

BAU-VEREIN  
ZU HAMBURG  
Aktien-Gesellschaft



Berlin · Hamburg · München



## Spaces for Living

Annual Report 2005



## Key Financials of Bau-Verein zu Hamburg Group

(in € 000s)	2005	2004
Revenues	136,757	87,434
from property sales	112,648	61,666
from rental activities	24,109	25,768
EBIT	15,653	16,557
Result from ordinary activities	3,929	4,848
Net annual income	1,008	1,528
Fixed assets	78,612	77,986
Current assets	281,811	296,954
Prepaid expenses/deferred income and deferred taxes	773	830
Total assets	361,196	375,770
Shareholders' equity	85,598	84,590
Equity ratio	23.7 %	22.5 %
Earnings per share (EPS) in €	0.09	0.18



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In fiscal 2005, Bau-Verein zu Hamburg Aktien-Gesellschaft (hereinafter also called "Bau-Verein AG" or, within the context of the overall group, "Bau-Verein") responded to the changes in the German real estate market and increased its focus on investment properties.

#### **Overall economic trend**

The overall economic trend in the Federal Republic of Germany is characterized by increasingly upbeat sentiment. Forecasts predict an improvement in the economic situation in the course of 2006. According to the Ifo Business Test of February 2006, the business climate indicator of the construction sector had increased noticeably in recent months. In spite of the favorable survey results for 2006, persistently high unemployment in conjunction with guarded domestic demand may hamper a sustained brightening of Germany's capital expenditure climate.

#### **Trend in the property market**

In the German residential property market, a positive trend towards more sizeable investments, notably in existing properties, can be discerned. International investors' demand for large-scale housing portfolios remains unwaveringly high. A portfolio premium can be discerned in this type of transaction.

Sales did not remain at their prior-year level in the sale of owner-occupied newly constructed apartments, the prior-year level was not maintained. In the segment of older apartments, sales to owner-occupiers and financial investors increased, notably at the Berlin and Munich locations. Here, too, international investors showed mounting interest in portfolio sales.

Lease and sale demand in the commercial property segment went up in 2005.

#### **Accounting standards**

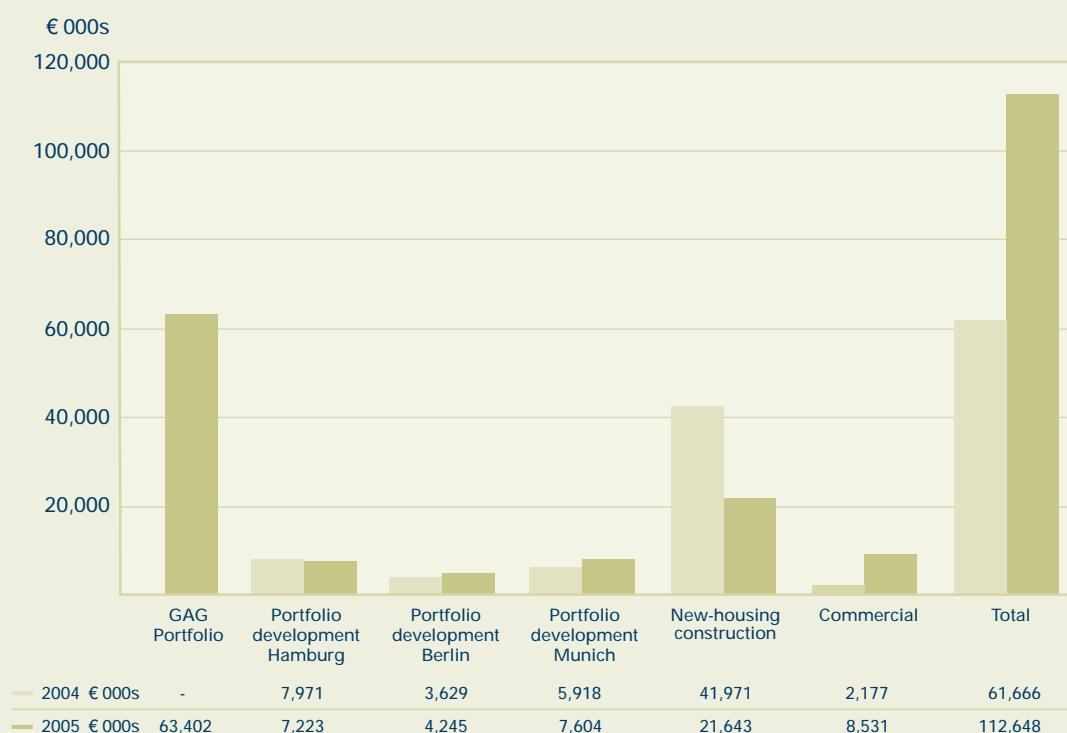
Pursuant to Regulation (EC) No. 1606/2002, the consolidated financial statements of the listed stock corporation Bau-Verein AG at December 31, 2005, have been prepared in accordance with International Financial Reporting Standards (IFRS), as supplemented by the provisions of Section 315a(1) of the German Commercial Code (HGB). The annual financial statements of Bau-Verein AG and the financial statements of the individual group companies are still prepared in accordance with HGB standards.

#### **Business trend**

Bau-Verein's successful focus on the residential property segment in Germany's metropolitan areas, systematic cost management and spending on investment properties resulted in positive consolidated earnings.

Consolidated revenues increased from € 87.4 million to € 136.8 million. In this context, revenues of € 112.6 million were generated from the sale of properties, after € 61.7 million in the previous year. Income from building management declined from € 25.6 million in the previous year to € 23.9 million in fiscal 2005.

### Revenues from the sale of land/properties



Revenues from the sale of residential properties were boosted by € 51.0 million, to € 112.6 million, year-on-year. The gain in fiscal 2005 was largely due to a portfolio sale with a revenue volume of € 63.4 million. Within the context of this joint venture, Bau-Verein sold 75 % plus one share of its equity holding in a company hitherto affiliated with the group to an international investor. Bau-Verein continues to hold a stake of 25 % minus one share in this company. Within the framework of a portfolio sale, this entity acquired about 700 dwelling units, one commercial building and two plots of land from Bau-Verein, the goal being to create a portfolio-owning housing company. These properties held as current assets, which had originally been earmarked for individual sale, will now be developed, rented out and held as long-term investment properties. Portfolio management will be handled by Bau-Verein in the future, too. The performance of such services and the expansion of property management services for third parties will be further expanded in the future.

In the portfolio development segment, revenues from sales increased from € 17.5 million in the previous year to € 50.8 million in fiscal 2005.

While revenues excluding the portfolio sale increased from € 3.6 million to € 4.2 million in Berlin and a decline from € 8.0 million to € 7.2 million was recorded in Hamburg, revenues in the Munich region climbed from € 5.9 million to € 7.6 million. This € 1.7 million increase in revenues in Munich is mainly due to housing sales within the context of the Appenzeller Straße project in Munich, which was acquired in 2005. In the commercial segment, one property in Duisburg generated revenues of € 2.0 million, while no commercial properties had been sold in the previous year.

Despite the continuous sale of dwelling units and the portfolio sale, gross profit arising from building management excluding other operating income remained unchanged at its prior-year level of € 11.8 million in fiscal 2005.

Consolidated gross profit of € 22.2 million was € 0.75 million below the level recorded in the previous year. Because of extensive development measures for future projects, the associated advance expenses (largely personnel expenses) were capitalized as internally produced assets. After € 0.8 million in the previous year, internally produced assets amounted to € 2.1 million in fiscal 2005. The share of other operating income in gross profit decreased by € 0.6 million, from € 2.5 million in the previous year to € 1.9 million in 2005. This decline was mainly due to lower income from the reversal of reserves, which came to € 0.2 million (in 2004: € 0.5 million), and the fact that no income was generated from passed-on costs (2004: € 0.3 million).

Personnel expenses were kept flat at € 5.6 million. Wages and salaries amounted to € 4.7 million, social-security contributions stood at € 0.7 million and expenses for pensions and relief remained unchanged at approximately € 0.2 million.

Revaluation of the investment properties to € 4.6 million, versus € 3.6 million in the previous year, contributed to a positive result from ordinary activities. The sustained value appreciations were attributable to a steady reduction in vacancy rates in conjunction with a concurrent rise in rent levels at the Hamburg location. The Management Board thus feels confirmed in its strategy of banking not only on privatization measures but also on a sustained strengthening of the profitability of investment properties through active project management and continuous capital expenditure.

Interest income declined to € 0.5 million, down from € 0.8 million in the previous year. Interest expenses were reduced further, from € 12.5 million in the previous year to € 12.3 million in fiscal 2005, with a scale-back of loans and the associated reduction in financing costs playing a decisive role in this connection.

Write-downs on financial assets amounted to € 0.9 million in fiscal 2005, after € 0.2 million in the previous year. The write-down in fiscal 2005 refers to a participation in a project company held by URANIA Grundstücksgesellschaft mbH.

The reduction in loans and sustained cost control will have a favorable effect on consolidated earnings in fiscal 2006, too.

With € 15.7 million, earnings before interest and taxes (EBIT) were in line with the prior-year level of € 16.6 million.

In fiscal 2005, earnings before interest and taxes and before write-downs on financial assets came to € 16.6 million and were thus below the prior-year level of € 16.7 million.

Deferred taxes amounted to € 1.4 million in fiscal 2005, after € 1.7 million in the previous year. The share of deferred taxes from income for the revaluation of investment properties stood at € 1.8 million, compared to € 1.4 million in the previous year.

No large property portfolios were acquired in fiscal 2005. Bau-Verein participated in several bidding contests. The company's goal is to expand its investment property portfolios in fiscal 2006. In spring 2005, the Appenzeller Straße portfolio development project was acquired in Munich's Fürstenried district, with a sales volume of € 9.1 million.

As far as the acquisition of undeveloped land for new-construction projects is concerned, one property was acquired in Reinbek. Detailed negotiations took place with a regional collaboration partner with respect to a new-construction project in Mainz-Finthen, the goal being to jointly realize this project in the near future.

In the commercial business segment, the logistics center in Puchheim near Munich has entered the realization phase. On one section of the property, a store of a renowned supermarket chain with gross floor space of approximately 2,000 m<sup>2</sup> has been erected. A further area of 2,900 m<sup>2</sup> was leased and constructed within the context of the sale to a well-known automotive-parts wholesaler. The logistics center and grocery store will be handed over in spring 2006.

Consolidated total assets were € 361.2 million (previous year: € 375.8 million). Shareholders' equity amounted to € 85.6 million, bringing the equity ratio at December 31, 2005 to 23.7 %, after 22.5 % in the previous year and 20.1 % in fiscal 2003. The equity ratio has thus increased further, which means that the company succeeded in making progress towards its goal of strengthening its equity capital from its own funds in fiscal 2005, too.

