

Annual Report

2005

Investment and privatisation management for the Republic of Austria

Österreichische Industrieholding AG is the investment and privatisation agency of the Austrian Republic.

In line with its government mandate, ÖIAG employs a double strategy. On the one hand, it stimulates increases in the value of the investments for which it is responsible and on the other, it continually examines exit scenarios with the aim of achieving the partial or complete privatisation of those companies for which privatisation is envisaged.

Both strategies are implemented simultaneously, in order to achieve maximum independence and the corresponding privatisation successes. Apart from the maximisation of returns, the securing of jobs represents a major privatisation criterion.

At present, the ÖIAG portfolio currently contains five companies and corporate groups.

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Investments 2005

	Turnover	EBIT	Result before tax	Dividend per share	Dividend	Employees ⁴
	EUR m	EUR m	EUR m	EUR	EUR m	Average
Austrian Airlines ¹	2,392.9	-100.0	-129.6	-	-	8,468
OMV ¹	15,579.7	1,958.4	1,947.7	0.90 ²	268.8 ²	55,633
Telekom Austria ¹	4,377.3	620.0	523.5	0.55 ²	265.4 ²	14,403
GKB-Bergbau	17.1	9.6	14.2	- ³	15.0	75
Österreichische Post	1,701.6	103.0	100.9	- ³	40.0	25,192

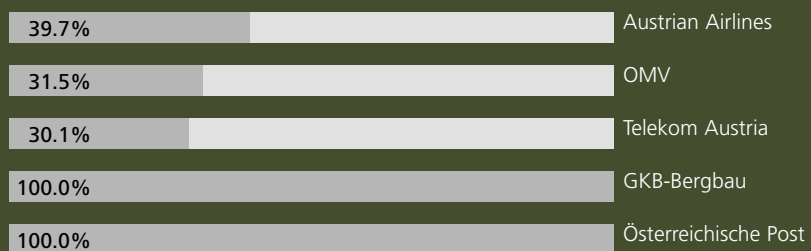
¹ Listed

² Proposal to the Annual General Meeting

³ Information irrelevant for non-listed companies

⁴ Full-time basis

Österreichische Industrieholding AG



As at 31.12.2005

ÖIAG

Annual Report 2005

ÖIACG

Events 2005

July	Complete privatisation of VA Technologie AG through the sale of a 14.7% investment within the scope of the public offer from Siemens AG Österreich.
August	Complete privatisation of voestalpine AG concluded at the end of August; exchangeable bond fully converted.
September–December	At their own request, individual investors convert their exchangeable notes into Telekom Austria AG shares prior to the expiry date.

■ Distribution of Supervisory Board appointments with effect from the end of March 2006:

Peter Michaelis

Chairman: Telekom Austria, Österreichische Post

Vice-Chairman: OMV

Member: Austrian Airlines

Rainer Wieltsch

Chairman: Austrian Airlines, OMV

Vice-Chairman: Österreichische Post, voestalpine

Member: Telekom Austria

From debt holding to R&D financier



Peter Michaelis

Rainer Wieltisch

Interview with the ÖIAG Managing Board members Peter Michaelis and Rainer Wieltisch

Following the activities of recent years, in de facto terms, today ÖIAG is debt-free. How do you evaluate this result?

Peter Michaelis:

It shows that with regard to the realisation of planned privatisation, in 2000 and 2003 the federal government laid down the correct guidelines for the future. Even at the beginning of the legislative period this development was not foreseeable. ÖIAG debt at the time amounted to around EUR 6.3 billion and nobody believed that complete redemption from the existing assets was possible. However, in fact this is precisely what has happened. Today, the debts of the former nationalised companies have been discharged and ÖIAG regularly pays the Republic dividends, which from the 2006 financial year onwards, are to be used for future-oriented measures. In concrete terms, this means research funding.

Critics say that it is easy to reduce debt if one sells off the family silver?

Rainer Wieltisch:

Any talk of "selling off" is completely erroneous. On the contrary, we have turned the family silver into gold. For parallel to debt reduction, in the past five years, ÖIAG has raised the value of its investments by more than half. In spite of extensive privatisation, at the end of 2005, the

»We have turned the family silver into gold.«

ÖIAG portfolio had a value of EUR 8.3 billion, which was 66% up on the figure for 2000.

Peter Michaelis:

In this connection, the development of the privatised companies is especially pleasing, not just in respect of their results, but also the employment situation. The job balance in the former industrial investments presents an extremely positive picture with a steady increase in workforce numbers. To a considerable extent, this satisfactory development is due to the dynamic internationalisation among our corporate investments, which represents a cornerstone of their sustained business success. The only job cuts to have occurred have taken place at the former PTA, where the transition from being a monopoly to a competitive market player demanded extensive structural change, and in the mining sector, where we have to complete an orderly withdrawal from previous activities. All the former investments are now blue chip shares on the Vienna Stock Exchange and thanks to their outstanding successes number among the pillars of the Austrian economy and industrial sector.

Rainer Wieltsch:

In this regard, may I also mention the development of ÖIAG's net assets, in other words the worth that we have actually created during our term in office. If at the end of 2000, the balance between gross assets and net debt only amounted to EUR 1.8 billion, within five years, it has been more than quadrupled and currently stands at EUR 7.8 billion. This corresponds with annual performance of 34%, a period result that many fund managers would envy.

A very important ÖIAG assignment involves investment management. To what extent is this responsible for ÖIAG's success?

Rainer Wieltsch:

In reality, investment management constitutes the most important aspect of our activities. As "professional" supervisory board members and the guardians of corporate governance, we have played a major role in the introduction of these "behavioural" rules in our corporate investments. All in all, the active and value oriented support and control of the companies still in our invest-

ment portfolio, constitutes an extremely significant contribution to the development of the ÖIAG current account. As a result of the systematic realisation of the value added strategy in our portfolio, between 2001 and 2005, we have attained an increase in economic value added (EVA

»In reality, investment management constitutes the most important aspect of our activities.«



pursuant to Stern Stewart & Co.) of over EUR 1.1 billion, which apart from the satisfactory development of the share markets, is one of the many reasons for the pleasing rise in the value of the portfolio.

Let us turn to the activities of the past year. What privatisation measures were implemented?

Peter Michaelis:

At the beginning of the year, the Supervisory Board gave the green light for the acceptance of the public takeover bid made by Siemens Österreich for VA TECH stock. However, actual acceptance of the offer only took place following a significant improvement in the offer price from the original EUR 55 to EUR 65. On the basis of this very fair bid, attractive privatisation proceeds of EUR 146.25 million were attained. We are convinced that this transaction fulfils the criteria of the privatisation mandate in the best possible manner, as the takeover by Siemens Österreich constitutes an intelligent industrial

solution, which secures the future of VA TECH on a lasting basis.

The period under review also saw the full privatisation of voestalpine. Why were the exchangeable notes converted ahead of schedule?

Rainer Wieltisch:

We did not initiate this early conversion, but it was requested by the investors within the scope of the exercise of the terms of the note. In view of the excellent price trend of the voestalpine share, they decided not to wait until the end of the note's life. This meant that privatisation could be finally concluded a year before the expiry date and precisely ten years after the successful stock exchange float of the company. The exchangeable notes were issued in September 2003 and were also oversubscribed many times over. This attractive financial instrument, which was used for the first time as a product in Austria by ÖIAG, quickly found repeated use, including by voestalpine itself and OMV.

voestalpine privatisation was without doubt the most hotly debated of this legislative period. In the final analysis, despite the controversy involved are you satisfied with the result?

Peter Michaelis:

I remain entirely convinced that with the courageous step of a full flotation, we took the correct decision, even though this was so hotly disputed at political level. voestalpine continues to dispose over an extremely solid ownership structure with more than half of its stock in the hands of Austrian investors. Furthermore, in the meantime the employee holding has been raised to 10.3% and thus represents a further guarantee of strategic autonomy. This was precisely the requirement laid down in the privatisation mandate and we have fulfilled it to an optimum extent.

What effects have the privatisations of the past year had on ÖIAG's results?

Rainer Wieltisch:

During the past year, we achieved returns on privatisation of EUR 400 million. These derived largely from the disposal of our remaining VA TECH shares and the redemption of the voestalpine exchangeable notes. We also reached a new record with the dividend payments from our investments, which rose to around EUR 170 million. If the effect of debt repayment from carrying value returns is omitted, the net profit for the year amounts to EUR 138 million, which is

»All in all, we have paid EUR 780 million to the Republic for recent business years.«



clearly up on the preceding year. The positive results situation once again provides the basis for the payment of a respectable dividend for the year of EUR 225 million. All in all, we have paid EUR 780 million to the Republic for recent business years. This total must also be taken into account when evaluating current net debt.

What does the latest ÖIAG current account look like?

Rainer Wieltsch:

Net debt was cut from EUR 709 million at the end of 2004 to EUR 457 million at the end of 2005. By the autumn of 2006 at the latest, ÖIAG's liquid assets will cover its financial liabilities and in other words, ÖIAG will be debt-free.

Let us move in the direction of the end of the legislative period? Do you regard the privatisation assignment as being concluded?

Peter Michaelis:

The mandate has been very largely fulfilled. In the case of Telekom Austria, the assignment is privatisation "up to 100%". As far as the Öster-

»As far as the Österreichische Post is concerned, we are very pleased that an IPO is to pave the company's way to a successful and independent future.«



reichische Post is concerned, we are very pleased that an IPO is planned to pave the company's way to a successful and independent future. The original privatisation mandate still refers to the "search for a strategic partner", for at the time this was drawn up, the opinion prevailed that the

Post required a strong partner in order to secure a long-term positioning in an increasingly competitive market and thus achieve business success and safeguard jobs. After all, the Post numbers among the most important employers in the country.

Why was this concept eventually rejected?

Peter Michaelis:

In recent years, the Post has done its homework and taken an active stance towards the challenges of an increasingly liberalised market. Consequently, as a result of the very latest technical infrastructure, a customer-oriented location network adapted to market conditions and a streamlined business organisation, the profitable management and expansion of core business in Austria has been secured. At the same time, with its ambitious growth concept, the Post is well under way towards opening up additional sales and earnings potential in both the domestic and selected international markets.

What will the IPO bring the Post? Is it not so that the proceeds flow to ÖIAG and not the company?

Rainer Wieltsch:

As has been the case with numerous other state-owned companies, the planned IPO will open up a new dimension for Österreichische Post. This is because the move into the capital markets simplifies access to financial resources, thus facilitating the long-term realisation of the planned growth concept. Virtually all the companies either entirely or partially floated on the stock exchange by ÖIAG in recent years have registered considerable business growth and a related increase in their workforces.

Allow me to continue with a former sister company. How is the privatisation of Telekom Austria to proceed? Can a further withdrawal be expected in this legislative period?

Peter Michaelis:

Following redemption of the exchangeable notes in autumn 2006, ÖIAG will continue to hold 25.2% of Telekom Austria stock. Thus we regard the privatisation mandate, which states "privatisation of up to 100%", as fulfilled and therefore will probably not undertake any more proactive steps. However, should an investor group emerge, which can carry out the privatisation assignment, we will examine this opening.

Is privatisation via the stock exchanges a possibility?

Peter Michaelis:

We are not seeking to implement this variation, as it would mean that Telekom Austria would immediately become a candidate for an acquisition and that is not an ÖIAG objective.

Allow me to take this opportunity to remark upon another topic. Not only did voestalpine celebrate its ten-year stock exchange jubilee in 2005, but Telekom Austria can also look back with pride on five years of listing. Since its IPO, the company has demonstrated successful performance and steady upward progress. Investors, who purchased shares in the course of the float, have been able to double the value of their investment. Therefore, in spite of the predictions of doom, the IPO was without doubt the right decision.

What is going to happen to Austrian Airlines, which flew into some extreme turbulence in the past year?

