam had a positive impact in the first half of 2004. In the prior year, there was extraordinary income from the release of reserves at Flughafen Düsseldorf GmbH and the settlement for expenses related to the failed privatization of Berlin's airports.

With an increase of EUR 36.8 million to EUR 10.5 million (H1 2003: negative EUR 26.3 million), the change in **net investment and interest income** was very gratifying. In the previous year, there had been a EUR 30.0 million charge for risk provisioning related to our securities holdings.

**Profit before taxes** was up 15.8 percent to EUR 81.5 million. Factoring out the goodwill amortization originally reflected in the prior year's amount, profit before taxes was down 3.7 percent year on year. This drop is notably due to the risk provisioning at Leighton.

# Consolidated Balance Sheet

## Accounting and valuation methods

The Half-Year Report at June 30, 2004 was prepared in accordance with those International Financial Reporting Standards (IFRS) whose application was mandatory at the time. These include new IFRSs issued by the International Accounting Standards Board (IASB), International Accounting Standards (IASs) and the statements issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All prior-year figures conform to the IASs in operation at that time.

The consolidation principles remain unchanged from December 31, 2003, with the following exception: HOCHTIEF has already applied the new rules in IAS 36 "Impairment of Assets" (revised 2004), IAS 38 "Intangible Assets" (revised 2004) and IFRS 3 "Business Combinations" with retroactive effect to January 1, 2004. Accordingly, goodwill carried on the balance sheet and intangible assets with an indefinite useful life are no longer amortized on a scheduled basis. Instead, they are tested annually for impairment.

For further information, readers are referred to the consolidated financial statements at December 31, 2003, as the basis on which these interim financial statements were prepared.

In the first half of 2004, one German and three foreign companies were included in the consolidated financial statements for the first time, while two associated companies were removed from the consolidated group. In addition to HOCHTIEF Aktiengesellschaft, this makes 248 companies which are now fully consolidated and 42 companies accounted for using the equity method.

(EUR thousand)

	Jun. 30, 2004	Dec. 31, 2003
<b>Assets</b>		
<b>Fixed assets</b>		
Intangible assets	244,313	211,801
Property, plant and equipment	900,012	870,792
Financial assets	978,412	957,359
	<b>2,122,737</b>	<b>2,039,952</b>
<b>Current assets</b>		
Inventories	56,605	29,880
Trade receivables and other receivables	2,885,518	2,682,267
Marketable securities	986,544	1,269,331
Cash and cash equivalents	1,110,959	1,062,602
	<b>5,039,626</b>	<b>5,044,080</b>
<b>Deferred tax assets</b>	<b>312,875</b>	<b>295,873</b>
<b>Prepaid expenses</b>	<b>24,449</b>	<b>19,311</b>
	<b>7,499,687</b>	<b>7,399,216</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Shareholders' equity and minority interest</b>		
Attributable to the Group	1,561,945	1,588,295
Minority interest	369,652	386,997
	<b>1,931,597</b>	<b>1,975,292</b>
<b>Provisions</b>	<b>1,332,286</b>	<b>1,276,048</b>
<b>Liabilities</b>	<b>4,170,126</b>	<b>4,095,249</b>
<b>Deferred tax liabilities</b>	<b>47,683</b>	<b>39,342</b>
<b>Deferred income</b>	<b>17,995</b>	<b>13,285</b>
	<b>7,499,687</b>	<b>7,399,216</b>

**Income taxes** were EUR 44.4 million, which marks a 14.3 percent increase over the prior year. This amount includes current income taxes of EUR 30.7 million and deferred tax liabilities of EUR 13.7 million. We continue to refrain from recognizing deferred tax assets for tax loss carryforwards in Germany. This also affects our tax ratio, which at 54.5 percent is on a par with the previous year's 55.2 percent.