Fixed assets increased from € 78.0 million in the previous year to € 78.6 million in fiscal 2005. Current assets declined from € 297.0 million to € 281.8 million.

Liabilities due to banks went down from € 264.9 million to € 246.2 million, with long-term liabilities decreasing by € 0.8 million to € 46.9 million. Short-term liabilities due to banks declined by € 17.9 million, to € 199.3 million in 2005.

### Risk management

Bau-Verein continues to apply the risk management and early warning system laid down in Section 92(2) of the German Stock Corporation Act (AktG) that had also been applied successfully in previous years. In addition to the ongoing controlling system used in the group, a recurrent internal reporting system has been installed, which captures and evaluates all risks on a quarterly basis and simultaneously re-evaluates and monitors all previously identified risks.

The following other risks with a potential impact on Bau-Verein's net assets, financial position and earnings situation should be mentioned:

Despite the favorable signs of a pick-up in the property sector discernible last year, the real estate market has persisted at its previous level in some regions. Sluggish sales to private investors continue to pose a risk to Bau-Verein's revenue trend. Bau-Verein has responded to the changes in the market by repositioning itself in the area of investment properties.

The company's liquidity is secured and monitored and optimized on a daily basis by Bau-Verein's central cash management system.

A large number of individual burdens or risks were successfully reduced in fiscal 2005. The individual risks are described below in accordance with the categorization used by the existing risk management system:

#### **Risks within the value chain – housing portfolio management, housing portfolio development, new-housing construction and commercial segments**

Because of its lease-based value chain, the housing portfolio development segment is exposed to lower risks than the new-housing construction segment. However, the risks involved in sales continue to exist. In the future, the company will respond by reducing project size in this segment, too. Whereas market trends in Hamburg can be called favorable, the Berlin properties are subject to the risk of insufficient turnover speed. The market trend in Munich has improved slightly, but has not yet reached a satisfactory level.

In the housing portfolio management segment, steady rental income is secured and creates no risks for the company. An increase in rent levels can be discerned in the Hamburg market, with correspondingly favorable effects on the valuation of these residential properties.

By its very nature, the new-housing construction segment is subject to higher risks than the other segments. For this reason, a special controlling procedure has been installed here. The company has responded to the risks involved in new-housing construction by reducing the size of projects. A persistently restrictive approach with respect to purchaser financing and sales pressure from competitors are creating an increasingly difficult market situation, making systematic cost and selling-price discipline indispensable.

In the commercial property segment, the market situation is slightly positive. Leasing of vacated space to new tenants shows a positive trend at Bau-Verein. In fiscal 2005, Bau-Verein again succeeded in reducing its vacancy rates and lowering its rental risks.

#### **Controlling/IT, accounting and human resources**

A regular reporting system guarantees the company's internal ability to respond, its flexibility and transparency. In this context, regular target-performance comparisons, forecast calculations during the fiscal year and the use of various analytical methods ensure early recognition and reduction of risks. A stringent reporting system, controlling and monitoring of regional market trends facilitate rapid responses to changes in the form of cost control, deadline compliance monitoring and analysis of marketing opportunities, in particular in the new-housing construction segment. Use of a powerful software ensures high efficiency and transparency.

There are no excess human resource capacities. Further headcount expansions are necessary for the provision of third-party services. Efficiency gains remain a top priority. Our employees' expertise and commitment help to achieve a positive business result and lay the foundation for growth. Further training – especially in the area of tax legislation, which is becoming increasingly complex – will be offered to all employees on a continuous basis.

#### **Liquidity management**

The company's liquidity has been secured.

According to most economic forecasts, the risk of rising interest rates has increased in 2006. Interest rate derivatives are used to hedge interest risks. The duration structure is largely in line with the envisaged project periods and the current market trend. Compared to the previous year, the long-term interest tie-up has been increased.

#### **Risk management with the help of financial instruments (swap transactions)**

Measures taken to hedge the interest duration risk include the conclusion of a bonus interest rate swap with a subscription price of € 10 million and a maturity of ten years at the end of fiscal 2004. The interest rate swap serves the purpose of hedging variable interest rates on a number of short-term credits against interest rate increases. Fair value recognition at December 31, 2005, generated income of € 53,000 for Bau-Verein.

In addition, a cross-currency-interest-rate swap concluded in 2000 was settled in fiscal 2005 after a maturity period of five years. In this transaction, Bau-Verein had committed itself to paying a predefined interest rate on a foreign currency amount (CHF 15,833,000). At the same time, interest was credited to Bau-Verein on an amount of € 10,226,000, depending on a variable basis of calculation. In July 2005,

the swapped capital amounts were netted against each other, and the difference of € 13,000 was credited to Bau-Verein.

#### **Taxes**

The completion of the government tax audit for the fiscal years through 1994 and the issuance of tax assessment notices for the fiscal years through 1994 – without any major payments of back taxes for prior years – all risks arising from this period have been eliminated. The government tax audit for the 1995-1999 period has also been largely completed in most companies. To the extent necessary, tax risks have been taken into account in the form of provisions.

#### **Group opportunities**

Bau-Verein's market opportunities in the German real estate market improved noticeably in fiscal 2005. Thanks to the considerably brighter market environment and a further increase in its equity capital base, the company will be in a position to acquire new properties for its portfolio management and portfolio development activities in order to generate additional income. The favorable changes in the marketplace will result in an increase in revenues from property sales in the future.

The property services segment will be expanded further and developed into an additional business segment in the coming years, the goal being to generate income for Bau-Verein.

#### **Dependent companies report**

TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, Tegernsee (TAG), holds a controlling interest in the subscribed capital of Bau-Verein zu Hamburg Aktien-Gesellschaft.

In accordance with the statutory regulations, Bau-Verein AG has prepared a report on relations with affiliated companies (dependent companies report) for the fiscal year under review and closed it with the following declaration:

"Pursuant to Section 312(3) of the German Stock Corporation Act (AktG), we declare that the company we represent received fair compensation in all legal transactions listed in the report on relations with affiliated companies as based on the circumstances known to us at the time when each legal transaction took place. We neither took nor refrained from taking measures at the behest of or in the interests of TAG and its affiliated companies."

### Outlook

By resolution of the Management Board of February 13/16 and with the approval of the Supervisory Board of February 13/16, Bau-Verein AG increased the company's share capital from € 50,819,982.00 to € 62,819,982.00 through issue of 4,000,000 non-par shares against cash contribution. The equity capital increase against cash contribution will result in a cash inflow of € 19 million for the company.

Bau-Verein's competitive position improved last year. The Management Board expects a steady increase in income from rental activities and sales in fiscal 2006.

Hamburg, March 31, 2006



(Erhard Flint)



(Andreas Ibel)

## Consolidated balance sheet for the year ended December 31, 2005

Assets (in € 000s)	(Notes)	12/31/2005	12/31/2004
<b>A. Fixed assets</b>			
I. Investment properties	(5)	71,481	73,570
II. Tangible assets			
1. Properties with business premises	(6)	1,289	1,349
2. Buildings on third-party properties	(6)	0	19
3. Facilities under construction	(6)	175	0
4. Machinery	(6)	0	2
5. Furnitures and fixtures	(6)	49	85
		<b>1,513</b>	<b>1,455</b>
III. Intangible assets	(7)	15	77
IV. Financial assets			
1. Shares in affiliated companies	(8)	1,870	2,770
2. Shares in associated companies	(8)	3,733	114
		<b>5,603</b>	<b>2,884</b>
<b>B. Current assets</b>			
I. Properties and other inventories held for sale			
1. Properties held for sale	(9)	207,126	279,601
2. Work in progress	(9)	5,289	5,408
3. Other inventories	(9)	83	94
		<b>212,498</b>	<b>285,103</b>
II. Receivables and other assets			
1. Receivables from property sales	(10)	53,489	5,939
2. Future receivables from construction contracts	(10)	1,108	536
3. Receivables from rental activities	(10)	1,914	2,069
4. Other trade accounts receivable	(10)	34	43
5. Loans to affiliated companies	(10)	97	339
6. Loans to associated companies	(10)	2,578	95
7. Other assets	(10)	2,084	1,752
		<b>61,304</b>	<b>10,773</b>
III. Cash and cash equivalents	(11)	8,009	1,078
<b>C. Deferred tax assets</b>	(12)	718	761
<b>D. Prepaid expenses</b>	(13)	55	69
<b>Total assets</b>		<b>361,196</b>	<b>375,770</b>

Shareholders' equity and liabilities (in € 000s)	(Notes)	12/31/2005	12/31/2004
<b>A. Shareholders' equity</b>			
I. Subscribed capital	(14)	50,820	50,820
II. Capital reserve	(15)	28,376	28,376
III. Revenue reserves			
1. Statutory reserves	(16)	1,790	1,790
2. Building renewal reserve	(16)	1,023	1,023
3. Other revenue reserves	(16)	12,442	12,442
IV. Consolidated loss		-8,853	-9,861
		<b>85,598</b>	<b>84,590</b>
<b>B. Minority interests</b>	(17)	107	35
<b>C. Long-term liabilities</b>			
1. Liabilities due to banks	(22)	46,891	47,705
2. Pension provisions	(18)	2,329	2,467
3. Other long-term liabilities	(22)	11	72
		<b>49,231</b>	<b>50,244</b>
<b>D. Short-term liabilities</b>			
1. Tax provisions	(19)	832	1,037
2. Other provisions	(20)	7,291	6,048
3. Downpayments received	(22)	14	320
4. Liabilities due to banks	(22)	199,321	217,177
5. Liabilities from rental activities	(22)	5,495	5,398
6. Other trade accounts payable	(22)	4,516	4,831
7. Liabilities due to affiliated companies	(22)	6,728	3,496
8. Liabilities due to associated companies	(22)	13	13
9. Other short-term liabilities	(22)	2,047	2,576
		<b>226,257</b>	<b>240,896</b>
<b>E. Deferred income</b>		3	5
<b>Total shareholders' equity and liabilities</b>		<b>361,196</b>	<b>375,770</b>