Rainer Wieltsch:

Firstly, I must say that we are very pleased to have found a highly qualified and recognised manager to succeed Vagn Soerensen, in the person of Alfred Ötsch, who will manage the com-

pany in future. There can be no doubt that he and the entire workforce are faced with a difficult journey and strong headwinds. We are nonetheless optimistic that Austrian Airlines can master the future under its own power. We regard the retention of company autonomy as an

»We are nonetheless optimistic that Austrian Airlines can master the future under its own power.«



important priority, in order that the Group can continue to determine its strategy in the future. At the same time, all stakeholders, including Vienna Airport, must pull together. Only then can Vienna be secured in the long-term as an air-traffic hub, something that is of enormous importance to the further development of the city as an economic location.

Not long ago, a member of the Austrian Airlines Board mentioned the advantages of a strategic partnership? Is this topic still under discussion?

Rainer Wieltsch:

As IPIC has shown in the case of OMV, a strategic partner could very well be an interesting possibility. However, at present this is not an issue for Austrian Airlines. Rather, the company is concentrating on the implementation of additional structural improvements and its optimisation programme employing its own resources. Austrian Airlines is set to defend and further im-

prove its competitive position on the basis of further restructuring and cost savings. Strategic independence plays a central role in this undertaking.

What does the future hold for ÖIAG?

Peter Michaelis:

We have built up notable assets during this legislative period and are convinced that the next government will also handle this wealth with responsibility. As the past years have shown, the ÖIAG holding model has proven more than effec-

»As the past years have shown,
the ÖIAG holding model has proved
more than effective.«



tive. For despite a difficult environment, political assignments have been transformed into clear economic results.

2005 transactions in detail

Privatisation
proceeds:
EUR 400.0 m

The measures initiated by ÖIAG in 2005 represented further significant steps towards the fulfilment of its privatisation mandate for the current legislative period. The disposal of the remaining shares in VA Technologie to Siemens Österreich, as well as the complete conversion of the exchangeable notes on voestalpine shares, meant that the privatisation mandate relating to those companies for which complete denationalisation was foreseen, was clearly completed. A further reduction in the holding in Telekom Austria also took place due to the initial conversion of the ÖIAG exchangeable notes on Telekom Austria shares by investors.

Privatisation revenues in 2005 totalled EUR 400.0 million. Of this amount, EUR 245.2 million derived from the complete conversion of the exchangeable notes on voestalpine shares. A further EUR 146.25 million was generated by the sale of VA TECH stock to Siemens Österreich in the course of a public takeover bid. The remaining EUR 8.55 million consisted of proceeds already received from the conversion of the exchangeable notes on Telekom Austria shares.

Exchangeable
notes as an attractive
and flexible
financial instrument

The exchangeable notes issued by ÖIAG in 2003 have provided valuable impetus to both the companies involved and the Austrian capital market. This attractive financial instrument created a possibility for addressing new investor groups and hence the attainment in the long-term of marked increases in liquidity and subsequently, in share performance, something that has been achieved successfully in the cases of both Telekom Austria and voestalpine. With the issuance of the exchangeable notes, the ÖIAG sent out a strong signal concerning the price poten-

tial of the shares and thus made estimates, which have been more than confirmed. At the same time, ÖIAG assumed a pioneering role in the capital market, the exchangeable notes on Telekom Austria shares having been the first such securities in Austria. In the meantime, numerous companies have followed this example.

In detail, the 2005 transactions comprise the following:

Sale of VA TECH shares in the course of a public takeover bid by Siemens Österreich

In December 2004, Siemens Österreich made a public offer to all VA TECH shareholders. ÖIAG accepted this bid for the purchase of VA TECH shares on January 28, 2005, following a subsequent improvement in the offer price from EUR 55 to EUR 65 per share. This step meant that the last ÖIAG industrial investment foreseen for complete privatisation under the terms of the privatisation mandate was placed in private hands. All in all, 2.25 million shares, or a holding of 14.7% was sold and thus, on the basis of a takeover price of EUR 65, privatisation revenues of EUR 146.25 were obtained. Following approval by the EU antitrust authority, the takeover was implemented on July 15, 2005.

Proceeds:
EUR 146.25 m

The sale of the 14.7% holding in VA TECH to Siemens fulfilled the criteria of the privatisation mandate to a very great extent. In Siemens Österreich, core shareholder was found with the financial strength and global presence that permits the expectation of a sustained increase in

corporate value added. Therefore, the merger of the business activities of Siemens Österreich and VA TECH will strengthen the competitiveness of both companies and thus, in the final analysis, that of Austria as an industrial location.

Complete conversion of the ÖIAG exchangeable notes on voestalpine shares

Proceeds:
EUR 245.2 m

The conversion of the exchangeable notes on 15% of voestalpine stock was completed in full on August 30, although the original period was fixed for the beginning of October 2006. The terms of the notes, which were issued in September 2003, allocated investors the right of conversion and against the background of the excellent voestalpine share price trend, individual investors opted for the premature exercise of their right of conversion in February 2005.

All investors, who subscribed to the exchangeable notes on voestalpine shares since September 2003, exercised their right of conversion by August 19, 2005 and the final delivery of shares in ÖIAG possession to the investors in the exchangeable notes took place on August 30, 2005.

Total privatisation revenue of EUR 245.2 million derived from the complete conversion of the exchangeable notes on voestalpine shares. An exchange price of EUR 41.275 and an interest rate of 1.5% were established for the notes, which were listed on the Vienna Stock Exchange.

Even after the exit of ÖIAG, today voestalpine still has a stable Austrian core shareholder structure. The issue of the exchangeable notes in 2003 provided time for the creation of this structure, which was already formed in the course of privatisation in 2003. Following the conclusion of full privatisation, around half of voestalpine stock is in the possession of Austrian institutional and retail investors, while over 10% is held by an employee trust.

Initial conversion steps regarding the exchangeable notes on Telekom Austria shares

In the autumn of 2005, individual investors exercised their right of conversion on the exchangeable notes on Telekom Austria shares. This move resulted in privatisation proceeds of EUR 8.55 million. Additional conversions involving privatisation proceeds of EUR 9.9 million took place in January and February 2006. The term of the exchangeable notes issued by ÖIAG expires in August 2006. Once the exchangeable notes have been fully converted, from this point in time, the ÖIAG holding in Telekom Austria will fall to 25.2%.

Proceeds:
EUR 8.55 m

The exchangeable notes, which were the first to be used in Austria, were issued in August 2003 on 5% of Austria Telekom's share capital and 25 million of its shares. The total nominal of the notes amounted to EUR 325.0 million and the interest rate was established at 1.125% at an exchange price of EUR 13. The notes, which are listed on the Luxembourg Stock Exchange, were oversubscribed several times upon issue.

Corporate bodies

Supervisory Board

Alfred H. HEINZEL

Chairman

CEO, Heinzl Holding GmbH
(until April 3, 2006)

Peter MITTERBAUER

Chairman

Chairman of the Managing Board, MIBA AG
(from April 3, 2006)

Jürgen HUBBERT

First Vice-Chairman

Former Member of the Managing Board,
Daimler Chrysler AG

Veit SORGER

Second Vice-Chairman

Chairman of the Supervisory Board,
Mondi Business Paper
Chairman of the Supervisory Board,
Mondi Packaging AG
Chairman of the Supervisory Board,
Constantia Industries AG
President of the Confederation of
Austrian Industry
(until April 3, 2006)

Siegfried WOLF

Second Vice-Chairman

(from April 3, 2006)
CEO, Magna International Inc.

Wolfgang BERNHARD

Member of the Managing Board, Volkswagen AG
(from April 3, 2006)

Karl BÜCHE

Former Chairman of the Managing Board,
BRAU UNION AG
(until April 3, 2006)

Michael ENZINGER

Lawyer

Wolfgang PFARL

CEO, Sappi Europe S. A.
(from April 3, 2006)

Astrid GILHOFER

Managing partner,
CI Projektmanagement GmbH
(until April 3, 2006)

Alexander RIKLIN

Partner and CEO, Alcar Holding GmbH

Klaus STURANY

Member of the Managing Board, RWE AG

Erich WIESNER

Managing Partner,
Wiesner-Hager Baugruppe Holding GmbH

Stefan ZAPOTOCKY

Member of the Managing Board, Wiener Börse AG
(from April 3, 2006)

Employee representatives

Leopold ABRAHAM
Chairman of the Central Staff Council,
OMV AG

Anton BENEDER
Chairman of the Central Staff Council,
VA Technologie AG
(until July 20, 2005)

Ludwig ELAND
Chairman of the Staff Council,
GKB-Bergbau GmbH
(from September 9, 2005)

Gerhard FRITZ
Chairman of the Central Employees' Committee,
Österreichische Post AG

Alfred JUNGHANS
Chairman of the Salaried Commercial and
Technical Staff Council, Austrian Airlines
Österreichische Luftverkehrs AG
(from September 9, 2005)

Michael KOLEK
Chairman of the Central Employees' Committee,
Telekom Austria AG

Helmut OBERCHRISTL
Chairman of the Group Staff Council,
voestalpine AG
(until August 31, 2005)

Managing Board

Peter MICHAELIS

Rainer WIELTSCH

Extract from the ÖIAG Act 2000

§ 4 (1) Ten members of the Supervisory Board shall be appointed for reasons of their achievements as generally recognised entrepreneurs from the world of business, members of the executive management of registered companies, or persons with long experience of commercial life. Appointments and their termination take place in accordance with resolutions passed by this circle of Supervisory Board members.

(3) The appointment of each member of the Supervisory Board pursuant to § 4 Section 1 extends up to the Annual General Meeting, which decides on the discharge for the seventh full financial year following election, whereby the year of election is excluded. Unless a member leaves the Board prematurely, two Supervisory Board members resign their posts every second year, while three members leave the Board in each of the sixth and eighth years. Should a member leave the Board prematurely, the election of a replacement for the remainder of the mandatory period shall be undertaken immediately.

The
Invest

gements

ments

The portfolio at a glance

	Austrian Airlines AG¹	OMV AG¹	Telekom Austria AG¹	GKB-Bergbau GmbH	Österreichische Post AG
Area of activity	Austrian national carrier, scheduled, charter, freight business	Leading CEE oil and natural gas group	Largest telecommunications supplier in Austria	Management of remaining mining activities	Austria's leading supplier of postal services
ÖIAG investment (%)	39.7	31.5	30.1	100.0	100.0
Share price as at year-end 2005 (EUR)	6.57	49.50	19.00	–	–
Turnover 2005 (EUR m)	2,392.9	15,579.7	4,377.3	17.1	1,701.6
EBIT 2005 (EUR m)	–100.0	1,958.4	620.0	9.6	103.0
Result before tax 2005 (EUR m)	–129.6	1,947.7	523.5	14.2	100.9
Dividend per share 2005 (EUR)	–	0.90 ²	0.55 ²	– ³	– ³
Dividend 2005 (EUR m)	–	268.8 ²	265.4 ²	15.0	40.0
Employees 2005 (average) ⁴	8,468	55,633	14,403	75	25,192

¹ Listed
² Proposal to the Annual General Meeting
³ Information irrelevant for non-listed companies
⁴ Full-time basis

Austrian Airlines AG

Key indicators	2004 ¹	2005	
Turnover (EUR m)	2,224.7	2,392.9	↗
EBITDA (EUR m)	329.1	237.8	↘
EBIT (EUR m)	74.4	-100.0	↘
Result before tax (EUR m)	48.4	-129.6	↘
Profit/loss for the year (EUR m)	43.9	-129.1	↘
Dividend (EUR m)	-	-	-
Dividend per share (EUR)	-	-	-
Fixed asset investments (EUR m)	267.9	293.4	↗
Balance sheet total (EUR m)	3,303.8	3,199.3	↘
Equity (EUR m)	686.4	565.6	↘
Net debt ² (EUR m)	1,244.5	1,053.1	↘
Gearing (%)	181.3	186.2	↗
ROCE (%)	3.1	-4.8	↘
CVA ³ (EUR m)	-207.0	-170.4	↗
CVA change ³ (EUR m)	-12.2	36.6	↗
Full-time employees (average)	7,662	8,468	↗

¹ Due to changes in balance sheet reporting during the period under review, the relevant figures from 2004 were also adjusted retrospectively using IAS 8. The details are contained in the Austrian Airlines Annual Report.