**Profit after taxes** was up 17.7 percent to EUR 37.0 million (H1 2003: EUR 31.5 million). At EUR 19.0 million, the minority interest is down EUR 19.8 million from the same period last year. The resulting **consolidated net profit** is well into positive territory at EUR 18.0 million, following a consolidated net loss of EUR 7.4 million in the first half of 2003. The improvement is also substantial when eliminating the effects of goodwill amortization.

## Consolidated Balance Sheet

**Total assets** increased 1.4 percent from December 31, 2003 to EUR 7.50 billion at June 30, 2004.

In the first half of 2004, the Group invested EUR 273.7 million. As a result, **capital expenditure** was up 42.3 percent on the previous year (EUR 192.3 million). The capital expenditure on intangible assets and property, plant and equipment included in this amount was EUR 162.6 million, with the lion's share totaling EUR 130.0 million attributable to the Leighton Group. At EUR 111.1 million, capital expenditure on financial assets increased considerably over the previous year (EUR 46.8 million). A total of EUR 92.2 million of this amount was attributable to the Asia Pacific division.

**Fixed assets** increased EUR 83 million to EUR 2.12 billion. Intangible assets and property, plant and equipment (EUR 1.14 billion) were up EUR 62 million. In addition to the capital expenditure on property, plant and equipment in the Asia Pacific division, capitalization of the goodwill resulting from the increase in our stake in Leighton played a role. Financial assets (EUR 0.98 billion) stood on a par with the level reported at December 31, 2003, as increased shareholdings in the business portfolio of the Asia Pacific, Development and Americas divisions were offset by the divestment of our stake in Kitchell.

The structure of **current assets** (EUR 5.04 billion) changed from December 31, 2003. There were higher trade receivables from operating activities in the Europe and Asia Pacific divisions, but a planned reduction in marketable securities and cash and cash equivalents, which stood at EUR 2.10 billion (December 31, 2003: EUR 2.33 billion). As a result, the amount of current assets remained virtually unchanged from December 31, 2003.

The EUR 44 million reduction in **shareholders' equity and minority interest** consists of the profit after taxes from the first half of 2004 (EUR 37 million), less changes in other comprehensive income/other adjustments (EUR 20 million) as well as distributions to HOCHTIEF's and minority shareholders (EUR 61 million). Other comprehensive income includes a EUR 15 million loss, recognized directly in equity, from re-measurement to fair value of financial instruments.

At EUR 1.33 billion, **provisions** increased EUR 56 million from December 31, 2003. This item includes provisions for future pension obligations in the amount of EUR 578 million (December 31, 2003: EUR 533 million). The increase is largely the result of the first-time consolidation of HOCHTIEF Gebäude Management GmbH.

At EUR 4.17 billion, **liabilities** are on a par with the amount reported at December 31, 2003 (EUR 4.10 billion).

### Consolidated Statement of Cash Flows

At EUR 138 million, the **cash flow** generated in the first half of 2004 was EUR 7 million over the prior-year figure (EUR 131 million). Improved results in the Europe division were a major factor.

A net EUR 40 million was used in **operating activities** versus a net EUR 59 million provided by operating activities in the same period last year. This change reflects the increase in trade receivables from the operating activities of the Europe and Asia Pacific divisions.

**Investing activities** provided net cash of EUR 102 million (H1 2003: EUR 52 million). The cash inflows from the disposal of participating interests, securities holdings and liquid investments far exceeded the cash outflows for property, plant and equipment and financial assets.

The change in financial debts and distributions to HOCHTIEF's and minority shareholders resulted in a net cash outflow of EUR 11 million from **financing activities** (H1 2003: net outflow of EUR 34 million).

In May, HOCHTIEF placed a promissory note loan (Schuldscheindarlehen) of EUR 200 million with a five year term and five percent coupon in what was a very successful debut for the Company on the promissory note loan market.

Altogether, our cash and cash equivalents increased a total of EUR 48 million to EUR 1.11 billion.

Free cash flow includes the capital expenditure from the first half of 2004 (EUR 274 million) less the proceeds from asset disposals (EUR 66 million) and the net cash used in operating activities (EUR 40 million). It stands at a negative EUR 248 million (H1 2003: negative EUR 31 million).