## Consolidated income statement for the year ended December 31, 2005

(in € 000s)	(Notes)	2005	2004
1. Revenues			
a) from sale of properties	(24)	112,648	61,666
b) from building management	(24)	23,917	25,612
c) from property services	(24)	192	156
		136,757	87,434
2. Change in work-in-progress inventories	(25)	52	-2,090
3. Other internally produced and capitalized assets	(26)	2,145	844
4. Other operating income	(27)	1,862	2,467
<b>5. Total output</b>		<b>140,816</b>	<b>88,655</b>
6. Cost of purchased supplies and services			
a) Expenses for properties held for sale	(28)	-106,500	-53,981
b) Expenses for building management	(28)	-12,125	-11,731
		-118,625	-65,712
<b>7. Gross profit</b>		<b>22,191</b>	<b>22,943</b>
8. Personnel expenses	(29)	-5,644	-5,606
9. Depreciation and amortization		-215	-196
10. Other operating expenses	(30)	-4,813	-4,011
11. Revaluation of investment properties	(31)	4,611	3,602
12. Write-down on financial assets	(32)	-900	-189
13. Income from associated companies	(8)	351	14
14. Income from investments	(8)	72	0
15. Interest income	(33)	-11,724	-11,709
<b>16. Result from ordinary activities</b>		<b>3,929</b>	<b>4,848</b>
17. Income taxes	(34)	-2,057	-2,220
18. Other taxes	(35)	-861	-1,071
<b>19. Consolidated net annual income before minority interests</b>		<b>1,011</b>	<b>1,557</b>
20. Minority shareholders' profit and loss share		-3	-29
<b>21. Consolidated net annual income</b>		<b>1,008</b>	<b>1,528</b>
22. Consolidated loss carryforward		-9,861	-11,389
<b>23. Consolidated loss</b>		<b>-8,853</b>	<b>-9,861</b>
<b>Earnings per share (undiluted)</b>	(36)	<b>0.09 €</b>	<b>0.18 €</b>

## Consolidated statement of cash flows for the year ended December 31, 2005

(in € 000s)	2005	2004
Consolidated net income	1,008	1,528
Depreciation and amortization	215	196
Revaluation of investment properties	-4,611	-3,602
Impairment of financial investments	900	189
Income from partial profit realizations	-572	-536
Income from associated companies	-351	-14
Gains from deconsolidation	-864	0
Amortization of receivables	1,147	243
Change in deferred taxes	1,419	1,704
Change in provisions	900	-4,290
Profit/loss from sale of fixed assets	9	91
Change in receivables and other assets	21,301	40,504
Change in accounts payable and other liabilities	-884	-4,014
<b>Cash flow from operating activities</b>	<b>19,617</b>	<b>31,999</b>
Payments for investments in intangible and tangible assets	-54	-77
Payments for investments in financial assets and consolidated companies	-1,958	-12
Proceeds from sale of intangible and tangible assets	8	8
Proceeds from partial sale of consolidated companies	5,050	0
<b>Cash flow from investing activities</b>	<b>3,046</b>	<b>-81</b>
Proceeds from loans to affiliated companies	3,000	0
Repayments on property finance loans	-47,721	-42,051
Drawings on property finance loans	6,098	21,332
Payments to special purchaser accounts for property finance loans	-1,199	-29,562
Proceeds from special purchaser accounts for property finance loans	29,858	22,120
<b>Cash flow from financing activity</b>	<b>-9,964</b>	<b>-28,161</b>
Net change in cash and cash equivalents	12,699	3,757
Cash and cash equivalents at January 1	4,543	786
<b>Cash and cash equivalents at December 31</b>	<b>17,242</b>	<b>4,543</b>

## Consolidated statement of changes in shareholders' equity

(in € 000s)	Subscribed capital	Capital reserve	Statutory reserve	Building re-newal reserve	Other revenue reserves	Consolidated loss	Total
01/01/2004	50,820	28,376	1,790	1,023	12,442	-11,389	83,062
Consolidated net income 2004	0	0	0	0	0	1,528	1,528
12/31/2004	50,820	28,376	1,790	1,023	12,442	-9,861	84,590
Consolidated net income 2005	0	0	0	0	0	1,008	1,008
12/31/2005	50,820	28,376	1,790	1,023	12,442	-8,853	85,598

## Segment reporting

(in € 000s)

2005	Housing portfolio	Housing portfolio development	New-housing construction	Commercial	Reconciliation	Consolidated
External revenues	7,631	61,545	40,695	26,965	-79	136,757
Intra-group revenues	436	1,040	328	0	-1,804	0
<b>Revenues</b>	<b>8,067</b>	<b>62,585</b>	<b>41,023</b>	<b>26,965</b>	<b>-1,883</b>	<b>136,757</b>
Other segment income	1,115	672	945	81	1,266	4,079
Depreciation	-185	-14	-15	-1	0	-215
Amortization	-232	-432	-100	-637	-900	-2,301
Revaluation of investment properties	4,611	0	0	0	0	4,611
Income from associated companies	351	0	0	0	0	351
Interest income	3,054	172	66	17	-2,778	531
Interest expenses	-4,906	-5,146	-2,725	-2,256	2,778	-12,255
Other segment expenses	-3,786	-57,604	-38,916	-24,682	-2,641	-127,629
<b>Segment earnings</b>	<b>8,089</b>	<b>233</b>	<b>278</b>	<b>-513</b>	<b>-4,158</b>	<b>3,929</b>
Segment assets	162,242	138,823	52,320	77,284	-69,473	361,196
Shares in associated companies	3,733	0	0	0	0	3,733
Segment debts	81,123	122,996	50,804	61,659	-41,091	275,491
Segment investments	1,930	6	5	1	0	1,942
<b>2004</b>						
External revenues	8,004	29,402	41,994	8,110	-76	87,434
Intra-group revenues	454	503	27	0	-984	0
<b>Revenues</b>	<b>8,458</b>	<b>29,905</b>	<b>42,021</b>	<b>8,110</b>	<b>-1,060</b>	<b>87,434</b>
Other segment income	940	786	949	725	-89	3,311
Depreciation	-155	-21	-18	-2	0	-196
Amortization	-33	-22	0	-189	-189	-433
Revaluation of investment properties	3,602	0	0	0	0	3,602
Income from associated companies	14	0	0	0	0	14
Interest income	2,126	391	163	210	-2,111	779
Interest expenses	-4,159	-5,541	-2,830	-2,068	2,111	-12,487
Other segment expenses	-3,565	-26,643	-38,221	-6,102	-2,645	-77,176
<b>Segment earnings</b>	<b>7,228</b>	<b>-1,145</b>	<b>2,064</b>	<b>684</b>	<b>-3,983</b>	<b>4,848</b>
Segment assets	157,228	154,445	65,849	79,246	-80,998	375,770
Shares in associated companies	114	0	0	0	0	114
Segment debts	75,689	138,138	63,930	63,643	-50,255	291,145
Segment investments	42	12	34	1	0	89

## Notes to the 2005 consolidated financial statements

### Accounting standards

#### 1. Standards used for preparation of the consolidated financial statements

The consolidated financial statements of Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg (hereinafter also called "Bau-Verein AG" or, within the context of the overall group, "Bau-Verein"), have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and binding in their application on the balance-sheet cutoff date and their interpretations issued by the Standing Interpretations Committee (SIC). Figures for the previous year were calculated in accordance with the same standards.

The requirements of the standards applied have been fulfilled and result in the presentation of a true and fair view of the net assets, financial position and earnings situation of Bau-Verein. The fiscal year of the parent company and the consolidated subsidiaries corresponds to the calendar year. The annual financial statements of the consolidated companies are based on uniform accounting and valuation methods. The consolidated financial statements are prepared in euros (€). All amounts are cited in and rounded to thousands of euros (€ 000s).

Pursuant to Regulation (EC) No. 1606/2002, the consolidated financial statements of the listed stock corporation Bau-Verein zu Hamburg Aktien-Gesellschaft at December 31, 2005, have been prepared in accordance with International Financial Reporting Standards (IFRS), as supplemented by the provisions of Section 315a(1) of the German Commercial Code (HGB).

Bau-Verein zu Hamburg Aktien-Gesellschaft, which has been entered in the Commercial Register of the Hamburg Local Court, has its registered office in 22767 Hamburg, Alte Königstraße 8-14. The object of the company is the construction of buildings of all kinds for its own and third-party accounts, the acquisition, management and sale of undeveloped land and developed properties and leasehold rights, the performance of all tasks associated with residential properties, urban development and infrastructure and the provision of services revolving around the real estate sector.

## 2. Deviations from the German Commercial Code (HGB)

The following material accounting and valuation methods deviating from German law have been taken into account:

- Investment properties (properties held as financial assets) are stated at their fair value on the cutoff date. Any changes in their fair value are posted as income or expenses in the income statement. HGB-compliant annual financial statements recognize investment properties at acquisition or production costs less regular depreciation.
- Pursuant to IAS 11, anticipated profits from construction projects are realized in accordance with the percentage-of-completion method (PoC method), depending on the percentage state of completion, provided that the necessary prerequisites are fulfilled. By contrast, accounting on the basis of HGB permits revenue realization only at the time of subsequent sale.
- Pension provisions have been calculated using the accrued benefit present value method ("projected unit credit method"). In an HGB-compliant balance sheet, valuation is based on the partial-value method, as laid down in Section 6a EStG (German Income Tax Act).
- Derivative financial instruments (swap transactions) have been recognized as assets or liabilities at their current market value on the balance-sheet cutoff date. Any changes in their current market value have been recognized as income or expenses in the income statement. Under the German Commercial Code (HGB), pending transactions are recognized in the balance sheet only if losses are anticipated.
- Assets and liabilities resulting from future income tax savings and income tax burdens have been recognized in accordance with the balance-sheet-oriented liability method, applying the tax rates relevant for their likely realization to the extent to which they result from temporary differences between the tax balance sheet and the IFRS balance sheet. This also involves the obligation to recognize deferred tax refund claims resulting from the offsetting of tax-loss carryforwards and anticipated future profits to the extent to which their realization is deemed ensured with an adequate degree of certainty within a foreseeable planning horizon. Pursuant to HGB, only deferred tax liabilities and deferred taxes resulting from consolidation measures must be reported in the balance sheet (Section 274(1) and Section 306 HGB). By contrast, inclusion of deferred tax assets in the balance sheet is optional (Section 274(2) HGB).

### 3. Consolidation group and capital consolidation principles

The consolidated financial statements include all enterprises in which Bau-Verein AG is directly or indirectly entitled to exercise the majority of the respective company's voting rights or, in one exceptional case, has factual control. These enterprises are included in the consolidated financial statements from the date on which the Bau-Verein AG has obtained control. Shareholdings in subsidiaries considered to be of minor significance from the Group's perspective are recognized as financial instruments within the meaning of IAS 39.