² The net debt corresponds with the numerator used for the calculation of the gearing key indicator (net debt as compared to equity) and therefore comprises long-term loans subject to interest and other long-term liabilities, less liquid assets. In turn the latter are defined as liquid assets plus current asset and marketable securities.

³ Prior to the accommodation of corrections pursuant to IAS 8.

The company

Austrian, Austrian
arrows and Lauda
Air

With the three airline brands, Austrian, Austrian arrows and Lauda Air, the Austrian Airlines Group unites practically the entire Austrian airline market in a dynamic, quality-oriented group. Moreover, following the acquisition of a 62% holding in Slovak Airlines, the Group also has a presence in the Slovakian market. The Group's Austrian production companies, Austrian Airlines and Tyrolean Airways, deal with the technical-operative handling of flight traffic, Slovakian scheduled flights being dealt with by Slovak Airlines.



ÖIAG investment
39.7%

As the clear market leader in its domestic, Austrian market, the Austrian Airlines Group is known for its excellent product quality, friendly service and first class comfort. Customers around the world hold the Group's high standards in great esteem, a fact impressively confirmed by numerous, international awards. In line with its "Focus East" specialisation strategy, the Group has intensified its business focus on the CEE states and the Far East.

"Focus East"

Since March 2000, the Austrian Airlines Group has been part of the Star Alliance, the world's largest and most successful global airline grouping.

Member of the
Star Alliance

Highlights 2005

- Austrian network strengthened around the Vienna hub (135 extra connections per week).
- Disproportionate growth in transit traffic.
- Increased focus on secondary markets.
- Market leadership in Central and Eastern Europe successfully defended.
- Expansion in the Middle East (27.1% of all seated kilometres on offer), expansion in the long-haul segment.

"Focus East"
strategic targets
implemented

Traffic capacity increased despite difficult conditions

- 10 million passenger barrier broken (+7.6%).
- Planned production growth withdrawn following traffic slump in the first quarter.
- Extremely volatile demand leads to greater production seasonality.
- Use of capacity above that of the preceding year from May onwards – load factor (scheduled) rises to 73.8% (+1.7 percentage points).

Results situation remains tense

- Flight sales up by 8.3%.
- Record oil price causes extra costs of EUR 144.5 million.
- Unit costs slightly up (+3.5%) due to higher fuel costs and increased security charges.
- Personnel productivity down as a result of reduced production growth.
- Adjusted EBIT falls to minus EUR 52.0 million.
- “Turnaround-in-Turnaround” programme initiated.

Strategy

Complete value orientation

On the basis of Group strategy, the central element of which is the complete value orientation of all activities, the Austrian Airlines Group pursues its market opportunities in an active and thorough manner. In this connection, the Group concentrates on two market niches consisting of West-East transfers, in which it already occupies a leading position, and the stepping up of profitable flights both to and from Austria.

Focus on secondary markets

In line with the “Focus East” specialisation strategy prepared during 2004, the Group’s primary focus is on flights to Central and Eastern Europe, the Middle and Far East, as well as Australia. A major emphasis in this regard is a concentration on attractive secondary markets, i.e. markets with medium-sized passenger volumes, which demonstrate lower competitive intensity. With good positioning in all these markets, the Austrian Airlines Group was able to also attain further improvements in its range and market ranking during 2005. This was achieved by a reliance on excellent product and service quality, a young fleet, an attractive route network and a 60% holding in the highly efficient Vienna Airport hub.

Business development 2005

A further sharp increase in the cost of crude oil and hence the kerosene price, a slump in demand in the first quarter and disproportionately high levels of seasonality in relation to flight demand, all had a negative effect on the Austrian Airlines Group results for the 2005 financial year. In spite of an increase in traffic performance of 7.6% and of 8.3% in flight sales, the Austrian Airlines Group’s income situation deteriorated markedly. Adjusted EBIT fell from EUR 9.3 million to minus EUR 52.0 million. EBIT also declined from EUR 74.4 million to minus EUR 100.0 million. The end result was a loss for the year of minus EUR 129.1 million (2004: EUR 43.9 million).

As a countermeasure, the “Turnaround-in-Turnaround” programme, consisting of measures aimed at raising income and reducing costs, was immediately initiated. Austrian Airlines Group investment increased by around 9.5% in the year under review, a rise that was partly due to the enlargement of the fleet with new aircraft following long-term orders.

In the past financial year, Group net debt was reduced from EUR 1,244.5 million to EUR 1,053.1 million.

Outlook 2006

The Austrian Airlines Group is seeking to stabilise its operative performance in spite of the continuing difficulties caused primarily by high oil prices and increasing volatility with regard to the demand for flights. Accordingly, on the basis of the “Turnaround-in-Turnaround” programme initiated last year, a marked improvement in the start situation for 2006 and 2007 should be achieved. A series of measures targeted on increased income and reduced costs will serve this objective and the gradual harmonisation of the fleet continue within the framework of a restrictive investment policy.

Earnings situation deteriorates

“Turnaround-in-Turnaround” programme initiated

Net debt reduced

Marked improvement anticipated for 2006 and 2007

OMV Aktiengesellschaft

Key indicators	2004 ¹	2005	
Turnover ² (EUR m)	9,828.8	15,579.7	↗
EBITDA (EUR m)	1,454.9	2,752.4	↗
EBIT (EUR m)	975.0	1,958.4	↗
Result before tax (EUR m)	1,014.6	1,947.7	↗
Profit for the year (EUR m)	690.4	1,495.9	↗
Dividend (EUR m)	131.4	268.8 ⁴	↗
Dividend per share (EUR)	0.44 ³	0.90 ⁴	↗
Fixed asset investments (EUR m)	592.6	1,227.1	↗
Balance sheet total (EUR m)	13,236.1	15,451.3	↗
Equity (EUR m)	5,761.8	7,693.5	↗
Net debt (EUR m)	692.0	-126.0	↘
Gearing (%)	12	-2	↘
ROACE (%)	15.4	19.9	↗
Full-time employees (average)	57,237	55,633	↘

¹ The key indicators for 2004 were adjusted retrospectively following the transition from Austrian Accounting Standards to IFRS.

² Excluding mineral oil tax.

³ 2004 adjusted in accordance with the 1:10 share split completed in 2005.

⁴ Proposal to the Annual General Meeting.

The company

Leading oil and natural gas group in Central Europe

As the leading oil and natural gas enterprise in Central Europe, the OMV Group is active in the refinery and marketing (R&M) area in 13 countries. In the exploration and production field (E&P), OMV is active in 17 countries on five continents. In the natural gas sector, apart from storage, the transport of around one-third of Russian gas exports to Western Europe numbers among the main assignments. OMV has a 35% holding in Borealis A/S, one of the world's leading producers of polyolefins. Other important investments are 50% in EconGas GmbH, 50% in AMI, 45% in BAYERNOIL-Raffinerieverbund and 10% in the Hungarian MOL.



ÖIAG investment
31.5%

OMV's takeover of a majority holding in Petrom at the end of 2004, created the largest oil and natural gas group in Central Europe with oil and natural gas reserves of around 1.4 billion boe, daily production of around 340,000 boe and refinery capacity of 24.6 million t/y. OMV has 2,451 filling stations in 13 countries and the market share in the R&M sector in the Danube basin amounts to around 18%.

As the purchase of Petrom meant that in many areas, OMV had already achieved its target of a doubling of Group size as compared with 2001 by 2008, in 2005 new and challenging targets were tabulated for 2010. In the coming years, OMV intends to attain further profitable growth and be the most successful oil and natural gas company in the CEE region by exploiting the opportunities offered by "Europe's growth belt". Oil and natural gas production is to be raised from its current level of around 340,000 boe/d to 500,000 boe/d. In addition, there are plans to extend E&P activities to Russia and the Caspian region. OMV also intends to increase its refinery capacity to 500,000 bbl/d in line with E&P growth. With a market share of 18% in the Danube basin, the company has already clearly closed in on its target of 20% for 2010. By 2010, OMV intends to be selling some 20 billion m³ of natural gas internationally and in Austria.

New targets established for 2010

Highlights 2005

- Successful implementation of the growth strategy and positive market conditions lead to record results in 2005.
- Operating result before special effects up by 129% at EUR 2.3 billion.
- Dividend raised by 105% to EUR 0.90 per share.
- Notable contribution to results by Petrom in its first year of consolidation.
- Growth target of a doubling of company size by 2008, already achieved three years in advance.
- New strategic targets established in October.
- Initial results of the restructuring programme launched at Petrom already tangible and various successes achieved.
- OMV holding in Borealis raised from 25% to 35%.
- Systematic shakeout of the E&P portfolio, sale of production fields in Australia, Qatar and Ecuador.
- Sale of 50% holding in IPIC chemicals activities.

Business development 2005

Record result
in 2005

Assisted by the favourable conditions currently prevailing and the considerable contribution from Petrom, Group EBIT doubled during the 2005 financial year to stand at EUR 1,958 million. In addition, following the deduction of minority interests, the profit for the year rose by 82% to EUR 1,256 million. E&P profited from the marked rise in oil and gas prices, which more than compensated for lower production quantities. The R&M result improved due to increased bulk refinery margins and better results in the marketing and petrochemicals areas. In its first year of consolidation, Petrom already achieved excellent results, the higher prices for mineral oil products having been passed on in the Romanian market. EBIT prior to special effects was up by 129% at EUR 2,305 million, excluding the personnel restructuring costs and restructuring provisions at Petrom, as well as extraordinary depreciation. Due to the improvement in the re-

sult from investments, the adjusted profit for the year rose by 96% to EUR 1,391 million. The adjusted result per share was up 77% at EUR 4.66 and a record dividend of EUR 0.90 per share will be proposed to the Annual General Meeting.

Outlook 2006

During 2006, the focus will again be on the further integration of Petrom into the OMV Group. In the E&P area, OMV continues to expect that the price of crude oil will remain at a constantly high level, although the situation will be considerably less volatile than in 2005, and that the US dollar will weaken slightly. OMV assumes that production volumes in 2006 will be similar to those of the past year. In the R&M sector, the company anticipates a fall in refinery margins from the high levels of last year, which were triggered by the hurricane season. In addition, the targeted increase in volumes will not fully compensate the forecast drop in refinery margins. As far as natural gas is concerned, the most important strategic project will continue to be progress with the Nabucco pipeline for the linkage of gas production in the Middle East to Central Europe. In summary, the aim in 2006 is to achieve a result similar to that of 2005, although in overall terms, OMV sees a somewhat more challenging market climate.

In order to attain the targets for 2010, during the coming years, on average OMV plans investment totalling EUR 1.7 billion, of which around EUR 600 million will go to Petrom. Investment decisions are based on value-oriented key indicators and aimed at achieving a ROACE of 13% over a business cycle with average market indications.

Continuing
integration of
Petrom

Telekom Austria AG

Key indicators	2004	2005	
Turnover (EUR m)	4,056.3	4,377.3	↗
EBITDA (EUR m)	1,568.8	1,757.2	↗
EBIT (EUR m)	452.7	620.0	↗
Result before tax (EUR m)	350.1	523.5	↗
Profit for the year (EUR m)	227.3	417.1	↗
Dividends (EUR m)	117.8	265.4 ¹	↗
Dividend per share (EUR)	0.24	0.55 ¹	↗
Fixed asset investments (EUR m)	505.6	617.9	↗
Balance sheet total (EUR m)	7,242.5	8,411.9	↗
Equity (EUR m)	2,741.6	2,869.5	↗
Net debt (EUR m)	1,973.9	3,082.1	↗
Gearing (%)	72.0	107.4	↗
ROIC (%)	5.2	8.2	↗
Full-time employees (average)	13,638	14,403	↗

¹ Proposal to the Annual General Meeting on May 23, 2006.

The company

Austria's largest telecommunications company

With sales of around EUR 4.4 billion and some 14,403 employees, Telekom Austria is Austria's largest telecommunications company. Since November 2000, Telekom Austria AG has been listed on the Vienna and New York Stock Exchanges.