The considerable increase in capital expenditure and reduced cash inflows from operating activities are the reason for the drop.

### Statement of changes in equity and minority interest (EUR thousand)

	H1 2004			H1 2003		
	Attributable to the Group	Attributable to minority interest	Total	Attributable to the Group	Attributable to minority interest	Total
<b>Balance at January 1</b>	<b>1,588,295</b>	<b>386,997</b>	<b>1,975,292</b>	<b>1,572,461</b>	<b>367,867</b>	<b>1,940,328</b>
Dividends paid	(40,984)	(20,284)	(61,268)	(34,679)	(12,936)	(47,615)
Other comprehensive income/other adjustments	(3,408)	(16,067)	(19,475)	6,461	(1,320)	5,141
Profit after taxes	18,042	19,006	37,048	(7,359)	38,838	31,479
<b>Balance at June 30</b>	<b>1,561,945</b>	<b>369,652</b>	<b>1,931,597</b>	<b>1,536,884</b>	<b>392,449</b>	<b>1,929,333</b>

## Consolidated Statement of Cash Flows

(EUR thousand)	H1 2004	H1 2003
Profit after taxes	37,048	31,479
Depreciation/write-ups	126,386	143,155
Changes in long-term provisions	(598)	(5,488)
Changes in deferred taxes	13,699	(639)
Losses on disposals of fixed assets and marketable securities	(49,846)	(53,265)
Other non-cash income and expenses (primarily writedowns on marketable securities and equity valuations)	11,544	16,021
<b>Cash flow</b>	<b>138,233</b>	<b>131,263</b>
Changes in short-term provisions	(26,997)	(2,631)
Changes in working capital (net current assets)	(153,394)	(69,174)
Changes in other balance sheet items	2,060	(13)
<b>Net cash (used in)/provided by operating activities</b>	<b>(40,098)</b>	<b>59,445</b>
Intangible assets/property, plant and equipment		
Purchases	(162,600)	(145,492)
Proceeds from asset disposals	18,905	61,725
Acquisitions and participating interests		
Purchases	(111,073)	(46,773)
Proceeds from asset disposals/divestments	46,778	40,043
Changes in loans, securities holdings and liquid investments	310,109	142,582
<b>Net cash provided by investing activities</b>	<b>102,119</b>	<b>52,085</b>
Dividends/other distributions to HOCHTIEF's and minority shareholders	(61,268)	(47,615)
Proceeds from new borrowing	231,070	135,292
Service of debt	(180,470)	(122,019)
<b>Net cash used in financing activities</b>	<b>(10,668)</b>	<b>(34,342)</b>
<b>Net cash increase in cash and cash equivalents</b>	<b>51,353</b>	<b>77,188</b>
Effect of exchange rate changes	(3,165)	(29,710)
Net cash from consolidation changes	169	11,860
<b>Overall change in cash and cash equivalents</b>	<b>48,357</b>	<b>59,338</b>
Cash and cash equivalents at the start of the year	1,062,602	704,295
<b>Cash and cash equivalents at June 30, 2004</b>	<b>1,110,959</b>	<b>763,633</b>

**Derivation of operating earnings**  
The derivation of operating earnings from profit from operating activities follows the principles set out in the consolidated financial statements for FY 2003. Non-operating earnings consist solely of restructuring expenses.

### Reconciliation of profit from operating activities to operating earnings (EBITA)

(EUR thousand)	Q2 2004	Q2 2003	H1 2004	H1 2003
<b>Profit from operating activities</b>	<b>28,077</b>	<b>33,347</b>	<b>46,035</b>	<b>67,464</b>
+ Net income from participating interests	15,395	15,174	24,965	29,129
– Non-operating earnings	(+) 4,810	(+) 5,644	(+) 7,370	(+) 7,510
– Amortization of goodwill from capital consolidation	–	(+) 4,567	–	(+) 9,959
+ Interest credited	3,888	1,704	4,289	5,488
<b>Operating earnings (EBITA)</b>	<b>52,170</b>	<b>60,436</b>	<b>82,659</b>	<b>119,550</b>