Apart from the parent company, Bau-Verein AG, the following subsidiaries were included in the consolidated financial statements at December 31, 2005, by means of full consolidation:

Subsidiary	Participation (in %)	Business focus/activities
Bau-Verein zu Hamburg Wohnungsgesellschaft mbH, Hamburg	100	Acquisition, development and sale of existing housing estates
Bau-Verein zu Hamburg Eigenheim-Immobilien GmbH, Hamburg	100	Development and sale of homes and high-quality condominiums
Bau-Verein zu Hamburg Altbau-Immobilien GmbH, Hamburg	100	Acquisition, refurbishing and sale of residential properties in eastern Germany
Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH, Hamburg	100	Development of properties for commercial use
Bau-Verein zu Hamburg Hausverwaltungsgesellschaft mbH, Hamburg	100	Management of residential properties, provision of services for condominium associations
Wohnanlage Ottobrunn GmbH, Hamburg	100	Administration and management of residential properties
Bau-Verein zu Hamburg "Junges Wohnen" GmbH, Hamburg	100	Development of high-quality homes and condominiums
BV Hamburger Wohnimmobilien GmbH, Hamburg	100	Property administration and management
Hamburg-Bremer Vermögensverwaltungsgesellschaft, Hamburg	100	Property administration and management through private equity holdings
URANIA Grundstücksgesellschaft mbH, Hamburg	100	Condominium management
VFHG Verwaltungs GmbH, Berlin	100	Holding and management of private equity holdings
Sandtorkai Investitionsgesellschaft mbH, Hamburg	100	Holding and management of private equity holdings
VFHG Haus- und Grundstücks GmbH & Co. Wohnanlage Friedrichstadt KG, Berlin	94	Development and sale of high-quality condominiums
G+R City-Immobilien GmbH, Berlin	85	Development and sale of properties in old buildings
ARCHPLAN Projekt Dianastraße GmbH, Dortmund	67	Development and sale of homes and high-quality condominiums
G+R Grundstücksentwicklung Habersaathstraße 31 GmbH, Berlin	50	Development and sale of properties in old buildings; inclusion because of factual control

A complete list of participations within the meaning of Section 313(2) and Section 285, sentence 1, No. 11 HGB (German Commercial Code) is available in the annual financial statements of Bau-Verein AG submitted to the Hamburg Local Court.

A change in the consolidation group as compared with the previous year took place as a result of the sale of a stake of 75 % plus one share in GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg (hereinafter also called "GAG"), which had previously been held by Hamburg-Bremer Vermögensverwaltungsgesellschaft mbH. For this reason, GAG was deconsolidated effective November 30, 2005 and recognized in the consolidated financial statements as an associated company. The purchase price for these shares amounted to € 5,050,000 and accrued to the Group in the form of cash.

Bau-Verein AG directly or indirectly holds at least 5 % of the voting rights in the companies listed below, all of which are considered to be of minor significance from the Group's perspective. The information required under Sections 315a(1) and 313(2)(4) is as follows:

Company	Participation (in %)	Equity capital (HGB) at 12/31/2005 (in € 000s)	Net annual income (HGB) 2005 (in € 000s)
BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100	387	4
BVF Grundstücksgesellschaft "Adlershof" mbH, Hamburg	100	-174	138
B.N. Bauregie Nord GmbH, Hamburg	100	52	3
Zweite BVV Bau-Verein zu Hamburg Fonds Verwaltungsgesellschaft mbH, Hamburg	100	38	3
Vierte Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg	34	1,147	128
Zweite Immobilienbeteiligungsgesellschaft BVV Bau-Verein zu Hamburg Fonds GmbH & Co. KG, Hamburg	18	2,655	-180

Capital consolidation is performed in accordance with the acquisition method through netting of the book values of the participations against the pro-rata equity capital of the subsidiaries at the date of acquisition. The surpluses resulting from capital consolidation were distributed among the acquired, separately identifiable assets and liabilities up to their fair values. No goodwill was created.

Income and expenses, receivables and liabilities or provisions between the individual fully consolidated enterprises are eliminated. Interim results from intra-group shipments and services not realized through sale to third parties are not taken into account.

#### 4. Individual accounting and valuation methods

Investment properties are initially recognized at acquisition or production costs at the time of their addition to the portfolio. In subsequent periods, they are posted at fair value (current market value), with annual changes being reflected as income or expenses in the income statement. As in the previous year, all fair values were calculated by independent property appraisers in accordance with the gross rental method. The properties are not subject to regular depreciation.

Fixed assets are stated at acquisition or production costs less regular depreciation and non-scheduled depreciation (impairment losses), if applicable. They are depreciated in accordance with the straight-line method over a useful life of 30 to 50 years for properties and 3 to 20 years for technical plant and equipment and operating and office equipment.

Intangible assets are stated at acquisition costs less regular straight-line amortization and impairment losses, if applicable. Amortization using the straight-line method is carried out over a useful life of 3 to 5 years.

Because market values cannot be calculated on a reliable basis, financial assets are recognized in the balance sheet at acquisition costs less required impairment, taking materiality aspects into account.

Participations in associated companies are carried in accordance with the at-equity method. Unlike full consolidation, the at-equity method does not involve transfer of assets or liabilities or expenses and income of the associated company to the consolidated financial statements. Instead, the book value of the shares held is increased or reduced in subsequent periods in accordance with changes in the pro-rate share in the associated company's equity.

Land available for sale and other inventories are stated at the lower of acquisition and production costs or estimated net selling price. Interest on externally borrowed capital accruing in inventories is capitalized.

Receivables and other assets are stated at their nominal value or acquisition cost less reasonable value adjustments.

Within the context of partial profit realization for construction projects based on long-term construction contracts, the expected profits from construction projects are realized in accordance with the percentage of completion (PoC) method. The respective percentage of completion is determined as the ratio of hitherto incurred costs to anticipated total costs of the construction contract. A positive balance between the profit realized and the downpayments received for these construction projects is recognized under the "future receivables from construction contracts" item. A negative balance is posted under "liabilities from construction contracts" on the liabilities side of the balance sheet.

Other proceeds from sale or lease of properties are realized when the obligation or service owed has been fulfilled or provided, risk has passed and a reliable estimate of the amount of the expected consideration is possible.

Cash and cash equivalents are recognized at their nominal amount.

Deferred taxes are accrued for temporary differences between IFRS and tax balance sheet valuations of the consolidated companies. Deferred tax assets from tax-loss carryforwards not yet used have been capitalized to the extent to which it seems likely that future taxable earnings will be available within a foreseeable planning horizon, permitting the offsetting of hitherto unused tax-losses. Deferred tax assets and liabilities are calculated on the basis of the tax rates expected to apply to the period in which an asset is realized or a liability is paid.

Prepaid expenses and deferred income are created for expenses incurred and income received prior to the balance-sheet cutoff date, if they must be allocated to the period after said date from a business perspective.

Provisions are posted at the amount constituting the best possible estimate of the expenses required to fulfill the current obligation at the balance-sheet cutoff date. Pension provisions have been calculated using an accrued benefit present value method, which takes account of the pensions and the vested pension rights known at the balance-sheet cutoff date as well as increases in salaries and pensions expected in the future.

Derivative financial instruments are initially recognized at acquisition costs at the time of their addition to the portfolio. In subsequent periods, they are posted at fair value on the respective balance-sheet cutoff date in accordance with the standards applying to financial instruments held for trading purposes. Their fair values are estimated on the basis of the underlying exchange rates and interest agreements. Changes in their fair value are reflected in the income statement as expenses or income.

Liabilities are stated at their repayment amount.

## Notes to the balance sheet

### 5. Investment properties

This item refers to properties held in the long term for rental income or value appreciation purposes and not intended for the provision of services or sale within the framework of ordinary business activities. Investment properties do not include properties held under operating leases.

All investment properties are recognized at their fair value on the basis of appraisals prepared in accordance with valuation methods customary in the market, taking account of the current and long-term rental situation. These appraisals are prepared by independent property appraisers.

At the balance-sheet cutoff date, these properties were encumbered with liabilities due to banks of € 56,347,000 (previous year: € 57,517,000). These liabilities were secured by real-property liens.

The table below shows the trend in the investment property portfolio:

Trend in investment properties (in € 000s)	2005	2004
At January 1	73,570	59,500
Additions due to reclassification from current assets	0	10,468
Withdrawals due to deconsolidation	-6,700	0
Fair value changes	4,611	3,602
At December 31	71,481	73,570

The deconsolidation is due to the sale of 75 % (plus one share) of the shares of GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg, held via Hamburg-Bremer Vermögensverwaltungsgesellschaft mbH, Hamburg, in December 2005. From the Group's perspective, this disposal led to elimination of all assets and liabilities of GAG from the Group and subsequent deconsolidation. Within the context of this deconsolidation, investment properties with a value of € 6,700,000 held by GAG were also withdrawn from the Group.

## 6. Tangible assets

The additions in the fiscal year under review are due to leasehold improvements and acquisitions in the area of operating and office equipment. The table below shows the trend in this item:

Acquisition/ production costs (in € 000s)	Assets under construction	Properties with commercial buildings	Buildings on third-party properties	Machinery	Operating and office equipment	Total
At 01/01/2005	0	1,953	81	20	598	2,652
Additions	175	0	0	0	41	216
Withdrawals	0	0	0	-12	-55	-67
At 12/31/2005	175	1,953	81	8	584	2,801

Cumulative depreciation (in € 000s)	Assets under construction	Properties with commercial buildings	Buildings on third-party properties	Machinery	Operating and office equipment	Total
At 01/01/2005	0	604	62	18	513	1,196
Additions	0	60	19	1	59	140
Withdrawals	0	0	0	-10	-39	-49
At 12/31/2005	0	664	81	8	534	1,287
Book value at 12/31/2005	175	1,289	0	0	49	1,513
Book value at 12/31/2004	0	1,349	19	2	85	1,455

The properties held as tangible assets are encumbered with liabilities due to banks of € 1,450,000 (previous year: € 1,477,000). These liabilities are secured by real-property liens. As in the previous year, the "properties with commercial buildings" item refers to a parking garage subject to regular depreciation over a useful life of 30 years.

## 7. Intangible assets

Intangible assets largely consist of IT software and downpayments on IT software. The table below shows the trend in this item:

Acquisition/production costs (in € 000s)	Intangible assets
At 01/01/2005	196
Additions	13
Withdrawals	0
At 12/31/2005	209

Cumulative amortization (in € 000s)	Intangible assets
At 01/01/2005	120
Additions	74
Withdrawals	0
At 12/31/2005	194
Book value at 12/31/2005	15
Book value at 12/31/2004	77

## 8. Financial assets

The table below shows the trend in financial assets in the fiscal year under review:

Acquisition/production costs (in € 000s)	Shares in affiliated companies	Loans to affiliated companies	Associated companies	Total
At 01/01/2005	2,770	0	114	2,884
Additions	0	0	3,619	3,619
Withdrawals	-900	0	0	-900
At 12/31/2005	1,870	0	3,733	5,603

The addition to shares in associated companies mainly refers to the stake of 25 % minus one share held in GAG Grundstücksverwaltungs-Aktiengesellschaft, which was still fully consolidated in the consolidated financial statements until November 30, 2005. A stake of 75 % plus one share in this company was sold effective December 1, 2005. A contribution to the capital reserve of this company of € 1,875,000 was made on December 31, 2005.