Organisational structure – Wireline and Wireless

Telekom Austria is divided into the two segments. The Wireline segment incorporates the former business segments terrestrial networks, data communications and Internet, the Wireless segment, mobile communications. Beyond Austria's borders, Telekom Austria is active in the mobile communications area in Bulgaria, Croatia, Slovenia and Liechtenstein, as well as in Internet business in the Czech Republic. In total, around 3.0 million national and international customers in the Wireline sector and some 9.0 million in the mobile communications sector receive Telekom Austria Group services.



ÖIAG investment
30.1%

Strategy

The strategic orientation is based on several cornerstones, which have the shared purpose of a sustained increase in corporate value. Accordingly, the achievement of a stable cash flow and the opening up of innovative product areas are the priorities in the Wireline segment. The Wireless business segment seeks to exploit the moderate growth in Austria and the potential of its existing international markets to the full, as well as implementing further value adding investments in south-eastern Europe. A joint unit has been formed in order to utilise the synergy effects in the Wireless segment by means of the co-ordination and promotion of Group factors such as product development and know-how exchange.

Increase in corporate value

Future Telekom Austria expansion will concentrate on the mobile communications market in south-eastern Europe. Serbia and Bosnia are to form the focus of activities aimed at expansion.

Expansion

The achievement of these ambitious targets is to be furthered by the strict management of personnel costs in the Wireline segment in particular and a concentration on cost efficiency throughout the Group. Profitability will be continually optimised through the ongoing improvement of operative core processes.

Measures for greater efficiency

Highlights 2005

- Market leadership in Austria further strengthened in both segments during 2005.
- Sizeable improvement in the Wireline segment operating result, but slight fall in earnings despite strong broadband business expansion.
- Growth in revenues and results in all Wireless mobile communications segment activities.
- Milestone passed with the purchase of the Bulgarian mobile telecommunications company, Mobiltel.
- Net result up by 83.5% at EUR 417.1 million.
- Increase in the distribution quota to 65% facilitates a dividend of 55 cents per share.¹
- The Mobiltel purchase leads to an increase in net debt of EUR 1,108.2 million to EUR 3,082.1 million.
- Share repurchasing programme completed, 17.5 million own shares held at year-end.

Business development 2005

Sales growth

In 2005, total Telekom Austria sales rose by 7.9% to EUR 4,377.3 million. There was a fall in sales in the Wireline segment due to a drop in both speech and data business, but this was more than compensated for by the Wireless segment. The Wireless segment achieved an excellent result as a consequence of the contribution of Mobiltel to the consolidated financial results for the period from July 12 to December 31, 2005, and higher sales revenues derived from increased customer numbers and stringent data business.

As far as the operating result is concerned, Telekom Austria was able to achieve an improvement of 37.0% to EUR 620.0 million. Adjusted EBITDA rose by 12.0% to EUR 1,757.2 million, whereby profitable Wireless segment growth more than compensated for the marginal fall in the Wireline segment. As compared to the previous year, profitability measured in terms of the adjusted EBITDA margin was up by 1.4 percentage points at 40.1%.

¹ Proposal to the Annual General Meeting on May 23, 2006.

The Telekom Austria Group profit for the 2005 financial year amounted to EUR 417.1 million, which constitutes an increase of 83.5% over the preceding year. In 2005, the result per share stood at EUR 0.85, as compared to EUR 0.46 in the preceding year.

Net result improved

In view of this positive development, the Managing Board is to propose to the Annual General Meeting that a dividend of EUR 0.55 per share be paid (2004: EUR 0.24). This will raise the distribution quota to 65%.

As compared to the preceding year, Group asset additions rose by 22.2% to EUR 617.9 million. In 2005, net debt increased by EUR 1,108.2 million to EUR 3,082.1 million, largely as a result of the purchase of Mobiltel. Accordingly, in an annual comparison, net gearing rose from 72.0% to 107.4% at year-end.

Increase in asset additions and net debt

Outlook 2006

For the 2006 financial year, the Telekom Austria Group expects sales revenue growth of around 5%, while adjusted EBITDA should increase by roughly 10%. Although in the comparative period, depreciation is only expected to rise slightly due to the consolidation of Mobiltel, Telekom Austria is working on the assumption of an increase in the operating result and net profit of around 20%. This permits the expectation of a constant distribution quota of 65% and a further rise in the dividend.

Asset additions will increase in the Wireless segment due to the consolidation of Mobiltel for 12 months and larger investments in UMTS and HSDPA technologies. This increase cannot be counterbalanced by lower investments in the Wireline segment. If possible acquisitions are ignored, strong cash flow will probably permit a reduction in net debt, in spite of the continuation of the share repurchasing programme and a likely rise in tax payments.

GKB-Bergbau GmbH

Key indicators	2004	2005	
Turnover (EUR m)	23.6	17.1	↘
EBITDA (EUR m)	14.9	10.2	↘
EBIT (EUR m)	13.8	9.6	↘
Result before tax (EUR m)	21.8	14.2	↘
Profit for the year (EUR m)	20.2	12.4	↘
Dividend (EUR m)	50.0	15.0	↘
Fixed asset investments (EUR m)	0.4	0.4	→
Balance sheet total (EUR m)	158.1	111.4	↘
Equity (EUR m)	80.9	46.3	↘
Net debt (EUR m)	0.0	-13.8	↘
Gearing (%)	0.0	0.0	→
ROCE (%)	15.0	24.3	↗
Full-time employees (average)	139	75	↘

Company and strategy

Withdrawal of ÖIAG from the mining area

GKB-Bergbau GmbH is the legal successor to ÖIAG-Bergbauholding AG and is thus a fully owned ÖIAG subsidiary. GKB-Bergbau GmbH is pursuing the completion of legally anchored closure and safety procedures, including recultivation, and will thus conclude ÖIAG's orderly withdrawal from the mining sector. In the course of the privatisation of VOEST-ALPINE Erzberg GmbH, the post-mining activities of the former Bleiberger Bergwerksunion have been transferred to GKB-Bergbau.

GKB-Bergbau as the legal successor to ÖBAG

In accordance with the 2003 privatisation mandate from the Austrian federal government, various measures were taken in 2004 in respect of the privatisation of the companies of the former ÖIAG-Bergbauholding (ÖBAG). These measures included the transfer of ÖIAG shares in VOEST-ALPINE Erzberg GmbH to the Erzberg Private Trust. Furthermore, in an interim final privatisation step, ÖBAG was merged with GKB-Bergbau GmbH in a downstream merger.



ÖIAG investment
100.0%

The current range of responsibilities of GKB-Bergbau GmbH mainly consists of the workings in the west Styrian Köflach-Voitsberg brown coal field, which were exhausted in 2004, the former Pöfing-Bergla field, the disused workings of the former Bleiberger Bergwerksunion (BBU), including the surface workings, and the field of the former Lavanttaler Kohlbergbau Gesellschaft (LAKOG) in Wolfsberg.

A considerable part of the restructuring proceeds of the mining holding were paid to the ÖIAG with the GKB-Bergbau dividend of EUR 50 million approved for the 2004 financial year. A further EUR 15 million has also been agreed as a dividend for ÖIAG in 2005.

Restructuring proceeds

Highlights 2005

- Continued progress was made with the operational plan required for the necessary closure, safety and recultivation measures. Among other activities the cavities at the Köflacher Karlschacht, which have no run-offs, were filled in and the slopes at the former Oberdorf open cast mine secured.
- Following the delivery of the remaining coal stored on the GKB-Bergbau site, amounting to approximately 900,000 t, the installations were removed for scrap and the related area of some 20 hectares reclaimed.

Restructuring proceeds

- In addition to the closure of mining operations in the Köflach-Voitsberger field, additional information was obtained concerning the old workings by further reassessment of the mining authorisations for the Pöfing-Bergla field, the former LAKOG field in Wolfsberg and the fields of the former BBU. This will allow the fuller assumption of responsibility for the coal and ore mines, which are partially several hundred years old.

Business development 2005

Satisfactory result trend

As a result of systematic closure measures and turnover of EUR 17.1 million, GKB-Bergbau GmbH achieved a highly positive ordinary business result of EUR 14.2 million. On the basis of this result, a dividend of EUR 15.0 million was paid to ÖIAG. In the wake of rigorous personnel reduction measures, as at December 31, the workforce was down from 122 to 47.

Outlook 2006

Closure, safety and reclamation

The next two years will also witness further reductions in the GKB-Bergbau workforce. From 2007 onwards only 15 people will be employed for the completion of essential closure, safety, storage and reclamation measures.

In addition to an ongoing reduction in its liability risk, GKB-Bergbau is pursuing the goal of a sustained increase in the value of its property.

Following the end of subsidence, with these measures GKB-Bergbau intends to put the former mining sites to use and in return for appropriate payment and subject to mining damage waivers on the part of the land purchasers will sell it for higher value purposes.

In the medium- to long-term this will create the preconditions for the termination of the mining authorisations. However, from a current perspective, definitive termination will take some time.

Österreichische Post AG

Key indicators	2004	2005	
Turnover (EUR m)	1,654.4	1,701.6	↗
EBITDA (EUR m)	203.1	223.8	↗
EBIT (EUR m)	82.2	103.0	↗
Result before tax (EUR m)	76.7	100.9	↗
Profit for the year (EUR m)	50.0	99.9	↗
Dividend (EUR m)	40.0	40.0	→
Fixed asset investments (EUR m)	88.5	73.6	↘
Balance sheet total (EUR m)	1,795.7	1,563.0	↘
Equity (EUR m)	712.5	762.1	↗
Net debt (EUR m)	96.5	-28.0	↘
Full-time employees (average)	26,342	25,192	↘



ÖIAG investment
100.0%

The company

Austria's leading supplier of postal services

Österreichische Post AG is Austria's leading supplier of postal services. In 2005, the operational portfolio was split into the three divisions Letters, Parcels & Logistics and Branch Network. While the Letters Division incorporates the Letter Post (letters, postcards), Infomail (addressed and un-addressed advertising mailings) and Media Post (delivery of newspapers and magazines) business areas, the Parcels & Logistics Division is responsible for all parcel and express services. The Branch Network Division has one of the largest sales and distribution networks in Austria with 1,338 own and 612 external outlets. This segmentation, which is ideally suited to the market, forms a transparent basis for the clear allocation of accountability for products and customers, sales and area results, which lie with the individual business units.

The postal market

A clear forwards strategy

During the past year, the Austrian letter market showed slight growth. In line with European statutory requirements, as at January 1, 2006, the next phase of liberalisation was implemented in

Austria and the reserved letter area restricted to letters weighing up to 50g. Against this background, Österreichische Post AG is pursuing an ambitious course aimed at securing a long-term positioning as the national market leader with international specialisation. Following the modernisation of recent years, in the domestic market, Österreichische Post AG has captured an excellent start position for the growing competition, which it intends to consolidate by means of excellent customer relationships, the anchorage provided by complete market coverage and top quality. A basis for these endeavours is provided by an innovative offer portfolio, ongoing service optimisation and the targeted lengthening of the value added chain. Additional potential derives from expansion in the postal and logistics services areas. In this connection, Österreichische Post AG has placed a special focus on entry into B2B business in Austria.

Highlights 2005

- Positive results in all Divisions.
- Increasing international networking and the conclusion of a co-operation agreement with the German parcels service company trans-o-flex.
- Complete takeover of feibra Österreich (previously around 75%) and acquisition of feibra Hungary in the non-addressed advertising mailings area.
- Continued expansion of highly sophisticated logistics centres as scheduled with the official

opening of the Villach distribution centre in September 2005 and the start-up of the new Vienna South parcels centre. The Post logistics network now numbers among the most advanced in Europe.

- Further improvement in letter post delivery times with over 95% of letters being delivered on the next working day after postage. The delivery times for parcels also improves (94% within two working days).
- Numerous new post partners, service and collection points secure a full service despite a reduction in the number of post office due to market conditions.

Business development 2005

Increased turnover

At EUR 1,701.6 million, Österreichische Post Group turnover in 2005 was 2.9% up on the preceding year. The Mail Division played a central role in this regard providing 75.8% of total volume.

Strong EBITDA and EBIT growth

The Österreichische Post Group's business results demonstrated an even larger improvement. In 2005, EBITDA stood at EUR 223.8 million, which was 10.2% higher than the figure for the previous year, while at EUR 103.0 million, EBIT was up by 25.3%. The result of the period also rose from EUR 50.0 million (2004) to EUR 99.9 million.