Earnings per share	Q2 2004	Q2 2003	H1 2004	H1 2003
<b>Consolidated net profit (EUR thousand)</b>	<b>11,504</b>	<b>8,781</b>	<b>18,042</b>	<b>(7,359)</b>
<a href="#">excluding goodwill amortization</a>				<a href="#">6,911</a>
Number of shares in circulation (weighted average)	63,017,589	63,052,070	63,034,894	63,050,787
<b>Earnings per share (EUR)</b>	<b>0.18</b>	<b>0.14</b>	<b>0.29</b>	<b>(0.12)</b>
<a href="#">excluding goodwill amortization</a>				<a href="#">0.11</a>

### HOCHTIEF's own stock

As of June 30, 2004, HOCHTIEF held 6,999,844 shares of its own stock, acquired during the period September 1999 through May 2004. This represents EUR 17,919,601, or 9.9998 percent, of the capital stock. Of the shares held, 6,947,544 were purchased for the purposes set forth in the resolutions of the General Shareholders' Meetings of June 21, 1999 and June 28, 2000.

A total of 52,300 shares were purchased in May 2004 at a price of EUR 18.09 per share in order to offer them for sale to persons employed by the Company or one of its affiliates (employee shares). These shares represent EUR 133,888 (0.0747 percent) of the capital stock.

### Dividend

On May 7, 2004 the General Shareholders' Meeting of HOCHTIEF Aktiengesellschaft resolved to pay the proposed dividend for fiscal year 2003 of EUR 0.65 per share.

### Contingent liabilities

These consist of contingent liabilities from guarantees provided; the figure decreased by EUR 102,985 thousand from December 31, 2003 to reach EUR 118,765 thousand on the reporting date.

## Facility Management: Sustainable earnings, superb value



HOCHTIEF Facility Management (HT FM) has made its mark as one of Europe's leading independent providers of integrated facility management services and is now taking business to the next level. Factoring in the acquisition of Lufthansa Gebäudemanagement and its consolidation effective July 1, 2004, HOCHTIEF Facility Management boasts a workforce of 4,300 spread across seven countries and cumulative annual sales of EUR 450 million (prorated to EUR 330 million for 2004).

In integrating Lufthansa Gebäudemanagement and HOCHTIEF Gebäude Management (formerly Siemens Gebäudemanagement und Services), the successfully combined expertise of three groups will fuse into recognized best practices. HOCHTIEF Facility Management offers its clients flexible, innovative industry solutions, actively supporting the pursuit of their financial goals. The exceptional industry experience and extensive, ever-expanding knowhow of our facility management specialists allow complex processes for all types of facilities and real estate to be optimized. For the client, this high-end approach means one-stop excellence in design and operations, ongoing process optimization and reduced expenditure. Take the achievements at Fujitsu Siemens Computers, Augsburg, one of the largest personal computer factories in Europe, as an example: HOCHTIEF Gebäude Management is in charge of production facility planning, process engineering and mechanics, and ensures maximum equipment availability. The HOCHTIEF advantage: With high added value and production process support, the client can devote more energy to core business.

Lufthansa Gebäudemanagement Holding GmbH (LGM), acquired as of July 1, 2004, generates over 75 percent of its business outside of the Lufthansa Group, servicing such distinguished clients as DaimlerChrysler, IKEA, South African Airways, Hewlett Packard, DB Real Estate and Philips Semiconductors.

The specialist expertise of Lufthansa Gebäudemanagement fits perfectly into the HOCHTIEF facility management strategy. Lufthansa Gebäudemanagement has a long track record in a host of segments, including the airport/airline, automotive and healthcare industries, as well as electronics/semiconductor, chemical/pharmaceutical and financial services industries. Other services also make ideal complements to existing operations: for example, heating, ventilation and air conditioning (HVAC) and energy contracting.