Shares in affiliated companies refer to subsidiaries not included in the consolidated financial statements. The impairment concerns the valuation of a limited partnership (project company) and was calculated on the basis of said company's anticipated business trend. Taking account of the impairment, the participation book value amounted to € 1,535,000 (previous year: € 2,435,000) on the cutoff date.

As in the previous year, the 50 % stakes held in Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH, Hamburg, and GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, Hamburg, are recognized under "associated companies". In addition, the equity holding of 25 % minus one share in GAG is recognized as an associated company. This previously fully consolidated company has been recognized at equity since December 1, 2005.

The income from associated companies accrued in the fiscal year under review of € 351,000 (previous year: € 14,000) was recognized in the income statement as income from associated companies.

At December 31, 2005, the following summarized financial information was available for associated companies held as long-term assets:

Associated company	Total assets (in € 000s)	Total debt (in € 000s)	Annual income (in € 000s)	2005 earnings (in € 000s)
GAG Grundstücksverwaltungs-Aktiengesellschaft	75,733	57,702	2,469	1,313
GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG	5,618	5,359	431	59
Verwaltung GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH	29	0	2	2

Income from investments of € 72,000 (previous year: € 0) refers to a distribution received from a project company.

## 9. Land available for sale and other inventories

As in previous years, the right to adopt the alternative method of capitalizing borrowing costs was used for land available for sale in fiscal 2005. All interest and borrowing costs incurred in the period of acquisition were capitalized to the extent to which they could be directly allocated to the acquisition or production of land. All in all, capitalized borrowing costs amounted to € 117,000 in fiscal 2005 (previous year: € 253,000).

In the fiscal year under review, impairments of € 254,000 on land available for sale (previous year: appreciation of € 559,000) were recognized in the income statement. At December 31, 2005, the book value of these properties amounted to € 1,364,000 (previous year: € 1.653,000).

Work in progress is comprised of uninvoiced heating and operating costs. "Other inventories" are heating oil inventories.

## 10. Receivables and other assets

Receivables from property sales include purchase price claims against the acquirers of properties and purchase prices deposited on fiduciary accounts kept by a notary public.

Future receivables from construction contracts result from partial profits from construction projects that have not yet been completed. Downpayments received have not yet been recognized for these construction contracts. The revenues and expenses recognized refer to the additional amounts recognized as compared with the German Commercial Code (HGB). This item can be broken down as follows:

Future receivables from construction contracts (in € 000s)	12/31/2005	12/31/2004
Revenues from partial profit realization	6,561	2,176
Expenses for land available for sale - partial profit realization	-5,989	-1,640
<b>Realized profit (excluding deferred tax effects)</b>	<b>572</b>	<b>536</b>

Receivables from rental activities result from leases of residential and commercial units including operating costs invoiced.

Other assets can be broken down as follows:

Other assets (in € 000s)	12/31/2005	12/31/2004
Tax claims	698	256
Receivables from the settlement of units sold	599	561
Receivables from management invoices	262	344
Creditors with debit balances	71	65
Other	454	516
<b>Total</b>	<b>2,084</b>	<b>1,752</b>

All receivables and other assets have remaining maturities of up to one year.

## 11. Cash and cash equivalents

This item includes credit balances with domestic banks of € 8,006,000 (previous year: € 1,076,000) and cash on hand of € 3,000 (previous year: € 2,000). In this context, reference is also made to the statement of cash flows, which provides information on the development of the Group's financial position.

## 12. Deferred tax assets

At December 31, 2005, deferred tax assets and liabilities were netted against each other for the first time. The figures for previous years were adjusted accordingly.

Deferred taxes can be broken down as follows:

Deferred tax assets (in € 000s)	12/31/2005	12/31/2004
Tax loss carryforwards	5,442	4,681
Valuation of properties	85	838
Impending losses from rent guarantees	602	742
Other	724	383
	<b>6,853</b>	<b>6,644</b>
Deferred tax liabilities (in € 000s)	12/31/2005	12/31/2004
Valuation of properties	-5,668	-5,615
Partial profit realization	-440	-213
Other	-27	-55
	<b>-6,135</b>	<b>-5,883</b>
<b>Total</b>	<b>718</b>	<b>761</b>

Computation of deferred taxes for hitherto unutilized tax-loss carryforwards are based on a foreseeable planning period, if the underlying tax conditions are uncertain. As in the previous year, a cautious approach was adopted with respect to deferred taxes on corporate and trade tax loss carryforwards totaling € 12,611,000, which were not taken into account in the computation.

## 13. Prepaid expenses and deferred income

Prepaid expenses mainly refer to prepaid liability insurance premiums and grants for conversion projects.

Deferred income mainly refers to prepaid management fees.

#### 14. Subscribed capital

The share capital of Bau-Verein AG remained unchanged versus the previous year and amounted to € 50,820,000 (previous year: € 5,663,000).

At the beginning of the fiscal year under review, the share capital had been divided into 8,469,997 non-par shares. By resolution of the Annual General Meeting on June 24, 2005, the share capital of the company was redivided (stock split). One non-par share representing a share of € 6.00 in the share capital was replaced by two non-par shares with a pro-rata share-capital amount of € 3.00 per non-par share. The number of outstanding shares thus increased from 8,469,997 non-par shares to 16,939,994 non-par shares. The new subdivision of the company's share capital was entered in the Commercial Register on September 19, 2005.

By resolution of the Management Board of February 13/16 and with the approval of the Supervisory Board of February 13/16, Bau-Verein AG increased its share capital from € 50,819,982.00 to € 62,819,982.00 through issue of 4,000,000 non-par shares against cash contributions. The share issue against capital contributions will result in a cash inflow of € 19 million for the company.

The Annual General Meeting of May 28, 2002, passed a resolution suspending the previously existing Authorized Capital I and II and creating new Authorized Capital I of € 15,600,000.00 and new Authorized Capital II of € 9,809,988.00. Authorized Capital I and II were entered in the Commercial Register on June 17, 2002.

After initial use of Authorized Capital I in the amount of € 12.0 million by virtue of the Management Board's resolution of February 13/16, 2006, and with the Supervisory Board's approval of February 13/16, 2006, the Management Board is now authorized pursuant to Section 3(4) of the Articles of Association and subject to the Supervisory Board's approval, to increase the capital from Authorized Capital I in the period until May 27, 2007, by up to € 3.6 million through issuance of up to 1,200,000 new non-par bearer shares in one or several tranches (Authorized Capital I). In this context, a subscription right must be granted to existing shareholders. In addition, the Management Board has been authorized, subject to the Supervisory Board's approval:

- to exclude shareholders' statutory subscription rights with respect to the remaining amount of Authorized Capital I, in order to issue the new shares at an issue price not significantly below the share price at which the already listed shares with the same structure trade at the time of final determination of the issue price.

- to also exclude shareholders' statutory subscription right to the extent to which this is required in order to grant the holders of convertible bonds or warrants that have already been or will be issued by Bau-Verein AG or one of its wholly owned direct or indirect subsidiaries a subscription right to the extent to which they would be entitled to such right as shareholders after exercise of their conversion or option rights.
- to exclude peak amounts from shareholders' statutory subscription right.

The Management Board shall decide on the content of the respective stock rights and the other terms and conditions of the stock issue, subject to the approval of the Supervisory Board. The Supervisory Board has been authorized to adjust the wording of Section 3(4) of the Articles of Association to the respective utilization of authorized capital.

In addition, the Management Board is now authorized pursuant to Section 3(6) of the Articles of Association and subject to the Supervisory Board's approval to increase the share capital from Authorized Capital I in the period until May 27, 2007 by up to € 9,809.988,00 million through issuance of up to 3,269,996 new non-par bearer shares in one or several tranches (Authorized Capital II) in order to acquire enterprises, parts of enterprises or participations in enterprises. Shareholders' subscription rights are excluded in this case. The Management Board has been authorized to decide on the further content of the stock rights and further details of the implementation of the capital increase, subject to the Supervisory Board's approval. The Supervisory Board has been authorized to adjust the wording of Section 3(6) of the Articles of Association in line with the respective utilization of the Authorized Capital.

## 15. Capital reserves

The capital reserve resulted from capital increases in fiscal 1998 (€ 14,359,000), fiscal 2000 (€ 7,909,000) and fiscal 2001 (€ 6,109,000).

## 16. Revenue reserves

The statutory reserve continues to exist unchanged in the amount of 50 % of the share capital formerly laid down in the Articles of Association (Section 18 of the version valid until December 31, 1989).

Similarly, the building renewal reserve resulting from an addition in previous years is unchanged.

## 17. Minority interests

The adjustment item for minority shareholdings refers to interests in shareholders' equity held by third-party shareholders and subsidiaries included in net annual income.

## 18. Pension provisions

Employers' pension commitments were last made in 1995, in accordance with the 1984 pension regulations. They are exclusively direct commitments.

Pension provisions were calculated using the projected-unit-credit method. This method takes account of pensions and vested pension rights accrued at the balance-sheet cutoff date as well as increases in salaries and pensions expected in the future. The provisioning amount was calculated by independent experts using actuarial methods. The table below shows the key actuarial parameters used.

Actuarial assumptions	
Discount rate	4.25 %
Salary increase rate	1.50 %
Pension increase rate	1.75 %
Pension age	pursuant to Social Security Code VI
Mortality probabilities	"Heubeck-Tafeln" 2005 G

Changes in pensions provisions were as follows:

Pension provisions (in € 000s)	2005	2004
At January 1	2,467	2,453
Withdrawals	-250	-233
Retransfers	-105	0
Additions	217	247
At December 31	2,329	2,467

As in the previous year, the present value of the benefits-oriented obligation corresponds to the liability shown in the consolidated balance sheet. Reconciliation pursuant to IAS 19.120(c) can thus be dispensed with.

€ 226,000 (previous year: € 292,000) of these pension provisions will become payable within one year. The table below shows the amounts recognized in the "personnel expenses" item of the income statement:

Pension expenses (in € 000s)	2005	2004
Current service cost	3	3
Interest expenses	214	244
<b>Total</b>	<b>217</b>	<b>247</b>

At December 31, 2005, provisions of € 1,346,000 existed for retired Management Board members and their surviving dependents.