During the period under review, the Österreichische Post Group workforce was reduced by 4.4% and during 2005 consisted on average of 25,192 full-time employees.

Current projects

Logistic network optimisation

In order to achieve the sustained optimisation and efficient handling of mail from a technical viewpoint, during recent years, Österreichische Post AG has undertaken targeted investments in logistics, the modernisation and building of new distribution centres, and the quality of the delivery service. Indeed, many of the bases involved have been newly built. Using highly advanced letter and parcel distribution centres at a total of nine locations, the Österreichische Post AG logistics

network currently numbers among the most modern in Europe.

In order to optimise both efficiency and costs, since 2001 the Österreichische Post AG branch network has been reduced from 2,300 to 1,338 locations. At the same time, in order to secure complete service coverage at the familiar level of quality, the number of external partners has been raised from 390 to 612. In addition, the Post offers the new and attractive mobile post office service (Post.Mobile) for districts lacking their own post office.

Redimensioning to match the market

Österreichische Post AG continually achieves new records in respect to the speed of its letter and parcel deliveries. For example, in 2005 the share of letters delivered on the first working day after postage in Austria rose to 95%. In the case of parcels, deliveries on the second day after postage also showed a marked improvement in 2005, rising from 91% to 94%.

New delivery records

The Vienna Letters Centre, one of Europe's most sophisticated and largest logistics centres, achieved a new handling record in 2005 and was rewarded with a Certificate of Excellence from the International Post Corporation (IPC). This quality seal has only been awarded to eleven international facilities, a fact that underlines the high efficiency of the Vienna complex.

International award

Outlook 2006

The objective of the Österreichische Post Group in 2006 is to continue its efforts with regard to the optimisation of internal processes, while at the same time pursuing strategic plans for growth. A further focus will be on the securing of the quality standards attained and additional, international networking through partnerships and acquisitions. Following the conclusion of a co-operation agreement with trans-o-flex in the parcels business area, entry into the Austrian B2B market (parcel transports between companies) will be sought.

Performance optimisation

The 20

005

Financial Year

05

Financial Year

Management Report

ÖIAG assignments – legal framework

The assignments of the ÖIAG are regulated by the ÖIAG Act 2000 (Federal Law Gazette I No. 24/2000) in the amended versions from 2003 (Federal Law Gazette I No. 71/2003) and 2005 (Federal Law Gazette I No. 103/2005) and largely consist of privatisation and investment management with regard to those companies in which the ÖIAG has been, or will be, allocated a holding by federal law or legal transaction. Under certain circumstances, ÖIAG is entitled to purchase additional shares in its investments, or to participate in capital increases.

ÖIAG privatisation activities take place on the basis of the privatisation mandate from the federal government, which in line with the ÖIAG Act is allotted for one legislative period. Privatisations should lead to the highest possible increase in the value added of the company and the largest, feasible proceeds for the owner. In addition, Austrian interests with regard to employment, the creation of Austrian core shareholder structures, R&D capacity and the Austrian capital market, are to be safeguarded.

The current privatisation mandate for the 2005 financial year was allocated to ÖIAG by the federal government in line with § 7 (1) ÖIAG Act 2000 at the Extraordinary General Meeting on May 9, 2003 and then defined at the Extraordinary General Meeting on July 4, 2003 and the Extraordinary General Meeting on September 17, 2004. The Extraordinary General Meeting on January 30, 2006, agreed a change to the privatisation mandate for Österreichische Post AG. The privatisation mandate relates to the complete sale of the following companies or interests therein:

- BÖHLER-UDDEHOLM AG
- VA Technologie AG
- voestalpine AG
- ÖIAG-Bergbauholding AG

A 100% privatisation of Telekom Austria AG is to be sought.

The privatisation assignments for BÖHLER-UDDEHOLM AG and ÖIAG-Bergbauholding AG were completed in full during 2003 and 2004 respectively.

2005 saw the sale of the last shares in VA Technologie AG and voestalpine AG in ÖIAG possession. Consequently, the privatisa-

tion assignments with regard to those companies for which complete sale was envisaged, have been concluded with effect from the 2005 financial year.

As at December 31, 2005, the ÖIAG had a 30.1% holding in Telekom Austria AG. In 2005, around 0.1% of Telekom Austria shares were sold due to the conversion request of investors relating to the exchangeable notes granted by ÖIAG on Telekom Austria shares in 2003.

In an initial step, the plan was to seek a strategic partner for Österreichische Post AG. In the course of the year under review, examinations continued regarding the possibilities for strategic co-operation and the taking of interests in this fully owned ÖIAG company. The result of these deliberations was that the partial privatisation of Österreichische Post AG via the stock markets is to be given preference over the other alternative concepts. Accordingly, at the Extraordinary General Meeting on January 30, 2006, the federal government supplemented the privatisation mandate allocated by the Annual General Meeting on May 9, 2003. The ÖIAG was thus authorised to complete an IPO for up to 49% of Österreichische Post AG stock at the most apposite point in time.

With the 2005 amendment to the ÖIAG Act (Federal Law Gazette I No. 103/2005), a condition was added to § 14 (6), which stipulates that profits distributed following the repayment of debts should be used partly for the financing of the research bond of the Republic of Austria in the period from 2005–2010.

Economic conditions

All in all, economic development in Europe and the USA during 2005 was not particularly dynamic. Weak consumer demand and a continuing lack of propensity to invest resulted in mean GDP growth in the EU 25 of 1.7% and of 3.6% in the USA, which in both cases was below the figures for the preceding year. Austrian growth was slightly above the EU average at 1.9%. The above-average increase in crude oil prices had a marked effect on the economic situation, for while the oil and refinery companies profited, branches dependent on oil, e.g. aerospace had to overcome sizeable price rises. ÖIAG investments were also hit by these developments.

Stock market development in 2005 was characterised by rises over 2004, particularly in Europe. The Vienna Stock Exchange maintained its record-breaking run of the preceding year with ATX growth of 51%. The ÖIAG investments, OMV and Telekom Austria, which are both quoted on the ATX, made a considerable contribution to this positive performance.

Activities in 2005

In 2005, ÖIAG entirely privatised its former investments in VA Technologie AG and voestalpine AG. The 14.7% ÖIAG holding in VA Technologie AG was sold to Siemens AG Austria in the course of the takeover offer made by Siemens in December 2004, which was subsequently raised to EUR 65 per share in January 2005. ÖIAG accepted this offer on January 28, 2005. Anti-trust approval of the transaction by the EU competition authority and the conclusion of privatisation took place in July 2005. Privatisation proceeds of EUR 146.25 million derived from this transaction.

From mid-February 2005 onwards, investors used the right of conversion relating to the exchangeable notes issued by ÖIAG in 2003 on voestalpine stock, to swap parts of the bond for voestalpine shares. By August 2005, these ongoing conversions had resulted in the complete sale of the 15% of voestalpine stock still under ÖIAG ownership and at the same time, to the complete redemption of the bond. The resulting privatisation proceeds amounted to EUR 245.2 million.

At the wish of individual investors, initial conversions took place with regard to the exchangeable notes issued on Telekom Austria shares. This led to privatisation proceeds (sales proceeds) of EUR 8.55 million and as consequence, privatisation proceeds in 2005 amounted to a total volume of EUR 400.0 million.

Result 2005

The most important factors in the ÖIAG result for the 2005 financial year were:

- During the year under report, revenues from privatisation amounted to EUR 400.0 million (privatisation proceeds 2004: EUR 1,119.3 million).
- From the privatisation gains, the Austrian Republic was allocated profit-sharing rights to the value of EUR 222.32 million in accordance with § 13 (2) ÖIAG Act 2000. As the shareholder loan of the Republic of Austria had already been redeemed in full during the previous period, this entire amount was employed for the repayment of refunding liabilities.
- In addition to the granting of participation certificates, during 2005 initial use was made of the possibilities offered by § 14 (5) ÖIAG Act, thus implementing the Supervisory Board resolution from June 17, 2005. Following the complete redemption of the liabilities of the former PTBG by ÖIAG, liquid funds of EUR 250.0 million were employed for the further repayment of refunding liabilities.
- Transaction costs amounted to 2.2% of the privatisation proceeds.
- Income from investments in 2005 amounted to EUR 169.29 million, which was 37.6% up on the figure for the preceding year. During the period under review, EUR 6 million was added to the provision for dividend protection in connection with the exchangeable notes on Telekom Austria shares, under the terms of which, a conversion into shares means that the investor receives the dividends paid during the prior period of the note.
- During the period under review, the ÖIAG workforce totalled 35, which on average, was eight persons fewer than in the preceding year. On the balance sheet date of December 31, 2005, the ÖIAG workforce numbered 30, which corresponded with a full-time equivalent of 25.5 employees.

The ÖIAG financial statements as at December 31, 2005, show a loss for the year of EUR 112.1 million (2004: profit for the year of EUR 101 million). However, when making comparisons with the preceding year, it should be noted that 2005 saw an initial repayment of refunding liabilities to the value of EUR 250.0 million from the carrying value proceeds from privatisation in accordance with § 14 (5) of the ÖIAG Act. As the refunding obligation of the federal government was thus discharged, expenses to the corresponding amount are contained in the financial result, which led to the aforementioned loss for the year. This expense is neutralised by the simultaneous, mandatory release of committed capital reserves to the same amount as the reported loss, which is

mandatory in accordance with § 14 (5) of the ÖIAG Act. For the comparison with 2004, it must also be taken into account that a positive balance of EUR 137.9 million results from the offset of the loss for the year with the release of capital reserves pursuant to § 14 (5) of the ÖIAG Act.

In addition, there was also a release of capital reserves pursuant to § 14 (6) of the ÖIAG Act. In net terms, this gives a profit for the year of EUR 197.1 million. Including the profit carryforward of EUR 27.9 million, net income of EUR 225.0 million is reported. The Managing Board proposes to distribute this entire amount as a dividend for the 2005 financial year.

In 2005, the ÖIAG balance sheet total fell by EUR 1,290.7 million, or 28%, to EUR 3,296.3 million. This decline was mainly due to the repayments of loans and the dividend payment made during the year.

Liabilities to banks (liabilities ex-PTBG) were repaid in full to an amount of EUR 163.9 million and refunding liabilities fell by EUR 472.2 million to EUR 762.1 million. In addition, liabilities totalling EUR 316.4 million derived from the exchangeable notes issued by ÖIAG on Telekom Austria AG shares.

Equity totalled EUR 2,084.7 million, which was EUR 367.2 million lower than the figure for the preceding year (December 31, 2004: EUR 2,451.8 million). The equity ratio on the balance sheet date stood at 63% and was therefore 19% up on the total for 2004.

ÖIAG portfolio value – net debt

In spite of the sale of the remaining holdings in voestalpine AG (15%) and VA Technologie AG (14.7%), during 2005 the value of the ÖIAG portfolio was EUR 2.8 billion up on 2004. As at December 31, 2005, the portfolio of all ÖIAG investments had a total value of around EUR 8.3 billion.

The situation with regard to net debt improved markedly during 2005, with a reduction of EUR 0.7 billion over 2004 to EUR 0.5 billion. The result is surplus cover of net debt through the portfolio value of EUR 7.8 billion.

Risk management

On the balance sheet date, ÖIAG was not running any derivative transactions. Due to the fact that during the year under review the loan in Japanese yen contained in the liabilities with a refunding obligation of the Austria Republic was rescheduled in euro financing, refunding liabilities on the balance sheet date consisted exclusively of euro financing.

Supplementary report – outlook

In January 2006, a sum of USD 32 million was paid to the general compensation fund for victims of National Socialism. This payment obligation was assumed by ÖIAG in connection with the privatisation of Dorotheum GmbH in 2001 and could be settled following the formal establishment of certainty as to law with effect from December 7, 2005, in line with the Washington agreement from January 2001, and the Compensation Fund Act formally approved for this purpose by the Austrian cabinet at its meeting on December 13, 2005.