Fueled by a focused service portfolio and sales-driven approach, Lufthansa Gebäudemanagement and HOCHTIEF Gebäude Management gel seamlessly with the ambitious growth and earnings goals of HOCHTIEF Facility Management. With little capital tied up and steady cash flows, facility management offers sustainably high margins at low risk compared with conventional building operations.

HOCHTIEF's unflinching commitment to high-end facility management is meeting with growing demand in the European market. The takeover of Lufthansa Gebäudemanagement with activities in Hungary, Poland, the Irish Republic and South Africa means a considerable boost in international operations.

In its real estate operations, HOCHTIEF Facility Management stands out for its unwavering responsiveness to client needs, with HOCHTIEF experts involved in all pre- and post-construction processes. As a result, HOCHTIEF Facility Management adds key services along the project value chain and enhances the service focus of the HOCHTIEF Group.

## News from the Boards

After RWE sold its stake in HOCHTIEF on February 25, 2004, **Dr. Dietmar Kuhnt** resigned from office as Chairman of the Supervisory Board of HOCHTIEF Aktiengesellschaft with effect from the close of the General Shareholders' Meeting on May 7, 2004. **Dr. Martin Kohlhausen**, a long-standing member of the Supervisory Board, has been elected to serve as the new Chairman. Dr. Kuhnt will stay on as a member and will also chair the Audit Committee.

**Dr. Klaus Sturany** and **Jan Zilius**, members of the Executive Board of RWE Aktiengesellschaft, retired from HOCHTIEF's Supervisory Board with effect from the close of the General Shareholders' Meeting on May 7, 2004.

**Dr. Gerhard Cromme**, Chairman of the Supervisory Board of ThyssenKrupp AG, and **Prof. Dr. Herbert Henzler**, Vice Chairman of the Credit Suisse Group, were appointed to serve on the Supervisory Board starting June 1, 2004.

**Dr.-Ing. Martin Rohr** was appointed to the Executive Board of HOCHTIEF Aktiengesellschaft as of June 1, 2004. His responsibilities include integrating the various Group companies and business development. By adding Dr. Rohr to the Executive Board, HOCHTIEF is responding to the growing significance of an interconnected Group presence and recognizing its expanded capabilities.

**Thomas C. Leppert**, Chairman and CEO of HOCHTIEF subsidiary The Turner Corporation, was appointed to the Supervisory Board of HOCHTIEF subsidiary Leighton Holdings as of May 11, 2004. Leppert has many years' experience in finance and real estate and promises to strengthen the transfer of knowledge within HOCHTIEF's global network.

In order to reinforce HOCHTIEF's personal presence on the Board of Leighton Holdings, **Robert Seidler** (attorney, Sydney) was appointed Alternate Board member for Dr. Hans-Peter Keitel, while **Dr. Herbert Lütkestratkötter** will serve as Alternate Board member for Dr. Peter Noé.

## Financial Calendar

### November 29, 2004

Interim Report at September 30, 2004  
Fall Press Conference  
Conference Call with Analysts and Investors

### February 16, 2005

Preliminary Report on FY 2004

### March 23, 2005

Business Results Press Conference  
Analysts' and Investors' Conference

### May 18, 2005

General Shareholders' Meeting, 10:30 a.m.,  
Congress Center West, West Entrance,  
Norbertstrasse, Essen

## Publication Details and Credits

### Published by:

HOCHTIEF Aktiengesellschaft  
Opernplatz 2, 45128 Essen, Germany  
Telephone: +49 201 824-0  
Fax: +49 201 824-2777  
info@hochtief.de • www.hochtief.de

### Investor relations contact:

HOCHTIEF Investor Relations  
Opernplatz 2, 45128 Essen, Germany  
Telephone: +49 201 824-2127  
Fax: +49 201 824-2750  
investor-relations@hochtief.de

For further information on HOCHTIEF and our addresses, business units, subsidiaries and associates, please visit our website.

**This half-year report is a translation of the original German version, which remains definitive. The report is also available from the HOCHTIEF website.**