## 19. Tax provisions

The table below shows the development of tax provisions in the year under review:

(in € 000s)	At 01/01/2005	Retransfers	Withdrawals	Additions	At 12/31/2005
Tax provisions	1,037	60	270	125	832

Tax provisions can be broken down as follows:

Tax provisions (in € 000s)	12/31/2005	12/31/2004
Trade tax	497	664
Corporate income tax including solidarity surcharge	165	203
Sales tax	170	170
<b>Total</b>	<b>832</b>	<b>1,037</b>

## 20. Other provisions

Other provisions can be broken down as follows:

Other provisions (in € 000s)	At 01/01/2005	Retransfers	Withdrawals	Additions	At 12/31/2005
Work to be performed for sold properties	824	15	142	1,324	1,991
Rent guarantees	2,038	14	1,594	1,224	1,654
Outstanding construction invoices	1,352	27	1,113	1,380	1,592
Repair of defects	722	0	138	343	927
Other	1,112	34	839	888	1,127
<b>Total</b>	<b>6,048</b>	<b>90</b>	<b>3,826</b>	<b>5,159</b>	<b>7,291</b>

## 21. Obligations arising from construction contracts

At December 31, 2005, there were no obligations arising from construction contracts. By contrast, the asset side showed future receivables from construction contracts of € 572,000 (see explanation in Note 10).

## 22. Other short-term liabilities

The table below provides a break-down of this item:

Other short-term liabilities (in € 000s)	12/31/2005	12/31/2004
Tax liabilities	1,271	1,716
Accounts receivable with credit balances	527	491
Social security contributions	111	120
Security deposits	15	156
Other	123	93
<b>Total</b>	<b>2,047</b>	<b>2,576</b>

The maturities of all liabilities are as follows:

Items (in € 000s)	Book value	Maturity of up to 1 year	1 to 5 years	more than 5 years	thereof secured
Liabilities due to banks	246,212	199,321	15,637	31,254	245,575
(previous year)	264,882	217,177	15,402	32,303	264,882
Downpayments received	14	14	0	0	0
(previous year)	320	320	0	0	0
Liabilities from rental activities	5,495	5,495	0	0	0
(previous year)	5,398	5,398	0	0	0
Other trade accounts payable	4,516	4,516	0	0	0
(previous year)	4,831	4,831	0	0	0
Liabilities due to affiliated companies	6,728	6,728	0	0	0
(previous year)	3,496	3,496	0	0	0
Liabilities due to associated companies	13	13	0	0	0
(previous year)	13	13	0	0	0
Other liabilities	2,058	2,047	5	6	0
(previous year)	2,648	2,577	9	62	60
<b>Total</b>	<b>265,036</b>	<b>218,134</b>	<b>15,642</b>	<b>31,260</b>	<b>245,575</b>
(previous year)	281,588	233,812	15,411	32,365	264,942

Liabilities due to banks consist almost exclusively of liabilities arising from the acquisition of investment properties or the acquisition and development of land available for sale. Financing is usually agreed on a long-term basis for investment properties and on a short-term basis for land available for sale. Lending terms and conditions (interest rates, redemptions) are adjusted at regular intervals. The fair values of the bank loans thus match their book values as shown in the balance sheet.

Since liabilities due to banks encompass a wide variety of loans, a more detailed breakdown of these loans including interest rates and maturity dates is dispensed with here.

No premiums, discounts and interest-free loans were recorded on December 31, 2005.

### **23. Deferred tax liabilities**

In 2005, deferred tax liabilities and deferred tax assets were netted against each other for the first time (see explanation in Note 11).

## **Notes to the income statement**

### **24. Revenues**

Revenues mainly comprise property sales with a volume of € 112,648,000 (previous year: € 61,666,000). More detailed information about revenue composition is provided in the segment reporting.

### **25. Change in work-in-progress inventories**

This item refers to uninvoiced allocable heating and operating costs for fiscal 2005 and invoiced heating and operating costs for fiscal 2005. In the balance sheet, these expenses are capitalized as work-in-progress. Prepayments received are recognized on the liabilities side under "liabilities from rental activities".

### **26. Other internally produced and capitalized assets**

Other internally produced and capitalized assets are, above all, directly allocable construction support costs (mainly personnel expenses) incurred within the group. They are recognized at intra-group production costs.

**27. Other operating income**

Other operating income mainly includes income from deconsolidation resulting from the partial disposal of the shares held in GAG of € 864,000 (previous year: € 7,000), income from prior years of € 620,000 (previous year: € 532,000) and income from the reversal of provisions of € 196,000 (previous year: € 484,000) and passed-on costs or cost reimbursements.

**28. Cost of purchased materials and services**

This item includes portfolio inputs for properties sold of € 101,996,000 for the fiscal year under review (previous year: € 50,307,000) and other costs of € 16,628,000 incurred within the context of property sales as well as expenses for property lease and administration.

**29. Personnel expenses**

The following table shows a breakdown of personnel expenses:

Personnel expenses (in € 000s)	2005	2004
Wages and salaries	4,665	4,581
Social security contributions	747	771
Pension expenses	231	254
<b>Total</b>	<b>5,643</b>	<b>5,606</b>

**30. Other operating expenses**

Other operating expenses (in € 000s)	2005	2004
Legal and consulting fees	1,241	1,279
Write-downs on receivables	1,147	243
Expenses for office space	752	744
Credit procurement costs	280	159
Other employee-related costs	245	180
Vehicle expenses	231	258
Cost allocations	222	211
General administrative costs	97	121
Project costs	54	22
Other	544	794
<b>Total</b>	<b>4,813</b>	<b>4,011</b>

### 31. Revaluation of investment properties

This item shows changes in the fair values of properties held as financial assets recognized in the income statement.

The following major income and expense items were posted as income or expenses in the income statement for investment properties held as financial assets:

Item (in € 000s)	2005	2004
Revenues from building management	6,519	5,802
Expenses for building management	-2,197	-1,745
Interest expenses	-2,466	-2,316
Other taxes	-167	-155
<b>Total</b>	<b>1,689</b>	<b>1,586</b>

### 32. Write-down on financial assets

The write-down on financial assets refers to an impairment in a participation held in a limited partnership ("Kommanditgesellschaft").

### 33. Interest and similar expenses

Interest expenses mainly include interest charged by banks and interest on clearing accounts.

### 34. Income taxes

Income taxes can be broken down as follows:

Income taxes (in € 000s)	2005	2004
Deferred taxes	1,419	1,704
Corporate income tax including solidarity surcharge	90	337
Trade tax	548	179
<b>Total</b>	<b>2,057</b>	<b>2,220</b>

Actual tax expenditure is calculated on the basis of the tax regulations applicable to the individual companies.

A reconciliation of expected tax expenditure and actual tax expenditure is shown below. Expected tax expenditure is calculated by applying the expected tax rate of 39.63% to earnings before income taxes of € 3,068,000 (previous year: € 3,777,000).

Reconciliation computation (in € 000s)	2005	2004
Expected tax benefit	1,216	1,497
Retroactive tax expenditure for previous years	549	369
Tax effect of tax-free increase in net worth and non-tax-deductible expenses	292	354
<b>Actual tax expenditure</b>	<b>2,057</b>	<b>2,220</b>

In this context, the expected tax rate is calculated as follows:

Expected tax rate	2005	2004
Corporate income tax	20.50 %	20.50 %
Solidarity surcharge	1.13 %	1.13 %
Trade tax	18.00 %	18.00 %
<b>Total</b>	<b>39.63 %</b>	<b>39.63 %</b>

The actual tax burden derived from the actual tax expenditure comes to 67.1 % in the current year (previous year: 58.8 %). This unusually high actual tax burden is mainly attributable to the creation of provisions for tax risks associated with previous years of € 125,000 (previous year: € 369,000) as a consequence of the findings of the government tax audit and trade tax payments for prior years of € 197,000 at BV Hamburger Wohnimmobilien GmbH and € 325,000 at Wohnanlage Ottobrunn GmbH.

As in the previous year, Bau-Verein had a corporate income tax credit of € 179,000 and corporate income tax increase potential of € 5,013,000 at December 31, 2005, which, according to the current legal situation, can, however, be applied only to profit distributions in the period from January 1, 2006, through December 31, 2021.

### 35. Other taxes

Other taxes are comprised of property tax and motor vehicles tax.

### Notes to the statement of cash flows

The statement of cash flows has been prepared on the basis of the indirect method. In this context, a distinction was made between cash flows from operating, investing and financing activities. The "cash and cash equivalents" item on the cut-off date can be broken down as follows:

Cash and cash equivalents (in € 000s)	12/31/2005	12/31/2004
Cash and cash equivalents	8,009	1,078
Current account credit in liabilities due to banks	9,233	3,465
<b>Total</b>	<b>17,242</b>	<b>4,543</b>

The following payment flows are included in the statement of cash flow:

Cashflow (in € 000s)	2005	2004
Interest received	531	779
Interest paid	-12,255	-12,488
Dividends received	72	0
Income tax payments and reimbursements (balance)	-638	-516

### Notes to segment reporting

Segment reporting is based on the business segments existing within the Group. The individual segments correspond to those used by the management for the purpose of differentiating the various parts of the Group (internal organizational and management structure). The individual segments are described below:

- **Housing portfolio:** leasing of the company's own housing portfolio in German metropolitan areas.
- **Housing portfolio development:** acquisition of housing portfolios with high development potential in established locations in German metropolitan areas; partial sale or long-term retention on the company's own books after realization of development measures such as repairs, refurbishing, addition of new stories to buildings, creation of new living space and infrastructure enhancement.
- **New-housing construction:** construction and sale of affordable terraced houses, maisonette apartments and owner-occupied apartments.
- **Commercial:** development and realization of commercial real estate projects in selected locations of German cities.

The segment result of Bau-Verein is based on "result from ordinary activities" within the meaning of the German Commercial Code (HGB). Correspondingly,

expenses for other taxes are not taken into account, which means that other taxes are not included in the segment result either. Expenses for other taxes amount to a total of € 861,000 (previous year: € 1,071,000).

## Other information

### 36. Earnings per share

Earnings per share are calculated by dividing consolidated net income by the weighted number of outstanding shares. The table below shows undiluted earnings per share:

Undiluted earnings per share	2005	2004
Consolidated net income (in €)	1,008,529.70	1,527,899.67
Number of shares (units)	10,940,413	8,469,997
<b>Undiluted earnings per share (in €)</b>	<b>0.09</b>	<b>0.18</b>

By resolution of the Annual General Meeting of June 24, 2005, the share capital of the company was redivided (stock split). One non-par share representing a share of € 6.00 in the share capital was replaced by two non-par shares with a pro-rata share-capital amount of € 3.00 per non-par share. The number of outstanding shares thus increased from 8,469,997 non-par shares to 16,939,994 non-par shares. The new subdivision of the company's share capital was entered in the Commercial Register on September 19, 2005. In fiscal 2005, the number of outstanding shares thus came to 8,469,997 until September 19, 2005, and 16,939,994 after that date. This results in a weighted number of shares of 10,940,413 for fiscal 2005.