As a result of the change in the federal government privatisation mandate regarding Österreichische Post AG, which was allocated to ÖIAG at the General Meeting on January 30, 2006, preparations were initiated for an IPO involving up to 49% of company stock.

The period of the exchangeable notes issued by ÖIAG on Telekom Austria shares expires in August 2006. The request for conversion on the part of individual investors in January and February 2006 led to privatisation proceeds of EUR 9.9 million. This corresponded with a privatisation of around 0.2% of Telekom Austria shares. At the end of February 2006, the outstanding bond amount totalled EUR 306.6 million. This nominal corresponds with 4.7% of Telekom Austria shares.

Vienna, April 3, 2006

The Managing Board

Peter Michaelis m.p.

Rainer WIELTSCH m.p.

Balance Sheet as at December 31, 2005

Assets	EUR	EUR	As at 31. 12. 2005 EUR	As at 31. 12. 2004 TEUR
A. Fixed assets				
I. Intangible assets				
Licences, rights		60,140.00		125
II. Tangible assets				
1. Land, rights equivalent to real property and buildings, including buildings on third-party land, thereof real property value of EUR 2,518,870.66 (2004: TEUR 2,530)	2,518,870.66			2,530
2. Other plant, factory and office equipment	255,625.81			521
		2,774,496.47		3,051
III. Financial assets				
1. Investments	1,878,355,956.68			2,047,368
2. Investment securities	25,912,694.60			25,913
		1,904,268,651.28		2,073,281
			1,907,103,287.75	2,076,457
B. Current assets				
I. Receivables and other assets				
1. Trade accounts receivable	11,132.06			128
2. Receivables from associated companies	28,224.13			30
3. Other receivables and assets	180,321,821.25			180,944
		180,361,177.44		181,102
II. Other securities and interests		398,226,498.07		436,255
III. Cash and credit balances at banks		48,411,325.16		658,343
			626,999,000.67	1,275,700
C. Counterclaims related to liabilities for which interest and repayments are refunded to ÖIAG by the Republic of Austria thereof prepayment of EUR 35,643.54			762,126,883.59	1,234,830
D. Prepaid expenses				
1. Discounts, capital procurement costs		0.00		5
2. Other		68,306.94		17
			68,306.94	22
			3,296,297,478.95	4,587,009

Equity and Liabilities			As at 31. 12. 2005 EUR	As at 31. 12. 2004 TEUR
	EUR	EUR		
A. Equity				
I. Share capital		363,365,000.00		363,365
II. Capital reserves (committed)		1,459,953,101.37		1,769,203
III. Retained earnings (statutory reserve)		36,336,417.08		36,336
IV. Net profit				
thereof profit carryforward of EUR 27,900,000.00 (2004: TEUR 0)		225,000,000.00		282,900
			2,084,654,518.45	2,451,804
B. Provisions				
1. Provisions for severance payments		1,449,301.00		1,797
2. Provisions for pensions		2,753,989.83		2,818
3. Other provisions		82,276,284.34		122,985
			86,479,575.17	127,600
C. Liabilities for which interest and repayments are refunded to ÖIAG by the Republic of Austria				
thereof not covered by refund claims		762,091,240.05		1,245,064
		0.00		-10,234
			762,091,240.05	1,234,830
D. Liabilities				
1. Bonds (exchangeable notes)		316,450,000.00		570,200
2. Liabilities to banks		0.00		163,875
3. Trade accounts payable		1,049,946.43		437
4. Liabilities to associated companies		16,524,168.76		16,984
5. Other liabilities				
thereof relating to taxes EUR 7,337.19 (2004: TEUR 10)				
thereof relating to social security EUR 42,065.06 (2004: TEUR 53)		29,048,030.09		21,279
			363,072,145.28	772,775
			3,296,297,478.95	4,587,009

Schedule of fixed assets

pursuant to § 226 Section 1 of the Austrian Commercial Code as at December 31, 2005

	Acquisition / Production costs			
	As at 1. 1. 2005 EUR	Additions EUR	Disposals EUR	As at 31. 12. 2005 EUR
Fixed assets				
I. Intangible assets				
Licences, rights	774,591.33	19,424.86	5,162.86	788,853.33
II. Tangible assets				
1. Land, rights equivalent to real property and buildings, including buildings on third-party land				
a) Developed land				
Value of buildings	60,906.17	0.00	0.00	60,906.17
b) Undeveloped land	2,544,584.59	0.00	10,870.74	2,533,713.85
	2,605,490.76	0.00	10,870.74	2,594,620.02
2. Other plant, factory and office equipment	2,018,305.89	22,221.81	189,006.22	1,851,521.48
	4,623,796.65	22,221.81	199,876.96	4,446,141.50
III. Financial assets				
1. Investments	3,162,336,795.64	0.00	168,738,741.80	2,993,598,053.84
2. Investment securities	25,947,694.60	0.00	0.00	25,947,694.60
	3,188,284,490.24	0.00	168,738,741.80	3,019,545,748.44
Total	3,193,682,878.22	41,646.67	168,943,781.62	3,024,780,743.27

Accumulated depreciation EUR	Net book value 31. 12. 2005 EUR	Net book value 31. 12. 2004 EUR	Depreciation in the year under review EUR	Write-ups EUR
728,713.33	60,140.00	125,379.96	84,664.82	0.00
60,906.17	0.00	0.00	0.00	0.00
14,843.19	2,518,870.66	2,529,560.54	0.00	0.00
75,749.36	2,518,870.66	2,529,560.54	0.00	0.00
1,595,895.67	255,625.81	521,405.36	281,456.30	0.00
1,671,645.03	2,774,496.47	3,050,965.90	281,456.30	0.00
1,115,242,097.16	1,878,355,956.68	2,047,367,992.69	273,294.21	0.00
35,000.00	25,912,694.60	25,912,694.60	0.00	0.00
1,115,277,097.16	1,904,268,651.28	2,073,280,687.29	273,294.21	0.00
1,117,677,455.52	1,907,103,287.75	2,076,457,033.15	639,415.33	0.00

Income statement

for the period from January 1, 2005 to December 31, 2005

	2005		2004	
	EUR	EUR	TEUR	TEUR
1. Turnover		58,064.41		243
2. Other operating income				
a) Gains on the disposal and write-up of fixed assets other than financial assets	387.50		383	
b) Gains on the release of provisions	9,328,576.54		3,343	
c) Other	514,942.78	9,843,906.82	848	4,574
3. Personnel expenses				
a) Salaries	4,253,976.68		5,310	
b) Expenses for severance payments	1,070,113.23		648	
c) Expenses for contributions to employee pension funds	3,300.44		3	
d) Expenses for pensions	-5,249,455.60		3,334	
e) Expenses for compulsory social security contributions and payroll taxes	743,266.92		765	
f) Other social expenditure	127,483.60	-948,685.27	130	-10,190
4. Depreciation of intangible and tangible fixed assets		-366,121.12		-554
5. Other operating expenses				
a) Taxes not included in Item 17	19,019.81		22	
b) Other	6,275,574.25	-6,294,594.06	11,273	-11,295
6. Sub-total of Items 1–5 (operating result)		2,292,570.78		-17,222
7. Income from investments		169,291,689.49		123,024
8. Income from other securities and financial asset loans		1,046,024.28		1,128
9. Other interest and similar income		30,054,699.08		23,770
10. Gains on the disposal and write-up of financial assets and current asset securities		232,021,763.64		644,647
11. Expenses relating to the Republic of Austria's profit-sharing rights		-222,324,576.89		-578,211
12. Expenses relating to §14 (5) ÖIAG Act		-250,000,000.00		0
13. Expenses relating to financial assets and current asset securities				
a) Depreciation	3,997,686.41		72	
b) Expenses relating to investments	6,000,000.00		3,250	
c) Expenses relating to current asset securities	389,785.00	-10,387,471.41	285	-3,607
14. Interest and similar expenses		-64,140,903.29		-92,525
15. Sub-total of Items 7–14 (financial result)		-114,438,775.10		118,226
16. Ordinary business result		-112,146,204.32		101,004
17. Income taxes		-3,500.00		-4

	2005		2004	
	EUR	EUR	TEUR	TEUR
18. Profit/loss for the year		-112,149,704.32		101,000
19. Release of untaxed reserves		0.00		0 ¹
20. Release of capital reserves				
a) Pursuant to §14 (5) ÖIAG Act	250,000,000.00		0	
b) Pursuant to §14 (6) ÖIAG Act	59,249,704.32	309,249,704.32	181,900	181,900
Profit for the year		197,100,000.00		282,900
21. Profit carryforward from the previous year		27,900,000.00		0
22. Net profit		225,000,000.00		282,900

¹ Small amount

Notes to the Financial Statements

A. General remarks

The company is under the sole ownership of the Republic of Austria.

The company was formed in accordance with the ÖIG Act, published in the Federal Law Gazette No. 23/1967, as amended in the Federal Law Gazette No. 439/1984. There followed several legislative changes that affected the legal basis of the company.

The company received a changed statutory basis through a new federal law concerning the revised legal relationship between Österreichische Industrieholding Aktiengesellschaft and Post und Telekombeteiligungsverwaltungsgesellschaft (ÖIAG Act 2000, published in the Federal Law Gazette I No. 24/2000).

The annual financial statements are based on the amended ÖIAG Act 2000 contained in the Federal Law Gazette I No. 71/2003 and Federal Law Gazette I No. 103/2005.

Pursuant to § 1 Section 2 of the ÖIAG Act 2000, the principal tasks of the company are the disposal of shares (privatisation management), the holding, administration and exercise of ownership interests (investment management) in companies in which ÖIAG has shares, or in which such ownership interests are to be transferred by act of parliament or legal transaction (holdings), and the acquisition of ownership interests in accordance with § 9, Section 3 and 4 of the ÖIAG Act 2000.

The ÖIAG Act 2000 gives the Republic of Austria a mandatory claim to 80% of the profits derived from the privatisation of holdings. This mandatory claim is limited by counterclaims relating to liabilities for which the Republic of Austria refunds interest and repayments to ÖIAG. 20% of the profits are employed to service the subordinated shareholder loan reported in the ÖIAG balance sheet. Following the complete repayment of this shareholder loan in 2004, the Republic of Austria's claim increased to 100% of the profits generated by the privatisation of holdings.

The Republic of Austria's existing guarantee for ÖIAG liabilities remains in effect until all such liabilities have been honoured. The guarantee of the federal government for PTBG liabilities lapsed in 2005 following complete repayment.

In accordance with its privatisation mandate, during 2005 ÖIAG sold off all its holdings in VA Technologie AG (acceptance of the takeover bid of Siemens AG Österreich). In addition, voestalpine AG was entirely privatised, the request of investors in the ÖIAG exchangeable notes for conversion having been fulfilled through the supply of voestalpine shares.

On December 31, 2003, for the second balance sheet date in succession, ÖIAG no longer exceeded two annual, average benchmarks relating to sales and employees contained in § 221 Section 1 of the Austrian Commercial Code. Therefore, the legal consequences of these size benchmarks, i.e. small stock corporation, took effect from the 2004 financial year onwards.

Accounting and valuation principles

Accounting and valuation are undertaken according to the principles of prudence and imparity of realisation. The presentation complies with the legal stipulations and retains previous accounting and valuation practices.

In the 2003 financial statements, on the basis of actuarial calculations, provisions were made in the personnel sector of a scale that would accommodate a scenario involving the cessation of company operations at the end of 2006. To this extent, there has been a divergence from valuations according to the going concern principle since 2003. This cautious valuation was retained in 2005.

In line with the fair value guideline, financial asset values are assessed (see item B. b.).

Fixed assets

Intangible assets are reported at acquisition cost and subjected to scheduled, straight-line depreciation using rates of 33.3%.

Tangible assets are reported at the acquisition/production cost less scheduled depreciation, which is determined using the straight-line method. Extraordinary depreciation is applied in cases where lasting value impairment is probable.

Low value assets (cost of acquisition/production of up to EUR 400) are written off entirely during the year of purchase and reported as a disposal.

The following rates are applied to the scheduled depreciation of tangible fixed assets:

Factory and office equipment	10 – 33.3%
------------------------------	------------

Investments in subsidiaries are generally reported at the cost of acquisition. Permanent value impairments are taken into account through extraordinary depreciation.

