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Financial Year

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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 Wiettsch 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%
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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 Mitarbeiterversorgegesetz”) 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