### 37. Other financial obligations

Other financial obligations material for assessment of the Group's net assets, financial position and earnings situation are shown in the table below:

Other financial obligations (in € 000s)	up to 1 year	up to 5 years
Rent guarantees	3,189	0
Rent for business premises	149	0
Leasing of operating and office equipment	202	239
<b>Total</b>	<b>3,540</b>	<b>239</b>

In addition, guarantees of € 2,970,000 in favor of a company in which Bau-Verein holds an equity interest existed at December 31, 2005.

### 38. Financial instruments

In fiscal 2000, a cross-currency-interest-rate swap with a maturity of five years was concluded with a bank. In this transaction, Bau-Verein had committed itself to paying a predefined interest rate on an amount in foreign currency (CHF 15,833,000). At the same time, interest was credited to Bau-Verein on an amount of € 10,226,000, depending on a variable basis of calculation. The respective interest amounts were settled at regular intervals. At the end of the maturity period (July 11, 2005), the swapped capital amounts were netted against each other, and the difference was credited or debited to Bau-Verein.

The following amounts were recognized in the income statement within the context of this swap transaction:

Item (in € 000s)	2005	2004
Other operating income	13	0
Other operating expenses	0	-19
Interest income	117	211
Interest expenses	-231	-424
<b>Total</b>	<b>-101</b>	<b>-232</b>

Bau-Verein AG has concluded a bonus interest rate swap with a bank. This transaction has a maturity of ten years and a volume of € 10 million. The commencement date was on December 27, 2004. The company is obliged to pay the retroactively computed 10-year interest rate swap on a quarterly basis, with this rate being reduced by the 3-month Eurobor rate, also calculated retroactively, provided that the latter rate falls within a range of 3.90 % and 2.05 % p.a.

For this payment obligation, a maximum interest rate of 5.35 % p.a. has been secured. At the same time, interest corresponding to the 3-month Eurobor determined at the beginning of the respective quarterly maturity period is credited to the company on the settlement date. The two amounts are then netted against each other at the end of the respective quarterly maturity period and credited to or debited against the account of Bau-Verein AG .

The bonus-interest-rate swap transaction was recognized in the income statement at its fair value at December 31, 2005.

The following amounts were recognized in the income statement within the context of this swap transaction:

Item (in € 000s)	2005	2004
Other operating income	57	0
Other operating expenses	220	0
Interest income	-201	0
<b>Total</b>	<b>76</b>	<b>0</b>

### 39. Business relationships with related parties

With agreement of October 5, 2001, Bau-Verein AG was granted a loan of € 2,812,000 (DM 5,500,000) by its controlling shareholder, TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft. A loan agreement concluded on February 28, 2002 converted this loan into a loan facility of € 3,000,000, for an initial period until December 31. The loan facility was subsequently extended until further notice in a letter dated February 24. The loan is subject to an interest rate of 7.5 % p.a. The participation held by Bau-Verein AG in Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH was pledged as collateral for this loan on March 12/25.

With the loan agreement of September 9, 2005, TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft granted a further loan of € 3,000,000 to Bau-Verein AG for the financing of new projects. The loan had a maturity period of 36 months from payout and was subject to an interest rate of 7.5 % p.a. This loan was repaid prematurely by Bau-Verein AG at the start of fiscal 2006.

At December 31, 2005, TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft had provided guarantees of € 8,750,000 vis-à-vis banks in favor of Bau-Verein AG. The guaranteed loans refer to existing current accounts of Bau-Verein AG. Starting in fiscal 2005, TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft received a remuneration of € 66,000 for statements of guarantee submitted.

In fiscal 2004, Bau-Verein AG submitted a guarantee for an amount of € 2,970,000 to a bank in favor of GIB Grundbesitz Investitionsgesellschaft Bergedorf mbH & Co. KG, in which it holds 50 % of the voting rights. Remuneration has not been agreed so far.

Since fiscal 2005, Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH has leased offices in Hamburg to TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft. The annual rent is € 28,000.

Since fiscal 2004, Wohnanlage Ottobrunn GmbH has been responsible for ongoing project management and development of properties located in Tegernsee Valley on behalf of TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft. The annual fee for this service amounted to € 53,000 plus VAT in fiscal 2004. Effective January 1, 2005, remuneration of € 50,000 p.a. plus value added tax was agreed.

On October 28, 2005, an agreement re project management and development for a property located in Stuttgart was concluded between Wohnanlage Ottobrunn GmbH and JUS Stuttgart-Südtor Projektleitungs GmbH & Co. KG, a wholly-owned subsidiary of JUS Aktiengesellschaft für Grundbesitz. Services are invoiced quarterly as performed. For fiscal 2005, fees of € 15,000 plus VAT were billed in this context.

On August 27, 2004, a sales agreement was concluded between Bau-Verein zu Hamburg Altbau-Immobilien GmbH and JUS Aktiengesellschaft für Grundbesitz. The subject matter of the agreement is a residential property held by JUS Aktiengesellschaft für Grundbesitz in Berlin. In this agreement, Bau-Verein zu Hamburg Altbau-Immobilien GmbH was commissioned to act as a broker responsible for finding prospective buyers or referring sales agreements for conclusion. As compensation for this service, it received the brokerage commission of 5 % of the purchase price laid down in the agreement.

After Bau-Verein AG's sale of 75 % (plus one share) of the shares in GAG held via Hamburg-Bremer Vermögensverwaltungsgesellschaft mbH in December 2005, a number of properties held by the Bau-Verein Group were transferred to GAG within the framework of the share transfer and cooperation agreement:

- GAG acquired the Zehlendorf I housing estate, with 642 dwelling units, and another housing estate located Berlin Zehlendorf, with 35 dwelling units, from Bau-Verein AG. Extensive modernization and refurbishing work is envisaged, leading to increased living space. A Bau-Verein Group company will be entrusted with realization of this project.
- GAG acquired the Steckelhörn office building, which is located in Hamburg and comprises roughly 4,710 square meters of office space at present, from Bau-Verein zu Hamburg Gewerbeimmobiliengesellschaft mbH. After the addition of new stories envisaged for 2006, the building will have some 6,747 square meters of office space. The building permits required for the addition of new stories have been obtained. This project will also be realized by a Bau-Verein Group company.
- GAG acquired the plots of land of Quarters I and IV of the "heidberg.villages" construction project from Bau-Verein zu Hamburg "Junges Wohnen" GmbH. In this context, GAG has taken over the existing construction obligation vis-à-vis the Free and Hanseatic City of Hamburg. The previous plans have been amended, and rental apartments will now be built on the plot of Quarter I. Here, too, realization and handling of the construction work will be the responsibility of a Bau-Verein Group company.

The total property acquisition price payable by GAG for the above properties amounts to € 63,402,000. The management of GAG's property portfolio will be handled by a Bau-Verein Group company in the future, too. The goal of Bau-Verein is to expand GAG into a portfolio-owning housing company in which Bau-Verein will retain a long-term equity interest of slightly under 25 %.

#### 40. Number of employees

At December 31, 2005, a total of 95 (previous year: 97) staff members were employed in the Group. The average number of employees in the Group in the fiscal year under review came to 100 (previous year: 94).

#### 41. Remuneration received by the Management and Supervisory Boards

The remuneration of the Management Board for fiscal 2005 amounted to € 742,000 (previous year: € 600,000). The total remuneration received by the members of the Supervisory Board for fiscal 2005 was € 36,000 (previous year: € 32,000).

#### 42. Independent auditor's fee

The fee for the independent auditor recognized as expenses across the Group in fiscal 2005 included fees for the audit of the annual financial statements of € 214,000 (previous year: € 234,000), fees for other certification services of € 18,000 (previous year: € 15,000) and fees for tax consulting services of € 3,000 (previous year: € 3,000).

#### 43. Members of the Supervisory Board

The following gentlemen were members of the company's Supervisory Board in fiscal 2005:

**Dr. Lutz R. Ristow**, Business Management Graduate, Hamburg (Chairman)  
Offices held in other supervisory boards/corporate governance bodies: JUS Aktiengesellschaft für Grundbesitz, Berlin; Tegernsee-Bahn Betriebsgesellschaft mbH, Tegernsee; Real Immobilien GmbH, Leipzig; EPRA European Public Real Estate Association, Amsterdam/Netherlands (since 10/2005)

**Michael Haupt**, Attorney, Berlin (until December 31, 2005)  
Offices held in other supervisory boards/corporate governance bodies: AGP AG Allgemeine Gewerbebau- und Projektentwicklungs-Aktiengesellschaft, Munich

**Lorenz von Ehren**, Business Management Graduate, Hamburg  
Offices held in other supervisory boards/corporate governance bodies: none

**Dr. Wolfgang Schnell**, Chemical Engineer, Munich  
Offices held in other supervisory boards/corporate governance bodies: TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, Tegernsee

**Hansgeorg Riewestahl**, clerical employee, Hamburg  
(employee representative)  
Offices held in other supervisory boards/corporate governance bodies: none

**Matthias Naterski**, clerical employee, Hamburg  
(employee representative)  
Offices held in other supervisory boards/corporate governance bodies: none

#### 44. Members of the Management Board

The following gentlemen were members of the Management Board in the fiscal year under review.

**Andreas Ibel, Jurist, Attorney, Hamburg**

Offices held in other supervisory boards/corporate governance bodies: GAG Grundstücksverwaltungs-Aktiengesellschaft, Hamburg (Chairman)

**Erhard Flint, Diplom-Ingenieur, Engineer, Hamburg**

Offices held in other supervisory boards/corporate governance bodies: none

#### 45. Consolidated financial statements

Bau-Verein is included in the consolidated financial statements of TAG Tegernsee Immobilien- und Beteiligungs-Aktiengesellschaft, Tegernsee, at December 31, 2005, which were submitted to the Munich Local Court under Commercial Register No. HRB 41651

#### 46. Declaration of conformity

The declaration concerning conformity with the recommendations of the Governmental Commission on the "German Corporate Governance Code", required pursuant to Section 161 AktG (German Stock Corporation Act), has been drawn up and made available to shareholders.