Investment securities are reported at the cost of acquisition, or in the case of value impairment, at the lower value quoted on the closing date.

Current assets

Receivables and other assets are capitalised at nominal value, funds at the acquisition value. Recognisable risks are accounted for through the appropriate provisions.

Provisions and liabilities

Provisions for severance payments as at the balance sheet date are reported according to the amount calculated using actuarial methods. The discount value method is employed at an interest rate of 3.5%. The amount of the provisions for pensions is established using an interest rate of 3.0% and the discount value method. The AVÖ 1999–P (salaried staff) tables are utilised as a basis for this calculation.

Other provisions take into account all identifiable risks on the balance sheet date, as well as non-quantifiable liabilities.

Liabilities are reported at the amount repayable.

Amounts in foreign currencies are reported according to the lowest or highest value method.

B. Notes to the balance sheet

a. Intangible and tangible assets

Movements in the intangible and tangible assets are shown in the Schedule of fixed assets.

Obligations arising from the use of tangible assets not reported in the balance sheet amount to EUR 0.40 million in the following financial year. The total amount for the following five years adds up to EUR 1.74 million.

b. Financial assets

Movements in the financial assets are presented in detail in the Schedule of fixed assets.

The disposals reported under the investments relate primarily to the aforementioned privatisations. In addition, the exchangeable notes on Telekom stock were subject to initial (limited) requests for conversion, which were fulfilled by ÖIAG through the provision of shares.

Securities include shares in investment funds as cover for the provisions for severance payments, pensions and long-service bonuses, as well as for any subsequent obligations arising from provisions transferred to the APK pension fund.

In line with the fair value guideline, an audit of the value of listed investments showed a positive difference between the book values and the investments valued at the market prices as at December 31, 2005, amounting to EUR 6.10 billion. The value of unlisted investments, as well as of fixed asset securities, corresponded with the carrying values reported as at December 31, 2005, as laid down in the fair value guideline. The same applies to the rights contained in the fixed assets.

c. Receivables and other assets

Items	Balance sheet value EUR m
Trade accounts receivable (previous year)	0.01 (0.13)
Receivables from associated companies (previous year)	0.03 (0.03)
Other receivables and assets (previous year)	180.32 (180.94)
Total (Total previous year)	180.36 (181.10)

All receivables are short-term.

d. Counterclaims related to liabilities for which interest and repayments are refunded to ÖIAG by the Republic of Austria

In accordance with § 14 Section 4 of the ÖIAG Act 2000, the obligation on the Republic of Austria to refund interest and repayments is reduced to the extent that its rights to shares in ÖIAG profits from privatisation can be offset pursuant to § 13 Section 2 (§ 1438 of the Austrian Civil Code). In 2005, the Republic of Austria had privatisation profit-sharing rights amounting to EUR 222.32 million.

Pursuant to § 14 (5) of the ÖIAG Act 2000, the refunding obligation of the federal government was also discharged, as following the complete redemption of those liabilities, transferred to the ÖIAG through the merger in accordance with Article II of the ÖIAG Act (liabilities ex PTBG), liquid funds from privatisation proceeds are available to ÖIAG for the repayment of liabilities for which the federal government is obliged to refund interest and payments. In line with the application of this provision, during the year under review, a sum of EUR 250.00 million was used from the book proceeds from privatisation for the repayment of refunding liabilities and the write-off of redemption claims against the federal government.

Consequently, as at December 31, 2005, redemption claims had fallen to EUR 762.13 million. The redemption claims contain a prepayment of EUR 0.04 million, which derived from the fact that the repayment of debts with a redemption claim exceeded profit-sharing rights. The prepayment will be offset against profit-sharing rights in 2006.

e. Prepaid expenses and accrued income

The reported prepaid expenses relate to amounts paid prior to December 31, 2005, insofar as they represent expenses for a particular period after this date.

f. Share capital and reserves

The share capital of EUR 363,365,000 is composed of 5,000 shares. In line with a resolution passed by the Annual General Meeting of April 7, 2005, a dividend of EUR 255.00 was paid to the Austrian Republic from the net profit for 2004 of EUR 282.90 million. As at December 31, 2005, EUR 59.25 million were released from

the capital reserves in accordance with §14 (6) of the ÖIAG Act 2000. In addition, pursuant to §14 (5) of the ÖIAG Act 2000, EUR 250.00 million in book privatisation proceeds were released from the committed reserves for the redemption of repayment obligations, with the result that including the profit carryforward, net income of EUR 225.00 million is reported.

g. Provisions

Other provisions mainly consist of provisions for unconsumed leave, long-service bonuses and other personnel expenses (EUR 30.00 million, 2004: EUR 39.70 million) and a provision for investments of EUR 38.73 million (2004: EUR 38.86 million).

h. Liabilities for which interest and repayments are refunded to ÖIAG by the Republic of Austria

On the balance sheet date, these liabilities amounted to EUR 762.09 million. EUR 250.00 million of the fall in the period under review can be traced to liquid funds derived from privatisation proceeds (carrying value of the investments sold), which in accordance with §14 (5) of the ÖIAG Act 2000, could be used for the redemption of refunding liabilities.

(Liabilities maturing < 1 year: EUR 255.41 million; maturing in 1 – 5 years: EUR 458.35 million; longer than 5 years: EUR 48.33 million).

i. Liabilities

Items	With a residual term of less than one year EUR m	With a residual term of more than one year EUR m	Balance sheet value EUR m
Bonds (previous year)	316.45 (0.00)	0.00 (570.20)	316.45 (570.20)
Liabilities to banks (previous year)	0.00 (134.05)	0.00 (29.82)	0.00 (163.87)
Trade accounts payable (previous year)	1.05 (0.44)	0.00 (0.00)	1.05 (0.44)
Liabilities to associated companies (previous year)	16.52 (16.98)	0.00 (0.00)	16.52 (16.98)
Other liabilities (previous year)	28.52 (21.28)	0.53 (0.00)	29.05 (21.28)
Total (Total previous year)	362.54 (172.75)	0.53 (600.02)	363.07 (772.77)

The bonds consisted of exchangeable notes on Telekom Austria AG shares (original nominal: EUR 325.00 million or 25 million ordinary shares). Limited conversions took place during the 2005 financial year. During the period under review, the exchangeable notes on voestalpine AG shares were entirely converted into shares in the company.

During the period under review, the liabilities to banks of EUR 163.87 million reported in the preceding year, which were transferred to the ÖIAG through merger within the framework of the ÖIAG Act 2000, were repaid in full.

The other liabilities consist primarily of the liability from the compensation fund, which was paid in January 2006.

C. Notes to the income statement

a. Turnover

	2005 EUR m	2004 EUR m
Allocation	0.00	0.06
Other	0.06	0.18
Revenues from domestic sales	0.06	0.24

b. Other operating income

	2005 EUR m	2004 EUR m
Gains on the disposal of fixed assets other than financial assets	0.00	0.38
Gains on the release of provisions	9.33	3.34
Other	0.51	0.85
	9.84	4.57

The income from the release of provisions derived mainly from the aforementioned compensation fund. Other operating income primarily contains diverse cost reimbursements and rent.

c. Personnel expenses

	2005 EUR m	2004 EUR m
Salaries	4.25	5.31
Expenses for severance payments	1.07	0.65
Expenses for pensions	-5.25	3.33
Expenses for compulsory social security contributions and payroll taxes	0.75	0.77
Other social expenditure	0.13	0.13
	0.95	10.19

d. Other operating expenses

	2005 EUR m	2004 EUR m
Taxes, excluding income taxes	0.02	0.02
Other	6.27	11.27
	6.29	11.29

The other operating expenses not only contain expenses relating to the privatisation of holdings, but also operating and administrative costs for real estate, rents, fees and consulting.

e. Income from investments and related expenditure

	2005 EUR m	2004 EUR m
Dividends	169.29	123.02
Expenditure relating to investments	-6.00	-3.25
	163.29	119.77

f. Interest income and expenditure

	2005 EUR m	2004 EUR m
Other interest and similar income	30.05	23.77
Interest payments and similar expenditure	-64.14	-92.52
	-34.09	-68.75

g. Gains from the disposal and write-up of financial assets and from current securities

Gains of EUR 232.02 million derived largely from the privatisation of investments.

D. Corporate bodies, employees

h. Net result for the year

The net result amounted to EUR 225.0 million. The net income is subject to the general Stock Corporation Law stipulations concerning the distribution of profits. According to the ÖIAG Act, the Managing Board is obliged to include a forecast in its proposal for the distribution of profits, which will show the extent to which profits from privatisation for the current and subsequent year will be required for interest payments on the basis of cautious financial planning.

During the year under review, an expense emanating from the discharge of a federal government, refunding obligation (amount: EUR 250.00 million) was reported in the income statement. In accordance with § 14 (5) ÖIAG Act 2000, an identical amount was released from the committed capital reserves.

a. In 2005, ÖIAG had an average of 35 employees (2004: 43).

b. Severance payments and pensions

Expenditure for severance payments and contributions to employee severance payment fund	2005 EUR m	2004 EUR m
Managing Board and senior executives	0.44	0.45
Other employees	0.63	0.20
Total	1.07	0.65

Expenditure for pensions	2005 EUR m	2004 EUR m
Managing Board and senior executives	0.07	0.42
Other employees	-5.32	2.91
Total	-5.25	3.33

The income reported under the expenditure for pensions for other employees resulted primarily from the release of the provision for the topping up of requirements for pensions that have been transferred to APK Pensionskasse AG. The liability side topping-up obligations as at December 31, 2005, arose from the cover required according to actuarial calculations minus the probable ÖIAG credits at APK as at December 31, 2005. The pension obligations (357 recipients as at December 31, 2005) derived mainly from the previous mergers of companies (Vereinigte Edelstahlwerke AG/ Austrian Industries AG) with ÖIAG.

Expenditure for contributions to the employee severance payment fund within the framework of the BMVG (“betriebliches Mitarbeitervorsorgegesetz”) is reported separately in the income statement.

c. Emoluments to the Supervisory Board amounted to EUR 0.18 million (2004: EUR 0.17 million).

d. Managing Board

Peter MICHAELIS
Rainer WIELTSCH

The remuneration¹ paid to Mr. Michaelis during the 2005 financial year amounted to EUR 0.68 million (comprised of a fixed sum for 2005 of EUR 0.35 million, variable residual sums from 2003 of EUR 0.03 million and variable partial amounts from 2004 of EUR 0.30 million).

The remuneration¹ paid to Mr. Wieltsch during the 2005 financial year amounted to EUR 0.59 million (comprised of a fixed sum for 2005 of EUR 0.30 million, variable residual sums from 2003 of EUR 0.06 million and variable partial amounts from 2004 of EUR 0.23 million).

e. Supervisory Board

Alfred H. HEINZEL
Chairman
 CEO, Heinzel Holding GmbH

Jürgen HUBBERT
First Vice-Chairman
 Former member of the Managing Board, Daimler Chrysler AG

Veit SORGER
Second Vice-Chairman
 Chairman of the Supervisory Board, Mondi Business Paper
 Chairman of the Supervisory Board, Mondi Packaging AG
 Chairman of the Supervisory Board, Constantia Industries AG
 President of the Confederation of Austrian Industry

Karl BÜCHE
 Former chairman, BRAU UNION AG

Michael ENZINGER
 Lawyer

Astrid GILHOFER
 Managing partner,
 CI Projektmanagement GmbH

Alexander RIKLIN
 Partner and CEO, Alcar Holding GmbH

Klaus STURANY
 Member of the Managing Board, RWE AG

Erich WIESNER
 Managing partner,
 Wiesner-Hager Baugruppe Holding GmbH

Siegfried WOLF
 CEO, Magna International Inc.

Leopold ABRAHAM
 Chairman of the Central Staff Council, OMV AG

Anton BENEDER
 Chairman of the Central Staff Council, VA Technologie AG
 (until July 20, 2005)

Ludwig ELAND
 Chairman of the Staff Council, GKB Bergbau GmbH
 (from September 9, 2005)

Gerhard FRITZ
 Chairman of the Central Employees' Committee,
 Österreichische Post AG

Alfred JUNGHANS
 Chairman of the Salaried Commercial and
 Technical Staff Council, Austrian Airlines
 Österreichische Luftverkehrs AG
 (from September 9, 2005)

Michael KOLEK
 Chairman of the Central Employees' Committee,
 Telekom Austria AG

Helmut OBERCHRISTL
 Chairman of the Group Staff Council, voestalpine AG
 (until August 31, 2005)

¹ Excluding any administrative and social expenses

E. Investments

The information relating to equity and the profit (loss) for the year relates to the individual financial statements of the companies.

Company	Reg. office	Year of equity total or result	Equity	Equity holding	Profit (loss) for the year
			EUR m	%	EUR m
APK Pensionskasse AG	Vienna	2004	19.30	27.6	2.24
Austrian Airlines Österreichische Luftverkehrs AG	Vienna	2005	116.94	39.7	-149.98
IMIB Immobilien und Industriebeteiligungen GmbH (AG until August 5, 2005)	Vienna	2004	4.09	100.0	1.52
GKB-Bergbau GmbH	Bärnbach	2005	46.26	100.0	12.39
Österreichische Post AG	Vienna	2005	701.12	100.0	58.95
OMV AG ¹	Vienna	2005	4,409.03	31.5	1,065.70
SCHOELLER-BLECKMANN GmbH	Ternitz	2005	3.36	100.0	-0.44
Telekom Austria AG	Vienna	2005	2,920.23	30.1	293.78
VOEST-ALPINE Steinel GmbH	Linz	2005	0.98	100.0	0.15

¹ Provisional

The federal law from April 26, 2000, which came into force on May 17, 2000 (ÖIAG Act 2000), expressly forbids the consolidation of ÖIAG with its investments.

ÖIAG is charged with the tasks of ensuring that companies in which it has a direct majority take all steps necessary to create the most favourable conditions for their privatisation. ÖIAG is only empowered to issue directives and guidelines aimed at achieving this goal.

Vienna, April 3, 2006

The Managing Board

Peter Michaelis m.p.

Rainer Wieltsch m.p.

Auditor's Report

“We have audited the financial statements, including the accounting records, of Österreichische Industrieholding Aktiengesellschaft, Vienna, for the financial year from January 1, 2005 until December 31, 2005. In accordance with the applicable regulations of the Austrian Commercial Code, the preparation and content of these financial statements and the management report are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on these financial statements based on our audit and a statement concerning the correspondence of the management report with the financial statements.

Our audit was conducted in accordance with the applicable Austrian legal regulations and professional standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement and whether an opinion can be expressed concerning the correspondence of the management report with the financial statements. During the audit, knowledge concerning the business activities and economic and legal background of the company, as well as the expectations concerning possible errors, were taken into account. The audit includes an examination, largely on a test basis, of evidence supporting the

amounts and disclosures in the financial statements. The audit also includes the assessment of the accounting principles used and significant estimates made by the legal representatives of the company, as well as the evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit gave no reason for objection. On the basis of the knowledge gained during the audit, in our judgement the financial statements comply with the legal regulations in Austria and present a true and fair view of the assets and liabilities, the financial position and the results of operations of the company. The management report corresponds with the financial statements.”

Vienna, April 3, 2006

 ERNST & YOUNG

Wirtschaftsprüfungsgesellschaft m.b.H.

Alfred Brogyányi m.p.
Certified Public Accountant

Gerhard Schwartz m.p.
Certified Public Accountant

Supervisory Board Report

Report of the Supervisory Board to the Annual General Meeting on the 2005 financial year

In meeting its legal commitments, the Supervisory Board held five plenary meetings and one committee meeting during the 2005 financial year. Consulting and resolutions relating to privatisation measures in connection with the government mandate from 2003 represented the focal points of Supervisory Board activities.

The most important consultations concerning privatisation procedures took place in connection with the public offer from Siemens AG Österreich regarding the purchase of all VA Technologie AG shares. This offer was accepted by ÖIAG in January 2005 and transaction closing took place on July 15, 2005. Accordingly, this date also marked the privatisation of the ÖIAG holding in VA Technologie AG.

A further complete privatisation took place during the 2005 financial year through the exercise of the right of conversion by all investors in the exchangeable notes issued by ÖIAG on voestalpine AG shares in 2003. On August 30, 2005, ÖIAG delivered the last shares in its possession with the result that from this date, voestalpine AG was also entirely privatised.

A strategy project was approved for Austrian Airlines Österreichische Luftverkehrs AG, which has the objective of examining current AUA strategy and preparing recommendations for the shape of future strategic thinking. The Supervisory Board also approved the delivery of shares should investors make good their right to convert the exchangeable notes on Telekom Austria stock, which were also issued by ÖIAG in 2003. This represented a further step towards privatisation. Detailed discussions were also held regarding the possible privatisation of Österreichische Post AG.

As in past financial years, during the 2005 financial year the Supervisory Board received reports from the managing boards of subsidiaries and investments, especially those of listed enterprises, concerning the situation in their respective companies.

The Managing Board of the ÖIAG informed the Supervisory Board both verbally and in writing on the progress of business and the status of the company, the investments and the ÖIAG Group as a whole, and obtained the approval of the Supervisory Board for business decisions where this was required in accordance with the articles of association or the company's rules of procedure.

The annual financial statements and the management report were audited by Ernst & Young, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft m.b.H. (now: Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H.).

The Supervisory Board declared its approval of the financial statements for 2005, which were thereby adopted under the terms of § 125 Section 2 of the Austrian Stock Corporation Act. The Supervisory Board also concurred with the Managing Board's proposal to pay out the entire net income for the year of EUR 225,000,000 as a dividend.

In accordance with § 270 Section 1 of the Austrian Commercial Code, the Supervisory Board proposes to the Annual General Meeting that Ernst & Young, Wirtschaftsprüfungsgesellschaft m.b.H. be appointed as the auditors of the financial statements for 2006.

The Supervisory Board would like to express its gratitude to the Managing Board and the company's employees for their endeavours during the past financial year.

Vienna, April 3, 2006

Alfred H. Heinzl m.p.
Chairman of the Supervisory Board

Privatisation 1

Mandate

Mandate

The current privatisation mandate

Privatisation mandate allocated by the Austrian federal government in accordance with § 7 Section 1 ÖIAG Act 2000

In accordance with a cabinet resolution from April 1, 2003, the Managing Board of Österreichische Industrieholding Aktiengesellschaft was allocated the following privatisation mandate:

Privatisations should lead to the maximum possible increase in corporate values and revenues for the owner. In addition, the following Austrian interests are to be protected:

- Creation and retention of safe employment in Austria.
- Wherever possible, the decision-making bodies of the companies to be privatised should continue to be located in Austria through the creation of Austrian core shareholder structures by means of syndicates with industrial partners, banks, insurance companies, pension funds, retirement funds, funds, etc.
- The retention and expansion of existing research and development capacity.
- The taking into consideration of the Austrian capital market.

Complete privatisation is envisaged for the following companies and interests:

- BÖHLER-UDDEHOLM AG
- VA Technologie AG
- voestalpine AG
- ÖIAG-Bergbauholding AG

Privatisation of up to 100% is planned for Telekom Austria AG. A strategic partner is being sought for Österreichische Post AG as an initial step towards privatisation subject to the precondition that in the interests of taxpayers and consumers, full coverage service quality be maintained and an improvement in the corporate structure be undertaken.

Following the sale of 100% of Österreichische Postbus AG stock to ÖBB (Austrian Federal Railways), the completion of the fair trading examination process and the fulfilment of any anti-trust stipulations, a large part of Österreichische Postbus AG is to be sold to private investors.

The preparation of concrete privatisation concepts by ÖIAG for the individual investments takes place in close co-operation with the Federal Minister of Finance.

Allocated during the Extraordinary General Meeting of ÖIAG on May 9, 2003

Definition of the privatisation mandate allocated by the federal government to Österreichische Industrieholding AG (ÖIAG) on April 1, 2003 for the privatisation of voestalpine AG

In accordance with the decision passed during the cabinet meeting on April 1, 2003, at the Extraordinary General Meeting held on May 9, 2003, the Managing Board of Österreichische Industrieholding Aktiengesellschaft was allocated the following privatisation mandate.

Privatisations should lead to the maximum possible increase in corporate values and revenues for the owner. In addition, the following Austrian interests are to be protected:

- Creation and retention of safe employment in Austria.
- Wherever possible, the decision-making bodies of the companies to be privatised should continue to be located in Austria through the creation of Austrian core shareholder structures by means of syndicates with industrial partners, banks, insurance companies, pension funds, retirement funds, funds, etc.
- The retention and expansion of existing research and development capacity.
- The taking into consideration of the Austrian capital market.

The privatisation mandate also stipulates that the 100% privatisation of voestalpine AG should be strived for.

In the more concrete definition of the privatisation mandate, ÖIAG has now been commissioned to examine two privatisation options for voestalpine AG, namely through the stock market and the acquisition of company stock by financial investors.

The objective is that:

1. The company maintains an Austrian core shareholder structure.
2. The unity of the company is maintained.
3. The research and development capacities are maintained and expanded.
4. The decision-making bodies continue to be located in Austria.

Allocated during the Extraordinary General Meeting of ÖIAG on July 4, 2003.

Definition of the privatisation mandate from the federal government regarding VA Technologie AG

In accordance with the decision passed during the cabinet meeting on April 1, 2003, at the Extraordinary General Meeting held on May 9, 2003, the Managing Board of Österreichische Industrieholding Aktiengesellschaft was allocated the following privatisation mandate.

The privatisation projects to be completed by ÖIAG in accordance with the mandate from the federal government should lead to the maximum possible increase in corporate values and revenues for the owner. In addition, the following Austrian interests are to be protected:

- Creation and retention of safe employment in Austria.
- Wherever possible, the decision-making bodies of the companies to be privatised should continue to be located in Austria through the creation of Austrian core shareholder structures by means of syndicates with industrial partners, banks, insurance companies, pension funds, retirement funds, funds, etc.
- The retention and expansion of existing research and development capacity.
- The taking into consideration of the Austrian capital market.

The preceding privatisation mandate remains valid and was defined in more concrete terms with regard to VA TECH as follows. ÖIAG is empowered to undertake the requires company law and financial measures required to facilitate the fulfilment of a stabilising role in line with the interests of the company, the employees and the location. ÖIAG is expressly authorised to participate in capital increases, in order to fulfil the goals of the federal government mandate.

The objective is that:

1. The company maintains an Austrian core shareholder structure.
2. The unity of the company is maintained.
3. The research and development capacities are maintained and expanded.
4. The decision-making bodies continue to be located in Austria.

Allocated during the Extraordinary General Meeting of ÖIAG on September 17, 2004.

Definition of the privatisation mandate from the federal government regarding Österreichische Post AG

In accordance with the decision passed during the cabinet meeting on April 1, 2003, at the Extraordinary General Meeting held on May 9, 2003, the Managing Board of Österreichische Industrieholding Aktiengesellschaft was allocated the following privatisation mandate.

Privatisations should lead to the maximum possible increase in corporate values and revenues for the owner. In addition, the following Austrian interests are to be protected:

- Creation and retention of safe employment in Austria.
- Wherever possible, the decision-making bodies of the companies to be privatised should continue to be located in Austria through the creation of Austrian core shareholder structures by means of syndicates with industrial partners, banks, insurance companies, pension funds, retirement funds, funds, etc.
- The retention and expansion of existing research and development capacity.
- The taking into consideration of the Austrian capital market.

Among other elements, the privatisation mandate foresees a search for a strategic partner for Österreichische Post AG as an initial step towards privatisation subject to the precondition that in the interests of taxpayers and consumers, full coverage service quality be maintained and an improvement in the corporate structure be undertaken.

Supplementary to the privatisation mandate, ÖIAG is also authorised to complete an IPO involving up to 49% of Österreichische Post AG stock at the most opportune moment possible.

Allocated during the Extraordinary General Meeting of ÖIAG on January 30, 2006.

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