Hamburg, March 31, 2006



(Erhard Flint)



(Andreas Ibel)

## Auditor's certificate

We have audited the consolidated financial statements, comprising the balance sheet, income statement, statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, and the group management report prepared by Bau-Verein zu Hamburg Aktien-Gesellschaft, Hamburg, for the fiscal year from January 1 to December 31, 2005. Preparation of the consolidated financial statements and group management report in accordance with IFRS as applicable in the EU and with the supplementary regulations of the German Commercial Code (HGB) as laid down in Section 315a(1) HGB and the supplementary provisions of the Articles of Association is the responsibility of the Company's legal representatives. It is our task to express an opinion about the consolidated financial statements and group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in a manner that permits misstatements and infringements that materially affect the presentation of the net assets, financial position and earnings situation in the consolidated financial statements, prepared in compliance with the applicable accounting standards, and the group management report to be recognized with reasonable certainty. Knowledge of the business activities and economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. Within the framework of the audit, the effectiveness of the internal accounting control system and evidence supporting the amounts and disclosures in the consolidated financial statements and group management report are largely assessed by the random sample method. The audit comprises assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the consolidation group, the accounting and consolidation principles used and significant estimates made by management, as well as evaluation of the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides an adequate basis for the formation of our opinion. Our audit has not led to any reservations.

In our opinion, as based on our audit findings, the consolidated financial statements comply with IFRS as applicable in the EU, the supplementary regulations of the German Commercial Code (HGB) as laid down in Section 315a(1) HGB and the supplementary provisions of the Articles of Association and give a true and fair view of the Group's net assets, financial position and earnings situation in accordance with these requirements. The group management report is consistent with the consolidated annual financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, April 3, 2005

Schröder, Nörenberg + Partner GmbH  
- Wirtschaftsprüfungsgesellschaft -

- H. Schröder                      - M. Thiel -  
German Public Auditor      German Public Auditor

In fiscal 2005, the Supervisory Board performed the tasks incumbent on it pursuant to the law and the company's Articles of Association. It regularly monitored and provided advice to the company's Management Board.

The Management Board provided the Supervisory Board with regular oral and written reports containing timely and detailed information about all business transactions of fundamental significance. Joint discussions focused on corporate, human resources, and financial planning, the Group's situation and assessment of the risk position and progress made with respect to investment projects implemented by the Company and its subsidiaries. The Supervisory Board also obtained regular information about all important business events from the Management Board in the periods between meetings.

In accordance with the statutory regulations, the Supervisory Board is comprised of four shareholder representatives and two employee representatives. In fiscal 2005, a total of five Supervisory Board meetings were held, in which discussions mainly focused on the revenue and financial situation of the Group and its individual business segments. Decisions and measures requiring the approval of the Supervisory Board pursuant to the by-laws applicable to the Management Board were examined by the members of the Supervisory Board and approved at the meetings. No committees existed in the fiscal year under review.

The consolidated financial statements at December 31, 2005, were prepared in accordance with International Financial Reporting Standards (IFRS). The accounting company, Schröder, Nörenberg und Partner GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, audited the consolidated financial statements and the group management report as well as the annual financial statements of Bau-Verein zu Hamburg Aktien-Gesellschaft and this company's management report for fiscal 2005. The auditor explained the audit principles applied in its auditor's report. The consolidated financial statements and annual financial statements of Bau-Verein zu Hamburg Aktien-Gesellschaft were given an unqualified auditor's opinion.

The annual financial statements and management report of the company, consolidated financial statements and group management report and auditors' reports were made available to all members of the Supervisory Board. Following an auditor's report, the documents pertaining to the financial statements were discussed in detail in the presence of the auditor at the Supervisory Board meeting of April 7, 2006.

The Management Board's dependent companies report pursuant to Section 312 AktG (German Stock Corporation Act) for fiscal 2005 and the associated auditor's report were also made available to the Supervisory Board. The Supervisory Board reviewed the report submitted by the Management Board. It concurs with it as well as with the findings of the independent auditor's report. The auditor has issued the following certificate for the Management Board's dependent companies report:

"On the basis of our due audit and assessment, we confirm that

1. the factual information presented in the report is accurate
2. the consideration paid by the company in the legal transactions listed in the report was not unreasonably high."

The Supervisory Board reviewed the annual and consolidated financial statements, the group management report and the proposal for the appropriation of net profits. It did not raise any objections. The Supervisory Board thus approved the findings of the audit.

The Supervisory Board accepted and thus approved the annual financial statements of Bau-Verein zu Hamburg Aktien-Gesellschaft prepared by the Management Board at its meeting focusing on approval of the annual accounts. The consolidated financial statements were also approved. The Supervisory Board seconds the Management Board's proposal for the appropriation of profits. In addition, the Supervisory Board approved the proposals for resolutions for the Annual General Meeting.

Within the context of his resignation from the TAG Group, Mr. Michael Haupt resigned from his seat on the Supervisory Board of the Company effective December 31, 2005. The Supervisory Board wishes to thank Mr. Haupt for his constructive cooperation during the last few years.

The Supervisory Board wishes to express its appreciation of the commitment and work performed by all employees in fiscal 2005.

**Hamburg, April 2006**  
The Supervisory Board  
Dr. Lutz Ristow  
Chairman

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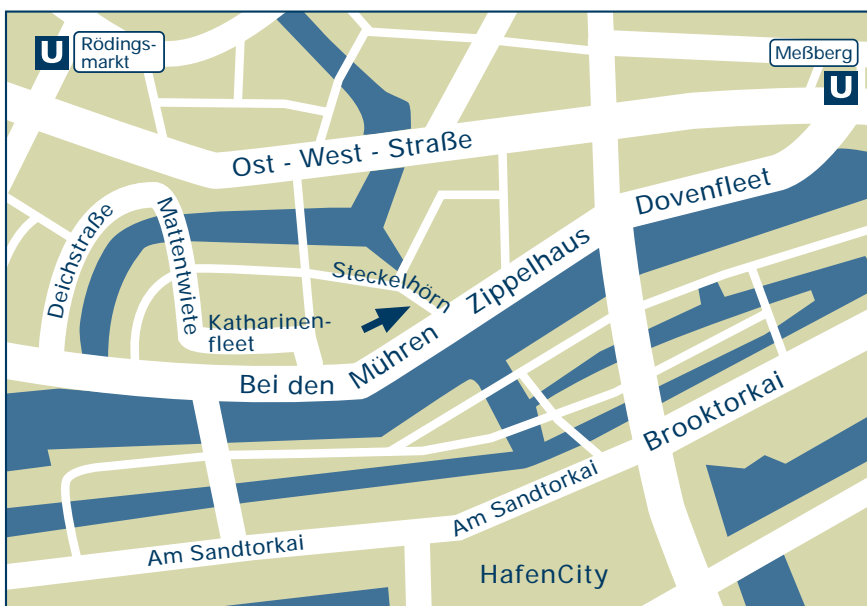
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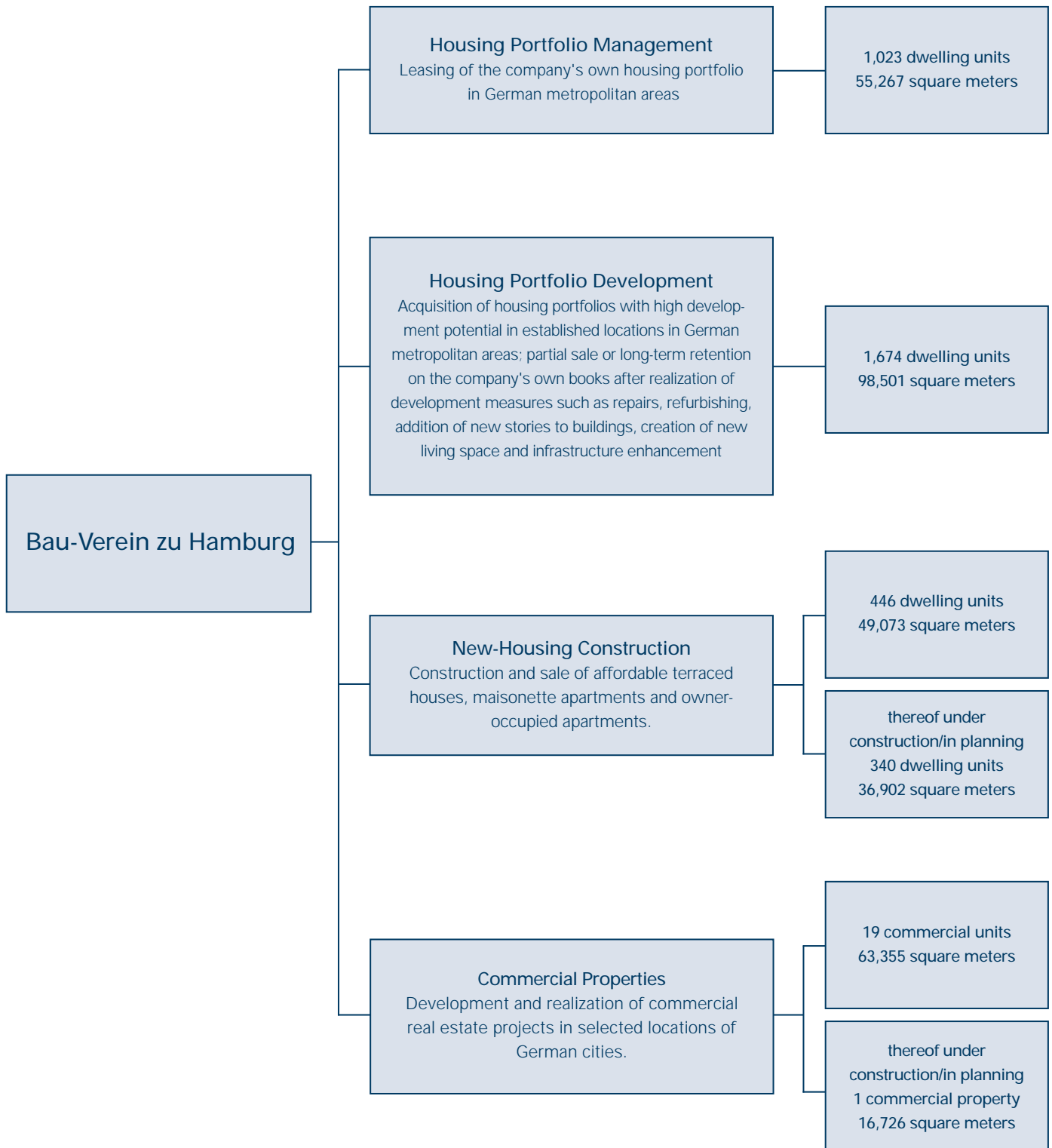
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